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BANK

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UNICORP BANK NOTICE

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NOTICES

Unicorp Bank Overseas, Ltd.

Report and Financial Statements
June 30, 2019

Unicorp Bank Overseas, Ltd.

Index to the Financial Statements
June 30, 2019

Independent Auditors' Report

To the Board of Directors and Shareholder of
Unicorp Bank Overseas, Ltd.

Our opinion

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

What we have audited

The Bank's financial statements comprise:
- the statement of financial position as at June 30, 2019;
- the statement of profit or loss for the year then ended;

- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management for the financial statements

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

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

Those responsible for the governance of the Bank are responsible for the supervision of the financial information reporting process of the Bank.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

September 30, 2019
Panama, Republic of Panama

Unicorp Bank Overseas, Ltd.

Statement of Financial Position
June 30, 2019
(Amounts in US Dollars)

	2019	2018
Assets		
Deposits with banks (Notes 3, 5 and 11)		
Due from banks	4,635,376	5,670,302
Interest bearing deposits with banks	18,501,594	18,985,995
Total deposits with banks	23,136,970	24,656,297
Loans (Notes 3, 6 and 11)	77,101,937	79,566,825
Investment securities, net (Notes 3, 7 and 11)	35,729,021	37,476,831
Investment in associates (Notes 3, 9 and 11)	35,600,370	32,827,130
Computer equipment, net	6,094	7,809
Other assets (Notes 3 and 11)		
Other accounts receivable	1,778,139	1,616,023
Prepaid expenses	55,348	59,663
Total other assets	1,833,487	1,675,686
Total assets	173,407,879	176,210,578
Liabilities and Equity		
Liabilities		
Deposits (Notes 3 and 11)		
Demand	34,388,389	29,246,598
Time	98,246,239	105,222,033
Total deposits	132,634,628	134,468,631
Other liabilities (Note 11)	884,642	827,379
Total liabilities	133,519,270	135,296,010
Equity (Notes 3 and 11)		
Common stock (Note 10)	5,000,000	5,000,000
Retained earnings	33,955,012	31,772,244
Revaluation reserve for investments	933,597	4,142,324
Total equity	39,888,609	40,914,568
Total liabilities and equity	173,407,879	176,210,578

Director Director

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

Unicorp Bank Overseas, Ltd.

Statement of Profit or Loss
For the year ended June 30, 2019
(Amounts in US Dollars)

	2019	2018
Interest Income (Note 11)		
Interest on loans	1,869,990	2,139,962
Interest on deposits	818,691	633,879
Interest on investments	1,278,956	1,089,973

Total interest income	3,967,637	3,863,814
Interest expense (Note 11)	4,720,918	5,195,489
Net interest income before provision	(753,281)	(1,331,675)
Reversal of provision for deposits	57	-
Reversal of provision for possible loans losses	1,247	-
Reversal of provision for impairment of investments	130,262	-
Net interest income after provision	(621,715)	-
Other Income (Expense), Net		
Commission income (Note 16)	1,911,990	2,385,912
Commission expense	(24,686)	(25,606)
Gain on sale-of-investment	95	15,003
Other income, net	1,887,399	2,375,309
General and administrative expenses (Notes 11, 12 and 15)	602,754	568,533
Income before share in profits of associates	662,930	475,101
Share in profits of associates (Notes 9 and 11)	3,986,825	3,852,167
Income before income tax	4,649,755	4,327,268
Income tax (Note 13)	(116,244)	(108,182)
Net income	4,533,511	4,219,086

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

Unicorp Bank Overseas, Ltd.

Statement of Comprehensive Income
For the year ended June 30, 2019
Amounts in US Dollars)

	2019	2018
Net income	4,533,511	4,219,086
Other Comprehensive Income (Loss)		
Items that may be subsequently reclassified to statement of income:		
Loss transferred from equity (Note 7)	(95)	(15,003)
Net change in fair value of securities through other comprehensive income (Note 7)	804,850	(1,055,338)
Other comprehensive income - associate (Note 9)	(117,246)	1,289,477
	687,509	219,136
Total comprehensive income of the year	5,221,020	4,438,222

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

Unicorp Bank Overseas, Ltd.

Statement of Changes Equity
For the year ended June 30, 2019
(Amounts in US Dollars)

	Common Stock	Retained Earnings	Revaluation Reserve for Investment	Total
Balance at June 30, 2018, as reported	5,000,000	31,772,244	4,142,324	40,914,568
Adjustment for adoptions of IFRS 9 in associated	-	3,795,026	(3,896,236)	(101,210)
Adjustment for adoptions of IFRS 9	-	(145,769)	-	(145,769)
Balance at July 1, 2018, restated	5,000,000	35,421,501	246,088	40,667,589
Comprehensive income				
Net income	-	4,533,511	-	4,533,511
Net change in the fair value of investment	-	-	804,755	804,755
Other comprehensive income - associates	-	-	(117,246)	(117,246)
Total comprehensive income	-	4,533,511	687,509	5,221,020
Shareholder's transactions				
Dividend paid (Note 11)	-	(6,000,000)	-	(6,000,000)
Balance at June 30, 2019	5,000,000	33,955,012	933,597	39,888,609
Balance at June 30, 2017	5,000,000	30,553,158	3,923,188	39,476,346
Comprehensive income				
Net income	-	4,219,086	-	4,219,086
Net change in the fair value of investment	-	-	(1,070,341)	(1,070,341)
Other comprehensive income - associates	-	-	1,289,477	1,289,477
Total comprehensive income	-	4,219,086	219,136	4,438,222
Shareholder's transactions				
Dividend paid (Note 11)	-	(3,000,000)	-	(3,000,000)
Balance at June 30, 2018	5,000,000	31,772,244	4,142,324	40,914,568

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

Unicorp Bank Overseas, Ltd.

Statement of Cash Flows
For the year ended June 30, 2019
(Amounts in US Dollars)

	2019	2018
Cash flows from operating activities		
Income before income tax	4,649,755	4,327,268
Adjustments to reconcile income before income tax to net cash provided by (used in) operating activities:		
Depreciation	1,714	1,714
Amortized cost of investments	(93,485)	(32,818)
Provision for deposits	(57)	-
Provision for possible loans losses	(1,247)	-
Provision for impairment of investments	(130,262)	-
Share in profits of associates	(3,986,825)	(3,852,167)
Interest expense	4,720,918	5,195,489
Interest income	(3,967,637)	(3,863,814)
Net changes in operating assets and liabilities:		
Loans	2,466,197	(1,069,078)
Customers' deposits	(1,166,922)	(8,813,080)
Interest bearing deposits with banks with original maturity more than 90 days	3,984,261	(34,944)
Other accounts receivable	(162,116)	(1,000,927)
Prepaid expenses	4,315	(5,914)
Other liabilities	57,263	44,367
Income taxes paid	(116,244)	(108,182)
Interest paid	(5,387,999)	(4,532,501)
Interest received	3,972,143	3,978,115
Net cash provided by (used in) operating activities	4,843,772	(9,766,472)
Cash flows from investing activities		
Purchases of computer equipment	-	(951)
Purchases of securities	(19,080,964)	(14,835,878)
Sales and redemptions of securities	21,707,137	20,176,102
Dividends received - associates	995,129	873,586
Net cash provided by investing activities	3,621,302	6,212,859
Cash flows from financing activities		
Dividends paid and cash used in financing activities	(6,000,000)	(3,000,000)
Net increase (decrease) in cash and cash equivalents	2,465,074	(6,553,613)
Cash and cash equivalents at beginning of year	15,170,302	21,723,915
Cash and cash equivalents at end of year (Note 5)	17,635,376	15,170,302

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

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
For the year ended June 30, 2019
(Amounts in US Dollars)

1. Organization and Operations

Unicorp Bank Overseas, Ltd. (the "Bank") was organized under the laws of Antigua and Barbuda on April 12, 1994. The Bank was incorporated to conduct any and all business activities permitted by the laws of the State of Antigua and Barbuda relating to international banking. The Bank is a wholly-owned subsidiary of Grupo Credicorp, Inc., and the management and operations are performed by Credicorp Bank, S. A. (a related bank). The registered office of the Bank is 11 Old Parham Road St. John's Antigua.

These financial statements have been approved for issuance by the Administration on September 30, 2019.

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies used consistently in the preparation of the financial statements. These policies have consistently been applied with respect to the previous year.

Basis of Preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for available-for-sale investments recorded at fair value.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) New Standards, Amendments or Interpretations Adopted by the Bank

The following standards and amendments have been adopted by the Bank for the first time for the fiscal year that began on July 1, 2018:

- IFRS 9 - Financial Instruments: the Bank adopted this standard as of July 1, 2018 under the modified retrospective model, issued in July 2014, which incorporates:
  - The classification and measurement of financial instruments based on the established business models and the characteristics of the contractual cash flows of financial instruments;
  - It includes three categories: amortized cost (AC), fair value through other comprehensive income (FVTOCI), and fair value through profit or loss (FVTPL) as a new classification and subsequent measurement, applicable to financial assets;

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
For the year ended June 30, 2019
(Amounts in US Dollars)

2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation (continued)

(a) New Standards, Amendments or Interpretations Adopted by the Bank (continued)

- IFRS 9 - Financial Instruments: (continued)
  - New impairment requirements related to the accounting for expected credit losses, for which the requirements of IAS 39 on the accounting for credit losses were applied under the loss incurred model;
    - The new requirements align hedge accounting more closely with risk management, set and approach based on hedge accounting principles and address inconsistencies and weaknesses in the hedge accounting models of IAS 39.

  The adoption of these amendments had neither impact on the amounts recognized in prior years, nor a significant impact in the current period.

- IFRS 15 - Revenue from Contracts with Customers. This standard is effective as of January 1, 2018. The IASB issued a new standard for the recognition of income. This rule will replace the IAS 18 that covers the contracts for goods and services and the IAS 11 that covers the construction contracts. The new standard is based on the principle that revenues are recognized when the control of a good or service is transferred to a customer. The Bank intends to adopt the standard using the modified retrospective approach, which means that the cumulative impact of the adoption will be recognized in retained earnings as of July 1, 2018 and that the comparatives will not be restated.

  The Bank does not anticipate significant impact on the financial statements with the adoption of this new standard.

(b) New Standards and Amendments not yet Adopted by the Bank

New standards, interpretations and amendments to accounting standards have been published, but are not mandatory for the period ended June 30, 2019 and have not been adopted in advance by the Bank. The most important changes of these new standards are presented below:

IFRS 16 - Leases. It was issued in January 2016 and as a result, most of the leases will be recognized in the statement of financial position, since it eliminates the distinction between financial and operating leases. Under this new standard an asset is recognized (right of good leasing) and a financial liability. The only exception are short-term and low-cost leases. The bookings of the lessors will not change significantly. The Bank is still in the process of evaluating the impact of this standard on the financial statements.

There is no IFRS or IFRIC interpretation that is not effective and is expected to have significant effect on the bank.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
For the year ended June 30, 2019
(Amounts in US Dollars)

2. Summary of Significant Accounting Policies (Continued)

Monetary Unit
The financial statements are expressed in US dollar (US$), monetary unit of the United States of America.

Cash and Cash Equivalents
For the statement of cash flows, cash and cash equivalents comprise due from banks and interest bearing deposits with banks with original maturity less than ninety days.

Investment in Associates
The investment in associates is accounted for by the equity method of accounting. Under this method, the Bank's share in the profits or losses of associate is recognized in the statement of income and statement of comprehensive income.

Financial Instruments
The Bank classifies its financial assets in the following categories: loans and receivables and securities available-for-sale and held-to-maturity. Management determines the classification of its investments at inception.

Accounting policies used before July 1, 2018

(a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable.

(b) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(c) Held-to-maturity
Purchases and sales of financial assets available-for-sale and held-to-maturity are recognized on the value date, the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and benefits of ownership.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
For the year ended June 30, 2019
(Amounts in US Dollars)

2. Summary of Significant Accounting Policies (Continued)

Financial Instruments (continued)

Accounting policies used before July 1, 2018 (continued)

(c) Held-to-maturity (continued)

Available-for-sale financial assets are subsequently carried at fair value. Loans are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income and recorded in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. Interest calculated using the effective interest method is recognized in the statement of income. Dividends on available-for-sale equity instruments are recognized in the statement of income when the entity's right to receive payment is established.

The fair values of investments quoted in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques, such as prices of similar instruments, specific conditions of the issuer or discounted cash flow analysis. If fair value cannot be established, the investments are recorded at acquisition cost, less any provision for impairment, if any.

Impairment of Financial Assets

(a) Assets carried at amortized cost (loans and held-to-maturity investments)

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

- Probability that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
For the year ended June 30, 2019
(Amounts in US Dollars)

2. Summary of Significant Accounting Policies (Continued)

Accounting policies used before July 1, 2018 (continued)

Impairment of Financial Assets (continued)

(a) Assets carried at amortized cost (loans and held-to-maturity investments) (continued)

The Bank establishes specific provisions for those loans which may have a risk of potential loss. This provision is calculated based on factors which, in Management's judgment, deserve recognition. Such factors include the credit classification assigned to the borrower, delinquency, economic conditions, fair value of collateral, current level of the provision and the guidelines of the regulatory entities.

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off decrease the amount of the provision for loan impairment in the statement of income.

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off decrease the amount of the provision for loan impairment in the statement of income.

(b) Assets carried at fair value (available-for-sale investments)

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
For the year ended June 30, 2019
(Amounts in US Dollars)

2. Summary of Significant Accounting Policies (Continued)

Accounting policies used as of July 1, 2018

The Bank classifies financial assets as measured subsequently at amortized cost (AC), at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL) based on the entity's business model to manage financial assets and the characteristic of the contractual cash flows of the financial assets.

Financial assets at amortized cost (AC)
Financial assets are measured at amortized cost if they meet the following conditions:

The assets are maintained within a business model whose objective is to maintain assets to obtain contractual cash flows; and

Financial Assets

Accounting policies used as of July 1, 2018

Financial assets at amortized cost (AC)
The contractual terms of the financial asset set specific dates for cash flows derived only from payment of principal and interest of current balance.

Interest income from these financial assets is included in "interest income" using the effective interest method.

Financial assets at fair value through other comprehensive income (FVTOCI)
Financial assets are measured at fair value through other comprehensive income only if it meets the following conditions:

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

- The contractual terms of the financial asset set specific dates for cash flows derived only from payments of principal and interest on the current balances; and

- Interest income from these financial assets is included in "interest income" using the effective interest method.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
For the year ended June 30, 2019
(Amounts in US Dollars)

2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

Accounting policies used as of July 1, 2018

Financial assets at fair value through profit or loss (FVTPL)
All financial assets not classified as measured at amortized cost or at fair value through other comprehensive income as described above, are measured at fair value through profit or loss.

Equity instruments at fair value through profit or loss (EIFVTPL)
The Bank measure all capital investments at fair value. The Administration has chosen to present the gains or losses of fair value in capital investments through profit or loss.

Equity instruments at fair value through other comprehensive income (EIFVTOCI)
Changes in the fair value of financial assets will changes in profit or loss are recognized in other gains or losses in the interim consolidate statement of profit or loss as applicable losses and reversal due to impairment in capital investment measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Business model evaluation
The Bank carried out an evaluation of the objectives of the business models in which the different financial assets are maintained at the portfolio level to reflect in the best way, how the business is managed and how the information is provided to Management. The information considered included the following:

The policies and objectives set for each portfolio of financial assets and the operation of those policies in practice. These include whether management's strategy focuses on collecting only principal and interest payments, maintaining a specific interest return profile or coordinating the duration of the financial assets with that of the liabilities that are financing them or the expected cash outflows or realize cash flows through the sale of assets.

How portfolio yields are evaluated and how are these yields informed to Management.

The risks that impact the yields of the business models (and the financial assets in these models) and the way these risks are managed;

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
For the year ended June 30, 2019
(Amounts in US Dollars)

2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

Accounting policies used as of July 1, 2018

Business model evaluation (continued)
The frequency, the value and the timing of sales in prior periods, the reasons for these sales and the expectations on future sale activities. However, information on sale activity is not considered on an isolated basis, but as part of an evaluation of how the Banks's objectives, set to manage financial assets, are achieved and how the cash flows are realized.

Business models whose objectives is to maintain assets to obtain contractual cash flows
A portfolio of financial assets is managed with the objective of obtaining cash flows from principal and interest payments throughout the life of the instruments, even when sales of financial assets take place or are expected to occur in the future.

Business model whose objective is to obtain contractual cash flows and the sales of financial assets
In this type of business model, there are different objectives that can be identified; for example, an objective of managing daily liquidity needs, maintaining a specific interest yield profile, or coordinating the maturity of assets with those of the liabilities with which they are being financed.

Compared to the business model in which the objective is to maintain financial assets to collect cash flows through the payment of principal and interest, this business model usually involves greater frequency and value of sales, without the need to have a frequency threshold or defined value, as sales and collection of contractual flows are combined so as to achieve the objectives of the business model.

Other Models at Fair Value through Profit and Loss
When financial assets are not held within a business model with the objective of keeping them to collect cash flows, or within a business model with the objective of obtaining cash flows through the payment of principal and interest and the sale of assets, these are measured at fair value with changes in results. In this business model, the entity aims to collect cash flows through the payment of principal and interest through the sale of assets, making decisions based on the fair values of the assets and in the management to obtain such values.

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2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

Accounting policies used as of July 1, 2018

Business Model Change
When the business model for the management of financial assets is changed, all affected assets must be reclassified prospectively from the date of reclassification and previously recognized gains, losses or interests, including gain or losses due to impairment of value, will not be restated.

Evaluation of whether contractual cash flows represent solely payments of principal and interest - SPPI
The Bank considers whether cash flows are consistent with the consideration of the time value of money over time, credit risk and other basic risks associated with loan. Exposure to risk or volatility that are not related to the basic agreements of each loan is not introduced, interest rates do not have particular characteristics oriented to certain types of customer segments, in addition to the variables defined in said methodology are not subject to changes in equity prices, or indexed to variables such as debtor returns or equity indices, as well as level of indebtedness is not taken into account in order to avoid leverage considered within the rate.

In assessing whether contractual cash flows are only principal and interest payments, the Bank considered the contractual terms of the instrument. This included the evaluation to determine if the financial asset contains a contractual term that could change the period or amount of contractual cash flows so that it does not meet this condition. In making this evaluation, the Bank considered:

- Contingent events that change the amount and periodicity of cash flows;
- Leverage conditions;
- Prepayment and extension;
- Terms that limit the Bank to obtain cash flows from specific assets, for example, asset agreements without recourse and,
- Characteristics that modify considerations for the value of money over time, for example, periodic restart of interest rate.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
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2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

Accounting policies used as of July 1, 2018 (continued)

Evaluation of whether contractual cash flows represent solely payments of principal and interest - SPPI (continued)
Loans have a contractual interest rate based on a duration that does not exceed the remaining life of instrument. The majority of Bank´s operations do not contemplate periodic reestablishment of interest rates and, if an operation of this type occurs, it is backed by credit risk evaluation and in the currency in which the asset is denominated, validating that the period in which the interest rate is established corresponds to the term of the loan. In these cases, the Bank will evaluate if the discretionary features is consistent with the criteria of only principal and interest considering several factors that include:

- Debtors are in a position to pre-pay loans without significant penalties;
- Competitive market factors ensure that interest rates are consistent among Banks;
- Any regulatory protection standard in favor of customers.
- All fixed rate consumer and commercial loans have conditions for prepayment.

In addition, a prepayment characteristic is treated as consistent with this criteria if a financial asset is acquired or originated with a premium or discount of its nominal contractual amount and the prepayment amount substantially represent the par value of the contractual amount plus unpaid accrued interest, which may include a reasonable compensation for early termination, and the fair value of the prepayment characteristic is not significant at initial recognition.

Impairment of Financial Assets

Loans
The Bank has defined that the measurement of impairment under expected losses of the loan portfolio is made through a collective evaluation in accordance with the amount and characteristic of the loan.

Collective models include parameters of probability of default at 12 months, probability of default over the life of the obligation, loss given default, and exposure to default with the inclusion of the prospective criterion. The individual analysis methodology is applied in significant exposures and includes evaluation of weighted loss scenarios, considering the macroeconomic expectation and conditions of each debtor.

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Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

Impairment of Financial Assets (continued)
Accounting policies used as of July 1, 2018 (continued)

Classification of the portfolio in stages
Based on the evaluation of a significant increase in risk, a financial instrument can be classified in different stages:

- Stage 1: financial instruments that do not show impairment in their credit quality since their initial recognition or have a low credit risk at the end of the reporting period;
- Stage 2: financial instruments that have significant increase in their credit risk since their initial recognition;
- Stage 3: instruments that have objective evidence of impairment (OEI) in the reporting period.

For each of the mentioned stages, expected credit losses (ECL) will be calculated, which will reflect current and future conditions both of behavior of the portfolio and of different associated macroeconomic conditions. For stage 1, the expected losses of the instruments over a twelve months periods will be recognized, while for stage 2 and 3, it will be made over the lifetime of instruments.

Significant increase in credit risk
The portfolio classified in stage 2 includes those instruments that meet the corporate definition of significant risk increase.

To establish whether an asset present a significant increase in risk since the initial recognition, and evaluation of quantitative and qualitative factors is carried out, and review for each portfolio the parameter of more than 30 days of default. The Bank determines whether the credit risk of financial instruments has increased significantly since the initial recognition as follows:

Quantitative criteria
Comparison of the probability of default to the life of the loan. The Bank has defined that the most suitable parameter for comparing the risk of the instrument is through the comparison of the probability of default to the life of the credit at the current date. Two thresholds have been defined to identify if there is a significant increase in risk:

- Absolute Threshold: is the absolute difference between the value of the probability of default (PD) on date of presentation and the value of probability of default (PD) on date of origin.

Unicorp Bank Overseas, Ltd.

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2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)
Accounting policies used as of July 1, 2018 (continued)

Quantitative criteria (continued)
- Relative Threshold: is a percentage variation between values of probability of default (PD) on date of origin.

In the event that the comparison of the probability of default (PD) produces the surpassing of one threshold, but not of the other, it is not considered that there is a significant increase in the risk for the instrument.

Qualitative Criteria
- Assets restructured for risk, where the client is experiencing financial difficulties;
- Customers on the special mention with medium risk level;
- The Bank additionally reviews each semester if there are collective criteria for the migration of a group of clients to stage 2, for example, if a significant changes has occurred from the origin in a product or specific geographic region.

More than 30 days of delinquency
The Bank reviews for each portfolio if there has been a significant increase in 30 days of delinquency.

Definition of default
The portfolio classified in stage 3 will include those instruments that meet the corporate definition of default.

An asset is considered in default when it has one of the following characteristics:

- Customers who have a default of more than 90 days in any of their obligations,
- Customers who present at least one instrument written off.
- Clients in special states of corporate restructuring or reorganization and insolvency law agreements.
- Customers on the special mention list with a high level of risk.
- Clients in non-compliance category.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
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2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

Accounting policies used as of July 1, 2018 (continued)

Prospective Information
The Bank has incorporated macroeconomic scenarios in the calculation of the expected loss in order to reflect the prospective effect. The inclusion of macroeconomic conditions in the expected loss models is based on methodologies that correlate the historical behavior of the portfolio with certain economic variables. The Bank has made the projection of three macro scenarios (base, pessimistic and optimistic). Each scenario has a probability of plausible occurrence in order to assess the best estimate of the expected credit loss under possible future economic conditions.

Investments
Investments are classified in stages according to the qualification of the following way:
- Stage 1: investments that are rated in investment grade.
- Stage 2: investments that are rated as speculative.
- Stage 3: investments that are rated in default.

To estimate the deterioration of the instruments, if the issue has an external rating, it is reserved with a probability of default (PD) of the external rating agency. If it does not have an external rating, it is reserved with the internal rating model and the probability of portfolio default.

Deterioration: OEI (Objective evidence of impairment) * PD (Probability of default) * LGD (Loss given default)

- All instruments classified in stage 1 will be assigned a probability of default for 12 months.
- All instruments classified in stage 2 will be assigned a probability of default for the life of the instrument.
- All instruments classified in stage 3 will be assigned a probability of default of 100%.

In all cases the loss due to default (LGD) is the parameter calculated in the process of deterioration of the loan portfolio.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
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2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

Accounting policies used as of July 1, 2018 (continued)

Interest Income and Expense
Interest income and expense are recognized in the statement of income for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest Income and Expense
Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and Commission Income
Fees and commissions are generally recognized on a perceived basis when service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred and considered as an adjustment to the effective yield of the loan.

3. Financial Risk Management

In the normal course of its operations, the Bank is exposed to a variety of financial risks, which it seeks to minimize through the application of risk management policies and procedures. These policies cover, market risks: interest rates risk, currency risk, credit risk and liquidity.

Credit Risk
The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank manages the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual review.

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Financial Risk Management (Continued)

Credit Risk (continued)

Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Financial assets with credit risk consist primarily in interest bearing deposits, loans and investment in securities (*before available-for- sale*).

The Bank's risk management organization is mainly composed of committees which monitor the credit risk. These committees have been structured to include the business personnel, general and risk management with the purpose of discussing business matters, risks and required adjustment by the corresponding segments. The Credit Committee approves or endorses under the limits ratified by the Board of Directors.

Portfolio Quality Information

The Bank does not have past due or impaired loans. Of the total loans, 87% (2018: 87%) are collateralized with time deposits, 12% (2018: 12%) are collateralized with real estate and 1% (2018: 1%) is not collateralized.

Credit quality analysis

The following table presents the financial assets and reserves for expected credit losses (ECL):

	Stage 1	Stage 2	Stage 3	2019	2018
Maximum exposure					
Carrying amount, net	77,101,937	-	-	77,101,937	79,566,825
Grade 1: Normal	77,102,303	-	-	77,102,303	79,566,825
Gross amount	77,102,303	-	-	77,102,303	79,566,825
Less:					
Reserve for expected credit losses	(366)	-	-	(366)	-
Carrying amount net	77,101,937	-	-	77,101,937	79,566,825

The following table shows the ratings of cash and deposits in banks an instruments classified as securities through other comprehensive income, based on the risk rating assigned by rating agencies:

	Stage 1	Stage 2	Stage 3	2019	2018
Cash and bank deposits					
Rated between AA- and AA+	22,889,787	-	-	22,889,787	23,513,539
Rated between A- and A+	247,183	-	-	247,183	1,142,758
	23,136,970	-	-	23,136,970	24,656,297

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

Credit quality analysis (continued)

Portfolio Quality Information (continued)

	Stage 1	Stage 2	Stage 3	2019	2018
Securities through other comprehensive income					
Rated AAA	5,000,710	-	-	5,000,710	7,147,302
Rated between AA- and AA+	4,221,064	-	-	4,221,064	13,958,222
Rated between A- and A+	5,985,516	-	-	5,985,516	8,722,981
Rated between BBB- and BBB+	7,500,949	-	-	7,500,949	7,234,646
Rated BB+ and less	425,889	-	-	425,889	413,680
No rating	12,594,893	-	-	12,594,893	-
	35,729,021	-	-	35,729,021	37,476,831

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region:

	Panama	North America	Central America and Caribbean	Other	Total
			(In US Dollars Thousand)		
June 30, 2019					
Assets					
Deposits with banks	22,890	247	-	-	23,137
Loans	77,102	-	-	-	77,102
Investments in securities	12,398	18,863	-	4,468	35,729
Investment in associates	35,600	-	-	-	35,600
	147,990	19,110	-	4,468	171,568
Liability					
Customers' deposits	104,280	66	27,537	752	132,635

	Panama	North America	Central America and Caribbean	Other	Total
			(In US Dollars Thousand)		
June 30, 2018					
Assets					
Deposits with banks	23,513	1,143	-	-	24,656
Loans	79,567	-	-	-	79,567
Investments in securities	11,105	21,655	-	4,717	37,477
Investment in associates	32,827	-	-	-	32,827
	147,012	22,798	-	4,717	174,527
Liability					
Customers' deposits	96,786	66	37,240	377	134,469

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

Liquidity Risk

Liquidity risk is the risk that the Bank cannot meet its obligations. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank placing and financing.

The table below presents the expected cash flows of financial assets and liabilities based on remaining contractual maturities at the statement of financial position date. The Bank manages the inherent liquidity risk based on expected undiscounted cash flows as disclosed in the table below:

	Up to 6 Months	6-12 Months	1-5 Years	More than 5 Years	No Maturity	Total
			(In US Dollars Thousands)			
June 30, 2019						
Liabilities						
Customers' deposits	59,160	18,979	58,339	-	-	136,478
Assets						
Total assets	94,634	11,641	33,864	317	38,111	178,567
June 30, 2018						
Liabilities						
Customers' deposits	71,928	29,981	32,351	-	-	134,260
Assets						
Total assets	105,302	12,770	17,657	10,528	35,330	181,587

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank has interest rate exposure related to fluctuations in the prevailing levels of market interest rates. The Bank's Management periodically monitors the interest rate risk.

The following table summarizes the Bank's exposure to interest rate risks, including the assets and liabilities at carrying amount, categorized by the earlier of contractual reprising or maturity dates:

	Up to 6 Months	6-12 Months	1-5 Years	More than 5 Years	Non Interest Bearing	Total
			(In US Dollars Thousands)			
June 30, 2019						
Assets						
Deposits with banks	17,662	5,475	-	-	-	23,137
Loans	67,049	-	10,053	-	-	77,102
Investments In securities	6,666	6,367	22,499	197	-	35,729
Investment in associates	-	-	-	-	35,600	35,600
Total assets	91,377	11,842	32,552	197	35,600	171,568
Liabilities						
Customers' deposits	40,324	17,820	57,301	-	17,190	132,635
Net position	51,053	(5,978)	(24,749)	197	18,410	38,933

Unicorp Bank Overseas, Ltd.

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3. Financial Risk Management (Continued)

Interest Rate Risk (continued)

	Up to 6 Months	6-12 Months	1-5 Years	More than 5 Years	Non Interest Bearing	Total
			(In US Dollars Thousands)			
June 30, 2018						
Assets						
Deposits with banks	19,212	5,444	-	-	-	24,656
Loans	79,567	-	-	-	-	79,567
Investments in securities	5,544	6,749	14,586	10,598	-	37,477
Investment in associates	-	-	-	-	32827	32,827
Total assets	104,323	12,193	14,586	10,598	32,827	174,527
Liabilities						
Customers' deposits	51,051	30,202	32,085	701	20,430	134,469
Net position	53,272	(18,009)	(17,499)	9,897	12,397	40,058

The Bank takes on exposure to the effects of the fluctuations in the prevailing market interest rate in its cash flows. Interest margins can increase as a result of these changes, but can decrease or create losses in case of unexpected movements.

To evaluate interest rate risk and its impact in fair value of financial assets and liabilities, the Bank performs simulations to determine sensitivity in financial assets and liabilities. The base analysis performed by the Bank consists of determining the impact on the fair value of financial assets and liabilities caused by the increases and reductions of 50 basis points in interest rate, allowing the examination of the variance in profits. If the interest rate would have been based on 50 points (greater or lower) and all other variable remained constant, the income for the year ended June 30, 2019 would have increased or decreased by US$194,660 (2018: US$200,290).

The effective average interest rates as of June 30, 2019 of the major financial instruments of the Bank are as follows:

	2019	2018
Assets		
Deposits with banks	1.16%	0.84%
Loans	10.31%	9.52%
Investment in securities	3.16%	2.75%
Liabilities		
Customers' deposits	2.90%	2.94%

Unicorp Bank Overseas, Ltd.

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3. Financial Risk Management (Continued)

Fair Value Estimation
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability.
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Other valuation techniques include actual net present value and discounted cash flows, comparisons between similar instruments for which there are observable market prices, and other valuation models. The assumptions and input data used in valuation techniques include risk-free average interest rate, credit spreads and other premises used to estimate discount rates.

The objective of using a valuation technique is to estimate the price of an orderly asset sale transaction or the transferring of liabilities between market's participants at the date of measuring under the current market conditions.

The fair value of financial assets and liabilities that are evaluated at fair value on a recurring basis.

The following table presents the fair values for financial instruments owned by the Bank and classified according to the category Level of their fair value at June 30, 2019:

	Level 1	Level 2	Level 3	Total
June 30, 2019				
Investment in securities	-	35,729,021	-	35,729,021
June 30, 2018				
Investment in securities	-	37,476,831	-	37,476,831

Financial Instruments	Valuation Technique and Input Data Used	Level
Corporate Bonds and Bonds of the Republic of Panama	Discounted cash flows using a discount rate which is derived from using the market risk-free rate and the free rate of the Republic of Panama used for instruments with similar remaining maturity.	(2)
US Agency Shares and Bonds	Prices quoted for identical instruments in inactive markets.	(2)

The fair value of financial instruments traded in active markets (available-for-sale securities) is based on quoted market prices at the statement of financial position.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

Fair Value Estimation (continued)

The reconciliation of instruments with main supportive valuation not based on observable market data; that is, instruments classified as Level 3 in the fair value category is as follows:

Financial Instrument	Valuation Technique	Significant Non-Observable Input Data	Sensitivity of the Measuring of Fair Value to the Significant Non-observable Input Data
Corporate Bonds	Discounted Cash flows	Adjusted discount rate with a spread of growth to perpetuity.	Increase (decrease) in the input data that is not observable in an isolated manner and that may result in a lower (higher) fair value.
Shares	Discounted Cash flows	Credit risk spread adjustment based on Panama's government reference rate.	Increase (decrease) in the input data that is not observable in an isolated manner and that may result in a lower (higher) fair value.

Fair value of financial instruments not measured at their fair value

The book value of the main financial assets and liabilities not measured at their fair values in the Bank's statement of financial position is summarized as follows:

	2019		
	Book Value	Fair Value	Level
Assets			
Due from banks	4,635,376	4,635,376	N/A
Interest bearing deposits with banks	18,501,594	18,535,250	2
Loans	77,101,937	77,103,649	2
	100,238,907	100,274,275	

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

Fair Value Estimation (continued)

Fair value of financial instruments not measured at their fair value (continued)

	2019		
	Book Value	Fair Value	Level
Liabilities			
Demand deposits	34,388,389	34,388,389	N/A
Time deposits	98,246,239	100,624,766	2
	132,634,628	135,013,155	

	2018		
	Book Value	Fair Value	Level
Assets			
Due from banks	5,670,302	5,670,302	N/A
Interest bearing deposits with banks	18,985,995	19,006,151	2
Loans	79,566,825	76,630,033	2
	104,223,122	101,306,486	
Liabilities			
Demand deposits	29,246,598	29,246,598	N/A
Time deposits	105,222,033	104,463,428	2
	134,468,631	133,710,026	

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

Fair Value Estimation (continued)
Bank's Management has used the following assumptions to estimate the fair value of each financial instrument's category in the financial statements:

Deposits with banks: The fair value approximates the book value due to their short-term maturity.

Investment held-to-maturity: These financial instruments approximate their market value, price source: Bloomberg Valuation (BVAL).

Loans: Fair value of loans is based on the present value of estimated future cash flows, discounted on a market-rate basis for groups of similar loans.

Customers' deposits: Fair value is estimated at the present value of future cash flows using a discount rate for similar remaining maturity.

4. Critical Accounting Estimates, and Judgments in Applying Accounting Policies

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 based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans

The Bank reviews its loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. 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 projecting 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.

Unicorp Bank Overseas, Ltd.

Notes to the Financial Statements
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4. Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

(b) Impairment of available-for-sale equity investments

The Bank follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(c) Held-to-maturity investments

The Bank follows the guidance of IAS 39 in classifying non-derivative financial assets as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity, it will be required to reclassify the entire category as available-for-sale.

(d) Fair value of the financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, these are validated and periodically reviewed by qualified personnel. When possible, models use only observable data, however areas such as credit risk (self and counterparty), volatility indicators and correlations require judgment to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Bank policy considers significant and prolonged impairment of available-for-sale investments, those investments with 25% or more impairment in its fair value for a period of 180 consecutive days. At June 30, 2019, there are no investments with prolonged impairment.

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Notes to the Financial Statements
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5. Cash and Cash Equivalents

Cash and cash equivalents consisted of:

	2019	2018
Due from banks	4,635,376	5,670,302
Interest bearing deposits with banks	18,501,734	18,985,995
Less: Provision for time deposits	(140)	-
	23,136,970	24,656,297
Less: Interest bearing with deposits more than ninety days	(5,501,594)	(9,485,995)
	17,635,376	15,170,302

6. Loans

Loans are as follows:

	2019	2018
Commercial	77,034,430	79,340,121
Overdrafts	67,507	226,704
	77,101,937	79,566,825

The Bank does not have past due or impaired loans. Of the total loans, 87% (2018: 87%) are collateralized with time deposits, 12% (2018: 12%) are collateralized with real estate and 1% (2018: 1%) is not collateralized.

The movement of the reserves for expected credit losses in loans

	Stage 1	Stage 2	Stage 3	Total
Reserves for expected credit losses as July 1, 2018	1,613	-	-	1,613
Reserves, net	(11)	-	-	(11)
New loans	68	-	-	68
Canceled loans	(1,304)	-	-	(1,304)
Reserves for expected credit losses as June 30, 2019	366	-	-	366

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7. Securities at Fair Value through Other Comprehensive Income (before AFS)

The securities at fair value through other comprehensive income are as follows:

	2019	2018
Corporate bonds	30,877,464	28,927,901
Agency bonds	3,697,981	7,147,302
Certificate of deposit	-	1,000,028
Treasury bills	754,280	-
Promissory note	399,296	401,600
	35,729,021	37,476,831

The movement of reserves for expected credit losses for securities at fair value through other comprehensive income is presented below:

	Stage 1	Stage 2	Stage 3	Total
Reserves for expected credit losses as July 1, 2018	143,958	-	-	143,958
Expected credit losses	(135,431)	-	-	(135,431)
Financial instruments purchased	5,169	-	-	5,169
Reserves for expected credit losses as June 30, 2019	13,696	-	-	13,696

The movement of securities at fair value through other comprehensive income (before AFS) is as follows:

	2019	2018
Opening net book balance	37,476,831	43,603,917
Purchases	19,080,964	14,835,878
Sales and redemptions	(21,707,137)	(19,873,177)
Amortized cost	93,485	30,234
Accrued interest receivable	(6,181)	(49,680)
Net loss transferred from equity	(95)	(15,003)
Net gain (loss) transferred to equity	804,850	(1,055,338)
Investments reserves	(13,696)	-
Ending net book balance	35,729,021	37,476,831

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8. Securities at Amortized Cost (before HTM)

As at June 30, 2019, the Bank does not hold securities at amortized cost (before HTM).

The movement of securities at amortized cost (before HTM) is as follows:

	2019	2018
Opening net book balance	-	309,508
Redemption	-	(302,925)
Amortized cost	-	2,584
Accrued interest receivable	-	(9,167)
Ending net book balance	-	-

9. Investment in Associates

The associates listed below have share capital consisting solely of ordinary shares, which are held directly by the Bank:

	Participation			
Common Stock	**2019**	**2018**	**2019**	**2018**
IS Holding Group, S. A.	13.10%	13.10%	32,320,279	29,179,162
Panama Hydroelectric Ventures, Inc.	8.89%	8.89%	3,280,091	3,647,968
			35,600,370	32,827,130

IS Holding Group, S. A. is a company incorporated under the laws of the Republic of Panama since 1910. It is licensed to operate all insurance and reinsurance lines of business, such as property and casualty, bonds, and life. The company's administrative offices are located in Panama City, Republic of Panama.

Panama Hydroelectric Ventures, Inc. is a company incorporated under the laws of the Republic of Panama since 2010. It is a holding corporation. The Company's administrative offices are located in Panama City, Republic of Panama.

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9. Investment in Associates (Continued)

The movement of the investment in associates is as follows:

	2019	2018
Opening net book balance	32,827,130	28,559,072
Share of profits	3,986,825	3,852,167
Other comprehensive income	(117,246)	1,289,477
Adjustment for IFRS 9 adoption	(101,210)	-
Dividends received	(995,129)	(873,586)
Ending net book balance	35,600,370	32,827,130

The assets, liabilities and profits of these associates are as follows:

	2019						
Associate	Assets	Liabilities	Equity	Income	Expenses	Profit before Taxes	Profit after Taxes
IS Holding Group, S. A.	641,195,676	392,776,280	243,677,705	215,130,329	178,346,478	36,783,851	31,669,852
Panama Hydroelectric Venture, Inc.	59,967,264	26,269,559	33,697,705	(244,596)	1,576,846	(1,821,442)	(1,821,442)

	2018						
Associate	Assets	Liabilities	Equity	Income	Expenses	Profits (Loss) before Taxes	Profits (Loss) after Taxes
IS Holding Group, S. A.	601,203,629	377,345,233	219,881,537	217,252,701	183,828,890	33,423,811	28,194,006
Panama Hydroelectric Venture, Inc.	62,025,798	24,159,361	37,866,438	3,291,310	1,505,573	1,785,737	1,785,737

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9. Investment in Associates (Continued)

Following is a reconciliation of the summary financial information for investments in associates:

	2019	
	IS Holding Group, S. A.	Panama Hydroelectric Venture, Inc.

Net assets at beginning of year	219,881,536	37,866,438
Profit for the period	31,669,852	(1,821,442)
Dividends	(7,598,000)	-
Adopted IFRS 9	(772,598)	(30,639)
Other comprehensive income	496,915	(2,316,652)
Net assets at end of year	243,677,705	33,697,705
Share of period	31,921,779	2,995,726
Other adjustments	398,500	284,365
Net book value	32,320,279	3,280,091

	2018	
	IS Holding Group, S. A.	Panama Hydroelectric Venture, Inc.
Net assets at beginning of year	190,181,869	33,735,113
Profit for the period	28,194,006	1,785,737
Dividends	(6,670,000)	-
Other comprehensive income	8,175,661	2,345,588
Net assets at end of year	219,881,536	37,866,438
Share of period	28,804,481	3,366,326
Other adjustments	374,681	281,642
Net book value	29,179,162	3,647,968

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10. Common Stock

The total authorized number of common stocks is 5,000,000 with a par value of US$1 per share. All issued stocks are fully paid.

11. Transactions and Balances with Related Parties

The most significant balances and transactions with related parties are presented below:

	2019				
	Related Party	Associates	Ultimate Parent	Executives Directors and Employees	Total
Balances					
Assets					
Due from banks	4,388,193	-	-	-	4,388,193
Interest bearing deposit with banks	18,501,734	-	-	-	18,501,734
Loans	77,042,424	-	-	-	77,042,424
Investments in securities, net	11,892,529	-	-	-	11,892,529
Investment in associates	-	35,600,370	-	-	35,600,370
Other accounts receivable	-	53,175	-	-	53,175
Prepaid expenses	-	329	-	-	329
Liabilities					
Demand deposits	18,894,567	13,936	228,777	23,696	19,160,976
Time deposits	71,716,092	-	-	137,900	71,853,992
Other liabilities	759,015	-	-	-	759,015
Dividend paid	-	-		6,000,000	6,00,000
Transactions					
Revenue					
Interest on loans	1,870,025	-	-	220	1,870,245
Interest on deposits	572,732	-	-	-	572,732
Interest on investments	599,131	-	-	-	599,131
Commission income	1,864,310	-	180	40	1,864,530
Share of profits in associates	-	3,986,825	-	-	3,986,825
Expenses					
Interest expense	383,804	17	-	5,402	389,223
Other administrative and professional services	373,278	39,182	-	-	412,460
Key management compensation	-	-	11,450	-	11,450

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11. Transactions and Balances with Related Parties (Continued)

	2018				
	Related Party	Associates	Ultimate Parent	Executives Directors and Employees	Total
Balances					
Assets					
Due from banks	3,724,783	-	-	-	3,724,783
Interest bearing deposit with banks	19,788,756	-	-	-	19,788,756
Loans	-	-	-	10,201	10,201
Investments in securities, net	10,597,812	-	-	-	10,597,812
Investment in associates	-	32,827,130	-	-	32,827,130
Other accounts receivable	-	75,964	-	-	75,964
Prepaid expenses	-	4,505	-	-	4,505
Liabilities					
Demand deposits	15,288,408	12,821	796,139	-	16,097,368
Time deposits	19,085,921	-	-	132,498	19,218,419
Other liabilities	690,058	-	-	-	690,058
Dividend paid	-	-	3,000,000	-	3,000,000

Transactions					
Revenue					
Interest on loans	15	-	-	255	270
Interest on deposits	417,545	-	-	-	417,545
Interest on investments	596,363	-	-	-	596,363
Commission income	2,334,822	-	20	40	2,334,882
Share of profits in associates	-	3,852,167	-	-	3,852,167
Expenses					
Interest expense	427,291	16	-	13,265	440,572
Other administrative and professional services	388,663	34,654	-	-	423,317
Key management compensation	-	-	-	14,100	14,100

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12. Regulatory Matters

According to regulations of Antigua and Barbuda, the Bank is required to disclose in its financial statements the payments to residents in St. John's Antigua, British West Indies. In that regard, the Bank has incurred in the following expenses in St. John's Antigua, British West Indies:

	2019	2018
Management fees	21,800	11,571
Salaries	19,502	18,092
Banking license	40,000	40,000
Auditing	25,000	25,000
Other administrative expenses	23,452	17,923

13. Income Tax

In July 2016, the Parliament of Antigua and Barbuda enacted the International Banking Act 2016 whereby, among other things, licensed financial institution are levied taxes on profits and gains in respect of the international financial services carried on by it.

The income tax resulting from the tax rate applicable to our institution's profit and gain level is as follows:

	2019	2018
Gross income before taxes	4,649,755	4,327,268
Income taxes applying 2.5%	116,244	108,182

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14. Capital Adequacy

The Bank monitors its capital adequacy using ratios comparable to those suggested by the Basel Committee on Banking Regulations and Supervisory Practices. The capital adequacy ratio measures capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and other risk positions at a weighted amount.

The market risk approach used by the Bank to calculate its capital requirements covers the general market risk of the Bank's operations. The methodology used is based on the regulation defined by the Financial Services Regulatory Commission of Antigua & Barbuda. Using this methodology, assets are weighted according to specific credit risk categories, emphasizing location of the asset and its credit rating, three categories of weighted risk (12.5% for Market and Operational risk and 100% for Credit risk) are applied.

The risk weighted amounts of assets and commitments of the Bank are as follows:

	Balance (In thousands)	Weighted Assets (In thousands)
June 30, 2019		
Assets		
Credit risk	599	599
Operational risk	130	1,625
Market risk	3,937	49,213
Total risk weighted assets	4,666	51,437
Capital base		39,888
Capital adequacy ratio as of June 30, 2019		77.55%
Capital adequacy ratio as of June 30, 2018		84.60%
Minimum capital adequacy regulatory ratio		8%

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15. General and Administrative Expenses

The general and administrative expenses are as follows:

	2019	2018
Professional services	258,168	227,996

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15. General and Administrative Expenses

The general and administrative expenses are as follows:

	2019	2018
Professional services	258,168	227,996
Salaries	19,502	18,092
Rent expense	10,461	11,243
Depreciation	1,714	1,714
Other administrative services	312,909	309,488
	602,754	568,533

16. Revenue from Contracts with Customers

Revenue from contracts with customers is presented as follows:

	2019	2018
Call Option Seller revenue	1,866,335	2,337,302
Banking services	35,905	37,210
Loans commissions	9,750	11,400
	1,911,990	2,385,912

17. Adoption of IFRS 9

The impact on the carrying amounts of financial assets and liabilities resulting from the adoption of IFRS 9 was recognized in reserves and retained earnings as of July 1, 2018. The information presented for 2018 does not reflect the requirements of IFRS 9, therefore, it is not comparable.

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17. Adoption of IFRS 9 (Continued)

The following table shows the measurement and carrying amount categories of financial assets and liabilities as of June 30, 2018 under IAS 39 and the new categories under IFRS 9 as of July 1, 2018.

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17. Adoption of IFRS 9 (Continued)

The following table shows the measurement and carrying amount categories of financial assets and liabilities as of June 30, 2018 under IAS 39 and the new categories under IFRS 9 as of July 1, 2018.

	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFR 9
Financial asset				
Deposits with banks	AC [(1)]	AC	24,656,297	24,656,100
Loans, net	AC	AC	79,566,825	79,565,212
Investment in securities	AFS [(2)]	FVTOCI [(3)]	37,476,831	37,332,873
Total financial assets			141,699,953	141,554,185
Financial liabilities				
Customer deposits	AC	AC	134,468,631	134,468,631
Total Financial liabilities			134,468,631	134,468,631

[(1)]AC - Amortized cost
[(2)]AFS - Available for sale
[(3)]FVTOCI - Securities at fair value through other comprehensive income

A reconciliation between the carrying amount under IAS 39 and the remeasurement under IFRS 9 as July 1, 2018, is as follow:

	Balance as of June 30, 2018 under IAS 39	Remeasurement	Balance as of July 1, 2018 under IFRS 9
Financial assets			
Deposits with banks	24,656,297	(197)	24,656,100
Loans, net	79,566,825	(1,613)	79,565,212
Investment in securities	37,476,831	(143,958)	37,332,873
Total financial assets	141,699,953	(145,768)	141,554,185
Financial liabilities			
Customers deposits	134,468,631	-	134,468,100
Total financial liabilities	134,468,631	-	134,468,100
Equity			
Retained earnings	31,772,244	(145,768)	31,626,476
Total financial liabilities	31,772,631	(145,768)	134,468,100

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17. Adoption of IFRS 9 (Continued)

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17. Adoption of IFRS 9 (Continued)

As July 1, 2018, based on the evaluation carried out by the Bank on the classification and measurement of financial assets and liabilities held as June 30, 2018, it was concluded that the adoption of IFRS 9 did not require changes in categories; however, it required changes in the impairment models.

Below is the reconciliation of the provision for impairment as June 30, 2018 under the loss model incurred, in accordance with IAS 39 and the provision for impairment determined in accordance with IFRS 9 as July 1, 2018. Changes in the provision are mainly due to the establishment of new impairment provisions for fair value securities through other comprehensive income, as well as the remeasurement of credit risk impairment of the loan portfolio:

	Balance as of June 30, 2018 under IAS 39	Remeasurement	Balance as of July 1, 2018 under IFRS 9
Financial assets			
Provision for bank deposits	-	(197)	(197)
Credit portfolio provision	-	(1,613)	(1,613)
Provision for securities through other comprehensive income	-	(143,958)	(143,958)
Total financial assets	-	(145,768)	(145,768)

	Stage 1	Stage 2	Stage 3	Total
Balance as of July 1, 2018				
Loans	79,566,825	-	-	79,566,825
Less:				
Reserve for expected credit losses loans	(1,613)	-	-	(1,613)
Loans net	79,565,212	-	-	79,565,212

Remeasurement of available-for-sale securities (AFS) to fair value through other comprehensive income (FVTOCI)

Prior to adoption of IFRS 9, the Banks maintained a portfolio of investment classified as available-for sale (AFS). As of July 1, 2018, they were classified as fair values through other comprehensive income (FVTOCI), since these investments are maintained to maximize returns and obtain liquidity. At the time of adoption, an increase in reserve for investment of US$143,958, was recognized in retained earnings.