

Global Bank Group Corporation and Subsidiaries

Independent Auditors' Report and 2009 Consolidated Financial Statements

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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 the Republic 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, Obarrio, 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 the purchase of discounted bills 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 in the purchase of discounted bills issued by third parties.
- Global Valores, S. A., a Panamanian company that started operations in 2002, mainly engaged in the brokerage business through Stock of Exchange of the Republic of Panama.
- Global Bank Overseas, a Bank incorporated under the laws of Companies of Monserrat, British West Indies in August 25, 2003, and started 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, mainly engaged in subscription and issuance of guarantees to third parties.
- Durable Holdings Inc., a Panamanian company incorporated on January 2006, mainly engaged in real estate business.

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On May 9, 2008, Global Bank Corporation absorbed the corporations, Leesport Finance Inc., Dramen International Inc., Dontobay Holding Inc. and Dabrox International, S.A. through a merger by which all the assets, liabilities and equity accounts of these companies were incorporated into Global Bank Corporation's balance sheet as of that date. Since June 1, 2008 the income and expense accounts are reflected in Global Bank Corporation's statement of income.

In the Republic of Panama, the banks are regulated by the Superintendency of Banks, through the 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. Also, the banks will be subject, at least, to an inspection every two (2) years performed by the auditors of the Superintendency of Banks, to determine the fulfillment of the dispositions of the Law No.2 of February 22, 2008 and the Law No.42 of October 2, 2000 related to the prevention of money laundering.

These consolidated financial statements were authorized for their issuance by General Management on September 11, 2009.

2. Adoption of new standards and modifications to the standards published

At the date of these consolidated financial statements, there are standards and interpretations issued relevant to the operations of the Bank and effective for the next accounting periods. Such standards and interpretations have not been adopted in advance by the Bank and are detailed as follows:

- IAS 1 (Revised) - Financial Statements Presentation - Effective for accounting periods beginning on January 1, 2009.
- IAS 23 (Amended) - Borrowing Costs - Effective for accounting periods beginning on or after January 1, 2009.
- IAS 36 (Amended) - Impairment of Assets (about disclosure of estimates used to determine a recoverable amount - Effective for periods beginning on or after January 1, 2009.
- IFRS 7 - Enhancements to disclosures relating to reclassifications of financial assets - Effective for periods beginning on or after January 1, 2009.
- IFRS 8 - Operating Segments - requires operating segments to be identified on the same basis used on internal reports. Effective for annual periods beginning on or after January 1, 2009.
- IFRS 3 - (Revised) Business Combinations - Effective for annual periods beginning on or after July 1, 2009.

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- IAS 27 (Amendment) - Consolidated and Separate Financial Statements - Effective for annual periods beginning on or after July 1, 2009.
- IAS 39 (Amendment) - Financial Instruments: Recognition and Measurement - Effective for annual periods beginning on or after July 1, 2009.

Management anticipates that all the standards and interpretations aforementioned will be adopted in the financial statements of the Bank from the following accounting periods and that their adoption will have no material impact in the financial statements of the Bank for the period of initial application.

3. Significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards are set out as follows:

3.1. *Basis of presentation*

The financial statements have been prepared on the historical cost basis, except for the securities available for sale which are stated at their fair value.

The consolidated financial statements of the Bank have been prepared in accordance to International Financial Reporting Standards (IFRS), as modified by prudent regulations issued by the Superintendency of Banks of Panama (the Superintendency) for supervision purposes. Regarding the Bank, the most relevant modification introduced by the prudent regulations that establish a treatment different to the International Financial Reporting Standards corresponds to the establishment of a provision for possible loan losses, the provision for securities and the provision for real estates acquired in compensation for outstanding credits. For such provisions, International Accounting Standard No. 39 establishes that the provision be determined based on incurred loss, while the regulation requires that the provision be determined based on expected losses.

Following are the most important differences between the International Financial Reporting Standards (IFRS) not applicable in the preparation of these financial statements and the Banking Resolutions that have been adopted as per request of the Superintendency of Banks of the Republic of Panama:

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Allowance for loans

In relation to the establishment of the allowance for possible loans losses, the differences between IAS No.39 "Financial Instruments: Recognition and Measurement" and Agreement 6-2000 of June 28, 2000 for the provision of possible loans losses are as follows:

As per IAS - 39

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.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred).

The following are events of objective evidence of possible loan impairment losses:

- *significant financial difficulty of the issuer or obligor;*
- *a breach of contract, such as a default or delinquency in interest or principal payments;*
- *the lender, due to economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise consider;*
- *it becoming probable 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 group.*

As per Agreement 6-2000

The Bank will classify loans at their carrying amount at the review date in the following categories: normal, special mention, subnormal, doubtful and irrecoverable.

Once each loan is classified, the banks have to set out a specific provision based on principal balance according to the following:

<u>Loan categories</u>	<u>Minimum percentages</u>
Normal	0%
Special mention	2%
Subnormal	15%
Doubtful	50%
Irrecoverable	100%

Agreement 6-2000 also states the accrual of interest be suspended once loans are in arrears for more than 90 days for commercial credits and more than 120 days for consumer loans.

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Allowance for investments

In relation to the establishment of the allowance for investments, the differences between IAS No.39 "Financial Instruments: Recognition and Measurement" and Agreement 7-2000 of July 19, 2000, modified by Agreement 1-2001 of May 4, 2001 for the provision of securities impairment are as follows:

As per IAS - 39

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.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred).

The following are events of objective evidence of possible loan impairment losses:

- significant financial difficulty of the issuer or obligor;*
- a breach of contract, such as a default or delinquency in interest or principal payments;*
- the lender, due to economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise consider;*
- it becoming probable 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 group.*

As per agreements 7-2000 and 1-2001

The Bank must set out special provisions when any of the following occurs:

- (a) When the issuer of securities has a significant and recurrent impairment on its economic solvency or a high probability of bankruptcy, the Bank must estimate the recoverable amount and record the estimated value directly to its carrying amount or through an allowance. The amount of impairment must be included in the net profit and loss of the fiscal period.*
- (b) When more than ninety days after maturity date of total or partial of principal, interest or both have occurred. An allowance must be based on the following:

1. For the reasonable estimated unrecoverable amount net of guarantees when it exists; or
2. Based on time after maturity date:
- More than 90 days to less than 180 days - 25%
- More than 180 days to less than 270 days - 50%
- More than 270 days to less than 360 days - 75%
- More than 360 days - 100%*
- (c) When securities have no reliable or quoted prices in an active or organized market, the Bank must set out provisions up to a 100% of the estimated loss.*
- (d) When a significant impairment occurs in foreign currency exchange risk, or country risk, or securities lack of prudent regulations according to international standards and are not properly covered, the Bank must set provisions to cover for such risk.*

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Allowance for foreclosure properties

In relation to the establishment of the provision for foreclosure properties, the differences between IFRS 5 - "Non-current Assets for Sale" and Agreement 8-2002 of October 2002, are described as follows:

As per IFRS - 5

An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

An entity shall recognize an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognized.

As per Agreement 8-2002

Is set out to the banks a term of within one year and six months to transfer the ownership of real estate property acquired in compensation for outstanding credits. This term may be subject to one (1) one extension only, for up to three (3) years, upon request by the Bank and acceptance by the Superintendency.

Upon the expiration of the one (1) year and six (6) months, in the absence of transfer of ownership of the real estate property, the Bank shall establish an allowance for the book value of such property.

The allowance will be maintained as long as they were kept on the books of the Bank.

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Classification of investment securities

The most significant differences between IAS - 39 "Financial Instruments: Recognition and Measurement" and Agreements 7 - 2000 and 1-2001, in regards to the classification of securities held for trading, available for sale and held to maturity are as follows:

As per IAS - 39

Investments are classified in the following categories: securities held for trading at fair value through profit and loss, securities held to maturity and securities available for sale. The Administration classifies assets at their initial recognition:

Securities held for trading at fair value through profit and loss

Securities are classified in this category if acquired mainly for the purpose of selling it in the near term or if it was designated by the administration. Derivatives are also classified as held for trading unless designated as hedging instruments.

A gain or loss arising from a change in the fair value is included in the income statement of the period.

Securities held to maturity

Securities held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Securities held to maturity are recorded at amortized cost using the effective interest method. The calculated interest under this method is recognized in the income statement.

Securities available for sale

Securities available for sale are those that the Bank has the intention to hold for an indefinite period of time that could be sold in response to the needs of liquidity or changes in interest rates, foreign exchange rates or stock prices.

The gains or losses arising from a change in the fair value are recognized directly to equity until the financial asset is sold, transferred or considered to be impaired, in such cases the gains or losses previously accumulated in equity are recognized in the profit and loss of the period.

As per Agreements 7-2000 and 1-2001

Investment securities are classified based on IFRS or US-GAAP in the following categories:

Trading securities

Stock and debt securities acquired by the Bank with the main purpose of generating a gain in a short term due to price fluctuations. In this category are only securities that are quoted in an active or organized market and are to be held for a short term. Securities issued by the Bank itself or by entities related to the same Economic Group that the Bank belongs to, cannot be classified in this category.

A gain or loss arising from a change in market values is to be included in the net profit and loss of the period.

Investments held to maturity

Debt securities acquired by the Bank with the intention to hold to maturity. Securities that the Bank intends to hold for an indefinite period and securities issued by the Bank itself or by entities related to the same Economic Group that the Bank belongs to, cannot be classified in this category. Banks can classify investment securities in this category when the following conditions are met:

- a. Have a remaining maturity greater than one (1) year from acquisition date;*
- b. Be classified in an immediate level of investment grade by at least one recognized risk rating agency, local or foreign;*
- c. Others that are timely set by the Superintendency for the purpose of this Agreement.*

The requirements above do not apply to:

- Securities issued and guaranteed by the Panamanian Government, nor*
- Securities issued by the Panamanian private sector, as long as they are traded in a stock exchange or other organized market acceptable to the Superintendency.*

Changes in market prices are not included in profit and loss unless there are events that define such losses as not temporary.

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Investments available for sale

Securities not classified as negotiable securities, investments held to maturity and permanent investments are included in this category.

Any gain or loss arising from a change in fair value of securities classified in this category can be:

- a. Included in the net profit and loss of the period; or*
- b. Registered directly the net equity, disclosing such information in the statement of changes of shareholders' equity.*

The Bank must choose one of the two accounting policies aforementioned and apply it permanently to all securities available for sale.

3.2. Principles of consolidation

The consolidated financial statements include assets, liabilities, shareholders' equity and the statement of operations of Global Bank Corporation and its subsidiaries: Global Financial Funds Corporation, Factor Global, Inc., Global Capital Corporation, Global Capital Investment Corporation, Global Valores, S.A., Global Bank Overseas, Durable Holdings, S.A. and Aseguradora Global, S. A.

The Bank has control when it has the power to govern the financial and operating policies of a company in which it maintains an investment in order to obtain benefits from its operations. Subsidiaries are those entities in which the Bank owns directly or indirectly more than 50% of the common share with voting rights and/or exert control.

The subsidiaries are consolidated from the date in which control is transferred to the Parent Bank until the date that control ceases. The results of the acquired or disposed subsidiaries during the year are included or excluded in the consolidated statement of income from the effective date of acquisition or of disposition, as appropriate.

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

3.3. Functional currency

The accounting records statements are recorded in Balboa and the financial statements are expressed in such currency which is the functional currency of the Company. The balboa, monetary unit of the Republic of Panama, is at par value and freely exchangeable with the U.S. dollar. The Republic of Panama does not issue paper currency and uses the U.S. dollars as legal tender.

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3.4. *Financial assets*

Financial assets are classified in the following specific categories: financial assets at fair value through profit or loss; held-to-maturity investments; available for sale financial assets and loans. Classification depends on the nature and purpose of the financial asset and is determined at initial recognition. The existing financial assets at June 30 were the following:

Financial assets held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determined payments and fixed maturities of which the Bank's Management has the intention and ability to hold to maturity. If the Bank sells a significant amount (in relation with the total amount of held to maturity investments) of the held to maturity investments, the entire category must be reclassified as available for sale. Assets held to maturity are recognized at amortized cost using the effective interest method less any impairment, with revenue recognized based on an effective rate.

Financial assets available for sale

Investments 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.

After their initial recognition, assets available for sale are recognized at their fair value. In those cases in which assets are not reliable to be estimated at their fair value, they are maintained at cost or amortized cost.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial assets are derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

Dividends on available for sale equity instruments are recognized in the consolidated income statement when the entity has the right to receive payment.

The fair value of an investment in securities is generally determined based on the market price quoted on the date of the balance sheet. If the market price quoted is not available, the fair value of the instrument is estimated using models for price calculations or techniques 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 for: (a) those that the entity intends to sell immediately or in a short term, which are classified as trading, and those that the entity at initial recognition designates at fair value with changes in profit and loss; (b) those that the entity at initial recognition designates as available for sale; or (c) those that the owner does not substantially recovers all initial investment unless it is due to a credit impairment.

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

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership. If the Bank does not transfer nor substantially retain all risk and benefits and continues with control over the asset, the Bank recognizes its interest in the asset and the liability related to the amounts that it would have to pay. If the Bank retains substantially all risks and benefits of a transferred asset, the Bank continues recognizing the financial asset and also the liability guaranteeing the amount received.

3.5. *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 based on its in contractual agreement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deduction of all its liabilities. The equity instruments issued by the Bank are recorded at the amount received, net of direct cost of issuance.

Liabilities with financial guarantee contracts

A financial guarantee is considered a contract in which an entity is obliged to pay specific amounts on behalf of a third party under the assumption of default regardless of the form of the obligation guarantee: letters of guarantee, bank guarantee, irrevocable credit issued or confirmed by the entity, insurance and derivative of credit.

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Financial guarantees, regardless of the owner, instrumentation or any other circumstance, are reviewed periodically with the objective to determine its credit risks and if necessary, to estimate a provision based on the application of similar criteria established to quantify the impairment losses of debt instruments valued at amortized costs as detailed in the note for financial asset impairment.

Financial guarantees are initially recognized in the financial statement at fair value at date of issuance. Subsequent to initial recognition, the liability under such guarantee is measured at the higher between initial recognition less amortization calculated to recognize income over a straight line based on the term guaranteed and the estimated disbursements required to cancel any financial obligation at balance sheet date. These estimates are determined based on the experience with similar transactions, loss history and management judgment.

Financial liability

Financial liabilities are classified as financial liabilities with changes in results and other financial liabilities.

Other financial liabilities

Other financial liabilities, including debts, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized over the effective rate base.

Derecognition of financial liabilities

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

3.6. *Offsetting of financial instruments*

Financial assets and liabilities are offset, it means when the net amount is presented in the consolidated financial balance sheet, only when dependent entities have the right, legally, exigible to offset the recognized amounts as well as the intention to liquidate the net amount, or to realize the asset and pay the liability simultaneously.

3.7. *Interest income and expense*

Interest income and expense are recognized in the consolidated income statement for all financial instruments that generates interest using the effective interest method.

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The effective interest rate method is the method used to calculate the amortized cost of an asset or liability and to allocate interest income and expense over a period of time. The effective interest rate is the discounted rate of cash flows estimated over the life of a financial instrument, or a shorter period if appropriate, to the net carrying value. To calculate the effective interest rate, the cash flows are estimated considering the contractual terms of the financial instrument, however, future credit losses are not considered.

3.8. *Commissions income*

Generally, commission on short-term loans, letters of credit and other banking services are recognized as income when they are collected due to their short-term maturity. The income recognized when they are collected is not significantly different from that recognized under the accrual method. The commission on medium and long-term loans and other transactions, net of some direct costs for granting them, are deferred and amortized during their maturities.

3.9. *Impairment of financial assets*

Loans

Loans receivable are presented net of the allowance for possible loan losses in the balance sheet. When a loan is determined uncollectible, the unrecoverable amount is charged to the allowance account. Recoveries of loans previously written down as uncollectible are credited to the allowance account.

The Superintendency of Banks of the Republic of Panama requires that the financial information presented by the Banks in Panama, including the annual or interim financial statements, include the accounting recognition and presentation of the allowance for loan losses based on the prudential regulations for such allowances, issued by the regulating entity. Based on regulation, Agreement 6-2000 issued by the Superintendency of Banks of the Republic of Panama, the bank classifies loans in five risk categories and determines the minimum amounts for the allowance for loan losses on principal as follows:

<u>Loan Categories</u>	<u>Minimum Percentages</u>
Normal	0%
Special mention	2%
Subnormal	15 %
Doubtful	50%
Unrecoverable	100%

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In that effect, the following classification criteria are used, such as the quality of the loan and the default parameters in the payment of the principal or interest, among others. The criteria of periods of default is mainly used to classify the consumers and housing loans, but is also considered in the classification of corporate loans.

In addition, in a period of not more than 90 days, the Bank must adjust the previous loan classification and constitute new specific provisions, and if applicable, in function of 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%
Unrecoverable	100%

In calculating the estimated losses, the Bank considers, among others, the financial statements of the debtor, the operating cash flows, the fair value of the tangible guarantees, and any other cash flow that may be obtained from the co-debtors or guarantors. For consumer loan portfolio, the following are considered: payment in arrears of the debtor, losses experienced by the Bank in similar groups or industries, the profile of the maturity of the portfolio, and any other information that may affect the collection of the consumer loan portfolio.

In addition, Agreement 6-2000 allows the provisional establishment of generic allowance for losses on loans when there is evidence of impairment in the carrying value of a group of loans that have defined common characteristics and that have not been provisioned individually.

The banks are required to permanently maintain a global allowance for loan losses for not less than 1% of the total loan portfolio, net of cash deposits guarantees in the same bank. This global allowance may not be lower than that of the specific and generic allowances.

The Superintendency of Banks may evaluate the sufficiency of the allowances and may order the Bank, at any time, to constitute allowances.

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Securities held to maturity

At balance sheet date there is an assessment about whether there is objective evidence that a financial asset or group of financial assets is impaired. The Bank determines impairment on securities held to maturity considering the following:

- Decrease in rating by a rating agency, local or foreign;
- Fair value significantly lower than cost;
- Decrease in fair value for a long term (more than one year);
- Significant decrease, not temporary, unless there is evidence that collection is probable;
- Impairment in the conditions of the industry or geographical area;
- Decrease capacity to continue as a going concern.

Assets classified as available for sale

At balance sheet date, the Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity instruments, a significant or prolonged decline in fair value of the security below 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 on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the income statement.

Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement but it is recognized in equity accounts. 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 income statement.

3.10. 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 a fixed price. The difference between acquisition and selling value is recognized as income under the effective interest rate method.

The market prices of the securities are monitored and in case of a significant decline and not temporary in the value of a security, the Bank recognizes an adjustment to the amortized value in the results of the period.

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3.11. 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 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 revenue accounts during the period of the lease, under the interest method.

3.12. 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
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 useful value.

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

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3.14. Goodwill

At acquisition date, goodwill is calculated as the excess of acquisition cost over the fair value of identified net assets. Goodwill is not amortized. Instead, it is reviewed annually to determine whether there are indicators of impairment in carrying value. If such indicators exist, the difference between 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.

3.15. Impairment of non-financial assets

At each balance sheet date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates 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 to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to 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 recognized immediately in profit or loss.

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, but 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 in profit or loss.

At June 30, 2009, Management had not identified impairment loss of its non-financial assets.

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3.16. Assets sold under repurchase agreements

Assets sold under repurchase agreements are short-term financing transactions guaranteed with securities, in which the Bank has the obligation to repurchase the securities sold on a future date and at a fixed price. The difference between the selling price and the future purchase value is recognized as an expense under the effective interest method.

3.17. 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 income statement over the period of the borrowing using the effective interest method.

3.18. Preferred shares

The Bank classifies preferred shares as equity as it has total discretion to the redeem them and declare dividends. Payments of dividends are reduced from undistributed earnings.

3.19. Employee benefits

Panamanian labor law requires that employers set up a severance fund to guarantee payment of seniority premium and indemnity in cases of unjustified dismissals. For the establishment of this fund, employers have to contribute to 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 contributed 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.

3.20. 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 consolidated balance sheet date.

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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 consolidated balance sheet date.

3.21. Trust operations

Assets held in trust or in trust function are not considered part of the Bank, and accordingly, such assets and related income are not included in the accompanying consolidated financial statements. The commission income generated from the administrative of trusts is recorded under the accrual method.

3.22. Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the balance sheet together with the host contract.

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 three months or less.

4. Financial risk administration

4.1 Objective of Financial Risk Management

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

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

- Credit Risk
- Liquidity Risk
- Market Risk

The Board of Directors of the Bank has the responsibility to establish and overlook the policies of financial instruments risk administration. In that effect, it has appointed committees in charge of the periodic administration 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;
- Assets and Liabilities Committee (ALCO);
- Investment Committee;
- Risk Committee;
- Credit Committee.

In addition, the Bank is subject to the regulations of the National Securities Commission of Panama and the Superintendence of Banks of the Republic of Panama, in relation to risks, liquidity and capitalization risk, among others. The Superintendency of Banks of the Republic 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

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

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

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The respective committees appointed by the Board of Directors periodically look 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 as 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 make suggestions in writing, considering the following factors:

- Changes in market conditions;
- Risk factors;
- Changes in laws and regulations;
- Changes in financial conditions and in the availability of credit;
- 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, who must issues a memorandum of instructions for disclosure and implementation.

Establishment of Authorization Limits:

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

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 set for the loan portfolio.

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The Bank has also limited the exposure in different geographical areas through its country risk policy. The countries in which the Bank is willing to have exposure have been defined based on its strategy 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, and as well as, the control and monitoring of the risks. However, through its Quality Portfolio Department, which is independent of the business areas, the financial conditions of debtors and their payment capacity are 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.

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The following table analyses the loan portfolio of the Bank that is exposed to credit risk and its correspondent evaluations:

<u>2009</u>	<u>Consumer</u>				<u>Corporate</u>		<u>Total of Loans</u>
	<u>Personal</u>	<u>Credit cards</u>	<u>Vehicles</u>	<u>Mortgage</u>	<u>Commercial</u>	<u>Overdraft</u>	
Individual impaired:							
Special mention	2,739,374	288,028	1,668,522	1,758,230	5,992,873	33,443	12,480,470
Sub- normal	2,231,496	104,473	311,547	118,526	7,050,517	486,903	10,303,462
Doubtful	2,460,064	155,032	392,178	212,950	3,644,448	46,486	6,911,158
Uncollectible	<u>3,488,726</u>	<u>696,126</u>	<u>775,369</u>	<u>19,176</u>	<u>672,624</u>	<u>161,958</u>	<u>5,813,979</u>
Gross amount	10,919,660	1,243,659	3,147,616	2,108,882	17,360,462	728,790	35,509,069
Impairment allowance	<u>(5,483,135)</u>	<u>(536,005)</u>	<u>(847,701)</u>	<u>(165,718)</u>	<u>(3,588,351)</u>	<u>(56,218)</u>	<u>(10,677,128)</u>
Carrying value	<u>5,436,525</u>	<u>707,654</u>	<u>2,299,915</u>	<u>1,943,164</u>	<u>13,772,111</u>	<u>672,572</u>	<u>24,831,941</u>
Not in arrears without impairment / carrying value	<u>237,199,899</u>	<u>19,842,008</u>	<u>83,876,740</u>	<u>110,196,890</u>	<u>915,155,480</u>	<u>37,391,500</u>	<u>1,403,662,517</u>
	<u>242,636,424</u>	<u>20,549,662</u>	<u>86,176,655</u>	<u>112,140,054</u>	<u>928,927,591</u>	<u>38,064,072</u>	<u>1,428,494,458</u>
Less:							
Global allowance							(5,379,178)
Unearned interest and commissions							<u>(6,842,275)</u>
Total carrying amount							<u>1,416,273,005</u>
Guarantees	<u>36,447,376</u>	<u>2,930,017</u>	<u>63,308,217</u>	<u>198,098,782</u>	<u>1,044,922,106</u>	<u>43,293,428</u>	<u>1,388,999,926</u>
Renegotiated	<u>3,626,169</u>	<u>-</u>	<u>145,873</u>	<u>393,365</u>	<u>8,000,049</u>	<u>-</u>	<u>12,165,456</u>
<u>2008</u>							
Individual impaired:							
Special mention	1,732,668	168,296	147,333	190,866	7,738,826	4,566	9,982,555
Sub- normal	1,993,139	82,217	68,309	-	4,314,771	133,425	6,591,861
Doubtful	1,141,798	106,155	289,658	328,045	4,278,901	202,498	6,347,055
Uncollectible	<u>2,515,350</u>	<u>586,244</u>	<u>670,159</u>	<u>49,180</u>	<u>821,182</u>	<u>16,809</u>	<u>4,658,924</u>
Gross amount	7,382,955	942,912	1,175,459	568,091	17,153,680	357,298	27,580,395
Impairment allowance	<u>(3,849,330)</u>	<u>(560,250)</u>	<u>(751,612)</u>	<u>(42,478)</u>	<u>(3,497,959)</u>	<u>(223,657)</u>	<u>(8,925,286)</u>
Carrying value	<u>3,533,625</u>	<u>382,662</u>	<u>423,847</u>	<u>525,613</u>	<u>13,655,721</u>	<u>133,641</u>	<u>18,655,109</u>
Not in arrears without impairment / carrying value	<u>230,617,742</u>	<u>16,742,000</u>	<u>76,094,079</u>	<u>64,329,341</u>	<u>740,119,702</u>	<u>36,206,717</u>	<u>1,164,109,581</u>
	<u>234,151,367</u>	<u>17,124,662</u>	<u>76,517,926</u>	<u>64,854,954</u>	<u>753,775,423</u>	<u>36,340,358</u>	<u>1,182,764,690</u>
Less:							
Global allowance							(5,171,920)
Unearned interest and commissions							<u>(6,717,940)</u>
Total carrying amount							<u>1,170,874,830</u>
Guarantees	<u>31,603,957</u>	<u>2,608,767</u>	<u>57,446,524</u>	<u>111,487,579</u>	<u>858,128,083</u>	<u>35,231,014</u>	<u>1,096,505,924</u>
Renegotiated	<u>2,007,780</u>	<u>-</u>	<u>106,820</u>	<u>304,620</u>	<u>8,564,167</u>	<u>-</u>	<u>10,983,387</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 the Bank has granted a 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 restructure by the Bank.
- *Allowance for impairment* - Allowance for impairment have been established based on estimated loss incurred in the loan portfolio. The main components of the allowance are related to individual risks and the allowance for loan losses collectively established considering a homogenous group of assets with respect to incurred losses, but not identified as loans subject to individual assessment for impairment.
- *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 when all resources to recover the credit have been realized.

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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:

	<u>Carrying value</u>	<u>Allowances</u>	<u>Net amount</u>
<u>2009</u>			
Normal	1,403,662,518	-	1,403,662,518
Special mention	12,480,470	496,138	11,984,332
Sub-normal	10,303,462	1,823,970	8,479,492
Doubtful	6,911,158	3,581,667	3,329,491
Uncollectible	<u>5,813,978</u>	<u>4,775,353</u>	<u>1,038,625</u>
	1,439,171,586	10,677,128	1,428,494,458
Less: global allowance	<u>-</u>	<u>5,379,178</u>	<u>(5,379,178)</u>
	<u>1,439,171,586</u>	<u>16,056,306</u>	<u>1,423,115,280</u>
Less: unearned interest and commissions			<u>(6,842,275)</u>
Total			<u>1,416,273,005</u>
<u>2008</u>			
Normal	1,164,109,581	-	1,164,109,582
Special mention	9,982,555	667,605	9,314,950
Sub-normal	6,591,861	1,137,801	5,454,060
Doubtful	6,347,055	3,481,613	2,865,442
Uncollectible	<u>4,658,924</u>	<u>3,638,267</u>	<u>1,020,657</u>
	1,191,689,976	8,925,286	1,182,764,690
Less: global allowance	<u>-</u>	<u>5,171,920</u>	<u>(5,171,920)</u>
	<u>1,191,689,976</u>	<u>14,097,206</u>	1,177,592,770
Less: unearned interest and commissions			<u>(6,717,940)</u>
Total			<u>1,170,874,830</u>

The Bank maintains collaterals on loans granted to clients such as mortgages and other guarantees. The estimated fair values are based on collateral values according to period of time of the credit and generally are not updated unless the credit is individually impaired. Generally, the collateral is not attached to loans granted except for investments held as part of securities purchased under resale agreements and also securities sold under repurchase agreements.

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The estimation of the fair value of guarantees and other loan portfolio guarantees are detailed as follows:

	2009	2008
Movable properties	197,648,567	183,335,670
Immovable properties	929,060,091	725,901,099
Deposits in own group	117,769,375	102,700,809
Others	<u>144,521,893</u>	<u>84,568,346</u>
Total	<u>1,388,999,926</u>	<u>1,096,505,924</u>

Restructured loans

Restructuring activities include agreements of payment, approved external management plans and modification of the repayment plan. The restructuring policies and practices are based on indicators or criteria that, according to management's judgment, indicate repayment will continue very probably. These policies are under constant review.

At June 30, 2009, the renegotiated loans that would otherwise be matured or impaired amounts to B/.12,165,457 (2008: B/.10,983,387).

	2009	2008
<i>Consumer:</i>		
Personal	3,894,839	2,170,021
Mortgage	270,569	249,199
<i>Corporate:</i>		
Commercial	8,000,049	8,555,294
SMEs	<u>-</u>	<u>8,873</u>
Total	<u>12,165,457</u>	<u>10,983,387</u>

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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:

<u>2009</u>	<u>Available for sale</u>	<u>Investment at maturity</u>	<u>Total</u>
With investment grade	49,043,206	76,455,580	125,498,786
Standard monitoring	-	52,135,030	52,135,030
Without rating	<u>9,250,015</u>	<u>14,854,900</u>	<u>24,104,915</u>
Total	<u>58,293,221</u>	<u>143,445,510</u>	<u>201,738,731</u>
 <u>2008</u> 			
With investment grade	7,667,091	159,186,478	166,853,569
Standard monitoring	9,580,000	6,638,945	16,218,945
Without rating	<u>9,527,321</u>	<u>16,343,870</u>	<u>25,871,191</u>
Total	<u>26,774,412</u>	<u>182,169,293</u>	<u>208,943,705</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 qualifiers, as detailed as follows:

<u>Description of the grade</u>	<u>External qualification</u>
Investment grade	AAA, AA+, AA-, A+, A-,
Standard monitoring	BBB+, BBB, BBB-B+, BB, BB-, B+, B, B-
Special monitoring	CCC to C
Without investment rating	-

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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 balance sheet of the consolidated financial statements is the following:

	Loans		Investments	
	2009	2008	2009	2008
Concentration by sector:				
Corporate	842,226,791	662,264,702	-	-
Consumer	467,741,284	397,707,953	-	-
Government	-	-	201,738,731	208,943,705
Others	<u>106,304,930</u>	<u>110,902,175</u>	<u>-</u>	<u>-</u>
	<u>1,416,273,005</u>	<u>1,170,874,830</u>	<u>201,738,731</u>	<u>208,943,705</u>
Geographic concentration:				
Panama	1,342,037,553	1,113,791,111	83,557,368	47,725,989
Latin America and Caribbean	71,375,808	56,979,056	56,267,378	53,592,281
Europe, Asia and Oceania	-	-	35,543,029	57,178,185
United States of America and others	<u>2,859,644</u>	<u>104,663</u>	<u>26,370,956</u>	<u>50,447,250</u>
	<u>1,416,273,005</u>	<u>1,170,874,830</u>	<u>201,738,731</u>	<u>208,943,705</u>

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

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).

The Bank has established minimum liquidity levels to meet the requirements of its operations and to meet with its commitments.

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The liquidity risk caused by the mismatch in the terms 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 the legal liquidity index corresponding to the margin of the net liquid assets over the deposits received from clients at the date of the financial statements:

	2009	2008
At June 30 closing	53.54%	47.61%
Period average	44.38%	41.71%
Period maximum	53.54%	52.53%
Period minimum	37.20%	35.64%

The following table shows the undiscounted cash flows of the financial liabilities of the Bank and the commitments of unrecognized loans over the base of earliest maturity. The expected flows of these instruments may vary significantly as a result of this analysis:

<u>2009</u>	<u>Carrying value</u>	<u>Gross nominal amount in/(out)</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>
Financial liabilities:						
Deposits	1,477,736,872	1,530,918,812	1,280,589,305	201,884,260	46,823,154	1,622,093
Repurchase agreement	26,550,000	26,589,100	26,589,100	-	-	-
Borrowed funds	131,693,912	139,487,481	72,909,305	47,455,743	19,122,433	-
Negotiable commercial papers	58,476,800	59,955,784	59,955,784	-	-	-
Corporate bonds payable	<u>76,710,602</u>	<u>82,211,411</u>	<u>48,312,921</u>	<u>28,404,915</u>	<u>5,493,575</u>	<u>-</u>
Total financial liabilities	<u>1,771,168,186</u>	<u>1,839,162,588</u>	<u>1,488,356,415</u>	<u>277,744,918</u>	<u>71,439,162</u>	<u>1,622,093</u>
 <u>2008</u>						
Financial liabilities:						
Deposits	1,224,861,094	1,327,469,251	1,083,879,674	205,059,752	37,404,169	1,125,656
Borrowed funds	102,053,737	104,165,943	93,917,436	10,248,507	-	-
Negotiable commercial papers	79,561,000	81,688,130	81,688,130	-	-	-
Corporate bonds payable	<u>82,951,853</u>	<u>91,862,384</u>	<u>19,255,626</u>	<u>59,939,369</u>	<u>11,852,260</u>	<u>815,129</u>
Total financial liabilities	<u>1,489,427,684</u>	<u>1,605,185,708</u>	<u>1,278,740,866</u>	<u>275,247,628</u>	<u>49,256,429</u>	<u>1,940,785</u>

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4.4 *Market risk*

Is the risk, that the value of a financial asset be reduced because of changes in the interest rate, in the foreign exchange rates, in the stock prices, and other financial variables, as well as the reaction of market participants to political and economic events, by latent losses as well as potential profits. The objective of the administration of market risk is to manage and to monitor the risk exposures and at the same time to make sure that they are maintained within acceptable parameters optimizing the risk returns.

The risk management policies set the limits for each financial instrument to comply with the limits with respect to maximum loss amounts that require the closing of positions that caused such losses 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 the market risk, the Bank is exposed mainly to 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 value of financial instruments will 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 reprising or maturity dates, whichever occurs first.

	2009					
	<u>Up to 6 months</u>	<u>6 months to 1 year</u>	<u>1 to 5 year</u>	<u>More tan 5 years</u>	<u>Without interest rate</u>	<u>Total</u>
Financial assets:						
Cash and due from bank	213,003,192	5,250,000	-	-	74,501,927	292,755,119
Securities under resale agreement	1,373,700	-	-	-	-	1,373,700
Securities available for sale	32,298,648	-	11,474,993	5,699,251	8,820,329	58,293,221
Securities held to maturity	27,225,950	21,985,071	29,010,759	65,223,730	-	143,445,510
Loans, net	<u>1,104,068,935</u>	<u>30,118,416</u>	<u>66,937,269</u>	<u>215,148,385</u>	-	<u>1,416,273,005</u>
Total financial assets	<u>1,377,970,425</u>	<u>57,353,487</u>	<u>107,423,021</u>	<u>286,070,361</u>	<u>83,322,256</u>	<u>1,912,140,555</u>
Financial liabilities:						
Due to depositors	493,321,037	636,245,596	213,296,199	1,247,520	133,626,520	1,477,736,872
Repurchase agreement	26,550,000	-	-	-	-	26,550,000
Borrowed funds	111,193,912	20,500,000	-	-	-	131,693,912
Negotiable comercial papers	35,000,000	23,476,800	-	-	-	58,476,800
Bonds payable	<u>50,548,602</u>	<u>17,935,000</u>	<u>8,227,000</u>	-	-	<u>76,710,602</u>
Total financial liabilities	<u>716,613,551</u>	<u>698,157,396</u>	<u>221,523,199</u>	<u>1,247,520</u>	<u>133,626,520</u>	<u>1,771,168,186</u>
Commitments and contingencies	-	-	-	-	<u>186,711,519</u>	<u>186,711,519</u>
2008						
	<u>Up to 6 months</u>	<u>6 months to 1 year</u>	<u>1 to 5 year</u>	<u>More tan 5 years</u>	<u>Without interest rates</u>	<u>Total</u>
Financial Assets:						
Cash and due from bank	170,757,199	-	-	-	53,429,472	224,186,671
Securities under resale	3,639,937	-	-	-	-	3,639,937
Securities available for sale	-	-	6,420,400	10,862,281	9,491,731	26,774,412
Securities held to maturity	77,400,397	9,990,000	67,456,364	27,322,532	-	182,169,293
Loans, net	<u>900,597,017</u>	<u>17,465,748</u>	<u>61,515,024</u>	<u>191,297,041</u>	-	<u>1,170,874,830</u>
Total financial assets	<u>1,152,394,550</u>	<u>27,455,748</u>	<u>135,391,788</u>	<u>229,481,854</u>	<u>62,921,203</u>	<u>1,607,645,143</u>
Financial Liabilities:						
Due to depositors	456,445,263	425,858,292	217,145,038	852,900	124,559,601	1,224,861,094
Borrowed funds	102,053,737	-	-	-	-	102,053,737
Negotiable comercial papers	79,561,000	-	-	-	-	79,561,000
Bonds payable	<u>55,866,853</u>	-	<u>27,085,000</u>	-	-	<u>82,951,853</u>
Total financial liabilities	<u>693,926,853</u>	<u>425,858,292</u>	<u>244,230,038</u>	<u>852,900</u>	<u>124,559,601</u>	<u>1,489,427,684</u>
Commitments and contingencies	-	-	-	-	<u>189,877,973</u>	<u>189,877,973</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 structure to manage operational risk has been designed to segregate duties among owners, executors, control areas and areas in charge of compliance of policies and procedures. The Business and Services Areas 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 the cycle process mapping are identified. 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 makes sure 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 fair value to each activity of the organization by decreasing the possibilities of flaws 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 record keeping. It includes a proper operating segregation of duties in the recording, conciliation 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 policies 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 on-line the main applications of information in case of an interruption.

4.6 *Capital administration*

The Bank manages its capital to ensure:

- Compliance with the requirements set by the Superintendency of Banks of the Republic of Panama and the National Securities Commission of the Republic of Panama.
- Maintain a strong capital base to support the development of its business.

The Bank as an entity regulated by the Superintendency and the National Securities Commission 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. The information requirements are sent to the regulator on a quarterly basis.

The Bank reviews its regulatory capital by applying the Superintendency standards as per Agreements 5-98 of October 14, 1998, amended by Agreement 5-99 of July 14, 1999 for banks with General License.

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 at least of 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 earnings not distributed in the fiscal period and accumulated from previous periods.
- *Secondary capital* - Includes hybrid capital and debt instruments, subordinated debt, general allowances for losses, non-declared reserves and asset revaluation reserves.

Banks with General License must calculate on a quarterly basis its capital funds 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 the carrying amount, of permanent investments in local or foreign entities.
- Assets related to expenses or others that under generally accepted and International Accounting Standards correspond to overvaluations or unrecognized losses; and also losses incurred in the fiscal period.

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The Bank maintains a regulatory capital position for the years ended at June 30, 2009 and 2008 detailed as follows:

	Notes	2009	2008
Primary capital (pillar 1)			
Common shares	19	54,097,481	43,984,137
Preferred shares	20	80,036,100	60,000,000
Retained earnings		58,663,183	53,711,879
Less: goodwill		(8,355,187)	(8,355,187)
Capital reserve		<u>6,717,462</u>	<u>5,348,078</u>
Total		191,159,039	154,688,907
Secondary capital (pillar 2)			
		<u>-</u>	<u>-</u>
Total of regulatory capital			
		<u>191,159,039</u>	<u>154,688,907</u>
Risk weighted assets			
Cash and due from banks		43,650,638	34,151,440
Investment		51,969,755	68,962,722
Loans		1,185,938,789	990,495,428
Property, furniture, equipment and improvements		35,216,904	32,590,923
Others assets		73,932,666	66,550,466
Off- balance operations		78,751,860	85,702,247
Allowance for possible investment losses		(3,625,000)	-
Allowance for possible loan losses		<u>(16,056,306)</u>	<u>(14,097,206)</u>
Total risk weighted assets		<u>1,449,779,306</u>	<u>1,264,356,020</u>
Capital adequacy			
Total regulatory capital over of risk weighted assets		<u>13.18%</u>	<u>12.23%</u>
Total pillar 1 over of risk weighted assets		<u>13.18%</u>	<u>12.23%</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 believed 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 income statement, 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 share 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) Securities held to maturity - The Bank follows the guidance of IAS 39 to classify non-derivative financial assets with fixed or determinable payments and fixed maturities held to maturity. This classification requires a significant decision. In making this decision, the Bank evaluates its intention and ability to hold such investments until maturity. If the Bank fails to hold these investments until maturity for another reason other than the specified circumstances permitted by the standard, it will be required to reclassify the entire portfolio as available for sale.

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6. Fair value of financial instruments

Management has used the following assumptions to estimate fair value for each financial instrument category in the balance sheet:

- *Due from bank demand and time*- The carrying value approximates to fair value due to its 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. 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* - Estimated fair value for loans corresponds to the discounted future cash flow estimated to be received. The estimated cash flows are discounted at present market interest rates to determine fair value
- *Due from bank at sight and savings* - The carrying value approximates its fair value due to their short-term maturities.
- *Due to depositors* - 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 paper and bonds payable* - The carrying values of notes and bonds payable, securities sold under repurchase agreement and borrowed funds with maturities less than a year, approximate to 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.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions or criteria could significantly affect the estimates.

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Following is a summary of carrying and estimated fair values of significant assets and liabilities:

	2009		2008	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Financial assets:				
Cash and due from banks	74,501,927	74,501,927	53,429,472	53,429,472
Due from banks- time deposits	218,253,192	218,253,192	170,757,199	170,757,199
Repos	1,373,700	1,373,700	3,639,937	3,639,937
Investment securities	201,738,731	199,368,637	208,943,705	200,165,070
Loans, net	<u>1,416,273,005</u>	<u>1,445,400,159</u>	<u>1,170,874,830</u>	<u>1,206,881,989</u>
Total financial assets	<u>1,912,140,155</u>	<u>1,938,897,615</u>	<u>1,607,645,143</u>	<u>1,634,873,667</u>
Financial liabilities:				
Due to depositors - demand	143,006,176	143,006,176	124,559,601	124,559,601
Savings deposits	305,748,598	305,748,598	247,664,337	247,664,337
Due to depositors - time deposits	1,028,982,098	1,082,164,038	852,637,156	837,618,500
Repurchase agreement	26,550,000	26,589,100	-	-
Borrowed funds	131,693,912	139,487,481	102,053,737	102,053,737
Negotiable commercial papers	58,476,800	59,955,784	79,561,000	79,561,000
Bonds payable	<u>76,710,602</u>	<u>82,211,411</u>	<u>82,951,853</u>	<u>82,951,853</u>
Total financial liabilities	<u>1,771,168,186</u>	<u>1,839,162,588</u>	<u>1,489,427,684</u>	<u>1,474,409,028</u>

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7. Balances and transactions with related parties

Balances and transactions with related parties included in the consolidated financial statements are as follows:

	2009	2008
<i>Operations with related companies:</i>		
Balances with related parties		
<i>Assets</i>		
Loans	<u>36,969,006</u>	<u>27,805,953</u>
Accrued interest receivable	<u>223,311</u>	<u>97,328</u>
Other assets - accounts receivable	<u>5,695,142</u>	<u>5,374,142</u>
<i>Liabilities</i>		
Due to depositors - demand	<u>14,649,011</u>	<u>8,220,007</u>
Due to depositors - savings	<u>1,467,107</u>	<u>1,166,867</u>
Due to depositors - time	<u>39,071,609</u>	<u>36,690,087</u>
Accrued Interest payable	<u>105,072</u>	<u>98,123</u>
Transactions with related parties		
<i>Income and expenses</i>		
Interest income	<u>2,497,131</u>	<u>1,735,401</u>
Interest expenses	<u>1,498,158</u>	<u>1,309,085</u>

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	2009	2008
<i>Operations with directors and key management staff:</i>		
Balances with related parties		
<i>Assets</i>		
Loans	<u>4,383,695</u>	<u>1,400,159</u>
Accrued interest receivable	<u>13,887</u>	<u>1,502</u>
<i>Liabilities</i>		
Due to depositors - demand	<u>3,117,336</u>	<u>2,675,340</u>
Due to depositors - savings	<u>1,379,463</u>	<u>887,783</u>
Due to depositors - time	<u>48,606,377</u>	<u>48,944,871</u>
Accrued interest payable	<u>245,493</u>	<u>299,002</u>
Transactions with related parties		
<i>Income and expenses</i>		
Interest income	<u>323,330</u>	<u>154,856</u>
Interest expenses	<u>1,675,118</u>	<u>1,683,290</u>
<i>Key management employee benefits</i>		
Salaries	950,974	1,070,587
Participation in net income	154,909	175,057
Directors' fees	<u>241,000</u>	<u>231,000</u>
	<u>1,346,883</u>	<u>1,476,644</u>

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8. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

	2009	2008
Cash	20,448,460	16,997,437
Demand deposits	54,053,467	36,432,035
Time deposit, with original maturities up to 90 days	<u>218,253,192</u>	<u>170,757,199</u>
	<u>292,755,119</u>	<u>224,186,671</u>

At June 30, 2009, there were time deposits in the amount of B/.10,065,000 (2008: B/.5,275,000) guaranteeing the issued bonds. See Note 17.

9. Securities bought under resale agreement

Securities purchased under resale agreement for B/.1,373,700 (2008: B/.3,639,937) are guaranteed by company shares and domestic private debt securities that are quoted in the stock exchange with a nominal value of B/.1,373,700 (2008: B/.3,639,937) and with maturity on January 2010.

10. Securities available for sale

Securities available for sale are comprised by the following types of securities:

	2009	2008
<u>Listed securities (at fair value):</u>		
Capital shares issued by domestic companies	7,149,917	7,460,432
Capital shares issued by foreign companies	6,800,743	6,829,287
Private debt securities - foreign	42,670,149	1,282,281
Government debt securities - domestic	-	9,580,000
	<u>56,620,809</u>	<u>25,152,000</u>
<u>Not listed securities (at cost):</u>		
Capital shares issued by domestic companies	1,622,412	1,572,412
Capital shares issued by foreign companies	50,000	50,000
	<u>1,672,412</u>	<u>1,622,412</u>
	<u>58,293,221</u>	<u>26,774,412</u>

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The movement of securities available for sale is summarized as follows:

	2009	2008
Balance at beginning of year	26,774,412	8,814,403
Additions and reclassifications	42,505,832	19,353,336
Sales and redemptions	(10,191,561)	(1,258,065)
Change in fair value, net	<u>(795,462)</u>	<u>(135,262)</u>
Balance at year end	<u><u>58,293,221</u></u>	<u><u>26,774,412</u></u>

11. Securities held to maturity

Securities held to maturity, recorded at their amortized cost, are summarized as follows:

	2009		2008	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
<u>Listed securities:</u>				
Private debt securities - domestic	7,323,629	7,362,422	6,019,784	6,010,784
Private debt securities - foreign	77,820,280	78,494,040	162,036,477	153,307,963
Government debt securities - domestic	52,135,030	49,085,760	6,638,945	6,595,945
Government debt securities - foreign	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>1,001,880</u>
	137,278,939	134,942,222	175,695,206	166,916,572
<u>Not listed securities:</u>				
Private debt securities - local	<u>6,166,571</u>	<u>6,133,194</u>	<u>6,474,087</u>	<u>6,474,087</u>
	<u><u>143,445,510</u></u>	<u><u>141,075,416</u></u>	<u><u>182,169,293</u></u>	<u><u>173,390,659</u></u>

As of June 30, 2009, the Bank maintained instruments in its investment portfolio guaranteed by Lehman Brothers with a nominal value of B/.7,000,000. Due to the bankruptcy of this institution in September 2008, Management agreed to reclassify this portfolio of investments to the account of "other assets" and record an impairment loss for B/.3,625,000 which is included in the loss on financial instruments caption in the income statement. The Bank, through its legal counsel in the United States is in the process of filing claims in international courts for the recovery of such investments.

As of June 30, 2008, there were investments in Federal Home Loan Bank represented by bonds of agencies of the United States of America, in the amount of B/.1,000,000 which do not guarantee any obligations of the Bank and that are considered as high liquidity instruments with AAA investment grade.

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The movement of securities held to maturity is summarized as follows:

	2009	2008
Balance at beginning of year	182,169,293	197,150,296
Additions	50,577,302	39,035,356
Redemptions and reclassifications	<u>(89,301,085)</u>	<u>(54,016,359)</u>
Balance at year end	<u>143,445,510</u>	<u>182,169,293</u>

Annual interest rates of securities held to maturity were between 2.10% and 9.375% (2008: 2.00% and 9.34%).

12. Loans

Loans by type are detailed as follows:

	2009		2008	
	<u>Carrying amount</u>	<u>Net amount of allowances</u>	<u>Carrying amount</u>	<u>Net amount of allowances</u>
Domestic:				
Consumer	329,281,871	322,369,842	310,877,725	305,716,532
Commercials	367,408,670	364,960,222	302,159,407	300,046,117
Agricultural	155,033,517	154,885,522	130,344,789	130,083,887
Secured by pledged	65,168,369	65,168,369	58,262,107	58,262,107
Overdraft	31,858,261	31,802,043	29,454,699	29,231,042
Mortgage	112,115,778	111,995,249	64,522,243	64,479,765
Industrials	34,781,897	34,197,240	32,981,796	32,577,626
Construction	161,543,389	161,534,994	94,381,889	94,358,979
Leasing	20,755,838	20,696,024	15,822,703	15,771,068
Factoring	<u>86,805,131</u>	<u>86,466,089</u>	<u>95,798,900</u>	<u>95,153,849</u>
Total domestic	<u>1,364,752,721</u>	<u>1,354,075,594</u>	<u>1,134,606,258</u>	<u>1,125,680,972</u>
Foreign:				
Commercials	68,305,996	68,305,996	50,196,398	50,196,398
Secured by pledged	3,000,000	3,000,000	3,000,000	3,000,000
Overdraft	<u>3,112,868</u>	<u>3,112,868</u>	<u>3,887,320</u>	<u>3,887,320</u>
Total foreign	<u>74,418,864</u>	<u>74,418,864</u>	<u>57,083,718</u>	<u>57,083,718</u>
	<u>1,439,171,585</u>	1,428,494,458	<u>1,191,689,976</u>	1,182,764,690
Less:				
Global reserve		(5,379,178)		(5,171,920)
Interest and commissions discounted unearned		<u>(6,842,275)</u>		<u>(6,717,940)</u>
Total loans, net		<u>1,416,273,005</u>		<u>1,170,874,830</u>

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At June 30, 2009, the principal of loans in arrears (from 31 to 90 days) was of B/.14,938,888 (2008: B/.10,956,535) and loans past due (more than 90 days) amounted to B/.14,409,736 (2008: B/.13,097,192).

At June 30, 2009, there were consumer loans for B/.111,441,919 (2008: B/.116,124,678) guaranteeing the issued bonds. See Note 17.

The movements of the allowance for possible loans losses is summarized as follow:

	2009	2008
Balance at beginning of year	14,097,206	14,114,209
Provision charged to expenses	7,000,000	5,049,090
Recoveries	1,275,141	861,639
Reclassifications	85,359	8,077
Written-off loans	<u>(6,401,400)</u>	<u>(5,935,809)</u>
Balance at end of year	<u>16,056,306</u>	<u>14,097,206</u>

13. Property, furniture, equipment and improvements

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

	2009					
	Land and property	Furniture and office equipment	Computer equipment	Vehicles	Improvements to leased properties	Total
Cost						
At beginning of year	22,703,497	9,842,342	16,413,314	1,602,407	2,233,913	52,795,473
Purchases	761,519	1,866,130	3,140,369	419,855	1,102,988	7,290,861
Sales and disposals	<u>-</u>	<u>(125,621)</u>	<u>(251,236)</u>	<u>(184,479)</u>	<u>-</u>	<u>(561,336)</u>
At end of year	<u>23,465,016</u>	<u>11,582,851</u>	<u>19,302,447</u>	<u>1,837,783</u>	<u>3,336,901</u>	<u>59,524,998</u>
Accumulated depreciation and amortization						
At beginning of year	2,770,605	5,380,744	10,482,802	694,240	876,158	20,204,549
Expense of year	764,858	831,045	2,429,297	367,213	168,076	4,560,489
Sales and disposals	<u>-</u>	<u>(93,447)</u>	<u>(236,035)</u>	<u>(127,462)</u>	<u>-</u>	<u>(456,944)</u>
At end of year	<u>3,535,463</u>	<u>6,118,342</u>	<u>12,676,064</u>	<u>933,991</u>	<u>1,044,234</u>	<u>24,308,094</u>
Net balances	<u>19,929,553</u>	<u>5,464,509</u>	<u>6,626,383</u>	<u>903,792</u>	<u>2,292,667</u>	<u>35,216,904</u>

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	2008					
	<u>Land and property</u>	<u>Furniture and office equipment</u>	<u>Computer equipment</u>	<u>Vehicles</u>	<u>Improvements to leased properties</u>	<u>Total</u>
Cost						
At beginning of year	20,086,105	8,664,909	14,105,975	1,586,526	1,922,152	46,365,667
Purchases	2,875,284	1,225,426	2,405,081	544,821	345,708	7,396,320
Reclassifications	-	-	-	(30,000)	-	(30,000)
Sales and disposals	<u>(259,155)</u>	<u>(47,993)</u>	<u>(97,742)</u>	<u>(498,940)</u>	<u>(32,684)</u>	<u>(936,514)</u>
At end of year	<u>22,702,234</u>	<u>9,842,342</u>	<u>16,413,314</u>	<u>1,602,407</u>	<u>2,235,176</u>	<u>52,795,473</u>
Accumulated depreciation and amortization						
At beginning of year	1,919,889	4,571,422	8,443,585	851,768	747,578	16,534,242
Expense of year	689,521	709,334	2,093,873	317,664	130,969	3,941,361
Reclassifications	180,258	129,999	(65)	(30,000)	-	280,192
Sales and disposals	<u>(19,070)</u>	<u>(30,011)</u>	<u>(54,591)</u>	<u>(445,192)</u>	<u>(2,382)</u>	<u>(551,246)</u>
At end of year	<u>2,770,598</u>	<u>5,380,744</u>	<u>10,482,802</u>	<u>694,240</u>	<u>876,165</u>	<u>20,204,549</u>
Net balances	<u>19,931,636</u>	<u>4,461,598</u>	<u>5,930,512</u>	<u>908,167</u>	<u>1,359,011</u>	<u>32,590,924</u>

14. Other assets

Other assets are summarized as follows:

	2009	2008
Foreclosure assets, net of allowance	318,996	415,655
Accounts receivable	24,745,060	18,090,650
Tax credit - agricultural subsidies	3,772,045	3,129,123
Guarantee deposits	2,122,968	1,636,605
Dismissal funds	1,770,969	1,518,218
Prepaid expenses	3,759,549	3,488,037
In-transit items	751,589	644,105
Insurance premiums receivable	3,311,907	1,161,052
Claims to insurance companies	631,916	1,096,322
Other	<u>46,528</u>	<u>65,565</u>
	<u>41,231,527</u>	<u>31,245,332</u>

At June 30, 2009, accounts receivable included an amount of B/. 9,198,000 (2008: B/.9,732,105) which is generated by the subrogation of the obligation contracted by a Bank debtor with another creditor entity.

15. Securities sold under repurchase agreement

Securities sold under repurchase agreement for B/.26,550,000 mature on July 14, 2009, with an interest rate of 3.53450%.

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16. Borrowed funds

Borrowed funds received were summarized as follows:

	2009	2008
Obligations with other banks for the financing of foreign companies, with different maturities until September 2011 and an annual interest rate between 1.39875% and 4.7497%. (2008: 2.73188% and 3.83000%)	46,943,254	38,053,737
Obligations with financial institutions for the acquisition of foreign company titles, with renewable maturities and interest rates that range between 2.9675% and 4.9%	59,750,658	-
Obligations with multilateral financial institutions with a period of five years, amortized as of year 3, with final maturity in February 2014, and interest rate of 4.72375%, reviewable per semester	25,000,000	-
Obligation with foreign bank for working capital, with maturity date at September 2008 and annual interest rate between (2008: 3.28188% and 3.93%)		28,900,000
Obligations with foreign brokerage firm for the purchase of foreign companies shares, with maturity less than one year and annual interest rate of 2.9675% and 4.9%. (2008: 3.19% and 3.3725%)	-	35,100,000
	<u>131,693,912</u>	<u>102,053,737</u>

17. Negotiable commercial securities

Global Bank Corporation was authorized, according to Resolution No. 253-06 of October 26, 2006 of the National Securities Commission of the Republic of Panama, to offer by means of Public Offer, Negotiable Commercial Securities (known as VCNs in Panama) for a nominal value up to B/.100,000,000 and with maturity up to one year from the date of its issuance. The VCNs shall be issued in a global, rotating and registered manner, without coupons, in denominations of B/.1,000 or its multiples; and in as many series as the Issuer deems it convenient in accordance with its needs and market demand. VCNs shall earn a fixed annual interest rate that will depend on the term of the titles and shall be determined at the time of making another sale offer. Interest shall be paid monthly. VCNs may not be redeemed in advance by the Issuer. This VCNs are secured by Global Bank Corporation's general credit.

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At June 30, 2009, there were VCNs issued for a total of B/.58,476,800 (2008: B/.79,561,000).

18. Corporate bonds payable

Corporate bonds payable are summarized as follows:

Type	Interest rate	Maturity	2009	2008
A Series— issuance of July 2006	Libor ⁽³⁾ + 1.00%	Julio 2010	5,990,313	10,782,563
B Series— issuance of July 2006	Libor ⁽³⁾ + 1.25%	Julio 2011	8,996,850	12,990,450
C Series – issuance of July 2006	Libor ⁽³⁾ + 1.50%	Julio 2012	9,900,725	12,718,840
D Series – issuance of July 2006	Libor ⁽³⁾ + 1.75%	Julio 2013	13,660,714	16,875,000
A Series – issuance of September 2007	Libor ⁽³⁾ + 0.75%	Nov. 2009	2,500,000	2,500,000
B Series – issuance of September 2007	5.6250%	Dic. 2009	1,000,000	1,000,000
C Series – issuance of September 2007	5.7500%	Dic. 2009	5,000,000	5,000,000
D Series – issuance of September 2007	5.7500%	Enero 2010	5,000,000	5,000,000
E Series – issuance of September 2007	5.7500%	Enero 2010	5,000,000	5,000,000
F Series – issuance of September 2007	5.7500%	Enero 2010	5,935,000	5,935,000
G Series – issuance of September 2007	4.7500%	Marzo 2010	1,000,000	1,000,000
H Series – issuance of September 2007	4.5000%	Dic. 2009	3,500,000	3,500,000
I Series – issuance of September 2007	4.7500%	Junio 2010	1,000,000	650,000
J Series – issuance of September 2007	5.0000%	Octubre 2010	5,000,000	-
A Series – issuance of October 2008	5.5000%	Octubre 2011	2,720,000	-
A Series – issuance of October 2008	7.0000%	Octubre 2011	507,000	-
			<u>76,710,602</u>	<u>82,951,853</u>

The guarantees granted by Global Bank Corporation for these issuances are described as follows:

Issuance of July 2006 - The issuance of July 2006 is guaranteed by an Irrevocable Guarantee Trust comprised by surrender of credits, exclusive of the Social Security Entity retired and pensioned. The total credit balances surrendered are represented by one hundred forty percent (140%) nominal value of the bonds issued and outstanding during the first year of the issuance, and will represent one hundred fifty percent (150%) nominal value of the bonds issued and outstanding from the second to the seventh year of the issuance. Principal and interests of the loans assignment in Guaranteed Trust are recovered through the direct discount code with Social Security Entity. The guarantee of the loans assignment in Guaranteed Trust has to its favor: the assignment of the collection of credits assigned by means of the direct discount code used as a payment mechanism by the Social Security Institution to the Issuer and also the collective insurance policy of the aforementioned retirees and pensioners. The bonds will be guaranteed by the general credit of Global Bank Corporation.

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Issuance of September 2007 - The bond issuance of September 2007, shall be guaranteed by an Irrevocable Guarantee Trust that has been constituted with HSBC Investment Corporation (Panama), S.A. in favor of the Registered Holders of the bonds to which the irrevocable assignment of credits will be transferred and identified in an annex of the trust contract due to loan contracts subscribed with the active employees of the Social Security Institution (approximately 16% of the credits assigned in trust) and employees of the Panama Canal Authority (approximately 44% of the credits assigned in trust), and active employees of other Government entities (Ministry of Education, Ministry of Health, Judicial Body and General Comptroller of the Republic, which approximately comprise 40% of the credits assigned in a trust).

In the event that claims are incorporated into a negotiable document, the irrevocable transfer of credit in favor of the trustee will be done through endorsement, as a trustee of the respective negotiable document. The sum of the credit balances that will be given in trust, shall at all times be equivalent to not less than one hundred forty percent (140%) of the outstanding capital of the issued and outstanding bonds. In order to make the transfer of credits effective, the Issuer will transfer the payrolls that the Issuer maintains in the General Comptroller's Office of the Republic (for the case of the Ministry of Education, the Ministry of Health, the Judicial Body and the General Comptroller's Office of the Republic), Social Security Institution and through the direct discount code used as a payment mechanism of the Panama Canal Authority, so that in case of default to the Issuer such payments go directly to the Trustee. The Bonds will be secured by the general credit of Global Bank Corporation.

Issuance of October 2008 - For the bond issuance of October 2008, the Bonds will be secured by the general credit of Global Bank Corporation. The Bonds will be issued in Series, of which the amounts, terms and annual interest rates will be determined by the needs of the Issuer and the market demand. The Bonds may be issued with maturities from three (3) to seven (7) years as of the date of issuance (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 being a 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.

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19. Other liabilities

Details of other liabilities are summarized as follows:

	2009	2008
Accounts payable others	16,407,739	11,684,025
Insurance payable	601,162	625,006
Guarantee deposits - due to clients	4,896,365	5,938,918
Interests payable Compensation Special Fund (FECI)	521,894	418,900
Income tax withheld	474,843	1,153,915
Other liabilities - in transit	2,611,219	3,181,079
Provisions of insurance operations	2,153,183	1,215,619
Provisions other	<u>4,049,412</u>	<u>3,597,018</u>
	<u>31,715,817</u>	<u>27,814,480</u>

20. Common shares

The issued and outstanding share capital of Global Bank Corporation is constituted by 2,000,000 common shares with non-par value, of which 100,000 shares are issued and outstanding. During the year ended June 30, 2009, dividends were paid on the common shares for a total of B/.4,577,664 (2008: B/.6,093,902).

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21. Preferred shares

The subsidiary Global Bank Corporation has two issuances of preferred shares, all of them registered at The National Securities Commission of Panama and listed at Panama Stock Exchange. The following table shows the actual balances with the different issues with terms and conditions established in their respective Informative Prospectus:

<u>Date of issuance</u>	<u>2009</u>	<u>2008</u>	<u>Dividends</u>	<u>Type</u>	<u>Series</u>
December 30, 2004	26,880,000	26,880,000	7% up to fourth year as of fifth year 7.5%	Non cumulative Dividend	A Series
December 30, 2004	3,120,000	3,120,000	1- Month Libor + 3.0%, floor 6.75% ceiling 7.75%	Non cumulative Dividend	B Series
February 13, 2007	8,000,000	8,000,000	7.50% fixed rate	Non cumulative Dividend	A Series
January 11, 2008	15,000,000	15,000,000	7.00% fixed rate	Non cumulative Dividend	B Series
April 11, 2008	7,000,000	7,000,000	6.50% fixed rate	Non cumulative Dividend	C Series
August 28, 2008	8,613,500	-	6.50% fixed rate	Non cumulative Dividend	A Series
September 12, 2008	5,456,900	-	6.50% fixed rate	Non cumulative Dividend	B Series
September 26, 2008	1,360,000	-	6.50% fixed rate	Non cumulative Dividend	C Series
December 15, 2008	<u>4,605,700</u>	<u>-</u>	7.00% fixed rate	Non cumulative Dividend	D Series
	<u>80,036,100</u>	<u>60,000,000</u>			

In addition, the Informative Prospectus of the public offer of the issuance of preferred shares establishes the following conditions of the issuance:

- Non-cumulative preferred shares do not have maturity date. In accordance with section 3.1.6 of Chapter III of Prospect, the Bank could redeem partially or totally the preferred shares at its discretion, when they have three years of the issuance date. However, the Agreement No. 5-98 of October 14, 1998, issued by the Superintendency of Banks, establishes that such redemption must be authorized by the Superintendency.

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- Once dividends are declared by the Board of Directors, the Series A non-cumulative, preferred shares issued on December 2004, will receive a dividend equivalent to a fixed rate of 7.0% over the annual value of the shares, for the first four years. Since the fifth year investors will receive a dividend equivalent of fixed rate of 7.5% over the annual value of the shares.
- Once dividends are declared by the Board of Directors, the Series B non-cumulative, preferred shares issued on December 2004, will receive a dividend equivalent to a variable rate determined by LIBOR one month plus a differential of 3% (Libor 1 month + 3%), the minimum dividend paid will be 6.75% over the annual value of the shares and the maximum will be 7.75% over the annual value of the shares.
- Once declared by the Board of Directors, the Series A Non-cumulative Preferred Shares, issued in February 2007, will earn a dividend equivalent to a fixed rate of 7.5% on the value of the shares annually.
- Once declared by the Board of Directors, the Series B Non-cumulative Preferred Shares, issued in January 2008, will earn a dividend equivalent to a fixed rate of 7.0% on the value of the shares annually.
- Once declared by the Board of Directors, the Series C Non-cumulative Preferred Shares issued in April 2008, will earn a dividend equivalent to a fixed rate of 6.5% on the value of the shares annually.

On the issuance of preferred shares, the dividend payment will be over a monthly basis, each 30 day of the month until the date of partial or total redemption of the shares. The dividend is non cumulative.

- Once declared by the Board of Directors, the Series A Non-cumulative Preferred Shares, issued on August 2008, shall bear an annual dividend equivalent to a fixed rate of 6.5% on the value of the shares. The payment of dividends is made monthly on the 28th day of each month.
- Once declared by the Board of Directors, the Series B Non-cumulative Preferred Shares, issued on September 2008, shall bear an annual dividend equivalent to a fixed rate of 6.5% on the value of the shares. The payment of dividends is made monthly on the 12th day of each month
- Once declared by the Board of Directors, the Series C Non-cumulative Preferred Shares, issued on September 2008, shall bear an annual dividend equivalent to a fixed rate of 6.5% on the value of the shares. The payment of dividends is made monthly on the 26th day of each month

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- Once declared by the Board of Directors, the Series D Non-cumulative Preferred Shares, issued on December 2008, shall bear an annual dividend equivalent to a fixed rate of 7.0% on the value of the shares. The payment of dividends is made monthly on the 15th day of each month.

The dividends declaration corresponds to the Board of Directors, using their best criteria. The Board of Directors does not have the contractual or regulatory obligation to declare dividends.

- The Bank cannot guarantee or guarantees the payment of dividends.
- The preferred shareholders could be affected in their investment whenever, in the judgment of the Board of Directors, the Bank has not generated necessary or sufficient profits or gains to declare dividends.
- The dividends of the preferred shares will be net of any tax that could be derived from the Bank.
- The preferred shares are secured by the general credit of the Bank and have preferred rights over the ordinary shareholders in the payment of dividends when they are declared.

22. Commitments and contingencies

The Bank maintains financial instruments with off-balance sheet credit risk, 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 issuance and loan commitments, which are summarized as follows:

	2009	2008
Letters of credit	34,838,425	37,107,695
Guarantees and issuances	25,098,912	27,941,420
Loans commitments	<u>92,990,795</u>	<u>104,898,403</u>
	<u>152,928,132</u>	<u>169,947,518</u>

Commercial letters of credit, guarantees issued and loan commitments include exposure to some credit loss in the event of nonperformance by the customer. The Bank's credit policies and procedures to approve credit commitment and financial guarantees are the same as those for granting of loans that are recorded on the balance sheet.

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The guarantees issued have fixed maturity dates, and the majority of them expire without being drawn upon, and therefore, they do not generally represent a significant liquidity risk to the Bank.

With respect to the commercial letters of credit the most are used; the major parts of them are on demand and paid immediately.

Loan commitments represent conditional promises granted by the Bank to other parties, once certain conditions have been complied, which have an average maturity of six months and are use basically for mortgage loans disbursements. The Bank does not anticipate losses as a result of these transactions.

23. Trust management

The Bank maintained under its management, trusts at the risk of their clients that amounted to B/.151,352,818 (2008: B/.114,491,668).

Additionally, it maintained under its management, an investment portfolio at the risk of their clients that amounted to approximately B/.1,748,062 (June 30, 2008: B/.645,000).

The Bank's management does not anticipate any losses as a result of the administration of these trusts.

24. Income tax

The income tax returns of companies incorporated at the Republic of Panama are subject to examination by the domestic tax authorities for the last three years, including the year ended June 30, 2009, according to current fiscal regulations.

According to current Panamanian tax legislation, the 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 obligations and securities issued through Panama Stock Exchange (Bolsa de Valores de Panamá, S.A.).

The subsidiaries Global Capital Investment Corp. and Global Bank Overseas are not subject to income tax payment in their respective jurisdictions, due to the foreign nature of their operations; however, the income tax on operations that generate taxable income in other jurisdictions is classified as income tax expense.

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Income tax expense is detailed as follows:

	2009	2008
Current income tax	2,450,488	2,109,714
Deferred tax from temporary differences	<u>(587,730)</u>	<u>5,098</u>
Tax income, net	<u>1,862,758</u>	<u>2,114,812</u>

The effective average rate of the current income tax is of 13.49% (2008: 9.40%).

The effective tax item that consists of deferred tax assets included in the balance sheet, is the allowance for possible loans losses which is detailed below:

	2009	2008
Balance at beginning of year	4,330,243	4,335,341
Credit to loss or profit during the year	<u>587,730</u>	<u>(5,098)</u>
Balance at end of year	<u>4,917,973</u>	<u>4,330,243</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 estimations.

Based on actual and projected results, the management of the Bank considers that there will be sufficient taxable income to absorb the deferred income taxes previously described.

On February 2005, Law No. 6 introduced an alternative method to estimate the income tax that determines the payment of tax based on alleged calculations. This allegation assumes that the contributor net income will be 4.67% over its gross income. As a result, this method will affect the contributors who record losses or with a operating margin under 4.67%. However, Law No. 6 allows these contributors to request the no application of this method to the domestic tax authorities.

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A reconciliation of the current income tax is presented in the following manner:

	2009	2008
Net income before income tax	18,167,896	22,452,875
Less: Income not subject to tax and exempt	(34,987,765)	(31,072,476)
Plus: Expenses not deductible	24,144,101	14,446,874
Fiscal base	<u>21,123</u>	<u>21,391</u>
	<u>7,345,355</u>	<u>5,848,664</u>
Income tax calculated at 30%	2,203,607	1,754,599
Income tax on remittances	<u>246,881</u>	<u>355,115</u>
Income tax expense	<u>2,450,488</u>	<u>2,109,714</u>

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