BANCO LA HIPOTECARIA, S. A.
AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Financial Statements
and Consolidated Information

June 30, 2023

(With the Accountant Certification)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

AUTHORIZED PUBLIC ACCOUNTANT CERTIFICATION

We have prepared the consolidated financial statements of Banco La Hipotecaria, S. A. and subsidiaries ("the Bank"), which comprise the consolidated statement of financial positions of June 30, 2023, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the period, and notes, comprising a summary of significant accounting policies and other explanatory information.

We believe that the internal control procedures established in the Bank, allows us to prepare and present fairly, in all material respects, the consolidated financial position of the Bank, free from material misstatement, whether due to fraud or error.

The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis of the consolidated financial statements and not to present the financial position nor the operational results or changes in equity of the individual companies.

The consolidated financial statements of Banco La Hipotecaria, S.A. and subsidiaries as of June 30, 2023 have been prepared internally in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee ("IASC).

Roberto Romero
CPA 0153-2012

July 27, 2023
Panama, Republic of Panama

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Financial Position

June 30, 2023

(Stated in Balboas)

	Note	2023	2022
Assets			
Cash and cash effect	7	311,387	265,485
Bank deposits:			
Demand deposits in local banks		19,365,333	24,069,757
Demand deposits in foreign banks		4,609,938	9,331,231
Savings deposits in local banks		3,826,980	2,131,465
Savings deposits in foreign banks		5,085,656	6,506,496
Time deposits		0	5,522,601
Total deposits in banks		32,887,907	47,561,550
Total of cash, cash equivalents and cash in banks	7	33,199,294	47,827,035
Investment in securities, net	8	105,526,609	103,110,968
Loans at amortized cost (AC)	9	775,822,360	727,131,109
Furniture, equipment and improvements, net	10	1,475,363	1,611,326
Accounts receivable	11	8,062,914	8,752,588
Tax credit	32	30,977,053	30,035,523
Deferred tax	24	998,752	1,106,746
Right-of-use assets	29	1,328,100	1,495,795
Other assets	12	6,401,050	5,325,096
Total assets		963,791,495	926,396,186

The consolidated statement of financial position should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

	Note	2023	2022
Liabilities and Equity			
Liabilities:			
Deposits from customers:			
Savings deposits - local	6	3,052,984	3,135,359
Savings deposits - foreign	6	2,312,201	748,377
Time deposits - local		348,652,276	326,118,584
Time deposits - foreign		65,700,166	55,951,284
Total deposits from customers		419,717,627	385,953,604
Negotiable commercial papers	13, 30	63,657,906	46,715,496
Negotiable commercial notes	14, 30	59,741,297	63,690,347
Covered bonds	15, 30	21,619,402	21,508,709
Ordinary bonds	16, 30	7,551,224	8,242,113
Investment certificates	17, 30	17,977,597	21,577,248
Other negotiable debts	18, 30	1,871,377	1,727,339
Borrowimgs	19, 30	275,827,318	287,809,108
Leases liabilities	29	1,870,861	1,995,873
Income tax payable		487,155	760,501
Other liabilities	20	12,245,691	10,828,344
Total Liabilities		882,567,455	850,808,682
Equity:			
Common shares	21	15,000,000	15,000,000
Treasury shares	21	(727,000)	(727,000)
Additional paid-in capital		25,454,161	25,454,161
Capital reserve		1,800,000	1,800,000
Fair value reserve		(2,863,372)	-3,544,538
Currency translation reserve		(11,750,911)	(14,429,907)
Regulatory reserves		9,230,005	9,104,574
Retained earnings		44,303,610	42,198,340
Total equity attributable to controlling interest non controlling		80,446,493	74,855,630
Non-controlling interest		777,547	731,874
Total equity		81,224,040	75,587,504
Commitments and contingencies	28		
Total liabilities and equity		963,791,495	926,396,186

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BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Income

For the period ended June 30, 2023

(Stated in Balboas)

	Note	2023	2022
Interest income calculated using the effective interest method:			
Loans		27,443,388	24,798,178
Investment in securities		2,048,690	1,999,751
Deposits in banks		593,354	128,733
Total interest income		30,085,432	26,926,662
Interest expense:			
Deposits from customers	6	10,818,526	7,937,856
Borrowings, debt securities in issue and leases		13,101,899	10,105,263
Total interest expenses		23,920,425	18,043,119
Net interest income		6,165,007	8,883,543
Impairment losses on financial assets:			
Provision for credit losses on loans at AC	4	104,035	1,214,258
Provision for credit losses on investment securities at AC	4	(82,951)	4,640
Provision for credit losses on investment securities at FVOCI	4	188	(13,270)
(Gain) net losses on modified loans at AC		(67,054)	0
Net interest income, after provisions for impairment losses on financial assets		6,210,789	7,677,915
Income from banking services, commissions and others, net:			
Net income from securities at FVTPL	8	1,347,611	529,607
Management and servicing commissions	22	3,839,332	3,675,837
Other commissions incurred		(522,366)	(603,667)
Othe income	22	771,224	814,861
Total income from banking services and others, net		5,435,801	4,416,638
General and administrative expenses			
Salaries and other personnel benefits	6,23	3,582,191	3,601,348
Depreciation and amortization of furniture, equipment and improvements	10	188,047	305,720
Depreciation of right-of-use assets	29	204,127	239,100
Professional and legal fees		985,179	822,891
Taxes		1,191,546	1,131,112
Other expenses	6,23	2,467,895	2,432,617
Total general and administrative expenses		8,618,985	8,532,788
Net income before income tax		3,027,605	3,561,765
Estimated Income tax	24	675,207	734,724
Deferred tax		101,828	(25,947)
Net income tax		777,035	708,777
Net income		2,250,570	2,852,988
Income attributable to:			
Controlling interest		2,232,467	2,816,380
Non-controlling interest		18,103	36,608
		2,250,570	2,852,988

The consolidated statement of income should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income

For the period ended June 30, 2023

(Stated in Balboas)

	2023	2022
Net income	2,250,570	2,852,988
Other comprehensive income:		
Items that are or may be reclassified subsequently to profit or loss:		
Movement in fair value reserve for FVOCI debt instruments:		
Debt investments at FVOCI – net change in fair value	763,509	(2,396,800)
Debt investments at FVOCI – reclassified to profit or loss		
Movement in expected credit loss (ECL) reserve for FVOCI debt instruments:	(82,343)	(13,270)
Debt investments at FVOCI – net change in ECL reserve		
Movement in fair value reserve for loan portfolio acquired:	0	(102,633)
Amortization of fair value		
Movement in foreign currency translation reserve:		
Foreign operations – foreign currency translation differences	2,704,800	(776,719)
Total other comprehensive income (loss)	3,385,966	(3,289,422)
Total comprehensive income	5,636,536	(436,434)
Comprehensive income attributable to:		
Controlling interest	5,516,839	(444,254)
Non-controlling interest	119,697	7,820
	5,636,536	(436,434)

The consolidated statement of comprehensive income should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity

For the period ended June 30, 2023

(Stated in Balboas)

	Attributable to the controlling interest													
					Fair value reserve				Regulatory reserves					
	Common shares	Treasury shares	Additional paid-in capital	Capital reserve	Reserve of fair value of investment in securities FVOCI	Reserve of ECL of investment in securities FVOCI	Reserve of fair value of portfolio acquired	Currency translation reserve	Dynamic provision	Specific provision in excess	Regulatory provision	Retained earnings	Non-controlling interest	Total equity
Balance at December 31, 2021	15,000,000	(727,000)	25,051,203	1,800,000	(549,345)	137,066	691,337	(10,856,149)	4,706,953	2,570,398	2,337,942	36,393,322	819,206	77,374,933
Net income	0	0	0	0	0	0	0	0	0	0	0	2,816,380	36,608	2,852,988
Other comprehensive income (loss):														
Fair value reserve – debt instruments at FVOCI:														
Debt investments at FVOCI – net change in fair value	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt investments at FVOCI – reclassified to profit or loss	0	0	0	0	(2,396,800)	0	0	0	0	0	0	0	0	(2,396,800)
Expected credit loss (ECL) reserve – debt instruments at FVOCI:														
Debt investments at FVOCI – net change in ECL reserve	0	0	0	0	0	(13,270)	0	0	0	0	0	0	0	(13,270)
Fair value reserve for loan portfolio acquired:														
Amortization of fair value	0	0	0	0	0	0	(102,633)	0	0	0	0	0	0	(102,633)
Foreign currency translation reserve:														
Foreign operations – foreign currency translation differences	0	0	0	0	0	0	0	(747,931)	0	0	0	0	(28,788)	(776,719)
Total other comprehensive income (loss)	0	0	0	0	(2,396,800)	(13,270)	(102,633)	(747,931)	0	0	0	0	(28,788)	(3,289,422)
Total comprehensive income	0	0	0	0	(2,396,800)	(13,270)	(102,633)	(747,931)	0	0	0	2,816,380	7,820	(436,434)
Other equity transactions:														
Allocation of regulatory reserves - dynamic and specific	0	0	0	0	0	0	0	0	0	-202,968	0	202,968	0	0
Transactions with equity holders of the Bank:														
Contributions and distributions:														
additional paid-in capital	0	0	402,958	0	0	0	0	0	0	0	0	0	0	402,958
Dividends paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Complementary tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total contributions and distributions	0	0	402,958	0	0	0	0	0	0	0	0	0	0	402,958
Balance at June 30, 2022	15,000,000	(727,000)	25,454,161	1,800,000	(2,946,145)	123,796	588,704	(11,604,080)	4,706,953	2,367,430	2,337,942	39,412,670	827,026	77,341,457
Saldo al 31 de diciembre de 2022	15,000,000	(727,000)	25,454,161	1,800,000	(3,802,255)	257,717	0	(14,429,907)	6,030,596	3,073,978	0	42,198,340	731,874	75,587,504
Net income	0	0	0	0	0	0	0	0	0	0	0	2,232,467	18,103	2,250,570
Other comprehensive income (loss):														
Fair value reserve – debt instruments at FVOCI:														
Debt investments at FVOCI – net change in fair value	0	0	0	0	763,509	0	0	0	0	0	0	0	0	763,509
Debt investments at FVOCI – reclassified to profit or loss	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Expected credit loss (ECL) reserve – debt instruments at FVOCI:														
Debt investments at FVOCI – net change in ECL reserve	0	0	0	0	0	(82,343)	0	0	0	0	0	0	0	(82,343)
Fair value reserve for loan portfolio acquired:														
Amortization of fair value	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign currency translation reserve:														
Foreign operations – foreign currency translation differences	0	0	0	0	0	0	0	2,603,206	0	0	0	0	101,594	2,704,800
Total other comprehensive income (loss)	0	0	0	0	763,509	(82,343)	0	2,603,206	0	0	0	0	101,594	3,385,966
Total comprehensive income	0	0	0	0	763,509	(82,343)	0	2,603,206	0	0	0	2,232,467	119,697	5,636,536
Other equity transactions:														
Allocation of regulatory reserves - dynamic and specific	0	0	0	0	0	0	0	0	0	125,431	0	(125,431)	0	0
Transactions with equity holders of the Bank:														
Contributions and distributions:														
Additional paid in capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Complementary tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0	0	0	0
capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance at June 30, 2023	15,000,000	(727,000)	25,454,161	1,800,000	(3,038,746)	175,374	0	(11,826,701)	6,030,596	3,199,409	0	44,305,376	851,571	81,224,040

The consolidated statement of changes in equity should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the period ended June 30, 2023

(Stated in Balboas)

	Nota	2023	2022
Operating activities:			
Net income		2,250,570	2,852,988
Adjustment to reconcile net income and cash from operating activities:			
Depreciation and amortization of furniture, equipment and improvements	10	188,047	305,720
Depreciation of right-of-use assets	29	204,127	239,100
Provision for credit losses on loans at AC	4	104,035	1,214,258
Provision for credit losses on investment securities at AC	4	(82,951)	(13,270)
Provision for credit losses on investment securities at OCI	4	188	4,640
Net loss due to modification of loans to CA	4	(67,054)	0
Net interest income		(6,165,007)	(8,883,543)
Net gain on investment securities at FVTPL		(1,347,611)	(529,607)
Net gain on sale of investment securities at FVOCI	8	-	-
Loss on sale of fixed assets		5,070	(600)
Gain on sale of foreclosed assets		(62,510)	0
Income tax expense	24	777,035	734,724
Changes in operating assets and liabilities:			
Investment securities at FVTPL		(458,351)	2,597,813
Loans		(48,746,801)	(48,191,290)
Accounts receivable		2,015,982	496,893
Accounts receivable - related parties		-	(47,840)
Sale of tax credits	32	7,668,365	6,501,720
Accrual of tax credits		(8,609,895)	(6,008,243)
Other assets		(1,086,308)	43,998
Saving deposits from customers		1,481,449	1,165,982
Time deposits from customers		32,282,574	5,331,445
Other liabilities		(799,240)	1,165,982
Cash generated from operations:			
Interest received		28,219,248	26,223,780
Interest paid		(22,013,014)	(18,095,974)
Income tax paid		(641,966)	(1,446,483)
Cash flows from operating activities		(14,884,018)	(34,337,807)
Investment activities:			
Proceeds from sale and redemption of investment securities at AC and FVOCI	10	972,695	6,847,002
Acquisition of furniture, equipment and improvements		(104,641)	(245,012)
Disposal of fixed assets		0	62,191
Cash flows from investment activities		868,054	6,664,181
Financing activities:			
Proceeds from issuance of negotiable commercial papers		52,960,000	33,330,407
Redemption of negotiable commercial papers		(36,017,590)	(28,962,000)
Proceeds from issuance of negotiable commercial notes		6,262,950	22,087,596
Redemption of negotiable commercial notes		(10,212,000)	(15,226,000)
Redemption of Ordinary Bonds		110,693	-969,117
Proceeds from issuance of Ordinary Bonds		2,794,000	3,766,037
Proceeds from issuance of investment certificates		(6,393,651)	(4,550,000)
Redemption of investment certificates		1,870,000	1,703,604
Proceeds from issuance of negotiable debts		(1,725,962)	-5,000,000
Redemption of negotiable debts		48,250,384	49,722,849
Proceeds from borrowings		(56,595,897)	(27,102,209)
Repayment of borrowings		(164,732)	(199,008)
Payment of leases	29	0	402,958
Additional paid-in capital		0	(6)
Non-controlling interest		101,594	(28,788)
Cash flows from financing activities		(575,277)	28,976,323
Net increase in cash and cash cash equivalents		(14,591,241)	1,302,697
Cash and cash equivalents at the beginning of the year		47,827,035	56,866,291
Effect of exchange rate fluctuations		(36,500)	(896,580)
Cash and cash equivalents at the end of the year	7	33,199,294	57,272,408

The consolidated statement of cash flows should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

(1) General Information

Banco La Hipotecaria, S. A. (formerly, La Hipotecaria, S. A.), was incorporated on November 7, 1996 under the law of companies of the Republic of Panama. According to Resolution S. B. P. No.127-2010 of June 4, 2010, the Superintendence of Banks of Panama granted a General Banking License to start operations as a Bank on June 7, 2010, which allows it to provide banking services, indistinctly, in Panama or abroad, and conduct any other activity authorized by this Superintendence.

Banco La Hipotecaria, S. A. is a private bank whose shareholder is La Hipotecaria (Holding), Inc., a company incorporated under the laws of the British Virgin Islands and whose main shareholder is Grupo ASSA, S. A., who owns 79.16% (2022: 69.01%) of the shares issued and outstanding.

Through Resolution FID No.3-97 of August 6, 1997, the Superintendence of Banks granted the Bank a fiduciary license that allows it to conduct trust business in or from the Republic of Panama. Additionally, the Bank is registered with the Superintendence of the Securities Market of the Republic of Panama by means of Resolution No.487-01 of December 14, 2001.

The following table provides the detail of the Bank's subsidiaries:

	Activity	Country of Incorporation	Controlling Interest 2023	2022
La Hipotecaria Compañía de Financiamiento, S. A.	Grant residential mortgage loans, manage residential mortgage and personal loans in the Republic of Colombia.	Colombia	94.99%	94.99%
La Hipotecaria, S. A. de C. V.	Grant residential mortgage and personal loans, manage residential mortgage and personal loans in the Republic of El Salvador.	El Salvador	99.99%	99.99%

For its part, La Hipotecaria, S. A. de C. V. maintains an equity interest of 1.25% in La Hipotecaria Compañía de Financiamiento, S. A.

The main office of Banco La Hipotecaria, S. A. is located on Via España, Plaza Regency, floor No. 13, Panama City.

Hereinafter, Banco La Hipotecaria, S. A. and its subsidiaries will be referred to as "the Bank".

(2) Basis of Preparation

(a) Statement of compliance
The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Administration authorized the issuance of these consolidated financial statements on July 27, 2023.

(b) Basis of measurement
These consolidated financial statements have been prepared on the historical cost basis, except for the following items:

Item	**Basis of measurement**
Investment securities measured at fair value through profit or loss (FVTPL)	Fair value
Investment securities measured at fair value through other comprehensive income (FVOCI)	Fair value

(c) Functional and presentation currency
These consolidated financial statements are presented in balboas (B/.), the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the dollar of the United States of America (U.S. Dollar). The Republic of Panama does not issue its own currency paper and, instead, the U.S. Dollar is used as the legal tender. The functional currency of the subsidiary in Colombia is the Colombian peso (COP), and the functional currency of the subsidiary in El Salvador is the U.S. Dollar.

(3) Summary of Significant Accounting Policies

The accounting policies detailed below have been consistently applied by the Bank to all periods presented in these consolidated financial statements.

(a) Basis of consolidation
(a.1) Subsidiaries
The subsidiaries are participated entities controlled by the Bank. The Bank 'controls' a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Bank reassesses whether it has control over a participated entity if there are changes to one or more of the three elements of control. The financial statements of subsidiaries, as described in Note 1, are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(3) Summary of Significant Accounting Policies, continued

(a.2) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, as when the rights to vote related only to administrative tasks and the relevant activities are directed by contractual agreements. In the evaluation to determine if the Bank has sufficient rights to give power on these participated entities, the Bank considers factors of the participated entity; such as, its purpose and design; its present ability to direct the relevant activities; the nature of its relation with other parties; and the exposition to the implication in the participated entity.

(a.3) Non-controlling interests

Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(a.4) Loss of control

When the Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in the consolidated statement of profit or loss. Any interest retained by the Bank in the former subsidiary is measured at fair value when control is lost.

(a.5) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(a.6) Funds administration

The Bank acts as administrator and trustee of trust contracts at the risk of customers. The financial statements of these entities are not part of these consolidated financial statements except when the Bank has control over the entity.

(b) Foreign currency

(b.1) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Foreign currency differences arising on translation are generally recognized in the consolidated statement of profit or loss. However, foreign currency differences arising from the translation of equity instruments measured at FVOCI, are recognized in OCI.

(3) Summary of Significant Accounting Policies, continued

(b.2) Foreign operations

The financial position and the results of any subsidiary in a different functional currency are translated to the presentation currency as follows:

- Assets and liabilities, at the exchange rate at the reporting date.
- Income and expenses, at the monthly average exchange rate of the year.
- Equity accounts are measured at historical cost, at relevant exchange rate at the time of each transaction.
- The resulting exchange differences due to translation are recognized in a separate account directly in the consolidated statement of changes in equity, under foreign currency translation reserve.

(c) Financial assets and liabilities

(c.1) Recognition and initial measurement

The Bank initially recognizes loans and receivables, investment securities, deposits, debt securities issued and borrowings on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

(c.2) Classification

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. A financial asset is classified based on the Bank's business model for its management and its contractual characteristics of cash flows.

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

- The asset is held within a business model which objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

(3) Summary of Significant Accounting Policies, continued

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets not classified as measured at amortized cost or at FVOCI, as described above, are classified as measured at FVTPL.

In addition, on the initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces and accounting mismatch that would otherwise arise. The Bank has not made use of this option so far.

Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- The frequency, value and timing of sales in prior periods, the reasons for such sales, and its expectations about future sales activity; however, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

(3) Summary of Significant Accounting Policies, continued

Assessment of whether the contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as the consideration for the time value of money and for the credit risk associated with the amount of the principal amount outstanding during a particular period of time and for other basic lending risk and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- Contingent events that would change the amount and timing of the cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specific assets (e.g., non-recourse asset agreements); and
- Features that modify consideration of the time value of money (e.g., periodical reset of interest rates).

Interest rates on certain consumer loans are based on variable interest rates that are established at the Bank's discretion. Variable interest rates are generally determined in accordance with the policies established by the Bank. In these cases, the Bank assesses whether the discretionary feature is consistent with the criterion of SPPI, considering a factor that includes whether the debtors are in a position to prepay loans without significant penalties.

All fixed rate consumer loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion, if the prepaid amounts substantially represent unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for the early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its nominal contractual amount, and the prepaid amount substantially represents the contractual par amount plus accrued but unpaid contractual interest (which may include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

(3) Summary of Significant Accounting Policies, continued

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(c.3) Derecognition of financial assets and financial liabilities

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The guarantee on the transferred asset is measured as the lower between the original carrying amount of the asset and the maximum amount of the consideration that the Bank could be required to pay.

The Bank, sporadically and in accordance to its liquidity needs, enters into transactions whereby it transfers assets recognized in the consolidated statement of financial position, such as the securitizations of residential mortgage loans, which result in the sale of these assets to unconsolidated structured entities and in the Bank transferring substantially all of the risks and rewards of ownership. The securitization vehicles in turn issue debt securities to investors. Interests in the securitized assets are generally retained in the form of 'senior' or 'subordinated' tranches, or other residual interests (retained interests). Retained interests or interests are recognized as investment securities in debt instruments in the consolidated statement of financial position, and are measured as explained in Note 3 (f).

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(c.4) Modification of financial assets

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

(3) Summary of Significant Accounting Policies, continued

(c.5) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(c.6) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active', if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank establishes a fair value hierarchy that classifies the input data of valuation techniques used to measure fair value into three levels. The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(c.7) Impairment of financial assets

The Bank recognizes loss allowances for 'expected credit loss' (ECL) on the following financial instruments that are not measured at FVTPL:

- Investments in debt instruments; and
- Loans receivable.

No impairment loss is recognized on equity instruments.

(3) Summary of Significant Accounting Policies, continued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measure as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its 'credit risk rating' is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instrument.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. Financial instruments for which 12-month ECL are recognized are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to 'Stage 1' have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible events of default over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to 'Stage 2' are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognized and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *Financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows.

(3) Summary of Significant Accounting Policies, continued

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial instruments'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a personal loan that is overdue for more than 90 days and for more than 180 days for a mortgage loan is considered credit-impaired.

(3) Summary of Significant Accounting Policies, continued

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of allowance for ECL in the consolidated statement of financial position
Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *Financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets.
- *Debt instruments measured at FVOCI*: no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve in equity.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off, with no course of action by the Bank to foreclose the collaterals (in the case they maintain). However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(d) Cash and cash equivalents
For purpose of the consolidated statement of cash flows, cash equivalents include demand deposits with banks and term deposits with original maturities of three months or less, excluding restricted deposits.

(e) Loans
Loans are non-derivative financial assets with fixed determinable payments that are not quoted in the active market, and are generally originated by providing funds to debtors and the Bank does not intend to sell immediately or in the near term.

Loans are presented at amortized cost considering the principal amount and the interest receivable, less the loss allowance for ECL. The loans are measured initially at its fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

(3) Summary of Significant Accounting Policies, continued

(f) Investment securities

'Investment securities' caption in the consolidated statement of financial position includes:

- Debt investment securities measured at AC: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.
- Debt and equity investment securities mandatorily measured at FVTPL: these are at fair value with changes recognized immediately in profit or loss.
- Debt securities measured at FVOCI.

For debt instruments measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method; and
- ECL and reversals.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

(g) Furniture, equipment and improvements

Furniture, equipment and improvements include buildings, furniture and equipment used by branches and offices of the Bank. Furniture, equipment and improvements are measured at cost less accumulated depreciation and amortization. The historic cost includes the expense that is directly attributable to the acquisition of the asset.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

The depreciation expense of furniture and equipment, and amortization of improvements to the leased property is charged to current period using the straight-line method over the estimated useful life. The estimated useful life of furniture, equipment and improvement for the current and comparative periods are as follows:

- Furniture and equipment	3 - 10 years
- Vehicles	5 years
- Improvements	3 - 10 years

The assets' useful lifes and residual values are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. Furniture, equipment and improvements are subject to review for impairment when there are events or changes in the circumstances that indicate that the carrying value may not be recoverable. An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(3) Summary of Significant Accounting Policies, continued

(h) Assets classified as held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, including foreclosed assets held-for-sale, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held-for-sale. Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. An impairment loss is recognized due to reductions in the initial value of such assets. Impairment losses on initial and subsequent classification of a non-current asset as held-for-sale are recognized in the consolidated statement of profit or loss.

(i) Deposits, borrowings and debt securities in issue

These financial liabilities correspond to the Bank's main sources of debt funding. They are initially measured at fair value minus incremental direct transaction costs, and subsequently are measured their amortized cost using the effective interest method.

(j) Share-based payments

The fair value at the date of granting options of the Holding's share purchase plan of Bank's employees is recognized as a personnel expense, with the corresponding increase in the account payable to the Holding, within the vesting period in which employees acquire unconditional rights over the shares. The amount recognized as an expense is adjusted to reflect the amount of concessions, which will effectively meet the conditions of service.

(k) Employee benefits

(k.1) Termination benefits

Termination benefits are recognized as expenses at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognizes costs for a restructuring. If benefits are not expected to be settled wholly within twelve months of the consolidated statement of financial position date, then such benefits are discounted to determine their present value.

(k.2) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(l) Segment reporting

An operating segment is a main component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Bank's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(3) Summary of Significant Accounting Policies, continued

The operating segments presented in the consolidated financial statements correspond to a main component of the Bank responsible for providing a single product or service or a group of related products or services within a particular economic environment and that is subject to risks and returns that are different from the other business segments.

(m) Interest income and expense

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets (POCI), the Bank estimates future cash flows considering all contractual terms of the financial instrument, but no the ECL. For POCI financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or a financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any ECL allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

For the financial assets that were credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

(3) Summary of Significant Accounting Policies, continued

Presentation
Interest income and expense calculated using the effective interest method presented in the consolidated statements of profit or loss and OCI includes:

- Interest on financial assets and financial liabilities measured at amortized cost;
- Interest on debt instruments measured at FVOCI.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

(n) Fees and commission
Income and expenses from fees and commissions, both paid and received, other than those included in determining the effective interest rate, include banking services, premium and other service fees, administration and management of accounts which are recognized as the related services are performed or received.

The Bank receives recurrent income related to management services of trusts. These incomes are registered under the accrual method. It is a Bank's obligation to manage the resources of the trusts in conformity with the contracts and independently of its equity.

<u>Performance obligations and revenue recognition policy for fees and commission Income</u>
Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Private banking services	The Bank provides banking services to retail and corporate customers that maintains saving or time deposits, for the issuance of checks, the execution of bank transfers and bank confirmations issue.	Revenue related to transactions is recognized at the point in time when the transaction takes place or the service is provided.
Portfolio management for trusts	The Bank provides portfolio management services. Fees for portfolio management services are calculated based on a fixed percentage of the value of portfolio managed and charged to the trust fund on a monthly basis.	Revenue from portfolio management services is recognized over time as the services are provided.
Insurance management and collection	The Bank provides insurance management and collection services. Commissions for insurance management and collection services are calculated based on a fixed percentage and are received in a monthly basis.	Revenue from insurance management services is recognized over time as the services are provided.

(3) Summary of Significant Accounting Policies, continued

(o) Trusts operations

Assets held on trusts or in function of the trustee are not considered part of the Bank and therefore, those assets and its corresponding income are not included in its consolidated financial statements. It is a Bank's obligation to manage the resources of the trusts in conformity with the contracts and independently of its equity.

The Bank charges a commission for the trusteeship of the funds in trusts, which is paid by the trustors based on the value of the trust's portfolio or according to agreements between the parties. These commissions are recognized as income in accordance with the terms of the trust contracts, whether monthly, quarterly or annually on an accrual basis. See Note 3 (n).

(p) Net income from other financial instruments at fair value through profit or Loss

Net income from other financial instruments at FVTPL relates to investment securities designated as at FVTPL. The line item includes realized and unrealized gains and losses arising from fair value changes, interests and differences from exchange rates fluctuations.

(q) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantial substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all the economic benefits from use of the asset throughout period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Bank has the right to direct the use of the asset if either:
  - the Bank has the right to operate the asset; or
  - the Bank designated the asset in a way that predetermines how and for what purpose it will be used.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of land and buildings in which is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease as a single lease component.

(3) Summary of Significant Accounting Policies, continued

As lessee

The Bank recognizes a right-of-use asset and a lease liability at the commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or at the end of the lease term. The estimated useful lifes of right-of-use assets are determined on the same basis as those of furniture, equipment and improvements. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and is adjusted for certain new measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The Bank uses its incremental borrowing interest rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets and the liabilities for leases separated line items in the consolidated statement of financial position.

Short-term leases and low-value asset leases

The Bank has elected not to recognize right-of-use assets and lease liabilities for short-term leases of computer equipment that have a lease term of 12 months or less and leases of low-value assets, or those that imply the use of assets whose purchase amount, as if new, is equal to or less than B/.5,000.

The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term in the consolidated statement of profit or loss.

(r) Income tax

Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted at the consolidated statement of financial position date, and any adjustment to the tax payable in respect of previous years.

(3) Summary of Significant Accounting Policies, continued

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the tax rates enacted at the consolidated statement of financial position date. These temporary differences are expected to be reversed in future years. If it is determined that the deferred tax would not be realized in future years, the deferred tax will be totally or partially reduced.

(s) *New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted*

A series of new standards and amendments to standards are effective for annual periods beginning after January 1, 2023 and earlier application is permitted; however, the Bank has not early adopted these new standards or amendments in preparing these consolidated financial statements as of June 30, 2023.

The following new standards and amendments, required shortly by IFRS, are not expected to have a significant impact on the Bank's consolidated financial statements.

Effective date — Annual periods beginning on:	**New standards or amendments (upcoming IFRS requirements)**
1 January 2024	• Lease liabilities for sale with leaseback – Amendments to IFRS 16

(4) Financial Risk Management

A financial instrument is any contract that originates a financial asset in one entity and a financial liability or equity instrument in another entity. The Bank's activities are mainly related to the use of financial instruments and therefore, the consolidated statement of financial position is comprised mainly of financial instruments. These instruments expose the Bank to various types of risks. The Bank's Board of Directors has approved a Risk Management Policy, which identifies each of the main risks to which the Bank is exposed.

To manage and monitor these risks, the Board of Directors has established the following committees:

- Credit Committee
- Collection Committee
- Audit Committee
- Compliance Committee
- Risk Committee
- Asset and Liability Committee (ALCO)

(4) Financial Risk Management, continued

The Audit Committee of the Bank supervises the way in which management monitors the compliance of the policies and procedures of risk management and reviews if the risk management framework is appropriate in respect of the risks that the Bank confronts.

This Committee is assisted by Internal Audit in its supervision role. Internal Audit makes periodic reviews of the controls and procedures of risk management, and these results are reported to the Audit Committee.

The Bank's Risk Committee has its origins under the Agreement No.008-2010 of the Superintendence of Banks of Panama and has as its objective that the Bank has a body of the highest level to assess, agree on, define and establish the objectives and policies for Comprehensive Risk Management; as well as the risk exposure limits approved by the Board of Directors.

The Bank's Risk Committee main responsibilities are the following:

1. Oversight of the performance and independence of the Risk Department of the Bank, according to its role.
2. To monitor the risk expositions and compare those expositions to the risk limits approved by the Board of Directors; as to bring to the Board of Directors the presented results.
3. To develop and to propose methodologies, procedures, limits and strategies for the administration of the risks; as well as to propose improvements to the risk management policies.
4. Issue recommendations to support the maintenance and/or improvement of the risk qualification of the Bank.
5. Periodically, as well as prior to performing significant assets and liabilities operations, help management quantify the possible losses which the Bank might incur, in case of an operation is carried out.
6. To propose contingency plans on the risks subject, which will be submitted to the approval of the Board of Directors, and to recommend courses of action or mechanisms which can normalize any situation in which the Bank has left of the established limits.
7. To oversight the promotion of a culture of risk management.
8. To develop and maintain the Bank's risk classifications in order to categorize exposures according to the degree of the risk of default.

   The Bank's current risk grade framework for the segments of its loan portfolio, consists of seven (7) classifications based on delinquency, reflecting the different degrees of the risk of default. These grades are associated or related to the different delinquency levels presented by the loan instrument. While the Bank adopts the inclusion of a behavioral 'scoring', the grades will be based on delinquency levels.

MP

(4) Financial Risk Management, continued

9. To develop and maintain the Bank's processes for measuring the losses allowance for ECL, including the processes for its initial approval, regular assessment and validation, and back-testing of the models used in its estimation; and the incorporation of forward-looking information.

The main risks identified by the Bank are credit, liquidity, market and operational risk, which are described as follows:

(a) Credit risk:

Is the risk that the debtor, issuer or counterpart of a financial asset owned by the Bank does not fully and timely comply with any payment due to the Bank, in conformity with the agreed upon terms and conditions, when the financial asset was acquired or originated by the Bank. Also, this risk is conceived as an impairment in the credit quality of the counterpart, of the collateral and/or of the guarantee agreed initially.

It is the risk that the debtor, issuer or counterparty of a financial asset owned by the Bank does not comply, completely and on time, with any payment that it had to make to the Bank in accordance with the terms and conditions agreed at the time the Bank acquired or originated the respective financial asset. This risk is also conceived as a deterioration in the credit quality of the counterparty, the collateral and/or the guarantee initially agreed upon.

To mitigate the credit risk, the risk management policies establish processes and controls to follow for loans or credit facilities approvals. The Bank structures the levels of credit risk acceptable by the establishment of limits over the quantity of accepted risk in relation to only one borrower, or group of borrowers, and geographic segment. These credits are controlled constantly and subject to a periodic review.

Exposure to credit risk is also managed through a periodic analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. The exposure to credit risk is also mitigated through collaterals, corporate and personals obtained by the Bank.

Risk management is carried out under policies approved by the Board of Directors; these policies are reviewed and modified to reflect changes in markets, regulations, and other factors when defining these policies.

The Bank has several risk assessments reports to evaluate the performance of its credit portfolio, allowance requirements, and especially to anticipate the circumstances that can affect the repayment ability of its borrowers.

The Board of Directors has delegated responsibility for managing the credit risk to the Credit Committee, Credit Management Committee, Risk Committee and Collection Committee, which periodically monitor the financial condition of the respective debtors and issuers, involving a credit risk for the Bank.

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(4) Financial Risk Management, continued

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost and investment securities measured at FVOCI, without taking into account collateral or credit enhancement. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For promissory notes (loan commitments), the amounts in the table represent the amounts committed.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3', is included in Note 3 (c.7).

	2023			
	12-month ECL ('Stage 1')	**Lifetime ECL (not credit-impaired) ('Stage 2')**	**Lifetime ECL (credit-impaired) ('Stage 3')**	**Total**
Loans at AC:				
A1 – Until 30 days	691,125,252	1,134,099	910,374	693,169,725
A2 – Until 60 days	26,994,223	0	492,346	27,486,569
B1 – Until 90 days	15,038,186	1,280,764	566,721	16,885,671
B2 – Until 120 days	0	7,921,211	1,137,044	9,058,255
C1 – Until 150 days	0	3,896,656	1,131,780	5,028,436
C2 – Until 180 days	0	1,942,931	860,140	2,803,071
D – More than 181 days	0	0	16,406,089	16,406,089
Subtotal	733,157,661	16,175,661	21,504,494	770,837,816
Accrued interest receivable	7,855,111	129,640	656,383	8,641,134
Net loss arising from modification	0	0	0	(65,917)
Gross carrying amount	741,012,772	16,305,301	22,160,877	779,478,950
Loss allowance (ECL)	(1,340,942)	(415,184)	(1,900,464)	(3,656,590)
Total loans at AC	739,671,830	15,890,117	20,260,413	775,822,360
Investment securities at AC:				
Normal or low-fair risk	737,144	0	0	737,144
Accrued interest receivable	4,900	0	0	4,900
Gross carrying amount	742,044	0	0	742,044
Loss allowance (ECL)	(3,875)	0	0	(3,875)
Total investments at AC	738,169	0	0	738,169
Investment securities at FVOCI:				
Normal or low-fair risk	67,083,422	4,456,290	0	71,539,712
Receivable interest	1,772,065	18,335	0	1,790,400
Total investment at FVOCI	68,855,487	4,474,625	0	73,330,112
Loss allowance (ECL)	(67,193)	(108,181)	0	(175,374)
Promissory notes:				
Normal or low-fair risk	49,771,747	0	0	49,771,747

(4) Financial Risk Management, continued

	2022			
	12-month ECL ('Stage 1')	Lifetime ECL (not credit-impaired) ('Stage 2')	Lifetime ECL (credit-impaired) ('Stage 3')	Total
Loans at AC:				
A1 – Until 30 days	627,682,500	13,082,234	6,661,172	647,425,906
A2 – Until 60 days	20,332,736	5,037,869	526,927	25,897,532
B1 – Until 90 days	10,465,838	5,176,249	706,606	16,348,693
B2 – Until 120 days	0	8,104,404	971,592	9,075,996
C1 – Until 150 days	0	3,451,485	988,927	4,440,412
C2 – Until 180 days	0	1,617,175	748,926	2,366,101
D – More than 181 days	0	0	16,545,235	16,545,235
Subtotal	658,481,074	36,469,416	27,149,385	722,099,875
Accrued interest receivable	8,543,903	128,947	603,918	9,276,768
Net loss arising from modification	(67,054)	0	0	(67,054)
Gross carrying amount	666,957,923	36,598,363	27,753,303	731,309,589
Loss allowance (ECL)	(1,136,361)	(956,505)	(2,085,614)	(4,178,480)
Total loans at AC	665,821,562	35,641,858	25,667,689	727,131,109
Investment securities at AC:				
Normal or low-fair risk	685,151	0	0	685,151
Gross carrying amount	685,151	0	0	685,151
Loss allowance (ECL)	(4,295)	0	0	(4,295)
Total investments at AC	680,856	0	0	680,856
Investment securities at FVOCI:				
Normal or low-fair risk	66,430,504	5,044,355	0	71,474,859
Receivable interest	1,341,471	21,237	0	1,362,708
Total investment at FVOCI	67,771,975	5,065,592	0	72,837,567
Loss allowance (ECL)	(105,286)	(152,431)	0	(257,717)
Promissory notes:				
Normal or low-fair risk	107,151,566	0	0	107,151,566

At June 30, 2023, the Bank performed the credit quality analysis over its off-balance accounts. Of total of the off-balance sheet transactions, 100% correspond to revocable promissory notes and its credit risk has been assessed as 'normal or low-fair risk'.

The following table sets out information about the overdue status of loans receivable in 'Stages 1, 2 and 3', according to their gross carrying amount.

	2023			
	('Stage 1')	('Stage 2')	('Stage 3')	Total
Personal loans:				
Current	36,112,514	97,068	217,330	36,426,912
Overdue < 30 days	3,722,047	2,210	131,315	3,855,572
Overdue > 30 and < 60 days	2,065,472	0	181,582	2,247,054
Overdue > 60 and < 90 days	0	1,280,764	407,704	1,688,468
Overdue > 90 days	0	0	3,086,464	3,086,464
Residential mortgage loans:				
Current	604,079,840	1,034,820	436,805	605,551,465
Overdue < 30 days	47,210,851	0	124,925	47,335,776
Overdue > 30 and < 90 days	39,966,937	0	469,781	40,436,718
Overdue > 90 and < 180 days	0	13,760,798	1,140,354	14,901,152
Overdue > 180 days	0	0	15,308,235	15,308,235

(4) Financial Risk Management, continued

	2022			
	('Stage 1')	('Stage 2')	('Stage 3')	Total
Personal loans:				
Current	37,290,530	1,199,719	751,037	39,241,286
Overdue < 30 days	2,532,366	586,671	131,221	3,250,258
Overdue > 30 and < 60 days	1,286,755	564,425	152,913	2,004,093
Overdue > 60 and < 90 days	0	1,084,527	418,831	1,503,358
Overdue > 90 days	0	0	2,998,397	2,998,397
Residential mortgage loans:				
Current	545,093,116	7,515,382	4,980,414	557,588,912
Overdue < 30 days	42,766,488	3,780,462	798,500	47,345,450
Overdue > 30 and < 90 days	29,511,819	8,565,166	661,789	38,738,774
Overdue > 90 and <180 days	0	13,173,064	738,631	13,911,695
Overdue > 180 days	0	0	15,517,652	15,517,652

The following table sets out the analysis of the credit quality of investments in securities measured at FVTPL, which is monitored according to the issuer's international risk rating provided by the agencies Standard & Poor's, Moody's, and/or Fitch Ratings Inc., and in its absence using internal ratings.

	2023	2022
Investment securities at FVTPL:		
Government bonds:		
BBB+ to BBB-	1,443,272	1,135,144
	1,443,272	1,135,144
Residential mortgage-backed securities (RMBS):		
Normal or low-fair risk	8,449,447	8,439,290
	8,449,447	8,439,290
Residual interests:		
Normal or low-fair risk	20,660,901	19,323,448
	20,660,901	19,323,448
Participation in mutual funds:	407,824	257,601
Normal or low-fair risk	407,824	257,601
Receivable interest	496,884	437,062
Total investment securities at FVTPL	31,458,328	29,592,545

Deposits placed with banks
At June 30, 2023, the Bank held deposits placed with banks for B/.32,887,907 (2022: B/.47,561,550).

At June 30, 2023, the Bank has not recognized an allowance for ECL on deposits in banks, because their credit risk has been assessed as normal or low-fair risk and management considers that the resulting amounts would not be material to the consolidated financial statements.

Financial Risk Management, continued

Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures, as security for their collection. The following table sets out the principal types of collateral held against different types of financial assets.

	% of exposure that is subject to collateral requirements		
Type of credit exposure:	**2023**	**2022**	**Type of collateral held**
Loans	93%	93%	Residential properties
Investment securities	52%	50%	Mortgage loan portfolio

Residential mortgage lending

The following tables stratify credit exposures from residential mortgage loans by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination. For credit-impaired loans, the value of collaterals is based on the most recent appraisals.

'LTV' ratio	2023	2022
0-20%	1,638,223	1,477,651
20-40%	16,700,551	15,124,339
40-60%	79,890,418	74,171,130
60-80%	305,494,367	277,849,135
80-100%	316,066,986	300,403,450
Total	719,790,545	669,025,705
Credit impaired loans		
0-20%	19,603	549,632
20-40%	67,807	458,709
40-60%	647,060	559,613
60-80%	2,091,888	2,153,312
80-100%	12,202,494	12,683,685
Total	15,028,852	16,404,951

Assets obtained by taking possession of collateral

Details of assets obtained by the Bank during the year by taking possession of collateral held as security against loans and held at the year-end are shown below:

	2023	2022
Residential properties	819,676	847,680
Total	819,676	847,680

(4) Financial Risk Management, continued

The Bank's policy is to pursue timely realization of the collateral in an orderly manner to cover the balances due. It is not the Bank's policy to use the collaterals granted for its own use in its operations.

Amounts arising from expected credit losses (ECL)

The accounting policies established by the Bank for the measurement of the allowance for ECL on financial assets are disclosed in Note 3 (c.7).

Significant increase in credit risk

When determining whether the credit risk of a financial asset has increased significantly since its initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment, including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default as at the reporting date; with
- the remaining lifetime probability of default for this point in time that was estimated at the time of initial recognition of the exposure.

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movements in PD;
- qualitative indicators; and
- that the financial instrument has a delinquency of more than 60 days for personal loans and more than 90 days for mortgage loans.

On the special occasion of the pandemic caused by COVID, until the cutoff of October 31, 2022, the subcategories "doubtful" and "irrecoverable" that dealt with Agreement No.006-2021 of the Superintendency of Banks of Panama were monitored; However, as a result of the issuance of agreement 12-2022 of the same Superintendency, all the loans that were in this category are considered as of November 2022 as a restructured portfolio, with the corresponding identification of significant impairment for this group of loans.

<u>Credit risk grades for the loan portfolio</u>

The Bank allocates each exposure to a credit risk grade based on the delinquency transitions that the operation generates. These migrations are assigned to a 'Probability of Default' (PD) based on the results of transition matrices that were reviewed at 1, 2 and 3 years, which gives a real default rate based on the default level at which the operation is. Moreover, the Bank is in the process of adapting other variables in addition to the actual rate of default, such as behavior scoring, bureau scoring and/or collective factors, depending on the economic events that the sectors of the economy can present.

(4) Financial Risk Management, continued

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on the initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Consequently, the Bank will periodically determine the changes in the credit risk of financial assets throughout their remaining life, with respect to that evaluated on the date of their initial recognition. Based on this evaluation, the Bank assigns each financial asset in one of the following three 'stages' ('buckets') of credit risk impairment:

- Stage 1: Financial instruments with a low credit risk;
- Stage 2: Financial instruments with significant impairment of credit risk;
- Stage 3: Impaired financial instruments (high credit risk).

The objective of the assignment to different stages of credit risk is to adjust the algorithm for calculating the ECL, in such a way that the losses of the instruments that would have been assigned to 'Stage 1' will be determined for a horizon of 12 months. The losses for instruments assigned to 'Stage 2 or 3', will be calculated for the residual life of the instruments, that is, until their maturity or expiration ('lifetime').

The Bank, has implemented an internal rating for the assessment of credit impairment, based mainly on the delinquency information of financial assets. Therefore, for the assignment of credit impairment ratings, the Bank uses the scheme of arrears or delinquency ranges of financial assets, these being as detailed below:

A1 – Current (without arrears or delinquency) and from 1 to 30 days
A2 – Delinquency ranges from 31 to 60 days
B1 – Delinquency ranges from 61 to 90 days
B2 – Delinquency ranges from 91 to 120 days
C1 – Delinquency ranges from 121 to 150 days
C2 – Delinquency ranges from 151 to 180 days
D – Delinquency range greater than 180 days

Credit risk grades for the investment securities portfolio

For the government bond investment portfolio, the degree of credit risk is determined through transition matrices based on the issuer's international risk ratings obtained from rating agencies. For residential mortgage-backed securities, transition matrices are based on the risk ratings obtained from the agencies based on their underlying assets.

(4) Financial Risk Management, continued

Generating the term structure of PD

- *Instrument treatment approach:*

  Given the homogeneity of the profiles of the borrowers that comprise the Bank's credit portfolios, when determining their credit impairment, it was established, that in a general, except for certain exceptions, they will be treated under a collective approach.

  For practical purposes, this implies that the determined PD and loss given default (LGD) values will be shared collectively, either partially or totally, by all the instruments that participate in each identified segment.

  Management has identified that the instruments comprising the Bank's loans portfolio present similar risk profiles in relation to the amount of exposure, interest rate, guarantees and other factors within the group to which they belong.

  For this, dispersion statistics ('volatility') of the values of such profiles were determined around average values. To date, the Bank has not identified instruments in its loan portfolio that require individual evaluation.

  Consequently, management determined as convenient to group the financial instruments that make up the Bank's credit portfolio by country and by segment according to their guarantee. Therefore, two (2) segments were defined per country:

  1) Residential loans with mortgage guarantee and personal loans with mortgage guarantee (LWMG);
  2) Personal loans without guarantee (LWOG).

  The implementation of this instrument grouping criterion arises, not only from the risk sharing requirement, but from the need to facilitate the subsequent calculation of the LGD of the segments, a parameter significantly associated with the guarantees of the instruments.

  In the sense, in the case of the LWMG, the LGD includes in the calculation, the value of recoveries derived from the execution of mortgages and appropriations in payment, which explains the importance of its disaggregation with respect to another type of recoveries that do not present such quality of guarantees. In the specific case of the LWMG, the main risk factor they share, in addition to the volatility of the value of the mortgaged property, is the moral risk, in as much as the houses financed by the Bank, in general, are of the residential type for use of the borrowers, which present a relatively low to middle income level, and their families. The LGD of the LWOG segment will be determined through recoveries.

(4) Financial Risk Management, continued

In order to determine the PD of the segments identified, and in the context of the collective treatment of credit portfolios, the Bank will focus the measurement based on the processes denominated 'Markov Chain', through which the probability (conditional) that an instrument, which is at a certain moment in a certain risk category, migrates to another in a time horizon that is also determined. Mathematically, it is expressed as the probability that an event A will occur, given another event B. The Bank's calculation process will determine the probability that an instrument that at the reporting date presents a certain grade will default for a horizon of time.

For the calculation of the PD, transition matrices have been structured that reflect the annual migration of the risk categories of the instruments taken monthly. For structuring the matrix, the historical series of grades of each instrument that makes up each portfolio segment of each country will be used, which will be arranged in historical series of five (5) years for each instrument.

Given the pandemic caused by COVID 19 and the eventual increase in the impairment of loans given the uncertainty due to the impact that this pandemic may have on households, for the 2022, the transition matrices that deal with the previous paragraph were designed taking into account a stress scenario of delinquency; after which in an alternative exercise, the delinquency was increased for loans that received relief in their monthly payment as a measure granted by the Bank to improve the debtor's cash flows.

With this database, the grade (risk category) of an instrument is compared monthly at the end of a certain month, with the category of that instrument for the same months of different time horizons (1, 2, 3 or more years).

Through this process, "pairs" of categories corresponding to a historical period of five years will be formed within each segment. Each "pair" represents the risk grade of each instrument for a given month (T) and the same month of the following year (T + 12), the same month as other years (T + 24, T + 36, T + n), depending on the time horizon analyzed. With arranging the matrix pairs and calculating the frequencies of their occurrence, the conditional probability of migration between the current category of risk of the instrument and the category of default for different time horizons will be obtained.

The Bank uses statistical models to analyze the data collected and generate PD estimates for the remaining life of the exposures and how they are expected to change as a result of the passage of time.

For investments in sovereign debt securities, the Bank obtains their PD, mainly, from the Bloomberg financial platform, generated through the Merton and CDS methodologies, by instrument or issuer.

(4) Financial Risk Management, continued

When obtaining the PD from the Bloomberg financial platform, the Bank uses the option 'Basic Exponentiation Client's PD', which corresponds to a photo of an instrument's PD at a given date. For the exposure methodology, the Bank uses 'constant', which in turn allows it to be more conservative, since the amortized values are tied to the amortization frequency that the Bank has and the effect that buying at premium or at discount may have in the expected cash flows. For the amortization methodology, the Bank uses 'duration', which allows to obtain an appropriate interpolation for instruments with a remaining life of less than 1 year.

For investments in 'residential mortgage-backed securities', their PD are determined using a default criterion based on their underlying assets.

- *General approach for determining default and refutation of presumptions:*

The behavior and payment commitment of the clients when it comes to taking care of their home, causes the delinquency of the loans granted by the Bank to be very low when compared to the behavior of other types of loans. Even the unsecured personal loans granted by the Bank remain below the default curves of the market. It is estimated that this behavior is due to the fact that the Bank only offers personal or consumer loans to clients that have mortgages with the institution.

The previous hypothesis is reinforced by the implementation of adequate origination policies and an effective collection strategy. Undoubtedly, another important aspect about the low delinquency of the loan portfolio, is the high number of clients that pay their debts to the Bank by 'Direct Discount', which is one of the conditions for the approval of credit in the Bank.

By virtue of the foregoing, to define 'default' in each segment for each country, the different transitions of arrears that the credit facilities have shown have been analyzed according to their default heights ('delinquency ranges').

As a first approach for the identification of the level of default, its calculation was made using the default heights (by days of arrears) of the operations in each segment of the Bank's portfolio (mortgage and personal loans), taking as a basis the historical series for Panama, El Salvador and Colombia.

Under this statistical approach, intermediate matrices were initially developed in a monthly basis for each segment and country between 2016 and 2021, containing the monthly roll-rates of delinquency of the loans granted by the Bank according to their rates of delinquency. Subsequently, the Bank has periodically prepared updated matrices, for each credit segment by country, in order to reflect a probability of occurrence of arrears based on delinquency ranges.

The matrices show the probabilities that an instrument reaches a certain height of default according to the range of delinquency at the beginning of the period in a horizon of 1 year. Also shown are the accumulated percentage of arrears in which the instruments of the segment fall within a horizon of 12 months after the month of the start of the count.

(4) Financial Risk Management, continued

The values allow, in each segment, to determine the range of delinquency in which it is estimated that the default would occur from a percentage considered as the acceptance limit. Based on this information, the Bank has decided that the default would be established from 180 days for the segments of mortgage-backed credit instruments and 90 days for the segments of personal credit instruments without mortgage guarantee.

Determining whether credit risk has increased significantly

The Bank assesses whether the credit risk has increased significantly since initial recognition at each reporting date.

In order to determine whether there has been a significant increase in the credit risk of the financial asset, the assessment is based on quantitative and qualitative information. The Bank considers the following factors, although not exhaustively, in the evaluation of whether credit risk has increased significantly:

- Significant changes in credit risk indicators as a consequence of a change in credit risk since its initial recognition;
- Significant changes in the external credit risk market indicators for a specific financial instrument or similar financial instruments with the same expected life;
- A significant actual or expected change in the external credit rating of the financial instrument;
- Significant changes in the value of the collateral that supports the obligation.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when a personal loan is more than 60 days past due or, for residential mortgage loans, more than 90 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When the contractual terms of a loan have been modified, evidence that the criteria for recognizing lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

(4) Financial Risk Management, continued

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when the personal loans become 60 days past due, and for the residential mortgage loans, 90 days past due.;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as the performance of the guarantees (if any is held); or
- The borrower is more than 90 days past due in personal loans and more than 180 days in residential mortgage loans;
- For fixed income financial instruments, the following factors are considered, among others:
  - Downgrade of the issuer's external rating;
  - Contractual payments are not made on the due date or within the stipulated period or grace period;
  - There is a high probability of suspension of payments;
  - The issuer is likely to go bankrupt or file for bankruptcy or similar action;
  - The financial asset stops trading in an active market due to its financial difficulties.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative: e.g., breaches of covenants.
- Quantitative: e.g., overdue status and non-payment on another obligation of the same borrower or issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

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(4) Financial Risk Management, continued

Incorporation of forward-looking information

The incorporation of 'forward-looking' information into the Bank's calculation process for ECL is made based on the possible impact that could be recorded in the value of those losses, caused by expected changes in the short and medium term of the behavior of macroeconomic variables that could affect the payment flow of the instruments.

In the Central American region and especially in the countries where the Bank operates, statistics on macroeconomic aggregates are provided almost exclusively by state statistical agencies, and in practice they constitute the main source of information for obtaining these external indicators and inputs. Given these limitations, in order to identify those external inputs that could impact the payment behavior of its financial assets, the Bank determined it appropriate to use those that meet at least a series of profiles that make them suitable for this type of measurement. These are: a) that they are regularly available; b) that they are accessible to the public in a relatively simple way; c) that they are reasonably reliable.

In order to have acceptable data to measure the ECL of the loan portfolio, and as long as there are no alternative sources that allow confirming or validating other possible macroeconomic inputs that could have an impact on the behavior of payments for these financial instruments, the Bank has selected from among the available variables, those that present the indicated profiles of regularity, accessibility and reliability, as detailed below:

a) Inflation (Consumer Price Index or 'CPI')
b) Unemployment
c) Social security contributors
d) Gross Domestic Product ('GDP')
e) Monthly Index of Economic Activity ('MIEA')
f) Market currency exchange rate
g) Past due loan portfolio of the Bank
h) Past due loan portfolio of the financial system.

Considering that during 2022, the main macroeconomic indicators maintain data whose behaviour diverges from historical information as a result of the COVID-19 pandemic, which also caused an economic recession worldwide; it was determined that for the estimation of the forward-looking model, exercises will not be carried out with different macroeconomic variables until finding the one that correlates with the overdue portfolio of the Bank, but instead, the model will correlate and obtain an adjustment factor to the ECL incorporating the unemployment rate in the 3 countries.

The above, in addition, for the following reasons.

a. Unemployment has historically been the variable that best correlates the variation of the Bank's overdue portfolio, which also has a very high business logic, since the Bank's business model is specially designed to serve employees in the 3 countries; in addition to some profiles of retirees or independents.

(4) Financial Risk Management, continued

b. In previous years, an attempt has also been made to obtain correlations between the variations in the overdue portfolio in the market, figures published by the Superintendence of Banks in each country; however, the existence of financial relief for those clients who have failed to comply their payments during 2020, does not allow the market to really reflect the impairment in the loan portfolio; and as warned by the Financial Superintendence of Colombia in its monthly report as of September, 2020; and the Superintendence of Banks of Panama in its presentation of the same period, the impairment in the loan portfolio will not be reflected until the end of the relief period granted by moratorium laws.

During 2023, the methodology implemented by the Bank to identify the 'forward-looking' variables that would be used in the determination of ECL, was based on a 'Multiple Correlation Coefficient' calculation. The process of defining the most significant variables among the universe of those that are available, consisted of the following three steps:

i. The Multiple Correlation and Explanation coefficients were calculated between the historical series of the annual percentage variations of the value of the Bank's 'Past Due Loan Portfolio' (taken as a dependent variable), and the historical series of the values of the inter-annual variations of GDP, MIEA, Inflation and Unemployment (which are considered independent variables). This calculation allows to determine if those could explain and/or reasonably infer the possible impacts on the payment behavior of the instruments in the future.

ii. Once the existence of an acceptable degree of association between these variables was determined, the Bank proceeded to calculate the marginal contribution of each, separately, to the value of the multiple correlation, by neglecting the contribution of each one to the value of that correlation. This is achieved by recalculating the multiple correlation by sequentially eliminating each variable that participates in the original series. The new multiple correlation value after these eliminations, would allow to infer the contribution of each elimination to the originally calculated correlation value.

iii. Finally, the results were compared with those corresponding to the existing correlation between the Bank's 'Past Due Loans Portfolio' and those of the financial system of each country, in order to confirm the meaning of the associations.

As a result of the application of the methodology outlined above, and based on historical series corresponding to annual periods between 2014 and 2020, the Bank determined as appropriate to use the following 'forward-looking' variables as part of the ECL model by country and segment, for the period 2022:

a) Panama – Operations with Guarantees (Unemployment)
b) Panama – Operations without Guarantee (Unemployment)
c) El Salvador – Operations with Guarantees (Unemployment)
d) El Salvador – Operations without Guarantee (Unemployment)
e) Colombia – Operations with Guarantees (Unemployment)
f) Colombia – Operations without Guarantees (Unemployment)

(4) Financial Risk Management, continued

The following table presents a summary of the forward-looking information incorporated by the Bank in the estimation process of the ECL for the loan portfolio as of June 30, 2023:

Segment	Forward-looking variable correlated with past due portfolio	Historical variable 2021	2022	2023	Incorporation of forward-looking ('FL') variables in the estimation of the ECL as of Mar 31, 2023: Scenario	Expected trend	Projected FL variable	'FL' Factor	Impact on the ECL
Panama – Operations with Guarantees	Unemployment	11.3%	11.5%	11.5%	Unique	Increase	18.70%	5.34%	B/.4,557
Panama – Operations without Guarantees	Unemployment	11.3%	11.5%	11.5%	Unique	Increase	15.00	7.33%	B/.149,244
Salvador – Operations with Guarantees	Unemployment	9.5%	10.1%	10.1%	Unique	Increase	10.90%	2.82%	B/.10,041
Salvador – Operations without Guarantees	Unemployment	9.5%	10.1%	10.1%	Unique	Increase	9.80%	2.46%	B/.5,809
Colombia– Operations with Guarantees	Unemployment	10.8%	13.5%	13.5%	Unique	Increase	13.80%	6.81%	B/.2,972
Colombia – Operations without Guarantees	Unemployment	10.8%	13.5%	13.5%	Unique	Increase	13.80%	2.72%	B/.15,333

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3 (c.4).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to 'Stage 1' (assuming it is not credit-impaired at that time).

The Credit Committee periodically reviews reports on the renegotiation activities of the terms of the loan receivables.

The renegotiation of the terms of a loan may represent a qualitative indicator that there is a significant increase in the credit risk of a financial asset, which may constitute evidence that the exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired or in default or the PD is considered to have decreased such that it falls within the '12-month PD' ranges for the asset to be considered 'Stage 1'.

(4) Financial Risk Management, continued

Measurement of expected credit losses (ECL)

The key inputs in the measurement of ECL are the term structure of the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

ECL for exposures in 'Stage 1' are calculated by multiplying the '12-month PD' by LGD and EAD. Lifetime ECL are calculated by multiplying the 'lifetime PD' by LGD and EAD.

These parameters are usually derived from internally developed statistical models and other historical data. They are adjusted to reflect the forward-looking information as described above.

The methodology for estimating PDs of the identified segments, is explained above under the heading 'Generating the term structure of PD', and in the context of the collective treatment of the credit portfolios, the Bank's methodology used when determining the loan segments' PD is focused on the process denominated as 'Markov Chain' through which the (conditional) probability is calculated that an instrument, which is currently in a certain risk category, migrate to another in a fixed time horizon.

The Bank estimates the PD parameters based on the history of recovery rates of claims against impaired counterparts. The PD models consider the structure, the guarantee, the antiquity of the claim, the counterpart industry and the recovery costs of any guarantee that is integral to the financial asset. For secured loans with properties, LTV ratios are a key parameter for determining the PD.

PD estimation

The calculation of the PD is implemented for each segment identified in each country and requires comparing the amounts recovered in each of those against the unrecovered amounts. The convenience of providing information on 'closed' cases was established, that is, the data of non-compliance and recoveries will correspond to specific events, whose collection management has been determined as completed by the Bank, either due to the total recovery of the amounts owed or due to justified withdrawal from collection according to approved credit management policies. The final objective of the calculations is to establish the percentage ratio of recoveries over the value of unrecovered exposures.

The following are definitions relevant to the calculation of PD by the Bank:

- *PD of mortgage operations that have gone through legal process and/or in lieu of payment*

  For its calculation, a database was used where all the operations for which the Bank has received the asset, have been registered, either by means of in lieu of payment or by adjudication via legal process. The information in this database is recorded when the loan starts the legal process and the good is received until it is sold or is placed again in the figure of a credit to another customer. Legal and repairs expenses that for the recovery of the asset were incurred by the Bank are also taken into consideration. This will allow calculating the PD of operations received in lieu of payment or via legal process.

(4) Financial Risk Management, continued

- *PD of operations that reached more than 90 days for personal loans, which were canceled or recognized as a loss*

  For this case, personal loan operations that reach the number of days in arrears indicated above and which ended up canceled or in the portfolio at loss are taken into consideration, that is, the recoveries of the personal loans that were recognized as a loss and also those of personal loans who having reached the point of default were canceled. Then the average of both PD is obtained and averaged to obtain the PD of the 'Personal Loans Segment'. In the case of personal loans, due to their nature, legal recovery expenses are not incurred.

- *Mortgage PD for the Colombian operations*

  For the mortgage portfolio of Colombia, the Bank does not have historical data on recoveries of residential mortgage loans that allow estimating its PD. Therefore, to determine its PD, the Bank take into consideration variables as the property value growth in Colombia, the current housing deficit, the LTV at disbursement and the average of the portfolio.

Exposure at Default (EAD)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For loan commitments and financial guarantees, the EAD includes the amount used, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The Bank determines the annual EAD over the remaining life of the instruments for its subsequent weighting by the respective marginal annual PD.

The Bank estimates the value of the annual nominal EAD from the projection of the balances at amortized cost of the instruments. In order to determine the EAD, the Bank periodically makes a projection of the amortization tables of the loans of each segment until their cancellation. Based on the above, the projected annual average of the residual capital balances is obtained, a value that is used as the projected annual EAD exposure for the life of the instruments. Finally, these balances are discounted at the effective annual interest rate.

Aggrupation is subject to periodic review to ensure that exposures within a particular group remain appropriately homogenous.

(4) Financial Risk Management, continued

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in the accounting policy. See Note 3 (c.7).

	2023 12-month ECL ('Stage 1')	2022 12-month ECL ('Stage 1')
Investment securities at AC:		
Balance at the beginning of the year	4,295	3,299
Net remeasurement of loss allowance	(420)	996
Balance at the end of the year	3,875	4,295

	2023		
	12-month ECL ('Stage 1')	Lifetime ECL (not-credit impaired) ('Stage 2')	Total
Investment securities at FVOCI:			
Balance at the beginning of the year	105,286	152,431	257,717
Net remeasurement of loss allowance	38,093	(44,250)	(82,343)
Balance at the end of the year	67,193	108,181	175,374

	2022		
	12-month ECL ('Stage 1')	Lifetime ECL (not-credit impaired) ('Stage 2')	Total
Investment securities at FVOCI:			
Balance at the beginning of the year	67,369	69,697	137,066
Net remeasurement of loss allowance	37,917	82,734	120,651
Balance at the end of the year	105,286	152,431	257,717

(4) Financial Risk Management, continued

	2023			
	12-month ECL ('Stage 1')	Lifetime ECL (not credit-impaired / collectively assessed ('Stage 2')	Lifetime ECL (credit-impaired / individually assessed) ('Stage 3')	Total
Loans at AC:				
Balance at the beginning of the year	1,136,361	956,505	2,085,614	4,178,480
Transfer to Stage 1	1,383,986	(804,945)	(579,041)	0
Transfer to Stage 2	(257,771)	528,634	(270,863)	0
Transfer to Stage 3	(16,607)	(594,656)	611,263	0
Net remeasurement of loss allowance	(914,081)	343,064	792,944	221,927
New financial assets originated	11,415	14,801	0	26,216
Financial instruments that have been derecognized	(20,930)	(28,219)	(94,959)	(144,108)
Write-offs	0	0	(644,494)	(644,494)
Effect of exchange rates fluctuations	18,569	0	0	18,569
Balance at the end of the year	1,340,942	415,184	1,900,464	3,656,590

	2022			
	12-month ECL ('Stage 1')	Lifetime ECL (not credit-impaired / collectively assessed ('Stage 2')	Lifetime ECL (credit-impaired / individually assessed) ('Stage 3')	Total
Loans at AC:				
Balance at the beginning of the year	957,739	214,388	2,741,826	3,913,953
Transfer to Stage 1	2,114,741	(566,739)	(1,548,002)	0
Transfer to Stage 2	(399,248)	1,449,169	(1,049,921)	0
Transfer to Stage 3	(86,614)	(766,106)	852,720	0
Net remeasurement of loss allowance	(1,313,171)	623,458	3,008,115	2,318,402
New financial assets originated	25,769	13,449	1,435	40,653
Financial instruments that have been derecognized	(45,913)	(11,114)	(130,265)	(187,292)
Write-offs	0	0	(1,790,294)	(1,790,294)
Effect of exchange rates fluctuations	(116,942)	0	0	(116,942)
Balance at the end of the year	1,136,361	956,505	2,085,614	4,178,480

(4) Financial Risk Management, continued

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'impairment losses on financial instruments' line items in the consolidated statement of profit or loss.

	2023			
	Investment securities at AC	Investment securities at FVOCI	Loans at AC	Total
Net remeasurement of loss allowance	(420)	(82,343)	221,927	139,164
New financial assets originated or purchased	0	0	26,216	26,216
Financial assets that have been derecognized	0	0	(144,108)	(144,108)
Total	(420)	(82,343)	(104,035)	21,272

	2022			
	Investment securities at AC	Investment securities at FVOCI	Loans at AC	Total
Net remeasurement of loss allowance	996	120,651	2,318,402	2,440,049
New financial assets originated or purchased	0	0	40,653	40,653
Financial assets that have been derecognized	0	0	(187,292)	(187,292)
Total	996	120,651	2,171,763	2,293,410

Credit-impaired financial assets

The accounting policies established by the Bank related to credit-impairment financial assets are disclosed in Note 3 (c.7).

Credit-impairment financial assets are classified by the Bank in risk categories from 'B2' to 'D' for personal loans and 'D' for residential mortgage loans, these being assigned to 'Stage 3'.

The contractual amount outstanding on loans receivable that were written off during the year ended June 30, 2023, and that are still subject to enforcement activity is B/.310,181 (2022: B/.1,790,294) and these they are still subject to collection management activities.

(4) Financial Risk Management, continued

Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the date of the consolidated financial statements is as follows:

	Loans at AC		Investment securities		Promissory notes	
	2023	2022	2023	2022	2023	2022
Gross carrying amount	770,837,816	731,309,589	105,526,609	103,110,968	49,771,747	107,151,566
Concentration by sector:						
Mortgage banking	719,790,545	678,235,419	73,291,693	71,987,234	49,771,747	107,151,566
Personal banking	51,047,271	53,074,170	0	0	0	0
Other sectors	0	0	32,234,916	31,123,734	0	0
	770,837,816	731,309,589	105,526,609	103,110,968	49,771,747	107,151,566
Concentration by location:						
Panama	572,577,950	541,740,519	73,510,267	72,204,857	49,771,747	107,151,566
El Salvador	115,826,720	117,816,125	0	0	0	0
Colombia	82,433,146	71,752,945	4,707,821	3,666,090	0	0
United States of America	0	0	27,308,521	27,240,021	0	0
	770,837,816	731,309,589	105,526,609	103,110,968	49,771,747	107,151,566

Concentration by location for loans at AC is based on the customer's country of domicile and for investment securities is based on the country of domicile of the issuer of the security.

(b) *Liquidity risk:*

The liquidity risk consists of two definitions and depends on its origination:

Funding liquidity risk

It represents the difficulty of an entity to obtain the resources necessary to comply with all its obligations, through the income generated by their assets or by the acquisition of new liabilities. This type of risk, generally, is occasioned by a drastic and sudden deterioration of the quality of the assets which originates an extreme difficulty to turn them into liquid resources.

Market liquidity risk

It is the probability of economic loss due to the difficulty of disposing assets without a significant reduction in its price. It is incurred in this class of risk as a result of changes in the market (prices, rates, etc.), or when investments realized are in markets or instruments for which does not exist an ample offer and demand.

Liquidity risk management

The Bank monitors this risk with sufficient and appropriate liquid funds and assets that can easily be liquidated, usually at level required by the regulator and maintains an adequate gap between maturities of assets and liabilities which is assessed periodically.

The ALCO Committee is in charge of the management of the liquidity risk in order to assure the Bank can respond in case of unexpected cash withdrawals of deposits or unscheduled loans commitments.

(4) Financial Risk Management, continued

Bank's management and the ALCO Committee are responsible to monitor the liquidity position through an analysis of the contractual maturity structure, stability of deposits by type of customer, and the compliance with regulations and corporate policies.

Exposure to liquidity risk

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

The ratio of net liquid assets to deposits from customers of Banco La Hipotecaria, S. A. reported to the Superintendence of Banks of Panama; this ratio should not be less than 30%:

	2023	2022
At June 30	62.71%	60.74%
Average for the year	64.92%	74.47%
Maximum for the year	71.62%	111.98%
Minimum for the year	56.76%	59.64%

The table below sets out the undiscounted cash flows of the financial assets and liabilities of the Bank and its loan commitments not recognized.

2023	Carrying amount	Gross nominal amount (outflow)/inflow	Up to 1 year	From 1 to 5 Years	From 5 to 10 years	More than 10 years
Financial liabilities:						
Saving deposits	5,365,185	(5,365,185)	(5,365,185)	0	0	0
Time deposits	414,352,442	(438,359,235)	(263,854,512)	(174,504,723)	0	0
Negotiable commercial papers	63,657,906	(65,924,684)	(65,924,684)	0	0	0
Negotiable commercial notes	59,741,297	(63,390,822)	(26,964,592)	(36,426,230)	0	0
Covered bonds	21,619,402	(22,803,726)	(11,129,403)	(11,674,323)	0	0
Ordinary bonds	7,551,224	(8,632,281)	0	(8,632,281)	0	0
Investment certificates	17,977,597	(19,066,874)	(4,909,937)	(14,156,937)	0	0
Other negotiable debts	1,871,377	(1,943,251)	(1,943,251)	0	0	0
Borrowings	275,827,318	(312,274,505)	(116,121,611)	(178,816,153)	(17,336,740)	0
Lease liabilities	1,870,861	(3,862,887)	(636,402)	(2,160,896)	(1,065,589)	0
Total financial liabilities	869,834,609	(941,623,450)	(496,849,577)	(426,371,543)	(18,402,329)	0
Financial assets:						
Cash	311,387	311,387	311,387	0	0	0
Deposits in banks	32,887,907	32,887,907	32,887,907	0	0	0
Investment securities	105,526,609	161,657,810	4,840,084	24,206,775	45,516,755	87,094,196
Loans	775,822,360	1,203,011,715	60,874,114	240,778,632	276,833,924	624,525,045
Total financial assets	914,548,263	1,397,868,819	98,913,492	264,985,407	322,350,679	711,619,241
Commitments and contingencies:						
Promissory notes	0	(49,771,747)	(49,771,747)	0	0	0

(4) Financial Risk Management, continued

2022	Carrying amount	Gross nominal amount (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years
Financial liabilities:						
Saving deposits	3,883,736	(3,883,736)	(3,883,736)	0	0	0
Time deposits	382,069,868	(391,170,896)	(211,300,038)	(179,870,858)	0	0
Negotiable commercial papers	46,715,496	(47,280,745)	(47,280,745)	0	0	0
Negotiable commercial notes	63,690,347	(81,576,571)	(11,813,342)	(69,763,229)	0	0
Covered bonds	21,508,709	(23,336,041)	(11,433,583)	(11,902,458)	0	0
Ordinary bonds	8,242,113	(9,656,147)	0	(9,656,147)	0	0
Investment certificates	21,577,248	(22,928,015)	(10,175,905)	(12,752,110)	0	0
Other negotiable debts	1,727,339	(1,761,009)	(1,761,009)	0	0	0
Borrowed funds	287,809,108	(330,024,865)	(88,291,153)	(182,154,682)	(59,579,030)	0
Lease liabilities	1,995,873	(3,862,887)	(636,402)	(2,160,896)	(1,065,589)	0
Total financial liabilities	839,219,837	(915,480,912)	(386,575,913)	(468,260,380)	(60,644,619)	0
Financial assets:						
Cash	265,485	265,485	265,485	0	0	0
Deposits in banks	47,561,550	47,561,550	47,561,550	0	0	0
Investment securities	103,110,968	163,520,220	4,683,733	22,581,372	44,534,041	91,721,074
Loans	727,131,109	1,087,127,461	55,315,127	219,072,890	251,458,251	561,281,193
Total financial assets	878,069,112	1,298,474,716	107,825,895	241,654,262	295,992,292	653,002,267
Commitments and contingencies:						
Promissory notes	0	(107,151,566)	(107,151,566)	0	0	0

For the financial assets and financial assets, their gross carrying amount is measured based on undiscounted flows which include estimated interest payments, for this reason the amounts differ from the consolidated statement of financial position.

The following table sets out the carrying amounts of financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

	2023	2022
Financial assets:		
Loans	770,464,712	721,735,452
Investment securities	101,795,028	100,180,349
Financial liabilities:		
Time deposits	158,424,136	161,750,723
Negotiable commercial notes	33,500,000	51,991,000
Covered bonds	11,000,000	11,000,000
Ordinary bonds	7,672,449	8,347,827
Investment certificates	13,131,000	11,604,000
Borrowings	163,471,918	200,628,593
Leases liabilities	1,870,861	1,995,873

The Bank is dedicated to generate residential mortgage and personal loans and is capable of securitize part of its loans in accordance with its liquidity needs. Residential mortgage loans reflect a monthly flow in capital subscriptions and interest payments which are not listed in the table above.

(4) Financial Risk Management, continued

The following table sets out the availability of the Banks's financial assets to support future funding.

2023	Pledged as collateral	Available as collateral	Total
Cash and cash equivalents	0	33,199,294	33,199,294
Investment securities	0	105,526,609	105,526,609
Loans at AC	240,090,562	535,731,798	775,822,360
Non-financial assets	0	49,243,232	49,243.232
	240,090,562	723,700,933	963,791,495

2022	Pledged as collateral	Available as collateral	Total
Cash and cash equivalents	0	47,827,035	47,827,035
Investment securities	0	103,110,968	103,110,968
Loans at AC	271,584,784	455,546,325	727,131,109
Non-financial assets	0	48,327,074	48,327,074
	271,584,784	654,811,402	926,396,186

(c) *Market risk:*

It is the risk that the value of a financial asset is reduced as a result of changes in interest rates, in monetary exchange rates, stock prices and other financial variables, as well as the reaction of market participants to political and economic events. These elements cause that the Bank is subject to latent losses as to potential profit. The objective of the Bank's market risk management is to manage and control market risk exposures within the acceptable parameters to ensure the Bank's solvency while optimizing the return on risk.

Market risk management

The management of this risk is supervised regularly by the General Management. To mitigate this risk, the Bank has documented in its control policies related to investment limits, classification and valuation of investments, qualification of portfolio, cross-check of interest payments, sensibility and stress tests.

Below are detailed the composition and analysis of each of the types of market risk:

Foreign exchange risk:

Foreign exchange risk is the risk that the value of a financial instrument fluctuates as a consequence of changes in exchange rates of foreign currencies and other financial variables, and the reaction of market participants to political and economic events. For purposes of IFRS 7, this risk does not derive from financial instruments that are not monetary items, nor for financial instruments denominated in the functional currency.

As of June 30, 2023, the Bank did not have transactions in foreign currency in the consolidated statement of financial position that were exposed to foreign exchange risk, because all its financial instruments have been denominated in their functional currency, including those of the subsidiaries in Colombia and El Salvador.

(4) Financial Risk Management, continued

Interest rate risk:

Interest rate risk is the Bank's financial exposure (net margin and equity market value) to possible losses in the event of unexpected fluctuations in the interest rates.

The Bank has an ALCO Committee, which under parameters defined by the Board of Directors, analyzes the sensitivity of variations in interest rates, and determines the balance sheet structure, the term of the different items and the investment strategies.

The table below summarizes the Bank's exposure to interest rate risk. It includes the Bank's assets and liabilities at carrying value, categorized by the earlier of the next contractual repricing rate or maturity date.

2023	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Deposits in banks (1)	26,686,749	0	0	0	26,686,749
Investments securities at FVTPL	407,824	1,443,272	0	29,110,348	30,961,444
Investments securities at AC	0	514,904	222,240	0	737,144
Investments securities at FVOCI	25,642,742	2,344,701	27,305,850	16,246,419	71,539,712
Loans at AC	770,837,816	0	0	0	770,837,816
Total assets	823,575,131	4,302,877	27,528,090	45,356,767	900,762,865
Liabilities:					
Saving deposits	5,365,185	0	0	0	5,365,185
Time deposits	37,665,200	376,687,242	0	0	414,352,442
Borrowings	115,500,000	135,327,318	25,000,000	0	275,827,318
Debts securities in issue	111,656,370	60,762,433	0	0	172,418,803
Total liabilities	270,186,755	572,776,993	25,000,000	0	867,722,896
Interest rate sensitivity, net	553,388,376	(568,474,116)	2,528,090	45,356,767	32,799,117

(1) Includes only interest-bearing bank deposits.

2022	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Deposits in banks (1)	31,108,335	0	0	0	31,108,335
Investments securities at FVTPL	694,663	1,135,144	0	27,762,738	29,592,545
Investments securities at AC	0	685,151	0	0	685,151
Investments securities at FVOCI	26,650,547	1,810,112	27,145,100	17,231,808	72,837,567
Loans at AC	722,099,875	0	0	0	722,099,875
Total assets	780,553,420	3,630,407	27,145,100	44,994,546	856,323,473
Liabilities:					
Saving deposits	3,883,736	0	0	0	3,883,736
Time deposits	217,657,411	164,412,457	0	0	382,069,868
Borrowings	119,500,000	143,309,108	25,000,000	0	287,809,108
Debts securities in issue	81,023,835	82,437,417	0	0	163,461,252
Total liabilities	422,064,982	390,158,982	25,000,000	0	837,223,964
Interest rate sensitivity, net	358,488,438	(386,528,575)	2,145,100	44,994,546	19,099,509

(1) Includes only interest-bearing bank deposits.

(4) Financial Risk Management, continued

The basic analysis carried out every month by management consists in determining the impact caused on financial assets and liabilities by increases or decreases of 25 and 50 basis points in interest rates. The impact on net interest income and equity is summarized below:

	25 bp increase	25 bp decrease	50 bp increase	50 bp decrease
Sensitivity of projected net interest income:				
2023				
At June 30	1,560,772	(1,560,772)	3,121,543	(3,121,543)
Average for the year	1,530,351	(1,530,351)	3,060,703	(3,060,703)
Maximum for the year	1,560,772	(1,560,772)	3,121,543	(3,121,543)
Minimum for the year	1,499,931	(1,499,931)	2,999,862	(2,999,862)
2022				
At December 31	1,456,400	(1,456,400)	2,912,800	(2,912,800)
Average for the year	1,412,851	(1,412,851)	2,825,702	(2,825,702)
Maximum for the year	1,573,049	(1,573,049)	3,146,097	(3,146,097)
Minimum for the year	1,294,636	(1,294,636)	2,589,271	(2,589,271)
Sensitivity of reported equity to interest rate movements:				
2023				
At June 30	(1,582,170)	1,582,170	(3,164,340)	3,164,340
Average for the year	(1,602,452)	1,602,452	(3,204,904)	3,204,904
Maximum for the year	(1,622,733)	1,622,733	(3,245,467)	3,245,467
Minimum for the year	(1,582,170)	1,582,170	(3,164,340)	3,164,340
2022				
At December 31	(1,625,414)	1,625,414	(3,250,828)	3,250,828
Average for the year	(1,787,882)	1,787,882	(3,575,763)	3,575,763
Maximum for the year	(1,625,414)	1,625,414	(3,250,828)	3,250,828
Minimum for the year	(1,574,759)	1,574,759	(3,149,518)	3,149,518

To evaluate the interest rate risk and its impact in the fair value of financial assets and liabilities, management of the Bank makes stress tests to determine the sensibility of financial assets and liabilities.

Reform of the main reference rates (IBOR)

Determining changes are underway worldwide in one of the main interbank rates received (IBORs) for risk-free interest rates. These changes will cause an impact on the products that are under the IBOR reference.

The Bank will not currently have an impact at the operational level, since the active products it offers are not referenced to the Libor rate. However, it could have an impact at the level of financial liabilities, since it maintains some financing referenced to the IBOR.

(4) Financial Risk Management, continued

The Bank considers that the current risk to which it is exposed, as a result of the IBOR reform, is low and that it will not cause a significant impact on its operation. Currently, the financing that was agreed with a Libor rate, and that exceeds the date of June 30, 2023, will be replaced with the reference rate SOFR (Secured Overnight Financing Rate) instead.

Price risk:
Is the risk that the value of a financial instrument fluctuates due to changes in market prices, independently that they are caused by specific factors related to the particular instrument or its issuer or factors that affect all securities traded on the market.

The Bank is exposed to price risk of equity instruments classified as at FVOCI or securities at FVTPL. To mitigate the price risk in equity or debt instruments, the Bank diversifies its portfolio according to the established investment limits.

(d) Operational risk:

Operational risk involves potential losses, directly or indirectly related to the banking process. It could be caused by personnel, technology, infrastructure, as well as external factors that are not related to credit, market and liquidity risks. These external factors Banco La Hipotecaria, following the regulatory guidelines and best practices, has defined a Comprehensive Risk Management System, whose main objective is to promote a healthy and safe environment involve government legal requirements and regulatory requirements and generally accepted standards of corporate behavior.

The function of Operational Risk is to guarantee the adequate management of this risk, achieve its understanding, identify the operational risks present in the activities of the organization, to reinforce controls, reduce the number of incidents or events, and minimize monetary losses. For the above, an Operational Risk methodology and a management framework have been defined, which allows the identification, measurement, mitigation, monitoring, control and information to be carried out in order to minimize levels of associated losses.

All Bank's personnel must apply this methodology and are responsible for the adequate management of the operational risks associated with their areas and activities and mainly consists of the following stages:

- Identification and evaluation of risks.
- Risk measurement (collection of events and incidents).
- Risk mitigation (implementation of controls and action plans).
- Risk monitoring (risk indicators).
- Testing of the effectiveness of controls.
- Evaluation of operational risk in new Bank's initiatives, products and/or services, significant improvements to processes.
- Periodic training with the different areas of the Bank.

We have defined and formalized the methodology for Operational Risk Management through:

- Operational Risk Policy and Manual
- Operational Risk Limits

(4) Financial Risk Management, continued

- Operational Risk Indicators
- Operational Risk Managers
- Tool for event management
- Operational Risk Matrices
- Database of Operational Risk
- Capital requirement calculations for Operational Risk.

The Operational Risk management framework, in order to guide the objectives and essential components, is made up of the following phases:

Phase 1 - Culture
Stage in which all the organization's personnel are sensitized about the importance of Operational Risk management.

Phase 2 - Qualitative Management
Stage in which the organizational structure, policies, risk identification and prioritization of responses, development of indicators and self-assessments are defined.

Phase 3 - Quantitative Management
Stage in which the capture, maintenance of data and collection of losses occurs for the design of internal indicators that allow to carry out contrasts against the capital requirement for operational risk that the entity manages.

(e) *Capital management:*
One of the Bank's policies is to maintain a level of capital that accompanies the credit and investment businesses for their growth within the market, maintaining a balance between the return on investments made and the capital adequacy required by the regulators.

The Bank is subject to the Panamanian Banking Law, which states that the total capital adequacy ratio shall not be less than 8% of its total weighted assets and off-balance accounts which represent an irrevocable contingency, weighted based on their risks.

Based in the Agreements No.001-2015 and its amendments and No.003-2016, issued by the Superintendence of Banks of Panama, as of June 30, 2023, the Bank has a regulatory capital position that is comprised as follows:

	2023	2022
Primary Ordinary Capital		
Common shares	15,000,000	15,000,000
Additional paid-in-capital	25,454,161	25,454,161
Capital reserves	1,800,000	1,800,000
Non-controlling interest	851,570	731,874
Retained earnings	44,305,376	42,198,340
Other items of comprehensive income (1)		
Gains on securities and allowance for ECL on investment securities at FVOCI	(2,863,373)	(3,544,538)
Adjustment for translation of foreign currency	(11,826,701)	(14,429,907)
Treasury shares	(727,000)	(727,000)
Less: deferred tax	(172,865)	(179,030)
Total Primary Ordinary Capital	71,821,170	66,716,647
Dynamic provision	6,030,596	6,030,596
Total Regulatory Capital	77,851,765	72,334,496
Total of Risk-Weighted Assets	594,204,851	573,413,384

(4) Financial Risk Management, continued

Ratios:	Minimum required		
Capital Adequacy Ratio	8.00%	13.10%	12.61%
Primary Ordinary Capital Ratio	4.50%	12.09%	11.56%
Primary Capital Ratio	6.00%	12.09%	11.56%
Leverage Coefficient	3.00%	7.52%	7.21%

(1) Excludes the fair value of the portfolio acquired

(5) Use of Estimates and Judgements in Applying Accounting Policies

The Bank administration in preparing these consolidated financial statements in accordance with International Financial Reporting Standards, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, taking into consideration historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognized prospectively.

Management evaluates the selection, disclosures and application of critical accounting policies related to significant estimation uncertainties. Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

(a) *Classification of financial assets*
When determining the classification of financial assets, the Bank uses its judgement to assess the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. See also Note 3 (c.2)

(b) *Impairment of financial assets – Significant increase in credit risk*
The Bank uses its judgement to establish the criteria for determining whether a financial asset has significantly increased its credit risk since initial recognition, and in the selection and approval of the models used to measure the ECL. In accordance with the defined criteria, the Bank assesses at each reporting date whether the credit risk of financial assets has increased significantly since initial recognition. See Note 3 (c.7) and Note 4 (a).

(c) *Income tax*
The Bank is subject to income taxes under the jurisdictions of the Republic of Panama, Colombia, and El Salvador. Significant estimates are required in determining the provision for income taxes. Estimates are made through a tax projection to determine the provision for income taxes and the resulting liabilities are recognized. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income taxes in the period in which such determination was made. See Note 3 (s) and Note 24.

Non-consolidated structured entities
The Bank's management periodically evaluates whether the trusts in which it acts as administrator, and which are considered as structured entities, need to be consolidated with the Bank. This analysis includes the evaluation of the agent and principal premises

(5) Use of Estimates and Judgements in Applying Accounting Policies, continued

IFRS 10 and the criteria to derecognize financial assets of IFRS 9, mainly. See Note 3 (a.2), Note 26 and Note 27.Information about assumptions and uncertainty in the Bank's significant accounting estimates is included in the following notes:

(a) *Impairment of financial assets - Key inputs and assumptions used for the measurement of ECL*
The evaluation performed by the Bank's management to determine the inputs used in the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information, is disclosed in detail in Note 3 (c.7) and Note 4 (a).

(b) *Measurement of the fair value of financial instruments with significant unobservable inputs*
Information about the significant unobservable inputs used by the Bank's management in the measurement of financial instruments classified in 'Level 3' of the fair value hierarchy of IFRS 13, is disclosed in Note 30.

(6) Balances and Transactions with Related Parties

The consolidated statement of financial position and the consolidated statement of profit or loss include balances and transactions with related parties, which are summarized as follows:

	Directors and key management personnel		Related companies	
	2023	**2022**	**2023**	**2022**
Assets:				
Demand deposits	0	0	907,570	491,341
Account receivable	0	0	0	96,805
Liabilities:				
Saving deposits	237,283	281,108	2,352,385	2,351,285
Time deposits	1,739,380	1,132,309	52,497,290	53,128,659
Accrued interest payable	11,800	4,400	352,936	238,615
Other income (expenses):				
Interest expense on deposits	41,354	18,878	1,391,519	1,032,248
Salaries and other personnel expenses	381,624	441,226	0	0

Transactions with Directors and Key Management Personnel

The Bank has paid fees por B/.26,753 (2022: B/.31,647) to Directors that attend the meetings of the Board of Directors and other Committees.

The salaries and other benefits of key management personnel amount to B/.426,624 (2022: B/.441,226), which include short-term benefits such as wages, bonuses and life insurance, mainly.

(7) Cash and Cash Equivalents

The cash and cash equivalents are detailed as follows for purposes of reconciliation with the consolidated statement of cash flows:

	2023	2022
Cash and cash equivalents	311,387	265,485
Demand deposits	23,975,271	33,400,988
Saving accounts	8,912,636	8,637,961
Time deposits	0	5,522,601
Cash and cash equivalents in the consolidated statement of cash flows	33,199,294	47,827,035

(8) Investment Securities

Investment securities are classified as follows:

	2023	2022
Investment securities measured at FVTPL	31,458,328	29,592,545
Investment securities measured at AC	738,169	680,856
Investment securities measured at FVOCI	73,330,112	72,837,567
Total investment securities, net	105,526,609	103,110,968

Investment securities measured at fair value through profit or loss (FVTPL)

The portfolio of investment securities measured at FVTPL is detailed as follows:

	Maturity	2023	2022
Retained interests in securitizations:			
Residential mortgage-backed securities ('RMBS'):			
XI Mortgage Loan Bond Trust	Oct-41	1,831,299	1,834,860
XII Mortgage Loan Bond Trust	Nov-42	901,843	866,874
XIII Mortgage Loan Bond Trust	Dic-45	921,593	923,663
XIV Mortgage Loan Bond Trust	Sep-46	1,255,408	1,326,496
XV Mortgage Loan Bond Trust	Jul-47	835,240	824,891
XVI Mortgage Loan Bond Trust	Jul-52	2,704,064	2,662,506
		8,449,447	8,439,290
Residual Interest:			
Residual interest in the VIII Mortgage Loan Bond Trust	Dic-36	8,426,283	8,038,993
Residual interest in the X Mortgage Loan Bond Trust	Sep-39	4,700,274	4,450,237
Residual interest in the XI Mortgage Loan Bond Trust	Oct-41	2,548,841	2,369,761
Residual interest in the XII Mortgage Loan Bond Trust	Nov-42	2,375,391	2,213,526
Residual interest in the XIII Mortgage Loan Bond Trust	Dic-45	1,057,619	780,721
Residual interest in the XIV Mortgage Loan Bond Trust	Sep-46	1,051,910	954,175
Residual interest in the XV Mortgage Loan Bond Trust	Jul-47	500,583	516,035
Residual interest in the XVI Mortgage Loan Bond Trust	Jul-52	20,660,901	19,323,448
Total retained interests in securitizations		29,110,348	27,762,738
Government bonds:			
Agricultural development securities of the Republic of Colombia	Jul-23	1,443,272	1,135,144
Total of government bonds		1,443,272	1,135,144
Others equity investments:			
Mutual funds	N/A	407,824	257,601
Total of others equity investments		407,824	257,601
Receivable interest		496,884	437,062
Total of investments securities at FVTPL		31,458,328	29,592,545

(8) Investment Securities, continued

The trust's residual interests were determined by discounting the future cash flows in commissions and incentives that the Bank will receive as trustee. At the time of creation of these trusts, the realization of values was estimated in 30 years for the Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth and Sixteenth Mortgage Loan Bond Trusts (maturing in 2039, 2041, 2042, 2045, 2046, 2047 and 2052 respectively). See Note 27.

Investment securities measured at AC

The portfolio of investment securities measured at AC is detailed as follows:

	Interest rate	Maturity	2023	2022
Government bonds:				
Bonds of the Republic of Colombia	2.48%	13-Jul-23	514,904	463,234
Bonds of the Republic of Panama	8.88%	31-Dec-27	222,240	221,917
			737,144	685,151
Less: loss allowance (ECL)			(3,875)	(4,295)
Plus: Receivable interest			4,900	0
Total of investment securities at AC			738,169	680,856

The bonds of the Republic of Panama that form part of the Bank's portfolio of investments in securities measured at amortized cost, are kept under the custody of the National Bank of Panama at the disposal of the Superintendence of Banks of Panama, to guarantee the adequate compliance of the Bank's fiduciary obligations.

Investment securities at fair value through other comprehensive income (FVOCI)

The portfolio of investment securities measured at FVOCI is detailed as follows:

	Maturity	2023	2022
Retained interests in securitizations:			
Residential mortgage-backed securities ('RMBS'):			
X Mortgage Loan Bond Trust	Sep-39	6,934,109	6,963,542
XI Mortgage Loan Bond Trust	Oct-41	1,574,645	1,782,357
XII Mortgage Loan Bond Trust	Nov-42	7,761,715	7,617,313
XIII Mortgage Loan Bond Trust	Dic-45	2,881,645	3,261,998
XIV Mortgage Loan Bond Trust	Sep-46	5,592,822	5,723,174
XV Mortgage Loan Bond Trust	Jul-47	6,197,307	6,464,279
XVI Mortgage Loan Bond Trust	Jul-52	10,946,918	10,706,984
Total retained interests in securitizations		41,889,161	42,519,647
Government bonds:			
Colombian Treasury bonds	Ago-26	2,344,701	1,810,112
U.S. Treasury bonds	Ago-27	27,305,850	27,145,100
Total of government bonds		29,650,551	28,955,212
Receivable interest		1,790,400	1,362,708
Total of investment securities at FVOCI		73,330,112	72,837,567

As of June 30, 2023, the allowance for ECL of debt instruments classified as measured at FVOCI, amounts to B/.175,374 (2022: B/.257,717). This allowance is not recognized in the consolidated statement of financial position because the carrying amount of the debt instruments measured at FVOCI is their fair value. However, it is presented in the consolidated statement of changes in equity as part of the fair value reserve.

(8) Investment Securities, continued

Risk concentration and information about the loss allowance (ECL)

The credit risk concentration by economic sector and geographic location of the investment securities portfolio, and other detailed information about its allowance for expected credit losses (ECL), are disclosed in Note 4 (a).

(9) Loans at amortized cost (AC)

The composition of the loan portfolio measured at AC is summarized as follows:

	2023	2022
Domestic loans:		
Personal	35,893,546	37,634,221
Residential mortgages	536,684,404	496,550,584
Total domestic loans	572,577,950	534,184,805
Foreign loans:		
Personal	15,153,725	15,439,949
Residential mortgages	183,106,141	172,475,121
Total foreign loans	198,259,866	187,915,070
Accrued interest receivable	8,641,134	9,276,768
Net loss arising from modification	0	(67,054)
Gross carrying amount	779,478,950	731,309,589
Less: loss allowance (ECL)	(3,656,590)	(4,178,480)
Total loans at AC	775,822,360	727,131,109

The credit risk concentration by economic sector and geographic location of the loans receivable portfolio measured to amortized cost, and other detailed information about its allowance for expected credit losses (ECL), are disclosed in Note 4 (a).

In April 2022, the Bank made a purchase of a residential mortgage portfolio from the Eighth Mortgage Loan Bond Trust with a fair value equal to the book value, which did not generate differences between the price paid for this portfolio of residential loans.

(10) Furniture, Equipment and Improvements, net

Furniture, equipment and improvements are summarized as follows:

2023	Furniture	Office equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at the beginning of the year	843,735	3,817,439	429,577	2,169,761	7,260,512
Additions	7,521	67,891	28,037	1,192	104,641
Sales and disposals	(130,701)	(1,220,142)	(99,108)	(19,440)	(1,469,391)
Effect of exchange rates fluctuations	0	0	0	0	0
Balance at the end of the year	720,555	2,665,188	358,506	2,151,513	5,895,762
Accumulated depreciation:					
Balance at the beginning of the year	701,827	3,318,805	401,858	1,226,696	5,649,186
Depreciation for the year	8,120	76,612	18,055	85,260	188,047
Sales and disposals	(128,592)	(1,217,181)	(99,108)	(19,440)	(1,464,321)
Effect of exchange rates fluctuations	5,784	35,274	0	6,429	47,487
Balance at the end of the year	587,139	2,213,510	320,805	1,298,945	4,420,399
Net balances	133,416	451,678	37,701	852,568	1,475,363

2022	Furniture	Office equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at the beginning of the year	885,577	4,165,422	475,023	2,446,081	7,972,103
Additions	57,788	121,368	0	338,563	517,719
Sales and disposals	(95,913)	(447,874)	(45,446)	(612,134)	(1,201,367)
Effect of exchange rates fluctuations	(3,717)	(21,477)	0	(2,749)	(27,943)
Balance at the end of the year	843,735	3,817,439	429,577	2,169,761	7,260,512
Accumulated depreciation:					
Balance at the beginning of the year	782,027	3,575,686	389,414	1,541,784	6,288,911
Depreciation for the year	25,123	254,611	57,890	194,587	532,211
Sales and disposals	(97,890)	(468,539)	(45,446)	(504,178)	(1,116,053)
Effect of exchange rates fluctuations	(7,433)	(42,953)	0	(5,497)	(55,883)
Balance at the end of the year	701,827	3,318,805	401,858	1,226,696	5,649,186
Net balances	141,908	498,634	27,719	943,065	1,611,326

(11) Accounts Receivable

The accounts receivable are detailed as follows:

	2023	2022
Accounts receivable:		
Customers	3,154,352	3,035,701
Employees	14,392	42,339
Insurance	98,756	81,004
Trusts	1,854,810	2,784,586
Other	2,940,605	2,808,958
	8,062,915	8,752,588

(12) Other assets

The other assets are detailed as follows:

	2023	2022
Guarantee deposits	56,326	56,326
Trust license	25,000	25,000
Employee severance fund	803,319	764,070
Prepaid expenses	2,586,955	1,671,257
Advances in assets purchase	12,182	30,132
Assets in foreclosure process	1,810,004	1,535,848
Foreclosed assets	819,676	847,680
Advance payment of stock exchange transactions (to holders of issued debt securities)	0	96,805
Other	287,587	297,978
Total	6,401,049	5,325,096

(13) Negotiable Commercial Papers

The Bank has six (2022: six) rotating programs of negotiable commercial papers up to B/.200,000,000 (2022: B/.200,000,000), authorized by the Superintendence of the Securities Market of the Republic of Panama, which are backed up by the general credit of the Bank. Of these rotating programs, one program for the amount of B/.10,000,000, (2022: B/.10,000,000) is backed up by Grupo ASSA, S.A. At the reporting date, no paper has been issued under this program.

		2023	
Tipo	Tasa de interés	Vencimiento	Valor
Serie BEK	3.6250%	julio-23	1,122,000
Serie BL	3.6250%	julio-23	74,000
Serie BM	3.8750%	agosto-23	2,408,000
Serie BO	4.5000%	octubre-23	2,785,000
Serie BP	5.0000%	octubre-23	1,246,000
Serie BQ	5.5000%	noviembre-23	4,131,000
Serie BR	5.5000%	enero-24	1,432,000
Serie BS	5.5000%	enero-24	1,462,000
Serie BT	5.5000%	febrero-24	325,000
Serie BU	5.7500%	febrero-24	1,013,000
Serie BV	6.0000%	marzo-24	7,918,000
Serie BEL	6.0000%	marzo-24	1,830,000
Serie BEM	6.0000%	marzo-24	3,275,000
Serie BEN	6.0000%	marzo-24	2,000,000
Serie BEO	6.0000%	marzo-24	8,500,000
Serie BEP	5.8750%	abril-24	4,983,000
Serie BEQ	5.8750%	abril-24	1,000,000
Serie BER	5.8750%	abril-24	3,925,000
Serie BES	5.8750%	abril-24	1,790,000
Serie BET	5.8750%	mayo-24	757,000
Serie BEU	5.8750%	mayo-24	3,000,000
Serie CEY	5.8750%	mayo-24	3,000,000
Serie CEZ	5.8750%	Junio-24	1,032,000
Serie BW	6.0000%	Junio-24	3,000,000
Serie DES	6.0000%	Junio-24	1,381,000
Total nominal amount			63,389,000
Accrued interest payable			375,654
Less: issuance costs			(106,748)
Total negotiable commercial papers at AC			63,657,906

(13) Negotiable Commercial Papers, continued

2022			
Description	Interest rate	Maturity	Amount
Serie CEV	2.7500%	Janyary-23	500,000
Serie CEW	2.7500%	Janyary-23	2,500,000
Serie DEI	2.7500%	March-23	5,000,000
Serie DEJ	2.7500%	March-23	8,500,000
Serie DEK	2.7500%	April-23	680,000
Serie DEL	2.7500%	April-23	4,590,000
Serie DEM	2.7500%	May-23	1,500,000
Serie DEO	2.7500%	May-23	3,000,000
Serie DEP	3.0000%	May-23	2,624,000
Serie DEQ	3.0000%	June-23	1,425,000
Serie DER	3.5000%	June-23	2,000,000
Serie BK	3.5000%	June-23	3,000,000
Serie BEK	3.6250%	July-23	1,122,000
Serie BL	3.6250%	July-23	74,000
Serie BM	3.8750%	August-23	2,408,000
Serie BO	4.5000%	October-23	2,685,000
Serie BP	5.0000%	October-23	1,246,000
Serie BQ	5.5000%	November-23	3,697,000
Total nominal amount			46,551,000
Accrued interest payable			206,538
Less: issuance costs			(42,042)
Total negotiable commercial papers at AC			46,715,496

As of June 30, 2023, the Bank has complied with the payment terms of principal and interest for its negotiable commercial papers.

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(14) Negotiable Commercial Notes

The Bank has four (2022: four) programs of negotiable commercial notes totaling B/.240,000,000 (2022: B/.240,000,000). The placements of the first issuance by B/.40,000,000 are guaranteed by the general credit of the Bank and a trust guarantee of loan mortgages. At the reporting date, the Bank does not have outstanding notes related to this program.

The placements of the other three programs for B/.50,000,000, B/.50,000,000 and B/.100,000,000, respectively, are only supported by the general credit of the Bank.

Description	Interest rate	Maturity	2023	2022
SERIE C	4.000%	march-23	0	1,000,000
SERIE E	4.000%	march-23	0	3,255,000
SERIE J	4.250%	may-23	0	2,466,000
SERIE K	4.250%	may-23	0	1,100,000
SERIE AT	4.700%	june-23	0	2,000,000
SERIE CO	4.700%	august-23	810,000	810,000
SERIE O	3.625%	august-23	1,000,000	1,000,000
SERIE CX	4.125%	february-24	1,725,000	1,725,000
SERIE B	4.250%	february-24	3,000,000	3,000,000
SERIE D	4.250%	march-24	2,705,000	2,705,000
SERIE Q	3.000%	march-24	5,000,000	5,000,000
SERIE F	4.125%	april-24	1,000,000	1,000,000
SERIE H	4.000%	may-24	2,990,000	2,990,000
SERIE L	4.000%	june-24	2,000,000	2,000,000
SERIE CS	4.000%	june-24	2,548,000	2,548,000
SERIE CT	4.000%	june-24	3,400,000	3,400,000
SERIE CU	4.000%	july-24	2,500,000	2,500,000
SERIE CW	4.000%	august-24	25,000	25,000
SERIE CY	4.250%	august-24	644,000	644,000
SERIE R	3.375%	october-24	1,807,000	1,807,000
SERIE CZ	5.125%	octubre-24	433,000	433,000
SERIE DA	5.250%	october-24	20,000	20,000
SERIE CR	4.000%	december-24	5,000,000	5,000,000
SERIE DC	6.250%	March-25	4,060,000	0
SERIE S	3.750%	april-25	1,575,000	1,575,000
SERIE DD	5.625%	May-25	1,537,000	0
SERIE I	4.250%	may-25	2,000,000	2,000,000
SERIE U	4.000%	may-25	1,000,000	1,000,000
SERIE V	4.000%	may-25	2,000,000	2,000,000
SERIE DB	5.375%	october-25	140,000	140,000
SERIE A	4.900%	january-26	1,000,000	1,000,000
SERIE P	3.500%	february-26	4,000,000	4,000,000
SERIE T	4.000%	april-26	275,000	275,000
SERIE G	4.750%	april-26	1,000,000	1,000,000
SERIE W	4.500%	may-26	1,704,000	1,704,000
SERIE M	4.500%	june-26	1,500,000	1,500,000
SERIE N	4.500%	july-26	1,000,000	1,000,000
Total nominal amount			59,678,000	63,622,000
Accrued interest payable			110,852	124,797
Less: issuance costs			(47,557)	(56,450)
Total negotiable commercial notes at AC			59,741,297	63,690,347

As of June 30, 2023, the Bank has complied with the payment terms of principal and interest for its negotiable commercial notes.

(15) Covered Bonds

On May 24, 2018, the Bank's Board of Directors authorized the issuance of a covered bond program for up to B/.200,000,000.

The Bank has issued three tranches of covered medium-term bonds, net of commissions, amounting to B/.21,619,402 (2022: B/.21,508,709) at an interest rate of 5.50% and 4.125% for 3.5- and 5-years term.

The covered bonds are guaranteed with mortgage loans portfolio amounting to B/.27,500,000 (2022: B/.27,500,000).

As of June 30, 2023, the Bank has complied with the payment terms of principal and interest for its covered bonds.

(16) Ordinary Bonds

The Financial Superintendence of Colombia authorized the incorporation of Ordinary Bonds in the National Registration of Securities and Issuers and its public offer.

As of June 30, 2023, the Colombian subsidiary has issued medium-term ordinary bonds for B/.7,551,224 (2022: B/.8,242,113) at an interest rate of 6.29% (2022: 6.29%) maturing on June 23, 2025.

The ordinary bonds are guaranteed with a Panamanian mortgage loans portfolio amounting to B/.9,624,039 (2022: B/.10,302,641).

As of June 30, 2023, the Bank has complied with the payment terms of principal and interest for its ordinary bonds.

(17) Investment Certificates

The Bank is authorized by the Superintendence of the Securities Market of El Salvador for two (2022: two) issuances of Investment Certificates up to B/.100,000,000 (2022: B/.100,000,000). Currently, both programs have no special guarantees.

Description	Interest rate	Maturity	2023	2022
Tranche 26	5.375%	January 2023	0	500,000
Tranche 01	5.000%	February 2023	0	600,000
Tranche 02	5.000%	March 2023	0	1,000,000
Tranche 03	5.000%	March 2023	0	1,000,000
Tranche 05	5.000%	April 2023	0	1,000,000
Tranche 06	5.000%	April 2023	0	2,000,000
Tranche 07	4.500%	August 2023	850,000	850,000
Tranche 04	5.125%	September 2023	1,000,000	1,000,000
Tranche 08	4.750%	December 2023	2,000,000	2,000,000
Tranche 10	5.250%	August 2024	954,000	604,000
Tranche 11	5.500%	August 2024	1,000,000	1,000,000
Tranche 12	5.500%	September 2024	6,000,000	6,000,000
Tranche 13	5.500%	October 2024	2,000,000	2,000,000
Tranche 14	5.500%	February 2025	621,000	0
Tranche 09	5.250%	June 2025	2,000,000	2,000,000
Total nominal of investment certificates			17,948,000	21,554,000
Accrued interest payable			38,083	47,334
Less: issuance costs			(8,486)	(24,086)
Total investment certificates at AC			17,977,597	21,577,248

As of June 30, 2023, the Bank has complied with the payment terms of principal and interest for its investment certificates.

(18) Other Negotiable Debts

The Bank has two (2022: two) revolving plans of negotiable debt (stock market paper) up to B/.35,000,000 (2022: B/.35,000,000), which were authorized by the Superintendence of the Securities of El Salvador. These programs have no specific guarantees.

2023

Description	Interest rate	Maturity	Amount
Tranche 19	6.000%	March 2024	30,000
Tranche 20	6.000%	April 2024	1,819,000
Total nominal amount			1,877,000
Accrued interest payable			26,712
Less: issuance costs			(4,335)
Total other negotiable debts at AC			1,871,377

2022

Description	Interest rate	Maturity	Amount
Tranche 18	4.5000%	June 2023	1,725,000
Total nominal amount			1,725,000
Accrued interest payable			2,339
Total other negotiable debts at AC			1,727,339

As of June 30, 2023, the Bank has complied with the payment terms of principal and interest for its negotiable debt.

(19) Borrowings

The borrowings are summarized as follows:

	2023	2022
Line of credit for working capital for B/.50,000,000, with maturity in the year 2028 and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	25,000,000	25,000,000
Line of credit for working capital for B/.15,000,000, with maturity in the year 2024, renewable at the parties' option and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	15,000,000	8,000,000
Line of credit for working capital for B/.10,000,000, with maturity in 2024, renewable at the parties' option and fixed interest rate guaranteed by a portfolio of residential mortgage loans.	10,000,000	10,000,000
Line of credit for working capital for B/.9,800,000, with maturity in 2024, renewable at the parties' option and fixed interest rate guaranteed by a portfolio of residential mortgage loans.	8,000,000	8,000,000
Line of credit for working capital for B/.45,000,000, with maturity in the year 2024, renewable at the parties' option and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	44,000,000	42,500,000
Line of credit for working capital for B/.8,000,000, with maturity in the year 2024, renewable at the parties' option and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	4,000,000	4,000,000
Line of credit for working capital for B/.25,000,000, with maturity in the year 2028, and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	22,916,667	25,000,000
Line of credit for working capital for B/.60,000,000, with maturity in the year 2028 and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	47,000,000	47,000,000
Line of credit for working capital for B/.45,000,000, with maturity in the year 2024 and fixed interest rate	26,250,000	30,750,000
Subtotal continues on next page	202,166,667	200,250,000

(19) Borrowings, continued

	2023	2022
Subtotal continues from previous page	202,166,667	200,250,000
Line of credit for working capital for B/.40,000,000, with maturity in the year 2025 and fixed interest rate	17,500,000	28,750,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2026 and fixed interest rate	10,000,000	10,000,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2026 and fixed interest rate	10,000,000	10,000,000
Line of credit for working capital for B/.7,250,000, with maturity in the year 2024 and fixed interest rate	7,250,000	7,250,000
Indexed loan for working capital up to approximately B/15,100,000 (COP 62 billion), and annual fixed interest rate with maturity in the year 2025	12,457,280	12,946,385
Line of credit for working capital up to approximately B/.4,200,000, (COP 4.2 billion) and annual fixed interest rate with maturity in the year 2024	995,796	0
Indexed loan for working capital up to approximately B/.1,450,00 (COP 6 billion), and annual fixed interest rate with maturity in the year 2023	1,312,248	883,539
Line of credit for working capital up to approximately B/.8,600,000, (COP 36 billion) and fixed interest rate with maturity in the year 2023	8,544,791	7,445,348
Line of credit for working capital up to approximately B/.1,450,000 (COP 6 billion) and fixed interest rate with maturity in the year 2023	357,886	623,675
Line of credit for working capital up to approximately B/.4,800,000, (COP 20 billion) and IBR plus margin interest rate with maturity in the year 2023	0	4,013,211
Line of credit for working capital up to approximately B/.1,910,000 (COP 8 billion) and IBR interest rate plus margin with maturity in the year 2023	1,312,248	1,039,458
Line of credit for working capital up to approximately B/.7,200,000 (COP 30 billion) and IBR interest rate plus margin with maturity in the Year 2025	2,863,087	2,494,699
Line of credit for working capital up to approximately B/.2,400,000 (COP 10 billion) and IBR interest rate plus margin with maturity in the year 2023	417,534	1,299,322
Total nominal amount	275,177,537	286,995,637
Accrued interest payable	2,236,224	2,529,035
Less: issuance costs	(1,586,443)	(1,715,564)
Total borrowings at AC	275,827,318	287,809,108

As of June 30, 2023, the Bank has complied with the payment terms of principal and interest for its borrowings.

(20) Other Liabilities

The other liabilities are detailed as follows:

	2023	2022
Sundry creditors	3,268,939	2,472,798
Cashier's checks	2,804,939	3,528,607
Provision for labor benefits and other remunerations	2,081,268	1,873,812
Advances from customers	2,150,384	1,924,579
Other	1,940,161	1,028,548
Total	12,245,691	10,828,344

(21) Capital and Reserves

The composition of common shares is detailed as follows:

	2023	2022
Authorized shares with nominal value of B/.1,000	15,000	15,000
Shares issued	15,000	15,000
Treasury shares	(727)	(727)
Shares outstanding	14,273	14,273
Carrying amount of the shares as of June 30	14,273,000	14,273,000

In March 2022, the Company issued 9,207 common shares as a result of the exercise of stock options by key executives in connection with the stock option programs approved in 2012, the options were exercised at an average price of $26.22, respectively.

Information about the Company's common stock option programs is presented in Note 23

Reserves

Nature and purpose of reserves:

Capital reserve
One of the subsidiaries constitutes a reserve to support any impairment loss in its loan portfolio considering the country risks in which the debtors are located. This reserve is established from the retained earnings.

Fair value reserve
Comprises the cumulative net change in the fair value of financial assets at FVOCI, until the assets are derecognized, redeemed, or impaired. In addition, it includes the net amount of the fair value of an acquired loan portfolio, which will be amortized during the remaining life of the loans or until their cancellation.

(21) Capital and Reserves, continued

Currency conversion reserve

Comprises all exchange differences that arise from the conversion of foreign currency to the presentation currency in the financial statements of the foreign subsidiaries with a functional currency other than the presentation currency, for presentation purposes in the consolidated financial statements.

Regulatory reserves

Dynamic provision

It is constituted according to prudential criteria on all credit facilities that lack specific provision allocated, i.e., on credit facilities classified in the 'Normal' category, as defined in the Agreement No.004-2013 issued by the Superintendence of Banks of Panama. It corresponds to an equity account presented under the 'heading' of regulatory reserve in the consolidated statement of changes in equity and it is appropriated from retained earnings. See Note 33.

Specific provision in excess

Provisions that are to be constituted on the basis of the classification of credit facilities in the risk categories Special Mention, Substandard, Doubtful or Unrecoverable, as provided in the Agreement No.004-2013 issued by the Superintendence of Banks of Panama. They are for individual credit facilities as for a group of these. For a group corresponds to circumstances indicating the existence of impairment in credit quality, although it is not yet possible the individual identification. It corresponds to an equity account that is presented under the heading of regulatory reserve in the consolidated statement of changes in equity and appropriates retained earnings. See Note 33.

(22) Management and Service Commissions, and Other Income

The service commissions and other income are detailed as follows:

	2023	**2022**
Management and servicing commissions:		
Trust management	962,443	1,068,014
Collection management	1,296,715	1,250,531
Insurance management	353,970	242,180
Other	1,226,204	1,115,112
	3,839,332	3,675,837
Other income:		
Fiscal credit	426	0
Insurance	73,370	38,508
Gain on sale of foreclosed assets	175,995	189,224
Other	521,433	587,129
	771,224	814,861

(23) Salaries, Other Personnel Expenses, and Other General and Administrative Expenses

Salaries, other personnel expenses, and other general and administrative expenses are detailed as follows:

	2023	2022
Salaries and other personnel benefits:		
Wages	1,973,617	2,094,870
Representation expenses	393,792	394,422
Bonuses	460,000	249,270
Social security costs	281,656	287,165
Employment benefits	130,524	226,156
Travel, per diem and fuel	52,408	56,742
Severance costs	70,456	85,578
Training and seminars	82,176	78,860
Other	137,562	128,285
	3,582,191	3,601,348
Other general and administrative expenses:		
Rent	34,774	73,528
Advertising	433,775	391,065
Equipment maintenance	425,132	464,279
Office supplies	20,392	20,073
Utilities expense	103,967	126,676
Bank charges	149,563	152,701
Services	228,683	262,452
Insurance	36,598	43,562
Foreclosed assets	418,003	237,996
Other	617,008	660,285
	2,467,895	2,432,617

Share purchase option plan

In 2022, 2019, 2016, 2014 and 2012 the Board of Directors of La Hipotecaria (Holding), Inc. approved plans to grant share purchase options to executives of the Bank for 8,950 options with a unit fair value of B/.28.481, 15,110 options with a unit fair value of B/.24.166, 13,650 options with a unit fair value of B/.15.025 and 13,350 options with a unit fair value of B/.3.694, respectively, with an exercise maturity in 10 years for each plan.

As of June 30, 2023, there are 51,060 options outstanding (2022: 51,060), no options executed (2022: 12,624). These options have a weighted-average price of exercise of B/.25.65 (2022: B/.25.65). The plans give the executive the right to exercise the options over La Hipotecaria (Holding), Inc. shares, at the time of the first anniversary of the plans. During 2023, the Bank has recorded B/.144,754 (2022: B/.112,418) as expense for options issuance.

(24) Income Taxes

The income tax returns of the Bank incorporated in the Republic of Panama, according to current tax regulations are subject to review by tax authorities for up to three (3) years. According to current tax regulations, companies incorporated in Panama are exempt of income tax for earnings from foreign operations, interest earned on deposits in local banks, government securities and from securities listed with the Superintendence of the Securities Market and traded on the Bolsa de Valores de Panama, S. A. (Stock Exchange of Panama).

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(24) Income Taxes, continued

The Article 699 of the Tax Code, as amended by Article 9 of Law No. 8 of March 15, 2010 with effect from January 1, 2010, requires that the income tax for legal entities engaged in the banking business in the Republic of Panama, should be calculated at a rate of 25%.

Additionally, legal entities whose annual taxable income exceeds one million five hundred thousand dollars (B/.1,500,000), will pay tax by the applicable income tax rate to the taxable net income according to current legislation in the Republic of Panama or the alternative calculation, which results higher.

Law No. 52 of August 28, 2012, restored the payment of estimated income tax from September 2012. According to this law, the estimated income tax is payable in three equal amounts over June, September and December each year.

The Bank´s subsidiaries shall calculate the income tax according to the following rates:

	Colombia	El Salvador
Current rates	35%	30%

On December 28, 2018, the Congress of the Republic of Colombia issued Law No. 1943 (Financing Law), through which new rules were introduced in tax material, whose most relevant aspects are presented below:

- For financial institutions, a 4% surcharge is created for taxable year 2019 and 3% for taxable years 2020 and 2022, when the taxable net income exceeds 120,000 tax value unit (TVU).

- General rule that determines that 100% of the taxes, rates and contributions effectively paid in the taxable year will be deductible, which have a causal relationship with the generation of income (except income tax). As special rules, it is stated that 50% of the tax on financial transactions (TFT) will be deductible, regardless of whether or not it has a causal relationship with the income generating activity.

- 50% of the industry and commerce tax may be taken as a tax deduction for the income tax in the taxable year in which it is effectively paid and to the extent that it has a causal link with its economic activity. As of the year 2023 it can be discounted 100%.

- For the taxable periods 2021 and 2020, the audit benefit is maintained for taxpayers who increase their net income tax of the taxable year in relation to the net income tax of the immediately preceding year by at least 30% or 20%, with which the income statement will be finalized within 6 or 12 months following the date of its presentation, respectively.

- Starting from 2017, tax losses may be compensated with ordinary liquid income obtained in the following 12 taxable periods.

(24) Income Taxes, continued

- Excess of presumptive income can be compensated in the following 5 taxable periods.

The total income tax expense presented in the consolidated statement of profit or loss is detailed as follows:

	2023	2022
Current tax expense	675,207	734,724
Deferred tax expense – temporary differences	101,828	(25,947)
Total income tax expense	777,035	708,777

The effective tax rate is detailed as follows:

	2023	2022
Net income before income tax	3,027,605	3,561,765
Income tax expense	777,035	708,777
Effective tax rate	25.66%	19.89%

The reconciliation between the income tax calculated using the current tax rate and the income tax expense recorded in the consolidated statement of profit or loss is detailed as follows:

	2023	2022
Net income before income tax	3,027,605	3,561,765
Tax using the Bank's domestic tax rate	756,901	1,245,133
Effect of tax rates in foreign jurisdictions	(46,336)	(516,829)
Tax effect of:		
Tax-exempt income	(174,170)	(63,189)
Non-deductible expenses	138,812	69,609
Recognition of deductible temporary differences	101,828	(25,947)
Total income tax expense	777,035	708,777

The Bank's deferred tax asset arises from temporary differences relating to the allowance for loan losses (ECL), to the provision for the voluntary retirement incentive plan and to the operative losses carry forward. Deferred tax asset is included as part of other assets in the consolidated statement of financial position.

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(24) Income Taxes, continued

Deferred income tax is comprised as follows:

	2023		2022	
	Temporary differences	**Deferred tax**	**Temporary differences**	**Deferred tax**
Deferred tax asset				
Allowance for ECL on loans	3,144,378	818,041	4,096,938	869,726
Voluntary retirement incentive plan	26,157	7,847	68,777	20,633
Operating losses carried forward [1]	493,900	172,864	1,067,193	373,517
	3,664,435	998,752	5,232,908	1,263,876

(1) Correspond to losses carried forward in Colombia, without expiration date.

The movement in deferred tax balances is as follows:

2023	**Balance at the beginning of the year**	**Recognized in profit or loss**	**Effect of exchange rates**	**Balance at the end of the year Deferred tax asset**
Allowance for ECL on loans	907,083	(89,042)	0	818,041
Voluntary retirement incentive plan	20,633	(12,786)	0	7,847
Operating losses carried forward[1]	179,030	0	(6,166)	172,864
Deferred tax asset	1,106,746	(101,828)	(6,166)	998,752

2022	**Balance at the beginning of the year**	**Recognized in profit or loss**	**Effect of exchange rates**	**Balance at the end of the year Deferred tax asset**
Allowance for ECL on loans	913,859	4,743	0	918,602
Voluntary retirement incentive plan	20,776	(11,662)	0	9,114
Operating losses carried forward[1]	350,244	1,413	(172,627)	179,030
Deferred tax asset	1,284,879	(5,506)	(172,627)	1,106,746

Based on its current and projected financial results, the Bank's management believes that there will be sufficient taxable income to absorb the deferred tax assets.

As of June 30, 2023, the Bank has not recognized a liability for deferred income tax of approximately B/.480,905 (2022: B/.459,727) for the retained earnings of its operations abroad, as the Bank considers that approximately B/.9,618,092 (2022: B/.9,194,542) of these earnings will be reinvested indefinitely.

(25) Trusts Under Management

The Bank maintains fiduciary contracts under its management at the risk of the customer amounting to B/.280,646,816 (2022: B/.292,686,120). Taking into consideration the nature of these services, management believes that they do not represent a significant risk to the Bank. Information about the Bank's involvement with non-consolidated structures entities is detailed in Note 26.

(26) Involvement with Non-Consolidated Structured Entities

The following table describes the types of structured entities that the Bank does not consolidate, but in which it holds an interest and acts as agent for them.

Type of structured entity	Nature and purpose	Interest held by the Bank	Total assets 2023	Total assets 2022
Residential mortgage loan securitization trusts	To generate: • Funds for the Bank's lending activities • Commission for administration and management of loan portfolio These trusts are financed through the sale of debt instruments.	• Investments in residential mortgage-backed securities ('RMBS') issued by the trusts • Residual interests	280,646,816	292,686,120

The following table sets out an analysis of the carrying amount of interests held by the Bank in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

	2023 Investment in securities	2022 Investment in securities
Carrying amount by the Bank		
Residential mortgage loan securitization trusts	70,999,509	70,282,385
Total	70,999,509	70,282,385

During 2023, the Bank has not granted financial support to unconsolidated structured entities.

(27) Transfers of Financial Assets

In the ordinary course of business, the Bank enters into transactions that result in the transfer of financial assets, primarily residential mortgage loans, for securitizations through unconsolidated structured entities. In accordance with the accounting policy set out in Note 3 (c.3), the transferred financial assets continue to be recognized in the Bank's consolidated statement of financial position to the extent of its involvement or interest in the securitization vehicles, or are derecognized in their entirety

Mortgage loan securitizations

Residential mortgage loans are sold by the Bank to securitization vehicles (trusts), which in turn issue notes to investors collateralized by the purchased assets.

Taking into consideration that, the Bank sells the assets to an unconsolidated securitization vehicle, then the transfer of the assets is from the Bank (which excludes the securitization vehicle) to the securitization vehicle directly. The transfer of assets is completed in the form of a sale of the underlying assets to the securitization vehicle.

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(27) Transfers of Financial Assets, continued

Sales to unconsolidated structures entities

Throughout its years of operation and in accordance with its liquidity needs, the Bank has sporadically undertaken securitization transactions that have resulted in derecognition of the transferred assets in their entirety. This is the case when the Bank has transferred substantially all the risks and rewards of ownership of financial assets to an unconsolidated securitization vehicle (trust) and retains a relatively small interest in the vehicle or a servicing arrangement in respect to the transferred financial assets. If the financial assets are derecognized in their entirety, then the interest in unconsolidated securitization vehicles that the Bank receives as part of the transfer and servicing arrangements represent a continuing involvement with those assets.

During 2023, the Bank has recognized as part of the interest income from investment in securities calculate using the effective interest method B/.1,548,431 (2022: B1,670,215) of interest earned on residential mortgage-backed securities received from securitization transactions and that are part of the Bank's investment portfolio in securities measured at FVOCI.

Additionally, the Bank has recognized as part of the net gain on investment securities at FVTPL, B/.1,347,611 (2022: earned B/.529,607) related to interest income and unrealized gain in fair value changes on residential mortgage-backed securities and residual interest received from securitization transactions and that are part of the Bank's investment portfolio in securities measured at FVTPL.

As part of the residential mortgage loan securitization transactions that result in the Bank derecognizing the transferred financial assets, the Bank retains servicing rights in respect of the transferred financial assets. Under the servicing arrangement, the Bank collects the cash flows on the transferred mortgages on behalf of the unconsolidated securitization vehicles. In return, the Bank receives a fee that is expected to compensate the Bank adequately for servicing the related assets. The servicing fees are based on a fixed percentage of the cash flows that the Bank collects as an agent on the transferred residential mortgages. Potentially, a loss from servicing activities may occur if the costs that the Bank incurs in performing the servicing activity exceed the fees receivable or if the Bank does not perform in accordance with the service arrangements.

During 2023, the Bank has recognized commission income from servicing activities provided to securitization vehicles amounting to B/.962,443 (2022: B/.1,068,014).

(27) Transfers of Financial Assets, continued

The following table sets out the details of the assets that represent the Bank's continuing involvement with the transferred assets that are derecognized in their entirety.

Type of continuing involvement	Carrying amount Investment securities	Fair value Assets	Liabilities
Bonds issued by unconsolidated securitization vehicles			
June 30, 2023	50,338,608	50,338,608	0
December 31, 2022	50,958,937	50,958,937	0
Residual Interest:			
June 30, 2023	20,660,901	20,660,901	0
December 31, 2022	19,323,448	19,323,448	0

The amount that best represents the Bank's maximum exposure to loss from its continuing involvement in the form of bonds issued by unconsolidated securitization vehicles and residual interest is their carrying amount.

(28) Commitments and Contingencies

In the ordinary course of business, the Bank held financial instruments with off-balance sheet risks to cover the financial needs of its customers. As of June 30, 2023, the Bank has issued promise letters for B/.49,771,747 (2022: B/.107,151,566), of which B/.4,095,437 (2022: B/.7,762,636) are irrevocable.

At June 30, 2023, there is an ongoing lawsuit filed against the El Salvador subsidiary by the Ministry of Finance. The Bank's management and its legal counsel believe that the outcome of these proceedings is not expected to have a material adverse effect on the Bank's financial position.

(29) Leases

At June 30, 2023, the Bank leases office premises mainly for its bank branch and loan granting centers, which do not meet the definition of investment properties in IAS 40. These lease contracts run for periods of between 1, 5 and 10 years, and some include renewal options for an additional period of the same duration after the end of the lease term.

Right-of-use assets
The carrying amount of the right-of-use assets of lease contracts is as follows:

	2023	2022
Property:		
Balance at the beginning of the year	1,495,795	1,978,284
New contracts	0	353,851
Cancellation	0	(329,332)
Depreciation charge for the year	(204,127)	(443,520)
Effect of exchange rates fluctuations	36,432	(63,488)
Balance at the end of the year	1,328,100	1,495,795

Lease liabilities
As of June 30, 2023, the Bank's lease liabilities amount to B/.1,870,861 (2022: B/.1,995,873). See Note 4 (b) for maturity analysis of lease liabilities.

(29) Leases, continued

Amounts recognized in the consolidated statement of profit or loss

As of June 30, 2023, the Bank has recognized interest expenses on its lease liabilities for B/.131,496 (2022: B/.67,313) as part of its financial costs (interest on financing activities) in profit or loss.

Additionally, the Bank has recognized expenses related to leases of 'short-term' and 'low value assets' for B/.34,774 (2022: B/.73,528) as part of rental expenses in profit or loss. See Note 23.

Amounts recognized in the consolidated statement of cash flows

As of June 30, 2023, the total cash outflows for leases recognized in the consolidated statement of cash flows amounts to B/.331,002 (2022: B/.339,849) This amount includes the portion of payments to principal of lease contracts classified as part of the financing activities for B/.164,732 (2022: B/.199,008), the portion of interest on lease liabilities B/.131,496 (2022: B/.67,313) and the portion of expenses relating to short-term leases and leases of low-value assets for B/.34,774 (2022: B/.73,528) classified as operating activities.

(30) Fair value of Financial Instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair value using other valuation techniques

For financial instruments that are traded on a low frequency and have few availability of pricing information, the fair value is less objective, and its determination requires the use of varying degrees of judgement that depend on liquidity, geographical concentration, uncertainty of market assumptions factors in determining prices and other risks affecting the specific instrument.

Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- *Level 1*: inputs that are quoted market prices (unadjusted) in active markets for identical instruments

- *Level 2*: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- *Level 3*: This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(30) Fair value of Financial Instruments, continued

Other valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premises used in estimating discount rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognized valuation models in determining the fair value of common and simple financial instruments, which use only observable market information and require little management judgement. Observable prices and model inputs are usually available in the market for listed debt and exchange-traded equity securities.

The availability of observable market prices and model inputs reduces the need for management judgements and estimation, and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to change based on specific events and general conditions of financial markets.

For more complex instruments, the Bank uses proprietary designed valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates, or estimated based on assumptions. Examples of instruments involving significant unobservable inputs, include investment securities for which there is no active market or retained interests in securitizations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank considers that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account the credit risk of the Bank and the counterparty, where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective, and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

(30) Fair value of Financial Instruments, continued

Mortgage-backed securities and residual interest on securitizations

During 2023, there has not been sufficient trading volume to establish an active market for certain asset-backed securities (e.g., residential mortgage loan bonds and residual interest in securitizations), and so the Bank has determined the fair value for these asset-backed securities using other valuation techniques. These securities held by the Bank are backed by static pools of residential mortgages and enjoy a senior claim on cash flows.

The Bank's methodology for valuing of these asset-backed securities uses a discounted cash flow technique that considers the probability of default and loss severity, by considering the original underwriting criteria, vintage borrower attributes, 'LTV' ratios and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the 'waterfall' applicable to the security and discounted at risk-adjusted rate. The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

Valuation framework

The Bank has established a control framework regarding the measurement of fair values. This control framework includes a control unit which is independent of Management and reports directly to the Executive Vice President of Finance, and which has overall responsibility for independently verifying the results of investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing.
- validation or "re-performance" of the valuation models;
- a review and approval process for new models and changes to actual valuation models;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month.

The Bank uses a third party as a service provider. The control unit assesses and documents the evidence obtained from third parties to support the conclusion that the valuations meet the requirements of IFRS. This includes:

- verify that the pricing service is approved by the Bank;
- obtain an understanding of how the fair value has been determining and whether it reflects current market transactions; and
- when prices for similar instruments are used to determine fair value, how these prices have been adjusted to reflect the characteristics of the instrument being measured.

This process is also monitored by the Audit Committee through Internal Audit.

(30) Fair value of Financial Instruments, continued

Financial instruments measured at fair value – Fair value hierarchy

The following table analyzes financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on values recognized in the consolidated statement of financial position.

		Fair value			
2023	Carrying amount	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets measured at fair value:					
Investment securities at FVOCI	73,330,112	27,305,850	2,344,701	41,889,160	73,330,112
Investment securities at FVTPL	31,458,328	0	1,443,271	30,015,057	31,458,328

		Fair value			
2022	Carrying amount	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets measured at fair value:					
Investment securities at FVOCI	72,837,567	27,240,021	1,810,112	43,787,434	72,837,567
Investment securities at FVTPL	29,592,545	0	1,135,144	28,457,401	29,592,545

During 2023, no transfers were made in the fair value hierarchy for investment securities measured at FVOCI or at FVTPL.

Fair value measurements - Level 3

Reconciliation

The flowing table shows a reconciliation from the beginning balances to ending balances without considering accrued interest receivable for financial instruments recorded at fair value categorized as Level 3 according to the hierarchy of fair value levels:

	2023	2022
Balance at the beginning of the year	70,539,986	77,540,077
Total gains or losses:		
in profit or loss	1,347,610	1,474,674
In OCI	342,209	1,735,761
Purchases	150,223	623,337
Settlements	(972,695)	(10,833,863)
Balance at the end of the year	71,407,333	70,539,986

(30) Fair value of Financial Instruments, continued

Unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

Quantitative information – Level 3 fair values

Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimates (weighted average) 2023	2022
Residential mortgage-backed securities ('RMBS')	Discounted cash flows	Standard Default Assumptions ("SDA")	1.01% - 0.09% (0.45%)	1.32% - 0.10% (0.55%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	46.59% - 30.37% (39.84%)	47.69% - 31.94% (40.92%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 months	12 months
Residual interests in securitizations	Discounted cash flows	Standard Default Assumptions ("SDA")	1.01% - 0.09% (0.45%)	1.32% - 0.10% (0.55%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	46.59% - 30.37% (39.84%)	47.69% - 31.94% (40.92%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 months	12 months
Government bonds	The valuation model is based on different prices of observable references on an active market. Present value of the cash flows of a security, discounted with a reference rate and the corresponding margin.	N/A	N/A	N/A

Effect of unobservable inputs on fair value measurement

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more assumptions used to reasonably possible alternative assumptions would have the following effects.

	2023			
	Effect on profit or loss		Effect on OCI	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Residual interests in securitizations and government bonds:				
Investment securities at FVTPL	59,616	(62,359)	0	0
Investment securities at FVOCI	0	0	33,425	(32,888)
	59,616	(62,359)	33,425	(32,888)

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(30) Fair value of Financial Instruments, continued

	2022			
	Effect on profit or loss		Effect on OCI	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Residual interests in securitizations and government bonds:				
Investment securities at FVTPL	75,327	(75,707)	0	0
Investment securities at FVOCI	0	0	31,116	(32,045)
	75,327	(75,707)	31,116	(32,045)

The favorable and unfavorable effects of using reasonably possible alternative assumptions for the valuation of residential mortgage-backed securities and residual interest in securitizations have been calculated recalibrating the model values, using unobservable inputs based on Bank's possible estimates.

The most significant unobservable inputs refer to the risk discount rates. The reasonable alternative assumptions are 0.5% below and 0.5% above of discount rates used in the models, respectively.

Financial instruments not measured at fair value
The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. This table does not include information about the fair value of financial instruments not measured at fair value when its carrying approximates their fair value.

		Fair value		
2023	Carrying amount	Level 2	Level 3	Total
Assets:				
Financial assets not measured at fair value:				
Loans at AC	775,822,360	0	795,325,480	795,325,480
Investment securities at AC	738,169	772,856	0	772,856
Liabilities:				
Financial liabilities not measured at fair value:				
Time deposits from customers	414,352,442	0	412,307,515	412,307,515
Negotiable commercial papers	63,657,906	0	63,388,388	63,388,388
Negotiable commercial notes	59,741,297	0	54,666,765	54,666,765
Covered bonds	21,619,402	0	21,040,928	21,040,928
Ordinary bonds	7,551,224	0	6,804,351	6,804,351
Investment certificates	17,977,597	0	17,947,623	17,947,623
Other negotiable debt	1,871,377	0	1,855,742	1,855,742
Borrowings	275,827,318	0	275,177,537	275,177,537

(31) Fair value of Financial Instruments, continued

2022	Carrying amount	Fair value Level 2	Level 3	Total
Assets:				
Financial assets not measured at fair value:				
Loans at AC	727,131,109	0	804,710,174	804,710,174
Investment securities at AC	680,856	723,624	0	723,624
Liabilities:				
Financial liabilities not measured at fair value:				
Time deposits from customers	382,069,868	0	380,629,041	380,629,041
Negotiable commercial papers	46,715,496	0	46,548,554	46,548,554
Negotiable commercial notes	63,690,347	0	58,516,325	58,516,325
Covered bonds	21,508,709	0	20,487,060	20,487,060
Ordinary bonds	8,242,113	0	7,181,970	7,181,970
Investment certificates	21,577,248	0	21,537,082	21,537,082
Other negotiable debt	1,727,339	0	1,725,000	1,725,000
Borrowings	287,809,108	0	279,223,033	279,223,033

Inputs used in measuring the fair value of financial instruments not measured at fair value

The table below details information about the significant inputs and assumptions used in measuring the fair value as of June 30, 2023 for the financial instruments that are not measured at fair value.

Financial instrument	Valuation technique and inputs used in the measurement of fair value
Not measured at fair value:	
Deposits from customers	For saving deposits its fair value represents the outstanding amount expected to receive/pay at reporting date. For time deposits its fair value is determined using discounted cash flows at market interest rate.
Investments securities at AC	Fair value represents the amount receivable / payable at the reporting date.
Loans	The fair value of loans represents the discounted expected cash flow to receive. The cash flows are discounted at market interest rates to assess its fair value.
Borrowings	The fair value for loans payable in semiannual interest rate adjustments are determined using the future cash flows discounted at the current market interest rate.
Covered and ordinary bonds	The fair value for covered and ordinary bonds is determined using the future cash flows discounted at the current market interest rate.
Negotiable commercial papers	The fair value for negotiable commercial papers is determined using the future cash flows discounted at the current market interest rate.
Other negotiable debts	The fair value for other negotiable debt is determined using the future cash flows discounted at the current market interest rate.
Negotiable commercial notes and investment certificate	Fair value for the negotiable commercial notes is determined using future cash flows discounted at the current interest rate of the market.

(31) Segment Information

The segment information of the Bank is presented regarding its business lines and has been determined by management based on reports reviewed by senior management for their decision making.

The composition of the business segments is described as follows:

- *Trust management:* This segment includes commissions earned by management and collection of mortgage and personal loans belonging to third parties, which hires the Bank under management contracts to carry out such function.

- *Mortgages as assets:* Within this concept interest income is recognized less costs generated by financing mortgages loans that Bank hold as assets, plus commissions for disbursements and the proportional share of the commissions from collections.

- *Personal loans as assets:* Within this concept interest income is recognized less costs generated by financing personal loans that Bank hold as assets, plus commissions for granted and the proportional share of the commissions from collections.

- *Other investments:* This concept includes the income generated by other investments of the Bank.

Financial information related to each reportable segment is set out below:

2023	Trust management	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	24,675,363	2,768,015	2,650,809	30,094,187
Interest expense	0	(20,729,798)	(1,057,737)	(2,141,645)	(23,929,180)
Provisions for loan losses and for investment securities at AC and at FVOCI	0	25,051	(142,146)	95,823	(21,272)
Net loss arising from modification of loans at AC		67,054	0	0	67,054
Net gain on investments at FVTPL	0	0	0	1,347,611	1,347,611
Management and servicing commissions	1,402,979	2,291,769	144,584	0	3,839,332
Other income, net of commissions paid	0	215,585	11,000	22,273	248,858
General and administrative expenses	(817,522)	(6,412,174)	(1,032,468)	(356,821)	(8,618,985)
Segment income before tax	585,457	132,850	691,248	1,618,050	3,027,605
Segment assets	0	793,561,710	56,279,094	113,950,691	963,791,495
Segment liabilities	0	764,566,306	39,011,961	78,989,188	882,567,455

(31) Segment Information, continued

2022	Trust management	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	21,646,543	3,146,804	2,133,315	26,926,662
Interest expense	0	(15,412,723)	(953,238)	(1,677,158)	(18,043,119)
Provisions for loan losses and for investment securities at AC and at FVOCI	0	(1,065,919)	(148,339)	8,630	(1,205,628)
Net gain on investments at FVTPL	0	0	0	0	0
Realized gain on investment at FVOCI	0	0	0	529,607	529,607
Management and servicing commissions	1,522,686	2,073,534	79,617	0	3,675,837
Other income, net of commissions paid	0	180,404	11,158	19,632	211,194
General and administrative expenses	(732,652)	(6,063,664)	(1,401,995)	(334,477)	(8,532,788)
Segment income before tax	790,034	1,358,175	734,007	679,550	3,561,765
Segment assets	0	752,602,703	59,704,378	114,089,105	926,396,186
Segment liabilities	0	733,048,546	40,454,887	77,305,249	850,808,682

The composition of the geographic segments is described as follows:

2023	Panama	El Salvador	Colombia	Total
Interest income	19,613,203	4,580,780	5,900,204	30,094,187
Interest expense	(16,507,318)	(3,243,410)	(4,178,452)	(23,929,180)
Provisions for loan losses and for investment securities at AC and at FVOCI	33,875	(60,310)	5,163	(21,272)
Net loss arising from modification of loans at AC	67,054	0	0	67,054
Net gain on investments at FVTPL	1,347,611	0	0	1,347,611
Management and servicing commissions	3,131,470	530,279	177,583	3,839,332
Other income, net of commissions paid	20,688	80,477	147,693	248,858
General and administrative expenses	(5,979,756)	(1,163,744)	(1,475,485)	(8,618,985)
Segment income before tax	1,726,827	724,072	576,706	3,027,605
Segment assets	743,994,886	122,430,606	97,366,003	963,791,495
Segment liabilities	704,957,564	102,366,557	75,243,334	882,567,455

2022	Panama	El Salvador	Colombia	Total
Interest income	16,810,129	4,629,714	5,486,819	26,926,662
Interest expense	(13,147,378)	(2,478,244)	(2,417,497)	(18,043,119)
Provisions for loan losses and for investment securities at FVOCI and at amortized cost	(683,094)	33,202	(555,736)	(1,205,628)
Net gain on investments at FVTPL	0	0	0	0
Realized gain on investment at FVOCI	529,607	0	0	529,607
Management and servicing commissions	2,931,168	556,429	188,240	3,675,837
Other income, net of commissions paid	125,771	(24,539)	109,962	211,194
General and administrative expenses	(5,817,913)	(1,110,214)	(1,604,661)	(8,532,788)
Segment income before tax	748,290	1,606,348	1,207,127	3,561,765
Segment assets	710,096,916	127,782,601	88,516,669	926,396,186
Segment liabilities	668,971,904	112,044,092	69,792,686	850,808,682

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(32) Preferential Interests on Mortgage Loans

According to current fiscal regulations in Panama, the financial institutions that grant mortgage loans not exceeding B/.180,000 with preferential interest, receive the benefit of an annual fiscal credit. From July 2010 according to the Law No.8 of March 15, 2010 repealing Article 6 of Law No.3 of 1985, it increases the benefit of a tax credit from the first ten (10) years, to the first fifteen (15) years for new loans for the purpose of new houses in the amount equal to the difference between the income that the lender would have received if you have taken the benchmark interest rate market, which has been in effect during that year and the actual income received in interest in relation to each preferential mortgage loans.

Law No.3 of May 1985 of the Republic of Panama establishes that fiscal credit can be used for payment of national taxes, including income tax. The fiscal credit, under Law No.11 of September 1990, which extends the previous law, and Law No.28 of June 1995, establishes that it can be used only for payment of income tax. If in any fiscal year the financial institution cannot effectively use the entire fiscal credits to which it is entitled, then it can use the excess credit over the next three years, at their convenience, or transfer, in whole or in part, to another taxpayer.

During 2023, the Bank recognized preferential interest income on residential mortgage loans net of reserve amounting to B/.7,315,693 (2022: B/.5,883,591) in profit or loss. During the period The Bank sold fiscal credits to third parties for B/.7,668,365 (2022: B/.6,501,720) without generating profit by B/.426 (2022: 0).

As of June 30, 2023, the accumulated tax credit amounts to B/.30,977,053 (2022: B/.30,035,523), and is included as a line item in the consolidated statement of financial position.

(33) Main Applicable Laws and Regulations

The principal laws and regulations applicable in the Republic of Panama are:

(a) *Banking Law*

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendence of Banks of the Republic of Panama, according to the laws established by Executive Decree No.52 of April 30, 2008, which adopts the sole text Decree Law No.9 of February 26, 1998, amended by Decree Law No.2 of February 22, 2008, by which the banking system in Panama is established and the Superintendence of Banks and the rules that govern it is created.

(b) *Trust Law*

Trust operations in Panama are regulated by the Superintendence of Banks of Panama in accordance with the legislation established in Law No. 1 of January 5, 1984, amended by Law No.21 of May 10, 2017.

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(33) Main Applicable Laws and Regulations, continued

(c) Securities Law

The operations brokerage firm in Panama are regulated by the Superintendence of the Securities Market in accordance with the legislation established in Decree Law No.1 of July 8, 1999, amended by Law No.67 of September 1, 2011.

The operations of brokerage houses are in the process of adaptation to the Agreement No.004-2011, amended on certain provisions by Agreement No.008-2013, established by the Superintendence of the Securities Market, which indicate that they must comply with the capital adequacy rules and modalities.

The main regulations or standards in the Republic of Panama, which influence the preparation of these consolidated financial statements are described below:

(a) General Board Resolution SBP-GJD-0003-2013 issued by the Superintendence of Banks of Panama on July 9, 2013

This resolution establishes the accounting treatment for those differences arising between prudential standards issued by the Superintendence of Banks and International Financial Reporting Standards (IFRS), such that 1) the accounting records and financial statements are prepared in accordance with IFRS as required by the Agreement No.006 – 2012 of December 18, 2012 and 2) in the event that the calculation of a provision or reserve under prudential rules applicable to banks to submit additional accounting specific aspects required IFRS, is greater than the respective calculation under IFRS oversupply or under prudential reserves is recognized in a regulatory reserve in equity.

Prior authorization of the Superintendence of Banks, banks shall be able to partially or totally reverse the provision established, after submitting due justification before the Superintendence of Bank.

(b) Agreement No. 003 – 2009 Dispositions on Acquired Foreclosed Assets, issued by the Superintendence of Banks of Panama on May 12, 2009

For regulatory purposes, the Superintendence sets a term of five (5) years, effective the date of registration before the Public Registry to sell immovable goods acquired for the payment of past due credits. If after that term the Bank has not sold the property acquired, it shall conduct an independent appraisal to determine if its value has decreased, by applying in such case the provisions of IFRS.

Likewise, the Bank shall create a reserve in equity, through the appropriation in the following order of: a) undistributed earnings; b) profits for the period, to which the following value of the foreclosed asset will be transferred:

First year:	10%
Second year:	20%
Third year:	35%
Fourth year:	15%
Fifth year:	10%

(33) Main Applicable Laws and Regulations, continued

The aforementioned reserves shall maintain until the acquired asset is actually transferred, and it shall not be considered a regulatory reserve for purposes of calculating the equity ratio.

(c) *Agreement No.004-2013, "Whereby provisions on credit risk management inherent of in credit portfolio and off-balance sheet transactions are established", issued by the Superintendence of Banks of Panama on May 28, 2013*

Sets forth general classification criteria for credit facilities in order to determine the specific and dynamic provisions to cover the Bank's credit risk. Additionally, this Agreement establishes certain required minimum disclosures, in line with IFRS disclosure requirements about credit risk management and administration.

This Agreement is effective as of June 28, 2000 and repeals all parts of the Agreement No.6-2000 of June 28, 2000 and its amendments, Agreement No.6-2002 of August 12, 2002 and Article 7 of Agreement No.2-2003 of March 12, 2003.

Specific provisions

Agreement No.004-2013 sets forth that specific provisions are generated by any objective and concrete evidence of impairment. These provisions shall be recorded for credit facilities classified in the risk categories named: Special Mention, Substandard, Doubtful or Unrecoverable, both for individual and collective credit facilities.

Banks shall calculate and maintain the amount of the specific provisions determined through the methodology explained in this Agreement, which takes into consideration the balance owed by each credit facility classified in any of the categories subjected to provision, mentioned in the preceding paragraph; the present value of each collateral available as risk mitigating, as established per type of collateral in this Agreement, and a table of estimates applied to the net balance exposed to losses for such credit facilities.

In case of an excess in the specific provision, calculated in conformity with this Agreement, over the provision calculated in accordance with IFRS; this excess shall be accounted for as a regulatory reserve in equity increasing or decreasing through allocations from or to retained earnings. The balance of the regulatory reserve shall not be considered as capital funds for purposes of calculating certain ratios mentioned in this Agreement.

The table below summarizes the classification, based on Agreement No.004-2013, of the loans at amortized of Banco La Hipotecaria, S. A. (Panamanian bank) classified according to it carrying amount, and the specific provisions for each category:

	2023		2022	
Classification	**Balance**	**Allowance**	**Balance**	**Allowance**
Normal	532,714,311	0	494,070,300	0
Special mention	13,970,473	678,375	13,890,205	683,472
Substandard	7,653,611	1,102,804	7,902,844	1,169,360
Doubtful	6,040,925	1,421,229	5,557,944	1,727,718
Unrecoverable	12,198,630	2,502,435	12,763,512	2,438,105
Total	572,577,950	5,704,843	534,184,805	6,018,655

(33) Main Applicable Laws and Regulations, continued

The table below summarizes the balances of past due and default loans for the principal categories:

2023	Current	Past due	Default	Total
Loans to customers	518,702,656	31,944,866	21,930,428	572,577,950
2022	**Current**	**Past due**	**Default**	**Total**
Loans to customers	472,566,163	35,394,342	26,224,300	534,184,805

As of June 30, 2023, the balances of the loans for which their accumulation of interests has been suspended due to an impairment in their credit quality or for the non-performance of payments, in accordance with the established in the Agreement No.004-2013 amounted to B/.23,790,327 (2022: B/.21,081,810)

Dynamic provision

Agreement No.004 - 2013 dictates that the dynamic provision is a reserve established to meet possible future needs for establishment of specific provisions, which is governed by its own prudential bank regulation criteria. The dynamic provision constitutes at quarterly basis on credit facilities that lack specific provision allocated, i.e., on credit facilities classified as Normal.

The dynamic provisioning is an equity item that increases or decreases through allocations from or to retained earnings. The credit balance of this provision is part of dynamic regulatory capital but does not replace or offset the capital adequacy requirements established by the Superintendence.

The balance of the Bank's dynamic provision is detailed as follows:

	2023	2022
Banco La Hipotecaria, S. A.	3,840,794	3,840,794
La Hipotecaria, S. A. de C.V.	1,468,441	1,468,441
La Hipotecaria C. F., S. A.	721,361	721,360
Total	6,030,596	6,030,596

With this Agreement, the Bank establishes a dynamic provision which will not be less than 1.25%, nor higher than 2.50% of the risk weighed assets corresponding to credit facilities classified as normal.

By requirements of Agreement No.004-2013, a regulatory provision was constituted, amounted B/.3,199,409 (2022: B/.3,073,978), which represents the excess of regulatory provision over the allowance for loan losses in accordance with IFRS.

(33) Main Applicable Laws and Regulations, continued

(d) *Agreement No.007-2018 through which provisions on country risk management are established, issued by the Superintendence of Banks of Panama on May 8, 2018*

Country risk exposure

In order to maintain an efficient management of the risk and resources in foreign countries, a country risk factor has been incorporated into the process of risk identification, measurement, evaluation, monitoring, communication and mitigation. Thus, a detailed analysis for the operations in foreign countries was performed, and a series of guidelines, policies and procedures were duly approved by the Board of Directors, for risk management purposes.

Management framework

When incorporating the country risk factor, the Bank designed a document with the initial analyzes; as well as, the determination of limits, policies, procedures, technical manuals, which rest in the section of policies and procedures manuals of the risk area and were duly approved by the corresponding instances and the Board of Directors.

Country risk provision

In accordance with the provisions of Article 15 of Agreement No.007-2018, *"the maximum provisions must be established between those resulting from comparing those corresponding to the nature of the operation and the provisions for country risk. The final provision constituted by country risk will be calculated after deducting the provisions established corresponding to the nature of the operation in question. "For* the operations and resources exposed to country risk, as of June 30, 2023, it was not necessary to make additional provisions, or charges in the Bank's consolidated financial statements.

It is important to mention that, in the future operations may occur that due to their nature could require provisions for country risk; therefore, the Bank's Risk Area provides periodic monitoring that enables timely action to be taken.

(e) *Agreement No.012-2022 through which additional, exceptional and temporary measures are established to comply with the provisions contained in Agreement No.004-2013 on credit risk*

<u>Elimination of the Modified Special Mention credit portfolio</u>

In accordance with the requirements of article 7 of Agreement No.012-2022 of November 1, 2022, banks will migrate the modified credit portfolio classified in the "Special Modified Mention" category to the risk categories of Agreement No. 004-2013, for which, in principle, they will use as a reference the days of arrears that each credit maintains.

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(33) Main Applicable Laws and Regulations, continued

All the credits of the "Modified Special Mention" portfolio reestablished to Agreement No. 004-2013, will be as restructured credits, therefore, in order for them to be reclassified to a lower risk category, they must comply with the conditions of article 19 of the Agreement 004-2013.

To cover credit risk, the Bank must set up provisions on the portfolio of credits reestablished under Agreement 004-2013, ensuring compliance with International Financial Reporting Standards (IFRS) and taking the significant increase in risk, it must also establish the specific provisions required by Agreement 004-2013.

This agreement repeals in all its parts Agreement No. 002-201 of June 11, 2021, and all its modifications, Agreement No. 006-2021 of December 22, 2021 and all its modifications and the General Resolutions of the Board of Directors No. SBP-GJD-0003-2021 of June 11, 2021 and SBP-GJD-0004-2021 of June 21, 2021.

The principal laws and regulations applicable in the Republic of El Salvador are:

(a) *Law of the Superintendence of Corporate Obligations (formerly Business Enterprises)*
The operations of business enterprises in El Salvador are regulated by the Superintendence of Companies and Corporations, contained in Legislative Decree No.448 of October 9, 1973.

(b) *Securities Law*
The operations of issuers and brokerage positions in El Salvador are regulated by the Superintendence of Securities in accordance with the procedures established in the Decree Law No.809 of April 31, 1994. According to Legislative Decree No.592 of January 14, 2011, the Securities ceased to exist as of August 2, 2011, which contains the Law on Regulation and Supervision of the Financial System, published in Official Journal No.23 of February 2, 2011, effective as of August 2, 2011, and gave rise to the creation of the new Financial System Superintendence as single oversight body that integrates the functions of the former Superintendence of the Financial System, Pensions and Securities.

The principal laws and regulations applicable in the Republic of Colombia are:

(a) *Laws for Commercial Business*
The operations of commercial business in Colombia are regulated by the Superintendence of Companies in accordance with the laws established in the Decree Law No.222 of December 20, 1995.

(33) Main Applicable Laws and Regulations, continued

(b) *Equity Tax*

According to Decree 4825 of December 29, 2010, issued by the Ministry of Finance and Public Credit, establishing the state tax applicable to juridical persons, natural and de facto societies. This tax is generated by the possession of wealth by January 1, 2011, whose value equals or exceeds one billion Colombian pesos and less than three billion Colombian pesos. The tax rate ranges from 1% to 1.4% a surcharge of 25% is added to the wealth tax result. The wealth tax is presented in the consolidated statement of profit or loss in the tax line item.

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BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Schedule 1

Consolidated Schedule - Information of the Consolidated Statement of Financial Position

June 30, 2023

(Stated in Balboas)

Assets	Consolidated	Eliminations	Sub-total	Banco La Hipotecaria, S. A.	La Hipotecaria Compañía de Financiamiento, S. A. (Colombia)	La Hipotecaria, S. A. de C. V. (El Salvador)
Cash and cash equivalent	311,387	0	311,387	310,210	477	700
Deposits in banks:						
Demand deposits in local banks	19,365,333	(4,226,431)	23,591,764	18,981,826	2,037,874	2,572,064
Demand deposits in foreign banks	4,609,938	4,226,431	383,507	0	0	383,507
Savings deposits in local banks	3,826,980	(4,502,498)	8,329,478	3,826,980	4,294,720	207,778
Savings deposits in foreign banks	5,085,656	4,495,377	590,279	583,158	0	7,121
Time Deposits	0	0	0	0	0	0
Total deposits in banks	32,887,907	(7,121)	32,895,028	23,391,964	6,332,594	3,170,470
Total of cash, cash equivalents and deposits in banks	33,199,294	(7,121)	33,206,415	23,702,174	6,333,071	3,171,170
Investment securities, net	105,526,609	(121,225)	105,647,834	99,116,343	4,707,820	1,823,671
Investment in affiliates	0	(33,646,744)	33,646,744	33,284,484	0	362,260
Loans at amortized cost (AC)	775,822,360	0	775,822,360	576,982,802	82,872,440	115,967,118
Furniture, equipment and improvements, net	1,475,363	0	1,475,363	760,091	697,676	17,596
Accounts receivable	8,062,914	(1,900,000)	9,962,914	8,071,712	999,171	892,031
Tax credit	30,977,053	0	30,977,053	30,977,053	0	0
Deferred tax asset	998,752	0	998,752	626,361	172,865	199,526
Right-of-use assets	1,328,100	0	1,328,100	958,224	274,535	95,341
Other assets	6,401,050	0	6,401,050	4,821,351	1,308,425	271,274
Total assets	963,791,495	(35,675,090)	999,466,585	779,300,595	97,366,003	122,799,987
Liabilities and Equity						
Liabilities:						
Deposits from customers:						
Savings deposits - local	3,052,984	0	3,052,984	3,052,984	0	0
Savings deposits - foreign	2,312,201	(7,121)	2,319,322	2,319,322	0	0
Time deposits - local	348,652,276	(38,530,311)	387,182,587	348,652,276	38,530,311	0
Time deposits - foreign	65,700,166	38,530,311	27,169,855	27,169,855	0	0
Total deposits from customers	419,717,627	(7,121)	419,724,748	381,194,437	38,530,311	0
Negotiable commercial papers	63,657,906	0	63,657,906	63,657,906	0	0
Negotiable commercial notes	59,741,297	0	59,741,297	59,741,297	0	0
Covered bonds	21,619,402	0	21,619,402	21,619,402	0	0
Ordinary bonds	7,551,224	(121,225)	7,672,449	0	7,672,449	0
Investment certificates	17,977,597	0	17,977,597	0	0	17,977,597
Other negotiable debts	1,871,377	0	1,871,377	0	0	1,871,377
Borrowings	275,827,318	0	275,827,318	166,281,773	28,344,515	81,201,030
Leases liabilities	1,870,861	0	1,870,861	1,469,220	288,877	112,764
Income tax payable	487,155	0	487,155	271,983	0	215,172
Accounts payable - related parties	0	(1,900,000)	1,900,000	0	0	1,900,000
Other liabilities	12,245,691	25,124	12,220,567	10,728,667	503,283	988,617
Total liabilities	882,567,455	(2,003,222)	884,570,677	704,964,685	75,339,435	104,266,557
Equity						
Common shares	15,000,000	(12,000)	15,012,000	15,000,000	0	12,000
Treasury shares	(727,000)	0	-727,000	(727,000)	0	0
Additional paid-in capital	25,454,161	(34,721,546)	60,175,707	25,428,287	28,934,546	5,812,874
Capital reserve	1,800,000	0	1,800,000	0	0	1,800,000
Fair value reserve	(2,863,372)	0	(2,863,372)	(2,551,156)	(109,115)	(203,101)
Foreing currency translation reserve	(11,750,911)	521,465	(12,272,376)	0	(12,272,376)	0
Regulatory reserves	9,230,005	(25,124)	9,255,129	7,040,203	721,361	1,493,565
Retained earnings	44,303,610	(212,210)	44,515,820	30,145,576	4,752,152	9,618,092
Total equity, excluding non-controlling interest	80,446,493	(34,449,415)	114,895,908	74,335,910	22,026,568	18,533,430
Non-controlling interest	777,547	777,547	0	0	0	0
Total equity	81,224,040	(33,671,868)	114,895,908	74,335,910	22,026,568	18,533,430
Total liabilities and equity	963,791,495	(35,675,090)	999,466,585	779,300,595	97,366,003	122,799,987

See the accompanying independent auditors´report

Schedule 2

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Schedule - Information of the Consolidated Statement of Profit or Loss

For the period ended June 30, 2023

(Stated in Balboas)

	Consolidated	Eliminations	Sub-total	Banco La Hipotecaria, S. A.	La Hipotecaria Compañía de Financiamiento, S. A. (Colombia)	La Hipotecaria, S. A. de C. V. (El Salvador)
Interest income calculated using the effective interest method:						
Loans	27,443,388	0	27,443,388	17,540,950	5,339,595	4,562,843
Investment in securities	2,048,690	(8,664)	2,057,354	1,760,689	284,177	12,488
Deposits in banks	593,354	(101)	593,455	311,574	276,432	5,449
Total interest income	30,085,432	(8,765)	30,094,197	19,613,213	5,900,204	4,580,780
Interest expense:						
Deposits from customers	10,818,526	(101)	10,818,627	8,437,625	2,381,002	0
Borrowings, debt securities in issue and leases	13,101,899	(8,664)	13,110,563	8,069,703	1,797,450	3,243,410
Total interest expense	23,920,425	(8,765)	23,929,190	16,507,328	4,178,452	3,243,410
Net interest income	6,165,007	0	6,165,007	3,105,885	1,721,752	1,337,370
Provision for credit losses on loans at AC	104,035	0	104,035	34,148	7,897	61,990
Provision for credit losses on investment securities at AC	188	0	188	270	(82)	0
Provision for credit losses on investment securities at FVOCI	-82,951	0	-82,951	-68,293	(12,978)	-1,680
Net gain arising from modified loans at AC	(67,054)	0	(67,054)	(67,054)	0	0
Net interest income, after provisions for impairment losses on financial assets	6,210,789	0	6,210,789	3,206,814	1,726,915	1,277,060
Income from banking services, commissions and others, net:						
Net income from investment securities at FVTPL	1,347,611	0	1,347,611	1,347,611	0	0
Management and servicing commissions	3,839,332	0	3,839,332	3,131,470	177,583	530,279
Other commissions incurred	(522,366)	0	(522,366)	(424,851)	0	-97,515
Othe income	771,224	0	771,224	445,539	147,693	177,992
Total income from banking services and others, net	5,435,801	0	5,435,801	4,499,769	325,276	610,756
General and administrative expenses						
Salaries and other personnel benefits	3,582,191	0	3,582,191	2,605,475	558,622	418,094
Depreciation and amortization of furniture, equipment and imp	188,047	0	188,047	127,951	44,629	15,467
Depreciation of right-of-use assets	204,127	0	204,127	139,744	23,535	40,848
Professional and legal fees	985,179	0	985,179	703,314	72,111	209,754
Taxes	1,191,546	0	1,191,546	613,767	305,198	272,581
Other expenses	2,467,895	0	2,467,895	1,789,505	471,390	207,000
Total general and administrative expenses	8,618,985	0	8,618,985	5,979,756	1,475,485	1,163,744
Net income before income tax	3,027,605	0	3,027,605	1,726,827	576,706	724,072
Current tax expense	675,207	0	675,207	271,983	94,720	308,504
Deferred tax expense	101,828	0	101,828	109,810	0	(7,982)
Total income tax expense	777,035	0	777,035	381,793	94,720	300,522
Net income	2,250,570	0	2,250,570	1,345,034	481,986	423,550

See the accompanying independent auditors´report