BANCO LA HIPOTECARIA, S. A.
AND SUBSIDIARIES
(Panamá, República de Panamá)

Consolidated Financial Statements

March 31, 2020

(With the certification of the Accountant)

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 positionas of March 31, 2020, 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 theBank, 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 March 31, 2020 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

April 30, 2020
Panama, Republic of Panama

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

Consolidated Statement of Financial Position

March 31, 2020

(Stated in Balboas)

Assets	Note	2020	2019
Efectivo y efectos de caja	8	370,011	319,319
Depósitos en bancos:			
Demand deposits in local banks		38,588,748	28,898,311
Demand deposits in foreign banks		11,778,811	8,040,340
Savings deposits in local banks		4,188,035	1,105,001
Savings deposits in foreign banks		4,893,343	2,528,732
Total deposits in banks		59,448,937	40,572,384
Total of cash, cash equivalents and cash in banks		59,818,948	40,891,703
Investment in securities		99,909,361	98,816,449
Less: Allowanse for seurities		(2,093)	(354)
Investment in securities, net	9	99,907,268	98,816,095
Loans		708,066,816	702,621,991
Accrued interest receivable		1,372,695	1,644,195
Loans at gross carrying amount		709,439,511	704,266,186
allowance for loans losses		(553,152)	(678,753)
Loans at amortized cost (AC)	10,32	708,886,359	703,587,433
Furniture, equipment and improvements, net	11	2,685,106	2,790,568
Accounts and interest receivable at fair value	12	4,145,341	2,863,466
Accounts receivable - related parties		66,031	0
Tax credit	34	13,526,947	10,037,951
Deferred tax	26	890,011	1,080,497
Right-of-use assets	29	2,985,591	3,178,540
Other assets	13	4,584,031	3,897,979
Total assets		897,495,633	867,144,232

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

Liabilities and Equity	Nota	2020	2019
Liabilities:			
Deposits from customers:			
Savings deposits - local		1,217,125	1,222,872
Savings deposits - foreign		792,726	1,675,825
Time deposits - local		212,883,895	205,779,165
Time deposits - foreign		79,055,719	80,655,803
Accrued interest payable		1,591,461	1,721,277
Total deposits from customers		295,540,926	291,054,942
Negotiable commercial papers	14, 32	113,413,889	107,589,534
Negotiable commercial notes	15, 32	122,293,839	116,529,662
Covered bonds	16, 32	51,004,774	51,010,903
Ordinary bonds	17, 32	2,641,022	4,374,117
Investment certificates	18, 32	35,050,807	37,032,086
Other negotiable debts	19, 32	36,047,636	28,973,747
Borrowimgs	20, 32	156,631,609	145,861,823
Leases Liabilities	29	983,186	654,615
Income tax payable	26	3,177,295	3,331,610
Other liabilities	21	6,189,428	5,104,306
Total de pasivos		822,974,411	791,517,345
Equity:			
Common shares		15,000,000	15,000,000
Additional paid-in capital		25,025,329	(727,000)
Treasury shares		(727,000)	25,025,329
Capital reserve		1,800,000	1,800,000
Fair value reserve		4,541,129	2,303,755
Currency translation reserve		(11,223,098)	(6,624,056)
Regulatory reserves		8,401,571	8,252,509
Retained earnings		30,634,063	29,704,882
Total equity attributable to controlling interest no controladora		73,451,994	74,735,419
Non-controlling interest		1,069,228	891,468
Total equity		74,521,222	75,626,887
Commitments and contingencies	30		
Total liabilities and equity		897,495,633	867,144,232

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

Consolidated Statement of Income

Period ended March 31, 2020

(Stated in Balboas)

	Nota	2020	2019
Interest income calculated using the effective interest method:			
Loans		12,440,041	11,065,043
Investment in securities		938,310	812,145
Deposits in banks		62,927	52,740
Total interest income		13,441,278	11,929,928
Commission of:			
Granting of oans		558,143	703,882
Total of interest and granting income		13,999,421	12,633,810
Interest expense:			
Deposits from customers		3,534,468	2,905,194
Borrowings, debt securities in issue and leases		6,164,942	5,859,888
Total interest expenses		9,699,410	8,765,082
Net interest income		4,300,011	3,868,728
Impairment losses on financial assets:			
Provision for credit losses on loans at AC	5	39,219	175,573
Provision for credit losses on investment securities at FVOCI	5	35,452	(253)
Provision for credit losses on investment securities at AC	5	1,738	(77,143)
Net interest income, after provisions for impairment losses on financial assets		4,223,602	3,770,551
Income from banking services, commissions and others, net:			
Net income from securities at FVTPL	9	317,421	388,401
Net income from securities at FVOCI	9	21,468	0
Management and servicing commissions	24	1,730,320	1,574,469
Other commissions incurred		(187,268)	(179,086)
Othe income	24	251,608	805,020
Total income from banking services and others, net		2,133,549	2,588,804
General and administrative expenses			
Salaries and other personnel benefits	7, 25	2,415,706	2,329,869
Depreciation and amortization of furniture, equipment and improvements	11	229,840	232,842
Depreciation of right-of-use assets	31	155,850	166,023
Professional and legal fees		369,146	521,558
Taxes		599,554	535,018
Other expenses	6, 25	1,082,559	1,303,904
Total general and administrative expenses		4,852,655	5,089,214
Net income before income tax		1,504,496	1,270,141
Income tax	26	415,142	265,638
Net income		1,089,354	1,004,503
Income attributable to:			
Controlling interest		1,078,243	993,729
Non-controlling interest		11,111	10,774
		1,089,354	1,004,503
Basic earnings per share	23	76.32	70.37
Diluted earnings per share	23	76.32	70.37

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

Period ended March 31, 2020

(Stated in Balboas)

	2020	2019
Net income	1,089,354	1,004,503
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		
Debt investments at FVOCI – reclassified to profit or loss	2,221,757	1,056,940
Movement in expected credit loss (ECL) reserve for FVOCI debt instruments:		
Debt investments at FVOCI – net change in ECL reserve	35,452	(77,143)
Movement in fair value reserve for loan portfolio acquired:		
Amortization of fair value	(19,835)	(845,832)
Movement in foreign currency translation reserve:		
Foreign operations – foreign currency translation differences	(4,432,393)	487,174
Total other comprehensive income (loss)	(2,195,019)	621,139
Total comprehensive income	(1,105,665)	1,625,642
Comprehensive income attributable to:		
Controlling interest	(1,283,425)	1,596,570
Non-controlling interest	177,760	29,072
	(1,105,665)	1,625,642

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
(Panamá, República de Panamá)

Consolidated Statement of Changes in Equity

Period ended March 31, 2020

(Stated in Balboas)

	Attributable to the controlling interest												
					Fair value reserve				Regulatory reserves				
	Common shares	Additional paid-in capital	Treasury shares tesorería	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	Retained earnings	Non-controlling interest	Total equity
Balance at December 31, 2018	15,000,000	25,025,329	(727,000)	1,800,000	218,221	263,676	1,087,672	(6,455,494)	6,914,770	968,783	25,977,166	846,772	70,919,895
Net income	0	0	0	0	0	0	0	0	0	0	993,729	10,774	1,004,503
Other comprehensive income (loss):													
Fair value reserve – debt instruments at FVOCI:													
Debt investments at FVOCI – net change in fair value	0	0	0	0	1,056,940	0	0	0	0	0	0	0	1,056,940
Debt investments at FVOCI – reclassified to profit or loss	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	(77,143)	0	0	0	0	0	0	-77,143
Fair value reserve for loan portfolio acquired:													
Amortization of fair value	0	0	0	0	0	0	(845,832)	0	0	0	0	0	-845,832
Foreign currency translation reserve:													
Foreign operations – foreign currency translation differences	0	0	0	0	0	0	0	468,876	0	0	0	18,298	487,174
Total other comprehensive income (loss)	0	0	0	0	1,056,940	(77,143)	(845,832)	468,876	0	0	0	18,298	621,139
Total comprehensive income	0	0	0	0	1,056,940	(77,143)	(845,832)	468,876	0	0	993,729	29,072	1,625,642
Other equity transactions:													
Allocation of regulatory reserves - dynamic and specific	0	0	0	0	0	0	0	0	559,513	0	-559,513	0	0
Transactions with equity holders of the Bank:													
Contributions and distributions:													
Decrease in additional paid-in capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Treasury shares	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
Total contributions and distributions	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance at March 31, 2020	15,000,000	25,025,329	-727,000	1,800,000	1,275,161	186,533	241,840	-5,986,618	7,474,283	968,783	26,411,362	875,844	72,545,537
Balance at December 31, 2019	15,000,000	25,025,329	(727,000)	1,800,000	1,984,853	136,567	182,335	(6,624,056)	7,034,453	1,218,056	29,704,882	891,468	75,626,887
Net income	0	0	0	0	0	0	0	0	0	0	1,078,243	11,111	1,089,354
Other comprehensive income (loss):													
Fair value reserve – debt instruments at FVOCI:													
Debt investments at FVOCI – net change in fair value	0	0	0	0	2,221,757	0	0	0	0	0	0	0	2,221,757
Debt investments at FVOCI – reclassified to profit or loss	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	35,452	0	0	0	0	0	0	35,452
Fair value reserve for loan portfolio acquired:													
Amortization of fair value	0	0	0	0	0	0	(19,835)	0	0	0	0	0	(19,835)
Foreign currency translation reserve:													
Foreign operations – foreign currency translation differences	0	0	0	0	0	0	0	(4,599,042)	0	0	0	166,649	(4,432,393)
Total other comprehensive income (loss)	0	0	0	0	2,221,757	35,452	(19,835)	(4,599,042)	0	0	0	166,649	(2,195,019)
Total comprehensive income	0	0	0	0	2,221,757	35,452	(19,835)	(4,599,042)	0	0	1,078,243	177,760	(1,105,665)
Other equity transactions:													
Allocation of regulatory reserves - dynamic and specific	0	0	0	0	0	0	0	0	0	149,062	(149,062)	0	0
Transactions with equity holders of the Bank:													
Contributions and distributions:													
Complementary tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Total contributions and distributions	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance at December 31, 2019	15,000,000	25,025,329	-727,000	1,800,000	4,206,610	172,019	162,500	(11,223,098)	7,034,453	1,367,118	30,634,063	1,069,228	74,521,222

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

Period ended March 31, 2020

(Stated in Balboas)

	Nota	2020	2019
Operating activities:			
Net income		1,089,354	1,004,503
Adjustment to reconcile net income and cash from operating activities:			
Provision for credit losses on loans at AC	5	39,219	175,573
Provision for credit losses on investment securities at AC	5	37,190	(77,396)
Net gain on investment securities at FVTPL		(317,421)	(474,786)
Net gain on sale of investment securities at FVOCI	9	0	182,731
Depreciation and amortization of furniture, equipment and improvements	11	229,840	232,842
Depreciation of right-of-use assets	31	155,850	166,023
Gain on sale of foreclosed assets		39,159	0
Net interest income		(3,741,868)	(3,461,911)
Income tax expense	26	415,142	265,638
Changes in operating assets and liabilities:			
Loans		(5,357,980)	73,837,185
Accounts receivable		(1,822,512)	(420,798)
Accounts receivable - related parties		(66,031)	(432,557)
Sale of tax credits	34	0	2,610,601
Accrual of tax credits		(3,488,996)	(13,485,893)
Other assets		(497,625)	(5,717,699)
Saving deposits from customers		5,374,830	19,133,325
Time deposits from customers		(888,846)	469,671
Other liabilities		1,104,630	9,738,361
Cash generated from operations:			
Interest received		13,981,914	12,100,339
Interest paid		(9,075,070)	(7,929,836)
Income tax paid		(884,734)	(221,018)
Cash flows from operating activities		(3,673,955)	87,694,898
Investment activities:			
Acquisition of investment securities at FVOCI		273,689	(36,785,499)
Proceeds from sale and redemption of investment securities at AC		1,136,196	7,816,632
Disposal of fixed assets		53,371	-
Acquisition of furniture, equipment and improvements		(141,367)	(129,940)
Cash flows from investment activities		1,321,889	(29,098,807)
Financing activities:			
Proceeds from borrowings		62,802,296	10,509,316
Repayment of borrowings		(52,032,510)	(75,624,634)
Proceeds from issuance of negotiable commercial papers		30,701,000	23,671,128
Redemption of negotiable commercial papers		(24,876,645)	(28,182,000)
Proceeds from issuance of negotiable commercial notes		13,133,000	11,958,071
Redemption of negotiable commercial notes		(7,368,823)	(22,180,000)
Proceeds from issuance of investment certificates		2,000,000	7,421,370
Redemption of investment certificates		(2,984,450)	-
Proceeds from issuance of negotiable debts		9,027,000	1,049,281
Redemption of negotiable debts		(2,949,940)	(9,000,000)
Redemption of ordinary bonds		(1,733,095)	(920,884)
Proceeds from issuance of covered bonds		(6,129)	(30,625)
Non-controlling interest		166,649	18,298
Complementary tax		0	0
Cash flows from financing activities		25,878,353	(16,195,361)
Net increase in cash and cash cash equivalents		23,526,287	-15,002,194
Cash and cash equivalents at the beginning of the year		40,891,703	39,120,668
Effect of exchange rate fluctuations		(4,599,042)	471,447
Cash and cash equivalents at the end of the year	8	59,818,948	24,589,921

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 the 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 whose main shareholder is Grupo Assa, S. A. in 69.01% (2019: 69.01%).

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. The Bank is registered with the Superintendence of the Securities Market by means of Resolution No.487-01 of December 14, 2001.

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

	Activity	Country of Incorporation	Controlling Interest	
			2019	2018
La Hipotecaria Compañía de Financiamiento, S. A.	Grant residential mortgage loans, manage residential mortgage loans in the Republic of Colombia.	Colombia	94.99%	94.99%
La Hipotecaria, S. A. de C. V.	Grant residential and personal mortgage loans, manage residential and personal mortgage loans in the Republic of El Salvador.	El Salvador	99.99%	99.98%

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

The main office is located on Via España, Plaza Regency, floor No. 13, Panama City.

Thereafter, 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) as issued by the International Accounting Standards Board (IASB)

The Audit Committee of the Bank reviewed and authorized the issuance of these consolidated financial statements on April 30, 2020.

(2) Basis of Preparation, continued

(b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following items:

Item	Basis of Measurement
Financial instruments at fair value through profit or loss (FVTPL)	Fair value
Investments in securities measured at fair value through other comprehensive income (FVOCI)	Fair value

(c) Functional and Presentation Currency

The consolidated financial statements are presented in balboas (B /.), The monetary unit of the Republic of Panama, which is on par and is freely exchangeable with the dollar (US $) of the United States of America. The Republic of Panama does not issue its own paper money and, instead, the United States of America dollar is used as legal tender. The functional currency of the Bank's subsidiary in Colombia is the Colombian peso (COP), and the functional currency of the subsidiary in El Salvador is the United States of America dollar (US $)

(3) Changes in Significant Accounting Policies

The Bank has consistently applied accounting policies as established in Note 4 to all periods presented in these consolidated financial statements.

(4) 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, except as indicated in policy 4 (r) (see also Note 3):

(a) Basis of Consolidation

(a.1) Subsidiaries

The subsidiaries are participated entities controlled by the Bank. The Bank controls a subsidiary as it is exposed, or has rights, to variable returns from its involvement in the subsidiary and has the ability to affect those returns through its power over the investee. 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.

(4) Summary of Significant Accounting Policies, continued

(a.2) Structured Entities

A structured entity, is an entity that has been designed so that the rights to vote or similar they are not the determinant factor to decide who controls the entity, as when the rights to vote are related only to the 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 intention and design; its present aptitude to direct the relevant activities; the nature of its relation with other parts; 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. Whether the Bank retains any interest 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.

(4) 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 current exchange rate at the end of the year.
- Revenue 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 adjustments due to translation are recorded in a separate account directly in the consolidated statement of changes in equity, under 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 party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially 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 assets is classified as measured at: amortized cost, at FVOCI or at 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 specific 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:

(4) Summary of Significant Accounting Policies, continued

- 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 specific dates to cash flows that are SPPI on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in 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 a business model in which an 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. In particular, whether management's strategy focuses on earning contractual interest revenue, 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 portafolio is evaluated and reported to the Group'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 those sales, and its expectations about future sales activity; however, information on sales activity is not considered in isolation, but as part of an assessment of how the Bank's stated objective for managing financial assets is achieved and how cash flows are realized.

(4) Summary of Significant Accounting Policies, continued

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.

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 of the time value of money and 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 (i.e. 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 whether the financial asset contains a contractual term that could change the timing or amount of the 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. asset agreements without resources); and
- features that modify the considerations of the time value of money (e.g periodic 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 the loans without significant penalties.

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

In addition, a prepaid 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 amount at par plus the interest accrued contractually but not paid (which may include reasonable compensation for early termination), and the fair value of the prepaid feature is insignificant at initial recognition.

(4) Summary of Significant Accounting Policies, continued

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.

Reclassification
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group 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 book value of the asset and the maximum amount of the consideration that the Bank could be obliged to pay.

The Bank, sporadically and in accordance to its liquidity needs, enters into transactions whereby it transfers assets recognized on 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 explanied in Note 4 (f).

(4) Summary of Significant Accounting Policies, continued

<u>*Financial liabilities*</u>
The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(c.4) Modification of financial assets
<u>*Financial assets*</u>
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.

(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.

(4) Summary of Significant Accounting Policies, continued.

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.

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 excemption to any other financial instrument.

12-month ECL are the portion of lifetime ECL that results 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 its maximum contractual period of exposure. The 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'.

(4) Summary of Significant Accounting Policies, continued

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.

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 'Stafe 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 observabled 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 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.

(4) Summary of Significant Accounting Policies, continued

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.

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 the 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; and
- *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.

(4) Summary of Significant Accounting Policies, continued

(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' caption in the consolidated statement of financial position 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 those incremental direct transaction costs; subsequently at their amortized cost using the effective interest rate method.

(f) Investment securities

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

- debt investment securities measured at amortized cost; 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 of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(4) Summary of Significant Accounting Policies, continued

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 lives and residual value 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.

(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 as held for sale are recognized in the consolidated statement of profit or loss.

(i) *Deposits, Borrowed Funds and Debt Securities Issued*

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

(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

(4) Summary of Significant Accounting Policies, continued

Termination benefits are recognized as expenses between whichever occurs first 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 wholly settled within twelve months of the consolidated statement of financial position, 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) *Earnings per Share*
The Bank presents basic and diluted earnings per share (EPS) data fot its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

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

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.

(n) *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.

(4) Summary of Significant Accounting Policies, continued

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 on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset.

Presentation
Interest income 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.

(o) *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.

(4) Summary of Significant Accounting Policies, continued

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.

Performance obligations and revenue recognition policy for fees and commission Income
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 Commissions	The Bank provides banking services to retail and corporate customers that maintains saving or time deposits, for the issuance of checks and bank confirmations.	Revenue related to transactions is recognized at the point in time when the transaction takes place.
Portfolio management for trusts	The Bank provides portfolio management services. Commissions 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	The Bank provides insurance management and collection services. Commissions for insurance management and collection services are fixed and are received in a monthly basis.	Revenue from insurance management services is recognized over time as the services are provided.

(p) *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 4 (o).

(4) Summary of Significant Accounting Policies, continued

(q) Net Income from as Financial Instruments at Fair Value through Profit or Loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships

and financial assets and financial liabilities designated as at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(r) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and, therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately. The impact of the change in the Bank's leases accounting policy has been disclosed in Note 3.

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 consideration in the contract to each lease component ont 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.

(4) Summary of Significant Accounting Policies, continued

As lessee - Under IFRS 16

The Bank recognizes a right-of-use asset and a lease liability on the start date of the lease. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payment made on or before the start date, plus the initial direct costs incurred and an estimate of the costs for dismantle and dispose of the underlying asset or to restore the underlying asset or the site where it is located, less the 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 lives 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 easily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing interest rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the start date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably sure to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and the penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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 paid under a residual value guarantee, or if the Bank changes its evaluation 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.

(4) Summary of Significant Accounting Policies, continued

Short-term leases and low-value asset leases

The Bank has chosen 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 a straight-line expense during the lease term, in the consolidated statement of income.

(s) 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.

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying accounts 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.

(t) Comparative Information

The accounting policies detailed above have been consistently applied in the periods presented in the consolidated financial statements.

Some figures for 2018 included in the consolidated financial statements were reclassified to standardize and clarify their presentation with that of the 2019 consolidated financial statements.

(s) New IFRS Standards issued but not yet effective

New standards, interpretations and amendments to IFRS Standards have been published, but are not mandatory as of December 31, 2019, and the Bank has not early adopted them in preparing these consolidated financial statements.

The Bank does not expect the following amendments to IFRS Standards to have a significant impact on the consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of Material (Amendments to IAS 1 and IAS 8).

(5) 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 risk. 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.

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

The Audit Committee of the Bank supervises the way in which management monitors the compliance of the policies and procedures of risk management and it 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 Superintendency 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) Financial Risk Management, continued

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 eight 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.

9. To develop and maintain the Bank's processes to measure the losses allowance for ECL, including the processes for its initial approval, regular assessment and validation, and the retrospective testing of the models used in its estimation; and the incorporation of prospective 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.

To mitigate the credit risk, the risk management policies establish processes and controls to follow for loans approvals or credit facilities. 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..

(5) Financial Risk Management, continued

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 assessment 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 Committe, Risk Committee and Collections Committee, which periodically monitor the financial condition of the respective debtors and issuers, involving a credit risk for the Bank

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 collaterall 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 Nota 4 (c.7).

	2019			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
Loans				
Normal or low-fair risk	677,402,565	0	0	677,402,565
Watch-list	18,953,573	0	0	18,953,573
Substandard	0	2,034,256	277,363	2,311,619
Doubtful	0	2,791,299	676,814	3,468,113
Loss	0	0	5,930,946	5,930,946
Accrued interest receivable	1,308,315	34,455	29,925	1,372,695

Gross amount	697,664,453	4,860,010	6,915,048	709,439,511
Allowance for impairment loss	(192,645)	(67,492)	(293,015)	(553,152)
Carrying value, net	697,471,808	4,792,518	6,622,033	708,886,359
Investment securities at AC				
Normal or low-fair risk	220,133	0	0	220,133
Gross amount	220,133	0	0	220,133
Allowance for impairment loss	(2,092)	0	0	(2,092)
Carrying value, net	218,041	0	0	218,041
Investment securities at FVOCI				
Normal or low-fair risk	75,446,624	0	0	75,446,624
	172,019	0	0	172,019
Promissory notes				
Normal or low-fair risk	58,873,675	0	0	58,873,675

(5) Financial Risk Management, continued

	2019			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
Loans				
Normal or low-fair risk	673,325,331	0	0	673,325,331
Watch-list	18,884,491	0	0	18,884,491
Substandard	0	2,204,470	515,767	2,720,237
Doubtful	0	1,834,865	526,225	2,361,090
Loss	0	0	5,330,842	5,330,842
Accrued interest receivable	1,567,996	41,208	34,991	1,644,195
Gross amount	693,777,818	4,080,543	6,407,825	704,266,186
Allowance for impairment loss	(239,631)	(119,208)	(319,914)	(678,753)
Carrying value, net	693,538,187	3,961,335	6,087,911	703,587,433
Investment securities at AC				
Normal or low-fair risk	219,971	0	0	219,971
Gross amount	219,971	0	0	219,971
Allowance for impairment loss	(354)	0	0	(354)
Carrying value, net	219,617	0	0	219,617
Investment securities at FVOCI				
Normal or low-fair risk	74,442,164	0	0	74,442,164
	136,576	0	0	136,567
Promissory notes				
Normal or low-fair risk	68,043,250	0	0	68,043,250

At March 31, 2020, the Bank performed the credit quality analysis over its off-balance accounts. The total of the off-balance sheet transactions 100%, correspond to revocable promissory notes and its credit risk has been assessed as 'normal or low 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.

2020

	('Stage 1')	('Stage 2')	('Stage3')	Total
Personal Loans				
Current	66,548,112	0	0	66,548,112
Non performings < 30	3,665,642	0	0	3,665,642
Non performings > 30 and < 60	1,597,478	0		1,597,478
Non performings > 60 and < 90	0	863,705	0	863,705
Non performings > 90	0	0	1,120,608	1,120,608
Mortgage Loans				
Current	577,182,835	0	0	577,182,835
Non performings < 30	30,005,976	0	0	30,005,976
Non performings > 30 and < 60	16,492,390	0	0	16,492,390
Non performings > 60 and < 90	0	4,825,555	0	4,825,555
Non performings > 90	0	0	5,764,515	5,764,515

(5) Financial Risk Management, continued

	2019			
	('Stage 1')	('Stage 2')	('Stage3')	Total
Personal Loans				
Current	67,829,251	0	0	67,829,251
Non performings < 30	3,810,941	0	0	3,810,941
Non performings > 30 and < 60	1,417,360	0		1,417,360
Non performings > 60 and < 90	0	759,622	0	759,622
Non performings > 90	0	0	1,171,130	1,171,130
Mortgage Loans				
Current	567,346,774	0	0	567,346,774
Non performings < 30	34,338,365	0	0	34,338,365
Non performings > 30 and < 60	16,707,509	0	0	16,707,509
Non performings > 60 and < 90	0	4,039,335	0	4,039,335
Non performings > 90	0	0	5,201,704	5,201,704

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.

Investment in securities as a FVTPL:	2020	2019
Government Bonds:		
BBB+ to BBB-	1,417,185	1,551,262
	1,417,185	1,551,262
Mortagage-backed securities:		
Normal or low risk	5,646,182	5,704,788
	5,646,182	5,704,788
residual interest:		
Normal or low risk	17,173,236	16,797,063
	17,173,236	16,797,063
Total investment in securities as a FVTPL	24,236,603	24,053,113

(5) Financial Risk Management, continued

Deposits placed with banks

At March 31, 2020, the Bank held deposits placed with banks for B/.59,818,948 (2019: B/.40,572,384). These deposits are held with financial institutions that are rated at least BBB- y BBB+, based on Fitch Ratings Inc., Moodys, and Standard & Poors.

At March 31, 2020, the Bank has not recognized a reserve by ECL on bank deposits, since the credit risk has been evaluated as low and the management considers that the resulting amounts would not be of relative importance to the financial statements. consolidated.

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 requirement		
	2020	**2019**	**Type of colateral held**
Loans	90%	89%	Properties
Investment securities	83%	83%	Mortgage loans

Residential mortgage loans

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 ranges	2020	2019
Non credit-impaired loans		
0-20%	1,782,767	1,786,883
20-40%	12,427,012	12,073,070
40-60%	40,910,575	39,832,508
60-80%	237,728,915	239,066,673
80-100%	341,422,002	334,874,553
Total	634,271,271	627,633,687
Impaired loans		
0-20%	0	15,207
20-40%	6,971	204,759
40-60%	17,408	438,409
60-80%	1,695,602	2,250,823
80-100%	4,044,534	2,292,507

Total	5,764,515	5,201,704

(5) Financial Risk Management, continued

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:

	2020	**2019**
Properties	477,686	506,534
Total	477,686	506,534

The Bank's policy is to persue 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 4 (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;
- 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 to 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 greater than 60 days for personal loans and greater than 90 days for mortgage loans.

(5) Financial Risk Management, continued

Credit risk grades for the loan portfolio

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.

Credit risk grades are defined and calibrated such that the risk of default ocurring 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:

(5) Financial Risk Management, continued

A1 – Current (without arrears or delinquency) and from 1 to 30 days (normal)
A2 – Delinquency range from 31 to 60 days (low-fair risk)
B1 – Delinquency range from 61 to 90 days (watch-list)
B2 – Delinquency range from 91 to 120 days (substandard)
C1 – Delinquency range from 121 to 150 days (doubtful)
C2 – Delinquency range from 151 to 180 days (doubtful)
D – Delinquency range greater than 180 days (loss)

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.

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.

The Bank 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.

(5) Financial Risk Management, continued

In the sense, in the case of the LWMG, the loss rate 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 the recoveries whose process is described below in the corresponding section in this document.

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. 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.

(5) 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 mortagage-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 portafolio, 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 January 2012 and July 2017, 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 delinquecy ranges.

(5) Financial Risk Management, continued

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.

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 recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

(5) 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 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 becomes 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.

When evaluating if 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 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.

(5) Financial Risk Management, continued

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

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.

The methodology implemented by the Bank to identify the 'forward-looking' variables that would be used in the determination of ECL, is based on a 'Multiple Correlation Coefficient' calculation.

The process of defining the most significant variables among the universe of those that are available, consists of the following three steps:

(5) Financial Risk Management, continued

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 (considered independent variables). This calculation allows to determine if those last ones 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 2013 and 2018, the Bank determined as appropriate to use the following 'forward-looking' variables as part of the PCE model by country and segment, for the period 2019:

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

The following table presents a summary of the forward-lookin information incorporated by the Bank in the estimation process of the ECL for the loan portfolio as of March 31, 2020:

(5) Financial Risk Management, continued

Segmen	Prospective Information Variable correlated with past due portfolio	Historical variables		ncorporation of Prospective Information ('IP') in the ECL as of Dec 31, 2019				
		2018	2019	Escenario	Expected trend	Projected IP variable	'IP' Factor	Impact on the ECL
Panama – Operations with Guarantees	Unemployment	6.10%	6.00%	Only	Positive	6.61%	0.6626%	B/.101
Panama – Operations without Guarantees	Unemployment	6.10%	6.00%	Only	Positive	11.76%	3.9207%	B/.8,553
Salvador– Operations with Guarantees	Inflation	1.01%	1.21%	Only	Positive	2.08%	0.0066%	B/.649
Salvador – Operations without Guarantees	Inflation	1.01%	1.21%	Only	Positive	2.08%	0.0242%	B/.3,479
Colombia– Operations with Guarantees	Unemployment	9.92%	10.43%	Only	Positive	11.11%	0.2205%	B/.1,352
Colombia – Operations without Guarantees	Unemployment	9.92%	10.43%	Only	Positive	11.11%	0.1570%	B/.1,120

Modification of 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 derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 4 (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 recognised 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 loans receivable.

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'.

(5) Financial Risk Management, continued

Measurement of estimated credit losses (ECL)

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

- Probability at Default (PD);
- Loss Given Default (LGD);
- 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.

The methodology for estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

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.

As previously mentioned, for the determination of the PD of the identified segments, as explained previously 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 in the process denominated as 'Markov Chain'.

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.

(5) Financial Risk Management, continued

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.

- *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 amortisation. 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.

(5) Financial Risk Management, continued

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.

Loss allowance

The following tables show a reconciliation of the beginning and ending balances of the reserve for impairment losses on financial assets. The basis for determining transfers between 'Stages' due to changes in credit risk has been presented in the accounting policy. See Note 4 (c.7).

Investment securities at amortized cost:	**2020** 12-month ECL ('Stage 1')	**2019** 12-month ECL ('Stage 1')
Balance at January, 1	354	877
Net remeasurement of loss allowance	1,384	(523)
New financial assets purchased	0	0
Financial assets that have been derecognized	0	0
Balance at December 31	1,738	354

	2020		
Investment securities at FVOCI:	**12-month ECL ('Stage 1')**	**Lifetime ECL ('Stage 2')**	**Total**
Balance at January, 1	39,558	97,009	136,567
Net remeasurement of loss allowance	75,830	(40,378)	35,452
New financial assets purchased	0	0	0
Balance at December 31	115,388	56,631	172,019

	2019		
Investment securities at FVOCI:	**12-month ECL ('Stage 1')**	**Lifetime ECL ('Stage 2')**	**Total**
Balance at January, 1	68,613	195,063	263,676
Net remeasurement of loss allowance	(40,843)	(98,054)	(138,897)
New financial assets purchased	11,788	0	11,788
Balance at December 31	39,558	97,009	136,567

	2020			
Loans at amortized cost:	**12-month ECL ('Stage 1')**	**Lifetime ECL (not credit-impaired / collectively assessed ('Stage 2')**	**Lifetime ECL (credit-impaired / individually assessed ('Stage 3')**	**Total**
Balance at January 1	239,631	119,208	319,914	678,753
Transfer to Stage 1	102,338	(50,756)	(51,582)	0
Transfer to Stage 2	(22,646)	81,427	(58,781)	0
Transfer to Stage 3	(2,977)	(74,913)	77,890	0
Net reamesurement of loss allowance	(130,363)	(4,763)	176,508	41,382
New financial assets originated	13,225	98	0	13,323
Financial instruments that have been derecognized	(6,563)	(2,809)	(7,128)	(16,500)
Write-offs	0	0	(163,806)	(163,806)
Balance at December 31	192,645	67,492	293,015	553,152

	2019			
Loans at amortized cost:	**12-month ECL ('Stage 1')**	**Lifetime ECL (not credit-impaired / collectively assessed ('Stage 2')**	**Lifetime ECL (credit-impaired / individually assessed ('Stage 3')**	**Total**
Balance at January 1	146,786	77,617	378,635	603,038
Transfer to Stage 1	534,813	(317,335)	(217,478)	0
Transfer to Stage 2	(155,932)	455,210	(299,278)	0
Transfer to Stage 3	(4,590)	(438,722)	443,312	0
Net reamesurement of loss allowance	(369,763)	372,992	849,371	852,600
New financial assets originated	141,720	756	692	143,168
Financial instruments that have been derecognized	(53,403)	(31,310)	(121,090)	(205,803)
Write-offs	0	0	(714,250)	(714,250)
Balance at December 31	239,631	119,208	319,914	678,753

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.

2020		
Investment	**Investment**	**Loans at**

	at Amortized Cost a CA	in securities at FVOCI	Amortized Cost	Total
Net remeasurement of loss allowance	1,384	35,452	41,382	78,218
New financial assets purchased	0	0	13,323	13,323
Financial assets that have been derecognized	0	0	(16,500)	(16,500)
Total	1,384	35,452	38,205	75,041

(5) Financial Risk Management, continued

	2019			
	Investment at Amortized Cost a CA	**Investment in securities at FVOCI**	**Loans at Amortized Cost**	**Total**
Net remeasurement of loss allowance	(523)	(138,897)	852,600	713,180
New financial assets purchased	0	11,788	143,168	154,956
Financial assets that have been derecognized	0	0	(205,803)	(205,803)
Total	(523)	127,109	789,965	662,333

Financial assets with credit impairment

Credit-impaired financial assets

The accounting policies established by the Bank related to credit-impairment financial assets are disclosed in Note 4 (c.7).

Credit-impariment 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 31 December 2019 and that are still subject to enforcement activity is B/.714,250 (2018: B/.740,969).

Concentration 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		Investment securities	
	2020	**2019**	**2020**	**2019**
Gross book balance	708,066,816	704,266,186	99,909,361	98,816,449
Concentration by:				
Sector:	635,353,489	628,830,845	61,263,909	61,751,918
Mortgage banking	74,086,022	75,435,341	0	0
Personal banking	0	0	38,645,452	37,064,531
Other sectors	709,439,511	704,266,186	99,909,361	98,816,449

Geographic:	526,250,883	512,364,798	61,484,042	61,971,888
Panama	118,487,404	115,206,367	0	0
El Salvador	64,701,224	76,695,021	3,984,819	4,938,011
Colombia	0	0	34,440,500	31,906,550
United States of America	709,439,511	704,266,186	99,909,361	98,816,449
	708,066,816	704,266,186	99,909,361	98,816,449

(5) Financial Risk Management, continued

Concentration by geographic location for loans 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.

Concentration by location for loans 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.

Bank's management and the ALCO Committee is responsible to monitor the liquidity position through an analysis of the contractual maturity are 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 index of net liquid assets to deposits from customers. The net liquid assets are considered as including 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 index of net liquid assets on deposits from customers of Banco La Hipotecaria, S. A. reported to the Superintendence of Banks of Panama; this index should not be less than 30%:

	2019	2018
At December 31	154.66%	104.14%
Average of the year	115.52%	94.98%
Maximum of the year	154.66%	119.35%
Minimum of the year	91.65%	69.55%

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

2020	Carrying amount	Gross nominal amount (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More tan 10 years
Financial Liabilities:						
Saving deposits	2,009,852	(2,009,852)	(2,009,852)	0	0	0
Time deposits	293,531,074	(310,901,728)	(186,830,955)	(124,070,773)	0	0
Negotiable commercial papers	113,413,889	(115,288,697)	(115,288,697)	0	0	0
Negotiable commercial notes	122,293,839	(128,406,819)	(66,198,562)	(62,208,257)	0	0
Covered bonds	51,004,774	(60,087,761)	(2,518,247)	(57,569,514)	0	0
Ordinary bonds	2,641,022	(2,720,860)	(2,720,860)	0	0	0
Investment certificates	36,047,636	(42,238,078)	(9,287,803)	(32,950,275)	0	0
Other negotiable debts	35,050,807	(35,836,796)	(35,836,796)	0	0	0
Borrowed funds	156,631,609	(169,093,107)	(101,319,275)	(67,773,832)	0	0
Lease	3,177,296	(3,862,887)	(636,402)	(2,160,896)	(1,065,589)	0
Total finacial liabilites	815,801,798	(870,446,585)	(522,647,449)	(346,733,547)	(1,065,589)	0
Financial Assets:						
Cash	370,011	370,011	370,011	0	0	0
Deposits in banks	59,448,937	59,448,937	59,448,937	0	0	0
Investment securities	99,909,361	140,728,354	4,555,231	17,485,121	30,015,471	88,672,530
Loans	708,066,816	1,185,010,150	59,416,895	232,955,003	265,366,734	627,271,519
Total financial assets	867,795,125	1,391,971,520	123,791,074	250,440,124	295,382,205	715,944,049
Commitments and contingencies						
Loan commitments	(58,873,675)	(58,873,675)	(58,873,675)	0	0	0

2019	Carrying amount	Gross nominal amount (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More tan 10 years
Financial Liabilities:						
Saving deposits	2,898,697	(2,898,697)	(2,898,697)	0	0	0
Time deposits	288,156,245	(304,505,778)	(164,344,205)	(140,161,573)	0	0
Negotiable commercial papers	107,589,534	(109,295,102)	(109,295,102)	0	0	0
Negotiable commercial notes	116,529,662	(122,911,860)	(47,602,067)	(75,309,793)	0	0
Covered bonds	51,010,903	(60,715,597)	(2,525,146)	(58,190,451)	0	0
Ordinary bonds	4,374,117	(4,560,278)	(4,560,278)	0	0	0
Investment certificates	37,032,086	(43,661,584)	(10,973,210)	(32,688,374)	0	0
Other negotiable debts	28,973,747	(28,834,378)	(28,834,378)	0	0	0
Borrowed funds	145,861,823	(156,912,236)	(84,517,107)	(72,395,129)	0	0
Total finacial liabilites	3,331,610	(4,051,873)	(640,403)	(2,215,793)	(1,195,678)	0

	785,758,424	(838,347,383)	(456,190,593)	(380,961,113)	(1,195,678)	0
Financial Assets:						
Cash						
Deposits in banks	319,319	319,319	319,319	0	0	0
Investment securities	40,572,384	40,572,384	40,572,384	0	0	0
Loans	98,816,449	147,142,422	4,424,053	17,758,837	29,219,209	95,740,323
Total financial assets	704,266,186	1,181,324,791	60,060,609	235,062,754	266,034,106	620,167,322
Commitments and contingencies	843,974,338	1,369,358,916	105,376,365	252,821,591	295,253,315	715,907,645
Loan commitments						

(5) Financial Risk Management, continued

For the non-derivatives financial liabilities and financial assets, their gross carying amount inflow or outflow is measured based on undiscounted flows which include estimated interest payments.

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

	2020	2019
Financial Assets:		
Loans	702,222,021	687,441,500
Investments	97,163,986	63,947,484
Financial liabilities:		
Time deposits	110,649,177	126,328,522
Borrowings	58,229,509	51,156,623
Negotiable commercial notes	57,594,000	69,889,000
Covered bonds	52,000,000	52,000,000
Ordinary bonds	0	0
Investment certificates	26,900,000	26,307,000

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.

(5) Financial Risk Management, continued

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

2020	Pledged as Collateral	Available as Collateral	Total
Cash and cash equivalent	0	59,818,948	59,818,948
Investment securities	0	99,909,361	99,909,361
Loans, net	208,835,092	500,051,267	708,886,359
Non-financial assets	0	28,880,965	28,880,965
	208,835,092	688,660,541	897,495,633

2019	Pledged as Collateral	Available as Collateral	Total
Cash and cash equivalent	0	40,891,703	40,891,703
Investment securities	0	98,816,095	98,816,095
Loans, net	190,438,206	513,149,227	703,587,433
Non-financial assets	0	23,849,001	23,849,001
	190,438,206	676,706,026	867,144,232

(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.

(5) Financial Risk Management, continued

The Bank maintains and grants loans to customers in Colombian Pesos (COP), the national currency of the Republic of Colombia. The value of positions in foreign currency fluctuates as a result of changes in exchange rate quotations.

The sensibility analysis for the foreign exchange risk, is considered principally in the measurement of the position inside a specific currency. This analysis consists of verifying how much would represent the position in the functional currency on the currency to which it would be converting and therefore the mix of the foreign exchange risk.

The currency position is presented in its equivalent in dollars as follows:

	Expressed in B/.	
Colombian Pesos (COP)	**2020**	**2019**
Assets		
Cash and cash equivalents	10,225,288	4,875,918
Investments	3,984,819	4,938,011
Loans, net	64,623,709	76,260,227
Other assets	2,306,308	2,702,102
Total assets	81,140,124	88,776,258
Liabilites		
Time deposits	51,857,756	59,177,059
Ordinary bonds	2,641,022	4,374,117
Borrowed funds	7,184,039	765,102
Other liabilities	397,832	1,152,146
Total liabilities	62,080,649	65,468,424
Net position	19,059,475	23,307,834

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 movement 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.

(5) Financial Risk Management, continued

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 contractual repricing rate or maturity.

2020	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Deposits in banks	37,036,258	0	0	0	37,036,258
Investments at FVTPL	1,417,185	0	0	22,819,418	24,236,603
Investments at amortized cost	0	0	220,133	0	220,133
Investments at FVOCI	16,261,937	2,561,633	34,440,500	22,182,553	75,446,623
Loans	708,066,816	0	0	0	708,066,816
Total assets	762,782,196	2,561,633	34,660,633	45,001,971	845,006,433
Liabilities:					
Saving deposits	2,009,852	0	0	0	2,009,852
Time deposits	181,462,107	112,068,967	0	0	293,531,074
Borrowed funds	156,631,609	0	0	0	156,631,609
Issued debt	224,876,841	135,575,126	0	0	360,451,967
Total liabilities	564,980,409	247,644,093	0	0	812,624,502
Interest rate sensivity, net	197,801,787	(245,082,460)	34,660,633	45,001,971	32,381,931

2019	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Deposits in banks	27,969,447	0	0	0	27,969,447
Investments at FVTPL	2,474,314	204,406	0	21,475,594	24,154,314
Investments at amortized cost	0	0	219,971	0	219,971
Investments at FVOCI	16,541,289	3,285,548	31,906,550	22,708,777	74,442,164
Loans	704,266,186	0	0	0	704,266,186
Total assets	751,251,236	3,489,954	32,126,521	44,184,371	831,052,082
Liabilities:					
Saving deposits	2,898,697	0	0	0	2,898,697
Time deposits	161,827,723	126,328,522	0	0	288,156,245
Borrowed funds	145,861,823	0	0	0	145,861,823
Issued debt	198,274,398	147,235,651	0	0	345,510,049
Total liabilities	508,862,641	273,564,173	0	0	782,426,814
Interest rate sensivity, net	242,388,595	(270,074,219)	32,126,521	44,184,371	48,625,268

(1) Includes only interest-bearing bank deposits.

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:

(5) 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:

Sensivity of projected net interest income	Increase of 25 bp	Decrease of 25 bp	Increase of 50 bp	Decrease of 50 bp
2020				
December, 31	1,350,656	(1,350,656)	2,701,313	(2,701,313)
Year average	1,350,656	(1,350,656)	2,701,313	(2,701,313)
Maximun of the year	1,350,656	(1,350,656)	2,701,313	(2,701,313)
Minumun of the year	1,350,656	(1,350,656)	2,701,313	(2,701,313)
2019				
December, 31	1,200,467	(1,200,467)	2,400,934	(2,400,934)
Year average	1,114,146	(1,114,146)	2,228,293	(2,228,293)
Maximun of the year	1,200,467	(1,200,467)	2,400,934	(2,400,934)
Minumun of the year	1,035,116	(1,035,116)	2,070,233	(2,070,233)
Sensivity of projected net equity				
2020				
December, 31	(1,778,100)	1,778,100	(3,556,201)	3,556,201
Year average	(1,778,100)	1,778,100	(3,556,201)	3,556,201
Maximun of the year	(1,778,100)	1,778,100	(3,556,201)	3,556,201
Minumun of the year	(1,778,100)	1,778,100	(3,556,201)	3,556,201
2019				
December, 31	(1,819,815)	1,819,815	(3,639,630)	3,639,630
Year average	(1,790,760)	1,790,760	(3,581,520)	3,581,520
Maximun of the year	(1,843,449)	1,843,449	(3,686,898)	3,686,898
Minumun of the year	(1,724,204)	1,724,204	(3,448,408)	3,448,408

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.

(5) Financial Risk Management, continued

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 involve government legal requirements and regulatory requirements and generally accepted standards of corporate behavior.

The model of Operative Risk Management covers as principal aspects the following:

- Definition of mitigating actions.
- Identification and evaluation of the risks.
- Report of events of losses and incidents.
- Proper follow up to the execution of plans of actions defined by new initiatives of the Bank, products and/or services and significant improvements to the processes.
- To evaluate the operative risk level in the initiatory piece of news of the Bank, products and/or services and significant progress to the processes.
- Development of trainings.
- Participation in the design of policies and procedures.

The different areas that participate together for optimal management of operational risk are:

- Risk Management Unit
- Technology of Information (TI)
- Computer Security Unit
- Monitoring and Prevention of Frauds
- Internal Control Unit.

As part of the Corporate Governance model, the strategy, work methodology and monitoring of the action plans defined for the events and risks valued as critical and high, are reported to the Senior Management and in turn to the Risk Committee of the Board of Directors in a quarterly basis.

(5) Financial Risk Management, continued

The Internal Audit Department verifies and validates the compliance of the defined policies and methodologies and that these go according to the existing regulation; the results obtained in this review are presented to the Audit Committee.

(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.1-2015 and its amendments and No.3-2016, issued by the Superintendence of Banks of Panama, as of December 31, 2019, the Bank has a regulatory capital position that is comprised as follows:

	2020	2019
Primary Ordinary Capital		
Common shares	15,000,000	15,000,000
Additional paid-in-capital	25,025,329	25,025,329
Capital reserves	1,800,000	1,800,000
Non-controlling interest	1,057,307	891,468
Retained earnings	30,664,597	29,704,882
Other items of comprehensive income (1)		
Gains on securities and ECL reserve for investments at FVOCI	4,378,629	2,121,420
Adjustment for translation of foreign currency	(11,241,711)	(6,624,056)
Treasury shares	(727,000)	(727,000)
Less: deferred tax	(890,011)	(1,080,496)
Total Primary Ordinary Capital	65,067,140	66,111,547
Dynamic provision	7,034,453	7,034,453
Total Regulatory Capital	72,101,593	73,146,000
Total of Risk-Weighted Assets	531,134,844	539,912,899

Ratios:	**Minimum Required**	2020	2019
Capital Adequacy Ratio	8.00%	13.14%	13.54%
Primary Ordinary Capital Ratio	4.50%	11.86%	12.25%
Primary Capital Ratio	6.00%	11.86%	12.25%
Ratio	3.00%	7.33%	7.70%

(6) Use of Estimates and Judgments in Applying Accounting Policies

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 recognised prospectively.

Management evaluates the selection, disclosures and application of critical accounting policies related to significant estimation uncertainties. Bank's management evaluates the selection, disclosures and application of critical accounting policies in the mayor uncertain estimates. The information related to the presumptions and estimates that affect the reported amounts of assets and liabilities under the next fiscal year, and critical judgments in the selection and application of the accounting policies detailed as follows:

(a) *Classification of financial assets*

When determining the classification of financial assets the Bank uses its judgment 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 4 (c.2)

(b) *Impairment of financial instruments*

The Bank uses its judgment to determine the criterion of when a financial asset has significantly increased its credit risk since its 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 their initial recognition. See Note 4 (c.7) and Note 5 (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 No 4 (s) and Note 26.

(6) Use of Estimates and Judgments in Applying Accounting Policies, continued

(d) 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 of IFRS 10 and the criteria to derecognise financial assets of IFRS 9, mainly. See Note 4 (a.2), Note 28 and Note 29.

Information about the 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 4 (c.7) and Note 5 (a).

(a) Measurement of the fair value of financial instruments with significant unobservable inputs. The 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 31.

(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 31.

(7) 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:

	Director and Management and key personnel		Related Companies	
	2020	2019	2020	2019
Assets:				
Demand deposits	0	0	1,902	1,902
Accounts receivable	0	0	0	0
Liabilities:				
Saving deposits	86,331	67,317	798,508	818,393
Time deposits	523,631	585,649	6,051,338	5,954,595
Interest	4,592	3,141	28,684	21,848
Other income (expenses):				
Interest expense on deposits	8,490	28,828	92,059	269,536
Short-term benefits to executives	318,321	1,762,774	0	0

Transactions with Directors and Executives
As of March 31, 2020, the Bank has paid fees for B/.8,995 (2019: B/.9,405) to Directors that attend the meetings of the Board of Directors and Committees.

The Bank has paid salaries and other benefits including life insurance, bonus, and salaries in species to the executives for B/. B/.318,321 (2018: B/.424,155).

(8) Cash and Cash Equivalents

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

	2020	2019
Cash and cash equivalents	370,011	319,319
Demand deposits	50,367,559	36,938,651
Saving accounts	9,081,378	3,633,733
Cash and cash equivalents in the consolidated statement of cash flows	59,818,948	40,891,703

(9) Investment in Securities

Investment securities are classified as follows:

	2020	2019
Securities at (FVTPL)	24,242,604	24,154,314
Securities at amortized cost	220,133	219,617
Securities at (FVOCI)	75,446,624	74,442,164
Total investment securities, net	99,909,361	98,816,095

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

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

Holdings held in securitizations:	Maturity	2020	2019
Mortgage-backed securities			
XI Trust Bond of Mortgage Loans	Oct-41	1,870,791	1,845,227
XII Trust Bond of Mortgage Loans	Nov-42	786,084	821,852
XIII Trust Bond of Mortgage Loans	Dic-45	926,695	926,991
XIV Trust Bond of Mortgage Loans	Sep-46	1,236,475	1,284,630
XV Trust Bond of Mortgage Loans	Jul-47	826,137	826,088
		5,646,182	5,704,788
Residual Interest:			
Residual interest of the Eighth Trust	Dic-36	2,366,435	2,336,768
Residual interest of the Ninth Trust	Dic-22	392,855	402,775
Residual interest of the Tenth Trust	Sep-39	6,196,957	6,050,194
Residual interest of the Eleventh Trust	Oct-41	3,426,429	3,333,620
Residual interest of the Twelfth Trust	Nov-42	1,861,643	1,815,363
Residual interest of the Thirteenth Trust	Dic-45	1,668,896	1,625,888
Residual interest of the Fourteenth Trust	Sep-46	576,720	565,514
Residual interest of the Fiveteenth Trust	Jul-47	683,301	666,941
		17,173,236	16,797,063
Total of Holdings held in securitizations:		22,819,418	22,501,851
Government Bonds:			
Agricultural development securities of Colombia	Jul-20	1,417,185	1,551,262
Total of Government Bonds		1,417,185	1,551,262
Others equity investments:			
Mutuals Funds	N/A	6,001	101,201
Total of others equity investments		6,001	101,201
Total of securities at FVTPL		24,242,604	24,154,314

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 Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth and Fifteen Mortgage Loan Bond Trusts: (maturing in 2022, 2036, 2039, 2041, 2042, 2045, 2046 and 2047, respectively). See Note 29.

(9) Investment in Securities, continued

Investment securities measured at amortized cost

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

	Interest Rate	Maturity	2020	2019
Government Bonds:				
Bonds of the Republic of Panama	8.875%	31-Dic-27	220,133	219,971
			220,133	219,971
Less: Allowance for losses (ECL)			(2,092)	(354)
Total of investment securities at amortized cost			218,041	219,617

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.

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

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

	Maturity	2020	2019
Holdings held in securitizations:			
Mortgage-backed securities			
VIII Trust Bond of Mortgage Loans	Dic-36	1,479,598	1,475,723
IX Trust Bond of Mortgage Loans	Dic-22	204,028	204,406
X Trust Bond of Mortgage Loans	Sep-39	7,097,088	7,110,653
XI Trust Bond of Mortgage Loans	Oct-41	2,897,751	2,960,001
XII Trust Bond of Mortgage Loans	Nov-42	7,481,223	7,750,507
XIII Trust Bond of Mortgage Loans	Dic-45	4,747,404	4,919,818
XIV Trust Bond of Mortgage Loans	Feb-49	6,140,004	6,216,695
XV Trust Bond of Mortgage Loans	Feb-49	8,397,395	8,612,263
Total of Holdings held in securitizations:		38,444,491	39,250,066
Government Bonds:			
Government Bonds of Colombia	Ago-26	2,561,633	3,285,548
Government Bonds of Unites States	Ago-27	34,440,500	31,906,550
Total of Government Bonds		37,002,133	35,192,098
Total of investment at FVOCI		75,446,624	74,442,164

As of March 31, 2020, the reserve for ECL of debt instruments classified as measured at FVOCI, presents a balance of B/.172,019 (2019: B/.136,567). 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.

(9) Investment in Securities, continued

As of March 31, 2020, the Bank made sales of investment securities measured at FVOCI to B/.0 (2019: B/.10,591,553) which generated a net gain of B/.0 (2019: net gain B/.27,659).

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 5 (a).

(10) Loans at amortized cost

The composition of the loans portfolio is summarized as follows:

	2020	2019
Domestic loans:		
Personal	47,617,956	46,064,682
Residential mortgages	477,915,100	465,375,051
Total domestic loans	525,533,056	511,439,733
Foreign loans:		
Personal	26,177,589	28,923,621
Residential mortgages	156,356,171	162,258,637
Total foreign loans	182,533,760	191,182,258
Accued interest receivable	1,372,695	1,644,195
Less: loss allowance (ECL)	(553,152)	(678,753)
Total loans at amortized cost	708,886,359	703,587,433

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 5 (a).

In June and September 2015, the Bank purchased residential mortgage loan portfolios from the Sixth and Seventh Trusts of Mortgage Loans Bonds, which had a fair value of B/.4,517,878 and B/.4,773,715, respectively. The difference between the amount paid and the fair value of these purchased loans of B/.905,337, was recorded in the fair value reserve account presented in the consolidated statement of changes in equity. As of December 31, 2019, the outstanding amount is of B/.162,500 (2019: B/.182,335).

During the 2020 period, the Bank have no sold residential mortgage portfolio (2019: B/.100,000,000), to the Fourteenth and Fifteenth Mortgage Loan Bond Trusts (unconsolidated securitization vehicles), without generating profit or loss in the transaction. According to management's evaluation, the portfolio sold to the structured entity was derecognized from the Bank's accounts, as it met the criteria in IFRS 9. See Note 29.

(11) Furniture, Equipment and Improvements, net

Furniture, equipment and improvements are summarized as follows:

2020	Furniture	Office equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at January 1	894,822	3,895,495	547,302	2,716,229	8,053,848
Purchases	7,638	106,966	14,813	11,950	141,367
Sales and disposals	0	0	(48,396)	0	(48,396)
Effect of movement of exchange rates	(3,217)	(14,058)	0	8,468	(8,807)
Balance at December 31, 2019	899,243	3,988,403	513,719	2,736,647	8,138,012
Accumulated depreciation:					
Balance at January 1	695,444	2,955,966	310,385	1,301,585	5,263,280
Depreciation for the year	20,907	119,350	17,785	71,798	229,840
Sales and disposals	0	0	(12,739)	0	(12,739)
Effect of movement of exchange rates	(5,139)	(26,022)	0	3,586	(27,575)
balance at December 31, 2019	711,212	3,049,294	315,431	1,376,969	5,452,906
Net balance at December 31, 2019	188,031	939,109	198,288	1,359,678	2,685,106

2019	Furniture	Office equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at January 1	873,886	3,451,310	681,410	2,604,467	7,611,073
Purchases	66,113	553,036	41,965	121,980	783,094
Sales and disposals	(41,960)	(94,793)	(176,073)	(10,218)	(323,044)
Effect of movement of exchange rates	(3,217)	(14,058)	0	0	(17,275)
Balance at December 31, 2018	894,822	3,895,495	547,302	2,716,229	8,053,848
Accumulated depreciation:					
Balance at January 1	632,720	2,631,259	405,010	1,008,875	4,677,764
Depreciation for the year	108,066	425,064	81,448	302,928	917,506
Sales and disposals	(41,960)	(94,793)	(176,073)	(10,218)	(323,044)
Effect of movement of exchange rates	(3,382)	(5,564)	0	0	(8,946)
Balance at December 31, 2018	695,444	2,955,966	310,385	1,301,585	5,263,280
Net balance at December 31, 2018	199,378	939,629	236,917	1,414,644	2,790,568

(12) Accounts Receivable and Interest Receivable on Investment Securities at Fair Value

The accounts receivable and interest receivables are detailed as follows:

	2020	2019
Accounts receivable:		
Clients	2,841,585	1,429,307
Employees	29,343	14,411
Insurance	78,812	95,605
Others	703,680	563,085
	3,653,420	2,102,408
Interest receivable:		
On investment securities measured at FVTPL and FVCOI	491,921	761,058
Total	4,145,341	2,863,466

(13) Other assets

The other assets are detailed as follows:

	2020	2019
Guarantee deposits	33,070	33,070
Trust license	25,000	25,000
Employee severance fund	778,810	774,970
Other prepaids	1,874,886	1,299,560
Advances for assets purchase	23,173	52,696
Asset in process of foreclosed	897,139	985,535
Foreclosed assets	551,747	253,554
Other	400,206	473,594
Total	4,584,031	3,897,979

(14) Negotiable Commercial Papers

The Bank has six (2018: six) rotating programs of negotiable commercial papers up to B/.200,000,000 (2018: B/.200,000,000), authorized by the Superintendence of the Securities Market of Panama, which are backed up by the general credit of the Bank. Of these rotating programs, one for the amount of B/.10,000,000, is backed by Grupo ASSA, S. A. Actually, no paper has been issued under this program.

		2020	
Tipo	**Tasa de interés**	**Vencimiento**	**Valor**
Series CEE	3.6250%	April-20	3,000,000
Series DCY	4.1250%	April-20	1,891,000
Series DCZ	4.1250%	April-20	2,000,000
Series DDB	4.1250%	April-20	1,300,000
Series DDA	4.1250%	April-20	1,169,000
Series DDC	4.1250%	May-20	1,936,000
Series DDD	4.1250%	May-20	1,000,000
Series CEF	4.1250%	May-20	2,000,000
Series DDE	4.1250%	May-20	2,064,000
Series DDF	4.1250%	May-20	1,980,000
Series CDY	4.1250%	June-20	3,999,000
Series CDZ	4.1250%	June-20	3,000,000
Series CEB	4.1250%	June-20	3,500,000
Series DDH	4.1250%	June-20	1,865,000
Series DDI	4.1250%	July-20	2,135,000
Series DDJ	4.1250%	July-20	1,000,000
Series DDK	4.1250%	July-20	5,000,000
Series DDL	4.1250%	July-20	1,000,000
Series BDG	4.1250%	August-20	1,000,000
Series BDH	4.1250%	August-20	1,629,000
Series BDI	4.1250%	August-20	5,410,000
Series BDJ	4.1250%	August-20	1,590,000
Series BDK	4.1250%	August-20	1,606,000
Series DDM	4.1250%	September-20	1,100,000
Series BDL	4.1250%	September-20	2,770,000
Series CED	4.1250%	September-20	2,150,000
Series AB	4.1250%	September-20	2,000,000
Series AG	4.1250%	September-20	2,000,000
Series DDN	4.1250%	September-20	1,505,000
Series AC	4.1250%	September-20	3,334,000
Series DDO	4.1250%	September-20	650,000
Series BDM	4.1250%	October-20	2,123,000
Serie BDN	4.1250%	October-20	2,000,000
Series AD	4.1250%	October-20	4,140,000
Series BDO	4.1250%	November-20	2,000,000
Series BDP	4.1250%	November-20	2,000,000
Series AE	4.1250%	November-20	2,450,000
Series AF	4.1250%	December-20	3,000,000
Series CEG	4.1250%	February-21	1,000,000
Series CEH	4.1250%	February-21	4,897,000
Series BDR	4.1250%	February-21	2,183,000
Series BDQ	4.1250%	February-21	2,167,000
Series AI	4.1250%	February-21	2,500,000
Series BDS	4.1250%	February-21	1,000,000
Series BDT	4.0000%	February-21	1,179,000
Series AH	4.1250%	March-21	900,000
Series DDP	4.0000%	March-21	700,000
Series CEI	4.0000%	March-21	4,000,000
Series BDU	4.0000%	March-21	1,000,000
Series BDV	4.0000%	March-21	5,000,000
Seris DDQ	4.0000%	March-21	2,175,000
Total nominal of VCN's			112,997,000
Accrued interest payable			544,845
Less: issuance costs			(127,956)
Total negotiable commercial papers at amortized cost			113,413,889

(14) Negotiable Commercial Papers, continued

2019

Tipo	Tasa de interés	Vencimiento	Valor
Series CDR	4.1250%	January-20	1,000,000
Series CDS	4.1250%	January-20	2,014,000
Series V	4.1250%	January-20	2,301,000
Series CDT	4.1250%	February-20	1,000,000
Series CDU	4.1250%	February-20	4,897,000
Series W	4.1250%	February-20	2,167,000
Series X	4.1250%	February-20	2,183,000
Series Y	4.1250%	February-20	2,500,000
Series Z	4.1250%	March-20	1,179,000
Series DDG	3.8750%	March-20	700,000
Series AA	4.1250%	March-20	900,000
Series DCX	4.1250%	March-20	3,997,000
Series DCY	4.1250%	April-20	1,891,000
Series CEE	3.6250%	April-20	3,000,000
Series DCZ	4.1250%	April-20	2,000,000
Series DDA	4.1250%	April-20	1,169,000
Series DDB	4.1250%	April-20	1,300,000
Series DDC	4.1250%	May-20	1,936,000
Series DDD	4.1250%	May-20	1,000,000
Series CEF	3.6250%	May-20	2,000,000
Series DDE	4.1250%	May-20	2,064,000
Series DDF	4.1250%	May-20	1,980,000
Series CDY	4.1250%	June-20	3,999,000
Series CDZ	4.1250%	June-20	3,000,000
Series CEB	4.1250%	June-20	3,500,000
Series DDH	4.1250%	June-20	1,865,000
Series DDI	4.1250%	July-20	2,135,000
Series DDJ	4.1250%	July-20	1,000,000
Series DDK	4.1250%	July-20	5,000,000
Series DDL	4.1250%	July-20	1,000,000
Series BDG	4.1250%	August-20	1,000,000
Series BDH	4.1250%	August-20	1,629,000
Series BDI	4.1250%	August-20	5,410,000
Series BDJ	4.1250%	August-20	1,590,000
Series BDK	4.1250%	August-20	1,606,000
Series DDM	4.1250%	September-20	1,100,000
Series BDL	4.1250%	September-20	2,770,000
Series CED	4.1250%	September-20	2,150,000
Series AB	4.1250%	September-20	2,000,000
Series DDN	4.1250%	September-20	1,505,000
Series DDO	4.1250%	September-20	650,000
Series AC	4.1250%	September-20	3,334,000
Series BDM	4.1250%	October-20	2,123,000
Series BDN	4.1250%	Octubre-20	2,000,000
Series AD	4.1250%	Octubre-20	4,140,000
Series BDO	4.1250%	November-20	2,000,000
Series BDP	4.1250%	November-20	2,000,000
Series AE	4.1250%	November-20	2,450,000
Series AF	4.1250%	December-20	3,000,000
Total nominal amount			107,134,000
Accrued interest payable			604,793
Less: issuance costs			(149,259)
Total negotiable commercial papers at amortized cost			107,589,534

As of March 31, 2020, the Bank has complied with the payment terms of principal and interest for its negotiable commercial papers.

(15) Negotiable Commercial Notes

The Bank has four (2019: four) programs of negotiable commercial notes totaling B/.240,000,000 (2019: B/.240,000,000) which has been authorized by the Securities Market Superintendence of Panama. 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, and additionally, a solidary surety of Grupo ASSA, S. A. that would cover any difference between the proceeds from the sale of the mortgage loans and the outstanding amounts.

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

Tipo	Tasa de interés	Vencimiento	2020	2019
SERIES AQ	4.25%	January-20	0	2,000,000
SERIES AU	4.25%	March-20	0	1,378,000
SERIES AC	4.50%	March-20	0	1,500,000
SERIES AW	4.25%	March-20	0	1,710,000
SERIES BK	4.13%	March-20	0	800,000
SERIES AY	4.50%	April-20	1,155,000	1,155,000
SERIES AZ	4.50%	April-20	2,300,000	2,300,000
SERIES BA	4.25%	May-20	2,250,000	2,250,000
SERIES BB	4.25%	May-20	780,000	780,000
SERIES BQ	4.25%	May-20	2,466,000	2,466,000
SERIES BC	4.25%	May-20	3,900,000	3,900,000
SERIES BE	4.25%	June-20	849,000	849,000
SERIES BF	4.25%	June-20	2,870,000	2,870,000
SERIES X	4.50%	June-20	4,000,000	4,000,000
SERIES Z	4.50%	June-20	2,500,000	2,500,000
SERIES BG	4.25%	June-20	870,000	870,000
SERIES BH	4.25%	July-20	2,000,000	2,000,000
SERIES AP	4.38%	July-20	960,000	960,000
SERIES T	4.75%	July-20	1,800,000	1,800,000
SERIES BI	4.25%	august-20	4,000,000	4,000,000
SERIES BJ	4.25%	September-20	1,047,000	1,047,000
SERIES BP	4.25%	September-200	1,837,000	1,837,000
SERIES W	4.50%	November-20	2,000,000	2,000,000
SERIES BL	4.25%	November-20	1,699,000	1,699,000
SERIES AE	4.50%	January-21	3,940,000	3,940,000
SERIES AR	4.50%	February-21	2,000,000	2,000,000
SERIES BT	4.25%	February-21	355,000	355,000
SERIES BU	4.25%	February-21	622,000	622,000
SERIES AA	4.75%	February-21	1,761,000	1,761,000
SERIES CB	4.38%	February-21	5,000,000	5,000,000
SERIES E	5.00%	February-21	7,017,000	7,017,000
SERIES AA	4.50%	February-21	39,000	39,000
SERIES BV	4.25%	March-21	1,404,000	1,404,000
SERIES BO	4.38%	March-21	1,290,000	1,290,000
SERIES AC	4.50%	March-21	2,000,000	2,000,000
SERIES K	5.00%	April-21	4,991,000	4,991,000
SERIES BD	4.50%	May-21	1,100,000	1,100,000
SERIES AD	4.50%	July-21	1,500,000	1,500,000
SERIES AI	4.75%	July-21	1,200,000	1,200,000
SERIES BS	4.25%	July-21	3,000,000	3,000,000
SERIES U	5.00%	September-21	1,858,000	1,858,000
SERIES BW	4.38%	September-21	2,363,000	2,363,000
SERIES AL	4.13%	September-21	4,000,000	0
SERIES CF	4.13%	September-21	545,000	0
SERIES BY	4.38%	October-21	1,000,000	1,000,000
SERIES AI	4.38%	October-21	2,000,000	2,000,000
SERIES AJ	4.38%	November-21	2,000,000	2,000,000
SERIES AC	4.68%	November-21	5,000,000	5,000,000
	Sub - total passing		95,268,000	98,111,000

(15) Negotiable Commercial Notes, continued

Tipo	Tasa de interés	Vencimiento	2020	2019
	Sub-Total coming		95,268,000	98,111,000
SERIES X	5.00%	November-21	1,657,000	1,657,000
SERIES Y	4.50%	January-22	3,145,000	3,145,000
SERIES BM	4.25%	January-22	2,397,000	2,397,000
SERIES BN	4.25%	January-22	500,000	500,000
SERIES CC	4.25%	January-22	1,378,000	0
SERIES AM	4.50%	January-22	2,000,000	0
SERIES CE	4.25%	January-22	1,710,000	0
SERIES BR	4.25%	June-22	2,000,000	2,000,000
SERIES AF	4.68%	August-22	2,540,000	2,540,000
SERIES AG	4.68%	August-22	500,000	500,000
SERIES AH	4.68%	September-22	720,000	720,000
SERIES BX	4.68%	September-22	1,990,000	1,990,000
SERIES BZ	4.68%	October-22	1,000,000	1,000,000
SERIES CD	4.50%	October-22	1,500,000	0
SERIES AK	4.50%	October-22	2,000,000	0
SERIES AB	4.50%	March-23	2,000,000	2,000,000
Total nominal de NCN's			122,305,000	116,560,000
Plus: Interest Payable			254,590	247,847
Less: Insuance cost			(265,751)	(278,185)
Total NCN's at AC			122,293,839	116,529,662

As of March 31, 2020, the Bank has complied with the payment terms of principal and interest for its negotiable commercial notes.

(16) 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.

As of March 31, 2020, the Bank has issued three tranches of covered medium-term bonds, net of commissions, amounting to B/.51,004,774 (2019: B/.51,010,903), at an interest rate of 5.50%, 4.75% and 4.125% for 3.5 and 5 years term.

The covered bonds are guaranteed with mortgage loans portfolio amounting to B/.65,000,000 (2019: B/.65,000,000).

As of March 31, 2020, the Bank has complied with the payment terms of principal and interest for its covered bonds.

(17) Ordinary Bonds

The Financial Superintendence of Colombia through Resolution 015094871-006-000 of October 8, 2015 authorized the incorporation of Ordinary Bonds in the National Registration of Securities and Issuers and its public offer.

As of March 31, 2020, this Colombian subsidiary has issued medium-term ordinary bonds for B/.2,641,022 (2019: B/.4,374,117) at an interest rate of 10.05% (2017: 10.05%) for of 5 years term, maturing on December 10, 2020.

The ordinary covered are guaranteed with a Panamanian mortgage loans portfolio amounting to B/.3,285,181 (2019: B/.5,467,646).

As of March 31, 2020, the Bank has complied with the payment terms of principal and interest for its ordinary bonds.

(18) Investment Certificates

The Bank is authorized by the Superintendence of Securities Market of El Salvador for the issuance of Investment Certificates up to B/.80,000,000.

Type	Interest rate	Maturity	2020	2019
Tranche 2	5.25%	February-20	0	3,000,000
Tranche 5	5.25%	April-20	550,000	550,000
Tranche 6	5.38%	May-20	1,416,000	1,416,000
Tranche 1	5.50%	June-20	2,200,000	2,200,000
Tranche 3	5.50%	August-20	2,000,000	2,000,000
Tranche 7	5.75%	November-20	1,500,000	1,500,000
Tranche 8	5.75%	March-21	1,407,000	1,407,000
Tranche 4	6.00%	September-21	1,000,000	1,000,000
Tranche 16	5.75%	November-21	700,000	700,000
Tranche 17	5.75%	december-21	1,500,000	1,500,000
Tranche 18	5.35%	March-22	1,000,000	0
Tranche 19	5.35%	March-22	1,000,000	0
Tranche 15	6.00%	September-22	700,000	700,000
Tranche12	6.30%	May-23	2,000,000	2,000,000
Tranche 9	6.50%	February-24	4,500,000	4,500,000
Tranche 10	6.50%	April-24	4,500,000	4,500,000
Tranche 11	6.50%	April-24	5,000,000	5,000,000
Tranche 13	6.50%	May-24	2,500,000	2,500,000
Tranche 14	6.50%	June-24	2,500,000	2,500,000
Total nominal of investment certificate			36,973,000	15,880,000
Accrued interest payable			91,368	89,055
Less: issuance costs			(16,732)	(29,969)
Total investment certificates at amortized cost			36,047,636	37,032,086

As of March 31, 2020, the Bank has complied with the payment terms of principal and interest for its investment certificates.

(19) Other Negotiable Debts

The Bank has two (2019: one) revolving plan of negotiable debt (stock market paper) up to B/.35,000,000 each one (B/.35,000,000), which was authorized by the Superintendence of Securities of El Salvador.

2020

Type	Interest rate	Maturity	Amount
Tranche 49	5.5000%	April-20	500,000
Tranche 50	5.5000%	May -20	1,000,000
Tranche 51	5.5000%	May -20	1,050,000
Tranche 63	4.7500%	May -20	200,000
Tranche 62	5.5000%	May -20	500,000
Tranche 53	5.5000%	June-20	3,000,000
Tranche 52	5.5000%	June-20	1,000,000
Tranche 65	5.5000%	July-20	2,000,000
Tranche 54	5.5000%	August-20	5,000,000
Tranche 55	5.5000%	September-20	3,000,000
Tranche 56	5.5000%	September-20	1,500,000
Tranche 57	5.5000%	September-20	1,000,000
Tranche 58	5.5000%	October-20	1,000,000
Tranche 60	5.5000%	October-20	2,300,000
Tranche 59	5.5000%	October-20	500,000
Tranche 61	5.5000%	November-20	2,000,000
Tranche 64	5.5000%	November-20	300,000
Tranche 66	5.1500%	January-21	2,000,000
Trarnche 67	5.1500%	January-21	3,000,000
Tranche 69	5.1500%	February-21	2,200,000
Tranche 68	5.1500%	February-21	1,150,000
Tranche 01	5.1500%	March-21	477,000
Tranche 02	5.1500%	March-21	200,000
Total nominal amount			34,877,000
Accrued interest payable			225,594
Less: issuance costs			(51,787)
Total other negotiable debts amortized cost			35,050,807

2019

Type	Interest rate	Maturity	Amount
Tranche 48	5.5000%	March-20	3,000,000
Tranche 49	5.5000%	April-20	500,000
Tranche 50	5.5000%	May-20	1,000,000
Tranche 61	5.5000%	May-20	1,050,000
Tranche 63	4.7500%	May-20	200,000
Tranche 53	5.5000%	June-20	3,000,000
Tranche 52	5.5000%	June-20	1,000,000
Tranche 54	5.5000%	August-20	5,000,000
Tranche 55	5.5000%	September-20	3,000,000
Tranche 56	5.5000%	September-20	1,500,000
Tranche 57	5.5000%	September-20	1,000,000
Tranche 58	5.5000%	October- 20	1,000,000
Tranche 59	5.5000%	October- 20	500,000
Tranche 60	5.5000%	October- 20	2,300,000
Tranche 61	5.5000%	November-20	2,000,000
Tranche 62	5.5000%	November-20	500,000
Tranche 64	5.5000%	November-20	300,000
Tranche 65	5.5000%	December-20	2,000,000
Total nominal amount			28,850,000
Accrued interest payable			180,541
Less: issuance costs			(56,794)
Total other negotiable debts at amortized cost			28,973,747

As of March 31, 2020, the Bank has complied with the payment terms of principal and interest for its negotiable debt.

(20) Borrowings

The borrowings are summarized as follows

	2020	2019
Line of credit for working capital for B/.30,000,000, with maturity in the year 2021 and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	6,886,500	6,886,500
Line of credit for working capital for B/.6,000,000, with maturity in the year 2021, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	5,900,000	5,000,000
Line of credit for working capital for B/.5,000,000, with maturity at 24 months, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	4,750,000	4,750,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2021, renewable at the parties' option and an annual Libor interest rate plus a margin.	8,300,000	5,800,000
Line of credit for working capital for B/.20,000,000, with maturity in the year 2021, renewable at the parties' option and an annual fixed interest rate, backed by a portfolio of residential mortgage loans.	19,500,000	14,000,000
Line of credit for working capital for B/.17,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	7,500,000	9,000,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2020, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	8,000,000	0
Line of credit for working capital for B/.13,000,000, with maturity in the year 2021, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	2,307,692	2,692,307
Line of credit for working capital for B/.30,000,000, with maturity in the year 2020 and fixed interest rate.	35,000,000	30,000,000
Line of credit for working capital for B/.15,000,000, with maturity in the year 2021, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	13,833,333	7,750,000
Sub - total going to next page	111,977,525	85,878,807

(19) Borrowings, continued

	2020	2019
Sub - total coming from previous page	111,977,525	85,878,807
Line of credit for working capital for B/.25,000,000, with maturity in the year 2022, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	8,928,574	10,714,288
Line of credit for working capital for B/.32,000,000, with maturity in the year 2026, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	28,321,429	30,714,286
Revolving line of credit for working capital up to approximately B/.6,100,000 (COP 20 thousand millions), with maturity in the year 2020, renewable at the parties' option and an annual interest rate DTF plus a margin.	4,828,024	457,715
Revolving line of credit for working capital up to approximately B/.6,100,000 (COP 20 thousand millions), with maturity in the year 2020, renewable at the parties' option and an annual interest rate DTF plus a margin.	1,107,063	305,145
Revolving line of credit for working capital up to approximately B/.3,700,000 (COP 12 thousand millions), with maturity in the year 2020, renewable at the parties' option and an annual interest rate DTF plus a margin.	1,230,070	0
Sub-total	156,392,685	145,070,241
Interest payable	610,607	1,163,160
Less issuance costs	(371,683)	(371,578)
Total borrowed funds	156,631,609	145,861,823

As of March 31, 2020, the Bank has complied with the payment terms of principal and interest for its borrowings.

(21) Other Liabilities

The other liabilities are detailed as follows:

	2020	2019
Various creditors	989,800	937,250
Trust payable account	316,832	253,033
Management checks	367,454	377,013
Reserve for labor benefits and other remunerations	1,185,298	1,007,706
Payments received in advance from customers	2,503,762	1,991,459
Others	826,282	537,845
Total	6,189,428	5,104,306

(22) Capital and Reserves

The composition of common shares is detailed as follows:

	2020	2019
Authorized shares with nominal value of B/.1,000	15,000	15,000
Shares issued and paid on January 1st	15,000	15,000
Treasury shares	(727)	(727)
Shares at the end of the period	14,273	14,273
Carrying amount of the shares at the end of the period	14,273,000	14,273,000

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 is 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.

Currency conversion reserve

Comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

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.

(22) Capital and Reserves, continued

Specific Provision in Excess

Provisions that are to be constituted on the basis of the classification of credit facilities in the risk categories Watch list, Substandard, Doubtful or Loss, 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 deterioration 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.

(23) Earnings per share

The accounting policy established by the Bank for the calculation of basic earnings per share and diluted earnings per share is detailed in Note 4 (l).

Basic earnings per share

The calculation of basic and diluted earnings per share presented in the consolidated profit and loss statement is based on the following income attributable to common shareholders and weighted-average number of common shares outstanding.

Income attributable to common shareholders (basic):

	2020	2019
Net income for the year	1,089,354	1,004,503
Net income attributable to common shareholders	1,089,354	1,004,503

Weighted-average number of common shares (basic):

	2020	2019
Issued shares at January 1st	14,273	14,273
Treasury shares	0	0
Weighted-average of common shares	14,273	14,273

Diluted earnings per share

The calculation of diluted earnings per share presented in the consolidated statement of proft or loss is based on the following income attributable to common shareholders and weighted average number of common shares outstanding after adjusment for the effects of all potential dilutive common shares, which include options granted to employees.

Profit attributable to common shareholders (diluted):

	2020	2019
Net income attributable to share sholders	1,089,354	1,004,503

As of March 31, 2020, the Bank has not granted share options to employees that could have a dilutive potential on its common shares.

(24) Service Commissions, Net and Other Income

The service commissions and other income are detailed as follows:

	2020	2019
Management and servicing commisions:		
Trust management	479,736	388,184
Collection management	628,182	567,368
Insurance management	147,496	102,727
Others	474,906	516,190
	1,730,320	1,574,469
Other income:		
Insurance	40,337	39,090
Gain in the sale of foreclosed assets	42,266	19,161
Other	169,005	746,769
	251,608	805,020

(25) Salaries, Other Personnel Expenses, and Other Operating Expenses

Salaries, other personnel expenses, and other operating expenses are detailed as follows:

	2020	2019
Salaries and other personnel benefits:		
Wages,	1,475,705	1,401,333
Representation expenses	249,719	255,002
Bonuses	164,652	120,207
Social security costs	191,906	202,328
Employment Benefits	106,529	77,434
Travel, per diem and fuel	43,747	36,959
Severance costs	48,988	57,377
Travel, per diem and fuel	21,990	48,757
Other	112,470	130,472
	2,415,706	2,329,869
Other general and administrative expenses:		
Rent	26,427	14,857
Advertising	218,783	209,686
Equipment maintenance	250,329	256,150
Office supplies	28,220	26,035
Utilities expense	79,971	72,651
Various Services	54,876	43,434
Insuranses	102,895	102,027
Foreclosed Assets	18,408	298,522
Bank charges	117,325	59,877
Other	185,325	220,665
	1,082,559	1,303,904

(25) Salaries, Other Personnel Expenses, and Other Operating Expenses, continued

Share Purchase Option Plan

In 2019, 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 1,805 options with a unit fair value of B/.11,501, 15,200 fair value of B/.8.591 and 14,290 options with a unit fair value of B/.3.694, respectively, and with an exercise maturity in 10 years for both plans.

As of March 31, 2020, there are 31,296 options outstanding (2019: 29,491), no options have been cancelled (20168: 0) and no options has been exercised. These options has a weighted-average price of exercise of B/.38.94 (2018: B/.27.13). The plans gives the executive the right to exercise the options over La Hipotecaria (Holding), Inc. shares, at the time of the first anniversary of both plans. In 2019 the Bank has recorded B/. 10,258 expense for options issuance (2019: B/.21,642).

(26) 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 stock market securities and traded on the Bolsa de Valores de Panama, S. A. (Stock Exchange of Panama).

The Article 699 of the Tax Code, as amended by Article 9 of Law 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.

Act 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	33%	30%

(26) Income Taxes, continued

On December 28, 2018, the Congress of the Republic of Colombia issued Law 1943 (Financing Law), through which new rules were introduced in tax material, whose most relevant aspects are presented below:

- Gradual reduction in the corporate income tax and complementary rate as follows: taxable year 2019, 33% rate; 2020 taxable year, 32% rate; 2021 taxable year, 31% rate; and as of taxable year 2022, 30% rate.

- For financial institutions, a 4% surcharge is created for taxable year 2019 and 3% for taxable years 2020 and 2021, when the taxable net income exceeds 120,000 tax value unit (TVU).

- Gradual reduction and finally elimination of the presumed income in the following terms: taxable year 2018, tariff of 3.5%; 2019 taxable year, 1.5% rate; 2020 taxable year, 1.5% rate; and from the taxable year 2020, 0% rate.

- 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 2022 it can be discounted 100%.

- For the taxable periods 2019 and 2020, the audit benefit is created 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 in 2017, tax losses may be compensated with ordinary liquid income obtained in the following 12 taxable periods.

- 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:

	2020	2019
Current tax expense	376,615	290,282
Deferred tax temporary differences	38,527	(24,644)
Total income tax expense	415,142	265,638

(26) Income Taxes, continued

The effective tax rate is detailed as follows:

	2020	2019
Net income before tax	1,504,496	1,270,141
Income tax expense	415,142	265,638
Effective tax rate	27.59%	20.92%

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:

	2020	2019
Net income before taxes	1,504,496	1,270,141
Calculation of "expected" income tax expense	376,124	317,835
Non-deductible expenses	287,966	(24,644)
Income and expense from foreign and exempt sources, net	(314,235)	(282,362)
Change for temporary differences	38,527	298,655
Difference in foreign tax rates	26,760	(43,646)
Total income tax expense	415,142	265,638

The Bank's deferred tax asset arises from temporary differences relating to the provision 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.

Deferred income tax is comprised as follows:

	2020		2019	
	Temporary differences	Deferred tax	Temporary differences	Deferred tax
Deferred tax assets				
Allowance for ECL on loans	553,152	183,411	678,753	195,125
Voluntary retirement incentive plan	91,072	26,813	89,377	26,813
Operating losses carried forward [1]	2,059,961	679,787	2,601,694	858,559
	2,704,185	890,011	3,369,824	1,080,497

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

The movement in deferred tax balances is as follows:

2020	January 1, 2020	Recognize to result	March 31, 2020 Deferred tax
Allowance for ECL	221,938	(38,527)	183,411
Voluntary Retirement Plan	26,813	0	26,813
Operating losses carried forward[1]	831,746	(151,959)	679,787
Deferred tax balance	1,080,497	(190,486)	890,011

(26) Income Taxes, continued

2019	January 1, 2019	Recognize to result	December 31, 2018 Deferred tax
Allowance for ECL	170,464	24,661	195,125
Voluntary Retirement Plan	0	26,813	26,813
Operating losses carried forward[(1)]	862,159	(3,600)	858,559
Deferred tax balance	1,032,623	47,874	1,080,497

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 March 31, 2020, the Bank has not recognized a liability for deferred income tax of approximately B/.669,859 (2019: B/.654,054) for the retained earnings of its operations abroad, as the Bank considers that approximately B/.13,397,176 (2019: B/.13,081,075) of these earnings will be reinvested indefinitely.

(27) Trusts Under Management

As of March 31, 2020, the Bank maintains fiduciary contracts under its management at the risk of the customer amounting to B/.266,654,265 (2019: B/.272,131,015). Taking into consideration the nature of these services, management believes that they do not represent a significant risk to the Bank. See note 28, for participations in non-consolidated structures entities.

(28) Participations in 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.

Structured entity type	Nature and purpose	Participation withheld by the Bank	Total Asset 2020	Total Asset 2019
Residential Mortgage Loan Securitization Trusts	Generate: • Funds for Bank lending activities • Commission for administration and management of loan portfolio These trusts are financed through the sale of debt instruments.	• Investments in residential mortgage bonds issued by trusts • Residual interest	266,654,265	272,131,015

(28) Participations in Non-Consolidated Structured Entities, continued

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.

Book Value in the Bank	2020 Investment in securities	2019 Investment in securities
Fideicomisos de titularización de préstamos hipotecarios residenciales	61,263,909	61,751,917
Total	61,263,909	61,751,917

During 2020, the Bank has not granted financial support to unconsolidated structured entities

(29) 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 4 (c.3), the transferred financial assets continue to be recognised in the Bank's consolidated statement of financial position to the extent of its involvement or interest in the securitization vehicles, or are derecognised 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 collateralised 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.

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 transfers 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 arragement in respect to the transferred financial assets. If the financial assets are derecognised 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.

(29) Transfers of Financial Assets, continued

In February 2019, the Bank sold certain residential mortgage loans to unconsolidated securitization vehicles (trusts) and, as part of the consideration, received bonds issued by the securitization vehicles. The bonds received represent 17.5% of the total issued. The Bank classifies these debt securities as measured at FVTPL and at FVOCI, considering the criteria defined in the accounting policy for the classification of financial instruments. In accordance with the sale contracts agreed with the securitization vehicles, the Bank did not generate any profit or loss in this transaction.

During the period 2020, the Bank has recognized as part of the interest income from investments in securities calculations under the effective interest rate, B/.938,310 (2019: B/.812,145)) 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, it has recognized as part of the net gain on investments to FVTPL, B/.317,421 (2019: B/.388,401) 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 the 2019 period the Bank has recognized commission income from servicing activities to securitization vehicles for B/.479,736 (2019: B/.358,184) in the consolidated statement of income.

29) 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 derecognised in their entirety.

Type of ongoing involvement	Book Value	Fair Value	
	Investment in securities	Assets	Liabilities
Bonds issued by the trusts of unconsolidated securitization			
March 31, 2020	44,090,673	44,090,673	0
December 31, 2019	44,954,854	44,954,854	0
Residual Interest:			
March 31, 2020	17,173,236	17,173,236	0
December 31, 2019	16,797,063	16,797,063	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 securitisation vehicles and residual interest is their carrying amount.

(30) Commitments and Contingencies

As at March 31, 2020, there is an ongoing claim filed against the Bank's subsidiary in El Salvador by the Consumer Defender Office. The Bank's management and its legal counsel do not expect that the outcome of this process will have a material adverse effect on the consolidated financial position of the Bank.

In the normal course of business, the Bank held financial instruments without-balance sheet risk to cover the financial needs of its customers. As of December 31, 2019, the Bank has issued promise letters for B/.58,873,674 (2019: B/.68,043,250).

(31) Leases

As of March 31, 2020, 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.

(31) Leases, continued

Right of use assets

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

	2020
Property:	
Balance at January 1	3,178,540
Cancellation	(0)
Depreciation for the year	(155,851)
Effect of movement in exchange rates	(37,098)
Balance at March 31	2,985,591

	2019
Property:	
Balance at January 1	4,047,788
Cancellation	(268,208)
Depreciation for the year	(621,724)
Effect of movement in exchange rates	20,684
Balance at December 31	3,178,540

Lease liabilities

As of March 31, 2020, the Bank's lease liabilities amount to B/.3,177,295 (2019: B/.3,331,610). The maturity analysis of the lease liabilities is presented in Note 5 (b).

Amounts recognized in the consolidated statement of income

As of March 31, 2020, the Bank has recognized interest expenses on its lease liabilities for B/.49,803 (2019: B/.50,322) as part of its financial costs (interest on financing) in the consolidated statement of income.

Additionally, the Bank has recognized expenses related to leases of 'short-term' and 'low value assets' for B/.26,427, as part of rental expenses in profit or loss. See Note 25.

Amounts recognized in the consolidated statement of cash flows

As of March 31, 2020, the total cash outflows for leases recognized in the consolidated statement of cash flows amounts to B/.230,544, This amount includes the portion of payments to principal of lease contracts classified as part of the financing activities for B/.154,314, the portion of interest on lease liabilities B/.49,803 and the portion of expenses relating to short-term leases and leases of low-value assets B/.926,427 classifed as operating activities.

(32) 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 judgment 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 vlaue 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 not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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 judgment. Observable prices and model inputs are usually available in the market for listed debt and exchange-traded equity securities.

(32) Fair value of Financial Instruments, continued

The availability of observable market prices and input and model inputs reduces the need for management judgments and estimation, and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and model input data varies depending on products and markets and is prone to change based on specific events and the 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 judgment and estimation in determination of fair values. Management judgement and estimation are usually required for the selection of the approriate valuation model to be used, determination of expected future cash flows in 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 appropiate.

<u>Mortgage-backed securities and residual interest on securitizations</u>
During the 2020 and 2019 period, there has been insufficient trading volume to establish an active market for certain asset-backed securities (eg residential mortgage loan bonds and residual interest in securitizations), for which the Bank has determined its fair value using other valuation techniques. These securities held by the Bank are backed by static residential mortgage loan portfolios and have priority of collection in cash flows.

(32) Fair value of Financial Instruments, continued

The Bank's methodology for valuing of these asset-backed securities uses a discounted cash flow technique that takes into account 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 of financial instruments

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. Sespecific 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. A control to evaluate and document the evidence obtained from third parties is in place to support the conclusion according the requirements of IFRS. This includes:

- verify that the vendor price is approved by the Bank;
- obtain an understanding of how the fair value has been determining and whether it reflects current market transactions;
- when 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.

(32) 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.

2020	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Assets:					
Financial assets measured at fair value:					
Securities at FVOCI	75,446,624	34,440,500	2,561,633	38,444,491	75,446,624
Securities at FVTPL	24,242,604	0	1,423,186	22,825,419	24,242,604

2019	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Assets:					
Financial assets measured at fair value:					
Securities at FVOCI	74,442,164	31,906,550	3,285,548	39,250,066	74,442,164
Securities at FVTPL	24,154,314	0	1,551,262	22,603,052	24,154,314

As of March 31, 2020, 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 table below presents the reconciliation for financial instruments categorized as Level 3 in the hierarchy of levels of fair value:

	2020	2019
Balance at January 1	61,853,118	43,794,699
Total gains or losses:		
in profit or loss	317,421	880,392
In OCI	(192,698)	312,005
Purchases	0	26,725,342
Settlements	(707,931)	(9,859,320)
Balance at December 31	61,269,910	61,853,118

(32) Fair value of Financial Instruments, continued

Unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at March 31, 2020 and 2019 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Quantitative information Level 3 fair values

	Valuation technique	Unobservable inputs	Range (weighted-average) 2020	2019
Mortgage bonds	Discounted cash flows	Standard Default Assumptions ("SDA")	2.78% - 0.12% (0.83%)	2.78% - 0.12% (0.83%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	51.33% - 13.73% (42.14%)	51.33% - 13.73% (42.14%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 meses	12 meses
Residual interests of trusts	Discounted cash flows	Standard Default Assumptions ("SDA")	2.78% - 0.12% (0.83%)	2.78% - 0.12% (0.83%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	51.33% - 13.73% (42.14%)	51.33% - 13.73% (42.14%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 meses	12 meses
Government bonds	The valuation model is based on different prices of observable references on an active market. Present value of the flows of a title, discounting them with the reference rate and the corresponding margin.	N/A	N/A	N/A

(32) Fair value of Financial Instruments, continued

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 assumptionsused to reasonably possible alternative assumptions would have the following effects.

	2020			
	Effect on profit or loss		Effect on OCI	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Securites at FVTPL	1,119,453	(1,039,594)	0	0
Securities at FVOCI	0	0	1,423,370	(1,351,364)
	1,119,453	(1,039,594)	1,423,370	(1,351,364)

	2019			
	Effect on profit or loss		Effect on OCI	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Securites at FVTPL	1,774,270	(1,074,381)	0	0
Securities at FVOCI	0	0	1,113,807	(1,033,258)
	1,774,270	(1,074,381)	1,113,807	(1,033,258)

The favorable and unfavourable 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 methods based on possible estimates of favorable or unobservable inputs of the Bank.

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

(32) Fair value of Financial Instruments, continued

Financial instruments not measured at fair value

The following table presents the carrying value and fair value of financial assets and liabilities, by the level in the fair value hierarchy into which the fair value measurement is categorized. This table does not include information on the fair value of financial assets and liabilities measured at fair value when its carrying approximates their fair value.

		Fair value			
2020	Carrying amount	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets not measured at fair value:					
Loans at amortized cost	708,886,359	0	0	707,713,958	707,713,958
Securities at amortized cost	220,133	0	303,705	0	303,705
Liabilities:					
Financial assets not measured at fair value:					
Time deposits from customers	295,540,926	0	0	295,096,097	295,096,097
Negotiable commercial papers	113,413,889	0	0	110,787,740	110,787,740
Negotiable commercial notes	122,293,839	0	0	116,751,458	116,751,458
Covered bonds	51,004,774	0	0	53,000,200	53,000,200
Ordinary bonds	2,641,022	0	0	2,628,145	2,628,145
Investment certificates	36,047,636	0	0	35,964,598	35,964,598
Other negotiable debt	35,050,807	0	0	34,918,670	34,918,670
Borrowed funds	156,631,609	0	0	156,357,985	156,357,985

		Fair value			
2019	Carrying amount	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets not measured at fair value:					
Loans at amortized cost	703,587,433	0	0	695,910,248	695,910,248
Securities at amortized cost	219,617	0	321,953	0	321,953
Liabilities:					
Financial assets not measured at fair value:					
Time deposits from customers	288,156,245	0	0	284,182,825	284,182,825
Negotiable commercial papers	107,589,534	0	0	104,573,538	104,573,538
Negotiable commercial notes	116,529,662	0	0	110,901,492	110,901,492
Covered bonds	51,010,903	0	0	53,084,606	53,084,606
Ordinary bonds	4,374,117	0	0	4,351,756	4,351,756
Investment certificates	37,032,086	0	0	37,003,802	37,003,802
Other negotiable debt	28,973,747	0	0	28,850,000	28,850,000
Borrowed funds	145,861,823	0	0	145,512,149	145,512,149

<u>Inputs used in measuring the fair value of financial instruments not measured at fair value</u>

The table below details information about the significant inputs and assumptions used in measuring the fair value as of March 31, 2020 and 2019 for the financial instruments that are not measured at fair value.

(32) Fair value of Financial Instruments, continued

Financial Instrument	Valuation Technique and Observable Input Used
Not measured at fair value:	
Deposits from customers	For saving deposits it 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.
Securities at amortized cost (2017: held to maturity)	Fair value represents the amount receivable / payable at the reporting date.
Loans	The fair value of loans represent the discounted expected cash flow to receive. The cash flows are discounted at market interest rates to assess its fair value.
Borrowed funds	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 are determined using the future cash flows discounted at the current market interest rate.
Negotiable commercial papers	The fair value for negotiable commercial papers are determined using the future cash flows discounted at the current market interest rate.
Other negotiable debts	The fair value for other negotiable debt are 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.

(33) 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 and reinsurance services from the insurance Bank to which it provides the service of reinsurance.

(33) Segment Information, continued

- *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 and reinsurance services from the insurance Bank to which it provides the service of reinsurance.

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

2020	Trust management	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	10,828,160	2,168,367	1,002,894	13,999,421
Interest expense	0	(8,131,583)	(666,065)	(901,763)	(9,699,410)
Provisions for loan losses and for securities at FVOCI and at AC	0	0	(39,219)	(37,190)	(76,409)
Gain on investments, net at FVPL	0	0	0	317,421	317,421
Gain on investments, net at FVOCI	0	0	0	21,468	21,468
Commission on management and servicing	1,619,146	21,395	89,779	0	1,730,320
Other income net of commissions	0	53,940	4,418	5,982	64,340
General and administrative expenses	(417,554)	(3,295,291)	(914,105)	(225,705)	(4,852,655)
Segment income before tax	1,201,592	(523,379)	643,176	183,107	1,504,496
Segment assets	0	704,545,149	81,971,698	110,978,786	897,495,633
Segment liabilities	0	689,947,570	56,514,168	76,512,673	822,974,411

2019	Trust management	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	9,981,143	1,787,782	864,885	12,633,810
Interest expense	0	(7,627,785)	(493,726)	(643,571)	(8,765,082)
Provisions for loan losses and for securities at FVOCI and at AC	0	(50,674)	(47,503)	0	(98,177)
Gain on investments, net at FVPL	0	0	0	388,401	388,401
Gain on investments, net at FVOCI	0	0	0	0	0
Commission on management and servicing	493,091	1,006,871	74,507	0	1,574,469
Other income net of commissions	0	544,717	35,258	45,959	625,934
General and administrative expenses	(437,909)	(3,455,931)	(958,666)	(236,708)	(5,089,214)
Segment income before tax	55,182	398,341	397,652	418,966	1,270,141
Segment assets	0	683,217,046	70,741,226	113,185,959	867,144,232
Segment liabilities	0	668,177,671	47,438,337	75,901,337	791,517,345

(33) Segment Information, continued

The composition of the geographic segments is described as follows:

2020	Panama	El Salvador	Colombia	Total
Interest income	9,505,712	2,371,380	2,122,329	13,999,421
Interest expense	(7,194,927)	(1,444,073)	(1,060,410)	(9,699,410)
Provisions for loan losses and for securities at FVOCI and at AC	(43,446)	52,301	(85,264)	(76,409)
Gain on investments, net at FVPL	317,421	0	0	317,421
Gain on investments, net at FVOCI	21,468	0	0	21,468
Commission on management and servicing	1,342,065	316,341	71,914	1,730,320
Other income net of commissions	(34,125)	38,383	60,082	64,340
General and administrative expenses	(3,258,960)	(794,306)	(799,389)	(4,852,655)
Segment income before tax	655,208	540,026	309,262	1,504,496
Segment assets	689,894,405	126,461,104	81,140,124	897,495,633
Segment liabilities	659,459,567	101,434,195	62,080,649	822,974,411

2019	Panama	El Salvador	Colombia	Total
Interest income	36,095,181	9,049,792	7,548,599	52,693,572
Interest expense	(27,490,822)	(5,329,140)	(3,692,900)	(36,512,862)
Provisions for loan losses and for securities at FVOCI and at AC	(170,890)	(233,786)	(257,657)	(662,333)
Gain on investments, net at FVPL	1,140,762	0	30,140	1,143,242
Gain on investments, net at FVOCI	0	0	0	27,659
Commission on management and servicing	4,987,840	1,414,844	174,493	6,577,177
Other income net of commissions	812,979	90,503	99,094	1,002,577
General and administrative expenses	(13,363,742)	(2,760,439)	(2,542,317)	(18,666,498)
Segment income before tax	2,011,308	2,231,774	1,359,452	5,602,534
Segment assets	657,365,546	121,002,428	88,776,258	867,144,232
Segment liabilities	626,830,847	99,218,074	65,468,424	791,517,345

(34) 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 8 of 15 March 2010 repealing Article 6 of Act 3 of 1985, it increases the benefit of a tax credit of ten (10) years, to, the first (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 in 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.

(34) Preferential Interests on Mortgage Loans, continued

At December 31, 2020, the Bank recognized preferential interest income on residential mortgage loans net of reserve amounting to B/.3,528,644 (2019: B/.2,438,773 in profit or loss. The Bank sold prior years' fiscal credits to third parties for an amount of B/.0 (2019: B/.2,610,601), which generated an income of B/.0 (2019: B/.39,159), under other income in the consolidated statement of income.

As at March 31, 2020, the accumulated tax credit amounts to B/.13,526,947 (2019: B/.10,037,951) as in included as a line item in the consolidated statement of financial position.

(35) 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 only text Decree Law 9 of February 26, 1998, as amended by Decree Law 2 of 22 February 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.

(c) *Securities Law*

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

The operations of brokerage houses are in the process of adaptation to the Agreement No.4-2011, amended certain provisions by Agreement No.8-2013, established by the Superintendence of the share market, which indicate that they have to comply with the capital adequacy rules and modalities.

(35) Main Applicable Laws and Regulations, continued

The main regulations or norms in the Republic of Panama, which have an effect on 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 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%

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.

(35) Main Applicable Laws and Regulations, continued

(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 30, 2014 and repeals all parts of the Agreement No.6-2000 of June 28, 2000 and all 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 loss, both for individual or 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 a surplus in the specific provision, calculated in conformity with this Agreement, over the provision calculated in conformity to IFRS; this surplus shall be accounted for in 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 indices or ratios mentioned in this Agreement.

(35) Main Applicable Laws and Regulations, continued

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 its carrying amount, and the specific provisions for each category:

	2020		2019	
Classification	**Balance**	**Allowance**	**Balance**	**Allowance**
Normal	514,266,868	0	495,871,583	0
Watch list	4,387,072	302,511	7,889,838	329,543
Substandard	1,161,651	243,849	2,846,348	341,020
Doubtful	2,437,740	612,029	2,449,910	452,664
Loss	3,279,725	442,193	2,382,053	335,739
Total	525,533,056	1,600,582	511,439,733	1,458,966

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

2020	**Current**	**Past due**	**Default**	**Total**
Loans to customers	504,497,923	14,158,044	6,877,089	525,533,056
2019	**Current**	**Past due**	**Default**	**Total**
Loans to customers	478,974,707	17,154,687	5,051,406	501,180,800

At March 31, 2020, the balances of the loans which accumulation of interests has been suspended due to an impairment in the quality of the credit or for the nonperformance of payment in accordance with the indicated in the Agreement No. 4-2013 was of B/.6,648,342 (2019: B/.5,627,307).

Dynamic Provision

Agreement No. 004 - 2013 indicates 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 normally classified category.

The dynamic provisioning is a heritage item that increases or decreases with assignments to or from 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.

(35) Main Applicable Laws and Regulations, continued

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

	2020	2019
Banco La Hipotecaria, S. A.	4,844,652	4,844,652
La Hipotecaria, S. A. de C.V.	1,468,441	1,468,441
La Hipotecaria C. F., S. A.	721,360	721,360
Total	7,034,453	7,034,453

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

By requirements of Agreement No.004-2013, is constituted a regulatory provision of B/.1,367,118 (2019: B/.1,218,056), which represents the excess of regulatory provision over the allowance for loan losses according IFRS.

(d) *(Agreement No. 007-2018 through which provisions on country risk management are established, issued by the Superintendency 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 puposes.

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. 07-2018, *"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 December 31, 2019, it was not necessary to make additional provisions, or charges in the Bank's consolidated financial statements.

(35) Main Applicable Laws and Regulations, continued

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.

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 09 October 1973.

b) *Securities Law*
The operations of issuers and brokerage positions in El Salvador are regulated by the Securities in accordance with the procedures established in the Decree Law No.809 of April 31, 1994. According to Legislative Decree No.592 of 14 January 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, which became effective on August 2, 2011, and gave birth to the new Financial System Superintendence as single supervisory 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.

(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 indeed societies. This tax is generated by the possession of wealth by January 1st of 2011, whose value equals or exceeds one billion dollars and less than three billion pesos. The tax rate ranges from 1% to 1.4% and added a surcharge of 25% of the estate tax result. The estate tax is presented in the consolidated statement of comprehensive income in the area of taxes.

(36) Effects of the Global Pandemic of the Propagation of the Coronavirus or Covid-19

In March 2020, , the appearance of a new strain of coronavirus called Covid-19 was reported, which has spread as a pandemic among the world population during the first quarter of 2020. Cases of this pandemic have already been reported in Panama and in March 2020, the Government has ordered the closure of most economic activities nationwide. This situation could decrease the Bank's economic activity and affect its consolidated financial situation, consolidated financial performance and consolidated cash flows in the future. Currently, it is not possible to determine or quantify the effect that such subsequent event may produce in the Bank, as this will depend on future developments at the national and international level, which are uncertain and cannot be predicted.