

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

**Consolidated Financial Statements**

September 30, 2020

(With the certification of the Accountant)

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**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 position as of September 30, 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 the Bank, free from material misstatement, whether due to fraud or error.

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

The consolidated financial statements of Banco La Hipotecaria, S.A. and subsidiaries as of September 30, 2020 have been prepared internally in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee ("IASB").



Roberto Romero  
CPA 0156-2012

October 30, 2020  
Panama, Republic of Panama

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**BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Statement of Financial Position**

September 30, 2020

(Stated in Balboas)

<u>Assets</u>	<u>Note</u>	<u>2020</u>	<u>2019</u>
Cash and Cash Effect	7	305,492	319,319
Bank Deposits:			
Demand deposits in local banks		56,207,720	28,898,311
Demand deposits in foreign banks		16,446,999	8,040,340
Savings deposits in local banks		1,359,874	1,105,001
Savings deposits in foreign banks		15,281,476	2,528,732
<b>Total deposits in banks</b>		<u>89,296,069</u>	<u>40,572,384</u>
<b>Total of cash, cash equivalents and cash in banks</b>		<u>89,601,561</u>	<u>40,891,703</u>
Investment in securities		99,297,748	98,816,449
Less: Allowance for securities		(4,754)	(354)
Investment in securities, net	8	<u>99,292,994</u>	<u>98,816,095</u>
Loans		712,940,102	702,621,991
Accrued interest receivable		1,368,367	1,644,195
<b>Loans at gross carrying amount</b>		<u>714,308,469</u>	<u>704,266,186</u>
allowance for loans losses		(876,931)	(678,753)
especial allowance for loans losses		(2,611,785)	-
<b>Loans at amortized cost (AC)</b>	9,31	<u>710,819,753</u>	<u>703,587,433</u>
Furniture, equipment and improvements, net	10	2,386,780	2,790,568
Accounts and interest receivable at fair value	11	13,018,005	2,863,466
Accounts receivable - related parties		0	0
Tax credit	33	17,473,266	10,037,951
Deferred tax	25	1,068,756	1,080,497
Right-of-use assets	28	2,691,852	3,178,540
Other assets	12	4,116,242	3,897,979
<b>Total assets</b>		<u><u>940,469,209</u></u>	<u><u>867,144,232</u></u>

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

<b>Liabilities and Equity</b>	<b>Nota</b>	<b>2020</b>	<b>2019</b>
<b>Liabilities:</b>			
Deposits from customers:			
Savings deposits - local		1,666,128	1,222,872
Savings deposits - foreign		853,120	1,675,825
Time deposits - local		250,831,515	205,779,165
Time deposits - foreign		75,684,244	80,655,803
Accrued interest payable		2,022,370	1,721,277
<b>Total deposits from customers</b>		<u>331,057,377</u>	<u>291,054,942</u>
Negotiable commercial papers	13, 31	105,161,356	107,589,534
Negotiable commercial notes	14, 31	107,748,270	116,529,662
Covered bonds	15, 31	50,986,337	51,010,903
Ordinary bonds	16, 31	14,326,403	4,374,117
Investment certificates	17, 31	39,392,948	37,032,086
Other negotiable debts	18, 31	31,867,985	28,973,747
Borrowings	19, 31	176,289,672	145,861,823
Leases Liabilities	28	2,955,224	654,615
Income tax payable	25	621,419	3,331,610
Other liabilities	20	5,317,305	5,104,306
<b>Total de pasivos</b>		<u>865,724,296</u>	<u>791,517,345</u>
<b>Equity:</b>			
Common shares		15,000,000	15,000,000
Treasury shares		(727,000)	(727,000)
Additional paid-in capital		25,051,203	25,025,329
Capital reserve		1,800,000	1,800,000
Fair value reserve		2,771,383	2,303,755
Currency translation reserve		(10,148,761)	(6,624,056)
Regulatory reserves		9,121,211	8,252,509
Retained earnings		31,096,845	29,704,882
<b>Total equity attributable to controlling interest no controladora</b>		<u>73,964,881</u>	<u>74,735,419</u>
Non-controlling interest		780,032	891,468
<b>Total equity</b>		<u>74,744,913</u>	<u>75,626,887</u>
Commitments and contingencies	29		
<b>Total liabilities and equity</b>		<u>940,469,209</u>	<u>867,144,232</u>

**BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Statement of Income**

Period ended September 30, 2020

(Stated in Balboas)

	<u>Nota</u>	<u>2020</u>	<u>2019</u>
Interest income calculated using the effective interest method:			
Loans		37,212,641	33,607,608
Investment in securities		2,782,093	2,737,665
Deposits in banks		237,209	136,287
<b>Total interest income</b>		<u>40,231,943</u>	<u>36,481,560</u>
Commission of:			
Granting of loans		847,990	2,234,130
<b>Total of interest and granting income</b>		<u>41,079,933</u>	<u>38,715,690</u>
Interest expense:			
Deposits from customers		11,038,170	8,995,220
Borrowings, debt securities in issue and leases		19,112,002	17,876,732
<b>Total interest expenses</b>		<u>30,150,172</u>	<u>26,871,952</u>
<b>Net interest income</b>		<u>10,929,761</u>	<u>11,843,738</u>
Impairment losses on financial assets:			
Provision for credit losses on loans at AC	4	3,354,293	619,369
Provision for credit losses on investment securities at FVOCI	4	14,484	(439)
Provision for credit losses on investment securities at AC	4	3,640	(110,373)
<b>Net interest income, after provisions for impairment losses on financial assets</b>		<u>7,557,344</u>	<u>11,335,181</u>
Income from banking services, commissions and others, net:			
Net income from securities at FVTPL	8	1,256,356	680,885
Net income from securities at FVOCI	8	2,098,078	0
Management and servicing commissions	23	5,226,730	4,899,974
Other commissions incurred		(565,675)	(515,126)
Other income	23	623,448	1,467,811
<b>Total income from banking services and others, net</b>		<u>8,638,937</u>	<u>6,533,544</u>
General and administrative expenses			
Salaries and other personnel benefits	6, 24	6,233,579	6,942,048
Depreciation and amortization of furniture, equipment and improvements	10	615,768	683,364
Depreciation of right-of-use assets	30	457,505	490,722
Professional and legal fees		1,149,705	966,531
Taxes		1,822,700	1,639,612
Other expenses	5, 24	2,592,855	3,246,769
<b>Total general and administrative expenses</b>		<u>12,872,112</u>	<u>13,969,046</u>
<b>Net income before income tax</b>		<u>3,324,169</u>	<u>3,899,679</u>
Income tax	25	997,102	981,778
<b>Net income</b>		<u>2,327,067</u>	<u>2,917,901</u>
Income attributable to:			
Controlling interest		2,301,276	2,881,835
Non-controlling interest		25,791	36,066
		<u>2,327,067</u>	<u>2,917,901</u>
<b>Basic earnings per share</b>	22	<u>163.04</u>	<u>204.43</u>
<b>Diluted earnings per share</b>	23	<u>163.04</u>	<u>204.43</u>

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 September 30, 2020

(Stated in Balboas)

	<u>2020</u>	<u>2019</u>
<b>Net income</b>	<u>2,327,067</u>	<u>2,917,901</u>
<b>Other comprehensive income:</b>		
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		
Movement in fair value reserve for FVOCI debt instruments:		
Debt investments at FVOCI – net change in fair value	513,411	2,260,791
Debt investments at FVOCI – reclassified to profit or loss	0	(27,659)
Movement in expected credit loss (ECL) reserve for FVOCI debt instruments:		
Debt investments at FVOCI – net change in ECL reserve	13,724	(110,374)
Movement in fair value reserve for loan portfolio acquired:		
Amortization of fair value	(59,506)	(885,502)
Movement in foreign currency translation reserve:		
Foreign operations – foreign currency translation differences	(3,661,931)	288,411
<b>Total other comprehensive income (loss)</b>	<u>(3,194,302)</u>	<u>1,525,667</u>
<b>Total comprehensive income</b>	<u>(867,235)</u>	<u>4,443,568</u>
<b>Comprehensive income attributable to:</b>		
Controlling interest	(755,799)	2,705,881
Non-controlling interest	(111,436)	87,082
	<u>(867,235)</u>	<u>2,792,963</u>

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

Consolidated Statement of Changes in Equity

Period ended September 30, 2020

(Stated in Balboas)

	Attributable to the controlling interest											Total equity		
	Fair value reserve										Regulatory reserves			
	Common shares	Additional paid-in capital	Treasury shares lessoraria	Capital reserve	Reserve of fair value of investment in securities FVOCI	Reserve of ECL of investment in securities FVOCI	Reserve of fair value of portfolio acquired	Currency translation reserve	Dynamic provision	Specific provision in excess	Regulatory provision		Retained earnings	Non-controlling interest
Balance at December 31, 2018	15,000,000	25,025,329	(727,000)	1,800,000	263,676	218,221	1,087,672	(6,455,494)	6,914,770	968,783	0	25,977,166	846,772	70,919,895
Net income	0	0	0	0	0	0	0	0	0	0	0	2,881,835	36,066	2,917,901
Other comprehensive income (loss):														
Fair value reserve – debt instruments at FVOCI:														
Debt investments at FVOCI – net change in fair value	0	0	0	0	2,280,791	0	0	0	0	0	0	0	0	2,280,791
Debt investments at FVOCI – reclassified to profit or loss	0	0	0	0	(27,659)	0	0	0	0	0	0	0	0	(27,659)
Expected credit loss (ECL) reserve – debt instruments at FVOCI:														
Debt investments at FVOCI – net change in ECL reserve	0	0	0	0	(110,374)	0	0	0	0	0	0	0	0	(110,374)
Fair value reserve for loan portfolio acquired:														
Amortization of fair value	0	0	0	0	0	0	(885,502)	0	0	0	0	0	0	(885,502)
Foreign currency translation reserve:														
Foreign operations – foreign currency translation differences	0	0	0	0	0	0	0	(1,413,210)	0	0	0	0	0	(1,413,210)
Total other comprehensive income (loss)	0	0	0	0	2,233,132	(110,374)	(885,502)	(1,413,210)	0	0	0	0	0	(155,850)
Total comprehensive income	0	0	0	0	2,233,132	(110,374)	(885,502)	(1,413,210)	0	0	0	2,881,835	36,066	2,917,901
Other equity transactions:														
Allocation of regulatory reserves – dynamic and specific:	0	0	0	0	0	0	0	0	264,575	0	0	(264,575)	0	0
Transactions with equity holders of the Bank:														
Decrease in additional paid-in capital:														
Treasury shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Complementary tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total contributions and distributions:	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance at September 30, 2019	15,000,000	25,025,329	(727,000)	1,800,000	2,496,808	107,847	202,170	(7,868,704)	7,179,345	968,783	0	28,507,059	933,854	73,825,491
Balance at December 31, 2019	15,000,000	25,025,329	(727,000)	1,800,000	1,984,853	136,657	182,335	(6,624,056)	7,034,453	1,218,056	0	29,704,882	891,468	75,826,887
Net income	0	0	0	0	0	0	0	0	0	0	0	2,301,277	25,190	2,327,067
Other comprehensive income (loss):														
Fair value reserve – debt instruments at FVOCI:														
Debt investments at FVOCI – net change in fair value	0	0	0	0	513,411	0	0	0	0	0	0	0	0	513,411
Debt investments at FVOCI – reclassified to profit or loss	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Expected credit loss (ECL) reserve – debt instruments at FVOCI:														
Debt investments at FVOCI – net change in ECL reserve	0	0	0	0	0	13,724	0	0	0	0	0	0	0	13,724
Fair value reserve for loan portfolio acquired:														
Amortization of fair value	0	0	0	0	0	0	(58,506)	0	0	0	0	0	0	(58,506)
Foreign currency translation reserve:														
Foreign operations – foreign currency translation differences	0	0	0	0	0	0	0	(3,524,705)	0	0	0	0	0	(3,524,705)
Total other comprehensive income (loss)	0	0	0	0	513,411	13,724	(58,506)	(3,524,705)	0	0	0	0	0	(3,056,931)
Total comprehensive income	0	0	0	0	513,411	13,724	(58,506)	(3,524,705)	0	0	0	2,301,277	(111,436)	(567,235)
Other equity transactions:														
Allocation of regulatory reserves – dynamic and specific:	0	0	0	0	0	0	0	0	(2,230,516)	858,701	0	(888,701)	0	0
Transactions with equity holders of the Bank:														
Contributions and distributions:														
Additional paid-in capital	0	25,874	0	0	0	0	0	0	0	0	0	0	0	25,874
Complementary tax	0	25,874	0	0	0	0	0	0	0	0	0	0	0	40,613
Balance at September 30, 2020	15,000,000	25,051,203	(727,000)	1,800,000	2,496,264	150,291	122,829	(10,148,761)	4,803,937	2,086,757	0	31,096,845	780,032	74,744,913

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 September 30, 2020

(Stated in Balboas)

	<u>Nota</u>	<u>2020</u>	<u>2019</u>
<b>Operating activities:</b>			
Net income		2,327,067	2,917,901
<b>Adjustment to reconcile net income and cash from operating activities:</b>			
Provision for credit losses on loans at AC	5	3,354,293	619,369
Provision for credit losses on investment securities at AC	5	18,124	(110,812)
Net gain on investment securities at FVTPL		(1,256,510)	(653,227)
Net gain on sale of investment securities at FVOCI	9	(2,098,078)	(27,659)
Depreciation and amortization of furniture, equipment and improvements	11	615,768	683,364
Depreciation of right-of-use assets	31	457,505	490,722
Gain on sale of foreclosed assets		-	39,159
Net interest income		(10,081,771)	(10,624,564)
Income tax expense	26	997,102	981,778
<b>Changes in operating assets and liabilities:</b>			
Loans		(10,646,120)	13,202,165
Accounts receivable		(10,873,408)	(505,381)
Accounts receivable - related parties		-	30,000
Sale of tax credits	34	0	2,610,601
Accrual of tax credits		(7,435,315)	(9,509,933)
Other assets		280,166	(4,750,755)
Saving deposits from customers		40,381,884	16,192,249
Time deposits from customers		(379,449)	1,877,257
Other liabilities		(1,489,703)	3,996,696
<b>Cash generated from operations:</b>			
Interest received		40,950,812	36,653,985
Interest paid		(29,426,925)	(26,275,833)
Income tax paid		(884,734)	(315,725)
<b>Cash flows from operating activities</b>		<u>14,810,708</u>	<u>27,521,357</u>
<b>Investment activities:</b>			
Acquisition of investment securities at FVOCI		(20,606,847)	(40,168,332)
Proceeds from sale of investment securities		22,681,075	10,591,553
redemption of investment securities		1,300,481	1,467,180
Disposal of fixed assets		35,657	(4,222)
Acquisition of furniture, equipment and improvements		(235,644)	(613,795)
<b>Cash flows from investment activities</b>		<u>3,174,722</u>	<u>(28,727,616)</u>
<b>Financing activities:</b>			
Proceeds from borrowings		132,988,873	61,000,000
Repayment of borrowings		(102,561,024)	(130,556,456)
Proceeds from issuance of negotiable commercial papers		99,542,467	95,853,000
Redemption of negotiable commercial papers		(101,970,645)	(77,683,441)
Proceeds from issuance of negotiable commercial notes		37,216,431	40,165,567
Redemption of negotiable commercial notes		(45,997,823)	(44,760,000)
Proceeds from issuance of investment certificates		11,511,312	26,493,000
Redemption of investment certificates		(9,150,450)	(7,589,107)
Proceeds from issuance of negotiable debts		28,920,178	20,662,000
Redemption of negotiable debts		(26,025,940)	(18,330,669)
Emisión de Bonos Ordinarios		13,826,603	(3,652,998)
Redemption of ordinary bonds		(3,874,317)	-
Proceeds from issuance of covered bonds		(24,566)	29,733,643
Additional paid-in capital		25,874	-
Non-controlling interest		(137,225)	51,016
Complementary tax		(40,613)	(87,367)
<b>Cash flows from financing activities</b>		<u>34,249,135</u>	<u>(8,701,812)</u>
Effect of exchange rate fluctuations		(3,524,705)	(1,411,247)
<b>Net increase in cash and cash equivalents</b>		<u>52,234,565</u>	<u>-9,908,071</u>
Cash and cash equivalents at the beginning of the year		40,891,703	39,120,668
<b>Cash and cash equivalents at the end of the year</b>	8	<u>89,601,563</u>	<u>27,801,350</u>

*The consolidated statement of cash flows 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)

**Notes to the Consolidated Financial Statements**

September 30, 2020  
(Stated in Balboas)

**(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:

	<u>Activity</u>	<u>Country of Incorporation</u>	<u>Controlling Interest</u>	
			<u>2019</u>	<u>2018</u>
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.

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

**Notes to the Consolidated Financial Statements**

(Stated in Balboas)

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**(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:

<u>Item</u>	<u>Basis of Measurement</u>
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) 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.

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

**Notes to the Consolidated Financial Statements**

(Stated in Balboas)

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**(3) 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.

**Notes to the Consolidated Financial Statements**

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**(3) Summary of Significant Accounting Policies, continued**

*(b.2) Foreign Operations*

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

- Assets and liabilities, at the 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:

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**(3) Summary of Significant Accounting Policies, continued**

*(b.2) Foreign Operations*

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

- Assets and liabilities, at the 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*

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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.

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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:

**Notes to the Consolidated Financial Statements**

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**(3) 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 portfolio 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.

**Notes to the Consolidated Financial Statements**

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**(3) 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.



**Notes to the Consolidated Financial Statements**

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**(3) 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 explained in Note 4 (f).

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**(3) Summary of Significant Accounting Policies, continued**

Financial liabilities

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

*(c.4) Modification of financial assets*

Financial assets

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

*(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.

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**(3) 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 exemption 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'.

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**(3) 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 'Stage 3 financial instruments'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as default or past due event;
- the restructuring of a loan or advance by the Bank on terms that 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.

**Notes to the Consolidated Financial Statements**

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**(3) 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.

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**(3) 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:

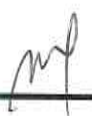
- interest revenue using the effective interest method; and
- ECL and reversals.

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.



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**(3) 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*

**Notes to the Consolidated Financial Statements**

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**(3) 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 for 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 incur 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.



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**(3) 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 not 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 received 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.

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**(3) 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).

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**(3) 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 on the basis of its relative stand-alone prices. However, for leases of land and buildings in which is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease as a single lease component.

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**(3) 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.

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**(3) 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).

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**(4) Financial Risk Management**

A financial instrument is any contract that originates a financial asset in one entity and a financial liability or equity instrument in another entity. The Bank's activities are mainly related to the use of financial instruments and therefore, the consolidated statement of financial position is comprised mainly of financial instruments. These instruments expose the Bank to various types of 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.

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**(4) 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..



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**(4) 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 Committee, 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 collateral or credit enhancement. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For promissory notes (loan commitments), the amounts in the table represent the amounts committed.

Explanation of the terms 'Stage 1', 'stage 2' and 'Stage 3', is included in Nota 4 (c.7).

	2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit-impaired)	
<b>Loans</b>				
Normal or low-fair risk	666,952,130	0	0	666,952,130
Watch-list	30,248,918	0	0	30,248,918
Substandard	0	3,326,617	459,708	3,786,325
Doubtful	0	2,818,708	949,100	3,767,808
Loss	0	0	8,184,921	8,184,921
Accrued interest receivable	1,304,192	34,348	29,830	1,368,368
<b>Gross amount</b>	<b>698,505,240</b>	<b>6,179,671</b>	<b>9,623,559</b>	<b>714,308,470</b>
Allowance for impairment loss	(3,015,648)	(73,095)	(399,973)	(3,488,716)
<b>Carrying value, net</b>	<b>695,412,276</b>	<b>6,106,576</b>	<b>9,223,586</b>	<b>710,819,754</b>
<b>Investment securities at AC</b>				
Normal or low-fair risk	770,981	0	0	770,981
<b>Gross amount</b>	<b>770,981</b>	<b>0</b>	<b>0</b>	<b>770,981</b>
Allowance for impairment loss	(4,754)	0	0	(4,754)
<b>Carrying value, net</b>	<b>766,227</b>	<b>0</b>	<b>0</b>	<b>766,227</b>
<b>Investment securities at FVOCI</b>				
Normal or low-fair risk	73,085,464	0	0	73,085,464
	172,019	0	0	172,019
<b>Promissory notes</b>				
Normal or low-fair risk	41,068,948	0	0	41,068,948



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**(4) Financial Risk Management, continued**

	2019			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	
<b>Loans</b>				
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
<b>Gross amount</b>	<b>693,777,818</b>	<b>4,080,543</b>	<b>6,407,825</b>	<b>704,266,186</b>
Allowance for impairment loss	(239,631)	(119,208)	(319,914)	(678,753)
<b>Carrying value, net</b>	<b>693,538,187</b>	<b>3,961,335</b>	<b>6,087,911</b>	<b>703,587,433</b>
<b>Investment securities at AC</b>				
Normal or low-fair risk	219,971	0	0	219,971
<b>Gross amount</b>	<b>219,971</b>	<b>0</b>	<b>0</b>	<b>219,971</b>
Allowance for impairment loss	(354)	0	0	(354)
<b>Carrying value, net</b>	<b>219,617</b>	<b>0</b>	<b>0</b>	<b>219,617</b>
<b>Investment securities at FVOCI</b>				
Normal or low-fair risk	74,442,164	0	0	74,442,164
	136,576	0	0	136,567
<b>Promissory notes</b>				
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
<b>Personal Loans</b>				
Current	61,058,646	0	0	61,058,646
Non performings < 30	5,444,468	0	0	5,444,468
Non performings > 30 and < 60	2,204,418	0	0	2,204,418
Non performings > 60 and < 90	0	1,217,675	0	1,217,675
Non performings > 90	0	0	1,431,552	1,431,552
<b>Mortgage Loans</b>				
Current	554,206,353	0	0	554,206,353
Non performings < 30	45,954,196	0	0	45,954,196
Non performings > 30 and < 60	27,037,976	0	0	27,037,976
Non performings > 60 and < 90	0	6,199,897	0	6,199,897
Non performings > 90	0	0	8,184,921	8,184,921

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**(4) Financial Risk Management, continued**

	2019			Total
	('Stage 1')	('Stage 2')	('Stage3')	
<b>Personal Loans</b>				
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	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
<b>Mortgage Loans</b>				
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.

<u>Investment in securities as a FVTPL:</u>	<u>2020</u>	<u>2019</u>
<b><u>Government Bonds:</u></b>		
BBB+ to BBB-	1,645,577	1,551,262
	<u>1,645,577</u>	<u>1,551,262</u>
<b><u>Mortgage-backed securities:</u></b>		
Normal or low risk	5,661,240	5,704,788
	<u>5,661,240</u>	<u>5,704,788</u>
<b><u>residual interest:</u></b>		
Normal or low risk	18,097,121	16,797,063
	<u>18,097,121</u>	<u>16,797,063</u>
<b>Total investment in securities as a FVTPL</b>	<u>25,403,938</u>	<u>24,053,113</u>

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**(4) Financial Risk Management, continued**

*Deposits placed with banks*

At March 31, 2020, the Bank held deposits placed with banks for B/.92,092,47 (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 September 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 <u>requirement</u>		<u>Type of colateral held</u>
	<u>2020</u>	<u>2019</u>	
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.

<u>LTV ranges</u>	<u>2020</u>	<u>2019</u>
<b>Non credit-impaired loans</b>		
0-20%	1,884,270	1,786,883
20-40%	12,611,544	12,073,070
40-60%	42,439,579	39,832,508
60-80%	251,284,180	239,066,673
80-100%	<u>333,363,770</u>	<u>334,874,553</u>
Total	<u>641,583,343</u>	<u>627,633,687</u>
<b>Impaired loans</b>		
0-20%	0	15,207
20-40%	6,964	204,759
40-60%	83,409	438,409
60-80%	1,452,232	2,250,823
80-100%	<u>6,642,316</u>	<u>2,292,507</u>
Total	<u>8,184,921</u>	<u>5,201,704</u>

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**(4) 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:

	<u>2020</u>	<u>2019</u>
Properties	864,386	506,534
<b>Total</b>	<u>864,386</u>	<u>506,534</u>

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

***Amounts arising from expected credit losses (ECL)***

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

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**(4) 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 occurring increases exponentially as credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

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

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

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

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

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

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**(4) 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.

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**(4) 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 LWOOG 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.

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**(4) Financial Risk Management, continued**

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

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

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

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

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

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

Under this statistical approach, intermediate matrices were initially developed in a monthly basis for each segment and country between 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 delinquency ranges.



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**(4) 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.

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**(4) Financial Risk Management, continued**

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

The 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.

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**(4) 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:

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**(4) 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 (Unemployment)
- 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:

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**(4) Financial Risk Management, continued**

Segment	Prospective Information Variable correlated with past due portfolio	Historical variables		Incorporation 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	6.00%	7.10%	Only	Positive	7.24%	0.0303%	B/ 5
Panama – Operations without Guarantees	Unemployment	6.00%	7.10%	Only	Positive	7.24%	2.7680%	B/ 6,904
Salvador – Operations with Guarantees	Inflation	1.21%	-0.01%	Only	Positive	-11.53	0.0389%	B/ 39
Salvador – Operations without Guarantees	Inflation	1.21%	-0.01%	Only	Positive	-11.53	0.0165%	B/ 24
Colombia – Operations with Guarantees	Unemployment	10.43%	9.53%	Only	Positive	10.67%	0.1041%	B/ 7
Colombia – Operations without Guarantees	Unemployment	10.43%	9.53%	Only	Positive	10.67%	0.5875%	B/ 430

*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'.

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**(4) 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.

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**(4) 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.

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**(4) 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).

	<u>2020</u> 12-month ECL ( <u>'Stage 1'</u> )	<u>2019</u> 12-month ECL ( <u>'Stage 1'</u> )
<b><u>Investment securities at amortized cost:</u></b>		
Balance at January, 1	354	877
Net remeasurement of loss allowance	642	(523)
New financial assets purchased	3,758	0
Financial assets that have been derecognized	<u>0</u>	<u>0</u>
<b>Balance at September, 30</b>	<u>4,754</u>	<u>354</u>

	<u>2020</u>		
	12-month ECL ( <u>'Stage 1'</u> )	Lifetime ECL ( <u>'Stage 2'</u> )	<u>Total</u>
<b><u>Investment securities at FVOCI:</u></b>			
Balance at January, 1	39,558	97,009	136,567
Net remeasurement of loss allowance	28,538	(35,725)	(7,187)
New financial assets purchased	<u>20,910</u>	<u>0</u>	<u>20,911</u>
<b>Balance at September, 30</b>	<u>89,006</u>	<u>61,284</u>	<u>150,291</u>

	<u>2019</u>		
	12-month ECL ( <u>'Stage 1'</u> )	Lifetime ECL ( <u>'Stage 2'</u> )	<u>Total</u>
<b><u>Investment securities at FVOCI:</u></b>			
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	<u>11,788</u>	<u>0</u>	<u>11,788</u>
<b>Balance at December 31</b>	<u>39,558</u>	<u>97,009</u>	<u>136,567</u>



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**(4) Financial Risk Management, continued**

	2020			Total
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit- impaired / collectively assessed (‘Stage 2’)	Lifetime ECL (credit-impaired / individually assessed (‘Stage 3’)	
<b>Loans at amortized cost:</b>				
Balance at January 1	239,631	119,208	319,914	678,753
Transfer to Stage 1	160,282	(89,144)	(71,138)	0
Transfer to Stage 2	(46,053)	151,839	(105,786)	0
Transfer to Stage 3	(6,101)	(124,599)	130,700	0
Net remeasurement of loss allowance	2,661,244	20,202	727,242	3,408,688
New financial assets originated	16,805	512	0	17,317
Financial instruments that have been derecognized	(10,158)	(4,924)	(56,631)	(71,713)
Write-offs	0	0	(544,329)	(544,329)
<b>Balance at September, 30</b>	<b>3,015,650</b>	<b>73,094</b>	<b>399,972</b>	<b>3,488,716</b>

	2019			Total
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit- impaired / collectively assessed (‘Stage 2’)	Lifetime ECL (credit-impaired / individually assessed (‘Stage 3’)	
<b>Loans at amortized cost:</b>				
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 remeasurement 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)
<b>Balance at December 31</b>	<b>239,631</b>	<b>119,208</b>	<b>319,914</b>	<b>678,753</b>

As of September 30, the Bank has taken additional regulatory reserves against results, according to circular 9-2020 for possible losses of modified loans due to Covid-19 in the amount of B /. 1,921,466 (2019: 0.00) and is shown in the statement of financial position.

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.

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**(4) Financial Risk Management, continued**

	2020			Total
	Investment at Amortized Cost a CA	Investment in securities at FVOCI	Loans at Amortized Cost	
Net remeasurement of loss allowance	28,538	(35,725)	3,408,688	3,401,501
New financial assets purchased	20,910	0	17,317	38,227
Financial assets that have been derecognized	0	0	(71,713)	(71,713)
<b>Total</b>	<u>49,448</u>	<u>(35,725)</u>	<u>3,354,292</u>	<u>3,366,015</u>

	2019			Total
	Investment at Amortized Cost a CA	Investment in securities at FVOCI	Loans at Amortized Cost	
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)
<b>Total</b>	<u>(523)</u>	<u>127,109</u>	<u>789,965</u>	<u>662,333</u>

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

The contractual amount outstanding on loans receivable that were written off during the September 30, 2020 and that are still subject to enforcement activity is B/.234,104 (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:

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**(4) Financial Risk Management, continued**

	<u>Loans</u>		<u>Investment securities</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Gross book balance	<u>712,940,102</u>	<u>704,266,186</u>	<u>99,297,748</u>	<u>98,816,449</u>
<b>Concentration by:</b>				
<b>Sector:</b>				
Mortgage banking	641,583,343	628,830,845	61,709,506	61,751,918
Personal banking	71,356,759	75,435,341	0	0
Other sectors	<u>0</u>	<u>0</u>	<u>37,588,242</u>	<u>37,064,531</u>
	<u>712,940,102</u>	<u>704,266,186</u>	<u>99,297,748</u>	<u>98,816,449</u>
<b>Geographic:</b>				
Panama	525,518,674	512,364,798	61,929,963	61,971,888
El Salvador	117,827,019	115,206,367	0	0
Colombia	69,594,409	76,695,021	5,207,835	4,938,011
United States of America	<u>0</u>	<u>0</u>	<u>32,159,950</u>	<u>31,906,550</u>
	<u>712,940,102</u>	<u>704,266,186</u>	<u>99,297,748</u>	<u>98,816,449</u>
	<u>712,940,102</u>	<u>704,266,186</u>	<u>99,297,748</u>	<u>98,816,449</u>

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.

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**(4) Financial Risk Management, continued**

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 and 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%:

	<u>2020</u>	<u>2019</u>
At December 31	131.03%	104.14%
Average of the year	120.49%	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.

<u>2020</u>	<u>Carrying amount</u>	<u>Gross nominal amount (outflow)/inflow</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>
<b>Financial Liabilities:</b>						
Saving deposits	2,519,248	-2,519,248	-2,519,248	0	0	0
Time deposits	326,515,759	-347,700,311	-216,913,297	-130,787,014	0	0
Negotiable commercial papers	105,161,356	-107,113,922	-107,113,922	0	0	0
Negotiable commercial notes	107,748,270	-113,134,883	-53,417,167	-59,717,716	0	0
Covered bonds	50,986,337	-58,825,188	-2,518,247	-56,306,941	0	0
Ordinary bonds	14,326,403	-17,504,238	-1,630,497	-15,873,741	0	0
Investment certificates	39,392,948	-43,661,584	-10,973,210	-32,688,374	0	0
Other negotiable debts	31,867,985	-32,775,857	-32,775,857	0	0	0
Borrowed funds	176,289,672	-193,738,887	-101,089,415	-92,649,472	0	0
Lease	<u>2,955,224</u>	<u>(3,862,887)</u>	<u>(636,402)</u>	<u>(2,160,896)</u>	<u>(1,065,589)</u>	<u>0</u>
<b>Total financial liabilities</b>	<b><u>857,763,202</u></b>	<b><u>-920,837,005</u></b>	<b><u>-529,587,262</u></b>	<b><u>-390,184,154</u></b>	<b><u>-1,065,589</u></b>	<b><u>857,763,202</u></b>
<b>Financial Assets:</b>						
Cash	356,725	356,725	356,725	0	0	0
Deposits in banks	72,645,591	72,645,591	72,645,591	0	0	0
Investment securities	101,567,079	157,455,565	9,364,232	31,146,530	30,516,553	86,428,250
Loans	<u>711,503,642</u>	<u>1,190,251,924</u>	<u>60,769,279</u>	<u>237,557,083</u>	<u>268,314,504</u>	<u>623,611,058</u>
<b>Total financial assets</b>	<b><u>886,073,037</u></b>	<b><u>1,420,709,805</u></b>	<b><u>143,135,827</u></b>	<b><u>268,703,613</u></b>	<b><u>298,831,057</u></b>	<b><u>710,039,308</u></b>
<b>Commitments and contingencies</b>						
Loan commitments	<u>(39,367,244)</u>	<u>(39,367,244)</u>	<u>(39,367,244)</u>	<u>0</u>	<u>0</u>	<u>0</u>

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<u>2019</u>	<u>Carrying amount</u>	<u>Gross nominal amount (outflow)/inflow</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>
<b>Financial Liabilities:</b>						
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
<b>Total financial liabilities</b>	<b>3,331,610</b>	<b>(4,051,873)</b>	<b>(640,403)</b>	<b>(2,215,793)</b>	<b>(1,195,678)</b>	<b>0</b>
	<u>785,758,424</u>	<u>(838,347,383)</u>	<u>(456,190,593)</u>	<u>(380,961,113)</u>	<u>(1,195,678)</u>	<u>0</u>
<b>Financial Assets:</b>						
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
<b>Total financial assets</b>	<b>704,266,186</b>	<b>1,181,324,791</b>	<b>60,060,609</b>	<b>235,062,754</b>	<b>266,034,106</b>	<b>620,167,322</b>
	<u>843,974,338</u>	<u>1,369,358,916</u>	<u>105,376,365</u>	<u>252,821,591</u>	<u>295,253,315</u>	<u>715,907,645</u>
<b>Commitments and contingencies</b>						
Loan commitments						

For the non-derivatives financial liabilities and financial assets, their gross carrying 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.

	<u>2020</u>	<u>2019</u>
<b>Financial Assets:</b>		
Loans	<u>711,383,173</u>	<u>687,441,500</u>
Investments	<u>99,418,286</u>	<u>63,947,484</u>
<b>Financial liabilities:</b>		
Time deposits	<u>115,876,119</u>	<u>126,328,522</u>
Borrowings	<u>56,711,606</u>	<u>51,156,623</u>
Negotiable commercial notes	<u>61,581,000</u>	<u>69,889,000</u>
Covered bonds	<u>52,000,000</u>	<u>52,000,000</u>
Ordinary bonds	<u>13,833,798</u>	<u>0</u>
Investment certificates	<u>29,270,000</u>	<u>26,307,000</u>

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.

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**(4) Financial Risk Management, continued**

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

<u>2020</u>	<u>Pledged as Collateral</u>	<u>Available as Collateral</u>	<u>Total</u>
Cash and cash equivalent	0	89,601,561	89,601,561
Investment securities	0	99,297,748	99,297,748
Loans, net	230,699,668	480,120,086	710,819,754
Non-financial assets	<u>0</u>	<u>40,750,146</u>	<u>40,750,146</u>
	<u>230,699,668</u>	<u>709,769,541</u>	<u>940,469,209</u>
<u>2019</u>	<u>Pledged as Collateral</u>	<u>Available as Collateral</u>	<u>Total</u>
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	<u>0</u>	<u>23,849,001</u>	<u>23,849,001</u>
	<u>190,438,206</u>	<u>676,706,026</u>	<u>867,144,232</u>

(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.

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**(4) 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:

<u>Colombian Pesos (COP)</u>	<u>Expressed in B/.</u>	
	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash and cash equivalents	22,010,282	4,875,918
Investments	5,204,077	4,938,011
Loans, net	69,594,409	76,260,227
Other assets	<u>3,846,262</u>	<u>2,702,102</u>
<b>Total assets</b>	<u>100,655,030</u>	<u>88,776,258</u>
<b>Liabilites</b>		
Time deposits	57,826,304	59,177,059
Ordinary bonds	14,326,403	4,374,117
Borrowed funds	7,581,950	765,102
Other liabilities	<u>419,487</u>	<u>1,152,146</u>
<b>Total liabilities</b>	<u>80,154,144</u>	<u>65,468,424</u>
<b>Net position</b>	<u>20,500,886</u>	<u>23,307,834</u>

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.



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**(4) 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.

<u>2020</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>	<u>Total</u>
<b>Assets:</b>					
Deposits in banks	51,806,726	0	0	0	51,806,726
Investments at FVTPL	1,678,188	0	0	23,758,360	25,436,548
Investments at amortized cost	555,277	0	220,457	0	775,734
Investments at FVOCI	16,201,530	189,425	35,134,319	21,560,190	73,085,464
Loans	643,345,694	0	0	69,594,408	712,940,102
<b>Total assets</b>	<u>713,587,415</u>	<u>189,425</u>	<u>35,354,776</u>	<u>114,912,958</u>	<u>864,044,574</u>
<b>Liabilities:</b>					
Saving deposits	1,990,518	0	0	0	1,990,518
Time deposits	210,904,361	115,611,398	0	0	326,515,759
Borrowed funds	81,039,672	70,250,000	25,000,000	0	176,289,672
Issued debt	200,789,197	148,694,102	0	0	349,483,299
<b>Total liabilities</b>	<u>494,723,748</u>	<u>334,555,500</u>	<u>25,000,000</u>	<u>0</u>	<u>854,279,248</u>
<b>Interest rate sensitivity, net</b>	<u>218,863,667</u>	<u>(334,366,075)</u>	<u>10,354,776</u>	<u>114,912,958</u>	<u>9,765,328</u>
<u>2019</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>	<u>Total</u>
<b>Assets:</b>					
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
<b>Total assets</b>	<u>751,251,236</u>	<u>3,489,954</u>	<u>32,126,521</u>	<u>44,184,371</u>	<u>831,052,082</u>
<b>Liabilities:</b>					
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
<b>Total liabilities</b>	<u>508,862,641</u>	<u>273,564,173</u>	<u>0</u>	<u>0</u>	<u>782,426,814</u>
<b>Interest rate sensitivity, net</b>	<u>242,388,595</u>	<u>(270,074,219)</u>	<u>32,126,521</u>	<u>44,184,371</u>	<u>48,625,268</u>

(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:



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**(4) Financial Risk Management, continued**

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

<u>Sensitivity of projected net interest income</u>	<u>Increase of 25 bp</u>	<u>Decrease of 25 bp</u>	<u>Increase of 50 bp</u>	<u>Decrease of 50 bp</u>
<b><u>2020</u></b>				
September, 30	1,020,693	(1,020,693)	2,042,345	(2,042,345)
Year average	1,182,357	(1,182,357)	2,365,033	(2,365,033)
Maximun of the year	1,350,656	(1,350,656)	2,701,313	(2,701,313)
Minumun of the year	1,020,693	(1,020,693)	2,042,345	(2,042,345)
<b><u>2019</u></b>				
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)
<b><u>Sensitivity of projected net equity</u></b>				
<b><u>2020</u></b>				
September, 30	(1,724,410)	1,724,410	(3,448,820)	3,448,820
Year average	(1,753,094)	1,753,094	(3,506,188)	3,506,188
Maximun of the year	(1,778,100)	1,778,100	(3,556,201)	3,556,201
Minumun of the year	(1,724,410)	1,724,410	(3,448,820)	3,448,820
<b><u>2019</u></b>				
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.

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**(4) 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.

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**(4) 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 September 30, 2020, the Bank has a regulatory capital position that is comprised as follows:

	<u>2020</u>	<u>2019</u>
<b>Primary Ordinary Capital</b>		
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	800,638	891,468
Retained earnings	31,001,751	29,704,882
Other items of comprehensive income (1)		
Gains on securities and ECL reserve for investments at FVOCI	4,842,861	2,121,420
Adjustment for translation of foreign currency	(9,457,483)	(6,624,056)
Treasury shares	(727,000)	(727,000)
Less: deferred tax	<u>(905,636)</u>	<u>(1,080,496)</u>
<b>Total Primary Ordinary Capital</b>	67,406,365	66,111,547
<b>Dynamic provision</b>	<u>4,803,937</u>	<u>7,034,453</u>
<b>Total Regulatory Capital</b>	<u>69,244,449</u>	<u>73,146,000</u>
<b>Total of Risk-Weighted Assets</b>	<u>567,793,123</u>	<u>539,912,899</u>
<b>Ratios:</b>	<b>Minimum Required</b>	
Capital Adequacy Ratio	<u>8.00%</u> <u>12.20%</u>	<u>13.54%</u>
Primary Ordinary Capital Ratio	<u>4.50%</u> <u>11.35%</u>	<u>12.25%</u>
Primary Capital Ratio	<u>6.00%</u> <u>11.35%</u>	<u>12.25%</u>
Ratio	<u>3.00%</u> <u>6.92%</u>	<u>7.70%</u>

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**(4) 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.

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**(5) 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.

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**(6) Balances and Transactions with Related Parties**

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

	<u>Director and Management and key personnel</u>		<u>Related Companies</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>Assets:</b>				
Demand deposits	<u>0</u>	<u>0</u>	<u>1,902</u>	<u>1,902</u>
Accounts receivable	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Liabilities:</b>				
Saving deposits	<u>98,689</u>	<u>67,317</u>	<u>798,508</u>	<u>818,393</u>
Time deposits	<u>1,185,838</u>	<u>585,649</u>	<u>6,051,338</u>	<u>5,954,595</u>
Interest	<u>2,356</u>	<u>3,141</u>	<u>28,684</u>	<u>21,848</u>
<b>Other income (expenses):</b>				
Interest expense on deposits	<u>45,420</u>	<u>127,260</u>	<u>92,059</u>	<u>269,536</u>
Short-term benefits to executives	<u>825,665</u>	<u>952,497</u>	<u>0</u>	<u>0</u>

Transactions with Directors and Executives

As of September 30, 2020, the Bank has paid fees for B/.34,824(2019: B/.28,190 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/.825,665 (2018: B/.952,497).

**(7) Cash and Cash Equivalents**

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	305,492	319,319
Demand deposits	72,654,719	36,938,651
Saving accounts	<u>16,641,350</u>	<u>3,633,733</u>
<b>Cash and cash equivalents in the consolidated statement of cash flows</b>	<u>89,601,561</u>	<u>40,891,703</u>

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**(8) Investment in Securities**

Investment securities are classified as follows:

	<u>2020</u>	<u>2019</u>
Securities at (FVTPL)	25,436,549	24,154,314
Securities at amortized cost	770,981	219,617
Securities at (FVOCI)	<u>73,085,464</u>	<u>74,442,164</u>
<b>Total investment securities, net</b>	<u>99,292,994</u>	<u>98,816,095</u>

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

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

<u>Holdings held in securitizations:</u>	<u>Maturity</u>	<u>2020</u>	<u>2019</u>
<b>Mortgage-backed securities</b>			
XI Trust Bond of Mortgage Loans	Oct-41	1,843,094	1,845,227
XII Trust Bond of Mortgage Loans	Nov-42	821,583	821,852
XIII Trust Bond of Mortgage Loans	Dic-45	926,288	926,991
XIV Trust Bond of Mortgage Loans	Sep-46	1,243,854	1,284,630
XV Trust Bond of Mortgage Loans	Jul-47	<u>826,421</u>	<u>826,088</u>
		<u>5,661,240</u>	<u>5,704,788</u>
<b>Residual Interest:</b>			
	Dic-36	2,438,273	2,336,768
Residual interest of the Eighth Trust		389,143	402,775
Residual interest of the Ninth Trust	Dic-22	6,526,129	6,050,194
Residual interest of the Tenth Trust	Sep-39	3,626,548	3,333,620
Residual interest of the Eleventh Trust	Oct-41	1,909,064	1,815,363
Residual interest of the Twelfth Trust	Nov-42	1,806,616	1,625,888
Residual interest of the Thirteenth Trust	Dic-45	647,398	565,514
Residual interest of the Fourteenth Trust	Sep-46	<u>753,950</u>	<u>666,941</u>
Residual interest of the Fiveteenth Trust	Jul-47	<u>18,097,121</u>	<u>16,797,063</u>
<b>Total of Holdings held in securitizations:</b>		<u>23,758,361</u>	<u>22,501,851</u>
<b>Government Bonds:</b>			
Agricultural development securities of Colombia	Jul-20	<u>1,645,577</u>	<u>1,551,262</u>
<b>Total of Government Bonds</b>		<u>1,645,577</u>	<u>1,551,262</u>
<b>Others equity investments:</b>			
Mutuals Funds	N/A	32,611	101,201
<b>Total of others equity investments</b>		<u>32,611</u>	<u>101,201</u>
<b>Total of securities at FVTPL</b>		<u>25,436,549</u>	<u>24,154,314</u>

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.

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**(8) Investment in Securities, continued**

*Investment securities measured at amortized cost*

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

	<u>Interest Rate</u>	<u>Maturity</u>	<u>2020</u>	<u>2019</u>
<b>Government Bonds:</b>				
Bonds of the Republic of Panama	8.875%	31-Dic-27	555,278	219,971
Bonds of the Republic of Colombia	3.05%	31-May-21	<u>220,457</u>	<u>0</u>
			775,735	219,971
Less: Allowance for losses (ECL)			<u>(4,754)</u>	<u>(354)</u>
<b>Total of investment securities at amortized cost</b>			<u><u>770,981</u></u>	<u><u>219,617</u></u>

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

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

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

	<u>Maturity</u>	<u>2020</u>	<u>2019</u>
<b>Holdings held in securitizations:</b>			
<b>Mortgage-backed securities</b>			
VIII Trust Bond of Mortgage Loans	Dic-36	1,486,875	1,475,723
IX Trust Bond of Mortgage Loans	Dic-22	189,425	204,406
X Trust Bond of Mortgage Loans	Sep-39	7,075,501	7,110,653
XI Trust Bond of Mortgage Loans	Oct-41	2,725,409	2,960,001
XII Trust Bond of Mortgage Loans	Nov-42	7,639,155	7,750,507
XIII Trust Bond of Mortgage Loans	Dic-45	4,629,695	4,919,818
XIV Trust Bond of Mortgage Loans	Feb-49	6,086,220	6,216,695
XV Trust Bond of Mortgage Loans	Feb-49	<u>8,118,865</u>	<u>8,612,263</u>
<b>Total of Holdings held in securitizations:</b>		<u><u>37,951,145</u></u>	<u><u>39,250,066</u></u>
<b>Government Bonds:</b>			
Government Bonds of Colombia	Ago-26	2,974,369	3,285,548
Government Bonds of Unites States	Ago-27	<u>32,159,950</u>	<u>31,906,550</u>
<b>Total of Government Bonds</b>		<u><u>35,134,319</u></u>	<u><u>35,192,098</u></u>
<b>Total of investment at FVOCI</b>		<u><u>73,085,464</u></u>	<u><u>74,442,164</u></u>

As of September 30, 2020, the reserve for ECL of debt instruments classified as measured at FVOCI, presents a balance of B/.150,291 (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.



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**(8) Investment in Securities, continued**

As of September 30, 2020, the Bank made sales of investment securities measured at FVOCI to B/.20,500,000 (2019: B/.10,591,553) which generated a net gain of B/.2,098,078 (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).

**(9) Loans at amortized cost**

The composition of the loans portfolio is summarized as follows:

	<u>2020</u>	<u>2019</u>
<b>Domestic loans:</b>		
Personal	45,663,752	46,064,682
Residential mortgages	<u>479,854,922</u>	<u>465,375,051</u>
Total domestic loans	<u>525,518,674</u>	<u>511,439,733</u>
<b>Foreign loans:</b>		
Personal	25,693,008	28,923,621
Residential mortgages	<u>161,728,420</u>	<u>162,258,637</u>
Total foreign loans	<u>187,421,428</u>	<u>191,182,258</u>
Accued interest receivable	1,368,367	1,644,195
Less: loss allowance (ECL)	<u>(3,488,716)</u>	<u>(678,753)</u>
<b>Total loans at amortized cost</b>	<u>710,819,753</u>	<u>703,587,433</u>

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 September 30, 2020, the outstanding amount is of B/.122,829 (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.

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**(10) Furniture, Equipment and Improvements, net**

Furniture, equipment and improvements are summarized as follows:

<u>2020</u>	<u>Furniture</u>	<u>Office equipment</u>	<u>Vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
<b>Cost:</b>					
Balance at January 1	894,822	3,895,495	547,302	2,716,229	8,053,848
Purchases	8,385	200,596	14,813	11,950	235,744
Sales and disposals	0	(43,123)	(48,395)	(178,022)	(269,540)
Effect of movement of exchange rates	<u>(3,217)</u>	<u>(14,058)</u>	<u>0</u>	<u>8,468</u>	<u>(8,807)</u>
<b>Balance at September, 2020</b>	<u>899,990</u>	<u>4,038,910</u>	<u>513,720</u>	<u>2,558,625</u>	<u>8,011,245</u>
<b>Accumulated depreciation:</b>					
Balance at January 1	695,444	2,955,966	310,385	1,301,585	5,263,380
Depreciation for the year	45,378	332,951	49,394	188,045	615,768
Sales and disposals	0	(43,123)	(12,740)	(178,022)	(233,885)
Effect of movement of exchange rates	<u>(4,125)</u>	<u>(21,276)</u>	<u>0</u>	<u>4,603</u>	<u>(20,798)</u>
<b>balance at September, 2020</b>	<u>736,697</u>	<u>3,224,518</u>	<u>347,039</u>	<u>1,316,211</u>	<u>5,624,465</u>
<b>Net balance at September, 2020</b>	<u>163,293</u>	<u>814,392</u>	<u>166,681</u>	<u>1,242,414</u>	<u>2,386,780</u>
<u>2019</u>	<u>Furniture</u>	<u>Office equipment</u>	<u>Vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
<b>Cost:</b>					
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	<u>(3,217)</u>	<u>(14,058)</u>	<u>0</u>	<u>0</u>	<u>(17,275)</u>
<b>Balance at December 31, 2019</b>	<u>894,822</u>	<u>3,895,495</u>	<u>547,302</u>	<u>2,716,229</u>	<u>8,053,848</u>
<b>Accumulated depreciation:</b>					
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	<u>(3,382)</u>	<u>(5,564)</u>	<u>0</u>	<u>0</u>	<u>(8,946)</u>
<b>Balance at December 31, 2019</b>	<u>695,444</u>	<u>2,955,966</u>	<u>310,385</u>	<u>1,301,585</u>	<u>5,263,280</u>
<b>Net balance at December 31, 2019</b>	<u>199,378</u>	<u>939,629</u>	<u>236,917</u>	<u>1,414,644</u>	<u>2,790,568</u>

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

The accounts receivable and interest receivables are detailed as follows:

	<u>2020</u>	<u>2019</u>
<u>Accounts receivable:</u>		
Clients	1,753,091	1,429,307
Employees	18,588	14,411
Insurance	55,065	95,605
Others	<u>10,543,030</u>	<u>563,085</u>
	12,369,774	2,102,408
<u>Interest receivable:</u>		
On investment securities measured at FVTPL and FVCOI	<u>648,231</u>	<u>761,058</u>
<b>Total</b>	<u>13,018,005</u>	<u>2,863,466</u>

**(12) Other assets**

The other assets are detailed as follows:

	<u>2020</u>	<u>2019</u>
Guarantee deposits	33,070	33,070
Trust license	25,000	25,000
Employee severance fund	713,573	774,970
Other prepaids	1,663,014	1,299,560
Advances for assets purchase	54,816	52,696
Asset in process of foreclosed	676,312	985,535
Foreclosed assets	864,386	253,554
Other	<u>86,071</u>	<u>473,594</u>
<b>Total</b>	<u>4,116,242</u>	<u>3,897,979</u>

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**(13) 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.

<u>Tipo</u>	<u>Tasa de interés</u>	<u>2020</u>	<u>Vencimiento</u>	<u>Valor</u>
Serie CEK	4.2500%		October,20	3,861,000
Serie BDM	4.1250%		October,20	2,123,000
Serie BDN	4.1250%		October,20	2,000,000
Serie AD	4.1250%		October,20	4,140,000
Serie BDO	4.1250%		November,20	2,000,000
Serie BDP	4.1250%		November,20	2,000,000
Serie AS	4.2500%		November,20	5,000,000
Serie AE	4.1250%		November,20	2,450,000
Serie DDW	4.2500%		December-20	2,155,000
Serie AF	4.1250%		December-20	3,000,000
Serie AU	4.2500%		December-20	350,000
Serie CEG	4.1250%		February,21	1,000,000
Serie CEH	4.1250%		February,21	4,897,000
Serie BDR	4.1250%		February,21	2,183,000
Serie BDQ	4.1250%		February,21	2,167,000
Serie AI	4.1250%		February,21	2,500,000
Serie BDS	4.1250%		February,21	1,000,000
Serie BDT	4.0000%		February,21	1,179,000
Serie DDP	4.0000%		March,21	700,000
Serie AH	4.0000%		March,21	900,000
Serie CEI	4.0000%		March,21	4,000,000
Serie BDU	4.0000%		March,21	1,000,000
Serie BDV	4.0000%		March,21	5,000,000
Serie DDQ	4.0000%		March,21	2,175,000
Serie DDR	4.0000%		March,21	533,000
Serie DDV	4.0000%		May,21	820,000
Serie AM	4.5000%		April,21	4,091,000
Serie DDZ	4.0000%		May,21	1,000,000
Serie AR	4.5000%		May,21	4,593,000
Serie CEL	4.5000%		May,21	889,000
Serie DDY	4.5000%		June,21	1,600,000
Serie ABJ	4.5000%		June,21	5,000,000
Serie CEM	4.5000%		June,21	875,000
Serie CEN	4.2500%		July,21	1,106,000
Serie AW	4.1250%		July,21	1,000,000
Serie BDW	4.2500%		August,21	2,196,000
Serie AX	4.2500%		August,21	4,025,000
Serie AY	4.2500%		August,21	4,000,000
Serie CEO	4.2500%		August,21	1,500,000
Serie BDX	4.2500%		September,21	1,376,000
Serie DEA	4.2500%		September,21	1,000,000
Serie AZ	4.2500%		September,21	2,000,000
Serie DEB	4.2500%		September,21	2,521,000
Serie DEC	4.2500%		September,21	1,460,000
Serie DED	4.2500%		September,21	554,000
Serie DEE	4.2500%		September,21	1,200,000
Serie BDY	4.2500%		September,21	750,000
Serie CEP	4.2500%		September,21	3,000,000
<b>Total nominal amount</b>				<b>104,869,000</b>
Accrued interest payable				463,726
Less: issuance costs				(171,370)
<b>Total negotiable commercial papers at amortized cost</b>				<b>105,161,356</b>

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**(13) Negotiable Commercial Papers, continued**

		<u>2019</u>		
	<u>Type</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Amount</u>
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%	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
<b>Total nominal amount</b>				<b>107,134,000</b>
Accrued interest payable				604,793
Less: issuance costs				(149,259)
<b>Total negotiable commercial papers at amortized cost</b>				<b>107,589,534</b>

As of September 30, 2020, the Bank has complied with the payment terms of principal and interest for its negotiable commercial papers.

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**(14) Negotiable Commercial Notes**

The Bank has four (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.

The placements of the other three 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.

Type	Interest Rate	Maturity	2020	2019
SERIE AQ	4.25%	January-20	0	2,000,000
SERIE AU	4.25%	March-20	0	1,378,000
SERIE AC	4.50%	March-20	0	1,500,000
SERIE AW	4.25%	March-20	0	1,710,000
SERIE BK	4.13%	March-20	0	800,000
SERIE AY	4.50%	April-20	0	1,155,000
SERIE AZ	4.50%	April-20	0	2,300,000
SERIE BA	4.25%	May-20	0	2,250,000
SERIE BB	4.25%	May-20	0	780,000
SERIE BQ	4.25%	May-20	0	2,466,000
SERIE BC	4.25%	May-20	0	3,900,000
SERIE BE	4.25%	June-20	0	849,000
SERIE BF	4.25%	June-20	0	2,870,000
SERIE X	4.50%	June-20	0	4,000,000
SERIE BG	4.25%	June-20	0	870,000
SERIE BH	4.25%	July-20	0	2,000,000
SERIE AP	4.375%	July-20	0	960,000
SERIE Z	4.25%	July-20	0	2,500,000
SERIE T	4.75%	July-20	0	1,800,000
SERIE BI	4.25%	August-20	0	4,000,000
SERIE BJ	4.25%	September-20	0	1,047,000
SERIE BP	4.25%	September-20	0	1,837,000
SERIE W	4.375%	November-20	2,000,000	2,000,000
SERIE BL	4.375%	November-20	1,699,000	1,699,000
SERIE AE	4.25%	January-21	3,940,000	3,940,000
SERIE AR	4.50%	February-21	2,000,000	2,000,000
SERIE BT	4.25%	February-21	355,000	355,000
SERIE BU	4.25%	February-21	622,000	622,000
SERIE AA	4.75%	February-21	1,761,000	1,761,000
SERIE E	5.00%	February-21	7,017,000	7,017,000
SERIE AA	4.375%	February-21	39,000	39,000
SERIE BV	4.25%	March -21	1,404,000	1,404,000
SERIE BO	4.375%	March-21	1,290,000	1,290,000
SERIE K	5.00%	April-21	4,991,000	4,991,000
SERIE BQ	4.375%	May-21	2,466,000	0
SERIE BD	4.50%	May-21	1,100,000	1,100,000
SERIE AC	4.375%	June-21	2,000,000	2,000,000
SERIE AD	4.375%	July-21	1,500,000	1,500,000
SERIE AI	4.75%	July-21	1,200,000	1,200,000
SERIE BS	4.375%	July -21	3,000,000	3,000,000
SERIE U	5.00%	September-21	1,858,000	1,858,000
SERIE BW	4.375%	September-21	2,363,000	2,363,000
SERIE AL	4.125%	September-21	4,000,000	0
SERIE CF	4.125%	September-21	545,000	0
SERIE BY	4.375%	October-21	1,000,000	1,000,000
SERIE AI	4.375%	October-21	2,000,000	2,000,000
SERIE AJ	4.375%	November-21	2,000,000	2,000,000
<b>Sub - total pasing</b>			<b>52,150,000</b>	<b>88,111,000</b>

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**(14) Negotiable Commercial Notes, continued**

<u>Tipo</u>	<u>Tasa de interés</u>	<u>Vencimiento</u>	<u>2020</u>	<u>2019</u>
<b>Sub-Total coming</b>			<u>52,150,000</u>	<u>88,111,000</u>
SERIE CA	4.375%	November-21	5,000,000	5,000,000
SERIE CL	4.60%	November-21	3,000,000	0
SERIE X	5.00%	November-21	1,657,000	1,657,000
SERIE AP	4.60%	November-21	3,690,000	0
SERIE CB	4.375%	December-21	5,000,000	5,000,000
SERIE Y	4.675%	January-22	3,145,000	3,145,000
SERIE BM	4.675%	January-22	2,397,000	2,397,000
SERIE BN	4.675%	January-22	500,000	500,000
SERIE CC	4.25%	February-22	1,378,000	0
SERIE AM	4.25%	March-22	2,000,000	0
SERIE CE	4.25%	March-22	1,710,000	0
SERIE CE	4.25%	March-22	260,000	0
SERIE CJ	4.25%	March-22	40,000	0
SERIE CK	4.25%	March-22	1,000,000	0
SERIE BR	4.675%	June-22	2,000,000	2,000,000
SERIE AQ	4.70%	June-22	2,558,000	0
SERIE AS	4.70%	June-22	2,000,000	0
SERIE CM	4.50%	July-22	2,500,000	0
SERIE AF	4.675%	August-22	2,540,000	0
SERIE CN	4.500%	August-22	727,000	2,540,000
SERIE AG	4.675%	August-22	500,000	500,000
SERIE AH	4.675%	September-22	720,000	720,000
SERIE BX	4.675%	September-22	1,990,000	1,990,000
SERIE BZ	4.675%	October-22	1,000,000	1,000,000
SERIE CD	4.50%	February-23	1,500,000	0
SERIE AK	4.50%	March-23	2,000,000	0
SERIE AB	4.75%	March-23	2,000,000	2,000,000
SERIE AT	4.70%	June-23	2,000,000	0
SERIE CO	4.70%	August-23	810,000	0
<b>Total nominal de NCN's</b>			<u>107,772,000</u>	<u>116,560,000</u>
Accrued interest payable	242,017		245,933	247,847
Less: issuance costs			<u>(265,747)</u>	<u>(278,185)</u>
<b>Total NCN's a AC</b>			<u>107,748,270</u>	<u>116,529,662</u>

As of September 30, 2020, the Bank has complied with the payment terms of principal and interest for its negotiable commercial notes.

**(15) Covered Bonds**

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

As of June 30, 2020, the Bank has issued three tranches of covered medium-term bonds, net of commissions, amounting to B/.50,986,337 (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 September 30, 2020, the Bank has complied with the payment terms of principal and interest for its covered bonds.

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**(16) 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 September 30, 2020, this Colombian subsidiary has issued medium-term ordinary bonds for B/.14,326,403 (2019: B/.4,374,117) at an interest rate of 10.05% and 6.29% (2019: 10.05%) for of 5 years term, maturing on December 10, 2020 and December 23, 2025.

The ordinary covered are guaranteed with a Panamanian mortgage loans portfolio amounting to B/.19,344,168 (2019: B/.5,467,646).

As of September 30, 2020, the Bank has complied with the payment terms of principal and interest for its ordinary bonds.

**(17) Investment Certificates**

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

<u>Type</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>2020</u>	<u>2019</u>
Tranche 2	5.25%	February-20	0	3,000,000
Tranche 5	5.25%	April-20	0	550,000
Tranche 6	5.38%	May-20	0	1,416,000
Tranche 1	5.50%	June-20	0	2,200,000
Tranche 3	5.50%	August-20	0	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 21	5.75%	May-22	170,000	0
Tranche 22	5.75%	June-22	2,200,000	0
Tranche 23	5.75%	August-22	5,000,000	0
Tranche 24	5.75%	August-22	2,000,000	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	<u>2,500,000</u>	<u>2,500,000</u>
<b>Total nominal of investment certificate</b>			<b>39,357,000</b>	<b>36,973,000</b>
Accrued interest payable			64,409	89,055
Less: issuance costs			<u>(28,461)</u>	<u>(29,969)</u>
<b>Total investment certificates at amortized cost</b>			<b><u>39,392,948</u></b>	<b><u>37,032,086</u></b>

As of September 30, 2020, the Bank has complied with the payment terms of principal and interest for its investment certificates.



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**(18) 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.

<b>2020</b>			
<u>Tipo</u>	<u>Tasa de Interés</u>	<u>Vencimiento</u>	<u>Valor</u>
Tranche 58	5.5000%	octubre-20	1,000,000
Tranche 60	5.5000%	octubre-20	2,300,000
Tranche 59	5.5000%	octubre-20	500,000
Tranche 61	5.5000%	noviembre-20	2,000,000
Tranche 62	5.5000%	noviembre-20	500,000
Tranche 64	5.5000%	noviembre-20	300,000
Tranche 65	5.5000%	diciembre-20	2,000,000
Tranche 66	5.1500%	enero-21	2,000,000
Tranche 67	5.1500%	enero-21	3,000,000
Tranche 68	5.1500%	febrero-21	1,150,000
Tranche 69	5.1500%	febrero-21	2,200,000
Tranche 01	5.1500%	marzo-21	980,000
Tranche 02	5.1500%	marzo-21	765,000
Tranche 06	5.5000%	mayo-21	275,000
Tranche 07	5.5000%	July-21	1,775,000
Tranche 08	5.5000%	August-21	1,000,000
Tranche 09	5.7500%	August-21	850,000
Tranche 10	5.5000%	August-21	1,915,000
Tranche 11	5.5000%	September-21	1,000,000
Tranche12	5.5000%	September-21	500,000
Tranche 13	5.7500%	September-21	3,000,000
<b>Total nominal amount</b>			<b>31,735,000</b>
Accrued interest payable			176,123
Less: issuance costs			<u>(43,138)</u>
<b>Total obligaciones negociables a CA</b>			<b>31,867,985</b>

<b>2019</b>			
<u>Type</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Amount</u>
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	<u>2,000,000</u>
<b>Total nominal amount</b>			<b>28,850,000</b>
Accrued interest payable			180,541
Less: issuance costs			<u>(56,794)</u>
<b>Total other negotiable debts at amortized cost</b>			<b>28,973,747</b>

As of September 30, 2020, the Bank has complied with the payment terms of principal and interest for its negotiable debt.

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**(19) Borrowings**

The borrowings are summarized as follows

	<u>2020</u>	<u>2019</u>
Line of credit for working capital for B/5,000,000, with maturity in the year 2021 and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	3,000,000	0
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.	5,164,875	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.	6,000,000	5,000,000
Line of credit for working capital for B/5,000,000, with maturity in the year 2021, renewable at the parties' option and an annual Libor interest rate plus a margin.	3,000,000	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.	3,000,000	5,800,000
Line of credit for working capital for B/5,000,000, with maturity in the year 2021, renewable at the parties' option and an annual Libor interest rate plus a margin.	2,000,000	0
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.	25,000,000	14,000,000
Line of credit for working capital for B/12,000,000, 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.	7,500,000	9,000,000
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, 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.	1,538,462	2,692,307
Line of credit for working capital for B/25,000,000, with maturity in the year 2028, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	25,000,000	0
Line of credit for working capital for B/40,000,000, with maturity in the year 2021 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.	<u>3,416,667</u>	<u>7,750,000</u>
<b>Sub - total going to next page</b>	<u>127,620,004</u>	<u>85,878,807</u>

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**Notes to the Consolidated Financial Statements**

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**(19) Borrowings, continued**

	<u>2020</u>	<u>2019</u>
<b>Sub - total coming from previous page</b>	<u>127,620,004</u>	<u>85,878,807</u>
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.	7,142,860	10,714,288
Line of credit for working capital for B/.3,000,000, with maturity in the year 2021, renewable at the parties' option and an annual fixed rate	3,000,000	0
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.	23,535,714	30,714,286
Line of credit for working capital for B/.17,000,000, with maturity in the year 2024, and fixed rate.	7,250,000	0
Line of credit for working capital for B/.17,000,000, with maturity in the year 2020, and an annual Libor interest rate plus a margin,	0	17,000,000
Revolving line of credit for working capital up to approximately B/.6,100,000 (COP 20 thousand millions), renewable at the parties' option and an annual interest rate DTF plus a margin.	3,673,684	457,715
Revolving line of credit for working capital up to approximately B1,600,000 (COP 6 thousand millions), renewable at the parties' option and an annual interest rate DTF plus a margin.	1,353,463	0
Revolving line of credit for working capital up to approximately B/.3,700,000 (COP 12 thousand millions), renewable at the parties' option and an annual interest rate DTF plus a margin.	1,243,285	305,145
Revolving line of credit for working capital up to approximately B/.2,100,000 (COP 8 thousand millions, renewable at the parties' option and an annual interest rate DTF plus a margin.	<u>1,289,012</u>	<u>0</u>
Sub-total	176,108,022	145,070,241
Interest payable	776,060	1,163,160
Less issuance costs	<u>(594,410)</u>	<u>(371,578)</u>
Total borrowed funds	<u>176,289,672</u>	<u>145,861,823</u>

As of September 30, 2020, the Bank has complied with the payment terms of principal and interest for its borrowings.



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**(20) Other Liabilities**

The other liabilities are detailed as follows:

	<u>2020</u>	<u>2019</u>
Various creditors	1,102,572	937,250
Trust payable account	0	253,033
Management checks	307,844	377,013
Reserve for labor benefits and other remunerations	804,650	1,007,706
Payments received in advance from customers	1,977,404	1,991,459
Others	<u>1,124,835</u>	<u>537,845</u>
<b>Total</b>	<u><b>5,317,305</b></u>	<u><b>5,104,306</b></u>

**(21) Capital and Reserves**

The composition of common shares is detailed as follows:

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

**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.



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**(21) 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.

**(22) 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 (I).

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):

	<u>2020</u>	<u>2019</u>
Net income for the year	<u>2,327,067</u>	<u>2,917,901</u>
Net income attributable to common shareholders	<u>2,327,067</u>	<u>2,917,901</u>

Weighted-average number of common shares (basic):

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

Diluted earnings per share

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

Profit attributable to common shareholders (diluted):

	<u>2020</u>	<u>2019</u>
Net income attributable to share sholders	<u>2,327,067</u>	<u>2,917,901</u>

As of September 30, 2020, the Bank has not granted share options to employees that could have a dilutive potential on its common shares.

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**(23) Service Commissions, Net and Other Income**

The service commissions and other income are detailed as follows:

	<u>2020</u>	<u>2019</u>
<b><u>Management and servicing commissions:</u></b>		
Trust management	1,436,776	956,875
Collection management	1,810,061	1,133,173
Insurance management	445,274	211,192
Others	<u>1,534,498</u>	<u>901,814</u>
	<u>5,226,609</u>	<u>3,203,054</u>
<b><u>Other income:</u></b>		
Insurance	120,609	78,498
Gain in the sale of foreclosed assets	42,266	36,031
Other	<u>460,573</u>	<u>1,127,497</u>
	<u>623,448</u>	<u>1,242,026</u>

**(24) Salaries, Other Personnel Expenses, and Other Operating Expenses**

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

	<u>2020</u>	<u>2019</u>
<b><u>Salaries and other personnel benefits:</u></b>		
Wages,	3,712,719	4,207,653
Representation expenses	700,306	769,967
Bonuses	0	295,469
Social security costs	540,900	611,047
Employment Benefits	718,463	252,161
Travel, per diem and fuel	98,254	127,899
Severance costs	141,075	154,263
Travel, per diem and fuel	56,957	255,575
Other	<u>264,905</u>	<u>268,014</u>
	<u>6,233,579</u>	<u>6,942,048</u>
<b><u>Other general and administrative expenses:</u></b>		
Rent	69,428	22,867
Advertising	377,704	441,472
Equipment maintenance	741,306	493,308
Office supplies	40,064	50,277
Utilities expense	218,319	146,146
Bank charges	149,385	91,522
Various Services	224,909	206,435
Insurances	51,313	319,638
Other	<u>720,427</u>	<u>773,530</u>
	<u>2,592,855</u>	<u>2,545,195</u>

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**(24) Salaries, Other Personnel Expenses, and Other Operating Expenses, continued**

*Share Purchase Option Plan*

In 2019, 2016, 2014 and 2012, the Board of Directors of La Hipotecaria (Holding), Inc. approved plans to grant share purchase options to executives of the Bank for 7,220 options with a unit fair value of B/.11,501, 15,550 fair value of B/ 15.025, 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 September 30, 2020, there are 47,782 options outstanding (2019: 29,491), options have been cancelled 832 (2019: 0) options has been exercised 5,646 (2019: 0). These options has a weighted-average price of exercise of B/.29.69 (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/. 18,854 expense for options issuance (2019: B/.21,642).

**(25) 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:

	<u>Colombia</u>	<u>El Salvador</u>
Current rates	33%	30%

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**(25) 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 2021, 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:

	<u>2020</u>	<u>2019</u>
Current tax expense	1,152,476	1,000,807
Deferred tax temporary differences	<u>(155,375)</u>	<u>(19,029)</u>
Total income tax expense	<u>997,101</u>	<u>981,778</u>



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**(25) Income Taxes, continued**

The effective tax rate is detailed as follows:

	<u>2020</u>	<u>2019</u>
Net income before tax	3,324,168	3,899,679
Income tax expense	<u>997,101</u>	<u>981,778</u>
Effective tax rate	<u>30.00%</u>	<u>25.18%</u>

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:

	<u>2020</u>	<u>2019</u>
Net income before taxes	<u>3,324,168</u>	<u>3,899,679</u>
Calculation of "expected" income tax expense	831,042	974,920
Non-deductible expenses	62,130	(60,248)
Income and expense from foreign and exempt sources, net	(1,536,210)	(838,680)
Change for temporary differences	1,795,513	924,815
Difference in foreign tax rates	<u>(155,375)</u>	<u>(19,029)</u>
Total income tax expense	<u>997,101</u>	<u>981,778</u>

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:

	<u>2020</u>		<u>2019</u>	
	<u>Temporary differences</u>	<u>Deferred tax</u>	<u>Temporary differences</u>	<u>Deferred tax</u>
<b>Deferred tax assets</b>				
Allowance for ECL on loans	1,243,507	349,991	579,608	162,680
Voluntary retirement incentive plan	91,073	27,322	89,377	26,813
Operating losses carried forward <sup>(1)</sup>	<u>2,095,282</u>	<u>691,443</u>	<u>2,630,552</u>	<u>835,744</u>
	<u>3,429,862</u>	<u>1,068,756</u>	<u>3,299,537</u>	<u>1,025,237</u>

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

The movement in deferred tax balances is as follows:

	<u>2020</u>	<u>January 1, 2020</u>	<u>Recognize to result</u>	<u>Currency conversion change</u>	<u>September 30, 2020</u> <u>Deferred tax</u>
Allowance for ECL		195,125	154,866	0	349,991
Voluntary Retirement Plan		26,813	509	0	27,322
Operating losses carried forward <sup>(1)</sup>		858,559	0	(167,116)	691,443
<b>Deferred tax balance</b>		<u>1,080,497</u>	<u>(155,375)</u>	<u>(167,116)</u>	<u>1,068,756</u>

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**(25) Income Taxes, continued**

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

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 September 30, 2020, the Bank has not recognized a liability for deferred income tax of approximately B/.741,383 (2019: B/.654,054) for the retained earnings of its operations abroad, as the Bank considers that approximately B/.14,467,654 (2019: B/.13,081,075) of these earnings will be reinvested indefinitely.

**(26) Trusts Under Management**

As of September 30, 2020, the Bank maintains fiduciary contracts under its management at the risk of the customer amounting to B/. 259,192,540 (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.

**(27) 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.

<u>Structured entity type</u>	<u>Nature and purpose</u>	<u>Participation withheld by the Bank</u>	<u>Total Asset</u>	
			<u>2020</u>	<u>2019</u>
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	<u>259,192,540</u>	<u>272,131,015</u>

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**(27) 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.

<b>Book Value in the Bank</b>	<b><u>2020</u> Investment in securities</b>	<b><u>2019</u> Investment in securities</b>
Fideicomisos de titularización de préstamos hipotecarios residenciales	61,709,506	61,751,917
<b>Total</b>	<b><u>61,709,506</u></b>	<b><u>61,751,917</u></b>

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

**(28) 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 arrangement 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.



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**(28) 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/.2,782,094 (2019: B/.2,737,655) 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/.1,256,356 (2019: B/.680,855) 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 2020 period the Bank has recognized commission income from servicing activities to securitization vehicles for B/.1,436,777 (2019: B/.1,468,586) in the consolidated statement of income.

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**(28) 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.

<u>Type of ongoing involvement</u>	<u>Book Value</u> <u>Investment in</u> <u>securities</u>	<u>Fair Value</u>	
		<u>Assets</u>	<u>Liabilities</u>
<b>Bonds issued by the trusts of unconsolidated securitization</b>			
September 30, 2020	<u>43,972,773</u>	<u>43,972,773</u>	<u>0</u>
December 31, 2019	<u>44,954,854</u>	<u>44,954,854</u>	<u>0</u>
<b>Residual Interest:</b>			
September, 2020	<u>17,674,052</u>	<u>17,674,052</u>	<u>0</u>
December 31, 2019	<u>16,797,063</u>	<u>16,797,063</u>	<u>0</u>

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.

**(29) Commitments and Contingencies**

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 September 30, 2020, the Bank has issued promise letters for B/.41,068,948 (2019: B/.68,043,250).

**(30) Leases**

As of September 30, 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.

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**(30) Leases, continued**

*Right of use assets*

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

	<u>2020</u>
<b><u>Property:</u></b>	
<b>Balance at January 1</b>	3,178,540
Cancellation	(0)
Depreciation for the year	(457,505)
Effect of movement in exchange rates	<u>(29,183)</u>
<b>Balance at September 30</b>	<u>2,691,852</u>
	<u>2019</u>
<b><u>Property:</u></b>	
<b>Balance at January 1</b>	4,047,788
Cancellation	(268,208)
Depreciation for the year	(621,724)
Effect of movement in exchange rates	<u>20,684</u>
<b>Balance at September 31</b>	<u>3,178,540</u>

*Lease liabilities*

As of September 30, 2020, the Bank's lease liabilities amount to B/.2,955,224 (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 September 30, 2020, the Bank has recognized interest expenses on its lease liabilities for B/.142,774(2019: B/.117,139) 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/.59,427 (2019: B/.22,867), as part of rental expenses in profit or loss. See Note 25.

*Amounts recognized in the consolidated statement of cash flows*

As of September 30, 2020, the total cash outflows for leases recognized in the consolidated statement of cash flows amounts to B/.573,480. This amount includes the portion of payments to principal of lease contracts classified as part of the financing activities for B/.376,386, the portion of interest on lease liabilities B/.142,774 and the portion of expenses relating to short-term leases and leases of low-value assets B/.69,428 classified as operating activities.



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**(31) 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 value hierarchy, which reflects the significance of the inputs used in making the measurements.

- *Level 1:* inputs that are quoted market prices (unadjusted) in active markets for identical instruments
- *Level 2:* Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3:* This category includes all instruments for which the valuation technique includes inputs 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.

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**(31) 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 appropriate 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 appropriate.

Mortgage-backed securities and residual interest on securitizations

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.



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**(31) 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.

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**(31) 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.

<u>2020</u>	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>	
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
<b>Assets:</b>						
<b>Financial assets measured at fair value:</b>						
Securities at FVOCI		73,085,464	32,159,950	2,974,369	37,951,145	73,085,464
Securities at FVTPL		25,436,549	0	1,678,188	23,758,361	25,436,549

<u>2019</u>	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>	
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
<b>Assets:</b>						
<b>Financial assets measured at fair value:</b>						
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 September 30, 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:

	<u>2020</u>	<u>2019</u>
<b>Balance at January 1</b>	61,853,118	43,794,699
Total gains or losses:		
in profit or loss	1,256,510	880,392
In OCI	1,558	312,005
Purchases	0	26,725,342
Settlements	<u>(1,369,069)</u>	<u>(9,859,320)</u>
<b>Balance at September, 30</b>	<u>61,742,117</u>	<u>61,853,118</u>

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**(31) 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 September 30, 2020 and 2019 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

		<u>Quantitative information Level 3 fair values</u>		
	<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range (weighted-average)</u>	
			<u>2020</u>	<u>2019</u>
Mortgage bonds	Discounted cash flows	Standard Default Assumptions ("SDA")	2.50% - 0.12% (0.80%)	2.78% - 0.12% (0.83%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	51.70% - 11.74% (41.36%)	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")	2.50% - 0.12% (0.80%)	2.78% - 0.12% (0.83%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	51.70% - 11.74% (41.36%)	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

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**(31) 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 assumptions used to reasonably possible alternative assumptions would have the following effects.

	<b>2020</b>			
	<u>Effect on profit or loss</u>		<u>Effect on OCI</u>	
	<u>Favorable</u>	<u>(Unfavorable)</u>	<u>Favorable</u>	<u>(Unfavorable)</u>
Securites at FVTPL	1,145,818	(1,065,081)	0	0
Securities at FVOCI	<u>0</u>	<u>0</u>	<u>1,438,831</u>	<u>(1,219,164)</u>
	<u>1,145,818</u>	<u>(1,065,081)</u>	<u>1,438,831</u>	<u>(1,219,164)</u>

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

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.

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**(31) 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.

<u>2020</u>	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Assets:</b>					
<b>Financial assets not measured at fair value:</b>					
Loans at amortized cost	710,819,754	0	0	750,799,399	750,799,399
Securities at amortized cost	770,981	0	770,981	0	770,981
<b>Liabilities:</b>					
<b>Financial assets not measured at fair value:</b>					
Time deposits from customers	329,035,007	0	0	325,180,289	325,180,289
Negotiable commercial papers	105,161,356	0	0	102,720,047	102,720,047
Negotiable commercial notes	107,748,270	0	0	102,784,256	102,784,256
Covered bonds	50,986,337	0	0	51,960,301	51,960,301
Ordinary bonds	14,326,403	0	0	14,304,966	14,304,966
Investment certificates	39,392,948	0	0	36,964,337	36,964,337
Other negotiable debt	31,867,985	0	0	31,738,204	31,738,204
Borrowed funds	176,289,672	0	0	176,086,667	176,086,667

<u>2019</u>	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Assets:</b>					
<b>Financial assets not measured at fair value:</b>					
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
<b>Liabilities:</b>					
<b>Financial assets not measured at fair value:</b>					
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

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

The table below details information about the significant inputs and assumptions used in measuring the fair value as of September 30, 2020 and 2019 for the financial instruments that are not measured at fair value.

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**(31) Fair value of Financial Instruments, continued**

Financial Instrument	Valuation Technique and Observable Input Used
<b>Not measured at fair value:</b> Deposits from customers	For saving deposits its fair value represents the outstanding amount expected to receive/pay at reporting date. For time deposits its fair value is determined using discounted cash flows at market interest rate.
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.

**(32) 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.

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**Notes to the Consolidated Financial Statements**

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**(32) 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.

<u>2020</u>	<u>Trust management</u>	<u>Mortgage as assets</u>	<u>Personal loans as assets</u>	<u>Other investments</u>	<u>Total</u>
Interest income	0	31,593,949	6,466,682	3,019,302	41,079,933
Interest expense	0	(25,202,357)	(2,077,483)	(2,870,332)	(30,150,172)
Provisions for loan losses and for securities at FVOCI and at AC	0	(3,001,857)	(356,633)	(13,927)	(3,372,417)
Gain on investments, net at FVPL	0	0	0	1,256,356	1,256,356
Gain on investments, net at FVOCI	0	0	0	2,098,078	2,098,078
Commission on management and servicing	2,056,338	3,080,613	89,779	0	5,226,730
Other income net of commissions	0	16,058	17,515	24,200	57,773
General and administrative expenses	<u>(1,107,600)</u>	<u>(8,741,062)</u>	<u>(2,424,747)</u>	<u>(598,703)</u>	<u>(12,872,112)</u>
<b>Segment income before tax</b>	<u>948,738</u>	<u>(2,254,656)</u>	<u>1,715,113</u>	<u>2,914,974</u>	<u>3,324,169</u>
Segment assets	<u>0</u>	<u>737,209,262</u>	<u>85,344,571</u>	<u>117,915,377</u>	<u>940,469,209</u>
Segment liabilities	<u>0</u>	<u>724,580,799</u>	<u>59,263,181</u>	<u>81,880,315</u>	<u>865,724,296</u>

<u>2019</u>	<u>Trust management</u>	<u>Mortgage as assets</u>	<u>Personal loans as assets</u>	<u>Other investments</u>	<u>Total</u>
Interest income	0	22,692,083	1,750,568	864,885	25,307,536
Interest expense	0	(15,301,045)	(990,396)	(1,290,978)	(17,582,419)
Provisions for loan losses and for securities at FVOCI and at AC	0	(22,859)	(326,359)	0	(349,218)
Gain on investments, net at FVPL	0	0	0	313,618	313,618
Commission on management and servicing	493,091	2,635,456	74,507	0	3,203,054
Other income net of commissions	0	801,063	51,851	67,587	920,501
General and administrative expenses	<u>(801,401)</u>	<u>(6,324,571)</u>	<u>(1,754,419)</u>	<u>(433,190)</u>	<u>(9,313,581)</u>
<b>Segment income before tax</b>	<u>(308,310)</u>	<u>4,480,127</u>	<u>(1,194,248)</u>	<u>(478,078)</u>	<u>2,499,491</u>
Segment assets	<u>0</u>	<u>683,217,046</u>	<u>70,741,226</u>	<u>113,185,959</u>	<u>867,144,232</u>
Segment liabilities	<u>0</u>	<u>668,177,671</u>	<u>47,438,337</u>	<u>75,901,337</u>	<u>791,517,345</u>

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**(32) Segment Information, continued**

The composition of the geographic segments is described as follows:

<u>2020</u>	<u>Panama</u>	<u>El Salvador</u>	<u>Colombia</u>	<u>Total</u>	
Interest income	27,880,129	6,979,270	6,220,534	41,079,933	
Interest expense	(22,315,158)	(4,262,780)	(3,572,234)	(30,150,172)	
Provisions for loan losses and for securities at FVOCI and at AC	(2,522,129)	(554,634)	(295,654)	(3,372,417)	
Gain on investments, net at FVPL	1,256,356	0	0	1,256,356	
Gain on investments, net at FVOCI	2,098,078	0	0	2,098,078	
Commission on management and servicing	4,013,104	1,001,043	212,583	5,226,730	
Other income net of commissions	(138,263)	105,655	90,381	57,773	
General and administrative expenses	<u>(8,845,842)</u>	<u>(2,092,132)</u>	<u>(1,934,138)</u>	<u>(12,872,112)</u>	
<b>Segment income before tax</b>	<b><u>1,426,275</u></b>	<b><u>1,176,422</u></b>	<b><u>721,472</u></b>	<b><u>3,324,169</u></b>	
Segment assets	<u>709,665,339</u>	<u>130,148,840</u>	<u>100,655,030</u>	<u>940,469,209</u>	
Segment liabilities	<u>677,918,038</u>	<u>107,652,114</u>	<u>80,154,144</u>	<u>865,724,296</u>	
	<u>2019</u>	<u>Panama</u>	<u>El Salvador</u>	<u>Colombia</u>	<u>Total</u>
Interest income	17,270,265	4,458,680	3,578,591	25,307,536	
Interest expense	(13,249,926)	(2,565,551)	(1,766,942)	(17,582,419)	
Provisions for loan losses and for securities at FVOCI and at AC	(40,143)	(144,895)	(164,180)	(349,218)	
Gain on investments, net at FVPL	283,478	0	30,140	313,618	
Commission on management and servicing	2,425,934	691,205	85,915	3,203,054	
Other income net of commissions	931,197	(36,660)	25,964	920,501	
General and administrative expenses	<u>(6,701,506)</u>	<u>(1,404,809)</u>	<u>(1,207,266)</u>	<u>(9,313,581)</u>	
<b>Segment income before tax</b>	<b><u>919,299</u></b>	<b><u>997,970</u></b>	<b><u>582,222</u></b>	<b><u>2,499,491</u></b>	
Segment assets	<u>657,365,546</u>	<u>121,002,428</u>	<u>88,776,258</u>	<u>867,144,232</u>	
Segment liabilities	<u>626,830,847</u>	<u>99,218,074</u>	<u>65,468,424</u>	<u>791,517,345</u>	

**(33) 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.



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**(33) Preferential Interests on Mortgage Loans, continued**

At September 30, 2020, the Bank recognized preferential interest income on residential mortgage loans net of reserve amounting to B/.10,617,273 (2019: B/.9,444,667) in profit or loss. The Bank sold prior years' fiscal credits to third parties for an amount of B/.3,227,712 (2019: B/.2,610,601), which generated an income of B/.53,126 (2019: B/.39,159), under other income in the consolidated statement of income.

As at September 30, 2020, the accumulated tax credit amounts to B/.17,473,266 (2019: B/.10,037,951) as included as a line item in the consolidated statement of financial position.

**(34) 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.

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**Notes to the Consolidated Financial Statements**

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**(34) 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.

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**(34) 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.

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**(34) 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:

<u>Classification</u>	<u>2020</u>		<u>2019</u>	
	<u>Balance</u>	<u>Allowance</u>	<u>Balance</u>	<u>Allowance</u>
Normal	507,104,291	0	495,871,583	0
Watch list	7,551,087	496,208	7,889,838	329,543
Substandard	2,912,450	447,915	2,846,348	341,020
Doubtful	2,540,853	562,425	2,449,910	452,664
Loss	5,409,993	939,707	2,382,053	335,739
<b>Total</b>	<u>525,518,674</u>	<u>2,446,255</u>	<u>511,439,733</u>	<u>1,458,966</u>

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

	<u>2020</u>	<u>Current</u>	<u>Past due</u>	<u>Default</u>	<u>Total</u>
Loans to customers		<u>491,330,556</u>	<u>23,214,420</u>	<u>10,973,698</u>	<u>525,518,674</u>
	<u>2019</u>	<u>Current</u>	<u>Past due</u>	<u>Default</u>	<u>Total</u>
Loans to customers		<u>478,974,707</u>	<u>17,154,687</u>	<u>5,051,406</u>	<u>501,180,800</u>

At September 30, 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/.7,890,261 (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.

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**(34) Main Applicable Laws and Regulations, continued**

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

	<u>2020</u>	<u>2019</u>
Banco La Hipotecaria, S. A.	2,614,136	4,844,652
La Hipotecaria, S. A. de C.V.	1,468,441	1,468,441
La Hipotecaria C. F., S. A.	<u>721,360</u>	<u>721,360</u>
<b>Total</b>	<u><b>4,803,937</b></u>	<u><b>7,034,453</b></u>

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/.2,086,757 (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 September 30, 2020, it was not necessary to make additional provisions, or charges in the Bank's consolidated financial statements.



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**(34) 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.

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**(35) Response to the COVID-19 Crisis**

During the first nine months of the period ended September 30, 2020, the Coronavirus (COVID-19) outbreak has spread throughout the world, resulting in the closure of production and supply chains, in addition to the disruption of the international trade, which could lead to a global economic slowdown affecting various industries. The world authorities, including those of the countries where the Bank operates, have adopted, among other measures, the temporary closure of establishments, in order to preserve the social balance, health and life of the population; Among other measures, the travel restriction and social isolation through quarantine stand out in common.

In this way, it is hoped to avoid the collapse of the health systems and guarantee specialized medical care when required, preserving the lives of people who can be cured by being properly assisted. This situation could have adverse effects on the results of operations, the financial situation and the liquidity of the Bank. The aforementioned aspects are being periodically monitored by the administration to take all the appropriate measures to minimize the negative impacts that may arise from this situation during 2020.

The Bank is characterized by having a long-term vision, which historically has guided its strategy and will continue to be key in its growth path, likewise, the experience acquired over the years has allowed it to consolidate knowledge on issues associated with the evaluation and management of risks, as well as the allocation of capital, essential to take care of the continuity of its businesses and the well-being of its employees, customers and suppliers in times of high volatility and uncertainty such as those caused by this health crisis.

Likewise, management considers that the dynamics brought about by the Bank's operations, as well as the financial strategy that it has followed, including the optimization of its portfolio in recent years and the capital allocation decisions, place it in an adequate position before the possible impacts of the COVID-19 crisis.

As of September 30, 2020, except for some specific cases mentioned below, the impact of COVID-19 has not been significant for the Bank. However, during the period after the date of the interim consolidated financial statements and until the date of their issuance, management continues to monitor and analyze the effects that the situation is having on its operations and those of its clients.

Management considers that the main factors of the COVID-19 crisis that have an impact on the Bank's interim consolidated financial statements, based on the information available and the analyzes carried out to date, are those described below:

**(a) Human talent**

For the Bank, the care of the staff has been a priority, for which it maintains approximately 50% of its workforce working remotely, complying with the social distancing instruction given by the governments and, likewise, all the measures of protection with those who perform sensitive functions for the continuity of services or processes in physical locations (customer service branches, mainly).

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**(35) Response to the COVID-19 Crisis, continued**

The main measures taken by the Bank in terms of the protection of human talent and its performance are detailed below:

- Accompaniment and care of all employees: Monitoring of mental and physical health, financial health, accompaniment of leaders, measurement of the collective mood and pulse of confidence of employees in the Bank, and monitoring of the evolution of the pandemic in each country.
- Accompaniment and special care for employees in face-to-face work: Training and motivation for appropriation of prevention habits, use of protection elements, reduction of transfers between headquarters, and alternate schedules.
- Communication: Close relationship, circulating recommendations and permanent quality information.

**(b) Risk management**

As is disclosed in detail in Note 4, the Bank has management systems that allow it to monitor exposure to different financial risks (credit, liquidity and market risks), as well as operational risk.

**Credit and market risk**

During the first half of 2020, international financial markets were adversely affected by the oil price war between Saudi Arabia and Russia and by the impacts on the world economy resulting from the COVID-19 pandemic, representing the largest drop in the prices of financial assets since the Great Recession of 2008, leading many of the portfolios to losses in terms of valuation. However, at the end of September 30, 2020, international markets have begun to show signs of improvement, with a recovery in the losses generated initially being observed to some extent.

2020, as is natural under this scenario, will be impacted by lower economic dynamics and by its effects on employment, demand, market behavior and global growth, directly affecting the repayment capacity of borrowers and issuers of debt securities, and as mentioned above, in the market prices of financial assets. However, to specify the impact of COVID-19 on the Bank's operations, it is necessary to wait for the evolution of the pandemic, given that the contagion curve and the actions taken in the different countries in which it is present are still They are found in very early stages to establish their ultimate depth and scope.

The Bank has strengthened the active management of its placements in banks, investment portfolio and loan portfolio, aware of their high relevance in terms of liquidity and financial soundness.

**Liquidity risk**

The liquidity risk has taken on vital importance as a result of the economic conditions generated by the pandemic. In this sense, the Bank monitors its liquidity on a recurring basis through projected liquidity scenarios.



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**(35) Response to the COVID-19 Crisis, continued**

The Bank maintains its liabilities with definite expiration dates, which allows it to precisely program liquidity needs, mitigating risk.

On the other hand, the Bank has approved credit facilities, such as revolving lines of credit, maintained with national and international financial institutions, which project financial solidity. Additionally, the Bank has access to domestic and international financial markets, through which it issues short, medium and long-term debt securities, such as VCNs, NCNs and bonds with or without guarantees, which are part of its strategy for liquidity risk management.

Based on the foregoing, the administration does not foresee that the Bank will have liquidity problems to meet its obligations in accordance with their contractual maturity.

**Exchange rate risk**

As revealed in Note 4, the Bank does not have significant exposures in foreign currencies. However, to manage exposure to exchange rate risk, the Bank monitors its exposures and, if necessary, determines the convenience of having some hedging scheme, constantly monitored by the areas in charge and aligned with the guidelines issued by their Boards of Directors.

**Operational risk**

The Bank has taken measures for financial and operational control, which allows it to counteract the adverse effects of the pandemic, such as: the establishment of direct communication channels with its customers, the provision of physical and online means of payment for borrowers, and access to a digital platform for managing loan applications, among others.

**(b) Impairment of financial assets**

The Bank's financial assets that are within the scope of the expected credit losses (PCE) model of IFRS 9 (loans receivable, and investments in debt instruments measured to CA and VRCOUI) are being recurrently evaluated to incorporate the impact of COVID-19 in the measurement of its PCE, considering the measures adopted by the governments of each of the countries where the Bank operates, if any. Based on the above, the impacts are expected to take place mainly in the following aspects:

- Measurement of the PCE over a 12-month horizon ('Stage 1') or during the life of the financial asset ('Stage 2 or 3', as appropriate). In cases where a significant increase in credit risk (default risk) is identified for financial assets classified in 'Stage 1', derived from the effects of COVID-19, these will be classified in 'Stage 2 or 3', as appropriate, and your PCE will be measured over your lifetime; and

- The estimate of the PCE includes:

- Credit risk, whose behavior could vary according to the segment structure of the Bank's loan portfolio and how affected they are by the situation, eventually increasing the PCE percentages even at the end of the second half of 2020.

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**(35) Response to the COVID-19 Crisis, continued**

- The estimated loss as a result of default (loss given the default), which could increase considering that in some cases there could be a decrease in the fair value of non-financial assets pledged as collateral.

The estimate of PCE on financial assets as of September 30, 2020 incorporates parameters and inputs considered adequate based on the projections that arise from forward-looking information, reflecting the effects of the public policy decisions implemented in relation to COVID-19 and taking into account the high level of uncertainty regarding the intensity and duration of the disruption in the economy. The PCE estimate is based on the best available information obtained, considering the different geographic areas where the Bank operates and incorporates the possible effects on its loan segments and portfolios, which are exposed to different risks and situations. When considering forward-looking information (including macroeconomic information), additional adverse scenarios are included along with those previously used in the Bank's PCE models, for which they are considered 'post-model' adjustments ('overlay model').

The Bank's management will subsequently make the pertinent updates to the estimation of the PCE on financial assets, considering the evolution of the COVID-19 pandemic and its impacts on macroeconomic conditions, and based on the best available information available. is obtained.

**Financial relief to clients**

Currently, the Bank continues to offer relief, in terms of principal and interest payments on loans, to clients who meet the criteria established by the regulators of the countries in which its subsidiaries operate, promulgated through agreements No.002 -2020 and No. 007-2020 of the Superintendency of Banks of Panama, and external circulars No. 007-2020, No. 014-2020 and No. 022-2020 of the Financial Superintendency of Colombia.

On the other hand, in El Salvador, after the legislative plenary session of the State approved the temporary transitory law for the payment of credits in financial institutions in March 2020, the banks and financial entities that operate in the local market have designed a series of relief plans, which aim to help the population that has been directly affected by the pandemic, such as people who are in quarantine.