

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

Consolidated Financial Statements

September 30, 2021

(With de accountant certification)



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

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

AUTHORIZED PUBLIC ACCOUNTANT CERTIFICATION

We have prepared the consolidated financial statements of Banco La Hipotecaria, S. A. and subsidiaries ("the Bank"), which comprise the consolidated statement of financial positions of September 30, 2021, 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, 2021 have been prepared internally in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee ("IASC").



Roberto Romero
CFA 0153-2012

October 30, 2021
Panama, Republic of Panama



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

Consolidated Statement of Financial Position

September 30, 2021

(Stated in Balboas)

<u>Assets</u>	<u>Note</u>	<u>2021</u>	<u>2020</u>
Cash and Cash Effect	7	291,956	252,571
Bank Deposits:			
Demand deposits in local banks		28,182,933	40,082,916
Demand deposits in foreign banks		12,006,499	11,755,596
Savings deposits in local banks		2,400,750	1,867,545
Savings deposits in foreign banks		8,776,197	14,058,826
Total deposits in banks		<u>51,366,379</u>	<u>67,764,883</u>
Total of cash, cash equivalents and cash in banks	7	<u>51,658,335</u>	<u>68,017,454</u>
Investment in securities, net	8	98,017,381	99,370,338
Loans at amortized cost (AC)		758,122,900	728,826,874
Furniture, equipment and improvements, net	10	1,872,706	2,210,849
Accounts and interest receivable	11	8,838,210	15,232,937
Tax credit	32	27,438,459	19,418,736
Deferred tax	25	1,730,856	1,829,646
Right-of-use assets	28	1,895,818	2,506,132
Other assets	12	4,771,764	8,510,466
Total assets		<u><u>954,346,429</u></u>	<u><u>945,923,432</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.

<u>Liabilities and Equity</u>	<u>Nota</u>	<u>2021</u>	<u>2020</u>
Liabilities:			
Deposits from customers:			
Savings deposits - local	6	2,421,331	1,667,795
Savings deposits - foreign	6	516,239	1,138,177
Time deposits - local		296,218,565	262,409,940
Time deposits - foreign		<u>67,205,980</u>	<u>75,192,703</u>
Total deposits from customers		<u>366,362,115</u>	<u>340,408,615</u>
Negotiable commercial papers	13, 30	44,154,536	84,830,135
Negotiable commercial notes	14, 30	90,705,805	107,092,006
Covered bonds	15, 30	51,295,546	51,074,683
Ordinary bonds	16, 30	13,502,184	28,224,978
Investment certificates	17, 30	21,578,050	37,911,676
Other negotiable debts	18, 30	13,724,043	15,091,711
Borrowings	19, 30	265,579,654	194,781,434
Leases Liabilities	29	2,281,495	722,967
Income tax payable		685,754	2,821,728
Other liabilities	20	<u>6,038,857</u>	<u>5,136,962</u>
Total Liabilities		<u>875,908,039</u>	<u>868,096,895</u>
Equity:			
Common shares	21	15,000,000	15,000,000
Treasury shares	21	(727,000)	(727,000)
Additional paid-in capital		25,051,203	25,051,203
Capital reserve		1,800,000	1,800,000
Fair value reserve		653,870	2,258,287
Currency translation reserve		(10,017,533)	(7,661,410)
Regulatory reserves		8,653,034	10,418,222
Retained earnings		<u>37,190,241</u>	<u>30,807,282</u>
Total equity attributable to controlling interest no controladora		77,603,815	76,946,584
Non-controlling interest		<u>834,575</u>	<u>879,953</u>
Total equity		<u>78,438,390</u>	<u>77,826,537</u>
Commitments and contingencies	28		
Total liabilities and equity		<u>954,346,429</u>	<u>945,923,432</u>

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Income

Period ended September 30, 2021

(Stated in Balboas)

	<u>Nota</u>	<u>2021</u>	<u>2020</u>
Interest income calculated using the effective interest method:			
Loans		39,523,340	38,060,631
Investment in securities		2,514,004	2,782,093
Deposits in banks		93,414	237,209
Total interest income		<u>42,130,758</u>	<u>41,079,933</u>
Interest expense:			
Deposits from customers	6	11,967,289	11,038,170
Borrowings, debt securities in issue and leases		<u>18,423,272</u>	<u>19,112,002</u>
Total interest expenses		<u>30,390,561</u>	<u>30,150,172</u>
Net interest income		11,740,197	10,929,761
Impairment losses on financial assets:			
Provision for credit losses on loans at AC	4	1,242,556	3,354,293
Provision for credit losses on investment securities at FVOCI	4	65,398	14,484
Provision for credit losses on investment securities at AC	4	<u>4,213</u>	<u>3,640</u>
Net interest income, after provisions for impairment losses on financial assets		<u>10,428,030</u>	<u>7,557,344</u>
Income from banking services, commissions and others, net:			
Net income from securities at FVTPL	8	856,564	1,256,356
Net income from securities at FVTOCI	8	-	2,098,078
Management and servicing commissions	22	5,208,738	5,226,730
Other commissions incurred		(722,752)	(565,675)
Other income	22	<u>1,269,892</u>	<u>623,448</u>
Total income from banking services and others, net		<u>6,612,442</u>	<u>8,638,937</u>
General and administrative expenses			
Salaries and other personnel benefits	6,23	4,935,924	6,233,579
Depreciation and amortization of furniture, equipment and improvements	10	513,481	615,768
Depreciation of right-of-use assets	29	404,448	457,505
Professional and legal fees		1,290,105	1,149,705
Taxes		1,639,555	1,822,700
Other expenses	6,23	<u>2,767,584</u>	<u>2,592,855</u>
Total general and administrative expenses		<u>11,551,097</u>	<u>12,872,112</u>
Net income before income tax		5,489,375	3,324,169
Income tax	24	820,758	997,102
Net income		<u>4,668,617</u>	<u>2,327,067</u>
Income attributable to:			
Controlling interest		4,622,044	2,301,277
Non-controlling interest		46,573	25,790
		<u>4,668,617</u>	<u>2,327,067</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, 2021

(Stated in Balboas)

	<u>2021</u>	<u>2020</u>
Net income	<u>4,668,617</u>	<u>2,327,067</u>
Other comprehensive income:		
Items that are or may be reclassified subsequently to profit or loss:		
Movement in fair value reserve for FVOCI debt instruments:		
Debt investments at FVOCI – net change in fair value	(1,781,717)	513,411
Debt investments at FVOCI – reclassified to profit or loss	0	0
Movement in expected credit loss (ECL) reserve for FVOCI debt instruments:		
Debt investments at FVOCI – net change in ECL reserve	(13,915)	13,724
Movement in fair value reserve for loan portfolio acquired:		
Amortization of fair value	676,685	(59,506)
Movement in foreign currency translation reserve:		
Foreign operations – foreign currency translation differences	<u>(1,906,807)</u>	<u>(3,661,931)</u>
Total other comprehensive income (loss)	<u>(3,025,754)</u>	<u>(3,194,302)</u>
Total comprehensive income	<u>1,642,863</u>	<u>(867,235)</u>
Comprehensive income attributable to:		
Controlling interest	(163,105)	1,474,742
Non-controlling interest	<u>(42,970)</u>	<u>(90,830)</u>
	<u>(206,075)</u>	<u>1,383,912</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.

	Attributable to the controlling interest												
	Fair value reserve					Regulatory reserves							
	Treasury shares	Additional paid-in capital	Capital reserve	Reserve of fair value of investment in securities FVOCI	Reserve of ECL of investment in securities FVOCI	Reserve of fair value of portfolio acquired	Currency translation reserve	Dynamic provision	Specific provision in excess	Regulatory provision	Retained earnings	Non-controlling interest	Total equity
Balance at December 31, 2019	15,000,000	(727,000)	25,025,329	1,984,853	136,567	182,335	(6,624,056)	7,034,453	1,218,056	0	29,704,982	891,468	75,626,887
Net income	0	0	0	0	0	0	0	0	0	0	2,301,277	25,790	2,327,067
Other comprehensive income (loss):													
Fair value reserve – debt instruments at FVOCI:													
Debt investments – net change in fair value	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
Expected credit loss (ECL) reserve – debt instruments at FVOCI:													
Debt investments at FVOCI – net change in ECL reserve	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	(59,506)	0	0	0	0	0	0	(59,506)
Foreign currency translation reserve:													
Foreign operations – foreign currency translation differences	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	513,411	13,724	(59,506)	(3,524,705)	0	0	0	0	(137,226)	(3,154,302)
Total comprehensive income	0	0	0	513,411	13,724	(59,506)	(3,524,705)	0	0	0	2,301,277	(111,436)	(667,235)
Other equity transactions:													
Allocation of regulatory reserves – dynamic and specific	0	0	0	0	0	0	0	(2,230,516)	868,701	2,230,516	(668,701)	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	25,874
Treasury shares	0	0	0	0	0	0	0	0	0	0	0	0	0
Complementary tax	0	0	0	0	0	0	0	0	0	0	(40,613)	0	(40,613)
Total contributions and distributions	0	25,874	0	0	0	0	0	0	0	0	(40,613)	0	(14,739)
Balance at September 30, 2020	15,000,000	(727,000)	25,051,203	2,498,264	150,291	122,829	(10,148,761)	4,803,937	2,086,757	2,230,516	31,096,845	780,032	74,744,913
Balance at December 31, 2020	15,000,000	(727,000)	25,051,203	2,026,160	129,133	102,994	(7,661,410)	4,803,937	3,208,856	2,405,429	30,807,282	879,853	77,826,537
Net income	0	0	0	0	0	0	0	0	0	0	4,622,045	46,572	4,668,617
Other comprehensive income (loss):													
Fair value reserve – debt instruments at FVOCI:													
Debt investments – net change in fair value	0	0	0	(2,310,161)	0	0	0	0	0	0	0	0	(2,310,161)
Debt investments at FVOCI – reclassified to profit or loss	0	0	0	0	0	0	0	0	0	0	0	0	0
Expected credit loss (ECL) reserve – debt instruments at FVOCI:													
Debt investments at FVOCI – net change in ECL reserve	0	0	0	0	65,398	0	0	0	0	0	0	0	65,398
Fair value reserve for loan portfolio acquired:													
Amortization of fair value	0	0	0	0	0	640,346	0	0	0	0	0	0	640,346
Foreign currency translation reserve:													
Foreign operations – foreign currency translation differences	0	0	0	0	0	0	(2,356,123)	0	0	0	(4,274)	(91,950)	(2,452,347)
Total other comprehensive income (loss)	0	0	0	(2,310,161)	65,398	640,346	(2,356,123)	0	0	0	(4,274)	(91,950)	(4,056,764)
Total comprehensive income	0	0	0	(2,310,161)	65,398	640,346	(2,356,123)	0	0	0	4,617,771	(45,378)	611,853
Other equity transactions:													
Allocation of regulatory reserves – dynamic and specific	0	0	0	0	0	0	0	(96,984)	(1,871,709)	203,505	1,765,188	0	0
Transactions with equity holders of the Bank:													
Contributions and distributions:													
Additional paid-in capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Complementary tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Total contributions and distributions	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance at September 30, 2021	15,000,000	(727,000)	25,051,203	(284,001)	194,531	743,340	(10,017,533)	4,706,853	1,337,147	2,608,934	37,190,241	894,575	78,438,390

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, 2021

(Stated in Balboas)

	<u>Nota</u>	<u>2021</u>	<u>2020</u>
Operating activities:			
Net income		4,668,617	2,327,067
Adjustment to reconcile net income and cash from operating activities:			
Depreciation and amortization of furniture, equipment and improvements	10	513,481	615,768
Depreciation of right-of-use assets	29	404,448	457,505
Provision for credit losses on loans at AC	4	1,242,556	3,354,293
Provision for credit losses on investment securities at AC	4	4,213	18,124
Provision for credit losses on investment securities at OCI	4	65,398	0
Net interest income		(11,740,197)	(10,081,771)
Net gain on investment securities at FVTPL		(856,564)	(1,256,510)
Net gain on sale of investment securities at FVOCI	8	0	(2,098,078)
Gain on sale of foreclosed assets		(116,518)	0
Income tax expense	24	820,758	997,102
Changes in operating assets and liabilities:			
Investment securities at FVTPL		0	-
Loans		(23,271,241)	(10,646,120)
Accounts receivable		(272,771)	(10,873,408)
Sale of tax credits	32	1,575,904	0
Accrual of tax credits		(9,595,627)	(7,435,315)
Other assets		4,447,806	280,166
Saving deposits from customers		131,584	(379,449)
Time deposits from customers		25,821,902	40,381,884
Other liabilities		287,385	(1,113,317)
Cash generated from operations:			
Interest received		42,171,261	40,950,812
Interest paid		(30,365,430)	(29,426,925)
Income tax paid		(556,522)	(884,734)
Cash flows from operating activities		<u>5,380,443</u>	<u>15,187,094</u>
Investment activities:			
Acquisition of investment securities at AC and FVOCI		(2,860,787)	(20,606,847)
Proceeds from sale of investment securities	8	2,396,556	23,981,556
Acquisition of furniture, equipment and improvements		(150,118)	(235,644)
Disposal of fixed assets		0	35,655
Cash flows from investment activities		<u>(614,349)</u>	<u>3,174,720</u>
Financing activities:			
Proceeds from issuance of negotiable commercial papers		35,114,401	99,542,467
Redemption of negotiable commercial papers		(75,790,000)	(101,970,845)
Proceeds from issuance of negotiable commercial notes		30,564,799	37,216,431
Redemption of negotiable commercial notes		(46,951,000)	(45,997,823)
Proceeds from issuance of covered bonds		220,863	(24,566)
Proceeds from issuance of Ordinary Bonds		0	13,826,603
Redemption of Ordinary Bonds		0	(3,874,317)
Proceeds from issuance of investment certificates		7,773,374	11,511,312
Redemption of investment certificates		(24,107,000)	(9,150,450)
Proceeds from issuance of negotiable debts		4,784,065	28,920,178
Redemption of negotiable debts		(19,285,000)	(26,025,940)
Proceeds from borrowings		175,444,187	132,988,873
Repayment of borrowings		(102,292,137)	(102,561,024)
Payment of Leases	29	(540,233)	(376,386)
Additional paid-in capital		0	25,874
Complementary Tax		(4,274)	(40,613)
Non-controlling interest		(91,950)	(137,225)
Cash flows from financing activities		<u>(15,159,905)</u>	<u>33,872,749</u>
Effect of exchange rate fluctuations		(5,965,322)	(3,524,705)
Net increase in cash and cash equivalents		<u>(10,393,811)</u>	<u>52,234,563</u>
Cash and cash equivalents at the beginning of the year		68,017,454	40,891,703
Cash and cash equivalents at the end of the year	7	<u>51,658,321</u>	<u>89,601,561</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, 2021

(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 this Superintendence.

Banco La Hipotecaria, S. A. is a private bank whose shareholder is La Hipotecaria (Holding), Inc., a company incorporated under the laws of the British Virgin Islands and whose main shareholder is Grupo Assa, S. A., who owns 69.01% (2016: 69.01%) of the shares issued and outstanding.

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

The following table provides the detail of the Bank's 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%	99.99%

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

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

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

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

Notes to the Consolidated Financial Statements

(2) Basis of Preparation

(a) Statement of compliance

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

The Administration authorized the issuance of these consolidated financial statements on October 30, 2021.

(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>
Investment securities measured at fair value through profit or loss (FVTPL)	Fair value
Investment securities measured at fair value through other comprehensive income (FVOCI)	Fair value

(c) Functional and presentation currency

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

(3) Summary of Significant Accounting Policies

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

(a) Basis of consolidation

(a.1) Subsidiaries

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

BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(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. Any interest retained by the Bank in the former subsidiary is measured at fair value when control is lost.

(a.5) Transactions eliminated on consolidation

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

(a.6) Funds administration

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

(b) Foreign currency

(b.1) Foreign currency transactions

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

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

Notes to the Consolidated Financial Statements

(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 foreign currency translation reserve.

(c) Financial assets and liabilities

(c.1) Recognition and initial measurement

The Bank initially recognizes loans and receivables, investment securities, deposits, debt securities issued and borrowings on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Bank becomes 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 asset 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 (spci) on the principal amount outstanding.

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

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

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Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in 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 an 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.

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.

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as the consideration 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.

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.

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

Reclassification

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

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

Financial assets

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

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

The guarantee on the transferred asset is measured as the lower between the original 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 3 (f).

Financial liabilities

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

(c.4) Modification of financial assets

Financial assets

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

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

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

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

(c.6) Fair value measurement

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

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

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

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

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

(c.7) Impairment of financial assets

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

- Investments in debt instruments; and
- Loans receivable.

No impairment loss is recognized on equity instruments.

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued.

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

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

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

12-month ECL are the portion of lifetime ECL that 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'.

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.

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

- The market's assessment of creditworthiness as reflected in 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.
- *Debt instruments measured at fvoci:* no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve in equity.

Write-off

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

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(d) Cash and cash equivalents

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

(e) Loans

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

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

Loans are presented at amortized cost considering the principal amount and the interest receivable, less the loss allowance for ECL. The loans are measured initially at its fair value plus 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 AC: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.
- Debt and equity investment securities mandatorily measured at FVTPL: these are at fair value with changes recognized immediately in profit or loss.
- Debt securities measured at FVOCI.

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

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

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

(g) Furniture, equipment and improvements

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

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

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

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

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

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, borrowings and debt securities in issue

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

(j) Share based payments

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

(k) Employee benefits

(k.1) Termination benefits

Termination benefits are recognized as expenses 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.

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

(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.

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.

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

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.

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.

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Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

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

(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 3 (o).

(q) Net income from other 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.

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

(r) Leases

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

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

At commencement or on modification of a contract that contains a lease component, the Bank allocates 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.

As lessee

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or at the end of the lease term. The estimated useful 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.

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

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. The Bank uses its incremental borrowing interest rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be 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.

Short-term leases and low-value asset leases

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

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

(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) New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted
A series of new rules go into effect for annual periods beginning after January 1, 2022 and early application is allowed; however, the Bank has not early adopted these new standards or amendments when preparing these consolidated financial statements as of June 30, 2021.

Notes to the Consolidated Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

Effective date – Annual periods beginning on:	New standards or amendments (upcoming IFRS requirements)
1 January 2022	• Annual Improvements to IFRS Standards 2018-2020
1 January 2023	• IFRS 17 Insurance contracts

(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.

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

- 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 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.

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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

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

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

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.

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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.

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 3 (c.7).

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(4) Financial Risk Management, continued

	2021			Total
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit- impaired) (‘Stage 2’)	Lifetime ECL (credit- impaired) (‘Stage 3’)	
Loans at AC:				
Normal or low-fair risk	693,426,560	0	0	693,426,560
Watch-list	38,540,080	0	0	38,540,080
Substandard	0	5,293,313	968,301	6,261,614
Doubtful	0	3,847,069	805,132	4,652,201
Loss	0	0	9,405,972	9,405,972
Accrued interest receivable	10,174,094	267,936	232,709	10,674,739
Gross carrying amount	742,140,734	9,408,318	11,412,114	762,961,166
Loss allowance (ECL)	(3,856,300)	(348,097)	(633,869)	(4,838,266)
Total loans at AC	738,284,434	9,060,221	10,778,245	758,122,900
Investment securities at AC:				
Normal or low-fair risk	776,572	0	0	776,572
Gross carrying amount	776,572	0	0	776,572
Loss allowance (ECL)	(5,495)	0	0	(5,495)
Total investments at AC	771,077	0	0	771,077
Investment securities at FVOCI:				
Normal or low-fair risk	70,623,652	0	0	70,623,652
Loss allowance (ECL)	194,531	0	0	194,531
Promissory notes:				
Normal or low-fair risk	71,958,976	0	0	71,958,976
2020				
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit- impaired) (‘Stage 2’)	Lifetime ECL (credit- impaired) (‘Stage 3’)	Total
Loans at AC:				
Normal or low-fair risk	683,481,622	0	0	683,481,622
Watch-list	28,748,968	0	0	28,748,968
Substandard	0	3,993,278	803,702	4,796,980
Doubtful	0	4,049,333	1,437,059	5,486,392
Loss	0	0	8,687,142	8,687,142
Accrued interest receivable	8,223,181	42,036	36,509	8,301,726
Gross carrying amount	720,453,771	8,084,647	10,964,412	739,502,830
Loss allowance (ECL)	(3,349,234)	(100,010)	(599,717)	(4,048,961)
Total loans at AC	717,104,537	7,984,637	10,364,695	735,453,869
Investment securities at AC:				
Normal or low-fair risk	852,740	0	0	852,740
Gross carrying amount	852,740	0	0	852,740
Loss allowance (ECL)	(1,282)	0	0	(1,282)
Total investments at AC	851,458	0	0	851,458
Investment securities at FVOCI:				
Normal or low-fair risk	72,437,306	0	0	72,437,306
Loss allowance (ECL)	129,133	0	0	129,133
Promissory notes:				
Normal or low-fair risk	43,668,127	0	0	43,668,127

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(4) Financial Risk Management, continued

At June 30, 2021, the Bank performed the credit quality analysis over its off-balance accounts. Of total of the off-balance sheet transactions, 100% correspond to revocable promissory notes and its credit risk has been assessed as 'normal or low-fair risk'.

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

	2021			Total
	('Stage 1')	('Stage 2')	('Stage 3')	
Personal loans:				
Current	52,892,083	0	0	52,892,083
Overdue < 30 days	4,709,664	0	0	4,709,664
Overdue > 30 and < 60 days	2,447,149	0	0	2,447,149
Overdue > 60 and < 90 days	0	1,577,393	0	1,577,393
Overdue > 90 days	0	0	2,719,680	2,719,680
Residential mortgage loans:				
Current	591,726,346	0	0	591,726,346
Overdue < 30 days	44,098,467	0	0	44,098,467
Overdue > 30 and < 90 days	34,515,538	0	0	34,515,538
Overdue > 90 and < 180 days	0	9,140,382	0	9,140,382
Overdue > 180 days	0	0	8,459,725	8,459,725
	2020			
	('Stage 1')	('Stage 2')	('Stage 3')	Total
Personal loans:				
Current	62,138,642	0	0	62,138,642
Overdue < 30 days	4,018,696	0	0	4,018,696
Overdue > 30 and < 60 days	2,140,080	0	0	2,140,080
Overdue > 60 and < 90 days	0	1,513,517	0	1,513,517
Overdue > 90 days	0	0	2,240,761	2,240,761
Residential mortgage loans:				
Current	579,460,190	0	0	579,460,190
Overdue < 30 days	37,864,094	0	0	37,864,094
Overdue > 30 and < 90 days	25,095,371	0	0	25,095,371
Overdue > 90 and < 180 days	0	8,042,611	0	8,042,611
Overdue > 180 days	0	0	8,687,142	8,687,142

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(4) Financial Risk Management, continued

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>2021</u>	<u>2020</u>
<u>Investment securities at FVTPL:</u>		
<u>Government bonds:</u>		
BBB+ to BBB-	1,703,539	1,868,264
	<u>1,703,539</u>	<u>1,868,264</u>
<u>Residential mortgage-backed securities (RMBS):</u>		
Normal or low-fair risk	5,619,512	5,678,037
	<u>5,619,512</u>	<u>5,678,037</u>
<u>Residual interests:</u>		
Normal or low-fair risk	19,294,106	18,379,017
	<u>19,294,106</u>	<u>18,379,017</u>
Total investment securities at FVTPL	<u><u>26,617,157</u></u>	<u><u>25,925,318</u></u>

Deposits placed with banks

At September 30, 2021, the Bank held deposits placed with banks for B/.51,366,365 (2020: B/.67,764,883). These deposits are held with banks and other financial institution counterparties that are rated at least BBB- y BBB+, based on Fitch Ratings Inc., Moody's, and/or Standard & Poor's.

At September 30, 2021, the Bank has not recognized an allowance for ECL on deposits in banks, because their credit risk has been assessed as normal or low-fair risk and management considers that the resulting amounts would not be material to the consolidated financial statements.

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.

<u>Type of credit exposure:</u>	<u>% of exposure that is subject to collateral requirements</u>		<u>Type of colateral held</u>
	<u>2021</u>	<u>2020</u>	
Loans	91%	90%	Residential properties
Investment securities	80%	82%	Mortgage loan portfolio

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

Residential mortgage lending

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

<u>'LTV' ratio</u>	<u>2021</u>	<u>2020</u>
0-20%	2,028,891	1,847,125
20-40%	13,383,962	12,788,369
40-60%	45,296,247	42,825,397
60-80%	283,838,362	265,156,278
80-100%	<u>342,649,656</u>	<u>336,532,239</u>
Total	<u>687,197,118</u>	<u>659,149,408</u>
<i>Credit impaired loans</i>		
0-20%	359,472	186,437
20-40%	217,288	157,324
40-60%	117,001	99,758
60-80%	2,092,447	1,771,128
80-100%	<u>6,619,764</u>	<u>6,472,495</u>
Total	<u>9,405,972</u>	<u>8,687,142</u>

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>2021</u>	<u>2020</u>
Residential properties	<u>832,397</u>	<u>934,312</u>
Total	<u>832,397</u>	<u>934,312</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 3 (c.7).

Significant increase in credit risk

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

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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.

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).

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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

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

- A1 – Current (without arrears or delinquency) and from 1 to 30 days ('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.

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

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

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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

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

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

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

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

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

Given the pandemic caused by COVID 19 and the eventual increase in the deterioration of loans given the uncertainty due to the impact that this pandemic may have on households; For the current fiscal year, the transition matrices that deal with the previous paragraph were designed taking into account a stress scenario of bad debts in loans; After which, the delinquency of those loans that received relief in their monthly payments increased in an alternate year as a measure granted by the Bank to improve the debtor's cash flow.

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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.

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.

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

- 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 2012 and 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.

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.

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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.

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:

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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

Definition of default

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

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

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.

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the 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:

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

- 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.

Taking into account that during 2020 and expected for 2021, the main macroeconomic indicators maintain figures that do not keep a behavior similar to the historical one, as a result of the pandemic caused by COVID 19, which also caused an economic recession worldwide; It was determined that for the estimation of the forward looking model, exercises will not be carried out with different macroeconomic variables until finding the one that correlates with the overdue portfolio of La Hipotecaria, but instead it will be chosen to correlate and obtain an adjustment factor to the Expected Loss with the variable of unemployment in the 3 countries

The above, in addition, for the following reasons.

- a. Historically, one of the variables in which it was tried to find correlations was the GDP and the other variables related to economic growth such as the IVAE or the ISE in Colombia. These variables, at the date of preparation of this methodology, show economic recessions in the 3 countries, and market entities such as Moodys and the IMF projected recessions at the end of 2020 in the 3 countries, with uncertainty as to what the recovery will be for the year 2021.
- b. Unemployment has historically been the variable that best correlates the variation in the overdue portfolio of La Hipotecaria, which also has a very high business logic, since the Bank's business model is specially designed to serve employees in the 3 countries; in addition to some profiles of retirees or independent.
- c. In previous years, an attempt has also been made to obtain correlations with the variations in the overdue portfolio in the market, figures published by the Superintendency of Banks in each country; However, during 2020 the existence of financial relief for those clients who have defaulted on their payments, does not allow the market to really reflect what is the deterioration that is occurring in the loan portfolio; and as warned by the Financial Superintendency of Colombia in its monthly report for September 2020; and the Superintendency of Banks of Panama in its presentation of the same period, the deterioration in the loan portfolio will not be

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

reflected until the period of relief given by the Moratorium Law in Panama passes; as per the existing regulations in each country.

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:

- i. The Multiple Correlation and Explanation coefficients were calculated between the historical series of the annual percentage variations of the value of the Bank's 'Past Due Loan Portfolio' (taken as a dependent variable), and the historical series of the values of the inter-annual variations of GDP, MIEA, Inflation and Unemployment (which are considered independent variables). This calculation allows to determine if those could explain and/or reasonably infer the possible impacts on the payment behavior of the instruments in the future.
- ii. Once the existence of an acceptable degree of association between these variables was determined, the Bank proceeded to calculate the marginal contribution of each, separately, to the value of the multiple correlation, by neglecting the contribution of each one to the value of that correlation. This is achieved by recalculating the multiple correlation by sequentially eliminating each variable that participates in the original series. The new multiple correlation value after these eliminations, would allow to infer the contribution of each elimination to the originally calculated correlation value.
- iii. Finally, the results were compared with those corresponding to the existing correlation between the Bank's 'Past Due Loans Portfolio' and those of the financial system of each country, in order to confirm the meaning of the associations.

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(4) Financial Risk Management, continued

As a result of the application of the methodology outlined above, and based on historical series corresponding to annual periods between 2014 and 2020, the Bank determined as appropriate to use the following 'forward-looking' variables as part of the PCE model by country and segment, for the period 2021:

- a) Panama – Operations with Guarantees (Unemployment)
- b) Panama – Operations without Guarantee (Unemployment)
- c) El Salvador – Operations with Guarantees (Social security contributors)
- d) El Salvador – Operations without Guarantee (Social security contributors)
- 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 June 30, 2021:

Segment	Forward-looking variable correlated with past due portfolio	Historical variable		Incorporation of forward-looking ('FL') variables in the estimation of the ECL as of June 30, 2021				
		2019	2020	Scenario	Expected trend	Projected FL variable	'FL' Factor	Impact on the ECL
Panama – Operations with Guarantees	Unemployment	7.10%	18.5	Unique	Increase	18.50%	1.0300%	B/ 272.21
Panama – Operations without Guarantees	Unemployment	7.10%	18.5	Unique	Increase	18.50%	1.0500%	B/ 9,316.06
Salvador – Operations with Guarantees	Unemployment	6.3%	6.3%	Unique	Increase	12.12%	1.0000%	B/1,225.86
Salvador – Operations without Guarantees	Unemployment	6.3%	6.3%	Unique	Increase	12.12%	1.0000%	B/4,293.18
Colombia– Operations with Guarantees	Unemployment	9.53%	13.4%	Unique	Increase	13.37	1.0600%	B/ 117.21
Colombia – Operations without Guarantees	Unemployment	9.53%	13.4%	Unique	Increase	13.37	1.0600%	B/ 2,409.77

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 3 (c.4).

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

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

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(4) Financial Risk Management, continued

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 loan receivables.

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

Measurement of estimated credit losses (ECL)

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

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

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

PD estimation

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

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

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

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(5) Financial Risk Management, continued

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.

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

	<u>2021</u> 12-month ECL (‘Stage 1’)	<u>2020</u> 12-month ECL (‘Stage 1’)	
<u>Investment securities at AC:</u>			
Balance at January 1	1,282	354	
Net remeasurement of loss allowance	4,213	(2,830)	
New financial assets purchased	<u>0</u>	<u>3,758</u>	
Balance at June 30	<u>5,495</u>	<u>1,282</u>	
	<u>2021</u> 12-month ECL (‘Stage 1’)	<u>2021</u> Lifetime ECL (not-credit impaired) (‘Stage 2’)	<u>Total</u>
<u>Investment securities at FVOCI:</u>			
Balance at January 1	69,680	59,453	129,133
Net remeasurement of loss allowance	54,585	10,709	65,293
New financial assets purchased	104	0	104
Financial assets that have been derecognized	<u>0</u>	<u>0</u>	<u>0</u>
Balance at June 30	<u>124,369</u>	<u>70,162</u>	<u>194,531</u>

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(4) Financial Risk Management, continued

	2020		
	12-month ECL (<u>'Stage 1'</u>)	Lifetime ECL (not-credit impaired) (<u>'Stage 2'</u>)	<u>Total</u>
<u>Investment securities at FVOCI:</u>			
Balance at 1 January 1	39,558	97,009	136,567
Net remeasurement of loss allowance	34,412	(37,556)	(3,144)
New financial assets purchased	20,910	0	20,910
Financial assets that have been derecognized	(25,200)	0	(25,200)
Balance at June 30	<u>69,680</u>	<u>59,453</u>	<u>129,133</u>

	2021			
	12-month ECL (<u>'Stage 1'</u>)	Lifetime ECL (not credit- impaired / collectively assessed (<u>'Stage 2'</u>)	Lifetime ECL (credit-impaired / individually assessed) (<u>'Stage 3'</u>)	<u>Total</u>
<u>Loans at AC:</u>				
Balance at January 1	3,349,234	100,010	599,717	4,048,961
Transfer to Stage 1	677,752	(472,851)	(204,901)	0
Transfer to Stage 2	(262,312)	562,567	(300,255)	0
Transfer to Stage 3	(13,277)	(484,093)	497,369	0
Net reameasurement of loss allowance	110,830	626,246	623,815	1,360,891
New financial assets originated	46,092	34,714	8,015	88,821
Financial instruments that have been derecognized	(63,827)	(18,496)	(124,838)	(207,161)
Write-offs	0	0	(465,053)	(465,053)
Recovery of amounts previously written off	37,699			37,699
Effect of movements in currency exchange rates	(25,891)	0	0	(25,891)
Balance at June 30	<u>3,856,300</u>	<u>348,097</u>	<u>633,869</u>	<u>4,838,266</u>

	2020			
	12-month ECL (<u>'Stage 1'</u>)	Lifetime ECL (not credit- impaired / collectively assessed (<u>'Stage 2'</u>)	Lifetime ECL (credit-impaired / individually assessed) (<u>'Stage 3'</u>)	<u>Total</u>
<u>Loans at AC:</u>				
Balance at January 1	239,631	119,208	319,914	678,753
Transfer to Stage 1	243,874	(143,021)	(100,853)	0
Transfer to Stage 2	(89,186)	264,652	(175,466)	0
Transfer to Stage 3	(6,645)	(206,373)	213,018	0
Net reameasurement of loss allowance	2,957,756	70,061	1,145,113	4,172,930
New financial assets originated	20,620	1,136	2,016	23,772
Financial instruments that have been derecognized	(13,626)	(5,653)	(96,974)	(116,253)
Write-offs	0	0	(707,051)	(707,051)
Effect of movements in currency exchange rates	(3,190)	0	0	(3,190)
Balance at December 31	<u>3,349,234</u>	<u>100,010</u>	<u>599,717</u>	<u>4,048,961</u>

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(4) Financial Risk Management, continued

As of September 30, 2021, the Bank has recognized B/.349,059 (2020: 821,046) as part of its allowance for expected credit losses (ECL) on loans receivable, in accordance with the result of the estimate based on the 'post-model' methodology ('overlay model') defined by management. This methodology considers the impacts of the COVID-19 pandemic on the macroeconomic conditions of the countries in which the Bank's loan portfolio is concentrated and, consequently, on the borrowers' repayment capacity. See Note 34.

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.

	2021			
	Investment securities at AC	Investment securities at FVOCI	Loans at AC	Total
Net remeasurement of loss allowance	4,213	65,293	1,360,891	1,430,397
New financial assets originated or purchased	0	104	62,723	88,925
Financial assets that have been derecognized	0	0	(126,871)	(465,053)
Total	4,213	65,397	984,659	1,054,272

	2020			
	Investment securities at AC	Investment securities at FVOCI	Loans at AC	Total
Net remeasurement of loss allowance	(2,830)	(3,144)	4,172,930	4,166,956
New financial assets originated or purchased	3,758	20,910	23,772	48,440
Financial assets that have been derecognized	0	(25,200)	(116,253)	(141,453)
Total	928	(7,434)	4,080,449	4,073,943

Credit-impaired financial assets

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

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

The contractual amount outstanding on loans receivable that were written off during the period ended September 30, 2021 and that are still subject to enforcement activity is B/.465,056 (2020: B/.707,051) and these they are still subject to collection management activities.

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(4) Financial Risk Management, continued

Concentrations of credit risk

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

	<u>Loans at AC</u>		<u>Investment securities</u>		<u>Promissory notes</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Gross carrying amount	<u>762,961,166</u>	<u>739,502,830</u>	<u>98,017,381</u>	<u>99,371,620</u>	<u>71,958,976</u>	<u>43,668,127</u>
<u>Concentration by sector:</u>						
Mortgage banking	698,615,197	667,090,742	62,691,727	61,631,424	71,958,976	43,668,127
Personal banking	64,345,969	72,412,088	0	0	0	0
Other sectors	0	0	35,325,654	37,740,196	0	0
	<u>762,961,166</u>	<u>739,502,830</u>	<u>98,017,381</u>	<u>99,371,620</u>	<u>71,958,976</u>	<u>43,668,127</u>
<u>Concentration by location:</u>						
Panama	553,679,545	537,821,648	62,125,788	61,227,543	64,859,784	43,668,127
El Salvador	124,026,046	120,477,773	0	0	0	0
Colombia	76,313,731	81,203,409	4,952,778	5,984,127	0	0
United States of America	0	0	30,179,850	32,159,950	0	0
	<u>754,019,322</u>	<u>739,502,830</u>	<u>97,258,416</u>	<u>99,371,620</u>	<u>64,859,784</u>	<u>43,668,127</u>

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

(b) *Liquidity risk:*

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

Funding liquidity risk

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

Market liquidity risk

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

Liquidity risk management

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

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

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(4) Financial Risk Management, continued

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

Exposure to liquidity risk

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

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

	<u>2021</u>	<u>2020</u>
At June 30	82.85%	94.40%
Average of the year	84.87%	115.69%
Maximum of the year	93.08%	154.66%
Minimum of the year	67.54%	91.65%

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>2021</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>
Financial liabilities:						
Saving deposits	2,937,556	(2,937,556)	(2,937,556)	0	0	0
Time deposits	363,424,545	(388,497,732)	(177,073,995)	(211,423,737)	0	0
Negotiable commercial papers	44,154,536	(44,813,349)	(44,813,349)	0	0	0
Negotiable commercial notes	90,705,805	(95,432,986)	(52,229,403)	(43,203,583)	0	0
Covered bonds	51,295,546	(56,306,941)	(2,518,247)	(53,788,694)	0	0
Ordinary bonds	13,502,184	(16,018,826)	(683,525)	(15,335,301)	0	0
Investment certificates	21,578,050	(22,874,322)	(14,281,416)	(8,592,906)	0	0
Other negotiable debts	13,724,043	(14,328,050)	(12,209,203)	(2,118,847)	0	0
Borrowings	265,579,654	(293,828,614)	(74,642,185)	(147,554,415)	(71,632,014)	0
Lease liabilities	2,281,495	(3,862,887)	(636,402)	(2,160,896)	(1,065,589)	0
Total financial liabilities	<u>869,183,414</u>	<u>(938,901,263)</u>	<u>(382,025,281)</u>	<u>(484,178,379)</u>	<u>(72,697,603)</u>	<u>0</u>
Financial assets:						
Cash	291,956	291,956	291,956	0	0	0
Deposits in banks	51,366,365	51,366,365	51,366,365	0	0	0
Investment securities	98,022,876	134,500,641	4,161,410	17,858,266	37,239,212	75,241,753
Loans	752,286,427	1,102,987,863	56,997,970	222,873,257	249,412,094	573,704,542
Total financial assets	<u>901,967,624</u>	<u>1,289,146,825</u>	<u>112,817,701</u>	<u>240,731,523</u>	<u>286,651,306</u>	<u>648,946,295</u>
Commitments and contingencies:						
Promissory notes	(71,958,976)	(71,958,976)	(71,958,976)	0	0	0

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(4) Financial Risk Management, continued

<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>
Financial liabilities:						
Saving deposits	2,805,972	(2,805,972)	(2,805,972)	0	0	0
Time deposits	337,602,643	(362,580,106)	(210,701,263)	(151,978,843)	0	0
Negotiable commercial papers	84,830,135	(86,211,517)	(86,211,517)	0	0	0
Negotiable commercial notes	107,092,006	(111,662,474)	(68,394,972)	(43,267,502)	0	0
Covered bonds	51,074,683	(58,190,452)	(2,518,247)	(55,672,205)	0	0
Ordinary bonds	15,091,711	(18,476,058)	(763,992)	(17,712,066)	0	0
Investment certificates	37,911,676	(43,264,720)	(4,780,369)	(38,484,351)	0	0
Other negotiable debts	28,224,978	(29,157,998)	(23,657,192)	(5,500,806)	0	0
Borrowed funds	194,781,434	(213,250,081)	(94,629,863)	(86,565,655)	(32,054,563)	0
Total financial liabilities	2,821,728	(3,862,887)	(636,402)	(2,160,896)	(1,065,589)	0
	<u>862,236,966</u>	<u>(929,364,358)</u>	<u>(494,905,754)</u>	<u>(401,338,452)</u>	<u>(33,120,152)</u>	<u>0</u>
Financial assets:						
Cash						
Deposits in banks	252,571	252,571	252,571	0	0	0
Investment securities	67,764,883	67,764,883	67,764,883	0	0	0
Loans	99,214,082	174,011,112	4,938,597	27,473,997	54,585,541	87,012,977
Total financial assets	735,453,869	1,216,449,709	63,019,714	246,072,993	275,562,544	631,794,458
	<u>902,685,405</u>	<u>1,458,478,275</u>	<u>135,975,765</u>	<u>273,546,990</u>	<u>330,148,085</u>	<u>718,807,435</u>
Commitments and contingencies:						
Promissory notes	(43,668,127)	(43,668,127)	(43,668,127)	0	0	0

For the non-derivative 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-derivatives financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

	<u>2021</u>	<u>2020</u>
Financial assets:		
Loans	<u>751,922,542</u>	<u>730,744,418</u>
Investment securities	<u>94,999,128</u>	<u>95,887,877</u>
Financial liabilities:		
Time deposits	<u>187,845,633</u>	<u>135,415,365</u>
Negotiable commercial notes	<u>39,326,000</u>	<u>40,275,000</u>
Covered bonds	<u>52,000,000</u>	<u>52,000,000</u>
Ordinary bonds	<u>13,483,230</u>	<u>15,070,536</u>
Investment certificates	<u>7,950,000</u>	<u>33,250,000</u>
Other negotiable debts	<u>2,000,000</u>	<u>5,000,000</u>
Borrowings	<u>192,333,696</u>	<u>101,710,940</u>
Leases liabilities	<u>2,281,496</u>	<u>2,342,650</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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BANCO LA HIPOTECARIA, S. A. AND SUBSIDIARIES
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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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

<u>2021</u>	<u>Pledged as Collateral</u>	<u>Available as Collateral</u>	<u>Total</u>
Cash and cash equivalent	0	51,658,321	51,658,321
Investment securities	0	98,022,876	98,022,876
Loans at AC	241,848,930	516,273,970	758,122,900
Non-financial assets	0	46,542,318	46,542,318
	<u>241,848,930</u>	<u>712,497,485</u>	<u>954,346,415</u>
<u>2020</u>	<u>Pledged as Collateral</u>	<u>Available as Collateral</u>	<u>Total</u>
Cash and cash equivalent	0	68,017,454	68,017,454
Investment securities	0	99,370,338	99,370,338
Loans at AC	238,395,359	497,058,510	735,453,869
Non-financial assets	0	43,081,771	43,081,771
	<u>238,395,359</u>	<u>707,528,073</u>	<u>945,923,432</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.

As of September 30, 2021, and 2020, the Bank did not have transactions in foreign currency in the consolidated statement of financial position that were exposed to exchange rate risk, because all its financial instruments have been denominated in their functional currency, including those of the subsidiaries in Colombia and El Salvador.

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(4) Financial Risk Management, continued

Interest rate risk:

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

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>2021</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>
Assets:					
Deposits in banks (1)	31,637,534	0	0	0	31,637,534
Investments securities at FVTPL	288,005	1,415,534	0	24,913,618	26,617,157
Investments securities at AC	0	560,960	221,107	0	782,067
Investments securities at FVOCI	18,403,658	2,735,743	30,109,800	19,374,451	70,623,652
Loans at AC	758,122,900	0	0	0	758,122,900
Total assets	808,452,097	4,712,237	30,330,907	44,288,069	887,783,310
Liabilities:					
Saving deposits	2,937,556	0	0	0	2,937,556
Time deposits	173,553,070	189,871,475	0	0	363,424,545
Borrowings	265,579,654	0	0	0	265,579,654
Debts securities in issue	107,190,579	127,769,585	0	0	234,960,164
Total liabilities	549,260,859	317,641,060	0	0	866,901,919
Interest rate sensitivity, net	259,191,238	(312,928,823)	30,330,907	44,288,069	20,881,391

(1) Includes only interest-bearing bank deposits.

<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>
Assets:					
Deposits in banks (1)	39,013,502	0	0	0	39,013,502
Investments securities at FVTPL	1,868,264	0	0	24,057,054	25,925,318
Investments securities at AC	630,838	0	220,620	0	851,458
Investments securities at FVOCI	16,459,260	3,327,487	31,535,450	21,115,109	72,437,306
Loans at AC	735,453,869	0	0	0	735,453,869
Total assets	793,425,733	3,327,487	31,756,070	45,172,163	873,681,453
Liabilities:					
Saving deposits	2,805,972	0	0	0	2,805,972
Time deposits	206,897,796	130,704,847	0	0	337,602,643
Borrowings	194,781,434	0	0	0	194,781,434
Debts securities in issue	184,460,113	139,765,076	0	0	324,225,189
Total liabilities	588,945,315	270,469,923	0	0	859,415,238
Interest rate sensitivity, net	204,480,418	(267,142,436)	31,756,070	45,172,163	14,266,215

(1) Includes only interest-bearing bank deposits.

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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>25 bp increase</u>	<u>25 bp decrease</u>	<u>50 bp increase</u>	<u>50 bp decrease</u>
Sensitivity of projected net interest income:				
<u>2021</u>				
At September 30	1,573,049	(1,573,019)	3,146,097	(3,146,097)
Average for the year	1,438,051	(1,438,051)	2,876,103	(2,876,103)
Maximum for the year	1,573,049	(1,573,049)	3,146,097	(3,146,097)
Minimum for the year	1,346,487	(1,346,487)	2,692,974	(2,692,974)
<u>2020</u>				
At December 31	1,319,446	(1,319,446)	2,639,827	(2,639,827)
Average for the year	1,216,629	(1,263,189)	2,433,732	(2,526,378)
Maximum for the year	1,350,656	(1,350,656)	2,701,313	(2,701,313)
Minimum for the year	1,020,693	(1,020,093)	2,042,345	(2,042,345)
Sensitivity of reported equity to interest rate movements:				
<u>2021</u>				
At September 30	(1,581,315)	1,581,315	(3,162,629)	3,162,629
Average for the year	(1,585,670)	1,585,670	(3,171,339)	3,171,339
Maximum for the year	(1,600,936)	1,600,936	(3,201,871)	3,201,871
Minimum for the year	(1,574,759)	1,574,759	(3,149,518)	3,149,518
<u>2020</u>				
At December 31	(1,639,670)	1,639,670	(3,279,339)	3,279,333
Average for the year	(1,724,738)	1,767,436	(3,449,476)	3,534,873
Maximum for the year	(1,778,100)	1,778,100	(3,556,201)	3,556,201
Minimum for the year	(1,724,410)	1,724,410	(3,448,820)	3,513,544

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.

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.

Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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

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

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

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

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

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

Phase 1 - Culture

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

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

Phase 2 - Qualitative Management

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

Phase 3 - Quantitative Management

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

(e) Capital management:

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

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

Based in the Agreements No.1-2015 and its amendments and No.3-2016, issued by the Superintendence of Banks of Panama, as of September 30, 2021, the Bank has a regulatory capital position that is comprised as follows:

	<u>2020</u>	<u>2019</u>
Primary Ordinary Capital		
Common shares	15,000,000	15,000,000
Additional paid-in-capital	25,051,203	25,051,203
Capital reserves	1,800,000	1,800,000
Non-controlling interest	834,575	879,953
Retained earnings	37,190,241	30,807,282
Other items of comprehensive income (1)		
Gains on securities and allowance for ECL on investment securities at FVOCI	(89,471)	2,155,293
Adjustment for translation of foreign currency	(10,017,533)	(7,661,410)
Treasury shares	(727,000)	(727,000)
Less: deferred tax	(548,135)	(780,504)
Total Primary Ordinary Capital	<u>68,493,881</u>	<u>66,111,547</u>
Dynamic provision	<u>4,706,952</u>	<u>4,803,937</u>
Total Regulatory Capital	<u>73,200,834</u>	<u>71,328,754</u>
Total of Risk-Weighted Assets	<u>607,852,092</u>	<u>567,665,414</u>

<u>Ratios:</u>	<u>Minimum required</u>		
Capital Adequacy Ratio	8.00%	12.04%	12.57%
Primary Ordinary Capital Ratio	4.50%	11.27%	11.72%
Primary Capital Ratio	6.00%	11.24%	11.72%
Leverage Coefficient	3.00%	7.25%	7.14%

(1) Excludes the fair value of the portfolio acquired

Notes to the Consolidated Financial Statements

(5) 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.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

(a) Classification of financial assets

When determining the classification of financial assets the Bank uses its 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 3 (c.2)

(b) Impairment of financial assets – Significant increase in credit risk

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 3 (c.7) and Note 4 (a).

(c) Income tax

The Bank is subject to income taxes under the jurisdictions of the Republic of Panama, Colombia, and El Salvador. Significant estimates are required in determining the provision for income taxes. Estimates are made through a tax projection to determine the provision for income taxes and the resulting liabilities are recognized. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income taxes in the period in which such determination was made. See No 3 (s) and Note 25.

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 3 (a.2), Note 27 and Note 28.

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Notes to the Consolidated Financial Statements**(5) Use of Estimates and Judgments in Applying Accounting Policies, continued**

Information about assumptions and uncertainty in the Bank's significant accounting estimates is included in the following notes:

(a) *Impairment of financial assets - Key inputs and assumptions used for the measurement of ECL*

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

(b) *Measurement of the fair value of financial instruments with significant unobservable inputs*

Information about the significant unobservable inputs used by the Bank's management in the measurement of financial instruments classified in 'Level 3' of the fair value hierarchy of IFRS 13, is disclosed in Note 31.

(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>Directors and key management personnel</u>		<u>Related companies</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<u>Assets:</u>				
Demand deposits	<u>0</u>	<u>0</u>	<u>1,902</u>	<u>1,902</u>
<u>Liabilities:</u>				
Saving deposits	<u>96,607</u>	<u>104,708</u>	<u>1,924,924</u>	<u>1,310,921</u>
Time deposits	<u>1,004,595</u>	<u>1,148,203</u>	<u>9,641,504</u>	<u>5,925,783</u>
Accrued interest payable	<u>2,406</u>	<u>4,027</u>	<u>53,691</u>	<u>42,378</u>
<u>Other income (expenses):</u>				
Interest expense on deposits	<u>35,236</u>	<u>45,420</u>	<u>250,894</u>	<u>269,536</u>
Salaries and other personnel expenses	<u>695,642</u>	<u>825,665</u>	<u>0</u>	<u>0</u>

Transactions with Directors and Key Management Personnel

The Bank has paid fees for B/.47,792 (2020: B/.34,824) to Directors that attend the meetings of the Board of Directors and other Committees.

The salaries and other benefits of key management personnel amounts to B/.695,642 (2020: B/.825,665), which include short-term benefits such as wages, bonuses and life insurance, mainly.

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(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>2021</u>	<u>2020</u>
Cash and cash equivalents	291,956	252,571
Demand deposits	40,189,432	51,838,512
Saving accounts	<u>11,176,933</u>	<u>15,926,371</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>51,658,321</u>	<u>68,017,454</u>

(8) Investment Securities

Investment securities are classified as follows:

	<u>2021</u>	<u>2020</u>
Investment securities measured at FVTPL	26,617,157	26,081,574
Investment securities measured at AC	776,572	851,458
Investment securities measured at FVOCI	<u>70,623,652</u>	<u>72,437,306</u>
Total investment securities, net	<u>98,017,381</u>	<u>99,370,338</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>Maturity</u>	<u>2021</u>	<u>2020</u>
<u>Retained interests in securitizations:</u>			
Residential mortgage-backed securities ('RMBS'):			
XI Mortgage Loan Bond Trust	Oct-41	1,839,433	1,849,873
XII Mortgage Loan Bond Trust	Nov-42	779,246	839,470
XIII Mortgage Loan Bond Trust	Dec-45	925,298	926,208
XIV Mortgage Loan Bond Trust	Sep-46	1,249,817	1,236,095
XV Mortgage Loan Bond Trust	Jul-47	<u>825,718</u>	<u>826,391</u>
		<u>5,619,512</u>	<u>5,678,037</u>
Residual interest:			
Residual interest in the VIII Mortgage Loan Bond Trust	Dec-36	2,520,608	2,432,057
Residual interest in the IX Mortgage Loan Bond Trust	Dec-22	0	391,131
Residual interest in the X Mortgage Loan Bond Trust	Sep-39	7,177,014	6,639,209
Residual interest in the XI Mortgage Loan Bond Trust	Oct-41	3,954,566	3,691,247
Residual interest in the XII Mortgage Loan Bond Trust	Nov-42	2,120,441	1,943,835
Residual interest in the XIII Mortgage Loan Bond Trust	Dec-45	1,992,384	1,852,388
Residual interest in the XIV Mortgage Loan Bond Trust	Sep-46	693,481	653,690
Residual interest in the XV Mortgage Loan Bond Trust	Jul-47	<u>835,612</u>	<u>775,460</u>
		<u>19,294,106</u>	<u>18,379,017</u>
Total retained interests in securitizations		<u>24,913,618</u>	<u>24,057,054</u>
<u>Government bonds:</u>			
Agricultural development securities of the Republic of Colombia	Jul-21	<u>1,415,534</u>	<u>1,868,264</u>
Total of government bonds		<u>1,415,534</u>	<u>1,868,264</u>
<u>Others equity investments:</u>			
Mutuals funds	N/A	<u>288,005</u>	<u>156,256</u>
Total of others equity investments		<u>288,005</u>	<u>156,256</u>
Total of investments securities at FVTPL		<u>26,617,157</u>	<u>26,081,574</u>

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(8) Investment Securities, continued

The trust's residual interests were determined by discounting the future cash flows in commissions and incentives that the Bank will receive as trustee. At the time of creation of these trusts, the realization of values was estimated in 30 years for the Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth and Fifteenth Mortgage Loan Bond Trusts: (maturing in 2022, 2036, 2039, 2041, 2042, 2045, 2046 and 2047, respectively). See Note 28.

Investment securities measured at AC

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

	<u>Interest rate</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
Government bonds:				
Bonds of the Republic of Colombia	3.05%	31-May-22	560,960	632,120
Bonds of the Republic of Panama	8.88%	31-Dec-27	<u>221,107</u>	<u>220,620</u>
			782,067	852,740
Less: loss allowance (ECL)			<u>(5,495)</u>	<u>(1,282)</u>
Total of investment securities at AC			<u>776,572</u>	<u>851,458</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>2021</u>	<u>2020</u>
Retained interests in securitizations:			
Residential mortgage-backed securities ('RMBS'):			
VIII Mortgage Loan Bond Trust	Dec-36	4,082,692	1,490,801
IX Mortgage Loan Bond Trust	Dec-22	0	186,119
X Mortgage Loan Bond Trust	Sep-39	7,030,800	7,065,867
XI Mortgage Loan Bond Trust	Oct-41	2,276,443	2,653,642
XII Mortgage Loan Bond Trust	Nov-42	7,290,166	7,716,474
XIII Mortgage Loan Bond Trust	Dec-45	3,958,836	4,500,425
XIV Mortgage Loan Bond Trust	Feb-49	5,899,550	6,023,832
XV Mortgage Loan Bond Trust	Feb-49	<u>7,239,622</u>	<u>7,937,209</u>
Total retained interests in securitizations		<u>37,778,109</u>	<u>37,574,369</u>
Government bonds:			
Colombian treasury bonds	Aug-26	2,735,743	3,327,487
U.S. Treasury bonds	Aug-27	<u>30,109,800</u>	<u>31,535,450</u>
Total of government bonds		<u>32,845,543</u>	<u>34,862,937</u>
Total of investment securities at FVOCI		<u>70,623,652</u>	<u>72,437,306</u>

At September 30, 2021, the allowance for ECL of debt instruments classified as measured at FVOCI, amounts to B/.194,531 (2020: B/.129,133). 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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Notes to the Consolidated Financial Statements

(8) Investment Securities, continued

During 2021, the Bank made no sales of investment securities measured at FVOCI for (2020: B/.22,598,078), and no realizing a net gain (2020: net gain B/.2,098,078).

Risk concentration and information about the loss allowance (ECL)

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

(9) Loans at amortized cost (AC)

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

	<u>2021</u>	<u>2020</u>
<u>Domestic loans:</u>		
Personal	42,180,400	45,260,353
Residential mortgages	<u>512,761,478</u>	<u>486,937,869</u>
Total domestic loans	<u>554,941,878</u>	<u>532,198,222</u>
<u>Foreign loans:</u>		
Personal	22,165,570	26,791,343
Residential mortgages	<u>175,178,979</u>	<u>172,211,539</u>
Total foreign loans	<u>197,344,549</u>	<u>199,002,882</u>
Accued interest receivable	10,674,739	8,301,726
Less: loss allowance (ECL)	<u>(4,838,266)</u>	<u>(4,048,961)</u>
Total loans at AC	<u>758,122,900</u>	<u>735,453,869</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 4 (a).

In 2015, the Bank purchased residential mortgage loan portfolios from the Sixth and Seventh Mortgage Loan Bond Trusts, which had a fair value of B/.4,517,878 and B/.4,773,715, respectively. Similarly, in the first quarter of 2021, the Bank made the purchase of the ninth trust with a fair value of B/.3,204,062. The difference between the amount paid and the fair value of these purchased loans of B/.1,702,992, was recorded in the fair value reserve account presented in the consolidated statement of changes in equity. The pending amortization value to date is B/.743,340 (2020: B/.102,994).

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(10) Furniture, Equipment and Improvements, net

Furniture, equipment and improvements are summarized as follows:

<u>2021</u>	<u>Furniture</u>	<u>Office equipment</u>	<u>Vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:					
Balance at January 1	894,264	4,049,677	501,014	2,557,132	8,002,087
Additions	1,922	148,196	0	0	150,118
Sales and disposals	0	0	0	0	0
Effect of movement in exchange rates	<u>896,186</u>	<u>4,197,873</u>	<u>501,014</u>	<u>2,557,132</u>	<u>8,152,205</u>
Balance at June 30					
Accumulated depreciation:					
Balance at 1 January	744,031	3,318,723	353,231	1,375,253	5,791,238
Depreciation for the year	26,458	274,756	47,047	165,220	513,481
Sales and disposals	(2,995)	(19,493)	0	(2,732)	(25,220)
Effect of movement in exchange rates	<u>767,494</u>	<u>3,573,986</u>	<u>400,278</u>	<u>1,537,741</u>	<u>6,279,499</u>
Effect of movement in exchange rates	<u>128,692</u>	<u>623,887</u>	<u>100,736</u>	<u>1,019,391</u>	<u>1,872,706</u>
Balance at June 30	894,264	4,049,677	501,014	2,557,132	8,002,087
Net balance at June 30	1,922	148,196	0	0	150,118

<u>2020</u>	<u>Furniture</u>	<u>Office equipment</u>	<u>Vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:					
Balance at January 1	894,822	3,895,495	547,302	2,716,229	8,053,848
Additions	8,704	228,300	14,813	11,950	263,767
Sales and disposals	(6,045)	(60,060)	(61,101)	(179,515)	(306,721)
Effect of movement in exchange rates	<u>(3,217)</u>	<u>(14,058)</u>	<u>0</u>	<u>8,468</u>	<u>(8,807)</u>
Balance at December 31	<u>894,264</u>	<u>4,049,677</u>	<u>501,014</u>	<u>2,557,132</u>	<u>8,002,087</u>
Accumulated depreciation:					
Balance at January 1	695,444	2,955,866	310,385	1,301,585	5,263,280
Depreciation for the year	55,677	427,234	65,950	245,671	794,532
Sales and disposals	(6,149)	(62,374)	(23,104)	(179,605)	(271,232)
Effect of movement in exchange rates	<u>(941)</u>	<u>(2,003)</u>	<u>0</u>	<u>7,602</u>	<u>4,658</u>
Balance at December 31	<u>744,031</u>	<u>3,318,723</u>	<u>353,231</u>	<u>1,375,253</u>	<u>5,791,238</u>
Net balance at December 31	<u>150,233</u>	<u>730,954</u>	<u>147,783</u>	<u>1,181,879</u>	<u>2,210,849</u>

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

The accounts receivable and interest receivable from investment securities at fair value are detailed as follows:

	<u>2021</u>	<u>2020</u>
Accounts receivable:		
Customers	2,005,104	1,745,298
Employees	12,358	13,267
Insurance	54,331	54,162
Trusts	3,368,637	3,410,500
Other	<u>3,009,557</u>	<u>2,692,696</u>
	8,449,987	7,915,923
Interest receivable:		
On investment securities measured at FVTPL and FVOCI	<u>388,223</u>	<u>690,019</u>
Total	<u>8,838,210</u>	<u>8,605,942</u>

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(12) Other assets

The other assets are detailed as follows:

	<u>2021</u>	<u>2020</u>
Guarantee deposits	56,325	56,326
Trust license	25,000	25,000
Employee severance fund	709,293	718,813
Prepaid expenses	2,036,489	1,713,402
Advances in assets purchase	16,480	116,244
Assets in foreclosure process	857,288	779,114
Foreclosed assets	832,397	934,312
Advance payment of stock exchange transactions (to holders of issued debt securities)	0	3,947,907
Other	<u>238,492</u>	<u>219,348</u>
Total	<u>4,771,764</u>	<u>8,510,466</u>

As of September 30, 2021, there were no advances of funds sent to the payment agent of the debt securities issued by the Company through the stock exchange (2020: B/. 3,947,907), to support the payment to the holders at the maturity date , in accordance with the contractual terms.

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(13) Negotiable Commercial Papers

The Bank has six (2020: six) rotating programs of negotiable commercial papers up to B/.200,000,000 (2020: 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, for the amount of B/.10,000,000, (2020: B/.10,000,000) is backed by Grupo ASSA, S.A. Actually, no paper has been issued under this program.

<u>Description</u>	<u>Interest rate</u>	<u>2021</u> <u>Maturity</u>	<u>Amount</u>
Series CEQ	4.2500%	October 2021	2,011,000
Series BDZ	4.2500%	October 2021	2,105,000
Series BA	4.2500%	November 2021	3,600,000
Series BB	4.2500%	December 2021	1,100,000
Series CER	3.7500%	January 2022	500,000
Series CES	3.7500%	January 2022	2,500,000
Series BEA	3.7500%	February 2022	1,100,000
Series BEB	3.7500%	February 2022	1,100,000
Series BEC	3.7500%	February 2022	1,250,000
Series BED	3.7500%	February 2022	500,000
Series BEE	3.7500%	February 2022	600,000
Series BC	3.7500%	March 2022	1,600,000
Series BD	3.7500%	March 2022	2,500,000
Series BE	3.7500%	March 2022	2,500,000
Series BF	3.7500%	March 2022	2,175,000
Series BG	3.7500%	March 2022	533,000
Series DEF	3.7500%	April 2022	500,000
Series DEG	3.5000%	May 2022	1,000,000
Series BH	3.5000%	May 2022	4,593,000
Series CET	3.5000%	May 2022	1,000,000
Series DEH	3.5000%	June 2022	2,000,000
Series CEU	3.5000%	June 2022	905,000
Series BI	3.5000%	July 22	2,106,000
Series BEF	3.5000%	July 22	2,246,000
Series BJ	3.5000%	August 22	4,025,000
Total nominal amount			44,049,000
Accrued interest payable			200,405
Less: issuance costs			<u>(94,869)</u>
Total negotiable commercial papers at AC			<u>44,154,536</u>

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Notes to the Consolidated Financial Statements

(13) Negotiable Commercial Papers, continued

<u>Description</u>	<u>Interest rate</u>	<u>2020</u> <u>Maturity</u>	<u>Amount</u>
Series CEG	4.0000%	February 2021	1,000,000
Series CEH	4.0000%	February 2021	4,897,000
Series BDR	4.0000%	February 2021	2,183,000
Series BDQ	4.0000%	February 2021	2,167,000
Series AI	4.0000%	February 2021	2,500,000
Series BDS	4.0000%	February 2021	1,000,000
Series BDT	4.0000%	February 2021	1,179,000
Series DDP	4.0000%	March 2021	700,000
Series AH	4.0000%	March 2021	900,000
Series CEI	4.0000%	March 2021	4,000,000
Series BDU	4.0000%	March 2021	1,000,000
Series BDV	4.0000%	March 2021	5,000,000
Series DDQ	4.0000%	March 2021	2,175,000
Series DDR	4.0000%	March 2021	533,000
Series DDV	4.0000%	May 2021	820,000
Series AM	4.5000%	April 2021	4,091,000
Series DDZ	4.5000%	May 2021	1,000,000
Series AR	4.5000%	May 2021	4,593,000
Series CEL	4.5000%	May 2021	889,000
Series DDY	4.5000%	June 2021	1,600,000
Series ABJ	4.5000%	June 2021	5,000,000
Series CEM	4.5000%	June 2021	875,000
Series CEN	4.2500%	July 2021	1,106,000
Series AW	4.5000%	July 2021	1,000,000
Series BDW	4.2500%	August 2021	2,196,000
Series AX	4.2500%	August 2021	4,025,000
Series AY	4.2500%	August 2021	4,000,000
Series CEO	4.2500%	August 2021	1,500,000
Series BDX	4.2500%	September 2021	1,376,000
Series DEA	4.2500%	September 2021	1,000,000
Series AZ	4.2500%	September 2021	2,000,000
Series DEB	4.2500%	September 2021	2,521,000
Series DEC	4.2500%	September 2021	1,460,000
Series DED	4.2500%	September 2021	554,000
Series DEE	4.2500%	September 2021	1,200,000
Series BDY	4.2500%	September 2021	750,000
Series CEP	4.2500%	September 2021	3,000,000
Series CEQ	4.2500%	October 2021	2,011,000
Series BDZ	4.2500%	October 2021	2,105,000
Series BA	4.2500%	November 2021	3,600,000
Series BB	4.2500%	December 2021	1,100,000
Total nominal amount			84,606,000
Accrued interest payable			390,476
Less: issuance costs			(166,341)
Total negotiable commercial papers at AC			84,830,135

At September 30, 2021, the Bank has complied with the payment terms of principal and interest for its negotiable commercial papers.

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Notes to the Consolidated Financial Statements

(14) Negotiable Commercial Notes

The Bank has four (2020: four) programs of negotiable commercial notes totaling B/.240,000,000 (2020: B/.240,000,000). The placements of the first issuance by B/.40,000,000 are guaranteed by the general credit of the Bank and a trust guarantee of loan mortgages, and additionally, a solidary surety of Grupo ASSA, S. A. that would cover any difference between the proceeds from the sale of the mortgage loans and the outstanding amounts. The placements of the other three programs for the sum 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.

<u>Description</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
SERIES AE	4.250%	January 2021	0	3,940,000
SERIES AR	4.500%	February 2021	0	2,000,000
SERIES BT	4.250%	February 2021	0	355,000
SERIES BU	4.250%	February 2021	0	622,000
SERIES AA	4.750%	February 2021	0	1,761,000
SERIES E	5.000%	February 2021	0	7,017,000
SERIES AA	4.375%	February 2021	0	39,000
SERIES BV	4.250%	May 2021	0	1,404,000
SERIES BO	4.375%	May 2021	0	1,290,000
SERIES K	5.000%	April 2021	0	4,991,000
SERIES BQ	4.375%	May 2021	0	2,466,000
SERIES BD	4.500%	May 2021	0	1,100,000
SERIES AC	4.375%	June 2021	0	2,000,000
SERIES AD	4.375%	July 2021	0	1,500,000
SERIES AI	4.750%	July 2021	0	1,200,000
SERIES BS	4.375%	July 2021	0	3,000,000
SERIES U	5.000%	September 2021	0	1,858,000
SERIES BW	4.375%	September 2021	0	2,363,000
SERIES AL	4.125%	September 2021	0	4,000,000
SERIES CF	4.125%	September 2021	0	545,000
SERIES BY	4.375%	October 2021	1,000,000	1,000,000
SERIES AI	4.375%	October 2021	2,000,000	2,000,000
SERIES AJ	4.375%	November 2021	2,000,000	2,000,000
SERIES CA	4.375%	November 2021	5,000,000	5,000,000
SERIES CL	4.600%	November 2021	3,000,000	3,000,000
SERIES X	5.000%	November 2021	1,657,000	1,657,000
SERIES AP	4.600%	November 2021	3,690,000	3,690,000
SERIES CB	4.375%	December 2021	5,000,000	5,000,000
SERIES Y	4.675%	January 2022	3,145,000	3,145,000
SERIES BM	4.675%	January 2022	2,397,000	2,397,000
SERIES BN	4.675%	January 2022	500,000	500,000
SERIES CC	4.250%	February 2022	1,378,000	1,378,000
SERIES AM	4.250%	March 2022	2,000,000	2,000,000
SERIES CE	4.250%	March 2022	1,710,000	1,710,000
SERIES CP	4.375%	March 2022	260,000	260,000
SERIES CJ	4.250%	March 2022	40,000	40,000
SERIES CK	4.250%	March 2022	1,000,000	1,000,000
SERIES BR	4.675%	June 2022	2,000,000	2,000,000
SERIES AQ	4.700%	June 2022	2,558,000	2,558,000
SERIES AS	4.500%	June 2022	2,000,000	2,000,000
SERIES CM	4.500%	July 2022	2,500,000	2,500,000
SERIES AF	4.675%	August 2022	2,540,000	2,540,000
SERIES CN	4.500%	August 2022	727,000	727,000
SERIES AG	4.675%	August 2022	500,000	500,000
SERIES AH	4.675%	September 2022	720,000	720,000
SERIES BX	4.675%	September 2022	1,990,000	1,990,000
SERIES BZ	4.675%	October 2022	1,000,000	1,000,000
Sub – total going to next page			66,778,000	95,763,000

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(14) Negotiable Commercial Notes, continued

<u>Description</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
Sub – total coming from previous page			<u>66,778,000</u>	<u>95,763,000</u>
SERIES CQ	4.500%	Novembre 2022	3,000,000	3,000,000
SERIES CD	4.500%	February 2023	1,500,000	1,500,000
SERIES AK	4.500%	March 2023	2,000,000	2,000,000
SERIES AB	4.750%	March 2023	2,000,000	2,000,000
SERIES C	4.000%	March 2023	1,000,000	0
SERIES E	4.000%	March 2023	3,255,000	0
SERIES J	3.750%	May 2023	2,466,000	0
SERIES K	3.750%	May 2023	1,100,000	0
SERIES AT	4.700%	June 2023	2,000,000	2,000,000
SERIES CO	4.700%	August 2023	810,000	810,000
SERIES B	4.250%	February 2024	3,000,000	0
SERIES D	4.250%	March 2024	2,705,000	0
SERIES F	4.125%	April 2024	1,000,000	0
SERIES H	4.000%	May 2024	2,990,000	0
SERIES L	4.000%	June 2024	2,000,000	0
SERIES I	4.250%	May 2025	2,000,000	0
SERIES A	4.900%	January 2026	1,000,000	0
SERIES G	4.750%	April 2026	1,000,000	0
SERIE M	4.500%	June 26	1,500,000	0
SERIE N	4.500%	July 26	<u>1,000,000</u>	<u>0</u>
Total nominal amount			90,638,000	107,073,000
Accrued interest payable			178,111	229,174
Less: issuance costs			<u>(110,306)</u>	<u>(210,168)</u>
Total negotiable commercial notes at AC			<u>90,705,805</u>	<u>107,092,006</u>

As of September 30, 2021, the Bank has complied with the payment terms of principal and interest for its negotiable commercial notes.

(15) Covered Bonds

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

The Bank has issued three tranches of covered medium-term bonds, net of commissions, amounting to B/.51,295,546 (2020: B/.51,074,683), 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, 2021, the Bank has complied with the payment terms of principal and interest for its covered bonds.

(16) Ordinary Bonds

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

As of September 30, 2021, this Colombian subsidiary has issued medium-term ordinary bonds for B/. B/.13,502,184 (2020: B/.15,091,711) at an interest rate of 6.29% (2020: 6.29%) for of 5 years term, maturing on June 23, 2025.

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(16) Ordinary Bonds, continued

The ordinary covered are guaranteed with a Panamanian mortgage loans portfolio amounting to B/.17,330,304 (2020: B/.18,864,638).

As of September 30, 2021, 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 two (2020: two) for the issuance of Investment Certificates up to B/.100,000,000 (2020: B/.100,000,000). Curently, both programs have no special guarantees.

<u>Type</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
Tranche 8	5.75%	March 2021	0	1,407,000
Tranche 4	6.00%	September 2021	0	1,000,000
Tranche 16	5.75%	November 2021	700,000	700,000
Tranche 17	5.75%	December 2021	1,500,000	1,500,000
Tranche 18	5.35%	March 2022	1,000,000	1,000,000
Tranche 19	5.35%	March 2022	1,000,000	1,000,000
Tranche 21	5.75%	May 2022	350,000	350,000
Tranche 22	5.75%	June 2022	2,200,000	2,200,000
Tranche 23	5.75%	August 2022	5,000,000	5,000,000
Tranche 24	5.75%	August 2022	2,000,000	2,000,000
Tranche 15	6.00%	September 2022	0	700,000
Tranche 26	5.38%	January 2023	500,000	0
Tranche 01	5.00%	February 2023	600,000	0
Tranche 02	5.00%	March 2023	1,000,000	0
Tranche 03	5.00%	March 2023	1,000,000	0
Tranche 05	5.00%	April 2023	1,000,000	0
Tranche 06	5.00%	April 2023	2,000,000	0
Tranche 04	5.00%	September 2023	1,000,000	0
Tranche 12	6.30%	May 2023	0	2,000,000
Tranche 07	5.00%	August 2023	850,000	0
Tranche 9	6.50%	February 2024	0	4,500,000
Tranche 10	6.50%	April 2024	0	4,500,000
Tranche 11	6.50%	May 2024	0	5,000,000
Tranche 13	6.50%	May 2024	0	2,500,000
Tranche 14	6.50%	junio-24	0	2,500,000
Total nominal of investment certificate			21,700,000	37,857,000
Accrued interest payable			33,276	72,705
Less: issuance costs			(155,226)	(18,029)
Total investment certificates at AC			21,578,050	37,911,676

As of September 30, 2021, 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 (2020: two) revolving plan of negotiable debt (stock market paper) up to B/.35,000,000 (2020: B/.35,000,000), which was authorized by the Superintendence of Securities of El Salvador. These programs have no specific guarantees.

		<u>2021</u>		
<u>Type</u>	<u>Interest rate</u>		<u>Maturity</u>	<u>Amount</u>
Tranche 15	5.2500%		November 2021	1,000,000
Tranche 16	5.2500%		November 2021	1,000,000
Tranche 17	5.2500%		December 2021	1,000,000
Tranche 70	5.2500%		January 2022	500,000
Tranche 71	5.2500%		January 2022	2,000,000
Tranche 72	4.7500%		February 2022	500,000
Tranche 73	4.5000%		June 2022	2,000,000
Tranche 09	5.7500%		August 2022	850,000
Tranche 13	5.7500%		September 2022	3,000,000
Tranche 14	5.3750%		November 2022	<u>2,000,000</u>
Total nominal amount				13,850,000
Accrued interest payable				56,809
Less: issuance costs				<u>(182,766)</u>
Total other negotiable debts at AC				<u>13,724,043</u>

		<u>2020</u>		
<u>Type</u>	<u>Interest rate</u>		<u>Maturity</u>	<u>Amount</u>
Tranche 66	5.1500%		January-21	2,000,000
Tranche 67	5.1500%		January-21	3,000,000
Tranche 69	5.1500%		February-21	2,200,000
Tranche 68	5.1500%		February-21	1,150,000
Tranche 01	5.1500%		March-21	980,000
Tranche 02	5.1500%		March-21	765,000
Tranche 06	5.5000%		May-21	3,000,000
Tranche 07	5.5000%		July-21	1,775,000
Tranche 09	5.7500%		August-21	850,000
Tranche 08	5.5000%		August-21	1,000,000
Tranche 10	5.5000%		August-21	1,915,000
Tranche 11	5.5000%		September-21	1,000,000
Tranche 12	5.5000%		September-21	500,000
Tranche 15	5.2500%		November-21	1,000,000
Tranche 16	5.2500%		November-21	1,000,000
Tranche 17	5.2500%		December-21	1,000,000
Tranche 13	5.7500%		September-22	3,000,000
Tranche 14	5.3750%		November-22	<u>2,000,000</u>
Total nominal amount				28,135,000
Accrued interest payable				138,316
Less: issuance costs				<u>(48,338)</u>
Total other negotiable debts at AC				<u>28,224,978</u>

As of September 30, 2021, 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>2021</u>	<u>2020</u>
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, backed by a portfolio of residential mortgage loans	0	3,000,000
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	1,721,625	3,443,250
Line of credit for working capital for B/.50,000,000, with maturity in the year 2028 and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans	15,000,000	0
Line of credit for working capital for B/.6,000,000, with maturity in the year 2028, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans	8,000,000	6,000,000
Line of credit for working capital for B/.5,000,000, with maturity at 24 months, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans	0	5,000,000
Line of credit for working capital for B/.5,000,000, with maturity at 24 months, renewable at the parties' option and an annual Libor interest rate plus a margin	0	2,000,000
Line of credit for working capital for B/.45,000,000, with maturity in the year 2022, renewable at the parties' option and an annual fixed interest rate, backed by a portfolio of residential mortgage loans	37,000,000	35,000,000
Line of credit for working capital for B/.12,000,000, with maturity in the year 2022, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans	0	10,500,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2022, renewable at the parties' option and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans	4,000,000	8,000,000
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	0	1,153,846
Line of credit for working capital for B/.25,000,000, with maturity in the year 2028, and an annual fixed interest, backed by a portfolio of residential mortgage loans	25,000,000	25,000,000
Line of credit for working capital for B/.60,000,000, with maturity in the year 2028 and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans	25,000,000	0
Line of credit for working capital for B/.45,000,000, with maturity in the year 2023 and fixed interest rate	45,000,000	40,000,000
Sub - total pass	<u>160,721,625</u>	<u>139,097,096</u>

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Notes to the Consolidated Financial Statements

(19) Borrowings, continued

	<u>2021</u>	<u>2020</u>
Sub – total coming from previous page	160,721,625	139,097,096
Line of credit for working capital for B/.40,000,000, with maturity in the year 2024 and fixed interest rate	40,000,000	0
Line of credit for working capital for B/.10,000,000, with maturity in the year 2026 and fixed interest rate	10,000,000	0
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	0	916,667
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	3,571,432	7,142,860
Line of credit for working capital for B/.3,000,000, with maturity in the year 2021 and fixed interest rate	3,000,000	3,000,000
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	17,714,286	21,142,857
Line of credit for working capital for B/.7,250,000, with maturity in the year 2024 and fixed interest rate	7,250,000	7,250,000
Indexed loan for working capital up to approximately B/.4,800 (COP 18 billion), and annual fixed interest rate	8,261,296	5,241,542
Line of credit for working capital for B/.1,600,000, (COP 6 billion) and fixed interest rate	1,346,266	0
Indexed loan for working capital up to approximately B/.9,600,000 (COP 35.8 billion), and annual fixed interest rate	9,339,400	10,433,681
Line of credit for working capital for B/.2,300,000, (COP 8 billion) and fixed interest rate	2,086,224	0
Line of credit for working capital for B/.2,300,000, (COP 8 billion) and fixed interest rate	<u>2,086,224</u>	<u>0</u>
Total nominal amount	265,376,753	194,224,703
Accrued interest payable	2,290,925	1,286,950
Less: issuance costs	<u>(2,088,024)</u>	<u>(730,219)</u>
Total borrowings at AC	<u>265,579,654</u>	<u>194,781,434</u>

The Bank maintains financing received with a foreign banking institution with which it could not meet a financial coefficient; However, the banking institution informed the Company that they were preparing the corresponding waiver for non-compliance with said clause. Therefore, the financial line remains in force, its contractual dates unchanged and payments up to date.

As of September 30, 2021, the balance used from this financial line amounts to a total of \$ 17.7 million. No change in the terms of the contract has been communicated as of the date of this report.

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(20) Other Liabilities

The other liabilities are detailed as follows:

	<u>2021</u>	<u>2020</u>
Sundry creditors	2,084,665	1,094,547
Trust payable account	162,452	0
Cashier's checks	744,600	375,794
Provision for labor benefits and other remunerations	911,244	1,014,281
Advances from customers	1,632,903	2,214,261
Other	502,993	438,079
Total	<u>6,038,857</u>	<u>5,136,962</u>

(21) Capital and Reserves

The composition of common shares is detailed as follows:

	<u>2021</u>	<u>2020</u>
Authorized shares with nominal value of B/.1,000	<u>15,000</u>	<u>15,000</u>
Shares issued and paid at January 1	15,000	15,000
Treasury shares	<u>(727)</u>	<u>(727)</u>
Shares at June 30	<u>14,273</u>	<u>14,273</u>
Carrying amount of the shares at June 30	<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 exchange differences that arise in the conversion of foreign currency to the presentation currency in the financial statements of the foreign subsidiaries with a functional currency other than the presentation currency, for presentation purposes in the consolidated financial statements.

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Notes to the Consolidated Financial Statements

(21) Capital and Reserves, continued

Regulatory reserves

Dynamic provision

It is constituted according to prudential criteria on all credit facilities that lack specific provision allocated, i.e. on credit facilities classified in the 'Normal' category, as defined in the Agreement No.004-2013 issued by the Superintendence of Banks of Panama. It corresponds to an equity account presented under the 'heading' of regulatory reserve in the consolidated statement of changes in equity and it is appropriated from retained earnings. See Note 34.

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. See Note 34.

Regulatory reserve – Modified special mention

It is the reserve that must be constituted on the credit facilities classified in the category 'Modified Special Mention', as established in Agreement No.9-2020 that modifies Agreement No.2-2020, both issued by the Superintendency of Banks of Panama as subsequent solidarity measures adopted to support clients before the declaration of 'state of emergency' of the Republic of Panama on March 13, 2020 product of the COVID-19 pandemic. See Note 34.

(22) Management and Service Commissions, and Other Income

The service commissions and other income are detailed as follows:

	<u>2021</u>	<u>2020</u>
<u>Management and servicing commissions:</u>		
Trust management	1,319,912	1,436,776
Collection management	1,831,779	1,810,061
Insurance management	485,940	445,274
Other	<u>1,571,107</u>	<u>1,534,498</u>
	<u>5,208,738</u>	<u>5,226,609</u>
<u>Other income:</u>		
Gain in the sale of tax credit	118,332	120,609
Insurance	200,514	42,266
Gain in the sale of foreclosed assets	<u>951,046</u>	<u>460,573</u>
Other	<u>1,269,892</u>	<u>623,448</u>

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Notes to the Consolidated Financial Statements

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

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

	<u>2021</u>	<u>2020</u>
<u>Salaries and other personnel benefits:</u>		
Wages	2,962,729	3,712,719
Representation expenses	584,178	700,306
Bonuses	165,000	0
Social security costs	427,024	540,900
Employment benefits	216,260	718,463
Travel, per diem and fuel	125,590	98,254
Severance costs	97,585	141,075
Training and seminars	136,286	56,957
Other	<u>221,272</u>	<u>264,905</u>
	<u>4,935,924</u>	<u>6,233,579</u>
<u>Other general and administrative expenses:</u>		
Rent	74,568	69,428
Advertising	439,122	377,704
Equipment maintenance	628,102	741,306
Office supplies	38,177	40,064
Utilities expense	202,380	218,319
Bank charges	186,970	149,385
Services	251,398	224,909
Insurance	56,932	51,313
Other	<u>889,935</u>	<u>720,427</u>
	<u>2,767,584</u>	<u>2,592,855</u>

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/.24.166, 15,550 options with a unit fair value of B/.15.025, 15,200 options with a unit 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 each plan.

At September 30, 2021, there are 45,782 options outstanding (2020: 45,782), 0 options were cancelled (2020: 832) and 0 options was executed (2020: 5,646). These options have a weighted-average price of exercise of B/.29.69 (2020: B/.29.69). The plans give the executive the right to exercise the options over La Hipotecaria (Holding), Inc. shares, at the time of the first anniversary of the plans. During 2021, the Bank has recorded B/.204,979 expense for options issuance (2020: B/.27,179).

(24) Income Taxes, continued

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).

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Notes to the Consolidated Financial Statements

(24) Income Taxes, continued

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	31%	30%

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

- Gradual reduction in the corporate income tax and complementary rate as follows: taxable year 2019, 33% rate; 2020 taxable year, 32% rate; 2021 taxable year, 31% rate; and as of taxable year 2022, 30% rate.
- For financial institutions, a 4% surcharge is created for taxable year 2019 and 3% for taxable years 2020 and 2021, when the taxable net income exceeds 120,000 tax value unit (TVU).
- Gradual reduction and finally elimination of the presumed income in the following terms: taxable year 2018, tariff of 3.5%; 2019 taxable year, 1.5% rate; 2020 taxable year, 1.5% rate; and from the taxable year 2020, 0% rate.
- General rule that determines that 100% of the taxes, rates and contributions effectively paid in the taxable year will be deductible, which have a causal relationship with the generation of income (except income tax). As special rules, it is stated that 50% of the tax on financial transactions (TFT) will be deductible, regardless of whether or not it has a causal relationship with the income generating activity.
- 50% of the industry and commerce tax may be taken as a tax deduction for the income tax in the taxable year in which it is effectively paid and to the extent that it has a causal link with its economic activity. As of the year 2022 it can be discounted 100%.

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Notes to the Consolidated Financial Statements

(24) Income Taxes, continued

- 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>2021</u>	<u>2020</u>
Current tax expense	790,359	1,152,476
Deferred tax expense – temporary differences	<u>30,399</u>	<u>(155,375)</u>
Total income tax expense	<u><u>820,758</u></u>	<u><u>997,101</u></u>

The effective tax rate is detailed as follows:

	<u>2021</u>	<u>2020</u>
Net income before income tax	<u>5,489,375</u>	<u>3,324,168</u>
Income tax expense	<u>820,758</u>	<u>997,101</u>
Effective tax rate	<u><u>14.95%</u></u>	<u><u>30.00%</u></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>2021</u>	<u>2020</u>
Net income before income tax	<u>5,489,375</u>	<u>3,324,168</u>
Tax using the Bank's domestic tax rate	1,372,344	831,042
Effect of tax rates in foreign jurisdictions	(748,310)	62,130
Tax-exempt income	(64,591)	(1,536,210)
Non-deductible expenses	230,917	1,795,513
Recognition of deductible temporary differences	<u>30,399</u>	<u>(155,375)</u>
Total income tax expense	<u><u>820,758</u></u>	<u><u>997,101</u></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.

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Notes to the Consolidated Financial Statements

(24) Income Taxes, continued

Deferred income tax is comprised as follows:

	<u>2021</u>		<u>2020</u>	
<u>Deferred tax asset</u>	<u>Temporary differences</u>	<u>Deferred tax</u>	<u>Temporary differences</u>	<u>Deferred tax</u>
Allowance for ECL on loans	4,492,562	1,182,490	3,886,237	1,027,790
Voluntary retirement incentive plan	63,503	19,051	71,173	21,352
Operating losses carried forward ⁽¹⁾	<u>1,695,503</u>	<u>548,136</u>	<u>2,365,164</u>	<u>780,504</u>
	<u>6,251,568</u>	<u>1,730,856</u>	<u>6,322,574</u>	<u>1,829,646</u>

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

The movement in deferred tax balances is as follows:

<u>2021</u>	<u>Balance at January 1</u>	<u>Recognized in profit or loss</u>	<u>Effect of movement in exchange rates</u>	<u>Balance at December 31 Deferred tax asset</u>
Allowance for ECL on loans	1,027,790	147,817	6,883	1,182,490
Voluntary retirement incentive plan	21,352	(2,301)	0	19,051
Operating losses carried forward ⁽¹⁾	<u>780,504</u>	<u>(157,094)</u>	<u>(75,274)</u>	<u>548,136</u>
Deferred tax asset	<u>1,829,646</u>	<u>(30,399)</u>	<u>(68,391)</u>	<u>1,730,856</u>

<u>2020</u>	<u>Balance at January 1</u>	<u>Recognized in profit or loss</u>	<u>Effect of movement in exchange rates</u>	<u>Balance at December 31 Deferred tax asset</u>
Allowance for ECL on loans	195,125	832,665	0	1,027,790
Voluntary retirement incentive plan	26,813	(5,461)	0	21,352
Operating losses carried forward ⁽¹⁾	<u>858,559</u>	<u>0</u>	<u>(78,055)</u>	<u>780,504</u>
Deferred tax asset	<u>1,080,497</u>	<u>827,204</u>	<u>(78,055)</u>	<u>1,829,646</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.

At June 30, 2021, the Bank has not recognized a liability for deferred income tax of approximately B/.755,341 (2020: B/.741,383) for the retained earnings of its operations abroad, as the Bank considers that approximately B/.15,106,823 (2020: B/.14,467,654) of these earnings will be reinvested indefinitely.

(25) Trusts Under Management

The Bank maintains fiduciary contracts under its management at the risk of the customer amounting to B/.235,557,343 (2020: B/.254,422,644). Taking into consideration the nature of these services, management believes that they do not represent a significant risk to the Bank. Information about the Bank's involvement with non-consolidated structures entities is detailed in Note 26.

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Notes to the Consolidated Financial Statements

(26) Involvement with Non-Consolidated Structured Entities

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

<u>Type of structured entity</u>	<u>Nature and purpose</u>	<u>Interest held by the Bank</u>	<u>Total assets</u>	
			<u>2021</u>	<u>2020</u>
Residential mortgage loan securitization trusts	Generate: <ul style="list-style-type: none"> • Funds for the Bank's lending activities • Commission for administration and management of loan portfolio These trusts are financed through the sale of debt instruments.	<ul style="list-style-type: none"> • Investments in residential mortgage-backed securities ('RMBS') issued by the trusts • Residual interests 	<u>235,557,343</u>	<u>254,422,644</u>

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.

<u>Carrying amount by the Bank</u>	<u>2021</u>	<u>2020</u>
	<u>Investment in securities</u>	<u>Investment in securities</u>
Residential mortgage loan securitization trusts	<u>62,691,727</u>	<u>61,631,423</u>
Total	<u>62,691,727</u>	<u>61,631,423</u>

During 2021, the Bank has not granted financial support to unconsolidated structured entities.

(27) Transfers of Financial Assets

In the ordinary course of business, the Bank enters into transactions that result in the transfer of financial assets, primarily residential mortgage loans, for securitizations through unconsolidated structured entities. In accordance with the accounting policy set out in Note 3 (c.3), the transferred financial assets continue to be 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.

Notes to the Consolidated Financial Statements

(27) Transfers of Financial Assets, continued

Sales to unconsolidated structures entities

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

During 2021, the Bank has recognized as part of the interest income from investment in securities calculate using the effective interest method B/.2,514,004 (2020: B/.2,782,094) 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 investment securities at FVTPL, B/.856,564 (2020: gain B/.1,256,356) 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 2021, the Bank has recognized commission income from servicing activities provided to securitization vehicles amounting to B/.1,319,912 (2020: B/.1,436,777).

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Notes to the Consolidated Financial Statements

(27) Transfers of Financial Assets, continued

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

<u>Type of continuing involvement</u>	<u>Carrying amount</u> <u>Investment securities</u>	<u>Fair Value</u>	
		<u>Assets</u>	<u>Liabilities</u>
Bonds issued by unconsolidated securitization vehicles			
September 30, 2021	<u>43,397,621</u>	<u>43,397,621</u>	<u>0</u>
December 31, 2020	<u>43,252,406</u>	<u>43,252,406</u>	<u>0</u>
Residual Interest:			
September 30, 2021	<u>19,294,106</u>	<u>19,294,106</u>	<u>0</u>
December 31, 2021	<u>18,379,017</u>	<u>18,379,017</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.

(28) Commitments and Contingencies

In the ordinary course of business, the Bank held financial instruments without-balance sheet risk to cover the financial needs of its customers. At September 30, 2021, the Bank has issued promise letters for B/.71,958,976 (2020: B/.43,668,127), of which B/.1,959,962 (2020: B/.2,687,720) are irrevocable.

(29) Leases

At September 30, 2021, the Bank leases office premises mainly for its bank branch and loan granting centers, which do not meet the definition of investment properties in IAS 40. These lease contracts run for periods of between 1, 5 and 10 years, and some include renewal options for an additional period of the same duration after the end of the lease term.

Right-of-use assets

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

	<u>2021</u>	<u>2020</u>
<u>Property:</u>		
Balance at January 1	2,506,132	3,178,540
Cancellation	(39,825)	(33,534)
Depreciation for the year	(186,364)	(603,042)
Effect of movement in exchange rates	<u>1,552</u>	<u>(35,832)</u>
Balance at June 30	<u>2,281,495</u>	<u>2,506,132</u>

Lease liabilities

At September 30, 2021, the Bank's lease liabilities amount to B/.2,281,495 (2020: B/.2,821,728). See Note 4 (b) for maturity analysis of lease liabilities.

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Notes to the Consolidated Financial Statements

(29) Leases, continued

Amounts recognized in the consolidated statement of profit or loss

As of September 30, 2021, the Bank has recognized interest expenses on its lease liabilities for B/.186,364 (2020: B/.142,774) as part of its financial costs (interest on financing activities) in profit or loss.

Additionally, the Bank has recognized expenses related to leases of 'short-term' and 'low value assets' for B/.74,568 (2020: B/.69,249) 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, 2021, the total cash outflows for leases recognized in the consolidated statement of cash flows amounts to B/.652,321 (2020: B/.519,187) This amount includes the portion of payments to principal of lease contracts classified as part of the financing activities for B/.540,233 (2020: B/.264,244) the portion of interest on lease liabilities B/.112,088 (2020: B/.142,801) and the portion of expenses relating to short-term leases and leases of low-value assets for B/.74,568 (2020: B/.69,249) classified as operating activities.

(301) 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.

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Notes to the Consolidated Financial Statements

(30) Fair value of Financial Instruments, continued

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

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

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

The availability of observable market prices and 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.

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

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(30) Fair value of Financial Instruments, continued

Mortgage-backed securities and residual interest on securitizations

During 2021 and 2020, there has not been sufficient trading volume to establish an active market for certain asset-backed securities (e.g. residential mortgage loan bonds and residual interest in securitizations), and so the Bank has determined the fair value for these asset-backed securities using other valuation techniques. These securities held by the Bank are backed by static pools of residential mortgages and enjoy a senior claim on cash flows, in some cases.

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

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

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

The Bank uses a third party as a service provider. 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 determined 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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Notes to the Consolidated Financial Statements

(30) Fair value of Financial Instruments, continued

Financial instruments measured at fair value – Fair value hierarchy

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

<u>2021</u>	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:					
Financial assets measured at fair value:					
Investment securities at FVOCI	70,623,652	30,109,800	2,735,743	37,778,109	70,623,652
Investment securities at FVTPL	26,905,162	0	1,703,539	25,201,623	26,905,162

<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>	
Assets:					
Financial assets measured at fair value:					
Investment securities at FVOCI	72,437,306	31,535,450	3,327,487	37,574,369	72,437,306
Investment securities at FVTPL	26,081,574	0	1,868,264	24,213,310	26,081,574

During 2021, 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 following table shows a reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	<u>2021</u>	<u>2020</u>
Balance at January 1	61,787,679	61,853,118
Total gains or losses:		
in profit or loss	856,564	1,555,203
in OCI	(714,934)	85,242
Purchases	2,994,249	123,845
Settlements	(1,943,826)	(1,829,529)
Balance at June 30	62,979,732	61,787,679

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Notes to the Consolidated Financial Statements

(30) Fair value of Financial Instruments, continued

Unobservable inputs used in measuring fair value

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

Type of financial instrument	Valuation technique	Significant unobservable input	Quantitative information – Level 3 fair values	
			Range of estimates (weighted-average)	
			2021	2020
Residential mortgage-backed securities ('RMBS')	Discounted cash flows	Standard Default Assumptions ("SDA")	1.95% - 0.11% (0.56%)	2.22% - 0.11% (0.64%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	49.46% - 31.36% (40.24%)	50.05% - 9.67% (40.59%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 meses	12 months
Residual interests in securitizations	Discounted cash flows	Standard Default Assumptions ("SDA")	1.95% - 0.11% (0.56%)	2.22% - 0.11% (0.64%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	49.46% - 31.36% (40.24%)	50.05% - 9.67% (42.14%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 meses	12 months
Government bonds	The valuation model is based on different prices of observable references on an active market. Present value of the cash flows of a security, discounted with a reference rate and the corresponding margin.	N/A	N/A	N/A

Effect of unobservable inputs on fair value measurement

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

	2021		Effect on OCI	
	Effect on profit or loss Favorable	(Unfavourable)	Favorable	(Unfavourable)
Residual interests in securitizations and government bonds:				
Investment securities at FVTPL	1,455,635	(746,964)	0	0
Investment securities at FVOCI	0	0	1,363,622	(1,139,264)
	<u>1,455,635</u>	<u>(746,964)</u>	<u>1,363,622</u>	<u>(1,139,264)</u>

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(30) Fair value of Financial Instruments, continued

	<u>2020</u>		<u>Effect on OCI</u>	
	<u>Effect on profit or loss</u> <u>Favorable</u>	<u>(Unfavorable)</u>	<u>Favorable</u>	<u>(Unfavorable)</u>
Residual interests in securitizations and government bonds:				
Investment securities at FVTPL	1,145,106	(1,066,346)	0	0
Investment securities at FVOCI	<u>0</u>	<u>0</u>	<u>1,433,812</u>	<u>(1,165,938)</u>
	<u>1,145,106</u>	<u>(1,066,346)</u>	<u>1,433,812</u>	<u>(1,165,938)</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.

Financial instruments not measured at fair value

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

	<u>2021</u>	<u>Carrying amount</u>	<u>Fair value</u>		
			<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:					
Financial assets not measured at fair value:					
Loans at AC		758,122,900	0	762,402,497	762,402,497
Investment securities at AC		776,572	776,572	0	776,572
Liabilities:					
Financial liabilities not measured at fair value:					
Time deposits from customers		366,362,101	0	367,587,846	367,587,846
Negotiable commercial papers		44,154,536	0	44,049,242	44,049,242
Negotiable commercial notes		90,705,805	0	86,638,916	86,638,916
Covered bonds		51,295,546	0	51,944,561	51,944,561
Ordinary bonds		13,502,184	0	13,483,230	13,483,230
Investment certificates		21,578,050	0	21,765,532	21,765,532
Other negotiable debt		13,724,043	0	13,922,819	13,922,819
Borrowings		265,579,654	0	265,376,753	265,376,753

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(30) Fair value of Financial Instruments, continued

	<u>2020</u>	<u>Carrying amount</u>	<u>Fair value</u>		<u>Total</u>
			<u>Level 2</u>	<u>Level 3</u>	
Assets:					
Financial assets not measured at fair value:					
Loans at AC		728,826,874	0	742,825,667	742,825,667
Investment securities at AC		851,458	957,079	0	957,079
Liabilities:					
Financial liabilities not measured at fair value:					
Time deposits from customers		337,602,643	0	339,310,712	339,310,712
Negotiable commercial papers		84,830,135	0	83,073,497	83,073,497
Negotiable commercial notes		107,092,006	0	102,783,361	102,783,361
Covered bonds		51,074,683	0	51,956,241	51,956,241
Ordinary bonds		15,091,711	0	15,070,536	15,070,536
Investment certificates		37,911,676	0	37,868,306	37,868,306
Other negotiable debt		28,224,978	0	28,156,365	28,156,365
Borrowings		194,781,434	0	194,666,480	194,666,480

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

The table below details information about the significant inputs and assumptions used in measuring the fair value as of June 30, 2021 for the financial instruments that are not measured at fair value.

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

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(31) Segment Information

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

The composition of the business segments is described as follows:

- *Trust management:* This segment includes commissions earned by management and collection of mortgage and personal loans belonging to third parties, which hires the Bank under management contracts to carry out such function.
- *Mortgages as assets:* Within this concept interest income is recognized less costs generated by financing mortgages loans that Bank hold as assets, plus commissions for disbursements and the proportional share of the commissions from collections and reinsurance services from the insurance Bank to which it provides the service of reinsurance.
- *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>2021</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	33,712,603	5,810,737	2,607,418	42,130,758
Interest expense	0	(25,846,283)	(1,800,875)	(2,743,403)	(30,390,561)
Provisions for loan losses and for investment securities at AC and at FVOCI	0	(1,039,342)	(203,214)	(69,611)	(1,312,167)
Net gain on investments at FVTPL	0	0	0	856,564	856,564
Realized gain on investment at FVOCI	0	0	0	0	0
Management and servicing commissions	1,954,809	3,021,431	232,498	0	5,208,738
Other income, net of commissions paid	0	465,327	32,422	49,391	547,140
General and administrative expenses	<u>(932,405)</u>	<u>(8,044,437)</u>	<u>(2,125,626)</u>	<u>(448,629)</u>	<u>(11,551,097)</u>
Segment income before tax	<u>1,022,404</u>	<u>2,269,299</u>	<u>1,945,942</u>	<u>251,730</u>	<u>5,489,375</u>
Segment assets	<u>0</u>	<u>772,111,403</u>	<u>72,218,833</u>	<u>110,016,179</u>	<u>954,346,415</u>
Segment liabilities	<u>0</u>	<u>744,934,138</u>	<u>51,904,303</u>	<u>79,069,584</u>	<u>875,908,025</u>

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(31) Segment Information, continued

<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	21,127,229	4,348,128	2,018,292	27,493,649
Interest expense	0	(16,520,133)	(1,351,175)	(1,866,836)	(19,738,144)
Provisions for loan losses and for investment securities at AC and at FVOCI	0	(326,710)	(356,633)	2,308	(681,035)
Net gain on investments at FVTPL	0	0	0	820,612	820,612
Realized gain on investment at FVOCI	0	0	0	0	0
Management and servicing commissions	1,380,568	1,616,872	89,779	0	3,087,219
Other income, net of commissions paid	0	360,081	29,451	40,690	430,222
General and administrative expenses	<u>(775,913)</u>	<u>(6,123,424)</u>	<u>(1,698,621)</u>	<u>(419,413)</u>	<u>(9,017,371)</u>
Segment income before tax	<u>604,655</u>	<u>133,915</u>	<u>1,060,929</u>	<u>595,654</u>	<u>2,395,152</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>

The composition of the geographic segments is described as follows:

<u>2021</u>	<u>Panama</u>	<u>El Salvador</u>	<u>Colombia</u>	<u>Total</u>
Interest income	27,991,306	7,213,915	6,925,537	42,130,758
Interest expense	(22,981,793)	(3,952,787)	(3,455,981)	(30,390,561)
Provisions for loan losses and for investment securities at AC and at FVOCI	(877,954)	90,163	(524,376)	(1,312,167)
Net gain on investments at FVTPL	856,564	0	0	856,564
Realized gain on investment at FVOCI	0	0	0	0
Management and servicing commissions	4,040,385	920,844	247,509	5,208,738
Other income, net of commissions paid	302,517	68,702	175,921	547,140
General and administrative expenses	<u>(7,708,981)</u>	<u>(1,805,664)</u>	<u>(2,036,452)</u>	<u>(11,551,097)</u>
Segment income before tax	<u>1,622,044</u>	<u>2,535,173</u>	<u>1,332,158</u>	<u>5,489,375</u>
Segment assets	<u>728,185,691</u>	<u>130,325,208</u>	<u>95,835,516</u>	<u>954,346,415</u>
Segment liabilities	<u>696,587,865</u>	<u>105,188,923</u>	<u>74,131,237</u>	<u>875,908,025</u>

<u>2020</u>	<u>Panama</u>	<u>El Salvador</u>	<u>Colombia</u>	<u>Total</u>
Interest income	18,694,038	4,638,581	4,161,030	27,493,649
Interest expense	(14,675,784)	(2,804,162)	(2,258,198)	(19,738,144)
Provisions for loan losses and for investment securities at FVOCI and at amortized cost	(215,055)	(243,416)	(222,564)	(681,035)
Net gain on investments at FVTPL	820,612	0	0	820,612
Realized gain on investment at FVOCI	0	0	0	0
Management and servicing commissions	2,331,309	615,449	140,461	3,087,219
Other income, net of commissions paid	270,530	91,853	67,839	430,222
General and administrative expenses	<u>(6,253,449)</u>	<u>(1,435,888)</u>	<u>(1,328,034)</u>	<u>(9,017,371)</u>
Segment income before tax	<u>972,201</u>	<u>862,417</u>	<u>560,534</u>	<u>2,395,152</u>
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>

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(32) Preferential Interests on Mortgage Loans

According to current fiscal regulations in Panama, the financial institutions that grant mortgage loans not exceeding B/.180,000 with preferential interest, receive the benefit of an annual fiscal credit. From July 2010 according to the law 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.

During 2021, the Bank recognized preferential interest income on residential mortgage loans net of reserve amounting to B/.11,245,780 (2020: B/.10,617,273) in profit or loss. The Bank sold prior years' fiscal credits to third parties for an amount of B/.2,181,825 (2020: B/.3,227,712)

At September 30, 2021, the accumulated tax credit amounts to B/.27,438,459 (2020: B/.17,093,015), as included as a line item in the consolidated statement of financial position.

(33) Main Applicable Laws and Regulations

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

(a) *Banking Law*

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendence of Banks of the Republic of Panama, according to the laws established by Executive Decree No.52 of April 30, 2008, which adopts the 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.

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(33) Main Applicable Laws and Regulations, continued

(c) *Securities Law*

The operations brokerage firm in Panama are regulated by the Superintendence of the 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.

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%

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(33) Main Applicable Laws and Regulations, continued

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

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

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

This Agreement is effective as of June 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.

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>Balance</u>	<u>2021</u>		<u>2020</u>	
		<u>Balance</u>	<u>Allowance</u>	<u>Balance</u>	<u>Allowance</u>
Normal	527,515,142		0	511,235,650	0
Watch list	12,359,079		702,527	7,672,755	534,828
Substandard	5,075,049		939,220	3,472,369	831,184
Doubtful	3,756,223		1,146,162	4,204,891	1,119,033
Loss	<u>6,236,385</u>		<u>1,916,589</u>	<u>5,612,557</u>	<u>1,220,794</u>
Total	<u>554,941,878</u>		<u>4,704,498</u>	<u>532,198,222</u>	<u>3,705,839</u>

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

Notes to the Consolidated Financial Statements

(33) Main Applicable Laws and Regulations, continued

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

<u>2021</u>	<u>Current</u>	<u>Past due</u>	<u>Default</u>	<u>Total</u>
Loans to customers	<u>507,908,141</u>	<u>31,966,079</u>	<u>15,067,658</u>	<u>554,941,878</u>
<u>2020</u>	<u>Current</u>	<u>Past due</u>	<u>Default</u>	<u>Total</u>
Loans to customers	<u>496,408,532</u>	<u>22,249,592</u>	<u>13,540,098</u>	<u>532,198,222</u>

At September 30, 2021, the balances of the loans for which their accumulation of interests has been suspended due to an impairment in their credit quality or for the non-performance of payments, in accordance with the established in the Agreement No.004-2013 amounted to B/.11,374,419 (2020: B/.9,938,305)

Dynamic provision

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

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

	<u>2021</u>	<u>2020</u>
Banco La Hipotecaria, S. A.	2,517,151	2,614,136
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>
Total	<u>4,706,952</u>	<u>4,803,937</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/.1,337,148 (2020: B/.3,208,856), which represents the excess of regulatory provision over the allowance for loan losses according IFRS.

Notes to the Consolidated Financial Statements

(33) Main Applicable Laws and Regulations, continued

- (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 purposes.

Management framework

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

Country risk provision

In accordance with the provisions of Article 15 of Agreement No.007-2018, *"the maximum provisions must be established between those resulting from comparing those corresponding to the nature of the operation and the provisions for country risk. The final provision constituted by country risk will be calculated after deducting the provisions established corresponding to the nature of the operation in question."* For the operations and resources exposed to country risk, as of December 31, 2020, it was not necessary to make additional provisions, or charges in the Bank's consolidated financial statements.

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

- (e) *Agreement No. 009-2020 that modifies Agreement No.002-2020 through which additional, exceptional and temporary measures are established to comply with the provisions contained in Agreement No.004-2013 on credit risk*

Modified special mention (watch list) category loans

As of September 30, 2020, the Bank granted an automatic grace period to borrowers affected in their business or personal activities by COVID-19, until June 30, 2020. As of that date, and as a result of a Agreement signed between the Government of Panama and the Banking Association of Panama, as well as the issuance of Law No.156 of 2020 (Moratorium Law), extended until December 31, 2020 financial relief to those affected by COVID-19 and that they requested it. These financial relief measures consist mainly of granting grace periods for capital and interest to clients whose income has been affected by the pandemic.

Notes to the Consolidated Financial Statements

(33) Main Applicable Laws and Regulations, continued

On September 11, 2020, the Superintendency of Banks issued Agreement No.009-2020 that modifies Agreement No. 002-2020 of March 16, 2020, through which, among other things, it defines that loans classified as normal and special mention (watch list), as well as restructured loans that are not in arrears, may be modified in accordance with the guidelines established in the aforementioned Agreement. On the other hand, these loans modified in normal category and watch list will be classified in the category 'modified special mention' for the purpose of determining the respective provisions. Modified restructured loans that were in the substandard, doubtful or loss categories will maintain the credit classification they had at the time of their modification with their respective provision.

In accordance with this Agreement, on the modified special mention loan portfolio, the banks will constitute a provision equivalent to the higher value between the provision according to IFRS of the modified special mention portfolio and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio, including accrued uncollected interest and capitalized expenses; modified credits guaranteed with deposits pledged in the same bank up to the guaranteed amount may be excluded from this calculation. For this, the following scenarios will be considered:

1. In cases where the IFRS provision is equal to or greater than the generic provision of 3% established in this Article, the Bank will record the corresponding IFRS provision in the results of the year.
2. In cases where the IFRS provision is less than the generic provision of 3% established in this Article, the Bank will record said IFRS provision in results and the difference must be recorded in results or in a regulatory reserve in equity, taking into account consideration the following aspects:
 - a. When the IFRS provision is equal to or greater than 1.5%, the Bank must record that IFRS provision in profit or loss. Likewise, the difference to complete the 3% of the generic provision established in this article must be recorded in a regulatory reserve in equity.
 - b. When the IFRS provision is less than 1.5%, the Bank must ensure that this percentage is completed and recorded in profit or loss. Likewise, the difference to complete the 3% of the generic provision established in this article must be recorded in a regulatory reserve in equity.

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(33) Main Applicable Laws and Regulations, continued

In accordance with the requirements of Article 4-E of Agreement No.009-2020 of September 11, 2020 that modifies Agreement No.002-2020 of March 16, 2020, a detail of the loan portfolio classified in the modified special mention category and its respective provisions and regulatory reserves as of September 30, 2021, is presented below, classified according to the three-stage model of IFRS 9:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Modified special mention category loans				
To persons	159,654,259	5,337,489	1,362,359	166,354,107
(+) Accrued interest	<u>393,811</u>	<u>55,609</u>	<u>19,882</u>	<u>469,301</u>
Total portfolio subject to provisions Agreement No. 009-2020	<u>160,048,070</u>	<u>5,393,098</u>	<u>1,382,241</u>	<u>166,823,408</u>
Provisions:	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
IFRS 9 (ECL)	2,209,828	170,575	228,531	2,608,934
Generic provision (1.5% supplement)				0
Regulatory reserve (3% supplement)				<u>2,608,934</u>
Total provisions and reserves				<u>5,217,868</u>

As part of the Bank's risk management, both individual and collective analyzes of the condition of the loans have been developed, including the segmentation of the portfolio in order to identify the employment status or the opening of economic activity of each client and define who will be able to meet their banking obligations, who will have difficulties in doing so and who will definitely not be able to meet and thus determine if there has been a significant increase in their credit risk and classify these loans according to their corresponding impairment stage. Additionally, different agreements have been reached with clients based on the individual analysis of their ability to generate the cash flows necessary to meet their obligations.

COVID-19 has resulted in a disruption in economic activities that have affected and are likely to continue to affect the Panamanian Banking business, its financial conditions, liquidity and results of operations.

The Bank has not had a significant impact on the aforementioned conditions, since during the period it maintained very solid liquidity levels that guaranteed the continuity of its operations. Similarly, at the cash flow level, it did not present significant effects as a consequence of the aforementioned moratoriums.

	<u>Up to 90 days</u>	<u>between 91 and 120 days</u>	<u>between 121 and 180 ays</u>	<u>between 181 and 270 ays</u>
Loans to persons	94.99%	0.22%	0.10%	0%

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(34) Main Applicable Laws and Regulations, continued

It is important to note that in addition to the modified special mention loans, the Bank has loans that were in the substandard, doubtful or loss categories and that benefited from the moratorium of Law No.156 of Septiembre 30, 2020. The following table shows the amounts of these loans that as of September 30, 2021 do not present payment in their installments counted from the last payment of the contractual installment.

	<u>between 91 and 120 day</u>	<u>between 121 and 180 day</u>	<u>Between 181 and 270 days</u>	<u>More than 270 ays</u>
Loans to people in a high-risk category that availed themselves of Law No.156	895,225	457,522	320,627	142,056

Compensation for the impact of the Generic Reserve on the Dynamic Provision

As an exceptional and temporary measure that banks may use up to 80% of the dynamic provision for the constitution of generic provisions.

In cases where the Bank requires to use more than eighty (80%) of the amount of the dynamic provision, it must obtain prior authorization from the Superintendency of Banks.

Banking entities may only make the payment of dividends once they have restored the amount of the dynamic provision that corresponds to them in accordance with their loan portfolio.

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.

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(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(33) Main Applicable Laws and Regulations, continued

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.

(34) Response to the COVID-19 Crisis

During the first nine months of the year ended September 30, 2021, a new outbreak of Coronavirus (COVID-19) has spread to several regions of the world, resulting in the closure of some production and supply chains, in addition to the interruption of international trade, which could continue with the global economic slowdown affecting several industries.

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, 2021, except for some specific cases mentioned below, the impact of COVID-19 has not been significant to the Bank.

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

(a) *Human talent*

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(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(34) Response to the COVID-19 Crisis, continued

For the Bank, the care of the staff has been a priority, for which it maintains a portion 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).

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

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.

Notes to the Consolidated Financial Statements

(34) Response to the COVID-19 Crisis, continued

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.

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 negotiable commercial papers (VCNs), negotiable commercial notes (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 disclosed 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.

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Notes to the Consolidated Financial Statements

(34) Response to the COVID-19 Crisis, continued

(c) Impairment of financial assets

The Bank's financial assets that are within the scope of the expected credit losses (ECL) model of IFRS 9 (loans receivable, and investments in debt instruments measured at AC and at FVOCI) are being recurrently evaluated to incorporate the impact of COVID-19 in the measurement of their ECL, 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 ECL 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 their ECL 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 ECL percentages even at the end of the second half of 2020.
 - 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 ECL on financial assets as of June 30, 2021 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 ECL 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 ECL 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 ECL 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 that could be obtained.

Financial relief to clients

Until September 30, 2021, the Bank offered reliefs, in the form of interest payments, commissions and insurance on loans, to the operations of Panama.

For the Colombian operation, financial relief was extended for a few additional months to clients that meet the criteria established by the regulator.

Notes to the Consolidated Financial Statements

(34) Response to the COVID-19 Crisis, continued

It is important to mention that financial relief is limited only to clients who are up to date in their capital and interest payments on the date of application to the Bank, that is, for those who are classified in a credit risk category. 'normal' or 'special mention'. Additionally, the granting of these exemptions to clients in relation to their existing loans or loan agreement implies the renegotiation of their terms.

The Bank continuously monitors the pronouncements of the regulators and state entities, as well as the conditions and events that could impact the repayment capacity of clients who have availed themselves of financial relief, and therefore in the ECL on the balances owed, in a timely manner.

These balances are considered when estimating the ECL on the loan portfolio receivable.

Measuring the impact of COVID-19 on ECL

In this sense, the Bank has carried out an analysis of the possible effects by grouping its clients in the loan portfolio based on the industry where they work, in order to classify them as low, medium or high risk. Likewise, high impact scenarios have been developed that allow determining the potential impairments of these financial assets and estimating the portfolio default under each scenario, as well as the possible provisions that will be required in the future, in order to maintain reserve levels that allow them to face the impacts on default once the financial relief related to COVID-19 ends.

Investment portfolio in debt instruments

The Bank maintains a conservative portfolio of investments in debt instruments measured at AC and FVOCI, made up of government bonds and residual interests in securitizations, which is monitored on a recurring basis in terms of its credit and market risk.

In particular, for the closing of September 30, 2021, the consolidated financial statements do not reflect representative impacts associated with the impairment of the investment securities portfolio, since the increases that were perceived in market interest rates are more due to a decrease in liquidity, associated with the capital outflow of international investors from emerging markets, given the situation of COVID-19, but not with a decrease in the ratings of issuers due to the inability to honor their obligations in the short term.

Notes to the Consolidated Financial Statements

(34) Response to the COVID-19 Crisis, continued

Notwithstanding the foregoing, with respect to not observing significant impacts associated with the credit risk of the investment securities portfolio as of September 30, 2021, the Bank's management is aware of the volatility and high uncertainty generated by the current situation, therefore that the measures adopted by the governments and the implications that these may have on the behavior of the different sectors are permanently monitored, among others, the interruption in supply chains, extensive suspension of productive activity, increased unemployment, recession of the income for some sectors, price behavior (inflation), economic slowdown, etc.

In this sense, for investments in securities measured at AC, an impact on the investment portfolios and the Bank's results would be expected in the event of downgrades in the credit rating of the issuers. The securities classified at market value on a recurring basis incorporate the effects of the quotation and fluctuations in interest rates, therefore, they do not imply additional effects associated with the 'prospective impairment' analyzes. However, as a consequence of the reduction in the credit rating of the issuers, for those securities classified as measured at fair value with changes in the OCI (FVOCI), the Bank may reflect negative impacts on the results of the period associated with an estimated impairment, which are offset in terms of equity due to the positive movements in the OCI that allow the securities to be kept at their fair value.

It is important to mention that, the market risk, associated with the changes in the price and rate conditions of the instruments that make up the Bank's investment portfolios, which during 2021 has increased due to the volatility that has dominated the financial markets, has generated effects on the operation and results of the Bank, as a result of the natural exposure of its businesses to this class of instruments. However, as of June 30, 2021, these effects are not adverse.

(d) Ongoing business

The Bank considers that for the moment it does not present difficulties that prevent it from continuing as a going concern. Continuity plans and appropriate management of the Company's operation

On the other hand, in terms of technology risk management and information security, the Bank has carried out the necessary tasks to ensure the protection of information, maintaining the controls and security schemes defined to mitigate cybersecurity risks to those that can be seen exposed.

At a financial level, the Bank constantly evaluates its liquidity, in order to verify its financial capacity in the projected scenario of the COVID-19 situation and thus ensure compliance with its obligations and the preservation of its operations.

As a result of this evaluation, it was evidenced that the Bank has an adequate liquidity solvency position that allows it to face the current situation and continue operating under the ongoing business principle.

Notes to the Consolidated Financial Statements

(34) Response to the COVID-19 Crisis, continued

(e) Measurement of financial instruments - Leases

The terms and conditions of the leasing contracts have not been modified as a result of the general impacts of COVID-19, so the Bank has not required to recognize gains or losses in profit or loss.