BANCO LA HIPOTECARIA, S. A.
AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Financial Statements and Consolidated Information

September 30, 2022

(With the Accountant Certification)

(FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION)

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

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

AUTHORIZED PUBLIC ACCOUNTANT CERTIFICATION

We have prepared the consolidated financial statements of Banco La Hipotecaria, S. A. and subsidiaries ("the Bank"), which comprise the consolidated statement of financial positions of September 30, 2022, 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, 2022 have been prepared internally in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee ("IASC).

Roberto Romero
CPA 0153-2012

July 25, 2022
Panama, Republic of Panama

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

Consolidated Statement of Financial Position

September 30, 2022

(Stated in Balboas)

Assets	Note	2022	2021
Cash and Cash Effect	7	285,295	242,052
Bank Deposits:			
Demand deposits in local banks		34,506,648	36,184,041
Demand deposits in foreign banks		6,584,586	12,378,734
Savings deposits in local banks		2,461,949	2,354,717
Savings deposits in foreign banks		6,461,386	5,706,747
Total deposits in banks		50,014,569	56,624,239
Total of cash, cash equivalents and cash in banks	**7**	50,299,864	56,866,291
Investment in securities, net	8	101,735,795	114,062,959
Loans at amortized cost (AC)		714,915,390	656,803,162
Furniture, equipment and improvements, net	10	1,691,267	1,683,192
Accounts and interest receivable	11	9,591,446	9,198,465
Accounts receivable - related parties		95,965	
Tax credit	32	26,709,446	24,077,858
Deferred tax	25	1,270,004	1,284,879
Right-of-use assets	28	1,614,165	1,978,284
Other assets	12	5,335,493	4,759,734
Total assets		913,258,835	870,714,824

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

Liabilities and Equity	Note	2022	2021
Liabilities:			
Deposits from customers:			
Savings deposits - local	6	2,378,469	2,483,136
Savings deposits - foreign	6	1,504,312	749,726
Time deposits - local		315,504,863	308,536,128
Time deposits - foreign		55,992,127	58,520,695
Total deposits from customers		375,379,771	370,289,685
Negotiable commercial papers	13, 30	39,019,443	35,315,094
Negotiable commercial notes	14, 30	66,080,503	55,524,085
Covered bonds	15, 30	51,516,921	51,347,808
Ordinary bonds	16, 30	9,627,669	13,009,668
Investment certificates	17, 30	18,957,513	19,523,626
Other negotiable debts	18, 30	3,736,554	10,888,482
Borrowimgs	19, 30	262,192,247	227,414,806
Leases Liabilities	29	2,090,198	2,405,253
Income tax payable		777,246	988,181
Other liabilities	20	8,030,895	6,633,203
Total Liabilities		837,408,960	793,339,891
Equity:			
Common shares	21	15,000,000	15,000,000
Treasury shares	21	(727,000)	(727,000)
Additional paid-in capital		25,454,161	25,051,203
Capital reserve		1,800,000	1,800,000
Fair value reserve		(3,282,095)	9,752,359
Currency translation reserve		(13,466,746)	(10,856,149)
Regulatory reserves		9,234,688	141,992
Retained earnings		41,009,841	36,393,322
Total equity attributable to controlling interest no controladora		75,022,849	76,555,727
Non-controlling interest		827,026	819,206
Total equity		75,849,875	77,374,933
Commitments and contingencies	28		
Total liabilities and equity		913,258,835	870,714,824

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

Consolidated Statement of Income

Period ended September 30, 2022

(Stated in Balboas)

	Note	2022	2021
Interest income calculated using the effective interest method:			
Loans		37,519,292	39,523,340
Investment in securities		2,953,869	2,514,004
Deposits in banks		300,300	93,414
Total interest income		40,773,461	42,130,758
Interest expense:			
Deposits from customers	6	12,087,863	11,967,289
Borrowings, debt securities in issue and leases		15,627,408	18,423,272
Total interest expenses		27,715,271	30,390,561
Net interest income		13,058,190	11,740,197
Impairment losses on financial assets:			
Provision for credit losses on loans at AC	4	2,027,652	1,242,556
Provision for credit losses on investment securities at FVOCI	4	117,195	65,398
Provision for credit losses on investment securities at AC	4	25,424	4,213
Net interest income, after provisions for impairment losses on financial assets		11,218,368	10,428,030
Income from banking services, commissions and others, net:			
Net income from securities at FVTPL	8	1,036,010	856,564
Net income from securities at FVTOCI	8	0	0
Management and servicing commissions	22	5,696,461	5,208,738
Other commissions incurred		(923,495)	(722,752)
Othe income	22	846,348	1,269,892
Total income from banking services and others, net		6,655,324	6,612,442
General and administrative expenses			
Salaries and other personnel benefits	6,23	5,336,423	4,935,924
Depreciation and amortization of furniture, equipment and improvements	10	426,433	513,481
Depreciation of right-of-use assets	29	341,885	404,448
Professional and legal fees		1,232,895	1,290,105
Taxes		1,647,208	1,639,555
Other expenses	6,23	3,588,829	2,767,584
Total general and administrative expenses		12,573,673	11,551,097
Net income before income tax		5,300,019	5,489,375
Estimated Income tax	24	1,111,464	790,358
Deferred Tax		(84,983)	30,399
Net income		4,273,538	4,668,618
Income attributable to:			
Controlling interest		4,224,732	4,622,045
Non-controlling interest		48,806	46,572
		4,273,538	4,668,617

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

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

Consolidated Statement of Comprehensive Income

Period ended September 30, 2022

(Stated in Balboas)

	2022	2021
Net income	4,273,538	2,819,678
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	(3,563,566)	(2,310,161)
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	135,020	65,398
Movement in fair value reserve for loan portfolio acquired:		
Amortization of fair value	(139,154)	640,346
Movement in foreign currency translation reserve:		
Foreign operations – foreign currency translation differences	(2,639,384)	(2,356,123)
Total other comprehensive income (loss)	(6,207,084)	(3,960,540)
Total comprehensive income	(1,933,546)	(1,140,862)
Comprehensive income attributable to:		
Controlling interest	(1,883,218)	753,455
Non-controlling interest	(50,328)	(45,378)
	(1,933,546)	708,077

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

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

Consolidated Statement of Changes in Equity

Period ended September 30, 2022

(Stated in Balboas)

	Attributable to the controlling interest														
					Fair value reserve					Regulatory reserves					
	Common shares	Treasury shares	Additional paid-in capital	Capital reserve	Reserve of fair value of investment in securities FVOCI	Reserve of ECL of investment in securities FVOCI	Reserve of fair value of portfolio acquired	Currency translation reserve	Foreclosed assets provision	Dynamic provision	Specific provision in excess	Regulatory provision	Retained earnings	Non-controlling interest	Total equity
Balance at December 31, 2020	15,000,000	(727,000)	25,051,203	1,800,000	2,026,160	129,133	102,994	(7,661,410)	0	4,803,937	3,208,856	2,405,429	30,807,282	879,953	77,826,537
Net income	0	0	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 at FVOCI – net change in fair value	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt investments at FVOCI – reclassified to profit or loss	0	0	0	0	-2,310,161	0	0	0	0	0	0	0	0	0	(2,310,161)
Expected credit loss (ECL) reserve – debt instruments at FVOCI:															
Debt investments at FVOCI – net change in ECL reserve	0	0	0	0	0	65,398	0	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	0	640,346	0	0	0	0	0	0	0	640,346
Foreign currency translation reserve:															
Foreign operations – foreign currency translation differences	0	0	0	0	0	0	0	(2,356,123)	0	0	0	0	-4,274	(91,950)	(2,452,347)
Total other comprehensive income (loss)	0	0	0	0	(2,310,161)	65,398	640,346	(2,356,123)	0	0	0	0	(4,274)	(91,950)	(4,056,764)
Total comprehensive income	0	0	0	0	(2,310,161)	65,398	640,346	(2,356,123)	0	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	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	0	0
Treasury shares	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Complementary tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total contributions and distributions	0	0	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	1,800,000	-284,001	194,531	743,340	(10,017,533)	0	4,706,953	1,337,147	2,608,934	37,190,241	834,575	78,438,390
Balance at December 31, 2021	**15,000,000**	**(727,000)**	**25,051,203**	**1,800,000**	**(549,345)**	**137,066**	**691,337**	**(10,856,149)**	**0**	**4,706,953**	**2,570,398**	**2,337,942**	**36,393,322**	**819,206**	**77,374,933**
Net income	0	0	0	0	0	0	0	0	0	0	0	0	4,224,733	48,805	4,273,538
Other comprehensive income (loss):															
Fair value reserve – debt instruments at FVOCI:															
Debt investments at FVOCI – net change in fair value	0	0	0	0	(3,563,566)	0	0	0	0	0	0	0	0	0	(3,563,566)
Debt investments at FVOCI – reclassified to profit or loss	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Expected credit loss (ECL) reserve – debt instruments at FVOCI:															
Debt investments at FVOCI – net change in ECL reserve	0	0	0	0	0	135,020	0	0	0	0	0	0	0	0	135,020
Fair value reserve for loan portfolio acquired:															
Amortization of fair value	0	0	0	0	0	0	(139,154)	0	0	0	0	0	0	0	(139,154)
Foreign currency translation reserve:															
Foreign operations – foreign currency translation differences	0	0	0	0	0	0	0	(2,540,250)	0	0	0	0	0	(99,134)	(2,639,384)
Total other comprehensive income (loss)	0	0	0	0	(3,563,566)	135,020	(139,154)	(2,540,250)	0	0	0	0	0	(99,134)	(6,207,084)
Total comprehensive income	0	0	0	0	(3,563,566)	135,020	(139,154)	(2,540,250)	0	0	0	0	4,224,733	(50,329)	(1,933,546)
Other equity transactions:															
Allocation of regulatory reserves - dynamic and specific	0	0	0	0	0	0	0	0	5,536	0	(379,594)	0	379,594	0	5,536
Transactions with equity holders of the Bank:															
Contributions and distributions:															
Additional paid in capital	0	0	402,958	0	0	0	0	0	0	0	0	0	0	0	402,958
Complementary tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends Paid	0	0	0	0	0	0	0	0	0	0	0	0	(6)	0	(6)
capital	0	0	402,958	0	0	0	0	0	0	0	0	0	(6)	0	402,952
Balance at September 30, 2022	15,000,000	(727,000)	25,454,161	1,800,000	(4,112,911)	272,086	552,183	(13,396,399)	5,536	4,706,953	2,190,804	2,337,942	40,997,643	768,877	75,849,875

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, 2022

(Stated in Balboas)

	Nota	2022	2021
Operating activities:			
Net income		4,273,538	4,668,617
Adjustment to reconcile net income and cash from operating activities:			
Depreciation and amortization of furniture, equipment and improvements	10	426,433	513,481
Depreciation of right-of-use assets	29	341,885	404,448
Provision for credit losses on loans at AC	4	2,027,652	1,242,556
Provision for credit losses on investment securities at AC	4	117,195	4,213
Provision for credit losses on investment securities at OCI	4	25,424	65,398
Net loss due to modification of loans to CA	4	(330,449)	0
Net interest income		(13,058,190)	(11,740,197)
Net gain on investment securities at FVTPL		(1,036,010)	(856,564)
Loss on sale of fixed assets		(600)	0
Provision for foreclosed assets		5,536	0
Gain on sale of foreclosed assets		0	(116,518)
Income tax expense	24	1,111,464	820,758
Changes in operating assets and liabilities:			
Investment securities at FVTPL		2,402,861	-
Loans		(59,948,585)	(23,271,241)
Accounts receivable		14,156,700	(272,771)
Accounts receivable - related parties		(95,965)	0
Sale of tax credits	32	6,501,720	1,575,904
Accrual of tax credits		(9,133,308)	(9,595,627)
Other assets		48,211	4,447,806
Saving deposits from customers		649,919	131,584
Time deposits from customers		4,440,167	25,821,902
Other liabilities		1,496,581	287,385
Cash generated from operations:			
Interest received		26,223,780	42,171,261
Interest paid		(27,690,076)	(30,365,430)
Income tax paid		(1,446,483)	(556,522)
Cash flows from operating activities		(48,490,600)	5,380,443
Investment activities:			
Acquisition of investment securities at AC and FVOCI		(623,337)	(2,860,787)
Proceeds from sale a of investment securities	8	7,241,128	2,396,556
Acquisition of furniture, equipment and improvements		(459,695)	(150,118)
Disposal of fixed assets		64,941	0
Cash flows from investment activities		6,223,037	(614,349)
Financing activities:			
Proceeds from issuance of negotiable commercial papers		38,937,349	35,114,401
Redemption of negotiable commercial papers		(35,233,000)	(75,790,000)
Proceeds from issuance of negotiable commercial notes		36,119,418	30,564,799
Redemption of negotiable commercial notes		(25,563,000)	(46,951,000)
Proceeds from issuance of covered bonds		0	0
Redemption of Ordinary Bonds		0	220,863
Proceeds from issuance of Ordinary Bonds		(1,851,716)	0
Proceeds from issuance of investment certificates		11,983,887	7,773,374
Redemption of investment certificates		(12,550,000)	(24,107,000)
Proceeds from issuance of negotiable debts		1,698,072	4,784,065
Redemption of negotiable debts		(8,850,000)	(19,285,000)
Proceeds from borrowings		81,198,096	175,444,187
Repayment of borrowings		(47,514,164)	(102,292,137)
Payment of Leases	29	(315,055)	(540,233)
Additional paid-in capital		402,958	0
Dividends Paid		(6)	0
Complementary Tax		0	(4,274)
Non-controlling interest		(99,134)	(91,950)
Cash flows from financing activities		38,363,705	(15,159,905)
Net increase in cash and cash cash equivalents		(3,903,858)	-10,393,811
Cash and cash equivalents at the beginning of the year		56,866,291	68,017,454
Effect of exchange rate fluctuations		(2,662,569)	(5,965,322)
Cash and cash equivalents at the end of the year	7	50,299,864	51,658,321

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

(1) General Information

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

Banco La Hipotecaria, S. A. is a private bank whose shareholder is La Hipotecaria (Holding), Inc., a company incorporated under the laws of the British Virgin Islands and whose main shareholder is Grupo ASSA, S. A., who owns 79.16% (2021: 69.01%) of the shares issued and outstanding.

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

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

	Activity	Country of Incorporation	Controlling Interest	
			2021	2020
La Hipotecaria Compañía de Financiamiento, S. A.	Grant residential mortgage loans, manage residential mortgage and personal loans in the Republic of Colombia.	Colombia	94.99%	94.99%
La Hipotecaria, S. A. de C. V.	Grant residential mortgage and personal loans, manage residential mortgage and personal loans in the Republic of El Salvador.	El Salvador	99.99%	99.99%

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

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

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

(2) Basis of Preparation

(a) Statement of compliance

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

The Bank authorized the issuance of these consolidated financial statements on July 25, 2022.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(3) Summary of Significant Accounting Policies

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

(a) Basis of consolidation

(a.1) Subsidiaries

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

(3) Summary of Significant Accounting Policies, continued

(a.2) Structured entities

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

(a.3) Non-controlling interests

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

(a.4) Loss of control

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

(a.5) Transactions eliminated on consolidation

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

(a.6) Funds administration

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

(b) Foreign currency

(b.1) Foreign currency transactions

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

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

(3) Summary of Significant Accounting Policies, continued

(b.2) Foreign operations

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

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

(c) Financial assets and liabilities

(c.1) Recognition and initial measurement

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

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

(c.2) Classification

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

Business model assessment

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

(c.4) Modification of financial assets

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

(c.6) Fair value measurement

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

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

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

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

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

(c.7) Impairment of financial assets

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

- Investments in debt instruments; and
- Loans receivable.

No impairment loss is recognized on equity instruments.

(3) Summary of Significant Accounting Policies, continued.

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

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

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

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

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

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

Measurement of ECL

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

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

(3) Summary of Significant Accounting Policies, continued

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

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

(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 incremental direct transaction costs, and subsequently at their amortized cost using the effective interest 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 associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

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

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

(3) Summary of Significant Accounting Policies, continued

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

(h) Assets classified as held-for-sale

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

(i) Deposits, borrowings and debt securities in issue

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

(j) Share-based payments

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

(k) Employee benefits

(k.1) Termination benefits

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

(k.2) Short-term employee benefits

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

(3) Summary of Significant Accounting Policies, continued

(l) Segment reporting

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

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

(m) Interest income and expense

Effective interest rate

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

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

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

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

Amortized cost and gross carrying amount

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

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

Calculation of interest income and expense

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

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

(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.

(o) Trusts operations

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

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

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

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

(3) Summary of Significant Accounting Policies, continued

(q) Leases

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

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

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

As lessee

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

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

(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 readily determined, the Bank's incremental borrowing rate. The Bank uses its incremental borrowing interest rate as the discount rate.

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

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

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

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

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

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

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

(s) *New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted*
A series of new standards and amendments to standards are effective for annual periods beginning after January 1, 2022 and earlier application is permitted; however, the Bank has not early adopted these new standards or amendments in preparing these consolidated financial statements as of September 30, 2022.

(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 2023	• Definition of Accounting Estimates – Amendments to IAS 8 • IFRS 17 Insurance and Amendments IFRS 17 • Disclosure of Accounting Policies – Amendment to IAS 1 and IFRS Practice Statement 2 • Deferred Income Tax - Amendment to IAS 12 • Liabilities classification – Current or not current - Amendment to IAS 1 •

(4) Financial Risk Management

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

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

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

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

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

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

(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 for measuring the losses allowance for ECL, including the processes for its initial approval, regular assessment and validation, and back-testing of the models used in its estimation; and the incorporation of forward-looking information.

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

(a) Credit risk:

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

(4) Financial Risk Management, continued

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

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

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

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

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

Credit quality analysis

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

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

(4) Financial Risk Management, continued

	2022			
	12-month ECL ('Stage 1')	**Lifetime ECL (not credit-impaired) ('Stage 2')**	**Lifetime ECL (credit-impaired) ('Stage 3')**	**Total**
Loans at AC:				
A1 – Until 30 days	622,942,626	1,053,675	15,268,164	639,264,465
A2 – Until 60 days	19,907,450	0	4,312,274	24,219,724
B1 – Until 90 days	11,003,019	931,340	4,173,610	16,107,969
B2 – Until 120 days	0	4,872,579	3,305,847	8,178,426
C1 – Until 150 days	0	1,721,372	2,616,300	4,337,672
C2 – Until 180 days	0	1,251,008	1,648,750	2,899,758
D – More than 181 days	0	0	14,972,275	14,972,275
Subtotal	**653,853,095**	**9,829,974**	**46,297,220**	**709,980,289**
Accrued interest receivable	8,896,187	133,745	629,910	9,659,842
Net loss arising from modification	(251,818)	0	0	(251,818)
Gross carrying amount	**662,497,464**	**9,963,719**	**46,927,130**	**719,388,313**
Loss allowance (ECL)	(685,497)	(249,690)	(3,537,736)	(4,472,923)
Total loans at AC	**661,811,967**	**9,714,029**	**43,389,394**	**714,915,390**
Investment securities at AC:				
Normal or low-fair risk	704,222	0	0	704,222
Gross carrying amount	704,222	0	0	704,222
Loss allowance (ECL)	(10,899)	0	0	(10,899)
Total investments at AC	693,323	0	0	693,323
Investment securities at FVOCI:				
Normal or low-fair risk	66,505,073	5,289,677	0	71,794,750
Loss allowance (ECL)	(143,843)	(128,210)	0	(272,053)
Promissory notes:				
Normal or low-fair risk	121,841,944	0	0	121,841,944

	2021			
	12-month ECL ('Stage 1')	**Lifetime ECL (not credit-impaired) ('Stage 2')**	**Lifetime ECL (credit-impaired) ('Stage 3')**	**Total**
Loans at AC:				
A1 – Until 30 days	570,124,255	1,688,260	16,530,440	588,342,955
A2 – Until 60 days	15,326,796	0	5,882,927	21,209,723
B1 – Until 90 days	6,505,183	792,562	6,198,555	13,496,300
B2 – Until 120 days	0	3,972,847	5,188,142	9,160,989
C1 – Until 150 days	0	2,098,561	3,273,540	5,372,101
C2 – Until 180 days	0	964,157	1,913,762	2,877,919
D – More than 181 days	0	0	10,744,135	10,744,135
Subtotal	**591,956,234**	**9,516,387**	**49,731,501**	**651,204,122**
Accrued interest receivable	9,621,783	253,391	220,076	10,095,250
Gross carrying amount	(582,257)	0	0	(582,257)
Loss allowance (ECL)	**600,995,760**	**9,769,778**	**49,951,577**	**660,717,115**
Total loans at AC	(957,739)	(214,388)	(2,741,826)	(3,913,953)
	600,038,021	**9,555,390**	**47,209,751**	**656,803,162**
Investment securities at AC:				
Normal or low-fair risk				
Gross carrying amount	765,118	0	0	765,118
	765,118	0	0	765,118
Loss allowance (ECL)	(3,299)	0	0	(3,299)
Total investments at AC	761,819	0	0	761,819
Investment securities at FVOCI:				
Normal or low-fair risk	83,109,833	0	0	83,109,833
Loss allowance (ECL)	137,066	0	0	137,066
Promissory notes:				
Normal or low-fair risk	74,377,289	0	0	74,377,289

(4) Financial Risk Management, continued

At September 30, 2022 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.

	2022			
	('Stage 1')	('Stage 2')	('Stage 3')	Total
Personal loans:				
Current	38,716,590	13783	1323719	40,054,092
Overdue < 30 days	3,900,136	0	782092	4,682,228
Overdue > 30 and < 60 days	1,230,800	0	598689	1,829,489
Overdue > 60 and < 90 days	0	931,340	861564	1,792,904
Overdue > 90 days	0	0	3,314,790	3,314,790
Residential mortgage loans:				
Current				
Overdue < 30 days	533,314,846	995003	9088209	543,398,058
Overdue > 30 and < 90 days	47,011,054	44889	4074146	51,130,089
Overdue > 90 and < 180 days	29,679,669	0	7025631	36,705,300
Overdue > 180 days	0	7,844,959	5187280	13,032,239

	2021			
	('Stage 1')	('Stage 2')	('Stage 3')	Total
Personal loans:				
Current	45,178,726	21,450	1,886,980	47,087,156
Overdue < 30 days	2,817,744	0	836,890	3,654,634
Overdue > 30 and < 60 days	1,267,149	0	811,154	2,078,303
Overdue > 60 and < 90 days	0	792,562	665,446	1,458,008
Overdue > 90 days	0	0	3,086,312	3,086,312
Residential mortgage loans:				
Current	486,248,737	1,666,810	7,828,832	495,744,379
Overdue < 30 days	35,879,049	0	5,977,737	41,856,786
Overdue > 30 and < 90 days	20,564,829	0	10,604,882	31,169,711
Overdue > 90 and <180 days	0	7,035,565	8,075,406	15,110,971
Overdue > 180 days	0	0	9,957,862	9,957,862

(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.

	2022	2021
Investment securities at FVTPL:		
Government bonds:		
BBB+ to BBB-	1,065,121	1,257,592
	1,065,121	1,257,592
Residential mortgage-backed securities (RMBS):		
Normal or low-fair risk	8,372,297	8,095,052
	8,372,297	8,095,052
Residual interests:		
Normal or low-fair risk	18,951,777	20,603,473
	18,951,777	20,603,473
Total investment securities at FVTPL	28,389,195	29,956,117

Deposits placed with banks

At September 30, 2022, the Bank held deposits placed with banks for B/.50,014,469 (2021: B/.56,624,239). 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, 2022, 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.

	% of exposure that is subject to collateral requirements		
Type of credit exposure:	**2022**	**2021**	**Type of collateral held**
Loans	92%	90%	Residential properties
Investment securities	50%	50%	Mortgage loan portfolio

(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.

'LTV' ratio	2022	2021
0-20%	1,299,497	2,032,313
20-40%	14,939,153	12,733,389
40-60%	73,537,676	40,213,964
60-80%	266,557,820	230,349,186
80-100%	298,144,419	303,776,034
Total	654,478,564	589,104,886
Credit impaired loans		
0-20%	521,762	361,089
20-40%	376,227	219,513
40-60%	472,181	168,762
60-80%	2,083,748	2,251,735
80-100%	11,481,727	7,743,036
Total	14,935,645	10,744,135

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:

	2022	2021
Residential properties	909,974	978,010
Total	909,974	978,010

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.

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

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

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

On the special occasion of the pandemic caused by COVID, the "doubtful" and "unrecoverable" subcategories are monitored, which are dealt with in Agreement No.006-2021 of the Superintendence of Banks of Panama, for those loans classified as "modified", that is, those credits that suffered changes in their payment plan as a result of the affectation in the payment capacity of the debtors.

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).

(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
A2 – Delinquency ranges from 31 to 60 days
B1 – Delinquency ranges from 61 to 90 days
B2 – Delinquency ranges from 91 to 120 days
C1 – Delinquency ranges from 121 to 150 days
C2 – Delinquency ranges from 151 to 180 days
D – Delinquency range greater than 180 days

<u>Credit risk grades for the investment securities portfolio</u>
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.

<u>Generating the term structure of PD</u>

- <u>*Instrument treatment approach:*</u>
  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.

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

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

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

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

(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.

- *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.

(4) Financial Risk Management, continued

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

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

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

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

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

Determining whether credit risk has increased significantly

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

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

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

(4) Financial Risk Management, continued

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

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

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

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

Definition of default

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

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as the performance of the guarantees (if any is held); or
- The borrower is more than 90 days past due in personal loans and more than 180 days in residential mortgage loans;

(4) Financial Risk Management, continued

- 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.

Additionally, in the case of loans at AC, those that have been classified as 'modified' due to the COVID-19 pandemic, that have failed to comply with their new payment plan and that have a subcategory of 'doubtful' or 'unrecoverable' under the Agreement No.006-2021 of the Superintendence of Banks of Panama, are considered to be in default.

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

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

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

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.

(4) Financial Risk Management, continued

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

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

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

The above, in addition, for the following reasons.

a. Historically, one of the variables for which the Bank 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, as at the date of preparation of this methodology, show economic recessions in the 3 countries, and market organizations such as Moody's and the IMF projected recessions at the end of 2021 in the 3 countries, with uncertainty over the recovery expectations for 2022.
b. Unemployment has historically been the variable that best correlates the variation of the Bank's overdue portfolio, which also has a very high business logic, since the Bank's business model is specially designed to serve employees in the 3 countries; in addition to some profiles of retirees or independents.
c. In previous years, an attempt has also been made to obtain correlations between the variations in the overdue portfolio in the market, figures published by the Superintendence of Banks in each country; however, the existence of financial relief for those clients who have failed to comply their payments during 2020, does not allow the market to really reflect the impairment in the loan portfolio; and as warned by the Financial Superintendence of Colombia in its monthly report as of September, 2020; and the Superintendence of Banks of Panama in its presentation of the same period, the impairment in the loan portfolio will not be reflected until the end of the relief period granted by moratorium laws.

(4) Financial Risk Management, continued

During 2022, the methodology implemented by the Bank to identify the 'forward-looking' variables that would be used in the determination of ECL, was based on a 'Multiple Correlation Coefficient' calculation. The process of defining the most significant variables among the universe of those that are available, consisted of the following three steps:

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

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

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

As a result of the application of the methodology outlined above, and based on historical series corresponding to annual periods between 2015 and 2021, the Bank determined as appropriate to use the following 'forward-looking' variables as part of the ECL model by country and segment, for the period 2022:

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

(4) Financial Risk Management, continued

The following table presents a summary of the forward-looking information incorporated by the Bank in the estimation process of the ECL for the loan portfolio as of September 30, 2022:

Segment	Forward-looking variable correlated with past due portfolio	2020	Historical variable 2021	2022	Incorporation of forward-looking ('FL') variables in the estimation of the ECL as of September 30, 2022: Scenario	Expected trend	Projected FL variable	'FL' Factor	Impact on the ECL
Panama – Operations with Guarantees	Unemployment	18.5%	11.3%	11.3%	Unique	Increase	18.50%	4.7700%	$4,437
Panama – Operations without Guarantees	Unemployment	18.5%	11.3%	11.3%	Unique	Increase	18.50%	7.2000%	$150,620
Salvador – Operations with Guarantees	Unemployment	6.19%	9.5%	9.5%	Unique	Increase	12.12%	5.6600%	$15,636
Salvador – Operations without Guarantees	Unemployment	6.19%	9.5%	9.5%	Unique	Increase	12.12%	6.4400%	$16,723
Colombia– Operations with Guarantees	Unemployment	13.4%	10.8%	10.8%	Unique	Increase	13.37	9.2800%	$4,261
Colombia – Operations without Guarantees	Unemployment	13.4%	10.8%	10.8%	Unique	Increase	13.37	8.4300%	$42,209

Modified financial assets

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

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

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

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

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

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

(4) Financial Risk Management, continued

Measurement of expected credit losses (ECL)

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

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

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

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

The methodology for estimating PDs of the identified segments, is explained above under the heading 'Generating the term structure of PD', and in the context of the collective treatment of the credit portfolios, the Bank's methodology used when determining the loan segments' PD is focused on the process denominated as 'Markov Chain'.

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.

<u>PD estimation</u>

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.

(4) Financial Risk Management, continued

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

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

- *PD of operations that reached more than 90 days for personal loans, which were canceled or recognized as a loss*
  For this case, personal loan operations that reach the number of days in arrears indicated above and which ended up canceled or in the portfolio at loss are taken into consideration, that is, the recoveries of the personal loans that were recognized as a loss and also those of personal loans who having reached the point of default were canceled. Then the average of both PD is obtained and averaged to obtain the PD of the 'Personal Loans Segment'. In the case of personal loans, due to their nature, legal recovery expenses are not incurred.

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

Exposure at Default (EAD)

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

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

(4) Financial Risk Management, continued

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

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

Loss allowance

The following tables show 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).

	2022 12-month ECL ('Stage 1')	2021 12-month ECL ('Stage 1')
Investment securities at AC:		
Balance at the beginning of the year	3,299	1,282
Net remeasurement of loss allowance	47,600	2,017
Balance at the end of the year	10,899	3,299

	2022		
	12-month ECL ('Stage 1')	Lifetime ECL (not-credit impaired) ('Stage 2')	Total
Investment securities at FVOCI:			
Balance at the beginning of the year	67,369	69,697	137,066
Net remeasurement of loss allowance	76,474	58,513	134,987
Balance at the end of the year	143,843	128,210	272,053

	2021		
	12-month ECL ('Stage 1')	Lifetime ECL (not-credit impaired) ('Stage 2')	Total
Investment securities at FVOCI:			
Balance at the beginning of the year	69,680	59,453	129,133
Net remeasurement of loss allowance	(4,351)	10,244	5,893
New financial assets purchased	2,040	0	2,040
Balance at the end of the year	67,369	69,697	137,066

(4) Financial Risk Management, continued

	2022			
	12-month ECL ('Stage 1')	Lifetime ECL (not credit-impaired / collectively assessed ('Stage 2')	Lifetime ECL (credit-impaired / individually assessed) ('Stage 3')	Total
Loans at AC:				
Balance at the beginning of the year	957,739	214,388	2,741,826	3,913,953
Transfer to Stage 1	1,761,010	(410,046)	(1,350,964)	0
Transfer to Stage 2	(291,432)	592,987	(301,555)	0
Transfer to Stage 3	(80,504)	(562,317)	642,821	0
Net remeasurement of loss allowance	(1,558,256)	413,239	3,259,809	2,114,792
New financial assets originated	20,057	10,790	1,436	32,283
Financial instruments that have been derecognized	(36,272)	(9,351)	(73,800)	(119,423)
Write-offs	0	0	(1,381,835)	(1,381,835)
Effect of exchange rates fluctuations	(86,847)	0	0	(86,847)
Balance at the end of the year	685,495	249,690	3,537,738	4,472,923

	2021			
	12-month ECL ('Stage 1')	Lifetime ECL (not credit-impaired / collectively assessed ('Stage 2')	Lifetime ECL (credit-impaired / individually assessed) ('Stage 3')	Total
Loans at AC:				
Balance at the beginning of the year	3,349,234	100,010	599,717	4,048,961
Transfer to Stage 1	935,298	(656,614)	(278,684)	0
Transfer to Stage 2	(404,440)	847,862	(443,422)	0
Transfer to Stage 3	(108,877)	(973,311)	1,082,188	0
Net remeasurement of loss allowance	(2,755,057)	882,841	2,622,122	749,906
New financial assets originated	62,262	36,731	8,015	107,008
Financial instruments that have been derecognized	(82,120)	(23,131)	(153,710)	(258,961)
Write-offs	0	0	(694,400)	(694,400)
Effect of exchange rates fluctuations	(38,561)	0	0	(38,561)
Balance at the end of the year	957,739	214,388	2,741,826	3,913,953

(4) Financial Risk Management, continued

The following table provides a reconciliation between:

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

	2022			
	Investment securities at AC	Investment securities at FVOCI	Loans at AC	Total
Net remeasurement of loss allowance	7,600	134,987	2,114,792	2,257,379
New financial assets originated or purchased	0	0	32,283	32,283
Financial assets that have been derecognized	0	0	(119,423)	(119,423)
Total	7,600	134,987	2,027,652	2,170,239

	2021			
	Investment securities at AC	Investment securities at FVOCI	Loans at AC	Total
Net remeasurement of loss allowance	2,017	5,893	749,906	757,816
New financial assets originated or purchased	0	2,040	107,008	109,048
Financial assets that have been derecognized	0	0	(258,961)	(258,961)
Total	2,017	7,933	597,953	607,903

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, 2022 and that are still subject to enforcement activity is B/.1,381,837 (2021: B/.694,400) and these they are still subject to collection management activities.

(4) Financial Risk Management, continued

Concentrations of credit risk

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

	Loans at AC		Investment securities		Promissory notes	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Gross carrying amount	709,428,106	660,717,115	101,735,795	114,066,259	121,841,944	74,377,290
Concentration by sector:						
Mortgage banking	653,926,381	598,035,623	70,122,299	77,304,887	121,841,944	74,377,290
Personal banking	55,501,725	62,681,492	0	0	0	0
Other sectors	0	0	31,613,496	36,761,372	0	0
	709,428,106	660,717,115	101,735,795	114,066,259	121,841,944	74,377,290
Concentration by location:						
Panama	516,962,588	462,843,165	68,538,797	77,526,156	121,841,944	74,377,290
El Salvador	118,524,611	122,372,071	1,802,000	0	0	0
Colombia	73,940,907	75,501,879	4,349,348	4,533,053	0	0
United States of America	0	0	27,045,650	32,007,050	0	0
	709,428,106	660,717,115	101,735,795	114,066,259	121,841,944	74,377,290

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

(b) *Liquidity risk:*

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

Funding liquidity risk

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

Market liquidity risk

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

Liquidity risk management

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

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

(4) Financial Risk Management, continued

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

Exposure to liquidity risk

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

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

	2022	2021
At September 30	70.83%	90.69%
Average for the year	89.29%	90.12%
Maximum for the year	111.98%	105.45%
Minimum for the year	70.83%	67.54%

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

2022	Carrying amount	Gross nominal amount (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years
Financial liabilities:						
Saving deposits	3,882,781	(3,882,781)	(3,882,781)	0	0	0
Time deposits	371,496,990	(393,745,529)	(206,729,965)	(187,015,565)	0	0
Negotiable commercial papers	39,019,443	(39,624,381)	(39,624,381)	0	0	0
Negotiable commercial notes	66,080,503	(87,743,846)	(14,949,402)	(72,794,443)	0	0
Covered bonds	51,516,921	(53,788,694)	(30,182,083)	(23,606,611)	0	0
Ordinary bonds	9,627,669	(11,063,670)	0	(11,063,670)	0	0
Investment certificates	18,957,513	(30,467,806)	(8,186,717)	(22,281,089)	0	0
Other negotiable debts	3,736,554	(3,790,701)	(3,790,701)	0	0	0
Borrowings	262,192,247	(282,952,228)	(37,676,807)	(173,084,303)	(72,191,118)	0
Lease liabilities	2,090,198	(3,862,887)	(636,402)	(2,160,896)	(1,065,589)	0
Total financial liabilities	828,600,819	(910,922,523)	(345,659,240)	(492,006,577)	(73,256,707)	0
Financial assets:						
Cash	285,295	285,295	285,295	0	0	0
Deposits in banks	50,014,569	50,014,569	50,014,569	0	0	0
Investment securities	101,746,694	152,584,494	4,517,452	22,012,270	38,101,644	87,953,128
Loans	709,980,289	1,234,413,929	62,631,199	248,389,046	287,754,318	635,639,366
Total financial assets	862,026,847	1,437,298,287	117,448,515	270,401,316	325,855,962	723,592,494
Commitments and contingencies:						
Promissory notes	(121,841,944)	(121,841,944)	(121,841,944)	0	0	0

(4) Financial Risk Management, continued

2021	Carrying amount	Gross nominal amount (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years
Financial liabilities:						
Saving deposits	3,232,862	(3,232,862)	(3,232,862)	0	0	0
Time deposits	367,056,823	(386,869,016)	(211,193,444)	(175,675,572)	0	0
Negotiable commercial papers	35,315,094	(35,636,642)	(35,636,642)	0	0	0
Negotiable commercial notes	55,524,085	(59,629,997)	(17,525,046)	(42,104,951)	0	0
Covered bonds	51,347,808	(55,672,205)	(1,073,455)	(54,598,750)	0	0
Ordinary bonds	13,009,668	(15,268,516)	(658,592)	(14,609,924)	0	0
Investment certificates	19,523,626	(20,383,148)	(11,892,624)	(8,490,524)	0	0
Other negotiable debts	10,888,482	(11,154,268)	(11,154,268)	0	0	0
Borrowed funds	227,414,806	(259,118,051)	(18,731,299)	(185,360,274)	(55,026,478)	0
Lease liabilities	2,405,253	(3,269,842)	(858,275)	(2,411,567)	0	0
Total financial liabilities	785,718,507	(850,234,547)	(311,956,507)	(483,251,562)	(55,026,478)	0
Financial assets:						
Cash	242,052	242,052	242,052	0	0	0
Deposits in banks	56,624,239	56,624,239	56,624,239	0	0	0
Investment securities	114,062,959	122,542,397	9,740,119	38,553,729	41,150,431	33,098,118
Loans	656,803,162	980,907,003	52,047,136	202,962,553	224,936,325	500,960,989
Total financial assets	827,732,412	1,160,315,691	118,653,546	241,516,282	266,086,756	534,059,107
Commitments and contingencies:						
Promissory notes	(74,377,289)	(74,377,289)	(74,377,289)	0	0	0

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

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

	2022	2021
Financial assets:		
Loans	709,155,872	650,621,864
Investment securities	100,681,573	113,065,950
Financial liabilities:		
Time deposits	167,528,136	370,671,438
Negotiable commercial notes	51,398,000	38,326,000
Covered bonds	22,000,000	52,000,000
Ordinary bonds	9,727,491	12,991,411
Investment certificates	11,000,000	7,950,000
Borrowings	210,851,748	209,666,783
Leases liabilities	2,090,198	2,185,326

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

(4) Financial Risk Management, continued

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

2022	Pledged as collateral	Available as collateral	Total
Cash and cash equivalents	0	50,299,864	50,299,864
Investment securities	0	101,746,694	101,746,694
Loans at AC	250,759,364	464,407,844	715,167,208
Non-financial assets	0	46,045,069	46,045,069
	250,759,364	662,499,471	913,258,835

2021	Pledged as collateral	Available as collateral	Total
Cash and cash equivalents	0	56,866,291	56,866,291
Investment securities	0	114,062,959	114,062,959
Loans at AC	200,910,697	455,892,465	656,803,162
Non-financial assets	0	42,982,412	42,982,412
	200,910,697	669,804,127	870,714,824

(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, 2022, the Bank did not have transactions in foreign currency in the consolidated statement of financial position that were exposed to foreign exchange risk, because all its financial instruments have been denominated in their functional currency, including those of the subsidiaries in Colombia and El Salvador.

(4) Financial Risk Management, continued

Interest rate risk:

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

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

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

2022	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Deposits in banks (1)	29,770,453	0	0	0	29,770,453
Investments securities at FVTPL	858,527	1,065,121	0	27,324,074	29,247,722
Investments securities at AC	0	482,467	221,755	0	704,222
Investments securities at FVOCI	25,089,612	1,950,875	27,045,650	17,708,613	71,794,750
Loans at AC	709,980,289	0	0	0	709,980,289
Total assets	765,698,881	3,498,463	27,267,405	45,032,687	841,497,436
Liabilities:					
Saving deposits	3,882,781	0	0	0	3,882,781
Time deposits	202,048,305	169,448,685	0	0	371,496,990
Borrowings	36,672,797	153,485,078	57,366,670	0	247,524,545
Debts securities in issue	95,336,997	94,125,491	0	0	189,462,488
Total liabilities	337,940,880	417,059,254	57,366,670	0	812,366,804
Interest rate sensitivity, net	427,758,001	(413,560,791)	(30,099,265)	45,032,687	29,130,632

(1) Includes only interest-bearing bank deposits.

2021	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:					
Deposits in banks (1)	30,761,626	0	0	0	30,761,626
Investments securities at FVTPL	235,190	1,257,592	0	28,698,525	30,191,307
Investments securities at AC	0	543,850	221,268	0	765,118
Investments securities at FVOCI	29,744,600	4,521,021	29,982,450	18,861,762	83,109,833
Loans at AC	660,717,115	0	0	0	660,717,115
Total assets	721,458,531	6,322,463	30,203,718	47,560,287	805,544,999
Liabilities:					
Saving deposits	3,232,862	0	0	0	3,232,862
Time deposits	173,553,070	193,503,753	0	0	367,056,823
Borrowings	80,711,697	121,703,109	25,000,000	0	227,414,806
Debts securities in issue	95,515,576	90,093,187	0	0	185,608,763
Total liabilities	353,013,205	405,300,049	25,000,000	0	783,313,254
Interest rate sensitivity, net	368,445,326	(398,977,586)	5,203,718	47,560,287	22,231,745

(1) Includes only interest-bearing bank deposits.

(4) Financial Risk Management, continued

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

	25 bp increase	25 bp decrease	50 bp increase	50 bp decrease
Sensitivity of projected net interest income:				
2022				
At September 30	1,434,899	(1,434,899)	2,869,797	(2,869,797)
Average for the year	1,398,335	(1,398,335)	2,796,669	(2,796,669)
Maximum for the year	1,482,507	(1,482,507)	2,965,015	(2,965,015)
Minimum for the year	1,277,598	(1,277,598)	2,555,195	(2,555,195)
2021				
At December 31	1,294,636	(1,294,636)	2,589,271	(2,589,271)
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	1,294,636	(1,294,636)	2,589,271	(2,589,271)
Sensitivity of reported equity to interest rate movements:				
2022				
At September 30	(1,709,642)	1,709,642	(3,419,285)	3,419,285
Average for the year	(1,842,038)	1,842,038	(3,684,075)	3,684,075
Maximum for the year	(1,998,826)	1,998,826	(3,997,651)	3,997,651
Minimum for the year	(1,709,642)	1,709,642	(3,419,285)	3,419,285
2021				
At December 31	(2,035,541)	2,035,541	(4,071,083)	4,071,083
Average for the year	(1,587,848)	1,587,848	(3,175,695)	3,175,695
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

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.

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

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

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

- Operational Risk Policy and Manual
- Operational Risk Limits
- 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.

(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.001-2015 and its amendments and No.003-2016, issued by the Superintendence of Banks of Panama, as of September 30, 2022, the Bank has a regulatory capital position that is comprised as follows:

	2022	2021
Primary Ordinary Capital		
Common shares	15,000,000	15,000,000
Additional paid-in-capital	25,454,161	25,051,203
Capital reserves	1,800,000	1,800,000
Non-controlling interest	768,878	819,206
Retained earnings	40,997,641	36,393,322
Other items of comprehensive income (1)		
Gains on securities and allowance for ECL on investment securities at FVOCI	(3,840,825)	(412,279)
Adjustment for translation of foreign currency	(13,396,398)	(10,856,149)
Treasury shares	(727,000)	(727,000)
Less: deferred tax	(251,799)	(351,656)
Total Primary Ordinary Capital	65,804,658	66,716,647
Dynamic provision	4,706,953	4,706,953
Total Regulatory Capital	70,511,611	71,423,600
Total of Risk-Weighted Assets	564,296,439	584,443,598

Ratios:	Minimum required	2022	2021
Capital Adequacy Ratio	8.00%	12.50%	12.22%
Primary Ordinary Capital Ratio	4.50%	11.66%	11.42%
Primary Capital Ratio	6.00%	11.66%	11.42%
Leverage Coefficient	3.00%	7.27%	7.74%

(1) Excludes the fair value of the portfolio acquired

(5) Use of Estimates and Judgements 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 recognized prospectively.

Management evaluates the selection, disclosures and application of critical accounting policies related to significant estimation uncertainties.

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

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

(b) *Impairment of financial assets – Significant increase in credit risk*
The Bank uses its judgement to establish the criteria for determining whether a financial asset has significantly increased its credit risk since initial recognition, and in the selection and approval of the models used to measure the ECL.

In accordance with the defined criteria, the Bank assesses at each reporting date whether the credit risk of financial assets has increased significantly since initial recognition. See Note 3 (c.7) and Note 4 (a).

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

Non-consolidated structured entities
The Bank's management periodically evaluates whether the trusts in which it acts as administrator, and which are considered as structured entities, need to be consolidated with the Bank. This analysis includes the evaluation of the agent and principal premises of IFRS 10 and the criteria to derecognize financial assets of IFRS 9, mainly. See Note 3 (a.2), Note 26 and Note 27.

(5) Use of Estimates and Judgements 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 30.

(6) Balances and Transactions with Related Parties

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

	Directors and key management personnel		Related companies	
	2022	**2021**	**2022**	**2021**
Assets:				
Demand deposits	0	0	7,104	1,902
Liabilities:				
Saving deposits	283,672	121,547	1,617,430	2,261,993
Time deposits	830,918	816,394	47,030,904	44,466,046
Accrued interest payable	2,063	3,726	179,950	469,380
Other income (expenses):				
Interest expense on deposits	24,088	35,236	354,635	354,635
Salaries and other personnel expenses	675,793	695,642	0	0

Transactions with Directors and Key Management Personnel
The Bank has paid fees for B/.45,676 (2021: B/.47,792) to Directors that attend the meetings of the Board of Directors and other Committees.

The salaries and other benefits of key management personnel amount to B/.675,793 (2021: B/.495,642), which include short-term benefits such as wages, bonuses and life insurance, mainly.

(7) Cash and Cash Equivalents

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

	2022	2021
Cash and cash equivalents	285,295	242,052
Demand deposits	41,091,234	48,562,775
Saving accounts	8,923,335	8,061,464
Cash and cash equivalents in the consolidated statement of cash flows	50,299,864	56,866,291

(8) Investment Securities

Investment securities are classified as follows:

	2022	2021
Investment securities measured at FVTPL	29,247,722	30,191,307
Investment securities measured at AC	693,323	761,819
Investment securities measured at FVOCI	71,794,750	83,109,833
Total investment securities, net	101,735,795	114,062,959

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

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

	Maturity	2022	2021
Retained interests in securitizations:			
Residential mortgage-backed securities ('RMBS'):			
XI Mortgage Loan Bond Trust	Oct-41	1,835,232	1,838,844
XII Mortgage Loan Bond Trust	Nov-42	849,015	796,241
XIII Mortgage Loan Bond Trust	Dic-45	930,576	925,211
XIV Mortgage Loan Bond Trust	Sep-46	1,302,283	1,234,466
XV Mortgage Loan Bond Trust	Jul-47	824,947	825,683
XVI Mortgage Loan Bond Trust	Jul-52	2,630,244	2,474,607
		8,372,297	8,095,052
Residual Interest:			
Residual interest in the VIII Mortgage Loan Bond Trust	Dic-36	0	2,546,827
Residual interest in the X Mortgage Loan Bond Trust	Sep-39	7,872,631	7,377,699
Residual interest in the XI Mortgage Loan Bond Trust	Oct-41	4,369,166	4,055,344
Residual interest in the XII Mortgage Loan Bond Trust	Nov-42	2,323,622	2,171,578
Residual interest in the XIII Mortgage Loan Bond Trust	Dic-45	2,186,409	2,033,726
Residual interest in the XIV Mortgage Loan Bond Trust	Sep-46	764,816	721,656
Residual interest in the XV Mortgage Loan Bond Trust	Jul-47	926,560	850,708
Residual interest in the XVI Mortgage Loan Bond Trust	Jul-52	508,573	845,935
		18,951,777	20,603,473
Total retained interests in securitizations		27,324,074	28,698,525
Government bonds:			
Agricultural securities of the Republic of Colombia	Jul-22	1,065,121	1,257,592
Total of government bonds		1,065,121	1,257,592
Others equity investments:			
Mutual funds	N/A	858,527	235,190
Total of others equity investments		858,527	235,190
Total of investments securities at FVTPL		29,247,722	30,191,307

(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, Fifteenth and Sixteenth Mortgage Loan Bond Trusts (maturing in 2022, 2039, 2041, 2042, 2045, 2046, 2047 and 2052 respectively). See Note 27.

Investment securities measured at AC

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

	Interest rate	Maturity	2022	2021
Government bonds:				
Bonds of the Republic of Colombia	2.48%	31-Jul-22	482,467	543,850
Bonds of the Republic of Panama	8.88%	31-Dec-27	221,755	221,268
			704,222	765,118
Less: loss allowance (ECL)			(10,899)	(3,299)
Total of investment securities at AC			693,323	761,819

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

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

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

	Maturity	2022	2021
Retained interests in securitizations:			
Residential mortgage-backed securities ('RMBS'):			
VIII Mortgage Loan Bond Trust	Dic-36	0	5,332,761
X Mortgage Loan Bond Trust	Sep-39	6,975,112	7,033,003
XI Mortgage Loan Bond Trust	Oct-41	1,886,268	2,187,157
XII Mortgage Loan Bond Trust	Nov-42	7,538,758	7,313,226
XIII Mortgage Loan Bond Trust	Dic-45	3,403,409	3,825,213
XIV Mortgage Loan Bond Trust	Sep-46	5,815,984	5,841,851
XV Mortgage Loan Bond Trust	Jul-47	6,602,952	7,007,541
XVI Mortgage Loan Bond Trust	Jul-52	10,575,742	10,065,610
Total retained interests in securitizations		42,798,225	48,606,362
Government bonds:			
Colombian Treasury bonds	Ago-26	1,950,875	2,496,421
U.S. Treasury bonds	Ago-27	27,045,650	32,007,050
Total of government bonds		28,996,525	34,503,471
Total of investment securities at FVOCI		71,794,750	83,109,833

As of September 30, 2022, the allowance for ECL of debt instruments classified as measured at FVOCI, amounts to B/.272,086 (2021: 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.

(8) Investment Securities, continued

Risk concentration and information about the loss allowance (ECL)

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

(9) Loans at amortized cost (AC)

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

	2022	2021
Domestic loans:		
Personal	38,482,410	41,328,836
Residential mortgages	478,480,178	413,999,734
Total domestic loans	516,962,588	455,328,570
Foreign loans:		
Personal	17,019,315	20,770,400
Residential mortgages	175,998,386	175,105,152
Total foreign loans	193,017,701	195,875,552
Accrued interest receivable	9,659,842	10,095,250
Net loss arising from modification	(251,818)	(582,257)
Gross carrying amount	719,388,313	660,717,115
Less: loss allowance (ECL)	(4,472,923)	(3,913,953)
Total loans at AC	714,915,390	656,803,162

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 the first quarter of 2021, the Bank made the purchase of the Ninth Mortgage Loan Bond Trust with a fair value of B/.3,204,062. The difference between the amount paid and the fair value of these purchased loans amounts to B/.1,702,992, and was recorded in the fair value reserve line item in the consolidated statement of changes in equity. The pending amortization value to date is B/.552,183 (2021: B/.691,337). Similarly, in April 2022, the Company purchased a residential mortgage portfolio from the Eighth Mortgage Loan Bond Trust with a fair value equal to the book value, which did not generate differences between the price paid and the fair value for this portfolio of residential loans.

During 2021, the Bank sold residential mortgage loans portfolios with a carrying amount of B/.112,500,000, to the Sixteenth Mortgage Loan Bond Trust (unconsolidated securitization vehicle), without generating profit or loss in the transaction. According to management's evaluation, the portfolio sold to the structured entity was derecognized from the Bank's accounts as it met the criteria in IFRS 9. See Note 27.

(10) Furniture, Equipment and Improvements, net

Furniture, equipment and improvements are summarized as follows:

2022	Furniture	Office equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at the beginning of the year	885,577	4,165,422	475,023	2,446,081	7,972,103
Additions	54,526	98,362	0	306,807	459,695
Sales and disposals	(84,976)	(393,633)	(29,572)	(371,641)	(879,822)
Effect of exchange rates fluctuations	0	0	0	0	0
Balance at September 30	855,127	3,870,151	445,451	2,381,247	7,551,976
Accumulated depreciation:					
Balance at the beginning of the year	782,027	3,575,686	389,414	1,541,784	6,288,911
Depreciation for the year	20,831	214,670	43,684	147,248	426,433
Sales and disposals	(84,243)	(392,830)	(29,572)	(308,836)	(815,481)
Effect of exchange rates fluctuations	(5,207)	(30,058)	0	(3,889)	(39,154)
Balance at September 30	713,408	3,367,468	403,526	1,376,307	5,860,709
Net balances	141,719	502,683	41,925	1,004,940	1,691,267

2021	Furniture	Office equipment	Vehicles	Leasehold improvements	Total
Cost:					
Balance at the beginning of the year	894,264	4,049,677	501,014	2,557,132	8,002,087
Additions	4,458	208,028	0	0	212,486
Sales and disposals	(11,120)	(78,775)	(25,991)	(109,256)	(225,142)
Effect of exchange rates fluctuations	(2,025)	(13,508)	0	(1,795)	(17,328)
Balance September 30	885,577	4,165,422	475,023	2,446,081	7,972,103
Accumulated depreciation:					
Balance at the beginning of the year	744,031	3,318,723	353,231	1,375,253	5,791,238
Depreciation for the year	50,197	375,291	62,174	216,026	703,688
Sales and disposals	(8,150)	(91,313)	(25,991)	(45,905)	(171,359)
Effect of exchange rates fluctuations	(4,051)	(27,015)	0	(3,590)	(34,656)
Balance at September 30	782,027	3,575,686	389,414	1,541,784	6,288,911
Net balances	103,550	589,736	85,609	904,297	1,683,192

(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:

	2022	2021
Accounts receivable:		
Customers	2,924,246	2,514,219
Employees	35,876	18,569
Insurance	144,701	50,876
Trusts	2,668,237	3,211,355
Other	2,221,884	2,871,840
	7,994,944	8,666,859
Interest receivable:		
On investment securities measured at FVTPL and FVOCI	1,596,502	531,606
Total	9,591,446	9,198,465

(12) Other assets

The other assets are detailed as follows:

	2022	**2021**
Guarantee deposits	56,326	56,325
Trust license	25,000	25,000
Employee severance fund	731,725	730,834
Prepaid expenses	1,995,205	1,807,862
Advances in assets purchase	10,382	9,948
Assets in foreclosure process	1,319,470	828,659
Foreclosed assets	909,974	922,410
Other	287,411	378,696
Total	5,335,493	4,759,734

(13) Negotiable Commercial Papers

The Bank has six (2021: six) rotating programs of negotiable commercial papers up to B/.200,000,000 (2021: B/.200,000,000), authorized by the Superintendence of the Securities Market of the Republic of Panama, which are backed up by the general credit of the Bank. Of these rotating programs, one program for the amount of B/.10,000,000, (2021: B/.10,000,000) is backed up by Grupo ASSA, S.A. At the reporting date, no paper has been issued under this program.

		2022	
Description	**Interest rate**	**Maturity**	**Amount**
Series CEV	2.7500%	January-23	500,000
Series CEW	2.7500%	January-23	2,500,000
Series DEI	2.7500%	March-23	5,000,000
Series DEJ	2.7500%	March-23	8,500,000
Series DEK	2.7500%	April-23	680,000
Series DEL	2.7500%	April-23	4,590,000
Series DEM	2.7500%	May-23	1,500,000
Series DEO	2.7500%	May-23	3,000,000
Series DEP	3.0000%	May-23	2,624,000
Series DEQ	3.0000%	June-23	1,425,000
Series DER	3.5000%	June-23	2,000,000
Series BK	3.5000%	June-23	3,000,000
Series BEK	3.6250%	July-23	1,122,000
Series BL	3.6250%	July-23	74,000
Series BM	3.8750%	august-23	2,408,000
Total nominal amount			38,923,000
Accrued interest payable			147,054
Less: issuance costs			(50,611)
Total negotiable commercial papers at AC			39,019,443

(13) Negotiable Commercial Papers, continued

		2021	
Description	Interest rate	Maturity	Amount
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			35,233,000
Accrued interest payable			133,293
Less: issuance costs			(51,199)
Total negotiable commercial papers at AC			35,315,094

As of September 30, 2022, the Bank has complied with the payment terms of principal and interest for its negotiable commercial papers.

(14) Negotiable Commercial Notes

The Bank has four (2021: four) programs of negotiable commercial notes totaling B/.240,000,000 (2021: B/.240,000,000). The placements of the first issuance by B/.40,000,000 are guaranteed by the general credit of the Bank and a trust guarantee of loan mortgages. At the reporting date, the Bank does not have outstanding notes related to this program.

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

Description	Interest rate	Maturity	2022	2021
SERIES CC	4.250%	february-22	0	1,378,000
SERIES AM	4.250%	march-22	0	2,000,000
SERIES CE	4.250%	march-22	0	1,710,000
SERIES CP	4.375%	march-22	0	260,000
SERIES CJ	4.250%	march-22	0	40,000
SERIES CK	4.250%	march-22	0	1,000,000
SERIES AQ	4.700%	june-22	0	2,558,000
SERIES AS	4.500%	june-22	0	2,000,000
SERIES CM	4.500%	july-22	0	2,500,000
SERIES CN	4.500%	august-22	0	727,000
SERIES CQ	4.500%	november-22	3,000,000	3,000,000
SERIES CD	4.500%	february-23	0	1,500,000
SERIES AK	4.500%	march-23	0	2,000,000
SERIES C	4.000%	march-23	1,000,000	1,000,000
SERIES E	4.000%	march-23	3,255,000	3,255,000
SERIES J	4.250%	may-23	2,466,000	2,466,000
SERIES K	4.250%	may-23	1,100,000	1,100,000
SERIES AT	4.700%	june-23	2,000,000	2,000,000
SERIES CO	4.700%	august-23	810,000	810,000
SERIES O	3.625%	august-23	1,000,000	1,000,000
SERIES CX	4.125%	february-24	1,725,000	0
SERIES B	4.250%	february-24	3,000,000	3,000,000
SERIES D	4.250%	march-24	2,705,000	2,705,000
SERIES Q	3.000%	march-24	5,000,000	0
SERIES F	4.125%	april-24	1,000,000	1,000,000
SERIES H	4.000%	may-24	2,990,000	2,990,000
SERIES L	4.000%	june-24	2,000,000	2,000,000
SERIES CS	4.000%	june-24	2,548,000	0
SERIES CT	4.000%	june-24	3,400,000	0
SERIES CU	4.000%	july-24	2,500,000	0
SERIES CW	4.000%	august-24	25,000	0
SERIES CY	4.250%	august-24	644,000	0
SERIES R	3.375%	october-24	1,807,000	0
SERIES CR	4.000%	december-24	5,000,000	5,000,000
SERIES S	3.750%	april-25	1,575,000	0
SERIES I	4.250%	may-25	2,000,000	2,000,000
SERIES U	4.000%	may-25	1,000,000	0
SERIES V	4.000%	may-25	2,000,000	0
SERIES A	4.900%	january-26	1,000,000	1,000,000
SERIES P	3.500%	febuary-26	4,000,000	0
SERIES T	4.000%	april-26	275,000	0
SERIES G	4.750%	april-26	1,000,000	1,000,000
SERIES W	4.500%	may-26	1,704,000	0
SERIES M	4.500%	june-26	1,500,000	1,500,000
SERIES N	4.500%	july-26	1,000,000	1,000,000
Total nominal amount			66,029,000	55,499,000
Accrued interest payable			122,387	103,416
Less: issuance costs			(70,884)	(78,331)
Total negotiable commercial notes at AC			66,080,503	55,524,085

As of September 30, 2022, the Bank has complied with the payment terms of principal and interest for its negotiable commercial notes.

(15) Covered Bonds

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

The Bank has issued three tranches of covered medium-term bonds, net of commissions, amounting to B/.51,516,921 (2021: B/.51,347,808) 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 (2021: B/.65,000,000).

As of September 30, 2022, 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, 2022, the Colombian subsidiary has issued medium-term ordinary bonds for B/.9,742,939 (2021: B/.13,009,668) at an interest rate of 6.29% (2021: 6.29%) maturing on September 23, 2025.

The ordinary bonds are guaranteed with a Panamanian mortgage loans portfolio amounting to B/.12,178,674 (2021: B/.17,330,304).

As of September 30, 2022, the Bank has complied with the payment terms of principal and interest for its ordinary bonds.

(17) Investment Certificates

The Bank is authorized by the Superintendence of the Securities Market of El Salvador for two (2021: two) issuances of Investment Certificates up to B/.100,000,000 (2021: B/.100,000,000). Currently, both programs have no special guarantees.

Description	Interest rate	Maturity	2022	2021
Tranche 18	5.350%	March 2022	0	1,000,000
Tranche 19	5.350%	March 2022	0	1,000,000
Tranche 21	5.750%	May 2022	0	350,000
Tranche 22	5.750%	June 2022	0	2,200,000
Tranche 23	5.750%	August 2022	0	5,000,000
Tranche 24	5.750%	August 2022	0	2,000,000
Tranche 26	5.375%	January 2023	500,000	500,000
Tranche 01	5.000%	February 2023	600,000	600,000
Tranche 02	5.000%	March 2023	1,000,000	1,000,000
Tranche 03	5.000%	March 2023	1,000,000	1,000,000
Tranche 05	5.000%	April 2023	1,000,000	1,000,000
Tranche 06	5.000%	April 2023	2,000,000	2,000,000
Tranche 07	4.500%	August 2023	850,000	850,000
Tranche 04	5.125%	September 2023	1,000,000	1,000,000
Tranche 08	4.750%	December 2023	2,000,000	0
Tranche 11	5.500%	August 2024	1,000,000	0
Tranche 12	5.500%	September 2024	6,000,000	0
Tranche 09	5.250%	June 20235	2,000,000	0
Total nominal of investment certificates			18,950,000	19,500,000
Accrued interest payable			35,992	29,129
Less: issuance costs			(28,479)	(5,503)
Total investment certificates at AC			18,957,513	19,523,626

As of September 30, 2022, the Bank has complied with the payment terms of principal and interest for its investment certificates.

(18) Other Negotiable Debts

The Bank has two (2020: two) revolving plans of negotiable debt (stock market paper) up to B/.35,000,000 (2020: B/.35,000,000), which were authorized by the Superintendence of the Securities of El Salvador. These programs have no specific guarantees.

2022

Description	Interest rate	Maturity	Amount
Tranche 14	5.3750%	November 2022	2,000,000
Tranche 18	4.5000%	June 2023	1,725,000
Total nominal amount			3,725,000
Accrued interest payable			11,554
Less: issuance costs			0
Total other negotiable debts at AC			3,736,554

2021

Description	Interest rate	Maturity	Amount
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	2,000,000
Total nominal amount			10,850,000
Accrued interest payable			43,017
Less: issuance costs			(4,535)
Total other negotiable debts at AC			10,888,482

As of September 30, 2022, the Bank has complied with the payment terms of principal and interest for its negotiable debt.

(19) Borrowings

The borrowings are summarized as follows:

	2022	2021
Line of credit for working capital for B/.50,000,000, with maturity in the year 2028 and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	25,000,000	25,000,000
Line of credit for working capital for B/.15,000,000, with maturity in the year 2024, renewable at the parties' option and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	8,000,000	0
Line of credit for working capital for B/.9,800,000, with maturity in the year 2024, renewable at the parties' option and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	4,000,000	0
Line of credit for working capital for B/.45,000,000, with maturity in the year 2023, renewable at the parties' option and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	36,000,000	5,000,000
Line of credit for working capital for B/.8,000,000, with maturity in the year 2024, renewable at the parties' option and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	4,000,000	0
Line of credit for working capital for B/.25,000,000, with maturity in the year 2028, and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	25,000000	25,000,000
Line of credit for working capital for B/.60,000,000, with maturity in the year 2028 and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	47,000,000	25,000,000
Line of credit for working capital for B/.45,000,000, with maturity in the year 2024 and fixed interest rate	26,000,000	32,500,000
Line of credit for working capital for B/.40,000,000, with maturity in the year 2025 and fixed interest rate	28,750,000	40,000,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2026 and fixed interest rate	10,000,000	10,000,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2026 and fixed interest rate	10,000,000	10,000,000
Line of credit for working capital for B/.25,000,000, with maturity in the year 2022, and fixed interest rate, guaranteed by a portfolio of residential mortgage loans	0	3,571,432
Line of credit for working capital for B/.3,000,000, with maturity in the year 2022 and fixed interest rate	0	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, guaranteed by a portfolio of residential mortgage loans	0	16,571,429
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
Subtotal continues on next page	231,000,000	202,892,861

(19) Borrowings, continued

	2022	2021
Subtotal continues from previous page	231,000,000	202,892,861
Indexed loan for working capital up to approximately B/16,000,000 (COP 64 billion), and annual fixed interest rate with maturity in the year 2025	13,212,078	7,957,336
Line of credit for working capital up to approximately B/.1,600,000, (COP 6 billion) and annual fixed interest rate with maturity in the year 2023	1,304,592	1,111,485
Indexed loan for working capital up to approximately B/.9,042,590 (COP 36 billion), and annual fixed interest rate with maturity in the year 2025	7,902,263	8,995,773
Line of credit for working capital up to approximately B/.1,500,000, (COP 6 billion) and fixed interest rate with maturity in the year 2023	827,436	1,507,098
Line of credit for working capital up to approximately B/.2,000,000, (COP 8 billion) and IBR plus margin interest rate with maturity in the year 2023	1,654,873	2,009,465
Line of credit for working capital up to approximately B/.7,300,000 (COP 30 billion) and IBR interest rate plus margin with maturity in the year 2025	2,647,797	502,366
Line of credit for working capital up to approximately B/.2,000,000, (COP 8 billion) and IBR interest rate plus margin with maturity in the year 2022	220,650	502,366
Line of credit for working capital up to approximately B/.2,500,000 (COP 10 billion) and IBR interest rate plus margin with maturity in the year 2023	2,206,497	2,511,8310
Total nominal amount	260,976,186	227,990,581
Accrued interest payable	3,224,726	1,694,282
Less: issuance costs	(2,0098,665)	(2,270,057)
Total borrowings at AC	262,192,247	227,414,806

As of September 30, 2022, the Bank has complied with the payment terms of principal and interest for its borrowings.

(20) Other Liabilities

The other liabilities are detailed as follows:

	2022	2021
Sundry creditors	2,011,690	1,374,971
Cashier's checks	1,792,724	1,030,975
Provision for labor benefits and other remunerations	1,807,554	1,858,332
Advances from customers	1,807,919	1,647,476
Other	611,008	721,449
Total	8,030,895	6,633,203

(21) Capital and Reserves

The composition of common shares is detailed as follows:

	2022	2021
Authorized shares with nominal value of B/.1,000	15,000	15,000
Shares issued	15,000	15,000
Treasury shares	(727)	(727)
Shares outstanding	14,273	14,273
Carrying amount of the shares as of Septemberr 30	14,273,000	14,273,000

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

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

Reserves

Nature and purpose of reserves:

Capital reserve

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

Fair value reserve

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

(21) Capital and Reserves, continued

Currency conversion reserve

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

Regulatory reserves

Dynamic provision

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

Specific provision in excess

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

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.009-2020 that modifies Agreement No.002-2020, both issued by the Superintendence 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 33.

(22) Management and Service Commissions, and Other Income

The service commissions and other income are detailed as follows:

	2022	2021
Management and servicing commissions:		
Trust management	1,585,847	1,319,912
Collection management	1,877,760	1,831,779
Insurance management	364,292	485,940
Other	1,868,562	1,571,107
	5,696,461	5,208,738
Other income:		
Insurance	38,508	118,332
Gain on sale of foreclosed assets	284,243	200,514
Other	523,597	951,046
	846,348	1,269,892

(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:

	2022	2021
Salaries and other personnel benefits:		
Wages	3,064,168	2,962,729
Representation expenses	557,643	584,178
Bonuses	488,891	165,000
Social security costs	427,274	427,024
Employment benefits	285,432	216,260
Travel, per diem and fuel	90,637	125,590
Severance costs	102,836	97,585
Training and seminars	103,386	136,286
Other	216,156	221,272
	5,336,423	4,935,924
Other general and administrative expenses:		
Rent	91,706	74,568
Advertising	590,169	439,122
Equipment maintenance	689,606	628,102
Office supplies	32,416	38,177
Utilities expense	181,563	202,380
Bank charges	227,507	186,970
Services	357,456	251,398
Insurance	58,905	56,932
Other	1,359,501	889.935
	3,588,829	2,767,584

Share purchase option plan

In 2022, 2019, 2016, 2014 and 2012 the Board of Directors of La Hipotecaria (Holding), Inc. approved plans to grant share purchase options to executives of the Bank for 8,950 options with a unit fair value of B/.28.481, 15,110 options with a unit fair value of B/.24.166, 13,650 options with a unit fair value of B/.15.025 and 13,350 options with a unit fair value of B/.8.591, respectively, with an exercise maturity in 10 years for each plan.

As of September 30, 2022, there are 51,060 options outstanding (2021: 45,782), 12,624 options were executed (2021: 0). These options have a weighted-average price of exercise of B/.25.65 (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 2022, the Bank has recorded B/.149,616 (2021: B/.204,979) as expense for options issuance.

(24) Income Taxes

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

(24) Income Taxes, continued

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

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

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

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

	Colombia	El Salvador
Current rates	35%	30%

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

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

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

- 50% of the industry and commerce tax may be taken as a tax deduction for the income tax in the taxable year in which it is effectively paid and to the extent that it has a causal link with its economic activity. As of the year 2022 it can be discounted 100%.

(24) Income Taxes, continued

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

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

- 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:

	2022	**2021**
Current tax expense	1,111,464	790,359
Deferred tax expense – temporary differences	(84,983)	30,399
Total income tax expense	1,026,481	820,758

The effective tax rate is detailed as follows:

	2022	**2021**
Net income before income tax	5,300,019	5,489,375
Income tax expense	1,111,464	820,758
Effective tax rate	20.97%	14.95%

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:

	2022	**2021**
Net income before income tax	5,300,019	5,489,375
Tax using the Bank's domestic tax rate	1,325,005	1,372,344
Effect of tax rates in foreign jurisdictions	(216,955)	(748,310)
Tax effect of:		
Tax-exempt income	(94,077)	(64,591)
Non-deductible expenses	97,491	230,917
Recognition of deductible temporary differences	(84,983)	30,399
Total income tax expense	1,026,481	820,758

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

(24) Income Taxes, continued

Deferred income tax is comprised as follows:

	2022		2021	
	Temporary differences	Deferred tax	Temporary differences	Deferred tax
Deferred tax asset				
Allowance for ECL on loans	4,472,923	998,378	3,564,311	913,859
Voluntary retirement incentive plan	66,090	19,827	69,253	20,776
Operating losses carried forward (1)	719,426	251,799	1,167,061	350,244
	5,258,439	1,270,004	4,800,625	1,284,879

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

The movement in deferred tax balances is as follows:

2022	Balance at the beginning of the year	Recognized in profit or loss	Effect of exchange rates	Balance at the end of the year Deferred tax asset
Allowance for ECL on loans	913,859	84,519	0	998,378
Voluntary retirement incentive plan	20,776	(949)	0	19,827
Operating losses carried forward(1)	350,244	1,414	(99,859)	251,799
Deferred tax asset	1,284,879	84,984	(99,859)	1,270,004

2021	Balance at the beginning of the year	Recognized in profit or loss	Effect of exchange rates	Balance at the end of the year Deferred tax asset
Allowance for ECL on loans	1,027,790	(81,811)	(32,120)	913,859
Voluntary retirement incentive plan	21,352	(576)	0	20,776
Operating losses carried forward(1)	780,504	(374,415)	(55,845)	350,244
Deferred tax asset	1,829,646	(456,802)	(87,965)	1,284,879

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

As of September 30, 2022, the Bank has not recognized a liability for deferred income tax of approximately B/.451,1275 (2021: B/.482,175) for the retained earnings of its operations abroad, as the Bank considers that approximately B/.9,022,535 (2021: B/.9,643,490) 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/.298,520,355 (2021: B/.342,248,852). Taking into consideration the nature of these services, management believes that they do not represent a significant risk to the Bank. Information about the Bank's involvement with non-consolidated structures entities is detailed in Note 26.

(26) Involvement with Non-Consolidated Structured Entities

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

Type of structured entity	Nature and purpose	Interest held by the Bank	Total assets 2022	Total assets 2021
Residential mortgage loan securitization trusts	To generate: • Funds for the Bank's lending activities • Commission for administration and management of loan portfolio These trusts are financed through the sale of debt instruments.	• Investments in residential mortgage-backed securities ('RMBS') issued by the trusts • Residual interests	298,520,355	342,248,852

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.

Carrying amount by the Bank	2022 Investment in securities	2021 Investment in securities
Residential mortgage loan securitization trusts	70,122,299	77,304,887
Total	70,122,299	77,304,887

During 2022, the Bank has not granted financial support to unconsolidated structured entities.

(27) Transfers of Financial Assets

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

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

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

(27) Transfers of Financial Assets, continued

Sales to unconsolidated structures entities

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

In October 2021, the Bank sold certain residential mortgage loans to unconsolidated securitization vehicles (trusts) and, as part of the consideration, received bonds issued by these securitization vehicles. The bonds received represent 11% of the total issued. The Bank classifies these debt securities as measured at VRCOUI and VRCR, considering the criteria defined in the accounting policy for the classification of financial instruments. In accordance with the sales contracts agreed with the securitization vehicles, the Bank did not generate profits or losses in this transaction.

During 2022, the Bank has recognized as part of the interest income from investment in securities calculate using the effective interest method B/.2,9535,869 (2021: B/.2,514,004) of interest earned on residential mortgage-backed securities received from securitization transactions and that are part of the Bank's investment portfolio in securities measured at FVOCI.

Additionally, the Bank has recognized as part of the net gain on investment securities at FVTPL, B/.1,036,010 (2021: gain B/.856,564) 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 2022, the Bank has recognized commission income from servicing activities provided to securitization vehicles amounting to B/.1,585,848 (2021: B/.1,319,912).

(27) Transfers of Financial Assets, continued

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

Type of continuing involvement	Carrying amount	Fair value	
	Investment securities	Assets	Liabilities
Bonds issued by unconsolidated securitization vehicles			
September 30, 2022	51,170,522	51,170,522	0
December 31, 2020	56,701,414	56,701,414	0
Residual Interest:			
September 30, 2022	18,951,777	18,951,777	0
December 31, 2020	20,603,473	20,603,473	0

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

(28) Commitments and Contingencies

In the ordinary course of business, the Bank held financial instruments with off-balance sheet risks to cover the financial needs of its customers. As of December 31, 2021, the Bank has issued promise letters for B/.121,841,944 (2021: B/.74,377,289), of which B/.4,700,181 (2021: B/.3,335,283) are irrevocable.

(29) Leases

At September 30, 2022, 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:

	2022	2021
Property:		
Balance at the beginning of the year	1,978,284	2,506,132
New contracts	353,850	245,090
Cancellation	(329,332)	(243,329)
Depreciation charge for the year	(341,885)	(538,249)
Effect of exchange rates fluctuations	(46,751)	8,640
Balance at the end of the period	1,614,165	1,978,284

Lease liabilities

As of September 30, 2022, the Bank's lease liabilities amount to B/.2,090,198 (2021: B/.2,405,253). See Note 4 (b) for maturity analysis of lease liabilities.

(29) Leases, continued

Amounts recognized in the consolidated statement of profit or loss
As of September 30, 2022, the Bank has recognized interest expenses on its lease liabilities for B/.100,225 (2021: B/.186,364) 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/.73,813 (2021: B/.74,568) as part of rental expenses in profit or loss. See Note 23.

Amounts recognized in the consolidated statement of cash flows
As of September 30, 2022, the total cash outflows for leases recognized in the consolidated statement of cash flows amounts to B/.489,093 (2021: B/.652,321) This amount includes the portion of payments to principal of lease contracts classified as part of the financing activities for B/.315,055 (2021: B/.540,233), the portion of interest on lease liabilities B/.100,225 (2021: B/.112,088) and the portion of expenses relating to short-term leases and leases of low-value assets for B/.73,813 (2021: B/.74,568) classified as operating activities.

(30) Fair value of Financial Instruments

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

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

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

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

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

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

(30) Fair value of Financial Instruments, continued

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

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

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

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

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

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

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

(30) Fair value of Financial Instruments, continued

Mortgage-backed securities and residual interest on securitizations

During 2022, there has not been sufficient trading volume to establish an active market for certain asset-backed securities (e.g., residential mortgage loan bonds and residual interest in securitizations), and so the Bank has determined the fair value for these asset-backed securities using other valuation techniques. These securities held by the Bank are backed by static pools of residential mortgages and enjoy a senior claim on cash flows.

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

Valuation framework

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

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

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

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

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

(30) Fair value of Financial Instruments, continued

Financial instruments measured at fair value – Fair value hierarchy

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

2022	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Assets:					
Financial assets measured at fair value:					
Investment securities at FVOCI	71,794,750	27,045,650	1,950,875	42,798,225	71,794,750
Investment securities at FVTPL	30,106,249	0	1,923,648	28,182,601	30,106,249

2021	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Assets:					
Financial assets measured at fair value:					
Investment securities at FVOCI	83,109,833	32,007,050	2,496,421	48,606,362	83,109,833
Investment securities at FVTPL	30,191,307	0	1,257,592	28,933,715	30,191,307

During 2022, no transfers were made in the fair value hierarchy for investment securities measured at FVOCI or at FVTPL.

Fair value measurements - Level 3

Reconciliation

The flowing table shows a reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	2022	2021
Balance at the beginning of the year	77,540,077	61,787,679
Total gains or losses:		
in profit or loss	1,036,010	1,751,466
In OCI	1,574,805	(763,906)
Purchases	623,337	17,365,977
Settlements	(9,793,404)	(2,601,139)
Balance at September 30	70,980,826	77,540,077

(30) Fair value of Financial Instruments, continued

Unobservable inputs used in measuring fair value

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

Quantitative information – Level 3 fair values

Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimates (weighted average) 2022	2021
Residential mortgage-backed securities ('RMBS')	Discounted cash flows	Standard Default Assumptions ("SDA")	1.32% - 0.10% (0.55%)	1.68% - 0.10% (0.62%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	47.69% - 31.94% (40.92%)	48.72% - 29.51% (41.08%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 months	12 months
Residual interests in securitizations	Discounted cash flows	Standard Default Assumptions ("SDA")	1.32% - 0.10% (0.55%)	1.68% - 0.10% (0.62%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	47.69% - 31.94% (40.92%)	48.72% - 29.51% (41.08%)
		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.

	2022			
	Effect on profit or loss		Effect on OCI	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Residual interests in securitizations and government bonds:				
Investment securities at FVTPL	84,316	(83,483)	0	0
Investment securities at FVOCI	0	0	30,828	(32,014)
	84,316	(83,483)	30,828	(32,014)

(30) Fair value of Financial Instruments, continued

	2021			
	Effect on profit or loss		Effect on OCI	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Residual interests in securitizations and government bonds:				
Investment securities at FVTPL	1,821,592	(567,386)	0	0
Investment securities at FVOCI	0	0	2,285,878	(1,688,439)
	1,821,592	(567,386)	2,285,878	(1,688,439)

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

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

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

		Fair value		
2022	Carrying amount	Level 2	Level 3	Total
Assets:				
Financial assets not measured at fair value:				
Loans at AC	715,167,208	0	804,710,174	804,710,174
Investment securities at AC	704,222	733,206	0	733,206
Liabilities:				
Financial liabilities not measured at fair value:				
Time deposits from customers	375,379,771	0	346,361,612	346,361,612
Negotiable commercial papers	39,019,443	0	38,921,067	38,921,067
Negotiable commercial notes	66,080,503	0	61,040,196	61,040,196
Covered bonds	51,516,921	0	50,265,912	50,265,912
Ordinary bonds	9,627,669	0	8,518,939	8,518,939
Investment certificates	18,957,513	0	28,795,368	28,795,368
Other negotiable debt	3,736,554	0	3,726,529	3,726,529
Borrowings	262,192,247	0	247,659,140	247,659,140

(31) Fair value of Financial Instruments, continued

2021	Carrying amount	Fair value Level 2	Level 3	Total
Assets:				
Financial assets not measured at fair value:				
Loans at AC	656,803,162	0	661,651,223	661,651,223
Investment securities at AC	761,819	848,061	0	848,061
Liabilities:				
Financial liabilities not measured at fair value:				
Time deposits from customers	367,056,823	0	343,833,080	343,833,080
Negotiable commercial papers	35,315,094	0	35,233,070	35,233,070
Negotiable commercial notes	55,524,085	0	51,891,992	51,891,992
Covered bonds	51,347,808	0	51,940,748	51,940,748
Ordinary bonds	13,009,668	0	12,991,411	12,991,411
Investment certificates	19,523,626	0	19,543,297	19,543,297
Other negotiable debt	10,888,482	0	10,898,129	10,898,129
Borrowings	227,414,806	0	227,963,952	227,963,952

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

The table below details information about the significant inputs and assumptions used in measuring the fair value as of September 30, 2022 for the financial instruments that are not measured at fair value.

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

(31) Segment Information

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

The composition of the business segments is described as follows:

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

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

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

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

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

2022	Trust management	Mortgage as assets	Personal loans as assets	Other investments	Total
Interest income	0	32,816,676	4,694,933	3,261,852	40,773,461
Interest expense	0	(23,784,462)	(1,386,429)	(2,544,380)	(27,715,271)
Provisions for loan losses and for investment securities at AC and at FVOCI	0	(565,868)	(1,430,621)	(173,782)	(2,170,271)
Net loss in loan modification	0	330,449	0	0	330,449
Net gain on investments at FVTPL	0	0	0	1,036,010	1,036,010
Management and servicing commissions	2,266,196	3,315,452	114,813	0	5,696,461
Other income, net of commissions paid	0	(66,208)	(3,858)	(7,080)	(77,147)
General and administrative expenses	(1,173,494)	(9,384,484)	(1,491,443)	(524,251)	(12,573,673)
Segment income before tax	1,092,702	2,661,554	497,395	1,048,368	5,300,019
Segment assets	0	730,775,845	66,128,425	116,354,565	913,258,835
Segment liabilities	0	716,543,703	43,799,310	77,065,947	837,408,960

(31) Segment Information, continued

2021	Trust management	Mortgage as assets	Personal loans as assets	Other investments	Total
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
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	(932,405)	(8,044,437)	(2,125,626)	(448,629)	(11,551,097)
Segment income before tax	1,022,404	2,269,299	1,945,942	251,730	5,489,375
Segment assets	0	670,275,985	70,655,713	129,783,126	870,714,824
Segment liabilities	0	653,428,634	49,319,432	90,591,825	793,339,891

The composition of the geographic segments is described as follows:

2022	Panama	El Salvador	Colombia	Total
Interest income	25,791,700	6,938,833	8,042,928	40,773,461
Interest expense	(19,999,625)	(3,880,601)	(3,835,045)	(27,715,271)
Provisions for loan losses and for investment securities at AC and at FVOCI	(1,275,333)	(165,467)	(729,471)	(2,170,271)
Net loss in loan modification	330,449	0	0	330,449
Net gain on investments at FVTPL	1,036,010	0	0	1,036,010
Management and servicing commissions	4,583,860	835,769	276,832	5,696,461
Other income, net of commissions paid	(221,825)	(32,512)	177,190	(77,147)
General and administrative expenses	(8,586,358)	(1,645,715)	(2,341,600)	(12,573,673)
Segment income before tax	1,658,878	2,050,307	1,590,834	5,300,019
Segment assets	693,140,737	129,958,075	90,160,023	913,258,835
Segment liabilities	655,351,730	111,521,200	70,536,030	837,408,960

2021	Panama	El Salvador	Colombia	Total
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 FVOCI and at amortized cost	(877,954)	90,163	(524,376)	(1,312,167)
Net gain on investments at FVTPL	856,564	0	0	856,564
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	(7,708,981)	(1,805,664)	(2,036,452)	(11,551,097)
Segment income before tax	1,622,044	2,535,173	1,332,158	5,489,375
Segment assets	643,691,176	134,600,561	92,423,087	870,714,824
Segment liabilities	606,535,647	115,575,440	71,228,804	793,339,891

(32) Preferential Interests on Mortgage Loans

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

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

During 2022, the Bank recognized preferential interest income on residential mortgage loans net of reserve amounting to B/.9,008,656 (2021: B/.11,245,780) in profit or loss. During the period The Bank sold fiscal credits to third partiesfor B/. 6,501,720 (2021: B/.3,181,825) without generating profit or loss on its sale.

As of September 30, 2022, the accumulated tax credit amounts to B/.23,584,381 (2021: B/.24,077,858), and is included as a line item in the consolidated statement of financial position.

(33) Main Applicable Laws and Regulations

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

(a) Banking Law

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

(b) Trust Law

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

(33) Main Applicable Laws and Regulations, continued

(c) Securities Law

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

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

The main regulations or standards 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 of December 18, 2012 and 2) in the event that the calculation of a provision or reserve under prudential rules applicable to banks to submit additional accounting specific aspects required IFRS, is greater than the respective calculation under IFRS oversupply or under prudential reserves is recognized in a regulatory reserve in equity.

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

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

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

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

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

(33) Main Applicable Laws and Regulations, continued

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

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

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

This Agreement is effective as of June 30, 2014 and repeals all parts of the Agreement No.6-2000 of June 28, 2000 and its amendments, Agreement No.6-2002 of August 12, 2002 and Article 7 of Agreement No.2-2003 of March 12, 2003.

Specific provisions

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

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

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

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

	2022		2021	
Classification	**Balance**	**Allowance**	**Balance**	**Allowance**
Normal	479,066,120	0	421,787,266	0
Special mention	13,467,966	656,985	11,284,612	604,874
Substandard	6,838,783	1,107,764	7,457,247	1,480,346
Doubtful	6,012,238	1,631,280	7,388,189	1,646,583
Unrecoverable	11,577,481	2,302,077	7,411,255	1,941,125
Total	516,962,588	5,698,106	455,328,569	5,672,928

(33) Main Applicable Laws and Regulations, continued

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

2022	**Current**	**Past due**	**Default**	**Total**
Loans to customers	459,284,654	33,249,432	24,428,502	516,962,588
2021	**Current**	**Past due**	**Default**	**Total**
Loans to customers	404,531,242	28,540,634	22,256,693	455,328,569

As of September 30, 2022, 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/.21,972,099 (2021: B/.16,232,555)

Dynamic provision

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

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

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

	2022	**2021**
Banco La Hipotecaria, S. A.	2,517,152	2,517,152
La Hipotecaria, S. A. de C.V.	1,468,441	1,468,441
La Hipotecaria C. F., S. A.	721,360	721,360
Total	4,706,953	4,706,953

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

By requirements of Agreement No.004-2013, a regulatory provision was constituted, amounted B/.2,190,805 (2021: B/.2,570,398), which represents the excess of regulatory provision over the allowance for loan losses in accordance with IFRS.

(33) Main Applicable Laws and Regulations, continued

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

Country risk exposure

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

Management framework

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

Country risk provision

In accordance with the provisions of Article 15 of Agreement No.007-2018, *"the maximum provisions must be established between those resulting from comparing those corresponding to the nature of the operation and the provisions for country risk. The final provision constituted by country risk will be calculated after deducting the provisions established corresponding to the nature of the operation in question. "* For the operations and resources exposed to country risk, as of September 30, 2022, 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*

<u>Modified special mention (watch list) category loans</u>

In accordance with the requirements of Article 8 of Agreement No. 006-2021 of December 22, 2021, below is a detail of the modified special mention category loan portfolio and its respective provisions and regulatory reserves as of September 30, 2022, classified according to the codifications indicated in the General Resolution of the Board of Directors SBP-GJD-0003-2021 and according to the risk stage of IFRS 9:

(33) Main Applicable Laws and Regulations, continued

	Stage 1	Stage 2	Stage 3	Total
Modified Special Mention Loans				
Modified - normal	93,510	0	0	93,510
Modified - special mention	0	0	0	0
Modified - substandard	8,583,450	477,501	316,731	9,377,682
Modified - doubtful	0	0	14,708,500	14,708,500
Modified - unrecoverable	0	0	10,857,621	10,857,621
Total modified loans	8,676,960	477,501	25,882,852	35,037,313
(+) Interest receivable	31,237	3,832	138,449	173,518
(+) Account receivable – COVID 19	464,104	38,415	1,705,674	2,208,193
Total of loan portfolio subject to provisions	9,172,301	519,748	27,726,975	37,419,024

	Stage 1	Stage 2	Stage 3	Total
Allowance				
Allowance under IFRS 9	251,791	17,745	2,063,028	2,332,564
Regulatory reserves (equity)	0	0	0	2,337,942
Total allowance and reserves	251,791	17,745	2,063,028	4,670,506

As explained in Note 34 on the effects of COVID-19, 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 September 30, 2020. As of that date, and as a result of an 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 who requested it. These financial relief measures consist mainly of granting grace periods for capital and interest to customers whose income has been affected by the pandemic.

As part of the Bank's risk management, both individual and collective analyzes of the loan's condition 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.

(33) Main Applicable Laws and Regulations, continued

The following table shows the percentage of the amount of modified special mention loans, that as of September 30, 2022 did not comply with payments of their installments counted from the last payment of the full installment recorded at the time of the credit modification.

	Up to 90 days	Between 91 and 120 days	Between 121 and 180 days	Between 181 and 270 as
Loans to people	64%	1.25%	0.87%	0%

As mentioned at the beginning of this note, on September 11, 2020, the Superintendence of Banks issued Agreement No. 009-2020 that modifies Agreement No. 002-2020 of March 16, 2020, through which, among other things 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 modified loans in the normal category and special mention will be classified in the category "modified special mention" for purposes of determining the respective provisions. Modified restructured loans that were in the category of substandard, doubtful or unrecoverable will maintain the credit rating they had at the time of their modification with their respective provision.

In accordance with the agreement mentioned in the previous paragraph, on the modified special mention loan portfolio, the banks had to constitute a provision equivalent to the greater 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 uncollected accrued interest and capitalized expenses; being able to exclude from this calculation those modified credits guaranteed with pledged deposits in the same bank up to the guaranteed amount.

Through Agreement No. 006-2021, the Superintendence repealed the article that required the generic provision indicated in the previous paragraph, however, taking into consideration the new circumstances derived from COVID-19 and the significant increase in credit risk as a result of the passage of time, banking entities will not be able to reverse the provisions previously established (on profit or loss or equity) as of November 2021 for the entire modified portfolio as of that date, in accordance with the Article 8 of Agreement No. 002- 2021.

Notwithstanding the foregoing, in the event that a modified credit is reinstated to the application of Agreement No. 004-2013 in the normal category, banking entities may use the corresponding portion of the previously constituted provision to constitute the IFRS provision. required. This provision will be in force until the Superintendence determines it, based on the future behavior of the modified portfolio.

(33) Main Applicable Laws and Regulations, continued

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

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

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

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

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

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

(34) Response to the COVID-19 Crisis

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.

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

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.