

**LA HIPOTECARIA (HOLDING), INC.
AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Financial Statements
and Consolidating Information**

December 31, 2024

(With Independent Auditors' Report Thereon)

This document has been prepared with the understanding that its content will be made available to the investing public and the general public.

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

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(FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
La Hipotecaria (Holding), Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of La Hipotecaria (Holding), Inc. and Subsidiaries (“the Company”), which comprise the consolidated statement of financial position as of December 31, 2024, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2024, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We have conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (including international independence Standards) (IESBA Code) along with the ethics requirements that are relevant to our audit of the consolidated financial statements in the Republic of Panama, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Allowance for loan losses

See Notes 3 (c.7) 4 (a) and 9 to the consolidated financial statements

Key audit matter

How the key matter was addressed during the audit

The allowance for loan losses at amortized cost is considered one of the most significant issues since its methodology requires the application of judgements and assumptions by management for the design and application of expected credit loss model ("ECL"). The loan portfolio at amortized cost represents 77% of the Company's total assets as of December 31, 2024.

The allowance for loan losses the ECL as a result of the loan rating and the methodology used to determine the probability of default according to the impairment stage assigned.

The ECL is determined based on the grouping of loans with similar credit risk characteristics. The model is composed of estimates of the probability of default, loss given default, prospective analysis, and exposure to default. The evaluation of whether there has been a significant increase in the credit risk of the loans entails the application of important judgments in these models. This constitutes a challenge from an audit perspective due to the complexity of estimating the components used to perform these calculations and the application of the Company's judgment.

Our audit procedures, considering the use of specialists, included:

- Assessment of key controls on calculations of delinquency and the accuracy of client's information and used methodologies.
- Assessment of the methodology applied by the Company in the estimation model of the ECL was assessed in accordance with IFRS 9 *Financial Instruments*, through the inspection of policies, manuals and methodology documented and approved by the Company's corporate governance.
- Independent evaluation of the inputs used in the model based on the methodology and the recalculation according to the ECL estimation model
- Evaluation of the judgements applied by management on assumptions related to the current conditions of the economy, and the considerations on the prospective analysis that may change the level of ECL, based on our experience and industry knowledge.

Other Matter – Supplementary Information

Our audit was performed for the purpose of expressing an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 to 2 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This information has been subjected to the auditing procedures applied during the audit of the consolidated financial statements and, in our opinion, is presented fairly in all material respects, in relation to the consolidated financial statements taken as a whole.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative, but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain attitude of professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the work performed for the purpose of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken to eliminate the threats or the safeguards applied.

From the matters communicated with those charged with governance, we determine that matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe this matter in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other legal information requirements

In compliance with Law No.280 of December 30, 2021, which regulates the certified public accountant profession in the Republic of Panama, we declare the following:

- The direction, execution, and supervision of this audit work have been carried out physically in Panamanian territory for those entities or business activities within the Group that conduct operations that are completed, consumed, or take effect within the Republic of Panama.
- The audit partner who has prepared this independent auditors' report is Luis Venegas.
- The engagement team that has participated in the group audit to which this report refers to, is formed by Gerardo Contreras, director; and Oscar Ocanto, senior manager.

KPMG (SIGNED)

LUIS VENEGAS (SIGNED)

Panama, Republic of Panama
March 17, 2025

Luis Venegas
Partner
C.P.A. 0215-2012

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Financial Position

December 31, 2024

(Expressed in dollars of the United States of America)

<u>Assets</u>	<u>Note</u>	<u>2024</u>	<u>2023</u>
Cash and cash equivalents		257,746	245,871
Demand deposits in banks		44,623,962	38,746,137
Saving deposits in banks		19,659,779	13,386,456
Time deposits		27,000,000	2,512,534
Total cash, cash equivalents and deposits in banks	7	91,541,487	54,890,998
Investment securities, net	8	122,018,521	128,120,693
Loans at amortized cost (AC)	4, 9, 30	837,403,527	807,972,794
Furniture, equipment and improvements, net	10	1,236,279	1,354,573
Accounts receivable	11	6,312,668	6,742,346
Accounts receivable - related parties	6	144,494	424,276
Tax credit	32	24,330,424	26,487,291
Deferred tax assets	24	1,366,351	971,256
Right-of-use assets, net	29	776,986	1,143,023
Other assets	12	6,596,279	5,377,359
Total assets		<u>1,091,727,016</u>	<u>1,033,484,609</u>

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

<u>Liabilities and Equity</u>	<u>Note</u>	<u>2024</u>	<u>2023</u>
Liabilities:			
Deposits from customers:			
Saving deposits	6	3,910,244	2,849,820
Time deposits	6	484,525,693	452,735,548
Total deposits from customers		488,435,937	455,585,368
Negotiable commercial papers	13, 30	123,947,906	96,441,837
Negotiable commercial notes	14, 30	33,275,794	58,059,482
Covered bonds	15, 30	0	10,664,110
Ordinary bonds	16, 30	1,775,009	6,197,498
Investment certificates	17, 30	10,467,506	18,970,346
Other negotiable debts	18, 30	24,893,694	5,568,071
Borrowings	19, 30	304,405,805	275,198,105
Leases liabilities	29	1,370,387	1,717,745
Income tax payable		294,067	431,793
Other liabilities	20	9,082,868	11,674,915
Total liabilities		997,948,973	940,509,270
Equity:			
Common shares	21	18,987,968	18,987,968
Preferred shares	21	20,752,709	20,752,709
Capital reserve		1,800,000	1,800,000
Regulatory reserves		12,068,581	10,679,360
Fair value reserve		(1,040,205)	(1,671,679)
Foreign currency translation reserve		(16,298,368)	(13,377,390)
Retained earnings		57,507,358	55,804,371
Total equity		93,778,043	92,975,339
Total liabilities and equity		1,091,727,016	1,033,484,609

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Profit or Loss

For the year ended December 31, 2024

(Expressed in dollars of the United States of America)

	Note	2024	2023
Interest income calculated using the effective interest method on:			
Loans		59,906,390	57,275,367
Investment in securities		5,306,441	4,081,013
Deposits in banks		2,145,662	1,128,812
Total interest income		<u>67,358,493</u>	<u>62,485,192</u>
Interest expense on:			
Deposits from customers	6	30,452,843	24,214,209
Borrowings, debt securities in issue and leases		31,430,870	27,652,368
Total interest expense		<u>61,883,713</u>	<u>51,866,577</u>
Net interest income		5,474,780	10,618,615
Impairment losses on financial assets:			
Provision for credit losses on loans at AC	4	862,871	1,016,605
Provision for credit losses on investment securities at AC	4	3,165	(1,491)
Provision for credit losses on investment securities at FVOCI	4	41,167	124,548
Net gain arising from modified loans at AC		0	(67,054)
Net interest income, after provisions for impairment losses on financial assets		<u>4,567,577</u>	<u>9,546,007</u>
Income from banking services, commissions and others, net:			
Net income from investment securities at FVTPL		1,812,025	2,337,704
Management and servicing commissions	22	6,932,696	7,067,651
Reinsurance income	6	5,521,368	5,453,198
Reinsurance claims and benefits	6	(1,751,266)	(832,910)
Other commissions paid	6	(1,565,252)	(1,795,823)
Othe income	22	5,513,085	1,927,969
Total income from banking services, commisions and others, net		<u>16,462,656</u>	<u>14,157,789</u>
General and administrative expenses			
Salaries and other personnel benefits	6, 23	7,087,888	6,492,499
Depreciation and amortization of furniture, equipment and improvements	10	422,936	382,727
Depreciation of right-of-use assets	29	401,578	408,849
Professional and legal fees	6	1,457,391	2,423,885
Taxes		2,134,623	2,652,815
Other expenses	6, 23	5,106,680	5,277,558
Total general and administrative expenses		<u>16,611,096</u>	<u>17,638,333</u>
Net income before income tax		4,419,137	6,065,463
Current tax expense, estimated			
Deferred tax expense		469,654	592,850
Total income tax expense, net	24	<u>(468,863)</u>	<u>197,487</u>
Net income		<u>4,418,346</u>	<u>5,275,126</u>

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

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2024

(Expressed in dollars of the United States of America)

	<u>Note</u>	<u>2024</u>	<u>2023</u>
Net income		<u>4,418,346</u>	<u>5,275,126</u>
Other comprehensive income (loss):			
Items that are or may be reclassified subsequently to the consolidated statement of profit or loss:			
Movement in fair value reserve for FVOCI debt instruments:			
Net change in fair value		590,408	1,748,209
Movement in expected credit loss (ECL) reserve for FVOCI debt instruments:			
Net change in ECL reserve		41,066	124,650
Movement in foreign currency translation reserve:			
Foreign currency translation differences from foreign operations		<u>(2,920,978)</u>	<u>4,704,904</u>
Total other comprehensive (loss) income		<u>(2,289,504)</u>	<u>6,577,763</u>
Total comprehensive income		<u><u>2,128,842</u></u>	<u><u>11,852,889</u></u>

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

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
(Panama, Republic de Panama)

Consolidated Statement of Changes in Equity

For the year ended December 31, 2024

(Expressed in dollars of the United States of America)

Note	Common shares	Preferred shares	Capital reserve	Regulatory reserves		Fair value reserve			Retained earnings	Total equity
				Foreclosed assets reserves	Dynamic and specific reserves	Fair value reserve for debt instruments at FVOCI	ECL reserve for debt instruments at FVOCI	Foreign currency translation reserve		
Balance at December 31, 2022	18,322,586	20,752,709	1,800,000	0	9,104,574	(3,802,255)	257,717	(18,082,294)	53,745,807	82,098,844
Net income	0	0	0	0	0	0	0	0	5,275,126	5,275,126
Other comprehensive income (loss)										
Fair value reserve – debt instruments at FVOCI:										
Net change in fair value	0	0	0	0	0	1,748,209	0	0	0	1,748,209
Expected credit loss (ECL) reserve – debt instruments at FVOCI:										
Net change in ECL reserve	0	0	0	0	0	0	124,650	0	0	124,650
Foreign currency translation reserve:										
Foreign currency translation differences from foreign operations	0	0	0	0	0	0	0	4,704,904	0	4,704,904
Total other comprehensive income (loss)	0	0	0	0	0	1,748,209	124,650	4,704,904	0	6,577,763
Total comprehensive income	0	0	0	0	0	1,748,209	124,650	4,704,904	5,275,126	11,852,889
Other equity transactions:										
Allocation of regulatory reserves - dynamic, specific and foreclosed assets	0	0	0	18,656	1,556,130	0	0	0	(1,556,130)	18,656
Transactions with equity holders of the Company:										
Contributions and distributions:										
Common shares issuance	665,382	0	0	0	0	0	0	0	0	665,382
Dividends paid on preferred shares	0	0	0	0	0	0	0	0	(1,432,500)	(1,432,500)
Share-based payments	0	0	0	0	0	0	0	0	(227,932)	(227,932)
Total contributions and distributions	665,382	0	0	0	0	0	0	0	(1,660,432)	(995,050)
Balance at December 31, 2023	18,987,968	20,752,709	1,800,000	18,656	10,660,704	(2,054,046)	382,367	(13,377,390)	55,804,371	92,975,339
Net income	0	0	0	0	0	0	0	0	4,418,346	4,418,346
Other comprehensive income (loss)										
Fair value reserve – debt instruments at FVOCI:										
Net change in fair value	0	0	0	0	0	590,408	0	0	0	590,408
Expected credit loss (ECL) reserve – debt instruments at FVOCI:										
Net change in ECL reserve	0	0	0	0	0	0	41,066	0	0	41,066
Foreign currency translation reserve:										
Foreign currency translation differences from foreign operations	0	0	0	0	0	0	0	(2,920,978)	0	(2,920,978)
Total other comprehensive income (loss)	0	0	0	0	0	590,408	41,066	(2,920,978)	0	(2,289,504)
Total comprehensive income	0	0	0	0	0	590,408	41,066	(2,920,978)	4,418,346	2,128,842
Other equity transactions:										
Allocation of regulatory reserves - dynamic, specific and foreclosed assets	0	0	0	33	1,389,188	0	0	0	(1,389,188)	33
Transactions with equity holders of the Company:										
Contributions and distributions:										
Dividends paid on preferred shares	0	0	0	0	0	0	0	0	(1,436,425)	(1,436,425)
Complementary tax	0	0	0	0	0	0	0	0	(12,078)	(12,078)
Share-based payments	0	0	0	0	0	0	0	0	122,332	122,332
Total contributions and distributions	0	0	0	0	0	0	0	0	(1,326,171)	(1,326,171)
Balance at December 31, 2024	18,987,968	20,752,709	1,800,000	18,689	12,049,892	(1,463,638)	423,433	(16,298,368)	57,507,358	93,778,043

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.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the year ended December 31, 2024

(Expressed in dollars of the United States of America)

	<u>Note</u>	<u>2024</u>	<u>2023</u>
Operating activities:			
Net income		4,418,346	5,275,126
Adjustments to reconcile net income and cash from operating activities:			
Depreciation and amortization of furniture, equipment and improvements	10	422,936	382,727
Depreciation of right-of-use assets	29	401,578	408,849
Provision for credit losses on loans	4	862,871	1,016,605
Provision for credit losses on investment securities at AC	4	3,165	(1,491)
Provision for credit losses on investment securities at FVOCI	4	41,167	124,548
Provision for foreclosed assets	4	33	18,656
Net gain arising from modified loans at AC		0	(67,054)
Net interest income		(5,474,780)	(10,618,615)
Net gain on investment securities at FVTPL		(1,812,025)	(2,337,704)
Net gain on sale of furniture and equipment	10	14,075	5,070
Loss on sale of foreclosed assets		(551,656)	(393,824)
Income tax expense	24	791	790,337
Changes in operating assets and liabilities:			
Investment securities at FVTPL		7,409,053	(21,117,667)
Loans		(30,354,526)	(63,261,174)
Accounts receivable		1,245,228	3,001,943
Accounts receivable - related parties		279,782	(196,389)
Sale of tax credits	32	22,391,000	7,668,365
Accrual of tax credits		(20,234,133)	(4,120,133)
Other assets		(736,099)	301,719
Saving deposits from customers		1,060,424	(542,575)
Time deposits from customers		31,790,145	70,665,680
Other liabilities		(2,346,307)	(1,175,148)
Cash generated from operations:			
Interest received		66,280,611	60,610,252
Interest paid		(61,061,321)	(49,950,410)
Income tax paid		(1,165,458)	(380,021)
Cash flows from operating activities		<u>12,884,900</u>	<u>(3,892,328)</u>
Investment activities:			
Acquisition of investment securities at FVOCI	8	(22,391,000)	0
Proceeds from sale and redemption of investment securities at AC and FVOCI		23,336,647	1,856,716
Acquisition of furniture, equipment and improvements	10	(226,823)	(219,401)
Cash flows from investment activities		<u>718,824</u>	<u>1,637,315</u>
Financing activities:			
Proceeds from issue of negotiable commercial papers		147,405,000	96,321,000
Redemption of negotiable commercial papers		(119,977,000)	(47,013,000)
Proceeds from issue of negotiable commercial notes		10,367,000	5,967,000
Redemption of negotiable commercial notes		(35,107,000)	(11,597,865)
Redemption of ordinary bonds		(3,939,302)	(3,835,477)
Redemption of covered bonds		(11,000,000)	(11,000,000)
Proceeds from issue of investment certificates		1,502,000	7,631,000
Redemption of investment certificates		(10,000,000)	(10,250,000)
Proceeds from issue of negotiable debts		25,681,000	5,576,000
Redemption of negotiable debts		(6,500,000)	(1,753,422)
Proceeds from borrowings		230,321,554	96,392,584
Repayment of borrowings		(199,602,831)	(115,393,526)
Payment of lease liabilities		(345,811)	(227,934)
Common shares issuance		0	665,382
Dividends paid on preferred shares		(1,436,425)	(1,432,500)
Share-based payments		122,332	(227,932)
Complementary tax		(12,078)	0
Cash flows from financing activities		<u>27,478,439</u>	<u>9,821,310</u>
Net increase in cash and cash equivalents		41,082,163	7,566,297
Cash and cash equivalents at the beginning of the year		54,890,998	53,484,541
Effect of exchange rate fluctuations on cash and cash equivalents held		(4,431,674)	(6,159,840)
Cash and cash equivalents at the end of the year	7	<u>91,541,487</u>	<u>54,890,998</u>

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

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

December 31, 2024

(Expressed in dollars of the United States of America)

(1) General Information

La Hipotecaria (Holding), Inc. was incorporated on July 7, 2000, under the laws of the British Virgin Islands and its principal activity is the ownership of capital shares.

The entities which are wholly-owned or controlled by La Hipotecaria (Holding), Inc are the following:

	<u>Activity</u>	<u>Country of Incorporation</u>	<u>Controlling Interest</u>	
			<u>2024</u>	<u>2023</u>
Banco La Hipotecaria, S. A. and Subsidiaries	Banking activities	Panama	100%	100%
Online Systems, S. A.	Development and maintenance of information system programs	Panama	100%	100%
Mortgage Credit Reinsurance Limited	Reinsurance services	Turks and Caicos	100%	100%
Securitization and Advisors, Inc.	International financial advisory	British Virgin Islands	100%	100%

Hereinafter, La Hipotecaria (Holding), Inc. and Subsidiaries will be referred to as 'the Company'.

The main shareholder of the Company is Grupo ASSA, S. A. with a 78.31%.

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

Banco La Hipotecaria, S. A. provides, directly and through its subsidiaries, La Hipotecaria, S. A. de C. V. and La Hipotecaria Compañía de Financiamiento, S. A., financial services in Panama, El Salvador and Colombia.

On December 17, 2024, Grupo ASSA, S.A. and other minority shareholders signed an agreement with Inversiones Cuscatlán Centroamérica, S.A. (ICC or Inversiones Cuscatlán), to sell 100% of the shares of La Hipotecaria (Holding), Inc., whose main subsidiaries are Banco La Hipotecaria, S.A. in Panama, La Hipotecaria, S.A. of C.V. in El Salvador and La Hipotecaria Compañía de Financiamiento, S.A. in Colombia as of December 31, 2024, this agreement is in process of approval by the group's different regulators.

(2) Basis of Preparation

(a) Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(2) Basis of Preparation, continued

The Audit Committee of the Company authorized the issuance of these consolidated financial statements on March 17, 2025.

(b) *Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities at fair value, securities at fair value with changes in other comprehensive income and assets foreclosed for sale, which are measured at the lower of their carrying value on the estimated realizable value.

Loans and receivables and deposits are initially recognized on the date they are originated. All other financial assets (including assets designated at fair value through profit or loss) are initially recognized on the date of the transaction in which the Company undertakes to buy or sell the instrument.

(c) *Functional and presentation currency*

The consolidated financial statements are presented in Dollars (US\$) of the United States of America. The Republic of Panama does not issue its own paper currency and, instead, the United States of America Dollar is used as a legal tender. The functional currency of the subsidiary in Colombia is the Colombian peso (COP), and the functional currency of the subsidiaries in Turks and Caicos, El Salvador and Virgin Islands is the United States of America Dollar (US\$).

(3) Summary of Material Accounting Policies

The accounting policies applied in these consolidated financial statements are those same applied in the consolidated financial statements for the year ended December 31, 2023.

(a) *Base of consolidation*

(a.1) *Subsidiaries*

The subsidiaries are participated entities controlled by the Company. The Company '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 Company 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.

(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 relate only to administrative tasks and the relevant activities are directed by contractual agreements.

In the assessment to determine whether the Company has sufficient rights to give power on these participated entities, the Company 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 variable returns from its involvement in the participated entity.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

(a.3) *Non-controlling interests*

Changes in the Company'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 Company 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 Company in the former subsidiary is measured at fair value when control is lost.

(a.5) *Transactions eliminated on consolidation*

All assets, liabilities, equity, income, expenses and cash flows related to transactions between entities of the Company, are eliminated in preparing the consolidated financial statements.

(a.6) *Funds administration*

The Company 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 Company 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 other income within 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.

(b.2) *Foreign operations*

The financial position and the results of any subsidiary in a currency other than the functional currency are translated into 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 the exchange rate effective on each transaction date.
- 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.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

(c) *Financial assets and liabilities*

(c.1) *Recognition and initial measurement*

The Company 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 Company 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 (AC), at fair value through other comprehensive income (FVOCI), or at fair value through profit or loss (FVTPL). A financial asset is classified based on the Company's business model for its management and its contractual characteristics of cash flows.

A financial asset is measured at AC 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 outstanding principal amount.

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 outstanding principal amount.

On initial recognition of an equity investment that is not held for trading, the Company 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 AC or at FVOCI, as described above, are classified as measured at FVTPL.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

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

Business model assessment

The Company 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 Company'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 Company'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.

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 risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company 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 Company considers:

- Contingent events that would change the amount and timing of the cash flows;
- Leverage features;

Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specific assets (e.g. non-recourse asset agreements); and
- Features that modify the considerations 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 Company's discretion. Variable interest rates are generally determined in accordance with the policies established by the Company. In these cases, the Company assesses whether the discretionary feature is consistent with the criterion of SPPI, considering a factor that includes whether the debtors are in a position to prepay the loans without significant penalties.

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

Reclassification

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

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

Financial assets

The Company 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 Company 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.

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

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 Company could be forced to pay.

The Company, 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 Company transferring substantially all of the risks and rewards of ownership. The securitization vehicles in turn issue debt securities to investors.

The Company generally obtains participation or interest in the securitized assets are generally retained through 'senior' or 'subordinated' tranches, or other residual interests (retained interests). Retained 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

A financial liability is derecognized when the obligation is extinguished, when the obligation specified in the contract has been paid or cancelled, or has expired.

(c.4) *Modification of financial assets*

If the terms of a financial asset are modified, then the Company assesses 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. Gain or loss in modification is recognized in profit or loss.

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

Financial assets and financial liabilities are offset for presentation purposes in the consolidated statement of financial position when, the Company 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 Company'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 Company has access at that date. The fair value of a liability reflects its non-performance risk.

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

When one is available, the Company 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 Company 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 Company establishes a fair value hierarchy that classifies the input data of valuation techniques used to measure fair value into three levels. The Company 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 Company recognizes loss allowances for 'expected credit losses' (ECL) on the following financial instruments that are not measured at FVTPL:

- Investments in debt instruments; and
- Loans receivable.

No impairment loss is recognized on equity instruments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured 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 Company 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 Company does not apply the low credit risk exemption to any other financial instrument.

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

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

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 Company expects to receive);
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets

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

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

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at AC and 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.

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

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 Company on terms that the Company 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 been reduced significantly and there are no other indicators of impairment. In addition, a personal loan that is overdue for more than 90 days and for more than 180 days for a mortgage loan is considered credit impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company 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 AC:* as a deduction from the gross carrying amount of the assets; and
- *Debt instruments measured at FVOCI:* no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve in equity.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering them in their entirety or a portion thereof. This is generally the case when the Company 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 Company 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 Company's procedures for recovery of amounts due.

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

(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 at AC*

Loans at AC 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 Company does not intend to sell them immediately or in the near term.

Loans are presented at amortized cost considering the principal amount and the interest receivable, less the loss allowance for ECL. Loans are measured initially at their 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 measured 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 AC:

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

When a 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, furniture and equipment used by branches and offices of the Company. All furniture, equipment and improvements are measured at historical cost less accumulated depreciation and amortization. The historic cost includes the expense that is directly attributable to the acquisition of the asset.

Subsequent expenditure are capitalized in the carrying amount of the assets or recognized as a separate asset, as appropriate, only when it is probable that the Company will obtain the future economic benefits associated with the asset and the cost of the asset can be measured reliably. Ongoing repairs and maintenance are expensed as incurred.

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

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

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

The assets' useful life 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) *Foreclosed Assets*

Are measured at the lower of their carrying amount and fair value less cost to sell. An impairment loss will be 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 Company's main sources of debt funding. They are initially measured at fair value minus incremental direct transaction costs, and subsequently are measured at their amortized cost using the effective interest method.

(j) *Share-based payments*

The fair value of the options granted to participants, are recognized as a personal expense in the subsidiaries against the outstanding balance to the parent company. The Company records these options in equity accounts with counterparty to the outstanding balances of the subsidiaries. The fair value of the option on the grating date is recognized as an expense of the subsidiaries of the Company, during the option's vesting period.

(k) *Employee benefits*

(k.1) *Termination benefits*

Termination benefits are recognized as expenses at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company 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.

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

(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 Company has a present legal or implied obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(l) Segment reporting

An operating segment is a component of the Company, whose operating results are regularly reviewed by the Company'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 component of the Company 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 those of other business segments.

(m) Interest income and expense

Effective interest rate

Interest income and expense are recognized in profit or loss by 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 Company estimates future cash flows considering all contractual terms of the financial instrument, but not the ECL. For POCI financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees paid. 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.

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

Calculation of interest income and expense

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

For the financial assets that became 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 AC calculated on an effective interest rate basis;
- Interest on debt instruments measured at FVOCI calculated on an effective interest rate basis.

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 commissions*

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 Company receives recurring income related to management services of trusts. Such income is recognized under the accrual method. It is a Company's obligation to manage the resources of the trusts in conformity with the contracts and independently of its equity.

Performance obligations and revenue recognition policy for fee and commission income

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a service to a customer.

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Notes to the Consolidated Financial Statements

(3) Summary of Material 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 Company provides banking services to retail and corporate customers that maintain saving or time deposits, for the issuance of checks, the execution of bank transfers and bank confirmation.	Revenue related to transactions is recognized at the point in time when the transaction takes place or the service is provided.
Trust portfolio management	The Company provides portfolio management services. Fees for portfolio management services are calculated based on a fixed percentage of the value of the portfolio under management 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 Company provides insurance management and collection services. Commissions for insurance management and collection services are calculated based on a fixed percentage and are received on a monthly basis.	Revenue from insurance management services is recognized over time as the services are provided.
Reinsurance service fees	The Company provides reinsurance services over collective life and unemployment policies. Commissions for reinsurance services are calculated based on a fixed percentage and are received on a monthly basis.	Reinsurance income is recognized over time, as services are provided.

(o) Trusts operations

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

The Company charges a commission for management of trust funds, 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 as 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, interest and differences from exchange rates fluctuations.

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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

(q) Leases

At inception of a contract, the Company 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 Company 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 Company has the right to obtain substantially all the economic benefits from use of the asset throughout period of use; and
- the Company has the right to direct the use of the asset. The Company 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 Company has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or
 - the Company 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 Company 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 it acts as a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease as a single lease component.

As lessee

The Company 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 it 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 life of right-of-use assets are determined on the same basis as those of furniture, equipment and improvements. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and is adjusted for certain new measurements of the lease liability.

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

Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

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 Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, the 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 Company presents right-of-use assets and the liabilities for leases in separated line items in the consolidated statement of financial position.

Short-term leases and low-value asset leases

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

The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term 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 reporting 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 number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2024 and earlier application is permitted; however, the Company has not early adopted these new standards or amendments in preparing these consolidated financial statements as of December 31, 2024.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
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Notes to the Consolidated Financial Statements

(3) Summary of Material Accounting Policies, continued

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

<u>Improvements and Amendments</u>	<u>Mandatory application for annual periods starting from:</u>
Amendments to IAS 21. Effects of Changes in Foreign Exchange Rates - No Exchange	January 1, 2025
Amendments to IFRS 9 and IFRS 7: Classification and Measurement of Financial Instruments	January 1, 2026
IFRS 18: Presentation and Disclosure in Financial Statements	January 1, 2027
IFRS 19: Subsidiaries without Public Accountability: Disclosures	January 1, 2027

(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 Company'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 Company to various types of risks. The Company's Board of Directors has approved a Risk Management Policy, which identifies each of the main risks to which the Company is exposed to.

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

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

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

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 Company'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 Company 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.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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

1. Oversight of the performance and independence of the Risk Department of the Company, according to its role.
2. To monitor the risk exposures and compare those exposures to the risk limits approved by the Board of Directors; as report them to the Board of Directors.
3. To develop and propose methodologies, procedures, limits and strategies for the risk management, 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 Company.
5. Periodically, as well as prior to performing significant asset and liability operations, help management quantify the possible losses which the Company might incur, in case of an operation is undertaken.
6. To propose contingency plans on the risk subjects, 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 Company may lie outside the established limits.
7. To oversee the promotion of a risk management culture.
8. To develop and maintain the Company's risk classifications in order to categorize exposures according to the degree of the risk of default.

The Company'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 each loan instrument. While the Company adopts the inclusion of a behavioral 'scoring', the grades will be based on delinquency levels.

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

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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

(a) *Credit risk:*

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

To mitigate the credit risk, the risk management policies establish processes and controls to follow for loans or credit facilities approvals. The Company 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 are 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, and personals obtained by the Company.

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 Company 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, Risk Committee and Collection Committee, which periodically monitor the financial condition of the respective debtors and issuers, involving a credit risk for the Company.

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).

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

	2024			Total
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit-impaired) (‘Stage 2’)	Lifetime ECL (credit-impaired) (‘Stage 3’)	
Loans at AC:				
A1 – Until 30 days	739,287,343	2,201,172	647,916	742,136,431
A2 – Until 60 days	33,614,106	95,469	109,028	33,818,603
B1 – Until 90 days	16,728,922	1,017,632	400,497	18,147,051
B2 – Until 120 days	0	6,482,762	549,601	7,032,363
C1 – Until 150 days	0	2,853,619	421,835	3,275,454
C2 – Until 180 days	0	2,077,838	1,012,880	3,090,718
D – More than 181 days	0	0	23,199,567	23,199,567
Subtotal	789,630,371	14,728,492	26,341,324	830,700,187
Accrued interest receivable	6,798,496	322,961	2,669,542	9,790,999
Gross carrying amount	796,428,867	15,051,453	29,010,866	840,491,186
Loss allowance (ECL)	(851,173)	(496,063)	(1,740,423)	(3,087,659)
Total loans at AC	795,577,694	14,555,390	27,270,443	837,403,527
Investment securities at AC:				
Normal or low-fair risk	734,899	0	0	734,899
Interest receivable	4,854	0	0	4,854
Gross carrying amount	739,753	0	0	739,753
Loss allowance (ECL)	(5,969)	0	0	(5,969)
Total investments at AC	733,784	0	0	733,784
Investment securities at FVOCI:				
Normal or low-fair risk	88,054,229	2,250,173	0	90,304,402
Interest receivable	2,557,240	0	0	2,557,240
Total investment at FVOCI	90,611,469	2,250,173	0	92,861,642
Loss allowance (ECL)	(315,477)	(107,985)	0	(423,462)
Promissory notes:				
Normal or low-fair risk	28,835,214	0	0	28,835,214
2023				
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit-impaired) (‘Stage 2’)	Lifetime ECL (credit-impaired) (‘Stage 3’)	Total
Loans at AC:				
A1 – Until 30 days	713,189,010	1,000,566	334,018	714,523,594
A2 – Until 60 days	28,316,577	0	235,131	28,551,708
B1 – Until 90 days	14,961,754	922,166	478,042	16,361,962
B2 – Until 120 days	0	8,768,903	972,966	9,741,869
C1 – Until 150 days	0	5,865,726	1,097,701	6,963,427
C2 – Until 180 days	0	3,018,816	1,010,874	4,029,690
D – More than 181 days	0	0	20,404,926	20,404,926
Subtotal	756,467,341	19,576,177	24,533,658	800,577,176
Accrued interest receivable	7,740,034	367,689	3,039,250	11,146,973
Gross carrying amount	764,207,375	19,943,866	27,572,908	811,724,149
Loss allowance (ECL)	(920,623)	(520,248)	(2,310,484)	(3,751,355)
Total loans at AC	763,286,752	19,423,618	25,262,424	807,972,794
Investment securities at AC:				
Normal or low-fair risk	805,685	0	0	805,685
Interest receivable	4,854	0	0	4,854
Gross carrying amount	810,539	0	0	810,539
Loss allowance (ECL)	(2,804)	0	0	(2,804)
Total investments at AC	807,735	0	0	807,735
Investment securities at FVOCI:				
Normal or low-fair risk	86,970,178	4,027,748	0	90,997,926
Interest receivable	2,336,847	8,249	0	2,345,096
Total investment at FVOCI	89,307,025	4,035,997	0	93,343,022
Loss allowance (ECL)	(308,561)	(73,704)	0	(382,265)
Promissory notes:				
Normal or low-fair risk	20,500,245	0	0	20,500,245

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

At December 31, 2024, the Company 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.

	2024			
	('Stage 1')	('Stage 2')	('Stage 3')	Total
Personal loans:				
Current	35,308,199	198,723	80,928	35,587,850
Overdue < 30 days	3,338,786	33,217	15,704	3,387,707
Overdue > 30 and < 60 days	1,251,393	4,364	51,800	1,307,557
Overdue > 60 and < 90 days	0	717,384	190,503	907,887
Overdue > 90 days	0	0	1,915,232	1,915,232
Residential mortgage loans:				
Current	631,641,363	1,813,151	454,041	633,908,555
Overdue < 30 days	68,998,995	156,081	97,242	69,252,318
Overdue > 30 and < 90 days	49,091,635	391,353	267,223	49,750,211
Overdue > 90 and < 180 days	0	11,414,219	989,116	12,403,335
Overdue > 180 days	0	0	22,279,535	22,279,535
Total	<u>789,630,371</u>	<u>14,728,492</u>	<u>26,341,324</u>	<u>830,700,187</u>
2023				
	('Stage 1')	('Stage 2')	('Stage 3')	Total
Personal loans:				
Current	39,910,231	33,223	91,807	40,035,261
Overdue < 30 days	3,142,701	5,932	43,296	3,191,929
Overdue > 30 and < 60 days	1,843,055	0	158,498	2,001,553
Overdue > 60 and < 90 days	0	922,166	391,602	1,313,768
Overdue > 90 days	0	113,892	3,479,917	3,593,809
Residential mortgage loans:				
Current	614,501,515	961,410	151,836	615,614,761
Overdue < 30 days	55,634,563	0	47,079	55,681,642
Overdue > 30 and < 90 days	41,435,276	0	163,073	41,598,349
Overdue > 90 and < 180 days	0	17,539,554	791,864	18,331,418
Overdue > 180 days	0	0	19,214,686	19,214,686
Total	<u>756,467,341</u>	<u>19,576,177</u>	<u>24,533,658</u>	<u>800,577,176</u>

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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

	<u>2024</u>	<u>2023</u>
<u>Investment securities at FVTPL:</u>		
<u>Government bonds:</u>		
BBB+ to BBB-	2,339,017	2,909,494
	<u>2,339,017</u>	<u>2,909,494</u>
<u>Residential mortgage-backed securities (RMBS):</u>		
Normal or low-fair risk	6,636,081	8,480,160
	<u>6,636,081</u>	<u>8,480,160</u>
<u>Residual interests:</u>		
Normal or low-fair risk	18,286,688	21,620,281
	<u>18,286,688</u>	<u>21,620,281</u>
<u>Shares in mutual funds:</u>		
Normal or low-fair risk	508,038	356,918
	<u>508,038</u>	<u>356,918</u>
Interest receivable	653,271	603,083
Total investment securities at FVTPL	<u>28,423,095</u>	<u>33,969,936</u>

Deposits placed with banks

At December 31, 2024, the Company held deposits placed with banks for \$91,283,741 (2023: \$54,645,127). These deposits are held with banks and other financial institution counterparties that are rated at least BBB-.

At December 31, 2024, the Company 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 Company holds collateral and other credit enhancements against certain of its credit exposures, as security for their collection. The following table sets out the principal types of collateral held against different types of financial assets.

<u>Type of credit exposure:</u>	<u>Collateral coverage %</u>		<u>Type of collateral held</u>
	<u>2024</u>	<u>2023</u>	
Loans	94%	94%	Residential properties
Investment securities	63%	61%	Mortgage loan portfolio

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

Residential mortgage lending

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

<u>'LTV' ratio</u>	<u>2024</u>	<u>2023</u>
0-20%	2,117,032	1,563,584
20-40%	20,209,057	18,453,658
40-60%	94,512,994	84,978,184
60-80%	363,254,407	326,070,802
80-100%	<u>303,271,400</u>	<u>319,374,628</u>
Total	<u>783,364,890</u>	<u>750,440,856</u>
 <i>Credit impaired loans</i>		
0-20%	23,063	20,301
20-40%	172,279	208,169
40-60%	787,075	766,621
60-80%	3,152,651	3,162,151
80-100%	<u>17,850,387</u>	<u>14,949,904</u>
Total	<u>21,985,455</u>	<u>19,107,146</u>

Assets obtained by foreclosing of collateral

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

	<u>2024</u>	<u>2023</u>
Residential properties	<u>1,122,775</u>	<u>1,573,714</u>
Total	<u>1,122,775</u>	<u>1,573,714</u>

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

Amounts arising from expected credit losses (ECL)

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

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

Credit risk grades for the loan portfolio

The Company allocates each exposure to a credit risk grade based on the delinquency transitions that the operation generates. These migrations are assigned to a 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 Company is in the process of adapting other variables in addition to the actual rate of default, such as: a behavioral 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 Company 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 Company assigns each financial asset in one of the following three 'stages' ('buckets') of credit risk impairment:

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

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

The Company, 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 Company 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 ranges greater than 180 days

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

During the year ended December 31, 2024, the Bank recalibrated its ECL with the approval of the Risk Committee. The main change in the recalibration correspond to an increase in the LGD variable for the Panama-guaranteed portfolio and the release of the post-model provision amounting to \$268,557.

Credit risk grades for the investment securities portfolio

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

Generating the term structure of PD

- Instrument treatment approach:

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

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

The Company has identified that the instruments comprising the Company'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 Company has not identified instruments in its loan portfolio that require individual evaluation.

Consequently, management determined as convenient to group the financial instruments that make up the Company'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 (LWVG);
- 2) Personal loans without guarantee (LWOG).

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

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

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 Company, 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 Company 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 Company's calculation process will determine the probability that an instrument that at the reporting date presents a certain grade will default for a horizon of time.

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

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

Through this process, 'pairs' of categories corresponding to a historical period of five (5) 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 Company 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.

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(4) Financial Risk Management, continued

For investments in sovereign debt securities, the Company 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 Company 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 Company uses 'constant', which in turn allows it to be more conservative, since the amortized values are tied to the amortization frequency that the Company has and the effect that buying at premium or at discount may have in the expected cash flows. For the amortization methodology, the Company uses 'duration', which allows to obtain an appropriate interpolation for instruments with a remaining life of less than one (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 assumptions:

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 Company to be very low when compared to the behavior of other types of loans. Even the unsecured personal loans granted by the Company remain below the default curves of the market. It is estimated that this behavior is due to the fact that the Company 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 Company by 'Direct Discount', which is one of the conditions for the approval of credit in the Company.

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 Company'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 from 2019 to 2023, containing the monthly roll-rates of delinquency of the loans granted by the Company according to their rates of delinquency. Subsequently, the Company has periodically prepared updated matrices, for each credit segment by country, in order to reflect a probability of occurrence of arrears based on delinquency ranges.

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(4) Financial Risk Management, continued

The matrices show the probabilities that an instrument reaches a certain height of default according to the range of delinquency at the beginning of the period in a horizon of one (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 Company 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 Company assesses whether the credit risk has increased significantly 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 Company 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; and
- Significant changes in the value of the collateral that supports the obligation.

As a backstop, the Company 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.

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(4) Financial Risk Management, continued

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 Company determines a probation period during which the financial asset is required to demonstrate good behavior 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 Company 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 Company considers a financial asset to be in default when:

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

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(4) Financial Risk Management, continued

In assessing whether a borrower is in default, the Company 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 Company); 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 Company for regulatory capital purposes.

Incorporation of forward-looking information

The incorporation of 'forward-looking' information into the Company'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 financial instruments.

In the Central American region and especially in the countries where the Company operates, statistics on macroeconomic aggregates are provided almost exclusively by government 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 Company determined it appropriate to use those that meet at least a series of profiles that make them suitable for this type of measurement. These are: a) that they are regularly available; b) that they are accessible to the public in a relatively simple way; c) that they are reasonably reliable.

In order to have acceptable data to measure the ECL of the loan portfolio, and as long as there are no alternative sources that allow confirming or validating other possible macroeconomic inputs that could have an impact on the behavior of payments for these financial instruments, the Company 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 Company
- h) Past due loan portfolio of the financial system.

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(4) Financial Risk Management, continued

During 2024, the methodology implemented by the Company 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 Company'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 Company 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 Company'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 2020 and 2024, the Company determined as appropriate to use the following 'forward-looking' variables as part of the ECL model by country and segment, for the period 2024:

- a) Panama – Operations with Guarantees (Unemployment)
- b) Panama – Operations without Guarantees (Unemployment)
- c) El Salvador – Operations with Guarantees (Unemployment)
- d) El Salvador – Operations without Guarantees (Unemployment)
- e) Colombia – Operations with Guarantees (Inflation of the year)
- f) Colombia – Operations without Guarantees (Inflation of the year)

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(4) Financial Risk Management, continued

The following table presents a summary of the forward-looking information incorporated by the Company in the estimation process of the ECL for the loan portfolio as of December 31, 2024:

<u>Segment</u>	<u>Forward-looking variable correlated with past due portfolio</u>	<u>Historical variable</u>			<u>Incorporation of forward-looking ('FL') variables in the estimation of the ECL as of Dec 31, 2024</u>				
		<u>2022</u>	<u>2023</u>	<u>2024*</u>	<u>Scenario</u>	<u>Expected trend</u>	<u>Projected FL variable</u>	<u>'FL' Factor</u>	<u>Impact on the ECL</u>
Panama – Operations with Guarantees	Unemployment in Panama	11.5%	7.4%	6%	Unique	Increase	> 5% < 9%	2.06%	\$17.946
Panama – Operations without Guarantees	Unemployment in Panama	11.5%	7.4%	6%	Unique	Increase	> 5% < 9%	6.80%	\$89.864
El Salvador – Operations with Guarantees	Unemployment in El Salvador	10.1%	3.7%	4%	Unique	Increase	> 5% < 7%	4.21%	\$11.703
El Salvador – Operations without Guarantees	Unemployment in El Salvador	10.1%	3.7%	4%	Unique	Increase	> 5% < 7%	1.44%	\$1.308
Colombia – Operations with Guarantees	Inflation of the previous year	13.50%	10.48%	11%	Unique	Increase	> 10% < 15%	3.26%	\$3.519
Colombia – Operations without Guarantees	Inflation of the previous year	13.50%	10.48%	11%	Unique	Increase	> 10% < 15%	2.61%	\$7.474

*The value used for the year 2024 corresponds to the scenario approved by the Risk Committee, given that, at the date of the evaluation, there is no official information available.

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 impairment 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), except in cases where the modification is caused by financial difficulty of the debtor.

The Credit Committee periodically reviews reports on the renegotiation activities of the terms of the loans 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 behavior over a period of time before the exposure is no longer considered to be credit-impaired or in default or the PD is considered to have decreased such that it falls within the '12-month PD' ranges for the asset to be considered 'Stage 1'.

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(4) Financial Risk Management, continued

Measurement of 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, is focuses on measuring them using processes known as 'Markov Chains, 'through which the (conditional) probability is calculated that an instrument, which is currently in a certain risk category, migrate to another in a fixed time horizon.

The Company estimates the LGD parameters based on the history of recovery rates of claims against impaired counterparts. The LGD models consider the structure, the guarantee, the age 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 LGD.

LGD estimation

The calculation of the LGD 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 management, either due to the total recovery of the amounts owed or due to justified withdrawal from collection according to approved credit management policies. The final objective of the calculations is to establish the percentage ratio of recoveries over the value of unrecovered exposures.

The following are definitions relevant to the calculation of LGD by the Company:

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

For its calculation, a database was used where all the operations for which the Company 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 Company are also taken into consideration. This will allow calculating the LGD of operations received in lieu of payment or via legal process.

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(4) Financial Risk Management, continued

- LGD 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 and they are averaged, that is the recoveries of loans that were written off and also of those that, having reached the point of default, were subsequently recovered are obtained. Then the average of both LGD is obtained and averaged to obtain the LGD of the 'Personal Loans Segment'. In the case of personal loans, due to their nature, legal recovery expenses are not incurred.

Exposure at Default (EAD)

EAD represents the expected exposure in the event of a default. The Company 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 Company determines the annual EAD over the remaining life of the instruments for its subsequent weighting by the respective marginal annual LGD.

The Company 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 Company 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.

These groups are subject to periodic review to ensure that exposures within a particular group remain appropriately homogenous.

Loss allowance

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

	<u>2024</u> 12-month ECL (<u>'Stage 1'</u>)	<u>2023</u> 12-month ECL (<u>'Stage 1'</u>)
<u>Investment securities at AC:</u>		
Balance at the beginning of the year	2,804	4,295
Net remeasurement of loss allowance	<u>3,165</u>	<u>(1,491)</u>
Balance at the end of the year	<u>5,969</u>	<u>2,804</u>

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(4) Financial Risk Management, continued

	2024			
	12-month ECL (‘Stage 1’)	Lifetime ECL (not-credit impaired) (‘Stage 2’)	Total	
<u>Investment securities at FVOCI:</u>				
Balance at the beginning of the year	308,561	73,704	382,265	
Net remeasurement of loss allowance	<u>6,886</u>	<u>34,281</u>	<u>41,167</u>	
Balance at the end of the year	<u>315,447</u>	<u>107,985</u>	<u>423,432</u>	
	2023			
	12-month ECL (‘Stage 1’)	Lifetime ECL (not-credit impaired) (‘Stage 2’)	Total	
<u>Investment securities at FVOCI:</u>				
Balance at the beginning of the year	105,286	152,431	257,717	
Net remeasurement of loss allowance	<u>203,275</u>	<u>(78,727)</u>	<u>124,548</u>	
Balance at the end of the year	<u>308,561</u>	<u>73,704</u>	<u>382,265</u>	
	2024			
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit- impaired / collectively assessed) (‘Stage 2’)	Lifetime ECL (credit-impaired / individually assessed) (‘Stage 3’)	Total
<u>Loans at AC:</u>				
Balance at the beginning of the year	958,323	520,245	2,272,787	3,751,355
Transfer to Stage 1	1,807,173	(1,145,927)	(661,246)	0
Transfer to Stage 2	(512,209)	881,451	(369,242)	0
Transfer to Stage 3	(27,738)	(918,646)	946,384	0
Net remeasurement of loss allowance	(1,331,391)	1,047,383	1,209,302	925,294
New financial assets originated	74,978	150,206	41,621	266,805
Financial instruments that have been derecognized	(57,041)	(38,649)	(233,538)	(329,228)
Write-offs	0	0	(1,465,645)	(1,465,645)
Effect of exchange rates fluctuations	<u>(60,922)</u>	<u>0</u>	<u>0</u>	<u>(60,922)</u>
Balance at the end of the year	<u>851,173</u>	<u>496,063</u>	<u>1,740,423</u>	<u>3,087,659</u>

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(4) Financial Risk Management, continued

	2023			Total
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit- impaired / collectively assessed) (‘Stage 2’)	Lifetime ECL (credit-impaired / individually assessed) (‘Stage 3’)	
Loans at AC:				
Balance at the beginning of the year	1,136,361	956,505	2,085,614	4,178,480
Transfer to Stage 1	2,364,126	(1,354,819)	(1,009,307)	0
Transfer to Stage 2	(594,688)	1,042,850	(448,162)	0
Transfer to Stage 3	(26,597)	(1,259,004)	1,285,601	0
Net remeasurement of loss allowance	(2,006,922)	1,151,224	2,105,269	1,249,571
New financial assets originated	27,584	23,903	8,196	59,683
Financial instruments that have been derecognized	(42,921)	(40,411)	(209,317)	(292,649)
Write-offs	0	0	(1,507,410)	(1,507,410)
Effect of exchange rates fluctuations	63,680	0	0	63,680
Balance at the end of the year	920,623	520,248	2,310,484	3,751,355

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.

	2024			Total
	Investment securities at AC	Investment securities at FVOCI	Loans at AC	
Net remeasurement of loss allowance	3,165	41,167	925,294	969,626
New financial assets originated or purchased	0	0	266,805	266,805
Financial assets that have been derecognized	0	0	(329,228)	(329,228)
Total	3,165	41,167	862,871	907,203

	2023			Total
	Investment securities at AC	Investment securities at FVOCI	Loans at AC	
Net remeasurement of loss allowance	(1,491)	124,548	1,249,571	1,372,628
New financial assets originated or purchased	0	0	59,683	59,683
Financial assets that have been derecognized	0	0	(292,649)	(292,649)
Total	(1,491)	124,548	1,016,605	1,139,662

Credit-impaired financial assets

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

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(4) Financial Risk Management, continued

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

The contractual amount outstanding on loans receivable that were written off during the year ended December 31, 2024 and that are still subject to enforcement activity is \$1,465,645 (2023: \$1,507,410).

Concentrations of credit risk

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

	<u>Loans at AC</u>		<u>Investment securities</u>		<u>Promissory notes</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Carrying amount	<u>837,403,527</u>	<u>807,972,794</u>	<u>122,018,521</u>	<u>128,120,693</u>	<u>28,835,214</u>	<u>20,500,245</u>
<u>Concentration by sector:</u>						
Mortgage banking	790,020,306	757,836,474	66,069,247	74,410,883	28,835,214	20,500,245
Personal banking	47,335,297	50,136,320	0	0	0	0
Financial leasing	47,924	0	0	0	0	0
Other sectors	0	0	55,949,274	53,709,810	0	0
	<u>837,403,527</u>	<u>807,972,794</u>	<u>122,018,521</u>	<u>128,120,693</u>	<u>28,835,214</u>	<u>20,500,245</u>
<u>Concentration by location:</u>						
Panama	621,304,391	599,544,604	88,575,183	93,800,275	28,835,214	20,500,245
El Salvador	128,593,869	114,340,310	0	0	0	0
Colombia	87,505,267	94,087,880	5,605,086	6,384,205	0	0
United States of America	0	0	27,838,252	27,936,213	0	0
	<u>837,403,527</u>	<u>807,972,794</u>	<u>122,018,521</u>	<u>128,120,693</u>	<u>28,835,214</u>	<u>20,500,245</u>

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

(b) Liquidity risk:

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

Funding liquidity risk:

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

Market liquidity risk:

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

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(4) Financial Risk Management, continued

Liquidity risk management:

The Company 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 Company can respond in case of unexpected cash withdrawals of deposits or unscheduled loans commitments.

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

Exposure to liquidity risk

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

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

	<u>2024</u>	<u>2023</u>
At the end of the year	44.90%	48.97%
Average for the year	50.54%	55.87%
Maximum for the year	66.02%	71.62%
Minimum for the year	42.58%	41.83%

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(4) Financial Risk Management, continued

The table below sets out the undiscounted cash flows of the financial assets and liabilities of the Company and its loan commitments not recognized grouped by contractual maturity.

2024	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	3,910,244	(3,910,244)	(3,910,244)	0	0	0
Time deposits	484,525,693	(502,707,558)	(429,148,331)	(73,559,227)	0	0
Negotiable commercial papers	123,947,906	(126,149,177)	(126,149,177)	0	0	0
Negotiable commercial notes	33,275,794	(34,562,575)	(17,151,539)	(17,411,036)	0	0
Ordinary bonds	1,775,009	(1,826,491)	(1,826,491)	0	0	0
Investment certificates	10,467,506	(10,631,869)	(10,631,869)	0	0	0
Other negotiable debts	24,893,694	(25,869,213)	(25,869,213)	0	0	0
Borrowings	304,405,805	(346,339,257)	(115,370,113)	(215,133,767)	(15,835,377)	0
Lease liabilities	1,370,387	(3,862,887)	(636,402)	(2,160,896)	(1,065,589)	0
Total financial liabilities	988,572,038	(1,055,859,271)	(730,693,379)	(308,264,926)	(16,900,966)	0
Financial assets:						
Cash	257,746	257,746	257,746	0	0	0
Deposits in banks	91,283,741	91,283,741	91,283,741	0	0	0
Investment securities, net	118,809,125	120,137,580	4,295,485	23,906,808	23,906,808	68,028,479
Loans at AC	830,700,187	1,310,421,905	67,164,491	264,744,265	307,376,566	671,136,583
Total financial assets	1,041,050,799	1,522,100,972	163,001,463	288,651,073	331,283,374	739,165,062
Commitments and contingencies:						
Promissory notes	0	(28,835,214)	(28,835,214)	0	0	0
2023						
Financial liabilities:						
Saving deposits	2,849,820	(2,849,820)	(2,849,820)	0	0	0
Time deposits	452,735,548	(472,768,701)	(331,189,455)	(141,579,246)	0	0
Negotiable commercial papers	96,441,837	(97,840,944)	(97,840,944)	0	0	0
Negotiable commercial notes	58,059,482	(60,432,227)	(35,454,854)	(24,977,373)	0	0
Covered bonds	10,664,110	(11,442,406)	0	(11,442,406)	0	0
Ordinary bonds	6,197,498	(6,773,569)	0	(6,773,569)	0	0
Investment certificates	18,970,346	(20,047,974)	(10,324,864)	(9,723,110)	0	0
Other negotiable debts	5,568,071	(5,723,454)	(5,723,454)	0	0	0
Borrowings	275,198,105	(304,127,406)	(207,497,531)	(96,629,875)	0	0
Lease liabilities	1,717,745	(1,893,257)	(418,224)	(1,475,033)	0	0
Total financial liabilities	928,402,562	(983,899,758)	(691,299,146)	(292,600,612)	0	0
Financial assets:						
Cash	245,871	245,871	245,871	0	0	0
Deposits in banks	54,645,127	54,645,127	54,645,127	0	0	0
Investment securities, net	128,120,693	160,466,052	5,152,866	25,223,929	35,918,674	94,170,583
Loans at AC	807,972,794	1,289,122,922	65,939,408	260,837,037	300,796,248	661,550,229
Total financial assets	990,984,485	1,504,479,972	125,983,272	286,060,966	336,714,922	755,720,812
Commitments and contingencies:						
Promissory notes	0	(20,500,245)	(20,500,245)	0	0	0

The Company maintains some borrowings from foreign financial institutions with which it could not meet a coefficient related to delinquency; however, the banking institutions informed the Company that they are preparing the corresponding "waiver/amendment" for non-compliance with said clause. Therefore, the financial lines and guarantees remain current, their contractual dates unchanged and payments up to date. As of the date of the report, the Company has not been notified of any changes in the contractual terms.

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(4) Financial Risk Management, continued

As of December 31, 2024 in accordance with IFRS Accounting Standards, \$14 million corresponding to the portion of these financings with maturities of more than one year, have been presented in the maturities of up to one year section of the previous table. The total balance used of these financial lines amounts to \$19 million.

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.

	<u>2024</u>	<u>2023</u>
Financial assets:		
Loans	823,643,754	754,937,234
Investment securities	<u>116,470,108</u>	<u>122,260,970</u>
Financial liabilities:		
Time deposits	67,360,477	129,464,551
Negotiable commercial notes	<u>16,384,000</u>	<u>23,131,000</u>
Ordinary bonds	<u>0</u>	<u>6,197,498</u>
Investment certificates	<u>0</u>	<u>8,968,000</u>
Borrowings	<u>10,000,000</u>	<u>135,960,687</u>
Leases liabilities	<u>1,370,387</u>	<u>1,475,033</u>

The Company 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 and interest payments which are not listed in the table above.

The table below shows the Company's assets committed and available as collateral or guarantee in relation to any financial liability or other commitment, and the available represent those assets that in the future can be used as guarantee of future commitments or financing:

	<u>2024</u>	<u>Committed as collateral</u>	<u>Uncommitted as collateral</u>	<u>Total</u>
Cash and cash equivalents		0	91,541,487	91,541,487
Investment securities, net		0	122,018,521	122,018,521
Loans at AC		<u>235,332,096</u>	<u>598,862,035</u>	<u>834,194,131</u>
		<u>235,332,096</u>	<u>812,422,043</u>	<u>1,047,754,139</u>
	<u>2023</u>	<u>Committed as collateral</u>	<u>Uncommitted as collateral</u>	<u>Total</u>
Cash and cash equivalents		0	54,890,998	54,890,998
Investment securities, net		0	128,120,693	128,120,693
Loans at AC		<u>228,926,872</u>	<u>579,045,922</u>	<u>807,972,794</u>
		<u>228,926,872</u>	<u>762,057,613</u>	<u>990,984,485</u>

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

(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 Company is subject to possible losses as to potential profit.

The objective of the Company's market risk management is to manage and control market risk exposures within the acceptable parameters to ensure the Company'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 Company has documented in its control policies related to investment limits, classification and valuation of investments, portfolio ratings, 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. 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 December 31, 2024, the Company 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, El Salvador, British Virgin Islands and Turks and Caicos.

Currency exposure in a net investment arises from subsidiaries that have a functional currency different from that of the Company. The risk is the variability of the US Dollar United States of America (US Dollar) against any other foreign currency that will give lead to a reduction in the book value.

Interest rate risk:

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

The Company 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 Company's exposure to interest rate risk. It includes the Company's assets and liabilities at carrying value without allowances, categorized by the earlier of contractual repricing rate or maturity.

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

<u>2024</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>	<u>Total</u>
Assets:					
Deposits in banks (1)	78,946,971	0	0	0	78,946,971
Investments securities at FVTPL	2,847,055	0	0	25,576,040	28,423,095
Investments securities at AC	511,684	228,069	0	0	739,753
Investments securities at FVOCI	25,722,693	24,230,709	27,743,650	15,164,590	92,861,642
Loans at AC	<u>837,403,527</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>837,403,527</u>
Total assets	<u>945,431,930</u>	<u>24,458,778</u>	<u>27,743,650</u>	<u>40,740,630</u>	<u>1,038,374,988</u>
Liabilities:					
Saving deposits	3,910,244	0	0	0	3,910,244
Time deposits	413,630,424	70,895,269	0	0	484,525,693
Borrowings	145,049,790	134,356,015	25,000,000	0	304,405,805
Debts securities in issue (2)	<u>176,112,600</u>	<u>17,959,947</u>	<u>0</u>	<u>0</u>	<u>194,072,547</u>
Total liabilities	<u>738,703,058</u>	<u>223,211,231</u>	<u>25,000,000</u>	<u>0</u>	<u>986,914,289</u>
Interest rate sensitivity, net	<u>206,728,872</u>	<u>(198,752,453)</u>	<u>2,743,650</u>	<u>40,740,630</u>	<u>51,460,699</u>

(1) Includes only interest-bearing bank deposits.

(2) Includes NCP's, NCN's, Covered bonds, Negotiable obligations, Investment certificates and Ordinary bonds.

<u>2023</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>	<u>Total</u>
Assets:					
Deposits in banks (1)	42,431,302	0	0	0	42,431,302
Investments securities at FVTPL	3,266,412	0	0	30,703,524	33,969,936
Investments securities at AC	583,119	227,420	0	0	810,539
Investments securities at FVOCI	26,038,107	21,685,552	27,841,300	17,778,063	93,343,022
Loans at AC	<u>807,972,794</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>807,972,794</u>
Total assets	<u>880,291,734</u>	<u>21,912,972</u>	<u>27,841,300</u>	<u>48,481,587</u>	<u>978,527,593</u>
Liabilities:					
Saving deposits	2,849,820	0	0	0	2,849,820
Time deposits	319,393,145	133,342,403	0	0	452,735,548
Borrowings	138,141,317	137,056,788	0	0	275,198,105
Debts securities in issue (2)	<u>146,803,908</u>	<u>49,097,436</u>	<u>0</u>	<u>0</u>	<u>195,901,344</u>
Total liabilities	<u>607,188,190</u>	<u>319,496,627</u>	<u>0</u>	<u>0</u>	<u>926,684,817</u>
Interest rate sensitivity, net	<u>273,103,544</u>	<u>(297,583,655)</u>	<u>27,841,300</u>	<u>48,481,587</u>	<u>51,842,776</u>

(1) Includes only interest-bearing bank deposits.

(2) Includes NCP's, NCN's, Covered bonds, Negotiable obligations, Investment certificates and Ordinary bonds.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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(4) Financial Risk Management, continued

The base 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 (bp) in interest rates. The impact on net interest income and equity is summarized below:

	<u>25 bp increase</u>	<u>25 bp decrease</u>	<u>50 bp increase</u>	<u>50 bp decrease</u>
Sensitivity of projected net interest income:				
<u>2024</u>				
At December 31	1,654,250	(1,654,250)	3,308,501	(3,308,501)
Average for the year	1,631,793	(1,631,793)	3,263,586	(3,263,586)
Maximum for the year	1,654,250	(1,654,250)	3,308,501	(3,308,501)
Minimum for the year	1,609,336	(1,609,336)	3,218,672	(3,218,672)
<u>2023</u>				
At December 31	1,603,311	(1,603,311)	3,206,622	(3,206,622)
Average for the year	1,554,671	(1,554,671)	3,109,342	(3,109,342)
Maximum for the year	1,603,311	(1,603,311)	3,206,622	(3,206,622)
Minimum for the year	1,499,931	(1,499,931)	2,999,862	(2,999,862)
Sensitivity of reported equity to interest rate movements:				
<u>2024</u>				
At December 31	(1,598,848)	1,598,848	(3,197,697)	3,197,697
Average for the year	(1,633,956)	1,633,956	(3,267,893)	3,267,893
Maximum for the year	(1,669,063)	1,669,063	(3,338,088)	3,338,088
Minimum for the year	(1,598,848)	1,598,848	(3,197,697)	3,197,697
<u>2023</u>				
At December 31	(1,546,901)	1,546,901	(3,093,803)	3,093,803
Average for the year	(1,583,935)	1,583,935	(3,167,870)	3,167,870
Maximum for the year	(1,622,733)	1,622,733	(3,245,467)	3,245,467
Minimum for the year	(1,546,901)	1,546,901	(3,093,803)	3,093,803

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

Risk price:

It 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 Company 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 Company diversifies its portfolio according to the established investment limits.

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Notes to the Consolidated Financial Statements

(4) Financial Risk Management, continued

(d) *Operational risk:*

The Company following the regulatory guidelines and best practices, has defined a Comprehensive Risk Management System, whose main objective is to promote a healthy and safe environment.

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 Company'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 Company's initiatives, products and/or services, significant improvements to processes.
- Periodic training with the different areas of the Company.

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

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

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

Phase 1 - Culture

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

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(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 Company'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 banking subsidiary of the Company, Banco La Hipotecaria, S. A. and Subsidiaries ('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 December 31, 2024, the Bank has a regulatory capital position that is comprised as follows.

	<u>2024</u>	<u>2023</u>
Primary Ordinary Capital		
Common shares	15,000,000	15,000,000
Additional paid-in-capital	25,846,722	25,846,722
Capital reserves	1,800,000	1,800,000
Non-controlling interest	793,952	917,170
Retained earnings	43,862,620	43,373,203
Other items of comprehensive income (1)		
Gains on securities and allowance for ECL on investment securities at FVOCI	(1,040,205)	(1,671,577)
Adjustment for translation of foreign currency	(12,713,784)	(9,902,471)
Treasury shares	(727,000)	(727,000)
Less: deferred tax	<u>(666,364)</u>	<u>(137,228)</u>
Total Primary Ordinary Capital	72,155,941	74,498,819
Dynamic provision	<u>8,025,677</u>	<u>7,131,503</u>
Total Regulatory Capital	<u>80,181,618</u>	<u>81,630,322</u>
Total of Risk-Weighted Assets	<u>638,798,388</u>	<u>623,269,649</u>
	Minimum required	
Ratios:		
Capital Adequacy Ratio	8.00%	12.55%
Primary Ordinary Capital Ratio	5.00%	11.30%
Primary Capital Ratio	6.50%	11.95%
Leverage Coefficient	3.00%	6.71%
		7.31%

(1) Excludes the fair value of the portfolio acquired

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Notes to the Consolidated Financial Statements

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

The Company's management in preparing these consolidated financial statements in accordance with IFRS Accounting Standards, has made judgements, estimates and assumptions that affect the application of the 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 Company 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 Note 3 (c.2).

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

The Company 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 Company assesses at each reporting date whether the credit risk of financial assets has increased significantly since their initial recognition. See Note 3 (c.7) and Note 4 (a).

(c) *Income tax*

The Company 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 (r) and Note 24.

(d) *Non-consolidated structured entities*

The Company'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 Company. 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.

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Notes to the Consolidated Financial Statements

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

Information about assumptions and uncertainty in the Company'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 Company'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 Company'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) Related Parties

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

	<u>Directors and key management personnel</u>		<u>Related Companies</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
<u>Asset:</u>				
Accounts receivable	<u>0</u>	<u>0</u>	<u>144,494</u>	<u>424,276</u>
<u>Liabilities:</u>				
Saving deposits	<u>126,739</u>	<u>98,898</u>	<u>2,559,330</u>	<u>2,004,370</u>
Time deposits	<u>2,219,238</u>	<u>1,917,478</u>	<u>44,478,792</u>	<u>52,886,925</u>
Accrued interest payable	<u>26,242</u>	<u>16,130</u>	<u>616,317</u>	<u>633,914</u>
<u>Income and expenses:</u>				
Interest expense on deposits	<u>136,407</u>	<u>99,988</u>	<u>3,078,333</u>	<u>2,713,688</u>
Reinsurance income	<u>0</u>	<u>0</u>	<u>5,521,368</u>	<u>5,453,198</u>
Reinsurance claims and benefits costs	<u>0</u>	<u>0</u>	<u>(1,751,266)</u>	<u>(832,910)</u>
Other commission costs	<u>0</u>	<u>0</u>	<u>(558,175)</u>	<u>(558,076)</u>
Professional fees	<u>0</u>	<u>0</u>	<u>660,000</u>	<u>0</u>
Insurance expense	<u>0</u>	<u>0</u>	<u>82,957</u>	<u>112,331</u>
Short-term benefits to executives	<u>1,018,147</u>	<u>859,023</u>	<u>0</u>	<u>0</u>

Reinsurance income

As of December 31, 2024, Mortgage Credit Reinsurance, Ltd., a subsidiary of the Company that engages in certain reinsurance activities, recognized income from reinsurance on unemployment insurance policies for \$1,790,383 (2023: \$1,748,606) and on collective life insurance policies for \$3,730,986 (2023: \$3,704,592), related to contracts entered into with related companies.

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(6) Related Parties, continued

The insurance policies that are reinsured by this subsidiary of the Company, are linked to credit facilities of clients that are part of the Company's loan portfolio.

Transactions with Directors and key management personnel

The Company has paid fees for \$58,814 (2023: \$60,338) to Directors that attend the meetings of the Board of Directors and other committees.

The salaries and other short-term benefits of key management personnel amounting \$1,018,147 (2023: \$859,023).

(7) Cash and Cash Equivalents

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

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	257,746	245,871
Demand deposits	44,623,962	38,736,905
Saving accounts	19,659,779	13,395,688
Time deposits	<u>27,000,000</u>	<u>2,512,534</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>91,541,487</u>	<u>54,890,998</u>

(8) Investment Securities

Investment securities are classified as follows:

	<u>2024</u>	<u>2023</u>
Investment securities measured at FVTPL	28,423,095	33,969,936
Investment securities measured at AC	733,784	807,735
Investment securities measured at FVOCI	<u>92,861,642</u>	<u>93,343,022</u>
Total investment securities, net	<u>122,018,521</u>	<u>128,120,693</u>

Investment securities measured at FVTPL

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

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
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Notes to the Consolidated Financial Statements

(8) Investment Securities, continued

	<u>Maturity</u>	<u>2024</u>	<u>2023</u>
<u>Retained interests in securitizations:</u>			
Residential mortgage-backed securities ('RMBS'):			
XI Mortgage Loan Bond Trust	Oct-41	0	1,829,560
XII Mortgage Loan Bond Trust	Nov-42	811,034	938,901
XIII Mortgage Loan Bond Trust	Dec-45	914,531	919,272
XIV Mortgage Loan Bond Trust	Sep-46	1,261,999	1,246,874
XV Mortgage Loan Bond Trust	Jul-47	823,219	823,945
XVI Mortgage Loan Bond Trust	Jul-52	<u>2,825,298</u>	<u>2,721,608</u>
		<u>6,636,081</u>	<u>8,480,160</u>
Residual Interest:			
Residual interest in the X Mortgage Loan Bond Trust	Sep-39	9,633,458	8,872,720
Residual interest in the XI Mortgage Loan Bond Trust	Oct-41	0	4,941,221
Residual interest in the XII Mortgage Loan Bond Trust	Nov-42	2,850,404	2,609,299
Residual interest in the XIII Mortgage Loan Bond Trust	Dec-45	2,772,521	2,503,237
Residual interest in the XIV Mortgage Loan Bond Trust	Sep-46	1,282,404	1,141,326
Residual interest in the XV Mortgage Loan Bond Trust	Jul-47	1,272,942	1,125,950
Residual interest in the XVI Mortgage Loan Bond Trust	Jul-52	474,959	426,528
		<u>18,286,688</u>	<u>21,620,281</u>
Total retained interests in securitizations		<u>24,922,769</u>	<u>30,100,441</u>
<u>Government bonds:</u>			
Agricultural development securities of the Republic of Colombia	Jul-25	<u>2,339,017</u>	<u>2,909,494</u>
Total of government bonds		<u>2,339,017</u>	<u>2,909,494</u>
<u>Others equity investments:</u>			
Mutual funds	N/A	<u>508,038</u>	<u>356,918</u>
Total of others equity investments		<u>508,038</u>	<u>356,918</u>
Receivable interest		<u>653,271</u>	<u>603,083</u>
Total of investments securities at FVTPL		<u>28,423,095</u>	<u>33,969,936</u>

The trust's residual interests were determined by discounting the future cash flows in commissions and incentives that the Company will receive as trustee. At the time of creation of these trusts, the realization of values was estimated in 30 years for the Tenth, Twelfth, Thirteenth, Fourteenth, Fifteenth and Sixteenth Mortgage Loan Bond Trusts: (maturing in 2039, 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:

	<u>Interest rate</u>	<u>Maturity</u>	<u>2024</u>	<u>2023</u>
<u>Government bonds:</u>				
Bonds of the Republic of Colombia	2.48%	13-Jul-25	511,684	583,119
Bonds of the Republic of Panama	8.88%	31-Dec-27	<u>223,215</u>	<u>222,566</u>
Total government bonds			734,899	805,685
Less: loss allowance (ECL)			(5,969)	(2,804)
Receivable interest			<u>4,854</u>	<u>4,854</u>
Total of investment securities at AC			<u>733,784</u>	<u>807,735</u>

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

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Notes to the Consolidated Financial Statements

(8) Investment Securities, continued

Investment securities at FVOCI

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

	<u>Maturity</u>	<u>2024</u>	<u>2023</u>
<u>Retained interests in securitizations:</u>			
Residential mortgage-backed securities ('RMBS'):			
X Mortgage Loan Bond Trust	Sep-39	6,859,612	6,927,467
XI Mortgage Loan Bond Trust	Oct-41	0	1,400,093
XII Mortgage Loan Bond Trust	Nov-42	7,112,833	7,920,243
XIII Mortgage Loan Bond Trust	Dec-45	2,096,755	2,627,655
XIV Mortgage Loan Bond Trust	Sep-46	5,364,833	5,532,853
XV Mortgage Loan Bond Trust	Jul-47	5,145,762	5,872,366
XVI Mortgage Loan Bond Trust	Jul-52	<u>11,750,248</u>	<u>11,190,397</u>
Total retained interests in securitizations		<u>38,330,043</u>	<u>41,471,074</u>
<u>Government bonds:</u>			
Colombian Treasury bonds	Aug-26	2,250,173	2,535,655
Panamanian Treasury bonds	Dec-28	21,980,536	19,149,897
U.S. Treasury bonds	Aug-27	<u>27,743,650</u>	<u>27,841,300</u>
Total of government bonds		<u>51,974,359</u>	<u>49,526,852</u>
Receivable interest		<u>2,557,240</u>	<u>2,345,096</u>
Total of investment securities at FVOCI		<u>92,861,642</u>	<u>93,343,022</u>

At December 31, 2024, the allowance for ECL of debt instruments classified as measured at FVOCI, amounts to \$423,432 (2023: \$382,265). 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.

Risk concentration and information about the loss allowance (ECL)

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

(9) Loans at Amortized Cost (AC)

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

	<u>2024</u>	<u>2023</u>
<u>Domestic loans:</u>		
Personal	36,350,004	35,858,340
Financial leasing	47,924	0
Residential mortgages	<u>580,753,862</u>	<u>558,821,767</u>
Total domestic loans	<u>617,151,790</u>	<u>594,680,107</u>
<u>Foreign loans:</u>		
Personal	10,937,369	14,277,980
Residential mortgages	<u>202,611,028</u>	<u>191,619,089</u>
Total foreign loans	<u>213,548,397</u>	<u>205,897,069</u>
Accrued interest receivable	<u>9,790,999</u>	<u>11,146,973</u>
Gross carrying amount	<u>840,491,186</u>	<u>811,724,149</u>
Loss allowance (ECL)	<u>(3,087,659)</u>	<u>(3,751,355)</u>
Total loans at AC	<u>837,403,527</u>	<u>807,972,794</u>

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(9) Loans at Amortized Cost (AC), continued

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

In June 2024, the Company purchased a residential mortgage portfolio from the Eleven Mortgage Loan Bond Trust with a fair value equal to the book value, which did not generate differences between the price paid for this loan portfolio residential.

(10) Furniture, Equipment and Improvements, net

Furniture, equipment and improvements are summarized as follows:

<u>2024</u>	<u>Furniture</u>	<u>Office equipment</u>	<u>Vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:					
Balance at the beginning of the year	720,091	2,663,272	358,506	2,152,318	5,894,187
Additions	5,289	228,948	0	5,157	239,394
Sales and disposals	(121,202)	(112,120)	0	(120,765)	(354,087)
Effect of exchange rates fluctuations	0	(488)	0	(0)	(488)
Balance at the end of the year	<u>604,178</u>	<u>2,779,612</u>	<u>358,506</u>	<u>2,036,710</u>	<u>5,779,006</u>
Accumulated depreciation:					
Balance at the beginning of the year	599,784	2,222,527	328,688	1,388,615	4,539,614
Depreciation for the year	19,362	225,404	11,816	166,354	422,936
Sales and disposals	(121,202)	(98,045)	0	(120,765)	(340,012)
Effect of exchange rates fluctuations	(7,853)	(58,415)	0	(13,543)	(79,811)
Balance at the end of the year	<u>490,091</u>	<u>2,291,471</u>	<u>340,504</u>	<u>1,420,661</u>	<u>4,542,727</u>
Net balances	<u>114,087</u>	<u>488,141</u>	<u>18,002</u>	<u>616,049</u>	<u>1,236,279</u>
<u>2023</u>	<u>Furniture</u>	<u>Office equipment</u>	<u>Vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:					
Balance at the beginning of the year	843,735	3,817,439	429,577	2,169,761	7,260,512
Additions	12,406	182,444	28,037	8,597	231,484
Sales and disposals	(131,165)	(1,336,013)	(99,108)	(19,440)	(1,585,726)
Effect of exchange rates fluctuations	(4,885)	(598)	0	(6,600)	(12,083)
Balance at the end of the year	<u>720,091</u>	<u>2,663,272</u>	<u>358,506</u>	<u>2,152,318</u>	<u>5,894,187</u>
Accumulated depreciation:					
Balance at the beginning of the year	701,827	3,318,805	401,858	1,226,696	5,649,186
Depreciation for the year	16,601	171,766	25,938	168,422	382,727
Sales and disposals	(129,056)	(1,333,052)	(99,108)	(19,440)	(1,580,656)
Effect of exchange rates fluctuations	10,412	65,008	0	12,937	88,357
Balance at the end of the year	<u>599,784</u>	<u>2,222,527</u>	<u>328,688</u>	<u>1,388,615</u>	<u>4,539,614</u>
Net balances	<u>120,307</u>	<u>440,745</u>	<u>29,818</u>	<u>763,703</u>	<u>1,354,573</u>

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
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Notes to the Consolidated Financial Statements

(11) Accounts Receivable

The accounts receivable are detailed as follows:

	<u>2024</u>	<u>2023</u>
<u>Accounts receivable:</u>		
Customers	3,622,722	3,503,572
Employees	10,948	15,043
Insurance	98,756	98,756
Trusts	1,854,810	1,854,810
Other	<u>725,432</u>	<u>1,270,165</u>
	<u>6,312,668</u>	<u>6,742,346</u>

(12) Other assets

The other assets are detailed as follows:

	<u>2024</u>	<u>2023</u>
Guarantee deposits	56,326	56,326
Trust license	25,000	25,000
Employee severance fund	913,677	831,141
Prepaid expenses	1,150,249	1,047,759
Advances in assets purchase	7,970	9,113
Assets in foreclosure process	2,630,981	1,775,896
Foreclosed assets	1,122,775	1,573,714
Other	<u>689,301</u>	<u>58,410</u>
Total	<u>6,596,279</u>	<u>5,377,359</u>

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Notes to the Consolidated Financial Statements

(13) Negotiable Commercial Papers (NCP's)

The Company has six (2023: six) rotating programs of negotiable commercial papers up to \$200,000,000 (2023: \$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 Company. Of these rotating programs, one program for the amount of \$10,000,000 (2023: \$10,000,000), is backed up, in addition, by Grupo ASSA, S.A.

<u>Tipo</u>	<u>Interest rate</u>	<u>2024</u>	<u>Maturity</u>	<u>Amount</u>
Serie ABM	6.6250%		january-25	2,740,000
Serie ABN	6.2500%		january-25	1,790,000
Serie ABO	6.1250%		february-25	1,318,000
Serie BZ	6.5000%		february-25	8,769,000
Serie ABP	6.1250%		february-25	1,059,000
Serie CFF	6.2500%		february-25	1,882,000
Serie CFG	6.2500%		february-25	295,000
Serie BY	6.5000%		march-25	9,975,000
Serie CFH	6.2500%		march-25	7,975,000
Serie CA	6.5000%		march-25	10,979,000
Serie CFJ	5.5000%		april-25	2,540,000
Serie BEV	6.5000%		april-25	5,000,000
Serie DEX	6.5000%		april-25	1,210,000
Serie BFC	5.5000%		april-25	2,270,000
Serie DEY	6.5000%		april-25	3,211,000
Serie BEZ	6.5000%		april-25	4,000,000
Serie BFD	5.5000%		april-25	3,839,000
Serie BEX	6.5000%		may-25	2,790,000
Serie BEY	6.5000%		may-25	1,000,000
Serie BFA	6.5000%		may-25	3,000,000
Serie CB	6.5000%		june-25	9,000,000
Serie ABS	6.5000%		june-25	2,695,000
Serie DEZ	6.3500%		july-25	2,500,000
Serie DFA	6.3500%		july-25	3,273,000
Serie DFB	6.2500%		july-25	6,523,000
Serie BFB	5.8750%		september-25	1,743,000
Serie DFC	5.8750%		september-25	5,352,000
Serie CFK	5.8750%		october-25	902,000
Serie CC	5.8750%		october-25	9,438,000
Serie DFD	5.8750%		november-25	4,196,000
Serie BFE	5.8750%		december-25	1,779,000
Serie BFF	5.8750%		december-25	144,000
Total nominal amount				<u>123,187,000</u>
Accrued interest payable				915,164
Less: issuance costs				<u>(154,258)</u>
Total NCP's a CA				<u>123,947,906</u>

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Notes to the Consolidated Financial Statements

(13) Negotiable Commercial Papers (NCP's), continued

<u>Description</u>	<u>Interest rate</u>	<u>2023</u>	<u>Maturity</u>	<u>Amount</u>
Serie BR	5.5000%		january-24	1,432,000
Serie BS	5.5000%		january-24	1,462,000
Serie CFA	5.9000%		january-24	193,000
Serie CFB	6.5000%		february-24	5,000,000
Serie BT	5.5000%		february-24	325,000
Serie BU	5.7500%		february-24	1,013,000
Serie BV	6.0000%		march-24	7,918,000
Serie CFC	6.5000%		february-24	5,000,000
Serie BEL	6.0000%		march-24	1,830,000
Serie BEM	6.0000%		march-24	3,275,000
Serie BEN	6.0000%		march-24	2,000,000
Serie BEO	6.0000%		march-24	8,500,000
Serie CFE	6.5000%		april-24	4,578,000
Serie BEP	5.8750%		april-24	4,983,000
Serie BEQ	5.8750%		april-24	1,000,000
Serie DEW	6.5000%		april-24	3,271,000
Serie BER	5.8750%		april-24	4,505,000
Serie BES	5.8750%		april-24	2,290,000
Serie ABL	6.6250%		april-24	2,964,000
Serie BET	5.8750%		may-24	757,000
Serie BEU	5.8750%		may-24	3,000,000
Serie CEY	5.8750%		may-24	3,000,000
Serie CEZ	5.8750%		june-24	1,147,000
Serie BW	6.0000%		june-24	3,000,000
Serie DES	6.0000%		june-24	4,317,000
Serie DET	6.0000%		july-24	2,130,000
Serie DEU	6.2500%		august-24	7,372,000
Serie CFD	6.2500%		september-24	380,000
Serie DEV	6.3750%		septiembre-24	2,482,000
Serie BX	6.5000%		october-24	650,000
Serie ABK	6.7500%		october-24	<u>5,985,000</u>
Total nominal amount				95,759,000
Accrued interest payable				772,090
Less: issuance costs				<u>(89,253)</u>
Total NCP's at AC				<u>96,441,837</u>

As of December 31, 2024, the Company has complied with the payment terms of principal and interest for its negotiable commercial papers.

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(14) Negotiable Commercial Notes (NCN's)

The Company has authorization by the Superintendence of the Securities Market, for three (2023: three) programs of negotiable commercial notes totaling \$200,000,000 (2023: \$200,000,000).

NCN's program, placements are guaranteed by the general credit of the Company.

<u>Tipo</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>2024</u>	<u>2023</u>
SERIE CX	4.125%	February-24	0	1,725,000
SERIE B	4.250%	February-24	0	3,000,000
SERIE D	4.250%	March-24	0	2,705,000
SERIE Q	3.000%	March-24	0	5,000,000
SERIE F	4.125%	April-24	0	1,000,000
SERIE H	4.000%	May-24	0	2,990,000
SERIE L	4.000%	June-24	0	2,000,000
SERIE CS	4.000%	June-24	0	2,548,000
SERIE CT	4.000%	June-24	0	3,400,000
SERIE CU	4.000%	July-24	0	2,500,000
SERIE CW	4.000%	August-24	0	25,000
SERIE CY	4.250%	August-24	0	644,000
SERIE R	3.375%	October-24	0	1,807,000
SERIE CZ	5.125%	October-24	0	433,000
SERIE DA	5.250%	October-24	0	50,000
SERIE CR	4.000%	December-24	0	5,000,000
SERIE DC	6.250%	March-25	4,060,000	4,060,000
SERIE S	3.750%	April-25	1,575,000	1,575,000
SERIE DD	5.625%	May-25	1,537,000	1,537,000
SERIE I	4.250%	May-25	2,000,000	2,000,000
SERIE U	4.000%	May-25	1,000,000	1,000,000
SERIE DE	5.625%	May-25	210,000	90,000
SERIE V	4.000%	May-25	2,000,000	2,000,000
SERIE DH	6.1250%	August-25	1,950,000	0
SERIE DF	5.7500%	August-25	150,000	0
SERIE DI	6.0000%	August-25	2,352,000	0
SERIE DB	5.375%	October-25	390,000	390,000
SERIE A	4.900%	January-26	1,000,000	1,000,000
SERIE DG	5.5000%	February-26	515,000	0
SERIE P	3.500%	February-26	4,000,000	4,000,000
SERIE T	4.000%	April-26	275,000	275,000
SERIE G	4.750%	April-26	1,000,000	1,000,000
SERIE DJ	5.5000%	May-26	1,000,000	0
SERIE W	4.500%	May-26	1,704,000	1,704,000
SERIE M	4.500%	June-26	1,500,000	1,500,000
SERIE DK	5.5000%	June-26	2,000,000	0
SERIE N	4.500%	July-26	1,000,000	1,000,000
SERIE DL	5.5000%	June-26	<u>2,000,000</u>	<u>0</u>
Total nominal amount			33,218,000	57,958,000
Accrued interest payable			64,908	114,445
Less: issuance costs			<u>(7,114)</u>	<u>(12,963)</u>
Total, NCN's at AC			<u>33,275,794</u>	<u>58,059,482</u>

As of December 31, 2024, the Company has complied with the payment terms of principal and interest for its negotiable commercial notes.

(15) Covered Bonds

The Company's Board of Directors, through the Minutes of the Board of Directors of May 24, 2018, authorized the issuance of a covered bond program for \$200,000,000.

The Company has no outstanding tranches (2023: one) of medium-term covered bonds (2023: \$10,664,110) at a rate of 0% (2023: 4.125%), respectively with a term of 3.5- and 5-years term.

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(15) Covered Bonds, continued

The covered bonds are guaranteed with mortgage loans portfolio (2023: \$13,750,000).

As of December 31, 2024, the Company has complied with the payment terms of principal and interest for its covered bonds.

(16) Ordinary Bonds

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

As of December 31, 2024, through this subsidiary has issued medium-term ordinary bonds for \$1,775,009 (2023: \$6,197,498) at an interest rate of 6.29% (2023: 6.29%) maturing on June 23, 2025.

The ordinary bonds are guaranteed with a Panamanian mortgage loans portfolio amounting to \$2,218,761 (2023: \$7,746,873).

As of December 31, 2024, the Company has complied with the payment terms of principal and interest for its ordinary bonds.

(17) Investment Certificates

The Company is authorized by the Superintendence of Securities Market of El Salvador for two (2023: two) issuances of Investment Certificates up to \$100,000,000 (2023: \$100,000,000). Currently, both programs have no special guarantees.

<u>Description</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>2024</u>	<u>2023</u>
Tranche 10	4.25%	February 2024	0	967,000
Tranche 11	5.50%	August 2024	0	1,000,000
Tranche 12	5.50%	September 2024	0	6,000,000
Tranche 13	5.50%	October 2024	0	2,000,000
Tranche 16	6.75%	January 2025	1,000,000	830,000
Tranche 18	6.75%	February 2025	1,000,000	622,000
Tranche 14	5.50%	February 2025	1,891,000	1,431,000
Tranche 19	6.75%	March 2025	986,000	550,000
Tranche 15	6.50%	April 2025	710,000	710,000
Tranche 09	5.25%	June 2025	2,000,000	2,000,000
Tranche 20	7.25%	June 2025	2,000,000	1,975,000
Tranche 17	6.50%	August 2025	<u>850,000</u>	<u>850,000</u>
Total nominal of investment certificates			10,437,000	18,935,000
Accrued interest payable			31,659	41,775
Less: issuance costs			<u>(1,153)</u>	<u>(6,429)</u>
Total investment certificates at AC			<u>10,467,506</u>	<u>18,970,346</u>

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(17) Investment Certificates, continued

As of December 31, 2024, the Company has complied with the payment terms of principal and interest for its investment certificates.

(18) Other Negotiable Debts

The Company has been authorized by the Superintendence of Securities of El Salvador for a revolving plan (2023: two) of up to \$35,000,000 each (2023: \$35,000,000 each) in Negotiable Obligations (stock market paper). These programs do not have a specific guarantee.

<u>Description</u>	<u>Interest rate</u>	<u>2024</u> <u>Maturity</u>	<u>Amount</u>
Tranche 25	7.000%	January-25	2,000,000
Tranche 26	7.000%	February-25	2,000,000
Tranche 27	7.000%	April-25	2,000,000
Tranche 28	7.125%	June-25	3,000,000
Tranche 35	7.125%	June-25	2,000,000
Tranche 29	7.125%	June-25	2,000,000
Tranche 30	7.000%	August-25	1,000,000
Tranche 31	7.000%	September-25	2,000,000
Tranche 32	7.000%	October-25	1,974,000
Tranche 34	7.000%	October-25	1,737,000
Tranche 33	7.125%	April-26	1,000,000
Tranche 36	7.125%	June-26	4,000,000
Total nominal amount			24,711,000
Accrued interest payable			202,290
Less: issuance costs			(19,596)
Total other negotiable debts at AC			<u>24,893,694</u>

<u>Description</u>	<u>Interest rate</u>	<u>2023</u> <u>Maturity</u>	<u>Amount</u>
Tranche 19	6.00%	March-24	30,000
Tranche 20	6.00%	April-24	2,000,000
Tranche 21	6.50%	June-24	1,000,000
Tranche 22	7.00%	September-24	1,000,000
Tranche 23	7.00%	October-24	500,000
Tranche 24	7.00%	October-24	1,000,000
Total nominal amount			5,530,000
Accrued interest payable			47,977
Less: issuance costs			(9,906)
Total other negotiable debts at AC			<u>5,568,071</u>

As of December 31, 2024, the Company has complied with the payment terms of principal and interest for its negotiable debt.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
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(19) Borrowings

The borrowings are summarized as follows

	<u>2024</u>	<u>2023</u>
Line of credit for working capital for \$25,000,000, with maturity in the year 2028 and an annual SOFR interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	19,444,445	25,000,000
Line of credit for working capital for \$15,000,000, with maturity in the year 2026, renewable at the parties' option and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	15,000,000	15,000,000
Line of credit for working capital for \$10,000,000, with maturity in 2026, renewable at the parties' option and fixed interest rate guaranteed by a portfolio of residential mortgage loans	10,000,000	10,000,000
Line of credit for working capital for \$9,800,000, with maturity in 2025, renewable at the parties' option and fixed interest rate guaranteed by a portfolio of residential mortgage loans.	1,800,000	9,800,000
Revolving line of credit for working capital for \$10,000,000, maturing in 2025, renewable at the option of the parties and with a fixed interest rate	10,000,000	0
Line of credit for working capital for \$45,000,000, with maturity in the year 2025, renewable at the parties' option and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	45,000,000	44,500,000
Line of credit for working capital for \$8,000,000, maturing in 2026, renewable at the option of the parties and SOFR interest rate plus a margin, secured by a residential mortgage loan portfolio	8,000,000	8,000,000
Line of credit for working capital for \$25,000,000, with maturity in the year 2033 and an annual SOFR interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	25,000,000	0
Line of credit for working capital for \$25,000,000, with maturity in the year 2028, and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	16,666,667	20,833,333
Line of credit for working capital for \$60,000,000, with maturity in the year 2028 and an annual SOFR interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	60,000,000	47,000,000
Line of credit for working capital for \$45,000,000, with maturity in the year 2025 and fixed interest rate	34,500,000	22,500,000
Line of credit for working capital for \$40,000,000, with maturity in the year 2025 and fixed interest rate	6,250,000	17,500,000
Line of credit for working capital for \$15,000,000, with maturity in the year 2026 and an annual SOFR interest rate plus a margin	15,000,000	0
Line of credit for working capital for \$10,000,000, with maturity in the year 2026 and fixed interest rate	6,666,666	10,000,000
Line of credit for working capital for \$10,000,000, with maturity in the year 2026 and fixed interest rate	<u>10,000,000</u>	<u>10,000,000</u>
Subtotal continues on next page	<u>283,327,778</u>	<u>240,133,333</u>

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
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Notes to the Consolidated Financial Statements

(19) Borrowings, continued

	<u>2024</u>	<u>2023</u>
Subtotal continues from previous page	<u>283,327,778</u>	<u>240,133,333</u>
Line of credit for working capital for \$7,250,000, with maturity in the year 2024 and fixed interest rate	0	7,250,000
Indexed loan for working capital up to approximately \$16,400,000 (COP 63 billion), and annual fixed interest rate with maturity in the year 2025	6,308,103	15,229,669
Line of credit for working capital up to approximately \$1,098,000 (COP 4.2 billion) and annual fixed interest rate with maturity in the year 2025	890,029	1,026,745
Indexed loan for working capital up to approximately \$1,098,000 (COP 4.2 billion), and annual fixed interest rate with maturity in the year 2025	0	1,091,995
Indexed loan for working capital up to approximately \$9,420,000 (COP 36 billion), and annual fixed interest rate with maturity in the year 2025	8,122,565	9,370,262
Indexed loan for working capital up to approximately \$1,910,000 (COP 8 billion), and annual IBR interest rate plus a margin with maturity in the year 2025	1,814,409	0
Indexed loan for working capital up to approximately \$7,800,000 (COP 30 billion), and annual IBR interest rate plus a margin with maturity in the year 2025	1,814,409	0
Indexed loan for working capital up to approximately \$1,910,000 (COP 8 billion), and annual IBR interest rate plus a margin with maturity in the year 2025	<u>680,403</u>	<u>0</u>
Total nominal amount	<u>302,957,696</u>	<u>274,102,004</u>
Accrued interest payable	2,555,564	2,433,654
Less: issuance costs	<u>(1,107,455)</u>	<u>(1,337,553)</u>
Total borrowings at AC	<u>304,405,805</u>	<u>275,198,105</u>

As of December 31, 2024, the Company has complied with the payment terms of principal and interest for its borrowings.

(20) Other Liabilities

The other liabilities are detailed as follows:

	<u>2024</u>	<u>2023</u>
Sundry creditors	2,539,158	3,414,750
Cashier's checks	1,508,471	966,347
Provision for labor benefits and other remunerations	1,180,539	1,419,444
Advances from customers	2,590,830	2,249,021
Other	<u>1,263,870</u>	<u>3,625,353</u>
Total	<u>9,082,868</u>	<u>11,674,915</u>

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
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Notes to the Consolidated Financial Statements

(21) Capital and Reserves

The composition of common shares, preferred shares, and capital reserves is detailed as follows:

Common Shares

The Company has an authorized capital of 2,000,000 common shares (2022: 2,000,000 shares) without par value.

The Company's common shares are detailed below:

	<u>2024</u> <u>Shares</u> <u>quantity</u>	<u>2023</u> <u>Shares</u> <u>quantity</u>
<u>Authorized and issued shares:</u>		
Shares issued at the beginning of year	1,080,617	1,069,022
Treasury shares	<u>0</u>	<u>11,595</u>
Shares issued at the end of the year	<u>1,080,617</u>	<u>1,080,617</u>
Carrying amount of the common shares	<u>18,987,968</u>	<u>18,987,968</u>

As of December 2024, the Company did not issue common shares (2023: 11,595) as a result of the exercise of stock options by key executives in connection with the stock option programs approved.

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

Preferred shares

As of December 31, 2024, the Company's preferred shares amount to \$20,752,709 (2023: \$20,752,709).

On September 26, 2011, the Company received authorization from the Superintendence of the Securities Market for the public issue of non-cumulative preferred shares Series A, for a total of up to 150,000 shares with a nominal value of one hundred dollars (\$100.00) each, registered with the Superintendence of the Securities Market and listed on the Panama Stock Exchange. The total of preferred shares is \$15,000,000 at an annual rate of 6.75% non-cumulative and quarterly dividend payments. Preferred shares' issuance costs amounted to US\$106,234.

The informative prospect of the public offer, set the following conditions:

- Non-cumulative Preferred Shares (hereinafter the 'Preferred Shares') entitled to receive dividends when they are declared by the Board, but shall have no voice or vote.
- The declaration and payment of dividends is a power of the Board of the Issuer. The Series A Preferred Shares shall be entitled to receive an annual dividend, non-cumulative face value.
- The payment of dividends on an annual basis, once declared, will be made by quarterly payments, on March fifteen (15), June fifteen (15), September fifteen (15), and December fifteen (15) each year.

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Notes to the Consolidated Financial Statements

(21) Capital and Reserves, continued

On September 24, 2008, the Company made a public issue of non-cumulative Series A preferred shares, for a total of up to 100,000 shares with a nominal value of one hundred dollars (\$100.00) each, registered in the Superintendencia of the Securities Market of Panama and listed on the Panama Stock Exchange. The total of preferred shares is \$10,000,000 at an annual rate of 7% non-cumulative and quarterly dividend payments. Preferred shares' issuance cost amounted to \$141,057.

Of this issue, 60,000 shares (2023: 60,000) are outstanding, valued at \$6,000,000 (2023: \$6,000,000).

During the period, the Company has not redeemed any preferred shares related to this program.

The informative prospect of the public offering set the following conditions:

- Non-cumulative Preferred Shares Series A (hereinafter the 'Series A Preferred Shares') entitled to receive dividends when they are declared by the Board, but shall have no voice or vote.
- The declaration and payment of dividends is a power of the Board of the Issuer. The Series A Preferred Shares shall be entitled to receive an annual dividend, non-cumulative face value.
- The payment of dividends on an annual basis, once declared, will be made by quarterly payments, on March fifteen (15), June fifteen (15), September fifteen (15), and December fifteen (15) each year.

During 2024, no preferred shares were issued by the Company.

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 through a sale, redeemed, or impaired. In addition, it includes the fair value of an acquired loan portfolio, which will be amortized during the remaining life of the loans or until their cancellation

Foreign currency translation 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.

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Notes to the Consolidated Financial Statements

(21) Capital and Reserves, continued

Regulatory reserves

Dynamic provision

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

Reserve for foreclosed assets

It is the provision that must be constituted in accordance with Agreement No. 003-2009 where a reserve table is established on the basis of 5 years counted from the registration of the Public Registry. This reserve corresponds to an equity item and is allocated from retained earnings. See Note 33.

(22) Management and Service Commissions, and Other Income

The service commissions and other income are detailed as follows:

	<u>2024</u>	<u>2023</u>
<u>Management and servicing commissions:</u>		
Trust management	1,625,030	1,897,318
Collection management	2,944,604	2,592,326
Insurance management	768,606	733,161
Other	<u>1,594,456</u>	<u>1,844,846</u>
	<u>6,932,696</u>	<u>7,067,651</u>
<u>Other income:</u>		
Tax credit	0	426
Insurance	140,656	145,731
Gain on sale of foreclosed assets	551,656	393,824
Other	<u>4,820,773</u>	<u>1,387,988</u>
	<u>5,513,085</u>	<u>1,927,969</u>

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES
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Notes to the Consolidated Financial Statements

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

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

	<u>2024</u>	<u>2023</u>
<u>Salaries and other personnel benefits:</u>		
Wages	4,323,994	3,974,152
Representation expenses	813,342	767,302
Bonuses	180,220	183,004
Social security costs	595,710	568,199
Employment benefits	272,538	305,234
Travel, per diem and fuel	159,100	97,483
Employee Insurance	169,472	141,531
Training and seminars	169,820	163,701
Other	<u>403,692</u>	<u>291,893</u>
Total	<u>7,087,888</u>	<u>6,492,499</u>
 <u>Other general and administrative expenses:</u>		
Rent	77,376	60,016
Advertising	791,459	798,038
Equipment maintenance	999,029	918,922
Office supplies	40,989	37,579
Utilities expense	206,378	206,608
Bank charges	368,051	327,317
Services	469,469	440,439
Insurance	53,824	66,939
Non deductible expenses	376,928	552,073
Foreclosed asset expenses	869,334	640,807
Stock option expense	122,068	164,148
Other	<u>731,775</u>	<u>1,064,672</u>
	<u>5,106,680</u>	<u>5,277,558</u>

Share purchase option plan

In 2024, 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 Company for 8,950 options with a unit fair value of \$32.81, for 8,950 options with a unit fair value of \$28.481, 15,110 options with a unit fair value of \$24.166, 13,650 options with a unit fair value of \$15.025, 13,350 options with a unit fair value of \$8.591 and 14,290 options with a unit fair value of \$3.694, respectively with an exercise maturity in ten (10) years for each plan.

As of December 31, 2024, a total of 46,660 options are outstanding (2023: 37,710). During 2024 13,350, no options were exercised (2023: 13,350). The plans grant executives the right to exercise options on the Bank's shares beginning on the first anniversary of the grant in both plans. In 2024, expenses have been recorded for the issuance of options of \$122,068 (2023: \$113,605).

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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Notes to the Consolidated Financial Statements

(24) Income Tax

The income tax returns of the Company's subsidiaries 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).

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 (\$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 Company's subsidiaries shall calculate the income tax according to the following rates:

	<u>Colombia</u>	<u>El Salvador</u>
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 2021 and 2022, when the taxable net income exceeds 120,000 tax value unit (TVU).
- General rule that determines that 100% of the taxes, rates and contributions effectively paid in the taxable year will be deductible, which have a causal relationship with the generation of income (except income tax). As special rules, it is stated that 50% of the tax on financial transactions (TFT) will be deductible, regardless of whether or not it has a causal relationship with the income generating activity.
- 50% of the industry and commerce tax may be taken as a tax deduction for the income tax in the taxable year in which it is effectively paid and to the extent that it has a causal link with its economic activity. As of the year 2022 it can be discounted 100%.
- For the taxable periods 2024 and 2023, 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.

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Notes to the Consolidated Financial Statements

(24) Income Tax, continued

- 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:

	<u>2024</u>	<u>2023</u>
Current tax expense	469,654	592,850
Deferred tax expense – temporary differences	<u>(468,863)</u>	<u>197,487</u>
Total income tax expense	<u>791</u>	<u>790,337</u>

The effective tax rate is detailed as follows:

	<u>2024</u>	<u>2023</u>
Net income before income tax	<u>4,419,137</u>	<u>6,065,463</u>
Income tax expense	<u>791</u>	<u>790,337</u>
Effective tax rate	<u>0.02%</u>	<u>13.03%</u>

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

	<u>2024</u>	<u>2023</u>
Net income before income tax	<u>4,419,137</u>	<u>6,065,463</u>
Tax using the Company's domestic tax rate	1,104,784	1,516,366
Effect of tax rates in foreign jurisdictions	(774,494)	(901,147)
Tax effect of:		
Tax-exempt income	(632,899)	(317,944)
Non-deductible expenses	772,263	295,575
Recognition of deductible temporary differences	<u>(468,863)</u>	<u>197,487</u>
Total income tax expense	<u>791</u>	<u>790,337</u>

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

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Notes to the Consolidated Financial Statements

(24) Income Tax, continued

Deferred income tax is comprised as follows:

	<u>2024</u>		<u>2023</u>	
	<u>Temporary differences</u>	<u>Deferred tax</u>	<u>Temporary differences</u>	<u>Deferred tax</u>
Deferred tax asset				
Allowance for ECL on loans	2,887,180	689,675	2,976,614	824,509
Voluntary retirement incentive plan	31,040	10,313	22,060	9,519
Operating losses carried forward (1)	<u>1,119,794</u>	<u>666,363</u>	<u>476,940</u>	<u>137,228</u>
	<u>4,038,014</u>	<u>1,366,351</u>	<u>3,475,614</u>	<u>971,256</u>

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

The movement in deferred tax balances is as follows:

	<u>2024</u>			Balance at the end of the year Deferred tax asset
	<u>Balance at the beginning of the year</u>	<u>Recognized in profit or loss</u>	<u>Effect of exchange rates</u>	
Allowance for ECL on loans	824,509	(134,834)	0	689,675
Voluntary retirement incentive plan	9,519	794	0	10,313
Operating losses carried forward	<u>137,228</u>	<u>602,903</u>	<u>(73,768)</u>	<u>666,363</u>
Deferred tax asset	<u>971,256</u>	<u>468,863</u>	<u>(73,768)</u>	<u>1,366,351</u>

	<u>2023</u>			Balance at the end of the year Deferred tax asset
	<u>Balance at the beginning of the year</u>	<u>Recognized in profit or loss</u>	<u>Effect of exchange rates</u>	
Allowance for ECL on loans	918,602	(94,093)	0	824,509
Voluntary retirement incentive plan	9,114	405	0	9,519
Operating losses carried forward	<u>179,030</u>	<u>(103,799)</u>	<u>61,997</u>	<u>137,228</u>
Deferred tax asset	<u>1,106,746</u>	<u>(197,487)</u>	<u>61,997</u>	<u>971,256</u>

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

As of December 31, 2024, the Company has not recognized a liability for deferred income tax of approximately \$2,842,561 (2023: \$2,763,528) for the retained earnings of its operations abroad, as the Company considers that approximately \$56,851,212 (2023: \$55,270,558) of these earnings will be reinvested indefinitely.

(25) Trusts Under Management

The Company maintains fiduciary contracts under its management at the risk of the customer amounting to \$236,684,268 (2023: \$269,645,369). Taking into consideration the nature of these services, management believes that they do not represent a significant risk to the Company. Information about the Company's involvement with non-consolidated structures entities see the Note 26.

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Notes to the Consolidated Financial Statements

(26) Involvement with Non-Consolidated Structured Entities

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

<u>Type of structured entity</u>	<u>Nature and purpose</u>	<u>Interest held by the Company</u>	<u>Total assets</u>	
			<u>2024</u>	<u>2023</u>
Residential mortgage loan securitization trusts	To generate: <ul style="list-style-type: none"> Funds for the Company's lending activities Commission for administration and management of loan portfolio <p>These trusts are financed through the sale of debt instruments.</p>	<ul style="list-style-type: none"> Investments in residential mortgage-backed securities ('RMBS') issued by the trusts Residual interest 	<u>236,684,268</u>	<u>269,645,369</u>

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

<u>Carrying amount by the Company</u>	<u>2024</u>	<u>2023</u>
	<u>Investment in securities</u>	<u>Investment in securities</u>
Residential mortgage loan securitization trusts	<u>63,252,812</u>	<u>71,571,515</u>
Total	<u>63,252,812</u>	<u>71,571,515</u>

During 2024, the Company has not granted financial support to unconsolidated structured entities.

(27) Transfers of Financial Assets

In the ordinary course of business, the Company 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 Company'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 Company to securitization vehicles (trusts), which in turn issue notes to investors collateralized by the purchased assets.

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

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Notes to the Consolidated Financial Statements

(27) Transfers of Financial Assets, continued

Sales to unconsolidated structures entities

Throughout its years of operation and in accordance with its liquidity needs, the Company has sporadically undertaken securitization transactions that have resulted in derecognition of the transferred assets in their entirety. This is the case when the Company 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 Company receives as part of the transfer and residual interest represent a continuing involvement with those assets.

During 2024, the Company has recognized as part of the interest income from investment in securities calculate using the effective interest method \$2,936,701 (2023: \$3,108,587) of interest earned on residential mortgage-backed securities received from securitization transactions and that are part of the Company's investment portfolio in securities measured at FVOCI.

Additionally, the Company has recognized as part of the net gain on investment securities at FVTPL, \$1,812,025 (2023: profit \$2,337,704) 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 Company's investment portfolio in securities measured at FVTPL.

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

During 2024, the Company has recognized in the consolidated statement of profit or loss a commission income from servicing activities provided to securitization vehicles amounting to \$1,625,030 (2023: \$1,897,318).

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Notes to the Consolidated Financial Statements

(27) Transfers of Financial Assets, continued

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

<u>Type of continuing involvement</u>	<u>Carrying amount</u>	<u>Fair value</u>	
	<u>Investment securities</u>	<u>Assets</u>	<u>Liabilities</u>
Bonds issued by unconsolidated securitization vehicles			
2024	<u>44,966,124</u>	<u>44,966,124</u>	<u>0</u>
2023	<u>49,951,234</u>	<u>49,951,234</u>	<u>0</u>
Residual Interest:			
2024	<u>18,286,688</u>	<u>18,286,688</u>	<u>0</u>
2023	<u>21,620,281</u>	<u>21,620,281</u>	<u>0</u>

The amount that best represents the Company's maximum exposure to loss from its continuing involvement in the form of mortgage-backed securities issued by unconsolidated securitization trusts and residual managements right, 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, 2024, the Bank has issued promise letters for \$28,835,214 (2023: \$20,500,245), of which \$2,512,855 (2023: \$2,111,455) are irrevocable.

At December 31, 2024, there is an administrative process against the Company by the Dirección General de Impuestos Internos. The process is in its stage of evaluating the arguments and evidence provided, and as of the date of issuance of these financial statements, its result or effect is not known.

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(29) Leases

At December 31, 2024, the Company leases office premises mainly for its bank branch and loan, which do not meet the definition of investment properties in IAS 40. These lease contracts run for periods of between 1, 5 and 10 years, and some include renewal options for an additional period of the same duration after the end of the lease term.

Right-of-use assets

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

	<u>2024</u>	<u>2023</u>
Property:		
Balance at the beginning of the year	1,143,023	1,495,795
Purchases	69,494	0
Depreciation charge for the year	(401,578)	(408,849)
Sales and discards	(659)	0
Effect of exchange rates fluctuations	<u>(33,294)</u>	<u>56,077</u>
Balance at the end of the year	<u>776,986</u>	<u>1,143,023</u>

Lease liabilities

As of December 31, 2024, the Company's lease liabilities amount to \$1,370,387 (2023: \$1,717,745). See Note 4 (b) for maturity analysis of lease liabilities.

Amounts recognized in the consolidated statement of profit or loss

As of December 31, 2024, the Company has recognized interest expenses on its lease liabilities for \$93,056 (2023: \$113,210) as part of its financial costs (interest on financing activities) in profit or loss.

Additionally, the Company has recognized expenses related to leases of 'short-term' and 'low value assets' for \$77,376 (2023: \$60,016) as part of rental expenses in profit or loss. See Note 23.

Amounts recognized in the consolidated statement of cash flows

As of December 31, 2024, the total cash outflows for leases recognized in the consolidated statement of cash flows amounts to \$517,790 (2023: \$451,353) this amount includes the portion of payments to principal of lease contracts classified as part of the financing activities for \$347,358 (2023: \$278,127), the portion of interest on lease liabilities \$93,056 (2023: \$113,210) and the portion of expenses relating to short-term leases and leases of low-value assets for \$77,376 (2023: \$60,016) 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 Company 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.

Notes to the Consolidated Financial Statements

(30) Fair value of Financial Instruments, continued

Valuation models

The Company 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.

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 Company 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 the general conditions of financial markets.

For more complex instruments, the Company 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 interest in securitizations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair values.

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(30) Fair value of Financial Instruments, continued

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 Company 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 Company 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.

Mortgage-backed securities and residual interest on securitizations

During 2024, 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 Company has determined the fair value for these asset-backed securities using other valuation techniques. These securities held by the Company are backed by static pools of residential mortgages and enjoy a senior claim on cash flows.

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

Valuation framework

The Company 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.

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(30) Fair value of Financial Instruments, continued

The Company 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 Company;
- obtain an understanding of how the fair value has been determined 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.

Financial instruments measured at fair value – Fair value hierarchy

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

	<u>2024</u>	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:						
Financial assets measured at fair value:						
Investment securities at FVOCI		92,861,642	27,838,252	24,530,183	40,493,207	92,861,642
Investment securities at FVTPL		28,423,095	0	2,339,017	26,084,078	28,423,095

	<u>2023</u>	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:						
Financial assets measured at fair value:						
Investment securities at FVOCI		93,343,022	27,941,067	21,694,596	43,707,359	93,343,022
Investment securities at FVTPL		33,969,936	0	2,909,494	31,060,442	33,969,936

During 2024, no transfers were made in the fair value hierarchy for investment securities measured at FVOCI or at FVTPL.

Fair value measurements - Level 3

Reconciliation

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

	<u>2024</u>	<u>2023</u>
Balance at the beginning of the year	71,928,433	70,539,986
Total gains or losses:		
In profit or loss	1,812,025	2,337,704
In OCI	(150,105)	808,142
Purchases	151,120	99,317
Settlements	(9,980,623)	(1,856,716)
Subtotal of financial instrument movements	<u>63,760,850</u>	<u>71,928,433</u>
Plus:		
Interest receivable	<u>2,816,435</u>	<u>2,839,368</u>
Balance at the end	<u>66,577,285</u>	<u>74,767,801</u>

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(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.

Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimates (weighted average)	
			2024	2023
Residential mortgage-backed securities ('RMBS')	Discounted cash flows	Standard Default Assumptions ("SDA")	0.58% - 0.08% (0.31%)	0.84% - 0.09% (0.39%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	44.26% - 27.55% (38.61%)	44.42% - 29.44% (39.21%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 month	12 month
		Standard Default Assumptions ("SDA")	0.58% - 0.08% (0.31%)	0.84% - 0.09% (0.39%)
Residual interests in securitizations	Discounted cash flows	PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	44.26% - 27.55% (38.61%)	44.42% - 29.44% (39.21%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 month	12 month
		Standard Default Assumptions ("SDA")	0.58% - 0.08% (0.31%)	0.84% - 0.09% (0.39%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	44.26% - 27.55% (38.61%)	44.42% - 29.44% (39.21%)

Effect of unobservable inputs on fair value measurement

Although the Company 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.

	2024		2023	
	Effect on profit or loss Favorable	(Unfavorable)	Effect on OCI Favorable	(Unfavorable)
Residual interests in securitizations and government bonds:				
Investment securities at FVTPL	35,972	(36,377)	0	0
Investment securities at FVOCI	<u>0</u>	<u>0</u>	<u>25,761</u>	<u>(25,968)</u>
	<u>35,972</u>	<u>(36,377)</u>	<u>25,761</u>	<u>(25,968)</u>
Residual interests in securitizations and government bonds:				
Investment securities at FVTPL	52,967	(52,770)	0	0
Investment securities at FVOCI	<u>0</u>	<u>0</u>	<u>32,231</u>	<u>(32,420)</u>
	<u>52,967</u>	<u>(52,770)</u>	<u>32,231</u>	<u>(32,420)</u>

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(30) Fair value of Financial Instruments, continued

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 the Company'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.

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.

	<u>2024</u>	<u>Carrying amount</u>	<u>Fair value</u>		<u>Total</u>
			<u>Level 2</u>	<u>Level 3</u>	
<u>Assets:</u>					
Financial assets not measured at fair value:					
Loans at AC		837,403,527	0	830,371,997	830,371,997
Investment securities at AC		733,784	750,715	0	750,715
<u>Liabilities:</u>					
Financial liabilities not measured at fair value:					
Time deposits from customers		488,650,900	0	484,344,879	484,344,879
Negotiable commercial papers		123,947,906	0	123,188,346	123,188,346
Negotiable commercial notes		33,275,794	0	31,779,481	31,779,481
Covered bonds		0	0	0	0
Ordinary bonds		1,775,009	0	1,726,277	1,726,277
Investment certificates		10,467,506	0	10,409,207	10,409,207
Other negotiable debt		24,893,694	0	24,704,084	24,704,084
Borrowings		304,405,805	0	303,051,813	303,051,813

	<u>2023</u>	<u>Carrying amount</u>	<u>Fair value</u>		<u>Total</u>
			<u>Level 2</u>	<u>Level 3</u>	
<u>Assets:</u>					
Financial assets not measured at fair value:					
Loans at AC		807,972,794	0	814,220,107	814,220,107
Investment securities at AC		807,735	828,933	0	828,933
<u>Liabilities:</u>					
Financial liabilities not measured at fair value:					
Time deposits from customers		452,735,548	0	448,235,417	448,235,417
Negotiable commercial papers		96,441,837	0	95,757,208	95,757,208
Negotiable commercial notes		58,059,482	0	54,297,478	54,297,478
Covered bonds		10,664,110	0	10,444,705	10,444,705
Ordinary bonds		6,197,498	0	5,668,525	5,668,525
Investment certificates		18,970,346	0	18,720,288	18,720,288
Other negotiable debt		5,568,071	0	5,525,104	5,525,104
Borrowings		275,198,105	0	274,111,849	274,111,849

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(30) Fair value of Financial Instruments, continued

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 December 31, 2024, 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.
Investment securities at AC	Observable reference prices in the market that are not active.
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.
Ordinary bonds	The fair value for 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, covered bonds and investment certificate	Fair value for the negotiable commercial notes, covered bonds and investments certificate is determined using future cash flows discounted at the current interest rate of the market.

(31) Segment Information

The segment information of the Company 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 Company under management contracts to carry out such function.
- *Reinsurance:* This concept includes the income of the collective life and unemployment reinsurance as a result of the policies contracted at the time a loan is granted, the incurred claim expenses and the financial charges for foreign remittances incurred.
- *Mortgages as assets:* Within this concept interest income is recognized less costs generated by financing mortgages loans that Company hold as assets, plus commissions for disbursements and the proportional share of the commissions from collections.

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(31) Segment Information, continued

- *Personal loans as assets:* Within this concept interest income is recognized less costs generated by financing personal loans that Company 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 Company.

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

<u>2024</u>	<u>Trust management</u>	<u>Reinsurance</u>	<u>Mortgage as assets</u>	<u>Personal loans as assets</u>	<u>Other investments</u>	<u>Total</u>
Interest income	0	2,029	52,846,974	5,247,072	9,262,418	67,358,493
Interest expense	0	0	(53,216,374)	(2,467,001)	(6,200,338)	(61,883,713)
Provisions for loan losses and for investment securities at AC and at FVOCI	0	0	(570,291)	(336,912)	0	(907,203)
Net gain on investments at FVTPL	0	0	0	0	1,812,025	1,812,025
Management and servicing commissions	2,342,606	0	4,367,803	253,937	(31,650)	6,932,696
Other income, net of commissions paid	0	3,427,097	3,689,639	171,044	430,155	7,717,935
General and administrative expenses	<u>(1,488,303)</u>	<u>(769,289)</u>	<u>(10,171,163)</u>	<u>(2,070,620)</u>	<u>(2,111,721)</u>	<u>(16,611,096)</u>
Segment income before tax	<u>854,303</u>	<u>2,659,837</u>	<u>(3,053,412)</u>	<u>797,520</u>	<u>3,160,889</u>	<u>4,419,137</u>
Segment assets	<u>0</u>	<u>8,048,978</u>	<u>892,586,531</u>	<u>54,366,464</u>	<u>136,725,043</u>	<u>1,091,727,016</u>
Segment liabilities	<u>0</u>	<u>568,294</u>	<u>857,555,520</u>	<u>39,780,939</u>	<u>100,044,220</u>	<u>997,948,973</u>

<u>2023</u>	<u>Trust management</u>	<u>Reinsurance</u>	<u>Mortgage as assets</u>	<u>Personal loans as assets</u>	<u>Other investments</u>	<u>Total</u>
Interest income	0	2,855	51,619,965	5,655,338	5,207,034	62,485,192
Interest expense	0	0	(44,258,644)	(2,175,273)	(5,432,660)	(51,866,577)
Provisions for loan losses and for investment securities at FVOCI and at amortized cost	0	0	(813,839)	(225,414)	(100,409)	(1,139,662)
Net gain on investments at FVTPL	0	0	67,054	0	0	67,054
Realized gain on investment at FVOCI	0	0	0	0	2,337,704	2,337,704
Management and servicing commissions	2,769,626	0	4,060,842	266,036	(28,853)	7,067,651
Other income, net of commissions paid	0	4,162,221	404,883	19,900	165,430	4,752,434
General and administrative expenses	<u>(1,504,393)</u>	<u>(1,209,640)</u>	<u>(11,822,536)</u>	<u>(1,912,565)</u>	<u>(1,189,199)</u>	<u>(17,638,333)</u>
Segment income before tax	<u>1,265,233</u>	<u>2,955,436</u>	<u>(742,275)</u>	<u>1,628,022</u>	<u>959,047</u>	<u>6,065,463</u>
Segment assets	<u>0</u>	<u>7,169,231</u>	<u>830,488,291</u>	<u>55,963,199</u>	<u>139,863,888</u>	<u>1,033,484,609</u>
Segment liabilities	<u>0</u>	<u>1,020,588</u>	<u>801,473,287</u>	<u>39,441,852</u>	<u>98,573,543</u>	<u>940,509,270</u>

The composition of the geographic segments is described as follows:

<u>2024</u>	<u>Panama</u>	<u>El Salvador</u>	<u>Colombia</u>	<u>Caribbean Islands</u>	<u>Total</u>
Interest income	46,070,700	9,907,759	11,377,374	2,660	67,358,493
Interest expense	(45,165,759)	(7,599,885)	(9,118,069)	0	(61,883,713)
Provisions for loan losses and for investment securities at AC and at FVOCI	(724,591)	57,475	(240,087)	0	(907,203)
Net gain on investments at FVTPL	0	0	0	0	0
Commission on management and servicing	1,812,025	0	0	0	1,812,025
Other income net of commissions	5,766,663	775,778	421,905	(31,650)	6,932,696
General and administrative expenses	3,690,747	107,885	492,206	3,427,097	7,717,935
Segment income before tax	<u>(10,506,707)</u>	<u>(2,024,689)</u>	<u>(3,897,159)</u>	<u>(182,541)</u>	<u>(16,611,096)</u>
	<u>943,078</u>	<u>1,224,323</u>	<u>(963,830)</u>	<u>3,215,566</u>	<u>4,419,137</u>
Segment assets	<u>819,480,511</u>	<u>157,610,399</u>	<u>106,211,215</u>	<u>8,424,891</u>	<u>1,091,727,016</u>
Segment liabilities	<u>770,806,036</u>	<u>140,811,157</u>	<u>85,660,758</u>	<u>671,022</u>	<u>997,948,973</u>

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(31) Segment Information, continued

<u>2023</u>	<u>Panama</u>	<u>El Salvador</u>	<u>Colombia</u>	<u>Caribbean Islands</u>	<u>Total</u>
Interest income	41,121,020	9,231,652	12,129,545	2,975	62,485,192
Interest expense	(36,216,715)	(6,592,538)	(9,057,324)	0	(51,866,577)
Provisions for loan losses and for investment securities at AC and at FVOCI	(882,319)	52,432	(309,775)	0	(1,139,662)
Net gain on investments at FVTPL	67,054	0	0	0	67,054
Realized gain on investment at FVOCI	2,337,704	0	0	0	2,337,704
Commission on management and servicing	5,655,575	1,054,346	386,583	(28,853)	7,067,651
Other income net of commissions	69,599	212,926	307,688	4,162,221	4,752,434
General and administrative expenses	<u>(10,989,718)</u>	<u>(2,438,920)</u>	<u>(3,170,224)</u>	<u>(1,039,471)</u>	<u>(17,638,333)</u>
Segment income before tax	<u>1,162,200</u>	<u>1,519,898</u>	<u>286,493</u>	<u>3,096,872</u>	<u>6,065,463</u>
Segment assets	<u>803,575,440</u>	<u>123,145,192</u>	<u>88,516,669</u>	<u>101,687,836</u>	<u>5,076,141</u>
Segment liabilities	<u>755,304,684</u>	<u>104,796,703</u>	<u>69,792,686</u>	<u>79,261,530</u>	<u>1,146,353</u>

(32) Preferential Interests on Mortgage Loans

According to current fiscal regulations in Panama, the financial institutions that grant mortgage loans not exceeding \$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 2024, the Company recognized preferential interest income on residential mortgage loans net of reserve amounting to \$16,558,513 (2023: \$15,324,171), in profit or loss. The Company has not sold fiscal credits to third parties (2023: \$7,668,363), so it has not generated profit or loss (2023:0)

As of December 31, 2024, the Bank received from the General Directorate of Revenue, the sum of \$22,391,000 through public debt securities, through resolution No. 201-2199 issued by the Ministry of Economy and Finance, in compensation to a series of tax credits that were to be realized, which as of December 31, 2024 amounts to \$24,330,424 (December 31, 2023: \$26,487,291) and is included in the consolidated statement of financial position.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(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, as 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.

(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 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.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(33) Main Applicable Laws and Regulations, continued

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

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

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

- (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 Company'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 repeals in all its parts Agreement No. 006-2000 of June 28, 2000 and all its amendments, Agreement No. 006-2002 of August 12, 2002 and Article 7 of Agreement No. 002-2003 of March 12, 2003. This Agreement entered into force on June 30, 2014.

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 or collective credit facilities.

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

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Notes to the Consolidated Financial Statements

(33) Main Applicable Laws and Regulations, continued

In case of an excess in the specific provision, calculated in conformity with this Agreement, over the provision calculated in accordance with IFRS; this surplus 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 or prudential relationships mentioned in this Agreement.

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

<u>Classification</u>	<u>Portfolio</u>	<u>2024</u>	<u>Portfolio</u>	<u>2023</u>
		<u>Specific Allowance</u>		<u>Specific Allowance</u>
Normal	561,611,639	0	536,123,999	0
Special mention	20,212,683	689,292	19,812,837	625,271
Substandard	9,882,430	942,620	13,738,627	1,322,482
Doubtful	8,724,401	1,432,503	10,051,940	1,666,242
Unrecoverable	<u>16,720,637</u>	<u>3,260,315</u>	<u>14,952,734</u>	<u>2,656,158</u>
Total	<u>617,151,790</u>	<u>6,324,730</u>	<u>594,680,107</u>	<u>6,270,153</u>

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

<u>2024</u>	<u>Current</u>	<u>Past due</u>	<u>Default</u>	<u>Total</u>
Loans to customers	<u>543,926,474</u>	<u>43,283,290</u>	<u>29,942,026</u>	<u>617,151,790</u>
<u>2023</u>	<u>Current</u>	<u>Past due</u>	<u>Default</u>	<u>Total</u>
Loans to customers	<u>525,167,971</u>	<u>37,186,889</u>	<u>32,325,247</u>	<u>594,680,107</u>

As of December 31, 2024, 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 \$23,608,168 (2023: \$25,808,807).

In accordance with IFRS accounting standards, the Bank considers these interests as part of income.

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 classified as Normal.

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Notes to the Consolidated Financial Statements

(33) Main Applicable Laws and Regulations, continued

The dynamic provision is an equity line-item presented under the legal reserve in the consolidated statement of changes in equity and is allocated from retained earnings. The credit balance of this provision is part of dynamic regulatory capital but does not replace or offset the capital adequacy requirements established by the Superintendence.

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

	<u>2024</u>	<u>2023</u>
Banco La Hipotecaria, S. A.	5,835,875	4,941,701
La Hipotecaria, S. A. de C.V.	1,468,441	1,468,441
La Hipotecaria C. F., S. A.	<u>721,360</u>	<u>721,360</u>
Total	<u>8,025,676</u>	<u>7,131,502</u>

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

By requirements of Agreement No.004-2013, a regulatory provision was constituted, amounting to \$4,024,215 (2023: \$3,529,201) which represents the excess of regulatory provision over the allowance for loan losses in accordance with IFRS.

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

Country risk provision

In accordance with the provisions of Article 15 of Agreement No.007-2018, "the maximum provisions must be established between those resulting from comparing those corresponding to the nature of the operation and the provisions for country risk. The final provision constituted by country risk will be calculated after deducting the provisions established corresponding to the nature of the operation in question". For the operations and resources exposed to country risk, as of December 31, 2024, it was not necessary to make additional provisions, nor any impact at the accounting level.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(33) Main Applicable Laws and Regulations, continued

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

(e) *Capital Conservation Buffer.*

Agreement No. 5-2023 issued by the Superintendency of Banks of Panama, effective on July 1, 2024, established the rules on the capital conservation buffer, the objectives of which are: (i) to ensure that banks accumulate reserves that can be used in the event of losses, (ii) that banks do not fail to comply with the established minimum requirements, without considering the conservation buffer, in episodes of solvency impairment.

Banks must establish a capital conservation buffer of 2.5% of risk-weighted assets (credit, market, and operating), consisting of ordinary primary capital and in addition to all established minimum regulatory capital requirements.

The following is the ratio of ordinary primary capital and capital conservation buffer (in percentage) that banks must maintain:

	Ordinary primary capital	Total primary capital	Minimum Total Capital (Regulatory)
Minimum	4.5	6.0	8.0
Conservation buffer	2.5		
Minimum plus conservation buffer	7.0	8.5	10.5

Banking entities will have a period of adjustment for the constitution of the capital conservation buffer established in this Agreement, on the following dates:

	Applicable percentage / capital conservation buffer	Minimum Ordinary Capital + Conservation Buffer
July 1, 2024	0.50%	5.00%
July 1, 2025	0.75%	5.75%
July 1, 2026	1.25%	7.00%

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.

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(33) Main Applicable Laws and Regulations, continued

(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 14 January 2011, the Securities ceased to exist as of August 2, 2011, which contains the Law on Regulation and Supervision of the Financial System, published in Official Journal No.23 of February 2, 2011, effective as of August 2, 2011, and gave rise to the creation of the new Financial System Superintendence as single supervisory body that integrates the functions of the former Superintendence of the Financial System, Pensions and Securities.

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

(a) *Laws for Commercial Business*

The operations of commercial business in Colombia are regulated by the Superintendence of Companies in accordance with the laws established in the Decree Law No.222 of December 20, 1995.

Consolidated Schedule - Information of the Consolidated Statement of Financial Position

December 31, 2024

(Expressed in dollars of the United States of America)

<u>Assets</u>	<u>Total Consolidated</u>	<u>Eliminations</u>	<u>Subtotal</u>	<u>La Hipotecaria (Holding), Inc.</u>	<u>Banco La Hipotecaria and Subsidiaries</u>	<u>Online Systems, S.A.</u>	<u>Mortgage Credit Reinsurance Limited</u>	<u>Securitization and Investment Advisors, Inc.</u>
Cash and cash equivalents	257,746	0	257,746	0	257,746	0	0	0
Demand deposits in banks	44,623,962	0	44,623,962	135,121	38,062,027	2,734	6,136,702	287,378
Saving deposits in banks	19,659,779	(214,963)	19,874,742	13,583	18,096,871	1,646	1,762,642	0
Time deposits	27,000,000	0	27,000,000	0	27,000,000	0	0	0
Total cash, cash equivalents and deposits in banks	91,541,487	(214,963)	91,756,450	148,704	83,416,644	4,380	7,899,344	287,378
Investment securities, net	122,018,521	0	122,018,521	0	122,018,521	0	0	0
Loans at amortized cost (AC)	837,403,527	0	837,403,527	0	837,403,527	0	0	0
Furniture, equipment and improvements, net	1,236,279	0	1,236,279	0	1,236,279	0	0	0
Investment in affiliates	0	(43,263,168)	43,263,168	42,538,647	0	362,260	0	362,261
Accounts receivable	6,312,668	0	6,312,668	94,764	6,160,482	0	0	57,422
Accounts receivable - related parties	144,494	(95,055)	239,549	0	95,055	0	144,494	0
Tax credit	24,330,424	0	24,330,424	0	24,330,424	0	0	0
Deferred tax assets	1,366,351	0	1,366,351	0	1,366,351	0	0	0
Right-of-use assets	776,986	0	776,986	0	776,986	0	0	0
Other assets	6,596,279	0	6,596,279	963	6,235,674	354,502	5,140	0
Total assets	1,091,727,016	(43,573,186)	1,135,300,202	42,783,078	1,083,039,943	721,142	8,048,978	707,061
Liabilities and Equity								
Liabilities:								
Deposits from customers:								
Saving deposits	3,910,244	(214,963)	4,125,207	0	4,125,207	0	0	0
Time deposits	484,525,693	0	484,525,693	0	484,525,693	0	0	0
Total deposits from customers	488,435,937	(214,963)	488,650,900	0	488,650,900	0	0	0
Negotiable commercial papers	123,947,906	0	123,947,906	0	123,947,906	0	0	0
Negotiable commercial notes	33,275,794	0	33,275,794	0	33,275,794	0	0	0
Covered bonds	0	0	0	0	0	0	0	0
Ordinary bonds	1,775,009	0	1,775,009	0	1,775,009	0	0	0
Investment certificates	10,467,506	0	10,467,506	0	10,467,506	0	0	0
Other negotiable debts	24,893,694	0	24,893,694	0	24,893,694	0	0	0
Borrowings	304,405,805	0	304,405,805	0	304,405,805	0	0	0
Leases liabilities	1,370,387	0	1,370,387	0	1,370,387	0	0	0
Accounts payable - related parties	0	(95,055)	95,055	0	0	95,055	0	0
Income tax payable	294,067	0	294,067	0	294,067	0	0	0
Other liabilities	9,082,868	(656,144)	9,739,012	102,728	9,067,990	0	568,294	0
Total liabilities	997,948,973	(966,162)	998,915,135	102,728	998,149,058	95,055	568,294	0
Equity:								
Common shares	18,987,968	(15,010,500)	33,998,468	18,987,968	15,000,000	500	5,000	5,000
Treasury shares	0	727,000	(727,000)	0	(727,000)	0	0	0
Preferred shares	20,752,709	0	20,752,709	20,752,709	0	0	0	0
Additional paid in capital	0	(27,236,722)	27,236,722	0	25,846,722	615,000	95,000	680,000
Capital reserve	1,800,000	0	1,800,000	0	1,800,000	0	0	0
Regulatory reserves	12,068,581	0	12,068,581	0	12,068,581	0	0	0
Fair value reserve	(1,040,205)	0	(1,040,205)	0	(1,040,205)	0	0	0
Foreign currency translation reserve	(16,298,368)	(479,465)	(15,818,903)	(3,105,119)	(12,713,784)	0	0	0
Retained earnings	57,507,358	186,615	57,320,743	6,044,792	43,862,619	10,587	7,380,684	22,061
Total equity attributable to the controlling interest	93,778,043	(41,813,072)	135,591,115	42,680,350	84,096,933	626,087	7,480,684	707,061
Non-controlling interest	0	(793,952)	793,952	0	793,952	0	0	0
Total liabilities and equity	1,091,727,016	(43,573,186)	1,135,300,202	42,783,078	1,083,039,943	721,142	8,048,978	707,061

See the accompanying independent auditors' report

LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Schedule 2
Consolidated Schedule - Information of the Consolidated Statement of Income

For the year ended December 31, 2024

(Expressed in dollars of the United States of America)

	Total Consolidated	Eliminations	Subtotal	La Hipotecaria (Holding), Inc.	Banco La Hipotecaria and Subsidiaries	Online Systems, S.A.	Mortgage Credit Reinsurance Limited	Securitization and Investment Advisors, Inc.
Interest income calculated using the effective interest method:								
Loans	59,906,390	0	59,906,390	0	59,906,390	0	0	0
Investment in securities	5,306,441	0	5,306,441	0	5,306,441	0	0	0
Deposits in banks	2,145,662	(3,870)	2,149,532	825	2,143,002	1,316	4,233	156
Total interest income	67,358,493	(3,870)	67,362,363	825	67,355,833	1,316	4,233	156
Interest expenses:								
Deposits from customers	30,452,843	(3,870)	30,456,713	0	30,456,713	0	0	0
Borrowings, debt securities in issue and leases	31,430,870	0	31,430,870	0	31,430,870	0	0	0
Total interest expenses	61,883,713	(3,870)	61,887,583	0	61,887,583	0	0	0
Net interest income	5,474,780	0	5,474,780	825	5,468,250	1,316	4,233	156
Impairment losses on financial assets:								
Provision for credit losses on loans at AC	862,871	0	862,871	0	862,871	0	0	0
Provision for credit losses on investment securities at AC	3,165	0	3,165	0	3,165	0	0	0
Provision for credit losses on investment securities at FVOCI	41,167	0	41,167	0	41,167	0	0	0
Net loss arising from modified loans at AC	0	0	0	0	0	0	0	0
Net interest income, after provisions for impairment losses on financial assets	4,567,577	0	4,567,577	825	4,561,047	1,316	4,233	156
Income from banking services, commissions and others, net:								
Net gain on investment securities at FVTPL	1,812,025	0	1,812,025	0	1,812,025	0	0	0
Management and servicing commissions	6,932,696	(660,000)	7,592,696	(31,650)	7,624,346	0	0	0
Reinsurance income	5,521,368	0	5,521,368	0	0	0	5,521,368	0
Reinsurance claims and benefits	(1,751,266)	0	(1,751,266)	0	0	0	(1,751,266)	0
Other commissions incurred	(1,565,252)	0	(1,565,252)	0	(1,007,077)	0	(558,175)	0
Other income	5,513,085	(1,330,006)	6,843,091	1,330,006	5,297,915	0	215,170	0
Total income from banking services and others, net	16,462,656	(1,990,006)	18,452,662	1,298,356	13,727,209	0	3,427,097	0
General and administrative expenses								
Salaries and other personnel benefits	7,087,888	0	7,087,888	0	7,087,888	0	0	0
Depreciation and amortization of furniture, equipment and improvements	422,936	0	422,936	0	422,936	0	0	0
Depreciation of right-of-use assets	401,578	0	401,578	0	401,578	0	0	0
Professional and legal fees	1,457,391	(660,000)	2,117,391	18,897	1,291,193	960	752,941	53,400
Taxes	2,134,623	0	2,134,623	0	2,119,763	12,860	2,000	0
Other expenses	5,106,680	0	5,106,680	118	5,091,278	99	14,348	837
Total general and administrative expenses	16,611,096	(660,000)	17,271,096	19,015	16,414,636	13,919	769,289	54,237
Net income before income tax	4,419,137	(1,330,006)	5,749,143	1,280,166	1,873,620	(12,603)	2,662,041	(54,081)
Current tax expense	469,654	0	469,654	0	469,654	0	0	0
Deferred tax expense	(468,863)	0	(468,863)	0	(468,863)	0	0	0
Total income tax expense	791	0	791	0	791	0	0	0
Net income	4,418,346	(1,330,006)	5,748,352	1,280,166	1,872,829	(12,603)	2,662,041	(54,081)

See the accompanying independent auditors' report