BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Unaudited Condensed Interim
Financial Information and Supplementary Information

June 30, 2020

(With Independent Auditors' Report on
the review of condensed interim
financial information)

(FREE ENGLISH VERSION LANGUAGE
TRANSLATION FROM SPANISH VERSION)

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors
Banco Nacional de Panama

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Banco Nacional de Panama as at June 30, 2020, the condensed interim statements of profit or loss, other comprehensive income, changes in capital funds and cash flows for the six months period then ended, and notes to the condensed interim financial information ("the condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at June 30, 2020 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting.

Supplementary Information

The supplementary information included in Schedule I is presented for purpose of additional analysis and is not required as part of the condensed interim financial information or to present the financial position and financial performance The supplementary information has been subject of analytical and other review procedures on the condensed interim financial information and, based on our review nothing has come to our attention that would lead us to believe that the accompanying supplementary information has not been prepared, in all material respects, in relation to the condensed interim financial information.

KPMG (SIGNED)

Panamá, Republic of Panama
August 27, 2020

BANCO NACIONAL DE PANAMA
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Condensed Interim Statement of Financial Position

As of June 30, 2020

(Expressed in Balboas)

	Note	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Assets			
Cash and cash equivalents	6	335,893,067	219,898,465
Deposits in banks at amortized cost:			
Demand deposits - foreign	6	105,318,808	75,972,323
Time deposits - local		177,577,300	137,071,613
Time deposits - foreign		4,669,303,017	2,836,750,829
Less: Reserve for bank deposit losses		89,010	138,893
Total bank deposits at amortized cost		4,952,110,115	3,049,655,872
Total cash, cash equivalents and bank deposits at amortized cost		5,288,003,182	3,269,554,337
Securities purchased under resale agreements at amortized cost	7	78,698,989	68,563,265
Investments in securities		2,821,578,130	2,944,794,556
Less: Reserve for investment losses		3,047,757	3,159,493
Investments in securities, net	8	2,818,530,373	2,941,635,063
Loans and interest receivable private sector		4,343,994,970	4,176,986,192
Government loans and interest receivable		311,629,640	311,892,207
Less: Interest and unearned commissions		25,918,905	26,954,325
Allowance for loan losses		80,252,795	62,917,878
Loans at amortized cost	9	4,549,452,910	4,399,006,196
Property and equipment, net		81,376,490	84,016,213
Right of use assets	10	3,297,443	3,855,808
Other assets:			
Foreclosed assets, net	11	7,621,716	8,498,494
Intangible assets - licenses and softwares		11,460,161	12,649,126
Fiscal credit from preferential interest on loans		33,615,273	18,852,202
Others	11	22,342,000	16,753,446
Total other assets		75,039,150	56,753,268
Total assets		12,894,398,537	10,823,384,150

The condensed interim statement of financial position should be read in conjunction with the notes that form an integral part of the condensed interim financial information.

Liabilities and Capital Funds	Note	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Liabilities:			
Deposits and accrued interest payable at amortized cost:			
Demand deposits:			
Local - private		1,082,937,249	930,175,405
Local - public		2,526,394,605	2,473,131,465
Foreign		790,301	319,663
Savings:			
Local - private		796,895,812	708,330,062
Foreign		1,512,925	1,422,866
Time deposits:			
Local - private		221,827,066	210,678,951
Local - public		6,317,825,254	5,038,158,036
Foreign		16,327,809	15,645,967
Restricted - inactive accounts		19,047,553	16,417,592
Restricted - escrow funds		56,286,486	52,633,435
Total deposits and interest payable at amortized cost		11,039,845,060	9,446,913,442
Obligations:			
Foreign borrowings received at amortized cost	12	150,660,004	50,003,818
Securities sold under repurchase agreement at amortized cost	12	302,783,543	0
Bonds payable at amortized cost	12	206,198,906	206,216,051
Lease liabilities	10	3,412,403	3,939,119
Other liabilities:			
Guarantee certificates for legal proceedings at amortized cost		114,022,292	113,676,867
Miscellaneous creditors		59,325,199	52,938,607
Cashier's and certified checks		17,734,736	22,094,430
Others		29,318,221	26,147,914
Total other liabilities		220,400,448	214,857,818
Total liabilities		11,923,300,364	9,921,930,248
Capital funds:			
Paid-in capital by Government of Panama		650,000,000	650,000,000
Regulatory reserve for foreclosed assets		3,621,147	3,870,702
Valuation of investments securities		6,740,030	8,069,463
Actuarial valuation		355,079	355,079
Dynamic regulatory provision	19	56,928,983	56,928,983
Retained earnings		253,452,934	182,229,675
Total capital funds		971,098,173	901,453,902
Commitments and contingencies	13		
Total liabilities and capital funds		12,894,398,537	10,823,384,150

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Condensed Interim Statement of Profit or Loss

For the six months period ended June 30, 2020

(Expressed in Balboas)

	Note	(Unaudited) June 2020	June 2019
Interest and commission income			
Interest on:			
Loans		118,122,576	116,044,050
Deposits in banks		15,802,592	20,709,512
Securities		49,963,181	48,566,643
Loan's fees		4,069,486	4,053,479
Total interest and fee income		187,957,835	189,373,684
Interest expense:			
Deposits		39,870,822	45,982,950
Borrowings		5,668,889	684,802
Lease liabilities	10	96,062	80,811
Total interest expenses		45,635,773	46,748,563
Net interest and commission income		142,322,062	142,625,121
(Reversal of) provision for losses in deposits with banks	4	(49,883)	64,194
Reversal of provision investment securities losses	4	(111,736)	(74,840)
Provision for loan losses	4	16,732,392	4,319,615
Reversal of valuation of foreclosed assets	11	481,414	211,557
Net interest and commission income, after provisions		125,269,875	138,104,595
Other income:			
Fees for banking services	14	8,835,603	7,647,735
Dividends	8	392,923	172,160
Net gain on investments in securities	8	3,882,804	0
Others		6,279,120	6,734,421
Total other income		19,390,450	14,554,316
Other expenses:			
Provision for fiscal credits, net		373,176	268,089
Commissions		167,587	262,708
Total other expenses		540,763	530,797
Total other income, net		18,849,687	14,023,519
General and administrative expenses:			
Salaries and other personnel expenses		43,283,470	42,405,805
Rentals		489,329	546,668
Repairs and maintenance		4,880,345	5,612,436
Depreciation and amortization		6,379,786	6,962,694
Electricity		1,473,421	1,528,177
Advertising		1,439,482	2,112,090
Communications		3,558,160	2,988,698
Insurance		53,000	245,556
Stationery and office supplies		651,451	731,162
Fees and professional services		1,422,891	2,045,871
Transportation of personnel		362,019	654,123
Transportation of valuables		1,206,581	970,669
ATM's		923,036	516,196
Others		1,986,655	1,887,133
Total general and administrative expenses		68,109,626	69,207,278
Net income		76,009,936	82,920,836

The condensed interim statement of profit or loss should be read in conjunction with the notes that are an integral part of the condensed interim financial information.

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Condensed Interim Statement of Other Comprehensive Income

For the six months period ended June 30, 2020

(Expressed in Balboas)

		(Unaudited)	
	Note	June 2020	June 2019
Net income		76,009,936	82,920,836
Other comprehensive loss (income):			
Items that are or may be reclassified to the statement of profit or loss.			
Valuation of investments in securities:			
Net change in valuation of investments at fair value with changes in other comprehensive income (FVOCI)	8	(1,329,433)	1,464,423
Other comprehensive loss (income) for the period		(1,329,433)	1,464,423
Total comprehensive income for the period		74,680,503	84,385,259

The condensed interim statement of other comprehensive income should be read in conjunction with the notes that are an integral part of the condensed interim financial information.

BANCO NACIONAL DE PANAMÁ
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Condensed Interim Statement of Changes in Capital Funds

For the six months period ended June 30, 2020

(Expressed in Balboas)

	Note	Paid-in Capital by the Government of Panama	Regulatory reserve for foreclosed Assets	Valuation of investments securities	Actuarial valuation	Dynamic regulatory provision	Retained earnings	Total capital funds
Balance as of December 31, 2018 (Audited)		650,000,000	3,828,444	5,215,618	891,043	56,598,706	93,289,354	809,823,165
Net income for the period ended June 30, 2019		0	0	0	0	0	82,920,836	82,920,836
Other comprehensive income (loss):								
Net change in valuation of investments to FVOCI		0	0	1,464,423	0	0	0	1,464,423
Total other comprehensive income (loss) for the year		0	0	1,464,423	0	0	0	1,464,423
Total comprehensive income (loss) for the year		0	0	1,464,423	0	0	82,920,836	84,385,259
Other capital fund movements:								
Regulatory reserve for foreclosed assets		0	252,955	0	0	0	(252,955)	0
Balance as of June 30, 2019 (Unaudited)		650,000,000	4,081,399	6,680,041	891,043	56,598,706	175,957,235	894,208,424
Balance as of December 31, 2019		650,000,000	3,870,702	8,069,463	355,079	56,928,983	182,229,675	901,453,902
Net income for the period ended June 30, 2020		0	0	0	0	0	76,009,936	76,009,936
Other comprehensive income (loss):								
Net change in valuation of investments to FVOCI	8	0	0	(1,329,433)	0	0	0	(1,329,433)
Total other comprehensive income (loss) for the period		0	0	(1,329,433)	0	0	0	(1,329,433)
Total comprehensive income (loss) for the period		0	0	(1,329,433)	0	0	76,009,936	74,680,503
Other capital fund movements:								
Regulatory reserve for foreclosed assets		0	(249,555)	0	0	0	249,555	0
Total other capital fund movements		0	(249,555)	0	0	0	249,555	0
Transactions recorded directly in capital funds:								
Earnings distributed to the Government of Panama (Period 2019)		0	0	0	0	0	(5,036,232)	(5,036,232)
Total transactions recorded directly in capital funds		0	0	0	0	0	(5,036,232)	(5,036,232)
Balance as of June 30, 2020 (Unaudited)		650,000,000	3,621,147	6,740,030	355,079	56,928,983	253,452,934	971,098,173

The condensed interim statement of changes in capital funds must be read in conjunction with the notes that are an integral part of the condensed interim financial information.

BANCO NACIONAL DE PANAMÁ
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Condensed Interim Statement of Cash Flows

For the six months period ended June 30, 2020

(Expressed in Balboas)

	Note	(Unaudited) June 2020	June 2019
Operating activities:			
Net income		76,009,936	82,920,836
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization		6,379,786	6,962,694
Reversal of (provision for) losses in deposits with banks		(49,883)	64,194
Reversal of investment securities losses		(111,736)	(74,840)
Provision for loan losses		16,732,392	4,319,615
Provision for valuation of foreclosed assets		481,414	211,557
Provision for fiscal credits, net		373,176	268,089
Net gain on sale of foreclosed assets		(168,382)	(227,042)
Gain on sale on furniture and equipment		(44,492)	(22,651)
Dividends	8	(392,923)	(172,160)
Net gain on investments in securities	8	(3,882,804)	0
Net interest and commission income		(142,322,062)	(142,625,121)
Changes in operating assets and liabilities:			
Time deposits in banks with original maturities greater than 90 days		50,000,000	(213,000,000)
Securities purchased under resale agreements		(10,224,782)	85,460,785
Loans		(221,265,499)	2,761,721
Other assets		(20,687,672)	(9,613,818)
Demand deposits received		206,495,622	(263,704,964)
Savings deposits received		88,655,809	(13,391,206)
Time deposits received		1,296,457,716	117,623,089
Guarantee certificates for legal proceedings at amortized cost		591,913	468,785
Cashier's and certified checks		(4,359,694)	(1,547,343)
Miscellaneous creditors		6,386,592	(6,524,794)
Other liabilities		3,170,307	2,900,465
Cash generated from operation:			
Interest and commissions received		184,021,397	183,986,283
Interest paid		(42,142,933)	(41,167,624)
Dividends received	8	392,923	172,160
Cash flows from operating activities		1,490,496,121	(203,951,290)
Investment activities:			
Acquisitions of investments in securities at amortized cost		(346,842,896)	(357,711,777)
Redemptions of investments in securities at amortized cost	8	419,024,303	354,757,425
Proceeds from the sale of securities at amortized cost	8	113,842,404	0
Acquisition of furniture and equipment		(1,841,110)	(4,334,002)
Proceeds from the sale and disposal of furniture and equipment		44,880	40,138
Acquisition of intangible assets - licenses and softwares		(163,178)	(441,916)
Proceeds from the sale of foreclosed assets of borrowers		525,784	410,315
Cash flows from investing activities		184,590,187	(7,279,817)
Financing activities:			
New borrowings received	12	150,000,000	50,000,000
Payments of borrowings received	12	(50,000,000)	(35,000,000)
Securities sold under repurchase agreements	12	301,005,727	0
Earnings distributed to the Government of Panama (Period 2019)		(5,036,232)	0
Lease payments	10	(514,716)	(512,650)
Cash flows from financing activities		395,454,779	14,487,350
Net decrease in cash and cash equivalents		2,070,541,087	(196,743,757)
Cash and cash equivalents at the beginning of the period		3,115,170,788	1,918,188,198
Cash and cash equivalents at the end of the period	6	5,185,711,875	1,721,444,441
Non-cash transactions			
Cancellation of customer loan Fundacion Amador with Public Debt Securities of the Republic of Panama	9	61,626,600	0

The condensed interim statement of cash flows statement condensed should be read in conjunction with the notes that are an integral part of the condensed interim financial information.

Table of Contents to the Notes to the Condensed Interim Financial Information

(1) Incorporation and Operations

Banco Nacional de Panama (the "Bank") was created by Laws No.74 of 1904, 6 of January of 1911, 11 of 1956, reorganized by Law 20 of 1975, subrogated by Decree-Law 4 of 2006, as amended by Law 24 of 2017; is a public entity with its proper legal status, own capital funds, autonomous and independent in its regulations, budget and internal management, subject to the supervision of the Executive Body and the corresponding supervisory bodies, under the terms established by the Law. As the Nation's primary financial institution, the Bank is responsible, in addition to the objectives described in the above mentioned law, for performing banking activities within the official sector, and obtaining the necessary funds to develop the national economy.

The Bank is exempt of any tax and other fiscal contributions, either national or municipal, with the exception of the Social Security employer's contributions, educational insurance, professional risks, fees for public services and other exceptions provided for in the Law.

The Bank is granted procedural privileges in any judicial or administrative litigation in which it is a party, and summary jurisdiction to enforce the collection of overdue credits owed to the Bank.

The Bank is responsible for directing and managing the clearing operations for the entire national banking system.

The main office is located at Torre Banco Nacional, Via España and 55th Street, Panama City, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

The Bank's condensed interim financial information for the months ended June 30, 2020 have been prepared in accordance with International Accounting standard (IAS) 34 *Interim Financial Reporting.*

These condensed interim financial information do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Bank's financial position and performance since the last annual financial statements. Although management believes that the disclosures included are adequate so that the financial information is interpreted incorrectly, it is suggested that this condensed interim financial information as of June 30, 2020 be read in conjunction with the Bank´s audited financial statements for the year ended on December 31, 2019.

These condensed interim financial information was approved by the Audit Steering Committee on August 24, 2020; and by the Board of Directors on August 25, 2020.

(2) Basis of Preparation, continued

(b) Basis of Measurement

This condensed interim financial information have been prepared on a historical cost or amortized cost basis, except for certain investments in equity securities which are presented at fair value through other comprehensive income; and foreclosed assets of borrowers, which are measured at the lower of carrying value or fair value less costs to sell.

The Bank recognizes financial assets and financial liabilities at the settlement date.

(c) Functional and Presentation Currency

This condensed financial information are presented in balboas (B/.). The balboa is the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the Dollar of the United States of America (US$). The Republic of Panama does not issue its own paper currency, and in lieu, the Dollar (US$) of the United States of America is used as legal tender and is considered the functional currency of the Bank.

(3) Summary of Significant Accounting Policies

The accounting policies applied in this condensed interim financial information are the same as those applied in the financial statements for the year ended December 31, 2019.

(a) Fair Value Measurement

Fair value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants on the measurement date, or in its absence, in the most advantageous market that the Bank has access to at the time. The fair value of a liability reflects the effect of default risk.

Where applicable, the Bank measures the fair value of an instrument using a price quoted in an active market for that instrument. A market is considered active if transactions in these assets or liabilities occur with enough frequency and volume to provide information for pricing on an ongoing basis.

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

The fair value of a demand deposit is not less than the amount payable when it becomes due, discounted from the first date on which payment may be required.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the period during which the change occurred.

(3) Summary of Significant Accounting Policies, continued

(b) Foreign Currency Transactions

Assets and liabilities held in foreign currencies are translated into balboas at the exchange rate prevailing at the condensed statement of financial position date.

Transactions in foreign currencies are translated at the exchange rates prevailing on the dates of the transactions. Gains or losses on foreign currency translation are reflected in the accounts of other income or other expenses in the condensed statement of profit or loss.

(c) Cash and Cash Equivalents

For purposes of the condensed statement of cash flows, cash equivalents include deposits with banks with original maturities of three months or less.

(d) Securities Purchased under Resale Agreements

Resale agreements represent secured financing transactions and are stated at the amount at which the securities are acquired, plus accrued financial returns. Generally, the Bank takes possession of securities purchased under resale agreements. The related income or expense is recognized in the condensed statement of profit or loss.

(e) Financial Assets

(e.1) Classification and measurement of financial instruments

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. According to the business model adopted, the Bank classifies financial assets as: measured at amortized cost (AC) and at fair value through changes in other comprehensive income (FVOCI).

Business model assessment

The Bank makes an assessment of the business model for each group of financial instruments, in order to reflect the best way the business is managed and information is provided to management. The information includes:

- The policies and objectives identified for each group of financial instruments and the compliance with those guidelines in practice. These include whether management's strategy focuses on earning contractual interest revenue, or the sale of assets, achieving expected returns according to the business model;

- The measurement and risks management that affect the compliance with the business model and the performance of financial instruments;

- how managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

(3) Summary of Significant Accounting Policies, continued

Assessment of whether contractual cash flows are solely payments of principal and interests *(SPPI)*
For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding at a particular period of time and for other basic risks of a basic loan agreement and other associated costs (e.g. liquidity risk and administrative costs), as well as the profit margin.

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

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

- Leverage features

- Prepayment and extension terms;

- Terms that limit the Bank´s claim to cash flows from specific assets (for example, non-recourse asset agreements); and

- features that modify consideration of the time value of money (for example, periodical reset of interest rates).

Classification and Measurement
The Bank classifies a financial asset at AC and not at fair value through profit or loss (FVTPL) if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to obtain contractual cash flows; and

- The contractual terms of the financial asset meet SPPI criteria.

A financial asset is classified as 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 whose objective is achieved by collecting contractual cash flows and selling these financial assets; and

- The contractual terms of the financial asset meet SPPI criteria.

(3) Summary of Significant Accounting Policies, continued

The Bank classifies a financial asset as FVTPL if the contractual cash flows do not meet SPPI criteria.

On initial recognition of an equity investment that is not held for trading, the Bank irrevocably elected to designate such investments as measure through FVOCI, and therefore they are measured at fair value and changes in fair value are recognized directly in the condensed statement of comprehensive income.

Financial assets are not reclassified after initial recognition, except if the Bank changes its business model for managing the financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is measured initially at fair value plus transaction-related costs directly attributable to its acquisition; except for investments accounted for at FVTPL.

The following accounting policies are applied to the subsequent measurement of financial assets.

Financial assets measured at AC	These assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income and impairment losses are recognized in the condensed statement of profit or loss, as well as any gains or losses.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in the statement of profit or loss. Other net gains and losses are recognized in the condensed statement of comprehensive income and will never be recognized in the condensed statement of profit or loss.
Investments in FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the condensed statement of profit or loss.

Financial assets derecognition

A financial asset (or, in some cases, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- Contractual rights to the cash flows from the financial asset expire.
- The Bank have transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retain substantially all of the risk and rewards of ownership and it does not retain control of the financial asset.
- The Bank retains the rights to receive the contractual cash flows of the asset but has the obligation to pay the total amount of cash flows received, without a material delay to a third party.

(3) Summary of Significant Accounting Policies, continued

- When the Bank has transferred its right to receive cash flows from an asset or has entered into a transferred agreement, and has not transferred nor retained any substantial risk or benefit from the asset, nor transfer the control of the asset, the asset is recognized according to the Bank´s ownership over the asset. In that case, the Bank also recognized the associated liability. The transferred asset and the associated liability are based in a measure that reflects the contractual right and obligations that the Bank has retained. The continuous participation that takes the form of a guarantee on the transferred asset is measured at the lowest of the original book value of the asset and the maximum amount of consideration that the Bank could be obliged to pay.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position but retains either all or substantially all the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized.

Modified or Restructured Financial Assets
The contractual terms of the loans may be modified for various reasons, such as difficulties in the debtor's ability to pay, changes in market conditions, customer retention or other factors unrelated to an actual or potential impairment of the loan.

The Bank renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the probability of default. The Bank's policies consider the granting of concessions that generally correspond to decreases in interest rates, changes in terms or changes in payments. These loans, once restructured, are classified within the category in which they were at the time of their restructuring or in a higher risk category and will remain in that category for a prudential period, which will not be less than 6 months or their next payment period, if this is longer.

After this period, the Bank will evaluate if, according to its payment capacity and compliance with its obligations, there is a basis for its classification to a lower risk category or, on the contrary, it should be classified in a higher category.

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

- The PD ("Probability of Default") for the remaining life at the reporting date based on the modified terms with;
- PD for the estimated remaining life based on data at the initial recognition date and the original contractual terms.

(3) Summary of Significant Accounting Policies, continued

For financial assets modified as part of the Bank's renegotiation policies, the estimate of the PD will reflect whether the modifications have improved or restored the Bank's ability to collect interest and principal and the Bank's prior experience of similar actions. As part of this process, the Bank evaluates the debtor's compliance with the modified terms of the debt and considers various indicators of the behavior of the debtor or group of modified debtors.

Generally, restructuring indicators are a relevant factor in the increase of credit risk. Therefore, a restructured debtor needs to demonstrate consistent payment behavior over a period of time before it is no longer considered an impaired credit or that the PD has decreased such that the provision can be reversed and the credit measured for impairment within 12 months from the reporting date.

(e.2) Impairment of financial assets

IFRS 9 requires that considerable judgment be applied with respect to how changes in economic factors affect the ECL "expected credit loss", which will be determined on a weighted average basis.

The impairment model is applicable to the following financial assets that are not measured at FVTPL:

- Deposits with banks
- Debt instruments
- Loans
- Irrevocable loan commitments

No impairment losses are recognized on equity investments.

The ECL is measured on the following basis:

- 12-month ECL: is the portion of the ECL resulting from default events on a financial instrument that are possible within 12 months after the reporting date.
- Lifetime asset - ECL: are the losses that result from all possible impairment events over the life of a financial instrument.

Allowance for losses are recognized at an amount equal to the lifetime ECL, except in the following cases in which the recognized amount is equivalent to 12-month ECL:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments (other than leases receivable) for which the credit risk has not increased significantly since initial recognition.

(3) Summary of Significant Accounting Policies, continued

Significant increase in credit risk

The assessment of whether there has been a significant increase in the credit risk of a financial asset is one of the critical judgments implemented in the impairment model.

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

Definition of Default

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

- Qualitative (e.g. breach of contract covenants).
- Quantitative (e.g. default status and non-payment of another obligation of the same borrower to the Bank); and
- Based on internally developed data (for loans and local investments securities) and data obtained from external sources, such as risk ratings by rating agencies (for cases of deposits and foreign investments securities) and Panama's sovereign risk.

Inputs in ECL measurement

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

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The Bank obtains these parameters from internal statistical models and other historical data, which are adjusted to reflect forward-looking information as described above.

PD estimates are made at a certain date, at which time the Bank uses one-year regulatory transition matrices with a 60-month observation horizon, in accordance with the Bank's defined portfolio segmentation. These statistical models are based on internally compiled data composed of both qualitative and quantitative factors. Similarly, market information for prospective analysis, when available, is used to adjust the loan portfolio's PD. The statistical analyses performed determined that the monthly economic activity index (IMAE), for its initials in Spanish is the macroeconomic variable that shows the highest correlation with the levels of non-performing loans by segments of the Bank's economic activity.

(3) Summary of Significant Accounting Policies, continued

To determine the PD for the portfolios of interbank placements and investments in sovereigns and financial institutions, market information from external rating agencies is used. The Bank established that it is not necessary to incorporate the impact of the context of macroeconomic variables for prospective analysis, since the external ratings produced by the rating firms capture such impacts.

The LGD is the magnitude of the loss given a default event. The Bank estimates the parameters of the LGD based on a historical recovery rate of claims against defaulting counterparts (doubtful and unrecoverable). LGD models consider the structure, collateral, counterparty portfolio segment and recovery costs of any comprehensive guarantees for the financial asset. It should be calculated on a discounted cash flow basis using the effective interest rate of the loans as a discount factor.

The EAD represents the expected exposure in the event of default. The Bank determines the EAD of the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including any amortization. For loan commitments, financial guarantees and unused credit line balances, the EAD considers the expected amount, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and projections.

The Bank evaluates at each reporting date, the ECL of financial assets held at amortized cost. The amount of losses determined during the period is recognized as a provision expense in profit or loss and increases a reserve account for losses on loans, deposits in banks or investments in securities at amortized cost. The reserve is presented as a deduction from the financial assets that generated it, in the condensed statement of financial position

When a loan is determined to be uncollectible, the unrecoverable amount is decreased from the referred reserve account. Subsequent recoveries of loans previously written off as uncollectible increase the reserve account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by decreasing the allowance account for losses on loans, investments in securities at amortized cost or deposits in banks, as applicable. The amount of any reversal is recognized in the condensed statement of profit or loss

The Bank has approved policies for determining the write-off of loans that are uncollectible. This decision is made after an analysis of the days of arrears of the loan, the financial conditions and payment capacity of the debtor(s) and the evaluation of the risk mitigating guarantees that support the loan. For loans of smaller amounts, write-offs are generally based on the length of time past due on the loan.

(3) Summary of Significant Accounting Policies, continued

Incorporation of Forward Looking Information

The incorporation of forward looking information in the process of estimating the expected credit loss (ECL) in the Bank is made based on the possible impact that could be registered 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 flow of payments of the assets.

The methodology used in the Bank, for the purpose of incorporating forward looking information, was based on the relationship between macroeconomic variables and credit losses. The process of defining the most significant variables among the universe of those available, consists of three steps.

Multiple correlation and explanation coefficients were calculated between the historical series of the value of the Bank's Past Due Portfolio (taken as a dependent variable), and the historical series of the values of the interannual variations of Gross Domestic Product ("GDP"), Monthly Economic Activity Index ("IMAE"), Inflation and Unemployment (considered as independent variables). This calculation allows us to determine whether the latter could reasonably explain and/or infer the possible impacts on the payment behavior of credit assets in the future. It considers the variable that is adequately related to losses.

Loan Impairment

The Bank determines the expected loss on loans using two bases for the assessment:

- *Individually Assessed Loans*

  Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is not objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the original effective interest rate of the loan, versus its current carrying value and the amount of any loss is recognized as an allowance for loan losses in the consolidated statement of profit or loss. The carrying value of impaired loans is decreased through the use of the allowance for loan losses account.

- *Collectively Assessed loan*

  For purposes of a collective assessment for impairment, the Bank principally uses statistical methods with a formula approach based on historical loss rate experience, the opportunity of recoveries and the actual loss incurred and make an adjustment if current economic and credit conditions are such that it is likely that the actual losses are higher or lower than those suggested by historical trends. Roll rates, loss rates and the expected future recoveries terms are regularly benchmarked against actual loss experience, in order to assure that they are still appropriate.

(3) Summary of Significant Accounting Policies, continued

Credit Risk Rating

The Bank assigns each exposure the regulatory classification of the Superintendency of Banks of Panama (SBP). These risk classifications are defined using qualitative and quantitative factors that are indicative of risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Since the Bank uses regulatory classifications as input for the calculation of the PD, it considers the classification (1) standard as the classification of all loans at initial recognition. Exposures will be subject to ongoing monitoring, which may result in the movement of an exposure to a different credit risk classification.

Generating the term structure of PD

Regulatory credit risk classifications are the main input to determine the PD term structure for the different loan portfolios. The Bank obtains performance and loss information on credit risk exposures analyzed by jurisdiction or region, by the type of product and borrower, as well as by credit risk rating. For some portfolios, information from external credit reference agencies may also be used.

Significant increase in credit risk in the loan portfolio

The Bank considers a loan with a significant increase in risk by business segments of the loan portfolio when: it is in substandard classification (3) for all business segments, with the exception of the retirees segment, for which the special mention classification (2) is used.

Definition of default in the loan portfolio

The Bank considers a financial asset to be default by business segment when the debtor by business segment presents regulatory classifications of doubtful and loss (4) and (5) and for the retiree segment the substandard, doubtful and loss classifications.

The following table shows the stages of impairment by business segment established for the loan portfolio:

	SBP regulatory classification categories		
Segment	**Low Risk**	**Significant Risk**	**Default**
Agriculture	1 and 2	3	4 and 5
Livestock	1 and 2	3	4 and 5
Commercial	1 and 2	3	4 and 5
Consumer	1 and 2	3	4 and 5
Consumer - Retirees	1	2	3, 4 and 5
Mortgage - Preferential	1 and 2	3	4 and 5
Mortgage - Non-preferential	1 and 2	3	4 and 5

(3) Summary of Significant Accounting Policies, continued

Impairment of deposits in banks and investments at AC

For interbank placements and investment instruments, allocations to the impairment stages for the calculation of losses are based on external ratings, which are shown below:

- Low risk: International low risk financial instruments, that is, those with an investment grade higher or equal to BBB- at the time of the assessment; and for local financial instruments rated as BB+, BB and BB- that maintained the same rating from their acquisition to the assessment date.
- Significant risk: financial instruments with risk ratings lower than or equal to BB but higher than CCC.
- Default: financial instruments with risk ratings lower than or equal to CCC.

In certain instances, using its expert judgment and, to the extent possible, relevant historical experience, the Bank may determine that an exposure has significantly increased its credit risk based on particular qualitative indicators that it believes are indicative of this and whose effect would not otherwise be fully reflected through timely quantitative analysis.

The Bank intends to monitor the effectiveness of the criteria used to identify significant increases in credit risk through regular reviews to confirm that the criteria can identify significant increases in credit risk before an exposure is in default.

(f) Dynamic Provision

The dynamic provision is an equity item that will be increased or decreased through transfers from and to retained earnings and is constituted by requirement of Agreement No. 004-2013 of the Superintendency of Banks of Panama.

(g) Property and Equipment

Properties include land, buildings used by the Bank's offices and branches. Property and equipment are recorded at historical cost and are shown net of accumulated depreciation and amortization.

Subsequent major improvements are included in the carrying value of the assets or are recognized as a separate asset, as appropriate. Other repairs and improvements that do not significantly extend the life of the asset are recognized as expenses in the condensed statement of profit or loss as incurred.

Depreciation and amortization expenses are recognized in current operations, using the straight-line method, over the estimated useful life of the related assets up to their residual value, except for land which is not depreciated. The estimated useful life of the assets is summarized as follows:

Buildings	40 years
Improvements	5 to 20 years
Furniture and equipment	5 to 20 years
Transportation equipment	4 to 11.7 years

(3) Summary of Significant Accounting Policies, continued

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of an asset is immediately reduced to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the cost to sell and its value in use.

(h) Leases

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

- the contract conveys the use of an asset: this may be specified explicitly or implicitly, and must be physically distinct or represent substantially all of the capacity of a physically distinct asset If the supplier has the right of substantial substitution, then an asset is not identified;

- the Bank has the right to obtain substantially all of the economic benefits arising from the use of the asset during the period of use; and

- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, when the decision on how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:

  - the Bank has the right to operate the asset; or
  - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component based on its relative independent prices. However, for leases of administrative offices and bank branches, ATM´s space, warehouses/deposits, parking lots/land, multifunctional/printers in which it is the lessee, the Bank has elected not to separate the non-lease components, and to account for the lease components to be recognized as a single lease component.

<u>As a Lessee</u>

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

(3) Summary of Significant Accounting Policies, continued

The Bank applied the practical expedient and excluded initial direct costs in measuring the right-to-use asset at the initial application date. The right-to-use asset is subsequently depreciated using the straight-line method from the commencement date until the end of the lease term.

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

- fixed payments, including essentially fixed payments;

- variable lease payments that depend on an index or rate, initially measured using the index or rate at the inception date;

- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an option to extend the term of the contract, and penalties payments for early termination of a lease unless the Bank is reasonably certain not to terminate the contract early.

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

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

Short-term leases and leases of low value assets

The Bank has elected not to recognize right-of-use assets and lease liabilities for short-term leases of its administrative offices and bank branches, ATM´s space, warehouses/deposits, parking lots/land, multifunctional/printers that have a term of 12 months or less. At the date of adoption, no leases of low value assets were identified. The Bank recognizes lease payments associated with these leases as a straight-line expense over the term of the lease.

Application of the portfolio approach

The Bank decided to apply, to the extent possible, the practical record of applying the portfolio approach to leases with similar characteristics and it is reasonably expected that the financial statement effects of applying this Standard to the portfolio would not differ significantly from its application to individual leases portfolio.

(3) Summary of Significant Accounting Policies, continued

The main elements considered in the determination of leases portfolios are: the type of underlying asset and the remaining term of the contract. Considering the above, the contracts included in the different portfolios will be accounted for together and the standard will not be applied individually.

(i) Intangible Assets - Licenses and Programs

Licenses and software purchased separately are shown at historical cost. Licenses and software have a defined useful life, which is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses and programs over their estimated useful lives of 5 to 10 years. Software licenses acquired are capitalized on the basis of the costs incurred to acquire and use the specific technology program.

(j) Foreclosed Borrowers' Assets

Foreclosed borrower´s assets are recognized at the lowest value of the carrying value of the unpaid loans and the fair value of the asset less the cost of sale. The difference between these values is maintained as an impairment allowance, in order to maintain control over the original value of the foreclosed assets recognized. The provision for impairment is recognized in the condensed statement of profit or loss.

(k) Customer Deposits and Obligations

Customer deposits are initially measured at fair value. Subsequently, they are measured at amortized cost, using the effective interest rate method.

(l) Securities Sold under Agreements to Repurchase

Securities sold under repurchase agreements are short-term financing transactions collaterized by securities, in which there is an obligation to repurchase the securities sold at a future date and at a specified price. The difference between the sale price and the future purchase value is recognized as interest expense under the effective interest rate method.

(m) Certificates of Warranties for Legal Proceedings

The funds that support guarantee certificates and/or judicial deposit certificates are deposited under the provisions of article 570 of the Judicial Code, as amended by article 9 of Law 67 of October 30 2009, to guarantee the results of judicial proceedings or as bail to ensure the personal freedom of a person subject to criminal proceedings. These funds are measured at amortized cost and generate interest at the rate established by the Bank and are received in custody, by provision of said Law and the funds are consigned to the orders of the respective Judge subject to compliance with a judicial process.

(n) Seniority bonus provision

The Bank grants a seniority bonus to the Bank's employees when the following two conditions are met: they have accumulated fifteen or more years of service and terminate their employment relationship due to old age pension or absolute disability.

(3) Summary of Significant Accounting Policies, continued

The cost of providing this benefit is determined annually by an actuary using the projected unit credit method. Actuarial gains and losses are recognized in full in the period they occur in the condensed statement of comprehensive income. The liability comprises the present value of the defined benefit obligation. The Bank determines the net interest cost on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year, taking into account any changes in the benefit liability during the period as a result of the benefit payments.

(o) Interest Income and Expense

Interest income and expense are recognized in the condensed statement of profit or loss using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant term. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (e.g., prepayment options). The calculation includes all fees and commissions paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts. Transaction costs are costs incurred that are directly attributable to the acquisition, issuance or disposal of an asset.

(p) Performance Obligations and Fee and Commission Income Recognition Policy

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

(3) Summary of Significant Accounting Policies, continued

The following table presents information on the nature and timing of performance obligations under customer contracts, including significant payment terms, and related revenue recognition policies.

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Corporate and Commercial Banking, Agriculture and Forestry, Consumer, Financial Institutions and Public Sector	The Bank provides banking services to corporate clients and individuals, including the administration of bank accounts, credit and overdraft lines, credit cards and other banking services. The Bank reviews its fees for services on an annual basis. Charges for services related to account management are made directly to the customer's account at the time it is provided. Fees for credit lines and overdrafts are charged directly to the customer's account when the transaction takes place. Banking service charges are made monthly and are based on rates reviewed periodically by the Bank.	Income from bank account management services and fees for banking services are recognized over the time the services are provided. Revenues related to transactions are recognized at the time the transaction takes place.
Treasury	The treasury segment includes the Brokerage House, which provides various financial services including stock brokerage on behalf of third parties or for its own account, custody of securities and investment advice. Fees are charged for ongoing services on a monthly basis directly to the client's bank account. Commissions based on transactions linked to stock brokerage are charged when the transaction is carried out.	Revenues from securities management and custody services are recognized over the period in which the services are provided. Revenues related to transactions are recognized at the time the transaction takes place.
Asset Management	The Bank provides asset management services. Fees for asset management services are calculated based on negotiation with the client and are charged on an annual basis.	Asset management revenues are recognized over time as the services are provided.

(q) Uniformity in the Presentation of the Financial Statements

The accounting policies described above have been applied consistently in the periods presented in the condensed interim financial information.

Certain amounts in the 2019 financial statements have been reclassified to clarify their presentation to that of 2020, specifically in the condensed statement of financial position, specifically in local demand deposits - private and foreign demand by B/.2,226,696 due to the classification of deposits of international organizations according to the origin of the funds.

(r) New IFRSs and Unadopted Interpretations

New standards, interpretations and amendments to IFRS have been published, but are not mandatory as of June 30, 2020, and have not been early adopted by the Bank.

The following amendments to IFRS are not expected to have a significant impact on the Bank's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8: Definition of “Material”

(4) Financial Risks Management

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. The Bank's activities relate primarily to the use of financial instruments and, as such, the condensed statement of financial position consists primarily of financial instruments.

The Bank's Board of Directors has the responsibility for establishing and monitoring financial instruments risk management. For this purpose, it has appointed certain committees to manage and periodically monitor the risks to which the Bank is exposed. These committees are: Risk and Policy Steering Committee, Credit Steering Committee, Audit Steering Committee and the Money Laundering Prevention Steering Committee.

Additionally, the Bank is subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of Securities Market of Panama, related to concentration, liquidity and capitalization risks, among others.

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

(a) Credit Risk

This is the risk that the debtor, issuer or counterparty of a financial asset owned by the Bank will not comply, fully and on time, with any payment due to the Bank in accordance with the terms and conditions agreed at the time the Bank acquired or originated the respective financial asset. To assume this risk, the Bank has a management framework whose main elements include:

- The risk analysis or pre-approval is carried out independently of the business, whose objectives, in addition to identifying, evaluating and quantifying the risk of the proposals, are to determine the impact they will have on the Bank's credit portfolio.
- A control area is responsible for validating that the proposals are within the Bank's policies and limits, obtain the required approval according to the level of risk assumed, and comply with the conditions agreed upon in the approval, at the time the transaction is settled.
- The approval process is carried out through various instances within the Bank in accordance with the established approval limit policy.
- A portfolio management process focused on monitoring risk trends at the Bank level with the objective of anticipating any signs of portfolio deterioration.
- Compliance with collateral policies, including required coverage on loan amounts established by the Credit Steering Committee and reviewed periodically.

The respective management committees assigned by the Board of Directors periodically monitor the financial condition of the respective debtors and issuers that involve a credit risk for the Bank.

(4) Financial Risks Management, continued

The Bank manages credit risk through:

- Credit and investment policies, which are periodically reviewed and amended.
- Authorization limits, which are periodically reviewed and amended.
- Exposure and concentration limits for the investment portfolios, placements and loans.
- Development and maintenance of credit risk assessment, through permanent review of the credit portfolio; frequent monitoring of credit classification and special attention to the portfolio with higher risk levels.
- Review of compliance with procedures and policies, through specialized administrative units.

To limit credit risk, the Bank has established policies that ensure diversification and allow for an adequate evaluation for each loan.

Actions implemented due to the COVID-19 pandemic

On March 11, 2020, the World Health Organization declared the COVID-19 / Coronavirus outbreak a pandemic. Through Executive Decree 472 of March 13, 2020, the Panamanian government declared a national health emergency and decreed the immediate suspension of all non-essential activities, which had a significant impact on a large part of the economy. The situation is constantly monitored by the Government of Panama to implement measures that minimize the negative impact on the economy and the population.

During March 2020, the Bank, being socially responsible and solidary, granted to all of its consumer loan clients (personal, credit cards and mortgage) who made voluntary payments (those made through a bank teller, online banking, transfers or debit account) an automatic grace period on loan payments up to ninety (90) days, free of charges, fees or penalties.

This moratorium for clients affected by COVID-19 does not imply an exoneration of capital and or interest, FECI or restructuring of the amounts owed. These changes in terms and conditions were duly authorized by the Superintendency of Banks in March 2020.

In April 2020, due to the context of the pandemic, the Bank carried out an analysis of its clients, considering the economic sectors and industries in which it maintains exposure. This allowed the Bank to identify clients with higher levels of risk according to the economic sector, industry and financial position.

(4) Financial Risks Management, continued

Based on the previous analysis, information on the behavior of the portfolio is presented to the Risk and Policies Steering Committee and the Board of Directors; and for those customers with higher credit risk, their credit monitoring was increased. Finally, the Board of Directors is kept informed on a biweekly basis about modified loans, impact on the quality of the portfolio and loan reserves. As of June 30, 2020, the Bank recognized B/.16,732,392 in the condensed statement of income a provision expense for loan losses, as a result of the analyzes carried out on its loan portfolio.

The key procedures and practices in credit risk management are detailed as follows:

- Limitations on concentration risk (large credit extensions, loans to related parties, refinancing)
- Loan risk monitoring and rating matrix.
- Allowance for loan losses policy.
- Compliance with credit policies and credit management procedures
- Identification and monitoring of initial and changing credit risks observed in customers and in the economic activity carried out by those customers.
- Collection procedure on irregulars and classified loans.

When the estimation of the expected credit loss is carried out collectively, financial instruments are grouped on the basis of shared risk characteristics, which include:

- Type of instrument
- Credit risk ratings
- Type of guarantee; and
- The industry or economic activity

The groupings are subject to periodic review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available historical data.

Credit Quality Analysis

The Bank uses for the evaluation of loans the same credit risk classification system that the Superintendency of Banks of Panama has established for the determination of regulatory reserves. This classification system considers the evaluation of quantitative and qualitative factors of the debtor's financial condition and the market in which it operates to determine its credit risk classification, including the evaluation of the debtor's delinquency. Nevertheless, the consumer portfolio, given its nature, is mainly evaluated based on its delinquency to determine its credit risk classification.

(4) Financial Risk Management, continued

The following table analyzes the credit quality of financial assets at amortized cost, credit commitments and allowances per ECL for these assets held by the Bank as of June 30, 2020:

	June 30, 2020			
	Low risk	Significant Risk	Default Risk	Total
Loans				
Standard	4,260,674,374	0	0	4,260,674,374
Special-mention	251,578,751	977,469	0	252,556,220
Sub-standard	0	49,349,720	283,475	49,633,195
Doubtful	0	0	22,368,361	22,368,361
Loss	0	0	33,363,593	33,363,593
Gross Balance	4,512,253,125	50,327,189	56,015,429	4,618,595,743
Interest receivable	35,806,384	786,239	436,244	37,028,867
Interest and unearned commissions				(25,918,905)
Loss allowance	(33,774,671)	(14,538,689)	(31,939,435)	(80,252,795)
Loan balance at AC	4,514,284,838	36,574,739	24,512,238	4,549,452,910
Consumer Loans				
0 to 30 days	2,451,356,935	2,039,829	3,214,938	2,456,611,702
31 to 60 days	23,291,676	335,500	520,278	24,147,454
More than 61 days	18,667,492	6,896,241	20,130,521	45,694,254
Balance	2,493,316,103	9,271,570	23,865,737	2,526,453,410
Individually assessed loans	14,358,308	0	0	14,358,308
Loss allowance:				
Individual	(528,232)	0	0	(528,232)
Collective	(33,246,439)	(14,538,689)	(31,939,435)	(79,724,563)
Total loss reserve	(33,774,671)	(14,538,689)	(31,939,435)	(80,252,795)
Credit commitments				
Standard	449,342,353	0	0	449,342,353
Balance	449,342,353	0	0	449,342,353
Bank deposits at AC				
Standard	4,949,818,808	0	0	4,949,818,808
Gross balance	4,949,818,808	0	0	4,949,818,808
Interest receivable	2,380,317	0	0	2,380,317
Loss allowance	(89,010)	0	0	(89,010)
Balance of deposits in banks at AC	4,952,110,115	0	0	4,952,110,115
Investments in securities at AC				
Standard	2,794,395,292	0	0	2,794,395,292
Gross balance	2,794,395,292	0	0	2,794,395,292
Interest receivable	19,326,374	0	0	19,326,374
Loss allowance	(3,047,757)	0	0	(3,047,757)
Balance of investments in securities at AC	2,810,673,909	0	0	2,810,673,909

During the period ended June 30, 2020, the Bank carried out loan restructurings/modifications with an amortized cost before the modification of B/.12,010,718 (December 31, 2019: B/.8,070,143) and which generated an increase in the allowance for expected credit losses of B/.536,135 (December 31, 2019: B/.113,058).

(4) Financial Risk Management, continued

	December 31, 2019			
	Low risk	Significant Risk	Default Risk	Total
Loans				
Standard	4,142,068,118	0	0	4,142,068,118
Special-mention	179,917,424	0	0	179,917,424
Sub-standard	0	100,191,261	0	100,191,261
Doubtful	0	0	15,626,027	15,626,027
Loss	0	0	21,586,909	21,586,909
Gross Balance	4,321,985,542	100,191,261	37,212,936	4,459,389,739
Interest receivable	27,681,159	1,521,079	286,422	29,488,660
Interest and unearned commissions				(26,954,325)
Loss allowance	(27,077,920)	(10,678,065)	(25,161,893)	(62,917,878)
Loan balance at AC	4,322,588,781	91,034,275	12,337,465	4,399,006,196
Consumer Loans	2,409,118,831	2,595,895	4,749,923	2,416,464,649
0 to 30 days	18,867,338	432,650	607,486	19,907,474
31 to 60 days	7,585,197	6,509,532	12,769,106	26,863,835
More than 61 days	2,435,571,366	9,538,077	18,126,515	2,463,235,958
Balance				
	14,358,308	0	0	14,358,308
Individually assessed loans				
Loss allowance:				
Individual	(528,232)	0	0	(528,232)
Collective	(26,549,688)	(10,678,065)	(25,161,893)	(62,389,646)
Total loss reserve	(27,077,920)	(10,678,065)	(25,161,893)	(62,917,878)
Credit commitments				
Standard	487,133,970	0	0	487,133,970
Balance	487,133,970	0	0	487,133,970
Bank deposits at AC				
Standard	3,045,272,323	0	0	3,045,272,323
Gross balance	3,045,272,323	0	0	3,045,272,323
Interest receivable	4,522,442	0	0	4,522,442
Loss allowance	(138,893)	0	0	(138,893)
Balance of deposits in banks at AC	3,049,655,872	0	0	3,049,655,872
Investments in securities at AC				
Standard	2,912,909,982	0	0	2,912,909,982
Gross balance	2,912,909,982	0	0	2,912,909,982
Interest receivable	22,698,677	0	0	22,698,677
Loss allowance	(3,159,493)	0	0	(3,159,493)
Balance of investments in securities at AC	2,932,449,166	0	0	2,932,449,166

The Bank maintains deposits placed in banks with a gross balance of B/.4,949,818,808 as of June 30, 2020 (December 31, 2019: B/.3,045,272,323). Deposits placed are held with recognized financial institutions applying the limits established in the counterparty risk policy. These placements of the Bank's liquid resources are made under conditions of security, liquidity and yield, adjusting to risk and term diversification criteria, in banks with financial solvency and risk rating. At June 30, 2020, an expected loss reserve was established for interbank placements of B/.89,010 (December 31, 2019: B/.138,893)

(4) Financial Risk Management, continued

The following table presents the deposits placed in banks according to their local or international short-term credit risk rating, granted by risk rating agencies:

		June 30, 2020	
Rating of deposits in banks	Local Rating	International Rating	Total
A1, P1, F1	47,000,000	2,513,714,275	2,560,714,275
A2, P2, F2	0	883,402,832	883,402,832
A3, P3, F3	5,000,000	0	5,000,000
Unrated	0	1,500,701,701	1,500,701,701
Gross subtotal	52,000,000	4,897,818,808	4,949,818,808
Interest receivable	44,945	2,335,372	2,380,317
Loss reserve	(4,053)	(84,957)	(89,010)
Balance at amortized cost	52,040,892	4,900,069,223	4,952,110,115

		December 31, 2019	
Rating of deposits in banks	Local Rating	International Rating	Total
A1, P1, F1	7,000,000	1,397,528,361	1,404,528,361
A2, P2, F2	0	904,673,650	904,673,650
A3, P3, F3	5,000,000	0	5,000,000
Unrated	0	731,070,312	731,070,312
Gross subtotal	12,000,000	3,033,272,323	3,045,272,323
Interest receivable	0	4,522,442	4,522,442
Loss reserve	0	(138,893)	(138,893)
Balance at amortized cost	12,000,000	3,037,655,872	3,049,655,872

The deposits placed in banks categorized as "Unrated", correspond to resources placed in an international financial institution that only accepts funds from central banks. It’s risk is equivalent to an AAA sovereign rating.

(4) Financial Risk Management, continued

The following table presents investments in debt securities according with their local or international long-term credit risk classification, granted by risk rating agencies.

		June 30, 2020	
Investments in securities	**Local Rating**	**International Rating**	**Total**
AAA	0	311,962,831	311,962,831
AA+ to A	47,740,395	506,035,580	553,775,975
A-	5,000,000	68,948,548	73,948,548
BBB+ to BBB-	32,537,500	1,620,003,498	1,652,540,998
BB+	10,000,000	10,145,717	20,145,717
BB to B-	0	141,503,343	141,503,343
Unrated	40,517,880	0	40,517,880
Gross subtotal	135,795,775	2,658,599,517	2,794,395,292
Interest receivable	619,216	18,707,158	19,326,374
Loss reserve	(450,930)	(2,596,827)	(3,047,757)
Balance at amortized cost	135,964,061	2,674,709,848	2,810,673,909

		December 31, 2019	
Investments in securities	**Local Rating**	**International Rating**	**Total**
AAA	3,269,000	149,442,457	152,711,457
AA+ to A	42,702,482	699,229,033	741,931,515
A-	5,000,000	115,869,629	120,869,629
BBB+ to BBB-	30,775,000	1,586,937,554	1,617,712,554
BB+	5,000,000	138,479,447	143,479,447
BB to B-	0	91,000,000	91,000,000
Unrated	45,205,380	0	45,205,380
Gross subtotal	131,951,862	2,780,958,120	2,912,909,982
Interest receivable	554,351	22,144,326	22,698,677
Loss reserve	(446,241)	(2,713,252)	(3,159,493)
Balance at amortized cost	132,059,972	2,800,389,194	2,932,449,166

(4) Financial Risk Management, continued

Credit risk concentration

The Bank monitors credit risk concentration by sector and geographic location. The analysis of credit risk concentration at the date condensed financial information is as follows:

	Loans		Investments in securities and securities purchased under resale agreements		Deposits in banks		Loan commitments and guarantees granted	
	June 30 2020	December 31 2019	June 30 2020	December 31 2019	June 30, 2020	December 31 2019	June 30 2020	December 31 2019
Gross book value	4,618,595,743	4,459,389,739	2,872,563,983	2,980,853,891	4,949,818,808	3,045,272,323	449,342,353	487,133,970
Concentration by sector:								
Corporate	1,423,368,017	1,481,570,378	880,719,132	1,058,014,541	0	0	48,952,758	41,012,718
Consumer	2,526,453,410	2,463,235,958	0	0	0	0	400,389,595	446,071,252
Financial institutions	358,398,364	203,946,559	328,440,613	383,239,385	4,541,818,808	2,704,419,660	0	0
Public sector	310,375,952	310,636,844	1,663,404,238	1,539,599,965	408,000,000	340,852,663	0	50,000
Gross book value	4,618,595,743	4,459,389,739	2,872,563,983	2,980,853,891	4,949,818,808	3,045,272,323	449,342,353	487,133,970
Geographic concentration:								
Panama	4,618,595,743	4,459,389,739	1,996,239,480	1,967,026,405	52,000,000	12,000,000	48,952,758	487,133,970
USA and Canada	0	0	737,439,395	766,522,887	1,854,593,579	1,526,179,554	400,389,595	0
Europe	0	0	10,047,568	10,129,241	924,523,139	450,022,049	0	0
Others	0	0	128,837,540	237,175,358	2,118,702,090	1,057,070,720	0	0
Gross book value	4,618,595,743	4,459,389,739	2,872,563,983	2,980,853,891	4,949,818,808	3,045,272,323	449,342,353	487,133,970

Concentrations by sector are based on the economic activity of the issuer or debtor. The public sector includes government and supranational entities. Geographic concentrations of loans and deposits in banks are based on the location of the debtor and correspondent bank, respectively. The geographic concentration for investments is determined based on the location of the issuer of the investment. All other assets and liabilities are located in the Republic of Panama.

The Bank also monitors and follows up on operations outside the condensed statement of financial position, which are those operations that although not reflected within that statement, are reviewed in detail because they may expose the Bank to financial obligations depending on future events or actions by other parties. These transactions are subject to the concentration limits (loans to a single person and to related parties) to which the loan portfolio recorded in the condensed statement of financial position is subject to.

(4) Financial Risk Management, continued

Expected credit losses

The following table provides a reconciliation between the opening and closing balance of the reserves for losses on financial assets at amortized cost:

	June 30, 2020			
	Low risk	**Significant risk**	**Default risk**	**Total**
Deposits at amortized cost				
Beginning balance	138,893	0	0	138,893
Allocation of reserve to new originated financial assets	(32,865)	0	0	(32,865)
Net remeasurement of loss allowance	21,396	0	0	21,396
Reversal of derecognised assets	(38,414)	0	0	(38,414)
Balance as of June 30, 2020	89,010	0	0	89,010
Investments in securities at amortized cost				
Beginning balance	3,159,493	0	0	3,159,493
Net remeasurement of loss allowance	(88,825)	0	0	(88,825)
Allocation of reserve to new purchased financial assets	2,918,646	0	0	2,918,646
Reversal of reserve due to derecognised assets	(2,941,557)	0	0	(2,941,557)
Balance as of June 30, 2020	3,047,757	0	0	3,047,757
Corporate Loans				
Biginning balance	16,845,390	9,099,237	12,442,033	38,386,660
Transfers to 12-month ECL (low risk)	1,848,035	(522,342)	(1,325,693)	0
Transfers to ECL lifetime (significant risk)	(1,255,474)	1,739,942	(484,468)	0
Transfers to ECL lifetime (default)	(52,247)	(3,548,740)	3,600,987	0
Net remeasurement of loss allowance	5,987,179	6,180,867	3,446,060	15,614,106
Allocation of reserve to new originated financial assets	1,035,292	296,462	84,507	1,416,261
Reversal of reserve due to derecognised assets	(1,234,793)	(514,727)	(785,978)	(2,535,498)
Recoveries	0	0	129,076	129,076
Balance as of June 30, 2020	23,173,382	12,730,699	17,106,524	53,010,605
Consumer Loans				
Beginning balance	9,542,493	1,578,828	12,719,860	23,841,181
Transfers to 12-month ECL (low risk)	4,190,084	(610,216)	(3,579,868)	0
Transfers to ECL lifetime (significant risk)	(168,823)	370,939	(202,116)	0
Transfers to ECL lifetime (default)	(135,224)	(1,033,857)	1,169,081	0
Net remeasurement of loss allowance	(4,136,157)	1,586,146	4,296,827	1,746,816
Allocation of reserve to new originated financial assets	448,020	107	250,577	698,704
Reversal of reserve due to derecognised assets	(132,096)	(83,957)	(294,899)	(510,952)
Loans written off	0	0	(3,306)	(3,306)
Recoveries	0	0	476,755	476,755
Balance as of June 30, 2020	9,608,297	1,807,990	14,832,911	26,249,198
Financial institution loans				
Beginning balance	341,813	0	0	341,813
Net remeasurement of loss allowance	71,122	0	0	71,122
Allocation of reserve to new originated financial assets	271,784	0	0	271,784
Reversal of reserve due to derecognised assets	(39,659)	0	0	(39,659)
Balance as of June 30, 2020	645,060	0	0	645,060
Public Sector Loans				
Beginning balance	348,224	0	0	348,224
Net remeasurement of loss allowance	(292)	0	0	(292)
Balance as of June 30, 2020	347,932	0	0	347,932

(4) Financial Risk Management, continued

	December 31 2019			
	Low risk	Significant risk	Default risk	Total
Deposits at amortized cost				
Beginning balance	47,724	0	0	47,724
Allocation of reserve to new originated financial assets	12,040	0	0	12,040
Net remeasurement of loss allowance	155,980	0	0	155,980
Reversal of derecognised assets	(76,851)	0	0	(76,851)
Balance as of December 31, 2019	138,893	0	0	138,893
Investments in securities at amortized cost				
Beginning balance	4,386,163	0	0	4,386,163
Net remeasurement of loss allowance	(1,470,886)	0	0	(1,470,886)
Allocation of reserve to new purchased financial assets	1,062,736	0	0	1,062,736
Reversal of reserve due to derecognised assets	(818,520)	0	0	(818,520)
Balance as of December 31, 2019	3,159,493	0	0	3,159,493
Corporate Loans				
Beginning balance	15,364,658	4,388,947	12,519,024	32,272,629
Transfers to 12-month ECL (low risk)	3,710,299	(2,394,618)	(1,315,681)	0
Transfers to ECL lifetime (significant risk)	(1,531,753)	6,312,467	(4,780,714)	0
Transfers to ECL lifetime (default)	(90,453)	(3,614,043)	3,704,496	0
Net remeasurement of loss allowance	(1,243,422)	4,508,366	5,860,962	9,125,906
Allocation of reserve to new originated financial assets	3,810,413	460,660	1,480,836	5,751,909
Reversal of reserve due to derecognised assets	(3,174,352)	(562,542)	(4,192,471)	(7,929,365)
Loans written off	0	0	(2,090,112)	(2,090,112)
Recoveries	0	0	1,255,693	1,255,693
Balance as of December 31, 2019	16,845,390	9,099,237	12,442,033	38,386,660
Consumer Loans				
Beginning balance	10,859,508	836,576	8,271,767	19,967,851
Transfers to 12-month ECL (low risk)	3,392,922	(957,259)	(2,435,663)	0
Transfers to ECL lifetime (significant risk)	(236,115)	1,089,477	(853,362)	0
Transfers to ECL lifetime (default)	(209,602)	(1,068,427)	1,278,029	0
Net remeasurement of loss allowance	(5,201,189)	1,860,433	6,801,105	3,460,349
Allocation of reserve to new originated financial assets	1,422,782	3,867	220,155	1,646,804
Reversal of reserve due to derecognised assets	(485,813)	(185,839)	(526,160)	(1,197,812)
Loans written off	0	0	(1,286,155)	(1,286,155)
Recoveries	0	0	1,250,144	1,250,144
Balance as of December 31, 2019	9,542,493	1,578,828	12,719,860	23,841,181
Financial institution loans				
Beginning balance	439,785	0	0	439,785
Net remeasurement of loss allowance	(97,972)	0	0	(97,972)
Balance as of December 31, 2019	341,813	0	0	341,813
Public Sector Loans				
Beginning balance	927,727	0	0	927,727
Net remeasurement of loss allowance	(397,994)	0	0	(397,994)
Reversal of reserve due to derecognised assets	(181,509)	0	0	(181,509)
Balance as of December 31, 2019	348,224	0	0	348,224

(4) Financial Risk Management, continued

(b) Liquidity risk

Liquidity risk is defined as the risk that the Bank is unable to meet all of its obligations due to, among other things, unexpected withdrawal of funds by creditors or customers, impairment in the quality of the loan portfolio, decrease in the value of investments, excessive concentration of liabilities in a particular source, mismatch between assets and liabilities, lack of liquidity of assets, or funding of long-term assets with short-term liabilities. The Bank manages its liquid resources to meet its liabilities as they mature under normal conditions.

Risk Management of Liquidity Risk

The Superintendency of Banks of Panama requires that banks with a general license allways should maintain a liquidity of no less than 30%, defined based on the parameters established in Agreement No. 004-2008. However, the liquidity risk management policies establish the estimation of alternative liquidity indicators, which contemplate high liquidity assets.

Monitoring of the liquidity position includes daily reviews and monthly deposit volatility analysis. Stress tests are developed in different scenarios considering that they cover normal or more severe conditions. All policies and procedures are subject to review and approval by the Asset-Liability Steering Committee (ALCO) and the Risk and Policy Steering Committee.

The Board of Directors has established minimum liquidity levels on the proportion of funds available to meet these requirements and on the minimum level of inter-bank and other lending facilities that must exist to cover withdrawals at unexpected levels of demand. The Bank maintains a portfolio of short-term assets, comprised largely of liquid investments and inter-bank placements, to ensure that it maintains enough liquidity.

Agreement No. 002-2018 of the Superintendency of Banks of Panama establishes the provisions for the Liquidity Coverage Ratio (LCR), the Bank must ensure compliance with 50% by December 2019. As of June 30, 2020, the Bank's indicator exceeds the 50% established by that Agreement.

Actions implemented due to the COVID-19 pandemic:

Following the COVID-19 pandemic, the Bank has kept its liquidity levels stable. The Bank has not had to activate its Liquidity Contingency Plan (LCP). The Bank has significantly increased its liquid assets and continues with high levels of liquidity that are above of what was reported under normal conditions.

The Bank's ability to maintain these solid levels of liquidity, even in the current context, is attributable to increases in public and private deposits and to a lesser extent to an increase in obligations. Furthermore, the Bank follows a conservative structure and has selectively disbursed new transactions, prioritizing prudent risk management, focusing on adequate levels of risk / return.

(4) Financial Risk Management, continued

Liquidity Risk Exposure

The Bank uses the legal liquidity ratio as the basis for liquidity risk management. It is the ratio of net liquid assets to deposits received from customers. Net liquid assets are cash and cash equivalents and debt securities for which there is an active and liquid market, deposits with maturities of less than 186 days and bond payments with maturities of no more than 186 days.

The result of the estimation of the legal liquidity index as of the date of the statement of financial position is detailed below:

	June 30, 2020	December 31 2019
As of the end of the period	74.5%	71.3%
Average of the year	70.7%	70.8%
Maximum of the year	75.1%	75.3%
Minimum of the year	65.7%	67.4%

(c) *Market Risk*

The table below summarizes the Bank's exposure to interest rate risk. The Bank's assets are included in the table at their carrying values, classified by categories, based on the earlier of contractual repricing date or maturity dates. Financial assets and liabilities that do not have contractual fixed returns are excluded.

	June 30, 2020					
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Interest receivable/ payable	Total
Assets:						
Time deposits in banks	4,844,500,000	0	0	0	2,380,317	4,846,880,317
Securities purchased under resale agreements	78,168,691	0	0	0	530,298	78,698,989
Investments in securities	914,498,857	720,947,152	459,979,921	698,969,362	19,326,374	2,813,721,666
Loans and interest receivable, gross balance	727,220,992	418,794,579	372,900,930	3,099,679,242	37,028,867	4,655,624,610
Total	6,564,388,540	1,139,741,731	832,880,851	3,798,648,604	59,265,856	12,394,925,582
Liabilities:						
Savings deposits	798,408,737	0	0	0	0	798,408,737
Time and restricted deposits	5,750,158,647	346,284,252	100,052,805	429,093,971	5,724,493	6,631,314,168
Borrowings received	150,000,000	0	0	0	660,004	150,660,004
Securities sold under repurchase agreement	301,005,727	0	0	0	1,777,816	302,783,543
Bonds Payable	0	0	0	205,736,000	462,906	206,198,906
Total	6,999,573,111	346,284,252	100,052,805	634,829,971	8,625,219	8,089,365,358
Net interest sensitivity margin	(435,184,571)	793,457,479	732,828,046	3,163,818,633	50,640,637	4,305,560,224

	December 31, 2019					
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Interest receivable/ payable	Total
Assets:						
Time deposits in banks	2,969,300,000	0	0	0	4,522,442	2,973,822,442
Securities purchased under resale agreements	67,943,909	0	0	0	619,356	68,563,265
Investments in securities	806,883,527	851,944,386	538,031,505	716,050,564	22,698,677	2,935,608,659
Loans and interest receivable, gross balance	520,253,256	623,786,279	282,372,584	3,032,977,620	29,488,660	4,488,878,399
Total	4,364,380,692	1,475,730,665	820,404,089	3,749,028,184	57,329,135	10,466,872,765
Liabilities:						
Savings deposits	709,752,928	0	0	0	0	709,752,928
Time and restricted deposits	4,427,166,008	321,616,092	106,604,883	473,744,975	4,402,023	5,333,533,981
Bonds Payable	0	0	0	205,736,000	480,051	206,216,051
Borrowing received	50,000,000	0	0	0	3,818	50,003,818
Total	5,186,918,936	321,616,092	106,604,883	679,480,975	4,885,892	6,299,506,778
Net interest sensitivity margin	(822,538,244)	1,154,114,573	713,799,206	3,069,547,209	52,443,243	4,167,365,987

(4) Financial Risk Management, continued

The interest rate risk position is managed directly by the Bank's Treasury, which uses instruments such as investments in securities, deposits in banks and deposits from banks to manage the general position of the Bank's activities.

(d) Capital Management

The Bank's policy is to maintain strong capital that can ensure the future development of the investment and credit business within the market, with adequate levels of return on shareholder capital and capital adequacy required by regulators. Law Decree No. 4 of 2006, as amended by Law No. 24 of May 16, 2017, establishes the Bank's capital at B/.500,000,000. This capital may be periodically increased by the Board of Directors, subject to a favorable opinion of the Executive Body through a Decree, in accordance with the provisions of banking legislation or best banking practices. As of June 30, 2020 the Bank maintains capital funds of B/.650,000,000 (December 31, 2019: B/.650,000,000).

The Superintendency of Banks of Panama and the Superintendency of the Securities Market of Panama, as regulatory entities, require the Bank to maintain a total capital index measured based on risk weighted average assets. The Bank complies with the regulatory capital requirements to which it is subject.

Article No. 81 of Law Decree No. 2 of 2008, which amends Article No. 45 of Decree-Law No. 9 of 1998, provides that banks with a general and international license must maintain capital funds equivalent to at least eight percent (8%) of their total assets and operations outside the state of financial position, weighted according to their risks. This article was regulated by Agreement No. 001-2015 of the Superintendency of Banks of Panama, which establishes the capital adequacy standards applicable to banks and came into force on January 1, 2016. Agreement No. 003-2016 of the Superintendency of Banks of Panama establishes the rules for the determination of credit risk weighted assets and counterparty risk, this began to be effective on July 1, 2016.

Agreement No. 003-2018 establishes the capital requirements for financial instruments, registered in the trading portfolio and Agreement No.011-2018 establishes the capital requirements for operational risk, both of which began to be effective on December 31, 2019.

(4) Financial Risk Management, continued

As of June 30, 2020, the Bank's capital adequacy ratio is determined in accordance with Agreements No. 001-2015, 003-2016, 003-2018 and 011-2018 of the Superintendency of Banks of Panama:

	June 30, 2020	December 31, 2019
Primary Capital		
Capital funds	650,000,000	650,000,000
Retained earnings	215,447,966	182,229,675
Other items in comprehensive income	7,095,109	8,424,542
Less: intangible assets	11,460,161	12,649,126
Primary Capital	861,082,914	828,005,091
Dynamic regulatory provision	56,928,983	56,928,983
Total Capital Funds	918,011,897	884,934,074
Total risk-weighted assets	5,518,555,528	5,514,461,919
Capital adequacy ratio	16.64%	16.05%

(5) Critical Accounting Estimates and Judgments in the Application of Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. Estimates and assumptions are evaluated periodically and are based on historical experience and other factors, including expectations of future events, believed to be reasonable under the circumstances. Any changes in assumptions or criteria may significantly affect the estimates.

(a) Impairment losses on loans

The Bank reviews its loan portfolio at each reporting date to determine if there is impairment in a loan or loan portfolio that should be recognized in profit or loss of the year. In determining whether an impairment loss should be recorded in the condensed statement of profit or loss, the Bank makes decisions as to whether there is observable information indicating that there is a reduction in the value of the loan that can be measured in the estimated future cash flows of the loans.

This evidence includes observable information indicating that there has been an adverse change in the payment condition of borrowers or economic conditions that correlate with defaults on loans in the Bank. The methodology and assumptions used to estimate the amount and timing of future cash flows are regularly reviewed to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of investment instruments

The Bank determines that investments in securities are impaired when there has been a significant or prolonged decline in fair value below cost. This determination of what is a significant or prolonged decline requires judgment.

In addition, impairment may be considered when there is evidence of a deterioration in the financial health of the issuer, in the performance of the industry and sector, due to changes in technology and in its operating and financial cash flows.

(5) Critical Accounting Estimates and Judgments in the Application of Accounting Policies, continued

(c) Fair value

For investment instruments listed on active markets, the fair value is determined by the instrument's reference price published on stock exchanges and stock exchange electronic systems. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data. These techniques include discounted future cash flow analyses and other valuation techniques commonly used by market participants. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

(d) Foreclosed assets of borrowers

Foreclosed properties that are impaired are reserved as such impairment occurs.

(6) Cash and Cash Equivalents

Cash and cash equivalents are detailed below for purposes of reconciliation with the condensed statement of cash flows:

	June 30, 2020	June 30, 2019
Cash and cash equivalents	335,893,067	312,758,598
Demand deposits	105,318,808	99,985,843
Time deposits	4,844,500,000	1,621,700,000
Total gross cash, cash equivalents and deposits with banks in the condensed statement of financial position, excluding interest receivable	5,285,711,875	2,034,444,441
Less: Time deposits in banks with original maturities over 90 days	100,000,000	313,000,000
Total cash and cash equivalents in the condensed statement of cash flows:	5,185,711,875	1,721,444,441

As of June 30, 2020, the Bank maintains a reserve for expected losses on deposits in banks of B/.89,010 (December 31, 2019: B/.138,893).

(7) Securities Purchased under Resale Agreements

At June 30, 2020, the Bank holds securities purchased under resale agreements as follows:

Maturity	Interest Rate			June 30, 2020	December 31, 2019
Date	Libor	Margin	Collateral		
20/01/2020	9 months	1.50%	Local corporate bonds	0	1,892,800
20/01/2020	9 months	1.50%	Local corporate bonds	0	6,606,709
30/01/2020	6 months	1.25%	Republic of Panama Global Bond	0	5,040,000
12/02/2020	6 months	1.25%	Local corporate bonds	0	1,600,000
12/02/2020	6 months	1.25%	Local corporate bonds	0	6,400,000
19/02/2020	3 months	1.50%	Local corporate bonds	0	3,600,000
19/02/2020	3 months	1.50%	Local corporate bonds	0	1,600,000
27/02/2020	3 months	1.50%	Local corporate bonds Vcn's	0	2,320,000
13/03/2020	5 months	1.00%	Local corporate bonds	0	5,956,800
13/03/2020	5 months	1.00%	Local corporate bonds	0	8,519,600
13/03/2020	5 months	1.00%	Local corporate bonds	0	4,000,000
13/03/2020	5 months	1.00%	Local corporate bonds	0	2,800,000
13/03/2020	5 months	1.00%	Local corporate bonds	0	5,672,000
12/06/2020	6 months	1.25%	Local corporate bonds	0	2,728,000
12/06/2020	6 months	1.25%	Local corporate bonds	0	432,000
12/06/2020	6 months	1.25%	Local corporate bonds	0	2,376,000
12/06/2020	6 months	1.25%	Local corporate bonds	0	6,400,000
28/07/2020	6 months	1.25%	Local corporate bonds	5,040,000	0
10/08/2020	6 months	1.25%	Local corporate bonds	6,400,000	0
10/08/2020	6 months	1.25%	Local corporate bonds	878,670	0
09/09/2020	6 months	1.25%	Letters of Republic of Panama	457,875	0
09/09/2020	6 months	1.25%	Notes from the Republic of Panama	1,676,700	0
09/09/2020	6 months	1.25%	Notes from the Republic of Panama	673,274	0
09/09/2020	6 months	1.25%	Local corporate bonds	2,400,000	0
25/09/2020	6 months	1.25%	Local corporate bonds	3,750,000	0
25/09/2020	6 months	1.25%	Local corporate bonds	3,787,916	0
25/09/2020	6 months	1.25%	Local corporate bonds	10,000,000	0
28/09/2020	6 months	1.25%	Notes from the Republic of Panama	4,999,995	0
29/09/2020	6 months	1.25%	Local corporate bonds	2,640,000	0
29/09/2020	6 months	1.25%	Local corporate bonds	2,359,998	0
29/09/2020	6 months	1.25%	Local corporate bonds	1,800,000	0
05/10/2020	6 months	1.25%	Notes from the Republic of Panama	1,980,000	0
05/10/2020	6 months	1.25%	Notes from the Republic of Panama	1,800,000	0
05/10/2020	6 months	1.25%	Republic of Panama Bond	1,485,000	0
05/10/2020	6 months	1.25%	Republic of Panama Bond	387,111	0
23/10/2020	6 months	1.25%	Local corporate bonds	216,000	0
23/10/2020	6 months	1.25%	Local corporate bonds	999,696	0
23/10/2020	6 months	1.25%	Local corporate bonds	788,000	0
23/10/2020	6 months	1.25%	Local corporate bonds	2,139,300	0
26/10/2020	6 months	1.25%	Notes from the Republic of Panama	879,570	0
			Gross subtotal that goes to the next page	57,539,105	67,943,909

(7) Securities Purchased under Resale Agreements, continued

Maturity Date	Interest Rate Libor	Interest Rate Margin	Collateral	June 30, 2020	December 31, 2019
			Subtotal that comes from the previous page	57,539,105	67,943,909
26/10/2020	6 months	1.25%	Letters of Republic of Panama	1,777,697	0
26/10/2020	6 months	1.25%	Local corporate bonds	3,503,734	0
26/10/2020	6 months	1.25%	Local corporate bonds	1,294,509	0
09/12/2020	6 months	1.25%	Local corporate bonds	2,714,360	0
09/12/2020	6 months	1.25%	Local corporate bonds	1,792,000	0
09/12/2020	6 months	1.25%	Local corporate bonds	960,000	0
09/12/2020	6 months	1.25%	Local corporate bonds	2,376,000	0
09/12/2020	6 months	1.25%	Local corporate bonds	4,114,286	0
18/12/2020	6 months	1.25%	Notes from the Republic of Panama	1,530,000	0
18/12/2020	6 months	1.25%	Local corporate bonds	567,000	0
			Gross subtotal	78,168,691	67,943,909
			Interest receivable	530,298	619,356
				78,698,989	68,563,265

These securities purchased under resale agreements are held with local financial institutions with a credit risk rating between BBB and A+.

(8) Investments in Securities

The detail and classification of investments in securities is as follows:

June 30, 2020	FVOCI	AC	Total
Public debt securities	0	1,663,404,238	1,663,404,238
Private debt securities	0	1,130,991,054	1,130,991,054
Private equity shares	7,856,464	0	7,856,464
Subtotal	7,856,464	2,794,395,292	2,802,251,756
Interest receivable	0	19,326,374	19,326,374
Loss reserve	0	(3,047,757)	(3,047,757)
Balance of investments in securities	7,856,464	2,810,673,909	2,818,530,373

December 31, 2019	FVOCI	AC	Total
Public debt securities	0	1,539,599,965	1,539,599,965
Private debt securities	0	1,373,310,017	1,373,310,017
Private equity shares	9,185,897	0	9,185,897
Subtotal	9,185,897	2,912,909,982	2,922,095,879
Interest receivable	0	22,698,677	22,698,677
Loss reserve	0	(3,159,493)	(3,159,493)
Balance of investments in securities	9,185,897	2,932,449,166	2,941,635,063

Equity investments at fair value with changes in other comprehensive income as of June 30, 2020, recorded a net unrealized loss of B/.1,329,433 as a result of the net change in fair value (December 31, 2019: net unrealized gain: B/.2,853,845).

As of June 30, 2020, the Bank received dividends on private equity investments of B/.392,923 (June 30,2019: B/.172,160).

(8) Investments in Securities, continued

As of June 30, 2020, the Bank sold securities at amortized cost for B/.113,842,404 (June 30, 2019: the Bank did not sell securities at amortized cost obtaining net realized gains of B/.3,882,804 included in the condensed statement of profit or loss). The sales made were circumstantial and does not affects the business model adopted by the Bank.

As of June 30, 2020, securities at amortized cost were redeemed for B/.419,024,303 (June 30, 2019: B/.354,757,425).

As of June 30, 2020, the Bank maintains a reserve for expected credit losses on investments in securities at amortized cost of B/.3,047,757 (December 31, 2019: B/.3,159,493).

(9) Loans

The distribution by economic activity of the loan portfolio, net of the allowance for loan losses and unearned interest and commissions, is summarized below:

	June 30, 2020	December 31, 2019
Public sector, gross	310,375,952	310,636,844
Private sector, gross:		
Residential mortgages	1,375,998,667	1,307,682,597
Personal	1,150,434,183	1,155,535,117
Agricultural	612,403,753	621,617,729
Commercial	759,498,905	809,093,331
Financial institutions	358,398,364	203,946,559
Industrials	50,776,177	50,354,977
Overdrafts	709,742	522,585
Total gross private sector	4,308,219,791	4,148,752,895
Total gross loans	4,618,595,743	4,459,389,739
More (less):		
Accrued interest receivable	37,028,867	29,488,660
Interest and unearned commissions	(25,918,905)	(26,954,325)
Reserve for loan losses	(80,252,795)	(62,917,878)
Loans at amortized cost	4,549,452,910	4,399,006,196

As of June 30, 2020, non-cash transactions were carried out for purposes of the statement of cash flows, due to the cancellation of the Amador Foundation loan, through Public Debt Securities of the Republic of Panama for B/.61,626,600.

(10) Leases

As a Lessee

The Bank leases 5 types of real estate: Administrative offices and bank branches, ATM´s space, warehouses/deposits, galleries, parking lots/land, multifunctionals/printers. Below is the information of the leases in which the Bank is a leaseholder:

Right-of-use assets

June 30, 2020	Administrative Offices and Bank Branches	ATM's space	Parking lots/ Land	Galleries, Storage Warehouses	Multifunctionals/ Printers	Total
Balance as of January 1, 2020	3,513,062	59,206	986	139,704	142,850	3,855,808
Additions	0	0	23,066	0	0	23,066
Early cancellation	(34,233)	0	0	0	0	(34,233)
Depreciation for the period	(368,315)	(4,361)	(2,590)	(64,795)	(107,137)	(547,198)
Balance as of June 30, 2020	3,110,514	54,845	21,462	74,909	35,713	3,297,443

The Bank decided to take the option of total termination of a lease, which ended on December 31, 2019, the decision, is due to relocation of the offices to another location. Termination is established in the contract where either party may terminate within a 30 calendar days written notice.

December 31, 2019	Administrative Offices and Bank Branches	ATM's space	Parking lots/ Land	Galleries, Storage Warehouses	Multifunctionals / Printers	Total
Balance as of January 1, 2019	2,514,099	0	0	269,292	347,376	3,130,767
Additions	1,657,743	61,876	1,151	0	4,874	1,725,644
Depreciation for the year	(658,780)	(2,670)	(165)	(129,588)	(209,400)	(1,000,603)
Balance as of December 31, 2019	3,513,062	59,206	986	139,704	142,850	3,855,808

Lease Liabilities

Maturity analysis - Undiscounted contractual cash flows

	June 30, 2020	December 31, 2019
Less than one year	270,728	178,297
One to five years	358,201	857,920
More than five years	3,467,714	3,682,455
Total undiscounted lease liabilities at June 30, 2020	4,096,643	4,718,672
Lease liability included in condensed statement of financial position at June 30, 2020	3,412,403	3,939,119

Amount recognized in the condensed statement of profit or loss

	June 30, 2020	June 30, 2019
Interest expense on lease liabilities	96,062	80,811
Expenses related to short-term leases	280,663	511,138

(10) Leases, continued

Amounts recognized in the condensed statement of cash flows

	June 30, 2020	June 30, 2019
Total cash outflow from leases, net	891,441	1,104,599

As of June 30, 2020 total lease cash recognized in the condensed statement of cash flow includes the portion of the payment to principal as a financing activity for B/.514,716 (June 30, 2019: B/.512,650), the portion of interest for B/.96,062 (June 30, 2019: B/.80,811) and the portion of short-term leases for B/.280,663 (June 30, 2019: B/.511,138) as an operating activity.

(a) Real estate leases
The Bank leases buildings in which it has its administrative offices and branches. Office leases are normally executed for a period of 2 to 7 years and branch leases for 2 to 15 years, except for certain branch and ATM space leases. Some leases include an option to renew the lease for an additional period of the same duration after the end of the lease term.

Extension Options

The lease of the premises for the branch in San Felipe contains an option to extend the term for equal periods that can be automatically extended. Where possible, the Bank seeks to include extension options in new leases to provide operational flexibility. Extension options held are executable only by the Bank and not by the lessors. The Bank assesses at the outset of the lease whether it is reasonably certain that it will exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

(b) Other leases
The Bank also leases IT infrastructure such as data center services for different business areas, as well as multifunctional printers and equipment and space for the management of radio stations. These contracts are normally agreed for terms of 1 to 2 years; they do not contain a clause that determines an option for extension of the term, however, renegotiation is highly probable.

(10) Leases, continued

As mentioned in the previous paragraph, the Bank has certain leases of premises for offices and bank branches, space for ATM's, galleries, storage/deposits, technology/communications, whose terms can vary between 1 and 3 years, which have been included in the classification as short-term and/or low value leases. IFRS 16. C10 (C), which allows the requirements of paragraph C8 to be waived for leases that terminate within 12 months of the initial application date. The Bank has decided to adopt the practical solution described in IFRS 16.6, which allows the lessee to recognize lease payments associated with such contracts as an expense on a straight-line basis over the term of the lease.

(c) Depreciation by type of underlying asset

During the six-month period, the Bank depreciated the following amounts by asset class:

Type of Asset	**June 30, 2020**	**June 30, 2019**
Bank Branches / Administrative Offices	368,315	302,421
ATM's spaces	4,361	0
Parking lots / Land	2,590	0
Galleries, Storage / Warehouses	64,795	64,794
Multifunctional / Printers / Services Data Transmission	107,137	104,213
Total	547,198	471,428

(11) Other Assets

Borrowers foreclosed assets

The foreclosed assets of borrowers correspond to real estate that guaranteed loans, and whose guarantee was foreclosed and awarded to the Bank. Management expects to recover the written-off balance of principal and interest through the sale of these properties.

The foreclosed assets of borrowers are detailed as follows:

	June 30, 2020	**December 31, 2019**
Foreclosed assets of borrowers	9,756,222	11,707,097
Impairment reserve	(2,134,506)	(3,208,603)
Net balance	7,621,716	8,498,494

(11) Other Assets, continued

The movement of the impairment reserve of borrower's foreclosed assets is detailed below:

	June 30, 2020	December 31, 2019
Balance at the beginning of the period	3,208,603	9,319,799
Provision for valuation of foreclosed assets	481,414	701,993
Discharged assets	(1,555,511)	(6,813,189)
Balance at the end of the period	2,134,506	3,208,603

As of June 30, 2020, the Bank made net sales of foreclosed assets from borrowers for B/.349,195 (June 30, 2019: B/.410,315).

The other miscellaneous assets are detailed as follows:

	June 30, 2020	December 31, 2019
Numismatic and other currencies	2,601,812	2,584,906
Financing program ("Profinco")	594,239	612,967
Printing and supplies	2,354,158	2,220,169
Account receivable - FECI grant	3,006,344	3,688,102
Other remittances and transfers in transit	8,135,938	1,825,330
Prepaid expenses and insurance	625,363	557,671
Cultural property	258,009	260,239
Cash withdrawals to be compensated – Clave Debit Card	413,801	1,232,012
Insurance receivable on loans	556,898	300,142
Balance of loans receivable through life insurance policies	739,558	1,124,243
Others	3,055,880	2,347,665
	22,342,000	16,753,446

(12) Obligations

Foreign Borrowing Received

As of June 30, 2020, the Bank maintains the following foreign borrowings received:

Maturity Date	Interest Rate	June 30, 2020	December 31, 2019
31/01/2020	2.75%	0	50,000,000
18/09/2020	2.83%	50,000,000	0
22/07/2020	2.54%	16,500,000	0
26/08/2020	2.22%	83,500,000	0
	Subtotal	150,000,000	50,000,000
	Interest payable	660,004	3,818
		150,660,004	50,003,818

(12) Obligations, continued

Securities sold under repurchase agreement

As of June 30, 2020, the Bank maintains obligations resulting from securities sold under repurchase agreements, which are detailed as follows:

Due Date	Interest Rate	Guarantees - Investment securities	June 30, 2020	December 31, 2019
22/09/2020	2.50%	105,205,000	101,172,467	0
09/10/2020	2.50%	207,250,000	199,833,260	0
	Subtotal	312,455,000	301,005,727	0
	Interest payable	0	1,777,816	0
		312,455,000	302,783,543	0

Bonds Payable

Revolving Bonds:

Type	Interest Rate	Maturity	June 30, 2020	December 31, 2019
Series D – Issuance on September 2019	3.00%	Sep- 29	205,736,000	205,736,000

The bonds in this issuance are backed by the Bank's general credit and constitute general obligations of the Bank, not secured by specific assets or rights and without special privileges. Interest is payable quarterly and payment of principal at maturity. The bonds may be redeemed in advance by the Bank. As of June 30, 2020, interest payable amounts to B/.462,906 (December 31, 2019: B/.480,051).

The following is a detail of the movement in the obligations payable for the purpose of reconciliation with the cash flows statement condensed:

	June 30, 2020	June 30, 2019
Balance at the beginning of the period	256,219,869	35,198,829
Proceeds from new borrowings received	150,000,000	50,000,000
Payments of borrowings received	(50,000,000)	(35,000,000)
Securities sold under repurchased agreements	301,005,727	0
Interest paid	(3,252,032)	(765,191)
Recognition of interests	5,668,889	684,802
Balance at the end of the period	659,642,453	50,118,440

(13) Commitments and Contingencies

In the normal course of its operations, the Bank maintains financial instruments with risks outside the condensed statement of financial position to meet the financial needs of its clients. These financial instruments include letters of credit, guarantees issued and promises to pay and involve, to various degrees, elements of credit risk.

Commercial letters of credit, guarantees and endorsements issued on behalf of customers and promises of payment involve some element of risk of loss in the event of customer default, net of the tangible guarantees covering these transactions. The Bank's policies and procedures for granting these contingent credits are similar to those used for extending loans. Management does not anticipate that the Bank will incur material losses resulting from these contingent credits granted for the benefit of customers.

The financial instruments outside the condensed statement of financial position, which are subject to credit risk, are presented below.

	June 30, 2020	December 31, 2019
Letters of credit	9,716,043	6,173,094
Payments pledges	419,685,103	462,941,715
Loan commitments	19,941,207	18,019,161
	449,342,353	487,133,970

As of June 30, 2020, there were lawsuits filed against Banco Nacional de Panamá for the amount of B/.1,326,909,303 (December 31, 2019: B/.1,326,859,031).The Bank's management and attorneys believe that there is a high possibility that the Bank will not be sentenced to pay the total amount claimed. As of June 30, 2020, the Bank maintains a provision of B/.49,484 (December 31, 2019: B/.49,484) in connection with court cases. In relation to the claim for B/.1,268,704,177, management, based on the opinion of the external lawyers in charge of the case, considers that there is a high probability of a judgment in favor of the Bank, and therefore it is not deemed necessary to make provisions in respect of this process.

(14) Fees for Banking Services

The breakdown of the most significant fees for banking service revenues reconciled to the reportable segments in Note 15 is as follows:

	June 30, 2020						
	Corporate and Commercial	Agriculture and Forestry	Consumer	Financial Institutions	Government Sector	Treasury	Total
Letters of Credit	7,052	7,395	29,409	2,736	2,065	7,900	56,557
Transfers	33,118	34,729	138,120	12,848	9,697	962	229,474
Card Services	618,580	648,671	2,579,818	239,976	181,113	0	4,268,158
Fund management, custody and brokerage	88,669	92,983	369,799	34,399	25,961	281,588	893,399
Current accounts	49,904	52,332	208,127	19,360	14,611	427,417	771,751
Savings accounts	229	240	955	89	67	0	1,580
Government services	25,491	26,731	106,312	9,889	7,463	0	175,886
Guarantee certificates and cashier's checks	27,855	29,210	116,169	10,806	8,155	8	192,203
National stamps	1,339	1,404	5,585	519	392	0	9,239
Clearinghouse services	229,649	240,820	957,761	89,091	67,239	0	1,584,560
Others	46,395	48,652	193,492	17,999	13,584	332,674	652,796
Total baking services fees (see note 15)	1,128,281	1,183,167	4,705,547	437,712	330,347	1,050,549	8,835,603

	June 30, 2019						
	Corporate and Commercial	Agriculture and Forestry	Consumer	Financial Institutions	Government Sector	Treasury	Total
Letters of Credit	7,988	9,338	33,276	2,965	5,589	0	59,156
Transfers	41,452	48,459	172,688	15,388	29,004	0	306,991
Card Services	573,126	669,998	2,387,618	212,759	401,023	145	4,244,669
Fund management, custody and brokerage	95,617	111,779	398,337	35,496	66,904	113,033	821,166
Current accounts	55,799	65,231	232,457	20,714	39,043	14,391	427,635
Savings accounts	355	414	1,477	131	248	0	2,625
Government services	35,603	41,620	148,319	13,217	24,912	0	263,671
Guarantee certificates and cashier's checks	51,555	60,269	214,777	19,139	36,074	40	381,854
National stamps	813	951	3,388	302	569	0	6,023
Clearinghouse services	61,046	71,365	254,317	22,662	42,715	203,163	655,268
Others	30,431	35,574	126,774	11,297	21,293	253,308	478,677
Total baking services fees (see note 15)	953,785	1,114,998	3,973,428	354,070	667,374	584,080	7,647,735

(15) Segment Information

Management has established the reportable segments according to the line of business to which the customers belong. These segments offer various products and services and are managed separately based on the Bank's organizational structure. Segment information is presented below.

	June 30, 2020						
Detail	**Corporate and Commercial**	**Agriculture and Forestry**	**Consumer**	**Financial Institutions**	**Government sector**	**Treasury**	**Total**
Interest and fee income	17,709,186	18,570,644	73,856,990	6,870,203	5,185,040	65,765,772	187,957,835
Interest expenses	(6,613,951)	(6,935,685)	(27,583,796)	(2,565,854)	(1,936,487)	0	(45,635,773)
Reversal of losses on bank deposits	0	0	0	0	0	49,883	49,883
Reversal of provision for investment losses	0	0	0	0	0	111,736	111,736
Provision for loan losses	(2,868,989)	(2,378,472)	(9,812,315)	(1,672,616)	0	0	(16,732,392)
Provision of valuation of foreclosed assets	(501,483)	(12,128)	32,197	0	0	0	(481,414)
Fees for banking services	1,128,281	1,183,167	4,705,547	437,712	330,347	1,050,549	8,835,603
Other income	1,529,704	1,604,117	6,379,705	593,442	447,879	0	10,554,847
General and administrative expenses	(9,812,546)	(10,289,875)	(40,923,686)	(3,806,736)	(2,872,997)	(944,549)	(68,650,389)
Net income	570,202	1,741,768	6,654,642	(143,849)	1,153,782	66,033,391	76,009,936
Segment assets	720,496,420	597,311,685	2,464,191,533	420,048,453	865,247,959	7,827,102,487	12,894,398,537
Segment liabilities	1,695,321,359	1,405,468,826	5,798,219,704	988,370,094	2,035,920,381	0	11,923,300,364

	June 30, 2019						
Detail	**Corporate and Commercial**	**Agriculture and Forestry**	**Consumer**	**Financial Institutions**	**Government sector**	**Treasury**	**Total**
Interest and fee income	16,216,423	18,957,389	67,556,936	6,019,965	11,346,816	69,276,155	189,373,684
Interest expenses	(6,312,324)	(7,379,258)	(26,296,874)	(2,343,302)	(4,416,805)	0	(46,748,563)
Provision for losses on bank deposits	0	0	0	0	0	(64,194)	(64,194)
Reversal of provision for investment losses	0	0	0	0	0	74,840	74,840
Provision for loan losses	(756,220)	(675,028)	(2,616,350)	(272,017)	0	0	(4,319,615)
Provision for valuation of foreclosed assets	24,673	(214,620)	(21,610)	0	0	0	(211,557)
Fees for banking services	953,785	1,114,998	3,973,428	354,070	667,374	584,080	7,647,735
Other income	932,576	1,090,203	3,885,071	346,197	652,534	0	6,906,581
General and administrative expenses	(9,315,587)	(10,890,146)	(38,808,345)	(3,458,193)	(6,518,223)	(747,581)	(69,738,075)
Net income	1,743,326	2,003,538	7,672,256	646,720	1,731,696	69,123,300	82,920,836
Segment assets	659,488,478	588,681,679	2,281,679,854	237,221,612	958,558,418	4,358,848,558	9,084,478,599
Segment liabilities	1,142,998,662	1,020,279,191	3,954,514,910	411,142,870	1,661,334,542	0	8,190,270,175

(16) Balances and Transactions with Related Parties

The Bank has incurred in transactions in the ordinary course of business with certain related parties such as key management personnel and government entities, including autonomous and semi-autonomous entities. Given the Bank's government-owned nature and its role as a financial agent of the government and official depository of the nation's funds, significant concentrations of loans and deposits received from government entities are maintained. At June 30, 2020, the following were the aggregate balances in respect of transactions with related parties:

	Directors and Key Management Personnel		Government sector	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Assets				
Investments in securities at amortized cost	0	0	1,315,414,767	1,292,147,211
Loans:				
Loans outstanding at beginning of the period	1,809,885	2,091,314	310,636,844	464,327,629
Loans issued during the period	1,263,988	558,480	0	687,646,130
Loans cancelled during the period	(900,249)	(839,909)	(260,891)	(841,336,915)
Gross Balance	2,173,624	1,809,885	310,375,953	310,636,844
Accrued interest receivable	282	1,046	1,253,687	1,255,363
Loans outstanding at end of the period at amortized cost	2,173,906	1,810,931	311,629,640	311,892,207
Fiscal credit from preferential interest on loans	0	0	33,615,273	18,852,202
Liabilities				
Deposits at amortized cost:				
Demand deposits	7,103	13,127	2,526,394,605	2,473,131,465
Savings deposits	238,608	513,265	0	0
Time deposits	0	0	6,317,825,254	5,038,158,036
Restricted deposits	0	0	9,528,978	6,746,523
Bonds payable at amortized cost	0	0	206,198,906	206,216,051
Commitments:				
Letters of credit	0	0	9,518,978	6,566,523

	June 30 2020	June 30 2019	June 30 2020	June 30 2019
Profit and Loss				
Interest and commission income:				
Investments in securities	0	0	25,481,423	21,237,078
Loans	42,771	34,292	5,169,065	11,240,139
Interest expenses:				
Deposits	1,465	7,210	33,324,719	38,821,753
General and administrative expenses:				
Directors' allowances	94,750	157,750	0	0
Salaries	1,412,326	1,392,557	0	0
Employee Benefits	91,129	86,030	0	0

The Bank's group of directors and key management personnel consists of 9 directors and 36 executive managers.

(16) Balances and Transactions with Related Parties, continued

Loans to key management personnel are granted with the same terms and conditions that are available to other employees. As of June 30, 2020, loans granted to related parties have been classified as low risk and they maintain an allowance for expected credit losses of B/.352,114 (December 31, 2019: B/.352,086).

(17) Assets under administration and custody

As of June 30, 2020, the Bank held under administration trust agreements contracts by account and risk of third parties for B/.3,024,786,812 (December 31, 2019: B/.2,935,732,982).Given the nature of these services, management considers that the Bank does not assume significant risks in the execution of the terms and conditions contained in those contracts.

The Bank currently has a trust agreement with Balboa Bank & Trust and Balboa Securities, Corp. as Trustee. This trust, hereinafter the Balboa-Liabilities Trust, consists of the custody of the assets in trust, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and patrimonial separation of the assets in trust.

The Bank has a trust agreement with Felix B. Maduro, S. A. and Grupo Cima Panama, S. A. (the trustors), who transferred to the Bank (as Trustee) the ownership of the shares of certain companies. Notwithstanding the foregoing, the management and control of these companies is not under the administration of the Trustee, but of a Board of Directors. The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks in the execution of the terms and conditions contained in these contracts.

The Bank has a trust agreement with Leemart Property, Ltd. (the Settlors), who transferred ownership of Westline Enterprises, Inc. shares to the Bank (as Trustee). (the owner of the Soho Mall) to the Bank (as Trustee). The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks in the execution of the terms and conditions contained in these contracts.

The Bank provides securities brokerage and custody services. This activity is carried out under a securities firm license, at the clients' risk. As at June 30, 2020 the carrying value of this portfolio amounted to approximately B/.5,114,497,456 (December 31, 2019 B/.5,168,999,705) and is controlled in off-balance accounts that are not part of the Bank's statement of financial position. Given the nature of these services, management considers that there is no significant risk of loss to the Bank in the provision of such services.

(17) Assets under administration and custody, continued

As of June 30, 2020, the Bank obtained income from commissions earned from trust activities for B/.294,542 (June 30, 2019: B/.193,878), brokerage and custody services for B/.737,201 (June 30, 2019: B/.277,789) and securities services for B/.244,088 (June 30, 2019: B/.113,033) During 2020, the Bank incurred financial services expenses for B/.395,056 (June 30, 2019: B/.343,448).

Banco Nacional de Panamá does not have a portfolio under discretionary management of third-party accounts.

(18) 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's price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that are not frequently traded and for which there is little availability of pricing information, fair value is less objective, and its determination requires the use of varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair value using the following levels of hierarchy that reflect the significance of the inputs used in making the measurements:

- Level 1: prices quoted (unadjusted) in active markets for identical assets or liabilities that are accessible to the Bank's management at the measurement date.

- Level 2: input data other than quoted prices included in Level 1 that are observable, either directly (i.e., prices) or indirectly (i.e., determined on the basis of prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques where significant input data are directly or indirectly observable in a market.

- Level 3: this category covers all instruments where valuation techniques include unobservable inputs and have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable assumptions or adjustments reflect the difference between the instruments.

Other valuation techniques include net present value, discounted cash flow models, comparisons with similar instruments for which there are observable market prices, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free reference rates, credit spreads and other assumptions used in estimating discount rates and share prices.

(18) Fair Value for Financial Instruments, continued

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or transfer the liability between market participants would occur at the date of measurement under current market conditions.

The fair value and carrying amount of financial assets and liabilities are detailed as follows:

	June 30, 2020	
	Carrying Value	Fair Value
Financial assets:		
Time deposits at AC	4,846,791,433	4,846,880,317
Investments in securities at AC	2,810,673,909	2,897,474,352
Investments in securities at FVOCI	7,358,996	7,358,996
Loans at AC	4,549,452,910	4,116,357,394
	12,214,277,248	11,868,071,059
Financial liabilities:		
Time deposits at AC	6,555,980,129	6,517,434,139
Bonds payable	206,198,906	206,120,315
	6,762,179,035	6,723,554,454

	December 31, 2019	
	Carrying Value	Fair Value
Financial assets:		
Time deposits at AC	2,973,683,549	2,973,822,442
Investments in securities at AC	2,932,449,166	3,018,861,723
Investments in securities at FVOCI	8,688,429	8,688,429
Loans at AC	4,399,006,196	3,994,287,323
	10,313,827,340	9,995,659,917
Financial liabilities:		
Time deposits at AC	5,264,482,954	5,209,694,340
Bonds payable	206,216,051	205,771,592
	5,470,699,005	5,415,465,932

As of June 30, 2020, the Bank holds equity securities for B/.497,468 (December 31, 2019: B/.497,468), recorded at its acquisition cost. These investments are maintained at cost because no active market prices are available and there is no other reliable way to determine its fair value.

(18) Fair Value for Financial Instruments, continued

The following table analyses financial instruments measured at fair value on a recurring basis. These instruments are classified at different levels of the fair value hierarchy based on the data input and valuation techniques used:

June 30, 2020	Fair Value Level 1	Fair Value Level 2	Total
Investments in securities at FVOCI:			
Equity shares	6,428,110	930,886	7,358,996
	6,428,110	930,886	7,358,996

December 31, 2019	Fair Value Level 1	Fair Value Level 2	Total
Investments in securities at FVOCI:			
Equity shares	7,813,377	875,052	8,688,429
	7,813,377	875,052	8,688,429

For investment instruments in securities that are quoted in active markets, the fair value is determined by the instrument's reference price published on stock exchanges, in electronic stock information systems, or provided by price providers. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data.

The following table analyzes the fair value of financial instruments that are not carried at fair value, classified by level, as follows:

Description	June 30, 2020 Level 2	June 30, 2020 Level 3	December 31, 2019 Level 2	December 31, 2019 Level 3
Assets:				
Time deposits	0	4,846,880,317	0	2,973,822,442
Investments in securities at AC	2,897,474,352	0	3,018,861,723	0
Loans	0	4,116,357,394	0	3,994,287,323
	2,897,474,352	8,963,237,711	3,018,861,723	6,968,109,765
LIabilities:				
Time deposists	0	6,517,434,139	0	5,209,694,340
Bonds payable	0	206,120,315	0	205,771,592
	0	6,723,554,454	0	5,415,465,932

(18) Fair Value for Financial Instruments, continued

The table below describes the valuation techniques and inputs used in the valuation of financial assets and liabilities not measured at fair value that are classified in the fair value hierarchy within Level 2 and 3:

Financial Instruments	Valuation Technique and Data Inputs Used
Investments in securities at amortized cost - Public and private debt securities - local	Future cash flows discounted at current market rates for the term and type of instrument.
Investments in securities at amortized cost - Public and private debt securities - foreign	Observable market reference prices that are not active.
Loans at amortized cost	Future cash flows discounted at current market rates.
Time deposits placed with banks and received from customers at amortized cost	Future cash flows discounted using current market rates for new deposits with similar remaining maturities.
Bonds payable at amortized cost	Future cash flows discounted using current market interest rates for new financings with similar remaining maturities.

For customer demand deposits, customer savings deposits, and demand deposits at banks, foreign borrowings received, and securities purchased under resale agreements, the carrying value approximates fair value due to their short-term nature.

(19) Major Applicable Laws and Regulations

General Laws and Regulations

(a) Banking Law

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of the Republic of Panama, pursuant to the regulations established in Executive Decree No.52 of April 30, 2008, which adopted the sole text of Decree Law 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, whereby establishing the banking system in Panama and creates the Superintendency of Banks and its regulations.

For purposes of compliance with the prudential norms issued by the Superintendency of Banks of Panama, the Bank will prepare an estimate of the regulatory credit reserve. If the regulatory calculation is greater than the corresponding estimate determined under IFRS, the excess reserve is recognized in a regulatory equity reserve.

(b) Securities Law

The securities market in the Republic of Panama is regulated by Law Decree No. 1 of July 8,1999, which has been modified by Law 67 of September 1, 2011.

(19) Principal Applicable Laws and Regulations, continued

In the year 2013, the regulatory entity issued Agreement No. 008-2013, which modified rules that are within Agreement No. 004-2011 on capital adequacy, total minimum required capital, solvency ratio, liquidity ratio and credit concentrations that must be attended by brokerage firms in Panama and those financial institutions that have a brokerage firm license.

The following is a description of the modified rules in the Agreement No. 008-2013 of the Superintendency of Securities Market and the indexes on each of these provisions:

- Total Minimum Required Capital: Banks with a brokerage firm license must constitute and maintain free of encumbrances, at all times, a total minimum required capital, which shall be the sum of the amounts of capital required for each license. The Superintendency of Banks of Panama requires a minimum capital of B/.10,000,000, and the Superintendency of the Securities Market requires a minimum capital of B/.350,000. The capital maintained by the Bank according to these criteria exceeds that total minimum required capital.

- Additional Capital Requirement: Article 4-A of Agreement No. 008-2013, establishes that all Brokerages firms that offer the service of managing custody accounts in physical form or through third parties, must comply with the additional capital requirement. As of June 30, 2020, the Bank had an additional capital requirement of B/.3,167,050 (As of December 31, 2019: B/.3,157,177).

  As of June 30, 2020, the capital contributed by the State for B/.650,000,000 covers the minimum total capital required and the additional capital requirement, required by the Superintendency of Banks of Panama and the Superintendency of Securities Market.

- Solvency Ratio: The brokerage houses must maintain at all times a minimum capital adequacy ratio of eight percent (8%) of the total assets and off balance sheet operations, weighted according to their risks. The calculation of the solvency ratio, should not include the customers' or third parties accounts that must be separated from the assets of the Brokerage House.

- Liquidity Ratio: Brokerage firms shall maintain, at all times a volume of investments in low risk and high liquidity assets that shall be at least thirty per cent (30%) of the total liabilities due with a residual term of less than one (1) year.

- Credit Risk Concentrations: The risks maintained by Brokerage firms with respect to an issuer, individual client or a group of issuers or clients related to each other, shall be considered as a concentration situation when the accumulated value of these risks exceeds ten percent (10%) of the total value of its capital funds.

  Due to the nature of the operations and services provided by the Bank, management considers that there is no risk of concentration of credit risk.

(19) Principal Applicable Laws and Regulations, continued

(c) Trust Law

The exercise of the Trust business in the Republic of Panama is regulated by the Superintendency of Banks of Panama in accordance with the regulations established by Law No. 1 of January 5, 1984, as amended by Law No. 21 of May 10, 2017, which establishes the rules for the regulation and supervision of the trustee business and the trust business and dictates other provisions.

The objective of said law is to promote an appropriate and flexible legal platform to boost the trust market and maintain adequate levels of trust and transparency; the strengthening of management by the Superintendency in terms of the application of standards for comprehensive risk-based regulation and supervision, in accordance with the particular characteristics of the trust business.

The following is a summary of the most important aspects introduced by Law 21 of May 10, 2017:

- Composition of capital: Article 25 establishes that companies that are authorized to act as trustees shall issue shares representing their capital stock exclusively in nominative form.

- Minimum paid-in or assigned capital: Article 26 establishes that the minimum paid-in or assigned capital to apply for and maintain a trust license shall be one hundred and fifty thousand balboas (B/.150,000).

(d) Public Sector Employees Seniority Premium

Law 23 of May 12, 2017 includes a new right for public employees, by establishing that the permanent, transitory or contingent public employee, whatever the cause of termination of functions, will be entitled to receive a seniority bonus, at the rate of one week's salary for each year worked in the institution, from the beginning of the permanent relationship.

In addition, it is established that the right to the seniority premium will become effective upon the appointment of three judges to the Civil Service Administrative Tribunal.

As at the reporting date, only one of the three judges of the Civil Service Administrative Tribunal have been appointed, so the seniority premium requirement has not yet become effective and the corresponding liability has not been recorded. The liability to be recorded by the Bank to recognize the seniority premium for public servants will be approximately B/.15.4 million, according to evaluations and calculations made by management.

(19) Principal Applicable Laws and Regulations, continued

(e) By *Law* 3 of 1985, some mechanisms were established to stimulate the housing property market by applying preferential interest rates to mortgages loans with values that have been changing over time until the present. The preferential interest is the stretch between the reference rate and the lower rate applied by the banks that participate in the preferential interest program. Financial institutions that grant mortgage loans with preferential interest rates that do not exceed the limit established in the Law, receive the annual benefit of a fiscal credit. According to Law No. 8 of March 15, 2010 which repeals Article 6 of Law No. 3 of 1985, the benefit of the preferential interest of the first ten (10) years of the credit is increased to the first fifteen (15) years in new credits and consequently the right of the financial entities to receive fiscal credits during the same period, according to the indicated table.

The fiscal credit established in Law No. 3 of 1985, as amended by Law No. 29 of 2008, may be used for the payment of national taxes, including income tax. The fiscal credit under Act No. 11 of 1990, Act No. 28 of 1994 and Act No. 50 of 1999 can only be used for the payment of income tax. If in any tax year a bank is not able to use effectively all tax credits to which it is entitled, then it may use the excess credit during the next three years at its discretion or transfer it, in whole or in part, to another taxpayer. Article 7 of Law 3 of 1985 was amended by Article 9 of Law No. 66 of 2017, which included a transitory paragraph, which stipulates that the tax credits established and regulated, which would have expired in 2017, based on the three-year prescription term, will regain their validity and will be subject to the five-year prescription term.

The last amendment to Law 3 was made through Law No.94 of September 20, 2019, published in Official Gazette No.28866-A of September 23, 2019, which establishes the essential elements and unique requirements to access the preferential interest regime in certain mortgage loans.

This Law 94 is in force from September 23, 2019 until August 1, 2024, that is for five years, two months and 23 days; which does not have retroactive effects. It applies to all credits approved as of the date of enactment. The tax credits to which financial entities are entitled will be received in accordance with the terms established for each case established in the Law.

<u>*Specific regulations of the Superintendency of Banks of Panama*</u>

(a) *Acquired Foreclosed Assets*

For regulatory purposes the Superintendency of Banks of Panama sets at term of (5) years, from the date of registration in the Public Register, the deadline to alienate property acquired in settlement of unpaid loans. If after that term the Bank has not sold the acquired property, it shall conduct an independent appraisal of the property to determine if its value has decreased, by applying in such case the provisions of IFRS.

(19) Principal Applicable Laws and Regulations, continued

Additionally, the Bank must create a reserve in an equity account, through the appropriation in the following order: a) its undistributed profits; and b) profits of 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 above 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.

(b) Loans and off-balance sheet operations

Agreement No. 004-2013 issued by the Superintendency of Banks of Panama establishes provisions on the management and administration of credit risk inherent to the loan portfolio and off-balance sheet operations, including general criteria for the classification of credit facilities for the purpose of determining specific provisions and dynamics for the coverage of the Bank's credit risk. In addition, this Agreement establishes certain minimum required disclosures, in line with IFRS disclosure requirements, on the management and administration of credit risk.

Specific provisions

The Agreement No.004-2013 establishes 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 referred as: special-mention, substandard, doubtful or loss, both for individual or collective credit facilities.

Banks must at all times calculate and maintain the amount of specific provisions determined through the methodology specified in this Agreement, which takes into consideration the balance due of each credit facility classified in one of the categories subject to provisioning, mentioned in the previous paragraph; the present value of each guarantee available as a risk mitigator, as established by type of guarantee in this Agreement; and a weighting table that is applied to the net balance exposed to loss of such credit facilities.

In case of a surplus in the specific provisions, calculated according to this Agreement, on the provision calculated under IFRS, this surplus shall be accounted for as a regulatory reserve in equity, increasing or decreasing allocations to or from retained earnings. The balance of the regulatory reserves will not be considered as capital funds for purposes of calculating certain prudential indices or ratios mentioned in the Agreement.

(19) Principal Applicable Laws and Regulations, continued

The following table summarizes the classification of the Bank's loan portfolio based on Agreement No. 004-2013:

	June 30, 2020		December 31, 2019	
	Loans, Gross	Allowance	Loans, Gross	Allowance
Standard	4,260,674,374	216,728	4,142,068,118	0
Special mention	252,556,220	4,155,161	179,917,424	2,923,511
Sub-standard	49,633,195	4,187,287	100,191,261	3,696,622
Doubtful	22,368,361	4,434,073	15,626,027	4,199,391
Loss	33,363,593	12,592,887	21,586,909	9,097,612
Gross Amount	4,618,595,743	25,586,136	4,459,389,739	19,917,136

In addition, based on Agreement No. 008-2014, the recognition of interest income is suspended based on the days of delay in the payment of principal and/or interest and the type of credit operation according to the following:

a) For consumer and commercial loans, if it is overdue in more than 90 days; and
b) For residential mortgage loans, if it is overdue in more than 120 days.

As of June 30, 2020, the Bank maintains loans for B/.42,122,748 (December 31, 2019: B/.21,080,381) in nonaccrual status and the not received interests amounts to B/.2,441,509 (December 31,2019: B/.1,359,959).

Agreement No. 004-2013 defines as past due any credit facility that presents any unpaid amount, in terms of principal, interest or expenses contractually agreed, with a delinquency of more than 30 days and up to 90 days, as of the date established for compliance with the payments.

The Agreement No.004-2013 defines as overdue any credit facility whose failure to pay the contractual amounts agreed, presents a delinquency over 90 days. This period shall be calculated from the date set for compliance with payments. The operations with a single payment at its maturity date and overdrafts, are considered overdue when its lack of payment exceeds 30 days from the date on which the obligation was determined to be paid.

The balances of past due and overdue loans based on Agreement No. 004-2013 are detailed below:

June 30, 2020			December 31, 2019		
Past due	Overdue	Total	Past due	Overdue	Total
72,565,368	80,987,138	153,552,506	36,574,899	40,986,054	77,560,953

During the period ended June 30, 2020, loans with a gross balance as of June 30 of B/.8,349,201 (December 31, 2019: B/.12,516,534) were renegotiated.

(19) Principal Applicable Laws and Regulations, continued

Modified Loans

In March 2020, the Superintendency of Banks of Panama issued Agreement No. 002-2020 that establishes additional, exceptional and temporary measures to comply with the provisions contained in Agreement No. 004-2013 on credit risk.

Due to the current situation presented by COVID-19, a new modality of credit was created, called “modified credits”. The provisions set forth in the Agreement apply to both, consumer and corporate loans.

In order to allow the debtor to adequately attend to his obligation due to potential or actual impairment of payment, caused by COVID-19 crisis, banks can modify the originally agreed contractual terms of credits without these modifications being considered as a credit restructuring as established in Agreement No. 004-2013. These modifications may be made at the request of the debtor or as an initiative of the banks.

The credits must have the following characteristics:

1. The new terms and conditions must meet criteria of financial viability taking into account the debtor's ability to pay and the bank's credit policies.
2. They will be subject to special monitoring by the bank.
3. Loans that are in the modified category and do not comply with the new terms and conditions must be recognized as a restructured loan.

As of June 30, the Bank has modified 16,010 loans amounting to B/.532,333,109.

Dynamic provision

Agreement No. 004-2013 sets forth that a dynamic provision is a reserve established to meet future requirements of specific provisions, which is ruled by prudential criteria inherent to the banking regulation. The dynamic provision is constituted on a quarterly basis on credit facilities without specific provision assigned, that is, on credit facilities classified as normal.

This Agreement regulates the methodology to calculate the amount of the dynamic provision, which considers a maximum and minimum percentage restriction applicable to the amount of provision determined on credit facilities classified as normal.

The dynamic provision is an equity item that increases or decreases through allocations from or to retained earnings. The credit balance of this dynamic provision forms part of the regulatory capital but does not replace nor offset capital adequacy requirements established by the Superintendency.

(19) Principal Applicable Laws and Regulations, continued

Agreement No. 002-2020 establishes the use of the dynamic provision for the purposes of the provisions of paragraph c of article 37 of Agreement No. 004-2013, which establishes restrictions on the amount of dynamic provision, is established as an exceptional and temporary measure that banks may use up to it 80% of the dynamic provision for the constitution of specific provisions. In cases where the bank requires the use of more than eighty (80%) of the amount of the dynamic provision, they must obtain prior authorization from the Superintendency of Banks. Banking entities may only pay dividends once they have restored the corresponding amount of the dynamic provision according to their loan portfolio.

On July 16, 2020, the Superintendency of Banks of Panama, through a general resolution of the Board of Directors, issued a temporary measure to suspend the constitution of the dynamic provision, for the purposes of the provisions of articles 36, 37 and 38 of Agreement No. 004 -2013 on credit risk, in order to provide financial relief to the banks in the country.

As of June 30, 2020 the dynamic provision of the bank amounted to B/.56,928,983 (December 31, 2019: B/.56,928,983).

Trading Portfolio

The Superintendency of Banks of Panama issued Agreement No. 003-2018, modified by Agreement No. 006-2019, through which provisions are established on the management of the market risk inherent to the investment portfolio of the Banks in Panama, based on the general criteria of classification of the trading portfolio with the purpose of determining the capital requirement of those instruments applied as established in said agreements.

The Agreement establishes that the regulatory trading portfolio for the purpose of estimating capital requirements for market risk is composed of the financial instruments that meet one or more of the following purposes:

- Closing a short-term position with profits, whether through its purchase or sale, considering the original position of the financial instrument;
- To obtain short-term valuation gains;
- To obtain arbitrage profits;
- To hedge risks that arise from instruments meeting any of the above criteria.

In addition, financial instruments decided by this Superintendency of Banks on the basis of their special characteristics, and whose economic fund responds to the purposes indicated above shall be included in the trading portfolio, regardless of the classification of the financial instrument according to International Financial Reporting Standards (IFRS).

(19) Principal Applicable Laws and Regulations, continued

Additionally, any financial instrument that may be identified with any of the following characteristics is part of the trading portfolio:

- An instrument held for accounting purposes, in accordance with IFRSs, as an asset or liability for trading purposes (so that it would be measured daily at market prices, with valuation differences being recognized in the statement of profit or loss).
- Instruments resulting from market-making activities.
- Instruments resulting from underwriting commitments.
- Equity investment in a fund, except when the daily market price is not available for determining the fund’s value.
- Representative value of capital quoted on the stock exchange.
- Short position in short,
- Derivative contracts, except those that serve to hedge positions that are not recorded in the trading book.
- Financial instruments that include derivatives, whether explicit or implicit, that are part of the banking book and whose underlying is related to equity risk or credit risk.

The Bank has defined policies and procedures that provide for limits, and there is a process for keeping the Board of Directors and senior management informed, as an integral part of the Bank's risk management process.

The value of the capital requirement for market risk of the trading portfolio, as defined by Agreement No. 003-2018, as amended by Agreement No. 006-2019, and the unrealized gains during the three months ended at June 30, 2020, are detailed below by type of position:

Type of instruments	Maturity Date	Market Value	Unrealized Gain
Common shares	NA	1,703,931	1,159,965
Common shares	NA	4,724,179	4,724,179
Common shares	NA	736,744	699,244
Common shares	NA	194,142	156,642

The capital requirement for these instruments at June 30, 2020 is B/.900,209 (December 31, 2019: B/.584,821).

(20) Subsequent Events

Effects of the Global Pandemic on the Spread of the Coronavirus or COVID – 19

On June 30, 2020, the Government of the Republic of Panama established Law No. 156 that dictates economic and financial measures to counteract the effects of COVID-19. It is a law of public order and social interest with retroactive effects to March 1, 2020, as of its promulgation, on July 1, 2020. It establishes a “moratorium” on loans granted by banks, cooperatives and finance companies both public and private until December 31, 2020, for natural and legal persons.

Banking entities will not be able to make collections, increase the interest rates applied, surcharges or any other interest due to non-payment, late payment or for any other reason, on the credits established by law. The Superintendency of Banks of Panama will be obliged to ensure its strict compliance and will apply the established sanctions. Once the term of the moratorium has expired, the Bank, in agreement with the debtor, must establish the necessary mechanisms so the debtor / client can resume, through refinancing or apportionment of their commitments, without this entailing the collection of surcharges for late payments, or any other payment for administrative expenses, or impact on the credit reference of the debtor.

Obligations and external financing

On August 11, 2020, the Bank issued bonds in the international markets under the 144A / REGS format for B/.1,000,000,000 (One million US dollars) maturing on August 11, 2030 and with a coupon of 2.5%.

The Bank negotiated financing guaranteed by MIGA *(Multillateral Investment Guarantee Agency)* for B/. 510,000,000 with Goldman Sachs and Societé Generale. On August 13, 2020, the disbursement from Goldman Sachs was received for B/.360,000,000 maturing on August 13, 2027. On August 17, 2020, the disbursement from Societé Generale for B/.150,000,000 was received, with a maturity date of due July 23, 2027.

Capital Funds

According to executive decree No. 396 of August 18, 2020, a favorable concept is issued for Banco Nacional de Panamá to capitalize the sum of B/.100,000,000 from retained earnings, increasing the Bank's capital to B/.750,000,000.

Banco Nacional de Panamá (the "Bank") operates under a general banking license issued by the Superintendency of Banks of Panama and is licensed to operate the Brokerage Firm business by Resolution No. CNV-027-01 of February 13, 2001, issued by the Superintendency of the Securities Market of Panama; therefore the Bank is subject to the regulations of both Superintendence's.

In compliance with Article 22 of Agreement No. 4-2011, modified by the Agreement No.8-2013 of the Superintendency of the Stock Market, "by which rules are issued on adequate capital, solvency ratio, capital funds, liquidity ratio and credit risk concentrations, which must be attended by the Securities Houses regulated by the Superintendency of the Stock Market", the following are the minimum and maximums maintained during the three-month period ending on June 30, 2020, during the six month period ending on June 30, 2020 and at the closing of June 30, 2020.

	Three-month period ending June 30, 2020				
	Maximum	**Date**	**Minimum**	**Date**	**June 30, 2020**
Solvency ratio	100%	01-apr-20	100%	01-apr-20	100%
Capital Funds	4,065,221	26-jun-20	4,027,730	01-apr-20	4,054,187

	Six-month period ended June 30, 2020				
	Maximum	**Date**	**Minimum**	**Date**	**June 30, 2020**
Solvency ratio	100%	02-jan-20	100%	02-jan-20	100%
Capital Funds	4,115,863	25-mar-20	3,435,209	06-jan-20	4,054,187

According to the provisions of the Superintendency of the Securities Market, in Agreement 4-2011, in its Article 13, for the brokerage houses that have a Bank License it will be understood that the liquidity coefficient will be calculated based under rule issued by its primary regulator, in this case the Superintendency of Banks of Panama. The following is the result of the estimation of the legal liquidity ratio as of the date of the Bank's statement of financial position, during the three-month period ended June 30, 2020 and during the six-month period ended June 30, 2020:

Three-month period ending June 30, 2020

As of June 30, 2020	74.54%
Maximum for the period - May 26, 2020	75.74%
Minimum for the period - April 01, 2020	65.66%

Schedule 1 - Supplementary Information from the Brokerage House

June 30, 2020

(Expressed in Balboas)

Six-month period ending June 30, 2020

As of June 30, 2020,	74.54%
Maximum for the period - May 26, 2020	75.74%
Minimum for the period - March 20, 2020	64.78%

Year ended December 31, 2019

Maximum for the period - January 18, 2019	76.18%
Minimum for the period - March 22, 2019	64.16%

Concentration of Credit Risk: Article No. 14 of Agreement No. 4-2011, establishes that a situation of concentration of credit risk shall be considered when the accumulated value of both lending and investment activities exceeds ten percent (10%) of the total value of its capital resources. In any case, the value of all risks that a securities firm contracts and maintains with the same issuer, client or group of issuers or clients related to each other, may not exceed thirty percent (30%) of the total value of its capital funds.

During the year ended on June 30, 2020, no concentration situations occurred according with the segmented balances characteristic of the activity of the Brokerage House.

In compliance with Agreement No. 4-2011, Sole Text issued by the Superintendency of the Securities Market which contains amendments made by Agreement No. 3-2015, Article Two, which adds provisions to Article 22-A in relation to the obligation to disclose the amounts managed of client accounts and supplements to financial information by activity, for those securities firms that hold more than one license; the following is the supplementary information as described above:

Schedule 1 - Supplementary Information from the Brokerage House

June 30, 2020

(Expressed in Balboas)

(1) Managed Amount of Client accounts

As of June 30, 2020, the Bank holds the following investments in securities:

		June 30, 2020	
	Banking	**Brokerage House**	**Total**
Own position	2,797,066,052	5,185,704	2,802,251,756
Third party position	0	5,114,497,456	5,114,497,456

		December 31, 2019	
	Banking	**Brokerage House**	**Total**
Own position	2,916,912,368	5,183,511	2,922,095,879
Third party position	0	5,168,999,705	5,168,999,705

The third-party position portfolio corresponds to investments in securities of managed customer accounts. This portfolio is controlled in off balance sheet accounts that are not part of the Bank's statement of financial position. The Bank does not hold a portfolio under discretionary management of third-party accounts nor does it hold bank accounts in the name of third parties through its securities firm license.

As of June 30, 2020, the Bank has consigned as guarantee public debt securities for the amount of B/.1,096,776 in favor of Central Latinoamericana de Valores (Latinclear), in compliance with the provisions of Agreement No.11-2003 of the Superintendency of the Securities Market and Latinclear's Internal Operations Regulations, which stipulate that all participants in Latinclear must provide a performance bond in favor of this entity, in order to guarantee compliance with all its monetary obligations for the stock exchange and over-the-counter transactions it carries out (December 31, 2020: B/.1,096,512).

(2) Financial Information by Type of License, continued

The following table shows the assets, liabilities and equity of the Bank as of June 30, 2020 by activity, according to the licenses granted:

	June 30, 2020		
	Banking	Brokerage House	Total
Total assets	12,889,108,535	5,290,002	12,894,398,537
Total liabilities	11,923,230,972	69,392	11,923,300,364
Total equity	965,877,562	5,220,611	971,098,173

	December 31, 2019		
	Banking	Brokerage House	Total
Total assets	10,817,684,953	5,699,197	10,823,384,150
Total liabilities	9,921,872,538	57,710	9,921,930,248
Total equity	895,812,415	5,641,487	901,453,902

The following presents the Bank's income and expenses for the year ended June 30, 2020 by activity, according to the licenses granted:

	June 30, 2020		
	Banking	Brokerage House	Total
Net interest and commission income after provisions	125,189,684	689,154	125,878,838
Other income	18,781,487	0	18,781,487
Other expenses	540,763	0	540,763
General and administrative expenses	67,641,083	468,543	68,109,626
Net income	75,789,325	220,611	76,009,936

	June 30, 2019		
	Banking	Brokerage Firm	Total
Net interest and commission income after provisions	138,024,234	442,810	138,467,044
Other income	14,191,863	0	14,191,863
Other expenses	530,797	0	530,797
General and administrative expenses	68,824,588	382,686	69,207,274
Net income	82,860,712	60,124	182,920,836

(2) Financial Information by Type of License, continued

As of June 30, 2020, the brokerage house under the license held by the Bank generated commissions for brokerage services and custody fees in the amount of B/.608,963; this income is presented as net interest and commission income after provisions, while in the Bank it is presented in other income (December 31, 2019: B/.1,256,021).

(3) Valuation Basis

The basis of valuation for own investments is presented in accordance with the significant accounting policies detailed in note 3 to the Bank's financial statements. All amounts managed in client accounts are presented at face value.