

**BANCO NACIONAL DE PANAMA**  
(Panama, Republic of Panama)

**Unaudited Condensed Interim  
Financial Information and Supplementary Information**

As of September 30, 2022

(With Independent Auditors' Report)

(FREE ENGLISH VERSION LANGUAGE  
TRANSLATION FROM SPANISH VERSION)

"This document has been prepared with the  
knowledge that its contents shall be made  
available to the investing and general public"

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**BANCO NACIONAL DE PANAMA**  
(Panama, Republic of Panama)

**Unaudited Condensed Interim  
Financial Information and Supplementary Information**

September 30, 2022  
(Unaudited)

(SIGNED)  
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**BANCO NACIONAL DE PANAMA**  
(Panama, Republic of Panama)

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**BANCO NACIONAL DE PANAMA**

(Panama, Republic of Panama)

**Condensed Interim Statement of Financial Position**

September 30, 2022

(Expressed in Balboas)

	<u>Note</u>	<b>September 30, 2022 (Unaudited)</b>	<b>December 31, 2021 (Audited)</b>
<b><u>Assets</u></b>			
Cash and cash equivalents	6	375,239,730	297,328,464
Deposits in banks at amortized cost:			
Demand deposits- foreign	6	63,667,554	17,486,409
Time deposits - local		300,442,340	305,094,670
Time deposits - foreign		4,050,459,945	6,929,379,509
Less: Reserve for bank deposit losses		39,142	201,617
<b>Total bank deposits at amortized cost</b>		<u>4,414,530,697</u>	<u>7,251,758,971</u>
<b>Total cash, cash equivalents and bank deposits at amortized cost</b>		<u>4,789,770,427</u>	<u>7,549,087,435</u>
Securities purchased under resale agreements at amortized cost		128,178,780	41,383,508
Less: Reserve for losses on securities purchased under resale agreements		840,239	65,686
<b>Securities purchased under resale agreements at amortized cost</b>	7	<u>127,338,541</u>	<u>41,317,822</u>
Investments in securities		2,999,600,663	2,424,957,033
Less: Reserve for investment losses		4,643,145	3,150,681
<b>Investments in securities, net</b>	8	<u>2,994,957,518</u>	<u>2,421,806,352</u>
Private sector loans and interest receivable		4,948,979,936	4,336,669,109
Government loans and interest receivable		1,226,011,635	851,365,093
Less: Interests and unearned commissions		27,792,558	26,780,877
Allowance for loan losses		139,376,489	126,678,234
<b>Loans at amortized cost</b>	9	<u>6,007,822,524</u>	<u>5,034,575,091</u>
Property and equipment, net		82,370,962	83,320,077
Right of use assets	10	2,766,826	3,762,408
Other assets:			
Foreclosed assets, net	11	5,689,051	5,387,992
Intangible assets - licenses and software		8,620,873	9,833,910
Fiscal credit from preferential interest on loans		90,243,810	62,843,165
Others	11	174,034,417	94,437,409
<b>Total other assets</b>		<u>278,588,151</u>	<u>172,502,476</u>
<b>Total assets</b>		<u><u>14,283,614,949</u></u>	<u><u>15,306,371,661</u></u>

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.

	<u>Note</u>	<b>September 30, 2022 (Unaudited)</b>	<b>December 31, 2021 (Audited)</b>
<b><u>Liabilities and Capital Funds</u></b>			
Liabilities:			
Deposits and accrued interest payable at amortized cost:			
Demand deposits:			
Local - private		1,058,450,139	1,129,165,322
Local - public		3,137,300,315	3,320,451,051
Foreign		404,763	431,285
Savings:			
Local - private		941,197,036	914,712,247
Foreign		2,799,177	2,947,674
Time deposits:			
Local - private		509,899,977	361,940,836
Local - public		5,582,837,072	6,529,876,491
Foreign		16,154,597	15,756,125
Restricted		26,425,155	26,007,022
Restricted - escrow funds		69,718,072	62,468,479
<b>Total deposits and interest payable at amortized cost</b>		<b><u>11,345,186,303</u></b>	<b><u>12,363,756,532</u></b>
Obligations:			
Foreign borrowings received at amortized cost	12	307,921,538	485,107,211
Bond payable - local at amortized cost	12	206,250,340	206,267,485
Bond payable - foreign at amortized cost	12	1,000,914,112	1,006,646,605
Lease liabilities	10	2,938,560	3,964,421
Other liabilities:			
Guarantee certificates for legal proceedings at amortized cost		117,696,626	110,023,807
Miscellaneous creditors		75,961,569	39,752,841
Cashier's and certified checks		20,006,418	17,099,728
Others		54,169,397	48,503,146
<b>Total other liabilities</b>		<b><u>267,834,010</u></b>	<b><u>215,379,522</u></b>
<b>Total liabilities</b>		<b><u>13,131,044,863</u></b>	<b><u>14,281,121,776</u></b>
Capital funds:			
Paid-in capital by Government of Panama	4	850,000,000	750,000,000
Regulatory reserve for foreclosed assets		2,999,139	2,782,178
Regulatory reserve for investments in securities		9,229	9,934
Valuation of investments in securities		7,052,123	8,426,236
Actuarial valuation		(1,701,238)	(1,701,238)
Dynamic regulatory provision		56,928,983	56,928,983
Retained earnings		237,281,850	208,803,792
<b>Total capital funds</b>		<b><u>1,152,570,086</u></b>	<b><u>1,025,249,885</u></b>
Commitments and contingencies	13		
<b>Total liabilities and capital funds</b>		<b><u>14,283,614,949</u></b>	<b><u>15,306,371,661</u></b>

**BANCO NACIONAL DE PANAMA**

(Panama, Republic of Panama)

**Condensed Interim Statement of Profit or Loss**

For the nine month period ended September 30, 2022

(Expressed in Balboas)

		<b>(Unaudited)</b>	
	<b>Note</b>	<b>September 2022</b>	<b>September 2021</b>
Interest and commission income			
Interest on:			
Loans		202,745,221	190,263,460
Deposits in banks		48,090,332	7,847,906
Securities		53,308,986	49,153,106
Loan fees		10,241,822	6,936,720
<b>Total interest and fee income</b>		<u>314,386,361</u>	<u>254,201,192</u>
Interest expense:			
Deposits		41,117,241	36,582,640
Borrowings		31,962,162	32,289,563
Lease liabilities	10	114,976	135,988
<b>Total interest expenses</b>		<u>73,194,379</u>	<u>69,008,191</u>
<b>Net interest and commission income</b>		<u>241,191,982</u>	<u>185,193,001</u>
(Reversal of) provision for losses in deposits with banks	4	(162,475)	118,100
Provision for investment securities losses	4	2,267,017	2,709,590
Provision for loan losses	4	14,320,683	15,221,545
Provision for valuation of foreclosed assets	11	230,755	703,312
<b>Net interest and commission income, after provisions</b>		<u>224,536,002</u>	<u>166,440,454</u>
Other income:			
Fees for banking services	14	21,044,929	16,550,494
Dividends	8	484,403	434,189
Net gain on investments in securities		(313,133)	27,010,522
Others		13,990,925	18,522,772
Total other income		<u>35,207,124</u>	<u>62,517,977</u>
Other expenses:			
Provision for fiscal credits, net		854,427	677,079
Provision for digital voucher and others		95,522	72,189
Commissions		283,355	280,893
Total other expenses		<u>1,233,304</u>	<u>1,030,161</u>
<b>Total other income, net</b>		<u>33,973,820</u>	<u>61,487,816</u>
General and administrative expenses:			
Salaries and other personnel expenses		77,865,066	82,207,878
Rentals		1,121,858	878,090
Repairs and maintenance		10,895,514	11,487,398
Depreciation and amortization		10,056,442	9,882,506
Electricity		2,581,563	2,277,645
Advertising		2,888,664	2,042,814
Communications		4,465,621	5,699,517
Insurance		651,291	469,098
Stationery and office supplies		1,207,142	1,361,450
Fees and professional services		2,966,228	3,366,362
Transportation of personnel		564,708	494,864
Transportation of valuables		2,426,209	1,564,945
ATM's		1,383,602	1,183,309
Others		3,841,833	3,466,893
<b>Total general and administrative expenses</b>		<u>122,915,741</u>	<u>126,382,769</u>
<b>Net income</b>		<u>135,594,081</u>	<u>101,545,501</u>

*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.*

**BANCO NACIONAL DE PANAMA**

(Panama, Republic of Panama)

**Condensed Interim Statement of Comprehensive Income**

For the nine month period ended September 30, 2022

(Expressed in Balboas)

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		<b>(Unaudited)</b>	
	<b>Note</b>	<b>September 2022</b>	<b>September 2021</b>
<b>Net income</b>		<u>135,594,081</u>	<u>101,545,501</u>
<b>Other comprehensive (loss) income:</b>			
<b>Items that are or may be reclassified to the statement of profit or loss.</b>			
<b>Valuation of investments in securities:</b>			
Net change in valuation of investments at fair value with changes in other comprehensive income (FVOCI)	8	<u>(1,374,113)</u>	<u>694,802</u>
<b>Other comprehensive (loss) income for the period</b>		<u>(1,374,113)</u>	<u>694,802</u>
<b>Total comprehensive income for the period</b>		<u><u>134,219,968</u></u>	<u><u>102,240,303</u></u>

*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 PANAMA**

(Panama, Republic of Panama)

**Condensed Interim Statement of Changes in Capital Funds**

For the nine month period ended September 30, 2022

(Expressed in Balboas)

	<u>Note</u>	<u>Paid-in Capital by the Government of Panama</u>	<u>Regulatory reserve for foreclosed assets</u>	<u>Regulatory reserve for investments in securities</u>	<u>Valuation of investments in securities</u>	<u>Actuarial valuation</u>	<u>Dynamic regulatory provision</u>	<u>Retained earnings</u>	<u>Total capital funds</u>
<b>Balance as of December 31, 2020 (Audited)</b>		750,000,000	2,656,035	0	7,975,660	(1,748,619)	56,928,983	146,405,067	962,217,126
Net income, September 30, 2021		0	0	0	0	0	0	101,545,501	101,545,501
<b>Other comprehensive income:</b>									
Net change in valuation of investments to FVOCI		0	0	0	694,802	0	0	0	694,802
<b>Total other comprehensive income for the period</b>		0	0	0	694,802	0	0	0	694,802
<b>Total comprehensive income for the period</b>		0	0	0	694,802	0	0	101,545,501	102,240,303
<b>Other capital funds movements:</b>									
Regulatory reserve for foreclosed assets		0	(336,445)	0	0	0	0	336,445	0
Regulatory reserve for investments in securities			0	9,711	0	0	0	(9,711)	0
<b>Total other capital funds movements</b>		0	(336,445)	9,711	0	0	0	326,734	0
<b>Transactions recorded directly in capital funds:</b>									
Earnings distributed to the Government of Panama (period 2020)		0	0	0	0	0	0	(5,370,111)	(5,370,111)
<b>Total transactions recorded directly in capital funds</b>		0	0	0	0	0	0	(5,370,111)	(5,370,111)
<b>Balance as of September 30, 2021 (Unaudited)</b>		750,000,000	2,319,590	0	8,670,462	(1,748,619)	56,928,983	242,907,191	1,059,087,318
<b>Balance as of December 31, 2021 (Audited)</b>		750,000,000	2,782,178	9,934	8,426,236	(1,701,238)	56,928,983	208,803,792	1,025,249,885
Net income, September 30, 2022		0	0	0	0	0	0	135,594,081	135,594,081
<b>Other comprehensive loss:</b>									
Net change in valuation of investments to FVOCI	8	0	0	0	(1,374,113)	0	0	0	(1,374,113)
<b>Total other comprehensive loss for the period</b>		0	0	0	(1,374,113)	0	0	0	(1,374,113)
<b>Total comprehensive income for the period</b>		0	0	0	(1,374,113)	0	0	135,594,081	134,219,968
<b>Other capital funds movements:</b>									
Regulatory reserve for foreclosed assets		0	216,961	0	0	0	0	(216,961)	0
Regulatory reserve for investments in securities		0	0	(705)	0	0	0	705	0
<b>Total other capital funds movements</b>		0	216,961	(705)	0	0	0	(216,256)	0
<b>Transactions recorded directly in capital funds:</b>									
Capitalization of retained earnings		100,000,000	0	0	0	0	0	(100,000,000)	0
Earnings distributed to the Government of Panama (period 2021)		0	0	0	0	0	0	(6,899,767)	(6,899,767)
<b>Total transactions recorded directly in capital funds</b>		100,000,000	0	0	0	0	0	(106,899,767)	(6,899,767)
<b>Balance as of September 30, 2022 (Unaudited)</b>		850,000,000	2,999,139	9,229	7,052,123	(1,701,238)	56,928,983	237,281,850	1,152,570,086

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 PANAMA**

(Panama, Republic of Panama)

**Condensed Interim Statement of Cash Flows**

For the nine month period ended September 30, 2022

(Expressed in Balboas)

		<b>(Unaudited)</b>	
	<b>Note</b>	<b>September 2022</b>	<b>September 2021</b>
<b>Operating activities:</b>			
Net income		135,594,081	101,545,501
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization		10,056,442	9,882,506
(Reversal of) provision for losses in deposits with banks	4	(162,475)	118,100
Provision for investment in securities losses	4	2,267,017	2,709,590
Provision for loan losses	4	14,320,683	15,221,545
Provision for valuation of foreclosed assets	11	230,755	703,312
Provision for fiscal credits, net		854,427	677,080
Net loss on sale of foreclosed assets		(288,118)	(798,789)
Loss on disposal and sale of furniture and equipment		7,562	8,898
Dividends	8	(484,403)	(434,189)
Loss (gaining) on investments in securities	8	313,133	(10,069,538)
Net interest and commission income		(241,191,982)	(185,193,001)
<b>Changes in operating assets and liabilities:</b>			
Time deposits in banks with original maturities greater than 90 days	6	0	50,000,000
Securities purchased under resale agreements, net		(86,231,807)	(8,402,011)
Acquisitions of investments in securities at fair value through profit or loss		(10,882,766)	(15,450,404)
Loans		(995,244,897)	(77,218,567)
Other assets		(108,539,001)	22,490,121
Demand deposits received		(253,892,441)	44,320,049
Savings deposits received		26,336,292	4,788,206
Time deposits received		(793,725,769)	(2,061,366,523)
Guarantee certificates for legal proceedings at amortized cost		6,667,577	(1,736,639)
Cashier's and certified checks		2,906,690	8,139,932
Miscellaneous creditors		36,208,727	23,852,400
Other liabilities		5,666,251	8,442,029
<b>Cash generated from operation:</b>			
Interest and commissions received		317,122,665	250,743,586
Interest paid		(69,685,485)	(70,985,971)
Dividends received	8	484,403	434,189
<b>Cash flows from operating activities</b>		<b>(2,001,292,439)</b>	<b>(1,887,578,588)</b>
<b>Investment activities:</b>			
Acquisitions of investments in securities at amortized cost		(3,816,685,484)	(3,117,999,666)
Redemptions of investments in securities at amortized cost	8	3,253,286,280	3,686,463,592
Proceeds from the sale of securities at amortized cost	8	0	151,730,000
Acquisition of furniture and equipment		(5,832,447)	(5,861,911)
Acquisition of intangible assets - licenses and software		(979,270)	(213,814)
Proceeds from the sale of foreclosed assets of borrowers		395,932	1,055,044
<b>Cash flows from investing activities</b>		<b>(569,814,989)</b>	<b>715,173,245</b>
<b>Financing activities:</b>			
Payments of borrowings received	12	(182,727,273)	(5,500,000)
Earnings distributed to the Government of Panama		(6,899,767)	(5,370,111)
Lease payments	10	(1,073,121)	(835,977)
<b>Cash flows from financing activities</b>		<b>(190,700,161)</b>	<b>(11,706,088)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(2,761,807,589)</b>	<b>(1,184,111,431)</b>
Cash and cash equivalents at the beginning of the period		7,548,414,873	8,442,312,561
<b>Cash and cash equivalents at the end of the period</b>	6	<b>4,786,607,284</b>	<b>7,258,201,130</b>

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.

**BANCO NACIONAL DE PANAMA**  
(Panama, Republic of Panama)

**Notes to the Interim Condensed Financial Information**

September 30, 2022

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# **BANCO NACIONAL DE PANAMA**

(Panama, Republic of Panama)

## **Notes to the Condensed Interim Financial Information**

September 30, 2022

(Expressed in Balboas)

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### **(1) Incorporation and Operations**

Banco Nacional de Panama (the “Bank”) was created by Law No.74 of 1904, 6 of January of 1911, Law 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 employer's contributions to Social Security, 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 check and payment 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***

These condensed interim financial information statements has been prepared in accordance with International Accounting Standards (“IAS”) No. 34 Interim Financial Information.

These condensed interim financial information statements 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 September 30, 2022 be read in conjunction with the Bank's audited financial statements for the year ended on December 31, 2021.

This condensed interim financial information and supplementary information was authorized by Bank management for issuance on October 31, 2022.

# BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

## Notes to the Condensed Interim Financial Information

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### (2) Basis of Preparation, continued

#### (b) *Basis of Measurement*

This condensed interim financial information has been prepared on a historical cost or amortized cost basis, except certain investments in securities at fair value through profit or loss, 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 book value or fair value less selling costs.

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, 2021.

#### (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 no 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.

# BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

## Notes to the Condensed Interim Financial Information

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### (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) and fair value through profit or loss (FVTPL).

##### *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 the business managers 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.

# BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

## Notes to the Condensed Interim Financial Information

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### (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.

# BANCO NACIONAL DE PANAMA

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## Notes to the Condensed Interim Financial Information

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

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.

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.

<b>Financial assets measured at AC</b>	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.
<b>Equity investments at FVOCI</b>	These assets are subsequently measured at fair value. Dividends are recognized as income in the condensed 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.
<b>Investments in FVTPL</b>	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.

# **BANCO NACIONAL DE PANAMA**

(Panama, Republic of Panama)

## **Notes to the Condensed Interim Financial Information**

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

#### ***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 has 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 risks 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.
- When the Bank has transferred its rights 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 condensed 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.



## BANCO NACIONAL DE PANAMA

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### Notes to the Condensed Interim Financial Information

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

When the terms of a financial asset are modified, and the modification does not result in derecognition of the asset in the condensed 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.

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.

# BANCO NACIONAL DE PANAMA

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## Notes to the Condensed Interim Financial Information

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

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.

#### *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*

When evaluating whether a debtor is in default, the Bank will consider both qualitative and quantitative indicators:

- 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)

**Notes to the Condensed Interim Financial Information**

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

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.

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

## **BANCO NACIONAL DE PANAMA**

(Panama, Republic of Panama)

### **Notes to the Condensed Interim Financial Information**

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

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 in 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.

#### *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.

1.) 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). 2.) The historical series of the values of the interannual variations of Gross Domestic Product ("GDP"). 3.) 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.

# BANCO NACIONAL DE PANAMA

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## Notes to the Condensed Interim Financial Information

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

#### *Loan Impairment*

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

- *Individually Assessed Loans*

If it is determined that there is objective evidence of impairment of an individually significant loan, the calculation of impairment losses is carried out on an individual basis. Among other elements, the exposure, classification of the credit instrument is considered, applying a clearly defined process.

Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is no 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 condensed statement of profit or loss.

- *Collectively Assessed Loans*

For purposes of a collective assessment for impairment of loans, 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 makes 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 recovery terms are regularly benchmarked against actual loss experience, in order to assure that they are still appropriate.

#### *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 standard (1) 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.

# BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

## Notes to the Condensed Interim Financial Information

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

#### *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 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 in default by business segment when the debtor by business segment presents regulatory classifications of doubtful and loss (4) and (5); sub-standard law that present a delinquency over 90 days and for the retiree segment in the substandard, doubtful and loss classifications.

The Bank established the stages of credit impairment established in the standard, incorporating qualitative and quantitative aspects. In this sense, the Bank recognizes as those that have suffered a deterioration, credits classified as subnormal with a delay of more than 90 days and those in doubtful and irrecoverable, even when the latter are up to date.

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

<u>Segment</u>	<u>SBP regulatory classification categories</u>		
	<u>Low Risk</u>	<u>Significant Risk</u>	<u>Default</u>
Agriculture	1 and 2	3	3 (greater than 90 days), 4 and 5
Livestock	1 and 2	3	3 (greater than 90 days), 4 and 5
Commercial	1 and 2	3	3 (greater than 90 days), 4 and 5
Consumer	1 and 2	3	3 (greater than 90 days), 4 and 5
Consumer - Retirees	1	2	3 (greater than 90 days), 4 and 5
Mortgage - Preferential	1 and 2	3	3 (greater than 90 days), 4 and 5
Mortgage - Non-Preferential	1 and 2	3	3 (greater than 90 days), 4 and 5

# BANCO NACIONAL DE PANAMA

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## Notes to the Condensed Interim Financial Information

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

#### *Impairment of deposits in banks and investments in securities at AC*

The level of the financial instruments is determined, since the horizon at which the EAD and PD will be determined depends on it. This is why the bank has defined as the only quantitative factor for determining the existence of a significant increase in credit risk, the drop in risk ratings from the date of purchase.

- (Level 1) 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 presentation date.
- (Level 2) Significant risk: Instruments previously at low risk, whose ratings have been downgraded to less than BB but greater than CCC.
- (Level 3) Default: Instruments with a rating of less than or equal to CCC.

In certain instances, using 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.

#### **Presentation of allowance for expected credit losses (ECL) in the Condensed Statement of Financial Position**

Loss allowances for ECL are presented in the condensed statement of financial position as follows:

- Financial assets measured at AC: as a deduction from the gross carrying amount of the assets; and,
- Loan commitments and financial guarantees contracts: generally as a provision.

#### *(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.

# BANCO NACIONAL DE PANAMA

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## Notes to the Condensed Interim Financial Information

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

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

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 a 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.



## **BANCO NACIONAL DE PANAMA**

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### **Notes to the Condensed Interim Financial Information**

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

At inception or reassessment date 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.

#### As a Lessee

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.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Additionally, the right-of-use asset is periodically reduced for impairment losses, if applicable, and adjusted for certain remeasurements of the lease liability.

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.

## **BANCO NACIONAL DE PANAMA**

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### **Notes to the Condensed Interim Financial Information**

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

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.

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. Obligations include borrowing and issued bonds payable.

# BANCO NACIONAL DE PANAMA

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## Notes to the Condensed Interim Financial Information

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

#### (l) Securities Sold under Agreements to Repurchase

Securities sold under repurchase agreements are short-term financing transactions collateralized 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) Bonus Provision and Seniority Premium

The Bank grants a seniority bonus to Bank employees when the following two conditions are met: having accumulated fifteen or more years of service and ending the employment relationship due to old-age pension or absolute disability.

The Bank's employees, regardless of the reason for termination of duties, will be entitled to receive a seniority premium, at the rate of one week's salary for each year worked at the Bank from the beginning of the permanent relationship until termination.

The cost of providing these benefits and rights is determined annually by an actuary using the projected unit credit method. Actuarial gains and losses are fully recognized in the period in which they occur in the statement of comprehensive income. The liability comprises the present value of the obligations held for defined benefits.

The Bank determines the net interest cost on the net defined benefit liability for the period, 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 benefit payments.

#### (o) Interest Income and Expense

Interest income and expense, including interest discounted in advance are generally recognized in the condensed statement of profit or loss for all financial instruments using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the future cash payments or receipts estimated through the expected life of the financial instrument to the gross carrying amount of the financial asset or liability. The calculation includes all fees and commissions paid or received between the parties, the transaction costs and any other premiums or discounts.

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

**Notes to the Condensed Interim Financial Information**

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

*Amortized cost and gross carrying amount*

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

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

*Calculation of interest income and expense*

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

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

*Presentation*

Interest income and expense presented in the condensed statement of profit and loss and in in the condensed statement of comprehensive income include the interest on financial assets at AC and financial liabilities at AC calculated based on an effective interest rate.

*(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.

**Notes to the Condensed Interim Financial Information**

**(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	<p>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.</p> <p>Charges for services related to account management are made directly to the customer's account at the time it is provided.</p> <p>Fees for credit lines and overdrafts are charged directly to the customer's account when the transaction takes place.</p> <p>Banking service charges are made monthly and are based on rates reviewed periodically by the Bank.</p>	<p>Income from bank account management services and fees for banking services are recognized over the time the services are provided.</p> <p>Revenues related to transactions are recognized at the time the transaction takes place.</p>
Treasury and capital markets	<p>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.</p> <p>Fees are charged for ongoing services on a monthly basis directly to the client's bank account.</p> <p>Commissions based on transactions linked to stock brokerage are charged when the transaction is carried out.</p>	<p>Revenues from securities management and custody services are recognized over the period in which the services are provided.</p> <p>Revenues related to transactions are recognized at the time the transaction takes place.</p>
Asset Management	<p>The Bank provides asset management services.</p> <p>Fees for asset management services are calculated based on negotiation with the client and are charged on an annual basis.</p>	<p>Asset management revenues are recognized over time as the services are provided.</p>

**(q) Uniformity in the Presentation of the Financial Statements**

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

**(r) New IFRSs and Unadopted Interpretations**

New standards, interpretations and amendments to IFRS have been published, but are not mandatory as of September 30, 2022, and have not been early adopted by the Bank.

# BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

## Notes to the Condensed Interim Financial Information

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

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

<u>Amendments</u>	<u>Effective For Annual Reporting Periods Beginning:</u>
IFRS 17: Insurance contracts	January 1, 2023
Amendments to IFRS 17: Insurance contracts	January 1, 2023
Amendments to IAS 12: Related deferred tax	January 1, 2023
Amendments to IAS 1: Classification of liabilities as current or non-current	January 1, 2023
Amendments to IAS 1: Disclosures of accounting policies	January 1, 2023
Amendments to IAS 8: Definition of accounting estimates	January 1, 2023

### (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: Risks and Policies 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 Securities Exchange Superintendency 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.

## **BANCO NACIONAL DE PANAMA**

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### **Notes to the Condensed Interim Financial Information**

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#### **(4) Financial Risks Management, continued**

- 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.

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.

# **BANCO NACIONAL DE PANAMA**

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## **Notes to the Condensed Interim Financial Information**

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### **(4) Financial Risks Management, continued**

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, FECl 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.

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.

On June 30, 2020, the Government of Panama established Law No. 156 that dictates the 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 enactment on July 1, 2020. The law establishes a moratorium over loans granted by public and private banks, cooperatives and financial institutions up to December 31, 2020, to natural or legal persons; subsequently, the Government of Panama made an extension until June 30, 2021.

On June 11, 2021, the Superintendency of Banks of Panama published Agreement No. 002-2021 which establishes the parameters and guidelines that will be applicable to modified credits classified in the modified special mention category, under Agreement No. 002-2020 until June 30, 2021; as well as those modified credits restored to the loan portfolio in accordance with Agreement No. 004-2013.

The banking entities had until September 30, 2021 to carry out the restructuring of the modified loans and that as of June 30, 2021, had not agreed on new terms and conditions.



## **BANCO NACIONAL DE PANAMA**

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### **Notes to the Condensed Interim Financial Information**

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#### **(4) Financial Risks Management, continued**

On December 22, 2021, the Superintendency of Banks of Panama issued Agreement No. 006-2021, which establishes the parameters and guidelines for the determination of provisions applicable to loans in the Modified Special Mention Category.

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. Additionally, within this fiscal period, other elements have been added derived from the impact of the COVID-19 Pandemic on economic sectors, companies, and individuals.

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**Notes to the Condensed Interim Financial Information**

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

*Loan commitments - credit cards and accounts receivable*

Financial instruments that qualify as financial assets according to IFRS 9, where the reserves for possible losses are immaterial, must be tested periodically to validate immateriality and to establish that reserves for possible credit losses are not required. It applies to unused credit facilities, such as credit cards and accounts receivable.

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 September 30, 2022:

	<b>September 30, 2022</b>			
	<b>(Unaudited)</b>			
	<b>Low Risk</b>	<b>Significant Risk</b>	<b>Default Risk</b>	<b>Total</b>
<b>Loans at AC</b>				
Standard	5,554,197,750	7,495,042	0	5,561,692,792
Special mention	215,125,249	29,315,687	596,957	245,037,893
Sub-Standard	0	209,048,364	20,364,164	229,412,528
Doubtful	0	0	21,819,959	21,819,959
Loss	0	0	73,397,216	73,397,216
<b>Gross Balance</b>	<b>5,769,322,999</b>	<b>245,859,093</b>	<b>116,178,296</b>	<b>6,131,360,388</b>
Interest receivable	39,016,276	3,190,500	1,424,407	43,631,183
Interest and unearned commissions	(26,895,010)	(477,099)	(420,449)	(27,792,558)
Loss allowance	(29,698,829)	(51,260,603)	(58,417,057)	(139,376,489)
<b>Balance of loans at AC</b>	<b>5,751,745,436</b>	<b>197,311,891</b>	<b>58,765,197</b>	<b>6,007,822,524</b>
<b>Consumer Loans</b>				
0 to 30 days	2,885,774,843	161,904,111	11,472,194	3,059,151,148
31 to 60 days	13,381,761	23,083,404	2,081,164	38,546,329
More than 61 days	4,229,423	14,524,185	41,633,508	60,387,116
<b>Balance</b>	<b>2,903,386,027</b>	<b>199,511,700</b>	<b>55,186,866</b>	<b>3,158,084,593</b>
Individually assessed loans	64,602,043	17,831,896	6,283,481	88,717,420
<b>Loss allowance:</b>				
Individual	(187,485)	(785,558)	(283,833)	(1,256,876)
Collective	(29,511,344)	(50,475,045)	(58,133,224)	(138,119,613)
<b>Total loss reserve</b>	<b>(29,698,829)</b>	<b>(51,260,603)</b>	<b>(58,417,057)</b>	<b>(139,376,489)</b>
<b>Credit commitments</b>				
Standard	650,612,589	0	0	650,612,589
<b>Balance</b>	<b>650,612,589</b>	<b>0</b>	<b>0</b>	<b>650,612,589</b>
<b>Bank deposits at AC</b>				
Standard	4,411,367,554	0	0	4,411,367,554
<b>Gross balance</b>	<b>4,411,367,554</b>	<b>0</b>	<b>0</b>	<b>4,411,367,554</b>
Interest receivable	3,202,285	0	0	3,202,285
Loss allowance	(39,142)	0	0	(39,142)
<b>Balance of deposits in banks at AC</b>	<b>4,414,530,697</b>	<b>0</b>	<b>0</b>	<b>4,414,530,697</b>
<b>Securities purchased under resale agreement at AC</b>				
Standard	127,526,735	0	0	127,526,735
<b>Gross balance</b>	<b>127,526,735</b>	<b>0</b>	<b>0</b>	<b>127,526,735</b>
Interest receivable	652,045	0	0	652,045
Loss allowance	(840,239)	0	0	(840,239)
<b>Balance of Securities purchased under resale agreement at AC</b>	<b>127,338,541</b>	<b>0</b>	<b>0</b>	<b>127,338,541</b>
<b>Investments in securities at AC</b>				
Standard	2,888,374,031	47,268,427	0	2,935,642,458
<b>Gross balance</b>	<b>2,888,374,031</b>	<b>47,268,427</b>	<b>0</b>	<b>2,935,642,458</b>
Interest receivable	15,271,580	447,778	0	15,719,358
Loss allowance	(2,574,636)	(2,068,509)	0	(4,643,145)
<b>Balance of investments in securities at AC</b>	<b>2,901,070,975</b>	<b>45,647,696</b>	<b>0</b>	<b>2,946,718,671</b>

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**Notes to the Condensed Interim Financial Information**

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

	<b>December 31, 2021</b> <b>(Audited)</b>			
	<b>Low Risk</b>	<b>Significant Risk</b>	<b>Default Risk</b>	<b>Total</b>
<b>Loans at AC</b>				
Standard	4,500,754,596	18,709,500	0	4,519,464,096
Special mention	225,113,708	98,316,371	3,549,577	326,979,656
Sub-Standard	84,584,878	78,332,251	11,936,083	174,853,212
Doubtful	0	0	31,658,451	31,658,451
Loss	<u>0</u>	<u>0</u>	<u>83,770,823</u>	<u>83,770,823</u>
<b>Gross Balance</b>	<b>4,810,453,182</b>	<b>195,358,122</b>	<b>130,914,934</b>	<b>5,136,726,238</b>
Interest receivable	41,563,075	7,725,976	2,018,913	51,307,964
Interest and unearned commissions	(25,688,509)	(647,367)	(445,001)	(26,780,877)
Loss allowance	<u>(33,678,135)</u>	<u>(21,454,733)</u>	<u>(71,545,366)</u>	<u>(126,678,234)</u>
<b>Balance of loans at AC</b>	<b><u>4,792,649,613</u></b>	<b><u>180,981,998</u></b>	<b><u>60,943,480</u></b>	<b><u>5,034,575,091</u></b>
<b>Consumer Loans</b>				
0 to 30 days	2,765,242,340	49,381,415	17,877,150	2,832,500,905
31 to 60 days	8,445,330	16,235,222	1,768,289	26,448,841
More than 61 days	<u>2,511,125</u>	<u>4,741,479</u>	<u>45,377,304</u>	<u>52,629,908</u>
<b>Balance</b>	<b><u>2,776,198,795</u></b>	<b><u>70,358,116</u></b>	<b><u>65,022,743</u></b>	<b><u>2,911,579,654</u></b>
Individually assessed loans	<u>0</u>	<u>69,427,044</u>	<u>2,690,649</u>	<u>72,117,693</u>
<b>Loss allowance:</b>				
Individual	0	(526,308)	(188,157)	(714,465)
Collective	<u>(33,678,135)</u>	<u>(20,928,425)</u>	<u>(71,357,209)</u>	<u>(125,963,769)</u>
<b>Total loss reserve</b>	<b><u>(33,678,135)</u></b>	<b><u>(21,454,733)</u></b>	<b><u>(71,545,366)</u></b>	<b><u>(126,678,234)</u></b>
<b>Credit commitments</b>				
Standard	<u>531,816,408</u>	<u>0</u>	<u>0</u>	<u>531,816,408</u>
<b>Balance</b>	<b><u>531,816,408</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>531,816,408</u></b>
<b>Bank deposits at AC</b>				
Standard	<u>7,251,086,409</u>	<u>0</u>	<u>0</u>	<u>7,251,086,409</u>
<b>Gross balance</b>	<b>7,251,086,409</b>	<b>0</b>	<b>0</b>	<b>7,251,086,409</b>
Interest receivable	874,179	0	0	874,179
Loss allowance	<u>(201,617)</u>	<u>0</u>	<u>0</u>	<u>(201,617)</u>
<b>Balance of deposits in banks at AC</b>	<b><u>7,251,758,971</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>7,251,758,971</u></b>
<b>Securities purchased under resale agreement from AC</b>				
Standard	<u>41,294,927</u>	<u>0</u>	<u>0</u>	<u>41,294,927</u>
<b>Gross balance</b>	<b>41,294,927</b>	<b>0</b>	<b>0</b>	<b>41,294,927</b>
Interest receivable	88,581	0	0	88,581
Loss allowance	<u>(65,686)</u>	<u>0</u>	<u>0</u>	<u>(65,686)</u>
<b>Balance of Securities purchased under resale agreement at AC</b>	<b><u>41,317,822</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>41,317,822</u></b>
<b>Investments in securities at AC</b>				
Standard	<u>2,367,568,427</u>	<u>4,375,000</u>	<u>0</u>	<u>2,371,943,427</u>
<b>Gross balance</b>	<b>2,367,568,427</b>	<b>4,375,000</b>	<b>0</b>	<b>2,371,943,427</b>
Interest receivable	14,118,484	56,602	0	14,175,086
Loss allowance	<u>(2,387,026)</u>	<u>(763,655)</u>	<u>0</u>	<u>(3,150,681)</u>
<b>Balance of investments in securities at AC</b>	<b><u>2,379,299,885</u></b>	<b><u>3,667,947</u></b>	<b><u>0</u></b>	<b><u>2,382,967,832</u></b>

During the period ended September 30, 2022, the Bank carried out loan restructurings/modifications with an amortized cost before the modification of B/.387,307,806 (December 31, 2021: B/.589,526,353) and which generated an increase in the allowance for expected credit losses of B/.632,448 at the moment of their modification (December 31, 2021: B/.810,680). At September 30, 2022, the allowance for loan losses for loans in the modified special mention category amounted to B/.59,066,152 (December 31, 2021: B/.49,922,826).

**Notes to the Condensed Interim Financial Information**

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

The Bank maintains deposits placed in banks with a gross balance of B/.4,411,367,554 as of September 30, 2022 (December 31, 2021: B/.7,251,086,409). 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 September 30, 2022, an expected loss reserve was established for interbank placements of B/.39,142 (December 31, 2021: B/.201,617).

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:

<u>Rating of deposits in banks</u>	<b>September 30, 2022</b>		
	<b>Local</b>	<b>International</b>	<b>Total</b>
	<b>Rating</b>	<b>Rating</b>	
A1, P1, F1	40,000,000	2,382,466,364	2,422,466,364
A2, P2, F2	0	886,185,578	886,185,578
A3, P3, F3	0	40,000,000	40,000,000
Unrated	0	1,062,715,612	1,062,715,612
<b>Gross subtotal</b>	<b>40,000,000</b>	<b>4,371,367,554</b>	<b>4,411,367,554</b>
Interest receivable	38,337	3,163,948	3,202,285
Loss reserve	(2,252)	(36,890)	(39,142)
<b>Balance at amortized cost</b>	<b>40,036,085</b>	<b>4,374,494,612</b>	<b>4,414,530,697</b>

<u>Rating of deposits in banks</u>	<b>December 31, 2021</b>		
	<b>Local</b>	<b>International</b>	<b>Total</b>
	<b>Rating</b>	<b>Rating</b>	
A1, P1, F1	40,000,000	3,248,413,961	3,288,413,961
A2, P2, F2	0	1,047,636,375	1,047,636,375
A3, P3, F3	15,000,000	0	15,000,000
Unrated	0	2,900,036,073	2,900,036,073
<b>Gross subtotal</b>	<b>55,000,000</b>	<b>7,196,086,409</b>	<b>7,251,086,409</b>
Interest receivable	16,315	857,864	874,179
Loss reserve	(5,442)	(196,175)	(201,617)
<b>Balance at amortized cost</b>	<b>55,010,873</b>	<b>7,196,748,098</b>	<b>7,251,758,971</b>

The deposits placed, presented in the "Unrated" category correspond to resources placed in an international financial institution that only accepts deposits from central banks and, therefore, does not have a credit rating. Its credit rating is equivalent to a "AAA" sovereign rating issued by S&P, Moody's or Fitch Ratings.

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**Notes to the Condensed Interim Financial Information**

**(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.

<u>Investments in securities</u>	<u>Local Rating</u>	<b>September 30, 2022</b>	
		<b>(Unaudited) International Rating</b>	<b>Total</b>
AAA	0	94,461,488	94,461,488
AA+ to A	66,971,016	897,557,926	964,528,942
A-	35,012,496	92,477,798	127,490,294
BBB+ to BBB-	160,057,511	1,417,584,189	1,577,641,700
BB+	25,000,000	65,000,000	90,000,000
BB to B-	0	43,330,927	43,330,927
Unrated	<u>38,189,107</u>	<u>0</u>	<u>38,189,107</u>
<b>Gross subtotal</b>	<b>325,230,130</b>	<b>2,610,412,328</b>	<b>2,935,642,458</b>
Interest receivable	1,654,485	14,064,873	15,719,358
Loss reserve	<u>(1,155,610)</u>	<u>(3,487,535)</u>	<u>(4,643,145)</u>
<b>Balance at amortized cost</b>	<b><u>325,729,005</u></b>	<b><u>2,620,989,666</u></b>	<b><u>2,946,718,671</u></b>

  

<u>Investments in securities</u>	<u>Local Rating</u>	<b>December 31, 2021</b>	
		<b>(Audited) International Rating</b>	<b>Total</b>
AAA	0	5,068,848	5,068,848
AA+ to A	53,274,655	667,311,620	720,586,275
A-	16,831,995	27,686,315	44,518,310
BBB+ to BBB-	93,659,763	1,366,840,744	1,460,500,507
BB+	25,000,000	65,000,000	90,000,000
BB to B-	0	46,894,487	46,894,487
Unrated	<u>4,375,000</u>	<u>0</u>	<u>4,375,000</u>
<b>Gross subtotal</b>	<b>193,141,413</b>	<b>2,178,802,014</b>	<b>2,371,943,427</b>
Interest receivable	591,217	13,583,869	14,175,086
Loss reserve	<u>(1,595,577)</u>	<u>(1,555,104)</u>	<u>(3,150,681)</u>
<b>Balance at amortized cost</b>	<b><u>192,137,053</u></b>	<b><u>2,190,830,779</u></b>	<b><u>2,382,967,832</u></b>

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**Notes to the Condensed Interim Financial Information**

**(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:

	<u>Loans</u>		<u>Investments in securities and securities purchased under resale agreement</u>		<u>Deposits in bank</u>		<u>Loan commitments and guarantees granted</u>	
	<u>September 30, 2022 (Unaudited)</u>	<u>December 31, 2021 (Audited)</u>	<u>September 30, 2022 (Unaudited)</u>	<u>December 31, 2021 (Audited)</u>	<u>September 30, 2022 (Unaudited)</u>	<u>December 31, 2021 (Audited)</u>	<u>September 30, 2022 (Unaudited)</u>	<u>December 31, 2021 (Audited)</u>
Gross book value	<u>6,131,360,388</u>	<u>5,136,726,238</u>	<u>3,103,239,483</u>	<u>2,442,534,204</u>	<u>4,411,367,554</u>	<u>7,251,086,409</u>	<u>650,612,589</u>	<u>531,816,408</u>
Concentration by sector:								
Corporate	1,438,638,828	1,260,381,621	883,129,809	575,800,227	0	0	95,548,190	59,030,382
Consumer	3,158,084,593	2,911,579,654	0	0	0	0	554,740,156	472,786,026
Financial institutions	313,004,436	119,712,511	527,124,568	314,658,829	2,619,506,615	3,701,050,336	165,782	0
Public sector	<u>1,221,632,531</u>	<u>845,052,452</u>	<u>1,692,985,106</u>	<u>1,552,075,148</u>	<u>1,791,860,939</u>	<u>3,550,036,073</u>	<u>158,461</u>	<u>0</u>
Gross book value	<u>6,131,360,388</u>	<u>5,136,726,238</u>	<u>3,103,239,483</u>	<u>2,442,534,204</u>	<u>4,411,367,554</u>	<u>7,251,086,409</u>	<u>650,612,589</u>	<u>531,816,408</u>
Geographic concentration:								
Panama	6,131,360,388	5,136,726,238	1,817,388,170	1,594,414,163	80,000,000	55,000,000	650,612,589	531,816,408
USA and Canada	0	0	1,009,607,748	730,452,432	1,368,613,016	2,250,932,224	0	0
Europe	0	0	24,873,375	10,045,079	1,040,032,002	1,215,109,195	0	0
Others	0	0	251,370,190	107,622,530	1,922,722,536	3,730,044,990	0	0
Gross book value	<u>6,131,360,388</u>	<u>5,136,726,238</u>	<u>3,103,239,483</u>	<u>2,442,534,204</u>	<u>4,411,367,554</u>	<u>7,251,086,409</u>	<u>650,612,589</u>	<u>531,816,408</u>

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 within the Republic of Panama.

The Bank also monitors and follows up on operations outside the 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.

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**Notes to the Condensed Interim Financial Information**

**(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:

	<b>September 30, 2022</b>			<b>Total</b>
	<b>(Unaudited)</b>			
	<b>Low risk</b>	<b>Significant risk</b>	<b>Default risk</b>	
<b>Deposits in Banks</b>				
Balance as of January 1, 2022	201,617	0	0	201,617
Net remeasurement of loss allowance	(155,714)	0	0	(155,714)
Allocation of reserve to new originated financial assets	1,233	0	0	1,233
Reversal of reserve of assets that have been written off	(7,994)	0	0	(7,994)
Balance as of September 30, 2022	<u>39,142</u>	<u>0</u>	<u>0</u>	<u>39,142</u>
<b>Investments in securities at amortized cost and securities purchased under resale agreement</b>				
Balance as of January 1, 2022	2,452,712	763,655	0	3,216,367
Transfers to PCE over the life of the loan (low risk)	0	0	0	0
Transfers to PCE over the life of the loan (significant risk)	(56,273)	56,273	0	0
Net remeasurement of loss allowance	160,280	1,248,581	0	1,408,861
Allocation of reserve to new purchased financial assets	1,080,370	0	0	1,080,370
Reversal of reserve due to derecognized assets	(222,214)	0	0	(222,214)
Balance as of September 30, 2022	<u>3,414,875</u>	<u>2,068,509</u>	<u>0</u>	<u>5,483,384</u>
<b>Corporate Loans</b>				
Balance as of January 1, 2022	12,245,042	12,482,790	30,922,239	55,650,071
Transfers to 12-month PCE (low risk)	8,193,068	(5,227,086)	(2,965,982)	0
Transfers to PCE over the life of the loan (significant risk)	(919,413)	3,386,773	(2,467,360)	0
Transfers to PCE over the life of the loan (default)	(288,350)	(1,399,567)	1,687,917	0
Net remeasurement of loss allowance	(11,027,998)	(1,506,830)	2,337,881	(10,196,947)
Allocation of reserve to new originated financial assets	2,696,274	621,288	728,419	4,045,981
Reversal of reserve due to derecognized assets	(1,554,076)	(1,170,702)	(3,481,490)	(6,206,268)
Loans written off	0	0	(1,409,876)	(1,409,876)
Recoveries	0	0	321,398	321,398
Balance as of September 30, 2022	<u>9,344,547</u>	<u>7,186,666</u>	<u>25,673,146</u>	<u>42,204,359</u>
<b>Consumer Loans</b>				
Balance as of January 1, 2022	20,177,572	8,971,943	40,623,127	69,772,642
Transfers to 12-month PCE (low risk)	7,994,864	(2,988,393)	(5,006,471)	0
Transfers to PCE over the life of the loan (significant risk)	(5,647,507)	18,227,611	(12,580,104)	0
Transfers to PCE over the life of the loan (default)	(325,455)	(577,746)	903,201	0
Net remeasurement of loss allowance	(5,420,476)	20,495,855	11,486,014	26,561,393
Allocation of reserve to new originated financial assets	1,591,413	225,126	377,609	2,194,148
Reversal of reserve due to derecognized assets	(347,317)	(280,459)	(2,525,515)	(3,153,291)
Loans written off	0	0	(1,467,821)	(1,467,821)
Recoveries	0	0	933,871	933,871
Balance as of September 30, 2022	<u>18,023,094</u>	<u>44,073,937</u>	<u>32,743,911</u>	<u>94,840,942</u>
<b>Financial institution loans</b>				
Balance as of January 1, 2022	242,028	0	0	242,028
Net remeasurement of loss allowance	(26,390)	0	0	(26,390)
Allocation of reserve to new originated financial assets	810,777	0	0	810,777
Reversal of reserve due to derecognized assets	(160,691)	0	0	(160,691)
Balance as of September 30, 2022	<u>865,724</u>	<u>0</u>	<u>0</u>	<u>865,724</u>
<b>Public Sector Loans</b>				
Balance as of January 1, 2022	1,013,493	0	0	1,013,493
Net remeasurement of loss allowance	(40,549)	0	0	(40,549)
Allocation of reserve to new financial assets originated	676,497	0	0	676,497
Financial assets that have been written off	(183,977)	0	0	(183,977)
Balance as of September 30, 2022	<u>1,465,464</u>	<u>0</u>	<u>0</u>	<u>1,465,464</u>

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**Notes to the Condensed Interim Financial Information**

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

	<b>December 31, 2021</b>			<b>Total</b>
	<b>(Audited)</b>			
	<b>Low risk</b>	<b>Significant risk</b>	<b>Default risk</b>	
<b>Deposits in Banks</b>				
Balance as of January 1, 2021	121,063	0	0	121,063
Net remeasurement of loss allowance	94,132	0	0	94,132
Allocation of reserve to new originated financial assets	57,942	0	0	57,942
Reversal of reserve of assets that have been written off	<u>(71,520)</u>	<u>0</u>	<u>0</u>	<u>(71,520)</u>
Balance as of December 31, 2021	<u>201,617</u>	<u>0</u>	<u>0</u>	<u>201,617</u>
<b>Investments in securities at amortized cost and securities purchased under resale agreement</b>				
Balance as of January 1, 2021	4,638,285	0	0	4,638,285
Transfers to PCE over the life of the loan (significant risk)	(4,758,760)	4,758,760	.0	0
Net remeasurement of loss allowance	2,879,786	4,060,669	0	6,940,455
Allocation of reserve to new purchased financial assets	626,678	0	0	626,678
Reversal of reserve due to derecognized assets	(933,277)	(4,000,000)	0	(4,933,277)
Investments written off	<u>0</u>	<u>(4,055,774)</u>	<u>0</u>	<u>(4,055,774)</u>
Balance as of December 31, 2021	<u>2,452,712</u>	<u>763,655</u>	<u>0</u>	<u>3,216,367</u>
<b>Corporate Loans</b>				
Balance as of January 1, 2021	20,694,232	5,717,835	18,269,036	44,681,103
Transfers to 12-month PCE (low risk)	9,303,995	(2,692,145)	(6,611,850)	0
Transfers to PCE over the life of the loan (significant risk)	(7,017,164)	9,550,873	(2,533,709)	0
Transfers to PCE over the life of the loan (default)	(1,299,334)	(4,486,001)	5,785,335	0
Net remeasurement of loss allowance	(9,984,249)	3,465,784	19,835,057	13,316,592
Allocation of reserve to new originated financial assets	3,363,913	1,214,058	2,866,956	7,444,927
Reversal of reserve due to derecognized assets	(2,816,351)	(287,614)	(3,998,336)	(7,102,301)
Loans written off	<u>0</u>	<u>0</u>	<u>(3,342,670)</u>	<u>(3,342,670)</u>
Recoveries	<u>0</u>	<u>0</u>	<u>652,420</u>	<u>652,420</u>
Balance as of December 31, 2021	<u>12,245,042</u>	<u>12,482,790</u>	<u>30,922,239</u>	<u>55,650,071</u>
<b>Consumer Loans</b>				
Balance as of January 1, 2021	31,948,705	2,869,807	27,265,073	62,083,585
Transfers to 12-month PCE (low risk)	17,184,575	(3,006,400)	(14,178,175)	0
Transfers to PCE over the life of the loan (significant risk)	(7,050,387)	11,551,088	(4,500,701)	0
Transfers to PCE over the life of the loan (default)	(2,071,067)	(3,513,531)	5,584,598	0
Net remeasurement of loss allowance	(21,047,251)	1,224,858	33,633,432	13,811,039
Allocation of reserve to new originated financial assets	1,768,532	83,351	261,911	2,113,794
Reversal of reserve due to derecognized assets	(555,535)	(237,230)	(4,829,773)	(5,622,538)
Loans written off	<u>0</u>	<u>0</u>	<u>(3,890,977)</u>	<u>(3,890,977)</u>
Recoveries	<u>0</u>	<u>0</u>	<u>1,277,739</u>	<u>1,277,739</u>
Balance as of December 31, 2021	<u>20,177,572</u>	<u>8,971,943</u>	<u>40,623,127</u>	<u>69,772,642</u>
<b>Financial institution loans</b>				
Balance as of January 1, 2021	558,767	0	0	558,767
Net remeasurement of loss allowance	(52,516)	0	0	(52,516)
Allocation of reserve to new originated financial assets	303,944	0	0	303,944
Reversal of reserve due to derecognized assets	<u>(568,167)</u>	<u>0</u>	<u>0</u>	<u>(568,167)</u>
Balance as of December 31, 2021	<u>242,028</u>	<u>0</u>	<u>0</u>	<u>242,028</u>
<b>Public Sector Loans</b>				
Balance as of January 1, 2021	927,344	0	0	927,344
Net remeasurement of loss allowance	63,147	0	0	63,147
Allocation of reserve to new financial assets originated	386,269	0	0	386,269
Financial assets that have been written off	<u>(363,267)</u>	<u>0</u>	<u>0</u>	<u>(363,267)</u>
Balance as of December 31, 2021	<u>1,013,493</u>	<u>0</u>	<u>0</u>	<u>1,013,493</u>



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## Notes to the Condensed Interim Financial Information

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### (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.

#### Liquidity Risk Management

The Superintendency of Banks of Panama requires that banks with a general license should maintain a liquidity of no less than 30% at all times 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 Risks and Policies 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 100% by December 2021. As of September 30, 2022, the Bank's Liquidity Coverage Ratio is 264.3% exceeding the 100% established by that Agreement. (December 31, 2021: 188.3%).

#### Actions Implemented due to the COVID-19 Pandemic

Following the declaration of the COVID-19 Pandemic, the Bank has maintained stable liquidity levels, it has not needed to activate its Liquidity Contingency Plan (LCP). The Bank has significantly increased its liquid assets and continues to with high liquidity levels that are above the levels reported during normal conditions.

The Bank's ability to maintain these solid levels of liquidity, even in the current environment, is attributable to increases in public and private deposits, at the same time a significant increase in financial obligations. Furthermore, the Bank follows a conservative structure and has disbursed new loan transactions in a selective manner, prioritizing a prudent risk management with a focus on adequate risk/return levels.

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**Notes to the Condensed Interim Financial Information**

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

Due to the uncertainty created by the pandemic, the Bank has concentrated its efforts on achieving fundraising in the short, medium and long term. As of September 30, 2022, the concentration of funds in short-term interbank placements in foreign banks with an investment grade of less than 90 is maintained.

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 condensed statement of financial position is detailed below:

	<b>September 30, 2022 (Unaudited)</b>	<b>December 31, 2021 (Audited)</b>
As of the end of the period	78.5%	83.9%
Average of the period	82.3%	86.8%
Maximum of the period	86.4%	89.3%
Minimum of the period	76.3%	83.9%

*(c) Market Risk*

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

	<b>September 30, 2022 (Unaudited)</b>				
<b>Assets:</b>	<b>Up to 1 year</b>	<b>More than 1 to 3 years</b>	<b>More than 3 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Time deposits in banks	4,350,902,285	0	0	0	4,350,902,285
Securities purchased under resale agreements	128,178,780	0	0	0	128,178,780
Investments in securities	1,248,251,427	250,465,515	316,390,322	1,136,254,552	2,951,361,816
Loans	1,247,920,787	239,362,211	487,389,373	4,200,319,200	6,174,991,571
<b>Total</b>	<u>6,975,253,279</u>	<u>489,827,726</u>	<u>803,779,695</u>	<u>5,336,573,752</u>	<u>13,605,434,452</u>
<b>Liabilities:</b>					
Savings deposits	943,996,213	0	0	0	943,996,213
Time and restricted deposits	5,657,459,911	411,604,628	128,769,301	7,201,033	6,205,034,873
Bonds Payable	526,186	0	0	307,395,352	307,921,538
Borrowing received	4,681,006	0	0	1,202,483,446	1,207,164,452
<b>Total</b>	<u>6,606,663,316</u>	<u>411,604,628</u>	<u>128,769,301</u>	<u>1,517,079,831</u>	<u>8,664,117,076</u>
<b>Net interest sensitivity margin</b>	<u>368,589,963</u>	<u>78,223,098</u>	<u>675,010,394</u>	<u>3,819,493,921</u>	<u>4,941,317,376</u>

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**Notes to the Condensed Interim Financial Information**

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

	December 31, 2021 (Audited)				
<u>Assets:</u>	<u>Up to 1 year</u>	<u>More than 1 to 3 years</u>	<u>More than 3 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Time deposits in banks	7,234,474,179	0	0	0	7,234,474,179
Securities purchased under resale agreements	41,383,508	0	0	0	41,383,508
Investments in securities	1,083,600,025	268,031,700	64,668,244	969,818,544	2,386,118,513
Loans	<u>616,434,513</u>	<u>178,481,746</u>	<u>583,703,797</u>	<u>3,809,414,146</u>	<u>5,188,034,202</u>
<b>Total</b>	<u>8,975,892,225</u>	<u>446,513,446</u>	<u>648,372,041</u>	<u>4,779,232,690</u>	<u>14,850,010,402</u>
<u>Liabilities:</u>					
Savings deposits	917,659,921	0	0	0	917,659,921
Time and restricted deposits	6,336,661,613	163,089,047	479,944,615	16,353,678	6,996,048,953
Bonds Payable	2,668,718	0	0	482,438,493	485,107,211
Borrowing received	<u>10,739,818</u>	<u>0</u>	<u>0</u>	<u>1,202,174,272</u>	<u>1,212,914,090</u>
<b>Total</b>	<u>7,267,730,070</u>	<u>163,089,047</u>	<u>479,944,615</u>	<u>1,700,966,443</u>	<u>9,611,730,175</u>
<b>Net interest sensitivity margin</b>	<u>1,708,162,155</u>	<u>283,424,399</u>	<u>168,427,426</u>	<u>3,078,266,247</u>	<u>5,238,280,227</u>

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.

*Administration of the Benchmark Interest Rate Reform (IBOR)*

Fundamental changes in benchmark interest rates are taking place globally, including the replacement of Interbank Offered Rates (IBOR) with alternative risk-free interest rates. Due to the nature of the business, Banco Nacional de Panama's balance sheet has a low exposure to financial instruments linked to IBOR, which underwent a change to SOFR (Secured Overnight Financing Rate), as the reference rate.

The Alternative Reference Rate Committee (ARRC) was established by the United States Federal Reserve to ensure the successful transition of the LIBOR rate to an alternative interest rate. The ARRC is comprised of private sector entities that participate in the markets affected by LIBOR and other government entities, including financial sector regulators in the United States. In May 2021, the ARRC stipulated that the LIBOR rate will continue to be published until June 30, 2023, and established this date, as the deadline to complete the modification of the contracts that must include the transition language towards the new reference rate, which had initially been set for the end of 2021.

The main risks to which the Bank is exposed as a result of the IBOR reform are operational. Such operational risks include the updating of contractual terms and review of operational controls related to the Reform. Financial risk is predominantly limited to interest rate risk.

For those operations in force as of September 30, 2022 and whose maturities not exceed June 30, 2023, the bank will maintain USD LIBOR as Reference rate. For any new operation and renewals, will be making use of the SOFR with its updates to contractual terms.

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## Notes to the Condensed Interim Financial Information

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### (4) Financial Risk Management, continued

- *Price Risk:*

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to the particular instrument or its issuer, or by factors affecting all securities traded in the market.

The Bank is exposed to price risk on equity instruments classified as FVOCI. To manage the price risk arising from investments in equity instruments, the Bank diversifies its portfolio according to the limits set by the Bank.

#### (d) *Operational Risk*

Operational risk is the risk of potential losses, directly or indirectly, related to the Bank's processes, people, technology and infrastructure, external factors and legal aspects, which are not related to credit, market and liquidity risks, such as those arising from legal and regulatory requirements and from the performance of generally accepted corporate standards.

The Bank's objective is to manage operational risk, seeking to avoid financial losses and damage to the Bank's reputation.

The main responsibility for the development and implementation of operational risk controls is assigned to senior management within each business area, the Operational Risk and Technology Risk Committee, the Risks and Policies Steering Committee, the Executive Compliance Management, the Executive Internal Control Management, the Executive Audit Management and the Executive Comprehensive Risk Management. This responsibility is supported by the development of standards for managing operational risk, contained in the Bank's Risk Manual.

These standards are related to the identification of the different operational risks faced by the Bank (risk map) and the collection of information related to the different operational risk events that have occurred, in order to identify the frequency and impact of each one of them.

#### (e) *Capital Management*

The Bank's policy is to maintain strong capital that can ensure the future development of investment and credit businesses 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 September 30, 2022, the Bank maintains capital funds of B/.850,000,000 (December 31, 2021: B/.750,000,000).

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

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## Notes to the Condensed Interim Financial Information

### (4) Financial Risk Management, continued

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 risk weighted assets and off balance sheet operations, weighted according to their risks. This article was regulated by Agreement No. 001-2015 of the Superintendency of Banks of Panama, which establishes 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 became effective on July 1, 2016.

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

As of September 30, 2022, the Bank's capital adequacy ratio as determined in accordance with Agreements No. 001-2015, 003-2016, 003-2018, 011-2018 and 008-2022 of the Superintendency of Banks of Panama:

	<b>September 30, 2022 (Unaudited)</b>	<b>December 31, 2021 (Audited)</b>
<b>Primary Capital</b>		
Paid-in-capital by Panamanian Government	850,000,000	750,000,000
Retained earnings	169,484,810	208,803,792
Other items in comprehensive income	5,350,885	6,724,998
Less: intangible assets	<u>8,620,873</u>	<u>9,833,910</u>
<b>Primary Capital</b>	<u>1,016,214,822</u>	<u>955,694,880</u>
Dynamic regulatory provision	<u>56,928,983</u>	<u>56,928,983</u>
<b>Total Capital Funds</b>	<u>1,073,143,805</u>	<u>1,012,623,863</u>
<b>Total risk-weighted assets</b>	<u>5,873,361,166</u>	<u>5,227,251,858</u>
<b>Capital adequacy ratio</b>	<u>18.27%</u>	<u>19.37%</u>

### (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 Financial Assets

The Bank reviews its main financial assets such as cash and cash equivalents, investments in securities at amortized cost, and loans at amortized cost to evaluate the impairment based on the criteria established by the Risks and Policies Steering Committee, which establishes provisions based on the expected credit losses methodology. These are divided in three different stages, (i) 12 months expected credit losses (low risk), (ii) expected credit losses over the life of the loan (significant risk), and (iii) loans in default (default risk). See note 3 (e.2)

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

*(b) 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.

*(c) 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:

	<b>September 30, 2022 <u>(Unaudited)</u></b>	<b>September 30, 2021 <u>(Unaudited)</u></b>
Cash and cash equivalents	375,239,730	380,701,280
Demand deposits	63,667,554	27,999,850
Time deposits	<u>4,347,700,000</u>	<u>6,874,500,000</u>
<b>Total gross cash, cash equivalents and deposits with banks in the condensed statement of financial position, excluding interest receivable</b>	<b><u>4,786,607,284</u></b>	<b><u>7,283,201,130</u></b>
Less: Time deposits in banks with original maturities over 90 days	<u>0</u>	<u>25,000,000</u>
<b>Total cash and cash equivalents in the condensed statement of cash flows:</b>	<b><u>4,786,607,284</u></b>	<b><u>7,258,201,130</u></b>

As of September 30, 2022, the Bank maintains a reserve for expected losses on deposits in banks of B/. 39,142 (December 31, 2021: B/.201,617).

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**(7) Securities Purchased under Resale Agreements**

At September 30, 2022, the Bank holds securities purchased under resale agreements as follows:

<u>Maturity Date</u>	<u>Interest Rate</u> <u>Libor / SOFR</u>	<u>Margin</u>	<u>Collateral</u>	<u>September 30, 2022</u> <u>(Unaudited)</u>	<u>December 31, 2021</u> <u>(Audited)</u>
07/01/2022	6 months	1.75%	Local corporate bonds	0	6,400,000
07/01/2022	6 months	1.75%	Local corporate bonds	0	3,600,000
24/06/2022	6 months	1.00%	Local corporate bonds	0	6,818,859
24/06/2022	6 months	1.00%	Local corporate bonds	0	24,476,068
24/10/2022	1 months SOFR	1.25%	Local corporate bonds	3,840,000	0
24/10/2022	1 months SOFR	1.25%	Local corporate bonds	3,760,000	0
24/10/2022	1 months SOFR	1.25%	Local corporate bonds	2,400,000	0
23/06/2023	12 months SOFR	1.00%	Local corporate bonds	7,484,000	0
23/06/2023	12 months SOFR	1.00%	Local corporate bonds	24,476,068	0
25/01/2023	6 months SOFR	1.25%	Local corporate bonds	12,000,000	0
25/01/2023	6 months SOFR	1.25%	Local corporate bonds	1,600,000	0
25/01/2023	6 months SOFR	1.25%	Local corporate bonds	800,000	0
25/01/2023	6 months SOFR	1.25%	Local corporate bonds	400,000	0
24/08/2023	12 months SOFR	1.00%	Local corporate bonds	8,660,000	0
24/08/2023	12 months SOFR	1.00%	Local corporate bonds	1,840,000	0
24/08/2023	12 months SOFR	1.00%	Local corporate bonds	2,860,000	0
24/08/2023	12 months SOFR	1.00%	Local corporate bonds	4,740,000	0
24/08/2023	12 months SOFR	1.00%	Local corporate bonds	2,666,667	0
08/03/2023	6 months SOFR	1.25%	Local corporate bonds	5,400,000	0
08/03/2023	6 months SOFR	1.25%	Local corporate bonds	4,800,000	0
08/03/2023	6 months SOFR	1.25%	Local corporate bonds	4,600,000	0
08/03/2023	6 months SOFR	1.25%	Local corporate bonds	4,000,000	0
08/03/2023	6 months SOFR	1.25%	Local corporate bonds	1,200,000	0
05/01/2023	3 months SOFR	1.00%	VCN'S	4,000,000	0
05/01/2023	3 months SOFR	1.00%	Local corporate bonds	12,800,000	0
05/01/2023	3 months SOFR	1.00%	Local corporate bonds	10,398,700	0
05/01/2023	3 months SOFR	1.00%	Local corporate bonds	1,600,000	0
05/01/2023	3 months SOFR	1.00%	Local corporate bonds	401,300	0
05/01/2023	3 months SOFR	1.00%	Local corporate bonds	800,000	0
			<b>Gross Subtotal</b>	<u>127,526,735</u>	<u>41,294,927</u>
			Interest receivable	652,045	88,581
			Reserve for losses	(840,239)	(65,686)
			<b>Total</b>	<u>127,338,541</u>	<u>41,317,822</u>

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

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**(8) Investments in Securities**

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

	<b>September 30, 2022</b> <b>(Unaudited)</b>			
	<b>FVTPL</b>	<b>FVOCI</b>	<b>AC</b>	<b>Total</b>
Public debt securities	40,070,290	0	1,652,914,816	1,692,985,106
Private debt securities	0	0	1,282,727,642	1,282,727,642
Private equity shares	0	8,168,557	0	8,168,557
Subtotal	<u>40,070,290</u>	<u>8,168,557</u>	<u>2,935,642,458</u>	<u>2,983,881,305</u>
Interest receivable	0	0	15,719,358	15,719,358
Loss reserve	0	0	(4,643,145)	(4,643,145)
Balance of investments in securities	<u>40,070,290</u>	<u>8,168,557</u>	<u>2,946,718,671</u>	<u>2,994,957,518</u>

	<b>December 31, 2021</b> <b>(Audited)</b>			
	<b>FVTPL</b>	<b>FVOCI</b>	<b>AC</b>	<b>Total</b>
Public debt securities	29,295,850	0	1,522,809,298	1,552,105,148
Private debt securities	0	0	849,164,129	849,164,129
Private equity shares	<u>0</u>	<u>9,542,670</u>	<u>0</u>	<u>9,542,670</u>
Subtotal	<u>29,295,850</u>	<u>9,542,670</u>	<u>2,371,943,427</u>	<u>2,410,781,947</u>
Interest receivable	0	0	14,175,086	14,175,086
Loss reserve	0	0	(3,150,681)	(3,150,681)
Balance of investments in securities	<u>29,295,850</u>	<u>9,542,670</u>	<u>2,382,967,832</u>	<u>2,421,806,352</u>

Equity investments at fair value with changes in other comprehensive income as of September 30, 2022, recorded a net unrealized loss of B/.1,374,113 as a result of the net change in fair value (December 31, 2021: net unrealized gain: B/.450,576).

As of September 30, 2022, the Bank received dividends on private equity investments of B/.484,403 (September 30, 2021: B/.434,189).

As of September 30, 2022, the Bank did not make any sales of securities at amortized cost (September 30, 2021: B/.151,730,000; net realized gains of B/.10,069,538 were generated, included in the condensed statement of income).

As of September 30, 2022, securities at amortized cost were redeemed for B/.3,253,286,280 (September 30, 2021: B/.3,686,463,592).

As of September 30, 2022, the Bank maintains a reserve for expected credit losses on investments in securities at amortized cost of B/.4,643,145 (December 31, 2021: B/.3,150,681).



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**(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:

	<b>September 30, 2022 (Unaudited)</b>	<b>December 31, 2021 (Audited)</b>
Public sector, gross	1,221,632,531	845,052,452
Private sector, gross:		
Residential mortgages	1,896,849,227	1,687,315,433
Personal	1,261,235,366	1,224,264,221
Agricultural	605,663,883	613,505,136
Commercial	803,233,958	613,952,039
Financial institutions	313,004,436	119,712,511
Industrials	29,337,412	32,738,646
Overdrafts	403,575	185,800
Total gross private sector	<u>4,909,727,857</u>	<u>4,291,673,786</u>
Total gross loans	<u>6,131,360,388</u>	<u>5,136,726,238</u>
More (less):		
Accrued interest receivable	43,631,183	51,307,964
Interest and unearned commissions	(27,792,558)	(26,780,877)
Reserve for loan losses	<u>(139,376,489)</u>	<u>(126,678,234)</u>
Loans at amortized cost	<u>6,007,822,524</u>	<u>5,034,575,091</u>

**(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, multifunctional/printers. Below is the information of the leases in which the Bank is a leaseholder:

*Right-of-use assets*

<b>September 30, 2022 (Unaudited)</b>	<b>Administrative Offices and Bank Branches</b>	<b>ATM's space</b>	<b>Parking lots/ Land</b>	<b>Galleries, Storage Warehouses</b>	<b>Total</b>
Balance as of January 1, 2022	3,437,317	231,544	42,182	51,365	3,762,408
Additions	459,755	73,648	0	241,076	774,479
Adjustments for modifications	(200,952)	0	0	0	(200,952)
Anticipated cancellations	(433,800)	(45,174)	0	0	(478,974)
Depreciation for the period	<u>(878,866)</u>	<u>(126,788)</u>	<u>(29,687)</u>	<u>(54,794)</u>	<u>(1,090,135)</u>
Balance as of September 30, 2022	<u>2,383,454</u>	<u>133,230</u>	<u>12,495</u>	<u>237,647</u>	<u>2,766,826</u>
<b>December 31, 2021 (Audited)</b>	<b>Administrative Offices and Bank Branches</b>	<b>ATM's space</b>	<b>Parking lots/ Land</b>	<b>Galleries, Storage Warehouses</b>	<b>Total</b>
Balance as of January 1, 2021	3,050,276	77,849	81,764	44,145	3,254,034
Additions	1,373,384	274,436	0	81,938	1,729,758
Depreciation for the year	<u>(986,343)</u>	<u>(120,741)</u>	<u>(39,582)</u>	<u>(74,718)</u>	<u>(1,221,384)</u>
Balance as of December 31, 2021	<u>3,437,317</u>	<u>231,544</u>	<u>42,182</u>	<u>51,365</u>	<u>3,766,826</u>

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**(10) Leases, continued**

*Lease Liabilities*

**Maturity analysis - Undiscounted contractual cash flows**

	September 30, <b>2022</b> <u>(Unaudited)</u>	December 31, <b>2021</b> <u>(Audited)</u>
Less than one year	208,402	65,246
One to five years	1,805,449	1,578,600
More than five years	<u>1,197,351</u>	<u>2,823,494</u>
<b>Total undiscounted lease liabilities</b>	<u>3,211,202</u>	<u>4,467,340</u>
<b>Lease liability included in condensed statement of financial position</b>	<u>2,938,560</u>	<u>3,964,421</u>

**Amount recognized in the condensed statement of profit or loss**

	September 30, <b>2022</b> <u>(Unaudited)</u>	September 30, <b>2021</b> <u>(Unaudited)</u>
Rental concession income COVID 19	<u>0</u>	<u>22,647</u>
Interest expense on lease liabilities	<u>114,976</u>	<u>135,988</u>
Expenses related to short-term leases	<u>582,601</u>	<u>538,260</u>

**Amounts recognized in the condensed statement of cash flows**

	September 30, <b>2022</b> <u>(Unaudited)</u>	September 30, <b>2021</b> <u>(Unaudited)</u>
Total cash outflow from leases, net	<u>1,770,698</u>	<u>1,510,225</u>

As of September 30, 2022, total lease cash recognized in the condensed statement of cash flows includes the portion of the payment to principal as a financing activity for B/.1,073,121 (September 30, 2021: B/.835,977), the portion of interest for B/.114,976 (September 30, 2021: B/.135,988) and the portion of short-term leases for B/.582,601 (September 30, 2021: B/.538,260) 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 exercisable 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.

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### (10) Leases, continued

#### (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.

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.

### (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:

	September 30, 2022 <u>(Unaudited)</u>	December 31, 2021 <u>(Audited)</u>
Foreclosed assets of borrowers	7,337,591	7,036,532
Impairment reserve, net	<u>(1,648,540)</u>	<u>(1,648,540)</u>
Net balance	<u>5,689,051</u>	<u>5,387,992</u>

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

	September 30, 2022 <u>(Unaudited)</u>	December 31, 2021 <u>(Audited)</u>
Balance at the beginning of the period	1,648,540	2,134,506
Provision for valuation of foreclosed assets	230,755	930,007
Discharged assets	<u>(230,755)</u>	<u>(1,415,973)</u>
Balance at the end of the period	<u>1,648,540</u>	<u>1,648,540</u>

As of September 30, 2022, the Bank made net sales of foreclosed assets from borrowers for B/.395,932 (September 30, 2021: B/.1,055,044).

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**(11) Other Assets, continued**

The other miscellaneous assets are detailed as follows:

	<b>September 30, 2022 (Unaudited)</b>	<b>December 31, 2021 (Audited)</b>
Numismatic and other currencies	2,589,039	2,590,792
Financing program ("Profinco")	522,892	547,085
Printing and supplies	3,315,556	3,404,329
Account receivable - FECl grant	3,646,848	5,052,751
Other remittances and transfers in transit	380,460	1,125,433
Prepaid expenses and insurance	430,224	500,918
Cultural property	248,295	251,541
Cash withdrawals to be compensated – Clave Card	497,627	580,037
Insurance receivable on loans	569,364	562,770
Balance of loans receivable through life insurance policies	1,323,807	2,491,848
Account receivable – Digital Voucher and others	152,166,140	72,659,900
Others	<u>8,344,165</u>	<u>4,670,005</u>
	<u>174,034,417</u>	<u>94,437,409</u>

Digital Voucher is a form of solidarity support for citizens affected by the COVID-19 Pandemic, which consists of granting the beneficiaries of the Panama Solidario Plan a capacity to consume in affiliated businesses, through the personal identity card. The Digital Voucher is created with in the Panama Solidario Plan, through Executive Decree No. 400 of March, 27, 2020 and is regulated through Resolution No. 01 of May 26, 2020.

The Bank, after assigning the account receivable that the merchants have with the government, buys the accounts receivable of the Digital Voucher at a discount from the affiliated businesses to the Plan. For this service, the Bank charges a commission and reduces the collection time for businesses that request it.

At September 30, 2022, the Bank has an account receivable from the government, in the concept of Digital Voucher, in the amount B/.152,166,140. (December 31, 2021: B/.72,659,900).

**(12) Obligations**

**Foreign Borrowings Received**

As of September 30, 2022, the Bank maintains the following foreign borrowings received:

<b>Start Date</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Principal Due</b>	<b>Carrying value Amortized Cost</b>	
				<b>September 30, 2022 (Unaudited)</b>	<b>December 31, 2021 (Audited)</b>
Aug-20	Aug-27	1.232%	360,000,000	307,921,538	339,069,561
Aug-20	Jul-27	1.694%	0	<u>0</u>	<u>146,037,650</u>
				<u>307,921,538</u>	<u>485,107,211</u>

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### (12) Obligations, continued Bonds Payable

<u>Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Due</u>	<u>Carrying value Amortized Cost</u>	
				<u>September 30, 2022 (Unaudited)</u>	<u>December 31, 2021 (Audited)</u>
Series D – Issuance on September 2019 International Bond – Issuance on August 2020	Sep-29	3.000%	205,736,000	<u>206,250,340</u>	<u>206,267,485</u>
	Aug-30	2.500%	1,000,000,000	<u>1,000,914,112</u>	<u>1,006,646,605</u>

The bond issues 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. For local bonds, interest is payable quarterly, for international bonds, interest is payable semi-annually, for both bonds issuance principal is paid at maturity. Local Series D bonds may be redeemed in advance by the Bank.

The Bank did not have any defaults of principal, interest or other covenant breaches in relation to its obligations.

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

	<u>September 30, 2022 (Unaudited)</u>	<u>September 30, 2021 (Unaudited)</u>
Balance at the beginning of the period	1,698,021,301	1,697,586,414
Payments of borrowings received	(182,727,273)	(5,500,000)
Interest and commissions paid	4,397,955	0
Amortization	(36,568,154)	(35,699,197)
Recognition of interest	<u>31,962,162</u>	<u>32,289,563</u>
Balance at the end of the period	<u>1,515,085,991</u>	<u>1,688,676,780</u>

As of September 30, 2022, interest payable on financing received from foreign is B/.526,186 (December 31, 2021: B/.2,668,718), for local bonds is B/.514,340 (December 31, 2021: B/.531,485), and the international bond B/.4,166,667 (December 31, 2021: B/.10,208,333).

### (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.

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**(13) Commitments and Contingencies, continued**

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

	<b>September 30, 2022 (Unaudited)</b>	<b>December 31, 2021 (Audited)</b>
Letters of credit	59,792,424	16,849,635
Payments pledges	582,318,517	492,399,905
Loan commitments	<u>8,501,648</u>	<u>22,566,868</u>
	<u>650,612,589</u>	<u>531,816,408</u>

As of September 30, 2022, there were lawsuits filed against Banco Nacional de Panama in the amount of B/. 1,328,833,331 (December 31, 2021: B/. 1,278,812,801). The Bank's management and attorneys believe that there is a remote possibility that the Bank will be sentenced to pay the total amount claimed. As of September 30, 2022, the Bank does not maintain any provision as in the previous period (December 31, 2021: B/.0) for legal cases. In relation to the lawsuit for B/.1,268,704,177, management, based on the opinion of the external lawyers in charge of the case, considers that, even though the claim was admitted by the Third Administrative Litigation Chamber of the Supreme Court of Justice, there are remote probabilities of a ruling against the Bank, so 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:

	<b>September 30, 2022 (Unaudited)</b>						
	<b>Corporate and Commercial</b>	<b>Agricultural and Forestry</b>	<b>Consumer</b>	<b>Financial Institutions</b>	<b>Government Sector</b>	<b>Treasury and Capital Markets</b>	<b>Total</b>
Letters of Credit	28,853	31,582	142,163	10,909	19,285	3,596	236,388
Transfers	47,067	51,519	231,905	17,796	31,460	15,982	395,729
Card Services	1,252,815	1,371,327	6,172,797	473,692	837,380	0	10,108,011
Fund management, custody and brokerage	316,254	346,170	1,558,227	119,576	211,383	622,037	3,173,647
Current accounts	390,593	427,541	1,924,506	147,684	261,072	17,381	3,168,777
Savings accounts	210	230	1,035	80	140	0	1,695
State services	34,178	37,412	168,402	12,923	22,845	0	275,760
Guarantee certificates and cashier's checks	45,296	49,581	223,180	17,127	30,276	0	365,460
National stamps	2,170	2,375	10,690	820	1,450	0	17,505
Clearinghouse services	300,115	328,505	1,478,709	113,474	200,596	0	2,421,399
Others	<u>55,864</u>	<u>61,149</u>	<u>275,251</u>	<u>21,123</u>	<u>37,340</u>	<u>429,831</u>	<u>880,558</u>
Total banking service fees (see note)	<u>2,473,415</u>	<u>2,707,391</u>	<u>12,186,865</u>	<u>935,204</u>	<u>1,653,227</u>	<u>1,088,827</u>	<u>21,044,929</u>

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**(14) Fees for Banking Services, continued**

	<b>September 30, 2021</b> (Unaudited)						
	<b>Corporate and Commercial</b>	<b>Agricultural and Forestry</b>	<b>Consumer</b>	<b>Financial Institutions</b>	<b>Government Sector</b>	<b>Treasury and Capital Markets</b>	<b>Total</b>
Letters of Credit	18,744	20,708	89,708	4,142	14,194	1,813	149,309
Transfers	46,289	51,140	221,541	10,230	35,053	20,682	384,935
Card Services	1,122,260	1,239,875	5,371,188	248,017	849,844	0	8,831,184
Fund management, custody and brokerage	179,283	198,073	858,060	39,621	135,764	1,042,841	2,453,642
Current accounts	123,775	136,747	592,393	27,354	93,730	34,258	1,008,257
Savings accounts	308	340	1,475	68	233	0	2,424
State services	26,426	29,196	126,477	5,840	20,012	0	207,951
Guarantee certificates and cashier's checks	43,739	48,323	209,337	9,666	33,122	24	344,211
National stamps	1,306	1,443	6,250	289	989	0	10,277
Clearinghouse services	266,278	294,185	1,274,420	58,847	201,642	0	2,095,372
Others	70,319	77,689	336,550	15,540	53,250	509,584	1,062,932
Total banking service fees (see note 15)	<u>1,898,727</u>	<u>2,097,719</u>	<u>9,087,399</u>	<u>419,614</u>	<u>1,437,833</u>	<u>1,609,202</u>	<u>16,550,494</u>

**(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.

	<b>September 30, 2022</b> (Unaudited)						
<b>Detail</b>	<b>Corporate and Commercial</b>	<b>Agriculture and Forestry</b>	<b>Consumer</b>	<b>Financial Institutions</b>	<b>Government Sector</b>	<b>Treasury And Capital Markets</b>	<b>Total</b>
Interest and fee income	26,398,209	28,895,379	130,067,707	9,981,226	17,644,521	101,399,319	314,386,361
Interest expenses	(9,071,916)	(9,930,085)	(44,698,611)	(3,430,113)	(6,063,654)	0	(73,194,379)
Reversal of losses on bank deposits	0	0	0	0	0	162,475	162,475
Provision for investment losses	0	0	0	0	0	(2,267,017)	(2,267,017)
Provision for loan losses	(1,803,717)	(2,231,204)	(9,211,494)	(1,074,268)	0	0	(14,320,683)
Provision for provision for valuation of foreclosed assets	(83,762)	(2,764)	(144,229)	0	0	0	(230,755)
Fees for banking services	2,473,415	2,707,391	12,186,865	935,204	1,653,227	1,088,827	21,044,929
Other income	1,755,302	1,921,347	8,648,621	663,684	1,173,241	0	14,162,195
General and administrative expenses	(15,159,443)	(16,593,469)	(74,692,720)	(5,731,822)	(10,132,548)	(1,839,043)	(124,149,045)
<b>Net income</b>	<u>4,508,088</u>	<u>4,766,595</u>	<u>22,156,139</u>	<u>1,343,911</u>	<u>4,274,787</u>	<u>98,544,561</u>	<u>135,594,081</u>
Segment assets	<u>591,838,946</u>	<u>732,106,522</u>	<u>3,022,491,910</u>	<u>352,503,453</u>	<u>2,047,847,363</u>	<u>7,536,826,755</u>	<u>14,283,614,949</u>
Segment liabilities	<u>1,151,876,052</u>	<u>1,424,874,075</u>	<u>5,882,573,415</u>	<u>686,065,506</u>	<u>3,985,655,815</u>	<u>0</u>	<u>13,131,044,863</u>

	<b>September 30, 2021</b> (Unaudited)						
<b>Detail</b>	<b>Corporate and Commercial</b>	<b>Agriculture and Forestry</b>	<b>Consumer</b>	<b>Financial Institutions</b>	<b>Government Sector</b>	<b>Treasury And Capital Markets</b>	<b>Total</b>
Interest and fee income	24,607,158	27,346,634	120,798,311	6,219,879	18,228,198	57,001,012	254,201,192
Interest expenses	(8,611,024)	(9,569,676)	(42,272,136)	(2,176,583)	(6,378,772)	0	(69,008,191)
Provision for losses on bank deposits	0	0	0	0	0	(118,100)	(118,100)
Provision for provision for investment losses	0	0	0	0	0	(2,709,590)	(2,709,590)
Provision for loan losses	(2,166,803)	(2,240,088)	(10,279,225)	(535,429)	0	0	(15,221,545)
Provision for valuation of foreclosed assets	103,764	(93,115)	(713,961)	0	0	0	(703,312)
Fees for banking services	1,898,727	2,097,719	9,087,399	419,614	1,437,833	1,609,202	16,550,494
Other income	5,732,248	6,371,745	28,165,176	1,455,420	4,242,894	0	45,967,483
General and administrative expenses	(15,656,151)	(17,399,125)	(76,857,169)	(3,957,359)	(11,597,577)	(1,945,549)	(127,412,930)
<b>Net income</b>	<u>5,907,919</u>	<u>6,514,094</u>	<u>27,928,395</u>	<u>1,425,542</u>	<u>5,932,576</u>	<u>53,836,975</u>	<u>101,545,501</u>
Segment assets	<u>575,594,815</u>	<u>595,062,549</u>	<u>2,730,598,179</u>	<u>142,232,629</u>	<u>1,594,327,852</u>	<u>9,351,617,912</u>	<u>14,989,433,936</u>
Segment liabilities	<u>1,422,223,652</u>	<u>1,470,326,015</u>	<u>6,746,970,625</u>	<u>351,439,247</u>	<u>3,939,387,079</u>	<u>0</u>	<u>13,930,346,618</u>

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**(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 September 30, 2022, the following were the aggregate balances in respect of transactions with related parties:

	<b>Directors and Key Management Personnel</b>		<b>Government Sector</b>	
	<b>September 30, 2022 (Unaudited)</b>	<b>December 31 2021 (Audited)</b>	<b>September 30, 2022 (Unaudited)</b>	<b>December 31 2021 (Audited)</b>
<b>Assets</b>				
Investments in securities at amortized cost	0	0	1,072,614,633	1,040,027,616
Loans:				
Loans outstanding at beginning of the period	1,954,041	2,601,098	845,052,452	827,247,551
Loans issued during of the period	2,174,596	1,311,128	579,763,184	822,459,630
Loans cancelled during of the period	<u>(1,729,091)</u>	<u>(1,958,185)</u>	<u>(203,183,105)</u>	<u>(804,654,729)</u>
Gross balance	2,399,546	1,954,041	1,221,632,531	845,052,452
Accrued interest receivable	1,848	397	4,379,104	6,312,641
Loans outstanding at end of the period at amortized cost	<u>2,401,394</u>	<u>1,954,438</u>	<u>1,226,011,635</u>	<u>851,365,093</u>
Account receivable – Digital Voucher and others	0	0	152,166,140	72,659,900
Fiscal credit from preferential interest on loans	0	0	90,243,810	62,843,165
<b>Liabilities</b>				
Deposits at amortized cost:				
Demand deposits	38,901	36,581	3,137,300,315	3,320,451,051
Savings deposits	555,038	562,729	0	0
Time deposits	0	0	5,582,837,072	6,529,876,491
Restricted deposits	0	0	17,400,851	16,353,678
Bonds payable at amortized cost	0	0	206,250,340	206,267,485
<b>Commitments:</b>				
Letters of credit	0	0	10,249,818	16,353,678
	<b>September 30, 2022 (Unaudited)</b>	<b>September 30, 2021 (Unaudited)</b>	<b>September 30, 2022 (Unaudited)</b>	<b>September, 2021 (Unaudited)</b>
<b>Profit and Loss</b>				
Interest and commission income:				
Investments in securities	0	0	29,840,998	26,472,664
Loans	59,450	61,095	18,507,661	18,816,425
Interest expenses:				
Deposits	3,822	3,198	30,879,396	30,105,458
Bonus	0	0	0	0
General and administrative expenses:				
Directors' allowances	214,000	257,000	0	0
Salaries	3,173,794	2,917,147	0	0
Employee Benefits	136,538	153,442	0	0

The Bank's group of directors and key management personnel consists of 6 directors and 41 executive managers.

Loans to key management personnel are granted with the same terms and conditions that are available to other employees. As of September 30, 2022, loans granted to related parties have been classified as low risk and they maintain an allowance for expected credit losses of B/.1,472,786 (December 31, 2021: B/.1,019,046)



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### **Notes to the Condensed Interim Financial Information**

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#### **(17) Assets Under Administration and Custody**

As of September 30, 2022, the Bank held under management trust agreements for the account and risk of third parties for B/.3,985,232,746 (December 31, 2021: B/. B/.4,150,981,220). 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 Settlers), 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 September 30, 2022, the carrying value of this investments in securities portfolio amounted to approximately B/.4,892,089,870 (December 31, 2021: B/.5,213,961,228) 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.

As of September 30, 2022, the Bank obtained income from commissions earned from trust activities for B/.356,488 (September 30, 2021: B/.508,587), brokerage and custody services for B/.473,495 (September 30, 2021: B/.500,069) and securities services for B/.508,196 (September 30, 2021: B/.824,268) During the period, the Bank incurred financial services expenses for B/. 617,554 (September 30, 2021: B/.608, 875).

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

# **BANCO NACIONAL DE PANAMA**

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## **Notes to the Condensed Interim Financial Information**

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### **(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.

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.

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**Notes to the Condensed Interim Financial Information**

**(18) Fair Value for Financial Instruments, continued**

The following table presents the Bank's financial assets and financial liabilities at their carrying value and fair value:

	<b>September 30, 2022</b>	
	<b>(Unaudited)</b>	
	<b>Carrying</b>	<b>Fair</b>
	<b>Value</b>	<b>Value</b>
<b>Financial assets:</b>		
Time deposits at AC	4,350,902,285	4,350,864,337
Investments in securities at AC	2,946,718,671	2,720,852,550
Loans at AC	<u>6,007,822,524</u>	<u>5,479,067,027</u>
	<u>13,305,443,480</u>	<u>12,550,783,914</u>
<b>Financial liabilities:</b>		
Time deposits at AC	6,108,891,646	6,094,855,812
Bonds payable at AC	206,250,340	203,706,826
International bonds payable at AC	1,000,914,112	726,280,000
Borrowings received at AC	<u>307,921,538</u>	<u>289,556,805</u>
	<u>7,623,977,636</u>	<u>7,314,399,443</u>
	<b>December 31, 2021</b>	
	<b>(Audited)</b>	
	<b>Carrying</b>	<b>Fair</b>
	<b>Value</b>	<b>Value</b>
<b>Financial assets:</b>		
Time deposits at AC	7,234,474,179	7,234,272,569
Investments in securities at AC	2,382,967,832	2,405,018,436
Loans at AC	<u>5,034,575,091</u>	<u>4,538,979,442</u>
	<u>14,652,017,102</u>	<u>14,178,270,447</u>
<b>Financial liabilities:</b>		
Time deposits at AC	6,907,573,452	6,889,901,487
Local bonds payable at AC	206,267,485	205,952,434
International bonds payable at AC	1,006,646,605	938,350,000
Borrowings received at AC	<u>485,107,211</u>	<u>503,158,090</u>
	<u>8,605,594,753</u>	<u>8,537,362,011</u>

Interest payable on time deposits is B/.10,814,350 (December 31, 2021: B/.8,102,587).

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**Notes to the Condensed Interim Financial Information**

**(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:

	<u>Fair Value</u>				
	<u>September 30, 2022</u> <u>(Unaudited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments in securities at FVOCI:</b>					
Equity shares	<u>6,447,443</u>	<u>1,329,972</u>	<u>0</u>		<u>7,777,415</u>
<b>Investments in securities at FVTPL:</b>					
Negotiable certificates	<u>0</u>	<u>0</u>	<u>40,070,290</u>		<u>40,070,290</u>
	<u>Fair Value</u>				
	<u>December 31, 2021</u> <u>(Audited)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments in securities at FVOCI:</b>					
Equity shares	<u>7,847,591</u>	<u>1,303,937</u>	<u>0</u>		<u>9,151,528</u>
<b>Investments in securities at FVTPL:</b>					
Negotiable certificates	<u>0</u>	<u>0</u>	<u>29,295,850</u>		<u>29,295,850</u>

As of September 30, 2022, the Bank holds equity securities for B/.391,142 (December 31, 2021: B/.391,142), 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.

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:

<u>Description</u>	<u>September 30, 2022</u> <u>(Unaudited)</u>		<u>December 31, 2021</u> <u>(Audited)</u>	
	<u>Level 2</u>	<u>Level 3</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets:</b>				
Time deposits at AC	0	4,350,864,337	0	7,234,272,569
Investments in securities at AC	2,720,852,550	0	2,405,018,436	0
Loans at AC	<u>0</u>	<u>5,479,067,027</u>	<u>0</u>	<u>4,538,979,442</u>
	<u>2,720,852,550</u>	<u>9,829,931,364</u>	<u>2,405,018,436</u>	<u>11,773,252,011</u>
<b>Liabilities:</b>				
Time deposits at AC	0	6,094,855,812	0	6,889,901,487
Local bonds payable at AC	0	203,706,826	0	205,952,434
International bonds payable at AC	726,280,000	0	938,350,000	0
Borrowings received at AC	<u>289,556,805</u>	<u>0</u>	<u>503,158,090</u>	<u>0</u>
	<u>1,015,836,805</u>	<u>6,298,562,638</u>	<u>1,441,508,090</u>	<u>7,095,853,921</u>

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## Notes to the Condensed Interim Financial Information

### (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 / Foreign borrowings received with MIGA guarantee at amortized cost / Bonds payable - foreign 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 (excluding financing with MIGA guarantee), and securities purchased under resale agreements, the carrying value approximates fair value due to their short-term nature.

### (19) Principal 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.

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.

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### Notes to the Condensed Interim Financial Information

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#### (19) Principal Applicable Laws and Regulations, continued

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 September 30, 2022, the Bank had an additional capital requirement of B/.1,956,836 (As of December 31, 2021: B/.2,085,584).

As of September 30, 2022, the capital contributed by the State for B/.850,000,000 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.

#### (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.

## **BANCO NACIONAL DE PANAMA**

(Panama, Republic of Panama)

### **Notes to the Condensed Interim Financial Information**

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#### **(19) Principal Applicable Laws and Regulations, continued**

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) Preferential Interest Law*

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.

# BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

## Notes to the Condensed Interim Financial Information

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### (19) Principal Applicable Laws and Regulations, continued

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.

#### Specific regulations of the Superintendency of Banks of Panama

##### (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.

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.



# BANCO NACIONAL DE PANAMA

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## Notes to the Condensed Interim Financial Information

### (19) Principal Applicable Laws and Regulations, continued

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 to mitigate risk, 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.

The following table summarizes the classification of the Bank's loan portfolio based on Agreement No. 004-2013, temporarily modified by Agreement No. 002-2020:

	<u>September 30, 2022</u>		<u>December 31, 2021</u>	
	<u>(Unaudited)</u>		<u>(Audited)</u>	
	<u>Loans, Gross</u>	<u>Allowance</u>	<u>Loans, Gross</u>	<u>Allowance</u>
Standard	5,561,692,792	56,773	4,519,464,096	0
Special mention	245,037,893	6,613,389	326,979,656	9,025,937
Sub-standard	229,412,528	23,898,396	174,853,212	12,960,219
Doubtful	21,819,959	4,104,575	31,658,451	5,109,794
Loss	<u>73,397,216</u>	<u>20,430,524</u>	<u>83,770,823</u>	<u>23,430,012</u>
Gross amount	<u>6,131,360,388</u>	<u>55,103,657</u>	<u>5,136,726,238</u>	<u>50,525,962</u>

The Bank, 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 September 30, 2022, the Bank maintains loans for B/.60,679,586 (December 31, 2021: B/.57,382,098) in nonaccrual status and the interest not received amounts to 5,084,241 (December 31, 2021: B/.3,698,115).

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.

# BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

## Notes to the Condensed Interim Financial Information

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### (19) Principal Applicable Laws and Regulations, continued

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

<u>September 30, 2022</u>			<u>December 31, 2021</u>		
<u>(Unaudited)</u>			<u>(Audited)</u>		
<u>Past due</u>	<u>Overdue</u>	<u>Total</u>	<u>Past due</u>	<u>Overdue</u>	<u>Total</u>
<u>61,669,033</u>	<u>92,546,587</u>	<u>154,215,620</u>	<u>51,218,193</u>	<u>85,051,433</u>	<u>136,269,626</u>

During the period ended September 30, 2022, loans with a gross balance as of B/.28,748,468 (December 31, 2021: B/.47,313,524) were renegotiated.

Loans written off as of September 30, 2022, in the amount of B/.1,607,411 (December 31, 2021: B/.6,542,071) are still subject to collection activities.

#### *Modified Loans*

During September 2020, the Superintendency of Banks of Panama issued Agreement No. 009-2020, that modifies Agreement No. 002-2020, which establishes additional, exceptional and temporary measures for compliance with the provisions contained in the Agreement No. 004-2013 on credit risk.

In view of the current situation presented by the COVID-19 Pandemic, a new type of credit category was created, called "modified credits". The provisions established in the Agreement apply to both consumer loans and corporate loans.

In order to allow the debtors to adequately attend to their obligations, against the potential or real impairment of payments, due to the crisis caused by COVID-19, the banking entities can modify the originally agreed conditions of the credits without these adjustments being considered a loan restructuring as provided in Agreement No. 004-2013. These modifications may be made at the request of the debtor or at the initiative of the banking entity.

The modified loans would have the following characteristics:

1. The new terms and conditions must meet financial viability criteria taking into consideration the debtor's payment capacity and the bank's credit policies.
2. The loans will be subject to special monitoring by the Bank.
3. Credits within the modified category must follow the established parameters; for purposes of determining the provisions that will be applied to modified loans, banks will classify the portfolio of personal loans and corporate loans and other loans under a new risk category called "modified special mention".

Agreement No. 013-2020, modifies Agreement No. 002-2020, and dictates additional, exceptional and temporary measures for compliance with the provisions contained in Agreement No. 004-2013 on credit risk, defines that loans classified as normal and special mention, as well as restructured loans that are not in arrears, may be modified in accordance with the guidelines established in the aforementioned Agreement. Moreover, these modified loans in the normal and special mention categories will be classified in the category "modified special mention" for the purpose of determining the respective allowance.

**BANCO NACIONAL DE PANAMA**  
(Panama, Republic of Panama)

**Notes to the Condensed Interim Financial Information**

**(19) Principal Applicable Laws and Regulations, continued**

On June 11, 2021, The Superintendency of Banks of Panama published Banking Agreement No. 002-2021 which establishes the parameters and guidelines that will be applicable to modified credits, since Agreements 009-2020 and 013-2020 were valid up to June 30, 2021.

*Allowance for the Modified Special Mention Portfolio*

This provision must be established to cover credit risk, banks will constitute provisions on the portfolio of modified credits classified in the category "Special Mention Modified", making sure to comply with the International Financial Reporting Standards (IFRS) and the standards prudential established in Agreement No. 002-2021 modified by Agreement No. 006-2021.

In accordance with the requirements of article 8 of Agreement No. 006-2021 of December 22, 2021, which refers to Article 9 of Agreement No. 002-2021 on the disclosures in the financial statements as follows is presented, a detail of the modified special mention category loan portfolio and their respective provisions and regulatory reserves as of December 31, 2021, classified according to the codes indicated in the General Resolution of the Board of Directors SBP-GJD-0003-2021 and according to the risk stage of the IFRS 9:

	<b>September 30, 2022</b>			
	<b>(Unaudited)</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans within the modified special mention category</b>				
Modified standard	34,093,015	4,689,174	0	38,782,189
Modified special mention	79,009,656	20,549,851	0	99,559,507
Modified sub standard	0	186,620,020	8,676,405	195,296,425
Modified doubtful	0	0	2,002,955	2,002,955
Modified loss	0	0	3,807,290	3,807,290
<b>Gross amount</b>	<b><u>113,102,671</u></b>	<b><u>211,859,045</u></b>	<b><u>14,486,650</u></b>	<b><u>339,448,366</u></b>
More (less):				
Accrued interest receivable	3,335,069	2,898,678	187,261	6,421,008
Interest and unearned commission	(42,510)	(370,659)	(44,434)	(457,603)
<b>Total loans subject to provisions Agreement No. 006-2021</b>	<b><u>116,395,230</u></b>	<b><u>214,387,064</u></b>	<b><u>14,629,477</u></b>	<b><u>345,411,771</u></b>
<b>Allowance and reserve requirements</b>				
IFRS 9 allowance requirement	<u>5,232,532</u>	<u>44,766,988</u>	<u>9,066,632</u>	<u>59,066,152</u>
<b>Total allowance and reserve requirements</b>	<b><u>5,232,532</u></b>	<b><u>44,766,988</u></b>	<b><u>9,066,632</u></b>	<b><u>59,066,152</u></b>

	<b>December 31, 2021</b>			
	<b>(Audited)</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loans within the modified special mention category</b>				
Modified standard	93,240,818	14,705,388	0	107,946,206
Modified special mention	176,967,572	88,079,488	2,814,655	267,861,715
Modified sub standard	84,584,878	48,911,398	3,747,357	137,243,633
Modified doubtful	0	0	12,767,466	12,767,466
Modified loss	0	0	16,393,809	16,393,809
<b>Gross amount</b>	<b><u>354,793,268</u></b>	<b><u>151,696,274</u></b>	<b><u>35,723,287</u></b>	<b><u>542,212,829</u></b>
More (less):				
Accrued interest receivable	11,653,149	7,408,528	1,112,540	20,174,217
Interest and unearned commission	(226,809)	(439,342)	(79,859)	(746,010)
<b>Total loans subject to provisions Agreement No. 006-2021</b>	<b><u>366,219,608</u></b>	<b><u>158,665,460</u></b>	<b><u>36,755,968</u></b>	<b><u>561,641,036</u></b>
<b>Allowance and reserve requirements</b>				
IFRS 9 allowance requirement	<u>15,464,617</u>	<u>12,527,911</u>	<u>21,930,298</u>	<u>49,922,826</u>
<b>Total allowance and reserve requirements</b>	<b><u>15,464,617</u></b>	<b><u>12,527,911</u></b>	<b><u>21,930,298</u></b>	<b><u>49,922,826</u></b>

**Notes to the Condensed Interim Financial Information**

**(19) Principal Applicable Laws and Regulations, continued**

As explained in Note 27 the effects of COVID-19, since March 31, 2020 the bank granted an automatic grace period to borrowers affected in their business or personal activities by COVID-19, until June 2020. As of that date, and as a result of an agreement signed between the Government of Panama and the Banking Association of Panama, as well as the issuance of Moratorium Law No. 156, financial relief to those affected by COVID-19 and those who requested it were granted an extension up to December 31, 2020. The financial relief measures consist mainly of granting grace periods for capital and interest payments to clients whose income has been affected by the pandemic.

As part of the bank's risk management, individual and collective analysis on the condition of the loans have been carried out, including a portfolio breakdown to identify employment status or opening of economic activity of each client to ascertain who will be able to comply with their banking obligations, who will have difficulties, and who will not be able to comply; and, thus determine if there has been a significant increase in risk and to classify these loans according to their corresponding impairment stage. Additionally, different agreements have been reached with clients based on the individual analysis of their ability to generate the necessary cash flows to meet their obligations.

*Cash flows on modified special loans*

COVID-19 has resulted in a disruption in economic activities that have negative impact affected. The bank's cash flows have been reduced as a result of the aforementioned moratoriums, as shown in the following table that details the percentage of the value of modified special mention loans, including interest, that as of September 30, 2022 do not present Payment in your installments counted from the last installment payment registered at the time of the credit modification:

	<u>September 30, 2022</u> <u>(Unaudited)</u>				
	<u>Up to 90</u> <u>days</u>	<u>Between</u> <u>91 and 120</u> <u>days</u>	<u>Between</u> <u>121 and 180</u> <u>days</u>	<u>Between</u> <u>181 and 270</u> <u>days</u>	<u>More than</u> <u>270</u> <u>days</u>
Corporate	0%	0%	0%	0%	0%
Consumer	0%	0%	0%	0%	1%
	<u>December 31, 2021</u> <u>(Audited)</u>				
	<u>Up to 90</u> <u>days</u>	<u>Between</u> <u>91 and 120</u> <u>days</u>	<u>Between</u> <u>121 and 180</u> <u>days</u>	<u>Between</u> <u>181 and 270</u> <u>days</u>	<u>More than</u> <u>270</u> <u>days</u>
Corporate	0%	0%	0%	0%	0%
Consumer	0%	0%	0%	2%	19%

**Notes to the Condensed Interim Financial Information**

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**(19) Principal Applicable Laws and Regulations, continued**

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

In accordance with the aforementioned agreement in the previous paragraph, on the modified special mention loan portfolio, the banks had to constitute a reserve equivalent to the higher value between the allowance according to IFRS of the modified special mention portfolio and a generic allowance equivalent to three percent ( 3%) of the gross balance of the modified loan portfolio, including accrued uncollected interest and capitalized expenses; modified loans guaranteed with deposits pledged in the same bank may be excluded from this calculation up to the guaranteed amount.

Through Agreement No. 006-2021, the Superintendency annulled the article that required the generic provision indicated in the previous paragraph; however, taking into account the new circumstances derived from COVID-19 and the significant increase in risk derived from the passage of time, banking entities shall not reverse the previously constituted provisions (through income statement or equity) as of November 2021 for the modified loan portfolio, in accordance with the provisions made in Article 8 of Agreement No. 002- 2021.

Notwithstanding the foregoing, in the event that a modified loan is reestablished to the application of Agreement No. 004-2013 in the normal category, banking entities may use its corresponding portion of the previously constituted provision to constitute the required IFRS allowance. This provision will be in force until the Superintendency deems it necessary, depending on the future behavior of the modified loan portfolio

*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.

## **BANCO NACIONAL DE PANAMA**

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### **Notes to the Condensed Interim Financial Information**

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#### **(19) Principal Applicable Laws and Regulations, continued**

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.

Agreement No. 002-2020 dictates the use of the dynamic provision for the purpose of the provisions of paragraph c of Article 37 of Agreement No. 004-2013, which establishes restrictions on the amount of the dynamic provision, as an exceptional and temporary measure it is established that banks may use up to 80% of the dynamic provision for the constitution of specific provisions. In cases where the bank requires to use more than eighty (80%) of the amount of the dynamic provision, it must obtain prior authorization from the Superintendency of Banks. Banking entities will only be able to make dividend payments once they have restored the amount of the dynamic provision corresponding 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 market.

As of September 30, 2022 the dynamic provision of the bank amounted to B/.56,929,983 (December 31, 2021: 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).

## BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

### Notes to the Condensed Interim Financial Information

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#### (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 condensed 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, as defined by Agreement No. 003-2018, as amended by Agreement No. 006-2019, and the unrealized gains during the nine months ended at September 30, 2022, are detailed below by type of position:

<u>Type of instruments</u>	<u>Maturity Date</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Common shares	NA	4,494,298	4,494,298
Common shares	NA	1,953,146	1,409,179
Common shares	NA	955,776	918,276
Common shares	NA	189,164	151,664
Common shares	NA	105,714	26,429
Common shares	NA	79,317	52,277

The capital requirement for these instruments at September 30, 2022 is B/.2,253,479 (December 31, 2021: B/.3,500,683).

The Superintendency of Banks of Panama, establishes in Agreement No. 012-2019, article 13, that all capital instruments (stocks) measured at fair value with changes in other comprehensive income, must constitute a reserve for expected losses, this requirement is strictly prudential and independent of what is established by IFRS 9. As of September 30, 2022, the regulatory reserve for investments in securities with changes in other comprehensive income is B/.9,229 (December 31, 2021: B/.9,934).

## **BANCO NACIONAL DE PANAMA**

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### **Notes to the Condensed Interim Financial Information**

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#### **(20) Effects of the Global Pandemic on the Spread of the Coronavirus or COVID-19**

The effects of the COVID-19 Pandemic have affected the Panamanian economy. In response to the economic and social impact of COVID-19 and with the objective of safeguarding public health and the financial stability of the Banking System, the national government has developed a series of initiatives that are part of the Economic Reactivation Plan. Among the initiatives included are: Loan moratorium plans to support companies and individuals with respect to their banking commitments; the gradual opening of the economy by blocks and later by activity, to return to normality. Economic assistance programs have been developed for individuals and companies, whose income and ability to make payments on their obligations have been impaired by the suspension or termination of employment contracts due to the temporary or total closure of companies.

Against this situation presented by COVID-19, the Superintendency of Banks of Panama issued banking agreements with temporary measures for the treatment of the banks' credit portfolios, which include the new category of "modified credits." Under this category, banks classify all those loans that have had changes in the originally agreed terms and conditions and that have been modified at the borrower's or banks' request, without being considered restructured loans. The provisions established for modified loans apply to corporate loans (commercial, agricultural, financial and corporate institutions) and loans to individuals. These loans consider financial viability criteria, based on the borrower's ability to pay.

The Superintendency of Banks of Panama issued Banking Agreement No. 002-2021 of June 11, 2021, dictating the new guidelines for modified credits classified in the modified special mention category under Agreement No. 002 -2020; as well as those modified credits restored to the loan portfolio in accordance with Agreement No. 004-2013.

On December 22, 2021, the Superintendency of Banks of Panama issued Agreement No. 006-2021, which establishes the parameters and guidelines for the determination of provisions applicable to loans in the modified special mention category.

The Bank's management, aware of the fundamental role that the institution plays in the country's financial and economic system, continuously monitors the evolution of the COVID-19 pandemic and the country's economic behavior and, based on this, updates the strategies of business, as well as credit policies, procedures, controls and monitors the behavior of the credit portfolio in order to mitigate the risks that could arise given the extraordinary circumstances facing the country.



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**Schedule 1 - Supplementary Information from the Brokerage House**

September 30, 2022

(Expressed in Balboas)

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 September 30, 2022 the nine-month period ending on September 30, 2022 and at closing of September 30, 2022.

<b>Three-month period ended September 30, 2022</b> <b>(Unaudited)</b>					<b>September 30,</b> <b>2022</b>
	<b>Maximum</b>	<b>Date</b>	<b>Minimum</b>	<b>Date</b>	
Solvency ratio	100%	1-Jul-22	100%	1-Jul-22	100%
Capital Funds	6,127,009	28-Sep-22	6,038,467	30-Sep-22	6,038,467

  

<b>nine-month period ended September 30, 2022</b> <b>(Unaudited)</b>					<b>September 30,</b> <b>2022</b>
	<b>Maximum</b>	<b>Date</b>	<b>Minimum</b>	<b>Date</b>	
Solvency ratio	100%	3-Jan-22	100%	3-Jan-22	100%
Capital Funds	6,127,009	28-Sep-22	4,688,485	3-Jan-22	6,038,467

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 condensed statement of financial position, during the six-month period ended September 30, 2022 and at the close of September 30, 2022:

**Nine-month period ending September 30, 2022**  
**(Unaudited)**

As of September 30, 2022	78.54%
Maximum for the period – July 01, 2022	82.17%
Minimum for the period – September 16, 2022	71.19%

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(Expressed in Balboas)

**Nine-month period ending September 30, 2022**  
**(Unaudited)**

As of September 30, 2022	78.54%
Maximum for the period – February 18, 2022	86.66%
Minimum for the period – September 16, 2022	71.19%

**Year ended December 31, 2021**  
**(Audited)**

As of December 31, 2021	83.92%
Maximum for the period - January 31, 2021	89.34%
Minimum for the period – December 10, 2021	82.55%

Concentration of Credit Risk: Article No. 14 of Agreement No. 004-2011, 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 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 period ended on September 30, 2022, no concentration situations occurred according with the segmented balances characteristic of the activity of the Brokerage House.

In compliance with Agreement No. 004-2011, Sole Text issued by the Superintendency of the Securities Market which contains amendments made by Agreement No. 003-2015, 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:

**(1) Managed Amount of Client accounts**

As of September 30, 2022, the Bank holds the following investments in securities:

		<b><u>September 30, 2022</u></b> <b><u>(Unaudited)</u></b>		
		<b><u>Banking</u></b>	<b><u>Brokerage House</u></b>	<b><u>Total</u></b>
Own position	2,976,685,694	7,195,611	2,983,881,305	2,983,881,305
Third party position	<u>0</u>	<u>4,892,089,870</u>	<u>4,892,089,870</u>	<u>4,892,089,870</u>
		<b><u>December 31, 2021</u></b> <b><u>(Audited)</u></b>		
		<b><u>Banking</u></b>	<b><u>Brokerage House</u></b>	<b><u>Total</u></b>
Own position	2,403,589,626	7,192,320	2,410,781,946	2,410,781,946
Third party position	<u>0</u>	<u>5,213,961,228</u>	<u>5,213,961,228</u>	<u>5,213,961,228</u>

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**(1) Managed Amount of Client accounts, continued**

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 condensed 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 September 30, 2022, the Bank has consigned as guarantee public debt securities for the amount of B/.1,099,071 in favor of Central Latinoamericana de Valores (Latinclear), in compliance with the provisions of Agreement No.011-2003 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, 2021: B/.1,098,375).

**(2) Financial Information by Type of License**

The following table shows the assets, liabilities and equity of the Bank as of September 30, 2022, by activity, according to the licenses granted:

	<b>September 30, 2022</b>		
	<b>(Unaudited)</b>		
	<b>Brokerage</b>		
	<b>Banking</b>	<b>House</b>	<b>Total</b>
Total assets	<u>14,275,491,618</u>	<u>8,123,331</u>	<u>14,283,614,949</u>
Total liabilities	<u>13,130,978,361</u>	<u>66,502</u>	<u>13,131,044,863</u>
Total equity	<u>1,144,513,257</u>	<u>8,056,829</u>	<u>1,152,570,086</u>

  

	<b>December 31, 2021</b>		
	<b>(Audited)</b>		
	<b>Brokerage</b>		
	<b>Banking</b>	<b>House</b>	<b>Total</b>
Total assets	<u>15,297,931,210</u>	<u>8,440,451</u>	<u>15,306,371,661</u>
Total liabilities	<u>14,281,044,383</u>	<u>77,393</u>	<u>14,281,121,776</u>
Total equity	<u>1,016,886,827</u>	<u>8,363,058</u>	<u>1,025,249,885</u>

The following presents the Bank's income and expenses for the period ended September 30, 2022, by activity, according to the licenses granted:

	<b>September 30, 2022</b>		
	<b>(Unaudited)</b>		
	<b>Brokerage</b>		
	<b>Banking</b>	<b>House</b>	<b>Total</b>
Net interest and commission income after provisions	224,372,968	1,668,284	226,041,252
Other income	33,701,874	0	33,701,874
Other expenses	1,233,304	0	1,233,304
General and administrative expenses	<u>122,304,286</u>	<u>611,455</u>	<u>122,915,741</u>
Net income	<u>134,537,252</u>	<u>1,056,829</u>	<u>135,594,081</u>

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**Schedule 1 - Supplementary Information from the Brokerage House**

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**(2) Financial Information by Type of License, continued**

	<u>September 30, 2021</u>		
	<u>(Unaudited)</u>		
	<u>Banking</u>	<u>Brokerage House</u>	<u>Total</u>
Net interest and commission income after provisions	166,277,987	1,700,911	167,978,898
Other income	60,979,533	0	60,979,533
Other expenses	1,030,161	0	1,030,161
General and administrative expenses	<u>125,682,493</u>	<u>700,276</u>	<u>126,382,769</u>
Net income	<u>100,544,866</u>	<u>1,000,635</u>	<u>101,545,501</u>

As of September 30, 2022, the brokerage house under the license held by the Bank generated commissions for brokerage services and custody fees in the amount of B/.1,505,250 this income is presented as net interest and commission income after provisions, while in the Bank it is presented in other income (September 30, 2021: B/.1,538,444).

**(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 market value.

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