



March | 2023

Annual Report of Corporate Governance

Popular Bank Ltd. Inc.

Annual report of corporate governance structure, principles, rules and practices and their applications during the period of January -December 2022.

This report has been approved by the Board of Directors of Popular Bank Ltd. Inc.
at its regular meeting of March 27, 2023.



1. INTRODUCTION.

This Annual Report of Corporate Governance (hereafter the “Report”) contains the description of issues related to the corporate governance regime of Popular Bank Ltd. Inc. (hereafter “Popular Bank”) during 2022. Through this report, Popular Bank fulfill its responsibility of reporting the main advances and the good management of corporate governance throughout the year, showing its commitment with the measurement, evaluation and improvement of the internal practices that impact on corporate objectives in a framework of prudent and efficient administration. At the same time, this report fulfills the Principle VII of the Declaration of Principles on Information and Transparency, which aims to consummate the duty of accountability of the entity and members of its Board of Directors.

This document is the tenth report on Corporate Governance rendered by Popular Bank Ltd. Inc. The report is for informational purposes, in which it shows the performance of the governing bodies (Shareholders, Board of Directors and its Committees) serving as a communication tool toward the different stakeholders of the entity (shareholders, staff, customers, suppliers, regulators, community in general).

Today, there is no doubt of the relevance that the understanding of the concept and application of the rules of corporate governance has for the business world and, above all, for the scope of the companies that perform or base their operations in financial activities. As indicated by bodies such as the Organization for Economic Cooperation and Development (OECD) corporate governance is the main tool of control and risk mitigation in the sphere of financial institutions around the world.

For our institution, Corporate Governance is the set of principles, policies, practices and actions of management, administration and control, aimed to create, promote, strengthen, consolidate and preserve a culture based on corporate transparency. The Superintendency of Banks of Panama, through Agreement 05-2011 of September 20, 2011, modify by the Agreements 4-2012, 5-2014 and 8-2019, establishes guidelines for banks to conduct their businesses within the framework of good Corporate Governance.

One of the most important elements of the entire system of corporate governance is constituted by the ongoing evaluation and improvement of the rules and practices in this area. In this sense, during 2022, Popular Bank reviewed policies governing the field of corporate governance with the purpose of verifying its compliance and adherence to their guidelines.

Since January 2014, Popular Bank joined as a member of the Institute of Corporate Governance Panama, participating each year in the election of its Board of Directors and in conferences of interest that are organized throughout the year.

During 2022, the Institute of Corporate Governance Panama (IGCP in Spanish) continued with the organization of several webinars offered though virtual communication as: Climatic Governance, Capital & Commerce in XXI Century, the corporate governance of companies into institutional crisis;

in person training the VII Congress of Corporate Governance – Tendencies and Innovation, which included the participation of national and international speakers.

On this period, the Vice president of Compliance was designated as member of two of the eight Committees of the Board of Directors of the Institute of Corporate Governance Panama, those are Training Committee and Normative and Ethics Committee with expiry date as of April 2023.

The *Institute of Corporate Governance Panama* (IGCP in *Spanish*) is the main center in Panama for the training, dissemination, and research in relation to corporate governance and the center in which to share knowledge and experience on the subject. It is a member of the regional network of similar institutes in the countries of Latin America, *Latin American Institutes of Corporate Governance* (IGCLA in *Spanish*), for which it is recognized as the local authority on corporate governance.

Principles of Corporate Governance

Popular Bank has a Declaration of Principles of Corporate Governance in line with Grupo Popular principles, wherein it establishes explicitly the principles that ruled our corporate structure, its functioning and performance, as well as the relations with its shareholders, directors, management, staff and third parties with which it has relationships.

This Declaration of Principles is based in the principles described as follows:

- Principles**
- I. Objective, Responsible, Capable and Prudent Management
- II. Protection and defense of the interests of the Shareholders
- III. Stakeholders (shareholders, clients, employees, suppliers, regulators and community)
- IV. Social Responsibility
- V. Ethical Conduct
- VI. Conflict of Interest
- VII. Information and Transparency
- VIII. Audit, Internal Control and Risk Management
- IX. Regulatory Compliance
- X. Anti-Money Laundering and Financing of Terrorism

2. OWNERSHIP STRUCTURE.

The Ownership Structure of an enterprise refers to the information on the composition of the capital shares, as well as the applicable conditions for the decision-making by the shareholders.

2.1. Authorized Capital.

Authorized Capital
USD150,000,000.00

2.2. Number of shareholders and means of participation.

Number of Shareholders
1

Name of the Shareholder
Grupo Popular, S.A.

Number of authorized and issued shares
2,300,000 (Common Actions)

2.3. Information Regime.

In general, to the shareholder status is inherent a set of rights, among which is the right to information.

2.4 General Shareholders Meeting.

The General Shareholders Meeting is the highest authority of the company, which has as its main functions to elect the members of the Board of Directors and reform, among others the Articles of Incorporation, which is the main document of the Corporation, through which it is created and where clauses of great importance such as the name of the Corporation, the purposes of the same, the capital, the amount and type of shares are established.

2.4.1. Meeting and Rules.

In accordance with Article 3 of the Articles of Incorporation, the Shareholders' Meeting is held annually within the first four (4) months of the year, for the election of directors and carrying out any other business that are submitted properly to the session.

2.4.2. Meetings during 2022.

During 2022, was held a virtual ordinary shareholder meeting on March 25, 2022.

2.5 Relations with Shareholders.

Principle II of our Declaration of Principles establishes the Bank's commitment, and particularly of the Board and Senior Management with the recognition, promotion and protection of parity among shareholders and establish measures to promote and safeguard this and other rights that such status gives them.

3. MANAGING BODIES.

3.1 Board of Directors.

In accordance with the provisions of Law 32 of February 26, 1927, the businesses of the corporation shall be managed and directed by the Board of Directors (“Board”), which shall act in accordance with the provisions of the Law, the Articles of Incorporation or by laws of the Corporation. In Popular Bank, the Board is the highest supervisory, control and management body.

The Charter of the Board of Directors, available in the Corporate Governance Manual, establishes the principles of action of this body, regularizing its organization and operation, in addition to setting standards of conduct for its members in order to achieve the greatest degree of optimization of their management

For the 2022 period, the Board consisted of eleven (11) members, two (2) of them meet the conditions established in Article 2 of Agreement 05-2011, Corporate Governance, to qualify as independent directors.

The following table shows the composition of the Board during the reporting period and the regulatory classification of the directors.

Nombre	Cargo
Luis E. Espínola M.	Director - Chariman
Alex Pimentel M.	Director- First Vicepresident
Práxedes Joaquín Castillo B	Director – Secretary
A. Alejandro Santelises	Director - Tesorero
José A. Bermúdez M.	Director
Néstor Moreno S.	Independent Director
Erich Schumann	Independent Director
Antonia Antón E.	Director
Juan Lehoux	Director (New Member)
Enrique M. Illueca	Director (New Member)
Lissette De Jesus Montero	Director (New Member)

During this period, three new members of our Board of Directors were included.

Remuneration.

The remuneration payable to each External Member of the Board is made under a schema proposed by the Nomination and Remuneration of Grupo Popular, S. A., and approved by the Board of Directors of Grupo Popular, S. A.

In June 2014, Popular Bank adopted the Remuneration and Viaticum Policy for External Members of the Board of Directors and its Committees, whereby it sets out the manner in which they will be remunerated.

Ethics and Conduct.

Conflicts of Interests. The Superintendency of Banks, through Agreement 05-2011 on Corporate Governance, requires that banks have a Code of Conduct that has guidelines related with conflict of interests, among other issues.

In this sense, and as an essential element of its business model, Popular Bank has a Code of Ethics, which established the corporative values and behavior standard, being this document that led the principles that guide the organizational behavior. The Ethic and Conduct Code was review and approved in November 2022.

Likewise, the Corporate Governance Manual contains the Policy of Management of Conflicts of Interest which establishes the prevention and resolution mechanisms in cases where there are or arise conflicts of interest, real or potential, or when its occurrence cannot be avoided, defining rules for its treatment that are applicable to the Members of the Board.

3.2. Members of the Board of Directors.

Rights and Responsibilities.

The Charter of the Board establishes the rights and duties of the members in the performance of their charges.

The main rights are described in the Article 6 of the Charter:

- Constant and sufficient information;
- Assistance by experts;
- Training;
- Remuneration; and
- Dissenting vote.

The main duties are found described in the Article 7 of the Charter:

- Attendance to meetings of the Board and the committees in which they acted as members;

- Active participation in the meetings;
- Diligence;
- Fidelity;
- Information;
- Ethical behaviour;
- Self evaluation of its own practices
- Loyalty; and
- Confidentiality.

Membership Criteria.

The participation as member of the Board is subject to compliance with certain rules and with the requirements, aptitude and minimum professional qualifications set out in the Charter. Note that as a condition to be member of the board of directors of banking entities in Panama, the Agreement 5-2011 of Corporate Governance states the following: it must be a "natural person with relevant knowledge or experience regarding the operations and the risks inherent to banking activities".

As a general condition and in attention to Article 15 of Banking Law, the Article 14 of the Charter, states that "Cannot act as a director or officer any person who has been a director or officer of a bank at the time of its forced liquidation or that participated in the management of a bank and found responsible for actions leading to its forced liquidation."

Independent Members.

As per Agreement 05-2011 of the Superintendence of Banks, it is required that the Board has at least two (2) independent directors.

The qualification as an independent member was defined through a questionnaire that takes into consideration the aspects indicated in the Agreement 05-2011, as amended by Agreement 05-2014 (definition of independent director), as well as the provision of Article 199 of the Banking Law (definition of a banking consumer).

This questionnaire is updated annually in order to validate that the conditions that allow the director its qualification as "independent" are maintained.

3.3. Committees of the Board.

General Rules

The Committees of the Board are specialized bodies that are intended to assist the Board in its work, knowing and analyzing issues and particular aspects.

Article 18 of Agreement 05-2011 recommends, depending on the risk profile of the bank, the establishment of committees of the Board, which shall have their respective charters.

The Committees of the Board are regulated by the agreements issued by the Superintendency of Banks, which are integrated into the Manual of Corporate Governance.

The Board has approved the establishment of the following committees:

- Risk Committee
- Audit Committee
- Corporate Governance Committee
- Prevention of Money Laundering Committee
- Credit Committee

The inner workings of the committees shall meet the operating rules set out in the Charter of the Board of Directors for effects of calling the ordinary or extraordinary sessions, voting, and registry of minutes and other issues of the meeting.

Each committee has its own charter, which contains the rules for its operations and responsibilities, all of which is approved by the Board.

Ethics Policies and Behaviour.

In adherence to Principle V of the Declaration of Principles of Corporate Governance, Popular Bank recognizes the ethical conduct as an essential factor in our institution. The special provisions that are applicable are available through the Code of Ethics of Popular Bank, whereby the Bank establishes as a duty of the Board in conjunction with senior management, to encourage members of the Bank to show the highest level of personal conduct, regardless of the position or office they hold.

Evaluation.

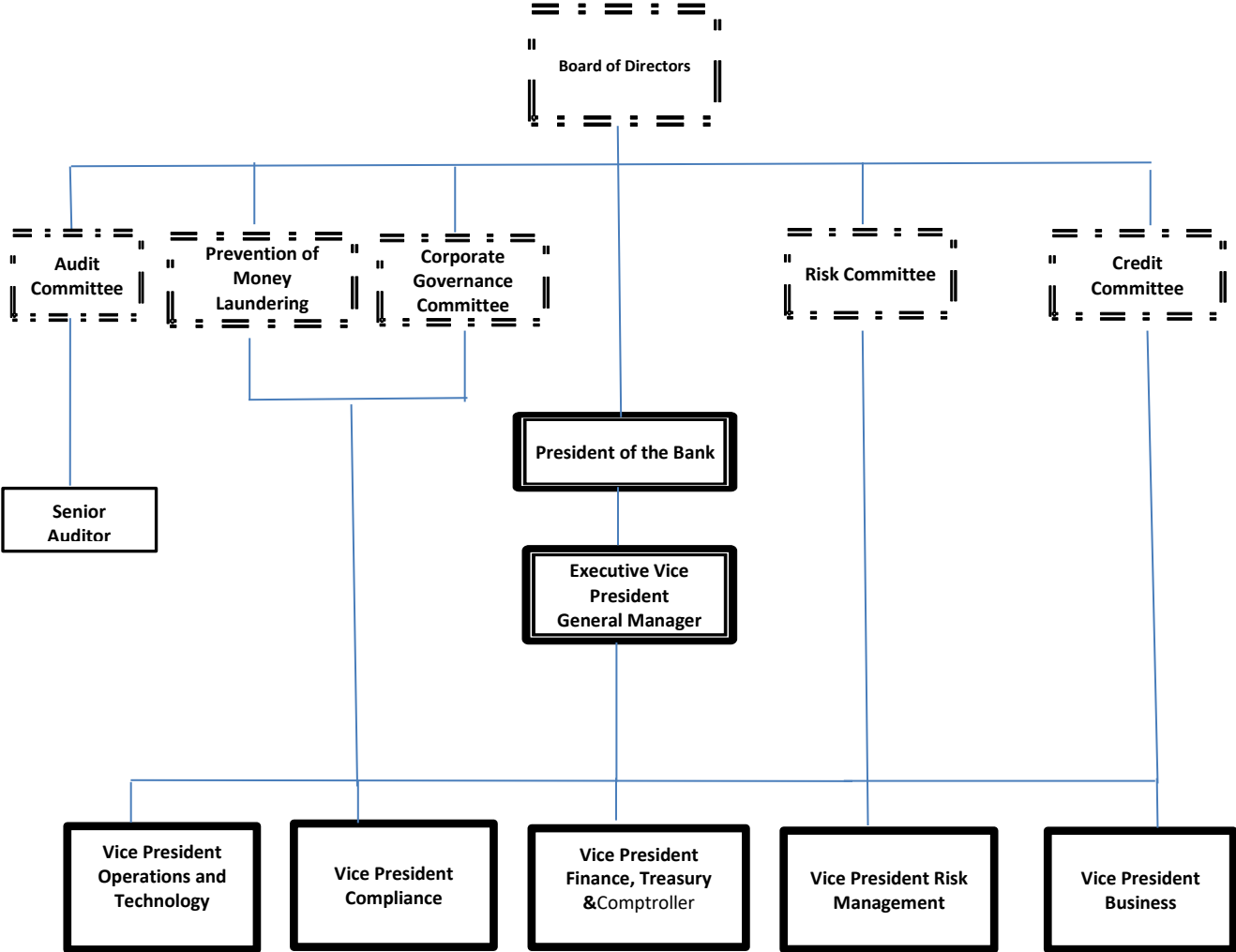
In compliance with the provisions of both the Manual of Governing Bodies of Grupo Popular, S. A., to which we adhere, as well as with those of Article 13 of Agreement 05-2011 on Corporate Governance related to the assessment and self-assessment of governing bodies, Popular Bank developed the Policy of Evaluation of the Board and its Committees. This policy purpose is to evaluate the performance of the Board and its Committees, in order to identify strengths and opportunities for improvement.

During 2022, the Bank carried out the exercise to evaluate the performance of the Board and its Committees for the 2021 period.

3.5. Senior Management.

The day to day management of the Bank is carried out by Senior Management or Top Management, as defined by Article 2 of Agreement 05-2011 as "the top executive officer (called general manager, executive vice president, executive president officer or other name), as well as the second highest ranking executive (called deputy general manager or any other name) and other managers and staffs performing key functions which must report directly to the previous one."

3.5.1. Structure.



The Management of Popular Bank attends to an organizational structure that allows it to operate in an efficient manner, according with the line of business and current regulations, ensuring that it provides a quality service to its client, leveraged on state-of-the-art technology and with a human resource characterized by the highest ethical standards.

The structure has been established in response to the recommendation of the Executive Vice President- General Manager and its approval corresponds to the Board of Directors.

4. TRANSACTIONS WITH RELATED PARTIES.

Popular Bank, as an entity regulated by the Superintendency of Banks, is subject to the provisions on related parties set out in Articles 95 and 96 of the Banking Law and Agreement 06-2009, as amended by Agreements 05-2013, 05-2016 and 10-2019 on Limits of Risk Concentration to Economic Groups and Related Parties.

In its ordinary business course, Popular Bank has entered transactions with certain related parties such as: shareholders, unconsolidated companies, directors, and key management personnel. Loans to Directors and officers of Grupo Popular or Subsidiaries are granted with the same terms and conditions that are available to other clients of the Bank.

5. RISK MANAGEMENT.

5.1. Risk Management.

Risk management constitute an essential element of the process of internal governance of Popular Bank, a process that is kept aligned with the rules governing the subject that have been issued by the Superintendency of Banks of Panama. Likewise, the risk management take into consideration the methodologies and good practices of principles established by the Banking Supervision Committee of Basilea.

According to Principle VIII of the Declaration of Principles, Popular Bank "is committed to meet the regulatory guidelines established by local regulations, such as on the subject of internal and external audit and risk management." Likewise, it "recognizes the obligation and the importance of complying with the minimum requirements of internal governance established by the law and regulations, and especially for having adequate risk control systems, independent internal control mechanisms and establishing clearly and in writing its administrative policies. In this sense, it commits itself to have updated written policies in all matters related to granting of credit, investment regime, and evaluation of asset quality, adequacy of provisions and management of various risks. Similarly, it must have an Internal Manual of procedures, and develop written policies of knowledge of customers in order to assess their ability to pay and contribute to the fulfillment of the provisions that prohibits money laundering and other illicit activities."

As part of this principle, Popular Bank must also have "integral processes that includes the management of the various risks to which it may be exposed and adequate information systems. This commitment includes the duty to structure the necessary bodies to obtain an accounting oversight and effective internal control procedures that allows the analysis of the financial and operational status of the entity and adequately control the risks involved in the operations. At the same time, maintain a system of internal control appropriate to the nature and scale of its activities.

5.2. Internal Control.

Popular Bank, as a subsidiary of Grupo Popular, S. A., is characterized for having a conservative risk culture. The recognition of the importance of internal control arises from the provisions of the

Declaration of Principles, which in Principle VIII states that "this commitment to [establish comprehensive criteria] includes the duty to structure the necessary bodies to obtain an accounting oversight and effective internal control procedures that allows the analysis of the financial and operational status of the entity and adequately control the risks involved in the operations. At the same time, maintain a system of internal control appropriate to the nature and scale of their activities."

On this subject, a set of policies manuals have been defined that addresses the standards established in the laws and regulations in force, as well as the best practices applicable to the management of the various risks inherent to the bank's operations.

5.3. System of Regulatory Compliance.

Popular Bank is part of the overall system of regulatory compliance established by Grupo Popular, S.A.

The use of this system seeks to establish an overall structure at Group level, that allows the measurement, assessment, monitoring and supervision of regulatory compliance and thereby reduce to a minimum the contingencies related to possible breaches of applicable standards and regulations.

5.4. Reputational Risk.

The Policy of Regulatory Compliance also takes into consideration the assessment of reputational risk, that is, the risk that is assumed before an adverse assessment by the stakeholders or the market in general as a consequence of a situation, or a constant or habitual violation of the inherent regulatory provisions applicable to the entity.

5.5 Prevention of Money Laundering.

The commitment to comply with the policies and recommendations on matters of prevention of money laundering and financing of terrorism is provided as part of our legislation through the Banking Law and Agreements of the Superintendency of Banks.

Among the principal topics carried out during 2022, we highlight the following:

- Review and tuning of the Methodology of Customer Risk Classification in the systems of the bank
- Fine-tuning of the monitoring system for the modules of ACRM (transactional)
- Compliance with the requirements of the Common Reporting Standard (CRS) and Foreign Account Tax Compliance Act (FATCA) which requires Financial Institutions in Panama to deliver account information to seventy one(71) jurisdictions. During 2022, these reports were automated through a tool.
- The consulting firm Arasco&AML was contracted to realize the exercise of independent evaluation to the controls of prevention of money laundering, for the Bank and for the Trust, which results were delivered on September 2022.

- Participate in the evaluation of new channels, processes and tools to be used by the Bank, participating in the evaluation of the Projects developed during 2022 in order to identify and manage risks associated and mitigate them.
- Review and update of policies, procedures, and controls for the prevention of money laundering, financing of terrorism and proliferation of weapons of mass destruction applicable to the Bank under its Banking and Trust License.

6. RELATION WITH CLIENTS AND USERS.

It refers to relevant information on the system of relationship and attention to customers and users of financial services provided by the entity.

6.1. Rights and Protection of the Users.

Popular Bank, in its Declaration of Principles, states "Specifically, as a mechanism for ensuring the rights of clients, it is committed to make absolute implementation and enforcement of the rules that have been established by competent bodies on the subject of protection of users. At the same time, Popular Bank assumes this commitment without restricting its right to demand the rights that as a provider of financial products and services are recognized and entitled by the Constitution and laws."

6.2. Claim Process.

Popular Bank records the complaints or requests received from customers by writing, face to face or through Internet Banking. The Follow-Up of Customers' Complaints is carried out through a technologic tool.

The Area of Operations is responsible for the administration, control and follow-up of the registered claims, by managing the process following the Policy and Procedure for Receipt of Complaints and Inquiries contained within the Operations Manual.

6.3. Transparency and Dissemination of Information.

Popular Bank is governed by the rules established, on the subject of transparency of information, through Agreement 01-2011 which sets as Principle of Transparency of Information that "Banks shall promote transparency of information as a mechanism that will allow the users of banking services and the general public to know, at any time, the banking operations and services and take well-informed decisions based on this premise."

As part of the process of transparency, Popular Bank publishes through its website (www.popularbank.com.pa) information related to the fees of products and banking services, consolidated audited financial statements, annual risk rating report, among others.

7. SOCIAL RESPONSIBILITY.

It refers to the information above the principles, structure and policies on social responsibility matters conceived by the entity, as well as the practice of those during the period that is inform, in particular.

The Declaration of Principles of Popular Bank includes social responsibility as one of its essential pillars. In this sense, Principle IV states that it "*recognizes the importance of carrying out its business activities and financial operations within a framework of social responsibility. The bank, and in particular its Board of Directors and Senior Management, is committed to society to fulfill and perform voluntarily, initiatives and projects that could be oriented to social development in health, education, social management, culture and environment, as well as to progressively develop and implement policies tending to project into its business activities and as an enterprise, with the various stakeholders, these socially responsible values.*"

In this sense, the Bank has the Social Responsibility Policy, which was developed in 2016 with the objective of establishing the guidelines to coordinate Bank's social responsibility practices and projects, which also promotes the participation of all Bank personnel in Social Responsibility actions.

During 2022, we continued with Recycling Initiative, recognizing the importance of the care and protection of the environment for the sustainable development of the life. In addition, Popular Bank reiterated his commitment with Casa Esperanza, and for fourth continuous year sponsored the "Programa de Atención Directa para Prevención y Erradicación de Trabajo Infantil" and equip the kitchen of the new Integral Attention Center of Chitre, province of Herrera supporting 200 children in social risk condition.

8. TRANSPARENCY AND INFORMATION.

The corporate governance regime of Grupo Popular recognizes the existence of different groups of societal interests. Consequently, both the governance system in the broadest sense, and the regime of transparency and information that is part of the former, are structured taking into account the diversity of agents that interact with society.

9. CORPORATE GOVERNANCE FOR 2023.

In order to maintain internal practices on governance matters aligned with local regulatory requirements as well as with the best international practices, Popular Bank address its efforts to undertake a continuous review of their corporate governance policies. In this sense, and to strength its own practices, the Bank include in its Annual Plan of Corporate Governance, the exercise of annual reviews, which help to ensure the compliance of the current policies and to identify improvement opportunities that are included in our Corporate Governance Manual.

We will continue to use the technological tools that allowed us to stay connected and carry out our functions on a regular basis working remotely as well as personally, making easy the collaboration and teamwork environments.

The virtual meeting modality will be maintained as the mechanism used to hold the sessions of the Board of Directors and its Committees. Leveraged by the digitalization process used by Grupo Popular, Popular Bank implemented the use of electronic signature for the minutes of internal committees through the signature engine tool, which has streamlined the process of signatures, shortened times, and facilitated the flow of processes. For this, we worked on adequacy of policies, procedures, and definition of controls according to the required by the Superintendency of Banks of Panama.

Remain as member of the Institute of Corporate Governance Panama, as corporate partner, and participate in the conferences organized by this institution, provides us with a suitable mechanism to keep us updated with relevant topics on corporate governance matters.