POPULAR BANK LTD., INC.
AND SUBSIDIARY
(Panama, Republic of Panama)

Consolidated Financial Statements

December 31, 2022

(With Independent Auditors' Report Thereon)

POPULAR BANK LTD., INC. AND SUBSIDIARY
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Popular Bank Ltd., Inc and Subsidiary

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Popular Bank Ltd., Inc and Subsidiary ("the Bank"), which comprise the consolidated statement of financial position as of December 31, 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Bank as of and for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on March 25, 2022.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Other legal information requirements

In compliance with Law 280 of December 30th, 2021, which regulates the profession of certified public accounting in the Republic of Panama, we declare the following:

- That the direction, execution and supervision of this audit work has been physically performed in Panamanian territory for those entities or business activities within the Bank that performed operations that are perfected, consummated or take effect within the Republic of Panama.

- The audit partner who has prepared this independent auditor's report is Ricardo A. Carvajal V.

- The audit work team that has participated in the audit of the Bank to which this report refers to, is formed by Ricardo A. Carvajal V., Partner; and Sonia Sosa, Manager.

KPMG (SIGNED)

RICARDO A. CARVAJAL V. (SIGNED)

Panama, Republic of Panama
March 17, 2023

Ricardo A. Carvajal V.
Partner
C.P.A. 4378

POPULAR BANK LTD., INC. AND SUBSIDIARY
(Panama, Republic of Panama)

Consolidated Statement of Financial Position

December 31, 2022

(Figures in Balboas)

	Note	2022	2021
Assets			
Cash		500	500
Deposits in banks:			
On demand at local banks		379,401	451,536
On demand at foreign banks		134,711,669	87,566,809
Time deposits in local banks		0	50,012,760
Time deposits in foreign banks		0	134,016,168
Allowance for expected credit losses		(191)	(25,929)
Total deposits in banks	7	135,090,879	272,021,344
Investments in securities	8	194,887,282	261,679,036
Loans, external sector	4	1,047,480,003	871,690,490
Allowance for loan losses	4	(15,351,207)	(10,704,812)
Loans at amortized cost	9	1,032,128,796	860,985,678
Property and equipment	10	1,577,234	2,016,546
Other Assets			
Intangible assets	11	7,304,333	10,893,175
Assets held for sale	12	125,330	297,030
Other assets	13	5,688,145	9,852,635
Total Other Assets		13,117,808	21,042,840
Total assets		1,376,802,499	1,417,745,944

The consolidated statement of financial position must be read in conjunction with the notes which are part of the consolidated financial statements.

	Note	2022	2021
Liabilities and Equity			
Liabilites:			
Foreign deposits from customers:			
Demand		331,870,234	400,458,716
Savings		9,937,427	8,431,916
Term deposits		637,039,905	687,442,225
Total deposits from customers		978,847,566	1,096,332,857
Financial obligations	14	58,830,626	0
Other liabilities	15	8,322,483	5,015,033
Total liabilities		1,046,000,675	1,101,347,890
Equity:			
Common stock	16	42,400,000	42,400,000
Reserve for assets held for sale	23	0	89,109
Regulatory reserves	23	32,340,346	48,165,904
Fair value reserve (FVOCI debt instruments)		(9,364,087)	1,899,890
Actuarial valuation of defined benefits		190,659	(24,838)
Retained earnings		265,234,906	223,867,989
Total equity		330,801,824	316,398,054
Total liabilities and equity		1,376,802,499	1,417,745,944

POPULAR BANK LTD., INC. AND SUBSIDIARY
(Panama, Republic of Panama)

Consolidated Statement of Profit or Loss

For the year ended December 31, 2022

(Figures in Balboas)

	Note	2022	2021
Interest and commission income:			
Interest income:			
Loans		54,748,363	39,751,690
Investments in securities		7,014,743	6,397,327
Deposits in banks		1,176,171	422,405
Commissions on credit cards		5,008,606	4,470,722
Total interest and commissions income		67,947,883	51,042,144
Interest expense:			
Deposits from customers		(12,146,792)	(12,252,581)
Financial obligations		(1,330,626)	0
Total interest expense		(13,477,418)	(12,252,581)
Interest and commission income, net		54,470,465	38,789,563
Provision for expected credit losses:			
Reversal of impairment for losses on deposits in banks		25,738	10,823
Provision for impairment of investment securities		(419,505)	(143,198)
Provision for impairment on loans	4	(5,965,683)	(3,047,330)
Reversal of impairment for interest, contingencies and other balances		9,935	189,963
Total provisions for expected credit losses		(6,349,515)	(2,989,742)
Net interest and commissions income after provisions		48,120,950	35,799,821
Other income (expenses):			
Other commissions	17	2,759,967	2,711,588
Commission expense	18	(1,794,575)	(1,609,548)
Loss on sale of assets held for sale		(69,864)	(141,213)
Provision for impairment of assets held for sale		0	(139,870)
Gain on sale of securities		39,026	6,930,902
Gain on foreign currency exchange		331,471	265,648
Other income	17	1,610,351	987,549
Total other income, net		2,876,376	9,005,056
General and administrative expenses:			
Professional fees	18	6,999,702	5,405,956
Salaries and other personnel expenses	18	5,025,950	4,556,384
Amortization of intangible assets	11	3,788,441	3,649,305
Maintenance and leases		2,861,958	2,748,037
Credit card processing and management		2,862,623	2,619,019
Other expenses	18	1,751,922	3,730,209
Depreciation	10	513,428	675,760
Representation and travel expenses		565,251	529,235
Banking expenses		385,329	485,947
Per diem expenses		421,400	449,400
Losses from net operating risk		185,443	401,818
Communications and mail		183,629	474,665
Total general and administrative expenses		25,545,076	25,725,735
Net income		25,452,250	19,079,142

The consolidated statement of profit or loss must be read in conjunction with the notes which are part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2022

(Figures in Balboas)

	2022	2021
Net income	25,452,250	19,079,142
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Profit transferred to results	39,026	6,930,902
Net changes in fair value of OCI investments	(11,722,508)	(14,146,127)
Impairment in the fair value of OCI investments	419,505	143,198
Items that will not be reclassified to profit or loss:		
Actuarial valuation of defined benefits	215,497	(24,838)
Other comprehensive income	(11,048,480)	(7,096,865)
Comprehensive income	14,403,770	11,982,277

The consolidated statement of comprehensive income must be read in conjunction with the notes which are part of the consolidated financial statements.

POPULAR BANK LTD., INC. AND SUBSIDIARY
(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity

For the year ended December 31, 2022

(Figures in Balboas)

	Common Stock	Reserve of assets held for sale	Regulatory reserves	Fair value reserve (FVOCI debt instruments)	Actuarial valuation of defined benefits	Retained earnings	Total
Balance as of January 1, 2021	42,400,000	687,679	30,739,467	8,971,917	0	221,616,714	304,415,777
Comprehensive income							
Net income	0	0	0	0	0	19,079,142	19,079,142
Other comprehensive income	0	0	0	0	(24,838)	0	(24,838)
Profit transferred to results	0	0	0	6,930,902	0	0	6,930,902
Net changes in valuation of investments at FVOCI	0	0	0	(14,146,127)	0	0	(14,146,127)
Impairment (reversal) of investments at FVOCI	0	0	0	143,198	0	0	143,198
Total comprehensive income	0	0	0	(7,072,027)	(24,838)	19,079,142	11,982,277
Other equity transactions							
Increase in the regulatory loan reserve	0	0	17,426,437	0	0	(17,426,437)	0
Net release of the reserve of assets held for sale	0	(598,570)	0	0		598,570	0
Total other equity transactions	0	(598,570)	17,426,437	0	0	(16,827,867)	0
Balance as of December 31, 2021	42,400,000	89,109	48,165,904	1,899,890	(24,838)	223,867,989	316,398,054
Balance as of January 1, 2022	42,400,000	89,109	48,165,904	1,899,890	(24,838)	223,867,989	316,398,054
Comprehensive income							
Net income	0	0	0	0	0	25,452,250	25,452,250
Profit transferred to income	0	0	0	39,026	0	0	39,026
Net changes in valuation of investments at FVOCI	0	0	0	(11,722,508)	0	0	(11,722,508)
Impairment (reversal) of investments at FVOCI	0	0	0	419,505	0	0	419,505
Actuarial valuation of defined benefits	0	0	0	0	215,497	0	215,497
Total comprehensive income	0	0	0	(11,263,977)	215,497	25,452,250	14,403,770
Other equity transactions							
Release of the regulatory loan reserve	0		(15,825,558)	0	0	15,825,558	0
Net release of the reserve of assets held for sale	0	(89,109)	0	0	0	89,109	0
Total other equity transactions	0	(89,109)	(15,825,558)	0	0	15,914,667	0
Balance as of December 31, 2022	42,400,000	0	32,340,346	(9,364,087)	190,659	265,234,906	330,801,824

The consolidated statement of changes in equity must be read in conjunction with the notes which are part of the consolidated financial statements.

POPULAR BANK LTD., INC. AND SUBSIDIARY
(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the year ended December 31, 2022

(Figures in Balboas)

	Note	2022	2021
Cash flows from operating activities			
Net Income		25,452,250	19,079,142
Adjustments to reconcile net income and cash by operating activities:			
Reversal of provision for deposits in banks		(25,738)	(10,823)
Provision for impairment in investment securities		419,505	143,198
Provision for loan losses	4	5,965,683	3,047,330
Reversal of provision for interest impairment, contingencies and other balances		(9,935)	(189,963)
Provision for impairment of assets held for sale		0	139,870
Loss in the sale of assets held for sale		69,864	141,213
Gain on sale/repurchase of investments FVOCI		(39,026)	(6,930,902)
Net loss on sale and disposal of property and equipment		34	148
Service costs and interest defined benefits program		215,497	0
Amortization of intangible assets	11	3,788,441	3,649,305
Depreciation of property and improvements	10	513,428	675,760
Net interest and commissions income		(54,470,465)	(38,371,755)
		(18,120,462)	(18,627,477)
Changes in operating assets and liabilities:			
Loans		(170,760,119)	(76,711,995)
Time deposits in banks		49,000,000	(49,000,000)
Other assets		4,094,113	2,264,412
Deposits from customers		(118,787,789)	22,581,982
Other liabilities		3,297,435	585,950
Customer loyalty program		19,950	(51,165)
Interest received		61,420,157	52,308,057
Interest paid		(10,844,294)	(13,851,632)
Net cash used in operating activities		(200,681,009)	(80,501,868)
Cash flows from investment activities			
Purchase of investments in securities		(54,958,555)	(282,243,766)
Proceeds from sale of investments at FVOCI		840,968	73,408,297
Redemption of investments in securities		109,347,849	106,282,000
Acquisition of intangible assets	11	(199,599)	(1,399,114)
Proceeds from sale of assets held for sale		297,030	450,000
Acquisition of property and equipment	10	(74,150)	(463,838)
Cash provided by (used in) investing activities		55,253,543	(103,966,421)
Cash flows from financing activities			
Financial obligations	16	57,500,000	0
Cash provided by financing activities		57,500,000	0
Net decrease in cash and cash equivalents		(87,927,466)	(184,468,289)
Cash and cash equivalents at the beginning of the year		223,018,845	407,487,134
Cash and cash equivalents at the end of the year	6	135,091,379	223,018,845

The consolidated statement of cash flows must be read in conjunction with the notes which are part of the consolidated financial statements.

(1) Organization

Popular Bank Ltd., Inc. (the “Bank”), is an entity organized and constituted in accordance with Panamanian law. The Bank began operations in the Republic of Panama in August 1983, under the protection of an International Banking License granted by the Superintendence of Banks of Panama (formerly the Panama Banking Commission), which allows it to direct, from an office established in Panama, transactions that are perfected, consumed or take effect abroad.

Additionally, the Bank has a Trust License granted by the Superintendency of Banks of Panama, through Resolution FID No.02-2000 to carry out trust operations that are perfected, consumed or take effect abroad. This Trust License was subjected to an accreditation process to ensure compliance with the new requirements of Law 21 of May 10, 2017 on trustees and the trust business, after which the Superintendency of Banks, through Note SBP-DJ -N-3556-2018 is notified of the start of operations as of July 2, 2018.

The Bank is a subsidiary of Grupo Popular, S. A., a company holding 100% of the shares, established in the Dominican Republic.

The consolidated financial statements include the operations of the subsidiary Popular Bank Llc, Cayman. The subsidiary has been incorporated under the laws of the Cayman Islands since 1986 and operates under a Type “B” License under the Cayman Islands Banks and Trust Companies Act to conduct banking and trust business.

Popular Bank Ltd., Inc. and its Subsidiary will be referred to as the “Bank”.

The Bank's office is located in Marbella Urbanization, Aquilino de La Guardia Street, Banco General Tower, Panama City.

Legal regime

The Bank is regulated and supervised by the Superintendence of Banks of the Republic of Panama, through Decree Law No. 9 of February 26, 1998 modified by Decree Law No. 2 of February 22, 2008, as well as the Resolutions and Agreements issued by this entity. The main aspects of this Law include the following: authorization of banking licenses, minimum capital and liquidity requirements, consolidated supervision, procedures for credit and market risk management, for the prevention of money laundering and intervention procedures and bank settlement, among others.

In the same way, banks are subject, at least, to an inspection every two (2) years carried out by the auditors of the Superintendence of Banks of Panama to determine compliance with the provisions of the aforementioned Decree Law No.9 of December 26. February 1998, modified by Decree Law No.2 of February 22, 2008 and Law No.23 of April 2015 that adopts measures to prevent money laundering, financing of terrorism and financing of the proliferation of weapons of mass destruction.

(1) Organization, continued

Trust operations in Panama are regulated by the Superintendence of Banks of Panama, through Law No.1 of January 5, 1984 and by Law No.21 of May 10, 2017, as is also applicable to the Law No.23 of 2015 that adopts measures to prevent money laundering, financing of terrorism and financing of the proliferation of weapons of mass destruction.

(2) Basis of Preparation of the Consolidated Financial Statements

(a) Compliance with International Financial Reporting Standards ("IFRS")

The consolidated financial statements have been prepared in conformity with IFRSs issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Bank's Board of Directors on March 17, 2023.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for values at fair value with changes in other comprehensive income (VRCOUI) that are presented at fair value and assets in lieu of payment for sale, which are measured at the lower of book value and sale value minus costs.

(c) Functional and presentation currency

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

(3) Summary of Significant Accounting Policies

The main accounting policies applied by the Bank for the preparation of these consolidated financial statements are presented below and have been consistently applied in relation to the previous year.

(a) Basis of consolidation

a. Subsidiaries

The Bank controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement in the subsidiary and has the ability to influence those returns through its power over the subsidiary. The financial statements of the subsidiaries are included in the consolidated financial statements from the date control begins to the date control ceases.

b. Funds Administration

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

(3) Summary of Significant Accounting Policies, continued

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

d. *Transactions Eliminated in Consolidation*
All intragroup assets and liabilities, equity, income, expenses and cash flows related to transactions between Bank entities are eliminated when preparing the consolidated financial statements.

(b) Fair value measurement
The fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

When an asset is acquired or a liability is assumed, the transaction price is the price paid to acquire the asset or received to assume the liability (entry price). The initial fair value of a financial instrument is the transaction price.

The fair value of an instrument is measured using a quoted price in an active market for that instrument. A market is considered active if transactions in these assets or liabilities take place with sufficient frequency and volume to provide information for setting prices on a going concern basis.

The fair value of financial instruments is determined using the prices provided by stock markets, various electronic means of information, stockbrokers, independent companies specialized in investment valuation and banks.

(c) Cash and Cash Equivalents
For purposes of the consolidated statement of cash flows, cash equivalents include demand deposits and time deposits with banks with original maturities of three months or less.

(d) Foreign currency
Assets and liabilities held in foreign currency are converted to balboas (B/.) at the exchange rate in effect on the date of the consolidated financial statements, except for those transactions with contractually agreed exchange rates.

Transactions in foreign currency are recorded at the exchange rates in force on the dates of the transactions. Foreign currency translation gains or losses are reflected in the accounts of other income or other expenses in the consolidated statement of income.

(3) Summary of Significant Accounting Policies, continued

(e) Financial Assets and Liabilities

In its initial recognition, the Bank measures financial assets or liabilities at their fair value plus or minus the transaction costs that are directly attributable to the acquisition of the financial asset or a financial liability that is recorded at fair value other than changes in results. Attributable transaction costs recorded directly in profit or loss.

Loans and Advances to Clients

Loans are presented at their amortized cost considering the principal amount pending collection, less interest and the provision for expected credit losses. Loans are initially measured on the origination date or settlement date, at their fair value plus direct incremental transaction costs, and subsequently at amortized cost using the effective interest method.

Investments and Other Financial Assets

Investments and other financial assets are classified on the trade date and initially measured at fair value, plus incremental costs related to the transaction, except for investments recorded at fair value through profit or loss.

Classification of Financial Assets

The classification and measurement of financial assets reflects the business model in which the assets are managed and their cash flow characteristics.

The Bank classifies its financial assets as subsequently measured at their amortized cost (AC), at fair value with changes in other comprehensive income (FVOCI), and at fair value with changes in profit or loss (FVPL), based on the following two:

- of the Bank's business model for the management of financial assets and
- of the contractual cash flow characteristics of financial assets (principal and interest only payment test – SPPI).

The Bank records the following items under the heading of financial assets: cash, bank deposits; investment in securities at fair value; investment in securities through other comprehensive income and loans at amortized cost.

Amortized Cost (AC)

A financial asset must be measured at amortized cost (AC) if the following two conditions are met:

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

(3) Summary of Significant Accounting Policies, continued

Fair Value with Changes in Other Comprehensive Income (FVOCI)
A financial asset will be classified and measured at FVOCI only if it meets the following two conditions:

- the asset is held within a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets; and

- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair Value with Changes through Results (FVPL)
Financial assets are measured at fair value through profit or loss when:

a. The business model is to collect cash flows through recurring sales of assets, that is, the asset is not held for the purpose of collecting contractual cash flows throughout its life. However, even if the Bank obtains contractual cash flows, while holding financial assets, the objective of this business model is not to achieve this by obtaining contractual cash flows and selling financial assets.

b. The Bank makes decisions based on the fair values of the assets and manages them to obtain fair values. In this case, the Bank's objective will usually result in active purchases and sales.

c. The Bank may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes called an “accounting mismatch”) that would otherwise arise from the measurement of assets or liabilities or the recognition of gains and losses of these on different bases. Management has elected to present fair value gains or losses in equity shares at fair value through profit or loss.

Business Model Assessment
The Bank assess the objectives of the business models that hold the financial assets in a portfolio level to better represent how each subsidiary manages the business and how management information is reported. The information considered includes:

- The policies and objectives stated for each portfolio of financial assets and the operation of these policies in practice. In particular, if the Administration's strategy focuses on earn contractual interest income, maintain a particular interest rate profile, match the duration of financial assets with the duration of the liabilities that finance those assets, or realize cash flows through the sale of the assets.
- How portfolio performance is evaluated and reported to Bank management.
- The risks that affect the performance of the portfolios (and the financial assets held within them) and the way those risks are managed;
- The frequency, volume and timing of sales in prior fiscal periods, the reasons for those sales and expectations about future sales activity.

(3) Summary of Significant Accounting Policies, continued

Financial assets held or managed for trading and where their performance is assessed on a fair value basis, are measured at FVPL because these are not held to cover contractual cash flows or to obtain contractual cash flows and to sell these financial assets.

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

For purposes of this assessment, “principal” is defined as the fair value of the financial asset at initial recognition. “Interest” is defined as compensation for the time value of money and credit risk associated with holding the current principal for a period of time and for other basic risk from loan agreements and other associated costs (e.g. liquidity risk and administrative costs), as well as the profit margin.

When evaluating whether contractual cash flows are solely payments of principal and interest, the Bank considered the contractual terms of the instrument. This includes an assessment to determine whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows in such a way that it does not meet this condition. In making this assessment the Bank considers:

- Contingent events that will change the amount and timing of cash flows;
- Hedging conditions;
- Prepayment and extension terms;
- Terms that limit the Bank in obtaining cash flows for specific assets (e.g. unfunded asset agreements); and
- Terms that change the considerations on the value of money over time (e.g. periodic revision of interest rates).

Derecognition of financial assets and liabilities

The Bank derecognizes a financial asset when the contractual rights to the financial asset's cash flows expire, or transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred or in which the Bank does not transfer or retain substantially all the risks and rewards of ownership and does not retain control of the financial asset.

When derecognising a financial asset, the difference between the book value of the asset (or the book value assigned to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained minus any new liability assumed) and (ii) any cumulative gain or loss that has been recognized in other comprehensive income is recognized in profit or loss.

A financial liability is written off when the obligation is extinguished, either when said obligation has been paid, canceled, or has expired.

(3) Summary of Significant Accounting Policies, continued

Modification of Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial instrument is replaced by a new one, the Bank then makes an assessment of whether the financial asset should be derecognized and considers the following: If the estimated flows have changes, a new book value is calculated by calculating the present value of the new estimates of cash flows using the effective interest rate of initial recognition. The book value adjustment is recognized immediately in profit and loss.

If the expected modification results in our derecognition of the existing financial instrument, then the expected cash flows arising from the modified financial instrument are included in calculating the cash shortfalls of the existing financial instrument. In this case, the Bank recalculates the gross carrying amount of the financial instrument and recognizes the amount derived from the adjustment of the gross carrying amount as a gain or loss due to changes in results.

- If such modification is carried out due to financial difficulties of the debtor, then the gain or loss is presented along with impairment losses. In other cases, it is presented as interest income or expense.

- If the cash flows are substantially different (difference greater than 10% of the present value), then the contractual rights to the cash flows from the original financial asset are deemed to have expired and the expected fair value of the new financial instrument is treated as the final cash flow of the existing financial instrument at the time of derecognition. This amount is included when calculating the cash deficits of the existing financial instrument that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial instrument.

Modification of Financial Liabilities

The Bank derecognizes a financial liability when its conditions are modified and the cash flows of the modified obligation are substantially different. (difference greater than 10% of the present value). In this case, a new financial liability based on the modified terms is recognized at its fair value and the difference is recognized in profit or loss.

If the modification of a financial liability is not recorded as derecognition, then the amortized value of the liability is recalculated by discounting the modified cash flows at the original effective interest rate, and the resulting gain or loss is recognized in profit or loss.

The Bank renegotiates loans to customers in financial difficulties (for example, exceptions, policy tolerance, and “restructurings”) to maximize the opportunities to collect and to minimize the risk of noncompliance.

Under Bank policy, credit forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under of the terms established in the original contract and it is expected that the debtor can comply with the revised terms.

(3) Summary of Significant Accounting Policies, continued

The revised terms typically include extending the maturity, changing the interest payment schedule, and modifying the terms of the loan agreements. Both consumer and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the default risk estimate reflects the best possible estimate before renegotiation.

In general, renegotiation is a qualitative indicator of a significant increase in credit risk, and a tolerance expectation may be evidence that an exposure is credit-impaired or in default. A client must demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be in default or the risk of default has decreased such that the loss can be remeasured by an amount equal to 12 months of estimated credit losses.

Impairment of Financial Instruments

Definition of Impairment

The Bank considers a financial asset to be impaired when:

- It is highly unlikely that the debtor will fully pay its credit obligations to the Bank, without recourse for the Bank to take such actions as enforcing the guarantees (if any); or
- The debtor is more than 90-days past-due on any material credit obligation to the Bank. Overdrafts are considered in arrears once the client has exceeded the established limit, or the established limit is less than the outstanding balance.
- It is increasingly likely that the debtor will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security investment due to financial difficulties.

To assess whether a debtor is impaired, the Bank considers indicators such as:

- Qualitative, e.g. noncompliance with contractual clauses;
- Quantitative, e.g. arrears or non-payment of another obligation from the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Inputs used in the assessment of whether financial instruments are impairment and their importance may vary over time to reflect changes in circumstances.

The definition of impairment is largely aligned with that applied by the Bank for regulatory capital purposes.

(3) Summary of Significant Accounting Policies, continued

With respect to the evaluation of whether an investment in sovereign debt is credit impaired, the Bank considers the following factors:

- The solvency market assessment reflected in the yields of the bonds.
- Independent evaluations by rating agencies.
- The country's ability to access capital markets for the issuance of new debt.
- The likelihood that the debt will be restructured, causing holders to suffer losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms established to provide the necessary support as "lenders of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and regardless of political intent, whether there is the capacity to meet the required criteria.

Presentation of the Provision for Expected Credit Losses in the Consolidated Statement of Financial Position

Provisions for expected credit losses are presented in the consolidated statement of financial position as follows:

- Financial assets measured AC: As a deduction from the gross book value of the assets.
- Financial assets measured at FVOCI: the provision for expected credit losses is presented in the valuation of financial assets at fair value with changes in OCI (equity).

Impairment Losses

Loans and investment securities are written off (either in whole or in part) when there is no reasonable expectation of recovery. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to pay the amounts owed subject to the impairment loss, without course of action by the Bank to seize the collateral (in the case that they maintain). However, financial assets that are derecognized may still be subject to compliance activities to carry out the Bank's procedures for the recovery of amounts owed.

Impairment losses are determined using the methodology that applies the concept of expected credit losses (ECL) following the definition in IFRS 9. Expected credit losses are based on the possibility of potential cash shortfalls in the future, which are supported by potential events of default from the debtor.

This expected loss is calculated with risk parameters estimated with internal models based on historical and prospective information, macroeconomic variables and the definition of the stage of the level of risk experienced by the financial instrument.

The requirements related to impairment apply to financial assets measured at amortized cost and fair value with changes in other comprehensive income (FVOCI) whose business model is aimed at receiving contractual flows and/or sale.

(3) Summary of Significant Accounting Policies, continued

The IFRS 9 methodology involves classifying assets into three risk “stages”:

Stage 1: In the first "stage" are those operations that do not present a significant increase in risk since initial recognition.

Stage 2: In this stage, the Bank includes those operations whose risk is significantly deteriorated on the reporting date with respect to their origination date.

Stage 3: In this stage, as mentioned in the standard, operations that have objective evidence of impairment are included. Said concept is aligned both with the definitions of non-compliance followed by the Bank's risk management, as well as the definition of non-compliance in IFRS 9.

Taking into account the classification of financial assets in accordance with the stages described, the following components are used to establish provisions:

Stage 1: Loss expected at 12 months.

Stage 2: Loss expected for the remaining contractual term of the operation.

Stage 3: Exposed balance discounted by the guarantee.

Significant Increase in Credit Risk :

The Bank determines whether the credit risk of a financial asset has increased significantly since its initial recognition, considering reasonable and supportable information that is relevant and available without disproportionate cost or effort, including quantitative and qualitative information and analysis based on historical experience and expert credit evaluation including future information.

To establish whether an asset presents a significant increase in risk since initial recognition, an evaluation of quantitative and qualitative factors is carried out, these factors are:

a) Significant changes in credit risk indicators as a consequence of a change in credit risk from inception;

b) Significant changes in external market indicators of credit risk for a specific financial instrument or similar financial instruments with the same expected life;

c) An actual or expected significant change in the external credit rating of the financial instrument;

d) Existing or anticipated adverse changes in business, financial or economic conditions;

e) A significant actual or expected change in the operating results of the debtor or joint guarantor (if applicable);

(3) Summary of Significant Accounting Policies, continued

f) An expected or actual material adverse change in the debtor's regulatory, economic, or technological environment;

g) Significant changes in the value of the collateral that supports the obligation; and

h) Significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, among other factors incorporated into the Bank's expected credit loss model.

Credit Risk Rating

The Bank assigns a defined credit risk rating to each exposure by using quantitative and qualitative factors that are indicative of default risk. These factors vary depending on the type of debtor and the nature of the exposure.

For the consumer portfolio, the main factor indicative of risk is payment behavior, while for the corporate portfolio, factors related to the financial situation, among others, are also considered.

IFRS 9 establishes a detailed credit loss assessment in accordance with the inherent credit risk of the instruments. In this way, an evaluation of the credit risk profile of the instrument will determine its classification in a certain stage and consequently a model for estimating specific expected credit losses.

The Bank measures the credit quality of each debtor based on collective risk models, in the case of the corporate portfolio, through rating models, and for the consumer portfolio, through "scoring" models.

In the case of the rating models, these have been built in a differentiated way according to the segmentation identified by the type of economic activity and income level, where although each model will have both quantitative and qualitative elements, each one will have different variables (indebtedness, profitability, leverage, coverage, efficiency, among others) and weights depending on the historical evidence and the specific factors identified as risk discriminators for each industry and default level registered by the Bank.

For the "scoring" models, these are based on the payment behavior of each debtor, where delinquency heights, indebtedness levels, track record in the Bank, among other variables, allow assigning a score in order to classify the debtors.

For purposes of calculating provisions under IFRS 9, the methodology has the sophistication required for each portfolio; which include parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD) with the inclusion of the prospective criterion and the credit conversion factor in the cases that apply, which are defined in this manner:

(3) Summary of Significant Accounting Policies, continued

Probability of default (PD): is the estimated probability of default or non-payment of an instrument, where default is defined as the occurrence of one of these 2 situations: 1) Delinquency greater than 90 days, 2) Notorious deterioration of the financial situation of the debtor, from which it is considered unlikely that the debtor will return to a normal state. The Probability of Default will be estimated in a time horizon ranging from 1 year to the maximum remaining contractual term, this depending on the presence or not of a significant increase in Credit Risk.

Loss Given Default (LGD): is the percentage of exposure that the Bank ultimately expects to lose in the event of a default in a financial instrument. The general formulation for calculating the LGD is LGD = 1 - % of recovery, where the recovery percentage refers to the sum of the cash flows received from the operation discounted at the rate of the obligation on the date of analysis on the total exposure at the time of default.

Exposure at default (EAD): is the exposed value of the asset valued at amortized cost (includes the principal balance, interest and accounts receivable). In the case of products whose nature is revolving and have an available quota that can be used in its entirety, the estimate of the (EAD) considers the use of the risk conversion factor (RCF), in order to find a relationship between the use and the unused component of the instrument and the significant increase in credit risk.

Prospective Information

The Bank has incorporated macroeconomic scenarios in the calculation of the expected loss in order to reflect the prospective effect. The inclusion of macroeconomic conditions in the expected loss models is done based on methodologies that correlate the historical behavior of the portfolio with certain economic variables. The Bank has made the projection of three macro scenarios (base, pessimistic and optimistic). Each scenario has a probability of occurrence in order to evaluate the best estimate of the expected credit loss under possible future economic conditions.

Write-off Policy

The Bank writes off all loans classified as unrecoverable within a period not exceeding one year from the date on which they were classified in this category, prior authorization, in accordance with the instances and amounts established. The Bank may write off a loan before the established term if it is aware of significant deterioration of the loan.

Amortized cost

The Bank calculates the amortized cost of a financial asset, with the amount at which the financial asset is initially measured; plus or minus:

- Capital repayments;
- The accumulated amortization, using the effective interest method of any difference between the initial amount and the amount at maturity;
- Any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

(3) Summary of Significant Accounting Policies, continued

For the calculation of the effective interest rate, the Bank estimates the cash flows taking into account all the contractual conditions of the financial asset, but does not consider the expected credit losses except for:

a. Purchased or originated credit-impaired financial assets. For these financial assets, the Bank will apply the effective interest rate adjusted for credit quality to the amortized cost of the financial asset from the initial recognition.

b. Financial assets not purchased or originated with credit impairment but that have subsequently been converted to credit-impaired financial assets. For these financial assets, the Bank will apply the effective interest rate adjusted for credit quality to the amortized cost of the financial asset in subsequent reporting periods.

For these cases, the effective interest rate adjusted for credit quality should be considered. The calculation includes all commissions and expenses paid or received between the parties that are an integral part of the contract, as well as transaction costs, and any other premiums or discounts. Commissions that are an integral part of the effective interest rate of a financial instrument include:

- Commissions for initiation received by the Bank related to the creation or acquisition of a financial asset.
- Commitment fees received by the Bank to initiate a loan and the entity is likely to enter into a specific loan agreement
- Commissions for initiation paid in the issuance of financial liabilities measured at amortized cost.

Investments in securities

Investment securities presented in the consolidated statement of financial position include:

- Debt investment securities measured at amortized cost, these are initially measured at fair value plus direct incremental transaction costs, and subsequently at their amortized cost using the effective interest method;
- Share values mandatorily measured at FVPL or designated as at fair value through profit or loss; these are measured at fair value with changes recognized immediately in profit or loss;
- Investment values measured at FVOCI.

For debt securities measured at FVOCI gains and losses are recognized in the consolidated statement of profit or loss, except for the following, which is recognized in profit or loss in the same way as for financial assets measured at amortized cost:

- Interest income using the effective interest method;
- Provisions for expected credit losses and reversals; and
- Exchange gains and losses.

When the investment values measured at FVOCI are derecognized, the accumulated gain or loss previously recognized in the consolidated statement of comprehensive income is reclassified to the consolidated statement of profit or loss.

(3) Summary of Significant Accounting Policies, continued

<u>*Financial liabilities*</u>

Financial liabilities are classified either as financial liabilities through profit or loss or as other financial liabilities. The Bank does not maintain financial liabilities with changes in results.

(e) Property and equipment

Property and equipment are presented at cost, less accumulated depreciation and amortization.

The cost of renewals and improvements is capitalized when they increase the asset's useful life; while repairs and maintenance that do not extend the useful life or improve the asset are charged to profit or loss during the period in which they are incurred.

Depreciation and amortization expenses of property and equipment are charged to current operations, using the straight-line method, considering the useful life of the assets. The useful lives and estimated residual value of the assets are summarized as follows:

Buildings	20 years
Furniture and equipment	3 to 5 years
Vehicles	5 years
Leasehold improvements	5 years

The estimated useful life and residual value of the assets is reviewed, and adjusted if appropriate, at each date of the consolidated statement of financial position.

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

The recoverable amount is the highest between the fair value of the asset less the cost of selling and its value in use.

(f) Intangible assets

The Bank maintains intangible assets related to licenses or computer programs. During the normal development of business, the Bank may opt for the acquisition of other intangible assets that represent rights, privileges, or competitive advantages, provided that they contribute to an increase in income or profits and their cost can be measured reliably.

Intangible assets acquired by the Bank with a defined useful life are recorded at acquisition cost, less accumulated amortization, and impairment losses.

Amortization is charged to the consolidated statement of profit or loss, on a straight-line basis, over the estimated useful life of the acquired intangible assets, from their contract date or on the date they are available for use. The estimated useful life is three to five years.

(3) Summary of Significant Accounting Policies, continued

(g) Assets held for sale

Assets held for sale are recognized at the lower of the book value of the unpaid loans or the estimated realizable value of the properties, less costs to sell.

(h) Impairment of non-financial assets

The book values of the Bank's non-financial assets are reviewed at the date of the consolidated statement of financial position to determine if there is any impairment in their value. If said impairment occurs, the recoverable value of the asset is estimated and an impairment loss equal to the difference between the book value of the asset and its estimated recovery value is recognized. The loss due to impairment in the value of an asset is recognized in the consolidated statement of profit or loss.

(i) Customer deposits and obligations

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

(j) Interest income and expense

Interest income and expense are generally recognized in the consolidated statement of profit or loss for all financial instruments presented at amortized cost using the effective interest method.

Effective Interest Rate

Interest income and expense are recognized in income using the effective interest method. The effective interest rate is the discount rate that equals exactly the estimated cash flows receivable or payable throughout the expected life of the financial instrument for:

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

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses.

For credit-impaired financial assets, the credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The effective interest rate calculation 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 issuance of a financial asset or financial liability.

(k) Fees and commissions

Fees and commissions that are part of the effective interest rate in a financial asset or liability instrument are included in the measurement of the effective interest rate.

(3) Summary of Significant Accounting Policies, continued

Generally, the commissions on short-term loans, credit cards and other banking services are recognized as income under the cash method due to their short-term maturity. The income recognized under the cash method is not significantly different to the income that would be recognized under the accumulation method. The commissions on medium- and long-term loans are deferred and amortized to income using the effective interest rate method during the life of the loan.

(l) Measurement and recognition of income from banking services

To determine, in accordance with IFRS 15, the income from Customer Contracts based on performance obligations, the Bank uses the 5-step analysis and the application of professional judgment.

The Bank maintains a list of the services it offers by business lines and the compensation received in each case. In most of its products, the Bank presents a single performance obligation and in some cases, assigns a price to each of the performance obligations presented. In the event of the incorporation of new products or services, the Bank carries out a review to establish the possible existence of separate obligations.

(3) Summary of Significant Accounting Policies, continued

By using the following Customer Contracts Matrix under IFRS 15, the Bank determines the types of income from services and the goods and services promised within each type of contract, in order to determine which represent the performance obligations and the revenue recognition method:

Nature of the Service	Income Recognition	Type of Income
Documentary Letter of Credit / Stand- by Letter of Credit	Direct to results, once collected or deducted from the client's account, except commissions for letters of credit, which are recognized through monthly amortization during the instrument's validity period.	Commissions for Letters of Credit, Acceptance, Inbox, Other Income (Freight)
Guarantees and Bonds	Through monthly amortization during the term of the instrument.	Commissions Guarantees Bonds and Guarantees
Foreign check collections	Direct to results, once collected or deducted from the client's account.	Commissions by collections
Banking services (customer accounts, loans, credit cards, foreign currency transactions, electronic channels, among others)	Direct to results, once collected or deducted from the client's account.	Returned checks, Income for Services and Inactivity, Inbox Service, Telephone Service, Other Miscellaneous Income.
International transfers	Direct to results, once collected or deducted from the client's account.	Commissions for Transfers Sent, Received, Income from Currency Exchange
Credit card services	Directly to results, those commissions on each product by franchise and type of card, once charged or deducted from the client's account.	Commissions on credit cards - Exchange of Purchases, Cash Withdrawal, Returned Checks, Overdraft, New Cards, Band Making, Visa and Mastercard currency conversion, Photocopy Income
	Over time, the income from brand commissions (commission for exchanging purchases) related to the loyalty program, considering the probability of using the miles, the expiration date, and the minimum amount.	
Commissions for Trust Businesses	Direct to results according to the nature, only once or with the frequency that is determined, during the term of the contract.	Commissions for Structuring, Administration, Settlement
Loan Portfolio Facility Commissions	Direct to results, once collected or deducted from the client's account.	Commission on Loan Structuring; Other Commissions
	Through monthly amortization during the term of the loan, once collected or discounted (Syndicated).	Commissions on loans
	Through monthly amortization during the term of the loan, once collected or discounted	Commissions on loans
Fixed term deposits	Direct to results by occurrence	Fixed Term Penalty Income
Assets held for sale	Direct to results, by occurrence	Profit from Sale of Foreclosed Assets; Other income

(m) Dividend income

Dividends are recognized in the consolidated income statement when the Bank has the rights to receive the established payment.

(n) Customer loyalty program

If a customer purchases goods or services, the entity grants them credits/rewards (often called “miles”). The customer can redeem the credits/rewards through awards, such as free goods or services or discounts on them.

(3) Summary of Significant Accounting Policies, continued

The programs operate in different ways. Customers may be required to accumulate a specific minimum number or value of credits/rewards before they can redeem them. Credits/rewards may be tied to individual purchases or group purchases or to customer continuance over a specified period.

The Bank may manage the Customer Loyalty Program itself or participate in a program managed by third parties. The prizes offered may include goods or services supplied by the entity itself, as well as rights to claim goods or services from third parties, and they are valid for three years from the date the prize was acquired.

The liability is recognized as a deferred income on the value of the net income represented by the awards assigned on the figure of an award equivalent to one mile for each dollar to customers when they use credit cards.

Miles can be exchanged for awards when they reach a minimum of 1,500 miles, except for redemptions available with promotional discounts that may require a smaller number of miles. Miles expire 36 months after being issued, so the award must be claimed prior to the expiration date.

(o) Trust operations

Assets held in trusts or in the role of trustee are not considered part of the Bank, and therefore such assets and their corresponding income are not included in these consolidated financial statements. It is the Bank's obligation to manage the trust resources in accordance with the contracts and independently of its equity.

The Bank charges commissions for the fiduciary administration of the trust funds, which are paid by the trustors based on the amount maintained by the trusts or according to an agreement between the parties.

(ñ) New IFRS and Unadopted Interpretations

New standards, interpretations, and amendments to IFRS Standards have been published, but they are not mandatory as of December 31, 2022, and have not been adopted early by the Bank.

(3) Summary of Significant Accounting Policies, continued

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

Improvements and Amendments	Mandatory application for annual periods starting from:
IFRS 17 Insurance contracts and amendments to IFRS 17 Insurance contracts	January 1, 2023
Deferred tax related - (Amendments to IAS 12)	January 1, 2023
Onerous contracts - Cost of fulfilling a contract (Amendments to IFRS 37)	January 1, 2023
Accounting Policy Disclosures - (Amendments to IAS 1)	January 1, 2023
Definition of accounting estimates – (Amendments to IAS 8)	January 1, 2023
Lease liability in a sale and leaseback - (Amendments to IFRS 16)	January 1, 2024

(4) Financial Risk Management

In the normal course of its operations, the Bank is exposed to financial risks, which it tries to minimize through the application of risk management policies and procedures. These policies and procedures cover, among others, credit risk, liquidity risk, market risk, interest rate risk, exchange rate risk, operational risk, technological risk, and information security risk.

A financial instrument is a contract that creates a financial asset for one of the parties and at the same time a financial liability or equity instrument for the counterparty. The Bank's consolidated statement of financial position is made up of mostly financial instruments.

Financial instruments expose the Bank to various types of risks. The Bank's Board of Directors has approved a Risk Management Manual, which identifies each of the main risks to which the Bank is exposed. To manage and monitor the different risks to which the Bank is exposed, the Board of Directors has established the Credit Committee, the Committee for the Prevention of Money Laundering, the Audit Committee, the Risk Committee and the Corporate Governance Committee, which are made up of key executives and external directors. These Committees are in charge of prudently monitoring, controlling and managing these risks, establishing policies and limits for each said risks.

Additionally, the Bank is subject to the regulations established by the Superintendence of Banks of the Republic of Panama regarding credit, liquidity, market, and operational risks, which are described below.

(a) Credit risk

The Bank is exposed to credit risk, which is the risk that a counterparty causes a financial loss for the Bank by failing to settle an obligation. Credit risk is the most important risk for the Bank's business; Management therefore carefully manages its exposure to credit risk. Credit exposure occurs primarily during lending activities that lead to the granting of loans and investment activities that carry securities and other accounts in the Bank's portfolio of assets. It is also exposed to credit risk in operations of financial instruments outside the consolidated statement of financial position, for example, loan commitments. The Risk Management Area periodically monitors the financial condition of debtors (both current loans and contingencies) and issuers of instruments.

(4) Financial Risk Management, continued

The Bank has established credit risk management policies, described below:

- *Credit Policies*
  The Bank has a Credit Risk Manual whose main purpose is to protect the best interests of the Bank and depositors through the adoption of credit approval and administration principles, policies and procedures consistent with the soundest banking practices and the guidelines established by the Superintendency of Banks of Panama.

- *Approval Limits*
  The Credit Risk Manual establishes the approval limits defined by the Bank's Board of Directors. All credit requests are subject to different decision instances, depending on the amounts involved in the transaction. The use of the approval limits is conditional on credit operations complying with the analysis and evaluation process established in the Credit Administration Manual.

- *Concentration Limits*
  The Bank manages the concentration limits in accordance with the guidelines established by Executive Decree No.52 in its Articles 95 and 96 and Agreement No.6-2009 issued by the Superintendency of Banks of Panama, which establishes the Standards for Risk Concentration Limit to economic groups and related parties.

- *Exposure Limits*
  To limit exposure, maximum limits have been defined for an individual debtor or economic group, limits that have been set as a proportion of the Bank's capital funds.

- *Maximum Limit per Counterparty*
  Regarding exposures by counterparties, limits have been defined based on the level of risk estimated for the counterparty and, as a proportion of the Bank's capital.

  The risk management policies indicate counterparty limits, which determine, at all times, the maximum amount of net exposure to transactions to be settled that the Bank may have with a counterparty. The Credit Committee is responsible for identifying those acceptable counterparties, taking into account the track record of each counterparty regarding compliance with its obligations, as well as indications of its ability and willingness to fully comply in the future.

- *Evaluation and Maintenance of Risk Assessments*
  Exposure to credit risk is managed through periodic evaluations of debtors for proper risk classification, both for the risk categories established by the Superintendency of Banks of Panama and for internal management models (Rating and Scoring). The evaluations of each debtor are based on financial indicators that measure payment capacity, payment compliance and compliance with credit policies.

(4) Financial Risk Management, continued

- *Compliance with Credit Policies*

In the periodic evaluations of the credit risk of the debtors, the Bank considers compliance with the policies established in the Risk Manual regarding the analysis process of each debtor, the authorization limits and the terms and conditions approved by the levels of corresponding approval.

Credit Risk Measurement

The Bank assigns to each exposure a credit risk rating defined by using quantitative and qualitative factors that are indicative of default risk. These factors vary according to the type of debtor and the nature of the exposure.

Quality of the portfolio of deposits in banks

The Bank maintains deposits in banks for B/.135,090,879 as of December 31, 2022 (2021: B/.272,021,344).

	2022			
Deposits in banks	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
AAA/BBB-	135,091,069	0	0	135,091,069
Gross amount	135,091,069	0	0	135,091,069
Allowance for ECL	(190)	0	0	(190)
Book Value	135,090,879	0	0	135,090,879

	2021			
Deposits in banks	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
AAA/BBB-	187,018,345	0	0	187,018,345
BB+/B-	85,000,000	0	0	85,000,000
Gross amount	187,018,345	0	0	187,018,345
Allowance for ECL	(25,929)	0	0	(25,929)
Interest receivable	28,928	0	0	28,928
Book Value	272,021,344	0	0	272,021,344

Deposits in banks are considered highly liquid short-term investments that are easily convertible into determined amounts in cash, being subject to an insignificant risk of changes in value.

The financial entities with which the demand interbank deposits and term interbank deposits are placed are short-term first-rate banks that have not presented credit risk problems in recent years and maintain positive solvency and liquidity indices, according to information obtained through Bloomberg or rating agencies on these financial entities or, in their absence, from financial institutions with similar characteristics, or from the government in which said financial institution is established.

(4) Financial Risk Management, continued

For the establishment of provisions for expected credit losses in the case of local and foreign demand deposits, even considering that they can be withdrawn by the Bank with very little (their term is generally 1 day) or without time notice and, since there is no previously agreed restriction that prevents the Bank from withdrawing said funds at any time, credit risk impairment is calculated using the expected credit loss calculation parameters, estimating that the expected loss is proportional to the previously mentioned period.

In the case of time deposits that maintain a contractual maturity, this will be equal to the period to which the Bank will be exposed to credit risk. The probability of default obtained for these deposits is annual, therefore, it is interpolated according to the term of each deposit.

Quality of the investment in securities

The Bank segregates the investment portfolio into FVPL investments, AC investments and FVOCI investments. As of December 31, 2022, the investment portfolio totals B/.194,887,282 (2021: B/.261,679,036).

	2022			
Investments in securities at FVOCI and AC	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
AAA/A-	62,185,773	0	0	62,185,773
BBB+/BBB-	31,017,262	0	0	31,017,262
BB+/B-	99,778,216	0	0	99,778,216
Gross amount	192,981,251	0	0	192,981,251
Allowance for ECL on investments at AC	(11)	0	0	(11)
Interest receivable, net	1,874,763	0	0	1,874,763
Net Book value	194,856,003	0	0	194,856,003
Allowance for ECL on investments at FVOCI	(753,263)	0	0	(753,263)

	2021			
Investments in securities at FVOCI and AC	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
AAA/A-	87,254,731	0	0	87,254,731
BBB+/BBB-	47,824,611	0	0	47,824,611
BB+/B-	124,776,295	0	0	124,776,295
Gross amount	259,855,637	0	0	259,855,637
Allowance for ECL on investments at AC	(1)	0	0	(1)
Interest receivable, net	1,792,121	0	0	1,792,121
Net Book value	261,647,757	0	0	261,647,757
Allowance for ECL on investments at FVOCI	(333,758)	0	0	(333,758)

Quality of the loan portfolio

Note 3 (e) contains an explanation of the measurement of the quality of financial instruments, which include the loan portfolio.

For the consumer portfolio, the main indicative risk factor is default, while for the corporate portfolio, in addition to default, factors related to the financial situation, among others, are considered.

(4) Financial Risk Management, continued

The following table presents the analysis of the credit quality of the loan portfolio and the allowance for credit losses:

	2022			
Loans at amortized cost (AC)	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Low Risk	410,014,240	0	0	410,014,240
Medium Risk	285,336,351	42,910,286	0	328,246,637
High Risk	0	292,886,981	10,307,638	303,194,619
Gross amount	695,350,591	335,797,267	10,307,638	1,041,455,496
Allowance for loan losses	(2,770,120)	(4,150,781)	(8,430,306)	(15,351,207)
Interest receivable	4,263,127	1,760,094	1,286	6,024,507
Book value	696,843,598	333,406,580	1,878,618	1,032,128,796

	2021			
Loans at amortized cost (AC)	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Low Risk	291,507,902	0	0	291,507,902
Medium Risk	204,735,570	55,475,168	0	260,210,738
High Risk	14,966	312,713,222	5,815,631	318,543,819
Gross amount	496,258,438	368,188,390	5,815,631	870,262,459
Allowance for loan losses	(2,258,292)	(5,177,797)	(3,268,723)	0
Interest receivable	536,162	870,656	21,213	1,428,032
Book value	494,536,308	363,881,249	2,568,121	860,985,678

Quality of contingent operations

The Bank maintains within the heading of contingent commitments, the operations of letters of credit, bank guarantees and credit commitments. As of December 31, 2022, contingent operations total B/.95,378,735 (2021: B/.55,776,892).

	2022			
	12 months ECL	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Maximum exposure contingencies				
Low risk	60,900,000	0	0	60,900,000
Medium risk	14,983,459	2,600,000	0	14,983,459
High risk	0	19,495,276	0	19,495,276
Gross amount	73,283,459	22,095,276	0	95,378,735
Allowance for credit losses	(41,663)	(15,483)	0	(57,146)

(4) Financial Risk Management, continued

	2021			
	12 months ECL	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Maximum exposure contingencies				
Low risk	15,388,889	0	0	15,388,889
Medium risk	4,530,000	20,233,000	0	24,763,000
High risk	0	15,625,003	0	15,625,003
Gross amount	19,918,889	35,858,003	0	55,776,892
Allowance for credit losses	(3,945)	(27,282)	0	(31,227)

The Bank monitors guarantees and other improvements to reduce credit risk and its financial effect.

The following table presents the guarantees that the Bank maintains to reduce credit risk and ensure the collection of its financial assets exposed to credit risk.

The main types of guarantees taken with respect to different types of financial assets are presented below:

	% of exposure that is subject to collateral requirements		Type of Guarantee
	2022	**2021**	
Commercial portfolio	47.40%	47.68%	Cash, Commercial Real Estate, Residential, Land and Securities that lack an active market
Consumer Portfolio	36.17%	27.24%	Cash, Commercial Real Estate, Residential, Land and Securities that lack an active market

The following tables show the reconciliation of the beginning and ending balances for the year ended December 31, 2022 and 2021, which correspond to the allowance for losses in financial assets:

	2022			
Loans at amortized cost (AC)	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Balance as of January 1, 2022	2,258,292	5,177,797	3,268,723	10,704,812
Change to Stage 1	1,298,759	(1,297,185)	(1,575)	0
Change to Stage 2	(89,111)	355,606	(266,494)	0
Change to Stage 3	(9,872)	(9,396)	19,268	0
Provision expense - remeasurement	(1,299,935)	(504,858)	8,350,690	6,545,897
Provision expense - origination	984,249	1,379,244	46,784	2,410,277
Provision expense - cancellation	(372,261)	(950,427)	(1,667,803)	(2,990,491)
Write-offs	0	0	(2,072,667)	(2,072,667)
Recoveries	0	0	753,379	753,379
Balance as of December 31, 2022	2,770,121	4,150,781	8,430,305	15,351,207

(4) Financial Risk Management, continued

	2021			
Loans at amortized cost (AC)	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Balance as of January 1, 2021	2,644,564	5,609,314	1,584,027	9,837,905
Change to Stage 1	437,421	(433,454)	(3,967)	0
Change to Stage 2	(504,236)	507,221	(2,985)	0
Change to Stage 3	(224,334)	(1,041,106)	1,265,440	0
Provision expense - remeasurement	(693,690)	892,174	1,967,262	2,165,746
Provision expense - origination	1,431,971	872,822	35,132	2,339,925
Provision expense - cancellation	(833,404)	(1,229,174)	604,237	(1,458,341)
Write-offs	0	0	(2,898,772)	(2,898,772)
Recoveries	0	0	718,349	718,349
Balance as of December 31, 2021	2,258,292	5,177,797	3,268,723	10,704,812

Movements in provisions are due to changes in the level of risk, formalization of guarantees and balances.

As of December 31, 2022, the written-off loans include B/.660,338 (2021: B/.2,898,772) corresponding to credit card write-offs.

Another important component within the reserve methodology and whose relevance is even greater in the COVID-19 situation is the prospective factor, where the Bank's current methodology seeks through statistical techniques to quantify the impact on delinquency ratios, as a result of changes in the macroeconomic environment, which has been significantly impacted during 2021 and has caused most growth projections to be revised downwards.

Regarding the prospective factor, the Bank, aligned with the requirements of IFRS 9, considers three scenarios: Optimistic, Base and Adverse, which are combined through weightings according to the expectations held for each one, in line with the economic outlook.

Below is a comparison of the weightings taken at the end of 2022 and 2021.

Year	Optimistic	Base	Adverse
2022	10%	60%	30%
2021	10%	60%	30%

The provision for expected credit losses of investments at fair value through other comprehensive income (FVOCI) is recognized in equity and does not reduce its book value or fair value in the consolidated statement of financial position.

(4) Financial Risk Management, continued

The reconciliation between the beginning and the ending balance of the provision for expected credit losses related to investments with fair value in other comprehensive income (FVOCI) is shown below:

	2022			
Investments at FVOCI	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Balance as of January 1, 2022	333,758	0	0	333,758
Provision expense - remeasurement	344,329	0	0	344,329
Provision expense - origination	123,406	0	0	123,406
Provision expense - cancellation	(48,230)	0	0	(48,230)
Balance as of December 31, 2022	753,263	0	0	753,263

	2021			
Investments at FVOCI	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Balance as of January 1, 2021	190,540	0	0	190,540
Provision expense - remeasurement	(4,822)	0	0	(4,822)
Provision expense - origination	286,099	0	0	286,099
Provision expense - cancellation	(138,060)	0	0	(138,060)
Balance as of December 31, 2021	333,757	0	0	333,757

	2022			
Contingent operations	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Balance as of January 1, 2022	6,402	24,825	0	31,227
Transfer from stage 2 to 1	10,302	(10,302)	0	0
Transfer from stage 1 to 2	(2,470)	2,470	0	0
Provision expense - remeasurement	3,064	(1,510)	0	1,554
Provision expense - origination	24,365	0	0	24,365
Balance as of December 31, 2022	41,663	15,483	0	57,146

	2021			
Contingent operations	**12 months ECL**	**Lifetime ECL – without impaired**	**Lifetime ECL – impaired**	**Total**
Balance as of January 1, 2021	14,268	11,742	0	26,010
Transfer from stage 2 to 1	623	623	0	0
Transfer from stage 1 to 2	4,951	4,951	0	4,467
Provision expense - remeasurement	(3,613)	8,080	0	750
Provision expense- origination	76	676	0	31,227
Balance as of December 31, 2021	6,402	24,825	0	31,227

(4) Financial Risk Management, continued

The Bank monitors the concentration of credit risk by sector and geographic location. The analysis of the concentration of credit risks is as follows:

	Loans		Investments		Deposits in banks	
	2022	2021	2022	2021	2022	2021
Concentration by Industry						
Corporate	985,904,982	806,153,651	159,728,615	242,465,484	0	0
Consumer	61,462,295	65,393,208	0	0	0	0
Other sectors	112,726	143,631	35,158,678	19,213,553	135,091,070	272,047,273
	1,047,480,003	871,690,490	194,887,293	261,679,037	135,091,070	272,047,273
Less: Allowance for ECL	(15,351,207)	(10,704,812)	(11)	(1)	(191)	(25,929)
	1,032,128,796	860,985,678	194,887,282	261,679,036	135,090,879	272,021,344
Geographic Concentration						
Panama	0	0	258,563	30,624,109	379,401	50,388,474
Dominican Republic	968,203,877	823,314,203	77,179,352	68,201,639	0	85,005,542
United States of America and Canada	471,205	7,614,590	67,872,004	62,859,560	131,463,352	109,976,473
Other countries	78,804,921	40,761,697	49,577,363	99,993,729	3,248,317	26,676,784
	1,047,480,003	871,690,490	194,887,282	261,679,036	135,091,070	272,047,273
Less: Allowance for ECL	(15,351,207)	(10,704,812)	(11)	(1)	(191)	(25,929)
	1,032,128,796	860,985,678	194,887,282	261,679,036	135,090,879	272,021,344

The geographic concentrations of loans, investments and deposits in banks are based on the location of the debtor and issuer.

Sensitivity Analysis for the calculation of the Expected Credit Loss (ECL)

Among the relevant assumptions that affect the calculation of the expected credit loss (ECL) in the loan portfolio, there are the Probabilities of Default (PD), the Losses Given Default (LGD) and the Prospective Information Factor (FL). The Bank has estimated the impact on the expected credit loss (ECL) under stress scenarios that lead to the deterioration of the previously mentioned factors.

The scenarios carried out are detailed as follows:

2022

	Gross	Expected Loss - Scenarios			
As of December 31	Exposure	Optimistic	Base	Pessimistic	Weighted
Corporate	980.25	12.71	13.24	14.15	13.45
Consumer	61.21	1.68	1.84	2.12	1.9

2021

	Gross	Expected Loss - Scenarios			
As of December 31	Exposure	Optimistic	Base	Pessimistic	Weighted
Corporate	805.13	7.97	8.49	9.39	8.7
Consumer	65.14	1.75	1.94	2.2	2

(4) Financial Risk Management, continued

The macroeconomic variables used are detailed as follows:

	Macroeconomic variables used					
		2022			2021	
	Optimistic	Base	Pessimistic	Optimistic	Base	Pessimistic
GDP	7.1%	5.1%	1.1%	6.0%	4.0%	0.0%
CPI	2.0%	4.0%	7.0%	2.3%	4.3%	7.3%

(b) Liquidity risk

Liquidity risk is defined as the possible inability of the Bank to comply with all its obligations due to, among others, an unexpected withdrawal of funds provided by creditors or customers, the deterioration of the quality of the loan portfolio, the reduction in the value of investments, the excessive concentration of liabilities in a particular source, the mismatch between assets and liabilities, the illiquidity of assets, or the financing of long-term assets with short-term liabilities. The Bank manages its liquid resources to honor its liabilities at maturity under normal conditions.

Liquidity Risk Management

Risk management policies establish a liquidity limit that determines the portion of the Bank's assets that must be kept in highly liquid instruments.

The Bank is exposed to daily requirements on its available fund resources from overnight deposits, checking accounts, time deposits, loan disbursements and guarantees.

Liquidity Risk Exposure

The Bank uses the ratio of primary liquid assets to total deposits and financing received to measure and monitor its target liquidity levels. Primary liquid assets are defined as assets that can be converted to cash in a period equal to or less than ninety days.

The Bank complies with the prudential guidelines established by the Superintendency of Banks of Panama by classifying assets as primary liquidity, such as: cash, demand and time deposits in banks, and installments on loans of less than 6 months.

The Bank's liquidity index is detailed below, which considered the primary liquid assets divided by the total deposits measured at the date of the consolidated financial statements, as follows:

	2022	2021
As of year end	42.67%	47.58%
Average	43.69%	68.45%
Maximum	49.97%	83.92%
Minimum	38.96%	47.58%

(4) Financial Risk Management, continued

The table below shows the future undiscounted cash flows of the Bank's financial assets and liabilities and unrecognized loan commitments based on their nearest possible maturity. The expected cash flows of these instruments may vary significantly as a result of these analysis:

2022

	Carrying Amount	Gross Amount Inflows/(outflows)	Up to 1 year	From 1-3 Years	More than 5 years
Assets:					
Cash and demand and time deposits in banks	135,091,379	135,091,379	135,091,379	0	0
Investments in securities	194,856,003	241,346,654	61,730,435	58,211,434	121,404,785
Loans, net	1,032,128,796	1,047,480,003	217,957,547	575,006,429	254,516,027
Total	1,362,076,178	1,423,918,036	414,779,361	633,217,863	375,920,812
Liabilities:					
Demand and time deposits	978,847,566	(985,836,213)	(960,819,350)	(25,016,863)	0
Financing received	58,830,626	(59,511,363)	(59,511,363)	0	0
Commitments and contingencies	57,146	(57,146)	(57,146)	0	0
Total	1,037,735,338	(1,045,404,722)	(1,020,387,859)	(25,016,863)	0

2021

	Carrying Amount	Gross Amount Inflows/(outflows)	Up to 1 year	From 1-3 Years	More than 5 years
Assets:					
Cash and demand and time deposits in banks	272,021,844	272,021,844	272,021,844	0	0
Investments in securities	261,647,757	296,976,234	79,450,971	112,656,818	104,868,445
Loans, net	871,690,490	871,690,490	180,868,963	444,201,189	246,620,338
Total	1,405,360,091	1,440,688,568	532,341,778	556,858,007	351,488,783
Liabilities:					
Demand and time deposits	1,096,332,857	(1,096,332,857)	(1,089,963,403)	(6,871,576)	0
Commitments and contingencies	31,227	(31,227)	(31,227)	0	0
Total	1,096,364,084	(1,098,029,473)	(1,091,157,897)	(6,871,576)	0

(4) Financial Risk Management, continued

The following table analyzes the Bank's financial assets and liabilities in the remaining period of one year from the date of the consolidated statement of financial position:

	2022	**2021**
Assets		
Cash and bank deposits	135,091,379	272,021,844
Investments in securities	53,762,001	71,197,767
Loans	214,846,639	177,562,655
	403,700,019	520,782,266
Liabilities		
Demand deposits	331,870,234	400,458,716
Savings deposits	9,937,427	8,431,916
Term deposits	613,014,311	680,752,851
Financing Received	58,830,626	0
	1,013,652,598	1,089,643,483

The amounts in the table above have been compiled as follows:

Type of financial instrument	**Basis on which quantities are determined**
Non-derivative financial assets and liabilities	Undiscounted cash flows, including interest payments
Derivative financial assets and liabilities	Contractual undiscounted cash flows. The amounts show the nominal gross inflows and outflows of derivatives that have simultaneous gross settlement and the net amounts of derivatives that are settled net.

The Bank's expected cash flows on some financial assets and liabilities vary significantly from the contractual cash flows. The main differences are the following:

- customer demand deposits are expected to remain stable or increase;
- all unrecognized loan commitments are not expected to be withdrawn immediately;

The gross nominal amount input/(output) disclosed in the table above represents the undiscounted future cash flows related to the principal and interest of the liability or financial commitment.

As of December 31, 2022, the Bank does not maintain financial assets delivered as collateral and therefore keeps them available to support future financing.

(4) Financial Risk Management, continued

(c) Market Risk

It is the risk that the value of a financial asset of the Bank is reduced due to changes in interest rates, in monetary exchange rates, in stock prices and other financial variables, as well as the reaction of the participants of the stock markets to political and economic events. The management of this risk is constantly supervised by the ALCO Committee. To mitigate this risk, the Bank has documented, in its policies, controls related to investment limits, investment classification and valuation, portfolio rating, verification of interest payments, sensitivity, and rate testing.

Market Risk Management

The global investment exposure policies and limits established in the Treasury and Investment Manual and in the Comprehensive Risk Management Manual are established and approved by the Bank's Board of Directors; they take into consideration the portfolio and the assets that comprise them.

The risk management policies provide for compliance with limits per financial instrument, limits regarding the maximum amount of loss, from which the closing of positions that caused said loss is required, and the requirement that, except by approval of the Board of Directors, substantially all assets and liabilities are denominated in United States dollars.

Additionally, the Bank has established maximum limits for losses due to market risk in its investment portfolio that may be the product of movements in interest rates, credit risk and fluctuations in the market values of investments.

Currently, the Bank's investment policy does not contemplate investments for its own account in the currency markets or in "commodities".

The composition and analysis of each of the types of market risk is presented below:

- *Exchange Rate Risk*

  It is the risk that the value of a financial instrument fluctuates as a consequence of variations in the exchange rates of foreign currencies, and other financial variables, as well as the reaction of market participants to political and economic events. For the purposes of accounting standards, this risk does not come from financial instruments that are not monetary items, nor from financial instruments denominated in the functional currency.

  The value of the positions in Euros fluctuates as a consequence of the variations in the exchange rate quotations.

(4) Financial Risk Management, continued

The currency position is presented in its dollar equivalent as follows:

	2022 euro	2021 euro
Deposits in banks	3,248,317	1,676,423
Other assets	43	23
Total assets	3,248,360	1,676,446
Deposits from customers	2,945,968	1,482,585
Total liabilities	2,945,968	1,482,585

- *Interest rate risk*

  Cash flow interest rate risk is the risk that future cash flows from a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates.

  The Bank assumes an exposure to the effects of fluctuations in the prevailing levels of market interest rates, both in its fair value risk and in its cash flow risk. Interest margins may increase as a result of such changes, but may decrease or create losses in the event of unexpected movements. The ALCO Committee periodically reviews the behavior of the interest rates of assets and liabilities, measures the impact of the mismatch on the Bank's results and takes the appropriate measures to minimize negative repercussions on the Bank's financial results.

  The table below summarizes the Bank's exposure to interest rate risks. The Bank's assets and liabilities are included in the table at book value, categorized by the earlier of the new contractual rate fixing or maturity dates.

2022	Up to 1 Year	From 1 to 3 Years	From 3 to 5 Years	More than 5 Years	Total
Assets					
Cash and bank deposits	135,091,379	0	0	0	135,091,379
Investments in securities	12,978,432	80,667,307	0	101,241,543	194,887,282
Loans	207,229,567	139,736,347	142,668,266	542,494,616	1,032,128,796
	355,299,378	220,403,654	142,668,266	643,736,159	1,362,107,457
Liabilities					
Demand deposits	331,870,234	0	0	0	331,870,234
Savings deposits	9,937,427	0	0	0	9,937,427
Term deposits	496,789,290	139,427,787	822,828	0	637,039,905
Financing Received	58,830,626	0	0	0	58,830,626
	897,427,577	139,427,787	822,828	0	1,037,678,192

(4) Financial Risk Management, continued

2021	Up to 1 Year	From 1 to 3 Years	From 3 to 5 Years	More than 5 Years	Total
Assets					
Cash and bank deposits	272,021,844	0	0	0	272,021,844
Investments in securities	55,436,338	110,563,949	0	95,678,749	261,679,036
loans	554,050,012	36,353,250	69,849,573	200,732,843	860,985,678
	881,508,194	146,917,199	69,849,573	296,411,592	1,394,686,558
Liabilities					
Demand deposits	400,458,716	0	0	0	400,458,716
Savings deposits	8,431,916	0	0	0	8,431,916
Term deposits	574,068,892	112,690,930	682,403	0	687,442,225
	982,959,524	112,690,930	682,403	0	1,096,332,857

The sensitization of the consolidated statement of financial position is carried out quarterly by the Treasury Risk Management, which in turn reviews the results and verifies that the limits established by the Board of Directors are not exceeded. This sensitization analysis is presented monthly to the ALCO Committee.

The interest rates accrued by the Bank's assets include variable rates that are adjusted as determined by the Bank, from time to time based on the cost of the Bank's liabilities.

In general, the interest rate risk position is coordinated directly with the Bank's Treasury in the Dominican Republic in order to eliminate or minimize sensitivity between interest rate fluctuations between financial assets and liabilities.

For interest rate risks, the Bank's management has defined a scheme for measuring the sensitivity of the consolidated statement of financial position to an increase or decrease of 50, 100 and 200 basis points on interest rates and where it is assumed that the composition of the consolidated statement of financial position remains constant. The table below reflects the impact on the net interest margin when applying these variations in interest rates:

Net interest impact			2022			
In thousands of B/.	**Increase of 50 bps**	**Increase of 100 bps**	**Increase of 200 bps**	**Decrease of 50 bps**	**Decrease of 100 bps**	**Decrease of 200 bps**
At the end of the year	10	5	2	(2)	(5)	(10)
Average of the year	10	5	3	(3)	(5)	(10)
Maximum of the year	12	6	3	(2)	(4)	(8)
Minimum of the year	8	4	2	(3)	(6)	(12)

			2021			
In thousands of B/.	**Increase of 50 bps**	**Increase of 100 bps**	**Increase of 200 bps**	**Decrease of 50 bps**	**Decrease of 100 bps**	**Decrease of 200 bps**
At the end of the year	10	5	2	(2)	(5)	(10)
Average of the year	9	4	2	(2)	(4)	(9)
Maximum of the year	10	5	3	(2)	(4)	(8)
Minimum of the year	8	4	2	(3)	(5)	(10)

(4) Financial Risk Management, continued

Impact on equity due to rate movements			**2022**			
In thousands of B/.	**Parallel Increase**	**Parallel Decrease**	**Steepening**	**Flattening**	**Short-term rates increase**	**Short-term rates decrease**
At the end of the year	11	(11)	(10)	13	11	(11)
Average of the year	3	(3)	(13)	16	3	(3)
Maximum of the year	11	3	(9)	20	11	2
Minimum of the year	(2)	(11)	(17)	12	(2)	(11)

			2021			
In thousands of B/.	**Parallel Increase**	**Parallel Decrease**	**Steepening**	**Flattening**	**Short-term rates increase**	**Short-term rates decrease**
At the end of the year	0.3	0.3	(14.4)	16.5	0.2	0.4
Average of the year	(0.)	0.5	(10.5)	12.1	(0.1)	0.6
Maximum of the year	2	3	(8)	17	1	3
Minimum of the year	(3)	(1)	(14)	10	(3)	(0.9)

Benchmark interest rate reform
Within the framework of the process of discontinuation of the LIBOR rate initiated by the FCA (for its acronym in English Financial Conduct Authority) since 2017, the Bank applied these amendments as of January 1, 2021, disclosing in its notes the nature and scope of the risks to which it is exposed, the management of these risks and the progress to complete the transition at the alternative reference rate. The Bank has identified impacts on the transition of the LIBOR rate in United States dollars only for certain transactions in the loan portfolio.

The Administration, through the coordination of the Treasury area, has concluded the work plans for the areas identified for the correct transition to the new reference indices as detailed below:

- A work plan has been completed that includes identification of exposure, identification of impacts, adaptation of systems, models and processes, and a proposal for the development of products indexed to the new rates, analysis and implementation of a transition language, a proposal for the transition of operations and customer approach plan for operations transition.

- Responses have been given to the queries made by the regulatory entities regarding this transition process, towards risk-free rates, as well as the delivery of information on a quarterly basis until June 30, 2023.

Cash Flow and Fair Value Interest Rate Reform
Cash flow interest rate risk and fair value interest rate risk are the risks that future cash flows and the value of the financial instrument will fluctuate, due to changes in market interest rates.

(4) Financial Risk Management, continued

The Bank assumes an exposure to the effects of fluctuations in the prevailing levels of market interest rates, both in its fair value risk and in its cash flow risk. Interest margins may increase as a result of such changes, but may decrease or create losses in the event of unexpected movements.

Based on a rate structure for financial assets and liabilities that is substantially variable, the Bank sets goals for its net interest margin that are approved by the Board of Directors.

On a monthly basis, the Bank's Administration, in conjunction with the Board of Directors, evaluates the behavior of financial assets and liabilities that affect the achievement of the established net interest margin levels and determines the actions that must be taken (if applicable), to achieve the established intermediation margins.

- *Price Risk*

  It is the risk that the value of a financial instrument fluctuates as a result of changes in market prices, regardless of whether they are caused by specific factors related to the particular instrument or its issuer, or by factors that affect all securities traded in the market.

  The Bank is exposed to the price risk of equity instruments classified as available for sale. To manage the price risk derived from investments in equity instruments, the Bank diversifies its portfolio, based on the established limits.

(d) Operational Risk

Operational risk is the possibility of incurring losses due to deficiencies, failures or inadequacies of human resources, processes, technology, infrastructure or due to the occurrence of external events. This definition includes the legal risk associated with such factors.

The mission of the Operational Risk unit is to support the Bank's risk management in accordance with current regulations and sound banking practices, in order to guarantee an efficient process of identification, measurement and control of the level of risk to which the Bank is exposed according to the size and complexity of its operations, products, and services.

The development of Operational Risk Management is supervised by a Risk Committee that also supports the work of administration and implementation of operational risk management, and is supported by the Board of Directors, which ensures effective management. The Committee has a strategic nature and demands information and analysis of the different risks assumed by the Bank.

To facilitate Operational Risk Management, tools have been implemented which result in the qualitative and quantitative aspects of the risks, such as the Risk Matrices and a system for the Record of Events and Incidents established in the Bank that results in a Database that supports the evaluation of the probability of occurrence of events and for continuous improvement in processes and controls.

(4) Financial Risk Management, continued

The policies and procedures established by the Bank for operational risk management are periodically reviewed by the Internal Audit Department.

During 2022, improvements were made in the operational risk management process in order to ensure compliance with regulatory agreements and guarantee business continuity in the crisis scenario (product of the COVID-19 pandemic), the main objectives achieved in operational risk management were the following:

- Sensitization of all the organization's staff on the importance of managing Operational Risk.
- Strengthening of the policies and procedures for Operational Risk Management, as well as in the identification of risks and monitoring of materialized events and incidents.
- Follow-up on the action plans defined for risks classified as high and catastrophic.
- Review of the operation of the Business Continuity Plan with the implementation of teleworking.

Capital Management

Banks with an international license on which the Superintendence of Banks of Panama exercises supervision of origin must comply, at all times, with the required minimum capital fund adequacy index of 8% of their total risk-weighted assets, within and off-balance sheet, as well as primary capital equivalent to no less than 6% and a minimum leverage ratio of 3%, resulting from the ratio between ordinary primary capital and total exposure by unweighted assets on and off the balance sheet.

The Bank computes the capital adequacy index as a consolidated banking group with its subsidiary and for this purpose, the Bank delivers quarterly to the Superintendency of Banks of Panama the Capital Adequacy Index report (individual and consolidated) which certifies that the Bank individually and collectively, complies with the minimum capital adequacy requirements. Panamanian banking law requires banks with an international license, among other requirements, to maintain a minimum paid-in or assigned capital of B/.3,000,000.

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

The preparation of the consolidated financial statements and their notes require the Bank to make estimates that affect the balances of assets and liabilities, and the balances of profits and losses recorded during the respective years, as well as the disclosure of contingent assets and liabilities to the date of the consolidated financial statements. Final results may vary compared to beginning balances.

The areas that involve a high degree of judgment or complexity, or those areas in which management's premises and estimates are significant for the consolidated financial statements, correspond to the provision for expected credit losses (Note 4), and the determination of fair values (Note 20).

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

Periodically, the Bank analyzes the recoverability of its loan portfolio, which is its most significant estimate. Regarding this issue, management applies estimates based on expected credit losses. The methodology and variables used for this analysis are regularly reviewed by management to reduce any difference between estimated losses and actual losses.

(a) *Impairment losses on financial assets*
The Bank continuously reviews the credit risk embedded in financial assets in order to identify any significant deterioration which translates into the constitution of greater provisions for expected credit losses, which are based on the model of expected credit loss, which uses historical and prospective information, where the key inputs are found in section “3. Summary of Significant Accounting Policies” in the part of impairment losses.

(b) *Fair Value*
For investments that are quoted in active markets, the fair value is determined by the reference price of the instrument published on stock exchanges and electronic stock market information systems. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data or by using internationally recognized price providers. These include discounted cash flow analysis and other valuation techniques commonly used by market participants. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 20).

(6) Transactions and Balances with Related Parties

In the normal course of business has incurred in transactions with certain related parties such as: shareholders, non-consolidated companies, directors, and key personnel. As of December 31, 2022, the following were the aggregate balances in relation to transactions with related parties:

		2022	
	Key personnel and directors	Related Companies	Total
Assets:			
Loans	5,350,740	18,581,674	23,932,414
Advance payments	3,284,407	0	3,284,407
Other intangible assets	5,675,593	0	5,675,593

		2021	
	Key personnel and directors	Related Companies	Total
Assets:			
Time deposits	0	85,000,000	85,000,000
Loans (interests)	5,047,372	17,937,984	22,985,356
Advance payments	5,161,211	0	5,161,211
Other intangible assets	8,918,789	0	8,918,789

(6) Transactions and Balances with Related Parties, continued

As of December 31, 2022, the Bank recognized provisions for impairment with respect to loans granted to related parties amounting to B/.251,313 (2021: B/.190,426).

Loans to directors and key personnel are granted on the same terms and conditions that are available to other Bank clients. Terms and conditions are based on third party loans adjusted for lower credit risk.

As of December 31, 2022, the related credit portfolio had tangible guarantees such as: real estate and other assets in the amount of B/.2,151,427 (2021: B/.1,333,785).

		2022	
	Key personnel and directors	**Related Companies**	**Total**
Liabilities:			
Deposits:			
Demand	20,766,041	4,611,407	25,377,448
Savings	64,826	3,408	68,234
Term	12,236,875	8,158,128	20,395,003
	33,067,742	12,772,943	45,840,685

		2021	
	Key personnel and directors	**Related Companies**	**Total**
Liabilities:			
Deposits:			
Demand	15,899,481	7,671,455	23,570,936
Term	15,057,467	21,266,803	36,324,270
	30,956,948	28,938,258	59,895,206

For the period ended December 31, 2022, the following income and expense items are included in the aggregate amounts resulting from the transactions described above:

		2022	
	Key personnel and directors	**Related Companies**	**Total**
Interest income:			
Loans	232,960	530,330	763,290
Deposits	0	71,757	71,757
Interest expense:			
Deposits	261,068	135,793	396,861
General and administrative expenses:			
Allowances	421,400	0	421,400
Wages	162,500	0	162,500
Employee benefits	432,500	0	432,500
Fees and others	5,120,000	2,082,119	7,202,119

(6) Transactions and Balances with Related Parties, continued

	2021		
	Key personnel and directors	**Related Companies**	**Total**
Interest Income:			
Loans	154,737	525,904	680,641
Deposits	0	99,387	99,387
Interest Expense:			
Deposits	307,234	510,389	817,623
General and administrative expenses:			
Allowances	449,400	0	449,400
Wages	162,500	0	162,500
Employee benefits	387,500	0	387,500
Fees and others	5,120,000	1,464,835	6,584,835

(7) Cash and Cash Equivalents

The cash balance is detailed below for reconciliation purposes with the consolidated statement of cash flows:

	2022	**2021**
Cash	500	500
Demand deposits - local	379,401	451,536
Demand deposits - foreign	134,711,478	87,566,807
Time deposits – local and foreign with original maturities of three months or less	0	135,003,001
Cash equivalent		
Cash and cash equivalents in the consolidated statement of cash flows	135,091,379	223,021,844
Time deposits – local and foreign with original maturities of more than three months	0	49,000,000
Total cash and deposits in banks	135,091,379	272,021,845

(8) Investments in Securities

As of December 31, 2022, investments in securities are detailed as follows:

	2022	**2021**
Investments at FVPL	31,279	31,279
Investments at FVOCI	194,628,719	261,420,793
Investments at AC	227,284	226,963
Total	194,887,282	261,679,036

(a) Investments at FVPL

Investments at FVPL correspond to capital shares for a total of B/.31,279 (2021: B/.31,279).

As of December 31, 2022, the Bank recorded dividend income for B/.2,483 (2021: B/.2,483) in the other incomes account.

(b) Investments at FVOCI
Investments at FVOCI classified by type of instrument are detailed as follows:

	2022	**2021**
Debt securities - private	159,728,615	208,204,788
Debt securities - government	34,900,104	53,216,005
	194,628,719	261,420,793

As of December 31, 2022, the Bank sold investment securities for an amount of B/.840,968 (2021: B/.73,408,297), which generated a net gain of B/.39,026 (2021: net gain B/.6,930,902); and redeemed securities for B/.109,347,849 (2021: B/.106,282,000). Additionally, the Bank presents unrealized losses for investments at FVOCI for B/.9,364,087 (2021: losses for B/.1,899,890), which are presented in fair value reserves in equity.

(c) Investments at Amortized Cost (AC)
Investments at amortized cost correspond to bonds of the Republic of Panama, with a book value of B/.227,284 (2021: B/.226,963).

	2022	**2021**
Bonds of the Republic of Panama	227,295	226,964
ECL provision	(11)	(1)
	227,284	226,963

(9) Loans
The distribution by economic activity of the loan portfolio is summarized below:

2022	**Gross Balance**	**(ECL Provision)**	**Net Balance**
External Sector			
Industrial	353,269,248	(722,418)	352,546,830
Tourism	163,243,464	(1,122,907)	162,120,557
Trade	117,293,014	(904,325)	116,388,689
Financial and insurance institutions	74,448,676	(8,368,103)	66,080,573
Communications and services	73,084,828	(527,207)	72,557,621
Construction	73,849,756	(652,656)	73,197,100
Other loans	42,666,082	(656,648)	42,009,434
Ports and railways	32,646,236	(53,394)	32,592,842
Credit cards	29,149,104	(1,810,700)	27,338,404
Transport	28,265,410	(97,747)	28,167,663
Consumer	18,623,485	(117,940)	18,505,545
Oil and derivatives	17,923,626	(134,331)	17,789,295
Agriculture and fishing	14,245,582	(63,627)	14,181,955
Mortgage residential	5,929,187	(43,268)	5,885,919
Mines and quarries	2,842,305	(75,936)	2,766,369
Loans, net	1,047,480,003	(15,351,207)	1,032,128,796

(9) Loans, continued

2021	Gross Balance	(ECL Provision)	Balance net
External Sector			
Industrial	311,493,588	(1,040,073)	310,453,515
Tourism	172,211,708	(1,860,970)	170,350,738
Communications and services	71,898,721	(3,146,640)	68,752,081
Construction	48,537,932	(493,256)	48,044,676
Trade	26,652,358	(235,597)	26,416,761
Financial and insurance institutions	37,623,358	(113,170)	37,510,188
Other loans	47,269,601	(707,933)	46,561,668
Transport	42,061,244	(533,843)	41,527,401
Ports and railways	37,592,095	(6,192)	37,585,903
Credit cards	27,982,014	(1,905,152)	26,076,862
Consumer	19,682,671	(193,223)	19,489,448
Agriculture and fishing	17,405,214	(346,540)	17,058,674
Oil and derivatives	7,156,196	(1,179)	7,155,017
Mines and quarries	3,004,213	(118,647)	2,885,566
Mortgage residential	1,119,577	(2,397)	1,117,180
Loans, net	871,690,490	(10,704,812)	860,985,678

An important part of the Bank's loan portfolio is made up of commercial loans and loans to service companies, guaranteed by fixed-term deposits and mortgage guarantees, which represent approximately 57.10% (2021: 43.63%) of the loan portfolio.

(10) Property and Equipment

The property and equipment to the property are summarized below:

	Property	Furniture and equipment	Vehicles	Improvements to the property	Total
As of January 1, 2022					
Cost					
At the beginning of the year	2,399,613	3,673,778	34,200	2,006,761	8,114,352
Additions	0	60,640	0	13,510	74,150
Disposals	0	(312,196)	0	(46,378)	(358,574)
December 31, 2022	2,399,613	3,422,222	34,200	1,973,893	7,829,928
Accumulated depreciation and amortization					
January 1, 2022	1,446,862	2,748,646	34,200	1,868,098	6,097,806
Expense of the year	77,051	371,922	0	64,455	513,428
Disposals	0	(312,162)	0	(46,378)	(358,540)
December 31, 2022	1,523,913	2,808,406	34,200	1,886,175	6,252,694
Net Balance	875,700	613,816	0	87,718	1,577,234

(10) Property and Equipment, continued

	Property	Furniture and equipment	Vehicles	Improvements to the property	Total
As of January 1, 2021					
Cost					
At the beginning of the year	2,399,613	3,248,595	34,200	2,006,761	7,689,169
Additions	0	463,838	0	0	463,838
Sales and disposals	0	(38,655)	0	0	(38,655)
December 31, 2021	2,399,613	3,673,778	34,200	2,006,761	8,114,352
Accumulated depreciation and amortization					
January 1, 2021	1,369,815	2,271,655	30,210	1,788,873	5,460,553
Expense of the year	77,047	515,498	3,990	79,225	675,760
Sales and disposals	0	(38,507)	0	0	(38,507)
December 31, 2021	1,446,862	2,748,646	34,200	1,868,098	6,097,806
Net Balance	952,751	925,132	0	138,663	2,016,546

(11) Intangible Assets

Intangible assets are made up of computer programs and other intangible assets, the movements of which are summarized below:

	2022	2021
Cost		
At the beginning of the year	18,858,731	17,820,653
Additions	199,599	1,399,114
Sales and disposals	(270,788)	(361,036)
At the end of the period	18,787,542	18,858,731
Accumulated depreciation and amortization		
At the beginning of the year	7,965,556	4,677,288
Expense of the year	3,788,441	3,649,305
Sales and disposals	(270,788)	(361,037)
At the end of the period	11,483,209	7,965,556
Net Balance	7,304,333	10,893,175

(12) Assets Held for Sale

The assets held for sale are presented in the table below:

	2022	2021
Balance at the beginning of the year	297,030	1,028,113
Sales	(297,030)	(591,213)
Increase	125,330	0
Impairment	0	(139,870)
Balance at the end of the year	125,330	297,030

(13) Other Assets

The other assets include the following:

	2022	2021
Prepaid expenses	3,736,502	5,769,444
Severance fund	789,537	749,305
Incentives receivable	530,370	20,974
Deposits and guarantees	281,660	2,999,751
Advance purchases	275,558	141,104
Other accounts receivable	35,255	131,769
Other assets	31,203	19,377
Accounts receivable loans	8,060	20,911
	5,688,145	9,852,635

(14) Financial Obligations

As of December 31, 2022, the Bank maintains financial obligations from local and foreign financial institutions for B/.58,830,626 (2021: B/.0) with maturities ranging from January 2023 to July 2023, at rates ranging from 4.60% to 5.28%

The Bank has not had breaches of principal, interest, or other contractual clauses in relation to its other financial obligations.

(15) Other Liabilities

The other liabilities are detailed in the table below:

	2022	2021
Various provisions	2,872,263	977,471
Accounts payable – suppliers and others	2,168,194	806,484
Accounts payable – client in succession proceedings	1,159,242	1,157,667
Provisions and labor withholdings	669,805	578,447
Severance fund	326,387	464,274
Other items pending to apply	158,126	11,469
Reserve ECL contingencies	148,090	159,567
Commissions payable	129,144	107,417
Bonuses payable	34,394	72,260
Other liabilities	656,837	679,981
Total other liabilities	8,322,483	5,015,033

(16) Common Stock

The composition of the Bank's capital in common shares is summarized as follows:

	2022		2021	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Authorized shares	2,300,000	115,000,000	2,300,000	115,000,000
Issued shares	848,000	42,400,000	848,000	42,400,000

(16) Common Stock, contiued

As of December 31, 2022, the Bank's authorized capital includes 35,000 unissued preferred shares for a total of B/.35,000,000, at a rate of B/.1,000 per share.

(17) Other Commissions and Other Income

The breakdown of other commissions and other income is presented in the table below:

	2022	2021
Other commissions		
Credit cards	1,255,016	1,173,001
Banking services and letter of credit	894,063	731,031
Endorsements, sureties and guarantees	367,428	418,919
Loan commitments	238,460	387,638
Trusts	5,000	1,000
	2,759,967	2,711,589
Other Income		
Credit card incentives	539,396	298,204
Issuance of cashier's checks	44,555	42,453
Penalty for early cancellation of deposits	40,818	54,502
Other miscellaneous income	985,582	592,390
	1,610,351	987,549

(18) Other Expenses

The breakdown of other expenses are presented in the table below:

	2022	2021
Commissions Expense		
Credit cards	1,750,281	1,560,295
Other Commissions Expense	44,294	49,253
	1,794,575	1,609,548
Salaries and Other Personnel Expenses		
Salaries	2,359,907	2,047,131
Employee profit sharing	762,662	766,261
Benefit to employees	432,391	488,199
XIII-month salary payment	235,566	221,965
Others	1,235,424	1,032,828
	5,025,950	4,556,384

(18) Other Expenses, continued

	2022	2021
Other Expenses		
Fees and registrations	334,885	311,536
Insurance	265,378	245,651
Trainings and education	240,201	23,991
Expenses on assets held for sale	151,000	17,502
Publicity	150,209	84,912
Indirect Taxes	75,025	75,021
Electricity	56,413	49,981
Cafeteria expenses	55,985	30,752
Other credit card expenses	45,710	781,751
Stationery and office supplies	38,329	14,017
Donations and contributions	34,465	19,678
Officers visit expenses	32,174	1,917
Other expenses	272,148	2,073,500
	1,751,922	3,730,209

(19) Commitments and Contingencies

Commitments

In the normal course of its operations, the Bank maintains financial instruments with off-balance sheet risks to meet the financial needs of its customers. These financial instruments include credit commitments, letters of credit and issued guarantees and involve, to varying degrees, elements of credit risk.

Customer-ordered warranties and commercial letters of credit carry some element of risk of loss in the event of customer default, net of tangible collateral behind these transactions. The Bank's policies and procedures in granting these contingent credits are similar to those used when extending loans.

Financial instruments with risk outside the consolidated statement of financial position are presented in the table below:

	2022	2021
Commercial letter of credit	3,185,277	1,223,024
Guarantees issued	20,741,125	21,664,979
Credit commitments	64,633,333	32,888,889
Endorsements and sureties received	6,819,000	0
	95,378,735	55,776,892

As of December 31, 2022, the Bank has identified letters of credit from classified customers, for which it has established reserves for B/.57,146 (2021: B/.31,227).

(19) Commitments and Contingencies, continued

Legal Contingencies

As of December 31, 2022, the Bank has minor legal proceedings pending, where Management and legal advisors do not anticipate that they will have a material effect on the results of operations, financial position, and cash flows.

(20) Fair Value of Financial Instruments

IFRS 13 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Likewise, it establishes a hierarchy that classifies the input data used in measuring the fair value of assets and liabilities into 3 levels:

Level 1 - Quoted (unadjusted) prices in active markets for identical assets or liabilities. This level includes securities, shares and debt securities that are traded on stock exchanges.

Level 2 - Information or data, other than prices quoted in active markets that are observable for the asset or liability, either directly (for example, prices) or indirectly (for example, derived from prices).

Level 3 - The input data are unobservable elements for the asset or liability, that is, they are data that cannot be confirmed in their main markets. In this sense, fair value is the result of a theoretical valuation process.

The classification of the hierarchy level for the estimation of fair value will be determined on the basis of the lowest level variable that is relevant for the estimation of fair value. The hierarchy is based on the transparency of the variables that are used in the valuation of an asset.

The Bank uses external suppliers for most of the prices of its assets at fair value and has established a documented process for estimating fair value with the participation of the different responsible areas. Through this process, the Bank periodically reviews the reasonableness of the prices used and the category assigned to the hierarchy level, in order to validate the calculation of fair values with the applied methodology.

In order to validate compliance with the requirements of IFRS 13, the Bank periodically requests a third party a price quote for the financial instruments that it maintains in its portfolio, in order to verify the reasonableness of the prices used for the estimate of fair value. According to the result of the review, significant variations (greater than 10%) are analyzed and the possible need to make changes in the source used to obtain the prices of the financial instrument is evaluated, with the consequent transfer of the hierarchy level, in the cases in which it corresponds.

(20) Fair Value of Financial Instruments, continued

The book value and fair value of financial assets and liabilities are detailed below

	2022		2021	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Financial Assets				
Demand deposits	135,091,069	135,091,069	88,018,345	88,018,345
Term deposits	0	0	184,000,000	183,974,071
Investments at FVOCI	194,628,719	194,628,719	261,420,793	261,420,793
Investments at FVPL	31,279	31,279	31,279	31,279
Investments at AC	227,284	267,647	226,963	323,325
Loans	1,032,128,796	1,042,189,813	860,985,678	861,822,418
	1,362,107,147	1,372,208,527	1,394,683,058	1,395,590,231
Financial Liabilities				
Demand deposits	331,870,234	331,870,234	400,458,613	400,458,613
Savings deposits	9,937,427	9,937,427	8,431,904	8,431,904
Term deposits	637,039,905	623,575,181	684,749,663	707,802,657
Financial obligations	58,830,626	58,830,626	0	0
	1,037,678,192	1,024,213,468	1,093,640,180	1,116,693,174

Financial Instruments Measured at Fair Value

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

Investments measured at fair value are broken down below:

2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt securities - private	128,439,572	31,289,043	0	159,728,615
Government debt securities	34,900,104	0	0	34,900,104
Equity shares	0	0	31,279	31,279
	163,339,676	31,289,043	31,279	194,659,998

2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt securities - private	192,745,202	14,615,251	2,154,6265	208,204,788
Government debt securities	53,216,006	0	0	53,216,006
Equity shares	0	0	31,279	31,279
	245,961,208	13,304,960	2,185,905	261,452,073

The valuation techniques used to determine the fair value of the investments in securities at FVOCI at the date of the consolidated financial statement are the following:

Level 1 - Bid/Ask Price quoted (unadjusted) in active or liquid markets

Level 2 - Buy/Sell Price of Market Participants

Level 3 - Discounted Cash Flow

(20) Fair Value of Financial Instruments, continued

The main valuation methods, assumptions and variables used in estimating the fair value of financial instruments as of December 31 are presented below:

Instrument	Valuation Technique	Variables used	Level
Private debt securities – corporate bonds	Market prices	Observable market prices in active markets and Observable market prices	1 2
Government debt securities – treasury bonds and global bonds	Market prices	Observable market prices in active markets	1
Unlisted equity shares	Not available	Acquisition value	3

The Bank recognizes the transfer between levels of the fair value hierarchy on the date the change occurred. During 2022, no changes were made to the source of estimation of the level of the fair value of the investments.

A Level 3 reconciliation of the financial instruments is performed below:

	2022	2021
Balance at the beginning of the year	2,185,905	857,227
Purchases	0	1,310,290
Sales, redemptions and amortizations	(844,335)	0
Unrealized gain (loss) on FVOCI	0	(18,388)
Reclassifications and adjustments	(1,310,291)	0
Balance at the end of the year	31,279	2,185,905

Financial Instruments not Measured at Fair Value

The table below analyzes the fair values of financial instruments not measured at fair value on a recurring basis. These instruments are classified into the different levels of the fair value hierarchy based on the input data and valuation techniques used.

	2022 Level 2	2021 Level 2
Financial Assets		
Demand deposits	135,091,069	88,018,345
Time deposits	0	183,974,071
Investments at AC	267,647	323,325
Loans	1,042,189,813	861,822,418
	1,177,548,529	1,134,138,159
Financial liabilities		
Demand deposits	331,870,234	400,458,613
Savings deposits	9,937,427	8,431,904
Time deposits	623,575,181	707,802,657
Financial obligations	58,830,626	0
	1,024,213,468	1,116,693,174

(20) Fair Value of Financial Instruments, continued

The following assumptions were established by Management to estimate the fair value of financial instruments not measured at fair value in the consolidated statement of financial position:

(a) Demand and term deposits with banks/Demand and term deposits from customers
For the aforementioned financial instruments, the book value approximates their fair value due to their short-term nature.

(b) Investments in securities at amortized cost
The fair value of these instruments is estimated based on prices available in active markets, published on stock exchanges or in electronic stock information systems. When independent prices are not available, fair values are determined using valuation techniques with reference to observable data for similar market instruments. Other techniques include discounted cash flow analysis and other valuation techniques commonly used by market participants.

(c) Loans
The estimated fair value for the loan portfolio represents the discounted amount of estimated future cash flows to be received. Future cash flows are discounted at current market rates to determine their fair value.

(d) Assets held for sale
The estimated fair value for the portfolio of assets held for sale is determined by the value stipulated in the most recent appraisal. Appraisals must comply with the requirements established in the Bank's acceptable appraisal policy.

(e) Deposits
For term deposits, the fair value is based on future cash flows discounted using market interest rates for new deposits with a maturity similar to the remaining maturity of those deposits.

(f) Obligations
The book value of obligations with a maturity of one year or less approximates their fair value given their short-term nature. For obligations with a maturity greater than one year, future cash flows are discounted at a current market interest rate to determine their fair value.

These estimates are subjective by nature, involve uncertainty and critical judgment, and therefore cannot be accurately determined. Changes in assumptions or criteria can significantly affect the estimates.

(21) Taxes

In accordance with Panamanian tax laws, the Bank is exempt from paying income tax on earnings from foreign sources. Interest earned on time deposits in local banks, interest earned on Panamanian State securities and investments in securities issued through the Panama Stock Exchange are also exempt from paying income tax.

(22) Administration of Trust Agreements

As of December 31, 2022, the Bank had trust contracts under administration for the account and risk of clients that correspond to Related Parties with assets for B/.15,316,856 (2021: B/.4,367,601). Considering the nature of these services, Management estimates that there are no significant risks for the Bank.

(23) Main Applicable Laws and Regulations

The main laws and regulations applicable in the Republic of Panama are detailed below:

(a) Banking Law

Banking operations in the Republic of Panama are regulated and supervised by the Superintendence of Banks of the Republic of Panama, in accordance with the legislation established by Executive Decree No.52 of April 30, 2008, which adopts the sole text of the Decree Law 9 of February 26, 1998, modified by Decree Law 2 of February 22, 2008, which establishes the banking regime in Panama and creates the Superintendency of Banks and the rules that govern it.

(b) Trust Law

Trust operations in Panama are regulated and supervised by the Superintendence of Banks of Panama in accordance with Law No.1 of January 5, 1984 and No. 21 of May 10, 2017 that establishes the rules for the regulation and supervision of the trustees and the trust business and dictates other provisions in Panama.

Main Regulatory Standards in force and issued by the Superintendency of Banks of Panama:

- *General Resolution of the Board of Directors SBP-GJD-003-2013* dated July 9, 2013, which establishes the accounting treatment for those differences that arise between the prudential regulations issued by the Superintendency of Banks and the International Financial Reporting Standards (IFRS), in such a way that 1) the accounting records and financial statements are prepared in accordance with IFRS as required by Agreement *No.006-2012* of December 18, 2012 and 2) in the event that the calculation of a provision or reserve in accordance with prudential regulations applicable to banks, which present specific accounting aspects in addition to those required by IFRS, is greater than the respective calculation under IFRS, the excess provision or reserve under prudential regulations will be recognized in a regulatory reserve in equity.

  Subject to the prior approval of the Superintendent of Banks, banks may reverse the provision established, partially or totally, based on duly evidenced justifications and submitted to the Superintendency of Banks.

(23) Main Applicable Laws and Regulations, continued

- *Agreement No. 004-2013* dated May 28, 2013 and subsequent updates, which establishes provisions on the management and administration of credit risk inherent to the loan portfolio and operations outside the separate statement of financial position, including general criteria classification of credit facilities with the purpose of determining the specific and dynamic provisions for the coverage of the Bank's credit risk. In addition, this Agreement establishes certain minimum required disclosures, in line with the disclosure requirements of IFRS, regarding the management and administration of credit risk.

Specific Provisions

Agreement No.4-2013 indicates that the specific provisions originate from objective and concrete evidence of impairment. These provisions must be established for credit facilities classified in the risk categories called special, subnormal, doubtful or unrecoverable risk, both for individual credit facilities and for a group of such facilities.

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

In the event that there is an excess of the specific provision calculated in accordance with this Agreement, over the provision calculated with the International Financial Reporting Standards (IFRS), this excess will be accounted for in a regulatory reserve in equity that is increased or decreased with allocations of or towards retained earnings. For purposes of calculating the capital adequacy index, concentration limits in a single debtor or related parties and any other prudential relationship, the balance of the regulatory reserve will not be considered as capital funds.

The Bank's Management has estimated the regulatory reserves presented in the consolidated statement of profit or loss:

	2022	**2021**
Satisfactory	0	0
Special mention	3,992,759	14,637,459
Substandard	5,035,650	14,369,947
Doubtful	12,952,825	12,939,005
Loss	27,820	332,043
Specific reserves for Loans	22,009,054	42,278,454
Plus: Reserves on Contingency liabilities	10,965,200	1,874,963
Less: Provision - IFRS	(15,351,207)	(10,704,812)
	17,623,047	33,448,605

(23) Main Applicable Laws and Regulations, continued

As of December 31, 2022, the Bank has identified letters of credit from classified customers, for which it has established credit regulatory reserves for B/.10,965,200 (2021: B/.1,874,963).

Dynamic Provision

Agreement No.004-2013 indicates that the dynamic provision is a reserve established to face possible future needs for the constitution of specific provisions, which is governed by prudential criteria typical of banking regulation. The dynamic provision is established quarterly on credit facilities that do not have a specific provision assigned, that is, on credit facilities classified in the normal category.

This agreement regulates the methodology for calculating the amount of the dynamic provision, which considers a maximum and minimum percentage restriction applicable to the amount of the provision determined on credit facilities classified in the normal category.

The dynamic provision is an equity item that increases or decreases with allocations from or to retained earnings. The credit balance of this dynamic provision is part of the regulatory capital, but it does not replace or compensate the capital adequacy requirements established by the Superintendency of Banks of Panama.

Agreement No. 4-2013 establishes a dynamic provision which will not be less than 1.25% nor more than 2.50% of the risk-weighted assets corresponding to credit facilities classified as normal. As of December 31, 2022, the Bank presents a dynamic provision for B/.14,717,299 (2021: B/. 14,717,299).

The movement of regulatory reserves is as follows:

	Dynamic	Specific	Generic modified	Total
December 31, 2022				
Balance at the beginning of the year	14,717,299	33,448,605	0	48,165,904
Decrease	0	(15,825,558)	0	(15,825,558)
Balance at the end of the year	14,717,299	17,623,047	0	32,340,346

	Dynamic	Specific	Generic modified	Total
December 31, 2021				
Balance at the beginning of the year	14,717,299	15,246,168	776,000	30,739,467
Increase	0	18,202,437	(776,000)	17,426,437
Balance at the end of the year	14,717,299	33,448,605	0	48,165,904

For the period ended December 31, 2022, the Bank did not recognize as income within the periods, the sum of B/.632,495 (2021: B/.153), product of loans that were classified as loans in the state of non-accumulation due to non-payment of capital or interest older than ninety days or due to deterioration in the client's financial condition. Loans in the non-accrual status of interest amounted to B/.10,145,874 (2021: B/.458,563).

(23) Main Applicable Laws and Regulations, continued

The Bank's Management performs the classification of the loan portfolio based on Agreement No.4-2013, issued by the Superintendency of Banks of Panama and it is shown below for the closing of December 31, 2022:

Loan Type	Satisfactory	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2022						
Corporate	639,584,340	147,104,934	102,466,676	97,463,860	0	986,619,810
Consumer loans	60,207,874	380,286	41,686	804,427	28,022	61,462,295
Other loans	90,604	0	0	22,122	0	112,726
	699,882,818	147,485,220	102,508,362	98,290,409	28,022	1,048,194,831
Less:						
Regulatory reserve	0	(3,992,759)	(5,035,650)	(12,952,825)	(27,820)	(22,009,054)
	694,652,432	143,492,461	97,472,712	85,337584	202	1,026,185,777

Loan Type	Satisfactory	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2021						
Corporate	371,549,571	241,533,923	124,758,939	69,193,734	0	807,036,167
Consumer loans	63,915,048	470,866	106,229	416,317	484,748	65,393,208
Other loans	143,631	0	0	0	0	143,631
	435,608,250	242,004,789	124,865,168	69,610,051	484,748	872,573,006
Less:						
Regulatory reserve	0	(14,637,459)	(14,369,947)	(12,939,005)	(332,043)	(42,278,454)
	435,608,250	237,367,330	110,495,221	56,671,046	152,705	830,294,552

Delinquent and overdue loans

The Bank classifies as delinquent those loans that have not made principal or interest payments with arrears of 31 to 90 days after the agreed date and those with arrears of 91 days and more after the expiration of said payments.

In compliance with Agreement 4-2013, the Bank will write-off all loans and credit cards classified as unrecoverable within a period not exceeding one year from the date they were classified in this category.

However, the Bank may define that the write-off of operations of any line and/or segment of loans and credit cards be carried out in a period of less than 1 year from the moment the operation was defined as unrecoverable or even before that the delinquency criteria established in Agreement 4-2013 are met, based on the Bank's experience or the existence of a particular situation evidenced in any line or segment of the loan or credit card portfolio.

(23) Main Applicable Laws and Regulations, continued

The following table presents the loans that are delinquent or expired due to overdue installments and their corresponding age:

	Satisfactory	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2022						
Corporate loans in default	0	43,091	0	0	0	43,091
Consumer loans in default	187,809	63,566	0	0	0	251,375
Corporate loans Past due	0	0	17,090	10,000,000	0	10,017,090
Consumer loans Past due	0	0	41,004	221,723	27,820	290,547
Book value	187,809	106,657	58,094	10,221,723	27,820	10,602,103
Antiquity						
30-60 days	187,809	53,929	0	0	0	241,738
61-90 days	0	52,728	0	0	0	52,728
91-120 days	0	0	46,173	0	0	46,173
121-180 days	0	0	11,921	10,221,723	0	10,233,644
181-365 days	0	0	0	0	27,820	27,820
More than 365 days	0	0	0	0	0	0
Book value	187,809	106,657	58,094	10,221,723	27,820	10,602,103

	Satisfactory	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2021						
Corporate loans in default	0	84,193	0	0	0	84,193
Consumer loans in default	206,050	218,973	0	0	0	425,023
Other loans in default	0	0	0	0	0	0
Corporate loans Past due	0	0	55,816	13,261	0	69,077
Consumer loans Past due	0	0	99,624	166,245	480,684	746,553
book value	206,050	303,166	155,440	179,506	480,684	1,324,846
Antiquity						
30-60 days	206,050	78,302	0	0	0	284,352
61-90 days	0	224,864	0	0	0	224,864
91-120 days	0	0	106,727	0	0	106,727
121-180 days	0	0	48,713	166,245	0	214,958
181-365 days	0	0	0	13,261	480,684	493,945
More than 365 days	0	0	0	0	0	0
Book value	206,050	303,166	155,440	179,506	480,684	1,324,846

As of December 31, 2022, the total balance of the restructured loans amounts to B/.59,279,101 (2021: B/.148,423,907).

Provision for country risk

Agreement No.7-2018 of the Superintendence of Banks of Panama related to country risk Management, establishes as a requirement the constitution of a regulatory provision on country risk for those positions that are material and whose payment and/or recovery flows are originated in a country other than Panama. The Agreement entered into force on June 30, 2020 and establishes that said reserve must be charged to the results of the year.

For the period ended December 31, 2022, the provision for country risk maintains a balance of B/.811,846 (2021: B/.554,942) and is presented as an integral part of the provision for expected credit losses in each of the respective headings of financial assets: portfolio of loans, deposits, and investments in securities.

(23) Main Applicable Laws and Regulations, continued

Provision for assets held for sale

The Bank considers the prudential norm issued by the Superintendence of Banks of Panama that requires banks to establish a patrimonial reserve of assets held for sale based on the table of computable percentages established in Agreement No.3-2009.

The Agreement establishes a term of sale of the property in dation in payment of five (5) years, counted from the date of registration in the Public Registry.

If after this period the Bank has not sold the acquired real estate, it must carry out an independent appraisal to establish if it has decreased in value, applying in such case the provisions of IFRS.

The Bank must establish a regulatory reserve in the equity account through the appropriation, in the following order, of: a) its undistributed profits; b) profits for the period, to which the following charges will be made for the value of assets held for sale:

Years	Computable Percentage
1	10%
2	20%
3	35%
4	15%
5	10%

The movement of the regulatory reserve of assets held for sale is detailed below:

	2022	2021
Balance at the beginning of the year	89,109	687,679
Increase	0	59,406
Impairment in book value	0	(125,883)
Sales	(89,109)	(532,093)
Balance at the end of the year	0	89,109

Liquidity ratio

At the end of the year, the percentage of the liquidity ratio reported by the Bank to the regulatory entity, under the parameters of Agreement No.4-2008, was 42.67% (2021: 47.58%).

With the entry into force of Agreements 02-2018 and Agreement 04-2018 on Liquidity Risk Management and Short-Term Liquidity Hedging Risk, the Bank has implemented technological tools that allow liquidity risk to be measured and managed in a timely manner, for which it has fully automated the calculation of the LCR and implemented an application to manage intraday liquidity and thus identify possible mismatches. As of December 31, 2022, the LCR ratio reported by the Bank is 164.02%. (2021: 294.45%).

(23) Main Applicable Laws and Regulations, continued

Likewise, it is noteworthy that the Bank has developed complementary tools and methodologies that allow simulating situations of liquidity stress and include other early warning indicators that complement liquidity management. Finally, it is noteworthy that the Bank, in the context of the consolidated financial statements, sufficiently complies with the legal and internal limits, both at the LCR level and the Legal Liquidity index.

Financial Margin due to changes in interest rates

The table below reflects the impact on the net interest margin when applying these variations in interest rates:

	2022							
	Up to 3 months	**More than 3 months up to 6 months**	**More than 6 months up to 9 months**	**More than 9 months up to 12 months**	**More than 1 year up to 3 years**	**More than 3 years up to 5 years**	**More than 5 years up to 10 years**	**More than 10 years**
-100	7,970	328,912	1,297,298	(1,629,214)	709,139	(10,561,509)	(6,186,473)	4,989,257
-200	(50,895)	747,437	1,513,753	(663,435)	(4,540,275)	(24,851,710)	(29,541,799)	1,949,439
100	(1,221,728)	(508,140)	864,387	(3,560,771)	11,207,966	18,018,894	40,524,180	11,068,893
200	(1,846,245)	(926,665)	647,932	(4,526,550)	16,457,380	32,309,095	63,879,506	14,108,711

	2021							
	Up to 3 months	**More than 3 months up to 6 months**	**More than 6 months up to 9 months**	**More than 9 months up to 12 months**	**More than 1 year up to 3 years**	**More than 3 years up to 5 years**	**More than 5 years up to 10 years**	**More than 10 years**
-100	164,797	427,061	271,587	618,477	(5,448,447)	(11,442,940)	(23,864,063)	(1,145,029)
-200	133,192	589,549	199,302	381,486	(10,896,894)	(22,885,881)	(47,728,125)	(2,290,058)
100	(567,725)	(427,061)	(271,587)	(618,477)	5,448,447	11,442,940	23,864,063	1,145,029
200	(1,135,450)	(854,121)	(543,175)	(1,236,954)	10,896,894	22,885,881	47,728,125	2,290,058

Capital Adequacy Ratio

The Banking Law in the Republic of Panama and the Superintendency of Banks of Panama, through Agreements 1-2015 and 03-2016 require the Bank to maintain a minimum total capital ratio of 8% measured based on its total assets weighted by credit risk, operational risk and market risk. The Bank manages its capital structure and adjusts it according to changes in economic conditions and the risk characteristics of its activities.

Based on the provisions of Article No.10 of Agreement 1-2015 of the Superintendency of Banks of Panama dated February 3, 2015, all banks must maintain the following capital adequacy ratios:

1. Capital funds equivalent to at least 8% of its total assets and off-balance sheet operations that represent a contingency, weighted based on their risks.
2. Ordinary primary capital equivalent to no less than 4.5% of its assets and off-balance sheet operations that represent a contingency, weighted according to their risks.
3. A primary capital equivalent to no less than 6% of its assets and off-balance sheet operations that represent a contingency, weighted according to their risks.

(23) Main Applicable Laws and Regulations, continued

The Bank's Management has established that dividend payments or other patrimonial operations whose effect results in a capital adequacy ratio of less than ten percent (10%) of the capital funds over the risk-based weighted assets, calculated according to the Prudential Norms issued by the Superintendence of Banks of Panama, cannot be made.

The Bank maintains a regulatory capital position that is composed as follows:

	2022	**2021**
Common stock	42,400,000	42,400,000
Dynamic loan reserve	14,717,299	14,717,299
Valuation of assets at FVOCI	(10,117,350)	1,566,132
Retained earnings	265,234,906	223,867,989
Regulatory adjustments - other intangible assets	(7,304,332)	(10,893,175)
Total equity funds	304,930,523	271,658,245
Weighted assets based on net-credit risk	954,987,952	1,042,949,818
Weighted assets based on operational risk	36,170,588	37,732,623
Total Weighted Assets	991,158,540	1,080,682,441
Total Capital Adequacy Ratio	30.77%	25.14%

Leverage Ratio

Article No. 17 of Agreement 1-2015 establishes that banks must comply with a leverage ratio that may not be less than 3% at any time, which will be calculated by the ratio between ordinary primary capital and total exposure for unweighted assets on and off the balance sheet established by the Superintendency of Banks.

The Bank's Management has established that the leverage ratio should not be less than five percent (5%) of the ordinary primary capital funds-net of regulatory adjustments, over risk-weighted assets, calculated according to Prudential Standards issued by the Superintendence of Banks of Panama.

As of December 31, 2022, the Bank maintains a leverage ratio of 20.98% (2021: 18.14%).