# Financial Statements 2022

BANCO NACIONAL
DE PANAMA

# BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

**Financial Statements and Supplementary Information**

December 31, 2022

(With Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION FROM THE SPANISH VERSION)

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

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

Table of Contents

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Banco Nacional de Panama

## Report on the audit of the financial statements

*Opinion*

We have audited the financial statements of Banco Nacional de Panamá (hereinafter, the "Bank"), which comprise the statement of financial position as at December 31, 2022, the statements of profit or loss, comprehensive income, changes in capital funds and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

*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 Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Panama, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

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

*Allowance for losses on loans*
*See notes 3(e) and 4 to the financial statements*

| Key audit matter | How the matter was addressed in the audit |
| --- | --- |
| The allowance for losses on loans at amortized cost is considered one of the most significant matters, since it's methodology requires the application of judgments and the use of assumptions, by management for the construction of the expected credit loss ("ECL") model. The loan portfolio at amortized cost represent 40% of the Bank's total assets as at December 31, 2022.<br><br>The allowance for losses on loans at amortized cost comprises the ECL as a result of the loan rating model, the external ratings assigned to public sector and financial institutions loans, and the methodology for determining the probability of default of the loans according to the stage of impairment in which it is assigned.<br><br>The model for estimating the ECL is determined according to the grouping of loans with similar credit risk characteristics. The methodology applied by the model is composed of estimates of the probability of default, loss given default, prospective analysis and exposure at default. The evaluation of whether there has been a significant increase in the credit risk of loans entails the application of important judgments in the model. This is a challenge from an audit perspective because of the complexity in estimating the components used to make these calculations and applying Bank's judgment. | Our audit procedures, considering the use of specialists, included:<br><br>• Evaluation of key controls on delinquency calculations, internal customer risk ratings, external risk ratings of financial institutions and public sector, review of accuracy of customer information and of the model and methodologies used.<br><br>• For a sample of loans granted to companies, classified by type of activity or industry, and debtors with changes in risk classification based on quantitative and qualitative factors, the respective credit files were inspected, including the financial information of the debtors, the values of the guarantees that support the credit operations determined by expert appraisers, and other publicly available information, and other factors that could represent a loss event, to determine the reasonableness of the assigned credit risk rating.<br><br>• The methodologies applied by the Bank in the ECL estimation model were evaluated in accordance with IFRS 9 Financial Instruments, through the inspection of policies, manuals and documented methodologies approved by the Bank´s corporate governance.<br><br>• An independent evaluation of the inputs used was carried out based on the methodology used by the Bank and the recalculation was made according to the ECL estimation model.<br><br>• We evaluated management's judgments on assumptions regarding current economic conditions, and prospective analysis considerations that may change the level of ECL, based on our experience and knowledge of the industry. |

*Other Matter – Supplementary Information*

Our audit was conducted for the purpose of expressing an opinion on the financial statements as a whole. The supplementary information included in the schedule is presented for purposes of additional analysis and is not required as part of the financial statements. This information has been subject to the audit procedures applied during the audit of the financial statements and, in our opinion, is presented fairly in all material respects, in relation to the financial statements as a whole.

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

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

In preparing the 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 the Panamanian State 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 Financial Statements*

Our objectives are to obtain reasonable assurance about whether the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis on these 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 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 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, we conclude on whether or not there are material uncertainties 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 material uncertainty exist, we are required to draw attention in our auditors' report to the related disclosured in the 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, subject to decisions by the Panamanian government, may cause the Bank to cease to continue as a going concern.

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

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

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

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

**Other legal information requirements**

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

- That the direction, execution and supervision of this audit engagement has been physically performed in the Panamanian territory.

- The audit partner that has prepared this independent auditors' report is Gastón G. González F.

- The engagement team that has participated in the audit to which this report refers, is formed by Gastón G. González F., partner in charge; and Christian Gálvez, manager.

KPMG (SIGNED)

Gastón G. González F. (SIGNED)

Panama, Republic of Panama
February 8, 2023

Gastón G. González F.
Partner
C.P.A. 7846

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

**Statement of Financial Position**

December 31, 2022

(Expressed in Balboas)

| **Assets** | **Note** | **2022** | **2021** |
|---|---|---|---|
| Cash and cash equivalents | 6 | 408,473,367 | 297,328,464 |
| Deposits in banks at amortized cost: | | | |
| Demand deposits- foreign | 6 | 107,061,569 | 17,486,409 |
| Time deposits - local | | 305,580,885 | 305,094,670 |
| Time deposits - foreign | | 3,786,842,069 | 6,929,379,509 |
| Less: Reserve for bank deposit losses | | 36,440 | 201,617 |
| **Total bank deposits at amortized cost** | | 4,199,448,083 | 7,251,758,971 |
| **Total cash, cash equivalents and bank deposits at amortized cost** | | 4,607,921,450 | 7,549,087,435 |
| Securities purchased under resale agreements at amortized cost | | 195,406,384 | 41,383,508 |
| Less: Reserve for losses on securities purchased under resale agreements | | 233,515 | 65,686 |
| **Securities purchased under resale agreements at amortized cost** | 7 | 195,172,869 | 41,317,822 |
| Investments in securities | | 3,614,226,519 | 2,424,957,033 |
| Less: Reserve for investment losses | | 5,338,379 | 3,150,681 |
| **Investments in securities, net** | 8 | 3,608,888,140 | 2,421,806,352 |
| Private sector loans and interest receivable | | 5,134,756,608 | 4,336,669,109 |
| Government loans and interest receivable | | 833,279,922 | 851,365,093 |
| Less: Interests and unearned commissions | | 27,859,145 | 26,780,877 |
| Allowance for loan losses | | 140,282,996 | 126,678,234 |
| **Loans at amortized cost** | 9 | 5,799,894,389 | 5,034,575,091 |
| Property and equipment, net | 10 | 82,516,669 | 83,320,077 |
| Right of use assets | 12 | 2,518,980 | 3,762,408 |
| Other assets: | | | |
| Foreclosed assets, net | 14 | 7,357,266 | 5,387,992 |
| Intangible assets - licenses and software | 11 | 10,979,526 | 9,833,910 |
| Fiscal credit from preferential interest on loans | 13 | 103,271,657 | 62,843,165 |
| Others | 14 | 185,347,969 | 94,437,409 |
| **Total other assets** | | 306,956,418 | 172,502,476 |
| **Total assets** | | 14,603,868,915 | 15,306,371,661 |

*The statement of financial position should be read in conjunction with the notes that form an integral part of these financial statements.*

| Liabilities and Capital Funds | Note | 2022 | 2021 |
|---|---|---|---|
| Liabilities: | | | |
| Deposits and accrued interest payable at amortized cost: | | | |
| Demand deposits: | | | |
| Local - private | | 1,221,580,457 | 1,129,165,322 |
| Local - public | | 3,740,255,913 | 3,320,451,051 |
| Foreign | | 345,163 | 431,285 |
| Savings: | | | |
| Local - private | | 959,733,569 | 914,712,247 |
| Foreign | | 2,771,945 | 2,947,674 |
| Time deposits: | | | |
| Local - private | | 408,287,906 | 361,940,836 |
| Local - public | | 5,241,594,039 | 6,529,876,491 |
| Foreign | | 16,202,232 | 15,756,125 |
| Restricted | 15 | 16,932,759 | 26,007,022 |
| Restricted - escrow funds | 15 | 70,443,483 | 62,468,479 |
| **Total deposits and interest payable at amortized cost** | | 11,678,147,466 | 12,363,756,532 |
| Obligations: | | | |
| Foreign borrowings received at amortized cost | 16 | 309,891,565 | 485,107,211 |
| Bond payable - local at amortized cost | 16 | 206,267,485 | 206,267,485 |
| Bond payable - foreign at amortized cost | 16 | 1,007,407,192 | 1,006,646,605 |
| Lease liabilities | 12 | 2,688,449 | 3,964,421 |
| Other liabilities: | | | |
| Guarantee certificates for legal proceedings at amortized cost | | 111,509,187 | 110,023,807 |
| Miscellaneous creditors | | 70,218,023 | 39,752,841 |
| Cashier's and certified checks | | 22,845,592 | 17,099,728 |
| Others | | 53,381,970 | 48,503,146 |
| **Total other liabilities** | | 257,954,772 | 215,379,522 |
| **Total liabilities** | | 13,462,356,929 | 14,281,121,776 |
| Capital funds: | | | |
| Paid-in capital by Government of Panama | 4 | 850,000,000 | 750,000,000 |
| Regulatory reserve for foreclosed assets | | 3,269,898 | 2,782,178 |
| Regulatory reserve for investments in securities | | 9,675 | 9,934 |
| Valuation of investments in securities | | 8,125,189 | 8,426,236 |
| Actuarial valuation | | 4,314,743 | (1,701,238) |
| Dynamic regulatory provision | 26 | 56,928,983 | 56,928,983 |
| Retained earnings | | 218,863,498 | 208,803,792 |
| **Total capital funds** | | 1,141,511,986 | 1,025,249,885 |
| Commitments and contingencies | 18 | | |
| **Total liabilities and capital funds** | | 14,603,868,915 | 15,306,371,661 |

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

**Statement of Profit or Loss**

For the year ended December 31, 2022

(Expressed in Balboas)

| | Note | 2022 | 2021 |
|---|---|---|---|
| Interest and commission income | | | |
| Interest on: | | | |
| Loans | | 283,836,696 | 255,749,511 |
| Deposits in banks | | 90,955,803 | 9,951,137 |
| Securities | | 81,913,111 | 63,180,744 |
| Loan fees | | 13,284,778 | 10,508,284 |
| **Total interest and fee income** | | 469,990,388 | 339,389,676 |
| Interest expense: | | | |
| Deposits | | 77,272,469 | 46,656,502 |
| Borrowings | | 42,002,577 | 43,194,247 |
| Lease liabilities | 12 | 144,460 | 181,177 |
| **Total interest expenses** | | 119,419,506 | 90,031,926 |
| **Net interest and commission income** | | 350,570,882 | 249,357,750 |
| (Reversal of) provision for losses in deposits with banks | 4 | (165,177) | 80,554 |
| Provision for investment securities losses | 4 | 2,355,527 | 2,633,856 |
| Provision for loan losses | 4 | 22,787,677 | 23,730,923 |
| Provision for valuation of foreclosed assets | 14 | 511,335 | 930,007 |
| **Net interest and commission income, after provisions** | | 325,081,520 | 221,982,410 |
| Other income: | | | |
| Fees for banking services | 19 | 29,044,914 | 24,043,049 |
| Dividends | 8 | 1,164,997 | 896,405 |
| (Loss) gain net on investments in securities | | (720,737) | 27,473,307 |
| Others | 20 | 18,004,651 | 23,924,112 |
| Total other income | | 47,493,825 | 76,336,873 |
| Other expenses: | | | |
| Provision for fiscal credits | | 1,311,818 | 923,591 |
| Provision for commitments and contingencies | | 389,054 | 0 |
| Provision for subsidies | | 83,591 | 87,297 |
| Commissions | | 371,962 | 365,296 |
| Total other expenses | | 2,156,425 | 1,376,184 |
| **Total other income, net** | | 45,337,400 | 74,960,689 |
| General and administrative expenses: | | | |
| Salaries and other personnel expenses | 21 | 111,359,502 | 115,710,678 |
| Rentals | | 1,428,715 | 1,245,911 |
| Repairs and maintenance | | 15,310,012 | 14,918,062 |
| Depreciation and amortization | 10, 11, 12 | 13,480,503 | 13,153,436 |
| Electricity | | 3,325,436 | 2,957,369 |
| Advertising | | 3,310,937 | 2,622,620 |
| Communications | | 6,520,629 | 7,276,719 |
| Insurance | | 833,398 | 831,581 |
| Stationery and office supplies | | 1,922,912 | 2,004,421 |
| Fees and professional services | | 3,839,425 | 4,422,944 |
| Transportation of personnel | | 804,434 | 632,946 |
| Transportation of valuables | | 3,457,053 | 2,120,421 |
| ATM's | | 2,180,972 | 1,642,454 |
| Others | 21 | 7,498,188 | 5,393,245 |
| **Total general and administrative expenses** | | 175,272,116 | 174,932,807 |
| **Net income** | | 195,146,804 | 122,010,292 |

*The statement of income should be read in conjunction with the notes that are an integral part of these financial statements.*

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

**Statement of Comprehensive Income**

For the year ended December 31, 2022

(Expressed in Balboas)

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Net income** | | 195,146,804 | 122,010,292 |
| **Other comprehensive income:** | | | |
| **Items that are or may be reclassified to the statement of profit or loss:** | | | |
| Net change in valuation of investments at fair value with changes in other comprehensive income (FVOCI) | 8 | (301,047) | 450,576 |
| Net change in actuarial valuation | 17 | 6,015,981 | 47,381 |
| **Other comprehensive income for the year** | | 5,714,934 | 497,957 |
| **Total comprehensive income for the year** | | 200,861,738 | 122,508,249 |

*The statement of comprehensive income should be read in conjunction with the notes that are an integral part of these financial statements.*

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

**Statement of Changes in Capital Funds**

For the year ended December 31, 2022

(Expressed in Balboas)

| | Note | Paid-in Capital by the Government of Panama | Regulatory reserve for foreclosed assets | Regulatory reserve for investments in securities | Valuation of investments in securities | Actuarial valuation | Dynamic regulatory provision | Retained earnings | Total capital funds |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as of December 31, 2020** | | 750,000,000 | 2,656,035 | 0 | 7,975,660 | (1,748,619) | 56,928,983 | 146,405,067 | 962,217,126 |
| Net income, 2021 | | 0 | 0 | 0 | 0 | 0 | 0 | 122,010,292 | 122,010,292 |
| **Other comprehensive income:** | | | | | | | | | |
| Net change in valuation of investments to FVOCI | 8 | 0 | 0 | 0 | 450,576 | 0 | 0 | 0 | 450,576 |
| Net change in actuarial valuation | 17 | 0 | 0 | 0 | 0 | 47,381 | 0 | 0 | 47,381 |
| **Total other income comprehensive income for the year** | | 0 | 0 | 0 | 450,576 | 47,381 | 0 | 0 | 497,957 |
| **Total comprehensive income for the year** | | 0 | 0 | 0 | 450,576 | 47,381 | 0 | 122,010,292 | 122,508,249 |
| **Other capital funds movements:** | | | | | | | | | |
| Regulatory reserve for foreclosed assets | | 0 | 126,143 | 0 | 0 | 0 | 0 | (126,143) | 0 |
| Regulatory reserve for investments in securities | | 0 | 0 | 9,934 | 0 | 0 | 0 | (9,934) | 0 |
| **Total other capital funds movements** | | 0 | 126,143 | 9,934 | 0 | 0 | 0 | (136,077) | 0 |
| **Transactions recorded directly in capital funds:** | | | | | | | | | |
| Earnings distributed to the Government of Panama | | 0 | 0 | 0 | 0 | 0 | 0 | (59,475,490) | (59,475,490) |
| **Total transactions recorded directly in capital funds** | | 0 | 0 | 0 | 0 | 0 | 0 | (59,475,490) | (59,475,490) |
| **Balance as of December 31, 2021** | | 750,000,000 | 2,782,178 | 9,934 | 8,426,236 | (1,701,238) | 56,928,983 | 208,803,792 | 1,025,249,885 |
| Net income, 2022 | | 0 | 0 | 0 | 0 | 0 | 0 | 195,146,804 | 195,146,804 |
| **Other comprehensive income:** | | | | | | | | | |
| Net change in valuation of investments to FVOCI | 8 | 0 | 0 | 0 | (301,047) | 0 | 0 | 0 | (301,047) |
| Net change in actuarial valuation | 17 | 0 | 0 | 0 | 0 | 6,015,981 | 0 | 0 | 6,015,981 |
| **Total other comprehensive income for the year** | | 0 | 0 | 0 | (301,047) | 6,015,981 | 0 | 0 | 5,714,934 |
| **Total comprehensive income for the year** | | 0 | 0 | 0 | (301,047) | 6,015,981 | 0 | 195,146,804 | 200,861,738 |
| **Other capital funds movements:** | | | | | | | | | |
| Regulatory reserve for foreclosed assets | | 0 | 487,720 | 0 | 0 | 0 | 0 | (487,720) | 0 |
| Regulatory reserve for investments in securities | | 0 | 0 | (259) | 0 | 0 | 0 | 259 | 0 |
| **Total other capital funds movements** | | 0 | 487,720 | (259) | 0 | 0 | 0 | (487,461) | 0 |
| **Transactions recorded directly in capital funds:** | | | | | | | | | |
| Capitalization of retained earnings | | 100,000,000 | 0 | 0 | 0 | 0 | 0 | (100,000,000) | 0 |
| Earnings distributed to the Government of Panama (period 2021) | | 0 | 0 | 0 | 0 | 0 | 0 | (6,899,767) | (6,899,767) |
| Earnings distributed to the Government of Panama (period 2022) | | 0 | 0 | 0 | 0 | 0 | 0 | (77,699,870) | (77,699,870) |
| **Total transactions recorded directly in capital funds** | | 100,000,000 | 0 | 0 | 0 | 0 | 0 | (184,599,637) | (84,599,637) |
| **Balance as of December 31, 2022** | | 850,000,000 | 3,269,898 | 9,675 | 8,125,189 | 4,314,743 | 56,928,983 | 218,863,498 | 1,141,511,986 |

*The statement of changes in capital funds must be read in conjunction with the notes that are an integral part of these financial statements.*

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

**Statement of Cash Flows**

For the year ended December 31, 2022

(Expressed in Balboas)

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Operating activities:** | | | |
| Net income | | 195,146,804 | 122,010,292 |
| Adjustments to reconcile net income to cash from operating activities: | | | |
| Depreciation and amortization | 10, 11, 12 | 13,480,503 | 13,153,436 |
| (Reversal of) provision for losses in deposits with banks | 4 | (165,177) | 80,554 |
| Provision for investment in securities losses | 4 | 2,355,527 | 2,633,856 |
| Provision for loan losses | 4 | 22,787,677 | 23,730,923 |
| Provision for valuation of foreclosed assets | 14 | 511,335 | 930,007 |
| Provision for fiscal credits, net | | 1,311,818 | 923,591 |
| Provision for commitments and contingencies | | 389,054 | 0 |
| Provision for subsidies | | 83,591 | 87,297 |
| Net gain on sale of foreclosed assets | | (359,651) | (896,920) |
| Loss net on disposal and sale of furniture and equipment | | 7,710 | 8,992 |
| Dividends | 8 | (1,164,997) | (896,405) |
| (Loss) gain net on investments in securities | | 720,737 | (27,473,307) |
| Net interest and commission income | | (350,570,882) | (249,357,750) |
| **Changes in operating assets and liabilities:** | | | |
| Time deposits in banks with original maturities greater than 90 days | 6 | 0 | 75,000,000 |
| Securities purchased under resale agreements, net | | (151,541,600) | (8,402,011) |
| Investments in securities at fair value through profit or loss | | (14,522,075) | (27,766,989) |
| Loans | | (796,379,530) | (177,928,942) |
| Other assets | | (135,340,899) | 25,841,341 |
| Demand deposits received | | 512,133,875 | (28,100,289) |
| Savings deposits received | | 44,845,592 | 11,497,167 |
| Time deposits received | | (1,246,922,544) | (1,610,994,942) |
| Guarantee certificates for legal proceedings | | (362,163) | (5,119,179) |
| Cashier's and certified checks | | 5,745,864 | (1,791,591) |
| Miscellaneous creditors | | 30,465,182 | (7,077,057) |
| Other liabilities | | 10,505,751 | 8,871,889 |
| **Cash generated from operation:** | | | |
| Interest and commissions received | | 456,887,954 | 334,926,527 |
| Interest paid | | (104,965,739) | (81,935,642) |
| Dividends received | | 1,164,997 | 896,405 |
| **Cash flows from operating activities** | | (1,503,751,286) | (1,607,148,747) |
| **Investment activities:** | | | |
| Acquisitions of investments in securities at amortized cost | | (5,430,032,778) | (4,019,153,759) |
| Redemptions of investments in securities at amortized cost | 8 | 4,266,308,521 | 4,658,321,323 |
| Proceeds from the sale of securities at amortized cost | 8 | 0 | 151,730,000 |
| Acquisition of furniture and equipment | 10 | (8,263,492) | (11,635,942) |
| Acquisition of intangible assets - licenses and software | 11 | (4,079,817) | (1,025,490) |
| Proceeds from the sale of foreclosed assets of borrowers | | 517,896 | 1,153,175 |
| **Cash flows from investing activities** | | (1,175,549,670) | 779,389,307 |
| **Financing activities:** | | | |
| Payments of borrowings received | 16 | (182,727,273) | (5,500,000) |
| Earnings distributed to the Government of Panama | | (84,599,637) | (59,475,490) |
| Lease payments | 12 | (1,469,071) | (1,162,758) |
| **Cash flows from financing activities** | | (268,795,981) | (66,138,248) |
| **Net decrease in cash and cash equivalents** | | (2,948,096,937) | (893,897,688) |
| Cash and cash equivalents at the beginning of the year | | 7,548,414,873 | 8,442,312,561 |
| **Cash and cash equivalents at the end of the year** | 6 | 4,600,317,936 | 7,548,414,873 |
| **Non-cash transactions** | | | |
| Increase in paid in capital by the Government of Panama | 4 | 100,000,000 | 0 |
| Cancellation of loans from customers with public debt securities of the Republic of Panama | 9 | 0 | 16,228,172 |

*The cash flow statement should be read in conjunction with the notes that are an integral part of these financial statements.*

## Table of Contents to the Notes to the Financial Statements

## (1) Incorporation and Operations

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

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

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

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

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

## (2) Basis of Preparation

### *(a) Statement of Compliance*

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements were reviewed by the Audit Steering Committee and approved by the Board of Directors for issuance on February 06, 2023.

### *(b) Basis of Measurement*

These financial statements have been prepared on a historical cost or amortized cost basis, except for certain investments in equity securities which are presented at fair value through other comprehensive income; and foreclosed assets of borrowers, which are measured at the lower of book value or fair value less selling costs.

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

**(2) Basis of Preparation, continued**

*(c) Functional and Presentation Currency*

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

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

The accounting policies applied in these financial statements are the same as those applied in the financial statements for the year ended December 31, 2021.

*(a) Fair Value Measurement*

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

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

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

The fair value of a demand deposit is no less than the amount payable when it becomes due, discounted from the first date on which payment may be required.

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

*(b) Foreign Currency Transactions*

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

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

*(c) Cash and Cash Equivalents*

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

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

*(d) Securities Purchased under Resale Agreements*

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

*(e) Financial Assets*

*(e.1) Classification and Measurement of Financial Instruments*

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

*Business Model Assessment*

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

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

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

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

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

*Assessment of Whether Contractual Cash Flows are S*olely Payments of Principal and Interests *(SPPI)*

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

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

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank´s claim to cash flows from specific assets (for example, non-recourse asset agreements); and
- Features that modify consideration of the time value of money (for example, periodical reset of interest rates).

*Classification and Measurement*

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

- The asset is held within a business model whose objective is to hold assets to obtain contractual cash flows; and
- The contractual terms of the financial asset meet SPPI criteria.

A financial asset is classified as FVOCI only if it meets both of the following conditions and has not been designated as a FVTPL:

- The asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling these financial assets; and
- The contractual terms of the financial asset meet SPPI criteria.

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

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

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

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

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

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

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

***Financial Asset Derecognition***

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

- Contractual rights to the cash flows from the financial asset expire.
- The Bank has transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retain substantially all of the risk and rewards of ownership and it does not retain control of the financial asset.
- The Bank retains the rights to receive the contractual cash flows of the asset but has the obligation to pay the total amount of cash flows received, without a material delay to a third party.
- When the Bank has transferred its right to receive cash flows from an asset or has entered into a transferred agreement, and has not transferred nor retained any substantial risk or benefit from the asset, nor transfer the control of the asset, the asset is recognized according to the Bank´s ownership over the asset. In that case, the Bank also recognized the associated liability. The transferred asset and the associated liability are based in a measure that reflects the contractual right and obligations that the Bank has retained. The continuous participation that takes the form of a guarantee on the transferred asset is measured at the lowest of the original book value of the asset and the maximum amount of consideration that the Bank could be obliged to pay.

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

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

***Modified or Restructured Financial Assets***

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

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

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

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

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

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

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

*(e.2) Impairment of Financial Assets*

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

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

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

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

No impairment losses are recognized on equity investments.

The ECL is measured on the following basis:

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

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

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

*Significant Increase in Credit Risk*

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

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

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

*Definition of Default*

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

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

*Inputs in ECL Measurement*

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

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

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

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

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

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

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

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

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

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

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

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

*Incorporation of Forward Looking Information*

The incorporation of forward looking information in the process of estimating the expected credit loss (ECL) in the Bank is made based on the possible impact that could be registered in the value of those losses, caused by expected changes in the short and medium term of the behavior of macroeconomic variables that could affect the flow of payments of the assets.

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

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

1.) Multiple correlation and explanation coefficients were calculated between the historical series of the value of the Bank's past due portfolio (taken as a dependent variable). 2.) The historical series of the values of the interannual variations of gross domestic product ("GDP"). 3.) Monthly Economic Activity Index ("IMAE"), inflation and unemployment (considered as independent variables). This calculation allows us to determine whether the latter could reasonably explain and/or infer the possible impacts on the payment behavior of credit assets in the future. It considers the variable that is adequately related to losses.

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

- *Individually Assessed Loans*
  If it is determined that there is objective evidence of impairment of an individually significant loan, the calculation of impairment losses is carried out on an individual basis. Among the elements considered are, the exposure and the classification of the credit instrument is considered, applying a clearly defined process. Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is no objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the original effective interest rate of the loan, versus its current carrying value and the amount of any loss is recognized as an allowance for loan losses in the statement of profit or loss.

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

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

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

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

*Generating the Term Structure of PD*

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

*Significant Increase in Credit Risk in the Loan Portfolio*

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

*Definition of Default in the Loan Portfolio*

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

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

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

| | SBP regulatory classification categories | | |
|---|---|---|---|
| **Segment** | **Low Risk** | **Significant Risk** | **Default** |
| Agriculture | 1 and 2 | 3 | 3 (greater than 90 days), 4 and 5 |
| Livestock | 1 and 2 | 3 | 3 (greater than 90 days), 4 and 5 |
| Commercial | 1 and 2 | 3 | 3 (greater than 90 days), 4 and 5 |
| Consumer | 1 and 2 | 3 | 3 (greater than 90 days), 4 and 5 |
| Consumer - retirees | 1 | 2 | 3, 4 and 5 |
| Mortgage - preferential | 1 and 2 | 3 | 3 (greater than 90 days), 4 and 5 |
| Mortgage - non-preferential | 1 and 2 | 3 | 3 (greater than 90 days), 4 and 5 |

*Impairment of Deposits in Banks and Investments at AC*

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

- (Level 1) Low risk: International low risk financial instruments, that is, those with an investment grade higher or equal to BBB- at the time of the assessment; and for local financial instruments rated as BB+, BB and BB- that maintained the same rating from their acquisition to the presentation date.

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

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

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

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

***Presentation of allowance for expected credit losses (ECL) in the Statement of Financial Position***
Loss allowances for ECL are presented in the statement of financial position as follows:

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

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

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

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

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

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

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

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

*(h) Leases*

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

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

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

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

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

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

<u>As a Lessee</u>

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

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

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

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

- Fixed payments, including essentially fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the inception date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an option to extend the term of the contract, and penalties payments for early termination of a lease unless the Bank is reasonably certain not to terminate the contract early.

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

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

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

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

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

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

*(i) Intangible Assets - Licenses and Programs*

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

*(j) Foreclosed Borrowers' Assets*

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

*(k) Customer Deposits and Obligations*

Customer deposits are initially measured at fair value. Subsequently, they are measured at amortized cost, using the effective interest rate method. Obligation include borrowing and issued bonds payable.

*(l) Securities Sold under Repurchase Agreements*

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

*(m) Certificates of Warranties for Legal Proceedings*

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

*(n) Bonus Provision and Seniority Premium*

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

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

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

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

The Bank determines the net interest cost on the net defined benefit liability for the period, applying the discount rate used to measure the defined benefit obligation at the beginning of the year, taking into account any changes in the benefit liability during the period as a result of benefit payments.

*(o) Interest Income and Expense*

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

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

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

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

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

*Amortized cost and gross carrying amount*

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

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

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

*Calculation of interest income and expense*

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

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

*Presentation*

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

*(p) Performance Obligations and Revenue Recognition Policy for Fees and Commissions*

Fee and commission income from customer contracts is measured based on the consideration specified in a customer contract. The Bank recognizes revenue when the customer receives the service.

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

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

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

*(q) New IFRSs and Unadopted Interpretations*

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

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

| **Amendments** | **Effective for annual reporting periods Beginning:** |
|---|---|
| Amendments to IAS 1: *Classification of Liabilities as Current or Non-current* | January 1, 2023 |
| Amendments to IAS 1: Disclosures of accounting policies | January 1, 2023 |
| Amendments to IAS 8: Definition of accounting estimates | January 1, 2023 |
| Amendments to IAS 1: Non-current liabilities with agreed conditions | January 1, 2024 |
| Amendments to IFRS 16: Lease liability for sale with leaseback | January 1, 2024 |

**(4) Financial Risks Management**

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

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

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

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

*(a) Credit Risk*

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

- The risk analysis or pre-approval is carried out independently of the business, whose objectives, in addition to identifying, evaluating and quantifying the risk of the proposals, are to determine the impact they will have on the Bank's credit portfolio.

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

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

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

The Bank manages credit risk through:

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

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

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

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

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

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

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

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

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

The portfolios for which the external benchmark information represents a significant input into the ECL measurement are detailed as follow:

| Detail | Gross Amount In B/. | PD | LGD |
|---|---|---|---|
| Deposits in banks | 4,191,761,569 | S&P default study | Moody´s recovery studies |
| Investments in securities | 3,540,138,398 | S&P default study | Moody´s recovery studies |
| Loans – Financial institutions | 392,442,217 | S&P default study | Moody´s recovery studies |
| Loans – Public Sector | 828,303,655 | S&P default study | Moody´s recovery studies |
| Loans - Rest of portfolios, excluding loans analyzed individually | 4,622,911,080 | The Bank uses one-year regulatory transition matrices with a 60-month observation horizon, in accordance with the Bank's defined portfolio segmentation. | The Bank estimates the parameters based on a historical recovery rate of claims against defaulting (doubtful and loss) counterparties. |

*Credit quality analysis*

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

*Loan commitments - credit cards and accounts receivable*

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

## (4) Financial Risk Management, continued

The following table analyzes the credit quality of financial assets at amortized cost, credit commitments and allowances per ECL for these assets held by the Bank as of December 31, 2022:

| | 2022 | | | |
|---|---|---|---|---|
| | Low risk | Significant risk | Default risk | Total |
| **Loans at AC** | | | | |
| Standard | 5,349,536,835 | 246,236,681 | 0 | 5,595,773,516 |
| Special mention | 51,594,855 | 92,034,235 | 477,005 | 144,106,095 |
| Sub-Standard | 0 | 65,424,380 | 25,470,097 | 90,894,477 |
| Doubtful | 0 | 0 | 25,862,579 | 25,862,579 |
| Loss | 0 | 0 | 68,364,453 | 68,364,453 |
| **Gross balance** | 5,401,131,690 | 403,695,296 | 120,174,134 | 5,925,001,120 |
| Interest receivable | 34,551,587 | 7,069,538 | 1,414,285 | 43,035,410 |
| Interest and unearned commissions | (26,930,615) | (433,949) | (494,581) | (27,859,145) |
| Loss allowance | (31,921,823) | (42,679,773) | (65,681,400) | (140,282,996) |
| **Balance at AC** | 5,376,830,839 | 367,651,112 | 55,412,438 | 5,799,894,389 |
| **Consumer loans** | | | | |
| 0 to 30 days | 2,856,712,471 | 260,234,479 | 11,985,236 | 3,128,932,186 |
| 31 to 60 days | 20,153,222 | 25,354,852 | 1,445,051 | 46,953,125 |
| More than 61 days | 4,417,710 | 11,901,105 | 56,655,804 | 72,974,619 |
| **Balance** | 2,881,283,403 | 297,490,436 | 70,086,091 | 3,248,859,930 |
| Individually assessed loans | 0 | 77,602,568 | 3,741,600 | 81,344,168 |
| **Loss allowance:** | | | | |
| Individual | 0 | (1,463,722) | (221,710) | (1,685,432) |
| Collective | (31,921,823) | (41,216,051) | (65,459,690) | (138,597,564) |
| **Total loss reserve** | (31,921,823) | (42,679,773) | (65,681,400) | (140,282,996) |
| **Loan commitments** | | | | |
| Standard | 600,245,364 | 0 | 0 | 600,245,364 |
| **Gross balance** | 600,245,364 | 0 | 0 | 600,245,364 |
| Loss allowance | (389,054) | 0 | 0 | (389,054) |
| **Balance of loan commitments** | 599,856,310 | 0 | 0 | 599,856,310 |
| **Bank deposits at AC** | | | | |
| Standard | 4,191,761,569 | 0 | 0 | 4,191,761,569 |
| **Gross balance** | 4,191,761,569 | 0 | 0 | 4,191,761,569 |
| Interest receivable | 7,722,954 | 0 | 0 | 7,722,954 |
| Loss allowance | (36,440) | 0 | 0 | (36,440) |
| **Balance of deposits in banks at AC** | 4,199,448,083 | 0 | 0 | 4,199,448,083 |
| **Securities purchased under resale agreement at AC** | | | | |
| Standard | 192,836,528 | 0 | 0 | 192,836,528 |
| **Gross balance** | 192,836,528 | 0 | 0 | 192,836,528 |
| Interest receivable | 2,569,856 | 0 | 0 | 2,569,856 |
| Loss allowance | (233,515) | 0 | 0 | (233,515) |
| **Balance of securities purchased under resale agreement at AC** | 195,172,869 | 0 | 0 | 195,172,869 |
| **Investments in securities at AC** | | | | |
| Standard | 3,494,243,549 | 45,894,849 | 0 | 3,540,138,398 |
| **Gross balance** | 3,494,243,549 | 45,894,849 | 0 | 3,540,138,398 |
| Interest receivable | 21,027,976 | 442,774 | 0 | 21,470,750 |
| Loss allowance | (2,650,279) | (2,688,100) | 0 | (5,338,379) |
| **Balance of investments in securities at AC** | 3,512,621,246 | 43,649,523 | 0 | 3,556,270,769 |

## (4) Financial Risk Management, continued

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

During the year ended December 31, 2022, the Bank carried out loan restructurings/modifications with an amortized cost before the modification of B/.361,860,370 (2021: B/.589,526,353) and which generated an increase in the allowance for expected credit losses of B/.473,958 at the moment of their modification (2021: B/.810,680).

## (4) Financial Risk Management, continued

The Bank maintains deposits placed in banks with a gross balance of B/.4,191,761,569 as of December 31, 2022 (2021: B/.7,251,086,409). Deposits placed are held with recognized financial institutions applying the limits established in the counterparty risk policy. These placements of the Bank's liquid resources are made under conditions of security, liquidity and yield, adjusting to risk and term diversification criteria, in banks with financial solvency and risk rating. At 31 December 2022, an expected loss reserve was established for interbank placements of B/.36,440 (2021: B/.201,617).

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

| | | 2022 | |
|---|---|---|---|
| | Local credit rating | International credit rating | Total |
| **Deposits in banks** | | | |
| A1, P1, F1 | 40,000,000 | 2,437,676,592 | 2,477,676,592 |
| A2, P2, F2 | 0 | 782,992,423 | 782,992,423 |
| A3, P3, F3 | 0 | 20,000,000 | 20,000,000 |
| Unrated | 0 | 911,092,554 | 911,092,554 |
| **Gross subtotal** | 40,000,000 | 4,151,761,569 | 4,191,761,569 |
| Interest receivable | 58,398 | 7,664,556 | 7,722,954 |
| Loss reserve | (2,468) | (33,972) | (36,440) |
| **Balance at amortized cost** | 40,055,930 | 4,159,392,153 | 4,199,448,083 |

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

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

## (4) Financial Risk Management, continued

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

| Investments in securities | Local rating | 2022 International rating (i) | Total |
|---|---|---|---|
| AAA | 0 | 89,633,400 | 89,633,400 |
| AA+ to A | 78,489,100 | 923,171,131 | 1,001,660,231 |
| A- | 22,111,919 | 97,187,744 | 119,299,663 |
| BBB+ to BBB- | 164,753,069 | 1,311,795,453 | 1,476,548,522 |
| BB+ | 0 | 65,000,000 | 65,000,000 |
| BB to B- | 0 | 41,957,349 | 41,957,349 |
| Unrated | 14,937,500 | 731,101,733 | 746,039,233 |
| **Gross subtotal** | 280,291,588 | 3,259,846,810 | 3,540,138,398 |
| Interest receivable | 1,717,272 | 19,753,478 | 21,470,750 |
| Loss reserve | (1,886,977) | (3,451,402) | (5,338,379) |
| **Balance at amortized cost** | 280,121,883 | 3,276,148,886 | 3,556,270,769 |

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

*(i)* The investments presented in the "Unrated" category correspond to liquid instruments of international financial institutions, to which only central banks have access and their risk is equivalent to a AAA sovereign risk rating.

*Guarantees and their Financial Effect*

The Bank maintains guarantees and other improvements to reduce credit risk, to ensure collection of its financial assets exposed to credit risk. The table below presents the main types of collateral taken with respect to different types of financial assets.

| | % of exposure that is subject to guarantee requirements 2022 | 2021 | Type of collateral |
|---|---|---|---|
| Investments purchased under resale agreements | 100% | 100% | Debt securities |
| Loans | 62% | 54% | Cash, property and equipment (movable and immovable) |

*Residential Mortgage Loans*

The following table presents the range of loan to value (LTV) ratios of the mortgage portfolio. LTV is a mathematical equation that measures the relationship between what is loaned and the value of the property that will be the subject (and collateral) of the loan. Gross amounts do not include any provision for impairment.

## (4) Financial Risk Management, continued

The valuation of the collateral does not include all adjustments for obtaining and selling the collateral. The value of collateral for consumer mortgage loans is based on the value of the collateral at the date of disbursement and is generally not updated, unless the loan is updated based on changes in the price indexes of the collateral.

Gross consumer mortgage loans:

| % LTV | 2022 | 2021 |
|---|---|---|
| Less than 50% | 122,915,464 | 116,823,118 |
| 51-70% | 201,932,318 | 179,991,421 |
| 71-90% | 983,178,975 | 706,142,013 |
| 91-100% | 664,442,724 | 684,358,881 |
| Gross total | 1,972,469,481 | 1,687,315,433 |

*Assets Received as Collateral*

The Bank has taken possession of financial and non-financial assets that were constituted as collateral to ensure the collection of impaired loans. As of December 31, 2022, the Bank holds properties that have been awarded to the Bank in the amount of B/.7,996,435 (2021: B/.7,036,532) with a provision of B/.639,169 (2021: B/.1,648,540). During the 2022 period, the Bank was awarded assets for a value of B/.2,602,126 (2021: B/.544,785).

The Bank's policy is to realize or execute the sale of these assets, to cover the balances due, in case of their foreclosure. Generally, it is not the Bank's policy to use non-financial assets for its own operations, but in the event of foreclosure the intention is to dispose of these assets for sale in the short term.

*Credit Risk Concentration*

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

| | Loans | | Investments in securities and securities purchased under resale agreements | | Deposits in banks | | Loan commitments and guarantees granted | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Gross book value | 5,925,001,120 | 5,136,726,238 | 3,776,350,674 | 2,442,534,204 | 4,191,761,569 | 7,251,086,409 | 600,245,364 | 531,816,408 |
| Concentration by sector: | | | | | | | | |
| Corporate | 1,455,395,318 | 1,260,381,621 | 844,668,359 | 575,800,227 | 0 | 0 | 67,804,649 | 59,030,382 |
| Consumer | 3,248,859,930 | 2,911,579,654 | 0 | 0 | 0 | 0 | 532,085,602 | 472,786,026 |
| Financial institutions | 392,442,217 | 119,712,511 | 1,245,139,059 | 233,857,534 | 2,555,007,493 | 3,701,050,336 | 140,600 | 0 |
| Public sector | 828,303,655 | 845,052,452 | 1,686,543,256 | 1,632,876,443 | 1,636,754,076 | 3,550,036,073 | 214,513 | 0 |
| Gross book value | 5,925,001,120 | 5,136,726,238 | 3,776,350,674 | 2,442,534,204 | 4,191,761,569 | 7,251,086,409 | 600,245,364 | 531,816,408 |
| Geographic concentration: | | | | | | | | |
| Panama | 5,925,001,120 | 5,136,726,238 | 1,799,241,864 | 1,594,414,163 | 60,000,000 | 55,000,000 | 600,245,364 | 531,816,408 |
| USA and Canada | 0 | 0 | 1,039,863,055 | 730,452,432 | 1,460,433,538 | 2,250,932,224 | 0 | 0 |
| Europe | 0 | 0 | 24,922,238 | 10,045,079 | 855,223,956 | 1,215,109,195 | 0 | 0 |
| Others | 0 | 0 | 912,323,517 | 107,622,530 | 1,816,104,075 | 3,730,044,990 | 0 | 0 |
| Gross book value | 5,925,001,120 | 5,136,726,238 | 3,776,350,674 | 2,442,534,204 | 4,191,761,569 | 7,251,086,409 | 600,245,364 | 531,816,408 |

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

## (4) Financial Risk Management, continued

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

*Expected Credit Losses*

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

| | 2022 | | | |
|---|---|---|---|---|
| | **Low risk** | **Significant risk** | **Default risk** | **Total** |
| **Deposits in banks** | | | | |
| Balance as of January 1, 2022 | 201,617 | 0 | 0 | 201,617 |
| Net remeasurement of loss allowance | (168,084) | 0 | 0 | (168,084) |
| Allocation of reserve to new originated financial assets | 3,174 | 0 | 0 | 3,174 |
| Reversal of reserve of assets that have been written off | (267) | 0 | 0 | (267) |
| Balance as of December 31, 2022 | 36,440 | 0 | 0 | 36,440 |
| **Investments in securities and securities purchased under resale agreement at amortized cost** | | | | |
| Balance as of January 1, 2022 | 2,452,712 | 763,655 | 0 | 3,216,367 |
| Transfers to PCE over the life of the loan (significant risk) | (56,273) | 56,273 | 0 | 0 |
| Net remeasurement of loss allowance | (27,268) | 1,868,172 | 0 | 1,840,904 |
| Allocation of reserve to new purchased financial assets | 885,172 | 0 | 0 | 885,172 |
| Reversal of reserve due to derecognized assets | (370,549) | 0 | 0 | (370,549) |
| Balance as of December 31, 2022 | 2,883,794 | 2,688,100 | 0 | 5,571,894 |
| **Corporate loans** | | | | |
| Balance as of January 1, 2022 | 12,245,042 | 12,482,790 | 30,922,239 | 55,650,071 |
| Transfers to 12-month PCE (low risk) | 10,028,036 | (5,238,599) | (4,789,437) | 0 |
| Transfers to PCE over the life of the loan (significant risk) | (778,447) | 2,237,479 | (1,459,032) | 0 |
| Transfers to PCE over the life of the loan (default) | (291,453) | (1,206,174) | 1,497,627 | 0 |
| Net remeasurement of loss allowance | (10,304,767) | 923,821 | 15,386,949 | 6,006,003 |
| Allocation of reserve to new originated financial assets | 5,668,227 | 347,649 | 886,370 | 6,902,246 |
| Reversal of reserve due to derecognized assets | (1,888,662) | (1,312,959) | (8,254,221) | (11,455,842) |
| Loans written off | 0 | 0 | (6,968,038) | (6,968,038) |
| Recoveries | 0 | 0 | 332,322 | 332,322 |
| Balance as of December 31, 2022 | 14,677,976 | 8,234,007 | 27,554,779 | 50,466,762 |
| **Consumer loans** | | | | |
| Balance as of January 1, 2022 | 20,177,572 | 8,971,943 | 40,623,127 | 69,772,642 |
| Transfers to 12-month PCE (low risk) | 7,415,511 | (1,662,796) | (5,752,715) | 0 |
| Transfers to PCE over the life of the loan (significant risk) | (8,717,062) | 21,453,598 | (12,736,536) | 0 |
| Transfers to PCE over the life of the loan (default) | (825,093) | (1,304,518) | 2,129,611 | 0 |
| Net remeasurement of loss allowance | (4,982,035) | 7,127,399 | 20,460,463 | 22,605,827 |
| Allocation of reserve to new originated financial assets | 2,654,125 | 211,696 | 805,031 | 3,670,852 |
| Reversal of reserve due to derecognized assets | (485,726) | (351,556) | (4,855,161) | (5,692,443) |
| Loans written off | 0 | 0 | (3,782,373) | (3,782,373) |
| Recoveries | 0 | 0 | 1,235,174 | 1,235,174 |
| Balance as of December 31, 2022 | 15,237,292 | 34,445,766 | 38,126,621 | 87,809,679 |
| **Financial institution loans** | | | | |
| Balance as of January 1, 2022 | 242,028 | 0 | 0 | 242,028 |
| Net remeasurement of loss allowance | (1,411) | 0 | 0 | (1,411) |
| Allocation of reserve to new originated financial assets | 958,595 | 0 | 0 | 958,595 |
| Reversal of reserve due to derecognized assets | (185,681) | 0 | 0 | (185,681) |
| Balance as of December 31, 2022 | 1,013,531 | 0 | 0 | 1,013,531 |
| **Public Sector loans** | | | | |
| Balance as of January 1, 2022 | 1,013,493 | 0 | 0 | 1,013,493 |
| Net remeasurement of loss allowance | (40,985) | 0 | 0 | (40,985) |
| Allocation of reserve to new financial assets originated | 207,061 | 0 | 0 | 207,061 |
| Financial assets that have been written off | (186,545) | 0 | 0 | (186,545) |
| Balance as of December 31, 2022 | 993,024 | 0 | 0 | 993,024 |

## (4) Financial Risk Management, continued

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

*Weighting of macroeconomic scenarios and their incorporation in prospective information*
In order to incorporate not only a perspective in the prospective information, the Bank carries out weightings in order to recognize the uncertainty that exists around the short- and medium-term economic context that the country will experience. The Bank incorporates three scenarios: base, optimistic and pessimistic.

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

Each of the scenarios is intended to reflect reasonable expectations and have a relevant level of probability associated with them.

The base scenario corresponds to the one with the highest probability of occurrence and comes directly from the results of the projection models developed for each indicator; this scenario has a weight of 60%. On the other hand, both the optimistic and pessimistic scenarios are determined based on the values of the base scenario adjusted according to the standard error of the projections (each scenario has a weight of 20%).

Next, the macroeconomic variable selected to incorporate the prospective information and its projections:

| | | IMAE Evolution Projection | |
|---|---|---|---|
| | Base | Optimistic | Pessimistic |
| 2023 | 2.69% | 7.09% | (7.56%) |
| 2024 | 6.26% | 10.65% | (3.99%) |
| 2025 | 6.22% | 10.62% | (4.03%) |
| 2026 | 6.19% | 10.58% | (4.06%) |
| 2027 | 6.16% | 10.55% | (4.09%) |

The following table shows the estimated impact on the allowance for loan losses caused by assumed increases or decreases of 2% and 3% in the IMAE:

| | 200 bps increase | 200 bps decrease | 300 bps increase | 300 bps decrease |
|---|---|---|---|---|
| As of December 31, 2022 | (915,950) | 725,273 | (963,619) | 677,604 |

| | 200 bps increase | 200 bps decrease | 300 bps increase | 300 bps decrease |
|---|---|---|---|---|
| As of December 31, 2021 | (2,151,891) | 1,919,651 | (2,209,951) | 1,861,591 |

*(b) Liquidity Risk*

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

*Liquidity Risk Management*

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

## (4) Financial Risk Management, continued

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

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

Agreement No. 002-2018 of the Superintendency of Banks of Panama establishes the provisions for the Liquidity Coverage Ratio (LCR), the Bank must ensure compliance with 100% by December 2022. As of December 31, 2022, the Bank's Liquidity Coverage Ratio is 260.5% exceeding the 100% established by the aforementioned Agreement (2021: 188.3%).

*Liquidity Risk Exposure*

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

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

| | 2022 | 2021 |
|---|---|---|
| As of December 31 | 74.8% | 83.9% |
| Average of the year | 81.4% | 86.8% |
| Maximum of the year | 86.4% | 89.3% |
| Minimum of the year | 74.8% | 83.9% |

The following table details the undiscounted cash flows from financial assets and liabilities, and loan commitments not recognized, in contractual maturity groupings for the remaining period from the date of the statement of financial position:

| 2022 | Book value | Gross nominal amount (outgoings)/incomings | Up to 1 year | More than 1 to 3 years | More than 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Customer deposits at amortized cost | 11,678,147,466 | (11,936,696,536) | (10,806,640,227) | (847,699,398) | (255,810,012) | (26,546,899) |
| Borrowings at amortized cost | 1,526,254,691 | (2,217,956,887) | 0 | (285,377,059) | (208,675,155) | (1,723,904,673) |
| Letters of credit/payment pledges | 0 | (591,925,656) | (141,932,444) | (449,993,212) | 0 | 0 |
| Lines of credit and credit cards | 0 | (8,319,708) | (2,844,371) | (5,475,337) | 0 | 0 |
| | 13,204,402,157 | (14,754,898,787) | (10,951,417,042) | (1,588,545,006) | (464,485,167) | (1,750,451,572) |
| **Financial assets** | | | | | | |
| Cash, cash equivalents and bank deposits at amortized cost | 4,607,921,450 | 4,614,758,476 | 4,614,758,476 | 0 | 0 | 0 |
| Investments in securities and securities purchased under resale agreements, net | 3,804,061,009 | 4,212,085,652 | 1,960,673,870 | 340,038,419 | 471,771,283 | 1,439,602,080 |
| Loans at amortized cost | 5,799,894,389 | 6,754,702,874 | 741,738,036 | 308,109,629 | 938,382,935 | 4,766,472,274 |
| | 14,211,876,848 | 15,581,547,002 | 7,317,170,382 | 648,148,048 | 1,410,154,218 | 6,206,074,354 |

## (4) Financial Risk Management, continued

| 2021 | Book value | Gross nominal amount (outgoings)/incomings | Up to 1 year | More than 1 to 3 years | More than 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Customer deposits at amortized cost | 12,363,756,532 | (12,511,429,444) | (11,370,158,864) | (276,176,674) | (863,974,113) | (1,119,793) |
| Borrowings at amortized cost | 1,701,985,722 | (2,609,742,193) | (92,973,503) | (367,253,100) | (260,311,439) | (1,889,204,151) |
| Letters of credit/payment pledges | 0 | (509,249,540) | (134,116,599) | (375,132,941) | 0 | 0 |
| Lines of credit and credit cards | 0 | (22,566,868) | (16,834,265) | (5,732,603) | 0 | 0 |
| | 14,065,742,254 | (15,652,988,045) | (11,614,083,231) | (1,024,295,318) | (1,124,285,552) | (1,890,323,944) |
| **Financial assets** | | | | | | |
| Cash, cash equivalents and bank deposits at amortized cost | 7,549,087,435 | 7,549,882,247 | 7,549,882,247 | 0 | 0 | 0 |
| Investments in securities and securities purchased under resale agreements, net | 2,463,124,174 | 2,781,299,726 | 646,935,598 | 401,141,705 | 108,605,178 | 1,624,617,245 |
| Loans at amortized cost | 5,034,575,091 | 5,917,479,510 | 325,814,030 | 195,236,344 | 365,335,391 | 5,031,093,745 |
| | 15,046,786,700 | 16,248,661,483 | 8,522,631,875 | 596,378,049 | 473,940,569 | 6,655,710,990 |

For non-derivative financial assets and liabilities, the gross nominal amount is measured based on undiscounted cash flows and includes estimated interest payable and receivable, which is why it differs from the amounts presented in the statement of financial position.

The following table shows the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled after twelve months after the balance sheet date:

| | 2022 | 2021 |
|---|---|---|
| **Assets:** | | |
| Investments in securities | 1,833,373,350 | 1,302,518,489 |
| Loans | 4,974,833,554 | 4,650,559,559 |
| **Total assets** | 6,808,206,904 | 5,953,078,048 |
| **Liabilities:** | | |
| Time deposits | 596,169,988 | 659,387,340 |
| Borrowings received | 308,335,397 | 482,438,493 |
| Bonds payable | 1,202,587,636 | 1,202,174,272 |
| | 2,107,093,021 | 2,344,000,105 |

(c) *Market Risk*

It is the risk that the value of a Bank's financial asset will be reduced due to changes in interest rates, monetary exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events. The objective of market risk management is to manage and monitor risk exposures, and to keep them within acceptable parameters.

Risk management policies provide for compliance with limits by financial instrument, concentration limits, instrument rating limits, limits with respect to the maximum amount of loss from which the closing of the positions that caused such loss is required; and the requirement that, except for Board of Directors' approval, substantially all assets and liabilities are denominated in US dollars or in balboas.

## (4) Financial Risk Management, continued

*Market Risk Management*

The Bank does not currently maintain a trading portfolio; therefore, the risk inherent in this activity is substantially reduced.

The Bank maintains investments in securities that are presented in the Bank's statement of financial position at either amortized cost or fair value. Changes in the fair value of investments measured at FVOCI are recorded directly and recognized in a valuation account in the equity funds until the securities are sold or redeemed; in these cases, the cumulative gains or losses previously recognized in the equity funds are transferred to retained earnings.

The Bank manages the market risk of its financial instruments through periodic reports to the Assets-Liabilities Steering Committee (ALCO) and the Risks and Policies Steering Committee, in which price changes in each instrument are analyzed and Value at Risk (VaR) is estimated daily to monitor and make decisions about its portfolio, based on the VaR limit that has been established.

Value at Risk is an estimate of probable loss over a given time horizon, which allows the Bank to set limits or caps on exposures in its investment portfolio.

The VaR model used by the Bank is based on the correlation method and considers a 99% confidence level over a one (1) day portfolio holding period.

The Bank has established maximum realized and unrealized loss limits for both individual instruments and the total investment portfolio. The market value of the securities investment portfolio is compared daily against these limits. If there is an excess in some limits, the Bank may liquidate the position or maintain it in the portfolio until its maturity or until its prices allow the sale of the securities without incurring losses, since it considers that these are usually market effects and not an impairment in the payment capacity of the issuer.

Although the VaR model is one of the most widely used tools for measuring market risks, its main limitation is that the result obtained depends closely on the information used to calibrate the models and the historical data used. VaR is considered a good measure for estimating the risk of loss under normal market conditions, but practice has shown that it fails significantly in crisis conditions. Stress analyses seek to cover these deficiencies.

An impairment loss is recognized when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a loss) and that loss has an impact on future estimates of the security's cash flows, which can be reasonably estimated.

The Bank's Board of Directors has determined that all market risk issues are managed and monitored directly by the Assets and Liabilities Steering Committee (ALCO) and the Risks and Policies Steering Committee; these committees are responsible for the development of market risk management policies, as well as reviewing and approving the implementation of those policies.

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

The Bank manages its exposure to market risk from the following perspectives:

- Monitoring the price of the different securities on a daily basis, in order to verify if they are within the limits established by the Board of Directors, with respect to the global losses of its investment portfolio and on the losses of individual instruments.
- Determining the effect on the Bank's profits and on the value of financial assets and liabilities.

The composition and analysis of each type of market risk is presented in detail 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 arise from financial instruments that are not monetary items, nor from financial instruments denominated in the functional currency.

  Generally, the Bank conducts its transactions in United States dollars; however, it maintains some deposits in euros and yen.

  Considering current market conditions and the amount these balances represent, the Bank currently assumes the exchange rate risk.

  The following table shows the operations of monetary financial instruments in the statement of financial position, agreed upon in foreign currencies, which are presented in their equivalent in balboas, as follows:

| | | 2022 | | | 2021 | |
|---|---|---|---|---|---|---|
| | Euro | Yen | Total | Euro | Yen | Total |
| Deposits in banks | 484,660 | 11,521 | 496,181 | 163,812 | 8,917 | 172,729 |
| **Total assets** | **484,660** | **11,521** | **496,181** | **163,812** | **8,917** | **172,729** |

- *Cash flow interest rate risk:*
  These are the risks that the future cash flows and value of a financial instrument will fluctuate due to changes in market interest rates. The Assets and Liabilities Steering Committee (ALCO) and the Risks and Policies Steering Committee follow up on rate sensitivity reports.

  The Bank's management, in order to evaluate interest rate risks and their impact on the fair value of financial assets and liabilities, performs simulations to determine the sensitivity of financial assets and liabilities.

## (4) Financial Risk Management, continued

In order to mitigate this risk, the Bank periodically performs a sensitivity analysis of the financial and equity margin by measuring the impact of interest rate changes on rate-sensitive financial assets and liabilities, using the following tools:

– Financial margin sensitivity
The variation in the sensitivity of the financial margin is estimated by determining the changes in the financial margin before decreases or increases of 50 and 100 basis points (bps) of the market interest rate.

– Sensitivity of the equity margin
Measures the impact on the value of equity at the reporting date of changes of 50 and 100 basis points (bps) in the value of financial assets and liabilities.

The base analysis performed by management consists of determining the impact on financial assets and liabilities caused by increases or decreases of 50 and 100 basis points (bps) in interest rates. The impact is summarized below:

**Sensitivity in the projected net interest income**

| 2022 | 50 bps of increase | 50 bps of decrease | 100 bps of increase | 100 bps of decrease |
|---|---|---|---|---|
| **As of December 31** | 5,788,404 | (5,788,404) | 11,576,807 | (11,576,807) |
| Average of the year | 5,862,792 | (6,498,740) | 11,725,585 | (13,899,300) |
| Maximum of the year | 10,869,532 | (9,900,057) | 21,739,062 | (21,180,061) |
| Minimum of the year | 4,880,975 | (5,066,155) | 9,761,948 | (9,912,164) |
| **2021** | | | | |
| **As of December 31** | 5,859,777 | (5,365,704) | 11,719,555 | (9,743,616) |
| Average of the year | 5,907,606 | (4,982,103) | 11,815,212 | (9,244,709) |
| Maximum of the year | 7,089,425 | (7,101,625) | 14,178,850 | (11,333,951) |
| Minimum of the year | 4,462,177 | (3,242,884) | 8,924,355 | (7,538,111) |

**Sensitivity in equity to rate fluctuation in financial assets and liabilities**

| 2022 | 50 bps of increase | 50 bps of decrease | 100 bps of increase | 100 bps of decrease |
|---|---|---|---|---|
| **As of December 31** | 5,700,136 | (5,787,729) | 11,444,068 | (11,531,661) |
| Average of the year | 451,286 | (426,364) | 911,299 | (865,189) |
| Maximum of the year | 5,700,136 | 1,078,336 | 11,444,068 | 1,117,223 |
| Minimum of the year | (672,714) | (5,787,729) | (714,755) | (11,531,661) |
| **2021** | | | | |
| **As of December 31** | 6,088,995 | (5,052,246) | 11,906,652 | (9,388,037) |
| Average of the year | 456,877 | (486,875) | 971,628 | (846,494) |
| Maximum of the year | 6,088,995 | (5,052,246) | 11,906,652 | (9,388,037) |
| Minimum of the year | (1,753,087) | 1,078,360 | (1,794,079) | 1,114,739 |

## (4) Financial Risk Management, continued

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

| | 2022 | | | | |
|---|---|---|---|---|---|
| | Up to 1 year | More than 1 to 3 years | More than 3 to 5 years | More than 5 years | Total |
| **Assets:** | | | | | |
| Time deposits in banks | 4,092,422,954 | 0 | 0 | 0 | 4,092,422,954 |
| Securities purchased under resale agreements | 195,406,384 | 0 | 0 | 0 | 195,406,384 |
| Investments in securities | 1,771,611,547 | 229,641,932 | 362,934,083 | 1,240,797,334 | 3,604,984,896 |
| Loans and interest receivable, gross balance | 883,104,555 | 263,990,381 | 826,593,420 | 3,994,348,174 | 5,968,036,530 |
| **Total** | 6,942,545,440 | 493,632,313 | 1,189,527,503 | 5,235,145,508 | 13,860,850,764 |
| **Liabilities:** | | | | | |
| Savings deposits | 962,505,513 | 0 | 0 | 0 | 962,505,513 |
| Time and restricted deposits | 5,157,290,431 | 563,740,958 | 13,785,141 | 18,643,889 | 5,753,460,419 |
| Bonds payable | 1,556,168 | 0 | 0 | 308,335,397 | 309,891,565 |
| Borrowing received | 11,087,040 | 0 | 0 | 1,202,587,636 | 1,213,674,676 |
| **Total** | 6,132,439,152 | 563,740,958 | 13,785,141 | 1,529,566,922 | 8,239,532,173 |
| **Net interest sensitivity margin** | 810,106,288 | (70,108,645) | 1,175,742,362 | 3,705,578,586 | 5,621,318,591 |

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

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

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

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

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

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

For those operations in force as of December 31, 2022 and whose maturities not exceed June 30, 2023, the bank will maintain USD LIBOR as Reference rate. For any new operation and renewals, will be making use of the SOFR with its updates to contractual terms.

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

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

*(d) Operational Risk*

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

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

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

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

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

*(e) Capital Management*

The Bank's policy is to maintain strong capital that can ensure the future development of investment and credit businesses within the market, with adequate levels of return on shareholder capital and capital adequacy required by regulators. Law Decree No. 4 of 2006, as amended by Law No. 24 of May 16, 2017, establishes the Bank's capital at B/.500,000,000. This capital may be periodically increased by the Board of Directors, subject to a favorable opinion of the Executive Body through a Decree, in accordance with the provisions of banking legislation or best banking practices. As of December 31, 2022, the Bank maintains capital funds of B/.850,000,000 (2021: B/.750,000,000).

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

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

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

## (4) Financial Risk Management, continued

As of December 31, 2022, the Bank's capital adequacy ratio as determined in accordance with Agreements No. 001-2015, 003-2016, 003-2018, 011-2018 and 008-2022 of the Superintendency of Banks of Panama:

| | 2022 | 2021 |
|---|---|---|
| **Primary Capital** | | |
| Paid-in-capital by Panamanian government | 850,000,000 | 750,000,000 |
| Retained earnings | 218,863,498 | 208,803,792 |
| Other items in comprehensive income | 12,439,932 | 6,724,998 |
| Less: intangible assets | 10,979,526 | 9,833,910 |
| **Primary Capital** | 1,070,323,904 | 955,694,880 |
| Dynamic regulatory provision | 56,928,983 | 56,928,983 |
| **Total Capital Funds** | 1,127,252,887 | 1,012,623,863 |
| **Total risk-weighted assets** | 6,109,648,512 | 5,227,251,858 |
| **Capital adequacy ratio** | 18.45% | 19.37% |

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

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

(a) *Impairment losses on financial assets*

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

(b) *Fair value*

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

(c) *Foreclosed assets of borrowers*

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

## (6) Cash and Cash Equivalents

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

| | **2022** | **2021** |
|---|---|---|
| Cash and cash equivalents | 408,473,367 | 297,328,464 |
| Demand deposits | 107,061,569 | 17,486,409 |
| Time deposits | 4,084,700,000 | 7,233,600,000 |
| **Total gross cash, cash equivalents and deposits with banks in the statement of financial position, excluding interest receivable** | 4,600,234,936 | 7,548,414,873 |
| Less: Time deposits in banks with original maturities over 90 days | 0 | 0 |
| **Total cash and cash equivalents in the cash flow statement** | 4,600,234,936 | 7,548,414,873 |

As of December 31, 2022, the Bank maintains a reserve for expected losses on deposits in banks of B/.36,440 (2021: B/.201,617).

## (7) Securities Purchased under Resale Agreements

At December 31, 2022, the Bank holds securities purchased under resale agreements as follows:

| Maturity Date | Interest Rate Libor/SOFR | Margin | Collateral | 2022 | 2021 |
|---|---|---|---|---|---|
| 07/01/2022 | 6 months Libor | 1.75% | Local corporate bonds | 0 | 6,400,000 |
| 07/01/2022 | 6 months Libor | 1.75% | Local corporate bonds | 0 | 3,600,000 |
| 24/06/2022 | 6 months Libor | 1.00% | Local corporate bonds | 0 | 6,818,859 |
| 24/06/2022 | 6 months Libor | 1.00% | Local corporate bonds | 0 | 24,476,068 |
| 05/01/2023 | 3 months SOFR | 1.00% | VCN´S | 4,000,000 | 0 |
| 05/01/2023 | 3 months SOFR | 1.00% | Local corporate bonds | 12,800,000 | 0 |
| 05/01/2023 | 3 months SOFR | 1.00% | Local corporate bonds | 10,398,700 | 0 |
| 05/01/2023 | 3 months SOFR | 1.00% | Local corporate bonds | 1,600,000 | 0 |
| 05/01/2023 | 3 months SOFR | 1.00% | Local corporate bonds | 401,300 | 0 |
| 05/01/2023 | 3 months SOFR | 1.00% | Local corporate bonds | 800,000 | 0 |
| 24/01/2023 | 3 months SOFR | 1.25% | Local corporate bonds | 3,840,000 | 0 |
| 24/01/2023 | 3 months SOFR | 1.25% | Local corporate bonds | 2,400,000 | 0 |
| 24/01/2023 | 3 months SOFR | 1.25% | Local corporate bonds | 3,760,000 | 0 |
| 25/01/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 12,000,000 | 0 |
| 25/01/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 1,600,000 | 0 |
| 25/01/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 800,000 | 0 |
| 25/01/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 400,000 | 0 |
| 08/03/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 5,400,000 | 0 |
| 08/03/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 4,800,000 | 0 |
| 08/03/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 4,600,000 | 0 |
| 08/03/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 4,000,000 | 0 |
| 08/03/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 1,200,000 | 0 |
| 25/04/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 6,800,000 | 0 |
| 25/04/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 3,200,000 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 12,978,360 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 415,150 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 1,600,000 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 966,000 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 10,400,000 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 3,887,787 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 5,736,800 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 2,780,941 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 5,600,000 | 0 |
| 08/05/2023 | 6 months SOFR | 1.00% | Local corporate bonds | 3,804,756 | 0 |
| 15/05/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 5,760,000 | 0 |
| 15/05/2023 | 6 months SOFR | 1.25% | Local corporate bonds | 4,240,000 | 0 |
| 23/06/2023 | 12 months SOFR | 1.00% | Local corporate bonds | 7,484,000 | 0 |
| 23/06/2023 | 12 months SOFR | 1.00% | Local corporate bonds | 24,476,068 | 0 |
| 24/08/2023 | 12 months SOFR | 1.00% | Local corporate bonds | 8,660,000 | 0 |
| 24/08/2023 | 12 months SOFR | 1.00% | Local corporate bonds | 1,840,000 | 0 |
| 24/08/2023 | 12 months SOFR | 1.00% | Local corporate bonds | 4,740,000 | 0 |
| 24/08/2023 | 12 months SOFR | 1.00% | Local corporate bonds | 2,666,666 | 0 |
| | | | Gross Subtotal | 192,836,528 | 41,294,927 |
| | | | Interest receivable | 2,569,856 | 88,581 |
| | | | Reserve for losses | (233,515) | (65,686) |
| | | | Total | 195,172,869 | 41,317,822 |

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

## (8) Investments in Securities

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

| | 2022 | | | |
|---|---|---|---|---|
| | **FVTPL** | **FVOCI** | **AC** | **Total** |
| Public debt securities | 43,375,748 | 0 | 1,643,167,508 | 1,686,543,256 |
| Private debt securities | 0 | 0 | 1,896,970,890 | 1,896,970,890 |
| Private equity shares | 0 | 9,241,623 | 0 | 9,241,623 |
| Subtotal | 43,375,748 | 9,241,623 | 3,540,138,398 | 3,592,755,769 |
| Interest receivable | 0 | 0 | 21,470,750 | 21,470,750 |
| Loss allowance | 0 | 0 | (5,338,379) | (5,338,379) |
| Balance of investments in securities | 43,375,748 | 9,241,623 | 3,556,270,769 | 3,608,888,140 |

| | 2021 | | | |
|---|---|---|---|---|
| | **FVTPL** | **FVOCI** | **AC** | **Total** |
| Public debt securities | 29,295,850 | 0 | 1,603,580,593 | 1,632,876,443 |
| Private debt securities | 0 | 0 | 768,362,834 | 768,362,834 |
| Private equity shares | 0 | 9,542,670 | 0 | 9,542,670 |
| Subtotal | 29,295,850 | 9,542,670 | 2,371,943,427 | 2,410,781,947 |
| Interest receivable | 0 | 0 | 14,175,086 | 14,175,086 |
| Loss allowance | 0 | 0 | (3,150,681) | (3,150,681) |
| Balance of investments in securities | 29,295,850 | 9,542,670 | 2,382,967,832 | 2,421,806,352 |

Equity instruments at fair value with changes in other comprehensive income as of December 31, 2022, recorded a net unrealized loss of B/.301,047 as a result of the net change in fair value (2021: net unrealized gain: B/.450,576).

As of December 31, 2022, the Bank received dividends on private equity investments of B/.1,164,997 (2021: B/.896,405).

As of December 31, 2022, there were no sales of securities at amortized cost (2021: B/.151,730,000; generating net realized gains of B/.10,069,538).

As of December 31, 2022, securities at amortized cost were redeemed for B/.4,266,308,521 (2021: B/.4,658,321,323).

As of December 31, 2022, the Bank maintains an allowance for expected credit losses on investments in securities at amortized cost of B/.5,338,379 (2021: B/.3,150,681).

## (9) Loans

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

| | **2022** | **2021** |
|---|---|---|
| Public sector, gross | 828,303,655 | 845,052,452 |
| Private sector, gross: | | |
| Residential mortgages | 1,972,469,481 | 1,687,315,433 |
| Personal | 1,276,390,449 | 1,224,264,221 |
| Agricultural | 600,119,195 | 613,505,136 |
| Commercial | 821,759,570 | 613,952,039 |
| Financial institutions | 392,442,217 | 119,712,511 |
| Industrials | 33,238,275 | 32,738,646 |
| Overdrafts | 278,278 | 185,800 |
| Total gross private sector | 5,096,697,465 | 4,291,673,786 |
| Total gross loans | 5,925,001,120 | 5,136,726,238 |
| More (less): | | |
| Accrued interest receivable | 43,035,410 | 51,307,964 |
| Interest and unearned commissions | (27,859,145) | (26,780,877) |
| Allowance for loan losses | (140,282,996) | (126,678,234) |
| Loans at amortized cost | 5,799,894,389 | 5,034,575,091 |

As of December 31, 2021, non-monetary transactions were carried out for the purpose of the statement of cash flows, due to the cancellation of a corporate loan, through public debt securities of the Republic of Panama for B/.16,228,172.

## (10) Properties and Equipment

The properties and equipment are summarized as follows:

| **2022** | **Land, Buildings and Improvements** | **Office Furniture and Equipment** | **Vehicles** | **Constructions in Progress** | **Total** |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At the beginning of the year | 91,977,210 | 93,523,612 | 13,053,681 | 7,086,947 | 205,641,450 |
| Purchases | 0 | 5,320,227 | 688,663 | 2,254,602 | 8,263,492 |
| Sales and disposals | 1,877,806 | (21,121) | 0 | (1,856,685) | 0 |
| Reclassifications | (345,712) | (934,201) | 0 | 0 | ( 1,279,913) |
| At the end of the year | 93,509,304 | 97,888,517 | 13,742,344 | 7,484,864 | 212,625,029 |
| **Accumulated depreciation and amortization:** | | | | | |
| At the beginning of the year | 36,578,346 | 75,848,100 | 9,894,927 | 0 | 122,321,373 |
| Expense of the year | 2,437,875 | 5,355,288 | 1,266,027 | 0 | 9,059,190 |
| Sales and disposals | (345,712) | (926,491) | 0 | 0 | (1,272,203) |
| At the end of the year | 38,670,509 | 80,276,897 | 11,160,954 | 0 | 130,108,360 |
| **Net balance** | 54,838,795 | 17,611,620 | 2,581,390 | 7,484,864 | 82,516,669 |

## (10) Properties and Equipment, continued

| 2021 | Land, Buildings and Improvements | Office Furniture and Equipment | Vehicles | Constructions in Progress | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At the beginning of the year | 86,893,684 | 89,738,127 | 11,295,524 | 7,346,189 | 195,273,524 |
| Purchases | 0 | 4,020,090 | 1,798,519 | 5,817,333 | 11,635,942 |
| Sales and disposals | (959,862) | (267,792) | (40,362) | 0 | (1,268,016) |
| Reclassifications | 6,043,388 | 33,187 | 0 | (6,076,575) | 0 |
| At the end of the year | 91,977,210 | 93,523,612 | 13,053,681 | 7,086,947 | 205,641,450 |
| **Accumulated depreciation and amortization:** | | | | | |
| At the beginning of the year | 35,164,071 | 70,580,946 | 8,778,807 | 0 | 114,523,824 |
| Expense of the year | 2,374,137 | 5,525,956 | 1,156,480 | 0 | 9,056,573 |
| Sales and disposals | (959,862) | (258,802) | (40,360) | 0 | (1,259,024) |
| At the end of the year | 36,578,346 | 75,848,100 | 9,894,927 | 0 | 122,321,373 |
| **Net balance** | 55,398,864 | 17,675,512 | 3,158,754 | 7,086,947 | 83,320,077 |

The Bank maintains within the construction in progress category, its own properties under construction for B/.1,508,515 (2021: B/.2,391,254) and purchases in transit for B/.5,976,349 (2021: B/.4,695,693).

## (11) Intangible Assets - Licenses and Programs

The movement of intangible assets - licenses and technology programs is summarized below:

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 9,833,910 | 11,683,899 |
| Purchases | 4,079,817 | 1,025,490 |
| Amortization for the year | (2,934,201) | (2,875,479) |
| Balance at the end of the year | 10,979,526 | 9,833,910 |

## (12) Leases

***As a Lessee***

The Bank leases 4 types of real estate: Administrative offices and bank branches, ATM´s space, warehouses/deposits, parking lots/land. Below is the information of the leases in which the Bank is a leaseholder:

*Right-of-use assets*

| 2022 | Administrative Offices and Bank Branches | ATM's space | Parking lots/ Land | Warehouses/ Deposits | Total |
|---|---|---|---|---|---|
| Balance as of January 1, 2021 | 3,437,317 | 231,544 | 42,182 | 51,365 | 3,762,408 |
| Additions | 789,230 | 73,648 | 0 | 241,076 | 1,103,954 |
| Adjustments for modifications | (200,952) | 0 | 0 | 0 | (200,952) |
| Anticipated cancellations | (614,144) | (45,174) | 0 | 0 | (659,318) |
| Depreciation for the year | (1,182,564) | (165,386) | (39,582) | (99,580) | (1,487,112) |
| Balance as of December 31, 2021 | 2,228,887 | 94,632 | 2,600 | 192,861 | 2,518,980 |

## (12) Leases, continued

| 2021 | Administrative Offices and Bank Branches | ATM's space | Parking lots/ Land | Warehouses/ Deposits | Total |
|---|---|---|---|---|---|
| Balance as of January 1, 2021 | 3,050,276 | 77,849 | 81,764 | 44,145 | 3,254,034 |
| Additions | 1,373,384 | 274,436 | 0 | 81,938 | 1,729,758 |
| Depreciation for the year | (986,343) | (120,741) | (39,582) | (74,718) | (1,221,384) |
| Balance as of December 31, 2021 | 3,437,317 | 231,544 | 42,182 | 51,365 | 3,762,408 |

*Lease Liabilities*

**Maturity analysis - Undiscounted contractual cash flows**

| | 2022 | 2021 |
|---|---|---|
| Less than one year | 134,521 | 65,246 |
| One to five years | 1,654,041 | 1,578,600 |
| More than five years | 1,155,139 | 2,823,494 |
| **Total undiscounted lease liabilities** | 2,943,701 | 4,467,340 |
| **Lease liability included in statement of financial position** | 2,688,449 | 3,964,421 |

### Amount recognized in the statement of profit or loss

| | 2022 | 2021 |
|---|---|---|
| Interest expense on lease liabilities | 144,460 | 181,177 |
| Expenses related to short-term leases | 776,602 | 788,635 |

### Amounts recognized in the statement of cash flows

| | 2022 | 2021 |
|---|---|---|
| Total cash outflow from leases, net | 2,390,133 | 2,132,570 |

As of December 31, 2022, total lease cash recognized in the statement of cash flows includes the portion of the payment to principal as a financing activity for B/.1,469,071 (2021: B/.1,162,758), the portion of interest for B/.144,460 (2021: B/.181,177) and the portion of short-term leases for B/.776,602 (2021: B/.788,635) as an operating activity.

(a) *Real Estate Leases*

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

*Extension Options*

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

## (12) Leases, continued

*(b) Other Leases*

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

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

## (13) Fiscal Credit from Preferential Interest on Loans

In accordance with current tax regulations in Panama, financial entities that grant preferential mortgage loans for home purchases or construction whose price does not exceed B/.180,000 receive the annual benefit of a fiscal credit. As of July 2010, according to Law No. 8 of March 15, 2010, which repeals article 6 of Law No. 3 of 1985, the benefit of a tax credit is increased from the first ten (10) years to the first (15) years for new loans, for the amount equivalent to the difference between the income that the financial entity would have received if it had collected the market reference interest rate, which was in effect during that year, and the income actually received as interest in relation to each of such preferential mortgage loans.

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

As of December 31, 2022, there were unrecognized tax credits from the General Revenue Authority (DGI) amounting to B/.100,216,918 (2021: B/.58,440,251) and current tax credits amounting to B/.5,826,074 (2021: B/.4,515,810). As of December 31, 2022, the DGI recognized tax credits of the bank for B/.8,902,576 (2021: B/.15,795,714) and sales were made for B/.7,592,312 (2021: B/.11,435,689). The Bank's management has established a valuation allowance for the portion of the tax credits that it estimates will not be recovered through their sale. As of December 31, 2022, the Bank maintains a valuation allowance for tax credits in the amount of B/.2,771,335 (2021: B/.112,896).

## (14) Other Assets

**Borrowers' Foreclosed Assets**

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

The foreclosed assets of borrowers are detailed as follows:

| | 2022 | 2021 |
|---|---|---|
| Foreclosed assets of borrowers | 7,996,435 | 7,036,532 |
| Impairment reserve | (639,169) | (1,648,540) |
| Net balance | 7,357,266 | 5,387,992 |

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

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 1,648,540 | 2,134,506 |
| Provision for valuation of foreclosed assets | 511,335 | 930,007 |
| Discharged assets | (1,520,706) | (1,415,973) |
| Balance at end of year | 639,169 | 1,648,540 |

As of December 31, 2022, the Bank made sales of foreclosed assets from borrowers for B/.517,896 (2021: B/.1,153,175).

The other miscellaneous assets are detailed as follows:

| | 2022 | 2021 |
|---|---|---|
| Numismatic and other currencies | 2,588,432 | 2,590,792 |
| Financing program ("Profinco") | 515,209 | 547,085 |
| Printing and supplies | 3,155,238 | 3,404,329 |
| Account receivable - FECI grant | 5,503,789 | 5,052,751 |
| Other remittances and transfers in transit | 228,530 | 1,125,433 |
| Prepaid expenses and insurance | 376,567 | 500,918 |
| Cultural property | 247,213 | 251,541 |
| Cash withdrawals to be compensated – Clave Card | 539,067 | 580,037 |
| Insurance receivable on loans | 606,442 | 562,770 |
| Balance of loans receivable through life insurance policies | 1,951,440 | 2,491,848 |
| Account receivable – subsidies, net | 142,235,584 | 72,659,900 |
| Others | 27,400,458 | 4,670,005 |
| | 185,347,969 | 94,437,409 |

As of December 31, 2022, the Bank maintains an account receivable for subsidies in the amount of B/.142,235,584 (2021: B/.72,659,900). The Bank, as the financial institution par excellence of the Government, is empowered to support the execution of programs and projects that contribute to the economic and social development of the country.

The digital voucher is a solidarity support program for citizens affected by the COVID-19 Pandemic, which consists of granting the beneficiaries of the Panama Solidarity Plan a capacity to consume in affiliated businesses, through the personal identity card. The digital voucher is created within the Panama Solidarity Plan, through Executive Decree No. 400 of March 27, 2020 and its regulations, through Resolution No. 01 of May 26, 2020.

## (14) Other Assets, continued

The fuel subsidy is a program was created by the National Government through Cabinet Resolution No. 60 of May 19, 2022, in order to temporarily stabilize the cost of fuel for public transportation, commercial vehicle fleets, small-scale artisanal fishermen and small-scale passenger vessels.

## (15) Restricted Deposits

As of December 31, 2022, restricted deposits at amortized cost amounted to B/.87,376,242 (2021: B/.88,475,501) and consisted of deposits received from banks operating in Panama under a general and international license and entities with a trust license in compliance with the Banking Law and the Trust Law, and other restricted deposits from customers for various concepts.

## (16) Obligations

### Foreign Borrowings Received

As of December 31, 2022, the Bank maintains the following borrowings received from abroad:

| Start Date | Maturity Date | Interest Rate | Principal Due | Carrying value Amortized Cost 2022 | Carrying value Amortized Cost 2021 |
|---|---|---|---|---|---|
| Aug-20 | Aug-27 | 1.232% | 327,272,727 | 309,891,565 | 339,069,561 |
| Aug-20 | Jul-27 | 1.407% | 150,000,000 | 0 | 146,037,650 |
| | | | | 309,891,565 | 485,107,211 |

**Bonds Payable**

| Type | Maturity Date | Interest Rate | Principal Due | Carrying value Amortized Cost 2022 | Carrying value Amortized Cost 2021 |
|---|---|---|---|---|---|
| Series D – Issuance on September 2019 | Sep-29 | 3.000% | 205,736,000 | 206,267,485 | 206,267,485 |
| International Bond – Issuance on August 2020 | Aug-30 | 2.500% | 1,000,000,000 | 1,007,407,192 | 1,006,646,605 |

The bond issues are backed by the Bank's general credit and constitute general obligations of the Bank, not secured by specific assets or rights and without special privileges. For local bonds, interest is payable quarterly, for international bonds, interest is payable semi-annually, for both bonds issuance principal is paid at maturity. Local Series D bonds may be redeemed in advance by the Bank.

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

## (16) Obligations, continued

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

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 1,698,021,301 | 1,697,586,414 |
| Payments of borrowings received | (182,727,273) | (5,500,000) |
| Amortization | 4,397,955 | 0 |
| Interest paid | (38,128,318) | (37,259,360) |
| Recognition of interest | 42,002,577 | 43,194,247 |
| Balance at the end of the year | 1,523,566,242 | 1,698,021,301 |

As of December 31, 2022, interest payable on foreign financing received is B/.1,556,168 (2021: B/.2,668,718), for local bonds is B/.531,485 (2021: B/.531,485), and the international bond B/.10,555,556 (2021: B/.10,208,333).

## (17) Other Liabilities

### Miscellaneous Liabilities

The detail of miscellaneous liabilities is summarized below:

| | 2022 | 2021 |
|---|---|---|
| Labor liabilities | 22,805,106 | 13,467,423 |
| Seniority bonus provision | 10,314,016 | 14,011,939 |
| Seniority premium provision | 12,530,343 | 16,483,977 |
| Other provisions | 1,570,598 | 701,424 |
| Others | 6,161,907 | 3,838,383 |
| | 53,381,970 | 48,503,146 |

### Seniority Bonus Provision

The seniority bonus is a defined post-employment benefit granted to Bank employees when the following two conditions are met: they have accumulated fifteen or more years of service and terminate the employment relationship due to old age pension or absolute disability; these employees will be entitled to a seniority bonus at the rate of one week's salary for each working year, up to a maximum of ten months. This benefit is based on the Law of the Banco Nacional de Panama.

The table below shows a reconciliation between the opening and closing balances of the defined benefit liability:

| | 2022 | 2021 |
|---|---|---|
| Balance as of January 1 | 14,011,939 | 13,112,429 |
| Included in the year's profit or loss: | | |
| Current cost of service | 901,026 | 878,217 |
| Interest cost (income) | 481,491 | 358,016 |
| Included in OCI: | | |
| Actuarial gain (loss) | (2,859,998) | (47,381) |
| Others: | | |
| Benefits paid | (2,220,442) | (289,342) |
| Balance as of December 31 | 10,314,016 | 14,011,939 |

## (17) Other Liabilities, continued

According to the latest actuarial calculations as of December 31, 2022, the total accumulated seniority bond obligation is for B/.10,232,839 (2021: B/.14,011,939).

Below are the main actuarial assumptions as of December 31, 2022:

| | 2022 | 2021 |
|---|---|---|
| Discount rate | 5.44% | 2.93% |
| Salary increase | 1.99% | 1.37% |
| Inflation rate | 1.99% | 1.37% |

The discount rate to be used to discount the flows related to the defined long-term benefits was determined considering, as a first reference, the market yields at the date of the analysis of the high-quality corporate bonds or debentures. The currency and term of the high-quality corporate bonds must be consistent with the currency and estimated term of payment of the post-employment benefit obligations.

Mortality assumptions are based on statistics published by the World Health Organization (WHO), in Table 2019 for Panama, separately for men and women.

The population of Bank employees at the date of the analysis was composed of 2,048 women (2021: 2,049) and 1,527 men (2021: 1,544) for a total of 3,575 employees (2021: 3,593), as follows:

| | | 2022 | | | 2021 | |
|---|---|---|---|---|---|---|
| | Women | Men | Total | Women | Men | Total |
| **Employee population** | | | | | | |
| Employees (number) | 2,048 | 1,527 | 3,575 | 2,049 | 1,544 | 3,593 |
| Average age (years) | 41 | 43 | 42 | 41 | 42 | 41 |
| Seniority age (years) | 10 | 12 | 11 | 10 | 12 | 11 |
| **Population of employees with more than 15 years of seniority** | | | | | | |
| Employees (number) | 508 | 452 | 960 | 490 | 462 | 952 |
| Average age (years) | 49 | 51 | 51 | 49 | 54 | 51 |
| Seniority age (years) | 22 | 25 | 24 | 23 | 27 | 25 |

*Sensitivity Analysis*

Post-employment defined benefit obligations were calculated using the projected unit credit method. The obligations and expenses may change in the future as a result of future changes in actuarial methods and assumed changes in the Bank's policy, or as a result of future profits and losses.

The effect that an increase or decrease in major actuarial inputs could have in the period is presented below.

| | Discount rate | | Rate of salary increase | |
|---|---|---|---|---|
| 2022 | 100 bps increase | 100 bps decrease | 200 bps increase | 200 bps decrease |
| Seniority bonus liability | (1,010,084) | 1,204,322 | 1,235,743 | (1,050,773) |

## (17) Other Liabilities, continued

| 2021 | Discount rate 100 bps increase | Discount rate 100 bps decrease | Rate of salary increase 100 bps increase | Rate of salary increase 100 bps decrease |
|---|---|---|---|---|
| Seniority bonus liability | (1,480,250) | 1,800,105 | 1,810,939 | (1,514,423) |

**Seniority Premium Provision**

Law 23 of May 12, 2017, modified by Law 241 of October 13, 2021, establishes a right for public servants, permanent, transitory or contingent, whatever the cause of termination of functions, they will have the right to receive a seniority premium, at a rate of one week's salary for each year worked in the institution, from the beginning of the permanent relationship.

With the entering into force and the provisions of Law 241 of October 13, 2021, the Bank began in 2021 the recognition and payment of the seniority premium to its employees.

The table below shows a reconciliation between the beginning balances and the ending balances for the seniority premium benefit as of December 31, 2022.

| | 2022 |
|---|---|
| Balance as of January 1 | 16,483,977 |
| Included in the year's profit or loss: | |
| Current cost of service | 1,565,225 |
| Interest cost (income) | 492,787 |
| Included in OCI: | |
| Actuarial gain (loss) | (3,155,983) |
| Others: | |
| Benefits paid | (2,855,663) |
| Balance as of December 31 | 12,530,343 |

According to actuarial calculations as of December 31, 2022, the total accumulated seniority premium obligation is B/.12,530,343.

The actuarial assumptions applied to establish the seniority premium labor liability are equivalent to those used in the seniority bonus.

*Sensitivity Analysis*

Post-employment defined benefit obligations were calculated using the projected unit credit method. Obligations and expenses may change in the future as a result of future changes in actuarial methods and assumed changes in Bank’s policy, or as a result of future gains and losses.

The effect that an increase or decrease in the main actuarial inputs could have on the year is presented below.

| 2022 | Discount rate 100 bps increase | Discount rate 100 bps decrease | Rate of salary increase 200 bps increase | Rate of salary increase 200 bps decrease |
|---|---|---|---|---|
| Seniority premium provision | (1,141,345) | 1,354,340 | 1,389,592 | (1,187,441) |

## (18) Commitments and Contingencies

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

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

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

| | **2022** | **2021** |
|---|---:|---:|
| Letters of credit | 35,541,085 | 16,849,635 |
| Payment pledges | 556,384,571 | 492,399,905 |
| Loan commitments | 8,319,708 | 22,566,868 |
| | 600,245,364 | 531,816,408 |

As of December 31, 2022, the Bank maintains a reserve for letters of credit and payment pledges for B/.389,054.

As of December 31, 2022, there were lawsuits filed against Banco Nacional de Panama in the amount of B/.1,328,833,331 (2021: B/.1,278,812,801). The Bank's management and its lawyers estimate that there is a remote probability that the Bank will be ordered to pay the total amount claimed. As of December 31, 2022, the Bank does not maintain any provisions (2021: B/.0) in relation to legal cases. In relation to the lawsuit for B/.1,268,704,177, management, based on the opinion of the external lawyers in charge of the case, considers that in the case that the lawsuit is admitted by the Third Chamber of Administrative Litigation of the Supreme Court of Justice, there is a high probability of a ruling in favor of the Bank, and therefore it is not deemed necessary to make provisions in respect of this process.

## (19) Fees for Banking Services

The breakdown of the most significant fees for banking service revenues reconciled to the reportable segments in Note 22 is as follows:

| | **2022** | | | | | | |
|---|---:|---:|---:|---:|---:|---:|---:|
| | **Corporate and Commercial** | **Agricultural and Forestry** | **Consumer** | **Financial Institutions** | **Government Sector** | **Treasury and Capital Markets** | **Total** |
| Letters of Credit | 47,743 | 49,852 | 231,810 | 20,024 | 33,065 | 4,246 | 386,740 |
| Transfers | 65,354 | 68,240 | 317,314 | 27,410 | 45,261 | 16,270 | 539,849 |
| Card Services | 1,824,449 | 1,905,015 | 8,858,281 | 765,196 | 1,263,532 | 0 | 14,616,473 |
| Fund management, custody and brokerage | 653,265 | 682,113 | 3,171,812 | 273,988 | 452,423 | 711,539 | 5,945,140 |
| Current accounts | 164,416 | 171,677 | 798,293 | 68,958 | 113,867 | 17,981 | 1,335,192 |
| Savings accounts | 262 | 274 | 1,273 | 110 | 181 | 0 | 2,100 |
| State services | 42,698 | 44,583 | 207,311 | 17,908 | 29,571 | 0 | 342,071 |
| Guarantee certificates and cashier's checks | 60,967 | 63,660 | 296,015 | 25,570 | 42,223 | 0 | 488,435 |
| National stamps | 2,899 | 3,027 | 14,075 | 1,216 | 2,008 | 0 | 23,225 |
| Clearinghouse services | 397,875 | 415,445 | 1,931,812 | 166,874 | 275,551 | 0 | 3,187,557 |
| Others | 197,091 | 205,794 | 956,939 | 82,662 | 136,496 | 599,150 | 2,178,132 |
| Total banking service fees (see note 22) | 3,457,019 | 3,609,680 | 16,784,935 | 1,449,916 | 2,394,178 | 1,349,186 | 29,044,914 |

## (19) Fees for Banking Services, continued

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Corporate and Commercial** | **Agricultural and Forestry** | **Consumer** | **Financial Institutions** | **Government Sector** | **Treasury and Capital Markets** | **Total** |
| Letters of Credit | 25,584 | 28,265 | 122,447 | 5,654 | 19,374 | 2,594 | 203,918 |
| Transfers | 62,347 | 68,881 | 298,393 | 13,778 | 47,212 | 25,857 | 516,468 |
| Card Services | 1,604,542 | 1,772,701 | 7,679,411 | 354,600 | 1,215,057 | 0 | 12,626,311 |
| Fund management, custody and brokerage | 247,344 | 273,266 | 1,183,801 | 54,663 | 187,304 | 1,599,843 | 3,546,221 |
| Current accounts | 162,952 | 180,029 | 779,894 | 36,012 | 123,397 | 41,521 | 1,323,805 |
| Savings accounts | 358 | 395 | 1,712 | 79 | 271 | 0 | 2,815 |
| State services | 34,713 | 38,351 | 166,137 | 7,671 | 26,287 | 0 | 273,159 |
| Guarantee certificates and cashier's checks | 56,795 | 62,747 | 271,824 | 12,552 | 43,009 | 8,958 | 455,885 |
| National stamps | 1,918 | 2,119 | 9,179 | 424 | 1,452 | 0 | 15,092 |
| Clearinghouse services | 360,022 | 397,753 | 1,723,083 | 79,564 | 272,631 | 0 | 2,833,053 |
| Others | 200,362 | 221,360 | 958,940 | 44,280 | 151,726 | 669,654 | 2,246,322 |
| Total banking service fees (see note 22) | 2,756,937 | 3,045,867 | 13,194,821 | 609,277 | 2,087,720 | 2,348,427 | 24,043,049 |

## (20) Other Income

The other income included in the statement of profit or loss is summarized below:

| | **2022** | **2021** |
|---|---|---|
| Miscellaneous banking services | 1,074,861 | 957,218 |
| Gain on sale of foreclosed assets | 359,651 | 896,920 |
| Cash management | 1,212,917 | 1,386,075 |
| Inspections and appraisals | 85,590 | 87,597 |
| Legal income | 761,090 | 594,073 |
| Employee resource management | 94,098 | 9,257 |
| Foreign exchange gain, net | 679,222 | 373,533 |
| Insurance administration and collection management | 7,961,998 | 7,662,784 |
| Others | 5,775,224 | 11,956,655 |
| | 18,004,651 | 23,924,112 |

## (21) General and Administrative Expenses

The breakdown of salaries and other personnel expenses and other general and administrative expenses is as follows:

| | **2022** | **2021** |
|---|---|---|
| **Salaries and other staff costs** | | |
| Salaries and other remunerations | 72,193,378 | 69,051,224 |
| Seniority premium | 1,952,540 | 14,658,800 |
| Seniority bonus | 1,382,517 | 1,236,232 |
| Social Security | 10,651,754 | 10,616,279 |
| Employee Benefits | 22,095,941 | 19,237,462 |
| Training | 774,519 | 460,699 |
| Others | 2,308,853 | 449,982 |
| | 111,359,502 | 115,710,678 |

## (21) General and Administrative, continued

| | 2022 | 2021 |
|---|---|---|
| **Other expenses** | | |
| Banking regulation and supervision fees | 205,000 | 190,000 |
| Legal | 312,397 | 166,199 |
| Water service | 106,522 | 125,702 |
| Surveillance service | 810,332 | 1,030,835 |
| Feeding | 119,556 | 146,177 |
| Memberships | 431,880 | 427,606 |
| Others | 5,512,501 | 3,306,726 |
| | 7,498,188 | 5,393,245 |

## (22) Segment Information

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

**2022**

| Detail | Corporate and Commercial | Agricultural and Forestry | Consumer | Financial Institutions | Government sector | Treasury and Capital Markets | Total |
|---|---|---|---|---|---|---|---|
| Interest and Fee Income | 37,087,117 | 38,724,869 | 180,069,812 | 15,554,783 | 25,684,892 | 172,868,915 | 469,990,388 |
| Interest expenses | (14,906,109) | (15,564,358) | (72,373,927) | (6,251,802) | (10,323,310) | 0 | (119,419,506) |
| Reversal of losses in deposits with banks | 0 | 0 | 0 | 0 | 0 | 165,177 | 165,177 |
| Provision for investment securities losses | 0 | 0 | 0 | 0 | 0 | (2,355,527) | (2,355,527) |
| Provision for loan losses | (3,497,801) | (2,683,173) | (14,525,871) | (2,080,832) | 0 | 0 | (22,787,677) |
| Provision for valuation of foreclosed assets | (92,603) | (35,728) | (383,004) | 0 | 0 | 0 | (511,335) |
| Fees for banking services | 3,457,019 | 3,609,680 | 16,784,935 | 1,449,916 | 2,394,178 | 1,349,186 | 29,044,914 |
| Other income | 2,302,819 | 2,404,510 | 11,180,922 | 965,830 | 1,594,830 | 0 | 18,448,911 |
| General and administrative expenses | (21,764,468) | (22,705,069) | (105,854,929) | (9,116,585) | (15,050,428) | (2,937,062) | (177,428,541) |
| **Net income** | 2,585,974 | 3,750,731 | 14,897,938 | 521,310 | 4,300,162 | 169,090,689 | 195,146,804 |
| Segment assets | 756,510,030 | 580,321,016 | 3,141,678,708 | 450,045,570 | 1,671,804,498 | 8,003,509,093 | 14,603,868,915 |
| Segment liabilities | 1,543,008,006 | 1,183,645,871 | 6,407,893,094 | 917,930,880 | 3,409,879,078 | 0 | 13,462,356,929 |

**2021**

| Detail | Corporate and Commercial | Agricultural and Forestry | Consumer | Financial Institutions | Government sector | Treasury | Total |
|---|---|---|---|---|---|---|---|
| Interest and Fee Income | 32,724,008 | 37,171,542 | 163,170,554 | 9,040,776 | 24,150,915 | 73,131,881 | 339,389,676 |
| Interest expenses | (11,065,236) | (12,569,117) | (55,174,194) | (3,057,032) | (8,166,347) | 0 | (90,031,926) |
| Provision for losses in deposits with banks | 0 | 0 | 0 | 0 | 0 | (80,554) | (80,554) |
| Provision for investment securities losses | 0 | 0 | 0 | 0 | 0 | (2,633,856) | (2,633,856) |
| Provision for loan losses | (3,375,882) | (3,392,393) | (16,099,656) | (862,992) | 0 | 0 | (23,730,923) |
| Provision for valuation of foreclosed assets | 73,569 | (289,615) | (713,961) | 0 | 0 | 0 | (930,007) |
| Fees for banking services | 2,756,937 | 3,045,867 | 13,194,821 | 609,277 | 2,087,720 | 2,348,427 | 24,043,049 |
| Other income | 6,326,694 | 7,281,608 | 32,158,315 | 1,916,785 | 4,610,422 | 0 | 52,293,824 |
| General and administrative expenses | (21,355,698) | (24,258,160) | (106,485,157) | (5,900,014) | (15,760,895) | (2,549,067) | (176,308,991) |
| **Net income** | 6,084,392 | 6,989,732 | 30,050,722 | 1,746,800 | 6,921,815 | 70,216,831 | 122,010,292 |
| Segment assets | 588,688,673 | 591,567,786 | 2,807,469,125 | 150,489,092 | 1,453,273,839 | 9,714,883,146 | 15,306,371,661 |
| Segment liabilities | 1,503,559,313 | 1,510,912,804 | 7,170,507,164 | 384,361,524 | 3,711,780,971 | 0 | 14,281,121,776 |

## (23) Balances and Transactions with Related Parties

The Bank has incurred in transactions in the ordinary course of business with certain related parties such as key management personnel and government entities, including autonomous and semi-autonomous entities. Given the Bank's state-owned nature and its role as a financial agent of the state and official depository of the nation's funds, significant concentrations of loans and deposits received from government entities are maintained. At December 31, 2022, the following were the aggregate balances in respect of transactions with related parties:

| | Directors and Key Management Personnel | | Government sector | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Assets** | | | | |
| Time deposits at amortized cost | 0 | 0 | 40,058,398 | 40,004,062 |
| Investments in securities at amortized cost | 0 | 0 | 1,012,419,621 | 1,040,027,616 |
| Loans: | | | | |
| Loans outstanding at beginning of year | 1,954,041 | 2,601,098 | 845,052,452 | 827,247,551 |
| Loans issued during the year | 2,590,507 | 1,311,128 | 720,570,444 | 822,459,630 |
| Loans cancelled during the year | (1,896,106) | (1,958,185) | (737,319,241) | (804,654,729) |
| Gross balance | 2,648,442 | 1,954,041 | 828,303,655 | 845,052,452 |
| Accrued interest receivable | 2,066 | 397 | 4,976,267 | 6,312,641 |
| Loans outstanding at year-end at amortized cost | 2,650,508 | 1,954,438 | 833,279,922 | 851,365,093 |
| Accounts receivable subsidies, net | 0 | 0 | 142,235,584 | 72,659,900 |
| Fiscal credit from preferential interest on loans | 0 | 0 | 103,271,657 | 62,843,165 |
| **Liabilities** | | | | |
| Deposits at amortized cost: | | | | |
| Demand deposits | 30,606 | 36,581 | 3,740,255,913 | 3,320,451,051 |
| Savings deposits | 656,191 | 562,729 | 0 | 0 |
| Time deposits | 0 | 0 | 5,241,594,039 | 6,529,876,491 |
| Restricted deposits | 0 | 0 | 7,379,846 | 16,353,678 |
| Bonds payable at amortized cost | 0 | 0 | 206,267,485 | 206,267,485 |
| **Commitments:** | | | | |
| Letters of credit | 0 | 0 | 258,813 | 16,353,678 |
| **Profit and Loss** | | | | |
| Interest and commission income: | | | | |
| Investments in securities | 0 | 0 | 47,083,037 | 34,560,812 |
| Deposits in banks | 0 | 0 | 985,560 | 40,888 |
| Loans | 82,833 | 81,816 | 26,858,786 | 25,055,502 |
| Interest expenses: | | | | |
| Deposits | 5,755 | 5,522 | 57,878,657 | 37,969,469 |
| Bonds | 0 | 0 | 6,257,803 | 6,309,237 |
| General and administrative expenses: | | | | |
| Directors' allowances | 308,000 | 343,500 | 0 | 0 |
| Salaries | 4,921,104 | 5,424,809 | 0 | 0 |
| Employee Benefits | 197,204 | 195,174 | 0 | 0 |

The Bank's of directors and key management personnel consists of 8 directors and 44 executive managers.

Loans to key management personnel are granted with the same terms and conditions that are available to other employees. As of December 31, 2022, loans granted to related parties have been classified as low risk and they maintain an allowance for expected credit losses of B/.1,002,924 (2021: B/.1,019,046).

## (24) Assets under Management and Custody

As of December 31, 2022, the Bank held under management trust agreements for the account and risk of third parties for B/.4,279,861,606 (2021: B/.4,150,981,220). Given the nature of these services, management considers that the Bank does not assume significant risks in the execution of the terms and conditions contained in those contracts.

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

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

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

The Bank provides securities brokerage and custody services. This activity is carried out under a securities firm license, at the clients' risk. As at December 31, 2022, the carrying value of this investments in securities portfolio amounted to approximately B/.5,012,826,509 (2021: B/.5,213,961,228) and is controlled in off-balance accounts that are not part of the Bank's statement of financial position. Given the nature of these services, management considers that there is no significant risk of loss to the Bank in the provision of such services.

As of December 31, 2022, the Bank obtained income from commissions earned from trust activities for B/.1,479,591 (2021: B/.1,515,948), brokerage and custody services for B/.643,414 (2021: B/.655,560) and securities services for B/.508,196 (2021: B/.990,495) During 2022, the Bank incurred financial services expenses for B/.767,485 (2021: B/.891,607).

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

## (25) Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer's price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

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

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

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

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

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

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

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

## (25) Fair Value of Financial Instruments, continued

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

| | 2022 | |
|---|---|---|
| | Carrying value | Fair value |
| **Financial assets:** | | |
| Time deposits at AC | 4,092,386,554 | 4,092,422,954 |
| Investments in securities at AC | 3,556,270,769 | 3,364,591,815 |
| Loans at AC | 5,799,894,389 | 5,300,213,028 |
| | 13,448,551,712 | 12,757,227,797 |
| **Financial liabilities:** | | |
| Time deposits at AC | 5,666,084,177 | 5,650,392,615 |
| Local bonds payable at AC | 206,267,485 | 203,184,051 |
| International bonds payable at AC | 1,007,407,192 | 802,150,000 |
| Borrowings received at AC | 309,891,565 | 297,918,889 |
| | 7,189,650,419 | 6,953,645,555 |

| | 2021 | |
|---|---|---|
| | Carrying value | Fair value |
| **Financial assets:** | | |
| Time deposits at AC | 7,234,474,179 | 7,234,272,569 |
| Investments in securities at AC | 2,382,967,832 | 2,405,018,436 |
| Loans at AC | 5,034,575,091 | 4,538,979,442 |
| | 14,652,017,102 | 14,178,270,447 |
| **Financial liabilities:** | | |
| Time deposits at AC | 6,907,573,452 | 6,889,901,487 |
| Local bonds payable at AC | 206,267,485 | 205,952,434 |
| International bonds payable at AC | 1,006,646,605 | 938,350,000 |
| Borrowings received at AC | 485,107,211 | 503,158,090 |
| | 8,605,594,753 | 8,537,362,011 |

Interest payable on time deposits is B/.12,436,668 (2021: B/.8,102,587).

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

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

| 2022 | Level 1 | Level 2 | Fair Value Level 3 | Total |
|---|---|---|---|---|
| **Investments in securities at FVOCI:** | | | | |
| Equity shares | 7,524,492 | 1,325,989 | 0 | 8,850,481 |
| **Investments in securities at FVTPL:** | | | | |
| Negotiable certificates | 0 | 0 | 43,375,748 | 43,375,748 |

| 2021 | Level 1 | Level 2 | Fair Value Level 3 | Total |
|---|---|---|---|---|
| **Investments in securities at FVOCI:** | | | | |
| Equity shares | 7,847,591 | 1,303,937 | 0 | 9,151,528 |
| **Investments in securities at FVTPL:** | | | | |
| Negotiable certificates | 0 | 0 | 29,295,850 | 29,295,850 |

As of December 31, 2022, the Bank holds equity securities for B/.391,142 (2021: B/.391,142), recorded at its acquisition cost. These investments are maintained at cost because no active market prices are available and there is no other reliable way to determine its fair value.

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

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

| | 2022 | | 2021 | |
|---|---|---|---|---|
| **Description** | **Level 2** | **Level 3** | **Level 2** | **Level 3** |
| **Assets:** | | | | |
| Time deposits at AC | 0 | 4,092,422,954 | 0 | 7,234,272,569 |
| Investments in securities at AC | 3,364,591,815 | 0 | 2,405,018,436 | 0 |
| Loans at AC | 0 | 5,300,213,028 | 0 | 4,538,979,442 |
| | 3,364,591,815 | 9,392,635,982 | 2,405,018,436 | 11,773,252,011 |
| **Liabilities:** | | | | |
| Time deposits at AC | 0 | 5,650,392,615 | 0 | 6,889,901,487 |
| Local bonds payable at AC | 0 | 203,184,051 | 0 | 205,952,434 |
| International bonds payable at AC | 802,150,000 | 0 | 938,350,000 | 0 |
| Borrowings received at AC | 297,918,889 | 0 | 503,158,090 | 0 |
| | 1,100,068,889 | 5,853,576,666 | 1,441,508,090 | 7,095,853,921 |

## (25) Fair Value for Financial Instruments, continued

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

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

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

## (26) Principal Applicable Laws and Regulations

*General Laws and Regulations*

(a) *Banking Law*

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

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

(b) *Securities Law*

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

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

In the year 2013, the regulatory entity issued Agreement No. 8-2013, which modified rules that are within Agreement No. 4-2011 on capital adequacy, total minimum required capital, solvency ratio, liquidity ratio and credit concentrations that must be attended by brokerage firms in Panama and those financial institutions that have a brokerage firm license.

The following is a description of the modified rules in the Agreement No. 8-2013 of the Superintendency of Securities Market and the indexes on each of these provisions:

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

- Additional Capital Requirement: Article 4-A of Agreement No. 8-2013, establishes that all Brokerages firms that offer the service of managing custody accounts in physical form or through third parties, must comply with the additional capital requirement. As of December 31, 2022, the Bank had an additional capital requirement of B/.2,005,131 (2021: B/.2,085,584).

  As of December 31, 2022, the capital contributed by the Government for B/.850,000,000 covers the minimum total capital required and the additional capital requirement, required by the Superintendency of Banks of Panama and the Superintendency of Securities Market.

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

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

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

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

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

*(c) Trust Law*

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

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

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

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

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

*(d) Preferential Interest Law*

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

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

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

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

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

*Specific Regulations of the Superintendency of Banks of Panama*

*(a) Acquired Foreclosed Assets*

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

Additionally, the Bank must create a reserve in an equity account, through the appropriation in the following order: a) its undistributed profits; and b) profits of the period, to which the following value of the foreclosed asset will be transferred:

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

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

*(b) Loans and Off-Balance Sheet Operations*

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

*Specific Provisions*

The Agreement No.004-2013 establishes that specific provisions are generated by any objective and concrete evidence of impairment. These provisions shall be recorded for credit facilities classified in the risk categories referred as: special-mention, substandard, doubtful or loss, both for individual or collective credit facilities.

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

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

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

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

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Loans, gross | Allowance | Loans, gross | Allowance |
| Standard | 5,595,773,516 | 0 | 4,519,464,096 | 0 |
| Special mention | 144,106,095 | 2,558,033 | 326,979,656 | 9,025,937 |
| Sub-standard | 90,894,477 | 8,934,853 | 174,853,212 | 12,960,219 |
| Doubtful | 25,862,579 | 5,950,142 | 31,658,451 | 5,109,794 |
| Loss | 68,364,453 | 19,527,638 | 83,770,823 | 23,430,012 |
| Gross amount | 5,925,001,120 | 36,970,666 | 5,136,726,238 | 50,525,962 |

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

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

As of December 31, 2022, the Bank maintains loans for B/.59,211,369 (2021: B/.57,382,098) in nonaccrual status and the interest not received amounts to B/.4,287,719 (2021: B/. B/.3,698,115)

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

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

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

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

| 2022 | | | 2021 | | |
|---|---|---|---|---|---|
| Past due loans | Overdue loans | Total | Past due loans | Overdue loans | Total |
| 66,897,813 | 95,951,680 | 162,849,493 | 51,218,193 | 85,051,433 | 136,269,626 |

During the year ended December 31, 2022, a total gross balance of B/.38,016,194 loans were renegotiated (2021: B/.47,313,524).

Loans written off as of December 31, 2022 in the amount of B/.10,750,411 (2021: B/.6,542,071) are still subject to collection activities.

*Modified Loans*

In November 2022, the Superintendency of Banks of Panama issued Agreement No. 012-2022 that derogates in all its parts Agreement No. 002-2021 of June 11, 2021 and all its modifications and Agreement No. 006-2021 of December 22, 2021 and all its modifications. Additionally, the General Resolution of the Board of Directors No. SBP-GJD-0003-2021 of June 11, 2021 and the General Resolution of the Board of Directors No. SBPGJD-0004-2021 of June 21, 2021 were also derogated.

The Agreement establishes the general guidelines for the reestablishment of Agreement No. 004-2013. The banking entities will migrate the portfolio of modified credits classified in the category "Special Mention Modified" to the risk categories of Agreement No. 004-2013, in accordance with its established parameters, for which they will initially use the days of delay as a reference, to maintain each credit, as well as any other weakness that may affect the ability to pay.

*Dynamic Provision*

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

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

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

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

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

As of December 31, 2022 the dynamic provision of the bank amounted to B/.56,928,983 (2021: B/.56,928,983).

*Trading Portfolio*

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

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

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

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

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

- An instrument held for accounting purposes, in accordance with IFRSs, as an asset or liability for trading purposes (so that it would be measured daily at market prices, with valuation differences being recognized in the statement of profit or loss).
- Instruments resulting from market-making activities.
- Instruments resulting from underwriting commitments.
- Equity investment in a fund, except when the daily market price is not available for determining the fund’s value.

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

- Representative value of capital quoted on the stock exchange.
- Short position in short.
- Derivative contracts, except those that serve to hedge positions that are not recorded in the trading book.
- Financial instruments that include derivatives, whether explicit or implicit, that are part of the banking book and whose underlying is related to equity risk or credit risk.

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

The value of the capital requirement for market risk, as defined by Agreement No. 003-2018, as amended by Agreement No. 006-2019, and the unrealized gains during the year ended December 31, 2022, are detailed below by type of position:

| Type of instruments | Maturity Date | Market Value | Unrealized Gain |
|---|---|---|---|
| Common shares | NA | 5,193,178 | 5,193,178 |
| Common shares | NA | 2,331,314 | 1,787,348 |
| Common shares | NA | 951,794 | 914,294 |
| Common shares | NA | 189,164 | 151,664 |
| Common shares | NA | 105,714 | 26,428 |
| Common shares | NA | 79,317 | 52,277 |

The capital requirement for these instruments at December 31, 2022 is B/.2,366,620 (2021: B/.3,500,683).

The Superintendency of Banks of Panama, establishes in Agreement No. 012-2019, article 13, that all capital instruments (stocks) measured at fair value with changes in other comprehensive income, must constitute a reserve for expected losses, this requirement is strictly prudential and independent of what is established by IFRS 9. As of December 31, 2022, the regulatory reserve for investments in securities with changes in other comprehensive income is B/.9,675 (2021: B/.9,934).

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

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

December 31, 2022

(Expressed in Balboas)

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

In compliance with Article 22 of Agreement No. 4-2011, modified by the Agreement No. 8-2013 of the Superintendency of the Stock Market, "by which rules are issued on adequate capital, solvency ratio, capital funds, liquidity ratio and credit risk concentrations, which must be attended by the Securities Houses regulated by the Superintendency of the Stock Market", the following are the minimum and maximums maintained during the three-month period ending on December 31, 2022, during the year ending on December 31, 2022 and at closing of December 31, 2022.

| | Three-month period ending December 31, 2022 | | | | |
|---|---|---|---|---|---|
| | **Maximum** | **Date** | **Minimum** | **Date** | **December 31, 2022** |
| Solvency ratio | 100% | 03-10-2022 | 100% | 03-10-2022 | 100% |
| Capital funds | 6,090,841 | 23-12-2022 | 5,900,233 | 21-11-2022 | 6,055,548 |

| | For the year ended December 31, 2022 | | | | |
|---|---|---|---|---|---|
| | **Maximum** | **Date** | **Minimum** | **Date** | **December 31, 2022** |
| Solvency ratio | 100% | 03-01-2022 | 100% | 03-01-2022 | 100% |
| Capital funds | 6,127,009 | 28-09-2022 | 4,688,485 | 03-01-2022 | 6,055,548 |

According to the provisions of the Superintendency of the Securities Market, in Agreement 4-2011, in its Article 13, for the brokerage houses that have a Bank License it will be understood that the liquidity coefficient will be calculated based under rule issued by its primary regulator, in this case the Superintendency of Banks of Panama. The following is the result of the estimation of the legal liquidity ratio as of the date of the Bank's statement of financial position, during the three-month period ended December 31, 2022 and during the year ended December 31, 2022:

**Three-month period ending on December 31, 2022**

| | |
|---|---|
| As of December 31, 2022 | 74.84% |
| Maximum for the period – December 16, 2022 | 85.06% |
| Minimum for the period – December 31, 2022 | 74.84% |

**Year ended December 31, 2022**

| | |
|---|---|
| As of December 31, 2022 | 74.84% |
| Maximum for the period – February 18, 2022 | 86.66% |
| Minimum for the period – September 16, 2022 | 71.19% |

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

During the year ended on December 31, 2022, no concentration situations occurred according with the segmented balances characteristic of the activity of the Brokerage House.

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

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

As of December 31, 2022, the Bank holds the following investments in securities:

| | | 2022 | |
|---|---|---|---|
| | Banking | Brokerage House | Total |
| Own position | 3,585,559,050 | 7,196,720 | 3,592,755,770 |
| Third party position | 0 | 5,012,826,509 | 5,012,826,509 |

| | | 2021 | |
|---|---|---|---|
| | Banking | Brokerage House | Total |
| Own position | 2,403,589,626 | 7,192,320 | 2,410,781,946 |
| Third party position | 0 | 5,213,961,228 | 5,213,961,228 |

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

As of December 31, 2022, the Bank has consigned as guarantee public debt securities for the amount of B/.1,099,306 in favor of Central Latinoamericana de Valores (Latinclear), in compliance with the provisions of Agreement No.11-2003 of the Superintendency of the Securities Market and Latinclear's Internal Operations Regulations, which stipulate that all participants in Latinclear must provide a performance bond in favor of this entity, in order to guarantee compliance with all its monetary obligations for the stock exchange and over-the-counter transactions it carries out (2021: B/.1,098,375).

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

The following table shows the assets, liabilities and equity of the Bank as of December 31, 2022 by activity, according to the licenses granted:

| | | 2022 | |
|---|---|---|---|
| | **Banking** | **Brokerage House** | **Total** |
| Total assets | 14,595,609,262 | 8,259,653 | 14,603,868,915 |
| Total liabilities | 13,462,280,657 | 76,272 | 13,462,356,929 |
| Total equity | 1,133,328,605 | 8,183,381 | 1,141,511,986 |

| | | 2021 | |
|---|---|---|---|
| | **Banking** | **Brokerage House** | **Total** |
| Total assets | 15,297,931,210 | 8,440,451 | 15,306,371,661 |
| Total liabilities | 14,281,044,383 | 77,393 | 14,281,121,776 |
| Total equity | 1,016,886,827 | 8,363,058 | 1,025,249,885 |

The following presents the Bank's income and expenses for the year ended December 31, 2022 by activity, according to the licenses granted:

| | | 2022 | |
|---|---|---|---|
| | **Banking** | **Brokerage House** | **Total** |
| Net interest and commission income after provisions | 324,862,574 | 1,983,017 | 326,845,591 |
| Other income | 45,729,754 | 0 | 45,729,754 |
| Other expenses | 2,156,425 | 0 | 2,156,425 |
| General and administrative expenses | 174,472,480 | 799,636 | 175,272,116 |
| Net income | 193,963,423 | 1,183,381 | 195,146,804 |

| | | 2021 | |
|---|---|---|---|
| | **Banking** | **Brokerage House** | **Total** |
| Net interest and commission income after provisions | 221,765,426 | 2,281,848 | 224,047,274 |
| Other income | 74,272,009 | 0 | 74,272,009 |
| Other expenses | 1,376,184 | 0 | 1,376,184 |
| General and administrative expenses | 174,014,017 | 918,790 | 174,932,807 |
| Net income | 120,647,234 | 1,363,058 | 122,010,292 |

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

As of December 31, 2022, the brokerage house under the license held by the Bank generated commissions for brokerage services and custody fees in the amount of B/.1,764,071 this income is presented as net interest and commission income after provisions, while in the Bank it is presented in other income (2021: B/.2,064,864).

**(3) Valuation Basis**

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