BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Financial Statements and Supplementary Information

December 31, 2023

(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)

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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 of December 31, 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material 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 of December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance 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. 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 matter is that matter that, in our professional judgment, was 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, and we do not provide a separate opinion on this matter.

Allowance for loan losses
See notes 3(e) and 4 to the financial statements

Key audit matter	How the matter was addressed in the audit
The allowance for loan losses 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 design and application of the expected credit loss ("ECL") model. The loan portfolio at amortized cost represents 41% of the Bank's total assets as of December 31, 2023. The allowance for loan losses comprises the ECL as a result of the loan rating model, the external ratings assigned to public sector and financial institution loans, and the methodology for determining the probability of default of the loans according to the stage of impairment in which they are assigned. 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: • 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. • 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 assess the reasonableness of the assigned credit risk rating. • The methodologies applied by the Bank in the ECL estimation model were assessed in accordance with IFRS 9 Financial Instruments, through the inspection of policies, manuals and documented methodologies approved by the Bank´s corporate governance. • An independent assessment 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. • We assessed 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 taken 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 taken 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 Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether 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 Government of Panama 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, 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 a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures 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 provide 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 on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine that matter that was of most significance in the audit of the financial statements of the current period and is therefore the key audit matter. We describe this matter 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:

- 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; Luis Venegas, partner and Christian Gálvez, senior manager.

KPMG (SIGNED) Gastón G. González F. (SIGNED)

Panama, Republic of Panama
February 5, 2024

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

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Financial Position

December 31, 2023

(Expressed in Balboas)

	Note	2023	2022
Assets			
Cash and cash equivalents		321,617,262	408,473,367
Deposits in banks at amortized cost:			
Demand deposits - foreign		50,992,900	107,061,569
Time deposits - local		260,429,903	305,580,885
Time deposits - foreign		3,423,920,029	3,786,842,069
Less: Reserve for bank deposit losses		19,885	36,440
Total bank deposits at amortized cost		3,735,322,947	4,199,448,083
Total cash, cash equivalents and bank deposits at amortized cost	6	4,056,940,209	4,607,921,450
Securities purchased under resale agreements at amortized cost		211,332,863	195,406,384
Less: Reserve for losses on securities purchased under resale agreements		270,578	233,515
Securities purchased under resale agreements at amortized cost	7	211,062,285	195,172,869
Investments in securities		4,316,209,589	3,614,226,519
Less: Reserve for impairment losses		6,063,321	5,338,379
Investments in securities, net	8	4,310,146,268	3,608,888,140
Private sector loans and interest receivable		5,648,292,337	5,134,756,608
Government loans and interest receivable		837,259,781	833,279,922
Less: Interest and unearned commissions		28,430,303	27,859,145
Allowance for loan losses		144,819,612	140,282,996
Loans at amortized cost	9	6,312,302,203	5,799,894,389
Property and equipment, net	10	95,924,257	82,516,669
Right of use assets	12	1,857,924	2,518,980
Other assets:			
Foreclosed assets, net	14	7,682,826	7,357,266
Intangible assets	11	11,542,517	10,979,526
Tax credit from preferential interest on loans	13	159,130,325	103,271,657
Others	14	133,975,669	185,347,969
Total other assets		312,331,337	306,956,418
Total assets		15,300,564,483	14,603,868,915

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

Liabilities and Capital Funds	Note	2023	2022
Liabilities:			
Deposits and accrued interest payable at amortized cost:			
Demand deposits:			
Local - private		1,374,691,719	1,221,580,457
Local - public		3,840,764,059	3,740,255,913
Foreign		264,471	345,163
Savings:			
Local - private		1,002,710,639	959,733,569
Foreign		3,153,239	2,771,945
Time deposits:			
Local - private		302,593,607	408,287,906
Local - public		5,612,773,252	5,241,594,039
Foreign		15,095,384	16,202,232
Restricted	15	24,417,263	16,932,759
Restricted - escrow funds	15	73,448,818	70,443,483
Total deposits and interest payable at amortized cost		12,249,912,451	11,678,147,466
Obligations:			
Foreign borrowings received at amortized cost	16	247,864,266	309,891,565
Bond payable - local at amortized cost	16	206,267,485	206,267,485
Bond payable - foreign at amortized cost	16	1,008,167,778	1,007,407,192
Lease liabilities	12	2,025,140	2,688,449
Other liabilities:			
Guarantee certificates for legal proceedings at amortized cost		124,374,408	111,509,187
Miscellaneous creditors		69,711,650	70,218,023
Cashier's and certified checks		23,702,278	22,845,592
Other	17	58,295,367	53,381,970
Total other liabilities		276,083,703	257,954,772
Total liabilities		13,990,320,823	13,462,356,929
Capital funds:			
Capital paid in by Government of Panama	4	1,000,000,000	850,000,000
Regulatory reserve for foreclosed assets		2,547,868	3,269,898
Regulatory reserve for investments in securities		59,565	9,675
Valuation of investments in securities		23,691,502	8,125,189
Actuarial valuation		4,767,697	4,314,743
Dynamic regulatory provision	26	79,811,111	56,928,983
Retained earnings		199,365,917	218,863,498
Total capital funds		1,310,243,660	1,141,511,986
Total liabilities and capital funds		15,300,564,483	14,603,868,915

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Profit or Loss

For the year ended December 31, 2023

(Expressed in Balboas)

	Note	2023	2022
Interest and commission income			
Interest on:			
Loans		340,336,984	283,836,696
Deposits in banks		172,892,086	90,955,803
Securities		178,029,855	81,913,111
Loan fees		11,536,550	13,284,778
Total interest and fee income		702,795,475	469,990,388
Interest expense:			
Deposits		192,348,857	77,272,469
Borrowings		39,317,025	42,002,577
Lease liabilities	12	105,702	144,460
Total interest expenses		231,771,584	119,419,506
Net interest and commission income		471,023,891	350,570,882
Reversal of provision for losses in deposits with banks	4	(16,555)	(165,177)
Provision for investment securities losses	4	780,850	2,355,527
Provision for loan losses	4	16,444,935	22,787,677
Provision for valuation of foreclosed assets	14	1,635,576	511,335
Net interest and commission income, after provisions		452,179,085	325,081,520
Other income:			
Fees for banking services	19	28,659,660	29,044,914
Dividends received	8	2,518,262	1,164,997
Gain (loss) net on investments in securities		2,114,335	(720,737)
Other	20	14,828,418	18,004,651
Total other income		48,120,675	47,493,825
Other expenses:			
Provision for fiscal credits		1,444,316	1,311,818
Provision for loans commitments		139,157	389,054
(Reversal of) provision for subsidies		(75,698)	83,591
Commissions		361,757	371,962
Total other expenses		1,869,532	2,156,425
Total other income, net		46,251,143	45,337,400
General and administrative expenses:			
Salaries and other personnel expenses	21	127,433,896	111,359,502
Rentals		1,332,056	1,428,715
Repairs and maintenance		19,269,003	15,310,012
Depreciation and amortization	10, 11, 12	13,192,396	13,480,503
Electricity		3,280,486	3,325,436
Advertising		4,578,072	3,310,937
Communications		15,691,702	6,520,629
Insurance		796,568	833,398
Stationery and office supplies		2,021,016	1,922,912
Fees and professional services		4,227,097	3,839,425
Transportation of personnel		1,066,201	804,434
Transportation of valuables		2,712,056	3,457,053
ATM's		3,012,601	2,180,972
Other	21	8,778,917	7,498,188
Total general and administrative expenses		207,392,067	175,272,116
Net income		291,038,161	195,146,804

The statement of profit or loss 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, 2023

(Expressed in Balboas)

	Note	2023	2022
Net income		291,038,161	195,146,804
Other comprehensive income:			
Items that may not be reclassified to the statement of profit or loss:			
Net change in valuation of shares at fair value with changes in other comprehensive income (FVOCI)	8	13,071,803	(301,047)
Net change in actuarial valuation	17	452,954	6,015,981
		13,524,757	5,714,934
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	2,494,510	0
Other comprehensive income for the year		16,019,267	5,714,934
Total comprehensive income for the year		307,057,428	200,861,738

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
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Statement of Changes in Capital Funds

For the year ended December 31, 2023

(Expressed in Balboas)

	Note	Capital Paid-in 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, 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 at 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 income comprehensive income		0	0	0	(301,047)	6,015,981	0	0	5,714,934
Total comprehensive income		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 (2021 period)		0	0	0	0	0	0	(6,899,767)	(6,899,767)
Earnings distributed to the Government of Panama (2022 period)		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
Net income, 2023		0	0	0	0	0	0	291,038,161	291,038,161
Other comprehensive income:									
Net change in valuation of shares at FVOCI	8	0	0	0	13,071,803	0	0	0	13,071,803
Net change in valuation of investments at FVOCI		0	0	0	2,494,510	0	0	0	2,494,510
Net change in actuarial valuation	17	0	0	0	0	452,954	0	0	452,954
Total other comprehensive income		0	0	0	15,566,313	452,954	0	0	16,019,267
Total comprehensive income		0	0	0	15,566,313	452,954	0	291,038,161	307,057,428
Other capital funds movements:									
Regulatory reserve for foreclosed assets		0	(722,030)	0	0	0	0	722,030	0
Dynamic regulatory provision		0	0	0	0	0	22,882,128	(22,882,128)	0
Regulatory reserve for investments in securities		0	0	49,890	0	0	0	(49,890)	0
Total other capital funds movements		0	(722,030)	49,890	0	0	22,882,128	(22,209,988)	0
Transactions recorded directly in capital funds:									
Capitalization of retained earnings		150,000,000	0	0	0	0	0	(150,000,000)	0
Earnings distributed to the Government of Panama (2022 period)		0	0	0	0	0	0	(19,873,532)	(19,873,532)
Earnings distributed to the Government of Panama (2023 period)		0	0	0	0	0	0	(118,452,222)	(118,452,222)
Total transactions recorded directly in capital funds		150,000,000	0	0	0	0	0	(288,325,754)	(138,325,754)
Balance as of December 31, 2023		1,000,000,000	2,547,868	59,565	23,691,502	4,767,697	79,811,111	199,365,917	1,310,243,660

The statement of changes in capital funds 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 Cash Flows

For the year ended December 31, 2023

(Expressed in Balboas)

	Note	2023	2022
Operating activities:			
Net income		291,038,161	195,146,804
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization	10,11,12	13,192,396	13,480,503
Reversal of provision for losses in deposits with banks	4	(16,555)	(165,177)
Provision for investment in securities losses	4	780,850	2,355,527
Provision for loan losses	4	16,444,935	22,787,677
Provision for valuation of foreclosed assets	14	1,635,576	511,335
Provision for tax credits		1,444,316	1,311,818
Provision for loans commitments		139,157	389,054
(Reversal of) provision for subsidies		(75,698)	83,591
Net gain on sale of foreclosed assets		(915,291)	(359,651)
Net loss on disposal and sale of furniture and equipment		1,957	7,710
Dividends received	8	(2,518,262)	(1,164,997)
Net (gain) loss on valuation of investments in securities		(2,114,335)	720,737
Net interest and commission income		(471,023,891)	(350,570,882)
Changes in operating assets and liabilities:			
Securities purchased under resale agreements		(14,012,208)	(151,541,600)
Investments in securities at fair value through profit or loss		(9,934,721)	(14,522,075)
Loans		(531,834,397)	(796,379,530)
Other assets		(8,446,018)	(135,423,899)
Demand deposits received		253,538,716	512,133,875
Savings deposits received		43,358,365	44,845,592
Time deposits received		279,382,486	(1,246,922,544)
Guarantee certificates for legal proceedings		12,333,472	(362,163)
Cashier's and certified checks		856,687	5,745,864
Miscellaneous creditors		(506,373)	30,465,182
Other liabilities		5,227,194	10,505,751
Cash generated from operation:			
Interest and commissions received		650,637,873	456,887,954
Interest paid		(231,566,583)	(104,965,739)
Dividends received		2,518,262	1,164,997
Cash flows from operating activities		299,566,071	(1,503,834,286)
Investment activities:			
Acquisitions of investments in securities at FVOCI		(37,895,550)	0
Acquisitions of investments in securities at AC		(6,284,277,319)	(5,430,032,778)
Redemptions of investments in securities at AC	8	5,699,946,822	4,266,308,521
Proceeds from the sale of securities at AC	8	4,437,500	0
Acquisition of furniture and equipment	10	(22,105,732)	(8,263,492)
Acquisition of intangible assets	11	(3,662,802)	(4,079,817)
Proceeds from sale of foreclosed assets of borrowers	14	1,648,153	517,896
Cash flows from investing activities		(641,908,928)	(1,175,549,670)
Financing activities:			
Payments of borrowings received	16	(65,454,545)	(182,727,273)
Earnings distributed to the Government of Panama		(138,325,754)	(84,599,637)
Lease payments	12	(1,501,618)	(1,469,071)
Cash flows from financing activities		(205,281,917)	(268,795,981)
Net decrease in cash and cash equivalents		(547,624,774)	(2,948,179,937)
Cash and cash equivalents at the beginning of the year		4,600,234,936	7,548,414,873
Cash and cash equivalents at the end of the year	6	4,052,610,162	4,600,234,936
Non-cash transactions			
Increase in capital paid in by the Government of Panama	4	150,000,000	100,000,000

The statement of cash flows 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 Laws No.74 of 1904, 6 of January of 1911 and 11 of 1956, reorganized by Law No.20 of 1975, subrogated by Decree-Law 4 of 2006, as amended by Law No.24 of 2017; the Bank is an autonomous public entity with its specific 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 aforementioned 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 IFRS Accounting Standards.

These financial statements were reviewed by the Audit Steering Committee and approved by the Board of Directors for issuance on February 02, 2024.

(b) Basis of Measurement

These financial statements have been prepared on a historical cost or amortized (AC) basis, except for certain investments in securities at fair value through profit or loss, investments in equity securities which are presented at fair value through other comprehensive income; and foreclosed assets of borrowers, which are measured at the lower of book value or fair value less selling costs. The measurement of right of use assets is measured according to discounted cash flows; and certain labor liabilities in accordance with actuarial studies.

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 Material 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, 2022.

The Bank adopted the amendments to *IAS 1 Disclosures of Accounting Policies* effective January 1, 2023. These amendments require "material" rather than "significant" accounting policy disclosures. The adoption of these amendments did not result in any change in the accounting policies previously established by the Bank.

(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 converted to balboas at the exchange rate prevailing on the reporting 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.

(3) Summary of Material Accounting Policies, continued

(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.

(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), at fair value through 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 management of risks 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 solely payments of principal and interests *(SPPI)*

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding for 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 Material 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 at 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 measured at 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 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 Material 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 at AC	These assets are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is reduced for an impairment loss. Interest income and loss due to impairment are recognized in profit or loss, as is any profit or loss at your disposal.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss. Other net gains and losses are recognized in other comprehensive income and will never be recognized in profit or loss.
Investments in FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Financial assets derecognition

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

- Contractual rights to the cash flows from the financial asset expire.
- The Bank 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 retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.
- The Bank retains the rights to receive the contractual cash flows of the asset but has the obligation to pay the total amount of cash flows received, without a material delay to a third party.
- When the Bank has transferred its rights to receive cash flows from an asset or has entered into a transferred agreement, and has not transferred nor retained any substantial risk or benefit from the asset, nor transfer the control of the asset, the asset is recognized to the extent of the Bank´s ownership over the asset. In that case, the Bank also recognizes the associated liability. The transferred asset and the associated liability are based on 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 Material 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 "expected credit loss" (ECL), which will be determined on a weighted average basis.

(3) Summary of Material Accounting Policies, continued

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

- Deposits with banks
- Investments in 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 for 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 Material 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 in securities) and data obtained from external sources, such as risk ratings by rating agencies (for cases of deposits and foreign investments in 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 carried out determined that the monthly economic activity index (IMAE) and the 180-day deposit rates are the macroeconomic variables that have the greatest correlation with the levels of past-due loans by segments of the Bank's economic activity.

To determine the PD for the portfolios of interbank placements and investments in sovereign entities 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 agencies 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 counterparties in default (delinquency greater than 90 days). LGD models consider the structure, collateral, counterparty portfolio segment and recovery costs resulting from collection management and any comprehensive collateral on 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 Material 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 overdraft facilities, 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 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 collateral 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 recognized 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 two steps.

(3) Summary of Material Accounting Policies, continued

The first consists of the projection of macroeconomic variables for 12 months (Monthly Economic Activity Index “IMAE” and deposit rates for 180 days). These macroeconomic variables were chosen due to their degree of correlation with the Bank's past due portfolio. The second step consists of creating regression models that correlate the behavior of macroeconomic variables (independent variables) with the proportion of overdue balances of each segment of the loan portfolio (dependent variables). This calculation allows us to determine whether the latter could explain and/or reasonably infer possible impacts on the payment behavior of credit assets in the future. It considers the variable that is adequately related to losses.

As of November 2023, the Bank updated the model by incorporating prospective information for reserve calculations. The previous model was limited to a single macroeconomic variable, known as the IMAE. In contrast, the new model incorporates two variables: the IMAE and the new 180-day deposit rate variable, also obtained from official sources, such es the Superintendency of Banks of Panama, thus providing a greater degree of soundness to the model.

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

- *Individually Assessed Loans*
  If an individually significant instrument meets the criteria defined in the Bank's internal policies, the calculation of impairment losses is carried out on an individual basis. Among the elements used, the exposure, its classification, the collateral that support the credit, among others, are considered. If a loan does not meet the criteria defined by the Bank to be individually evaluated, it is included in a group of loans with similar credit risk characteristics and is assessed collectively. The loss for the instruments assessed individually is calculated considering the present value of the expected future cash flows resulting from the sale of the credit collateral, less their cost of sale, discounted at the current loan rate or the fair value of the loan collateral, against its current book value, to calculate the LGD, and the amount of any loss is recognized as a provision for losses in profit or loss.

- *Collectively Assessed Loans*
  For purposes of a collective assessment for impairment of loans, the Bank mainly 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 ensure that they are still appropriate.

(3) Summary of Material Accounting Policies, continued

Credit Risk Rating

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

Since the Bank uses regulatory classifications as input for the calculation of the PD, it considers the classification 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.

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 type of product and borrower, as well as by credit risk rating. For some portfolios, information from external rating agencies also may 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 falls into regulatory classifications of doubtful (4) and irrecoverable (5); in addition to sub-standard with delinquency over 90 days and for the retiree segment in the substandard, doubtful and loss classifications.

The Bank established the stages of credit impairment set forth in IFRS 9, incorporating qualitative and quantitative aspects. In this sense, the Bank recognizes as those that have suffered a deterioration, credits classified as sub-standard 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 (more than 90 days), 4 and 5
Livestock	1 and 2	3	3 (more than 90 days), 4 and 5
Commercial	1 and 2	3	3 (more than 90 days), 4 and 5
Consumer	1 and 2	3	3 (more than 90 days), 4 and 5
Consumer - Retirees	1	2	3, 4 and 5
Mortgage - Preferential	1 and 2	3	3 (more than 90 days), 4 and 5
Mortgage - Non-Preferential	1 and 2	3	3 (more than 90 days), 4 and 5

(3) Summary of Material Accounting Policies, continued

Impairment of deposits in banks and investments in securities at AC

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

- (Level 1) Low risk: International low risk financial instruments, that is, those with an investment grade higher or equal to BBB- at the time of the assessment; and for local financial instruments rated as BB+, BB and BB- that maintained the same rating from their acquisition to the presentation date.
- (Level 2) Significant risk: Instruments previously at low risk, whose ratings have been downgraded to less than BB but greater than CCC.
- (Level 3) Default: Instruments with a rating of less than or equal to CCC.

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

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

Presentation of allowance for expected credit losses (ECL) in the 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 guarantee contracts: generally as a provision in liabilities.

(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

Property include land and 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.

(3) Summary of Material Accounting Policies, continued

Subsequent major improvements are included in the carrying value of the assets or are recognized as a separate asset, as appropriate. Other repairs and improvements that do not significantly extend the life of the asset are recognized as expenses in 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 11.6 years

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

(h) Leases

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

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

- The Bank has the right to substantially obtain 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.

(3) Summary of Material Accounting Policies, continued

At inception or reassessment date of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component based on its relative independent prices. However, for leases of administrative offices and bank branches, ATM´s space, parking lots/land and 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.

As a Lessee

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

The right-of-use asset is subsequently depreciated using the straight-line method 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 penalty 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.

(3) Summary of Material Accounting Policies, continued

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 and multifunctional/printers that have a term of 12 months or less. 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 of its portfolio.

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

(i) Intangible Assets

Intangible assets acquired separately are presented at historical cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method over their estimated useful lives of 5 to 10 years. Acquired computer software licenses are capitalized based on the costs incurred to acquire and be able to use the specific technological program. Intangible assets are subject to periodic evaluations to determine if there are signs of impairment or when there are events or changes that indicate that the book value may not be recoverable.

(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 profit or loss.

(k) Customer Deposits and Obligations

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

(l) Securities Sold under Agreements to Repurchase

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

(3) Summary of Material Accounting Policies, continued

(m) Guarantee Certificates 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 of service at the Bank from the beginning of the permanent relationship until termination.

The cost of providing these benefits and rights is determined annually by an actuary using the projected unit credit method. Actuarial gains and losses are fully recognized in the period in which they occur in other 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 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.

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.

(3) Summary of Material Accounting Policies, continued

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

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

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

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

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

Presentation
Interest income and expense presented in the 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.

(3) Summary of Material Accounting Policies, continued

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

(q) New IFRS Accounting Standards and Interpretations Not Yet Adopted

New standards, interpretations and amendments to IFRS Accounting Standards have been published, but are not mandatory as of December 31, 2023, and have not been early adopted by the Bank.

The following amendments to IFRS Accounting Standards 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, 2024
Amendments to IAS 1: Non-current Liabilities with Covenants	January 1, 2024
Amendments to IFRS 16: Lease Liability in a Sale and 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 to. 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.
- A control area is responsible for validating that the proposals fall within the Bank's policies and limits, obtain the required approval according to the level of risk assumed, and comply with the approved conditions, at the time the transaction is settled.
- The approval process is carried out through various instances within the Bank in accordance with the established approval limit policy.
- A portfolio management process focused on monitoring risk trends at the Bank level with the objective of anticipating any signs of portfolio deterioration.
- Compliance with collateral policies, including required coverage on loan amounts established by the Credit Steering Committee and reviewed periodically.

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

(4) Financial Risks Management, continued

The Bank manages credit risk through:

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

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

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 non-performing 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 collateral; and
- The industry or economic activity

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

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

(4) Financial Risks Management, continued

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

Detail	Gross Amount In B/.	PD	LGD
Deposits in banks	3,730,992,900	S&P default study	Moody´s recovery studies
Investments in securities	4,162,357,316	S&P default study	Moody´s recovery studies
Loans – Financial institutions	416,801,162	S&P default study	Moody´s recovery studies
Loans – Public Sector	829,066,598	S&P default study	Moody´s recovery studies
Loans - Other portfolios, excluding loans individually assessed	5,064,759,892	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 assessment

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 financial condition of the debtor 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.

(4) Financial Risk Management, continued

The following table analyzes the credit quality of financial assets at amortized cost, credit commitments and allowances for ECL for these assets held by the Bank as of December 31, 2023:

	2023			
	Low Risk	**Significant Risk**	**Default Risk**	**Total**
Loans at AC				
Standard	5,955,113,295	53,196,560	0	6,008,309,855
Special mention	85,800,444	112,663,890	10,073,694	208,538,028
Sub-Standard	0	102,746,745	22,010,727	124,757,472
Doubtful	0	0	33,885,648	33,885,648
Loss	0	0	70,007,353	70,007,353
Gross balance	6,040,913,739	268,607,195	135,977,422	6,445,498,356
Interest receivable	34,698,709	3,747,411	1,607,642	40,053,762
Interest and unearned commissions	(27,548,775)	(356,800)	(524,728)	(28,430,303)
Loss allowance	(38,218,534)	(28,177,661)	(78,423,417)	(144,819,612)
Balance of loans at AC	6,009,845,139	243,820,145	58,636,919	6,312,302,203
Consumer Loans				
0 to 30 days	3,302,587,480	100,186,154	25,905,552	3,428,679,186
31 to 60 days	35,812,645	12,580,087	4,752,642	53,145,374
More than 60 days	9,483,872	4,696,951	66,978,291	81,159,114
Balance	3,347,883,997	117,463,192	97,636,485	3,562,983,674
Individually assessed loans	0	128,254,418	6,616,286	134,870,704
Loss allowance:				
Individual	0	(664,249)	(182,430)	(846,679)
Collective	(38,218,534)	(27,513,412)	(78,240,987)	(143,972,933)
Total loss allowance	(38,218,534)	(28,177,661)	(78,423,417)	(144,819,612)
Loans commitments				
Standard	576,766,954	0	0	576,766,954
Gross balance	576,766,954	0	0	576,766,954
Loss allowance	(528,210)	0	0	(528,210)
Balance of loans commitments	576,238,744	0	0	576,238,744
Deposits in banks at AC				
Standard	3,730,992,900	0	0	3,730,992,900
Gross balance	3,730,992,900	0	0	3,730,992,900
Interest receivable	4,349,932	0	0	4,349,932
Loss allowance	(19,885)	0	0	(19,885)
Balance of deposits in banks at AC	3,735,322,947	0	0	3,735,322,947
Securities purchased under resale agreements at AC				
Standard	206,848,736	0	0	206,848,736
Gross balance	206,848,736	0	0	206,848,736
Interest receivable	4,484,127	0	0	4,484,127
Loss allowance	(270,578)	0	0	(270,578)
Balance of securities purchased under resale agreements at AC	211,062,285	0	0	211,062,285
Investments in securities at AC				
Standard	4,122,722,873	39,634,443	0	4,162,357,316
Gross balance	4,122,722,873	39,634,443	0	4,162,357,316
Interest receivable	35,343,709	386,554	0	35,730,263
Loss allowance	(4,792,629)	(1,270,692)	0	(6,063,321)
Balance of investments in securities at AC	4,153,273,953	38,750,305	0	4,192,024,258
Investments in securities at FVOCI				
Standard	38,451,200	0	0	38,451,200
Gross balance	38,451,200	0	0	38,451,200
Interest receivable	315,695	0	0	315,695
Balance of Investments in securities at FVOCI	38,766,895	0	0	38,766,895

(4) Financial Risk Management, continued

	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 of loans 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 60 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 allowance	(31,921,823)	(42,679,773)	(65,681,400)	(140,282,996)
Loans 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 loans commitments	599,856,310	0	0	599,856,310
Deposits in banks 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 agreements 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 agreements 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

During the year ended December 31, 2023, the Bank carried out loan restructurings with an amortized cost before modification of B/.164,955,478 (2022: B/.361,860,370), which generated an increase in the reserve for expected credit losses of B/.760,754 at the time of their modification (2022: B/.473,958).

(4) Financial Risk Management, continued

The Bank maintains deposits placed in banks with a gross balance of B/.3,730,992,900 as of December 31, 2023 (2022: B/.4,191,761,569). 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.

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:

		2023	
	Local credit rating	**International credit rating *(i)***	**Total**
Deposits in banks			
A1, P1, F1	40,000,000	1,469,816,141	1,509,816,141
A2, P2, F2	0	1,488,635,729	1,488,635,729
A3, P3, F3	0	20,000,000	20,000,000
Unrated	0	712,541,030	712,541,030
Gross subtotal	40,000,000	3,690,992,900	3,730,992,900
Interest receivable	32,396	4,317,536	4,349,932
Loss reserve	(2,715)	(17,170)	(19,885)
Balance at amortized cost	40,029,681	3,695,293,266	3,735,322,947

		2022	
	Local credit rating	**International credit rating *(i)***	**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

(i) The deposits placed presented in the "Unrated" category correspond to resources placed in an international financial institution that only accepts deposits from central banks. Its risk is equivalent to AAA sovereign risk rating, granted to this institution by the rating agencies: Standard & Poor's, Moody's or Fitch Ratings, Inc.

(4) Financial Risk Management, continued

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

		2023	
Investments in securities at AC	**Local rating**	**International rating *(i)***	**Total**
AAA	0	29,371,702	29,371,702
AA+ to A	110,062,213	1,140,905,615	1,250,967,828
A-	15,009,631	76,909,587	91,919,218
BBB+ to BBB-	183,604,199	1,531,243,049	1,714,847,248
BB+	0	15,000,000	15,000,000
BB to B-	0	36,201,701	36,201,701
Unrated	3,432,742	1,020,616,877	1,024,049,619
Gross subtotal	312,108,785	3,850,248,531	4,162,357,316
Interest receivable	3,118,800	32,611,463	35,730,263
Loss reserve	(3,248,838)	(2,814,483)	(6,063,321)
Balance at AC	311,978,747	3,880,045,511	4,192,024,258
Investments in securities at FVOCI			
AA+ to A	0	9,229,300	9,229,300
A-	0	19,399,100	19,399,100
BBB+ to BBB-	0	9,822,800	9,822,800
Gross subtotal	0	38,451,200	38,451,200
Interest receivable	0	315,695	315,695
Balance at FVOCI	0	38,766,895	38,766,895

		2022	
Investments in securities at AC	**Local Rating**	**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 AC	280,121,883	3,276,148,886	3,556,270,769

(i) The investments presented in the "Unrated" category correspond to liquid instruments of an international financial institution, to which only central banks have access and its credit risk rating is equivalent to an AAA sovereign risk rating, issued by Standard & Poor's, Moody’s or Fitch Ratings, Inc.

(4) Financial Risk Management, continued

Collateral and their Financial Effect

The Bank holds collateral 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 collateral requirements 2023	2022	Type of collateral
Investments purchased under resale agreements	100%	100%	Debt securities
Loans	63%	62%	Cash, property and equipment (movable and fixed)

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 loan amount and the value of the property that will be the subject (and pledged as guarantees) of the loan. Gross amounts do not include any allowance for impairment.

The valuation of the collateral does not include all adjustments for foreclosing 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 indices of the collateral.

Gross consumer mortgage loans:

% LTV	2023	2022
Less than 50%	131,752,548	122,915,464
51-70%	236,309,063	201,932,318
71-90%	1,238,519,567	983,178,975
91-100%	653,110,137	664,442,724
Gross total	2,259,691,315	1,972,469,481

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, 2023, the Bank holds property that have been awarded to the Bank at a gross value of B/.7,682,826 (2022: B/.7,996,435) with an allowance of B/.0 (2022: B/.639,169). During 2023, the Bank was awarded assets with a value of B/.2,732,882 (2022: B/.2,602,126).

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.

(4) Financial Risk Management, continued

Credit Risk Concentration

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

	Deposits in bank		Investments in securities		Securities purchased under resale agreements	
	2023	2022	2023	2022	2023	2022
Gross book value	3,730,992,900	4,191,761,569	4,255,930,191	3,583,514,146	206,848,736	192,836,528
Concentration by sector:						
Corporate	0	0	727,473,368	812,689,680	0	0
Consumer	0	0	0	0	0	0
Financial institutions	2,753,999,000	2,555,007,493	1,242,639,373	1,084,281,210	206,848,736	192,836,528
Public sector	976,993,900	1,636,754,076	2,285,817,450	1,686,543,256	0	0
Gross book value	3,730,992,900	4,191,761,569	4,255,930,191	3,583,514,146	206,848,736	192,836,528
Geographic concentration:						
Panama	60,000,000	60,000,000	1,836,584,563	1,606,405,336	206,848,736	192,836,528
Caribbean and Latin America	0	0	29,280,701	0	0	0
USA and Canada	2,033,422,222	1,460,433,538	1,213,425,732	1,039,863,055	0	0
Europe	595,000,000	855,223,956	5,927,798	24,922,238	0	0
Others	1,042,570,678	1,816,104,075	1,170,711,397	912,323,517	0	0
Gross book value	3,730,992,900	4,191,761,569	4,255,930,191	3,583,514,146	206,848,736	192,836,528

	Loans		Loan commitments	
	2023	2022	2023	2022
Gross book value	6,445,498,356	5,925,001,120	576,766,954	600,245,364
Concentration by sector:				
Corporate	1,623,424,745	1,455,395,318	78,509,848	67,804,649
Consumer	3,562,983,673	3,248,859,930	498,021,406	532,085,602
Financial institutions	430,023,340	392,442,217	132,157	140,600
Public sector	829,066,598	828,303,655	103,543	214,513
Gross book value	6,445,498,356	5,925,001,120	576,766,954	600,245,364
Geographic concentration:				
Panama	6,445,498,356	5,925,001,120	576,766,954	600,245,364
Gross book value	6,445,498,356	5,925,001,120	576,766,954	600,245,364

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

The Bank also monitors and follows up on operations outside of 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 entity/individual and to related parties) to which the loan portfolio recorded in the statement of financial position is subject to.

(4) Financial Risk Management, continued

Expected Credit Losses

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

			2023	
	Low risk	**Significant risk**	**Default risk**	**Total**
Deposits in banks				
Balance as of January 1, 2023	36,440	0	0	36,440
Net remeasurement of loss allowance	(3,321)	0	0	(3,321)
Allocation of reserve to new originated financial assets	8,661	0	0	8,661
Reversal of reserve of assets that have been written off	(21,895)	0	0	(21,895)
Balance as of December 31, 2023	19,885	0	0	19,885
Investments in securities and securities purchased under resale agreements				
Balance as of January 1, 2023	2,883,794	2,688,100	0	5,571,894
Net remeasurement of loss allowance	854,046	(1,417,408)	0	(563,362)
Allocation of reserve to new purchased financial assets	1,589,325	0	0	1,589,325
Reversal of reserve due to derecognized assets	(263,958)	0	0	(263,958)
Balance as of December 31, 2023	5,063,207	1,270,692	0	6,333,899
Corporate loans				
Balance as of January 1, 2023	14,677,976	8,234,007	27,554,779	50,466,762
Transfers to 12-month PCE (low risk)	5,295,310	(3,553,928)	(1,741,382)	0
Transfers to PCE over the life of the loan (significant risk)	(2,008,382)	4,294,000	(2,285,618)	0
Transfers to PCE over the life of the loan (default)	(382,348)	(1,829,128)	2,211,476	0
Net remeasurement of loss allowance	(4,517,331)	(183,950)	8,610,183	3,908,902
Allocation of reserve to new originated financial assets	7,260,151	426,816	1,183,531	8,870,498
Reversal of reserve due to derecognized assets	(3,917,649)	(2,690,606)	(13,119,806)	(19,728,061)
Loans written off	0	0	(7,938,259)	(7,938,259)
Recoveries	0	0	968,062	968,062
Balance as of December 31, 2023	16,407,727	4,697,211	15,442,966	36,547,904
Consumer loans				
Balance as of January 1, 2023	15,237,292	34,445,766	38,126,621	87,809,679
Transfers to 12-month PCE (low risk)	30,515,523	(23,119,898)	(7,395,625)	0
Transfers to PCE over the life of the loan (significant risk)	(1,480,816)	9,895,972	(8,415,156)	0
Transfers to PCE over the life of the loan (default)	(1,149,561)	(7,295,924)	8,445,485	0
Net remeasurement of loss allowance	(28,013,744)	9,866,052	45,269,005	27,121,313
Allocation of reserve to new originated financial assets	2,787,441	65,868	144,239	2,997,548
Reversal of reserve due to derecognized assets	(633,293)	(377,386)	(8,255,996)	(9,266,675)
Loans written off	0	0	(7,690,913)	(7,690,913)
Recoveries	0	0	2,752,791	2,752,791
Balance as of December 31, 2023	17,262,842	23,480,450	62,980,451	103,723,743
Financial institution loans				
Balance as of January 1, 2023	1,013,531	0	0	1,013,531
Net remeasurement of loss allowance	25,516	0	0	25,516
Allocation of reserve to new originated financial assets	4,060,783	0	0	4,060,783
Reversal of reserve due to derecognized assets	(1,046,068)	0	0	(1,046,068)
Balance as of December 31, 2023	4,053,762	0	0	4,053,762
Public sector loans				
Balance as of January 1, 2023	993,024	0	0	993,024
Net remeasurement of loss allowance	(279,303)	0	0	(279,303)
Allocation of reserve to new financial assets originated	759,063	0	0	759,063
Financial assets that have been written off	(978,581)	0	0	(978,581)
Balance as of December 31, 2023	494,203	0	0	494,203

	Low risk	**Significant risk**	**Default risk**	**Total**
Investments in securities at FVOCI				
Balance as of January 1, 2023	0	0	0	0
Reserve allocation to new financial assets purchased	18,845	0	0	18,845
Balance as of December 31, 2023	18,845	0	0	18,845

Reserves for expected credit losses of investments in securities measured at fair value through other comprehensive income are recognized in equity because the book value of those investments is their fair value.

(4) Financial Risk Management, continued

	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				
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

Weighting of macroeconomic scenarios and their incorporation in prospective information
With the purpose of incorporating a perspective in the prospective information, the Bank carries out different scenarios of the macroeconomic variables in order to recognize the uncertainty that prevails within the short and medium-term economic context that the country will experience.

(4) Financial Risk Management, continued

The Bank incorporates three projection scenarios of the prospective macroeconomic variables, IMAE and 180-day deposit rates. A base scenario is established (scenario calculated as of December 31, 2023), another scenario with a decrease and another scenario with an increase. It is intended that each of the scenarios maintain reasonable expectations and have a relevant level of probability associated with them; for the purposes of this exercise, increases and decreases have a minimum probability of occurrence of 30%.

The following table shows the estimated impact on the Expected Credit Loss (ECL) on loans, caused by assumed increases or decreases in the IMAE and deposit rates:

Scenario	IMAE	Borrowing Rate	Variation ECL%	Variation ECL B/.
Decrease	209.95	2.31	0.47%	679,809
Base scenario	247.00	2.89	0.65%	927,794
Increase	256.88	3.18	0.43%	617,236

Considering a decrease in the prospective macroeconomic variables, an increase of 0.47% of the ECL is observed and an increase of 0.43% of the ECL in the scenario with an increase.

There is no substantial variation in the increase and reduction scenarios versus the base scenario. This is because the estimates presented in the previous table reflect the sum of the variations of all segments. When breaking down the results by loan portfolio segments, it is observed that, in both scenarios, some segments experience an increase in PCE, while in others a decrease is observed. This diversity is due to the fact that each segment presents different types of correlations (positive and negative) with each of the macroeconomic variables.

(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 maintain a liquidity of no less than 30% at all times based on the parameters established in Agreement No. 004-2008. In addition to this, the regulator requires the Bank to comply with a minimum of high-quality liquid assets to overcome a significant stress episode for a full month, based on the provisions of Agreement No. 002-2018.

(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, 2023, the Bank's Liquidity Coverage Ratio is 250.8% exceeding the 100% established by that Agreement (2022: 260.5%).

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.

Legal liquidity ratio estimate as of the reporting date is detailed below:

	2023	2022
As of December 31	75.5%	74.8%
Average of the year	73.5%	81.4%
Maximum of the year	77.2%	86.4%
Minimum of the year	69.4%	74.8%

The following table details the undiscounted cash flows of financial liabilities and assets, and unrecognized loan commitments in contractual maturity groupings for the remaining period from the reporting date:

2023	Book value	Gross nominal amount (outflows)/inflows	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	12,249,912,451	(12,890,671,919)	(9,999,721,290)	(1,344,643,331)	(33,684,586)	(1,512,622,712)
Borrowings at amortized cost	1,464,324,669	(2,051,562,272)	0	(188,932,403)	(208,675,155)	(1,653,954,714)
Letters of credit/payment pledges	0	(538,076,563)	(144,508,698)	(393,567,865)	0	0
Lines of credit and credit cards	0	(38,690,391)	(15,850,116)	(22,840,275)	0	0
	13,714,237,120	(15,519,001,145)	(10,160,080,104)	(1,949,983,874)	(242,359,741)	(3,166,577,426)
Financial assets						
Cash, cash equivalents and bank deposits at amortized cost	4,056,940,209	4,059,971,645	4,059,971,645	0	0	0
Investments in securities and securities purchased under resale agreements, net	4,521,208,553	5,119,984,217	2,226,396,925	416,223,742	515,380,911	1,961,982,639
Loans at amortized cost	6,312,302,203	7,346,228,513	812,177,388	532,806,803	1,205,297,893	4,795,946,429
	14,890,450,965	16,526,184,375	7,098,545,958	949,030,545	1,720,678,804	6,757,929,068

(4) Financial Risk Management, continued

2022	Book value	Gross nominal amount (outflows)/inflows	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

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 within twelve months after the reporting date:

	2023	2022
Assets:		
Investments in securities	2,210,019,034	1,833,373,350
Loans	5,444,329,462	4,974,833,554
Total assets	7,654,348,496	6,808,206,904
Liabilities:		
Time deposits	1,398,159,946	596,169,988
Borrowings received	246,610,375	308,335,397
Bonds payable	1,203,001,000	1,202,587,636
Total liabilities	2,847,771,321	2,107,093,021

(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:

		2023			2022	
	Euro	Yen	Total	Euro	Yen	Total
Deposits in banks	157,580	29,648	187,228	484,660	11,521	496,181
Total assets	157,580	29,648	187,228	484,660	11,521	496,181

- *Cash flow interest rate risk:*
  It is the risk 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

2023	50 bps of increase	50 bps of decrease	100 bps of increase	100 bps of decrease
As of December 31	6,253,162	(6,253,162)	12,506,323	(12,506,323)
Average of the year	5,957,213	(5,957,213)	11,914,426	(11,914,426)
Maximum of the year	7,033,217	(7,033,217)	14,066,433	(14,066,434)
Minimum of the year	5,383,600	(5,383,596)	10,767,198	(10,767,194)
2022				
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)

Sensitivity in equity to rate fluctuation in financial assets and liabilities

2023	50 bps of increase	50 bps of decrease	100 bps of increase	100 bps of decrease
As of December 31	6,921,732	(5,350,115)	13,057,655	(11,486,038)
Average of the year	1,704,187	794,449	2,184,717	339,581
Maximum of the year	11,133,910	11,245,620	13,057,655	11,301,475
Minimum of the year	(288,098)	(5,350,115)	(337,512)	(11,486,038)
2022				
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)

(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.

2023

	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	3,684,349,932	0	0	0	3,684,349,932
Securities purchased under resale agreements	211,332,863	0	0	0	211,332,863
Investments in securities	2,081,957,115	326,733,385	376,847,849	1,506,437,800	4,291,976,149
Loans and interest receivable, gross balance	1,589,545,437	373,111,221	470,018,735	4,052,876,725	6,485,552,118
Total	7,567,185,347	699,844,606	846,866,584	5,559,314,525	14,673,211,062
Liabilities:					
Savings deposits	1,005,863,878	0	0	0	1,005,863,878
Time and restricted deposits	4,630,168,378	712,477,488	17,070,987	668,611,471	6,028,328,324
Bonds payable	1,253,891	0	246,610,375	0	247,864,266
Borrowing received	11,434,263	0	0	1,203,001,000	1,214,435,263
Total	5,648,720,410	712,477,488	263,681,362	1,871,612,471	8,496,491,731
Net interest sensitivity margin	1,918,464,937	(12,632,882)	583,185,222	3,687,702,054	6,176,719,331

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

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 to 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.

New transactions and renewals are carried out using the SOFR rate, updating the 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

The operational risk is the possibility of incurring losses due to deficiencies, failures or inadequacies of the human resource, processes, technology, infrastructure, management information, the models used, or due to the occurrence of external events. This definition includes the legal risk associated with such factors; but it excludes losses due to lost profits, reputational risk and strategic risk.

The main objective of operational risk management is to improve the quality of services to customers, through continuous improvement in processes and controls, complying with existing standards and regulations.

The Operational Risk Unit ensures that the Board of Directors, Risk Committees and Senior Management receive bi-monthly information on the results of operational risk management, in accordance with the policies contained in the Bank's Risk Manual.

The Internal Audit Unit assesses compliance with the procedures used for operational risk management prepared in accordance with the provisions of current regulations.

(4) Financial Risk Management, continued

(e) Capital Management

The Bank's policy is to maintain solid capital, which can guarantee the future development of investment and credit businesses within the market, with adequate levels in terms of return on capital for the Panamanian State as the sole shareholder and the adequacy of capital 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, 2023, the Bank maintains capital funds of B/.1,000,000,000 (2022: B/.850,000,000).

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, recorded 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, 2023, 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 follows:

	2023	2022
Primary Capital		
Paid-in-capital by Panamanian government	1,000,000,000	850,000,000
Retained earnings	199,365,917	218,863,498
Other items in comprehensive income	28,459,199	12,439,932
Less: intangible assets	11,542,517	10,979,526
Primary Capital	1,216,282,599	1,070,323,904
Dynamic regulatory provision	79,811,111	56,928,983
Total Capital Funds	1,296,093,710	1,127,252,887
Total risk-weighted assets	6,824,620,058	6,109,648,512
Capital adequacy ratio	18.99%	18.45%

(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 periodically evaluated 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 statement of cash flows:

	2023	**2022**
Cash and cash equivalents	321,617,262	408,473,367
Demand deposits	50,992,900	107,061,569
Time deposits	3,680,000,000	4,084,700,000
Total gross cash, cash equivalents and deposits with banks in the statement of financial position, excluding interest receivable	4,052,610,162	4,600,234,936
Less: Time deposits in banks with original maturities over 90 days	0	0
Total cash and cash equivalents in the cash flow statement	4,052,610,162	4,600,234,936

As of December 31, 2023, the Bank maintains a reserve for expected losses on deposits in banks of B/.19,885 (2022: B/.36,440).

(7) Securities Purchased under Resale Agreements

The Bank maintains securities purchased under resale agreements at AC, for B/.206,848,736 (2022 B/.192,836,528) with various maturities until 2024 and annual interest rates of 1% to 1.75%, the detailed below:

	2023	**2022**
Securities purchased under resale agreements	206,848,736	192,836,528
Interest receivable	4,484,127	2,569,856
Reserve for losses	(270,578)	(233,515)
Securities purchased under resale agreements at amortized cost	211,062,285	195,172,869

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

(8) Investments in Securities

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

	2023			
	FVTPL	**FVOCI**	**AC**	**Total**
Public debt securities	55,121,675	0	2,230,695,775	2,285,817,450
Private debt securities	0	38,451,200	1,931,661,541	1,970,112,741
Private equity shares	0	24,233,440	0	24,233,440
Subtotal	55,121,675	62,684,640	4,162,357,316	4,280,163,631
Interest receivable	0	315,695	35,730,263	36,045,958
Loss reserve	0	0	(6,063,321)	(6,063,321)
Balance of investments in securities	55,121,675	63,000,335	4,192,024,258	4,310,146,268

	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 reserve	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

Equity instruments at fair value with changes in other comprehensive income as of December 31, 2023, recorded a net unrealized gain of B/.13,071,803 as a result of the net change in fair value (2022: net unrealized loss: B/.301,047). Debt instruments at fair value through other comprehensive income as of December 31, 2023, recorded an unrealized net gain of B/.2,494,510 as a result of the net change in fair value (2022: B/.0). that includes the reserve for expected credit losses of B/.18,845 (2022: B/.0).

As of December 31, 2023, the Bank received dividends on private equity investments of B/.2,518,262 (2022: B/.1,164,997).

As of December 31, 2023, securities at amortized cost were redeemed for B/.5,699,946,822, (2022: B/.4,266,308,521).

As of December 31, 2023, the Bank maintains an allowance for expected credit losses on investments in securities at amortized cost of B/.6,063,321 (2022: B/.5,338,379).

(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:

	2023	2022
Public sector, gross	829,066,598	828,303,655
Private sector, gross:		
Residential mortgages	2,259,691,315	1,972,469,481
Personal	1,303,292,359	1,276,390,449
Agricultural	617,397,744	600,119,195
Commercial	975,290,467	821,759,570
Financial institutions	430,023,340	392,442,217
Industrials	30,360,492	33,238,275
Overdrafts	376,041	278,278
Total gross private sector	5,616,431,758	5,096,697,465
Total gross loans	6,445,498,356	5,925,001,120
More (less):		
Accrued interest receivable	40,053,762	43,035,410
Interest and unearned commissions	(28,430,303)	(27,859,145)
Allowance for loan losses	(144,819,612)	(140,282,996)
Loans at amortized cost	6,312,302,203	5,799,894,389

(10) Property and Equipment

Property and equipment are summarized as follows:

2023	Land, Buildings and Improvements	Office Furniture and Equipment	Vehicles	Constructions in Progress	Total
Cost:					
At the beginning of the year	93,509,304	97,888,517	13,742,344	7,484,864	212,625,029
Purchases	1,285,897	4,359,996	993,735	15,466,104	22,105,732
Reclassifications	2,482,919	45,100	0	(2,528,019)	0
Sales and disposals	(239,376)	(1,089,403)	(774,855)	0	(2,103,634)
At the end of the year	97,038,744	101,204,210	13,961,224	20,422,949	232,627,127
Accumulated depreciation and amortization:					
At the beginning of the year	38,670,509	80,276,897	11,160,954	0	130,108,360
Expense of the year	2,447,503	5,171,592	1,077,092	0	8,696,187
Sales and disposals	(239,376)	(1,087,480)	(774,821)	0	(2,101,677)
At the end of the year	40,878,636	84,361,009	11,463,225	0	136,702,870
Net balance	56,160,108	16,843,201	2,497,999	20,422,949	95,924,257

(10) Property and Equipment, continued

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
Reclassifications	1,877,806	(21,121)	0	(1,856,685)	0
Sales and disposals	(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

The Bank maintains within constructions in progress category, its own property under construction for B/.2,067,186 (2022: B/.1,508,515) and purchases in transit for B/.18,355,763 (2022: B/.5,976,349).

(11) Intangible Assets

The movement of intangible assets, mainly composed of licenses acquired for technology programs, is summarized below:

	2023	2022
Balance at the beginning of the year	10,979,526	9,833,910
Purchases	3,662,802	4,079,817
Amortization for the year	(3,099,811)	(2,934,201)
Balance at the end of the year	11,542,517	10,979,526

(12) Leases

As a Lessee

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

Right-of-use assets

2023	Administrative offices and bank branches	ATM's space	Parking lots/ Land	Multifunctional /Printers	Warehouses/ Deposits	Total
Balance as of January 1, 2023	2,228,887	94,632	2,600	0	192,861	2,518,980
Additions	516,288	35,068	0	59,495	90,390	701,241
Adjustments for modifications	64,138	0	0	0	0	64,138
Anticipated cancellations	(30,037)	0	0	0	0	(30,037)
Depreciation for the year	(1,102,303)	(91,799)	(2,600)	(3,399)	(196,297)	(1,396,398)
Balance as of December 31, 2023	1,676,973	37,901	0	56,096	86,954	1,857,924

(12) Leases, continued

2022	Administrative offices and bank branches	ATM's space	Parking lots/ Land	Warehouses/ Deposits	Total
Balance as of January 1, 2022	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, 2022	2,228,887	94,632	2,600	192,861	2,518,980

Lease Liabilities

Maturity analysis - Undiscounted contractual cash flows

	2023	2022
Less than one year	284,415	134,521
One to five years	869,279	1,654,041
More than five years	1,064,146	1,155,139
Total undiscounted lease liabilities	2,217,840	2,943,701
Lease liability included in statement of financial position	2,025,140	2,688,449

Amount recognized in the statement of profit or loss

	2023	2022
Interest expense on lease liabilities	105,702	144,460
Expenses related to short-term leases	681,405	776,602

Amounts recognized in the statement of cash flows

	2023	2022
Total cash outflow from leases, net	2,288,725	2,390,133

As of December 31, 2023, total lease cash recognized in the statement of cash flows includes the portion of the payment to principal as a financing activity for B/.1,501,618 (2022: B/.1,469,071), the portion of interest for B/.105,702 (2022: B/.144,460) and the portion of short-term leases for B/.681,405 (2022: B/.776,602) 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), 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) Tax 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 income actually received as interest in relation to each of such preferential mortgage loans.

The tax 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 tax 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, 2023, there were unrecognized tax credits from the General Revenue Authority (DGI) amounting to B/.138,645,455 (2022: B/.100,216,918) and current tax credits amounting to B/.24,700,521 (2022: B/.5,826,074). As of December 31, 2023, the DGI recognized tax credits of the bank for B/.18,874,447 (2022: B/.8,902,576) and no sales were made (2022: B/.7,592,312). 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, 2023, the Bank maintains a valuation allowance for tax credits in the amount of B/.4,215,651 (2022: B/.2,771,335).

(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 assets foreclosed from borrowers are detailed as follows:

	2023	**2022**
Assets foreclosed from borrowers	7,682,826	7,996,435
Impairment reserve, net	0	(639,169)
Net balance	7,682,826	7,357,266

The movement of the impairment reserve of borrowers foreclosed assets is detailed below:

	2023	**2022**
Balance at the beginning of the year	639,169	1,648,540
Provision for valuation of foreclosed assets	1,635,576	511,335
Assets written-off	(2,274,745)	(1,520,706)
Balance at end of year	0	639,169

As of December 31, 2023, the Bank made sales of assets foreclosed from borrowers for B/.1,648,153 (2022: B/.517,896).

The other miscellaneous assets are detailed as follows:

	2023	**2022**
Numismatic and other currencies	2,582,152	2,588,432
Financing program ("Profinco")	480,604	515,209
Printing and supplies	3,491,626	3,155,238
Account receivable - FECI grant	14,727,394	5,503,789
Other remittances and transfers in transit	5,335,333	228,530
Prepaid expenses and insurance	379,269	376,567
Cultural property	259,928	247,213
Cash withdrawals to be compensated – Clave Card	520,937	539,067
Insurance receivable on loans	735,722	606,442
Balance of loans receivable through life insurance policies	208,183	1,951,440
Account receivable – subsidies, net	99,885,092	142,235,584
Others	5,369,429	27,400,458
	133,975,669	185,347,969

As of December 31, 2023, the Bank maintains an account receivable for subsidies in the amount of B/.99,885,092 (2022: B/.142,235,584). The Bank, as the financial institution by 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 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, 2023, restricted deposits at amortized cost amounted to B/.97,866,081 (2022: B/.87,376,242) 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 Borrowing Received

As of December 31, 2023, the Bank maintains the following borrowing received from abroad:

Start Date	Maturity Date	Interest Rate	Principal Due	Carrying value Amortized Cost 2023	2022
Aug-20	Aug-27	1.232%	261,818,182	247,864,266	309,891,565

Bonds Payable

Type	Maturity Date	Interest Rate	Principal Due	Carrying value Amortized Cost 2023	2022
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	1,008,167,778	1,007,407,192

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 issues of bonds 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:

	2023	**2022**
Balance at the beginning of the year	1,523,566,242	1,698,021,301
Payments of borrowings received	(65,454,545)	(182,727,273)
Amortization	0	4,397,955
Interest paid	(35,129,193)	(38,128,318)
Recognition of interest	39,317,025	42,002,577
Balance at the end of the year	1,462,299,529	1,523,566,242

As of December 31, 2023, interest payable on foreign financing received is B/.1,253,891 (2022: B/.1,556,168), for local bonds is B/.531,485 (2022: B/.531,485), and for international bond is B/.10,902,778 (2022: B/.10,555,556).

(17) Other Liabilities

Miscellaneous Liabilities

The detail of miscellaneous liabilities is summarized below:

	2023	**2022**
Labor liabilities	26,554,924	22,805,106
Seniority bonus provision	11,248,617	10,314,016
Seniority premium provision	13,665,564	12,530,343
Other provisions	1,900,992	1,570,598
Other	4,925,270	6,161,907
	58,295,367	53,381,970

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 Laws governing Banco Nacional de Panama.

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

	2023	**2022**
Balance as of January 1	10,314,016	14,011,939
Included in the year's profit or loss:		
Current cost of service	1,048,784	901,026
Interest cost (income)	561,216	481,491
Included in OCI:		
Actuarial gain	(211,599)	(2,859,998)
Others:		
Benefits paid	(463,800)	(2,220,442)
Balance as of December 31	11,248,617	10,314,016

(17) Other Liabilities, continued

According to the latest actuarial calculations as of December 31, 2023, the total accumulated seniority bond obligation is for B/.10,749,713 (2022: B/.10,232,839).

Below are the main actuarial assumptions as of December 31, 2023:

	2023	2022
Discount rate	5.99%	5.44%
Salary increase	2.12%	1.99%
Inflation rate	2.12%	1.99%

The discount rate to be used to discount the cash 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 2,073 women (2022: 2,048) and 1,581 men (2022: 1,527) for a total of 3,654 employees (2022: 3,575), as follows:

	2023			2022		
	Women	Men	Total	Women	Men	Total
Employee population						
Employees (number)	2,073	1,581	3,654	2,048	1,527	3,575
Average age (years)	41	42	41	41	43	42
Seniority age (years)	10	11	10	10	12	11
Population of employees with more than 15 years of seniority						
Employees (number)	537	439	976	508	452	960
Average age (years)	48	52	50	49	51	51
Seniority age (years)	21	24	22	22	25	24

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.

(17) Other Liabilities, continued

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

2023	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 bonus liability	(1,078,652)	1,284,656	1,323,762	(1,126,081)

2022	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	(1,010,084)	1,204,322	1,235,743	(1,050,773)

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.

Upon 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, 2023.

	2023	2022
Balance as of January 1	12,530,343	16,483,977
Included in the year's profit or loss:		
Current cost of service	1,539,335	1,565,225
Interest cost (income)	685,911	492,787
Included in OCI:		
Actuarial gain (loss)	(241,355)	(3,155,983)
Others:		
Benefits paid	(848,670)	(2,855,663)
Balance as of December 31	13,665,564	12,530,343

According to actuarial calculations as of December 31, 2023, the total accumulated seniority premium obligation is B/.13,131,533 (2022: 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.

(17) Other Liabilities, continued

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

	Discount rate		Rate of salary increase	
2023	**100 bps increase**	**100 bps decrease**	**200 bps increase**	**200 bps decrease**
Seniority premium provision	(1,206,074)	1,428,722	1,472,098	(1,259,260)

	Discount rate		Rate of salary increase	
2022	**100 bps increase**	**100 bps decrease**	**200 bps 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

	2023	**2022**
Letters of credit	17,796,908	35,541,085
Payment pledges	520,279,655	556,384,571
Loan commitments	38,690,391	8,319,708
	576,766,954	600,245,364

As of December 31, 2023, the Bank maintains a reserve for letters of credit and payment pledges for B/.528,210 (2022: B/.389,054).

As of December 31, 2023, there were lawsuits filed against Banco Nacional de Panama in the amount of B/.1,304,064,856 (2022: B/.1,328,833,331). The Bank's management and its legal counsel estimate that there is a remote probability that the Bank will be ordered to pay the total amount claimed. As of December 31, 2023, the Bank does not maintain any provisions (2022: 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:

2023

	Corporate and Commercial	Agricultural and Forestry	Consumer	Financial Institutions	Government Sector	Treasury and Capital Markets	Total
Letters of Credit	69,524	59,621	290,321	46,886	51,774	2,648	520,774
Transfers	79,006	67,753	329,917	53,281	58,836	3,991	592,784
Credit card Services	1,991,964	1,708,249	8,318,162	1,343,367	1,483,422	0	14,845,164
Fund management, custody and brokerage	329,264	282,367	1,374,961	222,053	245,205	984,186	3,438,036
Current accounts	168,387	144,404	703,159	113,559	125,398	4,925	1,259,832
Savings accounts	205	176	854	138	152	0	1,525
State services	55,247	47,378	230,704	37,258	41,144	0	411,731
Guarantee certificates and cashier's checks	91,267	78,268	381,118	61,550	67,967	0	680,170
National stamps	4,833	4,144	20,180	3,259	3,599	0	36,015
Clearinghouse services	442,476	379,454	1,847,718	298,403	329,513	0	3,297,564
Commission for negotiation and advice	112,043	96,084	467,874	75,561	83,438	0	835,000
Others	273,538	234,579	1,142,260	184,473	203,705	702,510	2,741,065
Total banking service fees (see note 22)	3,617,754	3,102,477	15,107,228	2,439,788	2,694,153	1,698,260	28,659,660

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
Credit 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

(20) Other Income

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

	2023	2022
Miscellaneous banking services	1,091,283	1,074,861
Gain on sale of foreclosed assets	915,291	359,651
Cash management	1,245,271	1,212,917
Inspections and appraisals	82,444	85,590
Legal income	801,035	761,090
Employee resource management	310,424	94,098
Foreign exchange gain, net	528,251	679,222
Insurance administration and collection management	8,269,007	7,961,998
Other	1,585,412	5,775,224
	14,828,418	18,004,651

(21) General and Administrative Expenses

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

	2023	**2022**
Salaries and other staff costs		
Salaries and other remunerations	75,752,671	72,193,378
Seniority premium	2,218,011	1,952,540
Seniority bonus	1,610,000	1,382,517
Social Security	12,491,753	10,651,754
Employee benefits	32,303,747	22,095,941
Training	2,310,528	774,519
Other	747,186	2,308,853
	127,433,896	111,359,502
Other expenses		
Banking regulation and supervision fees	205,000	205,000
Legal	360,563	312,397
Water supply	152,400	106,522
Surveillance service	851,982	810,332
Meals	167,548	119,556
Memberships	475,883	431,880
Others	6,565,541	5,512,501
	8,778,917	7,498,188

(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.

2023

Detail	Corporate and Commercial	Agricultural and Forestry	Consumer	Financial Institutions	Government sector	Treasury and Capital Markets	Total
Interest and fee Income	47,215,347	40,490,470	197,164,603	31,841,697	35,161,417	350,921,941	702,795,475
Interest expenses	(31,099,741)	(26,670,208)	(129,868,114)	(20,973,446)	(23,160,075)	0	(231,771,584)
Reversal of losses in deposits with banks	0	0	0	0	0	16,555	16,555
Provision for investment securities losses	0	0	0	0	0	(780,850)	(780,850)
Provision for loan losses	(2,595,911)	(1,807,743)	(10,432,431)	(1,608,850)	0	0	(16,444,935)
Provision for valuation of foreclosed assets	(1,035,237)	(570,797)	(29,542)	0	0	0	(1,635,576)
Fees for banking services	3,617,754	3,102,477	15,107,228	2,439,788	2,694,153	1,698,260	28,659,660
Other income	2,611,332	2,239,400	10,904,552	1,761,064	1,944,667	0	19,461,015
General and administrative expenses	(27,774,374)	(23,818,473)	(115,981,854)	(18,730,842)	(20,683,664)	(2,272,392)	(209,261,599)
Net income	(9,060,830)	(7,034,874)	(33,135,558)	(5,270,589)	(4,043,502)	349,583,514	291,038,161
Segment assets	859,231,859	598,352,893	3,453,076,414	532,520,676	1,600,851,140	8,256,531,501	15,300,564,483
Segment liabilities	1,706,540,756	1,188,402,860	6,858,236,890	1,057,651,933	3,179,488,384	0	13,990,320,823

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

(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, 2023, the following were the aggregate balances in respect of transactions with related parties:

	Directors and Key Management Personnel		Government Sector	
	2023	**2022**	**2023**	**2022**
Assets				
Time deposits at amortized cost	0	0	40,032,396	40,058,398
Investments in securities at amortized cost	0	0	1,274,260,348	1,012,419,621
Loans:				
Loans outstanding at beginning of the period	2,648,442	1,954,041	828,303,655	845,052,452
Loans issued during of the period	2,124,834	2,590,507	755,713,084	720,570,444
Loans cancelled during of the period	(1,393,687)	(1,896,106)	(754,950,141)	(737,319,241)
Gross balance	3,379,589	2,648,442	829,066,598	828,303,655
Accrued interest receivable	2,259	2,066	8,568,771	4,976,267
Loans outstanding at end of the period at amortized cost	3,381,848	2,650,508	837,635,369	833,279,922
Account receivable – subsidies	0	0	99,885,092	142,235,584
Fiscal credit from preferential interest on loans	0	0	159,130,325	103,271,657
Liabilities				
Deposits at amortized cost:				
Demand deposits	15,484	30,606	3,840,764,059	3,740,255,913
Savings deposits	991,411	656,191	0	0
Time deposits	68,000	0	5,612,773,252	5,241,594,039
Restricted deposits	0	0	15,768,328	7,379,846
Bond payable at amortized cost	0	0	206,267,485	206,267,485
Commitments:				
Letters of credit	0	0	8,669,713	258,813
Profit and Loss				
Interest and commission income:				
Investments in securities	0	0	131,225,737	47,083,037
Deposits in banks	0	0	768,587	985,560
Loans	97,279	82,833	36,222,043	26,858,786
Interest expenses:				
Deposits	31,247	5,755	140,622,200	57,878,657
Bond	0	0	6,257,803	6,257,803
General and administrative expenses:				
Directors' allowances	285,000	308,000	0	0
Salaries	5,915,379	4,921,104	0	0
Employee benefits	251,649	197,204	0	0

The Bank's group of directors and key management personnel consists of 6 directors and 43 senior managers.

Loans to key management personnel are granted with the same terms and conditions that are available to other employees. As of December 31, 2023, loans granted to related parties have been classified as low risk and they maintain an allowance for expected credit losses of B/.739,819 (2022: B/.1,002,924).

(24) Assets under Management and Custody

As of December 31, 2023, the Bank held under management trust agreements for the account and risk of third parties for B/.3,744,194,046 (2022: B/.4,279,861,606). 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 agreements.

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 equity 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, 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 agreements.

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, 2023, the carrying value of this investments in securities portfolio amounted to B/.4,191,000,655 (2022: B/.5,012,826,509) 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, 2023, the Bank obtained income from commissions earned from trust activities for B/.1,655,573 (2022: B/.1,479,591), brokerage and custody services for B/.707,268 (2022: B/.643,414) and securities services for B/.377,227 (2022: B/.508,196) During the period, the Bank incurred financial services expenses for B/.755,565 (2022: B/.767,485).

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

(25) Fair Value of Financial Instruments

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:

	2023	
	Carrying value	**Fair value**
Financial assets:	3,684,330,069	3,684,349,932
Time deposits at AC	4,192,024,258	3,956,201,838
Investments in securities at AC	6,312,302,203	5,738,037,974
Loans at AC	14,188,656,530	13,378,589,744
Financial liabilities:		
Time deposits at AC	5,930,462,243	5,908,091,738
Local bond payable at AC	206,267,485	205,010,369
International bond payable at AC	1,008,167,778	753,680,000
Borrowings received at AC	247,864,266	236,643,496
	7,392,761,772	7,103,425,603

	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 bond payable at AC	206,267,485	203,184,051
International bond 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

Interest payable on customers time deposits is B/.7,922,053 (2022: B/.12,436,668).

(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:

	Fair Value			
2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments in securities at FVOCI:				
Equity shares	10,115,135	1,135,882	12,982,423	24,233,440
Investments in debt securities	38,451,200	0	0	38,451,200
	48,566,335	1,135,882	12,982,423	62,684,640
Investments in securities at FVTPL:				
Negotiable certificates	0	55,121,675	0	55,121,675

	Fair Value			
2022	**Level 1**	**Level 2**	**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

The Bank maintains within its policies the processes to determine the fair value of financial instruments. The fair value is based on quoted market prices as the first alternative; when there are no available quotes, the application of internal valuation models is resorted to, such as those generally used in the local banking industry and must prioritize the use of observable market variables and minimize the use of discretionary parameters.

As of December 31, 2023, no transfers of financial instruments were recorded between Level 1 and Level 2 of the fair value hierarchy. The Bank's policies establish the events under which changes may occur in the hierarchy levels of the fair value of financial instruments.

The valuation techniques for financial instruments measured at fair value at Level 3 are detailed below:

	Quantitative information on fair values Level 3			
2023	**Fair value**	**Valuation technique**	**Unobservable input data**	**Range**
Equity shares	12,982,423	Discounted projected cash flows	Projected annual growth	5% - 10%

During 2023, negotiable certificates at FVTPL went from being valued through a discounted projected cash flow model (Level 3) to being valued through observable prices (Level 2). The valuation techniques for these financial instruments are detailed below:

(25) Fair Value for Financial Instruments, continued

2023	Fair value	Fair value valuation technique Level 2 Valuation technique
Negotiable certificates	55,121,675	Market price provided by the administrator of the negotiable certificates

		Quantitative information on fair values Level 3		
2022	Fair value	Valuation technique	Unobservable input data	Range
Negotiable certificates	43,375,748	Discounted projected cash flows	Discount rate	3% - 6%

The following table sets out information on the sensitivity of the fair value of Level 3 financial instruments to unobservable input data:

		Quantitative information on fair values Level 3		
2023	Valuation technique	Unobservable input data	Range	Sensitivity
Equity shares	Discounted projected cash flows	Projected annual growth	5% - 10%	A significant decrease in projected net flows would cause a reduction in fair value

The following table shows a reconciliation of opening balances to ending balances for instruments measured at fair value at Level 3 of the fair value hierarchy:

	Financial instruments		
2023	Negotiable certificates	Equity shares	Total
Balance as of January 1	43,375,748	0	43,375,748
Total profit or loss			
In income statement	2,889,013	0	2,095,169
In OCI	0	12,591,281	12,591,281
Purchases	8,856,914	0	9,650,758
Transferred to Level 3	0	391,142	391,142
Transferred from Level 3	(55,121,675)	0	(55,121,675)
Balance as of December 31	0	12,982,423	12,982,423

During 2023, some equity shares at fair value through other comprehensive income went from being recorded at acquisition cost to being valued using a discounted projected cash flow model (Level 3).

For investment instruments in securities that are quoted in active markets, the fair value is determined by the instrument's reference price published in 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.

(25) Fair Value for Financial Instruments, continued

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

Description	2023 Level 2	2023 Level 3	2022 Level 2	2022 Level 3
Assets:				
Time deposits at AC	0	3,684,349,932	0	4,092,422,954
Investments in securities at AC	3,956,201,838	0	3,364,591,815	0
Loans at AC	0	5,738,037,974	0	5,300,213,028
	3,956,201,838	9,422,387,906	3,364,591,815	9,392,635,982
Liabilities:				
Time deposits at AC	0	5,908,091,738	0	5,650,392,615
Local bond payable at AC	0	205,010,369	0	203,184,051
International bond payable at AC	753,680,000	0	802,150,000	0
Borrowings received at AC	236,643,496	0	297,918,889	0
	990,323,496	6,113,102,107	1,100,068,889	5,853,576,666

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.
Bond payable at amortized cost / foreign borrowing received with MIGA guarantee at amortized cost / bond payable - international 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 single text of Decree Law 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, whereby the banking system in Panama was established and creates the Superintendency of Banks and its regulations.

(26) Principal Applicable Laws and Regulations, continued

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

(b) Securities Law

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

In 2013, the Superintendency of the Securities Market issued Agreement No. 8-2013, which modifies rules that are within Agreement No. 4-2011 on adequate capital, minimum total capital required, solvency ratio, capital ratio. liquidity and credit concentrations that must be addressed by brokerage houses in Panama and those financial institutions that have a brokerage house license.

The following is a description of the modified rules in the Agreement No. 8-2013 of the Superintendency of the 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. 4-2011 modified by Agreement No. 8-2013, establishes that all brokerage houses that offer the custody account management service in physical form or through third parties, must comply with the additional capital requirement. As of December 31, 2023, the Bank had an additional capital requirement of B/.1,676,400 (2022: B/.2,005,131).

  As of December 31, 2023, the capital contributed by the State for B/.1,000,000,000 covers the minimum total capital and the additional capital, as both 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.

(26) Principal Applicable Laws and Regulations, continued

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

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

(c) Trust Law

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

The objective of such 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

Law 3 of 1985 established mechanisms 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 rate is the difference 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 tax credit. According to Law No. 8 of March 15, 2010, which supersedes Article 6 of Law No. 3 of 1985, the benefit of the preferential interest rate of the first ten (10) years of the loan is increased to the first fifteen (15) years in new loans and consequently the right of the financial entities to receive tax credits during the same period, according to the established table.

(26) Principal Applicable Laws and Regulations, continued

The tax 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. If in any fiscal year a bank is not able to use effectively all the tax credits to which it is entitled, then it may use the excess tax credit during the following three years, at its convenience, 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, stipulating that established and regulated tax credits, which would have expired in 2017, based on the three-year prescription term, will regain their validity and will be subject to the five-year prescription term.

The latest amendments to Law 3 were 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.

Law 94 is in force from September 23, 2019, until August 1, 2024, for a period of five years, two months, and 23 days: without retroactive effects. It applies to loans approved as of the date of enactment. The tax credits to which financial institutions are entitled will be received in accordance with the terms recognized for each case as 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 dispose of 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) retained earnings; 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 be maintained until the acquired asset is actually transferred, and it shall not be considered as a regulatory reserve for purposes of calculating the equity ratio.

(26) Principal Applicable Laws and Regulations, continued

(b) Loans and Off-Balance Sheet Operations

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

Specific Provisions

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

Banks must at all times calculate and maintain the amount of specific provisions determined through the methodology specified in this Agreement, which takes into consideration the balance due of each credit facility classified in one of the categories subject to provisioning, mentioned in the previous paragraph; the present value of each guarantee available 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 an excess in the specific provisions, calculated according to this Agreement, when compared to the provision calculated under IFRS, such excess shall be accounted for as a regulatory reserve in equity, increasing or decreasing appropriations 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:

	2023		2022	
	Loans, gross	**Allowance**	**Loans, gross**	**Allowance**
Standard	6,008,309,855	0	5,595,773,516	0
Special mention	208,538,028	6,263,538	144,106,095	2,558,033
Sub-standard	124,757,472	10,662,562	90,894,477	8,934,853
Doubtful	33,885,648	7,033,066	25,862,579	5,950,142
Loss	70,007,353	21,009,561	68,364,453	19,527,638
Gross amount	6,445,498,356	44,968,727	5,925,001,120	36,970,666

(26) Principal Applicable Laws and Regulations, continued

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 for more than 90 days; and
b) For residential mortgage loans, if it is overdue for more than 120 days.

As of December 31, 2023, the Bank maintains loans for B/.45,913,644 (2022: B/.59,211,369) in nonaccrual status and uncollected interest amounts to B/.2,706,856 (2022: B/.4,287,719).

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 contractual payment date.

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 contractual payment date. The operations with a balloon payment at maturity date and overdrafts, are considered overdue when their lack of payment exceeds 30 days from the date on which each obligation was determined to be paid.

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

2023			2022		
Past due loans	**Overdue loans**	**Total**	**Past due loans**	**Overdue loans**	**Total**
73,377,273	84,412,173	157,789,446	66,897,813	95,951,680	162,849,493

Loans written off as of December 31, 2023 in the amount of B/.13,437,096 (2022: B/.10,750,411) are still subject to collection activities.

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 appropriations 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 June 6, 2023, the Superintendency of Banks of Panama, through a General Resolution of the Board of Directors, issued the restoration of the constitution of the dynamic provision provided for in Agreement No. 004-2013.

As of December 31, 2023, the Bank's dynamic provision amounts to B/.79,811,111 (2022: 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 for 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 on those instruments as established in those 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 IFRS Accounting Standards.

(26) Principal Applicable Laws and Regulations, continued

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

- An instrument held for accounting purposes, in accordance with IFRSs, as an asset or liability for trading purposes (so that it would be measured daily at market prices, with valuation differences being recognized in the statement of profit or loss).
- Instruments resulting from market-making activities.
- Instruments resulting from underwriting commitments.
- Equity investment in a fund, except when the daily market price is not available for determining the fund's value.
- Representative value of capital quoted on a stock exchange.
- Short position.
- Derivative contracts, except those that serve to hedge positions 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	12,471,624	12,083,624
Common shares	NA	6,507,322	6,507,322
Common shares	NA	3,607,814	3,063,847
Common shares	NA	780,550	743,051
Common shares	NA	510,799	507,657
Common shares	NA	190,130	152,630
Common shares	NA	105,714	26,429
Common shares	NA	59,488	32,448

The capital requirement for these instruments at December 31, 2023 is B/.6,234,626 (2022: B/.2,366,620).

The Superintendency of Banks of Panama, establishes in Agreement No. 012-2019, article 13, that all equity instruments (shares) 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, 2023, the regulatory reserve for investments in securities with changes in other comprehensive income is B/.59,565 (2022: B/.9,675).

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Schedule 1 - Supplementary Information from the Brokerage House

December 31, 2023

(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 Superintendencies.

In compliance with Article 22 of Agreement No. 4-2011, modified by the Agreement No. 8-2013 of the Superintendency of the Securities 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 Securities Market", the following are the minimum and maximum ratios/amounts maintained during the three-month period ending on December 31, 2023, during the year ending on December 31, 2023 and at closing of December 31, 2023.

	Three-month period ending December 31, 2023				
	Maximum	**Date**	**Minimum**	**Date**	**December 31, 2023**
Solvency ratio	100%	02-10-2023	100%	02-10-2023	100%
Capital funds	6,175,838	26-12-2023	6,089,352	02-10-2023	6,140,351

	For the year ended December 31, 2023				
	Maximum	**Date**	**Minimum**	**Date**	**December 31, 2023**
Solvency ratio	100%	03-01-2023	100%	03-01-2023	100%
Capital funds	6,182,219	26-06-2023	4,882,520	05-01-2023	6,140,351

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, 2023 and during the year ended December 31, 2023:

Three-month period ending on December 31, 2023

As of December 31, 2023	75.46%
Maximum for the period – December 15, 2023	76.61%
Minimum for the period – October 02, 2023	69.38%

Year ended December 31, 2023

As of December 31, 2023	75.46%
Maximum for the period – May 31, 2023	77.22%
Minimum for the period – September 30, 2023	69.38%

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 Brokerage House 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, 2023, no concentration situations occurred according with the segmented balances characteristic of the activity of the Brokerage House.

In compliance with Agreement No. 4-2011, single 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 customer accounts and supplements to financial information by activity, for those Brokerage House that hold more than one license; the following is the supplementary information as described above:

(1) Managed Amount of Customer Accounts

As of December 31, 2023, the Bank holds the following investments in securities:

		2023	
	Banking	**Brokerage House**	**Total**
Own position	4,272,963,631	7,200,000	4,280,163,631
Third party position	0	4,191,000,655	4,191,000,655

		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

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 brokerage house license.

As of December 31, 2023, the Bank has consigned as guarantee public debt securities for the amount of B/.1,100,000 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 state 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 (2022: B/.1,099,306).).

(2) Financial Information by Type of License

The following table shows the assets, liabilities and equity of the Bank as of December 31, 2023 by activity, according to the licenses granted:

		2023	
	Banking	Brokerage House	Total
Total assets	15,292,270,153	8,294,330	15,300,564,483
Total liabilities	13,990,232,001	88,822	13,990,320,823
Total equity	1,302,038,152	8,205,508	1,310,243,660

		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

The following presents the Bank's income and expenses for the year ended December 31, 2023 by activity, according to the licenses granted:

		2023	
	Banking	Brokerage House	Total
Net interest and commission income after provisions	451,875,495	2,007,235	453,882,730
Other income	46,417,030	0	46,417,030
Other expenses	1,869,532	0	1,869,532
General and administrative expenses	206,590,340	801,727	207,392,067
Net income	289,832,653	1,205,508	291,038,161

		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

(2) Financial Information by Type of License, continued

As of December 31, 2023, the brokerage house under the license held by the Bank generated commissions for brokerage services and custody fees in the amount of B/.1,686,654. This income is presented as net interest and commission income after provisions, while in the Bank it is presented as other income (2022: B/.1,764,071).

(3) Valuation Basis

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