

BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

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

September 30, 2023

(FREE ENGLISH THE LANGUAGE
TRANSLATION FROM SPANISH VERSION)

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

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

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

September 30, 2023
(Unaudited)

(SIGNED)
Prepared by:

Verified by:

Javier González
Managerial Information
Department
CPA 0131-2007

Julissa I. Morán H.
Executive Deputy Manager
Finance
CPA 0423

Approved by:

Liliana J. Pinilla B.
Executive Manager
Finance

BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

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BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

Condensed Interim Statement of Financial Position

September 30, 2023

(Expressed in Balboas)

	Note	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Assets			
Cash and cash equivalents	6	302,198,381	408,473,367
Deposits in banks at amortized cost:			
Demand deposits- foreign	6	153,245,548	107,061,569
Time deposits - local		155,384,298	305,580,885
Time deposits - foreign		2,287,263,954	3,786,842,069
Less: Reserve for bank deposit losses		13,793	36,440
Total bank deposits at amortized cost		2,595,880,007	4,199,448,083
Total cash, cash equivalents and bank deposits at amortized cost		2,898,078,388	4,607,921,450
Securities purchased under resale agreements at amortized cost		163,065,656	195,406,384
Less: Reserve for losses on securities purchased under resale agreements		366,227	233,515
Securities purchased under resale agreements at amortized cost	7	162,699,429	195,172,869
Investments in securities		3,224,744,894	3,614,226,519
Less: Reserve for investment losses		5,977,573	5,338,379
Investments in securities, net	8	3,218,767,321	3,608,888,140
Private sector loans and interest receivable		5,374,403,715	5,134,756,608
Government loans and interest receivable		1,317,750,028	833,279,922
Less: Interests and unearned commissions		28,419,365	27,859,145
Allowance for loan losses		152,427,814	140,282,996
Loans at amortized cost	9	6,511,306,564	5,799,894,389
Property and equipment, net		89,453,304	82,516,669
Right of use assets	10	2,149,442	2,518,980
Other assets:			
Foreclosed assets, net	11	8,500,499	7,357,266
Intangible assets		10,941,909	10,979,526
Fiscal credit from preferential interest on loans		146,524,697	103,271,657
Others	11	141,588,662	185,347,969
Total other assets		307,555,767	306,956,418
Total assets		13,190,010,215	14,603,868,915

The condensed interim statement of financial position should be read in conjunction with the notes that form an integral part of the condensed interim financial information.

	Note	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
<u>Liabilities and Capital Funds</u>			
Liabilities:			
Deposits and accrued interest payable at amortized cost:			
Demand deposits:			
Local - private		1,199,488,582	1,221,580,457
Local - public		3,374,304,193	3,740,255,913
Foreign		337,308	345,163
Savings:			
Local - private		962,688,251	959,733,569
Foreign		3,156,473	2,771,945
Time deposits:			
Local - private		249,696,616	408,287,906
Local - public		4,109,180,931	5,241,594,039
Foreign		15,047,701	16,202,232
Restricted		23,467,553	16,932,759
Restricted - escrow funds		71,516,523	70,443,483
Total deposits and interest payable at amortized cost		10,008,884,131	11,678,147,466
Obligations:			
Foreign borrowings received at amortized cost	12	246,100,237	309,891,565
Bond payable - local at amortized cost	12	206,250,340	206,267,485
Bond payable - foreign at amortized cost	12	1,001,674,699	1,007,407,192
Lease liabilities	10	2,321,108	2,688,449
Other liabilities:			
Guarantee certificates for legal proceedings at amortized cost		117,850,290	111,509,187
Miscellaneous creditors		178,710,022	70,218,023
Cashier's and certified checks		22,601,925	22,845,592
Others		52,778,505	53,381,970
Total other liabilities		371,940,742	257,954,772
Total liabilities		11,837,171,257	13,462,356,929
Capital funds:			
Paid-in capital by Government of Panama	4	1,000,000,000	850,000,000
Regulatory reserve for foreclosed assets		3,189,438	3,269,898
Regulatory reserve for investments in securities		56,425	9,675
Valuation of investments in securities		21,244,344	8,125,189
Actuarial valuation		4,314,743	4,314,743
Dynamic regulatory provision		68,450,879	56,928,983
Retained earnings		255,583,129	218,863,498
Total capital funds		1,352,838,958	1,141,511,986
Commitments and contingencies	13		
Total liabilities and capital funds		13,190,010,215	14,603,868,915

BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

Condensed Interim Statement of Profit or Loss

For the nine month period ended September 30, 2023

(Expressed in Balboas)

		(Unaudited)	
	Note	September 2023	September 2022
Interest and commission income			
Interest on:			
Loans		251,070,699	202,745,221
Deposits in banks		125,158,600	48,090,332
Securities		128,122,795	53,308,986
Loan fees		8,496,978	10,241,822
Total interest and fee income		<u>512,849,072</u>	<u>314,386,361</u>
Interest expense:			
Deposits		132,060,218	41,117,241
Borrowings		29,482,607	31,962,162
Lease liabilities	10	81,480	114,976
Total interest expenses		<u>161,624,305</u>	<u>73,194,379</u>
Net interest and commission income		<u>351,224,767</u>	<u>241,191,982</u>
Reversal of provision for losses in deposits with banks	4	(22,647)	(162,475)
Provision for investment securities losses	4	771,906	2,267,017
Provision for loan losses	4	21,110,205	14,320,683
Provision for valuation of foreclosed assets	11	329,702	230,755
Net interest and commission income, after provisions		<u>329,035,601</u>	<u>224,536,002</u>
Other income:			
Fees for banking services	14	21,261,149	21,044,929
Dividends	8	2,016,852	484,403
Gain (loss) net on investments in securities		1,834,956	(313,133)
Others		11,291,186	13,990,925
Total other income		<u>36,404,143</u>	<u>35,207,124</u>
Other expenses:			
Provision for fiscal credits		1,108,458	854,427
Provision for loans commitments		215,916	0
(Reversal of) provision for subsidies		(65,324)	95,522
Commissions		268,844	283,355
Total other expenses		<u>1,527,894</u>	<u>1,233,304</u>
Total other income, net		<u>34,876,249</u>	<u>33,973,820</u>
General and administrative expenses:			
Salaries and other personnel expenses		90,082,034	77,865,066
Rentals		1,025,221	1,121,858
Repairs and maintenance		13,076,755	10,895,514
Depreciation and amortization		9,896,800	10,056,442
Electricity		2,562,023	2,581,563
Advertising		3,496,963	2,888,664
Communications		8,408,978	4,465,621
Insurance		608,637	651,291
Stationery and office supplies		1,387,071	1,207,142
Fees and professional services		3,757,572	2,966,228
Transportation of personnel		836,987	564,708
Transportation of valuables		2,338,935	2,426,209
ATM's		2,189,920	1,383,602
Others		6,162,605	3,841,833
Total general and administrative expenses		<u>145,830,501</u>	<u>122,915,741</u>
Net income		<u>218,081,349</u>	<u>135,594,081</u>

The condensed interim statement of profit or loss should be read in conjunction with the notes that are an integral part of the condensed interim financial information.

BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

Condensed Interim Statement of Comprehensive Income

For the nine month period ended September 30, 2023

(Expressed in Balboas)

		(Unaudited)	
	Note	September 2023	September 2022
Net income		<u>218,081,349</u>	<u>135,594,081</u>
Other comprehensive income (loss):			
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	<u>13,119,155</u>	<u>(1,374,113)</u>
Other comprehensive income (loss) for the period		<u>13,119,155</u>	<u>(1,374,113)</u>
Total comprehensive income for the period		<u><u>231,200,504</u></u>	<u><u>134,219,968</u></u>

The condensed interim statement of other comprehensive income should be read in conjunction with the notes that are an integral part of the condensed interim financial information.

BANCO NACIONAL DE PANAMA

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Condensed Interim Statement of Changes in Capital Funds

For the nine month period ended September 30, 2023

(Expressed in Balboas)

	<u>Note</u>	<u>Paid-in Capital by the Government of Panama</u>	<u>Regulatory reserve for foreclosed assets</u>	<u>Regulatory reserve for investments in securities</u>	<u>Valuation of investments in securities</u>	<u>Actuarial valuation</u>	<u>Dynamic regulatory provision</u>	<u>Retained earnings</u>	<u>Total capital funds</u>
Balance as of December 31, 2021 (Audited)		750,000,000	2,782,178	9,934	8,426,236	(1,701,238)	56,928,983	208,803,792	1,025,249,885
Net income, September 30 2022		0	0	0	0	0	0	135,594,081	135,594,081
Other comprehensive (loss):									
Net change in valuation of investments to FVOCI	8	0	0	0	(1,374,113)	0	0	0	(1,374,113)
Total other income comprehensive (loss) for the period		<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,374,113)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,374,113)</u>
Total comprehensive income (loss) for the period		<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,374,113)</u>	<u>0</u>	<u>0</u>	<u>135,594,081</u>	<u>134,219,968</u>
Other capital funds movements:									
Regulatory reserve for foreclosed assets		0	216,961	0	0	0	0	(216,961)	0
Regulatory reserve for investments in securities		0	0	(705)	0	0	0	705	0
Total other capital funds movements		<u>0</u>	<u>216,961</u>	<u>(705)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(216,256)</u>	<u>0</u>
Transactions recorded directly in capital funds:									
Capitalization of retained earnings		100,000,000	0	0	0	0	0	(100,000,000)	0
Earnings distributed to the Government of Panama (period 2021)		0	0	0	0	0	0	(6,899,767)	(6,899,767)
Total transactions recorded directly in capital funds		<u>100,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(106,899,767)</u>	<u>(6,899,767)</u>
Balance as of September 30, 2022 (Unaudited)		<u>850,000,000</u>	<u>2,999,139</u>	<u>9,229</u>	<u>7,052,123</u>	<u>(1,701,238)</u>	<u>56,928,983</u>	<u>237,281,850</u>	<u>1,152,570,086</u>
Balance as of December 31, 2022 (Audited)		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, September 30, 2023		0	0	0	0	0	0	218,081,349	218,081,349
Other comprehensive income:									
Net change in valuation of investments to FVOCI	8	0	0	0	13,119,155	0	0	0	13,119,155
Total other comprehensive income for the period		<u>0</u>	<u>0</u>	<u>0</u>	<u>13,119,155</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,119,155</u>
Total comprehensive income for the period		<u>0</u>	<u>0</u>	<u>0</u>	<u>13,119,155</u>	<u>0</u>	<u>0</u>	<u>218,081,349</u>	<u>231,200,504</u>
Other capital funds movements:									
Regulatory reserve for foreclosed assets		0	(80,460)	0	0	0	0	80,460	0
Dynamic regulatory provision		0	0	0	0	0	11,521,896	(11,521,896)	0
Regulatory reserve for investments in securities		0	0	46,750	0	0	0	(46,750)	0
Total other capital funds movements		<u>0</u>	<u>(80,460)</u>	<u>46,750</u>	<u>0</u>	<u>0</u>	<u>11,521,896</u>	<u>(11,488,186)</u>	<u>0</u>
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 (period 2022)		0	0	0	0	0	0	(19,873,532)	(19,873,532)
Total transactions recorded directly in capital funds		<u>150,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(169,873,532)</u>	<u>(19,873,532)</u>
Balance as of September 30, 2023 (Unaudited)		<u>1,000,000,000</u>	<u>3,189,438</u>	<u>56,425</u>	<u>21,244,344</u>	<u>4,314,743</u>	<u>68,450,879</u>	<u>255,583,129</u>	<u>1,352,838,958</u>

The condensed interim statement of changes in capital funds must be read in conjunction with the notes that are an integral part of the condensed interim financial information.

BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

Condensed Interim Statement of Cash Flows

For the nine month period ended September 30, 2023

(Expressed in Balboas)

	Note	(Unaudited)	
		September 2023	September 2022
Operating activities:			
Net income		218,081,349	135,594,081
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization		9,896,800	10,056,442
Reversal of provision for losses in deposits with banks	4	(22,647)	(162,475)
Provision for investment in securities losses	4	771,906	2,267,017
Provision for loan losses	4	21,110,205	14,320,683
Provision for valuation of foreclosed assets	11	329,702	230,755
Provision for fiscal credits		1,108,458	854,427
Provision for loans commitments		215,916	0
(Reversal of) provision for subsidies		(65,324)	95,522
(Net gain) loss on sale of foreclosed assets		(901,976)	260,932
Loss net on disposal and sale of furniture and equipment		1,066	7,562
Dividends	8	(2,016,852)	(484,403)
(Gain net) loss on valuation of investments in securities		(1,834,956)	313,134
Net interest and commission income		(351,224,767)	(241,191,982)
Changes in operating assets and liabilities:			
Securities purchased under resale agreements		32,471,563	(86,231,807)
Investments in securities at fair value through profit or loss		(6,659,168)	(10,882,766)
Loans		(739,995,976)	(995,244,897)
Other assets		(2,697,051)	(109,183,574)
Demand deposits received		(388,051,450)	(253,892,441)
Savings deposits received		3,339,210	26,336,292
Time deposits received		(1,280,009,848)	(793,725,769)
Guarantee certificates for legal proceedings		5,917,511	6,667,577
Cashier's and certified checks		(243,667)	2,906,690
Miscellaneous creditors		108,491,999	36,208,727
Other liabilities		(819,381)	5,666,251
Cash generated from operation:			
Interest and commissions received		484,890,879	317,122,665
Interest paid		(169,828,381)	(69,685,485)
Dividends received		2,016,852	484,403
Cash flows from operating activities		(2,055,728,028)	(2,001,292,439)
Investment activities:			
Acquisitions of investments in securities at amortized cost		(3,700,563,214)	(3,816,685,484)
Redemptions of investments in securities at amortized cost	8	4,147,796,274	3,253,286,280
Proceeds from the sale of securities at amortized cost		4,437,500	0
Acquisition of furniture and equipment		(13,462,212)	(5,832,447)
Acquisition of intangible assets		(2,280,128)	(979,270)
Proceeds from the sale of foreclosed assets of borrowers		1,589,226	395,932
Cash flows from investing activities		437,517,446	(569,814,989)
Financing activities:			
Payments of borrowings received	12	(65,454,545)	(182,727,273)
Earnings distributed to the Government of Panama		(19,873,532)	(6,899,767)
Lease payments	10	(1,052,348)	(1,073,121)
Cash flows from financing activities		(86,380,425)	(190,700,161)
Net decrease in cash and cash equivalents		(1,704,591,007)	(2,761,807,589)
Cash and cash equivalents at the beginning of the period		4,600,234,936	7,548,414,873
Cash and cash equivalents at the end of the period	6	2,895,643,929	4,786,607,284
Non-cash transactions			
Increase in paid in capital by the Government of Panama	4	150,000,000	100,000,000

The condensed interim statement of cash flows statement condensed should be read in conjunction with the notes that are an integral part of the condensed interim financial information.

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Notes to the Interim Condensed Financial Information

September 30, 2023

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Notes to the Condensed Interim Financial Information

September 30, 2023

(Expressed in Balboas)

(1) Incorporation and Operations

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

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

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

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

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

(2) Basis of Preparation

(a) Statement of Compliance

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

These condensed interim financial information do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Bank’s financial position and performance since the last annual financial statements. Although management believes that the disclosures included are adequate so that the financial information is interpreted incorrectly, it is suggested that this condensed interim financial information as of September 30, 2023 be read in conjunction with the Bank’s audited financial statements for the year ended on December 31, 2022.

This condensed interim financial statement and supplementary information was approved by the Bank’s management for issuance on October 30, 2023

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Notes to the Condensed Interim Financial Information

(2) Basis of Preparation, continued

(b) *Basis of Measurement*

This condensed interim financial information has been prepared on a historical cost or amortized cost basis, except certain investments in securities at fair value through profit or loss, investments in equity securities which are presented at fair value through other comprehensive income; and foreclosed assets of borrowers, which are measured at the lower of book value or fair value less selling costs.

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

(c) *Functional and Presentation Currency*

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

(3) Summary of Significant Accounting Policies

The accounting policies applied in this condensed interim financial information are the same as those applied in the financial statements for the year ended December 31, 2022.

(a) *Fair Value Measurement*

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

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

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

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

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

(b) *Foreign Currency Transactions*

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

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Notes to the Condensed Interim Financial Information

(3) Summary of Significant Accounting Policies, continued

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

(c) *Cash and Cash Equivalents*

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

(d) *Securities Purchased under Resale Agreements*

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

(e) *Financial Assets*

(e.1) *Classification and measurement of financial instruments*

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

Business model assessment

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

- The policies and objectives identified for each group of financial instruments and the compliance with those guidelines in practice. These include whether management's strategy focuses on earning contractual interest revenue, or the sale of assets, achieving expected returns according to the business model;
- The measurement and risks management that affect the compliance with the business model and the performance of financial instruments;
- How the business managers compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

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Notes to the Condensed Interim Financial Information

(3) Summary of Significant Accounting Policies, continued

Assessment of whether contractual cash flows are solely payments of principal and interests (SPPI)

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

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

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

Classification and Measurement

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

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

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

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

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

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(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

Financial assets derecognition

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

- Contractual rights to the cash flows from the financial asset expire.
- The Bank has transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retain substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.
- The Bank retains the rights to receive the contractual cash flows of the asset but has the obligation to pay the total amount of cash flows received, without a material delay to a third party.

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(3) Summary of Significant Accounting Policies, continued

- When the Bank has transferred its rights to receive cash flows from an asset or has entered into a transferred agreement, and has not transferred nor retained any substantial risk or benefit from the asset, nor transfer the control of the asset, the asset is recognized according to the Bank's ownership over the asset. In that case, the Bank also recognized the associated liability. The transferred asset and the associated liability are based in a measure that reflects the contractual right and obligations that the Bank has retained. The continuous participation that takes the form of a guarantee on the transferred asset is measured at the lowest of the original book value of the asset and the maximum amount of consideration that the Bank could be obliged to pay.

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

Modified or Restructured Financial Assets

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

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

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

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

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

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(3) Summary of Significant Accounting Policies, continued

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

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

(e.2) *Impairment of financial assets*

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

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

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

No impairment losses are recognized on equity investments.

The ECL is measured on the following basis:

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

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

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

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(3) Summary of Significant Accounting Policies, continued

Significant increase in credit risk

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

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

Definition of Default

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

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

Inputs in ECL Measurement

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

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

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

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

Notes to the Condensed Interim Financial Information

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

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(3) Summary of Significant Accounting Policies, continued

Incorporation of Forward Looking Information

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

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

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

Loan Impairment

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

- *Individually Assessed Loans*

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

Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is no objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the original effective interest rate of the loan, versus its current carrying value and the amount of any loss is recognized as an allowance for loan losses in the condensed statement of profit or loss.

- *Collectively Assessed Loans*

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

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(3) Summary of Significant 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 the type of product and borrower, as well as by credit risk rating. For some portfolios, information from external credit agencies may also be used.

Significant Increase in Credit Risk in the Loan Portfolio

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

Definition of Default in the Loan Portfolio

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

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

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(3) Summary of Significant Accounting Policies, continued

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

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

Impairment of deposits in banks and investments in securities at AC

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

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

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

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

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

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

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

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(3) Summary of Significant Accounting Policies, continued

(f) *Dynamic Provision*

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

(g) *Property and Equipment*

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

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

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

Buildings	40 years
Improvements	5 to 20 years
Furniture and equipment	5 to 20 years
Transportation equipment	4 to 11.6 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 distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has the right of a substantial substitution, then an asset is not identified;
- The Bank has the right to obtain substantially all of the economic benefits arising from the use of the asset during the period of use; and

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(3) Summary of Significant Accounting Policies, continued

- The Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, when the decision on how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
 - The Bank has the right to operate the asset; or
 - The Bank designed the asset in a way that predetermines how and for what purpose it will be used.

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

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

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

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

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(3) Summary of Significant Accounting Policies, continued

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

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

Short-Term Leases and Leases of Low Value Assets

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

Application of the Portfolio Approach

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

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

(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 life 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 the condensed statement of profit or loss.

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(3) Summary of Significant Accounting Policies, continued

(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 collateralized by securities, in which there is an obligation to repurchase the securities sold at a future date and at a specified price. The difference between the sale price and the future purchase value is recognized as interest expense under the effective interest rate method.

(m) *Certificates of Warranties for Legal Proceedings*

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

(n) *Bonus Provision and Seniority Premium*

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

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

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

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

(o) *Interest Income and Expense*

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

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(3) Summary of Significant Accounting Policies, continued

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

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

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

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

Amortized cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

Presentation

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

Notes to the Condensed Interim Financial Information

(3) Summary of Significant Accounting Policies, continued

- (p) *Performance Obligations and Revenue Recognition Policy for Fees and Commissions*
Fee and commission income from customer contracts is measured based on the consideration specified in a customer contract. The Bank recognizes revenue when the customer receives the service.

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

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

(q) *New IFRSs and Unadopted Interpretations*

New standards, interpretations and amendments to IFRS have been published, but are not mandatory as of September 30, 2023, and have not been early adopted by the Bank.

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

<u>Amendments</u>	<u>Effective for annual reporting periods Beginning:</u>
Amendments to IAS 1: <i>Classification of Liabilities as Current or Non-current</i>	January 1, 2024
Amendments to IAS 1: Non-current liabilities with agreed conditions	January 1, 2024
Amendments to IFRS 16: Lease liability for sale with leaseback	January 1, 2024

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(4) Financial Risks Management

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

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

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

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

(a) Credit Risk

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

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

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

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(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 irregulars and classified loans.

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

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

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

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

Credit Quality Analysis

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

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(4) Financial Risk Management, continued

Loan commitments - credit cards and accounts receivable

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

The following table analyzes the credit quality of financial assets at amortized cost, credit commitments and allowances per ECL for these assets held by the Bank as of September 30, 2023:

	September 30, 2023			Total
	Low Risk	Significant Risk	Default Risk	
	(Unaudited)			
Loans at AC				
Standard	6,234,158,039	2,114,716	0	6,236,272,755
Special mention	75,907,862	127,782,298	514,380	204,204,540
Sub-Standard	0	96,125,850	15,296,077	111,421,927
Doubtful	0	0	33,949,295	33,949,295
Loss	0	0	70,743,413	70,743,413
Gross Balance	6,310,065,901	226,022,864	120,503,165	6,656,591,930
Interest receivable	30,546,670	3,346,287	1,668,856	35,561,813
Interest and unearned commissions	(27,687,986)	(269,951)	(461,428)	(28,419,365)
Loss allowance	(42,029,821)	(33,075,936)	(77,322,057)	(152,427,814)
Balance at AC	6,270,894,764	196,023,264	44,388,536	6,511,306,564
Consumer Loans				
0 to 30 days	3,261,424,337	95,193,793	23,077,318	3,379,695,448
31 to 60 days	27,046,397	9,266,895	4,023,563	40,336,855
More than 61 days	5,694,737	5,369,002	52,237,321	63,301,060
Balance	3,294,165,471	109,829,690	79,338,202	3,483,333,363
Individually assessed loans	0	76,140,066	5,040,271	81,180,337
Loss allowance:				
Individual	0	(643,635)	(202,123)	(845,758)
Collective	(42,029,821)	(32,432,301)	(77,119,934)	(151,582,056)
Total loss reserve	(42,029,821)	(33,075,936)	(77,322,057)	(152,427,814)
Loans commitments				
Standard	596,337,075	0	0	596,337,075
Gross balance	596,337,075	0	0	596,337,075
Loss allowance	(604,969)	0	0	(604,969)
Balance of loans commitments	595,732,106	0	0	595,732,106
Bank deposits at AC				
Standard	2,593,445,548	0	0	2,593,445,548
Gross balance	2,593,445,548	0	0	2,593,445,548
Interest receivable	2,448,252	0	0	2,448,252
Loss allowance	(13,793)	0	0	(13,793)
Balance of deposits in banks at AC	2,595,880,007	0	0	2,595,880,007
Securities purchased under resale agreement at AC				
Standard	160,364,965	0	0	160,364,965
Gross balance	160,364,965	0	0	160,364,965
Interest receivable	2,700,691	0	0	2,700,691
Loss allowance	(366,227)	0	0	(366,227)
Balance of Securities purchased under resale agreement at AC	162,699,429	0	0	162,699,429
Investments in securities at AC				
Standard	3,077,985,959	41,249,497	0	3,119,235,456
Gross balance	3,077,985,959	41,249,497	0	3,119,235,456
Interest receivable	31,095,500	410,751	0	31,506,251
Loss allowance	(4,491,203)	(1,486,370)	0	(5,977,573)
Balance of investments in securities at AC	3,104,590,256	40,173,878	0	3,144,764,134

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(4) Financial Risk Management, continued

	December 31, 2022			Total
	Low Risk	Significant Risk	Default Risk	
(Audited)				
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	<u>0</u>	<u>0</u>	<u>68,364,453</u>	<u>68,364,453</u>
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	<u>(31,921,823)</u>	<u>(42,679,773)</u>	<u>(65,681,400)</u>	<u>(140,282,996)</u>
Balance at AC	<u>5,376,830,839</u>	<u>367,651,112</u>	<u>55,412,438</u>	<u>5,799,894,389</u>
Consumer Loans				
0 to 30 days	2,856,712,471	260,234,479	11,985,236	3,128,932,186
31 to 60 days	20,153,222	25,354,852	1,445,051	46,953,125
More than 61 days	<u>4,417,710</u>	<u>11,901,105</u>	<u>56,655,804</u>	<u>72,974,619</u>
Balance	<u>2,881,283,403</u>	<u>297,490,436</u>	<u>70,086,091</u>	<u>3,248,859,930</u>
Individually assessed loans	<u>0</u>	<u>77,602,568</u>	<u>3,741,600</u>	<u>81,344,168</u>
Loss allowance:				
Individual	0	(1,463,722)	(221,710)	(1,685,432)
Collective	<u>(31,921,823)</u>	<u>(41,216,051)</u>	<u>(65,459,690)</u>	<u>(138,597,564)</u>
Total loss reserve	<u>(31,921,823)</u>	<u>(42,679,773)</u>	<u>(65,681,400)</u>	<u>(140,282,996)</u>
Loans commitments				
Standard	<u>600,245,364</u>	<u>0</u>	<u>0</u>	<u>600,245,364</u>
Gross balance	600,245,364	0	0	600,245,364
Loss allowance	<u>(389,054)</u>	<u>0</u>	<u>0</u>	<u>(389,054)</u>
Balance of loans commitments	<u>599,856,310</u>	<u>0</u>	<u>0</u>	<u>599,856,310</u>
Bank deposits at AC				
Standard	<u>4,191,761,569</u>	<u>0</u>	<u>0</u>	<u>4,191,761,569</u>
Gross balance	4,191,761,569	0	0	4,191,761,569
Interest receivable	7,722,954	0	0	7,722,954
Loss allowance	<u>(36,440)</u>	<u>0</u>	<u>0</u>	<u>(36,440)</u>
Balance of deposits in banks at AC	<u>4,199,448,083</u>	<u>0</u>	<u>0</u>	<u>4,199,448,083</u>
Securities purchased under resale agreement at AC				
Standard	<u>192,836,528</u>	<u>0</u>	<u>0</u>	<u>192,836,528</u>
Gross balance	192,836,528	0	0	192,836,528
Interest receivable	2,569,856	0	0	2,569,856
Loss allowance	<u>(233,515)</u>	<u>0</u>	<u>0</u>	<u>(233,515)</u>
Balance of Securities purchased under resale agreement at AC	<u>195,172,869</u>	<u>0</u>	<u>0</u>	<u>195,172,869</u>
Investments in securities at AC				
Standard	<u>3,494,243,549</u>	<u>45,894,849</u>	<u>0</u>	<u>3,540,138,398</u>
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	<u>(2,650,279)</u>	<u>(2,688,100)</u>	<u>0</u>	<u>(5,338,379)</u>
Balance of investments in securities at AC	<u>3,512,621,246</u>	<u>43,649,523</u>	<u>0</u>	<u>3,556,270,769</u>

During the period ended September 30, 2023, the Bank carried out loan restructurings with an amortized cost before the modification of B/.137,811,291 (December 31, 2022: B/.361,860,370) and that generated an increase in the reserve for expected credit losses of B/.698,108 at the time of its modification (December 31, 2022: B/.473,958).

Notes to the Condensed Interim Financial Information

(4) Financial Risk Management, continued

The Bank maintains deposits placed in banks with a gross balance of B/.2,593,445,548 as of September 30, 2023 (December 31, 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:

<u>Rating of deposits in banks</u>	<u>September 30, 2023</u>		
	<u>Local Rating</u>	<u>International credit rating (i)</u>	<u>Total</u>
A1, P1, F1	0	897,090,444	897,090,444
A2, P2, F2	0	1,166,425,749	1,166,425,749
A3, P3, F3	0	20,000,000	20,000,000
Unrated	0	509,929,355	509,929,355
Gross subtotal	0	2,593,445,548	2,593,445,548
Interest receivable	0	2,448,252	2,448,252
Loss reserve	0	(13,793)	(13,793)
Balance at amortized cost	<u>0</u>	<u>2,595,880,007</u>	<u>2,595,880,007</u>

<u>Rating of deposits in banks</u>	<u>December 31, 2022</u>		
	<u>Local Rating</u>	<u>International credit rating (i)</u>	<u>Total</u>
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	<u>40,055,930</u>	<u>4,159,392,153</u>	<u>4,199,448,083</u>

- (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 and, therefore, does not have a credit rating. Its credit rating is equivalent to an AAA sovereign rating issued by S&P, Moody's or Fitch Ratings.

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(4) Financial Risk Management, continued

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

<u>Investments in securities</u>	September 30, 2023		<u>Total</u>
	<u>Local Rating</u>	<u>International Rating (i)</u>	
AAA	0	44,269,359	44,269,359
AA+ to A	117,745,691	599,370,044	717,115,735
A-	15,010,208	76,755,728	91,765,936
BBB+ to BBB-	167,903,604	1,422,319,572	1,590,223,176
BB+	0	15,000,000	15,000,000
BB to B-	0	37,742,380	37,742,380
Unrated	<u>3,507,117</u>	<u>619,611,753</u>	<u>623,118,870</u>
Gross subtotal	304,166,620	2,815,068,836	3,119,235,456
Interest receivable	2,763,280	28,742,971	31,506,251
Loss reserve	<u>(3,128,892)</u>	<u>(2,848,681)</u>	<u>(5,977,573)</u>
Balance at amortized cost	<u>303,801,008</u>	<u>2,840,963,126</u>	<u>3,144,764,134</u>

<u>Investments in securities</u>	December 31, 2022		<u>Total</u>
	<u>Local Rating</u>	<u>International Rating (i)</u>	
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	<u>14,937,500</u>	<u>731,101,733</u>	<u>746,039,233</u>
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	<u>(1,886,977)</u>	<u>(3,451,402)</u>	<u>(5,338,379)</u>
Balance at amortized cost	<u>280,121,883</u>	<u>3,276,148,886</u>	<u>3,556,270,769</u>

- (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 S&P, Moody's or Fitch Ratings.

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Notes to the Condensed Interim Financial Information

(4) Financial Risk Management, continued

Credit Risk Concentration

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

	Deposits in bank		Investments in securities		Securities purchased under resale agreement	
	September	December	September	December	September	December
	30, 2023	31, 2022	30, 2023	31, 2022	30, 2023	31, 2022
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Gross book value	<u>2,593,445,548</u>	<u>4,191,761,569</u>	<u>3,170,877,865</u>	<u>3,583,514,146</u>	<u>160,364,965</u>	<u>192,836,528</u>
Concentration by sector:						
Corporate	0	0	688,297,302	812,689,680	0	0
Consumer	0	0	0	0	0	0
Financial institutions	1,911,325,387	2,555,007,493	841,388,334	1,084,281,210	160,364,965	192,836,528
Public sector	<u>682,120,161</u>	<u>1,636,754,076</u>	<u>1,641,192,229</u>	<u>1,686,543,256</u>	<u>0</u>	<u>0</u>
Gross book value	<u>2,593,445,548</u>	<u>4,191,761,569</u>	<u>3,170,877,865</u>	<u>3,583,514,146</u>	<u>160,364,965</u>	<u>192,836,528</u>
Geographic concentration:						
Panama	20,000,000	60,000,000	1,727,789,484	1,606,405,336	160,364,965	192,836,528
USA and Canada	1,563,491,236	1,460,433,538	644,456,562	1,039,863,055	0	0
Europe	330,000,000	855,223,956	4,954,696	24,922,238	0	0
Others	<u>679,954,312</u>	<u>1,816,104,075</u>	<u>793,677,123</u>	<u>912,323,517</u>	<u>0</u>	<u>0</u>
Gross book value	<u>2,593,445,548</u>	<u>4,191,761,569</u>	<u>3,170,877,865</u>	<u>3,583,514,146</u>	<u>160,364,965</u>	<u>192,836,528</u>

	Loans		Loan commitments	
	September	December	September	December
	30, 2023	31, 2022	30, 2023	31, 2022
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Gross book value	<u>6,656,591,930</u>	<u>5,925,001,120</u>	<u>596,337,075</u>	<u>600,245,364</u>
Concentration by sector:				
Corporate	1,540,090,134	1,455,395,318	88,312,053	67,804,649
Consumer	3,483,333,363	3,248,859,930	507,799,288	532,085,602
Financial institutions	323,161,937	392,442,217	130,204	140,600
Public sector	<u>1,310,006,496</u>	<u>828,303,655</u>	<u>95,530</u>	<u>214,513</u>
Gross book value	<u>6,656,591,930</u>	<u>5,925,001,120</u>	<u>596,337,075</u>	<u>600,245,364</u>
Geographic concentration:				
Panama	6,656,591,930	5,925,001,120	596,337,075	600,245,364
USA and Canada	0	0	0	0
Europe	0	0	0	0
Others	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Gross book value	<u>6,656,591,930</u>	<u>5,925,001,120</u>	<u>596,337,075</u>	<u>600,245,364</u>

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

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

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Notes to the Condensed Interim Financial Information

(4) Financial Risk Management, continued

Expected credit losses

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

	September 30, 2023			Total
	(Unaudited)			
	Low risk	Significant risk	Default risk	
Deposits in Banks				
Balance as of January 1, 2023	36,440	0	0	36,440
Net remeasurement of loss allowance	(7,573)	0	0	(7,573)
Allocation of reserve to new originated financial assets	5,946	0	0	5,946
Reversal of reserve of assets that have been written off	(21,020)	0	0	(21,020)
Balance as of September 30, 2023	<u>13,793</u>	<u>0</u>	<u>0</u>	<u>13,793</u>
Investments in securities and securities purchased under resale agreement				
Balance as of January 1, 2023	2,883,794	2,688,100	0	5,571,894
Transfers to PCE over the life of the loan (significant risk)	0	0	0	0
Net remeasurement of loss allowance	1,064,593	(1,201,731)	0	(137,138)
Allocation of reserve to new purchased financial assets	1,131,990	0	0	1,131,990
Reversal of reserve due to derecognized assets	(222,946)	0	0	(222,946)
Balance as of September 30, 2023	<u>4,857,431</u>	<u>1,486,369</u>	<u>0</u>	<u>6,343,800</u>
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)	3,509,329	(1,944,531)	(1,564,798)	0
Transfers to PCE over the life of the loan (significant risk)	(793,398)	2,272,283	(1,478,885)	0
Transfers to PCE over the life of the loan (default)	(237,015)	(1,111,767)	1,348,782	0
Net remeasurement of loss allowance	(1,114,086)	2,551,797	10,906,080	12,343,791
Allocation of reserve to new originated financial assets	4,503,496	382,999	1,043,350	5,929,845
Reversal of reserve due to derecognized assets	(3,096,194)	(966,740)	(9,066,118)	(13,129,052)
Loans written off	0	0	(5,861,684)	(5,861,684)
Recoveries	0	0	901,224	901,224
Balance as of September 30, 2023	<u>17,450,108</u>	<u>9,418,048</u>	<u>23,782,730</u>	<u>50,650,886</u>
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)	25,115,328	(19,503,163)	(5,612,165)	0
Transfers to PCE over the life of the loan (significant risk)	(1,023,761)	7,595,919	(6,572,158)	0
Transfers to PCE over the life of the loan (default)	(789,812)	(4,777,956)	5,567,768	0
Net remeasurement of loss allowance	(20,007,174)	6,151,671	32,117,139	18,261,636
Allocation of reserve to new originated financial assets	2,161,954	25,803	106,180	2,293,937
Reversal of reserve due to derecognized assets	(478,847)	(280,152)	(6,189,131)	(6,948,130)
Loans written off	0	0	(6,029,198)	(6,029,198)
Recoveries	0	0	2,024,271	2,024,271
Balance as of September 30, 2023	<u>20,214,980</u>	<u>23,657,888</u>	<u>53,539,327</u>	<u>97,412,195</u>
Financial institution Loans				
Balance as of January 1, 2023	1,013,531	0	0	1,013,531
Net remeasurement of loss allowance	44,565	0	0	44,565
Allocation of reserve to new originated financial assets	3,245,161	0	0	3,245,161
Reversal of reserve due to derecognized assets	(883,345)	0	0	(883,345)
Balance as of September 30, 2023	<u>3,419,912</u>	<u>0</u>	<u>0</u>	<u>3,419,912</u>
Public Sector Loans				
Balance as of January 1, 2023	993,024	0	0	993,024
Net remeasurement of loss allowance	(278,305)	0	0	(278,305)
Allocation of reserve to new financial assets originated	720,248	0	0	720,248
Financial assets that have been written off	(490,146)	0	0	(490,146)
Balance as of September 30, 2023	<u>944,821</u>	<u>0</u>	<u>0</u>	<u>944,821</u>

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Notes to the Condensed Interim Financial Information

(4) Financial Risk Management, continued

	December 31, 2022			
	(Audited)			
	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	<u>36,440</u>	<u>0</u>	<u>0</u>	<u>36,440</u>
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	<u>2,883,794</u>	<u>2,688,100</u>	<u>0</u>	<u>5,571,894</u>
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	<u>14,677,976</u>	<u>8,234,007</u>	<u>27,554,779</u>	<u>50,466,762</u>
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	<u>15,237,292</u>	<u>34,445,766</u>	<u>38,126,621</u>	<u>87,809,679</u>
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	<u>1,013,531</u>	<u>0</u>	<u>0</u>	<u>1,013,531</u>
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	<u>993,024</u>	<u>0</u>	<u>0</u>	<u>993,024</u>

(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.

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Notes to the Condensed Interim Financial Information

(4) Financial Risk Management, continued

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.

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 September 30, 2023, the Bank's Liquidity Coverage Ratio is 201.7% exceeding the 100% established by the aforementioned Agreement (December 31, 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.

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

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
As of the end of the period	69.4%	74.8%
Average of the period	73.5%	81.4%
Maximum of the period	77.2%	86.4%
Minimum of the period	69.4%	74.8%

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Notes to the Condensed Interim Financial Information

(4) Financial Risk Management, continued

(c) Market Risk

The table below summarizes the Bank's exposure to interest rate risk. The Bank's assets and liabilities are included in the table at their 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.

	September 30, 2023				Total
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	
(Unaudited)					
Assets:					
Time deposits in banks	2,442,648,252	0	0	0	2,442,648,252
Securities purchased under resale agreements	163,065,656	0	0	0	163,065,656
Investments in securities	1,170,318,845	334,434,892	337,441,957	1,360,188,422	3,202,384,116
Loans	<u>1,555,376,783</u>	<u>289,223,608</u>	<u>868,504,339</u>	<u>3,979,049,013</u>	<u>6,692,153,743</u>
Total	<u>5,331,409,536</u>	<u>623,658,500</u>	<u>1,205,946,296</u>	<u>5,339,237,435</u>	<u>12,500,251,767</u>
Liabilities:					
Savings deposits	965,844,724	0	0	0	965,844,724
Time and restricted deposits	3,113,002,736	672,175,903	15,190,389	668,540,296	4,468,909,324
Borrowing received	429,906	0	245,670,331	0	246,100,237
Bond payable	<u>5,028,229</u>	<u>0</u>	<u>0</u>	<u>1,202,896,810</u>	<u>1,207,925,039</u>
Total	<u>4,084,305,595</u>	<u>672,175,903</u>	<u>260,860,720</u>	<u>1,871,437,106</u>	<u>6,888,779,324</u>
Net interest sensitivity margin	<u>1,247,103,941</u>	<u>(48,517,403)</u>	<u>945,085,576</u>	<u>3,467,800,329</u>	<u>5,611,472,443</u>
December 31, 2022					
(Audited)					
	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	<u>883,104,555</u>	<u>263,990,381</u>	<u>826,593,420</u>	<u>3,994,348,174</u>	<u>5,968,036,530</u>
Total	<u>6,942,545,440</u>	<u>493,632,313</u>	<u>1,189,527,503</u>	<u>5,235,145,508</u>	<u>13,860,850,764</u>
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
Borrowing received	1,556,168	0	0	308,335,397	309,891,565
Bond payable	<u>11,087,040</u>	<u>0</u>	<u>0</u>	<u>1,202,587,636</u>	<u>1,213,674,676</u>
Total	<u>6,132,439,152</u>	<u>563,740,958</u>	<u>13,785,141</u>	<u>1,529,566,922</u>	<u>8,239,532,173</u>
Net interest sensitivity margin	<u>810,106,288</u>	<u>(70,108,645)</u>	<u>1,175,742,362</u>	<u>3,705,578,586</u>	<u>5,621,318,591</u>

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

Administration of the Benchmark Interest Rate Reform (IBOR)

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

Notes to the Condensed Interim Financial Information

(4) Financial Risk Management, continued

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

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

New transactions and renewals are carried out using to 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.

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Notes to the Condensed Interim Financial Information

(4) Financial Risk Management, continued

(e) Capital Management

The Bank's policy is to maintain strong capital that can ensure the future development of investment and credit businesses within the market, with adequate levels of return on shareholder capital and capital adequacy required by regulators. Law Decree No. 4 of 2006, as amended by Law No. 24 of May 16, 2017, establishes the Bank's capital at B/.500,000,000. This capital may be periodically increased by the Board of Directors, subject to a favorable opinion of the Executive Body through a Decree, in accordance with the provisions of banking legislation or best banking practices. As of September 30, 2023, the Bank maintains capital funds of B/.1,000,000,000 (December 31, 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, registered in the trading portfolio and Agreement No.011-2018 establishes capital requirements for operational risk, both of which took effect on December 31, 2019.

As of September 30, 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:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Primary Capital		
Paid-in-capital by Panamanian Government	1,000,000,000	850,000,000
Retained earnings	146,542,455	218,863,498
Other items in comprehensive income	25,559,087	12,439,932
Less: intangible assets	<u>10,941,909</u>	<u>10,979,526</u>
Primary Capital	<u>1,161,159,633</u>	<u>1,070,323,904</u>
Dynamic regulatory provision	<u>68,450,879</u>	<u>56,928,983</u>
Total Capital Funds	<u>1,229,610,512</u>	<u>1,127,252,887</u>
Total risk-weighted assets	<u>6,252,439,797</u>	<u>6,109,648,512</u>
Capital adequacy ratio	<u>19.67%</u>	<u>18.45%</u>

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

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

(a) Impairment Losses on Financial Assets

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

(b) Fair Value

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

(c) Foreclosed Assets of Borrowers

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

(6) Cash and Cash Equivalents

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

	September 30, <u>2023</u> (Unaudited)	September 30, <u>2022</u> (Unaudited)
Cash and cash equivalents	302,198,381	375,239,730
Demand deposits	153,245,548	63,667,554
Time deposits	<u>2,440,200,000</u>	<u>4,347,700,000</u>
Total gross cash, cash equivalents and deposits with banks in the condensed statement of financial position, excluding interest receivable	<u>2,895,643,929</u>	<u>4,786,607,284</u>
Less: Time deposits in banks with original maturities over 90 days	<u>0</u>	<u>0</u>
Total cash and cash equivalents in the condensed statement of cash flows:	<u>2,895,643,929</u>	<u>4,786,607,284</u>

As of September 30, 2023, the Bank maintains a reserve for expected losses on deposits in banks of B/.13,793 (December 31, 2022: B/.36,440).

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Notes to the Condensed Interim Financial Information

(7) Securities Purchased under Resale Agreements

As of September 30, 2023, the Bank maintains securities purchased under resale agreements, for B/.160,364,965 (December 31, 2022 B/192,836,528) with various maturities until 2024 and an annual interest rate of 1% to 1.75%, the which are detailed below:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Securities Purchased under Resale Agreements	160,364,965	192,836,528
Interest receivable	2,700,691	2,569,856
Reserve for losses	<u>(366,227)</u>	<u>(233,515)</u>
Securities purchased under resale agreements at amortized cost	<u>162,699,429</u>	<u>195,172,869</u>

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:

	September 30, 2023 (Unaudited)			
	FVTPL	FVOCI	AC	Total
Public debt securities	51,642,409	0	1,589,549,820	1,641,192,229
Private debt securities	0	0	1,529,685,636	1,529,685,636
Private equity shares	0	22,360,778	0	22,360,778
Subtotal	<u>51,642,409</u>	<u>22,360,778</u>	<u>3,119,235,456</u>	<u>3,193,238,643</u>
Interest receivable	0	0	31,506,251	31,506,251
Loss reserve	0	0	<u>(5,977,573)</u>	<u>(5,977,573)</u>
Balance of investments in securities	<u>51,642,409</u>	<u>22,360,778</u>	<u>3,144,764,134</u>	<u>3,218,767,321</u>

	December 31, 2022 (Audited)			
	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	<u>43,375,748</u>	<u>9,241,623</u>	<u>3,540,138,398</u>	<u>3,592,755,769</u>
Interest receivable	0	0	21,470,750	21,470,750
Loss reserve	0	0	<u>(5,338,379)</u>	<u>(5,338,379)</u>
Balance of investments in securities	<u>43,375,748</u>	<u>9,241,623</u>	<u>3,556,270,769</u>	<u>3,608,888,140</u>

Equity investments at fair value with changes in other comprehensive income as of September 30, 2023, recorded a net realized gain of B/.13,119,155 as a result of the net change in fair value (September 30, 2022: net unrealized loss: B/.1,374,113).

As of September 30, 2023, the Bank received dividends on private equity investments of B/.2,016,852 (September 30, 2022: B/.484,403).

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(8) Investments in Securities, continued

As of September 30, 2023, securities at amortized cost were redeemed for B/.4,147,796,274 (September 30, 2022: B/.3,253,286,280).

As of September 30, 2023, the Bank maintains an allowance for expected credit losses on investments in securities at amortized cost of B/.5,977,573 (December 31, 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:

	September 30 2023 (Unaudited)	December 31, 2022 (Audited)
Public sector, gross	1,310,006,496	828,303,655
Private sector, gross:		
Residential mortgages	2,192,391,221	1,972,469,481
Personal	1,290,942,142	1,276,390,449
Agricultural	613,259,667	600,119,195
Commercial	896,959,754	821,759,570
Financial institutions	323,161,937	392,442,217
Industrials	29,487,573	33,238,275
Overdrafts	383,140	278,278
Total gross private sector	<u>5,346,585,434</u>	<u>5,096,697,465</u>
Total gross loans	<u>6,656,591,930</u>	<u>5,925,001,120</u>
More (less):		
Accrued interest receivable	35,561,813	43,035,410
Interest and unearned commissions	(28,419,365)	(27,859,145)
Reserve for loan losses	<u>(152,427,814)</u>	<u>(140,282,996)</u>
Loans at amortized cost	<u>6,511,306,564</u>	<u>5,799,894,389</u>

(10) Leases

As a Lessee

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

Right-of-use assets

September 30, 2023 (Unaudited)	Administrative Offices and Bank Branches	ATM's space	Parking lots/ Land	Warehouses/ Deposits	Total
Balance as of January 1, 2023	2,228,887	94,632	2,600	192,861	2,518,980
Additions	516,288	14,191	0	90,390	620,869
Adjustments for modifications	64,138	0	0	0	64,138
Depreciation for the period	<u>(819,121)</u>	<u>(85,601)</u>	<u>(2,600)</u>	<u>(147,223)</u>	<u>(1,054,545)</u>
Balance as of September 30, 2023	<u>1,990,192</u>	<u>23,222</u>	<u>0</u>	<u>136,028</u>	<u>2,149,442</u>

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(10) Leases, continued

<u>December 31, 2022</u> <u>(Audited)</u>	<u>Administrative</u> <u>Offices and</u> <u>Bank Branches</u>	<u>ATM's</u> <u>space</u>	<u>Parking</u> <u>lots/ Land</u>	<u>Warehouses/</u> <u>Deposits</u>	<u>Total</u>
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	<u>(1,182,564)</u>	<u>(165,386)</u>	<u>(39,582)</u>	<u>(99,580)</u>	<u>(1,487,112)</u>
Balance as of December 31, 2022	<u>2,228,887</u>	<u>94,632</u>	<u>2,600</u>	<u>192,861</u>	<u>2,518,980</u>

Lease Liabilities

Maturity analysis - Undiscounted contractual cash flows

	<u>September 30,</u> <u>2023</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2022</u> <u>(Audited)</u>
Less than one year	372,914	134,521
One to five years	1,048,041	1,654,041
More than five years	<u>1,109,634</u>	<u>1,155,139</u>
Total undiscounted lease liabilities	<u>2,530,589</u>	<u>2,943,701</u>
Lease liability included in condensed statement of financial position	<u>2,321,108</u>	<u>2,688,449</u>

Amount recognized in the condensed statement of profit or loss

	<u>September 30,</u> <u>2023</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2022</u> <u>(Audited)</u>
Interest expense on lease liabilities	<u>81,480</u>	<u>78,780</u>
Expenses related to short-term leases	<u>542,167</u>	<u>269,000</u>

Amounts recognized in the condensed statement of cash flows

	<u>September 30,</u> <u>2023</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2022</u> <u>(Audited)</u>
Total cash outflow from leases, net	<u>1,675,995</u>	<u>1,042,327</u>

As of September 30, 2023, total lease cash recognized in the condensed statement of cash flows includes the portion of the payment to principal as a financing activity for B/.1,052,348 (September 30, 2022: B/.1,073,121), the portion of interest for B/.81,480 (September 30, 2022: B/.114,976) and the portion of short-term leases for B/.542,167 (September 30, 2022: B/.582,601) as an operating activity.

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(10) Leases, continued

(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.

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

(11) Other Assets

Borrowers foreclosed assets

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

The foreclosed assets of borrowers are detailed as follows:

	September 30, <u>2023</u> <u>(Unaudited)</u>	December 31, <u>2022</u> <u>(Audited)</u>
Foreclosed assets of borrowers	8,500,499	7,996,435
Impairment reserve, net	<u>0</u>	<u>(639,169)</u>
Net balance	<u>8,500,499</u>	<u>7,357,266</u>

Notes to the Condensed Interim Financial Information

(11) Other Assets, continued

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

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at the beginning of the period	639,169	1,648,540
Provision for valuation of foreclosed assets	329,702	511,335
Discharged assets	<u>(968,871)</u>	<u>(1,520,706)</u>
Balance at the end of the period	<u>0</u>	<u>639,169</u>

As of September 30, 2023, the Bank made net sales of foreclosed assets from borrowers for B/.1,589,226 (September 30, 2022: B/.395,932).

The other miscellaneous assets are detailed as follows:

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Numismatic and other currencies	2,582,612	2,588,432
Financing program ("Profinco")	490,303	515,209
Printing and supplies	2,657,838	3,155,238
Account receivable - FECI grant	14,304,026	5,503,789
Other remittances and transfers in transit	725,970	228,530
Prepaid expenses and insurance	486,367	376,567
Cultural property	243,966	247,213
Cash withdrawals to be compensated – Clave Card	458,152	539,067
Insurance receivable on loans	658,229	606,442
Balance of loans receivable through life insurance policies	426,868	1,951,440
Account receivable – subsidies, net	110,771,375	142,235,584
Others	<u>7,782,956</u>	<u>27,400,458</u>
	<u>141,588,662</u>	<u>185,347,969</u>

As of September 30, 2023, the Bank maintains an account receivable for subsidies in the amount of B/.110,771,375 (December 31, 2022: B/.142,235,584). The Bank, as the financial institution par excellence of the Government, is empowered to support the execution of programs and projects that contribute to the economic and social development of the country.

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

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

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As of September 30, 2023, the Bank maintains the following foreign borrowing received:

	<u>Start Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Due</u>	<u>Carrying value Amortized Cost</u>	
					<u>September 30, 2023 (Unaudited)</u>	<u>December 31, 2022 (Audited)</u>
	Aug-20	Aug-27	1.232%	261,818,182	<u>246,100,237</u> <u>246,100,237</u>	<u>309,891,565</u> <u>309,891,565</u>

Bonds Payable

<u>Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Due</u>	<u>Carrying value Amortized Cost</u>	
				<u>September 30, 2023 (Unaudited)</u>	<u>December 31, 2022 (Audited)</u>
Series D – Issuance on September 2019	Sep-29	3.000%	205,736,000	<u>206,250,340</u>	<u>206,267,485</u>
International Bond – Issuance on August 2020	Aug-30	2.500%	1,000,000,000	<u>1,001,674,699</u>	<u>1,007,407,192</u>

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

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

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

	<u>September 30, 2023 (Unaudited)</u>	<u>September 30, 2022 (Unaudited)</u>
Balance at the beginning of the period	1,523,566,242	1,698,021,301
Payments of borrowings received	(65,454,546)	(182,727,273)
Amortization	0	4,397,955
Interest and commissions paid	(33,569,027)	(36,568,154)
Recognition of interest	<u>29,482,607</u>	<u>31,962,162</u>
Balance at the end of the period	<u>1,454,025,276</u>	<u>1,515,085,991</u>

As of September 30, 2023, interest payable on financing received from foreign is B/.429,905 (December 31, 2022: B/.1,556,168), for local bond is B/.514,340 (December 31, 2022: B/.531,485), and the international bond B/.4,513,889 (December 31, 2022: B/.10,555,556).

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Notes to the Condensed Interim Financial Information

(13) Commitments and Contingencies

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

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

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

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Letters of credit	20,237,733	35,541,085
Payments pledges	547,973,095	556,384,571
Loan commitments	<u>28,126,247</u>	<u>8,319,708</u>
	<u>596,337,075</u>	<u>600,245,364</u>

As of September 30, 2023, the Bank maintains a reserve for letters of credit and payment pledges for B/.604,969 (December 31, 2022: B/.389,054).

As of September 30, 2023, there were lawsuits filed against Banco Nacional de Panama in the amount of B/.1,278,064,856 (December 31, 2022: B/.1,328,833,331). The Bank's management and its lawyers estimate that there is a remote probability that the Bank will be ordered to pay the total amount claimed. As of September 30, 2023, the Bank does not maintain any provisions (December 31, 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.

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(14) Fees for Banking Services

The breakdown of the most significant fees for banking service revenues reconciled to the reportable segments in Note 15 is as follows:

	September 30, 2023 (Unaudited)						Treasury and Capital Markets	Total
	Corporate and Commercial	Agricultural and Forestry	Consumer	Financial Institutions	Government Sector			
Letters of Credit	62,096	54,009	269,299	40,662	45,686	1,758	473,510	
Transfers	57,903	50,362	251,112	37,915	42,600	775	440,667	
Card Services	1,467,529	1,276,400	6,364,355	960,954	1,079,692	0	11,148,930	
Fund management, custody and brokerage	239,613	208,406	1,039,152	156,902	176,289	771,788	2,592,150	
Current accounts	129,424	112,568	561,286	84,749	95,220	4,125	987,372	
Savings accounts	166	145	722	109	123	0	1,265	
State services	46,422	40,376	201,320	30,397	34,153	0	352,668	
Guarantee certificates and cashier's checks	67,355	58,583	292,108	44,105	49,556	0	511,707	
National stamps	2,786	2,423	12,080	1,824	2,049	0	21,162	
Clearinghouse services	323,542	281,404	1,403,132	211,859	238,037	0	2,457,974	
Commission for Negotiation and Consulting	108,595	94,451	470,950	71,109	79,895	0	825,000	
Others	<u>128,824</u>	<u>112,046</u>	<u>558,681</u>	<u>84,355</u>	<u>94,778</u>	<u>470,060</u>	<u>1,448,744</u>	
Total banking service fees (see note 15)	<u>2,634,255</u>	<u>2,291,173</u>	<u>11,424,197</u>	<u>1,724,940</u>	<u>1,938,078</u>	<u>1,248,506</u>	<u>21,261,149</u>	

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

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(15) Segment Information

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

Detail	September 30, 2023 (Unaudited)						Total
	Corporate and Commercial	Agriculture and Forestry	Consumer	Financial Institutions	Government Sector	Treasury And Capital Markets	
Interest and fee income	34,166,778	29,716,941	148,173,941	22,372,790	25,137,227	253,281,395	512,849,072
Interest expenses	(21,274,536)	(18,503,768)	(92,263,068)	(13,930,805)	(15,652,128)	0	(161,624,305)
Reversal of provision for losses on bank deposits	0	0	0	0	0	22,647	22,647
Provision for investment losses	0	0	0	0	0	(771,906)	(771,906)
Provision for loan losses	(3,132,262)	(2,567,494)	(13,753,429)	(1,657,020)	0	0	(21,110,205)
Provision for valuation of foreclosed assets	0	(298,571)	(31,131)	0	0	0	(329,702)
Fees for banking services	2,634,255	2,291,173	11,424,197	1,724,940	1,938,078	1,248,506	21,261,149
Other income	1,993,266	1,733,665	8,644,362	1,305,213	1,466,488	0	15,142,994
General and administrative expenses	(19,181,274)	(16,683,130)	(83,185,045)	(12,560,114)	(14,112,073)	(1,636,759)	(147,358,395)
Net income	<u>(4,793,773)</u>	<u>(4,311,184)</u>	<u>(20,990,173)</u>	<u>(2,744,996)</u>	<u>(1,222,408)</u>	<u>252,143,883</u>	<u>218,081,349</u>
Segment assets	<u>761,198,467</u>	<u>623,949,336</u>	<u>3,342,341,571</u>	<u>402,687,068</u>	<u>2,082,487,015</u>	<u>5,977,346,758</u>	<u>13,190,010,215</u>
Segment liabilities	<u>1,249,252,328</u>	<u>1,024,003,850</u>	<u>5,485,334,205</u>	<u>660,875,946</u>	<u>3,417,704,928</u>	<u>0</u>	<u>11,837,171,257</u>

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

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(16) Balances and Transactions with Related Parties

The Bank has incurred in transactions in the ordinary course of business with certain related parties such as key management personnel and government entities, including autonomous and semi-autonomous entities. Given the Bank's 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 September 30, 2023, the following were the aggregate balances in respect of transactions with related parties:

	Directors and Key Management Personnel		Government Sector	
	September 30, 2023 (Unaudited)	December, 31 2022 (Audited)	September 30, 2023 (Unaudited)	December, 31 2022 (Audited)
Assets				
Time deposits at amortized cost	0	0	0	40,058,398
Investments in securities at amortized cost	0	0	1,164,527,703	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	1,731,139	2,590,507	706,023,939	720,570,444
Loans cancelled during of the period	<u>(1,312,238)</u>	<u>(1,896,106)</u>	<u>(224,321,098)</u>	<u>(737,319,241)</u>
Gross balance	3,067,343	2,648,442	1,310,006,496	828,303,655
Accrued interest receivable	2,182	2,066	7,743,532	4,976,267
Loans outstanding at end of the period at amortized cost	<u>3,069,525</u>	<u>2,650,508</u>	<u>1,317,750,028</u>	<u>833,279,922</u>
Account receivable – subsidies, net	0	0	110,771,375	142,235,584
Fiscal credit from preferential interest on loans	0	0	146,524,697	103,271,657
Liabilities				
Deposits at amortized cost:				
Demand deposits	22,256	30,606	3,374,304,193	3,740,255,913
Savings deposits	1,336,806	656,191	0	0
Time deposits	68,000	0	4,109,180,931	5,241,594,039
Restricted deposits	0	0	14,709,053	7,379,846
Bond payable at amortized cost	0	0	206,250,340	206,267,485
Commitments:				
Letters of credit	0	0	7,591,613	258,813
	September 30, 2023 (Unaudited)	September 30, 2022 (Unaudited)	September 30, 2023 (Unaudited)	September 30, 2022 (Unaudited)
Profit and Loss				
Interest and commission income:				
Investments in securities	0	0	94,246,493	26,472,664
Deposits in banks	0	0	543,870	393,480
Loans	<u>74,486</u>	<u>59,450</u>	<u>25,996,611</u>	<u>18,507,661</u>
Interest expenses:				
Deposits	17,160	3,822	95,431,191	30,879,396
Bond	0	0	0	0
General and administrative expenses:				
Directors' allowances	206,500	214,000	0	0
Salaries	4,185,172	3,173,794	0	0
Employee Benefits	<u>185,336</u>	<u>136,538</u>	<u>0</u>	<u>0</u>

The Bank's group of directors and key management personnel consists of 6 directors and 42 senior managers.

Loans to key management personnel are granted with the same terms and conditions that are available to other employees. As of September 30, 2023, loans granted to related parties have been classified as low risk and they maintain an allowance for expected credit losses of B/.1,259,868 (December 31, 2022: B/.1,002,924).

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(Panama, Republic of Panama)

Notes to the Condensed Interim Financial Information

(17) Assets Under Administration and Custody

As of September 30, 2023, the Bank held under management trust agreements for the account and risk of third parties for B/.3,684,859,042 (December 31, 2022: B/. 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 contracts.

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

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

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

The Bank provides securities brokerage and custody services. This activity is carried out under a securities firm license, at the clients' risk. As at September 30, 2023, the carrying value of this investments in securities portfolio amounted to approximately B/.3,984,647,255 (December 31, 2022: B/.5,012,826,509) and is controlled in off-balance accounts that are not part of the Bank's condensed statement of financial position. Given the nature of these services, management considers that there is no significant risk of loss to the Bank in the provision of such services.

As of September 30, 2023, the Bank obtained income from commissions earned from trust activities for B/.631,326 (September 30, 2022: B/.361,488), brokerage and custody services for B/.533,256 (September 30, 2022: B/.473,495) and securities services for B/.335,477 (September 30, 2022: B/.508,196) During the period, the Bank incurred financial services expenses for B/.641,815 (September 30, 2022: B/.617,554).

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

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Notes to the Condensed Interim Financial Information

(18) Fair Value of Financial Instruments

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

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

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

- Level 1: Prices quoted (unadjusted) in active markets for identical assets or liabilities that are accessible to the Bank's management at the measurement date.
- Level 2: Input data other than quoted prices included in Level 1 that are observable, either directly (i.e., prices) or indirectly (i.e., determined on the basis of prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques where significant input data are directly or indirectly observable in a market.
- Level 3: This category covers all instruments where valuation techniques include unobservable inputs and have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable assumptions or adjustments reflect the difference between the instruments.

Other valuation techniques include net present value, discounted cash flow models, comparisons with similar instruments for which there are observable market prices, and other valuation models. 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.

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Notes to the Condensed Interim Financial Information

(18) Fair Value for Financial Instruments, continued

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

	September 30, 2023	
	(Unaudited)	
	Carrying	Fair
	Value	Value
Financial assets:		
Time deposits at AC	2,442,634,518	2,442,648,252
Investments in securities at AC	3,144,764,134	2,910,789,022
Loans at AC	<u>6,511,306,564</u>	<u>5,958,692,801</u>
	<u>12,098,705,216</u>	<u>11,312,130,075</u>
Financial liabilities:		
Time deposits at AC	4,373,925,248	4,354,751,606
Local bond payable at AC	206,250,340	204,725,631
International bond payable at AC	1,001,674,699	783,590,000
Borrowings received at AC	<u>246,100,237</u>	<u>233,041,470</u>
	<u>5,827,950,524</u>	<u>5,576,108,707</u>
	December 31, 2022	
	(Audited)	
	Carrying	Fair
	Value	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	<u>5,799,894,389</u>	<u>5,300,213,028</u>
	<u>13,448,551,712</u>	<u>12,757,227,797</u>
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	<u>309,891,565</u>	<u>297,918,889</u>
	<u>7,189,650,419</u>	<u>6,953,645,555</u>

Interest payable on time deposits is B/.7,895,408 (December 31, 2022: B/.12,436,668).

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Notes to the Condensed Interim Financial Information

(18) Fair Value for Financial Instruments, continued

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

	Fair Value			
	Level 1	Level 2	Level 3	Total
September 30, 2023				
(Unaudited)				
Investments in securities at FVOCI:				
Equity shares	<u>8,899,551</u>	<u>1,155,712</u>	<u>12,305,515</u>	<u>22,360,778</u>
Investments in securities at FVTPL:				
Negotiable certificates	<u>0</u>	<u>51,642,409</u>	<u>0</u>	<u>51,642,409</u>
December 31, 2022				
(Audited)				
Investments in securities at FVOCI:				
Equity shares	<u>7,524,492</u>	<u>1,325,989</u>	<u>0</u>	<u>8,850,481</u>
Investments in securities at FVTPL:				
Negotiable certificates	<u>0</u>	<u>43,375,748</u>	<u>0</u>	<u>43,375,748</u>

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

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

Description	September 30, 2023		December 31, 2022	
	Level 2	Level 3	Level 2	Level 3
Assets:				
Time deposits at AC	0	2,442,648,252	0	4,092,422,954
Investments in securities at AC	2,910,789,022	0	3,364,591,815	0
Loans at AC	<u>0</u>	<u>5,958,692,801</u>	<u>0</u>	<u>5,300,213,028</u>
	<u>2,910,789,022</u>	<u>8,401,341,053</u>	<u>3,364,591,815</u>	<u>9,392,635,982</u>
Liabilities:				
Time deposits at AC	0	4,354,751,606	0	5,650,392,615
Local bond payable at AC	0	204,725,631	0	203,184,051
International bond payable at AC	783,590,000	0	802,150,000	0
Borrowings received at AC	<u>233,041,470</u>	<u>0</u>	<u>297,918,889</u>	<u>0</u>
	<u>1,016,631,470</u>	<u>4,559,477,237</u>	<u>1,100,068,889</u>	<u>5,853,576,666</u>

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Notes to the Condensed Interim Financial Information

(18) Fair Value for Financial Instruments, continued

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

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

(19) Principal Applicable Laws and Regulations

General Laws and Regulations

(a) *Banking Law*

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

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

(b) *Securities Law*

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

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

BANCO NACIONAL DE PANAMA

(Panama, Republic of Panama)

Notes to the Condensed Interim Financial Information

(19) Principal Applicable Laws and Regulations, continued

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

- **Total Minimum Required Capital:** Banks with a brokerage firm license must constitute and maintain free of encumbrances, at all times, a total minimum required capital, which shall be the sum of the amounts of capital required for each license. The Superintendency of Banks of Panama requires a minimum capital of B/.10,000,000, and the Superintendency of the Securities Market requires a minimum capital of B/.350,000. The capital maintained by the Bank according to these criteria exceeds that total minimum required capital.
- **Additional Capital Requirement:** Article 4-A of Agreement No. 8-2013, establishes that all Brokerages firms that offer the service of managing custody accounts in physical form or through third parties, must comply with the additional capital requirement. As of September 30, 2023, the Bank had an additional capital requirement of B/.1,593,859 (As of December 31, 2022: B/.2,005,131).

As of September 30, 2023, the capital contributed by the State for B/.1,000,000,000 covers the minimum total capital required and the additional capital requirement, required by the Superintendency of Banks of Panama and the Superintendency of Securities Market.

- **Solvency Ratio:** The brokerage houses must maintain at all times a minimum capital adequacy ratio of eight percent (8%) of the total assets and off balance sheet operations, weighted according to their risks. The calculation of the solvency ratio, should not include the customers' or third parties accounts that must be separated from the assets of the Brokerage House.
- **Liquidity Ratio:** Brokerage firms shall maintain, at all times a volume of investments in low risk and high liquidity assets that shall be at least thirty per cent (30%) of the total liabilities due with a residual term of less than one (1) year.
- **Credit Risk Concentrations:** The risks maintained by Brokerage firms with respect to an issuer, individual client or a group of issuers or clients related to each other, shall be considered as a concentration situation when the accumulated value of these risks exceeds ten percent (10%) of the total value of its capital funds.

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

(c) Trust Law

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

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(Panama, Republic of Panama)

Notes to the Condensed Interim Financial Information

(19) Principal Applicable Laws and Regulations, continued

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

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

- **Composition of capital:** Article 25 establishes that companies that are authorized to act as trustees shall issue shares representing their capital stock exclusively in nominative form.
- **Minimum paid-in or assigned capital:** Article 26 establishes that the minimum paid-in or assigned capital to apply for and maintain a trust license shall be one hundred and fifty thousand balboas (B/.150,000).

(d) Preferential Interest Law

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 fiscal credit. According to Law No. 8 of March 15, 2010, which repeals Article 6 of Law No. 3 of 1985, the benefit of the preferential interest 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 fiscal credits during the same period, according to the established table.

The fiscal credit established in Law No. 3 of 1985, as amended by Law No. 29 of 2008, may be used for the payment of national taxes, including income tax. If in any fiscal year a bank is not able to use effectively all the fiscal credits to which it is entitled, then it may use the excess fiscal 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 fiscal 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.

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Notes to the Condensed Interim Financial Information

(19) Principal Applicable Laws and Regulations, continued

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 fiscal credits to which financial institutions are entitled will be received in accordance with the terms recognized for each case established in the Law.

Specific regulations of the Superintendency of Banks of Panama

(a) *Acquired Foreclosed Assets*

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

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

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

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

(b) *Loans and off-balance sheet operations*

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

Specific Provisions

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

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Notes to the Condensed Interim Financial Information

(19) Principal Applicable Laws and Regulations, continued

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

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

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

	<u>September 30, 2023</u>		<u>December 31, 2022</u>	
	<u>(Unaudited)</u>		<u>(Audited)</u>	
	<u>Loans, Gross</u>	<u>Allowance</u>	<u>Loans, Gross</u>	<u>Allowance</u>
Standard	6,236,272,755	0	5,595,773,516	0
Special mention	204,204,540	5,111,791	144,106,095	2,558,033
Sub-standard	111,421,927	9,945,468	90,894,477	8,934,853
Doubtful	33,949,295	7,006,646	25,862,579	5,950,142
Loss	<u>70,743,413</u>	<u>21,055,054</u>	<u>68,364,453</u>	<u>19,527,638</u>
Gross amount	<u>6,656,591,930</u>	<u>43,118,959</u>	<u>5,925,001,120</u>	<u>36,970,666</u>

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:

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

As of September 30, 2023, the Bank maintains loans for B/.51,325,524 (December 31, 2022: B/.59,211,369) in nonaccrual status and the interest not received amounts to B/.3,226,144 (December 31, 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 date established for compliance with the payments.

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

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Notes to the Condensed Interim Financial Information

(19) Principal Applicable Laws and Regulations, continued

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

<u>September 30, 2023</u>			<u>December 31, 2022</u>		
<u>(Unaudited)</u>			<u>(Audited)</u>		
<u>Past due</u>	<u>Overdue</u>	<u>Total</u>	<u>Past due</u>	<u>Overdue</u>	<u>Total</u>
<u>65,423,240</u>	<u>76,831,415</u>	<u>142,254,655</u>	<u>66,897,813</u>	<u>95,951,680</u>	<u>162,849,493</u>

Loans written off as of September 30, 2023 in the amount of B/.10,277,304 (December 31, 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.

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

On 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 September 30, 2023 the dynamic provision of the bank amounted to B/.68,450,879 (December 31, 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 on the management of the market risk inherent to the investment portfolio of the Banks in Panama, based on the general criteria of classification of the trading portfolio with the purpose of determining the capital requirement of those instruments applied as established in said agreements.

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Notes to the Condensed Interim Financial Information

(19) Principal Applicable Laws and Regulations, continued

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

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

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

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

- An instrument held for accounting purposes, in accordance with IFRSs, as an asset or liability for trading purposes (so that it would be measured daily at market prices, with valuation differences being recognized in the condensed statement of profit or loss).
- Instruments resulting from market-making activities.
- Instruments resulting from underwriting commitments.
- Equity investment in a fund, except when the daily market price is not available for determining the fund's value.
- Representative value of capital quoted on the stock exchange.
- Short position in short.
- Derivative contracts, except those that serve to hedge positions that are not recorded in the trading book.
- Financial instruments that include derivatives, whether explicit or implicit, that are part of the banking book and whose underlying is related to equity risk or credit risk.

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

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Notes to the Condensed Interim Financial Information

(19) Principal Applicable Laws and Regulations, continued

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 six months ended at September 30, 2023, are detailed below by type of position:

<u>Type of instruments</u>	<u>Maturity Date</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Common shares	NA	11,808,594	11,420,594
Common shares	NA	5,795,962	5,795,962
Common shares	NA	3,103,589	2,559,623
Common shares	NA	780,551	743,050
Common shares	NA	496,921	493,779
Common shares	NA	190,130	152,630
Common shares	NA	105,714	26,429
Common shares	NA	79,317	52,277

The capital requirement for these instruments at September 30, 2023 is B/.10,929,554 (December 31, 2022: B/.2,366,620).

The Superintendency of Banks of Panama, establishes in Agreement No. 012-2019, article 13, that all capital instruments (stocks) measured at fair value with changes in other comprehensive income, must constitute a reserve for expected losses, this requirement is strictly prudential and independent of what is established by IFRS 9. As of September 30, 2023, the regulatory reserve for investments in securities with changes in other comprehensive income is B/.56,425 (December 31, 2022: B/.9,675).

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Schedule 1 - Supplementary Information from the Brokerage House

September 30, 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 Superintendence's.

In compliance with Article 22 of Agreement No. 4-2011, modified by the Agreement No. 8-2013 of the Superintendency of the Stock Market, "by which rules are issued on adequate capital, solvency ratio, capital funds, liquidity ratio and credit risk concentrations, which must be attended by the Securities Houses regulated by the Superintendency of the Stock Market", the following are the minimum and maximums maintained during the three-month period ending on September 30, 2023, the nine-month period ending on September 30, 2023 and at closing of September 30, 2023.

Three-month period ended September 30, 2023					September 30,
(Unaudited)					
	Maximum	Date	Minimum	Date	
Solvency ratio	100%	03-Jul-2023	100%	03-Jul-2023	100%
Capital Funds	6,159,395	04-Jul-2023	6,024,359	05-Jul-2023	6,087,511

nine-month period ended September 30, 2023					September 30,
(Unaudited)					
	Maximum	Date	Minimum	Date	
Solvency ratio	100%	03-Jan-2023	100%	03-Jan-2023	100%
Capital Funds	6,182,219	26-Jun-2023	4,882,520%	05-Jan-2023	6,087,511

According to the provisions of the Superintendency of the Securities Market, in Agreement No.4-2011, in its Article 13, for the brokerage houses that have a Bank License it will be understood that the liquidity coefficient will be calculated based under rule issued by its primary regulator, in this case the Superintendency of Banks of Panama. The following is the result of the estimation of the legal liquidity ratio as of the date of the Bank's condensed statement of financial position during the three-month period ending on September 30, 2023, the nine-month period ended September 30, 2023:

Three-month period ending September 30, 2023
(Unaudited)

As of September 30, 2023	69.38%
Maximum for the period – July 28, 2023	75.35%
Minimum for the period –September 30, 2023	69.38%

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Nine-month period ending September 30, 2023
(Unaudited)

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

Year ended December 31, 2022
(Audited)

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

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

During the period ended on September 30, 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, Sole Text issued by the Superintendency of the Securities Market which contains amendments made by Agreement No. 3-2015, Article Two, which adds provisions to Article 22-A in relation to the obligation to disclose the amounts managed of client accounts and supplements to financial information by activity, for those securities firms that hold more than one license; the following is the supplementary information as described above:

(1) Managed Amount of Client accounts

As of September 30, 2023, the Bank holds the following investments in securities:

	<u>September 30, 2023</u> <u>(Unaudited)</u>		
	<u>Banking</u>	<u>Brokerage House</u>	<u>Total</u>
Own position	<u>3.186.038.642</u>	<u>7,200,000</u>	<u>3,193,238,642</u>
Third party position	<u>0</u>	<u>3,984,647,255</u>	<u>3,984,647,255</u>

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(1) Managed Amount of Client accounts, continued

	December 31, 2022		
	(Audited)		
	Banking	Brokerage House	Total
Own position	<u>3,585,559,050</u>	<u>7,196,720</u>	<u>3,592,755,770</u>
Third party position	<u>0</u>	<u>5,012,826,509</u>	<u>5,012,826,509</u>

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

As of September 30, 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 stipulate that all participants in Latinclear must provide a performance bond in favor of this entity, in order to guarantee compliance with all its monetary obligations for the stock exchange and over-the-counter transactions it carries out (December 31, 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 September 30, 2023 by activity, according to the licenses granted:

	September 30, 2023		
	(Unaudited)		
	Banking	Brokerage House	Total
Total assets	<u>13,182,031,934</u>	<u>7,978,281</u>	<u>13,190,010,215</u>
Total liabilities	<u>11,837,083,659</u>	<u>87,598</u>	<u>11,837,171,257</u>
Total equity	<u>1,344,948,275</u>	<u>7,890,683</u>	<u>1,352,838,958</u>

	December 31, 2022		
	(Audited)		
	Banking	Brokerage House	Total
Total assets	<u>14,595,609,262</u>	<u>8,259,653</u>	<u>14,603,868,915</u>
Total liabilities	<u>13,462,280,657</u>	<u>76,272</u>	<u>13,462,356,929</u>
Total equity	<u>1,133,328,605</u>	<u>8,183,381</u>	<u>1,141,511,986</u>

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(Expressed in Balboas)

(2) Financial Information by Type of License, continued

The following presents the Bank's income and expenses for the period ended September 30, 2023 by activity, according to the licenses granted:

	September 30, 2023		
	(Unaudited)		
	Banking	Brokerage House	Total
Net interest and commission income after provisions	328,814,562	1,528,742	330,343,304
Other income	35,096,440	0	35,096,440
Other expenses	1,527,894	0	1,527,894
General and administrative expenses	<u>145,192,442</u>	<u>638,059</u>	<u>145,830,501</u>
Net income	<u>217,190,666</u>	<u>890,683</u>	<u>218,081,349</u>

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

As of September 30, 2023, the brokerage house under the license held by the Bank generated commissions for brokerage services and custody fees in the amount of B/.1,307,703 this income is presented as net interest and commission income after provisions, while in the Bank it is presented in other income (September 30, 2022: B/.1,505,250).

(3) Valuation Basis

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