

**BANCO GENERAL, S. A.
AND SUBSIDIARIES**
(Panama, Republic of Panama)

Consolidated Financial Statements

December 31, 2022

(With Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM THE SPANISH VERSION)

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

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder
Banco General, S. A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banco General, S. A. and subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as at December 31, 2022, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

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

Key audit matters

Key audit matters are matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements taken as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for loan losses

See Notes 3(h), 7 and 32 to the consolidated financial statements

Key audit matter

The allowance for loan losses at amortized cost is considered one of the most significant issues since its methodology requires the application of judgments and the use of assumptions, by the management in the construction of the expected credit loss ("ECL") model. The loan portfolio at amortized cost represents 61% of the Bank's total assets as at December 31, 2022. The allowance for loan losses at amortized cost comprises the ECL as a result of the loan rating and the mechanism used to determine the loans' probability of default according to the impairment stage assigned.

The ECL is determined according to the grouping of loans with similar credit risk characteristics, segregated in models for Consumer Banking and Business Banking. Both models are comprised of estimates of the probability of default, loss due to default, prospective analysis, and exposure to default. The evaluation of whether there has been a significant increase in the credit risk of the loans entails the application of important judgments in these models. This constitutes a challenge from an audit perspective due to the complexity in estimating the components used to perform these calculations and the application of the Bank's judgment.

How the key matter was addressed in our audit

Our audit procedures, considering the use of specialists, included:

- Evaluating key controls on calculation of delinquency, internal credit risk rating of clients, verification of accuracy of clients' information and on the used model and methodologies.
- The judgments applied by the Bank on assumptions related to the current conditions of the economy were evaluated, in these judgments and the considerations on the prospective analysis that may change the level of ECL, based on our experience and industry knowledge.
- For a sample of corporate loans, classified by business activity or industry, and debtors with changes in their credit risk rating based on quantitative and qualitative factors; inspecting the respective loan files, including the debtors' financial information, collateral values as determined by qualified appraisers that support credit operations and other factors that could lead to an event of loss, to determine the reasonableness of the credit risk rating assigned by the Bank's risk officers.
- Assessing the Bank's applied methodologies in the estimation model of ECL in accordance with IFRS 9 Financial Instruments, through the inspection of policies, manuals, and methodologies documented and approved by the Bank's corporate governance.
- Performing an independent assessment of the inputs used in the Consumer and Corporate Banking methodologies and recalculating according to the estimation model of ECL for both methodologies.

Investments valuation

See Notes 3(b), 3(h), 6 and 32 to the consolidated financial statements

Key audit matter

As at December 31, 2022, investment securities at fair value through profit or loss (FVTPL) and investment securities measured at fair value through other comprehensive income (FVOCI) represent together 28% of total assets. The Bank uses external price vendors that provide pricing for most of these investments and uses internal valuation methodologies for those securities for which pricing is not provided by external price vendors.

The fair value of investments determined through internal valuation models involve judgments made by the Bank and the use of some inputs that are not readily available in active markets. Furthermore, the valuation of investments, for which prices are provided by an external price vendor, require additional effort from auditors to assert the reasonableness of their valuation.

The judgment involved in estimating the fair value of an investment when some valuation inputs are not observable (i.e. investments categorized as Level 3 in the fair value hierarchy), are significant. As at December 31, 2022, investments classified as level 3 represented 18% of total investments measured at fair value and 5% of total assets.

How the key matter was addressed in our audit

Our audit procedures, considering the use of specialists, included:

- Evaluation of the key controls in the process of identification, measurement and management of valuation risk, and the evaluation of the methodologies, inputs and assumptions used by the Bank in determining fair values.
- Testing valuation of instruments categorized as level 1, by comparing the fair value applied by the Bank with public and observable market data.
- Evaluation of the fair value models and the inputs used in the valuation of level 2 instruments by comparing observable market inputs with independent sources and external market data available.
- For a sample of investments with significant unobservable valuation inputs (level 3), assessing the models used and approved by the Bank's Corporate Governance and independent calculation of prices for such investments.

Responsibilities of management and those charged with governance in relation to the consolidated financial statements

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

In preparing of the consolidated financial statements, management is responsible for assessing the Bank's capacity to continue as a going concern, disclosing, as appropriate, issues related to business as a going concern and using the basis of accounting for going concern, unless management has the intention to liquidate the Bank or cease operations, or there is no other realistic alternative.

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

Auditor's responsibilities in relation to the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements, are free of material misstatements, due to fraud or error, and issue an audit report that includes our opinion. Reasonable assurance is a high degree of assurance, but it does not guarantee that an audit conducted according to ISAs will always detect a material misstatement when it exists. Misstatements may be due to fraud or error and are considered material if, individually or aggregated, may be reasonably expected to influence the economic decisions of users based on these consolidated financial statements.

As part of an audit in accordance with ISAs, we apply our professional judgment and maintain an attitude of professional skepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement in the consolidated financial statements, due to fraud or error, we design and apply audit procedures to respond to those risks, and we obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than that resulting from error, since fraud may imply collusion, forgery, deliberate omissions, intentional erroneous comments, or override of internal control.
- We obtain an understanding of relevant internal control for the audit to design adequate audit procedures to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management.
- We conclude on the management's appropriate use of the going concern basis of accounting and, based on the audit evidence obtained, we conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report about the corresponding disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient and appropriate evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and execution of the group's audit. We are solely responsible for our audit opinion.

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

We also provided to those charged with corporate governance a declaration of compliance with the relevant ethical requirements regarding independence and we communicated all relations and other matters that we consider may reasonably affect our independence and, when applicable, the corresponding safeguards.

Among the matters communicated to those charged with corporate governance, we determined those that have been the most significant throughout the audit of the consolidated financial statements of the current period and are, consequently, the key audit matters. We describe these matters in our audit report unless legal dispositions or requirements prohibit the public disclosure of the issue, or when extremely infrequent circumstances, we determine that a matter should not be communicated in our report because it could reasonably be expected that the adverse consequences of doing so would outweigh the public interest benefits of such communication.

Other legal information requirements

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

- That the direction, execution and supervision of this audit engagement has been physically performed in the Panamanian territory for those entities or business activities within the Group that performed operations that are perfected, consumed or take effect within the Republic of Panama.
- The audit partner that has prepared this independent auditors' report is Jorge Castrellón.
- The engagement team that has participated in the group audit to which this report refers, is formed by Jorge Castrellón, Partner; Karim Shaik, Director; Nedo Cingolani, Manager and Ruben Carrillo, Manager.

KPMG (SIGNED)

JORGE CASTRELLON (SIGNED)

Panama, Republic of Panama
February 6, 2023

Jorge Castrellón
Partner
C.P.A. 5505

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Financial Position

December 31, 2022

(Expressed in Balboas)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
<u>Assets</u>			
Cash and cash items		199,528,689	167,237,035
Deposits with banks:			
Local demand deposits		137,514,425	141,855,691
Foreign demand deposits		232,321,415	142,108,784
Local time deposits		43,445,477	194,252,658
Foreign time deposits		45,000,000	0
Accrued interest receivable		762,123	1,817,299
Total deposits with banks		459,043,440	480,034,432
Total cash, cash items and deposits with banks	5	658,572,129	647,271,467
Investments and other financial assets at FVTPL		761,506,289	1,022,366,494
Investments and other financial assets at FVOCI		4,483,609,412	5,030,577,545
Investments and other financial at amortized cost, net		4,805,216	122,185,542
Accrued interest receivable		3,554	280
Investments and other financial assets, net	6	5,249,924,471	6,175,129,861
Loans	7	11,690,195,657	11,297,778,963
Accrued interest receivable		73,490,156	96,487,962
Less:			
Loan losses allowance		432,999,235	467,706,062
Unearned commissions		38,496,425	36,092,068
Loans, net		11,292,190,153	10,890,468,795
Investments in associates	8	29,916,695	25,020,643
Properties, furniture, equipment and improvements, net of accumulated depreciation and amortization	9	251,030,958	239,125,837
Right-of-Use Assets, net	10	15,618,528	16,997,658
Customer liabilities under acceptances		19,376,576	31,127,694
Investments and other financial assets sold pending settlement	11	308,927,685	222,866,524
Deferred tax assets	26	104,908,428	112,034,447
Goodwill and other intangible assets, net	12	48,638,407	51,546,799
Foreclosed assets, net	13	37,811,780	25,981,170
Other assets	7	389,815,654	344,426,709
Total assets		18,406,731,464	18,781,997,604

The consolidated statement of financial position should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

	<u>Note</u>	<u>2022</u>	<u>2021</u>
<u>Liabilities and Equity</u>			
Liabilities:			
Deposits:			
Local:			
Demand		2,775,229,635	3,091,190,353
Savings		4,899,646,538	4,771,422,932
Time:			
Customers		5,063,734,694	5,428,455,379
Banks		1,941,986	2,095,137
Foreign:			
Demand		110,296,839	71,805,865
Savings		160,623,017	193,972,130
Time:			
Customers		155,169,135	241,669,875
Accrued interest payable		81,778,894	93,520,570
Total deposits		<u>13,248,420,738</u>	<u>13,894,132,241</u>
Financing:			
Securities sold under repurchase agreements	14	198,242,891	0
Borrowings and debt securities issued, net	16	802,268,103	893,646,075
Perpetual bonds	17	400,000,000	400,000,000
Accrued interest payable	14, 16 and 17	15,936,629	14,084,902
Total financing		<u>1,416,447,623</u>	<u>1,307,730,977</u>
Lease Liabilities	18	17,312,742	18,545,622
Acceptances outstanding		19,376,576	31,127,694
Investments and other financial assets purchased pending settlement	11	469,324,455	422,824,601
Reserves of insurance operations	19	20,522,641	19,702,364
Deferred tax liabilities	26	1,185,413	2,471,413
Other liabilities	15	635,524,258	394,414,406
Total liabilities		<u>15,828,114,446</u>	<u>16,090,949,318</u>
Equity:	22		
Common shares		500,000,000	500,000,000
Legal reserves		206,514,168	199,882,419
Capital reserves		(278,368,128)	75,007,984
Retained earnings		2,150,470,978	1,916,157,883
Total equity		<u>2,578,617,018</u>	<u>2,691,048,286</u>
Commitments and contingencies	27		
Total liabilities and equity		<u><u>18,406,731,464</u></u>	<u><u>18,781,997,604</u></u>

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Income

For the year ended December 31, 2022

(Expressed in Balboas)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Interest and commission income:			
Interest:			
Loans		752,945,539	734,958,289
Deposits with banks		6,147,322	5,371,823
Investments and other financial assets		181,872,264	142,617,907
Commissions on loans		40,154,412	32,539,207
Total interest and commission income		<u>981,119,537</u>	<u>915,487,226</u>
Interest expenses:			
Deposits		207,196,088	231,028,577
Financing	30	57,080,254	48,017,153
Total interest expenses		<u>264,276,342</u>	<u>279,045,730</u>
Net interest and commission income		<u>716,843,195</u>	<u>636,441,496</u>
(Reversal) provision for loan losses, net	7	(42,396,004)	155,642,011
Provision (reversal) for impairment of investments, net	6	5,617,058	(5,097,865)
Provision for foreclosed assets, net	13	2,095,851	1,706,627
Net interest and commission income, after provisions		<u>751,526,290</u>	<u>484,190,723</u>
Other income (expenses):			
Fees and other commissions	24 and 29	313,279,451	256,689,530
Insurance premiums, net		38,516,250	32,687,679
(Loss) gain on financial instruments, net	6 and 23	(94,685,352)	8,345,661
Other income, net	24	28,470,504	29,230,287
Commission expenses and other expenses	12 and 18	(110,891,034)	(92,081,416)
Total other income, net		<u>174,689,819</u>	<u>234,871,741</u>
General and administrative expenses:			
Salaries and other personnel expenses	25	170,970,910	162,629,168
Depreciation and amortization	9 and 10	30,650,905	28,385,224
Properties, furniture and equipment expenses		29,964,630	25,119,282
Other expenses		94,419,035	80,735,820
Total general and administrative expenses		<u>326,005,480</u>	<u>296,869,494</u>
Net operating income		<u>600,210,629</u>	<u>422,192,970</u>
Equity participation in associates	8	15,136,880	10,833,143
Net income before tax		<u>615,347,509</u>	<u>433,026,113</u>
Income tax, estimated		71,249,847	43,653,643
Income tax, deferred		5,841,254	(18,815,020)
Income tax, net	26	<u>77,091,101</u>	<u>24,838,623</u>
Net income		<u>538,256,408</u>	<u>408,187,490</u>

The consolidated statement of income should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2022

(Expressed in Balboas)

	<u>2022</u>	<u>2021</u>
Net income	<u>538,256,408</u>	<u>408,187,490</u>
Other comprehensive (expense) income:		
Items that are or may be reclassified to the consolidated statement of income:		
Valuation of investments and other financial assets:		
Net changes in valuation of investments at FVOCI	(292,814,533)	(105,913,139)
Transfer to profit or loss for sales of investments at FVOCI	(66,188,316)	24,439,733
Valuation of investment credit risk at FVOCI	5,626,737	(5,103,297)
Valuation of hedging instruments	0	597,286
Total other comprehensive expense, net	<u>(353,376,112)</u>	<u>(85,979,417)</u>
Total comprehensive income	<u><u>184,880,296</u></u>	<u><u>322,208,073</u></u>

The consolidated statement of comprehensive income should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity

For the year ended December 31, 2022

(Expressed in Balboas)

	Common shares	Legal reserves	Insurance reserve	Capital reserves		Total capital reserves	Retained earnings	Total equity
				Valuation of investments and other financial assets	Valuation of hedging instruments			
Balance as of December 31, 2020	500,000,000	199,242,854	1,000,000	160,584,687	(597,286)	160,987,401	1,772,980,479	2,633,210,734
Net income	0	0	0	0	0	0	408,187,490	408,187,490
Other comprehensive (expense) income:								
Items that are or may be reclassified to the consolidated statement of income:								
Valuation of investments and other financial assets:								
Net changes in valuation of investments at FVOCI	0	0	0	(105,913,139)	0	(105,913,139)	0	(105,913,139)
Transfer to profit or loss for sales of investments at FVOCI	0	0	0	24,439,733	0	24,439,733	0	24,439,733
Valuation of investment credit risk at FVOCI	0	0	0	(5,103,297)	0	(5,103,297)	0	(5,103,297)
Valuation of hedging instruments	0	0	0	0	597,286	597,286	0	597,286
Total other comprehensive (expense) income, net	0	0	0	(86,576,703)	597,286	(85,979,417)	0	(85,979,417)
Total comprehensive income (expense)	0	0	0	(86,576,703)	597,286	(85,979,417)	408,187,490	322,208,073
Transactions attributable to the shareholder								
Dividends paid on common shares	0	0	0	0	0	0	(265,000,000)	(265,000,000)
Dividends tax	0	0	0	0	0	0	(1,757,928)	(1,757,928)
Complementary tax	0	0	0	0	0	0	2,387,407	2,387,407
Transfer of retained earnings	0	639,565	0	0	0	0	(639,565)	0
Total transactions attributable to the shareholder	0	639,565	0	0	0	0	(265,010,086)	(264,370,521)
Balance as of December 31, 2021	500,000,000	199,882,419	1,000,000	74,007,984	0	75,007,984	1,916,157,883	2,691,048,286
Net income	0	0	0	0	0	0	538,256,408	538,256,408
Other comprehensive (expense) income:								
Items that are or may be reclassified to the consolidated statement of income:								
Valuation of investments and other financial assets:								
Net changes in valuation of investments at FVOCI	0	0	0	(292,814,533)	0	(292,814,533)	0	(292,814,533)
Transfer to profit or loss for sales of investments at FVOCI	0	0	0	(66,188,316)	0	(66,188,316)	0	(66,188,316)
Valuation of investment credit risk at FVOCI	0	0	0	5,626,737	0	5,626,737	0	5,626,737
Total other comprehensive expense, net	0	0	0	(353,376,112)	0	(353,376,112)	0	(353,376,112)
Total comprehensive income (expense)	0	0	0	(353,376,112)	0	(353,376,112)	538,256,408	184,880,296
Transactions attributable to the shareholder								
Dividends paid on common shares	0	0	0	0	0	0	(295,038,710)	(295,038,710)
Dividends tax	0	0	0	0	0	0	(1,713,675)	(1,713,675)
Complementary tax	0	0	0	0	0	0	(559,179)	(559,179)
Transfer of retained earnings	0	9,441,810	0	0	0	0	(9,441,810)	0
Effect of acquisition of subsidiary by fusion	0	(2,810,061)	0	0	0	0	2,810,061	0
Total transactions attributable to shareholder	0	6,631,749	0	0	0	0	(303,943,313)	(297,311,564)
Balance as of December 31, 2022	500,000,000	206,514,168	1,000,000	(279,368,128)	0	(278,368,128)	2,150,470,978	2,578,617,018

The consolidated statement of changes in equity should be read along with the accompanying notes which are an integral part of the consolidated financial statements.

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the year ended December 31, 2022

(Expressed in Balboas)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Operating activities:			
Net income		538,256,408	408,187,490
Adjustments to reconcile net income and cash from operating activities:			
(Reversal) provision for loan losses, net	7	(42,396,004)	155,642,011
Provision (reversal) for valuation of investments, net	6	5,617,058	(5,097,865)
Provision for foreclosed assets, net	13	2,095,851	1,706,627
Unrealized loss on investments and other financial assets	23	49,361,176	23,417,697
Unrealized (gain) loss on derivative instruments	23	(3,211,468)	3,781,966
Loss on sale of investments and other financial assets at FVTPL, net	23	39,587,488	808,645
Loss (gain) on sale of investments and other financial assets at FVOCI, net	23	55,196,896	(16,045,232)
Realized gain on derivative instruments	23	(46,248,740)	(20,308,737)
Foreign exchange fluctuations, net	24	61,092	(28,746)
Gain on sale of fixed assets, net	24	(1,668,957)	(852,008)
Other net income from cancellations of right-of-use assets		(28,193)	(17,548)
Depreciation and amortization	9 and 10	30,650,905	28,385,224
Impairment loss of goodwill and amortization of intangible assets	12	2,908,392	2,724,630
Equity participation in associates	8	(15,136,880)	(10,833,143)
Income tax, net	26	77,091,101	24,838,623
Interest and commission income		(981,119,537)	(915,487,226)
Interest expense		264,276,342	279,045,730
Changes in operating assets and liabilities:			
Time deposits with banks		154,807,181	5,118,899
Investments and other financial assets at FVTPL		164,658,890	118,076,423
Loans		(384,727,517)	74,913,017
Unearned commissions		42,558,769	31,585,904
Tax credit from preferential interest	7	(54,882,594)	(52,005,855)
Other assets		(92,437,774)	17,310,756
Demand deposits		(277,469,744)	184,154,545
Savings deposits		94,874,493	495,350,545
Time deposits		(451,374,576)	(328,429,884)
Reserves of insurance operations		820,277	1,121,413
Other liabilities		336,601,308	(248,397,611)
Cash provided by operations:			
Income tax paid		(40,209,858)	(14,677,591)
Interest received		960,855,396	935,969,452
Interest paid		(274,125,548)	(286,136,337)
Dividends received	24	4,609,004	1,795,614
Total		(378,405,771)	487,429,938
Cash flows from operating activities		159,850,637	895,617,428
Investing activities:			
Purchases of investments and other financial assets at FVOCI		(4,227,053,322)	(6,738,666,103)
Sale and redemptions of investments and other financial assets at FVOCI		4,337,888,251	6,038,444,271
Purchases of securities at amortized cost		(180,817,356)	(150,507,361)
Redemptions of securities at amortized cost		298,207,361	81,731,848
Dividends received from associates		10,240,828	7,498,450
Sale of properties, furniture and equipment		2,833,909	983,259
Purchases of properties, furniture and equipment	9	(40,299,051)	(27,241,381)
Cash flows from investing activities		201,000,620	(787,757,017)
Financing activities:			
Borrowings and debt securities issued	16	50,000,000	4,999,999
Redemption of debt securities issued and cancellation of borrowings	16	(135,335,825)	(169,165,000)
Perpetual bond issuance	17	0	400,000,000
Redemption of perpetual bonds	17	0	(217,680,000)
Securities sold under repurchase agreements	14	198,242,891	0
Payment of lease liabilities	18	(3,247,484)	(3,233,085)
Dividends paid on common shares		(295,038,710)	(265,000,000)
Complementary tax paid		(6,595,435)	(6,036,255)
Dividend tax		(1,713,675)	(1,757,928)
Cash flows from financing activities		(193,688,238)	(257,872,269)
Net increase (decrease) in cash and cash equivalents		167,163,019	(150,011,858)
Cash and cash equivalents at the beginning of the year		451,201,510	601,213,368
Cash and cash equivalents at the end of the year	5	618,364,529	451,201,510

The consolidated statement of cash flows should be read along with the accompanying notes which are an integral part of the consolidated financial information.

BANCO GENERAL, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

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December 31, 2022

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(Expressed in Balboas)

(1) General Information

Banco General, S. A. is incorporated under the laws of the Republic of Panama since 1954 and started operations in 1955. The Bank operates under a general license granted by the Superintendence of Banks of Panama which allows it to engage in the banking business in Panama or abroad. Banco General, S. A. and its subsidiaries will be referred to collectively as “the Bank”.

The Bank provides a wide variety of financial services, mainly corporate, mortgage and consumer banking, investment, insurance, reinsurance, wealth management, pensions, retirement and severance funds.

The Bank has a network of Representation Offices in the following countries: Colombia, El Salvador, Guatemala, Peru and Mexico which closed operations during the month of March 2022.

Grupo Financiero BG, S. A., a 59.87% (2021: 59.78%) subsidiary of Empresa General de Inversiones, S. A., owns 100% of the common shares issued and outstanding of Banco General, S. A.

On December 31, 2022, Banco General, S. A. absorbed its subsidiary Finanzas Generales, S. A. by merger, for which reason all the asset, liability and equity accounts of the latter were incorporated into the statement of financial position of Banco General, S. A. on that date. As a result of the merger, the subsidiaries of Finanzas Generales, S. A., BG Trust, Inc. and Vale General, S. A. became direct subsidiaries of Banco General, S. A.

Banco General, S. A. which in turn owns 100% of the following subsidiaries that are presented below and which form part of the consolidation:

- BG Investment Co., Inc.: securities brokerage, assets management and brokerage company in Panama.
- General de Seguros, S. A.: insurance and reinsurance in Panama.
- Overseas Capital Markets, Inc.: holder of shares in the Cayman Islands. It in turn has the following subsidiaries:
 - Banco General (Overseas), Inc.: international banking in the Cayman Islands.
 - Commercial Re. Overseas, Ltd.: international reinsurance in the British Virgin Islands.
- BG Valores, S. A.: securities brokerage, asset management and brokerage company in Panama.
- Banco General (Costa Rica), S. A.: banking business in Costa Rica.
- ProFuturo Administradora de Fondos de Pensiones y Cesantía, S. A.: management of pension and retirement, severance and investment funds in Panama.
- Yappy, S. A.: digital platform for money transfers and payments between people and businesses in Panama, which began operations in September 2021.
- BG Trust, Inc.: trust administration in Panama.
- Vale General, S. A.: administration and marketing of food vouchers in Panama.

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The Bank's main office is located at Banco General Tower, Marbella Urbanization, Aquilino de la Guardia Avenue, Panama City, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB).

These consolidated financial statements were reviewed by the Board of Directors' Audit Committee and authorized for issuance by the Board of Directors on January 25, 2023.

(b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis or amortized cost, except for financial assets and liabilities at fair value, securities at fair value through other comprehensive income and derivative financial instruments, which are measured at fair value; and foreclosed assets, which are measured at the lower of their carrying value or estimated value of realization.

The Bank initially recognizes loans and receivables and deposits on the date on which they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized on the trade date initially, which is the date on which the Bank compromises to buy or sell an instrument.

(c) Functional and Presentation Currency

The consolidated financial statements are expressed in balboas (B/.), the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the United States dollar (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 functional currency.

(3) Summary of Significant Accounting Policies

The accounting policies detailed as follows have been consistently applied by the Bank to all periods presented in these consolidated financial statements:

(a) Basis of Consolidation

- Subsidiaries

The Bank controls a subsidiary when it is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its control over the entity. The financial statements of subsidiaries mentioned in Note 1 are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

- Investment Entities and Separate Vehicles

The Bank manages and administers assets held in trusts and other investment vehicles as collateral on behalf of investors. The financial statements of these entities are not part of these consolidated financial statements, except for when the Bank has control over the entity.

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

- *Structured Entities*

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example, when any voting rights are related solely to administrative tasks, and key activities are directed by contractual agreements. In assessing whether the Bank has control and consequently determine if the structured entity is consolidated, factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity are evaluated. The financial statements of the structured entities are not part of these consolidated financial statements, except when the Bank has control.

- *Investments in Associates*

An associate is an entity over which the Bank has significant influence, but has no control or joint control, over its financial or operating policies. It is presumed that the entity has significant influence when it owns between 20% and 50% of the voting power within the entity.

Investments in associates are accounted for using the equity method and are initially recognized at cost. The investment cost includes transaction costs.

The consolidated financial statements include the Bank's participation on profit or loss and other comprehensive income under the equity method, after any adjustment to conform to the Bank's accounting policies, from the date when the significant influence begins until the date on which significant influence ceases.

When the participation in the losses of an associate or joint business equals or exceeds its participation in this, its participation in the additional losses is no longer recognized. The carrying value of the investment, along with any long term participation that, mainly, form part of the net investment of the entity, is reduced to zero, except if the Bank has an obligation or payments to make on behalf of the entity.

- *Balances and Transactions Eliminated in Consolidation*

The consolidated financial statements include the assets, liabilities, equity, income and expenses of Banco General, S. A. and subsidiaries detailed in Note 1. Significant intercompany balances and transactions have been eliminated in the consolidation.

- (b) *Fair Value Measurement*

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

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

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The fair value of an instrument is measured using the quoted price in an active market for that instrument. A market is considered active, if transactions of those assets or liabilities take place with sufficient frequency and volume to provide pricing information on a going concern basis. When a price for an identical asset or liability is unobservable, a valuation technique will be used that maximizes the use of relevant observable data and minimizes the use of unobservable data. As fair value is a measurement based on market variables (prices, performance, credit margin, etc.), it is measured using the assumptions that market participants would make when setting the price of an asset or liability.

The fair value of financial instruments is determined using quoted prices in active markets, several electronic information systems, market makers, brokers, independent companies specialized in investment valuation, investment management companies and banks. In addition, in certain instances the Bank uses valuation techniques to calculate the price of some investments, mainly discounted cash flows at the appropriate discount rate for that security or instrument. Investments in equity instruments whose fair value cannot be reliably measured, will be maintained at cost.

(c) Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents include demand deposits and time deposits with banks that have an original maturity of three months or less.

(d) Securities Purchased Under Resale Agreements

Securities purchased under resale agreements are short-term transactions guaranteed with securities, in which the Bank acquires the securities at a discounted market price and agrees to resell them at a future date at a specified price. The difference between the purchase price and the value of the future sale is recognized as interest income under the effective interest method.

Securities received as collateral are not recognized in the consolidated financial statements, except in case of default by the counterparty, which gives the Bank the right to appropriate the securities.

The market price of these securities is monitored and an additional collateral is obtained, if necessary, to cover credit risk exposure.

(e) Investments and Other Financial Assets

Investments and other financial assets are classified at their trade date and initially measured at fair value, plus transaction costs directly attributable to their acquisitions, except for investments recognized at fair value through profit or loss.

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

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The business model includes three classification categories for financial assets:

- *Amortized Cost (AC)*

A financial asset is measured at amortized cost if it complies with both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset establish specific dates for cash flows derived solely from payments of principal and interest on the current balance.

- *Fair value through other comprehensive income (FVOCI)*

A debt instrument is measured at FVOCI only if both of the following conditions are met, and has not been designated at fair value through profit or loss (FVTPL):

- The asset is held within a business model whose objective is to collect the contractual cash flows and sell these financial assets; and
- The contractual terms of the financial asset establish specific dates for cash flows derived solely from payments of principal and interest on the current balance.

During the initial recognition of investments in equity instruments not held for trading, the Bank may irrevocably choose to recognize subsequent changes in fair value as part of other comprehensive income. This choice must be made on an instrument-by-instrument basis.

- *Fair value through profit or loss (FVTPL)*

All other financial assets are measured at fair value through profit or loss.

Evaluation of the business model

The evaluation at portfolios level and the objective of the business model that applies to the financial instruments of those portfolios, include the following:

- The policies and objectives identified for the loan portfolio and operation of those policies including management's strategy to define:
 - (i) To define the collection of contractual interest income
 - (ii) maintain a defined interest return profile
 - (iii) maintain a specific duration period
 - (iv) be able to sell at any time due for liquidity needs or in order to optimize the risk / return profile of a portfolio based on interest rates, risk spreads, current duration and defined objective.
- The manner in which the behavior of different portfolios is reported to the senior management;
- The risks that affect the business model performance (and the financial assets held in the business model) and the manner in which those risks are managed;
- The frequency and value of sales in previous periods, the reasons for those sales and future sale activities expectations.

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Financial assets that are held for trading and whose performance is evaluated solely on a fair value basis are measured at fair value through profit or loss considering that those are acquired to obtain a short term profit from the instrument's price fluctuations.

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

For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset at the time of initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other risks on a basic loan agreement and other associated costs, as well as the profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank focused on the instrument's contractual terms. This assessment considered, among others:

- Contingent events that could change the amount and / or timing of cash flows
- Leverage conditions
- Prepayment and extension terms
- Terms that limit the Bank's ability to collect cash flows from specific assets
- Features that modify considerations for the time value of money.

(f) Derivative Financial Instruments

Derivatives are recognized at fair value in the consolidated statement of financial position, attributable transaction costs are recognized in profit or loss when incurred. Subsequently, are recognized: (i) when hedge accounting is used, under the fair value or cash flow method; (ii) when the derivative does not qualify for hedge accounting, as trading instruments.

- *Fair value hedge*

Derivative instruments under the fair value method are hedges from the exposure to changes in fair value of: (a) a portion or the total of a financial asset or liability recognized in the consolidated statement of financial position, (b) an acquired commitment or a transaction which is almost certain to occur. Changes in the value of these hedges using the fair value method are recognized in the consolidated statement of income.

If hedged assets are classified as fair value through other comprehensive income, changes in fair value are recognized in an equity reserve. From the date in which these assets become a hedged item through a derivative, changes in fair value will be recognized in the consolidated statement of income and the revaluation balance, registered in the reserve, will remain until sold or redeemed.

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If a hedged asset or liability is measured at amortized cost, its carrying value should be adjusted to present the changes in its fair value attributable to the changes in interest rates. These hedged assets and liabilities will be again measured at amortized cost as soon as the hedging ceases using the adjusted effective return rate for calculating amortization. If the hedged asset carried at amortized cost suffers a permanent impairment, the loss is calculated based on the difference between its carrying value after fair value adjustments of the hedged asset attributable to the risk being hedged, and the present value of the estimated cash flows discounted at the adjusted effective interest rate.

- *Cash flow hedges*

Derivative instruments designated under the cash flow method are risk hedges caused by fluctuation in cash flows, attributable to an asset or liability's particular risk recognized in the consolidated statement of financial position affecting net income. Changes in hedge valuation under the cash flows method, for the portion considered effective, are registered in the consolidated statement of changes in equity and the ineffective portion, is registered in the consolidated statement of income.

- *Derivative without hedge accounting*

Derivative instruments that do not qualify for hedge accounting are classified as assets or liabilities at fair value and are recognized in the consolidated statement of financial position at their fair value. Changes in the fair value of these derivatives are recognized in the consolidated statement of income.

Hedge accounting is discontinued prospectively only when the relationship or part of a hedging relationship ceases to meet the rating criteria after any rebalancing. This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect the coverage ratio in its entirety or in part, maintaining the coverage ratio for the remaining portion.

The Bank may choose to designate one or more hedging relationships between a hedging instrument and a hedged item with one or more external entities, as well as opting for hedges between its subsidiaries.

(g) *Loans and Interest*

Loans granted are presented at their principal amounts pending collection and are measured at amortized cost. Interest income on loans is recognized in profit or loss using the effective interest method.

Finance leases receivable are reported as part of the loan portfolio and recorded under the financial method, which reflect these financial leases at the present value of the contracts. The difference between the total amount of the contract's present value and the cost of the leased asset is recorded as unearned interest and is amortized as interest income on loans during the period of the lease, under the effective interest rate method.

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(h) *Impairment of Financial Instruments*

At the date of the consolidated statement of financial position, it is determined whether there is objective evidence of impairment in the financial instruments, and the expected credit loss model (ECL) is used to provide for losses in the financial instruments.

The expected credit loss (ECL) model is applicable to the following financial assets that are not measured at FVTPL:

- Loans
- Debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued

Impairment losses on equity instruments investments are not recognized.

The assessment of whether the credit risk of a financial asset has increased significantly is one of the critical judgments implemented in the impairment model.

Loss allowances are recognized at an amount equal to 12-month ECL in the following cases:

- Debt instrument investments that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which the credit risk has not increased significantly since their initial recognition.

For all other cases, allowances are recognized based on the amount equal to the ECL during the asset's total lifetime.

12-month ECL is the portion of the ECL that results from default events on a financial instrument that are possible within a 12-month period after the reporting date.

The expected credit loss (ECL) model presents three stages of impairment for financial assets that are applied from the date of origin or acquisition. These stages are summarized below:

- Stage 1: The Bank recognizes a credit loss allowance at an amount equivalent to 12-month expected credit losses. This represents the portion of lifetime expected credit losses resulting from default events that are possible within a 12-months period after the reporting date, assuming that credit risk has not increased significantly since initial recognition.

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- Stage 2: The Bank recognizes a credit loss allowance at an amount equal to the total lifetime expected credit losses (LTECL) for those financial assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the calculation of ECL based on the asset's remaining lifetime probability of default (LTPD). The allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon in comparison with 12 months in stage 1.
- Stage 3: The Bank recognizes a loss allowance at an amount equal to the expected credit loss during the total lifetime of the asset, based on a probability of default (PD) of 100% over the asset's recoverable cash flows.

As of June 2020, the Bank updated and expanded the models for calculating the ECL, involving a recalibration, to incorporate more recent information on the behavior of the portfolio and the economy. Additionally, the Bank has implemented complementary models to estimate the ECL on loans that were postponed during the pandemic.

Significant Increase in Credit Risk

It is determined whether the credit risk of a financial asset has increased significantly since its initial recognition, considering as main indicators, variations in days of delinquency, collection score and risk rating, and the analysis of quantitative and qualitative factors based on its historical experience and expert credit assessment including forward-looking information.

Credit Risk Rating

The Bank assigns a credit risk rating to each financial asset based on a model that incorporates a series of predictive data on the incurrence of losses. The models are applied over several periods to evaluate their reasonableness. Risk ratings are used to identify significant increases in credit risk.

Credit risk ratings are defined using qualitative and quantitative factors that are indicative of risk of loss. These factors may vary depending on the nature of the exposure and the type of borrower. Regarding foreign investments and bank deposits, the international risk ratings of Fitch Ratings Inc., Standard and Poor's or Moody's and associated changes to the ratings were used to establish whether there has been a significant increase in risk and in the calculation of the PD.

Credit risk ratings are defined and calibrated such that the risk of loss increases exponentially as the credit risk deteriorates.

Each exposure will be assigned a credit risk rating at initial recognition based on available information about the debtor. Exposures will be subject to continuous monitoring, which may result in an exposure being moved to a different credit risk rating.

Determining the significant increase of credit risk

It is determined that a credit risk exposure reflects a significant increase since its initial recognition if, based on credit risk classification models and / or days of delinquency, a determined range presents a significant downgrade.

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In certain instances, based on expert judgment and, to the extent possible, relevant historical experience, it is determined that an exposure has significantly increased its credit risk based on particular qualitative indicators considered relevant and whose effect would not be comprehensively reflected otherwise.

As a limit and as required by IFRS 9, a significant increase in credit risk occurs when an asset shows delinquency of more than 30 days, except for the 60 days for residential mortgages and personal loans. The delinquency period is determined by counting the number of days since the earliest elapsed due date of which full payment has not been received.

The effectiveness of the criteria used to identify significant increases in credit risk is monitored through periodic reviews.

Definition of Default

A financial asset is considered in default when:

- It is probable that the debtor will not pay its credit obligations in full, without recourse to actions such as realizing collateral, if available; or
- The debtor has more than 90 days delinquency in all credit obligations, except for residential mortgages, in which case it is more than 120 days.

In assessing whether a debtor is in default, the following indicators are considered:

- Quantitative – past due status and non-payment of another obligation of the same issuer; and
- Qualitative – breach of contract or legal situation.

The inputs used in the assessment of whether financial instruments are in default are specific to the type of portfolio, and their importance may vary over time to reflect changes in circumstances and trends.

From March 2020 to June 2021, the Bank made deferrals to the loan payments of clients affected by COVID-19. In addition to the deferrals, relief measures established in order to achieve payment feasibility by affected clients based on their financial situation, without affecting clients' delinquencies of customers who comply with their new contractual conditions. The relief measures are of a temporary nature and are reviewed as economic activities are reactivated.

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Measurement of the ECL

The ECL is a probability-weighted estimate of credit losses which is measured according to the following items:

- Financial assets that are not credit-impaired at the reporting date
- Financial assets that are credit-impaired at the reporting date
- Undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank in the event that the commitment is drawn down and the cash flows the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount the Bank expects to recover.

Generating the term structure of the PD

Days of delinquency are the main input to determine the term structure of the PD for exposures in the consumer loan portfolio. For the corporate loan portfolio, the following factors are considered as primary inputs: risk rating, days of delinquency, restructurings and materiality thresholds.

The Bank designed and evaluated statistical models to analyze the data collected and to generate estimates of the remaining lifetime PD of credit exposures, and how they are expected to change over time.

The PD of foreign investments and placed deposits was estimated using liquid market proxies (Credit Default Swaps "CDS") based on international risk ratings and the industry relating to the investment or deposit.

Inputs in the measurement of the ECL

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

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

PD estimates are calculated, using statistical credit rating models and tools adapted to the different categories of counterparties and exposure. Statistical models were acquired from internationally recognized firms or developed internally based on historical data. These models incorporate quantitative factors, and can also consider qualitative factors. If an exposure migrates between rating categories, then this may lead to a change in the estimate of the associated PD.

The PD is estimated considering contractual maturities and estimated prepayment rates. In the case of foreign investments and placed deposits, the ECL is obtained from the probability of default implicit in the CDS used as proxies for each bond or deposit based on its international credit rating and industry.

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The levels of LGD are estimated based on historical record of recovery rates:

- Observed: corresponding to the portion of EAD in default that is effectively recovered
- Estimated: corresponding to the portion of EAD in default estimated to be recoverable.

The LGD model considers the financial asset, related collateral and recovery costs of any collateral. The Bank can calibrate the LGD estimate for different economic scenarios. The Bank used the LGD implicit in the CDS for foreign investments and placed deposits.

In most cases, the EAD is equivalent to the outstanding balance of the contract; with the exception of credit cards and contingencies. For the credit cards and contingencies the current balance, the available balance and the CCF (credit conversion factor) were included in the EAD, in order to estimate the exposure at the time of default on existing operations. The EAD is determined on current exposures to the counterparty and the potential changes to the current amount permitted under the contract, including any amortization.

Overdrafts and credit card products include both the loan and undrawn commitment components. These facilities do not have a fixed term or repayment structure and are managed on a collective basis; the Bank can cancel them immediately.

Forward-looking information

Forward-looking information could be incorporated in the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and ECL measurement.

External information used to assess future conditions may include economic data and projections published by government entities and monetary authorities in the countries where the Bank operates, supranational organizations such as the Organization for Economic Cooperation and Development and the International Monetary Fund, and academic and private sector projections.

The Bank uses a prospective factor for the consumer portfolio that uses the growth of the Gross Domestic Product as a variable, as well as the consumer price index. For the business portfolio, the prospective factor uses the monthly index of economic activity as a variable.

The extraordinary situation caused by COVID-19 forced our authorities to impose restrictions on mobility and the closure of commercial activities during different periods, causing an economic contraction in Panama and the countries of our region, as well as in most of the world economies. Given the economic impact, the Government and the Superintendency of Banks of Panama established and authorized relief mechanisms in payments to obligations that were extended until June 30, 2021.

As a result of the impact on the economy, employment and the business sector, the Bank faces possible future greater losses on its loan portfolio, for which it has recorded complementary reserves.

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Because this is a recent unprecedented situation, the estimation of its effects on the portfolio using statistical models is subject to greater uncertainty and volatility. Therefore, the Bank has made the decision to create additional provisions to those determined by our ECL models, using complementary models for portfolios with high volumes and relatively small balances; and conducting an individual analysis of debtors with significant credit exposure. The models consider, among other factors, the employment situation of the debtor and his or her family environment, the economic activity or industry of the debtor or his or her employer, the situation of postponement of his or her credit obligations and the guarantees covering the obligation. Additionally, the individual analyses considers the financial strength of the debtor and its shareholders.

(i) *Properties, Furniture, Equipment and Improvements*

Properties, furniture, equipment and improvements are stated at cost, less accumulated depreciation and amortization and any existing impairment loss. Improvements are capitalized when they increase the useful life of the asset, while minor repairs and maintenance expenses which do not extend the useful life or improve the asset are charged directly to expenses when incurred.

Depreciation and amortization expenses are recognized in profit or loss using the straight-line method over the estimated useful life of the following assets, except for land, which is not depreciated:

- Building	30 - 50 years
- Licenses and internally developed projects	3 - 12 years
- Furniture and equipment	3 - 10 years
- Improvements	5 - 15 years

(j) *Right-of-Use Assets*

The Bank recognized a right-of-use asset, representing its right to use the underlying assets, and a lease liability, representing its obligation to make future lease payments.

The Bank applied the exemption from the standard for lease contracts identified as leases in accordance with IAS 17 and IFRIC 4, applying the following practical options for current contracts:

- Exemption for not recognizing right-of-use assets and lease liabilities for contracts with a term of less than 12 months;
- Leases in which the underlying asset is of low value are excluded;
- Initial direct costs are excluded from the measurement of the right-of-use asset; and
- Reasoning is used in retrospective for determining the lease term, when the contract contains options to extend or terminate the lease.

These exemptions to recognition and their respective payments are recorded as rental expenses in the results of the year.

The Bank measures its right-of-use asset at cost less accumulated depreciation and depreciates it according to the term of the lease.

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(k) Goodwill and Intangible Assets

Goodwill

When an acquisition of a significant part of the equity of another company or business occurs, goodwill represents the portion of the cost of acquisition in excess of the fair value of the net assets acquired. Goodwill is recognized as an asset in the consolidated statement of financial position and is tested annually for impairment. When it is determined that an impairment exists, the difference between the carrying value of the goodwill and its fair value is recorded as an expense in the consolidated statement of income.

Intangible Assets

Intangible assets are recognized at cost less accrued amortization and impairment losses and are amortized for 20 years using the straight-line method over their estimated useful life. Intangible assets are subject to an annual review to determine if there is any indication of impairment or when there are events or changes in circumstances that indicate their carrying value may not be recoverable.

(l) Foreclosed Assets

Foreclosed assets are recognized at the lower of the outstanding principal of the secured loan and the estimated realizable value of the acquired asset.

The loss allowance method is used in providing for significant impairment losses on foreclosed assets. The impairment provision is recognized in the consolidated statement of income and the loss allowance is presented as a deduction from the carrying value of foreclosed assets.

(m) Impairment of Non-Financial Assets

The carrying value of non-financial assets is reviewed at the reporting date to determine whether there is evidence of impairment. If such impairment is identified, the asset's recoverable amount is estimated, and an impairment loss which is equivalent to the difference between the asset's carrying value and its estimated recoverable amount is recognized. The impairment loss in the asset's value is recognized as an expense in the consolidated statement of income.

(n) Securities sold under repurchase agreements

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

The securities delivered as collateral will continue to be accounted for in the consolidated financial statements, since the counterparty has no property right to them unless there is a breach of contract by the Bank.

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(o) *Deposits, Borrowings and Debt Securities Issued*

Deposits from customers, borrowings and debt securities issued are initially measured at fair value. Subsequently, they are measured at their amortized cost using the effective interest rate method.

(p) *Financial Liabilities*

The changes in the fair value of liabilities designated as FVTPL are presented as follows:

- The amount of the change in fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of change in fair value is presented in profit or loss.

(q) *Other Financial Liabilities at Fair Value*

This category of other liabilities includes financial liabilities, that are presented at fair value; and the changes in fair value are recognized in the consolidated statement of income.

(r) *Lease Liabilities*

On the beginning date of a lease, the Bank recognizes a lease liability calculated at the present value of the future lease payments.

The Bank discounts the future lease payments using the incremental rate calculated considering a rate equivalent to that which would be used in a loan to acquire an asset with the same conditions, for a similar term to that agreed upon in the lease.

Lease payments are assigned between debt reduction and interest expenses, which is recognized in profit or loss.

(s) *Financial Guarantees*

Financial guarantees are contracts that require to make specific payments on behalf of customers, to reimburse the beneficiary of the guarantee, in the event that the client fails to make payments when due in accordance with the terms and conditions of the contract.

Liabilities for financial guarantees are recognized at fair value; and are included in the consolidated statement of financial position within other liabilities.

(t) *Interest Income and Expenses*

Interest income and expenses are recognized in the consolidated statement of income for all financial instruments using the effective interest method.

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

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(u) *Commission Income*

Generally, the commissions on short-term loans, letters of credit and other banking services are recognized as income on a cash basis due to their short-term maturity.

Commissions on medium and long-term loans, net of certain direct loan origination costs, are deferred and amortized using the effective interest rate method over the average life of the loans.

(v) *Insurance Operations*

The portion of unearned premiums as of the reporting date, considering the contractual term, is presented within the allowance for insurance operations line as an allowance for unearned premiums.

Unearned premiums and reinsurers' participation in unearned premiums are calculated using the daily quota method.

Estimated claims pending settlement are represented by claims incurred but not settled at the reporting date, whether or not they are reported and the related internal and external claims handling expenses.

The fees paid to brokers and the taxes paid on premiums are deferred as deferred acquisition costs according to their relation to the unearned premiums net of the reinsurers' participation and are presented in the caption of other assets in the consolidated statement of financial position.

Premiums received from collective life insurance for periods greater than one year are credited in the consolidated statement of financial position according to their maturity date. The portion corresponding to the current year is recorded as premium income at their due dates while the remainders of the premiums, relating to future years, are maintained as premiums issued in advance and are presented in other liabilities in the consolidated statement of financial position.

(w) *Trust Operations*

Assets held in trusts or in fiduciary function are not considered part of the Bank; consequently, such assets and their corresponding income are not included in these consolidated financial statements. The Bank is required by contractual agreements to manage the assets held in trusts independently from its own equity.

Fees earned in relation to trust operations are recognized as fees and other commissions in the consolidated statement of income.

(x) *Income Tax*

Estimated income tax is calculated on net taxable income, using current tax rates at the consolidated statement of financial position date, and any adjustment to prior years' income tax.

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Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the financial carrying amounts of assets and liabilities and the amounts used for taxation purposes, using the enacted tax rates at the consolidated statement of financial position date.

These temporary differences are expected to be reversed in future dates, if it is determined that the deferred tax asset will not be realizable in future years, it would be reduced total or partially.

(y) Stock Purchase Option Plan and Restricted Stock Plan

The Board of Directors of Grupo Financiero BG, S. A. authorized a grant to key executives of the Bank, hereinafter the “participants”, the following plans:

- Stock purchase option plan of Grupo Financiero BG, S. A. and its Holding Company
- Restricted Stock Plan of Grupo Financiero BG, S. A.

The fair value of the option on the grant date is recognized as an expense of the Bank, during the term of the option, against the balance owed to Grupo Financiero BG, S. A., and its Holding Company. The total amount of the expense in the grant year is determined by reference to the fair value of the options on the grant date.

The fair value of the restricted shares granted annually to the participants is recognized as an expense for the year by the Bank.

(z) Segment Reporting

A business segment is a component of the Bank, whose operating results are reviewed regularly by the General Management to make decisions about the resources that will be assigned to the segment and evaluate its performance, and for which financial information is available for this purpose.

(aa) Foreign Currency Transactions

Transactions in foreign currency are recorded at the exchange rates in effect at the transaction date. Assets and liabilities held in foreign currency are converted into the functional currency based on the current exchange rate at the reporting date, and income and expense based on the average exchange rate for the year.

Gains and losses from foreign currency transactions are reflected in other income in the consolidated statement of income.

(ab) New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted

At the date of the consolidated statement of financial position there are standards, modifications and interpretations which are not effective for this year, therefore they have not been applied in the preparation of these consolidated financial statements.

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Among the most significant are:

- IFRS 17 Insurance Contracts:

Establishes principles for the recognition, measurement, presentation and disclosures of insurance contracts that are within the scope of the rule. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

IFRS 17 is effective for annual periods beginning on or after 1 January, 2023, with early adoption permitted.

The management has reviewed the impact of the application of this standard and it is not material for purposes of the consolidated financial statements.

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(4) Balances and Transactions with Related Parties

The consolidated statement of financial position and the consolidated statement of income include balances and transactions with related parties, which are summarized as follows:

		2022		
	Directors and Management	Related Companies	Affiliated Companies	Total
Assets:				
Investments and other financial assets	<u>0</u>	<u>157,750,302</u>	<u>37,713,522</u>	<u>195,463,824</u>
Loans	<u>13,547,139</u>	<u>163,168,865</u>	<u>6,331,176</u>	<u>183,047,180</u>
Investments in associates	<u>0</u>	<u>29,916,695</u>	<u>0</u>	<u>29,916,695</u>
Accrued interest receivable				
Investment securities	<u>0</u>	<u>474,781</u>	<u>328,064</u>	<u>802,845</u>
Loans	<u>36,701</u>	<u>519,526</u>	<u>41,236</u>	<u>597,463</u>
	<u>36,701</u>	<u>994,307</u>	<u>369,300</u>	<u>1,400,308</u>
Liabilities:				
Deposits:				
Demand	<u>1,526,449</u>	<u>82,121,346</u>	<u>83,446,085</u>	<u>167,093,880</u>
Savings	<u>8,835,622</u>	<u>96,329,376</u>	<u>1,595,931</u>	<u>106,760,929</u>
Time	<u>3,601,070</u>	<u>205,418,393</u>	<u>125,538,461</u>	<u>334,557,924</u>
	<u>13,963,141</u>	<u>383,869,115</u>	<u>210,580,477</u>	<u>608,412,733</u>
Perpetual bonds	<u>0</u>	<u>16,000,000</u>	<u>126,754,000</u>	<u>142,754,000</u>
Accrued interest payable:				
Deposits	<u>70,082</u>	<u>2,909,321</u>	<u>1,030,221</u>	<u>4,009,624</u>
Perpetual bonds	<u>0</u>	<u>126,000</u>	<u>998,188</u>	<u>1,124,188</u>
	<u>70,082</u>	<u>3,035,321</u>	<u>2,028,409</u>	<u>5,133,812</u>
Commitments and contingencies	<u>0</u>	<u>12,230,954</u>	<u>35,955,000</u>	<u>48,185,954</u>
Interest income:				
Loans	<u>634,428</u>	<u>8,085,134</u>	<u>462,792</u>	<u>9,182,354</u>
Investments and other financial assets	<u>0</u>	<u>6,491,163</u>	<u>1,964,160</u>	<u>8,455,323</u>
Interest expenses:				
Deposits	<u>130,146</u>	<u>10,646,031</u>	<u>1,783,660</u>	<u>12,559,837</u>
Financing	<u>0</u>	<u>791,903</u>	<u>6,438,219</u>	<u>7,230,122</u>
Other income:				
Equity participation in associates	<u>0</u>	<u>15,136,880</u>	<u>0</u>	<u>15,136,880</u>
Received dividends	<u>0</u>	<u>1,397,161</u>	<u>0</u>	<u>1,397,161</u>
General and administrative expenses:				
Directors' fees	<u>551,582</u>	<u>0</u>	<u>0</u>	<u>551,582</u>
Benefits to key management personnel	<u>5,486,110</u>	<u>0</u>	<u>0</u>	<u>5,486,110</u>

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		2021		
	Directors and Management	Related Companies	Affiliated Companies	Total
Assets:				
Investments and other financial assets	<u>0</u>	<u>129,358,138</u>	<u>39,864,967</u>	<u>169,223,105</u>
Loans	<u>11,075,005</u>	<u>141,476,316</u>	<u>9,771,613</u>	<u>162,322,934</u>
Investments in associates	<u>0</u>	<u>25,020,643</u>	<u>0</u>	<u>25,020,643</u>
Accrued interest receivable				
Investment securities	<u>0</u>	<u>199,527</u>	<u>262,202</u>	<u>461,729</u>
Loans	<u>29,925</u>	<u>426,462</u>	<u>41,815</u>	<u>498,202</u>
	<u>29,925</u>	<u>625,989</u>	<u>304,017</u>	<u>959,931</u>
Liabilities:				
Deposits:				
Demand	<u>1,667,080</u>	<u>129,028,616</u>	<u>100,272,250</u>	<u>230,967,946</u>
Savings	<u>10,757,893</u>	<u>158,521,073</u>	<u>28,655,931</u>	<u>197,934,897</u>
Time	<u>2,836,197</u>	<u>277,502,878</u>	<u>132,621,047</u>	<u>412,960,122</u>
	<u>15,261,170</u>	<u>565,052,567</u>	<u>261,549,228</u>	<u>841,862,965</u>
Perpetual bonds	<u>0</u>	<u>15,000,000</u>	<u>103,770,000</u>	<u>118,770,000</u>
Accrued interest payable:				
Deposits	<u>58,127</u>	<u>3,776,099</u>	<u>747,209</u>	<u>4,581,435</u>
Perpetual bonds	<u>0</u>	<u>118,125</u>	<u>831,772</u>	<u>949,897</u>
	<u>58,127</u>	<u>3,894,224</u>	<u>1,578,981</u>	<u>5,531,332</u>
Commitments and contingencies	<u>1,648,670</u>	<u>5,118,798</u>	<u>35,955,000</u>	<u>42,722,468</u>
Interest income:				
Loans	<u>492,573</u>	<u>8,358,765</u>	<u>695,194</u>	<u>9,546,532</u>
Investments and other financial assets	<u>0</u>	<u>6,067,222</u>	<u>1,813,814</u>	<u>7,881,036</u>
Interest expenses:				
Deposits	<u>136,860</u>	<u>11,594,328</u>	<u>1,494,933</u>	<u>13,226,121</u>
Financing	<u>0</u>	<u>511,875</u>	<u>6,234,995</u>	<u>6,746,870</u>
Other income:				
Equity participation in associates	<u>0</u>	<u>10,833,143</u>	<u>0</u>	<u>10,833,143</u>
Received dividends	<u>0</u>	<u>805,307</u>	<u>0</u>	<u>805,307</u>
General and administrative expenses:				
Directors' fees	<u>538,294</u>	<u>0</u>	<u>0</u>	<u>538,294</u>
Benefits to key management personnel	<u>5,215,186</u>	<u>0</u>	<u>0</u>	<u>5,215,186</u>

The benefits to key management personnel include salaries and other expenses for B/.5,245,765 (2021: B/.4,974,841) and options to purchase shares for B/.240,345 (2021: B/.240,345).

The conditions granted in transactions with related parties are substantially similar to those granted to third parties not related to the Bank.

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Notes to the Consolidated Financial Statements**(5) Cash and Cash Equivalents**

Cash and cash equivalents are detailed as follows for purposes of reconciliation with the consolidated statement of cash flows:

	<u>2022</u>	<u>2021</u>
Cash and cash items	199,528,689	167,237,035
Demand deposits with banks	369,835,840	283,964,475
Time deposits with banks	<u>88,445,477</u>	<u>194,252,658</u>
Total deposits with banks	<u>458,281,317</u>	<u>478,217,133</u>
Less: Deposits with banks, with original maturities greater than three months	<u>39,445,477</u>	<u>194,252,658</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>618,364,529</u>	<u>451,201,510</u>

Demand deposits with banks include cash collateral accounts for B/.36,139,963 (2021: B/.25,765,294) that secure derivative operations and the next payments of principal, interest of certain obligations.

(6) Investments and Other Financial Assets

Investments and other financial assets are detailed as follows:

Investments and Other Financial Assets at Fair Value through Profit or Loss

The portfolio of investments and other financial assets at fair value through profit or loss is detailed as follows:

	<u>2022</u>	<u>2021</u>
Local Corporate Bonds and Fixed Income Funds	54,060,162	58,912,965
Bonds of the Republic of Panama	2,262,723	2,078,478
Local Corporate Shares	40,653,005	39,088,966
Foreign Treasury Bills	250,645	250,705
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	426,167,214	446,305,888
Asset Backed Securities (ABS)	74,267,712	94,190,941
Foreign Corporate Bonds and Fixed Income Funds	163,715,026	377,608,762
Foreign Corporate Shares and Variable Income Mutual Funds	<u>129,802</u>	<u>3,929,789</u>
Total	<u>761,506,289</u>	<u>1,022,366,494</u>

The Bank sold from the portfolio of investments and other financial assets at fair value through profit or loss the amount of B/.9,105,495,477 (2021: B/.10,010,312,875). These sales generated a net loss of B/.54,507,789 (2021: B/.551,192) which is presented in the consolidated statement of income a (loss) gain on financial instruments, net.

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Notes to the Consolidated Financial Statements**Investments and Other Financial Assets at Fair Value Through OCI**

Investments and other financial assets at fair value through OCI are detailed as follows:

	2022		2021	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Local Commercial Papers and Treasury Bills	29,299,277	29,403,322	2,448,350	2,441,000
Local Corporate Bonds	1,089,621,475	1,144,389,645	1,069,499,505	1,024,039,936
Bonds of the Republic of Panama	34,057,622	35,499,740	111,494,153	100,281,557
Bonds of the US Government and Agency	188,900,602	205,566,279	222,843,072	225,081,840
Foreign Commercial Paper and Treasury Bills	446,816,255	447,717,988	793,881,401	793,893,885
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	1,239,463,343	1,342,343,603	1,198,867,495	1,189,806,819
Asset Backed Securities (ABS)	197,396,759	205,676,915	213,641,045	212,592,853
Foreign Corporate Bonds	1,240,523,287	1,355,881,326	1,362,888,491	1,363,240,361
Other Government Bonds	<u>17,530,792</u>	<u>19,408,537</u>	<u>55,014,033</u>	<u>54,731,258</u>
Total	<u>4,483,609,412</u>	<u>4,785,887,355</u>	<u>5,030,577,545</u>	<u>4,966,109,509</u>

The Bank sold investments and other financial assets at fair value through OCI for the amount of B/.2,853,757,449 (2021: B/.2,032,379,421). These sales generated a net loss of B/.55,196,896 (2021: net gain B/.16,045,232), which is presented in the consolidated statement of income as (loss) gain on financial instruments, net.

The reconciliation between the initial balance and closing balance of the expected credit losses (ECL) by the type of allowance model is presented as follows:

	12-month ECL	Lifetime ECL not credit-impaired	2022 Lifetime ECL credit-impaired	Purchase credit-impaired	Total
Balance at the beginning of the year	7,166,582	575,141	1,780,582	0	9,522,305
Transferred to 12-month ECL	0	0	0	0	0
Transfer of 12-month ECL to lifetime ECL not credit-impaired	(17,069)	17,069	0	0	0
Transfer of 12-month ECL to lifetime ECL credit-impaired	(25,931)	0	25,931	0	0
Net remeasurement of portfolio	2,566,473	474,499	1,690,050	67,004	4,798,026
New investment securities purchased	3,098,705	0	0	32,657	3,131,362
Investment securities that have been derecognized	<u>(2,284,904)</u>	<u>(17,674)</u>	<u>(73)</u>	<u>0</u>	<u>(2,302,651)</u>
Balance at the end of the year	<u>10,503,856</u>	<u>1,049,035</u>	<u>3,496,490</u>	<u>99,661</u>	<u>15,149,042</u>

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	<u>12-month ECL</u>	<u>Lifetime ECL not credit- impaired</u>	<u>2021 Lifetime ECL credit- impaired</u>	<u>Purchase credit- impaired</u>	<u>Total</u>
Balance at the beginning of the year	6,527,145	535,652	7,562,805	0	14,625,602
Transferred to 12-month ECL	0	0	0	0	0
Transfer of 12-month ECL to lifetime ECL not credit-impaired	(1,821)	1,821	0	0	0
Transfer of 12-month ECL to lifetime ECL credit-impaired	0	0	0	0	0
Net remeasurement of portfolio	(79,156)	61,808	(3,881,353)	0	(3,898,701)
New investment securities purchased	2,816,804	0	0	0	2,816,804
Investment securities that have been derecognized	(2,096,390)	(24,140)	(1,900,870)	0	(4,021,400)
Balance at the end of the year	<u>7,166,582</u>	<u>575,141</u>	<u>1,780,582</u>	<u>0</u>	<u>9,522,305</u>

Investments at Amortized Cost

The investments and other financial assets at amortized cost amounts to B/.4,817,356 (2021: B/.122,207,361) less a 12-month expected credit loss allowance of B/.12,140 (2021: B/.21,819) which are detailed below:

	<u>2022 Amortized Cost</u>	<u>Fair Value</u>	<u>2021 Amortized Cost</u>	<u>Fair Value</u>
Foreign securities purchased under resold agreements, net	0	0	119,192,848	119,200,000
Foreign Bank Acceptances, net	<u>4,805,216</u>	<u>4,817,356</u>	<u>2,992,694</u>	<u>3,007,361</u>
Total	<u>4,805,216</u>	<u>4,817,356</u>	<u>122,185,542</u>	<u>122,207,361</u>

The movement of the reserve for expected credit losses at 12 months of investments at amortized cost is detailed below:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	21,819	16,387
(Reversal) provisions charged to expenses	<u>(9,679)</u>	<u>5,432</u>
Balance at the end of the year	<u>12,140</u>	<u>21,819</u>

The investments and other financial assets at amortized cost are summarized as follows:

	<u>2022</u>	<u>2021</u>
Investments portfolio and other financial assets at amortized cost, net	4,805,216	122,185,542
Accrued interest receivable	<u>3,554</u>	<u>280</u>
Total of investments and other financial assets at amortized cost	<u>4,808,770</u>	<u>122,185,822</u>

As of December 31, 2021 foreign securities purchased under resold agreements, net for B/.119,192,848 are guaranteed with foreign securities for B/.121,597,575.

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The payment of capital and interest on 100% (2021: 99.9%) of the Bank's MBS portfolio is 100% guaranteed by the following agencies: the Government National Mortgage Association (GNMA), which is an agency of the Federal Government of the United States and counts on the explicit guarantee of the Federal Government, the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Association (FHLMC), who rely on AAA ratings provided by Moody's and Fitch, on its counterparty debt. The guarantee and primary source of payment of the MBS guaranteed by the aforementioned agencies is a set of residential mortgages on houses that must fulfill credit policies that are required by these programs. Similarly, 46.4% (2021: 46.1%) of the CMO portfolio of the Bank is 100% guaranteed by GNMA, FNMA or FHLMC.

The average life of the portfolio of MBS is 4.97 years and CMOs is of 2.50 years (2021: 3.39 years for MBS and 1.78 years for CMOS).

The Bank has in place a documented procedure to determine fair value and the responsibilities of the areas involved in this process, which has been approved by the Assets and Liabilities Committee, the Risk Committee of the Board of Directors, and the Bank's Board of Directors.

The Bank uses price vendors for most of the prices of assets and liabilities at fair value which are processed by the operations area and validated by the administrative and treasury control area and the risk department.

The Bank uses internal valuation methodologies for certain assets and liabilities at fair value classified in Level 3 of the fair value hierarchy. The calculation of fair values using internal methodologies is performed by the administration and control of the treasury area and validated by the risk department.

The Bank measures fair value using the fair value hierarchy, which categorizes the variables used in valuation techniques to measure fair value into three levels. The hierarchy is based on the transparency of the inputs used in measuring the fair values of financial assets and liabilities at their valuation date. The three levels are defined as follows:

Level 1: Quoted prices, unadjusted, in active markets for assets or liabilities identical to those that the Bank can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant input are directly or indirectly observable from market data.

Level 3: Unobservable inputs for assets or liabilities. This category includes all instruments for which the valuation technique includes unobservable variables and such have a significant effect on the instrument's fair value measurement. This category also includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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The classification of the valuation of fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The relevance of a variable should be evaluated in relation to the entire fair value measurement.

Fair Value Measurement of Investments and Other Financial Assets at Fair Value Through Profit or Loss

	<u>2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Local Corporate Bonds and Fixed Income Funds	54,060,162	0	0	54,060,162
Bonds of the Republic of Panama	2,262,723	0	2,262,723	0
Local Corporate Shares	40,653,005	0	0	40,653,005
Foreign Treasury Bills	250,645	250,645	0	0
Mortgage Backed Securities (MBS) and Collateralized				
Mortgage Obligations (CMOs)	426,167,214	0	426,167,214	0
Asset Backed Securities (ABS)	74,267,712	0	74,267,712	0
Foreign Corporate Bonds and Fixed Income Funds	163,715,026	0	2,538,639	161,176,387
Foreign Corporate Shares	129,802	0	13	129,789
Total	<u>761,506,289</u>	<u>250,645</u>	<u>505,236,301</u>	<u>256,019,343</u>

	<u>2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Local Corporate Bonds and Fixed Income Funds	58,912,965	0	0	58,912,965
Bonds of the Republic of Panama	2,078,478	0	2,078,478	0
Local Corporate Shares	39,088,966	3,337	0	39,085,629
Foreign Treasury Bills	250,705	250,705	0	0
Mortgage Backed Securities (MBS) and Collateralized				
Mortgage Obligations (CMOs)	446,305,888	0	446,305,888	0
Asset Backed Securities (ABS)	94,190,941	0	94,190,941	0
Foreign Corporate Bonds and Fixed Income Funds	377,608,762	0	211,675,895	165,932,867
Foreign Corporate Shares and Variable Income Mutual Funds	3,929,789	0	0	3,929,789
Total	<u>1,022,366,494</u>	<u>254,042</u>	<u>754,251,202</u>	<u>267,861,250</u>

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Notes to the Consolidated Financial Statements**Fair Value Measurement of Investments and Other Financial Assets at Fair Value Through OCI**

	<u>2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Local Commercial Paper and Treasury Bills	29,299,277	0	19,475,910	9,823,367
Local Corporate Bonds	1,089,621,475	0	394,150,902	695,470,573
Bonds of the Republic of Panama	34,057,622	0	34,057,622	0
Bonds of the US Government	188,900,602	188,900,602	0	0
Foreign Commercial Paper and Treasury Bills	446,816,255	363,311,405	83,504,850	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	1,239,463,343	0	1,239,463,343	0
Asset Backed Securities (ABS)	197,396,759	0	197,396,759	0
Foreign Corporate Bonds	1,240,523,287	0	1,240,523,287	0
Other Governments Bonds	17,530,792	0	17,530,792	0
Total	<u>4,483,609,412</u>	<u>552,212,007</u>	<u>3,226,103,465</u>	<u>705,293,940</u>
	<u>2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Local Commercial Paper	2,448,350	0	0	2,448,350
Local Corporate Bonds	1,069,499,505	0	406,999,672	662,499,833
Bonds of the Republic of Panama	111,494,153	0	111,494,153	0
Bonds of the US Government and Agency	222,843,072	221,864,782	978,290	0
Foreign Commercial Paper and Treasury Bills	793,881,401	614,903,330	178,978,071	0
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)	1,198,867,495	0	1,198,867,495	0
Asset Backed Securities (ABS)	213,641,045	0	213,641,045	0
Foreign Corporate Bonds	1,362,888,491	0	1,362,888,491	0
Other Governments Bonds	55,014,033	0	55,014,033	0
Total	<u>5,030,577,545</u>	<u>836,768,112</u>	<u>3,528,861,250</u>	<u>664,948,183</u>

Changes in Fair Value Measurement of Level 3 hierarchy**Investments and other
financial assets**

	<u>Fair Value through Profit or Loss</u>	<u>Fair Value through OCI</u>	<u>Total</u>
December 31, 2021	267,861,250	664,948,183	932,809,433
Loss recognized in income	(19,340,513)	0	(19,340,513)
Loss recognized in equity	0	(34,406,041)	(34,406,041)
Purchases	44,209,623	158,527,016	202,736,639
Amortization, sales and redemptions	<u>(36,711,017)</u>	<u>(83,775,218)</u>	<u>(120,486,235)</u>
December 31, 2022	<u>256,019,343</u>	<u>705,293,940</u>	<u>961,313,283</u>
Total loss related to instruments held as of December 31, 2022	<u>(18,835,534)</u>	<u>(34,196,612)</u>	<u>(53,032,146)</u>
December 31, 2020	212,951,434	771,860,567	984,812,001
(Loss) gain recognized in income	3,747,026	(5,589,586)	(1,842,560)
Gain recognized in equity	0	157,132	157,132
Purchases	71,209,313	83,759,880	154,969,193
Amortization, sales and redemptions	<u>(20,046,523)</u>	<u>(182,639,810)</u>	<u>(202,686,333)</u>
Transfers from level 3	0	<u>(2,600,000)</u>	<u>(2,600,000)</u>
December 31, 2021	<u>267,861,250</u>	<u>664,948,183</u>	<u>932,809,433</u>
Total gain related to instruments held as of December 31, 2021	<u>4,645,900</u>	<u>1,553,645</u>	<u>6,199,545</u>

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The Bank recognizes transfers between levels of the fair value hierarchy at the date in which the change occurred.

During 2022 and 2021, there were no transfers between levels 1 and 2 of the fair value hierarchy.

During the 2021, by changes in the source of estimation of the fair value level of a Commercial Paper, a non-significant transfer was made from level 3 to level 2 in the fair value through OCI category.

The table below presents information about significant unobservable inputs used in measuring financial instruments categorized as Level 3 in the fair value hierarchy:

<u>Instruments</u>	<u>Valuation techniques</u>	<u>Unobservable inputs used</u>	<u>Range for unobservable inputs</u>		<u>Fair value sensitivity to unobservable inputs</u>	
			<u>2022</u>	<u>2021</u>		
Corporate Shares	Dividend discount model and Discount free cash flow model (DCF)	Equity risk premium	Minimum 5.90% Maximum 10.19%	Minimum 5.77% Maximum 8.18%	If equity risk premiums increase, the price decreases and vice versa	
		Growth rate of assets, liabilities, equity, profits and dividends	Minimum (45.53%) Maximum 313.83%	Minimum (54.09%) Maximum 239.91%	If the growth increases the price increases and vice versa	
Fixed Income	Discounted cash flow	Credit spreads	Minimum 0.79% Maximum 13.23% Average 2.81%	Minimum 1.09% Maximum 17.12% Average 2.61%	If the credit spreads increase, the price decreases and vice versa	

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The main valuation techniques, assumptions and inputs used to measure the fair value of financial instruments are as follows:

<u>Instruments</u>	<u>Valuation techniques</u>	<u>Inputs used</u>	<u>Level</u>
Local Fixed Income	Quoted market prices	Observable quoted prices	2-3
	Discounted cash flows	Benchmark interest rate Liquidity risk premiums Credit spreads	
Local Shares	Quoted market prices	Quoted prices in active markets	1-3
	Dividend discount model Discount free cash flows model (DCF), which are compared to the stock prices	Benchmark interest rate Equity risk premium Growth rate of assets, liabilities, equity, profits and dividends	
	Carrying amount model	Equity Issued and outstanding shares	
Foreign Fixed Income	Quoted market prices	Quoted prices in active markets	1-2
	Quoted observable market prices for similar instruments	Observable quoted prices	
	Bid and ask prices from market participants	Buying/Selling prices from a broker	
	Discounted cash flows model	Credit spreads Benchmark interest rate Liquidity risk premiums	
Agencies' MBS / CMOs	Discounted cash flows model	Features of collateral TBA's price Treasury yield Yield curves Prepayment speeds Market analysis	2
Private MBS / CMOs and ABS	Discounted cash flows model	Features of collateral Treasury yield Yield curves Expected cash flow and losses Market assumptions related to discount rates, prepayments, losses and recoveries	2
Foreign Shares	Carrying Amount Model	Carrying amount of the shares of the company	3
Investment Vehicles	Net asset value	Net asset value	2-3

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The Bank considers that its methodologies for valuation of investments classified as Level 3 are appropriate; however, the use of different estimates for the unobservable inputs could lead to different measurements of fair value. For investments classified in Level 3, adjustments to the credit spread (in the case of fixed income) and to the equity risk premium (in the case of the corporate shares) of +50bp and -50bp would result in favorable and unfavorable impacts in the Bank's statement of income and equity, as described below:

	2022			
	Fair Value		FV OCI	
	Effect in profit or loss		Effect in equity	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Fixed Income	70,614	(69,108)	8,416,037	(10,289,197)
Corporate Shares	2,733,441	(2,419,285)	0	0
Total	<u>2,804,055</u>	<u>(2,488,393)</u>	<u>8,416,037</u>	<u>(10,289,197)</u>

	2021			
	Fair Value		FV OCI	
	Effect in profit or loss		Effect in equity	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Fixed Income	3,972	(15,039)	6,505,473	(7,223,338)
Corporate Shares	3,457,321	(2,891,752)	0	0
Total	<u>3,461,293</u>	<u>(2,906,791)</u>	<u>6,505,473</u>	<u>(7,223,338)</u>

(7) Loans

The composition of the loan portfolio is summarized as follows:

	2022	2021
Internal sector:		
Residential mortgages	4,634,457,178	4,527,930,938
Personal, auto and credit cards	1,801,739,885	1,707,750,625
Commercial mortgages	1,878,587,554	1,919,260,832
Lines of credit and commercial loans	1,307,429,023	1,131,776,747
Interim financing	286,741,891	378,674,071
Finance leases, net	73,634,394	65,341,390
Other secured loans	195,455,740	202,229,996
Overdrafts	120,003,600	101,481,801
Total internal sector	<u>10,298,049,265</u>	<u>10,034,446,400</u>
External sector:		
Residential mortgages	163,068,975	185,841,411
Personal, auto and credit cards	7,805,083	9,253,456
Commercial mortgages	164,734,813	161,100,420
Lines of credit and commercial loans	996,812,470	863,454,316
Other secured loans	24,572,603	10,084,442
Overdrafts	35,152,448	33,598,518
Total external sector	<u>1,392,146,392</u>	<u>1,263,332,563</u>
Total	<u>11,690,195,657</u>	<u>11,297,778,963</u>

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The movement of the loan loss allowance is summarized as follows:

	2022			
	12-month ECL	Lifetime ECL Not credit- impaired	Lifetime ECL credit- impaired	Total
Balance at the beginning of the year	197,388,884	129,812,916	140,504,262	467,706,062
Transferred to 12-month ECL	22,410,117	(12,015,633)	(10,394,484)	0
Transferred to lifetime ECL not credit-impaired	(21,057,683)	62,299,409	(41,241,726)	0
Transferred to lifetime ECL credit-impaired	(3,422,708)	(5,943,088)	9,365,796	0
Net remeasurement of portfolio	(54,456,285)	64,533,137	(19,711,254)	(9,634,402)
New loans	14,934,066	7,437,207	1,939,688	24,310,961
Loans that have been derecognized	(18,869,460)	(11,228,486)	(26,974,617)	(57,072,563)
Recovery of loan write-off	0	0	39,212,237	39,212,237
Loans written-off	0	0	(31,523,060)	(31,523,060)
Balance at the end of the year	136,926,931	234,895,462	61,176,842	432,999,235

	2021			
	12-month ECL	Lifetime ECL Not credit- impaired	Lifetime ECL credit- impaired	Total
Balance at the beginning of the year	225,723,115	71,959,280	86,113,012	383,795,407
Transferred to 12-month ECL	9,522,524	(7,962,443)	(1,560,081)	0
Transferred to lifetime ECL not credit-impaired	(3,280,154)	7,221,285	(3,941,131)	0
Transferred to lifetime ECL credit-impaired	(3,726,247)	(5,099,589)	8,825,836	0
Net remeasurement of portfolio	(32,103,894)	69,747,097	123,484,328	161,127,531
New loans	9,846,913	4,705,781	15,124,479	29,677,173
Loans that have been derecognized	(8,593,373)	(10,758,495)	(15,810,825)	(35,162,693)
Recovery of loan write-off	0	0	25,312,873	25,312,873
Loans written-off	0	0	(97,044,229)	(97,044,229)
Balance at the end of the year	197,388,884	129,812,916	140,504,262	467,706,062

Loan loss allowance for consumer loans:

	2022			
	12-month ECL	Lifetime ECL Not credit – impaired	Lifetime ECL credit- impaired	Total
Balance at the beginning of the year	186,744,679	84,499,337	50,957,294	322,201,310
Transferred to 12-month ECL	20,694,805	(10,300,321)	(10,394,484)	0
Transferred to lifetime ECL not credit-impaired	(20,863,006)	29,659,432	(8,796,426)	0
Transferred to lifetime ECL credit-impaired	(3,418,568)	(5,384,472)	8,803,040	0
Net remeasurement of portfolio	(53,883,156)	27,768,898	4,589,469	(21,524,789)
New loans	10,567,451	1,186,862	958,279	12,712,592
Loans that have been derecognized	(15,298,891)	(6,932,775)	(14,263,117)	(36,494,783)
Recovery of loans write-off	0	0	38,910,096	38,910,096
Loans written-off	0	0	(28,583,190)	(28,583,190)
Balance at end of the year	124,543,314	120,496,961	42,180,961	287,221,236

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		2021		
	12-month ECL	Lifetime ECL Not credit – impaired	Lifetime ECL credit- impaired	Total
Balance at the beginning of the year	208,838,240	21,244,074	14,437,948	244,520,262
Transferred to 12-month ECL	7,257,469	(6,009,959)	(1,247,510)	0
Transferred to lifetime ECL not credit-impaired	(3,019,044)	3,806,251	(787,207)	0
Transferred to lifetime ECL credit-impaired	(3,688,030)	(2,995,494)	6,683,524	0
Net remeasurement of portfolio	(23,670,722)	74,131,304	100,086,428	150,547,010
New loans	7,109,779	620,572	267,001	7,997,352
Loans that have been derecognized	(6,083,013)	(6,297,411)	(4,919,327)	(17,299,751)
Recovery of loans write-off	0	0	24,665,767	24,665,767
Loans written-off	0	0	(88,229,330)	(88,229,330)
Balance at end of the year	186,744,679	84,499,337	50,957,294	322,201,310

Loan loss allowance for corporate loans:

		2022		
	12-month ECL	Lifetime ECL Not credit - impaired	Lifetime ECL credit- impaired	Total
Balance at beginning of the year	10,644,205	45,313,579	89,546,968	145,504,752
Transferred to 12 months ECL	1,715,312	(1,715,312)	0	0
Transferred to lifetime ECL not credit impaired	(194,677)	32,639,977	(32,445,300)	0
Transferred to lifetime ECL credit impaired	(4,140)	(558,616)	562,756	0
Net remeasurement of portfolio	(573,129)	36,764,239	(24,300,723)	11,890,387
New loans	4,366,615	6,250,345	981,409	11,598,369
Loans that have been derecognized	(3,570,569)	(4,295,711)	(12,711,500)	(20,577,780)
Recovery of loans write-off	0	0	302,141	302,141
Loans written-off	0	0	(2,939,870)	(2,939,870)
Balance at end of the year	12,383,617	114,398,501	18,995,881	145,777,999

		2021		
	12-month ECL	Lifetime ECL Not credit - impaired	Lifetime ECL credit- impaired	Total
Balance at beginning of the year	16,884,875	50,715,206	71,675,064	139,275,145
Transferred to 12 months ECL	2,265,055	(1,952,484)	(312,571)	0
Transferred to lifetime ECL not credit impaired	(261,110)	3,415,034	(3,153,924)	0
Transferred to lifetime ECL credit impaired	(38,217)	(2,104,095)	2,142,312	0
Net remeasurement of portfolio	(8,433,172)	(4,384,207)	23,397,900	10,580,521
New loans	2,737,134	4,085,209	14,857,478	21,679,821
Loans that have been derecognized	(2,510,360)	(4,461,084)	(10,891,498)	(17,862,942)
Recovery of loans write-off	0	0	647,106	647,106
Loans written-off	0	0	(8,814,899)	(8,814,899)
Balance at end of the year	10,644,205	45,313,579	89,546,968	145,504,752

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The balance of accrued interest receivable from loans to which the Bank applied a postponement of installments between March 2020 and June 2021 as a financial relief measure due to COVID-19 amounts to B/.28,414,331 (2021: B/.57,831,652).

A 59% (2021: 60%) of the Bank's credit portfolio is constituted by residential and commercial mortgage loans backed by residential units and commercial or industrial buildings.

The loan portfolio classification by guarantee type, mainly mortgages on real estate and chattels, and other collateral such as deposits, securities, and corporate guaranties, is detailed as follows:

	<u>2022</u>	<u>2021</u>
	(in Thousands)	
Mortgages on real estate	7,522,808	7,648,038
Mortgages on moveable property	567,328	553,755
Deposits	301,944	309,374
Other guaranties	292,588	191,467
Unsecured	<u>3,005,528</u>	<u>2,595,145</u>
Total	<u>11,690,196</u>	<u>11,297,779</u>

For loans pledged to secure borrowings, see Note 16.

The Bank recognized a tax credit in the amount of B/.54,882,594 (2021: B/.52,005,855), originating from the annual benefit awarded on mortgage loans granted with preferential interest rates. The accumulated tax credit receivable for B/.132,473,104 (2021: B/.84,606,827) is presented in the consolidated statement of financial position under other assets.

This benefit is equivalent to the difference between the income the Bank would have earned on these mortgage loans had it used the market reference interest rate in effect for that year, and the interest income actually earned.

Finance Leases, Net

The balance of finance leases, net of unearned interest, and the maturity schedule of the minimum payments are summarized as follows:

	<u>2022</u>	<u>2021</u>
Minimum payments up to 1 year	35,236,836	33,018,809
Minimum payments from 1 to 6 years	<u>47,245,437</u>	<u>39,573,120</u>
Total minimum payments	82,482,273	72,591,929
Less unearned interest	<u>8,847,879</u>	<u>7,250,539</u>
Total finance leases, net	<u>73,634,394</u>	<u>65,341,390</u>

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(8) Investments in Associates

The investments in associates are detailed as follows:

<u>Associates</u>	<u>Activity</u>	<u>Equity Participation</u>		<u>2022</u>	<u>2021</u>
		<u>2022</u>	<u>2021</u>		
Telered, S. A.	Processing of electronic transactions	40%	40%	18,176,150	14,715,974
Proyectos de Infraestructura, S. A.	Real estate investors	38%	38%	5,602,152	5,937,537
Processing Center, S. A.	Credit card processing	49%	49%	3,226,194	1,486,356
Financial Warehousing of Latin America, Inc.	Administrator of trust funds	38%	38%	<u>2,912,199</u>	<u>2,880,776</u>
				<u>29,916,695</u>	<u>25,020,643</u>

The financial information of investments in associates is summarized as follows:

<u>Associates</u>	<u>Financial Information Date</u>	<u>2022</u>						<u>Participation recognized in profit or loss</u>
		<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Income</u>	<u>Expenses</u>	<u>Net income</u>	
Telered, S. A.	30-nov-2022	<u>69,626,437</u>	<u>19,057,518</u>	<u>50,568,919</u>	<u>52,274,166</u>	<u>36,982,866</u>	<u>15,291,300</u>	6,627,298
Proyectos de Infraestructura, S. A.	31-dic-2022	<u>14,683,869</u>	<u>0</u>	<u>14,683,869</u>	<u>2,497,594</u>	<u>644</u>	<u>2,496,950</u>	954,878
Processing Center, S. A.	30-nov-2022	<u>24,321,292</u>	<u>7,231,583</u>	<u>17,089,709</u>	<u>22,322,162</u>	<u>12,837,659</u>	<u>9,484,503</u>	7,167,601
Financial Warehousing of Latin America, Inc.	31-oct-2022	<u>13,844,860</u>	<u>5,707,495</u>	<u>8,137,365</u>	<u>3,871,923</u>	<u>2,261,183</u>	<u>1,610,740</u>	<u>387,103</u>
Total								<u>15,136,880</u>

<u>Associates</u>	<u>Financial Information Date</u>	<u>2021</u>						<u>Participation recognized in profit or loss</u>
		<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Income</u>	<u>Expenses</u>	<u>Net income</u>	
Telered, S. A.	30-nov-2021	<u>55,254,713</u>	<u>14,431,200</u>	<u>40,823,513</u>	<u>45,778,734</u>	<u>33,200,215</u>	<u>12,578,519</u>	5,372,456
Proyectos de Infraestructura, S. A.	31-dec-2021	<u>15,561,919</u>	<u>0</u>	<u>15,561,919</u>	<u>1,388,530</u>	<u>616</u>	<u>1,387,914</u>	530,669
Processing Center, S. A.	31-oct-2021	<u>20,225,581</u>	<u>11,151,897</u>	<u>9,073,684</u>	<u>17,464,978</u>	<u>9,390,396</u>	<u>8,074,582</u>	4,290,608
Financial Warehousing of Latin America, Inc.	30-nov-2021	<u>12,399,417</u>	<u>4,187,211</u>	<u>8,212,206</u>	<u>4,173,638</u>	<u>2,460,304</u>	<u>1,713,334</u>	<u>639,410</u>
Total								<u>10,833,143</u>

(9) Properties, Furniture, Equipment and Improvements

Properties, furniture, equipment and improvements are summarized as follows:

	<u>2022</u>					<u>Total</u>
	<u>Land</u>	<u>Buildings</u>	<u>Licenses and internally developed projects</u>	<u>Furniture and Equipment</u>	<u>Improvements</u>	
Cost:						
At the beginning of the year	32,524,625	136,859,639	163,354,333	113,337,721	44,925,422	491,001,740
Additions	0	0	20,859,867	13,730,901	5,708,283	40,299,051
Sales and disposals	<u>525,490</u>	<u>1,479,430</u>	<u>224,607</u>	<u>4,012,198</u>	<u>1,165,060</u>	<u>7,406,785</u>
At the end of the year	<u>31,999,135</u>	<u>135,380,209</u>	<u>183,989,593</u>	<u>123,056,424</u>	<u>49,468,645</u>	<u>523,894,006</u>
Accumulated depreciation and amortization:						
At the beginning of the year	0	40,160,798	94,662,985	84,555,316	32,496,804	251,875,903
Expense of the year	0	3,662,183	13,291,193	8,097,385	2,178,217	27,228,978
Sales and disposal	<u>0</u>	<u>1,091,180</u>	<u>224,606</u>	<u>3,778,128</u>	<u>1,147,919</u>	<u>6,241,833</u>
At the end of the year	<u>0</u>	<u>42,731,801</u>	<u>107,729,572</u>	<u>88,874,573</u>	<u>33,527,102</u>	<u>272,863,048</u>
Net balance	<u>31,999,135</u>	<u>92,648,408</u>	<u>76,260,021</u>	<u>34,181,851</u>	<u>15,941,543</u>	<u>251,030,958</u>

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			2021			
	Land	Buildings	Licenses and internally developed projects	Furniture and Equipment	Improvements	Total
Cost:						
At the beginning of the year	32,566,104	137,110,977	142,884,048	113,470,270	41,944,606	467,976,005
Additions	0	243,602	20,896,561	2,390,321	3,710,897	27,241,381
Sales and disposals	<u>41,479</u>	<u>494,940</u>	<u>426,276</u>	<u>2,522,870</u>	<u>730,081</u>	<u>4,215,646</u>
At the end of the year	<u>32,524,625</u>	<u>136,859,639</u>	<u>163,354,333</u>	<u>113,337,721</u>	<u>44,925,422</u>	<u>491,001,740</u>
Accumulated depreciation and amortization:						
At the beginning of the year	0	37,058,835	84,121,051	78,790,441	31,171,643	231,141,970
Expense of the year	0	3,512,402	10,967,719	8,282,965	2,055,242	24,818,328
Sales and disposal	<u>0</u>	<u>410,439</u>	<u>425,785</u>	<u>2,518,090</u>	<u>730,081</u>	<u>4,084,395</u>
At the end of the year	<u>0</u>	<u>40,160,798</u>	<u>94,662,985</u>	<u>84,555,316</u>	<u>32,496,804</u>	<u>251,875,903</u>
Net balance	<u>32,524,625</u>	<u>96,698,841</u>	<u>68,691,348</u>	<u>28,782,405</u>	<u>12,428,618</u>	<u>239,125,837</u>

(10) Right-of-Use Assets

The movement of right of use assets is detailed as follows:

	2022	2021
Cost:		
At the beginning of the year	26,704,514	25,538,433
New contracts	2,727,031	2,379,616
Cancellations	<u>(2,196,145)</u>	<u>(1,213,535)</u>
At the end of the year	<u>27,235,400</u>	<u>26,704,514</u>
Accumulated depreciation:		
At the beginning of the year	9,706,856	7,073,818
Expense of the year	3,421,927	3,566,896
Cancellations	<u>(1,511,911)</u>	<u>(933,858)</u>
At the end of the year	<u>11,616,872</u>	<u>9,706,856</u>
Net balance	<u>15,618,528</u>	<u>16,997,658</u>

The expense depreciation of right-of-use assets is included in the depreciation and amortization expense line in the consolidated statement of income.

(11) Investments and Other Financial Assets Sold and Purchased Pending Settlement

The Bank recognizes each sale and purchase of financial instruments on a trade-date basis; the settlement of the transaction generally occurs within three to thirty business days following the trade date. The period between the trade date and the settlement date varies depending on the type of financial instrument traded and the regulations in effect at the market where the negotiation occurred.

Investments and other financial assets pending settlement amounted to B/.308,927,685 (2021: B/.222,866,524) for sales of investments and other financial assets and B/.469,324,455 (2021: B/.422,824,601) for purchases of investments and other financial assets.

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(12) Goodwill and Intangible Assets, Net

The following table summarizes the goodwill generated from the acquisition and/or participation acquired of the following entities:

<u>Company</u>	<u>Date of acquisition</u>	<u>Participation acquired</u>	<u>% of Acquired Participation</u>	<u>Balance</u>
Banco General, S. A. (1)	March 2004	ProFuturo-Administradora de Fondos de Pensiones y Cesantías, S. A.	17%	679,018
Banco General, S. A. (1)	March 2005	BankBoston, N.A. – Panama (banking operations)	100%	12,056,144
ProFuturo - Administradora de Fondos de Pensiones y Cesantías, S. A. (2)	March 2005	Purchase of trust fund businesses	100%	861,615
Banco General, S. A. (1)	March 2007	Banco Continental de Panama, S. A. and subsidiaries (banking and fiduciary activities)	100%	<u>27,494,722</u>
Total				<u>41,091,499</u>
(1) Banking CGU				
(2) Pension and Retirement Fund				

The movement of goodwill and intangible assets is summarized as follows:

	<u>Goodwill</u>	<u>2022 Intangible assets</u>	<u>Total</u>
Cost:			
Balance at the beginning of the year	41,382,499	47,462,084	88,844,583
Impairment loss	<u>(291,000)</u>	<u>0</u>	<u>(291,000)</u>
Net balance at the end of the year	<u>41,091,499</u>	<u>47,462,084</u>	<u>88,553,583</u>
Accumulated amortization:			
Balance at the beginning of the year	0	37,297,784	37,297,784
Amortization of the year	<u>0</u>	<u>2,617,392</u>	<u>2,617,392</u>
Balance at the end of the year	<u>0</u>	<u>39,915,176</u>	<u>39,915,176</u>
Net balance at the end of the year	<u>41,091,499</u>	<u>7,546,908</u>	<u>48,638,407</u>
	<u>Goodwill</u>	<u>2021 Intangible assets</u>	<u>Total</u>
Cost:			
Balance at the beginning of the year	41,489,737	47,462,084	88,951,821
Impairment loss	<u>(107,238)</u>	<u>0</u>	<u>(107,238)</u>
Net balance at the end of the year	<u>41,382,499</u>	<u>47,462,084</u>	<u>88,844,583</u>
Accumulated amortization:			
Balance at the beginning of the year	0	34,680,392	34,680,392
Amortization of the year	<u>0</u>	<u>2,617,392</u>	<u>2,617,392</u>
Balance at the end of the year	<u>0</u>	<u>37,297,784</u>	<u>37,297,784</u>
Net balance at the end of the year	<u>41,382,499</u>	<u>10,164,300</u>	<u>51,546,799</u>

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To test for impairment of goodwill or other intangible assets, a valuation of several assets (contracts, portfolios) or businesses acquired by the Bank is made goodwill or intangible to determine if the recoverable amount of an asset or business is greater than its carrying amount. The Bank has identified three cash-generating units (CGUs): Banking, Insurance and Reinsurance, and the Pension and Retirement Fund. For the purposes of impairment tests, goodwill is assigned to the Banking CGU and the Pension and Retirement Fund. In assessing value in use, the Bank mainly uses a discounted future net cash flows model or alternative valuation models including multiples of earnings and equity, as applicable.

It is the Bank's policy to conduct an impairment test annually or more frequently when there is some indication that an asset may be impaired (a trigger event). During 2022, the subsidiary Vale General, S. A. had an impairment loss of B/.291,000 in the goodwill generated from participation acquired in Pases Alimenticios S.A (2021: B/.107,238). Additionally, the valuation calculated by discounting the future cash flows generated from the acquisition of assets or businesses resulted in a present value which exceeded their carrying value.

To carry out the valuation of assets and businesses acquired, expected future net cash flows of assets or businesses were projected for periods ranging from six to ten years and included a perpetual growth at the end of the period to estimate terminal cash flows. The growth rates in assets or businesses fluctuate based on their individual nature, and the current range is between 0% and 18%, while the perpetual growth rate ranged from 0% to 5%.

To determine the growth rates of assets or businesses, the Bank used reference growth, performance, and actual historical metrics of relevant assets or businesses, future prospects, anticipated macroeconomic growth of the country, business segments or evaluated business; as well as the Bank's business plans and expected growth rates in general, and for specific business assessment.

To calculate the present value of future cash flows and determine the value of the assets or businesses being evaluated, the Bank's estimated average cost of capital was used as a discount rate for the periods referred to, when the business unit being assessed is the Bank; when discounting cash flows of assets or units with a profile other than that of the Bank, the applicable cost of capital to that unit is used. The Bank's capital cost is based on the average interest rates of long-term AAA dollar instruments, the country risk premium and return premium applicable for capital investments. The cost of capital used fluctuates between 12% and 13% and changes over time.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonable possible changes under these assumptions do not affect the recoverable amount of the business units or decrease them below their carrying amounts.

The amortization expense of the amortization of intangibles assets and goodwill impairment loss are presented in the consolidated statement of income as commissions and other expenses.

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Notes to the Consolidated Financial Statements**(13) Foreclosed Assets, Net**

The Bank holds foreclosed assets, amounting to B/.41,220,401 (2021: B/.28,309,715), less a reserve of B/.3,408,621 (2021: B/.2,328,545).

The movement of the reserve for foreclosed assets is summarized as follows:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	2,328,545	1,604,780
Provisions charged to expenses	5,085,928	3,855,740
Reversal of provision	(2,990,077)	(2,149,113)
Foreclosed assets sold	(1,015,775)	(982,862)
Balance at the end of the year	<u>3,408,621</u>	<u>2,328,545</u>

(14) Securities sold under repurchase agreements

The Bank maintains obligations resulting from securities sold under repurchase agreements amounting to B/.198,242,891 with various maturities until February 2023 and annual interest rates of 4.90% to 4.97%; the weighted average interest rate of these securities is 4.93%. These values are guaranteed with investment values for B/.203,570,366.

The securities sold under repurchase agreements at amortized cost are detailed below:

	<u>2022</u>
Securities sold under repurchase agreements	198,242,891
Accrued interest payable	<u>1,335,900</u>
Securities sold under repurchase agreements at amortized cost	<u>199,578,791</u>

(15) Other Financial Liabilities at Fair Value

The Bank holds, within other liabilities line, financial liabilities of debt instruments at fair value arising from short sales, which are summarized as follows:

	<u>Level</u>	<u>2022</u>	<u>2021</u>
Bonds of the US Government	1	3,284,758	0
Mortgage Backed Securities (MBS)	2	<u>145,211,067</u>	<u>83,296,219</u>
Total		<u>148,495,825</u>	<u>83,296,219</u>

See the description of the main valuation methods, assumptions and variables used in estimating the fair value of these liabilities and the levels in Note 6.

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(16) Borrowings and Debt Securities Issued, Net

The Bank issued bonds and other borrowings, as follows:

	<u>2022</u>	<u>2021</u>
Corporate bonds with maturities in 2026, at an interest rate of 3 month Libor plus a margin	2,680,000	2,680,000
Corporate bonds with maturities in 2027, at an annual interest rate of 4.125%	537,217,000	537,217,000
Borrowings with maturity in 2022, at interest rates of 12 month Libor plus a margin	0	5,000,000
Borrowings with maturity in 2023, at interest rates of 6 month SOFR plus a margin	50,000,000	0
Borrowings with maturity in 2024, at interest rates of 6 month Libor plus a margin	50,000,000	150,000,000
Borrowings with maturity in 2025, at interest rates of 6 month Libor plus a margin	50,000,000	50,000,000
Borrowings with maturity in 2025, at interest rates Basic Passive rate of The Central Bank of Costa Rica plus a margin	1,906,084	2,469,522
Borrowing under USAID (guarantor) program with maturity in 2025, at a fixed annual interest rate of 7.65%	0	2,272,387
Notes with maturities in 2024, at a fixed interest rate	35,000,000	55,000,000
Notes with maturities in 2027, at a fixed interest rate	<u>67,500,000</u>	<u>75,000,000</u>
Subtotal of borrowings and debt securities issued	794,303,084	879,638,909
Revaluation coverage	<u>7,965,019</u>	<u>14,007,166</u>
Total borrowings and debt securities issued, net	<u>802,268,103</u>	<u>893,646,075</u>

The borrowings and debt securities issued at amortized cost are summarized as follows:

	<u>2022</u>	<u>2021</u>
Borrowings and debt securities issued, net	802,268,103	893,646,075
Accrued interest payable	<u>11,450,729</u>	<u>10,934,902</u>
Borrowings and debt securities issued at amortized cost	<u>813,718,832</u>	<u>904,580,977</u>

The borrowing obtained in 1995 under the USAID Housing Program resulted from the Bank's participation in the Housing Program No.525-HG-013 with the United States of America Agency for International Development (USAID), which involved the financing of low cost housing by foreign investors. These borrowings had a maturity of thirty (30) years, and a grace period of ten (10) years for repayment of principal. This borrowing was redeemed in advance during the month of June, however, until the moment of its cancellation it was guaranteed by the USAID guarantee; In turn, the Bank maintained minimum guarantees as of December 31, 2021 in the amount of B/.2,840,484, through the assignment under a suspensive condition of a mortgage portfolio in favor of USAID, which represents an amount equal to 1.25 times the amount of the financing received.

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The Bank is the residual beneficiary of the liquid assets of Banco General DPR Funding Limited, a special purpose entity. The following transactions have been executed through this entity: in 2016 a notes issued for B/.200,000,000 and notes issued for B/.75,000,000 in 2017; collateralized with future cash flows of remittances received (MT103). The Bank maintains a money market deposit with an amount equivalent to the next quarterly payment of principal, interest and expense, which is presented within the Deposits with banks line. The balance of these transactions is B/.102,500,000 (2021: B/.130,000,000).

The notes detailed above were agreed to the following terms and types of rates: for those of 2016 for 8 years with principal repayments starting in the third year and fixed interest rate, for those of 2017 for 10 years with principal repayments as of the fifth year and fixed interest rate.

In August 2017, the Bank issued bonds in the international market under the Standard 144A/Reg S for the amount of B/.550,000,000 with a ten-year fixed coupon of 4.125% and a maturity date of August 7, 2027. The bonds have biannual interest payments on the 7th day of February and August of each year. The principal amount will be paid at maturity.

In December 2019, the Bank entered into a long-term loan agreement with a multilateral entity for B/.150,000,000 at a variable Libor rate of 6 months plus a margin and payment of six-monthly interest and maturity capital. The balance of this borrowing is B/.50,000,000 (2021: B/.150,000,000).

In April 2020, the Bank entered into a long-term loan agreement with a multilateral entity for B/.50,000,000 at a variable rate of Libor of 6 months plus a margin and payment of biannual interest and principal at maturity.

The Bank had no default events as to principal, interest or other contractual clauses relating to its borrowings and debt securities issued.

The movement during the year of borrowings and debt securities issued, net is detailed below for the reconciliation with the consolidated statement of cash flows:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	893,646,075	1,076,468,583
New borrowings and debt securities issued	50,000,000	4,999,999
Redemption of debt securities issued and cancellation of borrowings	(135,335,825)	(169,165,000)
Revaluation coverage	<u>(6,042,147)</u>	<u>(18,657,507)</u>
Balance at the end of the year	<u>802,268,103</u>	<u>893,646,075</u>

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(17) Perpetual Bonds

Under Resolution No.366-08 of November 24, 2008, issued by the Superintendence of the Securities Market of the Republic of Panama, Banco General, SA is authorized to offer through Public Offer, Perpetual Bonds for a total face value of up to B/.250,000,000. The Bonds will be issued in nominative, registered form, without coupons, in a series, in denominations of B/.10,000 and in integral multiples of B/.1,000, with no expiration or specific redemption date, which were fully redeemed on June 15, 2021 in accordance with the process established in the informative prospectus.

Under Resolution No.SMV-200-2021 of April 22, 2021, issued by the Superintendence of the Securities Market of the Republic of Panama, Banco General, S.A. is authorized to offer, through a Public Offer, non-cumulative Perpetual Subordinated Bonds for a total face value of up to B/.500,000,000. The Bonds will be issued in nominative, registered form, without coupons, in a series, in denominations of B/.200,000 and in integral multiples of B/.1,000, without specific expiration or redemption date. Likewise, they may be redeemed by the Issuer, at its discretion in whole or in part, from the tenth year after the issue date and on any interest payment day after said first redemption date. The Bonds will accrue an interest rate during the first ten years of 5.25% and the interest will be paid semi-annually. The Bank, under some circumstances described in the informative prospectus, may suspend the payment of interest without considering it an event of default. The Bonds are subordinated, in terms of payment priority, to all existing and future preferential credits of the issuer, and are backed only by the general credit of Banco General, S. A.

The movement of perpetual bonds are summarized as follows:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	400,000,000	217,680,000
Issue	0	400,000,000
Redemption	0	(217,680,000)
Balance at the end of the year	<u>400,000,000</u>	<u>400,000,000</u>

The perpetual bonds at amortized cost are summarized as follows:

	<u>2022</u>	<u>2021</u>
Perpetual bonds	400,000,000	400,000,000
Accrued interest payable	<u>3,150,000</u>	<u>3,150,000</u>
Perpetual bonds at amortized cost	<u>403,150,000</u>	<u>403,150,000</u>

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Notes to the Consolidated Financial Statements**(18) Lease Liabilities**

The movement of lease liabilities is detailed as follows:

	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year	18,545,622	19,696,316
New contracts	2,727,031	2,379,616
Payments	(3,247,484)	(3,233,085)
Cancellations	<u>(712,427)</u>	<u>(297,225)</u>
Balance at the end of the year	<u>17,312,742</u>	<u>18,545,622</u>

Interest expense on lease liabilities for B/.778,791 (2021: B/.854,222) is included in the line as of commission expenses and other expenses in the consolidated statement of income.

The Bank held lease liabilities whose contracts range from 1 to 20 years (2021: 1 to 20 years) and were calculated using discount rates between 3.00% y 5.88% (2021: 3.00% y 5.88%).

(19) Reserves of Insurance Operations

Reserves of insurance operations amounted to B/.20,522,641 (2021: B/.19,702,364) and are comprised of unearned premiums and estimated insurance claims incurred.

The movement of the reserves of insurance operations is summarized as follows:

	<u>2022</u>	<u>2021</u>
Unearned Premiums		
Balance at the beginning of the year	20,473,022	21,103,378
Issued premiums	42,525,570	40,003,701
Earned premiums	<u>(41,684,376)</u>	<u>(40,634,057)</u>
Balance at the end of the year	21,314,216	20,473,022
Reinsurers participation	<u>(4,447,976)</u>	<u>(3,990,237)</u>
Unearned premiums, net	<u>16,866,240</u>	<u>16,482,785</u>
Estimated Insurance Claims Incurred		
Balance at the beginning of the year	4,574,850	3,413,785
Incurred claims	10,263,931	13,093,422
Paid claims	<u>(9,792,795)</u>	<u>(11,932,357)</u>
Balance at the end of the year	5,045,986	4,574,850
Reinsurer participation	<u>(1,389,585)</u>	<u>(1,355,271)</u>
Estimated insurance claims incurred, net	<u>3,656,401</u>	<u>3,219,579</u>
Total reserves of insurance operations	<u>20,522,641</u>	<u>19,702,364</u>

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(20) Concentration of Financial Assets and Liabilities

The geographical concentration of the most significant financial assets and liabilities is as follows:

	2022			
	Panama	Latin America and the Caribbean	United States of America and Others	Total
Assets:				
Deposits with banks:				
Demand	58,561,070	79,086,116	232,188,654	369,835,840
Time	43,000,000	445,477	45,000,000	88,445,477
Investments and other financial assets at fair value through profit or loss	77,230,548	28,724,443	655,551,298	761,506,289
Investments and other financial assets at FVOCI	1,180,793,989	208,564,243	3,094,251,180	4,483,609,412
Investments and other financial assets at amortized cost, net	0	4,805,216	0	4,805,216
Loans	<u>10,298,049,265</u>	<u>1,251,245,507</u>	<u>140,900,885</u>	<u>11,690,195,657</u>
Total	<u>11,657,634,872</u>	<u>1,572,871,002</u>	<u>4,167,892,017</u>	<u>17,398,397,891</u>
Liabilities:				
Deposits:				
Demand	2,733,072,654	143,048,477	9,405,343	2,885,526,474
Saving	4,967,781,768	76,766,765	15,721,022	5,060,269,555
Time	5,009,880,939	205,624,595	5,340,281	5,220,845,815
Securities sold under repurchase agreements	0	0	198,242,891	198,242,891
Borrowings and debt securities issued, net	52,680,000	1,906,084	747,682,019	802,268,103
Perpetual bonds	0	0	400,000,000	400,000,000
Lease liabilities	16,671,106	641,636	0	17,312,742
Other liabilities/securities sold in short	0	0	<u>148,495,825</u>	<u>148,495,825</u>
Total	<u>12,780,086,467</u>	<u>427,987,557</u>	<u>1,524,887,381</u>	<u>14,732,961,405</u>
Commitments and contingencies	<u>558,038,844</u>	<u>6,907,406</u>	<u>0</u>	<u>564,946,250</u>
	2021			
	Panama	Latin America and the Caribbean	United States of America and Others	Total
Assets:				
Deposits with banks:				
Demand	57,463,523	84,602,921	141,898,031	283,964,475
Time	193,837,296	415,362	0	194,252,658
Investments and other financial assets at fair value through profit or loss	82,116,645	37,161,623	903,088,226	1,022,366,494
Investments and other financial assets at FVOCI	1,213,767,486	258,586,337	3,558,223,722	5,030,577,545
Investments and other financial assets at amortized cost, net	0	2,992,694	119,192,848	122,185,542
Loans	<u>10,034,446,400</u>	<u>1,238,039,842</u>	<u>25,292,721</u>	<u>11,297,778,963</u>
Total	<u>11,581,631,350</u>	<u>1,621,798,779</u>	<u>4,747,695,548</u>	<u>17,951,125,677</u>
Liabilities:				
Deposits:				
Demand	3,032,819,682	113,073,704	17,102,832	3,162,996,218
Saving	4,860,924,017	91,664,791	12,806,254	4,965,395,062
Time	5,429,204,249	238,273,639	4,742,503	5,672,220,391
Borrowings and debt securities issued, net	2,680,000	2,469,523	888,496,552	893,646,075
Perpetual bonds	0	0	400,000,000	400,000,000
Lease liabilities	17,565,239	980,383	0	18,545,622
Other liabilities/securities sold in short	0	0	<u>83,296,219</u>	<u>83,296,219</u>
Total	<u>13,343,193,187</u>	<u>446,462,040</u>	<u>1,406,444,360</u>	<u>15,196,099,587</u>
Commitments and contingencies	<u>519,692,000</u>	<u>7,120,909</u>	<u>0</u>	<u>526,812,909</u>

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Notes to the Consolidated Financial Statements**(21) Segment Information**

The Bank maintains three business segments for its financial analysis, which offer different products and services and are managed separately, consistent with the form in which management receives data, budgets and assesses their performance.

Segments**Operations****Banking and Financial Activities**

Various financial services, mainly corporate, mortgage and consumer banking, finance leases, administration of trusts, administration and marketing of food vouchers, asset management and securities brokerage

Insurance and Reinsurance

Insurance and reinsurance of policies of general lines, collective life and various risks

Pension and Retirement Fund

Management of pension and retirement, severance and investment funds

Management prepared the following segment information based on the bank's businesses for its financial analysis:

	Banking and Financial Activities	Insurance and Reinsurance	2022 Pension and retirement Fund	Eliminations	Total
Interest and commission income	978,471,867	7,640,765	1,587,008	6,580,103	981,119,537
Interest and provision expenses	236,044,514	128,836	0	6,580,103	229,593,247
Other income, net	128,360,178	30,805,309	15,536,019	11,687	174,689,819
General and administrative expenses	286,908,866	2,981,695	5,475,701	11,687	295,354,575
Depreciation and amortization expense	30,378,124	13,984	258,797	0	30,650,905
Equity participation in associates	15,136,880	0	0	0	15,136,880
Net income before income tax	568,637,421	35,321,559	11,388,529	0	615,347,509
Net Income tax, estimated	63,050,034	5,588,552	2,611,261	0	71,249,847
Net Income tax, deferred	5,841,254	0	0	0	5,841,254
Net Income tax	68,891,288	5,588,552	2,611,261	0	77,091,101
Net income	499,746,133	29,733,007	8,777,268	0	538,256,408
Total assets	18,329,673,686	337,006,541	54,326,577	314,275,340	18,406,731,464
Total liabilities	16,069,286,197	53,037,915	659,612	294,869,278	15,828,114,446

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	Banking and Financial Activities	Insurance and Reinsurance	2021 Pension and retirement Fund	Eliminations	Total
Interest and commission income	912,132,238	6,877,389	1,560,119	5,082,520	915,487,226
Interest and provision expenses	436,415,983	(36,960)	0	5,082,520	431,296,503
Other income, net	193,497,574	26,384,786	15,000,147	10,766	234,871,741
General and administrative expenses	260,526,905	2,868,310	5,099,821	10,766	268,484,270
Depreciation and amortization expense	27,890,423	221,813	272,988	0	28,385,224
Equity participation in associates	<u>10,833,143</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,833,143</u>
Net income before income tax	391,629,644	30,209,012	11,187,457	0	433,026,113
Net Income tax, estimated	36,842,745	4,277,441	2,533,457	0	43,653,643
Net Income tax, deferred	<u>(18,815,020)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(18,815,020)</u>
Net Income tax	<u>18,027,725</u>	<u>4,277,441</u>	<u>2,533,457</u>	<u>0</u>	<u>24,838,623</u>
Net income	<u>373,601,919</u>	<u>25,931,571</u>	<u>8,654,000</u>	<u>0</u>	<u>408,187,490</u>
Total assets	<u>18,638,532,659</u>	<u>311,248,851</u>	<u>49,109,128</u>	<u>216,893,034</u>	<u>18,781,997,604</u>
Total liabilities	<u>16,238,235,892</u>	<u>49,333,139</u>	<u>867,259</u>	<u>197,486,972</u>	<u>16,090,949,318</u>

The composition of the secondary segment based on geographical distribution is as follows:

	Panama	2022 Latin America and the Caribbean	United States of America and Others	Total
Income from interest and commissions, other net income and equity participation in associates	<u>1,000,238,537</u>	<u>113,760,766</u>	<u>56,946,933</u>	<u>1,170,946,236</u>
Non-financial assets	<u>296,229,438</u>	<u>3,439,927</u>	<u>0</u>	<u>299,669,365</u>

	Panama	2021 Latin America and the Caribbean	United States of America and Others	Total
Income from interest and commissions, other net income and equity participation in associates	<u>966,200,286</u>	<u>96,473,135</u>	<u>98,518,689</u>	<u>1,161,192,110</u>
Non-financial assets	<u>287,033,376</u>	<u>3,639,260</u>	<u>0</u>	<u>290,672,636</u>

(22) Equity

The authorized share capital of Banco General, S. A. is represented by 10,000,000 common shares with no par value (2021: 10,000,000 common shares); of which there are 9,787,108 common shares issued and outstanding (2021: 9,787,108 common shares).

The legal reserves are established by the regulations of the Superintendence of Banks of Panama, the Superintendence of Insurance and Reinsurance of Panama and the General Superintendence of Financial Entities of Costa Rica.

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The detail of the legal reserves and its transfer from retained earnings is summarized as follows:

		2022				
		Reserves				
		Loans in the				
		process of				
		awarding				
	Dynamic	Foreclosed Assets	Legal	Insurance	Total	
Banco General, S. A.	133,877,476	3,956,065	12,641,453	0	0	150,474,994
Finanzas Generales, S. A.	0	0	0	0	0	0
General de Seguros, S. A.	0	0	0	0	37,939,471	37,939,471
Banco General (Overseas), Inc.	10,614,993	0	0	0	0	10,614,993
Banco General (Costa Rica), S. A.	<u>4,951,850</u>	<u>0</u>	<u>0</u>	<u>2,532,860</u>	<u>0</u>	<u>7,484,710</u>
Total	<u>149,444,319</u>	<u>3,956,065</u>	<u>12,641,453</u>	<u>2,532,860</u>	<u>37,939,471</u>	<u>206,514,168</u>

		2021				
		Reserves				
		Loans in the				
		process of				
		awarding				
	Dynamic	Foreclosed Assets	Legal	Insurance	Total	
Banco General, S. A.	133,877,476	2,665,161	7,610,900	0	0	144,153,537
Finanzas Generales, S. A.	2,810,061	0	0	0	0	2,810,061
General de Seguros, S. A.	0	0	0	0	35,557,503	35,557,503
Banco General (Overseas), Inc.	10,614,993	0	0	0	0	10,614,993
Banco General (Costa Rica), S. A.	<u>4,951,850</u>	<u>0</u>	<u>0</u>	<u>1,794,475</u>	<u>0</u>	<u>6,746,325</u>
Total	<u>152,254,380</u>	<u>2,665,161</u>	<u>7,610,900</u>	<u>1,794,475</u>	<u>35,557,503</u>	<u>199,882,419</u>

Transfer (reversal) from						
retained earnings of the year	<u>(2,810,061)</u>	<u>1,290,904</u>	<u>5,030,553</u>	<u>738,385</u>	<u>2,381,968</u>	<u>6,631,749</u>

The Bank, through its subsidiary General de Seguros, S. A., maintains legal reserves and reserves for statistical deviations and reserves for catastrophic risks as established by the Superintendence of Insurance and Reinsurance of Panama. The use and restitution of these reserves shall be regulated by the Superintendence of Insurance and Reinsurance of the Republic of Panama.

The complementary tax of companies established in the Republic of Panama corresponds to the advance of the dividend tax that is applied to the net income of the year and that the taxpayer must retain and pay to the tax authorities within the stipulated years. The tax is attributable to the shareholder and it is applied as a tax credit at the time of distribution of dividends.

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Notes to the Consolidated Financial Statements**(23) (Loss) gain on Financial Instruments, Net**

The net (loss) gain on financial instruments included in the consolidated statement of income is summarized as follows:

	<u>2022</u>	<u>2021</u>
Unrealized loss on investments and other financial assets	(49,361,176)	(23,417,697)
Unrealized gain (loss) on derivative instruments	3,211,468	(3,781,966)
Net loss on sale of investments and other financial assets at FV through profit or loss	(39,587,488)	(808,645)
Net (loss) gain on sale of investments and other financial assets at FVOCI	(55,196,896)	16,045,232
Realized gain on derivative instruments	<u>46,248,740</u>	<u>20,308,737</u>
Total (loss) gain on financial instruments, net	<u>(94,685,352)</u>	<u>8,345,661</u>

The net loss on the sale of investments and other financial assets at FV through profit or loss includes gain on sale of financial instruments of debt for short sales for B/.14,920,301 (2021: loss for B/.257,453).

The detail of net (loss) gain on sale of investments and other financial assets by classification type is presented in Note 6.

(24) Fees and Other Commissions and Other Income, Net

Fees and other commissions included in the consolidated statement of income, is summarized as follows:

	<u>2022</u>	<u>2021</u>
Credit and debit card bankings services	199,311,832	153,733,189
Other banking services	74,127,760	60,837,187
Management of funds and trusts	22,428,988	22,119,188
Securities brokerage	13,594,817	16,341,225
Insurance and reinsurance operations	2,224,881	2,017,768
Food voucher business	<u>1,591,173</u>	<u>1,640,973</u>
Total fees and other commissions	<u>313,279,451</u>	<u>256,689,530</u>

Other income, net included in the consolidated statement of income, is summarized as follows:

	<u>2022</u>	<u>2021</u>
Dividends	4,609,004	1,795,614
Foreign exchange fluctuations, net	(61,092)	28,746
Various banking services	13,431,078	12,650,288
Gain on sale of fixed assets, net	1,668,957	852,008
Fiduciary services	75,035	101,525
Other income	<u>8,747,522</u>	<u>13,802,106</u>
Total other income, net	<u>28,470,504</u>	<u>29,230,287</u>

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(25) Personnel Benefits

Contributions made by the Bank corresponding to personnel benefits are recognized as expenses in the consolidated statement of income, in the line of salaries and other personnel expenses.

Share-Based Compensation Plan

During 2022, the Bank granted options to purchase shares for 185,125 (2021: 231,375). The options balance is 1,751,828 (2021: 1,728,856), which have an average exercise price of B/.70.17 (2021: B/.69.97). The total expense of the options granted to the participants based on their fair value, amounted to B/.1,256,745 (2021: B/.1,290,769). These options may be exercised by the executives until the year 2030.

Restricted Share Plan

On March 2018, the Board of Directors of Grupo Financiero BG, S. A. approved to reserve a total of up to 350,000 common shares of its authorized share capital in order to be awarded under the Restricted Share Plan for participants, which applies for the 2018-2022 period.

The number of shares to be granted will be determined annually by the Compensation Committee of the Board of Directors of Grupo Financiero BG, S. A. based on the performance of the Bank and its participants.

The shares to be issued to the participants are awarded at the average price of the month preceding the grant quoted in the Stock Exchange of Panama.

Once the restricted shares are issued, the participant may dispose of them as follows: 50% after the first year and 50% after the second year.

As the restricted share plan is unilateral and voluntary, it may be discontinued by the Board of Directors of Grupo Financiero BG, S. A. at its sole discretion.

In 2022, 57,346 (2021: 56,700) shares were granted under the restricted share plan and recognized as an expense of B/.4,100,947 (2021: B/.3,936,835). The reconciliation of the balance for these shares is as follows:

	<u>2022</u>	<u>2021</u>
Shares at the beginning of the year	148,936	205,636
Shares issued	<u>(57,346)</u>	<u>(56,700)</u>
Balance at the end of the year	<u>91,590</u>	<u>148,936</u>

Retirement Plan

The Bank maintains a closed retirement plan, which was amended and approved by the Board of Directors in 1998; this plan is administrated by a fiduciary agent.

The contribution to the retirement plan was B/.86,580 (2021: B/.81,600) and the disbursements to former employees who are covered under the retirement plan amount to B/.156,175 (2021: B/.158,325).

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Notes to the Consolidated Financial Statements**(26) Income Tax**

Income tax returns of companies incorporated in the Republic of Panama, are subject to examination by local tax authorities for the last three years.

In accordance with current tax regulations, companies incorporated in Panama are exempt from income taxes on the following: profits derived from foreign operations, interest earned on deposits with local banks, on bonds or other securities listed with the Superintendence of the Securities Markets and the Bolsa de Valores de Panamá, S. A. and, lastly, securities and loans to the Panamanian Government and its autonomous and semi-autonomous institutions.

Companies incorporated in the following jurisdictions are subject to income tax rates imposed by the local tax authorities of each country:

<u>Country</u>	<u>Tax rate</u>
Panama	25%
Costa Rica	30%

The companies incorporated in Cayman Islands and British Virgin Islands are not subject to the payment of income tax, due to the nature of their foreign operations.

The income tax, estimated is of B/.69,955,810 (2021: B/.43,238,201) on a financial income generated by companies incorporated in the Republic of Panama of B/.614,522,860 (2021: B/.367,540,026) and the average effective estimated income tax rate is 11.4% (2021: 11.8%). The income tax rate applicable according to current legislation in the Republic of Panama is 25% (2021: 25%) or based on the alternative calculation, whichever is greater.

Net income tax is detailed as follows:

	<u>2022</u>	<u>2021</u>
Estimated income tax	71,854,528	44,196,234
Prior year income tax adjustments	(604,681)	(542,591)
Deferred income tax	<u>5,841,254</u>	<u>(18,815,020)</u>
Total income tax, net	<u>77,091,101</u>	<u>24,838,623</u>

The reconciliation between financial income before income tax and the fiscal net income, from companies incorporated in the Republic of Panama, is detailed as follows:

	<u>2022</u>	<u>2021</u>
Financial income before income tax	614,522,860	367,540,026
Net foreign income, exempt and non-taxable	(545,308,572)	(382,280,081)
Non-deductible costs and expenses	<u>210,608,950</u>	<u>187,692,859</u>
Fiscal net income	<u>279,823,238</u>	<u>172,952,804</u>

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The deferred income tax asset and liability recorded by the Bank, is detailed as follows:

	<u>2022</u>	<u>2021</u>	<u>Effects on results</u>
Deferred income tax – asset:			
Loan loss allowance	104,498,997	111,748,611	(7,249,614)
Allowance for foreclosed assets for sale	<u>409,431</u>	<u>285,836</u>	<u>123,595</u>
Total deferred income tax – asset	<u>104,908,428</u>	<u>112,034,447</u>	<u>(7,126,019)</u>
Deferred income tax – liability:			
Allowance for uncollectible finance leases	0	(573,587)	573,587
Loan loss allowance	959,409	959,409	0
Allowance for foreclosed assets for sale	0	(1,488)	1,488
Investment loss allowance	(8,728)	(8,728)	0
Operating finance leases	0	1,812,635	(1,812,635)
Deferred commissions	<u>234,732</u>	<u>283,172</u>	<u>(48,440)</u>
Total deferred income tax – liability	<u>1,185,413</u>	<u>2,471,413</u>	<u>(1,286,000)</u>
Effect of exchange rate differential			<u>1,235</u>
Total deferred income tax			<u>(5,841,254)</u>

Based on the current and projected results, the Bank's management considers that there will be sufficient taxable income to absorb the deferred taxes detailed above.

(27) Commitments and Contingencies

In the normal course of business, the Bank maintains commitments and contingencies which are not reflected in the consolidated statement of financial position, that involve certain levels of credit and liquidity risks.

Guarantees issued on behalf of customers, letters of credit and promissory notes include certain exposure to credit loss in the event of non-compliance by the customer, net of collateral guarantees securing these transactions. The Bank's policies and procedures to approve these commitments are similar to those for extending loan facilities recorded within the Bank's assets.

In accordance with the calculations made by the Bank's management the amount of expected credit loss allowance associated with these commitments are not significant.

The summary of these off consolidated statement of financial position commitments, by maturity are presented as follows:

	<u>0 – 1 Year</u>	<u>2022 1 – 5 Years</u>	<u>Total</u>
Letters of credit	97,827,665	11,372,369	109,200,034
Financial guarantees	68,678,652	2,594,851	71,273,503
Mortgage disbursement commitment	<u>384,472,713</u>	<u>0</u>	<u>384,472,713</u>
Total	<u>550,979,030</u>	<u>13,967,220</u>	<u>564,946,250</u>

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	<u>0 – 1 Year</u>	<u>2021 1 – 5 Years</u>	<u>Total</u>
Letters of credit	99,236,056	1,491,798	100,727,854
Financial guarantees	78,890,226	1,410,916	80,301,142
Mortgage disbursement commitment	<u>345,783,913</u>	<u>0</u>	<u>345,783,913</u>
Total	<u>523,910,195</u>	<u>2,902,714</u>	<u>526,812,909</u>

Credit Quality Analysis of Commitments and Contingencies

The table below presents information about the credit quality of commitments and contingencies held by the Bank:

	<u>2022</u>	<u>2021</u>
<u>Maximum exposure</u>		
Carrying amount	<u>564,946,250</u>	<u>526,812,909</u>
<u>Letters of credit</u>		
Grade 1: Standard	104,842,974	92,681,980
Grade 2: Special mention	2,848,133	5,488,416
Grade 3: Sub-standard	708,927	2,557,458
Grade 4: Doubtful	<u>800,000</u>	<u>0</u>
Gross amount	<u>109,200,034</u>	<u>100,727,854</u>
<u>Financial guarantees</u>		
Grade 1: Standard	69,659,004	76,422,126
Grade 2: Special mention	1,588,232	3,460,682
Grade 3: Sub-standard	<u>26,267</u>	<u>418,334</u>
Gross amount	<u>71,273,503</u>	<u>80,301,142</u>
<u>Mortgage disbursement commitment</u>		
Grade 1: Standard	379,280,651	341,567,839
Grade 2: Special mention	3,102,065	2,564,842
Grade 3: Sub-standard	1,850,705	1,405,327
Grade 4: Doubtful	107,752	245,905
Grade 5: Uncollectible	<u>131,540</u>	<u>0</u>
Gross amount	<u>384,472,713</u>	<u>345,783,913</u>

The Bank is not involved in any litigation that in management's opinion may result in a material adverse effect on the Bank, to its consolidated financial position or to its consolidated operating income.

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(28) Investment Entities and Separate Vehicles

The Bank managed trust funds and fiduciary contracts at client's own behalf and risk in the amount of B/.3,141,325,468 (2021: B/.3,127,352,917), and the custody of securities in investment accounts at client's own behalf and risk amounting to B/.12,752,447,751 (2021: B/.12,139,629,125). According to the nature of these services, the Bank's management considers that there are no significant risks attributable to the Bank.

The Bank does not hold assets under discretionary management.

(29) Structured Entities

The following table describes the structured entities designed by the Bank:

<u>Type of Structured Entity</u>	<u>Nature and Purpose</u>	<u>Interest Held by the Bank</u>
- Investment funds	To offer an alternative to investors through a diversified portfolio while preserving capital	10.84% (2021: 10.71%)

The funds managed at client's own behalf and risk amount to B/.536,772,568 (2021: B/.585,039,157); income fees for administration and custody amount to B/.5,847,928 (2021: B/.6,295,780), and are presented as fees and other commissions in the consolidated statement of income.

The Bank has no contractual obligation to provide financial or other types of support to these unconsolidated structured entities.

(30) Derivative Financial Instruments

The Bank uses interest rate swap contracts to reduce interest rate risk of both financial assets and financial liabilities. The Bank reduces the credit risk of these contracts by using solid financial institutions as counterparties and liquidating operations with organized markets. These contracts are recorded in the consolidated statement of financial position at fair value using the fair value hedge or cash flows hedge method, in other assets and other liabilities.

For fixed income portfolios under management of third parties, the Bank sometimes makes use of derivatives on fixed income instruments and currencies under defined limits and parameters. These derivatives are recorded at fair value in the consolidated statement of financial position

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Below is the summary of derivative contracts is as follow:

	<u>Over the Counter (OTC)</u>							
	<u>Total</u>		<u>Exchange-Traded</u>		<u>Liquidated in a securities exchange</u>		<u>Other bilateral counterparts</u>	
	<u>Notional Value</u>	<u>Book Value</u>	<u>Notional Value</u>	<u>Book Value</u>	<u>Notional Value</u>	<u>Book Value</u>	<u>Notional Value</u>	<u>Book Value</u>
<u>2022</u>								
Derivative assets	944,657,233	45,531,436	170,594,455	0	582,951,796	41,897,073	191,110,982	3,634,363
Derivative liabilities	1,065,421,005	29,580,183	373,776,010	0	156,127,970	20,160,928	535,517,025	9,419,255
<u>2021</u>								
Derivative assets	1,263,735,354	22,934,447	201,388,390	0	684,608,574	21,273,884	377,738,390	1,660,563
Derivative liabilities	1,207,734,348	15,017,331	325,280,070	0	214,815,903	10,686,601	667,638,375	4,330,730

The Bank maintains cash and cash equivalents as collateral in institutions that maintain risk ratings between AA to A- (2021: AAA to AA-), which support derivative operations in the amount of B/.25.3MM (2021: B/.19.4MM).

The following table presents assets and liabilities derivatives by type of derivative instrument:

Other Derivatives classified by Risk:

	<u>2022</u>		<u>2021</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Other Derivatives				
Credit	530,597	362,550	1,942,548	1,719,786
Interest	34,209,986	22,829,393	6,654,943	5,025,807
Currency	8,187	4,840	5,782	3,803
Total	<u>34,748,770</u>	<u>23,196,783</u>	<u>8,603,273</u>	<u>6,749,396</u>

The Bank has derivative contracts in books for a notional value of B/.2,010,078,238 (2021: B/.2,471,469,702), of which B/.1,781,506,017 (2021: B/.2,143,832,329) are part of the portfolios given under management to third parties. Of these derivatives managed by third parties B/.1,519,010,465 (2021: B/.1,715,920,928) are aimed at manage the duration and interest rate risk of these portfolios.

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The following table presents assets and liabilities derivatives hedge for risk management:

Hedge Derivatives for Risk Management:

	<u>2022</u>		<u>2021</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
<u>Exposure to risk:</u>				
<u>Interest rate</u>				
Fair value hedge	9,501,570	0	14,024,134	0
Others	<u>972,579</u>	<u>0</u>	<u>0</u>	<u>5,252,274</u>
Total interest rate	<u>10,474,149</u>	<u>0</u>	<u>14,024,134</u>	<u>5,252,274</u>
<u>Currency</u>				
Others	<u>308,517</u>	<u>6,383,400</u>	<u>307,040</u>	<u>2,512,351</u>
Total Currency	<u>308,517</u>	<u>6,383,400</u>	<u>307,040</u>	<u>2,512,351</u>
<u>Credit</u>				
Others	<u>0</u>	<u>0</u>	<u>0</u>	<u>503,310</u>
Total Credits	<u>0</u>	<u>0</u>	<u>0</u>	<u>503,310</u>
Total derivatives for risk exposure	<u>10,782,666</u>	<u>6,383,400</u>	<u>14,331,174</u>	<u>8,267,935</u>

Interest rate risk derivatives hedge

The Bank uses interest rate swaps to hedge part of the fair value exposure of bonds issued and fixed rate notes from changes in a rate index for USD (Libor), and of investments in fixed rate bonds. "Interest rate swaps" must replicate the terms of these positions.

When using derivative instruments to hedge exposures from fluctuations in interest rates, the Bank is exposed to the counterparty risk of the derivative instrument. This risk is minimized by executing transactions with high credit-rating counterparties and liquidating operations with organized markets; in both cases with exchange of daily margins.

The effectiveness of hedging derivatives is analyzed qualitatively and it is concluded that there is no ineffectiveness because the terms of the derivatives are a mirror of the terms of the hedged risk component of the underlying assets and liabilities.

The Bank held the following interest rate derivatives as fair value hedges for risk management:

	<u>2022</u>				
	<u>Maturity</u>				
<u>Risk Category</u>	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>
<u>Interest rate risk</u>					
<u>Hedging of Bonds</u>					
Notional Value	0	0	0	20,000,000	40,000,000
Average interest rate				1.66%	5.19%

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<u>Risk Category</u>	<u>2021</u> <u>Maturity</u>				
	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>
Interest rate risk					
Hedging of Bonds					
Notional Value	0	0	0	0	20,000,000
Average interest rate					5.13%
Hedging of Bonds and Notes					
Notional Value	0	0	0	0	250,000,000
Average interest rate					1.80%

The net impact that derivative instruments had as of December 31, 2021 in the financing interest expense item in the consolidated statement of income was B/.101,743.

The effects of hedge accounting on the financial situation are detailed as follows:

	<u>Notional Value</u>	<u>Book Value</u>		<u>Item in the consolidated statement of financial position that includes hedge instruments</u>	<u>Change in fair value used for calculating hedge ineffectiveness</u>	<u>Ineffectiveness recognized in profit or loss</u>
		<u>Assets</u>	<u>Liabilities</u>			
Interest rate risk:						
Interest rate derivatives – Bonds				Other assets		
Hedge	<u>60,000,000</u>	<u>9,501,570</u>	<u>0</u>	(liabilities)	0	0
Total interest rate risk	<u>60,000,000</u>	<u>9,501,570</u>	<u>0</u>			

	<u>Notional Value</u>	<u>Book Value</u>		<u>Item in the consolidated statement of financial position that includes hedge instruments</u>	<u>Change in fair value used for calculating hedge ineffectiveness</u>	<u>Ineffectiveness recognized in profit or loss</u>
		<u>Assets</u>	<u>Liabilities</u>			
Interest rate risk:						
Interest rate derivatives – Bonds				Other assets		
Hedge	20,000,000	16,968	0	(liabilities)	0	0
Interest rate derivatives – Bonds and notes Hedge	<u>250,000,000</u>	<u>14,007,166</u>	<u>0</u>	Other assets (liabilities)	0	0
Total interest rate risk	<u>270,000,000</u>	<u>14,024,134</u>	<u>0</u>			

The amounts relating to items designated as hedged items were as follows:

	<u>2022</u>		<u>Item in the statement of financial position in which the hedge item is included</u>	<u>Change in the value used for calculating hedge ineffectiveness</u>	<u>Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedge items that have ceased to be adjusted for hedging gains and losses</u>
	<u>Assets</u>	<u>Liabilities</u>			
	<u>Accumulated amount of fair value hedge item adjustments included in the carrying amount of the hedge item</u>				
	<u>Assets</u>	<u>Liabilities</u>			
Bonds	<u>52,051,700</u>	<u>0</u>	Investment securities FVOCI	<u>0</u>	<u>0</u>

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		<u>2021</u>				
<u>Book Value</u>		Accumulated amount of fair value hedge item adjustments included in the carrying amount of the hedge item		Item in the statement of financial position in which the hedge item is included	Change in the value used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedge items that have ceased to be adjusted for hedging gains and losses
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>			
Bonds	20,925,000	0	16,968	Investment securities FVOCI	0	0
Bonds and notes	250,000,000	0	14,007,166	Borrowing and debt securities issued	0	0

The three levels of fair value that were categorized for derivatives are as follows:

		2022			
	Level 1	Level 2	Level 3	Total	
<u>Assets</u>					
Other derivatives:					
Credit	0	530,597	0	530,597	
Interest	0	34,209,986	0	34,209,986	
Currency	0	8,187	0	8,187	
Total	0	34,748,770	0	34,748,770	
Hedge derivatives for risk management:					
Interest	0	10,474,149	0	10,474,149	
Currency	0	308,517	0	308,517	
Total	0	10,782,666	0	10,782,666	
Total derivatives assets	0	45,531,436	0	45,531,436	
<u>Liabilities</u>					
Other derivatives:					
Credit	0	362,550	0	362,550	
Interest	444,150	22,385,243	0	22,829,393	
Currency	0	4,840	0	4,840	
Total	444,150	22,752,633	0	23,196,783	
Hedge derivatives for risk management:					
Currency	0	6,383,400	0	6,383,400	
Total	0	6,383,400	0	6,383,400	
Total derivatives liabilities	441,150	29,136,033	0	29,580,183	

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		2021		
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Other derivatives:				
Credit	0	1,942,548	0	1,942,548
Interest	0	6,654,943	0	6,654,943
Currency	0	5,782	0	5,782
Total	0	8,603,273	0	8,603,273
Hedge derivatives for risk management:				
Interest	0	14,024,134	0	14,024,134
Currency	0	307,040	0	307,040
Total	0	14,331,174	0	14,331,174
Total derivatives assets	0	22,934,447	0	22,934,447
<u>Liabilities</u>				
Other derivatives:				
Credit	0	1,719,786	0	1,719,786
Interest	6,875	5,018,932	0	5,025,807
Currency	0	3,803	0	3,803
Total	6,875	6,742,521	0	6,749,396
Hedge derivatives for risk management:				
Credit	0	503,310	0	503,310
Interest	0	5,252,274	0	5,252,274
Currency	0	2,512,351	0	2,512,351
Total	0	8,267,935	0	8,267,935
Total derivatives liabilities	6,875	15,010,456	0	15,017,331

The main valuation techniques, assumptions and inputs used to measure the fair value of derivatives are as follows:

<u>Derivative</u>	<u>Valuation Technique</u>	<u>Inputs used</u>	<u>Level</u>
Organized Markets	Quoted prices	Observable quoted prices in active markets	1-2
Over the Counter (OTC)	Discounted cash flow	Yield curves Yield foreign exchange Credit spreads Assumed recovery Volatility	2

See Note 6, for the description of these Levels.

(31) Fair Value of Financial Instruments

The following assumptions, where practical, have been made by Management to estimate the fair value of financial assets and liabilities not measured at fair value:

(a) Investments and other financial assets

For investments and others financial assets, the fair value measurement is determined using quoted prices in active markets, prices from a third party pricing vendors, brokers, custodians, investment management companies and banks. In addition, for some cases the Bank uses valuation techniques that are presented in Note 6, to calculate their investments mainly by discounting cash flows at the appropriate discount rate for that instrument.

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The fair value of the loan portfolio was determined by discounting the future cash flows at an interest rate that represents: (i) current market rates, and (ii) the future expected interest rates, for a term that considers the expected anticipated prepayments in the loan portfolio.

(c) Demand deposits from customers/savings deposits from customers/securities sold under repurchase agreements

For these financial instruments described above, the carrying value approximates their fair value due to their short-term nature.

(d) Time deposits from banks/time deposits from customers/borrowings and debt securities issued/perpetual bonds

The fair value of these financial instruments was determined by discounting the future cash flows at an interest rate that reflects: (i) current market rates, and (ii) the future expected interest rates, for a term that shows the remaining life of these instruments.

Fair value estimates are made at a specific date based on relevant market estimates and information about the financial instruments. These estimates do not reflect any premium or discount that could result from the offer to sell a specific financial instrument at a given date. These estimates are subjective in nature and involve uncertainties and significant judgment; therefore, these estimates cannot be determined with precision. Changes in the assumptions or criteria could significantly affect the estimates.

The following table summarizes the carrying value and fair value of those significant financial assets and liabilities not measured at fair value in the Bank's consolidated statement of financial position:

	2022		2021	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<u>Assets:</u>				
Time deposits with banks	89,207,600	89,138,402	196,069,957	197,257,820
Investments at amortized cost, net	4,808,770	4,820,910	122,185,822	122,207,641
Loans, net	<u>11,292,190,153</u>	<u>11,299,469,039</u>	<u>10,890,468,795</u>	<u>10,819,837,494</u>
	<u>11,386,206,523</u>	<u>11,393,428,351</u>	<u>11,208,724,574</u>	<u>11,139,302,955</u>
<u>Liabilities:</u>				
Deposits	13,248,420,738	13,181,776,225	13,894,132,241	13,942,308,711
Securities sold under repurchase agreements, borrowings, debt securities issued and perpetual bonds	<u>1,416,447,623</u>	<u>1,297,912,599</u>	<u>1,307,730,977</u>	<u>1,321,450,812</u>
	<u>14,664,868,361</u>	<u>14,479,688,824</u>	<u>15,201,863,218</u>	<u>15,263,759,523</u>

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The table below summarizes the fair value hierarchy of financial instruments which are not measured at fair value in the Bank's consolidated statement of financial position:

	<u>2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Assets:</u>				
Time deposits with banks	89,138,402	0	0	89,138,402
Investments at amortized cost, net	4,820,910	0	0	4,820,910
Loans, net	<u>11,299,469,039</u>	<u>0</u>	<u>0</u>	<u>11,299,469,039</u>
	<u>11,393,428,351</u>	<u>0</u>	<u>0</u>	<u>11,393,428,351</u>
<u>Liabilities:</u>				
Deposits	13,181,776,225	0	0	13,181,776,225
Securities sold under repurchase agreements, Borrowings, debt securities issued and perpetual bonds	<u>1,297,912,599</u>	<u>0</u>	<u>0</u>	<u>1,297,912,599</u>
	<u>14,479,688,824</u>	<u>0</u>	<u>0</u>	<u>14,479,688,824</u>
	<u>2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Assets:</u>				
Time deposits with banks	197,257,820	0	0	197,257,820
Investments at amortized cost, net	122,207,641	0	119,200,132	3,007,509
Loans, net	<u>10,819,837,494</u>	<u>0</u>	<u>0</u>	<u>10,819,837,494</u>
	<u>11,139,302,955</u>	<u>0</u>	<u>119,200,132</u>	<u>11,020,102,823</u>
<u>Liabilities:</u>				
Deposits	13,942,308,711	0	0	13,942,308,711
Borrowings, debt securities issued and perpetual bonds	<u>1,321,450,812</u>	<u>0</u>	<u>0</u>	<u>1,321,450,812</u>
	<u>15,263,759,523</u>	<u>0</u>	<u>0</u>	<u>15,263,759,523</u>

See Note 6, for the description of these levels.

(32) Financial Instruments Risk Management

A financial instrument is any contract that originates a financial asset in one enterprise and a financial liability or equity instrument in another enterprise. The Bank's consolidated statement of financial position is primarily composed of financial instruments.

Financial instruments expose the Bank to various types of risks. The Bank's Board of Directors has approved a Risk Management Policy to identify each significant risk the Bank is exposed to. In order to manage the several risks faced by the Bank, the Board of Directors has created the Credit Risk Committee of the Board of Directors, to oversee the credit, liquidity, market, interest rate, exchange rate and counterparty risks. Likewise, the Board of Directors has established executive Committees, which are composed of key executives that monitor several risks faced by the Bank. These committees have established policies and limits in order to control and manage these risks. There is also an Audit Committee, composed of members of the Bank's Board of Directors that oversees the establishment of appropriate internal controls for reporting the Bank's financial information.

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The main risks identified by the Bank are credit, counter-party, market, liquidity and financing, operational and capital management risks which are described as follows:

(a) Credit Risk

Credit Risk is the risk that the debtor or issuer of a financial asset owned by the Bank does not fully and timely comply with any required payment, in conformity with terms and conditions agreed upon when the respective financial asset was acquired or originated by the Bank.

To mitigate credit risk, risk management policies establish limits by country, industry, and debtor. The Credit Committee appointed by the Board of Directors, periodically watches over the financial condition of debtors and issuers of financial instruments in the consolidated statement of financial position of the Bank.

Credit Quality Analysis

The table below sets out information on the credit quality of the loan portfolio including contagion of operations for classification and calculation of the expected credit loss reserve (ECL) maintained by the Bank:

	2022 (in thousands)			
	12-month ECL	Lifetime ECL Not credit- impaired	Lifetime ECL credit- impaired	Total
<u>Loans at amortized cost</u>				
Grade 1: Standard	9,260,577	271,881	0	9,532,458
Grade 2: Special mention	176,893	981,757	20	1,158,670
Grade 3: Sub-standard	45,820	570,162	66,733	682,715
Grade 4: Doubtful	4,542	3,194	96,480	104,216
Grade 5: Uncollectible	<u>9,635</u>	<u>2,443</u>	<u>126,425</u>	<u>138,503</u>
Gross amount	9,497,467	1,829,437	289,658	11,616,562
Loan losses allowance	<u>(136,660)</u>	<u>(234,622)</u>	<u>(60,947)</u>	<u>(432,229)</u>
Net carrying amount	<u>9,360,807</u>	<u>1,594,815</u>	<u>228,711</u>	<u>11,184,333</u>
<u>Finance leases</u>				
Grade 1: Standard	68,088	150	0	68,238
Grade 2: Special mention	276	2,348	0	2,624
Grade 3: Sub-standard	659	1,590	137	2,386
Grade 4: Doubtful	15	0	54	69
Grade 5: Uncollectible	<u>0</u>	<u>0</u>	<u>317</u>	<u>317</u>
Gross amount	69,038	4,088	508	73,634
Loan losses allowance	<u>(267)</u>	<u>(273)</u>	<u>(230)</u>	<u>(770)</u>
Net carrying amount	<u>68,771</u>	<u>3,815</u>	<u>278</u>	<u>72,864</u>
<u>Total loans</u>	<u>9,566,505</u>	<u>1,833,525</u>	<u>290,166</u>	<u>11,690,196</u>
Loan losses allowance	<u>(136,927)</u>	<u>(234,895)</u>	<u>(61,177)</u>	<u>(432,999)</u>
Net carrying amount	<u>9,429,578</u>	<u>1,598,630</u>	<u>228,989</u>	<u>11,257,197</u>
<u>Restructured loans</u>				
Gross amount	75,801	954,320	119,500	1,149,621
Loan losses allowance	<u>(4,180)</u>	<u>(104,445)</u>	<u>(25,034)</u>	<u>(133,659)</u>
Net carrying amount	<u>71,621</u>	<u>849,875</u>	<u>94,466</u>	<u>1,015,962</u>

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	2021 (in thousands)			
	12-month ECL	Lifetime ECL Not credit- impaired	Lifetime ECL credit- impaired	Total
<u>Loans at amortized cost</u>				
Grade 1: Standard	8,986,171	71,574	0	9,057,745
Grade 2: Special mention	60,602	1,276,221	32,214	1,369,037
Grade 3: Sub-standard	26,892	115,980	442,253	585,125
Grade 4: Doubtful	2,334	5,228	97,843	105,405
Grade 5: Uncollectible	7,977	1,183	105,966	115,126
Gross amount	9,083,976	1,470,186	678,276	11,232,438
Loan losses allowance	(196,386)	(129,687)	(139,618)	(465,691)
Net carrying amount	<u>8,887,590</u>	<u>1,340,499</u>	<u>538,658</u>	<u>10,766,747</u>
<u>Finance leases</u>				
Grade 1: Standard	58,587	447	0	59,034
Grade 2: Special mention	70	2,493	12	2,575
Grade 3: Sub-standard	8	917	1,367	2,292
Grade 4: Doubtful	19	0	710	729
Grade 5: Uncollectible	0	0	711	711
Gross amount	58,684	3,857	2,800	65,341
Loan losses allowance	(1,003)	(126)	(886)	(2,015)
Net carrying amount	<u>57,681</u>	<u>3,731</u>	<u>1,914</u>	<u>63,326</u>
Total loans	<u>9,142,660</u>	<u>1,474,043</u>	<u>681,076</u>	<u>11,297,779</u>
Loan losses allowance	<u>(197,389)</u>	<u>(129,813)</u>	<u>(140,504)</u>	<u>(467,706)</u>
Net carrying amount	<u>8,945,271</u>	<u>1,344,230</u>	<u>540,572</u>	<u>10,830,073</u>
<u>Restructured loans</u>				
Gross amount	87,824	723,633	297,113	1,108,570
Loan losses allowance	(6,841)	(57,663)	(67,869)	(132,373)
Net carrying amount	<u>80,983</u>	<u>665,970</u>	<u>229,244</u>	<u>976,197</u>

Of the total restructured loans for B/.1,149,621 (2021: B/.1,108,570), B/.1,040,527 correspond to loans with mortgage guarantee (2021: B/.990,006).

The aging of the loan portfolio delinquency is presented as follows:

	Banco General, S. A.	2022 Subsidiaries	Total
Current	10,174,903,630	771,146,105	10,946,049,735
From 31 to 90 days	422,859,037	6,917,071	429,776,108
More than 90 days (capital or interest)	296,280,143	4,408,341	300,688,484
More than 30 days past due (capital at maturity)	13,652,226	29,104	13,681,330
Total	<u>10,907,695,036</u>	<u>782,500,621</u>	<u>11,690,195,657</u>
	Banco General, S. A.	2021 Subsidiaries	Total
Current	9,738,448,309	840,770,267	10,579,218,576
From 31 to 90 days	329,934,555	7,505,767	337,440,322
More than 90 days (capital or interest)	361,985,782	7,112,831	369,098,613
More than 30 days past due (capital at maturity)	11,824,552	196,900	12,021,452
Total	<u>10,442,193,198</u>	<u>855,585,765</u>	<u>11,297,778,963</u>

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The following table presents the credit quality of the investments and other financial assets and impairment reserves held by the Bank, excluding share capital and mutual funds amounting to B/.40,782,807 (2021: B/.43,018,755), which are not subject to credit risk:

	<u>12-month ECL</u>	<u>Lifetime ECL Not credit- impaired</u>	<u>2022 Lifetime ECL credit- impaired</u>	<u>Purchased credit- impaired</u>	<u>Total</u>
<u>At Amortized Cost</u>					
<i>Foreign:</i>					
Lower than BBB-	4,817,356	0	0	0	4,817,356
Carrying amount	4,817,356	0	0	0	4,817,356
Loss allowance	(12,140)	0	0	0	(12,140)
Total carrying amount, net	4,805,216	0	0	0	4,805,216
<u>At FVOCI</u>					
<i>Local:</i>					
AA+ to BBB-	444,020,279	0	0	0	444,020,279
Lower than BBB-	687,782,324	8,549,474	12,626,297	0	708,958,095
Carrying amount	1,131,802,603	8,549,474	12,626,297	0	1,152,978,374
Valuation of credit risk	(2,014,435)	(539,415)	(1,601,663)	0	(4,155,513)
<i>Foreign:</i>					
AAA	1,963,578,239	0	0	0	1,963,578,239
AA+ to BBB-	1,115,767,401	0	0	0	1,115,767,401
Lower than BBB-	235,817,363	14,319,759	755,523	392,753	251,285,398
Carrying amount	3,315,163,003	14,319,759	755,523	392,753	3,330,631,038
Valuation of credit risk	(8,489,421)	(509,620)	(1,894,827)	(99,661)	(10,993,529)
Total carrying amount	4,446,965,606	22,869,233	13,381,820	392,753	4,483,609,412
Total valuation of credit risk	(10,503,856)	(1,049,035)	(3,496,490)	(99,661)	(15,149,042)
<u>At Fair Value TPL</u>					
<i>Local:</i>					
AA+ to BBB-	2,262,722				
Lower than BBB-	54,060,163				
Carrying amount	56,322,885				
<i>Foreign:</i>					
AAA	359,140,725				
AA+ to BBB-	264,967,102				
Lower than BBB-	38,126,042				
NR	2,166,728				
Carrying amount	664,400,597				
Total carrying amount	720,723,482				

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	<u>12-month ECL</u>	<u>Lifetime ECL Not credit- impaired</u>	<u>2021 Lifetime ECL credit- impaired</u>	<u>Purchased credit- impaired</u>	<u>Total</u>
<u>At Amortized Cost</u>					
<i>Foreign:</i>					
AAA	119,200,000	0	0	0	119,200,000
Lower than BBB-	3,007,361	0	0	0	3,007,361
Carrying amount	122,207,361	0	0	0	122,207,361
Loss allowance	(21,819)	0	0	0	(21,819)
Total carrying amount, net	<u>122,185,542</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>122,185,542</u>
<u>At FVOCI</u>					
<i>Local:</i>					
AA+ to BBB-	602,798,599	0	0	0	602,798,599
Lower than BBB-	558,917,490	8,984,289	12,741,630	0	580,643,409
Carrying amount	1,161,716,089	8,984,289	12,741,630	0	1,183,442,008
Valuation of credit risk	(1,923,040)	(563,828)	(1,779,625)	0	(4,266,493)
<i>Foreign:</i>					
AAA	2,163,215,904	0	0	0	2,163,215,904
AA+ to BBB-	1,428,546,405	0	0	0	1,428,546,405
Lower than BBB-	243,881,367	10,952,982	105,894	432,985	255,373,228
Carrying amount	3,835,643,676	10,952,982	105,894	432,985	3,847,135,537
Valuation of credit risk	(5,243,542)	(11,313)	(957)	0	(5,255,812)
Total carrying amount	<u>4,997,359,765</u>	<u>19,937,271</u>	<u>12,847,524</u>	<u>432,985</u>	<u>5,030,577,545</u>
Total valuation of credit risk	<u>(7,166,582)</u>	<u>(575,141)</u>	<u>(1,780,582)</u>	<u>0</u>	<u>(9,522,305)</u>
<u>At Fair Value TPL</u>					
<i>Local:</i>					
AA+ to BBB-	2,078,478				
Lower than BBB-	58,912,965				
Carrying amount	60,991,443				
<i>Foreign:</i>					
AAA	365,481,523				
AA+ to BBB-	435,106,393				
Lower than BBB-	114,329,948				
NR	3,438,432				
Carrying amount	918,356,296				
Total carrying amount	<u>979,347,739</u>				

Investments were classified based on their highest international risk rating amongst Fitch Ratings Inc., Moody's and Standard and Poor's. In the case of local investments that do not have an international rating, the Bank uses an internal rating, which is consistent with international risk ratings.

Time deposits with banks

The time deposits with banks are held with central banks and financial institution counterparties that are rated at least between AA to BBB- (2021: AA to BBB), based on ratings by Standard & Poor's, Moody's and Fitch Ratings Inc., amount to B/.78,000,000 (2021: B/.103,837,296).

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According to the calculations made by management, the amounts of reserves for expected credit losses associated with these instruments are not significant.

Factors of major influence in the credit risk of the Bank and the assumptions used for this disclosure are as follows:

- *Impairment of loans and investments and other financial assets and deposits with banks:*
Impairment of loans, investments and other financial assets and deposits with banks is determined by comparing the carrying value of the asset to its estimated recoverable amount. At December 31, 2022 and 2021 the Bank has no impaired deposits.
- *Past due but not impaired loans and investments and other financial assets:*
Loans and investments and other financial assets that have a level of collateral and/or sources of payment sufficient to cover the book value of said loan and investment and other financial assets are considered in default without impairment, that is, without expected losses.
- *Restructured loans:*
Restructured loans are those that, due to material difficulties in the debtor's ability to pay, have been formally documented with a significant variation in the original terms of the loan (balance, term, payment schedule, rate and guarantees), and the result of the assessment of their current condition does not allow them to be reclassified as standard.

In instances when the Bank considers material the impact on renegotiated loans, then an assessment is made to determine whether the modifications will result in (i) keeping the original date of the renegotiated loan or (ii) derecognizing the renegotiated loan, and recognizing at fair value on the date of modification of the new loan.

A restructured debtor needs to demonstrate consistent and up-to-date payment behavior for a minimum period of 6 months, before being excluded as impaired credit.

- *Impairment reserves:*
The Bank has established reserves for impairment of financial instruments, which are described in Note 3, literal h.
- *Write-off policy:*
The Bank periodically reviews its impaired or restructured corporate loan portfolio to identify credits that are deemed to be written off based on the collectability of the balance and for the amount of its real guarantees. For unsecured consumer loans, write-offs are carried out based on the accrued level of delinquency. In the case of mortgage and consumer loans, write-offs are recognized for the estimated portion of the carrying value that is not covered by loan collateral.

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As a complement to the normal write-off policies, which are based on the number of days of delinquency, as a result of the situation caused by COVID-19, temporary and exceptional write-off procedure was approved and applied for consumer loans that have been deferred and that demonstrate inability to pay. This operation is based on analyzing a combination of factors other than delinquency, such as the debtor's employment situation and his family environment, the economic activity of his employer, the situation of deferral of his credit obligations, the guarantees that protect the obligation, the customer's internal risk category, and the number of deferred installments. In the case of corporate loans, the individual analyzes additionally consider the financial strength of the debtor and its shareholders. This procedure may be suspended by the Bank's management at any time.

Collateral to Reduce Credit Risk and its Financial Effect

The Bank holds collateral to reduce its exposure to credit risk and to ensure the collection of its financial assets exposed to credit risk.

The table below presents the principal types of collateral held against financial assets.

	% of exposure that is subject to Collateral requirements		Type of Collateral
	<u>2022</u>	<u>2021</u>	
Loans	74.29%	77.03%	Cash, Properties, Equipment, and Others
Investments and Other Financial Assets	45.86%	39.85%	Cash, Properties, and Equipment

Residential mortgage loans

The table below presents the value of residential mortgage loans held within ranges of loan-to-value (LTV). The LTV is calculated as the ratio of the gross loan balance to the value of the collateral. The gross loan balances exclude any impairment allowance. The value of collateral for residential mortgage loans is based on the collateral value at loan origination, which in certain instances is updated on a periodic basis.

	<u>2022</u>	<u>2021</u>
Residential mortgages loans:		
Less than 50%	749,921,392	739,884,664
51% - 70%	1,235,559,548	1,222,052,344
71% - 90%	2,314,752,626	2,258,538,096
More than 90%	<u>497,292,587</u>	<u>493,297,245</u>
Total	<u>4,797,526,153</u>	<u>4,713,772,349</u>

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Notes to the Consolidated Financial Statements**Concentration of Credit Risk**

The Bank monitors credit risk concentration by sector and geographic location. The analysis of credit risk concentration is presented below:

	<u>Loans</u>		<u>Investments and other financial assets</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	(in thousands)		(in thousands)	
<u>Concentration by Sector:</u>				
Corporate	4,707,726	4,519,608	3,312,430	3,845,973
Consumer	6,607,071	6,433,159	0	0
Government and Government Agencies	0	0	1,896,708	2,286,138
Other Sectors	375,399	345,012	0	0
	<u>11,690,196</u>	<u>11,297,779</u>	<u>5,209,138</u>	<u>6,132,111</u>
<u>Geographical Concentration:</u>				
Panama	10,298,049	10,034,446	1,217,371	1,256,795
Latin America and the Caribbean	1,251,246	1,238,040	242,094	298,741
United States of America and Other	140,901	25,293	3,749,673	4,576,575
	<u>11,690,196</u>	<u>11,297,779</u>	<u>5,209,138</u>	<u>6,132,111</u>

The geographic concentration of loans is based on the debtor's location, and location of investments is based on the issuer's location.

The risk committee, in response to COVID-19, has increased the frequency of detailed reviews of the exposure concentrations maintained by the Bank by type of segment, product, sector, country, among others. These reviews include monitoring compliance with exposure limits for clients and/or economic groups in economic sectors and countries that have been affected.

(b) Counterparty Risk

Counterparty risk is the risk that a counterparty does not comply with the settlement of a purchase or sale of securities or other instruments traded in financial markets.

Risk management policies set counterparty limits that determine, at every moment, the maximum amount of net exposure of unsettled transactions that the Bank can hold with a counterparty. The Assets and Liabilities Committee is responsible for identifying those acceptable counterparties taking into consideration the counterparty's history with respect to the fulfillment of obligations, as well as indications of its capability and position to comply with its obligations.

(c) Market Risk

Market risk is the risk that the value of the Bank's financial assets are reduced as a result of changes in interest rates, foreign currency exchange rates, stock prices, and also the impact of other financial variables that are not controlled by the Bank.

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Management of market risk:

Policies and global limits of exposure to investments, provided in the Investment Manual, are established and approved by the Bank's Board of Directors based on the Assets and Liabilities Committee's recommendation; which take into consideration the portfolio and the assets that comprise it.

The Bank's investment policies provide for the compliance of limits by total amount of the investments portfolio and other financial assets, individual limits by type of asset, by institution, by issuer and/or issue and maximum term by portfolio; for each portfolio the instruments to be included and their credit risk rating are specified.

In addition, the Bank has established maximum limits for market risk losses in its investment and other financial assets portfolio that may be caused by movements in interest rates, credit risk and fluctuations in the market values of equity investments.

Currently, the investment policy of the Bank does not contemplate investments in commodities.

The Assets and Liabilities Committee approves the use of derivatives as part of its strategy to manage the financial assets and liabilities of the Bank. It is the responsibility of the Treasury Unit of the Bank, to carry out interest rate derivative transactions based on the policies and approvals adopted by the Assets and Liabilities Committee as well as future monitoring of existing positions.

Exposure to market risk:

The portfolio of held for trading securities of the Bank has the sole purpose of maintaining an inventory of securities to meet the demands of investment clients. The Bank's investment policies do not include investment portfolios that seek to generate short-term gains.

The composition and analysis of each type of market risk is presented as follows:

- Exchange rate risk:

Is the risk that the value of a financial instrument fluctuates as a consequence of variations in foreign currency exchange rates, and other financial variables, as well as the market participants' reactions to political and economic events. For accounting standard purposes, this risk does not originate from financial instruments that are non-monetary items, or financial instruments denominated in the functional currency.

Currently, foreign exchange exposures are low considering the Bank's policy is not to hold foreign exchange positions, unless their purpose is to cover clients' needs or those arising from portfolios managed by third parties which have maximum exposure limits, according to those established by Bank's Board of Directors.

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The table below sets out the Bank's maximum exposure to foreign currencies. The assets and liabilities are presented at their carrying amount, except derivatives which are presented at their notional value within other assets/other liabilities.

	2022							
	Euro, expressed in USD	Costa Rican Colon, expressed in USD	Sterling Pound, expressed in USD	Japanese Yen, expressed in USD	Mexican Peso, expressed in USD	Chinese Yuan, expressed in USD	Other currencies, expressed in USD*	Total
Exchange rate	1.07	601.99	1.21	131.07	19.49	6.90		
Assets								
Cash and cash items	1,530,078	7,631,105	2,046,839	465,375	7,217	8,054	255,852	11,944,520
Investments and other financial assets	142,381,753	4,865,915	46,627,575	0	0	0	4,588,121	198,463,364
Loans	0	10,905,063	0	0	0	0	0	10,905,063
Other assets	10,697,387	2,494,234	5,281,528	0	0	0	17,992	18,491,141
	<u>154,609,218</u>	<u>25,896,317</u>	<u>53,955,942</u>	<u>465,375</u>	<u>7,217</u>	<u>8,054</u>	<u>4,861,965</u>	<u>239,804,088</u>
Liabilities								
Deposits	0	16,415,649	0	0	0	0	0	16,415,649
Borrowings and debt securities issued	0	3,622,229	0	0	0	0	0	3,622,229
Other liabilities	156,037,475	87,352	53,575,168	203,996	0	0	4,645,884	214,549,875
	<u>156,037,475</u>	<u>20,125,230</u>	<u>53,575,168</u>	<u>203,996</u>	<u>0</u>	<u>0</u>	<u>4,645,884</u>	<u>234,587,753</u>
Net currency positions	<u>(1,428,257)</u>	<u>5,771,087</u>	<u>380,774</u>	<u>261,379</u>	<u>7,217</u>	<u>8,054</u>	<u>216,081</u>	<u>5,216,335</u>
	2021							
	Euro, expressed in USD	Costa Rican Colon, expressed in USD	Sterling Pound, expressed in USD	Japanese Yen, expressed in USD	Mexican Peso, expressed in USD	Chinese Yuan, expressed in USD	Other currencies, expressed in USD*	Total
Exchange rate	1.14	645.25	1.35	115.13	20.49	6.36		
Assets								
Cash and cash items	1,473,649	6,586,130	940,316	11,054	47,401	101,735	476,987	9,637,272
Investments and other financial assets	181,824,977	1,048,787	68,452,829	15,536,848	1,371,883	0	3,186,516	271,421,840
Loans	0	14,747,043	0	0	0	0	0	14,747,043
Other assets	2,840,646	3,491,664	3,461,305	0	113,332	122,651	1,268,275	11,297,873
	<u>186,139,272</u>	<u>25,873,624</u>	<u>72,854,450</u>	<u>15,547,902</u>	<u>1,532,616</u>	<u>224,386</u>	<u>4,931,778</u>	<u>307,104,028</u>
Liabilities								
Deposits	0	18,704,486	0	0	0	0	0	18,704,486
Borrowings and debt securities issued	0	2,858,044	0	0	0	0	0	2,858,044
Other liabilities	185,947,123	683	73,244,189	15,539,533	1,475,632	216,667	4,681,139	281,104,966
	<u>185,947,123</u>	<u>21,563,213</u>	<u>73,244,189</u>	<u>15,539,533</u>	<u>1,475,632</u>	<u>216,667</u>	<u>4,681,139</u>	<u>302,667,496</u>
Net currency positions	<u>192,149</u>	<u>4,310,411</u>	<u>(389,739)</u>	<u>8,369</u>	<u>56,984</u>	<u>7,719</u>	<u>250,639</u>	<u>4,436,532</u>

* Other currencies include Australian Dollar, Swiss Franc, Singapore Dollar, South African Rand, Colombian Peso, Canadian Dollar, Guatemalan Quetzal, Peruvian New Sun, Turkish Lira, Hong Kong Dollar, Norwegian Krone, Danish Krone, Swedish Krona, New Zealand Dollar, Polish Zloty and Hungarian Forint.

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- *Interest rate risk on cash flows and fair value:*

The interest rate risk on cash flows and the interest rate risk on fair value are the risks of fluctuation of both the future cash flows and the value of a financial instrument due to changes in market interest rates.

The net interest margin of the Bank may vary as a result of unanticipated movements in interest rates.

In order to mitigate this risk, the Bank's management has defined exposure limits to the interest rate risk.

The table below summarizes the Bank's exposure based on the re-pricing terms of interest rates on financial assets and liabilities:

	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	2022 From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:							
Time deposits with banks	88,391,391	0	54,086	0	0	0	88,445,477
Investments and other financial assets	1,535,522,679	163,529,734	236,941,495	1,711,007,975	903,092,320	354,592,580	4,904,686,783
Loans	<u>11,235,325,485</u>	<u>155,801,176</u>	<u>66,685,725</u>	<u>197,020,799</u>	<u>9,577,117</u>	<u>25,785,355</u>	<u>11,690,195,657</u>
Total	<u>12,859,239,555</u>	<u>319,330,910</u>	<u>303,681,306</u>	<u>1,908,028,774</u>	<u>912,669,437</u>	<u>380,377,935</u>	<u>16,683,327,917</u>
Liabilities:							
Deposits	7,112,247,980	763,158,515	1,493,922,508	1,829,180,236	0	0	11,198,509,239
Securities sold under repurchases agreements	198,242,891	0	0	0	0	0	198,242,891
Borrowings, debt securities issued and perpetual bonds	<u>113,336,084</u>	<u>58,750,000</u>	<u>17,500,000</u>	<u>612,682,019</u>	<u>400,000,000</u>	<u>0</u>	<u>1,202,268,103</u>
Total	<u>7,423,826,955</u>	<u>821,908,515</u>	<u>1,511,422,508</u>	<u>2,441,862,255</u>	<u>400,000,000</u>	<u>0</u>	<u>12,599,020,233</u>
Total interest sensitivity gap	<u>5,435,412,600</u>	<u>(502,577,605)</u>	<u>(1,207,741,202)</u>	<u>(533,833,481)</u>	<u>512,669,437</u>	<u>380,377,935</u>	<u>4,084,307,684</u>
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	2021 From 1 to 5 years	From 5 to 10 years	More than 10 years	Total
Assets:							
Time deposits with banks	38,701,640	0	155,551,018	0	0	0	194,252,658
Investments and other financial assets	1,912,791,663	148,771,768	398,440,498	2,041,701,736	1,006,851,820	325,185,778	5,833,743,263
Loans	<u>10,613,600,779</u>	<u>223,032,758</u>	<u>178,715,789</u>	<u>207,838,817</u>	<u>34,038,808</u>	<u>40,552,012</u>	<u>11,297,778,963</u>
Total	<u>12,565,094,082</u>	<u>371,804,526</u>	<u>732,707,305</u>	<u>2,249,540,553</u>	<u>1,040,890,628</u>	<u>365,737,790</u>	<u>17,325,774,884</u>
Liabilities:							
Deposits	7,279,273,801	773,562,328	1,503,515,557	2,286,994,821	1,087,725	0	11,844,434,232
Borrowings, debt securities issued and perpetual bonds	<u>210,399,901</u>	<u>5,000,000</u>	<u>22,759,327</u>	<u>96,762,681</u>	<u>958,724,166</u>	<u>0</u>	<u>1,293,646,075</u>
Total	<u>7,489,673,702</u>	<u>778,562,328</u>	<u>1,526,274,884</u>	<u>2,383,757,502</u>	<u>959,811,891</u>	<u>0</u>	<u>13,138,080,307</u>
Total interest sensitivity gap	<u>5,075,420,380</u>	<u>(406,757,802)</u>	<u>(793,567,579)</u>	<u>(134,216,949)</u>	<u>81,078,737</u>	<u>365,737,790</u>	<u>4,187,694,577</u>

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

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The Bank has defined a standard scenario for the management of interest rate risk and to monitor the sensitivity of financial assets and liabilities. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. The following is an analysis of the Bank's sensitivity to variations in market interest rates.

	<u>Sensitivity of the net interest income</u>			
	<u>100bp</u>		<u>100bp</u>	
	<u>Increase</u>		<u>decrease</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
At the end of the year	18,151,515	27,369,331	(17,283,989)	(20,830,806)
Average for the year	20,362,399	27,494,518	(18,756,606)	(21,289,734)
Maximum for the year	22,197,843	28,064,787	(20,334,814)	(22,752,787)
Minimum for the year	18,151,515	27,005,828	(17,283,989)	(20,516,646)

	<u>Sensitivity in profit or loss for investments at fair value</u>			
	<u>100bp</u>		<u>100bp</u>	
	<u>Increase</u>		<u>decrease</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
At the end of the year	(15,382,473)	(22,451,083)	13,644,156	17,790,942
Average for the year	(17,223,902)	(23,367,415)	16,104,038	14,259,185
Maximum for the year	(19,189,713)	(25,313,835)	18,476,963	17,790,942
Minimum for the year	(15,382,473)	(22,451,083)	13,644,156	12,254,480

	<u>Sensitivity of other comprehensive income</u>			
	<u>100bp</u>		<u>100bp</u>	
	<u>Increase</u>		<u>decrease</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
At the end of the year	(138,662,771)	(154,757,912)	143,833,104	154,212,191
Average for the year	(147,092,449)	(154,879,636)	151,726,758	138,435,199
Maximum for the year	(157,572,888)	(158,046,152)	158,873,390	154,212,191
Minimum for the year	(138,662,771)	(151,071,002)	143,833,104	125,076,552

Reform of the main Reference rates (IBOR)

Globally, there is a process of replacing the use of the main received interbank rates (IBORs) with risk-free interest rates. This reform has generated uncertainty in global markets and will have an impact on products referenced to IBOR. In order to carry out a smooth and orderly transition for the replacement of the IBOR rate, the Bank has established a multidisciplinary committee to evaluate the assets and liabilities agreed upon based with IBOR to determine the transition and impact. The committee is conformed by senior executives from Treasury, Corporate Credit, Risk, Legal, Finance and Operations. The committee reports its progress to the Bank's Assets and Liabilities Committee on a quarterly basis or more frequently if necessary.

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The objective of the committee is to evaluate all the assets and liabilities of the Bank referenced to IBOR to determine the changes that, if necessary, are required by the financial assets and liabilities contracts. Additionally, the committee must determine the operational and systems risks that the transition may have and will coordinate the operations to be carried out in the different areas of the Bank for an orderly transition. The committee will coordinate communication and action plans with Bank clients so that the transition is transparent and efficient. The committee has reviewed the current IBOR replacement clauses of the Bank's loan contracts and has worked on new IBOR replacement clauses that it will begin to use in order to strengthen the IBOR replacement language of the contracts. Likewise, the Bank will endeavor to use rates not referenced to IBOR in its new loans in order to reduce the number of operations that must be amended when IBOR ceases to exist and has implemented an operation to migrate to new reference rates or adjustable fixed rates at the option of the Bank in those loans that mature after June 30, 2023.

The Bank considers that the current risk to which it is exposed, as a result of the IBOR reform, is low since there are B/.117MM in loans or 1.00% of the total (2021: B/.679MM or 6.01%) that is referenced to IBOR only; additionally, there are B/.149MM (2021: B/.1,090MM) in loans referenced to IBOR or 1.27% (2021: 9.64%), but which have a floor rate. 88.05% of these operations expire after June 30, 2023 (2021: 72.32%). On the other hand, 96.02% of these loans referenced to IBOR that expire after June 30, 2023 (2021: 86.13%) are corporate loans, so the number of operations with loans referenced to IBOR is low. Regarding investments, less than 14.68% (2021: 16.86%) from the same B/.771MM (2021: B/.1,041MM) of them are referenced to IBOR and of these 54.00% (2021: 47.32%) have a floor rate. For liabilities, only B/.103MM (2021: B/.208MM) of its institutional financings are referenced to IBOR.

In relation to derivative transactions, as of December 31, 2021 the Bank does not maintain low amounts of accounting hedge derivative transactions referenced to IBOR (2021: B/.250MM of notional value of fair value hedges that expire after June 30, 2023)

(d) *Liquidity and Financing Risk*

Liquidity and financing risk is the risk that the Bank is unable to meet all its obligations as a result of, among other reasons, unexpected withdrawals of funds by depositors, impairment of the quality of the loan portfolio, the devaluation of investments and other financial assets, the excessive concentration of liabilities in one particular source, a gap between assets and liabilities, a shortage of asset liquidity and the mismatch of long-term asset financing with short-term liabilities.

Liquidity Risk Management:

Risk management policies establish a liquidity limit in order to determine the amount of the Bank's assets that should be maintained in highly liquid instruments. It also sets out; financing limits, leverage limits and maturity limits.

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The Bank is exposed to daily calls on its available cash resources due to withdrawals of demand and savings deposits, maturity of time deposits and borrowings, and also draw downs on loans and guarantees.

Liquidity is monitored on a daily basis by the Treasury Unit of the Bank and simulations of withdrawals are carried out periodically to determine the capacity of the Bank to deal with crisis scenarios with the available liquidity levels. All policies and procedures for liquidity management are subject to review and approval by the Assets and Liabilities Committee.

The table below summarizes the Bank's financial assets and liabilities grouped by their residual maturities with respect to the contractual maturity date, other assets and liabilities are included for reconciliation purposes with the consolidated statement of financial position:

	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	With no maturity	Total
Assets:								
Cash and cash items	199,528,689	0	0	0	0	0	0	199,528,689
Deposits with banks	443,739,374	14,487,857	54,086	0	0	0	0	458,281,317
Investments and other financial assets, net	499,832,154	190,600,058	313,865,485	2,132,953,139	1,413,006,476	658,880,799	70,699,501	5,279,837,612
Loans, net	1,592,094,664	837,028,897	1,164,422,837	6,749,458,778	664,794,255	210,900,566	0	11,218,699,997
Accrued interest receivable	29,344	711,387	45,100,771	28,414,331	0	0	0	74,255,833
Other assets	381,926,441	2,114,823	236,022,349	11,873,811	3,636,177	943,838	539,610,577	1,176,128,016
Total	3,117,150,666	1,044,943,022	1,759,465,528	8,922,700,059	2,081,436,908	870,725,203	610,310,078	18,406,731,464
Liabilities:								
Deposits	9,077,613,259	763,158,515	1,496,689,834	1,829,180,236	0	0	0	13,166,641,844
Securities sold under repurchase agreements	198,242,891	0	0	0	0	0	0	198,242,891
Borrowings, debt securities issued and perpetual bonds	8,949,943	8,952,327	67,923,581	716,442,252	0	0	400,000,000	1,202,268,103
Lease Liabilities	816,870	790,522	1,465,729	8,340,206	4,080,861	1,818,554	0	17,312,742
Accrued interest payable	0	0	97,715,523	0	0	0	0	97,715,523
Other liabilities	764,489,669	853,400	21,826,940	24,791,103	0	0	333,972,231	1,145,933,343
Total	10,050,112,632	773,754,764	1,685,621,607	2,578,753,797	4,080,861	1,818,554	733,972,231	15,828,114,446
Net position	(6,932,961,966)	271,188,258	73,843,921	6,343,946,262	2,077,356,047	868,906,649	(123,662,153)	2,578,617,018

	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years	With no maturity	Total
Assets:								
Cash and cash items	167,237,035	0	0	0	0	0	0	167,237,035
Deposits with banks	308,725,379	13,940,736	155,551,018	0	0	0	0	478,217,133
Investments and other financial assets, net	856,242,851	177,951,677	462,904,231	2,543,740,140	1,520,781,732	570,490,195	68,039,398	6,200,150,224
Loans, net	1,421,840,037	888,484,542	1,248,428,249	6,452,847,003	630,464,764	151,916,238	0	10,793,980,833
Accrued interest receivable	931,743	0	39,698,801	57,674,997	0	0	0	98,305,541
Other assets	299,169,997	3,372,314	186,152,973	16,900,136	3,996,055	1,086,188	533,429,175	1,044,106,838
Total	3,054,147,042	1,083,749,269	2,092,735,272	9,071,162,276	2,155,242,551	723,492,621	601,468,573	18,781,997,604
Liabilities:								
Deposits	9,233,641,232	773,562,328	1,505,325,565	2,286,994,821	1,087,725	0	0	13,800,611,671
Borrowings, debt securities issued and perpetual bonds	5,417,560	5,170,319	23,113,322	301,220,708	558,724,166	0	400,000,000	1,293,646,075
Lease Liabilities	785,656	785,411	1,551,575	8,640,785	4,619,886	2,162,309	0	18,545,622
Accrued interest payable	15,150	0	107,590,322	0	0	0	0	107,605,472
Other liabilities	603,953,684	51,196	21,055,365	23,275,602	0	0	222,204,631	870,540,478
Total	9,843,813,282	779,569,254	1,658,636,149	2,620,131,916	564,431,777	2,162,309	622,204,631	16,090,949,318
Net position	(6,789,666,240)	304,180,015	434,099,123	6,451,030,360	1,590,810,774	721,330,312	(20,736,058)	2,691,048,286

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Management estimates that the Bank's investment portfolio consists of highly liquid investments and other financial assets (with ratings from AAA to BBB-) for B/.3,597,499,534 (2021: B/.4,544,698,356), which can be readily convertible to cash, in a period of less than a week.

Exposure to Liquidity Risk:

The Bank uses the index of primary liquid assets to total deposits plus borrowings to measure and monitor its targeted liquidity levels. The primary liquid assets are defined as assets that may be exchanged into cash in a term equal or less than 90 days, except deposits with bank that might have a term of up to 365 days. The Board of Directors has approved that the following assets be classified as primary liquidity: cash, cash items, deposits due from banks, securities purchased under resell agreements in which the underlying value is liquid and highly graded, short-term securities mutual funds, US Government Treasury Bills, foreign commercial paper with minimum credit risk rating of A2/P2/F2, and lastly liquid bonds and syndicated loans with minimum credit risk rating of BBB- and an active secondary market.

The liquidity index of the Bank, that is primary liquid assets to total deposits and borrowings, measured at the consolidated statement of financial position date, is detailed as follows:

	<u>2022</u>	<u>2021</u>
At the end of the year	31.09%	35.25%
Average for the year	32.41%	33.84%
Maximum for the year	35.84%	35.98%
Minimum for the year	29.75%	30.90%

(e) *Operational Risk*

Operational risk is the risk that losses may occur due to failure or insufficiency of processes, personnel, internal systems or external events. This definition includes the legal risk associated with these factors.

The Bank has designed an operational risk management model under a decentralized management structure through risk managers within functional areas.

The Operational Risk Management model, addresses within its key functions the following:

- Definition of strategies and implementation of Business Continuity Plans for the critical processes
- Identification and assessment of risks
- Reporting of incidents and loss events
- Evaluation and follow-up of risk mitigating actions
- Assessment of operational risks in new initiatives
- Periodic training with the areas staff.

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In addition to the Operational Risk Unit, the following areas manage operational risk intrinsically within its functions:

- Operational Risk Unit
- Risk Management of Information Technology
- Information Security
- Prevention and Fraud Control
- Corporate Security.

As part of the Corporate Governance Model; strategy, methodology and monitoring of action plans for events and risks measured as critical and high are reported to the Executive Committee of Operational Risk and, on a quarterly basis, to the Board's Risk Committee.

The Corporate Internal Audit Department reviews and validates compliance of defined policies and methodologies in accordance with existing regulations, the results of which are presented to the Corporate Audit Committee.

(f) *Capital Management*

For purposes of calculating the capital adequacy of the Bank, is based on the Agreements No.1-2015, No.3-2016, No.11-2018 and No.6-2019 issued by the Superintendence of Banks of Panama. The Bank's Capital is separated in two tiers: ordinary and additional primary capital (Tier I), and secondary capital (Tier II). Ordinary primary capital consists of capital stock paid, capital paid in excess, reserves declared, retained earnings, non-controlling interests and other items of accumulated comprehensive income, less regulatory adjustments such as: goodwill from acquisitions and other intangible assets. The additional primary capital consists of instruments issued by the Bank or consolidated subsidiaries that comply with the established characteristics for inclusion, issue premiums, less regulatory adjustments applicable to the additional primary capital. Secondary capital consists of instruments issued by the Bank or consolidated subsidiaries that comply with the established characteristics for inclusion, issue premiums and reserves set up for future losses minus regulatory adjustments applicable to the secondary capital.

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In the following table, the Bank presents its consolidated regulatory capital to its risk-weighted assets in accordance with the requirements established by the Superintendence of Banks of Panama:

	<u>2022</u>	<u>2021</u>
Ordinary Primary Capital (Tier 1)		
Common shares	500,000,000	500,000,000
Legal reserve	190,916,650	190,606,358
Other items of comprehensive income	(279,368,128)	74,007,984
Retained earnings	2,150,470,978	1,916,157,883
Less: regulatory adjustments	<u>48,638,407</u>	<u>51,546,799</u>
Total	<u>2,513,381,093</u>	<u>2,629,225,426</u>
Additional Primary Capital (Tier 1)		
Subordinated debt – perpetual bonds	<u>400,000,000</u>	<u>400,000,000</u>
Total	<u>400,000,000</u>	<u>400,000,000</u>
Total primary capital	<u>2,913,381,093</u>	<u>3,029,225,426</u>
Total capital	<u>2,913,381,093</u>	<u>3,029,225,426</u>
Credit risk-weighted assets	11,258,810,189	11,506,120,807
Market risk-weighted assets	657,676,178	1,154,480,676
Operative risk-weighted assets	<u>739,858,996</u>	<u>654,451,743</u>
Total Risk-weighted assets	<u>12,656,345,363</u>	<u>13,315,053,226</u>
Capital ratios		
Total capital	23.02%	22.75%
Total primary capital	23.02%	22.75%

(33) Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank's management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, results, commitments and contingencies, based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Any changes in assumptions or criteria could significantly affect estimates.

(a) Impairment losses on loans:

The Bank reviews its loan portfolio at each consolidated statement of financial position date to determine if there is objective evidence of impairment in a loan or loan portfolio that should be recognized in the profit or loss of the year.

The Bank makes its best judgment as to whether there is any observable data indicating that there is a measurable impairment in a loan portfolio using estimates based on historical and expected loss experience for loans with similar characteristics at the moment of forecasting the future recoverable cash flows of these operations.

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(b) Fair value of derivative instruments:

The fair value of derivative instruments that are not quoted in active markets is determined by using valuation techniques. Models are reviewed before they are used and are calibrated to ensure that outputs reflect actual data and comparative fair values of market prices of similar instruments.

To the extent of practicality, only observable data are used as inputs, although certain inputs such as counterparty credit risk, volatility measures and correlations require management to make certain estimates.

(c) Impairment of investments and other financial assets:

The Bank determines that investments and other financial assets are impaired when there has been a significant and prolonged decline in their fair value below their respective cost, if its rating was reduced below B+, or there has been default on payment, bankruptcy, debt restructuring, or similar events that change in a material way the original terms and conditions.

(d) Goodwill impairment:

The Bank reviews the carrying value of goodwill, on an annual basis or when there is an indication of impairment. The estimate of value in use requires management to estimate future cash flows of the related assets or businesses acquired, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

(34) Main Applicable Laws and Regulations

(a) Banking Law in the Republic of Panama

Banking operations are regulated and supervised by the Superintendence of Banks of Panama, according to the regulations established by Executive Decree No.52 of April 30, 2008, adopting the single 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 creating the Superintendence of Banks and the rules that govern it.

Liquidity Ratio

The liquidity ratio reported by Banco General S. A. to the regulator, based on the parameters established in the Agreement No.4-2008, was 39.04% (2021: 44.84%).

Capital Adequacy

The Law mandates general license banks to maintain a minimum paid-in capital or assigned capital of not less than ten million balboas (B/.10,000,000) and a capital adequacy ratio of not less than 8%, including off-balance sheet operations.

The Bank has a ratio of consolidated regulatory capital to its risk-weighted assets of 23.02% (2021: 22.75%) in accordance with Agreements No.1-2015, No.3-2016, modified by No. 8-2022, No.11-2018 and No.6-2019 issued by the Superintendence of Banks of Panama.

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Agreement No.1-2015 establishes applicable capital adequacy standards for banks and banking groups, which came into effect on January 1, 2016. Agreement No.3-2016, which came into effect on July 1, 2016, modification in certain appraisal parameters based on Agreement No.8-2022. Establishes standards for the calculation of risk-weighted assets for credit and counterparty risks. Agreements No.11-2018 and No.6-2019 establishes the standards for the determination of assets weighted by operational risk and market risk, respectively, begin on December 31, 2019.

Market Risk Weighted Assets

The Bank's policy to establish the composition of the trading portfolio for the purposes of calculating market risk is based on Agreement No.3-2018 modified by Agreement No.6-2019, which establishes the general criteria for portfolio composition trading for the purposes of calculating market risk.

Any financial instrument with any of the following characteristics is part of the trading portfolio:

- Instrument held for accounting purposes, according to IFRS, as an asset or liability for trading purposes (so that it would be valued daily at market prices, recognizing the valuation differences in the income statement)
- Instruments resulting from market-making activities
- Instruments used to underwrite securities issuance
- Investment in a fund, except when it is not possible to have daily market prices to know its valuation
- Representative value of listed capital
- Short position without coverage
- Derivatives, except those that fulfill functions of hedging positions that are not registered in the trading portfolio.
- 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.

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

The composition of the calculation of market risk-weighted assets based in the type of assets is detailed as follow:

<u>Category</u>	Market Risk-Weighted Assets	
	<u>2022</u>	<u>2021</u>
Fixed income	89,914,442	243,914,208
Variable income	119,525,861	619,354,348
Derivatives	<u>448,235,875</u>	<u>291,212,120</u>
Market risk-weighted assets	<u>657,676,178</u>	<u>1,154,480,676</u>

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The net gain obtained during 2022 in the trading portfolio amounts to B/.19,052,444 (2021: B/.17,902,222).

Regulatory Reserves

The accounting treatment for the recognition of losses on loans, investment securities and foreclosed assets in conformity with prudential standards enacted by the Superintendence of Banks of Panama, differs in some aspects from the accounting treatment established by International Financial Reporting Standards, specifically IFRS 9 and IFRS 5. The Superintendence of Banks of Panama mandates that general license banks apply these prudential standards.

Loans and Loan Allowances

Specific provisions

The Agreement No.4-2013 indicates that specific reserves shall be established when there is objective evidence of impairment. These reserves and their applicable percentages must be established for credit facilities classified under the following risk categories for both individual loans and loan portfolios: special mention 20%, substandard 50%, doubtful 80%, and uncollectible 100%. both for individual credit facilities and for a group of such facilities.

Banks must calculate and maintain, at a minimum, the specific reserves determined by the criteria established in this Agreement at all times, which considers the balance of each credit facility classified in any of the categories subject to reserve, and the amount of collateral mitigating any possible loss and a table with weighted values for collateral detailed in this Agreement.

If there is a surplus in the specific reserve with respect to the allowance estimated in accordance with IFRS, such surplus will be recorded as a regulatory reserve within equity and its variations are applied against retained earnings. This regulatory reserve shall not be considered as regulatory capital used in calculations of ratios or any other prudential relationships mentioned in the Agreement.

As of December 31, 2022, summarize the classification of the loan portfolio and reserves for loan losses of Banco General, S.A. based on Agreement No.4-2013 and in accordance with the requirements of Circular No.SBP-DR-0137-2021 of December 29, 2021:

	2022 (in thousands)					
	<u>Standard</u>	<u>Special mention</u>	<u>Sub-standard</u>	<u>Doubtful</u>	<u>Uncollectible</u>	<u>Total</u>
Corporate loans	3,427,536	431,387	514,066	23,817	26,516	4,423,322
Consumer loans	<u>5,426,512</u>	<u>765,488</u>	<u>169,892</u>	<u>80,461</u>	<u>108,734</u>	<u>6,551,087</u>
Total	<u>8,854,048</u>	<u>1,196,875</u>	<u>683,958</u>	<u>104,278</u>	<u>135,250</u>	<u>10,974,409</u>
Specific Reserve	<u>0</u>	<u>48,377</u>	<u>64,339</u>	<u>24,824</u>	<u>32,519</u>	<u>170,059</u>

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	2021 (in thousands)					
	Standard	Special mention	Sub- standard	Doubtful	Uncollectible	Total
Corporate loans	3,046,111	458,276	424,413	24,380	33,887	3,987,067
Consumer loans	<u>4,619,087</u>	<u>90,212</u>	<u>699,868</u>	<u>40,502</u>	<u>74,003</u>	<u>5,523,672</u>
Total	<u>7,665,198</u>	<u>548,488</u>	<u>1,124,281</u>	<u>64,882</u>	<u>107,890</u>	<u>9,510,739</u>
Specific Reserve	<u>0</u>	<u>18,311</u>	<u>64,091</u>	<u>16,665</u>	<u>24,861</u>	<u>123,928</u>

As of December 31, 2021, the classification of the loan portfolio of Banco General, S.A., under Agreement No.4-2013 does not include loans under the modified special mention category for the sum of B/.1,008,900,768.

In accordance with Agreement No.4-2013, loans whose payment of principal and/or interest present more than 90 days past due in arrears from the contractual payment date will be classified as delinquent. Delinquency days are calculated from the date in which payment was required. Single-payment transactions and overdrafts will be considered delinquent when the payment is over 30 days in arrears from the contractual payment date.

The following table presents the balance of the loan portfolio by maturity of Banco General, S. A. based on the Agreement No.4-2013, not including contagion:

	2022 (in thousands)			
	Current	Past Due	Delinquent	Total
Corporate loans	4,198,369	179,219	45,734	4,423,322
Consumer loans	<u>6,046,250</u>	<u>240,289</u>	<u>264,548</u>	<u>6,551,087</u>
Total	<u>10,244,619</u>	<u>419,508</u>	<u>310,282</u>	<u>10,974,409</u>

	2021 (in thousands)			
	Current	Past Due	Delinquent	Total
Corporate loans	4,038,118	67,771	51,771	4,157,660
Consumer loans	<u>5,775,810</u>	<u>261,700</u>	<u>324,470</u>	<u>6,361,980</u>
Total	<u>9,813,928</u>	<u>329,471</u>	<u>376,241</u>	<u>10,519,640</u>

Furthermore, based on Agreement No.4-2013, modified by Agreement No.8-2014 the recognition of interest is suspended for income purposes based on the days of delay in the payment of principal and/or interest and the type of credit operation according to the following:

- a) Consumer and corporate loans, if more than 90 days overdue, and
- b) Residential mortgage loans, if more than 120 days overdue.

Total loans of Banco General, S. A. in non-accrual status of interest based on Agreement No.4-2013, modified by Agreement No.8-2014, amounts to B/.273,362,534 (2021: B/.332,667,713). Total interest income not recognized on these loans is of B/.25,144,071 (2021: B/.20,513,328).

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Dynamic Provision

Agreement No.4-2013 indicates that the dynamic provision is a reserve provided to face possible future needs for specific provisions. They are governed by prudential criteria in the banking regulation. Dynamic reserves are established on a quarterly basis, on loans classified as Standard.

The dynamic reserve is an equity account presented as a legal reserve in the consolidated statement of changes in equity and appropriated from retained earnings. The balance of the dynamic reserve is part of the regulatory capital, but cannot be used in satisfying current or future capital adequacy requirements established by this Superintendence. The balance of the Bank's dynamic reserve is detailed as follows:

	<u>2022</u>	<u>2021</u>
Banco General, S. A.	133,877,476	133,877,476
Finanzas Generales, S. A.	0	2,810,061
Banco General (Overseas), Inc.	10,614,993	10,614,993
Banco General (Costa Rica), S. A.	<u>4,951,850</u>	<u>4,951,850</u>
Total	<u>149,444,319</u>	<u>152,254,380</u>

The current Agreement establishes that the dynamic reserve will not be lower than 1.25%, nor greater than 2.50% of risk-weighted assets applied to the loan facilities classified as standard.

Through the General Resolution of the Board of Directors SBP-GJD-0007-2020 of July 16, 2020, the Superintendence of Banks of Panama established the temporary suspension of the obligation to constitute dynamic provision according to articles 36, 37 and 38 of Agreement No.4- 2013 on credit risk, effective provision from the second quarter of 2020 and will remain until it is revoked.

Provision of assets for loans in the process of awarding

Article 27 of Agreement No.4-2013, modified by Agreement No.11-2019, establishes mortgage loans and consumer loans and corporate loans with real estate guarantees must be written off in a period not exceeding two years from the date they were classified as unrecoverable; except for mortgage loans and consumer loans, the term of which may be extended for an additional year prior approval of the Superintendent. After the established deadlines, a reserve must be created in the equity account, through the appropriation of its retained earnings to which the net loan value charges of the provisions already constituted will be made, according to the percentages established in the following table:

<u>Type of loan</u>	<u>Period</u>	<u>Applicable Percentage</u>
Mortgages loans and consumer loans with real state guarantees	At the beginning of the first year after the extension (fourth year)	50%
	At the beginning of the second year after the extension (fifth year)	50%
Corporative Loans with real state guarantees	At the beginning of the third year	50%
	At the beginning of the fourth year	50%

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The balance of the equity provision of assets for loans in the process of awarding is of B/.12,641,453 (2021: B/.7,610,900), which will be maintained until the effective adjudication of the assets is made and will not be computed for the purpose of calculating the capital adequacy index.

Foreclosed Assets

Agreement No.3-2009 enacted by the Superintendence of Banks of Panama, through which provisions pertaining to the disposal of property are updated, sets a five (5) year period to dispose real estate acquired in settlement of unpaid loans.

Foreclosed assets held for sale are recognized at the lower of the carrying amount of the outstanding loans or the estimated realizable value of the properties. The agreement establishes that the provision of foreclosed properties is progressively within a range of 10% from the first year of registration up to 90% by the fifth year of adjudication, through the establishment of an equity reserve. The progressive reserve table in present to continue:

<u>Years</u>	<u>Minimum reserve percentage</u>
First	10%
Second	20%
Third	35%
Fourth	15%
Fifth	10%

Banco General, S. A. holds foreclosed assets held for sale in the amount of B/.37,543,565 (2021: B/.23,797,159) and a provision in the amount of B/.5,631,535 (2021: B/.3,569,574). The regulatory provision was estimated based on Agreements No.1-2000 and No.3-2009 in the amounts of B/.4,089,237 (2021: B/.2,798,333).

Off-Balance Sheet Operations

Management has classified off-balance sheet operations and estimated the Bank's reserve requirements in accordance with Agreement No.4-2013, enacted by the Superintendence of Banks of Panama, as presented below:

	<u>Standard</u>	<u>Special Mention</u>	<u>2022</u> (in thousands) <u>Sub- Standard</u>	<u>Doubtful</u>	<u>Uncollectible</u>	<u>Total</u>
Letters of credit	92,288	2,848	709	800	0	96,645
Bank guarantees and promissory notes	<u>443,078</u>	<u>3,648</u>	<u>1,873</u>	<u>108</u>	<u>132</u>	<u>448,839</u>
Total	<u>535,366</u>	<u>6,496</u>	<u>2,582</u>	<u>908</u>	<u>132</u>	<u>545,484</u>
Reserve required	<u>0</u>	<u>679</u>	<u>366</u>	<u>640</u>	<u>0</u>	<u>1,685</u>

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			2021 (in thousands)			
	<u>Standard</u>	<u>Special Mention</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Uncollectible</u>	<u>Total</u>
Letters of credit	79,913	5,488	2,558	0	0	87,959
Bank guarantees and promissory notes	<u>409,048</u>	<u>5,653</u>	<u>1,790</u>	<u>246</u>	<u>0</u>	<u>416,737</u>
Total	<u>488,961</u>	<u>11,141</u>	<u>4,348</u>	<u>246</u>	<u>0</u>	<u>504,696</u>
Reserve required	<u>0</u>	<u>1,025</u>	<u>471</u>	<u>0</u>	<u>0</u>	<u>1,496</u>

Investments

Banco General, S. A. considers for the management, register, classification and measurement of securities, the Agreement No.012-2019 issued by the Superintendence of Banks of Panama established dispositions over securities investments.

(b) *Banking Law of Costa Rica*

The subsidiary Banco General (Costa Rica), S. A. is regulated by the National Banking System Act, the Costa Rica Central Bank Act, the National Council of Financial System Supervision (CONASSIF), and the General Superintendence of Financial Entities (SUGEF).

(c) *Banking Law of the Cayman Islands*

The operations of Banco General (Overseas), Inc. is regulated by the Bank and Fiduciary Institutions Law of May 15, 1989, which was last revised on October 11, 2013, issued by the Government of the Cayman Islands.

(d) *Financing Companies Law*

The operations of financing companies in the Republic of Panama are regulated by the Office of Financial Entities of the Ministry of Commerce and Industry in accordance with provisions established under Law No.42 of July 23, 2001.

(e) *Finance leases Law*

The operations of finance leases in the Republic of Panama are regulated by the Office of Financial Entities of the Ministry of Commerce and Industry in accordance with provisions established under Law No.7 of July 10, 1990.

(f) *Insurance and Reinsurance Law*

Insurance and reinsurance operations in the Republic of Panama are regulated by the Superintendence of Insurance and Reinsurance of Panama, in accordance with provisions established under the Insurance Law No.12 of April 3, 2012 and Reinsurance Law No.63 of September 19, 1996.

(g) *Insurance Law of the British Virgin Islands*

The operations of Commercial Re Overseas Limited are regulated by the Insurance Law of the February 7, 2008 promulgated by the British Virgin Islands legislature and by statutory instrument 2009 No.62 denominated "2009 Insurance Regulations".

BANCO GENERAL, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Consolidated Financial Statements

(h) *Securities Law*

Brokerage operations in Panama are regulated by the Superintendence of the Securities Markets in accordance with legislation established in Law Decree No.1 of July 8, 1999 as revised by Law No.67 of September 1, 2011.

The operations of brokerage firms in Panama are regulated by Agreement No.4-2011, modified by provisions of Agreement No.8-2013 and Agreement No.3-2015, established by the Superintendence of the Securities Markets, which obliges brokerage operations to comply with capital adequacy regulations.

(i) *Fiduciary Law*

Fiduciary operations in the Republic of Panama are regulated by the Superintendence of Banks in accordance with provisions established under Law No.1 of January 5, 1984 and modified by provisions of Law No.21 of May 10, 2017.

(j) *Labor Law of the Ministry of Labor and Labor Development (MITRADEL)*

The operations of issuing and printing food vouchers, medicines, school supplies and / or electronic cards in Panama are established under Law No.59 of August 7, 2003, as amended by Law No.60 of October 23, 2009 and Executive Decree No.263 of September 17, 2010.