

**BAC INTERNATIONAL BANK, INC.
AND SUBSIDIARIES**
(Panama, Republic of Panama)

**Condensed Consolidated Interim
Financial Statements
(Unaudited)**

June 30, 2022

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

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BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Condensed Consolidated Statement of Financial Position

June 30, 2022

(In U.S. dollars)

<u>Assets</u>	<u>Note</u>	<u>June 30 2022 (Unaudited)</u>	<u>December 31 2021 (Audited)</u>
Cash and cash equivalents		624,037,143	741,723,863
Securities purchased under resale agreements	4, 8	28,256,102	104,223,985
Deposits in banks:			
Demand		3,656,621,799	3,725,143,939
Time deposits		520,499,141	643,246,845
Total deposits in banks		4,177,120,940	4,368,390,784
Total cash, cash equivalents and deposits in banks	7	4,829,414,185	5,214,338,632
Investments at fair value	4, 9	3,752,530,517	3,513,667,154
Loans	4,10	19,590,827,113	18,665,648,705
Allowance for loan losses	4	(687,208,102)	(647,099,050)
Loans at amortized cost		18,903,619,011	18,018,549,655
Property, furniture, equipment and improvements		494,440,479	510,579,672
Acceptances outstanding		35,891,435	2,370,047
Other accounts receivable	4	202,760,284	262,107,238
Provision for accounts receivable	4	(7,467,117)	(8,177,092)
Goodwill and intangible assets		385,959,242	389,655,503
Deferred income tax		57,307,424	61,308,176
Other assets		112,622,668	101,126,412
Total assets		28,767,078,128	28,065,525,397

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

<u>Liabilities and Equity</u>	<u>Note</u>	<u>June 30 2022 (Unaudited)</u>	<u>December 31 2021 (Audited)</u>
Liabilities:			
Deposits from customers:			
Demand		8,593,286,783	8,375,666,482
Savings		5,301,074,920	4,998,233,421
Time deposits		8,354,248,602	8,523,506,677
Total deposits from customers	11	<u>22,248,610,305</u>	<u>21,897,406,580</u>
Securities sold under repurchase agreements		222,090,090	38,945,625
Financial obligations	12	1,839,924,882	1,744,443,268
Other financial obligations	13	709,242,513	711,656,253
Lease liabilities	14	148,887,328	157,179,806
Acceptances outstanding		35,891,435	2,370,047
Income tax payable		53,099,833	48,285,777
Deferred income tax		47,775,540	80,621,127
Other liabilities		633,480,003	639,307,295
Total liabilities		<u>25,939,001,929</u>	<u>25,320,215,778</u>
Equity:			
Common stock	15	834,708,000	834,708,000
Additional paid in capital		140,897,488	140,897,488
Treasury stock		(5,218,370)	(5,218,370)
Retained earnings		2,221,641,479	1,913,341,660
Regulatory reserves		256,823,597	258,183,810
Other comprehensive losses		(621,034,924)	(396,849,401)
Total shareholder equity of the controlling Company		<u>2,827,817,270</u>	<u>2,745,063,187</u>
Non-controlling interest of the Company		258,929	246,432
Total equity		<u>2,828,076,199</u>	<u>2,745,309,619</u>
Commitments and contingencies	18		
Total liabilities and equity		<u>28,767,078,128</u>	<u>28,065,525,397</u>

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

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Income

For the six-month period ended June 30, 2022

(In U.S. dollars)

	<u>Note</u>	<u>June 30</u> <u>2022</u> <u>(Unaudited)</u>	<u>June 30</u> <u>2021</u> <u>(Unaudited)</u>
Interest income:			
Deposits in banks		6,005,136	5,549,399
Investments		84,353,082	83,024,095
Loans		<u>887,985,323</u>	<u>819,097,072</u>
Total interest income		<u>978,343,541</u>	<u>907,670,566</u>
Interest expense:			
Deposits from customers		216,599,076	245,077,102
Financial obligations		28,545,152	29,765,116
Other financial obligations		30,993,986	32,753,557
Securities sold under repurchase agreements		478,136	384,670
Lease liabilities		<u>3,977,088</u>	<u>4,599,587</u>
Total interest expense		<u>280,593,438</u>	<u>312,580,032</u>
Interest income, net		<u>697,750,103</u>	<u>595,090,534</u>
Provision for loan and interest losses	4	155,260,499	165,427,510
Credit risk of investments and interest bearing deposits	4	(2,885,171)	1,914,454
Provision for account receivable losses	4	(43,719)	1,723,930
Interest income, net after provisions		<u>545,418,494</u>	<u>426,024,640</u>
Other income (expenses):			
Gains in financial instruments, net	16	12,059,422	38,176,867
Service charges		224,972,915	195,834,672
Commissions and other fees, net		105,855,444	88,163,839
Gain on foreign currency exchange, net		125,073,228	62,536,772
Impairment of assets held for sale		(196,064)	(8,559)
Other income		<u>45,947,441</u>	<u>31,406,163</u>
Total other income, net		<u>513,712,386</u>	<u>416,109,754</u>
General and administrative expenses:			
Salaries and employee benefits		262,051,783	250,208,003
Depreciation and amortization		55,205,815	57,532,604
Administrative		47,137,821	36,845,655
Occupancy and related expenses		15,118,482	15,174,619
Other operating expenses		<u>262,256,454</u>	<u>216,947,285</u>
Total general and administrative expenses		<u>641,770,355</u>	<u>576,708,166</u>
Income before income tax		417,360,525	265,426,228
Current income tax		(120,120,705)	(45,596,269)
Deferred income tax		9,521,267	(4,450,270)
Net income		<u>306,761,087</u>	<u>215,379,689</u>
Net income attributable to:			
Controlling interest		306,741,091	215,363,605
Non-controlling interest		19,996	16,084
		<u>306,761,087</u>	<u>215,379,689</u>

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

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income

For the six-month period ended June 30, 2022

(In U.S. dollars)

	June 30 2022	June 30 2021
	(Unaudited)	
Net income	<u>306,761,076</u>	<u>215,379,689</u>
Other comprehensive results:		
Items that will not be reclassified to the consolidated income statement		
Employee benefits plan - change in actuarial effect	(447,850)	(839,294)
Net change in fair value of common stocks	30,232	(8,050)
Items that are or can be reclassified to the consolidated income statement		
Foreign currency translation	(81,521,200)	(3,575,974)
Valuation for investments FVOCI:		
Net amount transferred to income statement	(8,572,845)	(26,559,099)
Net change in fair value	<u>(133,677,973)</u>	<u>83,339,891</u>
Other comprehensive results	<u>(224,189,636)</u>	<u>52,357,474</u>
Comprehensive income	<u><u>82,571,440</u></u>	<u><u>267,737,163</u></u>
Comprehensive income attributable to:		
Controlling interest	82,555,568	267,715,651
Non-controlling interest	15,872	21,512
	<u><u>82,571,440</u></u>	<u><u>267,737,163</u></u>

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

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity

For the six-month period ended June 30, 2022

(In U.S. dollars)

	Attributable to the Bank's owners								Non-controlling interest	Total
	Common stock	Additional paid in capital	Treasury stocks	Retained earnings	Regulatory reserves	Other comprehensive losses	Total controlling interest			
Balance as of January 1, 2021	834,708,000	140,897,488	(5,218,370)	1,645,421,052	253,820,612	(360,681,954)	2,508,946,828	220,633	2,509,167,461	
Net income	0	0	0	215,363,605	0	0	215,363,605	16,084	215,379,689	
Other comprehensive results:										
Foreign currency translation	0	0	0	0	0	(3,575,558)	(3,575,558)	(416)	(3,575,974)	
Valuation of FVOCI securities:										
Net amount transferred to income statement	0	0	0	0	0	(26,558,811)	(26,558,811)	(288)	(26,559,099)	
Net change in fair value	0	0	0	0	0	83,333,625	83,333,625	6,266	83,339,891	
Employee benefits plan - change in actuarial effect	0	0	0	0	0	(839,160)	(839,160)	(134)	(839,294)	
Net change in foreign currency of common stocks	0	0	0	0	0	(8,050)	(8,050)	0	(8,050)	
Total other comprehensive results	0	0	0	0	0	52,352,046	52,352,046	5,428	52,357,474	
Total comprehensive results	0	0	0	215,363,605	0	52,352,046	267,715,651	21,512	267,737,163	
Other changes in equity:										
Regulatory reserves	0	0	0	(2,440,350)	2,440,350	0	0	0	0	
Transactions with the Bank's owners:										
Transactions between the Bank and the non-controlling interest										
Adjustment non-controlling interest	0	0	0	0	0	0	0	(758)	(758)	
Complementary tax	0	0	0	1,027,472	0	0	1,027,472	0	1,027,472	
Contributions and distributions:										
Declared dividends	0	0	0	0	0	0	0	0	0	
Paid dividends	0	0	0	(125,000,000)	0	0	(125,000,000)	(6)	(125,000,006)	
Total transactions with the Bank's owners	0	0	0	(123,972,528)	0	0	(123,972,528)	(764)	(123,973,292)	
Balance as of June 30, 2021 (Unaudited)	<u>834,708,000</u>	<u>140,897,488</u>	<u>(5,218,370)</u>	<u>1,734,371,779</u>	<u>256,260,962</u>	<u>(308,329,908)</u>	<u>2,652,689,951</u>	<u>241,381</u>	<u>2,652,931,332</u>	
Balance as of January 1, 2022	834,708,000	140,897,488	(5,218,370)	1,913,341,660	258,183,810	(396,849,401)	2,745,063,187	246,432	2,745,309,619	
Net income	0	0	0	306,741,091	0	0	306,741,091	19,985	306,761,076	
Other comprehensive results:										
Foreign currency translation	0	0	0	0	0	(81,519,459)	(81,519,459)	(1,741)	(81,521,200)	
Valuation of FVOCI securities:										
Net amount transferred to income statement	0	0	0	0	0	(8,572,444)	(8,572,444)	(401)	(8,572,845)	
Net change in fair value	0	0	0	0	0	(133,676,369)	(133,676,369)	(1,604)	(133,677,973)	
Employee benefits plan - change in actuarial effect	0	0	0	0	0	(447,483)	(447,483)	(367)	(447,850)	
Net change in foreign currency of common stocks	0	0	0	0	0	30,232	30,232	0	30,232	
Total other comprehensive results	0	0	0	0	0	(224,185,523)	(224,185,523)	(4,113)	(224,189,636)	
Total comprehensive results	0	0	0	306,741,091	0	(224,185,523)	82,555,568	15,872	82,571,440	
Other changes in equity:										
Regulatory reserves	0	0	0	1,360,213	(1,360,213)	0	0	0	0	
Transactions with the Bank's owners:										
Adjustment of non-controlling interest	0	0	0	0	0	0	0	742	742	
Complementary tax	0	0	0	198,515	0	0	198,515	0	198,515	
Contributions and distributions:										
Dividendos declarados	0	0	0	0	0	0	0	(4)	(4)	
Paid dividends	0	0	0	0	0	0	0	(4,113)	(4,113)	
Total transactions with the Bank's owners	0	0	0	198,515	0	0	198,515	(3,375)	195,140	
Balance as of June 30, 2022 (Unaudited)	<u>834,708,000</u>	<u>140,897,488</u>	<u>(5,218,370)</u>	<u>2,221,641,479</u>	<u>256,823,597</u>	<u>(621,034,924)</u>	<u>2,827,817,270</u>	<u>258,929</u>	<u>2,828,076,199</u>	

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

BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the six-month period ended June 30, 2022

(In U.S. dollars)

	<u>Note</u>	<u>June 30</u> <u>2022</u>	<u>June 30</u> <u>2021</u> <u>(Unaudited)</u>
Cash flows from operating activities:			
Net Income		306,761,087	215,379,689
Adjustments to reconcile net income and cash by operating activities:			
Depreciation and amortization		40,241,588	41,705,790
Amortization of the right-of-use assets		14,964,227	15,826,814
Provision for loan losses	4	155,260,499	165,427,510
Credit risk of investments and interest bearing deposits	4	(2,885,171)	1,914,454
(Release) provision for accounts receivable losses		(43,719)	1,723,930
Impairment of assets held for sale		196,064	8,559
Provision (release) for losses on undisbursed commitments		113,477	(43,261)
Interest income, net		(697,750,103)	(595,090,534)
Gain on financial instruments, net	16	(12,059,422)	(38,176,867)
Loss on sale and disposal of property and equipment, net		428,869	552,523
Net gain on sale of assets held for sale		(5,005,201)	(3,979,206)
Loss on sale and disposal of intangible assets		0	419,325
Dividends on equity securities at FVOCI		(367,110)	(597,465)
Income tax expense		110,599,438	50,046,539
Changes in operating assets and liabilities:			
Deposits with original maturities of 90 days or more		16,884,833	858,008
Investments at fair value		6,908,400	14,048,081
Loans		(1,440,697,237)	(669,795,079)
Securities sold under agreements to repurchase		191,998,134	(25,197,470)
Other accounts receivable		55,489,662	50,140,995
Other assets		(9,279,700)	(5,550,717)
Deposits from costumers		813,250,999	915,136,803
Other liabilities		7,194,681	29,173,125
Cash generated by operations:			
Interest received		974,176,627	897,368,776
Interest paid		(281,390,910)	(315,603,021)
Dividends received		367,110	597,465
Income tax paid		(113,011,385)	(78,727,169)
Net cash provided by operating activities		<u>132,345,737</u>	<u>667,567,597</u>
Cash flows from investment activities:			
Proceeds from sale of investments at FVOCI	9	452,731,586	774,592,879
Maturities, and prepayments of investments at FVOCI		919,441,918	1,402,414,360
Purchase of investments at FVOCI		(1,786,964,277)	(2,583,452,365)
Purchase of property and equipment		(33,711,837)	(21,791,647)
Proceeds from sale of property and equipment		333,402	560,263
Acquisition of intangible assets		(11,844,610)	(9,737,394)
Proceeds from sale of assets held for sale		15,485,412	15,974,462
Net cash used in investment activities		<u>(444,528,406)</u>	<u>(421,439,442)</u>
Cash flows from financing activities:			
Proceeds from financial obligations		866,026,324	498,760,729
Payment of financial obligations		(743,616,945)	(1,250,399,222)
Proceeds from other financial obligations		33,117,890	4,090,946
Payment of other financial obligations		(45,062,286)	(7,582,647)
Payment of lease liabilities		(14,177,408)	(13,984,119)
Dividends		(4,236)	(225,000,000)
Net cash provided by (used) in financing activities		<u>96,283,339</u>	<u>(994,114,313)</u>
Effect of exchange rate fluctuation on cash held		(151,936,089)	(5,527,958)
Net decrease in cash and cash equivalents		(367,835,419)	(753,514,116)
Cash and cash equivalents at beginning of the period		5,124,637,808	5,775,308,693
Cash and cash equivalents at the end of the period	7	<u>4,756,802,389</u>	<u>5,021,794,577</u>

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

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BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES
(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2022

(In U.S. dollars)

(1) Organization

BAC International Bank, Inc. was incorporated as a bank and holding bank on August 25, 1995, in Panama City, Republic of Panama. BAC International Bank, Inc. is owned in a 90.5339% by BAC International Corporation (BIC), 9.4622% by BAC Holding International Corp. (previously known as Leasing Bogota, S. A. Panama) and 0.0039% by other shareholders. BIC is an indirect subsidiary of BAC Holding International Corp. (“the Parent Company”), a company listed on the Colombian Stock Exchange (“BVC”) and the Panama Stock Exchange (“Latinex”).

As of December 31, 2021, the date of the last audited consolidated financial statements, the Parent Company was wholly owned by Banco de Bogotá, S.A., an authorized bank in the Republic of Colombia, which in turn is a subsidiary of Grupo Aval Acciones y Valores., S.A., an entity domiciled in the Republic of Colombia.

On March 25, 2022, Banco de Bogotá S.A. perfected the spin-off of 75% of its shareholding in the Parent Company in favor of the shareholders of said entity, through Sociedad Beneficiaria Bogotá S.A.S.

On March 28, 2022, Grupo Aval Acciones y Valores, S.A. perfected the spin-off of 51.6% of the shares of the Parent Company in favor of its shareholders. The shares spun off in favor of the shareholders of Grupo Aval were received as a result of the completion of the spin-off held by Banco de Bogotá S.A. on March 25, 2022.

BAC International Bank, Inc. (“the Parent Bank”) provides, directly and through its wholly owned subsidiaries (jointly, “the Bank”), a wide variety of financial services to individuals and institutions, principally in Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama

The Banking operations in the Republic of Panama are regulated and supervised by the Superintendency of Banks of the Republic of Panama, according to provisions established by Law Decree No. 52, dated April 30, 2008, that adopts the single text of Law Decree No.9 of February 26, 1998, as amended by Legislative Decree No.2 of February 22, 2008, which establishes the Banking regime of the Republic of Panama and creates the Superintendency of Banks and the rules that govern it.

BAC INTERNATIONAL BANK, INC., AND SUBSIDIARIES
(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Statements

(1) Organization, continued

The Bank consolidates directly and indirectly with the following entities:

<u>Subsidiary</u>	<u>Core Business</u>	<u>Location</u>	<u>Total voting rights held by BIE</u>
BAC International Bank (Grand Cayman)	Banking	Grand Cayman	100.0000%
BAC Bahamas Bank Limited	Banking	Bahamas	100.0000%
BAC Latam SSC S.A.	Service	Costa Rica	100.0000%
BAC Valores Inc.	Service Broker	Panama	100.0000%
Premier Assets Management Inc.	Mutual funds	Panama	100.0000%
Red Land Bridge Reinsurance Ltd.	Reinsurance	Grand Cayman	100.0000%
Corporacion Latinoamericana de Finanzas S.A.	Holding Company	Panama	100.0000%
Informaciones S.A.	Holding Company	Guatemala	100.0000%
Banco de America Central S.A.	Banking	Guatemala	100.0000%
Financiera de Capitales S.A.	Banking Financial	Guatemala	99.9996%
BAC Valores de Guatemala S.A.	Securities Broker	Guatemala	99.9929%
BAC Bank Inc.	Banking	Panama	100.0000%
Credomatic de Guatemala S.A.	Card Industry	Guatemala	100.0000%
Banco de America Central Honduras S.A.	Banking	Honduras	99.9776%
Credomatic de Honduras S.A.	Card Industry	Honduras	99.9999%
Admin. de Fondos de Pensiones y Cesantias BAC	Mutual funds	Honduras	100.0000%
Inversiones Financieras Banco de America Central S.A.	Holding Company	El Salvador	99.9988%
Banco de America Central S.A.	Banking	El Salvador	99.9999%
Credomatic de El Salvador S.A.	Card Industry	El Salvador	99.9997%
Sistemas Internacionales S.A.	Holding Company	El Salvador	99.9949%
Viajes Credomatic El Salvador S.A.	Travel Agency	El Salvador	99.9436%
Corporacion Tenedora BAC COM S.A.	Holding Company	Nicaragua	99.9769%
Banco de America Central S.A.	Banking	Nicaragua	100.0000%
Almacenes Generales de Deposito BAC S.A.	Fiscal Warehouse	Nicaragua	99.9995%
Credito S.A.	Card Industry	Nicaragua	99.6631%
BAC Valores Nicaragua Puesto de Bolsa S.A.	Securities Broker	Nicaragua	99.9946%
Corporacion de Inversiones Credomatic S.A.	Holding Company	Costa Rica	100.0000%
Corporacion Tenedora BAC Credomatic S.A.	Holding Company	Costa Rica	100.0000%
Banco BAC San Jose S.A.	Banking	Costa Rica	100.0000%
BAC San Jose Puesto de Bolsa S.A.	Securities Broker	Costa Rica	100.0000%
BAC San Jose Leasing S.A.	Leasing	Costa Rica	100.0000%
BAC San Jose Soc. de Fondos de Inversion S.A.	Mutual funds	Costa Rica	100.0000%
BAC San Jose Pensiones S.A.	Mutual funds	Costa Rica	100.0000%
BAC Credomatic Corredora de Seguros S.A.	Insurance	Costa Rica	100.0000%

Notes to the Condensed Consolidated Interim Financial Statements

(2) Basis of Preparation of the Condensed Consolidated Interim Financial Statements

(a) Condensed consolidated financial statement

The Bank prepares its condensed consolidated interim financial statements incorporating its controlled entities. The Bank controls an entity if and only if it meets the following elements:

- Power over the entity that gives the Bank the right to direct any relevant activity that significantly affects the entity's performance.
- Exposure or rights to variable returns from their participation in the entity.
- Ability to affect those returns through its power over the entity.

To comply with this requirement, the Bank performs an annual reassessment of all its contractual relationships. No new entities are required to be consolidated as a result of this process, including structured entities.

The financial statements of the Bank's subsidiaries are included in the condensed consolidated interim financial statements from the date the Bank acquired control or until the date control is lost.

During the consolidation process, the Bank consolidates the assets, liabilities and profits or losses of the entities under control, previously aligning the accounting policies in all its subsidiaries. Such process includes the elimination of intragroup balances and transactions and any unrealized and realized income and expenses (except foreign currency translation gains or losses and taxes that are not subject to elimination) arising from intragroup transactions. Unrealized and realized losses are eliminated in the same way as unrealized and realized gains, but only to the extent that there is no evidence of impairment.

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

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) No. 34, "Interim Financial Information", they must be read together with the latest consolidated financial statements for the period ended December 31 of 2021.

IAS No. 34 does not require the disclosure in interim financial information of all the notes that are included when preparing the annual financial statements according to the requirements of IFRS; however, a selection of informational notes have been included to explain the events and transactions that are important to an understanding of the Bank's change and performance in its financial position since its last annual financial statement.

Consolidated results of operations for interim periods are not necessarily indicative of results that may be expected for the full year.

The condensed consolidated interim financial statements were approved by the Bank's management for issuance on July 30, 2022.

Notes to the Condensed Consolidated Interim Financial Statements

(2) Basis of Preparation of the Condensed Consolidated Interim Financial Statements, continued

(a) Basis of measurement

The condensed consolidated Interim financial statements have been prepared on a historical cost basis, except for the following accounts in the consolidated statement of financial position.

- Investments at fair value; and
- Assets held for sale.

Initially, the Bank recognizes financial instruments at fair value on the date on which they are liquidated. Investments in securities are recorded when they are traded and loans at amortized cost when they are liquidated.

(b) Functional and presentation currency

The items included in the condensed consolidated interim financial statements of each Group entity are determined using the currency of the main economic environment in which each entity operates (functional currency).

The Bank's condensed consolidated interim financial statements are presented in U.S.A. dollars and are the Bank's presenting and functional currency. The information presented in U.S.A. dollars is expressed in units, unless otherwise indicated.

(c) Use of estimates and judgments

Preparation of the condensed consolidated interim financial statements requires the Bank's management to make judgments, estimates and assumptions affecting the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Results may differ from these estimates. These also require the Bank's management to apply its judgment when applying the Bank's accounting policies.

The information on the most significant areas of estimation of uncertainty and critical judgments in applying the accounting policies that have the most important effect on the amounts recognized in the condensed consolidated interim financial statements is disclosed in Note 6.

BAC INTERNATIONAL BANK, INC., AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies

The Bank has applied the policies to the condensed consolidated interim financial statements in a manner consistent with those of the condensed consolidated interim financial statements as of December 31, 2021, which are detailed below:

(a) *Basis of consolidation*

Subsidiaries

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee.

To determine the control, the potential voting rights that are currently executable or convertible are considered. The subsidiaries condensed consolidated interim financial statements are included in the condensed consolidated interim financial statements from the date on which the control begins, and until the control ceases.

Balances and Transactions Eliminated in the Consolidation

Intragroup transactions, balances, revenue and expenses in transactions between subsidiaries are eliminated. Losses and gains that arise from intragroup transactions that are recognized as assets or liabilities are also eliminated.

Changes in the ownership of the subsidiaries that do not result in a change of control

Transactions with non-controlling interest that do not result in a loss of control are accounted for as equity transactions; that is, as transactions with the owners. Any difference between the carrying value of the interest and the amount of the transaction is recorded as an adjustment in retained earnings.

Loss of control

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

(b) *Foreign currencies*

Assets and liabilities maintained in foreign currency are converted to the functional currency at the exchange rate in effect on the reporting date. Gains or losses resulting from the conversion of foreign currency are reflected in other revenues or other expense accounts in the consolidated statement of income.

Goodwill and adjustments to fair value resulting from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and, consequently, are converted at the exchange rates in effect on each period closing date.

BAC INTERNATIONAL BANK, INC., AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

Subsidiaries of the Bank

The financial position and results of all the Bank's subsidiaries that have a functional currency different from the Bank's functional currency are converted into the presentation currency as follows:

- Assets and liabilities: at the exchange rate at the period closing date.
- Revenues and expenses: at the average exchange rate.
- Equity accounts: at the historical exchange rate.

The resulting conversion adjustment is carried directly to a separate account in the "Equity" section, under "other comprehensive loss".

(c) *Financial assets and liabilities*

Financial assets are classified on the date of initial recognition, based on the nature and purpose of the financial asset's acquisition.

Classification

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

At initial recognition, financial assets are classified as measured at: AC, FVOCI or FVPL.

A financial asset is measured at amortized cost and not at FVPL, if it meets both of the following conditions:

1. The asset is kept within a business model to collect contractual cash flows; and
2. The contractual terms of the financial asset establish specific dates for cash flows that represent solely payments of principal and interest on the outstanding balance.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and has not been designated as FVPL:

1. The asset is kept within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and
2. The contractual terms of the financial asset establish specific dates for cash flows that represent solely payments of principal and interest on the current outstanding balance.

During the initial recognition of investments in equity instruments not traded, the Bank may elect to irrevocably register subsequent changes in fair value as part of other comprehensive profit and loss in equity. This election is made on an instrument by instrument basis.

All financial assets not classified as measured at AC or FVOCI as described above, are measured at FVPL.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

In addition, in the initial recognition, the Bank may irrevocably designate a financial asset that meets the measurement requirements at AC or FVOCI to be measured at FVPL, if doing so eliminates or significantly reduces an accounting mismatch that may occur if not done. For now, the Bank do not use this option.

A financial asset is classified in one of the referenced categories at the time of its initial recognition.

An embedded derivative where the main contract is a financial contract covered under IFRS 9 is not separated and instead the hybrid financial instrument is jointly assessed for classification.

Business Model Assessment

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

- The policies and objectives stated for each portfolio of financial assets and the operation of these policies in practice. These include, whether management's strategy is to collect income from contractual interest; hold a profile of specific interest performance or coordinate the duration of the financial assets with the liabilities being financed or the expected outgoing cash or through cash flows from the sale of assets;
- How they are evaluated or reported to key management personnel for each Bank subsidiary on portfolio performance.
- The risks that affect the performance of the portfolios (and the financial assets held within) and the way those risks are managed;
- How managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and,
- The frequency, value and timing of sales in prior fiscal periods, the reasons for those sales and expectations about future sales activity. However, the information on sales activity cannot be considered in isolation, but rather as part of an assessment of how Bank objectives established for managing financial assets is achieved and how cash flows are realized.

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

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

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

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

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

Interest rates on certain consumer and business loans are based on variable interest rates established at the discretion of the Bank. Variable interest rates are generally established in accordance with the practices of each of the countries where the Bank operates, plus certain additional discretionary points. In these cases, the Bank assess whether the discretionary feature is consistent with the solely principal and interest criteria considering a number of factors that include whether:

- Debtors can prepay the loans without significant penalties;
- Competitive market factors insure that interest rates are consistent between banks; and,
- Any regulatory protection standard in favor of customers in the country requiring banks to treat customers reasonably (e.g. regulated rates).

All fixed rate consumer and corporate loans contain a prepayment condition.

A prepayment feature is consistent with the solely principal and interest criteria, if the prepayment amount substantially represents unpaid amounts of principal and interest on the amount of outstanding principal, which may include fair compensation for early termination of the contract.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

In addition, a prepayment feature is consistent with these criteria, if a financial asset is acquired or originates from a premium or discount to the contractual par amount and the prepayment amount substantially represents the contractual par amount, plus accrued, but unpaid, contractual interest (which may include fair compensation for early termination) and the fair value of the prepayment feature is insignificant in the initial recognition.

Impairment of Financial Assets

The Bank assesses the impairment of financial assets with an Expected Credit Losses model (ECL). This model requires the application of considerable judgment regarding how changes in economic factors impact on ECL, which is determined on a weighted average basis.

The impairment model applies to the following financial assets that are not measured at FVPL.

- Debt instruments;
- Lease payments receivable;
- Other accounts receivable;
- Loan portfolio;
- Financial guarantee contracts issued; and
- Loans commitments issued.

The Bank recognizes a provision for impairment of financial assets at AC and FVOCI in an amount equal to the expected impairment losses in a period of twelve months after the end date of financial statements or during the remaining life of the loan. Expected losses during the remaining life of the loan are the losses expected from all possible impairment events during the expected life of the financial instrument, while expected losses in a twelve-month period are the portion of expected losses arising from impairment events resulting from impairment events that are possible during the twelve months following on the date of the report.

Reserves for losses are recognized in an amount equal to the ECL during the life of the asset, except in the following cases, in which the amount recognized is equal to ECL for the twelve months following the measurement date:

- Investments in debt instruments determined to represent low credit risk to the reporting date; and,
- Other financial assets (other than short term accounts receivable) on which the credit risk has not increased significantly since initial recognition.

Notes to the Condensed Consolidated Interim Financial Statements

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

Impairment requirements are complex and require estimated judgments and significant assumptions by management, particularly in the following areas:

- Assess whether the credit risk has increased significantly from initial recognition; and,
- Incorporate prospective information in the measurement of expected impairment losses.

Measuring ECL

Expected credit loss (ECL) is the estimated weighted probability of credit losses measured as follows:

- Financial assets with no credit impairment to the reporting date: the present value of all contractual cash payments in arrears (for example: the difference between Bank cash flow debt in accordance with the contract and cash flows that the Bank expects to receive);
- Impaired financial assets to the reporting date: the difference between the gross book value and the present value of estimated future cash flows;
- Outstanding loan commitments: the present value of the difference between contractual cash flows owed to the Bank in the event it enforces the commitment and cash flows that the Bank expects to receive; and
- Financially secured contracts: expected payments to reimburse the holder minus any amount the Bank expects to recover.

Definition of impairment

The Bank considers a financial asset to be impaired when:

- It is highly unlikely that the debtor will fully pay its credit obligations to the Bank, without recourse for the Bank to take such actions as enforcing the guarantees (if any); or
- The debtor is more than 90-days past-due on any material credit obligation. Overdrafts are considered in arrears once the client has exceeded the established limit, or the established limit is less than the outstanding balance.
- For fixed income financial instruments, the following concepts, among others, are included:
 - Downgrade on the issuer's credit risk rating;
 - Contractual payments are not made on the due date or in the term period stipulated;
 - There is a virtual certainty of default;
 - Issuer is likely to go bankrupt or a bankruptcy petition is filed or similar action;
 - The financial asset stops trading in an active market given its financial difficulties;

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

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

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

Significant increase in credit risk

When determining whether the credit risk of a financial assets has increased significantly since initial recognition, the Bank considers relevant fair, sustainable information available at no cost or disproportionate effort, including information and quantitative and qualitative analyses based on historical experience and expert assessment of Bank credit risk, including information with future projection.

The Bank identifies if a significant increase in the credit risk has occurred for each exposure by comparing:

- The probability of default (PD) during the remaining life of financial instrument at the closing date, with
- The PD during the remaining life at a point in time, which was estimated at initial recognition of exposure.

The assessment of whether the credit risk has increased significantly from initial recognition of a financial asset requires identification of the initial recognition date of the instrument. For purposes of revolving credit (credit cards, overdrafts, among others), the date when the credit was first delivered may be a long time ago. Changes in the contractual terms of a financial asset may also impact this assessment, as discussed below.

Grading by credit risk categories

The Bank assigns a credit risk grade to each exposure based on a variety of data that is determined to predict the PD and applying the judgment of a credit expert, the Bank use these grades to identify significant increases in credit risk. Credit risk grading is defined using qualitative and quantitative factors indicative of the risk of losses. These factors varies depending on the type of exposure and the type of borrower.

Credit risk grading is defined and calibrated so that the risk of losses increases exponentially as the credit risk is impaired and so that the difference in risk loss between ratings is increased regardless of the portfolio. For example, the difference in the risk of losses between grade satisfactory and special mention is less than the difference between the credit risk between grades special mention and sub-standard.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

Each exposure is given a credit risk grade upon initial recognition based on information available on the debtor. Exposures are subject to continuous monitoring, that may result in displacement of an exposure to a different credit risk grade.

Generating the Structure of the PD term

Credit risk grading are the main input to determine the structure of the PD term for the different exposures. The Bank obtains performance and loss information on the credit risk exposures analyzed by jurisdiction or region, type of product and debtor, as well as by credit risk grade.

The Bank uses statistical models to analyze the data compiled and generate estimates of the probability of impairment during the remaining life of the exposures and how these probabilities of impairment change over time.

These analyses include identification and calibration of relationships between changes in impairment rates and key macroeconomic factors, as well as in-depth analysis of certain impairment risk factors (for example, loans portfolio charge-offs). For the majority of loans, key economic factors includes growth in gross domestic product, changes in interest rates on the market and unemployment.

The approach used by the Bank to prepare prospective economic information within its assessment is indicated below.

Determine if the credit risk has increased significantly

The Bank has established a general framework that incorporates quantitative information and qualitative to determine if the credit risk of a financial asset has significantly increased since its initial recognition.

The initial framework is aligned with the internal process of the Bank for credit risk management.

The criteria to determine whether the credit risk has increased significantly varies by portfolio and includes limits based on noncompliance.

The Bank evaluates whether the credit risk of a particular exposure has increased significantly since initial recognition if, based on Bank qualitative modeling, the expected probability of impairment during the remaining life will increase significantly from initial recognition. In determining the credit risk increase, the expected impairment losses in the remaining life is adjusted by changes in expiration.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

Under certain circumstances, using the judgment of credit experts, and based on relevant historical information, the Bank determines that an exposure has had a significant increase in credit risk, if particular qualitative factors indicate this and those factors may not be completely captured by periodic quantitative analyses. As a limit, the Bank assumes that a significant credit risk occurs no later than when the asset is in arrears for more than 30 days.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk based on regular reviews to confirm that:

- The criteria can identify significant increases in credit risk before an exposure becomes impaired;
- The criteria are inconsistent with the time when the asset is more than 30 days past the due date;

Modified financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Bank assesses whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is written off and a new financial asset is recognized at its fair value plus any eligible transaction costs. Commissions received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent the reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other commissions are included in the result for the year as part of the gain or loss on account derecognition.

If cash flows are modified when the debtor is in financial difficulties, then the objective of the modification is usually to maximize collection opportunities and minimize default risk. Under the Bank's renegotiation policies, customers in financial difficulties are granted concessions that generally correspond to reductions in interest rates, extension of payment terms, reductions in the balances owed, or a combination of the above.

If the Bank plans to modify a financial asset in a way that would result in condonation of cash flows, then it first considers whether a portion of the asset should be derecognized before the modification takes place. This approach impacts the outcome of the quantitative assessment and means that the derecognition criteria are often not met in such cases.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

If the modification of a financial asset measured at AC or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the asset's original effective interest rate and recognizes the resulting adjustment as a change gain or loss in profit or loss. For variable interest rate financial assets, the original effective interest rate used to calculate the modified gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such modification is carried out due to financial difficulties of the debtor, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

The contractual terms of the loans may be modified for a number of reasons, including changes in market conditions, customer retention and other factors not related to a current or potential deterioration of the customer's credit.

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

- The PD during the remaining life on the date of the balance sheet based on the terms modified with;
- The PD on the estimated remaining life based on the date of initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximize the opportunities to collect and to minimize the risk of noncompliance. Under the Bank's renegotiation policies, customers in financial difficulties are given concessions that generally involve a reduction in interest rate, extension of the payment term, reductions in the balances due or a combination of these.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

For financial assets modified as part of the Bank's renegotiation policies, the estimation of the PD reflects whether the modifications have improved or restored the ability of the Bank to collect principal and interest and the prior experience of the Bank in similar actions. As part of the process, the Bank evaluates the debtor's payment compliance as compared to the modified terms of the debt and considers several performance indicators for the group of debtors modified.

Generally, restructuring indicators are a relevant factor on increased credit risk. Therefore, a restructured debtor must demonstrate a consistent payment behavior over a period of time before no longer being considered as an impaired loan or that the PI has decreased in such a way that the provision may be reversed and the loan measured for impairment over a term of twelve months after the closing date of the report.

Financial liabilities

The Bank derecognizes a financial liability when its conditions are modified and the cash flows of the modified obligation are substantially different. In this case, a new financial liability based on the modified terms is recognized at its fair value. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in income. The consideration paid includes the transferred non-financial assets, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not recorded as derecognition, then the amortized value of the liability is recalculated by discounting the modified cash flows at the original effective interest rate, and the resulting gain or loss is recognized in profit or loss. For variable interest rate financial liabilities, the original effective interest rate used to calculate the modified gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the book value of the liability and are amortized over the remaining term of the modified financial liability by recalculating the effective interest rate on the instrument.

Inputs in Measuring ECL

Key inputs in measuring ECL are usually the structure of terms of the following variables:

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

The foregoing parameters are derived from internal statistical models and other historical information. These models are adjusted to reflect prospective information as described below.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

PDs are estimated on certain cut-off dates. They are calculated using survival models, based on historical default vectors. If a counterparty or exposure migrates between the different ratings then this will cause a change in the estimated PD for that group. The PDs are estimated considering the contractual expiration terms of the exposures and the estimated prepayment rates.

The historical PD is then transformed to a prospective PD, using macroeconomic sensitivity models.

LGD is the magnitude of probable losses in the event of noncompliance. The Bank estimates the parameters of the LGD based on historical loss recovery rates against the noncomplying parties. LGD models consider the structure, collateral and the recovery costs of any collateral when there are mortgage guarantees.

For unsecured loans, a cash recovery model is used at present value, ordered by harvest. For loans guaranteed with mortgages and/or pledges, a history of the relationship between the sale price of goods available for sale and sold with respect to the balance of the credits is used as a recovery parameter. The calculation is made on a net cost recovery basis, discounted using the effective interest rate of the loan.

EAD represents expected exposure in the event of noncompliance. The Bank derives the EAD from the current exposure of the counterpart and potential changes in the current amount permitted under the terms of the contract, including amortization and prepayments for decreasing and revolving exposures with no commitment to disburse. For loan commitments and financial security, the EAD considers the amount removed, as well as potential future amounts that may be removed or collected under the contract, which are estimated based on historical issues. Finally, for credit cards, due to its relative nature, the Bank determines the EAD by modeling a percentage of historical utilization over approved credit limit.

The Bank measures the EAD considering the risk of noncompliance during the maximum contractual period (including options to extend the customer's debt) on which there is an exposure to credit risk, even if, for purposes of risk management, the Bank considers a longer period of time. The maximum contractual period is extended to the date on which the Bank has the right to require payment of a loan or terminate a loan commitment or security given.

For credit card balances the Bank measures EADs over a longer period than the maximum contractual period, if the contractual ability of the Bank to demand payments and pay off the commitment no withdraw does not limit the Bank's exposure to credit losses for the contractual period of the contract. These facilities do not have a fixed term or a collection structure and are managed on a collective basis. The Bank may cancel them immediately, but this contractual right is forced in the normal management of the Bank's day to day management, rather only when the Bank finds that there has been increased credit risk for each loan. This longer period will be estimated taking into account the actions for the management of credit risk that the Bank expects to take and that mitigate the EAD. These measures include a reduction in limits and cancellation of loan contracts.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

Where parameter modeling is performed on a collective basis, the financial instruments are pooled on the basis of shared risk characteristics that include:

- Type of instrument.
- Credit risk rating.
- Guarantees.
- Date of initial recognition.
- Remaining expiration term.
- Geographical location of the debtor.

The above pooling is subject to regular review to ensure that the exposure of a particular group remains uniform.

Projection of future conditions

Semi-annually, macroeconomic scenarios forecast for twelve months are approved for the six countries where the Bank operates, and they are divided into three categories: upside, central and downside. These scenarios are prepared based on the Bank's macroeconomic simulation model and are complemented by (i) projections from supranational organizations such as the International Monetary Fund, the World Bank, ECLAC, etc. (ii) the macroeconomic program of the Central American central banks and (iii) economists outside the Bank.

- **Central scenario:** According to current expectations. In the current situation, it contemplates stability in the nominal macroeconomic variables, exchange rate, interest rates, and inflation. Forecasts from other organizations that carry out economic research are used as a reference, for example, the International Monetary Fund, the World Bank and the central banks of each country. External references bring fairness to the exercise.
- **Upside and downside scenarios:** These are the probable macroeconomic scenarios before the realization of some of the main risks associated with each country. They are categorized as upside and downside risks, furthermore, divided between internal and external risks.
- **External Risks:** The Central American countries, being small and open economies, are exposed to the economic performance of the large economies and main trading partners, mainly the United States and Europe. The economic activity of these countries affects the Central American countries in a generalized way, mainly through income from remittances, exports, tourism, and foreign direct investment.
- **Internal Risks:** These are risks specific to each country. They include risks associated with the internal social, political, and economic situation. In the current situation, the risks associated with the performance of governments predominate public finance management, natural disasters, health policies, etc.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

The external information includes economic data and publication of projections by government committees, monetary authorities (mainly in the countries where the Bank operates), supranational organizations (such as the Organization for Economic Cooperation and Development, the International Monetary Fund and others), academic projections, private sector, and credit risk rating agencies.

The base case represents the most probable. Other scenarios represent a more optimistic or pessimistic outcome. In addition, the Bank uses periodic stress testing to calibrate the determination of these other representative scenarios.

Financial liabilities

Financial liabilities are measured at amortized cost using the effective interest method, except when there are financial liabilities measured at FVPL.

Recognition, disposal, and measurement

The Bank regularly recognizes the purchase or sale of financial instruments on the date of each negotiation, which is the date on which the Bank commits to buy or sell a financial instrument. Financial assets and liabilities are initially recognized at fair value.

Transaction costs are attributed to expenses in the consolidated statement of income when incurred for financial assets and liabilities at fair value with changes in the consolidated statement of income, and they are recorded as part of the initial value of the instrument for assets and liabilities at amortized cost and available for sale securities. Transaction costs are incremental costs incurred to acquire assets or sell financial liabilities. These include fees, commissions and other concepts paid to agents, brokers, advisors and intermediaries, rates established by regulatory agencies and stock markets, as well as taxes and other rights.

Financial assets are derecognized from the consolidated statement of financial position when the payments derived from it were received, the rights to receive cash flows from the investments has expired or have been transferred and the Bank has transferred substantially all of the risks and benefits derived from their ownership.

The Bank writes off a financial liability when its contractual obligations have been paid or canceled or have expired.

After initial recognition, all financial assets and liabilities classified at amortized cost are measured based on the amortized cost method. Accrued interest is recorded in the interest income or expense account.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

BAC INTERNATIONAL BANK, INC., AND SUBSIDIARIES

(Panama, Republic of Panama)

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

Presentation of provision for PCE in the consolidated statement of position financial

The provision for PCE is presented in the consolidated statement of financial position of the following way:

- Financial assets measured at amortized cost: as a deduction from gross value in the books of assets;
- Loan commitments and financial guarantee contracts: generally, as a provision; and
- Debt instruments measured at VRCOUI: no provision is recognized for losses in the consolidated statement of financial position because the value. The carrying amount of these assets is their fair value. However, the provision for losses is disclosed and recognized in other comprehensive income.

(d) *Loans*

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Unearned interest and commissions are recognized as income during the life of the loan using the effective interest method.

(e) *Assets held for sale*

Assets acquired or awarded in the settlement of a loan are held for sale and are initially recognized at the lower of the balance of the loan and fair value less selling costs as of the award date, establishing a new cost basis. After the award, management conducts periodic assessments and assets are recognized at the lower of carrying value or fair value less costs to sell. Operating revenues and expenses originated and changes in the provision for the valuation of those assets are included in other operating expenses. Costs related to the maintenance of these properties are included as expenses when incurred.

(f) *Recognition of the most significant income and expenses*

Interest income and expenses

Interest income and expenses are recognized in the consolidated statement of income using the effective interest method. The effective interest rate is the discount rate that equals exactly the estimated cash flows receivable or payable throughout the expected life of the financial instrument or when appropriate (in a shorter period) with the net carrying value of the financial asset or liability. To calculate the effective interest rate, the Bank will estimate cash flows considering all of the contractual conditions of the financial instrument, but not considering future credit losses.

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

Fees and commissions

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

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

Other revenues from fees and commissions, including services fees, asset management, sales commissions, loan syndication, among others, are recognized when the corresponding services are provided.

Annual credit card memberships, net of direct card-origination incremental costs, are deferred and amortized by applying the straight-line method during a term of one year. Commissions charged to affiliated commercial establishments are determined based on the amount and type of purchase by the cardholder and are recognized when invoiced.

Other fees and commissions received mainly relating to fees for transactions and services are recognized as income when they are received.

Loyalty programs

The Bank offers loyalty programs that allow cardholders to earn points that can be redeemed for a variety of awards, including cash, trips and products at a discount. The points are recognized as a separately identifiable component of the initial transaction of credit card consumption income.

The estimated fair value of loyalty programs and those points redeemed are recognized in the commissions account in the consolidated statement of income. The Bank recognizes the points based on the earned points expected to be redeemed and the fair value of the point to be redeemed. The points to be redeemed are estimated based on the history of redemption, card product type, account transaction activity and past performance of the cards.

(g) *Cash and cash equivalents*

The Bank considers all highly liquid time deposits with maturities of 90 days or less as cash equivalents. Cash and cash equivalents consist of cash, demand deposits at banks, certain securities and deposits that generate interests, with original maturities of 90 days or less.

(h) *Property, furniture, equipment, and improvements*

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

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

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The Bank depreciates amounts with a charge to the period's profit or loss with a credit to the accumulated depreciation account. Land is not depreciated. The estimated useful lives of assets are:

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

<u>Category</u>	<u>Years/Base</u>
Buildings	20 - 50
Furniture and equipment	5 - 10
Vehicles	5
Computers	3 - 5
Leasehold improvements	3 - 10

Leasehold improvements are amortized during the lower of the estimated useful life or the term of the lease contract.

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

(i) Leases

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
 - the Bank has the right to operate the asset; or
 - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

i. As a lessee

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The Bank uses its incremental borrowing rate as the discount rate.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

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

The Bank presents right-of-use assets that do not meet the definition of investment property in “property, furniture, equipment and improvements” and lease liabilities in “lease liabilities” in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. As a lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of “other income”.

(j) Business combinations and goodwill

The Bank accounts for business combinations using the acquisition method when control is transferred. The consideration transferred in the acquisition is generally measured at fair value as are the identifiable net assets acquired. Any goodwill is subject to annual impairment tests. Any gain from purchase under very advantageous conditions is immediately recognized in profit or loss. Transaction costs are recorded as an expense when incurred, except if they are related to the issuance of debt or equity instruments.

Any contingent consideration is measured at fair value at the acquisition date. If an obligation to pay the contingent consideration that meets the definition of financial instruments is classified as equity, it should not be measured again, and its subsequent settlement should be accounted for within equity. If not, the other contingent consideration is remeasured at fair value on each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

Non-controlling interests are recorded for the proportional part of fair value of the identifiable assets and liabilities, unless stated otherwise. When the Bank has the corresponding option to settle the purchase of a non-controlling interest through the issue of its own ordinary shares, no financial liability is recorded.

During the measurement period (which is a term of one year from the date of the acquisition), the Bank can, retrospectively, adjust the amounts recognized on the date of acquisition to reflect new information obtained on events and circumstances that existed at that date.

For impairment tests purposes, goodwill acquired in a business combination is, on the acquisition date, assigned to each of the cash-generating unit groups (CGUs) expected to benefit from the combination. The CGUs to which goodwill is assigned will be disaggregated so impairment-testing level reflects the lowest level to which the goodwill is controlled for purposes of internal management.

An impairment loss will be recognized if the carrying amount of the CGU plus the goodwill allocated to it is higher than its recoverable amount, in which case the allocated goodwill will be reduced, and any remaining impairment would be applied to other CGUs' assets.

(k) Intangible assets

Intangible assets represent identifiable non-monetary assets and are acquired separately or through a business combination or are generated internally. The Bank's intangible assets are recognized at cost or at fair value and mainly comprised of relations with the depositors, relations with credit card clients, relations with affiliated businesses, technological programs and trade names.

Cash-generating units to which goodwill has been attributed are periodically assessed for impairment. This assessment is carried out at least annually, or whenever there is evidence of impairment.

The amortization expense of intangible assets is presented in the consolidated statement of income as depreciation and amortization expenses.

Trade names are non-amortizable intangible assets.

(l) Income tax

Tax expense for the year includes current and deferred taxes. Taxes are recognized in the consolidated statement of profit or loss, except to the extent that they refer to items recognized in the consolidated statement of income or directly in equity.

The current tax expense is calculated based on the laws enacted on the balance sheet date in the countries where the parent company and its subsidiaries operate, and where they generate positive taxable bases. The Bank's management periodically assesses the positions assumed in tax returns regarding situations in which applicable tax regulation is subject to interpretation, and when necessary, recognizes provisions for the amounts expected to be paid to the tax authorities.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

Deferred taxes are recognized for the temporary differences that arise between the tax bases of assets and liabilities and their carrying amounts in the condensed consolidated interim financial statements. However, deferred tax liabilities are not recorded if they arise from the initial recognition of goodwill; deferred taxes are not recognized if they arise from an asset or liability in a transaction, other than a business combination, that at the time of the transaction does not affect the accounting results nor taxable income or loss. Deferred tax is determined using tax rates (and laws) enacted on the balance sheet date and expected to be applicable when the corresponding deferred tax asset is realized, or the liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future tax benefits will be available with which to offset the temporary differences.

Deferred taxes are recognized over temporary differences that arise from investments in subsidiaries and associates, except for those deferred tax liabilities for which the Bank can control the date on which the temporary differences will be reversed, and it is likely that they will not be reversed in the near future. Deferred tax assets are recognized in deductible temporary differences that arise from investments in subsidiaries only to the extent that it is likely that the temporary differences will be reversed in the future, and there is a sufficient future taxable income against which the temporary differences can be used.

Deferred tax assets and deferred tax liabilities are set off only if there is a legally recognized right to offset the current tax assets with the current tax liabilities and when the deferred tax assets and deferred tax liabilities are derived from income tax corresponding to the same tax authority, and the authority allows the Bank to pay or received a single amount that settle the existing net balance.

(m) Employee benefits

The Bank is subject to the labor laws in each country where it operates. The Bank provisioned an employment benefit when such benefit is related to employee services already rendered, the employee has earned the right to receive the benefit, the benefit payment is probable, and the amount of such benefit can be estimated.

(n) Trust contracts and securities management

The assets under trust contracts and securities under custody are not considered part of the Bank, and accordingly, such securities and related revenue are not included in these condensed consolidated interim financial statements. It is the obligation of the Bank to manage and safeguard the assets under contract and independently of their equity.

The Bank charges a fee for the management of trust contracts and custody of securities, which is paid according to agreements between the parties. These fees are recognized as income according to the terms of the contracts either monthly, quarterly or annually on an accrual base.

(o) Fair value estimates

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

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

The different hierarchy levels have been defined as follows:

- Level 1 - Quoted prices in active markets without adjustments for identical assets or liabilities that the Bank can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in 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 prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active and other valuation techniques where significant data inputs are directly or indirectly observable in the market.
- Level 3 - Unobservable inputs for the asset or liability. This category includes all instruments where the valuation technique includes unobservable inputs and these have a significant effect on the fair value measurement. This category also includes instruments that are valued based on quoted prices for similar instruments for which we must make significant adjustments using unobservable inputs, assumptions or adjustments in which no observable or subjective data are used when there are differences between the instruments.

A market is considered active if quoted prices are readily and regularly available from an exchange, financial intermediaries, a sector institution, pricing service or regulatory agency, and those prices reflect actual market transactions with sufficient frequency and volume to provide pricing market information.

(p) Segment Reporting

An operating segment corresponds to the group of entities that make up the Banking operation in each of the countries in which the Bank operates. Each operating segment is engaged in business activities from which it may earn income and incur expenses, including income and expenses related to transactions with any of the other components of the Bank. The operating results of each segment are periodically reviewed by the Administration to make decisions about the resources to be assigned to the segment and evaluate its performance.

The results of the segments that are reported to the administration include elements that are directly attributable to each segment.

(q) Transactions between entities under common control

Transfers of assets between entities under common control, including transactions with intermediate holding companies, are initially recorded at book value of the Bank transferring the assets at the date of transfer. If the carrying amount of the assets and liabilities transferred differs from historical cost of the Parent Bank of entities under common control, then the Bank receiving the assets and liabilities will recognize them at the historical cost of the Parent Bank.

The Bank enters into transactions with related parties, which according to the internal policies of the Bank are carried out at market conditions.

Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

(r) New International Financial Reporting Standards ("IFRSs") not yet adopted.

A number of new standards and amendments to standards are effective for annual periods beginning January 1, 2021, and early application is permitted; however, the Bank has not early adopted the new and modified standards when preparing the condensed consolidated interim financial statements as of June 30, 2022.

The following new and amended standards are not expected to have a significant impact on the Bank's condensed consolidated Interim financial statements:

- Onerous contracts - Cost of Fulfilling a Contract (Amendments to IAS 37).
- COVID-19-Related Rent Concessions beyond June 30, 2021 (Amendments to IFRS 16).
- Annual Improvements to IFRS Standards 2018 – 2020.
- Property, Plant and equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS 2 Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).

(s) Reform of benchmark interest rates

In March 2021, the Financial Conduct Authority (FCA), as the regulator of ICE (the authorized administrator of LIBOR), announced that after December 31, 2021, LIBOR settings for US dollars for a week and two months will no longer be provided or will no longer be representative. The remaining US dollar settings will either cease to be provided or no longer be representative after June 30, 2023.

A fundamental overhaul of the world's major interest rate benchmarks is underway, replacing some Interbank Offered Rates (IBORs) with alternative near-risk-free rates (referred to as "IBORs" reform). The Bank has significant exposure to LIBOR on its financial instruments, which are being reformed as part of these market initiatives.

The main risks to which the Bank has been exposed as a result of the IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with corporate clients, updating of contractual terms in corporate and consumer clients, updating of systems that use IBOR curves and review of operational controls related to reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

The Bank established a multifunctional IBOR Committee to manage its transition to alternative reference rates. The objectives of the IBOR Committee include assessing whether financial assets and/or liabilities should be amended as a result of IBOR reform, and how to manage communication about IBOR reform with counterparties. The IBOR Committee reports to the Executive Committee on a regular basis and collaborates with other business functions as needed. Additionally, it provides regular reports to ALICO and the treasuries on the Bank's operations to support interest rate risk management and works closely with the Comprehensive Operational Risk Committee to identify the operational and regulatory risks arising from the reform of the IBOR.

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Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

For contracts indexed to an IBOR that expire after the expected cessation of the IBOR rate, the IBOR Committee has established policies to modify the contractual terms. These amendments include the addition of fallback clauses in the contracts that determine the applicable rate or calculation mechanism once the reference IBOR rate is not published or the replacement of the rate IBOR with an alternative reference rate.

The Bank has been applying a policy to manage that consumer loans, such as mortgages, personal loans, and vehicles, are modified in a uniform manner, and tailored products, such as corporate loans, are modified in bilateral negotiations with counterparties.

The Bank's Executive Committee approved a policy requiring that, beginning in the first half of 2021, all newly originated variable rate loans to clients incorporate fallback clauses for when an IBOR ceases to exist. The provisions of these clauses provide for a transition to the applicable alternative benchmark rate, which varies by jurisdiction.

The Bank monitors the progress of the transition from IBOR to new reference rates by reviewing the total amounts of contracts that have yet to transition to an alternative reference rate and the amount of such contracts that include an adequate fallback clause. The Bank considers that a contract has not yet transitioned to an alternative reference rate (and is known as an "unreformed contract") when the interest under the contract is indexed to a reference rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of IBOR.

As of June 30, 2022, the reform of the IBOR on the operations in which the Bank has exposure has not been completed. The following table shows the IBOR rates to which the Bank has exposure, the main reference rates to which these exposures have been or are being transferred, and the status of the transition:

<u>Currency</u>	<u>IBOR Pre-transition reference</u>	<u>Subsequent reference transition</u>	<u>June 30, 2022</u>	<u>December 31, 2021</u>
USD	USD LIBOR – 1 month	New York Prime Rate / TERM SOFR	In progress	In progress
USD	USD LIBOR – 3 months	New York Prime Rate / TERM SOFR	In progress	In progress
USD	USD LIBOR – 6 months	New York Prime Rate / TERM SOFR	In progress	In progress
USD	USD LIBOR – 12 months	New York Prime Rate / TERM SOFR	In progress	In progress

The Bank ceased to originate loan operations referenced to LIBOR rates in the fourth quarter of 2021. Also, it has begun the modification of financial asset contracts associated with the LIBOR rate and incorporated fallback clauses in some existing contracts. Likewise, it temporarily opted to originate loan operations based on the New York Prime Rate.

In the medium term, the Bank expects to originate loan operations referenced to the TERM SOFR, published by the Chicago Mercantile Exchange (CME). The Bank opted for this rate in light of the recommendation made to the market by the Alternative Reference Rates Committee, a technical entity made up of different market participants and regulators to lead this transition process. The Bank constantly monitors the TERM SOFR and estimates to migrate and/or originate loan operations with reference to said rate before June 2023.

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Notes to the Condensed Consolidated Interim Financial Statements

(3) Summary of Significant Accounting Policies, continued

The following tables show the amounts of unreformed financial assets and those with appropriate fallback clauses as of June 30, 2022 and December 31, 2021. The amounts of investment securities are shown at their book values and the amounts of loans are shown at their gross book values.

	June 30, 2022			December 31, 2021		
	Total value of indexed contracts	Total value of indexed contracts with maturity greater than June, 2023	Total value of contracts with fallback clauses	Total value of indexed contracts	Total value of indexed contracts with maturity greater than June, 2023	Total value of contracts with fallback clauses
Investments	<u>170,746,626</u>	<u>170,746,626</u>	<u>120,463,822</u>	<u>173,571,106</u>	<u>173,571,106</u>	<u>114,025,453</u>
Loans						
Corporate	726,256,677	707,385,907	299,232,064	1,486,000,886	1,314,691,629	452,534,089
Small company	49,002,306	46,760,699	5,707,473	68,338,065	62,518,145	6,688,792
Mortgage	1,267,041,351	1,265,313,301	362,371,103	1,364,296,336	1,361,596,360	373,438,507
Personal	119,896,867	118,802,305	27,994,082	142,974,830	140,339,365	31,334,444
Vehicles	<u>183,276,943</u>	<u>180,210,908</u>	<u>100,971,632</u>	<u>231,362,783</u>	<u>223,930,052</u>	<u>121,129,661</u>
Total loans	<u>2,345,474,143</u>	<u>2,318,473,120</u>	<u>796,276,354</u>	<u>3,292,972,900</u>	<u>3,103,075,551</u>	<u>985,125,493</u>

The following tables show the amounts of unreformed financial liabilities and those with appropriate fallback clauses as of June 30, 2022 and December 31, 2021. The amounts are shown at their book values.

	June 30, 2022			December 31, 2021		
	Total value of indexed contracts	Total value of indexed contracts with maturity greater than June, 2023	Total value of contracts with fallback clauses	Total value of indexed contracts	Total value of indexed contracts with maturity greater than June, 2023	Total value of contracts with fallback clauses
Deposits from customers	<u>0</u>	<u>0</u>	<u>0</u>	<u>30,000,000</u>	<u>0</u>	<u>0</u>
Financial obligations	<u>435,502,721</u>	<u>365,546,814</u>	<u>366,218,730</u>	<u>723,191,370</u>	<u>447,728,398</u>	<u>383,728,876</u>

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Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management

Risk management is a fundamental part of the Bank. It has an infrastructure to comprehensively manage risks, in order to ensure a responsible and sustainable growth in time, to maintain the confidence of its stakeholders, and to assure with reasonable certainty the fulfillment of its short, medium and long-term goals, through a balance between meeting objectives and taking risks, in line with the corporate strategy.

Classification of financial assets

See the classification under IFRS 9 in accounting policies in Note 3 (c).

The following table provides a reconciliation between line items in the consolidated statement of financial position and categories of financial instruments.

	Designated FVPL – debt instruments	Designated FVPL - equity instruments	FVOCI - debt instruments	FVOCI - equity instruments	AC	Total
June 30, 2022						
Cash, cash equivalents and deposits in banks	0	0	0	0	4,829,414,185	4,829,414,185
Investments at fair value	28,749,755	12,143,330	3,708,544,265	3,093,167	0	3,752,530,517
Loans at amortized costs	0	0	0	0	18,903,619,011	18,903,619,011
Other accounts receivable	0	0	0	0	195,293,167	195,293,167
Total financial assets	28,749,755	12,143,330	3,708,544,265	3,093,167	23,928,326,363	27,680,856,880
December 31, 2021						
Cash, cash equivalents and deposits in banks	0	0	0	0	5,214,338,632	5,214,338,632
Investments at fair value	35,623,997	12,147,983	3,462,810,406	3,084,768	0	3,513,667,154
Loans at amortized costs	0	0	0	0	18,018,549,655	18,018,549,655
Other accounts receivable	0	0	0	0	253,930,146	253,930,146
Total financial assets	35,623,997	12,147,983	3,462,810,406	3,084,768	23,486,818,433	27,000,485,587

Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

As of June 30, 2022 and December 31, 2021, all of the financial liabilities held by the Bank are classified at amortized cost.

The Bank is exposed to the following risks from financial instruments:

- Credit risk,
- Liquidity risk,
- Market risk and
- Operational risk.

For the management of these risk, an organizational framework based on current regulations in the region on risk management has been defined. This framework includes policies, procedures and a human and technical infrastructure to identify, analyze and assess risks, as well as to set adequate limits and controls, monitor risk management and comply with defined limits. These policies and risk management systems are periodically reviewed, updated and reported to the respective committees, to ensure they reflect changes in market conditions, products and services offered.

Through its management procedures and standards, the Bank aims to develop a disciplined and constructive control environment where all employees understand their roles and duties.

The periodic oversight and management of risks is conducted through the following corporate governance bodies, established both regionally and in the countries where the Bank operates: Committee of Comprehensive Risk Management, Assets and Liabilities Committee (ALICO), Compliance Committee, Credit Committee, and Audit Committee.

(a) Credit Risk

This is the risk of financial loss faced by the Bank when a client or counterparty fails to meet their contractual obligations, and is mainly originated from deposits, investments in securities and loans receivable.

To mitigate credit risk, risk management policies establish processes and controls to follow for the approval of loans or credit facilities. The Bank structures acceptable credit risk levels by setting limits on the amount of risk that is assumed in relation to one borrower, or group of borrowers, and geographic segment. These credits are constantly controlled and subject to periodic review.

Exposure to credit risk is managed through a periodic analysis of the borrowers' or potential borrowers' capacity to pay principal and interest. Exposure to credit risk is also mitigated in part through collateral, corporate and personal guarantees.

Credit is managed through policies that have been clearly defined by the Board of Directors and are reviewed and modified periodically based on changes and expectations in the market where the Bank operates, regulations and other factors considered while preparing these policies.

Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

The Bank uses a series of credit reports to assess its portfolio's performance, provision requirements and specially to anticipate events that could affect its debtor's condition in the future.

The Bank has a regional guideline on investments that defines the general profile for the investment portfolio and establishes two large maximum levels to control the investments' exposure: a limit on country risk and on issuer risk. The country risk limits are set based on an internal qualification scale and are measured as percentages of the Bank's equity or as absolute amounts. The guideline includes approval schemes and attributions for new limits or increases on existing limits.

Compliance with this guideline is monitored on a daily basis through the Investment Portfolio Management and Control Module (MACCI from Spanish), an internal tool to document the entire investment process, including new approvals, limit increases or decreases, purchases and sales, and also to control exposures by issuer and the use of assigned quotas.

The Board of Directors has delegated the responsibility of managing credit risk to the Credit Committee and Assets and Liabilities Committee (ALICO); both periodically monitor the financial condition of the respective debtors and issuers that represent a credit risk for The Bank.

Information on the portfolio's quality

Quality of the portfolio of bank deposits and securities under resale agreements

The Bank maintains deposits in banks for \$4,177,120,940 as of June, 2022 (December 31, \$4,368,390,784). Deposits are maintained at central banks and other financial institutions, most of which have A+ and CCC+ risk ratings, (December 31, 2021: A+ and CC risk ratings) based on Standard & Poor's, Moody's, and/or Fitch Ratings. Of total deposits, excluding deposits in central banks, as of June 30, 2022, approximately \$6 million did not have a risk rating (December 31, 2021: \$10 million).

Securities under resale agreements are mostly classified based on the ratings assigned by Standard & Poor's, Moody's, and/or Fitch Ratings.

As of June 30, 2022, all securities under resale agreements and bank deposits are up to date on the payment of principal and interest.

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Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

Quality of the investments at fair value

The Bank segregates the investment portfolio into investments at FVPL and investments at FVOCI. As of June 30, 2022, investments amounted to \$3,752,530,517 (December 2021: \$3,513,667,154).

- Investments at FVPL

The credit quality of investments is monitored according to the international risk rating of the issuer provided by Standard & Poor's, Moody's, and/or Fitch Ratings

The following table summarizes investments at FVPL categories:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Governments and agencies		
B	28,248,466	35,124,150
Total governments and agencies	<u>28,248,466</u>	<u>35,124,150</u>
Total investments at FVPL	<u>28,248,466</u>	<u>35,124,150</u>

- Investments at FVOCI

The following table summarizes the investments at FVOCI categories:

	<u>June 30, 2022</u>			<u>December 31, 2021</u>		
	<u>12 months ECL</u>	<u>Lifetime ECL - without impairment</u>	<u>Total investments at FVOCI</u>	<u>12 months ECL</u>	<u>Lifetime ECL - without impairment</u>	<u>Total investments at FVOCI</u>
Governments and agencies						
AAA	664	0	664	704	0	704
AA+	62,775,756	0	62,775,756	9,716,886	0	9,716,886
BBB	242,906,917	0	242,906,917	217,831,649	0	217,831,649
BB+ to CCC+	<u>2,789,495,656</u>	<u>0</u>	<u>2,789,495,656</u>	<u>2,655,517,260</u>	<u>0</u>	<u>2,655,517,260</u>
Total governments and agencies	<u>3,095,178,993</u>	<u>0</u>	<u>3,095,178,993</u>	<u>2,883,066,499</u>	<u>0</u>	<u>2,883,066,499</u>
Corporates						
AA	2,014,089	0	2,014,089	2,023,236	0	2,023,236
A	12,072,783	0	12,072,783	10,550,267	0	10,550,267
A-	171,151,221	0	171,151,221	112,181,802	0	112,181,802
BBB+	39,728,785	0	39,728,785	95,968,385	0	95,968,385
BBB	31,238,841	0	31,238,841	29,116,600	0	29,116,600
BBB-	55,195,975	0	55,195,975	61,881,062	0	61,881,062
BB+ to CCC+	<u>301,963,578</u>	<u>0</u>	<u>301,963,578</u>	<u>268,022,555</u>	<u>0</u>	<u>268,022,555</u>
Total corporates	<u>613,365,272</u>	<u>0</u>	<u>613,365,272</u>	<u>579,743,907</u>	<u>0</u>	<u>579,743,907</u>
Total	<u>3,708,544,265</u>	<u>0</u>	<u>3,708,544,265</u>	<u>3,462,810,406</u>	<u>0</u>	<u>3,462,810,406</u>
Allowance for ECL	<u>23,224,586</u>	<u>0</u>	<u>23,224,586</u>	<u>26,751,693</u>	<u>0</u>	<u>26,751,693</u>

As of June 30, 2022, and December 31, 2021, investments at FVOCI are current.

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Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

Quality of the loans portfolio

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

The following table presents the loans portfolio and the debts commitments and guarantee according to its risk category, in accordance with the grading used for each stated term:

June 30, 2022	Loans			Total
	12 months ECL	Lifetime ECL - credit unimpaired	Lifetime ECL - credit impaired	
Corporate				
Satisfactory	7,636,150,138	7,227,153	8,834	7,643,386,125
Special mention	0	402,795,510	0	402,795,510
Sub-standard	0	0	195,281,748	195,281,748
Doubtful	0	0	15,869,203	15,869,203
Loss	0	0	40,327,176	40,327,176
Gross amount	<u>7,636,150,138</u>	<u>410,022,663</u>	<u>251,486,961</u>	<u>8,297,659,762</u>
Allowance for ECL	<u>(42,331,383)</u>	<u>(48,139,739)</u>	<u>(93,562,520)</u>	<u>(184,033,642)</u>
Net amount	<u>7,593,818,755</u>	<u>361,882,924</u>	<u>157,924,441</u>	<u>8,113,626,120</u>
Small company				
Satisfactory	652,933,741	99,714,385	0	752,648,126
Special mention	156,690	46,144,407	0	46,301,097
Sub-standard	0	0	5,750,650	5,750,650
Doubtful	0	0	1,304,314	1,304,314
Loss	0	0	4,348,965	4,348,965
Gross amount	<u>653,090,431</u>	<u>145,858,792</u>	<u>11,403,929</u>	<u>810,353,152</u>
Allowance for ECL	<u>(6,023,428)</u>	<u>(6,780,685)</u>	<u>(2,274,951)</u>	<u>(15,079,064)</u>
Net amount	<u>647,067,003</u>	<u>139,078,107</u>	<u>9,128,978</u>	<u>795,274,088</u>
Mortgage				
Satisfactory	2,851,813,019	252,144,734	0	3,103,957,753
Special mention	4,238,501	402,833,317	0	407,071,818
Sub-standard	0	0	104,087,727	104,087,727
Doubtful	0	0	14,191,179	14,191,179
Loss	0	0	40,351,299	40,351,299
Gross amount	<u>2,856,051,520</u>	<u>654,978,051</u>	<u>158,630,205</u>	<u>3,669,659,776</u>
Allowance for ECL	<u>(14,225,600)</u>	<u>(42,232,105)</u>	<u>(26,869,628)</u>	<u>(83,327,333)</u>
Net amount	<u>2,841,825,920</u>	<u>612,745,946</u>	<u>131,760,577</u>	<u>3,586,332,443</u>
Personal banking				
Satisfactory	1,787,088,721	122,248,819	1,869,060	1,911,206,600
Special mention	3,380,161	83,672,210	492,295	87,544,666
Sub-standard	0	0	37,355,579	37,355,579
Doubtful	0	0	18,678,807	18,678,807
Loss	0	0	6,871,388	6,871,388
Gross amount	<u>1,790,468,882</u>	<u>205,921,029</u>	<u>65,267,129</u>	<u>2,061,657,040</u>
Allowance for ECL	<u>(30,037,754)</u>	<u>(28,080,537)</u>	<u>(26,284,533)</u>	<u>(84,402,824)</u>
Net amount	<u>1,760,431,128</u>	<u>177,840,492</u>	<u>38,982,596</u>	<u>1,977,254,216</u>
Vehicles				
Satisfactory	845,067,775	95,533,289	0	940,601,064
Special mention	1,023,427	108,699,709	0	109,723,136
Sub-standard	0	0	7,793,725	7,793,725
Doubtful	0	0	3,879,807	3,879,807
Loss	0	0	9,553	9,553
Gross amount	<u>846,091,202</u>	<u>204,232,998</u>	<u>11,683,085</u>	<u>1,062,007,285</u>
Allowance for ECL	<u>(7,074,725)</u>	<u>(10,842,475)</u>	<u>(3,615,179)</u>	<u>(21,532,379)</u>
Net amount	<u>839,016,477</u>	<u>193,390,523</u>	<u>8,067,906</u>	<u>1,040,474,906</u>
Credit card				
Satisfactory	2,994,200,857	170,005,070	2,976,282	3,167,182,209
Special mention	6,637,319	167,202,318	181,375,580	355,215,217
Sub-standard	0	0	16,570,494	16,570,494
Doubtful	0	0	76,996,048	76,996,048
Loss	0	0	73,526,130	73,526,130
Gross amount	<u>3,000,838,176</u>	<u>337,207,388</u>	<u>351,444,534</u>	<u>3,689,490,098</u>
Allowance for ECL	<u>(77,980,044)</u>	<u>(92,342,216)</u>	<u>(128,510,600)</u>	<u>(298,832,860)</u>
Net amount	<u>2,922,858,132</u>	<u>244,865,172</u>	<u>222,933,934</u>	<u>3,390,657,238</u>
Net carrying amount of loans at amortized cost	<u>16,605,017,415</u>	<u>1,729,803,164</u>	<u>568,798,432</u>	<u>18,903,619,011</u>

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(4) Risk Management, continued

<u>December 31, 2021</u>	<u>Loans</u>			<u>Total</u>
	<u>12 months ECL</u>	<u>Lifetime ECL - credit unimpaired</u>	<u>Lifetime ECL - credit impaired</u>	
Corporate				
Satisfactory	6,968,521,093	16,321,566	8,364	6,984,851,023
Special mention	0	477,422,428	0	477,422,428
Sub-standard	0	0	162,322,866	162,322,866
Doubtful	0	0	11,230,194	11,230,194
Loss	0	0	45,148,711	45,148,711
Gross amount	<u>6,968,521,093</u>	<u>493,743,994</u>	<u>218,710,135</u>	<u>7,680,975,222</u>
Allowance for ECL	<u>(36,557,004)</u>	<u>(52,403,614)</u>	<u>(63,471,397)</u>	<u>(152,432,015)</u>
Net amount	<u>6,931,964,089</u>	<u>441,340,380</u>	<u>155,238,738</u>	<u>7,528,543,207</u>
Small company				
Satisfactory	558,289,566	170,775,327	0	729,064,893
Special mention	1,499,603	52,901,352	0	54,400,955
Sub-standard	0	0	4,800,377	4,800,377
Doubtful	0	0	3,312,777	3,312,777
Loss	0	0	4,432,539	4,432,539
Gross amount	<u>559,789,169</u>	<u>223,676,679</u>	<u>12,545,693</u>	<u>796,011,541</u>
Allowance for ECL	<u>(7,039,990)</u>	<u>(9,718,846)</u>	<u>(3,128,906)</u>	<u>(19,887,742)</u>
Net amount	<u>552,749,179</u>	<u>213,957,833</u>	<u>9,416,787</u>	<u>776,123,799</u>
Mortgage				
Satisfactory	2,681,069,964	415,173,300	0	3,096,243,264
Special mention	8,306,680	357,748,882	0	366,055,562
Sub-standard	0	0	94,936,930	94,936,930
Doubtful	0	0	24,466,979	24,466,979
Loss	0	0	45,095,299	45,095,299
Gross amount	<u>2,689,376,644</u>	<u>772,922,182</u>	<u>164,499,208</u>	<u>3,626,798,034</u>
Allowance for ECL	<u>(11,984,340)</u>	<u>(43,061,192)</u>	<u>(29,329,494)</u>	<u>(84,375,026)</u>
Net amount	<u>2,677,392,304</u>	<u>729,860,990</u>	<u>135,169,714</u>	<u>3,542,423,008</u>
Personal banking				
Satisfactory	1,697,622,022	169,092,033	2,320,517	1,869,034,572
Special mention	1,752,262	89,615,121	258,050	91,625,433
Sub-standard	0	0	41,376,321	41,376,321
Doubtful	0	0	14,740,061	14,740,061
Loss	0	0	8,289,512	8,289,512
Gross amount	<u>1,699,374,284</u>	<u>258,707,154</u>	<u>66,984,461</u>	<u>2,025,065,899</u>
Allowance for ECL	<u>(23,894,953)</u>	<u>(34,119,775)</u>	<u>(24,862,334)</u>	<u>(82,877,062)</u>
Net amount	<u>1,675,479,331</u>	<u>224,587,379</u>	<u>42,122,127</u>	<u>1,942,188,837</u>
Vehicles				
Satisfactory	834,941,807	119,512,884	0	954,454,691
Special mention	3,194,506	66,884,012	0	70,078,518
Sub-standard	0	0	9,691,392	9,691,392
Doubtful	0	0	3,779,953	3,779,953
Loss	0	0	19,082	19,082
Gross amount	<u>838,136,313</u>	<u>186,396,896</u>	<u>13,490,427</u>	<u>1,038,023,636</u>
Allowance for ECL	<u>(6,469,058)</u>	<u>(11,268,524)</u>	<u>(4,585,541)</u>	<u>(22,323,123)</u>
Net amount	<u>831,667,255</u>	<u>175,128,372</u>	<u>8,904,886</u>	<u>1,015,700,513</u>
Credit card				
Satisfactory	2,777,095,880	239,316,633	3,381,341	3,019,793,854
Special mention	6,292,344	176,963,337	163,647,924	346,903,605
Sub-standard	0	0	13,766,969	13,766,969
Doubtful	249,677	36,103,289	11,951,690	48,304,656
Loss	19	0	70,005,270	70,005,289
Gross amount	<u>2,783,637,920</u>	<u>452,383,259</u>	<u>262,753,194</u>	<u>3,498,774,373</u>
Allowance for ECL	<u>(75,649,507)</u>	<u>(97,840,177)</u>	<u>(111,714,398)</u>	<u>(285,204,082)</u>
Net amount	<u>2,707,988,413</u>	<u>354,543,082</u>	<u>151,038,796</u>	<u>3,213,570,291</u>
Net carrying amount of loans at amortized cost	<u>15,377,240,571</u>	<u>2,139,418,036</u>	<u>501,891,048</u>	<u>18,018,549,655</u>

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(4) Risk Management, continued

The following table presents the loans portfolio and the debts commitments and guarantee according to its risk category, in accordance with the classification used for each year indicated:

	Credit commitments and guarantees			Total
	12 months ECL	Lifetime ECL - credit unimpaired	Lifetime ECL - credit impaired	
June 30, 2022				
Corporate				
Satisfactory	693,174,289	0	0	693,174,289
Special mention	0	6,028,217	0	6,028,217
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	163,682	163,682
Gross amount	693,174,289	6,028,217	163,682	699,366,188
Allowance for ECL	(269,159)	(1,077,882)	(163,682)	(1,510,723)
Net amount	692,905,130	4,950,335	0	697,855,465
Small company				
Satisfactory	3,471,167	0	0	3,471,167
Special mention	0	0	0	0
Sub-standard	0	0	4,528	4,528
Doubtful	0	0	0	0
Loss	0	0	0	0
Gross amount	3,471,167	0	4,528	3,475,695
Allowance for ECL	(734)	0	(1)	(735)
Net amount	3,470,433	0	4,527	3,474,960
Mortgage				
Satisfactory	50,454,291	0	0	50,454,291
Special mention	0	0	0	0
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	0	0
Gross amount	50,454,291	0	0	50,454,291
Allowance for ECL	(10,091)	0	0	(10,091)
Net amount	50,444,200	0	0	50,444,200
Net carrying amount, net of reserve	746,819,763	4,950,335	4,527	751,774,625

	Credit commitments and guarantees			Total
	12 months ECL	Lifetime ECL - credit unimpaired	Lifetime ECL - credit impaired	
December 31, 2021				
Corporate				
Satisfactory	670,936,653	0	0	670,936,653
Special mention	0	7,287,433	1,039,834	8,327,267
Sub-standard	0	0	59,967	59,967
Doubtful	0	0	177,141	177,141
Loss	0	0	3,429	3,429
Gross amount	670,936,653	7,287,433	1,280,371	679,504,457
Allowance for ECL	(193,692)	(51,485)	(1,111,261)	(1,356,438)
Net amount	670,742,961	7,235,948	169,110	678,148,019
Small company				
Satisfactory	4,229,515	0	0	4,229,515
Special mention	0	0	0	0
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	0	0
Gross amount	4,229,515	0	0	4,229,515
Allowance for ECL	(724)	0	0	(724)
Net amount	4,228,791	0	0	4,228,791
Mortgage				
Satisfactory	48,080,289	0	0	48,080,289
Special mention	0	0	0	0
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	0	0
Gross amount	48,080,289	0	0	48,080,289
Allowance for ECL	(4,770)	0	0	(4,770)
Net amount	48,075,519	0	0	48,075,519
Net carrying amount, net of reserve	723,047,271	7,235,948	169,110	730,452,329

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(4) Risk Management, continued

Guarantees and other improvements to reduce credit risk and its financial effect

The Bank maintains guarantees and other improvements to reduce credit risk to ensure the payment of their financial assets exposed to credit risk. The types of mortgage guarantees include residential and commercial, buildings and land. The types of collateral include private vehicles, commercial use, leasing, machinery and other equipment.

The table below shows the main types of guarantees taken with respect to different types of financial assets.

	June 30, 2022					
	Mortgage	Pledge	Certificates of deposit	Investments in securities	Unsecured	Total
Securities under resale agreements	0	0	0	28,256,102	0	28,256,102
Investments in securities at fair value	0	0	0	0	3,737,294,020	3,737,294,020
Loans						
Corporate						
Corporate	3,645,129,538	568,738,399	207,733,986	0	3,683,351,028	8,104,952,951
Corporate leases, net	0	190,443,040	2,263,771	0	0	192,706,811
Total corporate	3,645,129,538	759,181,439	209,997,757	0	3,683,351,028	8,297,659,762
Personal Banking and Small company						
Small company						
Small company						
Small company leases, net	455,776,186	45,661,841	23,298,571	0	195,414,825	720,151,423
Total Small company	0	89,874,280	327,449	0	0	90,201,729
	455,776,186	135,536,121	23,626,020	0	195,414,825	810,353,152
Personal Banking						
Mortgage	3,669,659,776	0	0	0	0	3,669,659,776
Personal	362,232,985	118,663	27,364,897	0	1,671,940,495	2,061,657,040
Vehicles	0	973,516,713	0	0	0	973,516,713
Personal leases, net of interest	0	88,490,572	0	0	0	88,490,572
Credit cards	0	0	0	0	3,689,490,098	3,689,490,098
Total Personal Banking	4,031,892,761	1,062,125,948	27,364,897	0	5,361,430,593	10,482,814,199
Total Personal Banking and Small company	4,487,668,947	1,197,662,069	50,990,917	0	5,556,845,418	11,293,167,351
Allowance for ECL	(201,752,315)	(52,449,380)	(2,213,483)	0	(430,792,924)	(687,208,102)
Total loans	7,931,046,170	1,904,394,128	258,775,191	0	8,809,403,522	18,903,619,011
Commitments and guarantees, net	58,651,815	3,381,757	19,129,669	0	670,611,384	751,774,625

	December 31, 2021					
	Mortgage	Pledge	Certificates of deposit	Investments in securities	Unsecured	Total
Securities under resale agreements	0	0	0	104,223,985	0	104,223,985
Investments in securities at fair value	0	0	0	0	3,498,434,403	3,498,434,403
Loans						
Corporate						
Corporate	3,545,525,687	555,669,677	174,347,925	0	3,239,263,955	7,514,807,244
Corporate leases, net	0	160,330,262	5,837,716	0	0	166,167,978
Total corporate	3,545,525,687	715,999,939	180,185,641	0	3,239,263,955	7,680,975,222
Personal Banking and Small company						
Small company						
Small company	456,766,629	50,826,561	23,849,091	0	179,333,066	710,775,347
Small company leases, net	0	84,824,782	411,412	0	0	85,236,194
Total Small company	456,766,629	135,651,343	24,260,503	0	179,333,066	796,011,541
Personal Banking						
Mortgage	3,626,798,034	0	0	0	0	3,626,798,034
Personal	370,042,320	187,946	26,262,812	0	1,628,572,821	2,025,065,899
Vehicles	0	953,481,090	0	0	0	953,481,090
Personal leases, net of interest	0	84,542,546	0	0	0	84,542,546
Credit cards	0	0	0	0	3,498,774,373	3,498,774,373
Total Personal Banking	3,996,840,354	1,038,211,582	26,262,812	0	5,127,347,194	10,188,661,942
Total Personal Banking and Small company	4,453,606,983	1,173,862,925	50,523,315	0	5,306,680,260	10,984,673,483
Allowance for ECL	(203,877,886)	(47,272,770)	(2,018,171)	0	(393,930,223)	(647,099,050)
Total loans	7,795,254,784	1,842,590,094	228,690,785	0	8,152,013,992	18,018,549,655
Commitments and guarantees, net	56,032,485	2,588,400	14,903,820	0	656,927,624	730,452,329

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(4) Risk Management, continued

The table below shows the portfolio and identifiable value of collateral (primarily commercial properties) backing the loan. For each loan, the corresponding value of its guarantees is capped by the guaranteed nominal amount:

	June 30, 2022		December 31, 2021	
	Loans	Covered amount	Loans	Covered amount
Corporates				
Stage 1 y 2	3,712,794,160	3,604,590,296	3,555,849,372	3,528,360,224
Stage 3	<u>189,936,651</u>	<u>189,000,956</u>	<u>179,902,682</u>	<u>179,463,822</u>
Total	<u>3,902,730,811</u>	<u>3,793,591,252</u>	<u>3,735,752,054</u>	<u>3,707,824,046</u>

The following are the non-financial assets that the Bank seized as collaterals to secure collection during the period.

	June 30, 2022	December 31, 2021
Properties	10,647,736	17,349,020
Furniture and equipment	1,879,506	952,289
Others	0	<u>636,585</u>
Total	<u>12,527,242</u>	<u>18,937,894</u>

The Bank's policy is to perform the sale of these assets to cover the balances due. Using non-financial assets for its operations is not a Bank policy.

Residential mortgage loans

The following table shows the index of loans from the mortgage portfolio to the value of collaterals (LTV). LTV is calculated as a percentage of the gross amount of the loan in relation to the value of collaterals. The gross amount of the loan excludes any loss impairment. The value of collaterals for mortgages is based on the original value of the guarantee as of the date of disbursement. The corresponding values are updated based on requirements of local regulators, new disbursements with the same guarantee, credit restructuring or judicial processes that involve execution.

LTV Ratio	June 30, 2022		December 31, 2021	
	Loans	Credit and guarantee commitments	Loans	Credit and guarantee commitments
Less than 50%	823,085,898	3,464,242	791,583,822	3,086,688
51-70%	1,323,173,598	7,558,111	1,307,056,100	8,752,437
71-80%	1,134,769,556	17,219,458	1,159,123,003	15,668,547
81-90%	313,790,943	15,981,560	295,035,923	16,874,359
91-100%	61,281,038	6,100,811	59,961,511	3,698,258
More than 100%	<u>13,558,743</u>	<u>130,109</u>	<u>14,037,675</u>	<u>0</u>
Total	<u>3,669,659,776</u>	<u>50,454,291</u>	<u>3,626,798,034</u>	<u>48,080,289</u>

Impaired Loans

LTV Ratio	June 30, 2022	December 31, 2021
Less than 50%	21,721,245	21,351,908
51-70%	46,181,195	48,028,275
71-80%	50,726,070	55,050,290
81-90%	30,311,070	30,669,906
91-100%	7,198,121	6,403,341
More than 100%	<u>2,492,504</u>	<u>2,995,488</u>
Total	<u>158,630,205</u>	<u>164,499,208</u>

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(4) Risk Management, continued

ECL allowance

Projection of future conditions

The upside, central and downside scenarios are described below, along with the main risks taken into consideration to define them.

External sector:

External risk	Upside	Central	Downside
Increase in interest rates:	Inflationary pressures gradually decrease in accordance with less tension due to the armed conflict, which reestablishes the price levels of raw materials. With which the adjustment in rates would not be so aggressive.	The FED makes a gradual increase in interest rates starting in the second half of 2022, resulting in tighter international financial conditions.	Inflation remains persistent and monetary authorities must accelerate their monetary policy adjustment, with more than three increases in Fed rates throughout 2022.
War in Ukraine: War conflict between Russia and Ukraine for political control of the southern regions.	First effective negotiations that culminate in the progressive cessation of Russian offensives in Ukraine.	Prolongation of the conflict for several months, continuing with the uncertainty about the prices of raw materials.	That the conflict increases in intensity or that additional countries become involved. It would imply that the consequences of the current conflict are aggravated.

The scenarios for each country are detailed below:

Scenario	Scenarios synthesis	Upside	Central	Downside
Guatemala	It remains among the BAC countries with the highest growth prospects. The inflation expectation increased, in line with the expectation of higher imported inflation, which is expected to remain high during the next year.	The expectation remains that global growth will remain favorable for Guatemala, with the strength of the external sector, high prices for exports and high income from remittances, which proved to be resilient during the pandemic.	Guatemala's expected growth is expected to decline as global economic activity cools and international interest rates rise.	The outlook remains pessimistic, with the increase in international rates. Compared to the previous quarter, rates are seen as more likely to rise rapidly, considering the persistence that US inflation has shown.
Honduras	An increase in rates is expected compared to the first quarter session, with an increase in international rates and high inflation.	Income from remittances and high demand for exports have maintained external strength and Monetary Reserves remain above the adequate level recommended by the IMF and improve the possibility.	A downward inflation is expected, however, it is currently at high levels in most consumption categories, it is expected that this scenario will continue, after the adjustment of the country's monetary policy rate.	Financial conditions are expected to be tighter than in the quarter, with higher persistence of inflation. The fiscal situation was changed to pessimistic with the perspective of the government announcements of the fiscal situation and the perspective of the markets of higher risk premium reflected in the EMBI (Emerging Markets Bonds Index).

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(4) Risk Management, continued

Scenario	Scenarios synthesis	Upside	Central	Downside
El Salvador	The growth outlook was lowered, considering the downward trend in growth forecast by the benchmark references towards 2023.	It remains an optimistic outlook, however, lower U.S. growth is expected than the previous quarter. It also contemplates the possibility of deterioration of government relations with the United States government, which deteriorates financial and commercial relations.	The inflation outlook was increased, mainly taking into account the current level of high inflation (6.55%-Apr'22); it is expected to trend downward gradually, with the prospect that commodity prices would remain high next year.	Rates are considered more likely to rise rapidly than the previous quarter, with inflation lingering in the United States. For El Salvador, the impact would be very high, as it is a dollarized and highly indebted country.
Nicaragua	In the face of high inflation, financial system rates are expected to rise. The NCB increased its monetary rate from 3.5% to 4.0%. The exchange rate is expected to remain stable in its policy of mini-devaluations.	Nicaragua is expected to see limited benefits from an improvement in the global economic growth outlook, due to its tendency to move away politically from important trading partners such as the United States and OAS countries.	The International Monetary Reserves have remained stable above the 3 months of imports recommended by the IMF, giving it greater resilience to defend the exchange rate policy.	Nicaragua's international financial conditions could deteriorate due to further increases in international interest rates or international sanctions or isolation, resulting in fewer available sources of financing.
Costa Rica	Inflation rose rapidly and exceeded the upper limit of the central bank's target range. The inflation outlook was increased, which remains above the BCCR target, however, it gradually decreases during the year. Interest rates were modified so that they contemplate upward variation, in line with the expectation of normalization of rates at the international level and with the recent increases in the monetary policy rate of the BCCR.	In the context of the war between Russia and Ukraine, external demand is expected to weaken and BAC countries are expected to be less favored in terms of exports and tourist income, the external impact is modified from very high to high. Having passed the electoral period improves the political and social perspective, by overcoming the risk of tensions during the period.	Growth prospects were lowered, in line with the lower expectation of global growth towards 2023 and the growth forecasts for that year (IMF: 3.1%).	This scenario increased the probability to very likely, in line with the other countries. The impact remains in the middle category; on the one hand, the government remains with high levels of debt, on the other hand, it has managed to improve confidence in the markets, which can be seen in a lower EMBI.
Panama	GDP growth is expected to be high, although lower than the previous quarter, still close to 5% around its historical average, and approximate to external references (IMF indicates 5% in 2023).	Panama maintains an optimistic outlook in the social political sphere, with a high-income population and political stability to date. There is an optimistic fiscal outlook, after having a rapid recovery in economic growth and government revenue. Fitch improved Panama's outlook from negative to stable for this reason.	Inflation in Panama is expected to be the lowest among Central American countries. It is currently highly concentrated in the transport sector, via imported inflation with the highest fuel price. The forecast remains close to the external forecasts of the EIU (2022: 4.4% and 2023: 4.3%).	The outlook remains pessimistic with the possibility of further rate increases to face increases in inflation expectations. Given the persistence of this, it is considered that the probability of this scenario manifesting itself increased. Panama starts from a favorable position, with low risk premium, the best sovereign risk rating among the BAC countries, with a recent improvement in the outlook, therefore, the impact was determined as low.

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(4) Risk Management, continued

The scenario probability weightings applied in measuring ECL in each of the countries where the Bank operates, are as follows:

June 30, 2022						
Scenario probability weighting	Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
Upside	35%	15%	5%	10%	20%	25%
Central	55%	65%	50%	65%	70%	65%
Downside	10%	20%	45%	25%	10%	10%

December 31, 2021						
Scenario probability weighting	Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
Upside	35%	25%	10%	20%	20%	25%
Central	55%	60%	60%	55%	65%	60%
Downside	10%	15%	30%	25%	15%	15%

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios, advised by at least one external economist.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk for loans' portfolios are: Monthly Economic Activity Index, Consumer Price Index, Exchange Rate, Local Currency Interest Rate and Dollars Interest Rate.

The Bank estimates each key driver for credit risk over the active forecast period of one year.

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(4) Risk Management, continued

The table below lists the macroeconomic assumptions used in the base, upside and downside scenarios over the forecast period.

		June 30, 2022					
		Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
		%	%	%	%	%	%
Monthly Economic Activity Index	Upside	3.15	5.97	2.56	4.35	5.61	7.23
	Central	2.71	5.68	2.11	3.42	5.37	6.68
	Downside	2.39	4.83	1.68	2.98	4.91	6.07
Consumer Price Index	Upside	2.94	6.60	5.39	7.60	4.14	2.72
	Central	3.72	6.78	5.72	8.28	5.24	3.31
	Downside	4.93	6.89	5.96	8.44	6.96	3.51
Exchange Rate	Upside	(0.53)	0.89	-	1.67	8.16	-
	Central	0.08	1.68	-	1.91	8.90	-
	Downside	1.55	2.72	-	2.45	9.42	-
Local Currency Interest Rate	Upside	(0.06)	(0.54)	-	(0.81)	0.51	-
	Central	0.29	(0.26)	-	(0.25)	1.24	-
	Downside	0.39	(0.11)	-	0.12	1.31	-
Dollars Interest Rate	Upside	(0.26)	(0.30)	0.78	(0.69)	0.38	0.19
	Central	(0.02)	(0.27)	1.06	0.41	0.69	0.24
	Downside	0.12	(0.22)	1.16	0.88	0.95	0.57

		December 31, 2021					
		Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
		%	%	%	%	%	%
Monthly Economic Activity Index	Upside	5.24	5.01	4.54	4.40	5.97	8.14
	Central	3.65	4.60	3.65	3.47	4.78	5.28
	Downside	3.07	2.93	1.93	1.11	4.41	3.68
Consumer Price Index	Upside	3.81	3.62	1.55	2.88	1.58	1.98
	Central	4.00	4.46	2.52	4.50	2.83	2.58
	Downside	4.53	4.62	3.59	5.86	3.38	3.36
Exchange Rate	Upside	(1.23)	(2.35)	-	0.15	0.70	-
	Central	0.01	(0.57)	-	1.88	1.87	-
	Downside	0.49	(0.02)	-	3.15	6.43	-
Local Currency Interest Rate	Upside	(0.30)	(1.16)	-	(0.93)	(1.03)	-
	Central	(0.12)	(0.32)	-	0.68	(0.09)	-
	Downside	0.10	0.05	-	3.41	1.20	-
Dollars Interest Rate	Upside	(0.27)	(0.64)	-	(1.02)	(1.04)	0.37
	Central	(0.18)	(0.20)	0.69	0.36	(0.02)	0.83
	Downside	(0.13)	0.19	1.46	1.02	1.80	0.87

Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognized on material classes of its assets.

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(4) Risk Management, continued

The table below shows the loss allowance on loans assuming each forward-looking scenario (e.g. central, upside and downside) were weighted 100% instead of applying scenario probability weights across the three scenarios, See Note 3 (c).

<u>June 30, 2022</u>	<u>Upside</u>	<u>Central</u>	<u>Downside</u>
Book Value			
Corporate	8,297,659,762	8,297,659,762	8,297,659,762
Small company	810,353,152	810,353,152	810,353,152
Mortgage	3,669,659,776	3,669,659,776	3,669,659,776
Personal banking	2,061,657,040	2,061,657,040	2,061,657,040
Vehicles	1,062,007,285	1,062,007,285	1,062,007,285
Credit card	<u>3,689,490,098</u>	<u>3,689,490,098</u>	<u>3,689,490,098</u>
	<u>19,590,827,113</u>	<u>19,590,827,113</u>	<u>19,590,827,113</u>
ECL Allowance			
Corporate	176,369,810	183,700,163	191,229,844
Small company	13,828,023	15,016,648	17,043,318
Mortgage	79,675,958	83,263,896	92,566,376
Personal banking	84,212,363	84,006,980	92,558,091
Vehicles	20,348,592	21,502,986	24,092,356
Credit card	<u>291,523,326</u>	<u>299,783,191</u>	<u>306,989,943</u>
	<u>665,958,072</u>	<u>687,273,864</u>	<u>724,479,928</u>
Proportion of assets in Stage 2			
Corporate	4.89%	4.89%	4.89%
Small company	17.26%	17.74%	18.28%
Mortgage	16.79%	17.05%	17.31%
Personal banking	9.47%	9.47%	10.64%
Vehicles	17.91%	18.40%	18.86%
Credit card	<u>10.34%</u>	<u>10.56%</u>	<u>10.76%</u>
	<u>9.84%</u>	<u>9.98%</u>	<u>10.24%</u>
<u>December 31, 2021</u>	<u>Upside</u>	<u>Central</u>	<u>Downside</u>
Book Value			
Corporate	7,680,975,222	7,680,975,222	7,680,975,222
Small company	796,011,541	796,011,541	796,011,541
Mortgage	3,626,798,034	3,626,798,034	3,626,798,034
Personal banking	2,025,065,899	2,025,065,899	2,025,065,899
Vehicles	1,038,023,636	1,038,023,636	1,038,023,636
Credit card	<u>3,498,774,373</u>	<u>3,498,774,373</u>	<u>3,498,774,373</u>
	<u>18,665,648,705</u>	<u>18,665,648,705</u>	<u>18,665,648,705</u>
ECL Allowance			
Corporate	144,457,838	151,578,023	164,485,671
Small company	16,054,193	20,024,107	24,107,607
Mortgage	71,179,685	85,171,368	96,817,001
Personal banking	77,583,956	83,252,137	88,565,223
Vehicles	20,285,356	22,497,316	24,743,122
Credit card	<u>273,428,693</u>	<u>286,546,743</u>	<u>298,119,337</u>
	<u>602,989,721</u>	<u>649,069,694</u>	<u>696,837,961</u>
Proportion of assets in Stage 2			
Corporate	6.35%	6.35%	6.35%
Small company	23.42%	28.67%	36.12%
Mortgage	19.41%	20.37%	21.11%
Personal banking	12.00%	12.26%	13.34%
Vehicles	16.46%	17.18%	17.81%
Credit card	<u>12.73%</u>	<u>12.81%</u>	<u>13.01%</u>
	11.99%	12.48%	13.13%

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(4) Risk Management, continued

The following table shows a reconciliation of the opening and closing balances of the period as of December 31, 2021, of the financial assets' ECL allowance.

	June 30, 2022				December 31, 2021			
	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total
Deposits in banks								
Balance at beginning of year	247,602	0	0	247,602	609,534	0	0	609,534
Net remeasurement of loss allowance	(113,261)	0	0	(113,261)	(609,535)	0	0	(609,535)
New financial assets originated	58,867	0	0	58,867	248,861	0	0	248,861
Foreign currency translation	(879)	0	0	(879)	(1,258)	0	0	(1,258)
Balance at year end	<u>192,329</u>	<u>0</u>	<u>0</u>	<u>192,329</u>	<u>247,602</u>	<u>0</u>	<u>0</u>	<u>247,602</u>
	June 30, 2022				December 31, 2021			
	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total
Investments at FVOCI								
Balance at beginning of year	26,751,693	0	0	26,751,693	22,985,969	52,154	0	8,554,961
Net remeasurement of loss allowance	(18,216,809)	0	0	(18,216,809)	(16,105,384)	(52,154)	0	(16,157,538)
New financial assets originated	15,386,040	0	0	15,386,040	20,471,271	0	0	20,471,271
Foreign currency translation	(696,338)	0	0	(696,338)	(600,163)	0	0	(600,163)
Balance at year end	<u>23,224,586</u>	<u>0</u>	<u>0</u>	<u>23,224,586</u>	<u>26,751,693</u>	<u>0</u>	<u>0</u>	<u>26,751,693</u>

The above investments' ECL allowance is not recognized within the consolidated statement of financial position, because the book value of the investments at FVOCI is its fair value.

	June 30, 2022				December 31, 2021			
	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total
Loans at AC								
Balance at beginning of year	161,594,852	248,412,128	237,092,070	647,099,050	132,540,438	284,083,713	253,114,455	669,738,606
Transfer from stage 1 to 2	(19,848,027)	19,848,027	0	0	(43,494,581)	43,494,581	0	0
Transfer from stage 1 to 3	(20,074)	0	20,074	0	(190,284)	0	190,284	0
Transfer from stage 2 to 3	0	(74,822,649)	74,822,649	0	0	(191,403,602)	191,403,602	0
Transfer from stage 3 to 2	0	34,842,945	(34,842,945)	0	0	85,689,160	(85,689,160)	0
Transfer from stage 2 to 1	51,084,390	(51,084,390)	0	0	129,233,506	(129,233,506)	0	0
Transfer from stage 3 to 1	5,692,021	0	(5,692,021)	0	18,534,244	0	(18,534,244)	0
Net remeasurement of loss allowance	2,904,755	26,151,181	58,517,380	87,573,316	2,681,221	89,666,786	224,077,256	316,425,263
New financial assets originated	81,648,086	80,046,868	82,798,926	244,493,880	162,727,869	230,869,751	183,057,632	576,655,252
Net derecognition of financial assets	(105,383,069)	(54,976,353)	(16,447,275)	(176,806,697)	(240,437,561)	(164,754,755)	(143,262,660)	(548,454,976)
Charge-offs	0	0	(212,309,011)	(212,309,011)	0	0	(494,913,860)	(494,913,860)
Recoveries	0	0	104,251,382	104,251,382	0	0	131,463,383	131,463,383
Foreign currency translation	0	0	(7,093,818)	(7,093,818)	0	0	(3,814,618)	(3,814,618)
Balance at year end	<u>177,672,934</u>	<u>228,417,757</u>	<u>281,117,411</u>	<u>687,208,102</u>	<u>161,594,852</u>	<u>248,412,128</u>	<u>237,092,070</u>	<u>647,099,050</u>

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(4) Risk Management, continued

Contingency	June 30, 2022				December 31, 2021			
	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total
Balance at beginning of period	199,186	51,485	1,111,261	1,361,932	230,833	52,464	68,284	351,581
Transfer from stage 1 to 2	0	0	0	0	(713)	713	0	0
Transfer from stage 1 to 3	(35,863)	0	35,863	0	(7)	0	7	0
Transfer from stage 3 to 2	0	1,039,840	(1,039,840)	0	0	0	0	0
Transfer from stage 2 to 1	24,683	(24,683)	0	0	220	(220)	0	0
Transfer from stage 3 to 1	3	0	(3)	(3)	0	0	0	0
Net remeasurement of loss allowance	26,676	10,122	57,450	94,248	(122,430)	(3,198)	1,083,975	958,347
New financial assets originated	111,302	3,960	0	115,262	126,715	29,586	24,995	181,296
Net derecognition of financial assets	(92,143)	(2,842)	(1,048)	(96,033)	(77,289)	(27,860)	(66,000)	(171,149)
Foreign currency translation	46,140	0	0	46,140	41,857	0	0	41,857
Balance at period end	<u>279,984</u>	<u>1,077,882</u>	<u>163,683</u>	<u>1,521,549</u>	<u>199,186</u>	<u>51,485</u>	<u>1,111,261</u>	<u>1,361,932</u>

Other accounts receivable	June 30, 2022				December 31, 2021			
	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total
Balance at beginning of period	8,177,093	0	0	8,177,093	7,298,489	0	0	7,298,489
Net remeasurement of loss allowance	(1,710,609)	0	0	(1,710,609)	(1,470,104)	0	0	(1,470,104)
New financial assets originated	1,666,890	0	0	1,666,890	3,820,087	0	0	3,820,087
Charge -Offs	(729,160)	0	0	(729,160)	(1,967,578)	0	0	(1,967,578)
Recoveries	217,854	0	0	217,854	589,961	0	0	589,961
Foreign currency translation	(154,951)	0	0	(154,951)	(93,762)	0	0	(93,762)
Balance at period end	<u>7,467,117</u>	<u>0</u>	<u>0</u>	<u>7,467,117</u>	<u>8,177,093</u>	<u>0</u>	<u>0</u>	<u>8,177,093</u>

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(4) Risk Management, continued

Modified financial assets

The following table provides information on individually significant financial assets that were modified while having a provision for losses measured in an amount equal to the ECL for the expected life.

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Amortized cost before modification	11,298,457	73,326,881
Net loss due modification	<u>19,786,720</u>	<u>325,909</u>
Total	<u>31,085,177</u>	<u>73,652,790</u>

Concentration of credit risk

The Bank follow-up the concentration of credit risk by sector and geographic location. The geographic location of loans and deposits in banks is based on the location of the debtor. In regard to investments, they are based on the location of the issuer. The analysis of the concentration of credit risks as of the date of the condensed consolidated financial statements is as follows:

	<u>June 30, 2022</u>					
	<u>Loans at amortized cost</u>	<u>Commitments and guarantees</u>	<u>Securities purchased under resale agreements</u>	<u>Deposits in banks</u>	<u>Investments at FVOCI</u>	<u>Investments at FVPL</u>
Concentration by sector						
Government	0	0	28,256,102	3,025,353,036	3,095,178,993	28,248,466
Corporate						
Trade	2,002,127,917	103,867,176	0	0	0	0
Services	1,619,066,245	128,531,908	0	0	1,764,387	0
Food industry	1,083,151,631	30,290,988	0	0	6,906,936	0
General industry	1,106,105,624	66,455,575	0	0	2,821,004	0
Real estate	1,045,569,930	8,232,836	0	0	70,904,432	0
Construction	821,137,243	78,525,362	0	0	8,772,837	0
Agriculture	451,665,803	5,745,922	0	0	0	0
Hotels and restaurants	282,674,826	1,064,433	0	0	2,871,473	0
Financial	325,609,807	220,223,662	0	1,151,767,904	370,301,850	501,289
Telecommunication	233,162,525	46,891,710	0	0	26,052,548	0
Transportation	137,741,363	13,012,311	0	0	2,593,335	0
Oil and derivatives	0	0	0	0	11,461,433	0
Publics Services	0	0	0	0	8,119,056	0
Energy	0	0	0	0	95,751,307	0
Personal Banking	10,482,814,199	50,454,291	0	0	5,044,674	0
Allowance for ECL	<u>(687,208,102)</u>	<u>(1,521,549)</u>	0	0	0	0
Net carrying amount	<u>18,903,619,011</u>	<u>751,774,625</u>	<u>28,256,102</u>	<u>4,177,120,940</u>	<u>3,708,544,265</u>	<u>28,749,755</u>
Geographic location:						
Costa Rica	5,266,300,668	222,276,110	3,213,724	1,012,750,103	1,109,032,949	28,749,755
Panama	4,576,567,562	314,464,618	0	155,053,778	467,464,877	0
Guatemala	3,916,297,610	10,917,767	16,027,861	555,903,135	638,503,393	0
Honduras	2,601,929,758	39,234,937	9,014,517	740,792,594	564,821,206	0
El Salvador	2,211,243,515	156,314,631	0	450,100,566	202,384,559	0
Nicaragua	1,018,488,000	10,088,111	0	271,405,945	309,666,187	0
North America	0	0	0	976,325,702	343,523,668	0
Europe	0	0	0	14,773,883	0	0
South America	0	0	0	0	71,133,337	0
Others	0	0	0	15,234	2,014,089	0
Allowance for ECL	<u>(687,208,102)</u>	<u>(1,521,549)</u>	0	0	0	0
Net carrying amount	<u>18,903,619,011</u>	<u>751,774,625</u>	<u>28,256,102</u>	<u>4,177,120,940</u>	<u>3,708,544,265</u>	<u>28,749,755</u>

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Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

	December 31, 2021					
	Loans at amortized cost	Commitments and guarantees	Securities purchased under resale agreements	Deposits in banks	Investments at FVOCI	Investments at FVPL
Concentration by sector						
Government	0	0	104,223,985	3,186,091,262	2,883,066,499	35,124,150
Corporate						
Trade	1,907,440,274	90,634,208	0	0	0	0
Services	1,509,393,060	111,254,662	0	0	0	0
Real estate	992,488,849	11,534,478	0	0	65,266,499	0
Food industry	988,975,333	31,052,190	0	0	2,088,037	0
General industry	979,900,445	68,044,186	0	0	7,401,707	0
Construction	811,681,651	80,191,732	0	0	9,421,322	0
Agriculture	433,154,775	6,329,921	0	0	0	0
Hotels and restaurants	284,454,221	1,375,643	0	0	0	0
Financial	240,120,054	228,315,925	0	1,182,299,522	365,015,852	0
Telecommunication	209,416,578	43,424,129	0	0	1,970,862	0
Transportation	119,961,523	11,576,898	0	0	3,200,952	0
Oil and derivatives	0	0	0	0	7,398,361	0
Public Services	0	0	0	0	5,791,652	0
Energy	0	0	0	0	106,790,470	0
Personal Banking	10,188,661,942	48,080,289	0	0	5,398,193	0
Allowance for ECL	<u>(647,099,050)</u>	<u>(1,361,932)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net carrying amount	<u>18,018,549,655</u>	<u>730,452,329</u>	<u>104,223,985</u>	<u>4,368,390,784</u>	<u>3,462,810,406</u>	<u>35,124,150</u>
Geographic location:						
Costa Rica						
Panama	5,122,630,864	219,861,749	28,869,472	1,017,164,542	1,159,973,860	35,124,150
Guatemala	4,374,668,507	293,393,136	0	173,190,462	416,600,933	0
Honduras	3,753,308,491	19,317,562	3,888,178	575,698,110	554,296,770	0
El Salvador	2,421,093,552	44,174,549	71,466,335	888,113,396	517,909,994	0
Nicaragua	2,096,844,736	146,050,047	0	422,429,976	204,984,456	0
North America	897,102,555	9,017,218	0	304,012,360	284,098,307	0
Europe	0	0	0	973,701,404	260,453,481	0
South America	0	0	0	14,044,064	0	0
Others	0	0	0	0	62,469,373	0
Allowance for ECL	<u>(647,099,050)</u>	<u>(1,361,932)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net carrying amount	<u>18,018,549,655</u>	<u>730,452,329</u>	<u>104,223,985</u>	<u>4,368,390,784</u>	<u>3,462,810,406</u>	<u>35,124,150</u>

Since April 2018, the Republic of Nicaragua has been facing a series of socio-political events that have economic implications that are affecting the development of activities in the productive sectors of the country.

The Bank has been and will continue to monitor the evolution of the liquidity and the quality of the portfolio of financial instruments placed or acquired in that country, in order to mitigate and manage the impacts of this situation.

(b) Liquidity Risk

Liquidity risk is defined as the contingency of not being able to comply fully, in a timely and efficient manner, the expected and unexpected cash flows, current and future, without affecting the course of daily operations or the financial condition of the entity. This contingency (liquidity risk) is evidenced in the insufficient liquid assets available for this and/or the need to assume unusual funding costs.

Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

The liquidity management conducted by the Bank seeks to meet its obligations of (i) withdrawals of deposits by its customers, (ii) repayment of the service of its debts of institutional funding according to maturity and the payment scheme scheduled, and (iii) compliance with the credit demand and investment funds according to the requirements. In this regard, the Bank has constant control over its short-term liabilities and assets. The liquidity of the Bank is carefully managed and adjusted daily based on the estimated liquidity in a contingent and expected scenario.

The Bank's liquidity management is in compliance with the policies and guidelines issued by Senior management and/or Regional and Local Board of Directors; the regulators of each country in which it operates and the contractual obligations. These best practices are primarily defensive, in the sense of seeking to maintain appropriate levels of liquidity at all times. In addition, the Bank has implemented the internal liquidity requirements that force it to keep excesses on regulatory requirements.

Specifically, the Bank's liquidity risk is managed through the calculation of liquidity coverage indicators in the short term, net of obligations and requirements, and in normal and stressful situations, as well as a stress model of liquidity based on the cash flow, which considers the activity of assets and liabilities in a time horizon of up to one year, under a variety of scenarios, which include both normal market conditions and more severe conditions. In addition, the Bank seeks to maintain a term matching, which enables it to meet its financial obligations over time.

As in the market risk, Senior Management engages actively in liquidity risk management through regional and local Assets and Liabilities Committee (ALICO) and Comprehensive Risk Management; thus giving greater support to the strategic decision-making process. The liquidity risk assumed by the Bank is in line with the structure, complexity, size and nature of its operation, while always respecting the local regulations, the regional guidelines and the guidelines issued by Senior Management and/or Regional and Local Board of Directors.

At the level of the entire Bank is established the obligation of properly documenting the periodic assessment of measurement indicators and compliance with regional guidelines and local regulations is established; as well as ensuring that reports related to liquidity risk to be remitted to the different internal and external instances (including the regulator) are adequate in terms of content, quality of information, generation, transmission and validation according to the requirements set forth in the respective standards.

The following table shows the results of the ratios for high-quality liquidity coverage with respect to the outflow of deposits under normal and stressful conditions, calculated based on internal policies, reported as of the reporting date and during the period:

	<u>% of Liquidity</u>	
	<u>June 30, 2022</u>	<u>December 31, 2021</u>
As of period end	33.3	33.4
Maximum	35.4	44.4
Average	33.2	36.6
Minimum	30.3	31.6

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(4) Risk Management, continued

As of June 30, 2022 and December 31, 2021, the banking operations of the Bank comply with the liquidity requirements established by the regulators.

Quantitative information

The following table details the undiscounted cash flows of financial liabilities and financial assets, and disbursements due to financial derivatives in contractual maturity groups from the remaining period from the date of the consolidated statement of financial position:

Amounts in thousands	June 30, 2022						
	Carrying Amount	Total nominal gross amount inflows / (outflows)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Liabilities							
Demand deposits	8,593,287	(8,593,287)	(8,593,287)	0	0	0	0
Savings deposits	5,301,075	(5,301,075)	(5,301,075)	0	0	0	0
Time deposits	8,354,249	(8,892,202)	(728,254)	(1,330,416)	(3,839,455)	(2,577,730)	(416,347)
Securities sold under repurchase agreements	222,090	(222,155)	(207,069)	(15,086)	0	0	0
Financial obligations	1,839,925	(1,999,831)	(94,699)	(332,139)	(769,918)	(636,070)	(167,005)
Other financial obligations	709,243	(805,382)	(403)	(19,859)	(43,174)	(741,946)	0
Lease liabilities	148,887	(172,280)	(2,930)	(14,505)	(17,061)	(100,211)	(37,573)
Sub-total liabilities	25,168,756	(25,986,212)	(14,927,717)	(1,712,005)	(4,669,608)	(4,055,957)	(620,925)
Commitments and guarantees	63,487	(63,487)	(4,046)	(9,456)	(49,985)	0	0
Acceptances	35,891	(35,891)	(300)	(10,376)	(25,215)	0	0
Total liabilities	25,268,134	(26,085,590)	(14,932,063)	(1,731,837)	(4,744,808)	(4,055,957)	(620,925)
Assets							
Cash and cash equivalents	624,037	624,037	624,037	0	0	0	0
Securities purchased under resale agreements	28,256	28,256	25,449	2,807	0	0	0
Deposits in banks	4,177,121	4,184,916	4,102,015	8,388	18,336	51,426	4,751
Investments at FVPL (1)	28,750	34,362	545	126	2,476	25,202	6,013
Investments at FVOCI (1)	3,708,544	4,375,845	1,214	440,896	526,830	1,975,362	1,431,543
Other accounts receivable, net	195,293	195,293	137,519	23,090	22,351	12,333	0
Loans amortized cost	18,903,619	26,276,083	2,444,250	3,414,577	4,385,410	7,171,181	8,860,665
Sub-total assets	27,665,620	35,718,792	7,335,029	3,889,884	4,955,403	9,235,504	10,302,972
Acceptances outstanding	35,891	35,891	300	10,376	25,215	0	0
Total assets	27,701,511	35,754,683	7,335,329	3,900,260	4,980,618	9,235,504	10,302,972

(1) Common stocks are excluded

Amounts in thousands	December 31, 2021						
	Carrying Amount	Total nominal gross amount inflows / (outflows)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Liabilities							
Demand deposits	8,375,666	(8,375,666)	(8,375,666)	0	0	0	0
Savings deposits	4,998,233	(4,998,233)	(4,998,233)	0	0	0	0
Time deposits	8,523,507	(9,162,392)	(799,684)	(1,408,779)	(3,491,704)	(2,830,367)	(631,858)
Securities sold under repurchase agreements	38,946	(38,971)	(30,690)	(8,281)	0	0	0
Financial obligations	1,744,443	(1,871,135)	(221,346)	(290,226)	(636,635)	(546,763)	(176,165)
Other financial obligations	711,656	(821,549)	(558)	(45,142)	(63,073)	(712,776)	0
Lease liabilities	157,180	(184,480)	(2,997)	(14,810)	(17,159)	(108,095)	(41,419)
Sub-total liabilities	24,549,631	(25,452,426)	(14,429,174)	(1,767,238)	(4,208,571)	(4,198,001)	(849,442)
Commitments and guarantees	65,368	(65,368)	(4,098)	(11,608)	(49,662)	0	0
Acceptances	2,370	(2,370)	(1,014)	(579)	(777)	0	0
Total liabilities	24,617,369	(25,520,164)	(14,434,286)	(1,779,425)	(4,259,010)	(4,198,001)	(849,442)
Assets							
Cash and cash equivalents	741,724	741,724	741,724	0	0	0	0
Securities purchased under resale agreements	104,224	104,224	96,086	8,138	0	0	0
Deposits in banks	4,368,391	4,377,578	4,294,372	7,869	12,146	52,468	10,723
Investments at FVPL (1)	35,624	42,655	549	177	3,009	29,277	9,643
Investments at FVOCI (1)	3,462,810	4,051,810	134,223	250,831	592,886	1,662,513	1,411,357
Other accounts receivable, net	253,930	253,930	177,496	25,693	27,240	23,501	0
Loans amortized cost	18,018,550	24,204,493	2,362,165	2,841,107	3,473,088	6,942,717	8,585,416
Sub-total assets	26,985,253	33,776,414	7,806,615	3,133,815	4,108,369	8,710,476	10,017,139
Acceptances outstanding	2,370	2,370	1,014	579	777	0	0
Total assets	26,987,623	33,778,784	7,807,629	3,134,394	4,109,146	8,710,476	10,017,139

(1) Common stocks are excluded

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Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

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

- customer demand deposits are expected to remain stable or increase;
- not all unrecognized loan commitments are expected to be withdrawn immediately; and
- retail mortgage loans have an original contractual maturity of between 20 and 30 years, but an expected average maturity of eight years because customers take advantage of early repayment options.

The liquidity of the Bank is measured and monitored on a daily basis by the Treasury of each country. In addition, the Bank maintains appropriate levels of cash in vaults, deposits in banks and short-term deposits which constitutes the Bank's basis of liquidity reserves. The composition of liquidity is shown in the following table:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Cash and cash equivalents	624,037,143	741,723,863
Securities bought under resale agreements	28,256,102	104,223,985
Deposits in central banks	2,805,168,106	2,869,614,019
Deposits due from banks maturing in less than 90 days	1,299,341,038	1,409,075,942
Deposits due from banks greater than 90 days	72,611,796	89,700,823
Total cash, cash equivalents and deposits in banks	<u>4,829,414,185</u>	<u>5,214,338,632</u>
Not committed sovereign debt instruments	3,056,729,582	2,892,980,970
Other credit lines available (1)	<u>1,468,244,263</u>	<u>1,686,284,257</u>
Total liquidity reserve	<u>9,354,388,030</u>	<u>9,793,603,859</u>

(1) Amounts not disbursed as of the reporting date.

The available credit lines are for use in normal business scenarios. They may have restricted use in stressful situations.

The following table shows the availability of the Bank's financial assets to support the future financing:

	<u>Committed</u>		<u>Uncommitted</u>		<u>Total</u>
	<u>As Collateral</u>	<u>Available as Collateral</u>	<u>Legal Reserve (1)</u>	<u>Other (2)</u>	
Cash and cash equivalents	0	0	0	624,037,143	624,037,143
Securities purchased under resale agreements	0	0	28,256,102	0	28,256,102
Deposits due from banks	37,483,187	267,143,295	2,426,459,590	1,446,034,868	4,177,120,940
Investments in securities at fair value	66,697,877	3,292,856,623	0	392,976,017	3,752,530,517
Loans at amortized cost	<u>107,942,142</u>	<u>0</u>	<u>0</u>	<u>18,795,676,869</u>	<u>18,903,619,011</u>
Total assets	<u>212,123,206</u>	<u>3,559,999,918</u>	<u>2,454,715,692</u>	<u>21,258,724,897</u>	<u>27,485,563,713</u>

(1) It represents uncommitted assets, but whose use the Bank considers use to guarantee financing, for legal or other reasons. Committed deposits in banks comprise the legal reserve required by the different jurisdictions in which the Bank operates and can be used according to the regulation of each country.

(2) It represents assets that are uncommitted for use as collateral.

	<u>Committed</u>		<u>Uncommitted</u>		<u>Total</u>
	<u>As Collateral</u>	<u>Available as Collateral</u>	<u>Legal Reserve (1)</u>	<u>Other (2)</u>	
Cash and cash equivalents	0	0	0	741,723,863	741,723,863
Securities purchased under resale agreements	0	0	104,223,985	0	104,223,985
Deposits due from banks	37,741,247	394,782,678	2,375,574,312	1,560,292,547	4,368,390,784
Investments in securities at fair value	25,209,676	3,127,174,886	0	361,282,592	3,513,667,154
Loans at amortized cost	<u>327,224,178</u>	<u>0</u>	<u>0</u>	<u>17,691,325,477</u>	<u>18,018,549,655</u>
Total assets	<u>390,175,101</u>	<u>3,521,957,564</u>	<u>2,479,798,297</u>	<u>20,354,624,479</u>	<u>26,746,555,441</u>

(1) It represents uncommitted assets, but whose use the Bank considers use to guarantee financing, for legal or other reasons. Committed deposits in banks comprise the legal reserve required by the different jurisdictions in which the Bank operates and can be used according to the regulation of each country.

(2) It represents assets that are uncommitted for use as collateral.

Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

(c) Market risk

Market risks are those that may result in losses as a result of adverse price movements in the financial markets where positions are maintained. It comprises the following risks:

- Interest rate risk: is the possibility of an economic loss due to adverse variations in interest rates.
- Exchange rate risk: is the possibility of an economic loss due to adverse variations in the exchange rate.

The main objectives of the Bank's corporate governance structure include supervising the performance of the management team in each country, ensuring the proper functioning of the internal control system, monitoring the exposure to risks and managing them effectively. For such purpose, management engages actively in market risk management through the regional and local Assets and Liabilities Committees (ALICO) and the Comprehensive Risk Management Committee; thus, giving greater support to the strategic decision-making process.

Market risks assumed by the Bank are in line with the structure, complexity, size and nature of its operation, while always respecting the local regulations, the regional guidelines and the guidelines issued by management and/or regional and local board of directors.

The Bank establishes the requirement of properly documenting the periodic assessment of measurement indicators and compliance with regional guidelines and local regulations, as well as ensuring that reports related to market risk to be remitted to the different internal and external instances (including the regulator) are adequate in terms of the content, quality of information, generation, transmission and validation according to the requirements set forth in the respective standards.

For the measurement, control and management of market risk, the Bank uses the indicators required by the regulator of each country as well as another set of indicators established in the internal regional guideline, which are calculated by country and in a consolidated manner based on internal sources of information.

Exchange risk is measured through the determination of the equity percentage that is not dollarized (also known as monetary position). The main objective of the policy is to establish that the difference between assets denominated in US dollars and liabilities denominated in US dollars is at least equal to equity, which is equivalent to having a 100% dollarized equity. However, due to regulatory restrictions applicable in each country that limit the position in US dollars, the consolidated monetary position may be below this desirable limit.

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(4) Risk Management, continued

Quantitative information

The Bank maintains operations in the consolidated statement of financial position, agreed in local currency other than US dollars, which are listed below:

<u>June 30, 2022</u>					
<i>Amounts in millions</i>	<u>Quetzales</u>	<u>Lempiras</u>	<u>Cordobas</u>	<u>Colones</u>	<u>Total</u>
Cash, cash equivalents and deposits in banks	397	601	139	468	1,605
Investments in securities	447	524	0	240	1,211
Loans, net	<u>2,025</u>	<u>1,879</u>	<u>99</u>	<u>1,876</u>	<u>5,879</u>
Total assets	2,869	3,004	238	2,584	8,695
Deposits	2,352	2,384	352	2,125	7,213
Obligations	<u>357</u>	<u>191</u>	<u>0</u>	<u>330</u>	<u>878</u>
Total liabilities	2,709	2,575	352	2,455	8,091
Contingencies	<u>0</u>	<u>23</u>	<u>0</u>	<u>43</u>	<u>66</u>
Exchange risk exposure	<u>160</u>	<u>452</u>	<u>(114)</u>	<u>172</u>	<u>670</u>
<u>December 31, 2021</u>					
<i>Amounts in millions</i>	<u>Quetzales</u>	<u>Lempiras</u>	<u>Cordobas</u>	<u>Colones</u>	<u>Total</u>
Cash, cash equivalents and deposits in banks	464	844	147	594	2,049
Investments in securities	388	462	0	321	1,171
Loans, net	<u>1,973</u>	<u>1,668</u>	<u>93</u>	<u>1,784</u>	<u>5,518</u>
Total assets	2,825	2,974	240	2,699	8,738
Deposits	2,296	2,400	337	2,277	7,310
Obligations	<u>358</u>	<u>192</u>	<u>0</u>	<u>196</u>	<u>746</u>
Total liabilities	2,654	2,592	337	2,473	8,056
Contingencies	<u>0</u>	<u>24</u>	<u>0</u>	<u>38</u>	<u>62</u>
Exchange risk exposure	<u>171</u>	<u>406</u>	<u>(97)</u>	<u>264</u>	<u>744</u>

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(4) Risk Management, continued

Bellow, the summary exposure of the Bank's consolidated statement of financial position to interest rate risk. Assets and liabilities are included in the table at their carrying amount, classified by categories of time considering the next rate review date of the maturity date, as applicable:

<u>June 30, 2022</u>	<u>Without exposure</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Cash and cash equivalents	624,037,143	0	0	0	624,037,143
Securities purchased under resale agreements	19,171	28,236,931	0	0	28,256,102
Deposits due from Banks	1,921,957,323	2,204,383,617	46,160,000	4,620,000	4,177,120,940
Investments in securities at fair value	687,033,397	427,368,728	1,502,023,740	1,136,104,652	3,752,530,517
Loans at amortized cost	<u>189,812,790</u>	<u>16,578,065,154</u>	<u>1,625,118,182</u>	<u>510,622,885</u>	<u>18,903,619,011</u>
Total assets	3,422,859,824	19,238,054,430	3,173,301,922	1,651,347,537	27,485,563,713
Deposits	1,366,248,894	18,222,694,117	2,264,407,885	395,259,409	22,248,610,305
Securities sold under resale agreements	55,455	222,034,635	0	0	222,090,090
Financial obligations	9,766,006	1,144,587,755	364,277,776	321,293,345	1,839,924,882
Other financial obligations	<u>3,199,349</u>	<u>67,113,530</u>	<u>638,929,634</u>	<u>0</u>	<u>709,242,513</u>
Total liabilities	1,379,269,704	19,656,430,037	3,267,615,295	716,552,754	25,019,867,790
Exposure to interest rate risk	<u>2,043,590,120</u>	<u>(418,375,607)</u>	<u>(94,313,373)</u>	<u>934,794,783</u>	<u>2,465,695,923</u>

<u>December 31, 2021</u>	<u>Without exposure</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Cash and cash equivalents	741,723,863	0	0	0	741,723,863
Securities purchased under resale agreements	34,727	104,189,258	0	0	104,223,985
Deposits due from Banks	2,202,386,009	2,109,454,774	46,160,001	10,390,000	4,368,390,784
Investments in securities at fair value	612,843,924	376,758,317	1,325,950,858	1,198,114,055	3,513,667,154
Loans at amortized cost	<u>202,136,428</u>	<u>15,665,066,452</u>	<u>1,608,644,908</u>	<u>542,701,867</u>	<u>18,018,549,655</u>
Total assets	<u>3,759,124,951</u>	<u>18,255,468,801</u>	<u>2,980,755,767</u>	<u>1,751,205,922</u>	<u>26,746,555,441</u>
Deposits	1,334,526,406	17,611,317,170	2,465,435,751	486,127,253	21,897,406,580
Securities sold under resale agreements	8,897	38,936,728	0	0	38,945,625
Financial obligations	6,839,046	1,113,374,673	327,671,967	296,557,582	1,744,443,268
Other financial obligations	<u>3,595,888</u>	<u>78,613,932</u>	<u>629,446,433</u>	<u>0</u>	<u>711,656,253</u>
Total liabilities	<u>1,344,970,237</u>	<u>18,842,242,503</u>	<u>3,422,554,151</u>	<u>782,684,835</u>	<u>24,392,451,726</u>
Exposure to interest rate risk	<u>2,414,154,714</u>	<u>(586,773,702)</u>	<u>(441,798,384)</u>	<u>968,521,087</u>	<u>2,354,103,715</u>

Based on the above, the Bank calculates the total exposure of the consolidated statement of financial position to interest rate risk. The Bank states that the interest rate risk should be measured for each currency in which assets and liabilities are maintained.

Interest rate risk is analyzed based on the gap analysis, in order to approximate the change in equity of the Bank's consolidated statement of financial position and in the net income from interest from eventual changes in market interest rates. The economic value of an instrument involves an assessment of the current value of its expected net cash flows, discounted to reflect market rates. By extension, the economic value of a financial entity can be seen as the present value of expected net cash flows from the entity, defined as expected cash flows from assets less expected cash flows from liabilities. In this sense, the perspective of economic value reflects a view of the sensitivity of the financial entity net value to interest rate fluctuations.

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Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

The estimate of the impact of variations in interest rates is conducted under a scenario of increase or decrease of 100 basis points in assets and liabilities at the different terms (parallel movement of the curve). The following table presents a summary of the impact on the Bank's economic value and on the net interest income applying these variations:

	Increase of 100 bps (1)	Decrease of 100 bps (1)
Impact on equity to interest rate movements		
June 30, 2022	(66,372,326)	66,372,326
Average for the period	(67,258,283)	67,258,283
Maximum for the period	(75,126,821)	75,126,821
Minimum for the period	(58,367,087)	58,367,087
December 31, 2021	(58,484,257)	58,484,257
Average for the period	(9,552,464)	9,552,464
Maximum for the period	21,752,386	(21,752,386)
Minimum for the period	(60,673,814)	60,673,814
Impact on net income from interests		
June 30, 2022	66,983,800	(66,983,800)
Average for the period	67,292,684	(67,292,684)
Maximum for the period	69,214,877	(69,214,877)
Minimum for the period	65,915,385	(65,915,385)
December 31, 2021	67,764,403	(67,764,403)
Average for the period	68,441,969	(68,441,969)
Maximum for the period	72,492,083	(72,492,083)
Minimum for the period	61,477,531	(61,477,531)

(1) According to the nature of the instruments on demand, the sensitivity of annual income and expenses to a decrease or increase in rates for currencies with rates below 1% is measured using a variation of 25 basis points.

(d) Operational risk

The Bank has established a minimum framework for operational risk management within its companies, which is intended to provide general guidelines to ensure the identification, assessment, control, monitoring and reporting of operational risks and materialized events that may affect the organization with the objective of ensuring the proper management, mitigation or reduction of the managed risks and contributing to provide a reasonable assurance with respect to the achievement of organizational objectives.

The operational risk management model considers best practices issued by the Basel Committee on Banking Supervision and by COSO (Committee of Sponsoring Organizations of the Treadway Commission). In addition, it complies with the regulatory requirements of the region, which have been defined by the regulators of the countries where the Bank operates.

Notes to the Condensed Consolidated Interim Financial Statements

(4) Risk Management, continued

Based on the above, operational risk is defined as the possibility that the events resulting from personnel, information technologies or inadequate or failed internal processes, or produced by external causes, generate negative impacts that go against the objectives. By its nature, it is present in all of the organization's activities.

The priority of the Bank is, therefore, identifying and managing the major risk factors, regardless of whether they can produce monetary losses. The measurement also contributes to the establishment of priorities in the management of operational risk.

The operational risk management system is properly documented in the Operational Risk Guideline and Manual. It is a continuous process with several stages:

- Measurement of the perspective of control environment
- Identification and assessment of operational risks
- Treatment and mitigation of operational risks
- Risk monitoring and review
- Registration and accounting of losses due to operational risk incidents

Additionally, the Bank has policies formally established for the management of information security, business continuity, fraud prevention and code of ethics that support the proper management of operational risks in the organization.

At the regional level and in all countries where the Bank operates, there is an operational risk management unit that monitors, advises and assesses the management conducted by the administration with regard to operational risks. In addition, there is a specialized Operational Risk Committee (OR Committee) composed of senior management. The OR Committee reports to the Comprehensive Risk Management Committee, monitors management and ensures that identified operational risks are kept at accepted levels by the organization.

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit, which reports the results to the Internal Audit Committee of each entity where the Bank operates.

(5) COVID-19

Impact of the pandemic of the spread of COVID-19

During the first half of 2020, the Coronavirus (COVID-19) spread all over the world, generating the closure of production and supply chains and interrupting international trade, which is causing a global economic slowdown that is affecting various industries. Global authorities, including those in the countries where the Bank operates, have adopted, among other measures, the temporary closure of establishments and the mandatory preventive confinement of persons in various areas, resulting in employees, suppliers, and customers being unable to carry out their activities normally.

Notes to the Condensed Consolidated Interim Financial Statements

(5) COVID – 19, continued

During the following periods of 2020, 2021 and 2022, this situation has been monitored on a daily basis by the Bank's management to assess the adverse effects that could be generated on the results of operations, the financial situation and the liquidity of the Bank, and take all the appropriate measures to minimize the negative impacts that may arise from this situation during the 2020 financial year and subsequent periods. The Bank continues to have a reasonable expectation that it has adequate resources to continue as a going concern indefinitely.

As of June 30, 2022, the Bank has not defaulted on the principal or interest payments of its financial obligations. As a result of the regulatory responses that Central Banks and Regulatory Entities implemented in most of the countries where the Bank operates, in order to mitigate the macroeconomic and financial impacts generated by the COVID-19 pandemic, there are non-compliance with some commitments contractual, mainly associated with specific financial indicators that have been impacted by such implementations.

As of June 30, 2022, the following issues have been evaluated, which in some cases have generated impacts on the Bank's financial statements and operations and on which, during the period after the date of these financial statements and until the date of issue, continue to be monitored by the administration to address its effects on the Bank's operations and those of its clients.

a) Impairment of financial instruments — Portfolio of receivables, other accounts receivable and other

Financial instruments that are within the scope of the Expected Credit Loss Model (PCE) of IFRS 9 (loans, trade accounts and other accounts receivable, unmeasured debt instruments at fair value through profit or loss, accounts loan receivables, financial guarantees and loan commitments), have been assessed considering the impacts that COVID-19 is having on the PCE by the measures taken by governments in each of the countries and regions where the Bank operates.

The impacts that have been generated for the Bank's entities in relation to the deterioration of financial instruments are based on the following aspects:

- Measurement of the ECL, by changes in the allocation of credit risk of financial instruments, incorporating affectation analysis by COVID and generating an impact on the provision, moving from measurement for 12 months (stage 1) to measurement for the remaining life of the instrument (stages 2 and 3) for those in which it is determined that there was a significant increased credit risk since its initial measurement.
- Credit risk, the behavior of which has changed for institutions according to the economic segments of their loan portfolios, increasing in the case of clients whose business has been negatively affected.
- The amount at risk (default exposure), taking into account the fact that affected debtors of some of the Bank's entities have been found to have stopped making payments or are taking more time than normal to pay, mainly within the framework of relief schemes promulgated by different governments.

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(5) COVID – 19, continued

- The estimated loss for credits that are assessed individually, resulting from lower recovery of flows taking into account the impact caused by COVID-19.
- Macroeconomic aspects considered in the elaboration of scenarios and models for the calculation of the provision, where some of the variables have been weakened in view of the effects of COVID on the economy.

The calculation of expected credit risk losses incorporated from the second quarter of 2020 forward-looking information projections, in line with the effects of the decisions that governments continue to take around COVID-19 and considering the high level of uncertainty in these terms of intensity and duration. The projection information has been based on the best available information obtained, considering the different geographical areas where the Bank operates, and taking into account the effects on segments and portfolios of different entities, which are exposed to different risks and situations.

When considering prospective information based on macroeconomic variables, the Bank updated the scenarios used and the probabilities assigned to them at the end of June 30, 2022, with the effects shown in the following two tables:

i. *Macroeconomic variables used in the calculation of ECL*

		June 30, 2022					
		Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
		%	%	%	%	%	%
Monthly Economic Activity Index	Upside	3.15	5.97	2.56	4.35	5.61	7.23
	Central	2.71	5.68	2.11	3.42	5.37	6.68
	Downside	2.39	4.83	1.68	2.98	4.91	6.07
Consumer Price Index	Upside	2.94	6.60	5.39	7.60	4.14	2.72
	Central	3.72	6.78	5.72	8.28	5.24	3.31
	Downside	4.93	6.89	5.96	8.44	6.96	3.51
Exchange Rate	Upside	(0.53)	0.89	-	1.67	8.16	-
	Central	0.08	1.68	-	1.91	8.90	-
	Downside	1.55	2.72	-	2.45	9.42	-
Local Currency Interest Rate	Upside	(0.06)	(0.54)	-	(0.81)	0.51	-
	Central	0.29	(0.26)	-	(0.25)	1.24	-
	Downside	0.39	(0.11)	-	0.12	1.31	-
Dollars Interest Rate	Upside	(0.26)	(0.30)	0.78	(0.69)	0.38	0.19
	Central	(0.02)	(0.27)	1.06	0.41	0.69	0.24
	Downside	0.12	(0.22)	1.16	0.88	0.95	0.57

		December 31, 2021					
		Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
		%	%	%	%	%	%
Monthly Economic Activity Index	Upside	5.24	5.01	4.54	4.40	5.97	8.14
	Central	3.65	4.60	3.65	3.47	4.78	5.28
	Downside	3.07	2.93	1.93	1.11	4.41	3.68
Consumer Price Index	Upside	3.81	3.62	1.55	2.88	1.58	1.98
	Central	4.00	4.46	2.52	4.50	2.83	2.58
	Downside	4.53	4.62	3.59	5.86	3.38	3.36
Exchange Rate	Upside	(1.23)	(2.35)	-	0.15	0.70	-
	Central	0.01	(0.57)	-	1.88	1.87	-
	Downside	0.49	(0.02)	-	3.15	6.43	-
Local Currency Interest Rate	Upside	(0.30)	(1.16)	-	(0.93)	(1.03)	-
	Central	(0.12)	(0.32)	-	0.68	(0.09)	-
	Downside	0.10	0.05	-	3.41	1.20	-
Dollars Interest Rate	Upside	(0.27)	(0.64)	-	(1.02)	(1.04)	0.37
	Central	(0.18)	(0.20)	0.69	0.36	(0.02)	0.83
	Downside	(0.13)	0.19	1.46	1.02	1.80	0.87

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(5) COVID – 19, continued

ii. Weighting of probabilities assigned to scenarios before and after COVID-19

	June 30, 2022					
	Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
Upside	35%	15%	5%	10%	20%	25%
Central	55%	65%	50%	65%	70%	65%
Downside	10%	20%	45%	25%	10%	10%

	December 31, 2021					
	Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
Upside	35%	25%	10%	20%	20%	25%
Central	55%	60%	60%	55%	65%	60%
Downside	10%	15%	30%	25%	15%	15%

The macroeconomic scenarios were adjusted to reflect the impacts of COVID-19 and the weights assigned to each scenario were recalibrated based on the expectations resulting from the information available to date (as well as updating historical information, assumptions related to the severity and duration of the pandemic, speed of recovery of the economy and their respective impact on the market).

The possible impacts considering the different macroeconomic scenarios are presented in Note 5, in the table “Sensitivity of the ECL to future conditions”.

The Bank continues to monitor continuously information that allows it to identify in a timely manner possible impact to ECL.

iii. Impairment allowance balances

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Corporate	(184,033,642)	(152,432,015)
Small Company	(15,079,064)	(19,887,742)
Mortgage	(83,327,333)	(84,375,026)
Personal banking	(84,402,824)	(82,877,062)
Vehicles	(21,532,379)	(22,323,123)
Credit Card	<u>(298,832,860)</u>	<u>(285,204,082)</u>
Total	<u>(687,208,102)</u>	<u>(647,099,050)</u>

The table above summarizes the total balance of the provision by portfolio as of June 30, 2022. The detail of the movement of the provision, transfers between stages, the impact by refinement of models, among others, is presented in the Note 4.

iv. Loan’s Portfolio provision expense

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Corporate	15,516,967	52,029,311
Small Company	(2,822,464)	11,195,188
Mortgage	5,742,172	18,867,550
Personal banking	18,798,004	43,788,358
Vehicles	2,495,657	17,166,412
Credit Card	<u>115,530,163</u>	<u>201,578,720</u>
Total	<u>155,260,499</u>	<u>344,625,539</u>

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(5) COVID – 19, continued

The table above summarizes the provision expense for portfolio impairment for June 30, 2022, and December 31, 2021, respectively.

b) Reliefs to customers

The actions taken or suggested by the governments of the countries in which the Bank operates have promoted the generation of reliefs to customers (companies or individuals) between April 2020 and June 2022 in relation to loans or loan agreements in force, which have involved the renegotiation of their terms including, among others, the granting of grace periods, deferment of assessments, extension of deadlines and extension of credit quotas. The following table summarizes the volume of relief granted by portfolio:

	<u>Corporate</u>	<u>Small Company</u>	<u>Mortgage</u>	<u>Personal banking</u>	<u>Vehicles</u>	<u>Credit Card</u>
<u>June 30, 2022</u>						
Amount of credits with relief	805	2,473	9,095	15,665	11,380	887
% of credit with relief / Total credits	8.47%	14.89%	17.36%	6.63%	11.74%	10.45%

As of June 30, 2022, the impact recognized in results for COVID-19 relief is \$5,518,151

To date, the governments of the countries where the Bank operates have not decreed direct support to banks.

c) Leases from the perspective of the lessee

Between lessors and lessees, since April 2020, processes have been carried out to renegotiate the terms of their lease agreements, as a result of which the lessors have granted the lessees concessions of some kind in connection with the lease payments.

Some Bank entities that have leased assets have renegotiated the terms of their lease agreements as a result of the crisis triggered by COVID-19. The Bank has considered, in its role as lessee, the adequate accounting of these concessions, analyzing whether or not they correspond to modifications of the contract; for the second quarter of 2022, there is no recognition of gains and/or losses in the condensed consolidated statement of income.

d) Impairment of the value assets – capital gains, property, plant and equipment and intangibles:

As of June 30, 2022, no indicators of impairment were identified for the Bank's businesses.

Notes to the Condensed Consolidated Interim Financial Statements

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

The Bank's management is responsible for the development, selection, disclosure of policies and critical accounting estimates and their implementation in a manner consistent with the assumptions selected and related to the significant estimate uncertainties.

Loan Impairment Losses

The Bank reviews its loan portfolio to assess the impairment at least on a quarterly basis. When determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes decisions as to whether observable information exists indicating that there is a measurable reduction in estimated future cash flows from a loan portfolio before such reduction may be identified with an individual loan in that portfolio. This evidence includes observable information indicating that an adverse change in the payment condition of borrowers in a group, national or local economic conditions that correlate with non-compliance instances in Bank's assets have occurred.

Fair Value of Financial Instruments

Fair value of financial instruments that are not quoted in active markets is determined using valuation techniques. All models are evaluated and adjusted before use, and the models are calibrated to ensure that the results reflect current information and comparative market prices.

To the extent possible, models only use observable information; however, areas such as credit risk (own and by the counterparty), volatilities and correlations require estimates by management. Changes in assumptions about these factors may affect the reported fair value of financial instruments.

Impairment of Investments at FVOCI

In debt instruments the impairment may be appropriate when there is evidence of impairment in the financial health of the issuer, industry or sector performance, changes in technology, and operational and financial cash flows.

Goodwill Impairment

The Bank will determine whether goodwill is impaired annually or when there is indication of possible impairment. This requires an estimate of the value in use of CGUs to which the goodwill value is attributed. The estimate of the value in use requires management to consider the expected cash flows from CGUs and also the selection of an appropriate discount rate to calculate the current value of such cash flows.

Income Tax

The Bank uses the asset and liability method to record income tax. Under this method, the deferred tax assets and liabilities are recognized by the estimates of future tax consequences attributable to temporary differences between the amounts of assets and liabilities in the condensed consolidated Interim financial statements and their respective tax bases and due to accumulated tax losses. The deferred tax assets and liabilities are valued using the enacted tax rates that are expected to be applied to the tax revenue for the years in which they are expected to be recovered or temporary differences are settled. The effect on deferred tax assets and liabilities by a change in tax rates is recognized in the operation results in the year in which the change occurs.

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

Management regularly assesses the realization of deferred tax assets for its recognition. Management evaluates whether it is more likely than not that a portion or all deferred tax assets are not realizable.

(7) Cash, Cash Equivalents and Deposits

Cash and cash equivalents are listed below for reconciliation purposes with the consolidated statement of cash flow:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cash and cash equivalents	624,037,143	583,524,693
Securities purchased under resale agreements	28,256,102	10,703,840
Deposits in central banks	2,805,168,106	2,711,328,469
Deposits in banks and deposits due in less than 90 days	<u>1,299,341,038</u>	<u>1,716,237,575</u>
Cash and cash equivalents in the cash flow statement	4,756,802,389	5,021,794,577
Deposits in banks greater than 90 days and pledged	<u>72,611,796</u>	<u>105,418,423</u>
Total cash, cash equivalents and deposits in banks	<u>4,829,414,185</u>	<u>5,127,213,000</u>

(8) Securities Purchased Under Resale Agreements

As of June 30, 2022, securities purchased under resale agreements amounted to \$28,256,102 (December 31, 2021: \$104,223,985), which had maturity dates in August 2022 (December 31, 2021: March 2022) and an interest rate between 1.7% and 4.5% (December 31, 2021: between 0.16% and 1.8%). These securities were guaranteed with local government bonds and corporate bonds, which amounted to \$29,056,616 (December 31, 2021: \$103,334,682).

(9) Investments at Fair Value

As of June 30, 2022, investments at fair value amounted to \$3,752,530,517 (December 2021: \$3,513,667,154) are summarized as follows:

(a) *Investments at FVPL*

The portfolio of investments in securities at FVPL is detailed as follows:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Government bonds	28,248,466	35,124,150
Mutual funds	501,289	499,847
Common stocks	<u>12,143,330</u>	<u>12,147,983</u>
	<u>40,893,085</u>	<u>47,771,980</u>

As of June 30, 2022, securities at FVPL with a carrying amount of \$1,560,581 (December 31, 2021: \$5,386,003) are used as collateral for repurchase agreements.

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(9) Investments at Fair Value, continued

(b) Investments at FVOCI

The portfolio of investments at FVOCI is detailed as follows:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Governments		
United States of America	62,776,420	9,717,590
Other Governments	<u>3,032,402,573</u>	<u>2,873,348,909</u>
	3,095,178,993	2,883,066,499
Corporate debentures	613,365,272	579,743,907
Common stocks	<u>3,093,167</u>	<u>3,084,768</u>
	<u>3,711,637,432</u>	<u>3,465,895,174</u>

The Bank maintains a portfolio of equity investments issued by the following companies:

<u>Entity</u>	<u>Country</u>	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Latinex Holdings, Inc.	Panama	590,208	559,976
Grupo APC, S. A.	Panama	445,582	445,582
Transacciones y Transferencia, S.A.	Guatemala	309,303	310,784
Servicios Financieros, S.A.	El Salvador	247,500	247,500
Compañía de Procesamiento de Medio de Pago	Guatemala	218,330	218,330
ACH de Nicaragua	Nicaragua	188,172	190,028
Bancajeros BANET	Honduras	181,226	181,725
Fondo Hondureño de Inversión Turística	Honduras	178,250	178,740
Fondo Crediticio de Producción Agropecuaria	Honduras	142,405	142,797
ICG Imágenes Computarizadas de Guatemala, S. A.	Guatemala	132,750	133,386
Otros	Others	<u>459,441</u>	<u>475,920</u>
		<u>3,093,167</u>	<u>3,084,768</u>

As of June 30, 2022, the portfolio of common shares at FVOCI had a variation in Other Comprehensive Income of the Bank of \$30,232 (December 31, 2021 (\$760,320), which includes the realization of \$767,376 for the sale of shares of Almacenadora Guatemalteca, S.A. As of June 30, 2022, the Bank received \$367,110 in dividends from the common shares at FVOCI (December 31, 2021: \$1,365,295).

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(10) Loans

A breakdown of the loan portfolio by type is as follows:

	June 30, 2022			December 31, 2021		
	Gross amount	Allowance for ECL	Net carrying amount	Gross amount	Allowance for ECL	Net carrying amount
Loans						
Corporate						
Corporate	8,104,952,951	(177,027,358)	7,927,925,593	7,514,807,244	(147,740,515)	7,367,066,729
Corporate leases, net (1)	<u>192,706,811</u>	<u>(7,006,284)</u>	<u>185,700,527</u>	<u>166,167,978</u>	<u>(4,691,500)</u>	<u>161,476,478</u>
Total Corporate	<u>8,297,659,762</u>	<u>(184,033,642)</u>	<u>8,113,626,120</u>	<u>7,680,975,222</u>	<u>(152,432,015)</u>	<u>7,528,543,207</u>
Personal Banking and Small company						
Small company						
Small company	720,151,423	(13,482,753)	706,668,670	710,775,347	(17,640,163)	693,135,184
Small company leases, net (1)	<u>90,201,729</u>	<u>(1,596,311)</u>	<u>88,605,418</u>	<u>85,236,194</u>	<u>(2,247,579)</u>	<u>82,988,615</u>
Total Small company	<u>810,353,152</u>	<u>(15,079,064)</u>	<u>795,274,088</u>	<u>796,011,541</u>	<u>(19,887,742)</u>	<u>776,123,799</u>
Personal Banking						
Mortgage	3,669,659,776	(83,327,333)	3,586,332,443	3,626,798,034	(84,375,026)	3,542,423,008
Personals	2,061,657,040	(84,402,824)	1,977,254,216	2,025,065,899	(82,877,062)	1,942,188,837
Vehicles	973,516,713	(17,123,431)	956,393,282	953,481,090	(18,356,642)	935,124,448
Personal leases, net (1)	88,490,572	(4,408,948)	84,081,624	84,542,546	(3,966,481)	80,576,065
Credit Cards	<u>3,689,490,098</u>	<u>(298,832,860)</u>	<u>3,390,657,238</u>	<u>3,498,774,373</u>	<u>(285,204,082)</u>	<u>3,213,570,291</u>
Total Personal Banking	<u>10,482,814,199</u>	<u>(488,095,396)</u>	<u>9,994,718,803</u>	<u>10,188,661,942</u>	<u>(474,779,293)</u>	<u>9,713,882,649</u>
Total Personal Banking and Small company	<u>11,293,167,351</u>	<u>(503,174,460)</u>	<u>10,789,992,891</u>	<u>10,984,673,483</u>	<u>(494,667,035)</u>	<u>10,490,006,448</u>
Total loans at AC	<u>19,590,827,113</u>	<u>(687,208,102)</u>	<u>18,903,619,011</u>	<u>18,665,648,705</u>	<u>(647,099,050)</u>	<u>18,018,549,655</u>
(1) Total leases, net of interest	<u>371,399,112</u>	<u>(13,011,543)</u>	<u>358,387,569</u>	<u>335,946,718</u>	<u>(10,905,560)</u>	<u>325,041,158</u>

The net value of the financial leases receivable is presented below:

	June 30, 2022	December 31, 2021
Minimum lease payments receivable	386,974,742	345,863,707
Less: unearned interest	<u>10,972,191</u>	<u>6,009,817</u>
Minimum lease payments receivable, net	376,002,551	339,853,890
Less: allowance for loss in leases	13,011,543	10,905,560
Less: net deferred commissions	<u>4,603,439</u>	<u>3,907,172</u>
Net value of investment in finance leases	<u>358,387,569</u>	<u>325,041,158</u>

The following table summarizes the minimum lease payments receivable as of June 30, 2022:

Period ended December 31:	
2022	44,811,096
2023	79,301,854
2024	75,247,639
2025	67,335,340
2026 and thereafter	<u>109,306,622</u>
	<u>376,002,551</u>

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(11) Deposits from Customers

Deposits from customers are detailed below:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Retail customers		
Demand	1,111,686,948	1,054,352,856
Savings	3,305,066,070	3,156,502,734
Time deposits	1,163,755,694	1,121,487,755
Corporate customers		
Demand	7,481,599,835	7,321,313,626
Savings	1,996,008,850	1,841,730,687
Time deposits	<u>7,190,492,908</u>	<u>7,402,018,922</u>
	<u>22,248,610,305</u>	<u>21,897,406,580</u>

As of June 30, 2022, time deposits include book balances, net of origination costs for \$1,331,084,235 (December 31, 2021: \$1,380,653,046) subscribed with special purpose vehicles (hereinafter SPV), which are detailed below:

<u>Vehicle</u>	<u>Series</u>	<u>Fixed interest</u> <u>rate</u>	<u>June 30,</u> <u>2022</u>		<u>December 31,</u> <u>2021</u>	
			<u>Principal</u> <u>amount</u>	<u>Origination</u> <u>cost</u>	<u>Principal</u> <u>amount</u>	<u>Origination</u> <u>cost</u>
BIB Merchant Voucher Receivables Limited	2017-1	4.08%	277,225,320	2,429,232	301,977,540	2,689,174
BIB Merchant Voucher Receivables Limited	2018-1	4.18%	372,921,455	3,056,769	400,000,000	3,323,136
BIB Central American Card Receivables Limited	2019-1	3.50%	<u>700,000,000</u>	<u>13,576,539</u>	<u>700,000,000</u>	<u>15,312,184</u>
			<u>1,350,146,775</u>	<u>19,062,540</u>	<u>1,401,977,540</u>	<u>21,324,494</u>

BIB Merchant Voucher Receivables Limited (SPV) issued financial obligations subscribed by international holders secured by the collection rights of the accounts receivable, which are generated in the transactions in the affiliated merchants and processed by the Bank, with credit cards issued with the Visa and MasterCard brands in Panama. The notes have an average original duration of 7 years. Amortizations of the principal of the 2017-1 and 2018-1 notes will be paid through Citibank N.A., beginning in January 2021 and January 2022, respectively. As of June 30, 2022, the weighted average duration of the certificates is 2.71 years and 3.25 years, respectively.

BIB Central American Card Receivables Limited (SPV) issued financial obligations subscribed by international holders secured by the collection rights of the accounts receivable, which are generated in the transactions in the affiliated merchants and processed by the Bank, with credit cards issued by international financial institutions, with the Visa and MasterCard brands in Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, as well as with the American Express brand for those countries and Panama; with an average original duration of 7 years. Amortizations to the principal of the 2019-1 note will be paid through Citibank N.A., starting in October 2023. As of June 30, 2022, the weighted average duration of the certificates is 4.75 years.

The collection rights of the accounts receivable were assigned by BAC International Bank Inc. to the SPVs, and the SPVs invested the amount received for the notes issued in certificates of time deposits in BAC International Bank Inc.

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(12) Financial Obligations

Financial obligations are detailed below:

	June 30, 2022		
	Interest rate	Maturities up to	Carrying amount
Payable in US dollars:			
Fixed rate	0.66% to 5.80%	2029	504,796,837
Floating rate	0.94% to 11.00%	2027	681,994,232
Payable in quetzales (Guatemala):			
Fixed rate	4.40% to 5.25%	2024	337,917,380
Payable in lempiras (Honduras):			
Fixed rate	15.00%	2058	127,851,958
Floating rate	3.70% to 7.81%	2046	30,597,160
Payable in colones (Costa Rica):			
Fixed rate	0.80%	2025	145,495,159
Floating rate	4.92% to 5.12%	2031	<u>11,272,156</u>
Total financial obligations at amortized cost			<u>1,839,924,882</u>

	December 31, 2021		
	Interest rate	Maturities up to	Carrying amount
Payable in US dollars:			
Fixed rate	0.56% to 5.80%	2028	464,016,115
Floating rate	1.50% to 10.61%	2031	594,229,974
Payable in quetzales (Guatemala):			
Fixed rate	4.00% to 5.25%	2022	358,978,725
Floating rate			
Payable in lempiras (Honduras):			
Fixed rate	15.00%	2046	158,838,796
Payable in colones (Costa Rica):			
Fixed rate	0.80%	2025	155,425,134
Floating rate	4.70% to 4.90%	2031	<u>12,954,524</u>
Total financial obligations at amortized cost			<u>1,744,443,268</u>

As of June 30, 2022, the carrying amount of the principal issued by BAC San Jose DPR Funding Limited, a consolidated special purpose vehicle (hereinafter SPV), amounted to \$150,000,000 (December 31, 2021: \$150,000,000), corresponding series 2020-1 with a balance of \$150,000,000. The origination costs pending amortization of the certificates amounted to \$ 2,032,790 as of June 30, 2022 (December 31, 2021: \$ 2,190,702). The notes issued by the SPV are guaranteed by the current and future Diversified Payment Rights denominated in US dollars, originated by a subsidiary of the Bank and sold to the SPV. The 2014-2 series notes pay interest in February, May, August and November of each year at a fixed interest rate of 4.50%. The notes have an original average duration of 4.60 years. The 2020-1 series notes pay interest in February, May, August and November of each year at a fixed interest rate of 3.70%. The notes have an original average duration of 5.58 years. As of June 30, 2022, the weighted average duration of the notes is 4.06 years.

The Bank has had no defaults of principal, interest or other contractual clauses concerning its financial obligations.

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(13) Other Financial Obligations

The Bank has placed, through its subsidiaries and through the stock markets of Panama, El Salvador and Honduras, debt certificates with fixed and variable rates, which are described below:

<u>Payable in:</u>	<u>June 30, 2022</u>		<u>December 31, 2021</u>	
	<u>Interest rate</u>	<u>Carrying amount</u>	<u>Interest rate</u>	<u>Carrying amount</u>
US dollars	1.00% to 10.00%	676,929,404	2.83% to 10.00%	676,310,068
Lempiras	4.75% to 7.00%	<u>32,313,109</u>	7.00% to 9.50%	<u>35,346,185</u>
Total of other financial obligations		<u>709,242,513</u>		<u>711,656,253</u>

The Bank has had no defaults of principal, interest or other contractual clauses concerning its other financial obligations.

Through Resolution No. 208-20 of May 14, 2020, issued by the Superintendency of the Securities Market of the Republic of Panama, the Bank is authorized, to be offered through a Public Offering, Perpetual Subordinated Corporate Bonds convertible into common shares for a nominal value of \$700 million. The bonds will be issued in registered form and without coupons, in denominations of \$1,000,000 and in integral multiples of \$100,000, with no specific expiration or redemption date. The bonds will bear an interest rate of 10% and interest will be paid quarterly, unless the issuer exercises its right not to pay interest. As of June 30, 2022, the balance of the perpetual bonds is \$520,000,000, and they have been acquired by Grupo AVAL Limited.

(14) Lease Liabilities

Lease liabilities are detailed below:

	<u>June 30, 2022</u>			
	<u>Interest rate</u>	<u>Maturities up to</u>	<u>Carrying amount</u>	<u>Undiscounted cash flows</u>
Payable in US dollars	5.22%	2033	144,490,718	163,697,882
Payable in quetzales (Guatemala)	5.22%	2029	2,567,813	4,749,902
Payable in lempiras (Honduras)	5.22% a 7.58%	2029	1,091,880	2,962,241
Payable in colones (Costa Rica)	3.96% a 7.99%	2033	<u>736,917</u>	<u>870,430</u>
Total lease liabilities			<u>148,887,328</u>	<u>172,280,455</u>

	<u>December 31, 2021</u>			
	<u>Interest rate</u>	<u>Maturities up to</u>	<u>Carrying amount</u>	<u>Undiscounted cash flows</u>
Payable in US dollars	5.22%	2033	152,367,856	170,803,984
Payable in quetzales (Guatemala)	5.22%	2029	2,880,788	5,212,194
Payable in lempiras (Honduras)	5.22% to 7.58%	2029	1,162,401	4,416,835
Payable in colones (Costa Rica)	3.96% to 7.99%	2033	<u>768,761</u>	<u>923,439</u>
Total lease liabilities			<u>157,179,806</u>	<u>181,356,452</u>

The following is the detail of the maturity of the undiscounted contractual cash flows related to lease liabilities:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Less than a year	34,495,828	34,653,647
One to two years	32,286,753	32,728,343
Two to three years	28,691,770	30,177,223
Three to four years	21,319,343	24,511,785
Four to five years	17,913,727	19,375,866
More than five years	<u>37,573,034</u>	<u>39,909,588</u>
	<u>172,280,455</u>	<u>181,356,452</u>

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(14) Lease Liabilities, continued

The following are the items recognized in the consolidated statement of income, related to lease liabilities:

	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>
Interest on leases	3,977,088	4,599,587
Expense for leases with less than 12 months	1,689,153	1,649,738
Expense for leases of low-value assets	<u>4,550,427</u>	<u>3,762,933</u>
	<u>10,216,668</u>	<u>10,012,258</u>

(15) Common Stock

The Bank's authorized stock comprises 850,000 authorized stock and 834,708 issued and outstanding stock and 814 shares in Treasury (2020: 850,000 authorized shares and 834,708 issued and outstanding stock and 814 shares in Treasury) and with a nominal value of \$1,000 per share.

(16) Income from Financial Instruments, Net

Income from financial instruments, net, included in the consolidated statement of income is summarized below:

	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>
Net income from the sale of investments at FVOCI	12,224,295	34,126,304
Unrealized net (loss) gain from the sale of securities at FVPL	(2,839,874)	4,488,896
Net gains (loss) from securities at FVPL	2,635,000	(736,354)
Net fair value gain on derivative financial instruments	<u>40,001</u>	<u>298,021</u>
	<u>12,059,422</u>	<u>38,176,867</u>

(17) Income Taxes

As of June 30, 2022, the Bank maintains an effective tax rate of 26.5% (June 30, 2021: 18.9%).

The Bank's earnings are taxed in various jurisdictions. As of June 30, 2022, the Bank had unrecognized tax positions for \$571,829 (December 31, 2021: \$6,394,242). Interest expense and penalties related to income tax liabilities and recognized as part of income tax expenses for the period ended June 30, 2022 amounted to \$(8,004,123) (June 30, 2021: \$605,614). Total interest and penalties expenses included in other liabilities amounted to June 30, 2022 \$519,905 (December 31, 2021: \$3,375,635).

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(18) Off-Balance Financial Instruments with Risk and Other Commitments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include, principally, commitments to extend credit, financial guarantees and letters of credit, the balances of which are not reflected in the accompanying consolidated balance sheets.

Letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. Those letters of credit are primarily used to support trade transactions and borrowing arrangements. Generally, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

As of June 30, 2022, the Bank had outstanding revolving available to its credit card customers in each of the various countries of operation that ranged from approximately \$399 million to \$3,264, million (December 31, 2021: from \$378 million to \$2,951 million). The unused portion of the total amount available in each country, aggregated approximately from \$290 million to \$2,502 million (December 31, 2021: from \$276 million to \$2,225 million). While these amounts represented the available lines of credit to customers per country, the Bank has experienced, and does not anticipate, that all of its customers will exercise their entire available lines at any given point in time.

The Bank generally has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.

Financial guarantees are used in various transactions to enhance the credit standing of the Bank's customers. They represent irrevocable assurances that the Bank will make payment in the event that the customer fails to fulfill its obligations to third parties.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. As of June 30, 2022 outstanding letters of credit and financial guarantees are as follows:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Stand-by letters of credit	160,310,155	160,945,882
Commercial letters of credit	69,666,945	66,067,869
Financial guarantees	459,832,038	439,432,789
Commitments and guarantees (1)	<u>63,487,036</u>	<u>65,367,721</u>
	<u>753,296,174</u>	<u>731,814,261</u>

(1) Includes commercial and mortgage payment promise letters

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(18) Off-Balance Financial Instruments with Risk and Other Commitments, continued

The nature, terms and maximum potential amount of future payments the Bank could be required to make under the standby letters of credit and guarantees as of June 30, 2022, are detailed as follows:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Up to 1 year	592,610,490	543,193,334
Over 1 year	<u>91,018,739</u>	<u>122,553,058</u>
	<u>683,629,229</u>	<u>665,746,392</u>

Generally, the Bank has resources to recover from clients the amounts paid under these guarantees; additionally, the Bank can hold cash or other collateral to cover for these guarantees. As of June 30, 2022, the assets held as collateral, that the Bank can obtain and liquidate to recover totally or partially the amounts paid under guarantees amounted to \$81,180,139 (December 31, 2021: \$73,539,142).

(19) Disclosures on the Fair Value of Financial Instruments

The Bank established a process for determining the fair value. The fair value is primarily based on quoted market prices, when available. If market prices or quotes are not available, fair value is determined based on internally developed models that primarily use market information or other information obtained as inputs regardless of market parameters, including but not limited to yield curves, interest rates, debt prices, foreign exchange rates and credit curves. However, in situations where there is little or no market activity for the asset or liability at the measurement date, the fair value measurement reflects the Bank's own judgments about assumptions that market participants would use in setting the price of the asset or liability.

The judgments are developed by the Bank based on the best information available in the circumstances, including expected cash flows, discount rates adjusted for risks and the availability of observable and unobservable inputs.

The methods described above can generate fair value estimates that may not be indicative of the net realizable value or that do not reflect future values. In addition, while the Bank believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value estimates as of the reporting date.

Financial Instruments at Fair Value

Recurring Fair Value Measurement

The following is a description of the valuation methodologies used to value instruments carried at fair value, including a general classification of such instruments according to the fair value hierarchy.

Securities

When there are market prices in an active market, securities are classified in Level 1 of the fair value hierarchy. Level 1 securities include highly liquid bonds from the government and agencies and investments in highly traded shares.

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(19) Disclosures on the Fair Value of Financial Instruments, continued

If market prices are not available for a specific security, the fair value is determined using market prices of securities with similar characteristics or discounted cash flows and are classified in Level 2. In certain cases where there is limited activity or less transparency in determining the assumptions used in the valuation, securities are classified in Level 3 of the fair value hierarchy.

Therefore, when valuing certain debt obligations, determining fair value may require comparisons with similar instruments or default and collection rate analysis.

	Other significant observable assumptions (Level 2)	Significant unobservable assumptions (Level 3)	June 30, 2022
Assets			
Investments at FVPL:			
Other governments	28,248,466	0	28,248,466
Mutual funds	501,289	0	501,289
Common stocks	<u>0</u>	<u>12,143,330</u>	<u>12,143,330</u>
Total investments at FVPL	<u>28,749,755</u>	<u>12,143,330</u>	<u>40,893,085</u>
Investments at FVOCI:			
Governments			
United States of America	62,776,420	0	62,776,420
Other governments	<u>3,032,402,573</u>	<u>0</u>	<u>3,032,402,573</u>
	3,095,178,993	0	3,095,178,993
Corporate debentures	613,365,272	0	613,365,272
Common stocks	<u>1,035,790</u>	<u>2,057,377</u>	<u>3,093,167</u>
Total investments at FVOCI	<u>3,709,580,055</u>	<u>2,057,377</u>	<u>3,711,637,432</u>
Total assets	<u>3,738,329,810</u>	<u>14,200,707</u>	<u>3,752,530,517</u>

	Other significant observable assumptions (Level 2)	Significant unobservable assumptions (Level 3)	December 31, 2021
Assets			
Investments at FVPL:			
Other governments	35,124,150	0	35,124,150
Corporate debentures	499,847	0	499,847
Mutual funds	<u>0</u>	<u>12,147,983</u>	<u>12,147,983</u>
Common stocks	<u>35,623,997</u>	<u>12,147,983</u>	<u>47,771,980</u>
Total investments at FVPL			
Investments at FVOCI:			
Governments	9,717,590	0	9,717,590
United States of America	<u>2,873,348,909</u>	<u>0</u>	<u>2,873,348,909</u>
Other governments	2,883,066,499	0	2,883,066,499
Corporate debentures	579,743,907	0	579,743,907
Common stocks	<u>1,005,558</u>	<u>2,079,210</u>	<u>3,084,768</u>
Total investments at FVOCI	<u>3,463,815,964</u>	<u>2,079,210</u>	<u>3,465,895,174</u>
Total assets	<u>3,499,439,961</u>	<u>14,227,193</u>	<u>3,513,667,154</u>

The Bank's accounting policies include the recognition of transfers between the levels of the fair value hierarchy on the date of the event or change in the circumstances that caused the transfer.

As of June 30, 2022, there were no transfers between levels.

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(19) Disclosures on the Fair Value of Financial Instruments, continued

The table below includes the movement of the figures in the consolidated balance sheet (including changes in fair value) of the financial instruments classified by the Bank within Level 3 of the fair value hierarchy, for the period ended June 30, 2022. When determining whether to classify an instrument in Level 3, the decision is based on the importance of unobservable assumptions within the overall fair value measurement.

	<u>Investments</u>
	<u>Common stocks</u>
June 30, 2022	
Assets	
Fair value at January 01, 2022	12,147,983
Valuation of investments at FVPL	0
Foreign currency translation	<u>(4,653)</u>
Fair value at June 30, 2022	<u>12,143,330</u>
	<u>Investments</u>
	<u>Common stocks</u>
December 31, 2021	
Assets	
Fair value at January 01, 2021	10,460,656
Valuation of investments at FVPL	1,702,994
Foreign currency translation	<u>(15,667)</u>
Fair value at December 31, 2021	<u>12,147,983</u>

The table below describes the valuation techniques and input data used in the financial instruments' recurring fair value measurements:

Financial instrument	Valuation technique and entry data used	Level
Corporate bonds and government and agencies bonds	Consensus prices obtained from price providers (Bloomberg). For part of these instruments the Bank applies cash flows discounted using a market rate of an instrument with a similar remaining maturity. Market prices of suppliers or local regulators in markets with lower marketability. For several bonds, discounted cash flows are used using a market rate of an instrument with a similar remaining maturity.	(2,3)
Common stocks	Discounted cash flow using capital cost rate adjusted for size premium.	(3)
Common stocks	Market prices provided by local stock exchanges.	(2)
Mutual funds and other stocks	Net Asset Value.	(2)
Embedded financial derivative instruments	Functional currency cash flows Foreign currency cash flows	(3)

Fair Value of Financial Instruments, additional disclosures

A description of the methods and assumptions used to estimate the fair value of the main financial instruments held by the Bank is provided below:

BAC INTERNATIONAL BANK, INC., AND SUBSIDIARIES
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Notes to the Condensed Consolidated Interim Financial Statements

(19) Disclosures on the Fair Value of Financial Instruments, continued

Financial instruments with carrying amounts that approach the fair value:

Cash and cash equivalents, deposits that bear interest and clients' obligations for acceptances and acceptances outstanding are measured at book value reported in the consolidated balance sheet, which is considered a reasonable fair value estimate due to the characteristics and maturity of these instruments.

Loans

To determine the fair value of the loan portfolio, the cash flows were discounted at a rate that reflects:

- a. actual market rate, and
- b. future interest rate expectations, for a term that reflects the anticipated payments on the loan portfolio.

Deposits

To determine the fair value of these instruments, the cash flows were discounted at a rate that reflects:

- a. actual market rate, and
- b. future interest rate expectations, for the remaining term of these instruments.

Securities sold under repurchase agreements

There are no market price quotes for these instruments; therefore, their fair value is determined using discounted cash flow techniques. Cash flows are estimated based on the contractual terms, taking into account any incorporated derivative characteristic or other factors. Expected cash flows are discounted using market rates that approach the maturity of the instrument, as well as the nature and amount of the guarantee given or received.

Borrowings

The fair value is estimated based on current interest rates for debt with similar and adjusted maturities to reflect the credit rating of the Bank and its guarantees.

Other borrowed funds

Fair value is estimated based on the market price quotes for the same issuance or similar issuances or on the current rates offered by the Bank for debts with the same terms, adjusted for credit quality.

Below are described the valuation techniques and significant unobservable input data used in determining the fair value of recurring and nonrecurring assets and liabilities categorized within Level 3 of the fair value hierarchy that are recognized in the consolidated balance sheet:

<u>June 30, 2022</u>		<u>Quantitative information of Level 3 fair values</u>		
<u>Fair value</u>	<u>Valuation technique</u>	<u>Unobservable assumptions</u>	<u>Range (weighted average)</u>	
Common stocks	14,200,707	Discounted cash flows	Increase annual rate	10% - 15%
<u>December 31, 2021</u>		<u>Quantitative information of Level 3 fair values</u>		
<u>Fair value</u>	<u>Valuation technique</u>	<u>Unobservable assumptions</u>	<u>Range (weighted average)</u>	
Common stocks	14,227,193	Discounted cash flows	Increase annual rate	10% - 15%

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(19) Disclosures on the Fair Value of Financial Instruments, continued

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized:

<u>June 30, 2022</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total carrying amount</u>
Financial assets				
Cash and cash equivalents	624,037,143	0	624,037,143	624,037,143
Securities purchased under resale agreements	0	28,256,102	28,256,102	28,256,102
Deposits in banks	0	4,177,120,940	4,177,120,940	4,177,120,940
Loans, excluding financial leases	0	18,049,586,005	18,049,586,005	18,545,231,442
Acceptances outstanding	0	35,891,435	35,891,435	35,891,435
Total financial assets	<u>624,037,143</u>	<u>22,290,854,482</u>	<u>22,914,891,625</u>	<u>23,410,537,062</u>
Financial liabilities				
Deposits	13,894,361,703	8,547,311,977	22,441,673,680	22,248,610,305
Securities sold under repurchase agreements	0	222,090,090	222,090,090	222,090,090
Financial obligations	0	1,869,232,142	1,869,232,142	1,839,924,882
Other financial obligations	0	690,554,289	690,554,289	709,242,513
Acceptances outstanding	0	35,891,435	35,891,435	35,891,435
Total financial liabilities	<u>13,894,361,703</u>	<u>11,365,079,933</u>	<u>25,259,441,636</u>	<u>25,055,759,225</u>
<u>December 31, 2021</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total carrying amount</u>
Financial assets				
Cash and cash equivalents	741,723,863	0	741,723,863	741,723,863
Securities purchased under resale agreements	0	104,223,985	104,223,985	104,223,985
Deposits in banks	0	4,368,390,784	4,368,390,784	4,368,390,784
Loans, excluding financial leases	0	17,281,905,782	17,281,905,782	17,693,508,497
Acceptances outstanding	0	2,370,047	2,370,047	2,370,047
Total financial assets	<u>741,723,863</u>	<u>21,756,890,598</u>	<u>22,498,614,461</u>	<u>22,910,217,176</u>
Financial liabilities				
Deposits	13,373,899,903	8,831,651,497	22,205,551,400	21,897,406,580
Securities sold under repurchase agreements	0	38,945,625	38,945,625	38,945,625
Financial obligations	0	1,759,589,856	1,759,589,856	1,744,443,268
Other financial obligations	0	700,635,478	700,635,478	711,656,253
Acceptances outstanding	0	2,370,047	2,370,047	2,370,047
Total financial liabilities	<u>13,373,899,903</u>	<u>11,333,192,503</u>	<u>24,707,092,406</u>	<u>24,394,821,773</u>

(20) Administration of Trust Contracts and Securities Custody

As of June 30, 2022, several subsidiaries of the Bank manage and keep custody of securities for a total amount of approximately \$3,178,718,038 (December 31, 2021: \$3,625,903,148).

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(21) Related Party Transactions

In the normal course of business, the Bank conducts transactions with related parties, including main executives and directors. These transactions, according to the internal policies of the Bank are carried out at market conditions.

The following table shows the balances and transactions with related parties as of June 30, 2022:

	June 30, 2022		December 31, 2021		
	Key personnel and directors	Related parties	Key personnel and directors	Related parties	Controlling entities
Assets:					
Deposits due from banks	0	0	0	17,141,340	0
Interest bearing deposits	0	58,090,000	0	79,630,000	0
Loans	16,305,607	112,777,879	15,315,884	81,825,215	91,856
Loans Loss Reserve	(75,020)	(428,631)	(71,288)	(438,742)	0
Accumulated interest receivable and other accounts receivable	<u>68,813</u>	<u>1,814,299</u>	<u>60,761</u>	<u>1,451,425</u>	<u>698,547</u>
	<u>16,299,400</u>	<u>172,253,547</u>	<u>15,305,357</u>	<u>179,609,238</u>	<u>790,403</u>
Liabilities:					
Demand deposits	7,138,716	86,353,291	6,285,947	24,521,982	1,267,734
Term deposits	10,196,154	146,171,374	9,719,617	18,648,445	125,210,262
Other financial obligations	0	520,000,000	0	0	520,000,000
Accumulated interest payable and other liabilities	<u>154,587</u>	<u>3,513,151</u>	<u>165,522</u>	<u>1,026,034</u>	<u>2,944,966</u>
	<u>17,489,457</u>	<u>756,037,816</u>	<u>16,171,086</u>	<u>44,196,461</u>	<u>649,422,962</u>

	June 30, 2022		June 30, 2021		
	Key personnel and directors	Related parties	Key personnel and directors	Related parties	Controlling entities
Interest income and other income	<u>442,284</u>	<u>9,255,810</u>	<u>321,976</u>	<u>9,155,713</u>	<u>304,963</u>
Interest expense and other operating expenses	<u>189,693</u>	<u>28,932,811</u>	<u>239,358</u>	<u>776,654</u>	<u>29,029,453</u>
Key management personnel benefit	<u>8,603,249</u>	<u>0</u>	<u>8,416,677</u>	<u>0</u>	<u>0</u>

The benefits to key personnel that the Bank grants are short-term. No other benefits are granted to key personnel.

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(22) Segments

The Bank segregates its operations according to each of the countries in which it operates (“Operating Groups”). Each operating group offers similar products and services, and they are managed separately based on the Bank’s internal reporting and management structure. The Bank’s administration reviews the internal management reports of each operating group at least once a month.

The information related to each operation group is presented below. The segment’s profit before taxes, as included in the internal management reports reviewed by the Bank’s Management, is used to measure performance because management considers that this information is the most relevant for evaluating the results of the respective groups of operation in relation to other entities operating within the industry.

<u>June 30, 2022</u>	<u>Guatemala</u>	<u>El Salvador</u>	<u>Honduras</u>	<u>Nicaragua</u>	<u>Costa Rica</u>	<u>Panama</u>	<u>Others</u>	<u>Elimination</u>	<u>Total</u>
Total assets	<u>5,324,304,583</u>	<u>3,114,645,270</u>	<u>4,217,926,099</u>	<u>1,823,529,142</u>	<u>7,756,443,846</u>	<u>7,109,144,855</u>	<u>199,648,785</u>	<u>(778,564,452)</u>	<u>28,767,078,128</u>
Total liabilities	<u>4,750,592,257</u>	<u>2,800,040,055</u>	<u>3,725,390,081</u>	<u>1,424,961,310</u>	<u>6,812,354,142</u>	<u>7,146,846,132</u>	<u>57,382,404</u>	<u>(778,564,452)</u>	<u>25,939,001,929</u>
Consolidated Statement of Income									
Interest income	185,472,754	108,797,845	164,285,409	59,649,932	278,307,080	197,600,515	476,893	(16,246,887)	978,343,541
Interest expenses	<u>57,899,030</u>	<u>28,337,558</u>	<u>35,083,388</u>	<u>8,010,702</u>	<u>58,941,480</u>	<u>107,755,428</u>	<u>812,739</u>	<u>(16,246,887)</u>	<u>280,593,438</u>
Net interest income	<u>127,573,724</u>	<u>80,460,287</u>	<u>129,202,021</u>	<u>51,639,230</u>	<u>219,365,600</u>	<u>89,845,087</u>	<u>(335,846)</u>	<u>0</u>	<u>697,750,103</u>
Provision for credit risk of financial instruments	<u>23,428,617</u>	<u>28,343,966</u>	<u>17,838,701</u>	<u>(1,767,882)</u>	<u>35,707,490</u>	<u>48,884,639</u>	<u>(103,922)</u>	<u>0</u>	<u>152,331,609</u>
Net interest income after provisions	<u>104,145,107</u>	<u>52,116,321</u>	<u>111,363,320</u>	<u>53,407,112</u>	<u>183,658,110</u>	<u>40,960,448</u>	<u>(231,924)</u>	<u>0</u>	<u>545,418,494</u>
Other income, net	57,599,914	27,768,876	68,262,773	32,611,856	236,760,620	40,965,463	145,063,974	(95,321,090)	513,712,386
General and administrative expense	<u>98,748,314</u>	<u>63,907,772</u>	<u>108,369,923</u>	<u>42,725,219</u>	<u>248,040,071</u>	<u>81,463,926</u>	<u>93,836,220</u>	<u>(95,321,090)</u>	<u>641,770,355</u>
Income before income tax	<u>62,996,707</u>	<u>15,977,425</u>	<u>71,256,170</u>	<u>43,293,749</u>	<u>172,378,659</u>	<u>461,985</u>	<u>50,995,830</u>	<u>0</u>	<u>417,360,525</u>
Less: Income tax	<u>11,538,971</u>	<u>4,160,531</u>	<u>20,087,322</u>	<u>12,989,861</u>	<u>55,065,872</u>	<u>6,695,453</u>	<u>61,428</u>	<u>0</u>	<u>110,599,438</u>
Net income	<u>51,457,736</u>	<u>11,816,894</u>	<u>51,168,848</u>	<u>30,303,888</u>	<u>117,312,787</u>	<u>(6,233,468)</u>	<u>50,934,402</u>	<u>0</u>	<u>306,761,087</u>
December 31, 2021									
Total assets	<u>5,182,380,529</u>	<u>3,013,649,071</u>	<u>4,197,879,146</u>	<u>1,714,166,503</u>	<u>7,649,429,889</u>	<u>6,994,471,620</u>	<u>184,634,177</u>	<u>(871,085,538)</u>	<u>28,065,525,397</u>
Total liabilities	<u>4,617,184,719</u>	<u>2,691,624,811</u>	<u>3,727,094,973</u>	<u>1,324,530,612</u>	<u>6,637,529,977</u>	<u>7,130,830,507</u>	<u>62,505,717</u>	<u>(871,085,538)</u>	<u>25,320,215,778</u>
June 30, 2021									
Consolidated Statement of Income									
Interest income	161,113,244	102,896,197	149,285,807	52,535,756	270,496,432	188,402,013	20,287	(17,079,170)	907,670,566
Interest expenses	<u>62,592,356</u>	<u>28,645,621</u>	<u>44,476,614</u>	<u>7,656,053</u>	<u>70,201,173</u>	<u>114,863,849</u>	<u>1,223,536</u>	<u>(17,079,170)</u>	<u>312,580,032</u>
Net interest income	<u>98,520,888</u>	<u>74,250,576</u>	<u>104,809,193</u>	<u>44,879,703</u>	<u>200,295,259</u>	<u>73,538,164</u>	<u>(1,203,249)</u>	<u>0</u>	<u>595,090,534</u>
Provision for credit risk of financial instruments	<u>25,106,050</u>	<u>21,163,105</u>	<u>24,149,950</u>	<u>(1,784,141)</u>	<u>57,132,596</u>	<u>43,295,951</u>	<u>2,383</u>	<u>0</u>	<u>169,065,894</u>
Net interest income after provisions	<u>73,414,838</u>	<u>53,087,471</u>	<u>80,659,243</u>	<u>46,663,844</u>	<u>143,162,663</u>	<u>30,242,213</u>	<u>(1,205,632)</u>	<u>0</u>	<u>426,024,640</u>
Other income, net	46,178,543	24,093,755	62,377,352	30,977,768	176,126,893	41,117,944	128,520,528	(93,283,029)	416,109,754
General and administrative expense	<u>89,598,248</u>	<u>54,630,131</u>	<u>99,932,861</u>	<u>39,668,640</u>	<u>225,108,059</u>	<u>73,566,856</u>	<u>87,486,400</u>	<u>(93,283,029)</u>	<u>576,708,166</u>
Income before income tax	<u>29,995,133</u>	<u>22,551,095</u>	<u>43,103,734</u>	<u>37,972,972</u>	<u>94,181,497</u>	<u>(2,206,699)</u>	<u>39,828,496</u>	<u>0</u>	<u>265,426,228</u>
Less: Income tax	<u>8,177,713</u>	<u>5,848,860</u>	<u>9,657,556</u>	<u>11,294,520</u>	<u>16,819,625</u>	<u>(1,788,012)</u>	<u>36,277</u>	<u>0</u>	<u>50,046,539</u>
Net income	<u>21,817,420</u>	<u>16,702,235</u>	<u>33,446,178</u>	<u>26,678,452</u>	<u>77,361,872</u>	<u>(418,687)</u>	<u>39,792,219</u>	<u>0</u>	<u>215,379,689</u>

Notes to the Condensed Consolidated Interim Financial Statements

(23) Litigations

As of June 30, 2022, the Bank maintains litigation against various kinds, which are not material when evaluated individually and collectively. These litigations are in the process of resolution and would not represent a significant effect on the interim consolidated financial statements of the Bank in the event of an adverse result.

(24) Regulatory Aspects

The Bank's banking operations are subject to various regulatory requirements managed by the government agencies of the countries in which it operates or has a license. Failure to comply with these regulatory requirements can lead to certain mandatory actions and possibly additional discretionary actions by the regulators that, if performed, could have a significant effect on The Bank's condensed consolidated Interim financial statements. Under capital adequacy guidelines and the regulatory framework of prompt corrective actions, the Bank's banking operations must comply with specific capital guidelines that provide for the quantitative asset measurements and certain elements out of the consolidated balance sheet, in accordance with the regulatory accounting practices. The amounts of capital of the Bank's banking operations and their classification are subject to qualitative judgments by the regulators about their components, risk weightings and other factors.

As June 30, 2022, the Banking operations of the Bank meet all capital adequacy minimum requirements to which they are subject, which varies from 8.00% to 12.00% and other regulatory requirements.

Main Laws and Regulations applicable for banking operations in the Republic of Panama regulated and supervised by the Superintendency of Banks of the Republic of Panama:

- *Director's Board General Resolution SBP-GJD-003-2013 issued by the Superintendency of July 9, 2013.*

This Resolution establishes that in the event that the calculation of a provision or reserve in accordance with prudential rules applicable to banks, which present specific aspects in addition to those required by IFRS, is greater than the respective calculation determined under IFRS, over-provision or reserve under prudential rules will be recognized in a wealth regulatory reserve.

Agreement No. 4-2013 *"By which provisions are established on the management and administration of credit risk inherent in the letter of credit and off-balance sheet transactions"*, issued by the Superintendency on May 28, 2013.

- Among other aspects, this Agreement defines the classification categories for credit facilities for specific and dynamic provisions, as well as the criteria that policies for restructured loans, acceptance of guarantees and punishment of operations. Specific impairment provisions of the loan portfolio should be determined and recognized in the financial statements according to the classification of credit facilities in the risk categories currently in use, according to certain weightings of calculations set out in the Agreement and considering certain percentages of minimum provisions per category.

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(24) Regulatory Aspects, continued

Dynamic provisions, as a prudential regulatory criterion, will be determined and recognized quarterly as wealth reserves following certain calculation criteria and restrictions that will be gradually applied.

The table below summarizes the classification of the amortized cost loan portfolio and the reserves for loan losses based on Agreement No. 4-2013, as of June 30, 2022.

	<u>June 30, 2022</u>					
	<u>Satisfactory</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Corporate loans and other loans	8,285,884,579	500,126,900	204,633,671	19,689,512	70,098,272	9,080,432,934
Consumer loans	<u>9,261,945,422</u>	<u>667,669,802</u>	<u>239,238,272</u>	<u>144,314,655</u>	<u>52,778,674</u>	<u>10,365,946,825</u>
Total	<u>17,547,830,001</u>	<u>1,167,796,702</u>	<u>443,871,943</u>	<u>164,004,167</u>	<u>122,876,946</u>	<u>19,446,379,759</u>
Specific reserve	<u>1,473,015</u>	<u>85,467,752</u>	<u>59,994,816</u>	<u>78,508,338</u>	<u>55,204,936</u>	<u>280,648,857</u>

	<u>December 31, 2021</u>					
	<u>Satisfactory</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Corporate loans and other loans	7,625,166,915	541,554,634	223,266,072	21,112,876	37,756,433	8,448,856,930
Consumer loans	<u>8,732,818,590</u>	<u>825,987,836</u>	<u>312,227,488</u>	<u>118,443,824</u>	<u>69,176,433</u>	<u>10,058,654,171</u>
Total	<u>16,357,985,505</u>	<u>1,367,542,470</u>	<u>535,493,560</u>	<u>139,556,700</u>	<u>106,932,866</u>	<u>18,507,511,101</u>
Specific reserve	<u>2,320,045</u>	<u>92,954,122</u>	<u>47,702,506</u>	<u>49,148,407</u>	<u>37,827,075</u>	<u>229,952,155</u>

Agreement No. 4-2013 defines as default any credit facility that presents any amount not paid, by principal, interest or expenses agreed contractually, with an age of more than 30 days and up to 90 days, from the date established for the compliance with payments.

Agreement No. 4-2013 defines as an overdue any credit facility whose non-payment of contractually agreed amounts is more than 90 days old. This period shall be calculated from the date set for the payment to be made. Transactions with a single payment at maturity and overdrafts will be considered due when the age of the non-payment exceeds 30 days, from the date on which the payment obligation is established.

As of June 30, 2022, the classification of the amortized cost loan portfolio by maturity profile based on Agreement No. 4-2013:

	<u>June 30, 2022</u>			
	<u>Current</u>	<u>Past due</u>	<u>Overdue</u>	<u>Total</u>
Corporate loans and other loans	9,015,831,131	29,396,532	35,205,271	9,080,432,934
Consumer loans	<u>9,887,438,179</u>	<u>282,831,283</u>	<u>195,677,363</u>	<u>10,365,946,825</u>
Total	<u>18,903,269,309</u>	<u>312,227,815</u>	<u>230,882,635</u>	<u>19,446,379,759</u>

	<u>December 31, 2021</u>			
	<u>Current</u>	<u>Past due</u>	<u>Overdue</u>	<u>Total</u>
Corporate loans and other loans	8,376,328,903	25,113,939	47,413,466	8,448,856,308
Consumer loans	<u>9,646,904,682</u>	<u>219,926,221</u>	<u>191,823,890</u>	<u>10,058,654,793</u>
Total	<u>18,023,233,585</u>	<u>245,040,160</u>	<u>239,237,356</u>	<u>18,507,511,101</u>

Based on Agreement No. 8-2014, for regulatory purposes, interest recognition as income based on the days of arrears in payment to principal and/or interest and the type of credit transaction is suspended operationally as follows:

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(24) Regulatory Aspects, continued

- a) For consumer and business credits, if there is a default of more than 90 days; and
b) For home mortgage loans, if there is a default of more than 120 days.

Total loans from BAC International Bank, Inc. ("Parent Bank"), as of June 30, 2022, in non-interest calculation status amounts to \$168,581,687 (December 31, 2021: \$109,481,736). Total unrecognized interest as income on these loans is \$8,102,425 (December 31, 2021: \$5,884,950).

Modified special mention category loans

In accordance with the requirements of Article 4-E of Agreement No. 9-2020 of September 11, 2020, that modifies Agreement No. 2-2020 of March 16, 2020, a detail of the loan portfolio is presented below modified special mention category and its respective provisions and regulatory reserves as of June 30, 2022, for BAC International Bank Inc. ("Parent Bank"), classified according to the three-stage model of IFRS 9:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Modified special mention category loans				
Modified loans				
Modified normal	54,991,683	72,038,179	4,434,813	131,464,675
Modified mention special	15,787,936	27,570,983	3,227,888	46,586,807
Modified substandard	56,990,645	111,497,278	56,090,567	224,578,490
Modified doubtful	26,644,806	26,413,208	10,232,766	63,290,780
Modified unrecoverable	4,141,980	5,292,082	7,612,686	17,046,748
(-) Modified loans guaranteed with deposits pledged in the same bank up to the guaranteed amount	0	0	0	0
(+) Accrued Interest receivable	<u>694,965</u>	<u>18,902,793</u>	<u>5,354,756</u>	<u>24,952,514</u>
Total portfolio subject to provisions Agreement No. 9-2020	<u>159,252,015</u>	<u>261,714,523</u>	<u>86,953,476</u>	<u>507,920,014</u>
Provisions				
IFRS 9 provision	33,431,585	20,743,244	17,362,890	<u>71,537,719</u>
Total provisions and reserve				<u>71,537,719</u>

As explained in Note 5 on the effects of COVID-19, as of March 31, 2020, the Bank granted an automatic grace period to borrowers affected in their business or personal activities by COVID-19, until September 30, 2020. As of that date, and because of an agreement signed between the Government of Panama and the Banking Association of Panama, as well as the issuance of moratorium law No. 156, extended until December 31, 2021 financial relief to those affected by COVID-19 and who requested it. These financial relief measures consist mainly of granting grace periods for capital and interest to clients whose income has been affected by the pandemic.

As part of the Bank's risk management, an individual and collective analyzes of the condition of the loans have been developed, including the segmentation of the portfolio in order to identify the employment situation or the opening of economic activity of each client and define who will be able to meet their banking obligations, who will have difficulties in doing so and who will definitely not be able to meet and thus determine if there has been a significant increase in risk and classify said loans according to the corresponding impairment stage. Additionally, different agreements have been reached with clients based on the individual analysis of their ability to generate the cash flows necessary to meet their obligations.

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(24) Regulatory Aspects, continued

COVID-19 has resulted in a disruption in economic activities that have negatively affected and are likely to continue to negatively affect the Bank's business, its financial condition, liquidity, and results of operations. The Bank's cash flows have been significantly reduced because of the moratoriums, as shown in the following table that details the percentage of the value of the modified special mention loans, including interest, which as of June 30, 2022, did not present payment in their installments counted from the last payment of the installment registered at the time of the credit modification:

	<u>Up to 90 days</u>	<u>Between 91 & 120 days</u>	<u>Between 121 & 180 days</u>	<u>Between 181 & 270 days</u>
Personal loans	62.85%	5.46%	1.88%	2.07%
Corporate loans	27.70%	0.02%	0.01%	0.00%

It is important to note that in addition to the modified special mention loans, the Bank has loans that were in the subnormal, doubtful or irrecoverable category and that benefited from the moratorium of Law No.156 of September 30, 2020. The following table shows the amounts of these loans that as of June 30, 2022, do not have payment in their installments counted from the last payment of the contractual installment (in thousands):

	<u>Between 91 and 120 days</u>	<u>Between 121 and 180 days</u>	<u>Between 181 and 270 days</u>	<u>More than 270 days</u>
Loans to persons in high-risk categories who availed themselves of Law No. 156	0	0	0	0
High-risk corporate loans under Act No. 156	0	0	0	0

As mentioned at the beginning of this note, on September 11, 2020, the Superintendency of Banks issued Agreement No. 9-2020 that modifies Agreement No. 2-2020 of March 16, 2020, through which, among other things defines that loans classified as normal and special mention, as well as restructured loans that are not in arrears, may be modified in accordance with the guidelines established in the Agreement. On the other hand, these loans modified in normal category and special mention will be classified in the category "modified special mention" for the purpose of determining the respective provisions. Modified restructured loans that were in the category of subnormal, doubtful or irrecoverable will maintain the credit classification that they had at the time of their modification with their respective provision.

In accordance with the agreement mentioned in the previous paragraph, on the modified special mention loan portfolio, the Banks will constitute a provision equivalent to the higher value between the provision according to IFRS of the modified special mention portfolio and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio, including accrued uncollected interest and capitalized expenses; Modified credits guaranteed with deposits pledged in the same bank up to the guaranteed amount may be excluded from this calculation. For this, the following scenarios will be considered:

1. In cases where the IFRS provision is equal to or greater than the generic provision of 3% established in this article, the Bank will record the corresponding IFRS provision in the results of the year.

Notes to the Condensed Consolidated Interim Financial Statements

(24) Regulatory Aspects, continued

2. In cases where the IFRS provision is lower than the generic provision of 3% established in this article, the Bank will record said IFRS provision in results and the difference must be recorded in income or in a regulatory reserve in equity, considering the following aspects:
- a. When the IFRS provision is equal to or greater than 1.5%, the Bank must record said IFRS provision in the income statement. Likewise, the difference to complete the 3% of the generic provision established in this article must be recorded in a regulatory reserve in equity.
 - b. When the IFRS provision is less than 1.5%, the Bank must ensure that complete this percentage and record it in the income statement. Likewise, the difference to complete the 3% of the generic provision established in this article must be recorded in a regulatory reserve in equity.

Article 1 of Agreement No.11-2019 amends Article 27 of Agreement No. 004-2013 as follows:

Article 27. Write-offs: Each bank shall write off all loans classified as unrecoverable within a period of no more than one year from the date on which it was classified in this category. The following loans shall be exempt from the application of this period:

- Mortgage loans, consumer loans with real estate guarantees and corporate loans with real estate guarantees, classified as risk mitigators in accordance with Article 42 of Agreement No. 11-2019 and whose guarantee is found duly constituted in the Republic of Panama in favor of the Bank. In these cases, each bank will write off all loans classified as unrecoverable within a period of no more than two years, from the date on which it was classified in this category. The above provision may be extended only once for an additional year upon approval by the Superintendent.

After the year of extension, if the Bank has not yet made any write off, it must create a reservation in the equity account, by appropriating its retained earnings to which the net loan value of the provisions will be charged already constituted, according to the percentages set out in the following table:

<u>Loans</u>	<u>Period</u>	<u>Applicable percentage</u>
Mortgage loans and consumer loans with real estate guarantees	At the beginning of the first year after the extension (fourth year)	50%
	At the beginning of the second year after the extension (fourth year)	50%
Corporate loans with real estate guarantees	At the beginning of the third year	50%
	At the beginning of the fourth year	50%

As of June 30, 2022, and December 31, 2021, the Bank constituted an estate provision of \$7,953,312 and \$8,542,731, respectively, pursuant to Agreement No. 11-2019.

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(24) Regulatory Aspects, continued

As of June 30, 2022, in compliance with the provisions set out in Articles 36 and 38 of Agreement No. 4-2013, the Bank established a dynamic provision with a balance of \$245,340,957 (December 31, 2021: \$245,340,957), is allocated from retained profits. The credit balance of this dynamic provision is part of the regulatory capital but does not replace or compensate the requirements for the minimum percentage of capital adequacy established by the Superintendency of Banks of Panama.

Agreement No. 4-2013 establishes a dynamic reserve which shall not be less than 1.25%, nor more than 2.50% of the risk-weighted assets corresponding to credit facilities classified as normal, as of June 30, 2022. These percentages represent the following amounts:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
1.25%	193,281,701	180,538,744
2.50%	<u>386,563,402</u>	<u>361,077,489</u>

The following table is the calculation of the dynamic reserve, at the consolidated level:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Component 1		
Risk – weighted assets (credit facilities – Normal category)	15,462,536,090	14,443,099,557
For alpha coefficient (1.50%)		
Result	<u>231,938,041</u>	<u>216,646,493</u>
Component 2		
Variation (positive) between the current quarter versus the previous risk – weighted assets		
For beta coefficient (5.00%)	642,756,647	606,198,737
Result		
Less:	<u>32,137,832</u>	<u>30,309,937</u>
Component 3		
Amount of change in the balance of specific provisions in the quarter		<u>(10,329,743)</u>
Gross dynamic reserve balance		<u>257,286,173</u>
Plus:	<u>(19,188,909)</u>	
Amount restriction as set forth in paragraphs “a” and “b” of Article 37 and consolidation effect.		<u>(11,945,216)</u>
Net dynamic reserve balance	<u>244,886,964</u>	<u>245,340,957</u>

As of June 30, 2022, and December 31, 2021, the Bank did not register an excess regulatory credit reserve based on Agreement No. 4-2013.

- *Capital Management*

Banking law in Panama states that general license banks must maintain a minimum paid or allocated capital of \$10 million; and a minimum capital adequacy rate of 8% of its risk-weighted assets, which should include off-balance sheet operations.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts of Total Capital and Primary Capital (Pillar 1) on risk-weighted assets. Management considers that, as of June 30, 2022 and December 31, 2021, the Bank meets all the financial adequacy requirements to which it is subject.

The Bank presents its consolidated capital funds on its risk-weighted assets based on Agreements No.1-2015, No.3-2016, No.2-2018 and No.11-2018 of the Superintendency of Banks of Panama.

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(24) Regulatory Aspects, continued

Agreement No.1-2015, which lays down capital adequacy rules for banks and banking groups, began to govern on January 1, 2016.

Agreement No.3-2016, which lays down rules for the determination of assets weighted by credit risks and counterparty risk, began to govern on July 1, 2016.

Agreement No.2-2018, which lays down the provisions on liquidity risk management and the short-term liquidity hedging ratio, began to govern on January 1, 2020.

Agreement No.11-2018, by which new provisions on Operational Risks are issued, began to govern on September 30, 2020.

Resolution SBP-GJD-005-2020, established special measures in relation to article 2 of Agreement No. 3- 2016, in order to temporarily modify the risk weights of the different categories of assets used to calculate the capital index, by virtue of the current situation that is being experienced at the national level as a result of COVID-19. It became effective on April 20, 2020.

Agreement No. 9-2020, which establish additional, exceptional, and temporary measures are issued to comply with the provisions contained in Agreement No. 4-2013, became effective on September 21, 2020.

The Bank did not require establishing additional reserves to comply with Agreement 9-2020.

The Bank presents consolidated capital funds on its weighted assets based on risks, in accordance with the requirements of the Superintendency of Banks of Panama, which are detailed below:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Ordinary Primary Capital (Pilar I)		
Common stocks	834,708,000	834,708,000
Additional paid in capital	140,897,488	140,897,488
Retained earnings	2,221,641,479	1,913,341,660
Non-controlling interest	258,929	246,432
Other Comprehensive losses	(621,034,924)	(396,849,401)
Less: Goodwill	(333,146,951)	(333,709,271)
Less: Intangible assets	(52,812,291)	(55,946,231)
Less: Treasury stock	(5,218,370)	(5,218,370)
Total Ordinary Primary Capital	<u>2,185,293,360</u>	<u>2,097,470,307</u>
Additional Primary Capital		
Perpetual bond issued by the Bank	<u>520,000,000</u>	<u>520,000,000</u>
Total Additional Primary Capital	<u>520,000,000</u>	<u>520,000,000</u>
Total Primary Capital (Net)	<u>2,705,293,360</u>	<u>2,617,470,307</u>
Secondary Capital (Pilar II)		
Subordinated debt	<u>0</u>	<u>0</u>
Total Secondary Capital	<u>0</u>	<u>0</u>
Dynamic Provision	<u>245,340,957</u>	<u>245,340,957</u>
Total Regulatory Capital Fund	<u>2,950,634,317</u>	<u>2,862,811,264</u>
Total Assets Weighted by Net Risk deductions	22,664,884,581	21,498,855,187
Operational Risk Weighted Assets (Agreement No.11-2018)	<u>1,247,849,033</u>	<u>1,452,019,619</u>
Total risk weighted assets	<u>23,912,733,614</u>	<u>22,950,874,806</u>
Ratios:		
Capital Adequacy Ratio	<u>12.34%</u>	<u>12.47%</u>
Primary Capital Ratio	<u>11.31%</u>	<u>11.40%</u>

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(24) Regulatory Aspects, continued

- *Liquidity Ratio*

The percentage of the liquidity index reported by BAC International Bank, Inc. ("Parent Bank") to the regulatory body, under the parameters of Agreement No. 4-2008, as of June 30, 2022 was 51.25% (December 2021: 53.94%).

- *Assets Held for sale*

Agreement No. 3-2009 issued by the Superintendency of Banks of Panama, by which the provisions on disposal of property are updated, sets a five (5) years period to dispose of property acquired in settlement of unpaid loans.

The awarded properties held for sale are recognized at the lowest value between the carrying value of non-cancelled loans or the estimated value of realization of the properties. The agreement provides that the provision of the awarded properties, allocated of the non-distributed profits, is progressively within a range of 10% from the first year of registration up to 90% to the fifth year of award, through the establishment of a heritage reserve. The following is the progressive booking table:

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

As of June 30, 2022, the Bank constituted provision of the awarded properties amounting to \$3,529,328 (December 2021: \$4,300,122), as a property item that is allocated from undistributed profits.

- *Financial Bank Act*

The operations of financial companies in Panama are regulated by the Directorate of Financial Enterprises of the Ministry of Trade and Industry in accordance with the laws established in Law No.42 of July 23, 2001.

- *Lease Acts*

Leasing operations in Panama are regulated by the Directorate of Financial Enterprises of the Ministry of Trade and Industry in accordance with the legislation established by the Act No.7 of July 10, 1990.

- *Securities Act*

The stock market operations in Panama are regulated by the Superintendency of the Securities Market in accordance with the legislation established in Decree Law No.1 of July 8, 1999, reformed by Law No. 67 of September 1, 2011.

The broker firm's operations are regulated by Agreement No. 4-2011, modified in certain aspects by the Agreements No. 8-2013 and No. 3-2015, issued by the Superintendency of the Securities. The Agreements specifies that broker firms must comply with capital adequacy requirements and its modalities.

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(25) Subsequent Events

The Bank has assessed the subsequent events to August 05, 2022 to assess the need for their recognition or disclosure in the accompanying financial statements. Based on this evaluation, we determined that there were no subsequent events which require recognition or disclosure in these condensed consolidated Interim financial statements.