

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

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

September 30, 2023

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**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**

September 30, 2023

(In U.S. dollars)

<u>Assets</u>	<u>Note</u>	<u>September 30,</u> <u>2023</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2022</u> <u>(Audited)</u>
Cash and cash equivalents		717,897,586	768,898,974
Securities purchased under resale agreements	4, 7	33,680,721	10,696,871
Deposits in banks:			
Demand		3,155,456,655	3,807,298,545
Time deposits		234,720,391	577,895,443
<b>Total deposits in banks</b>		<u>3,390,177,046</u>	<u>4,385,193,988</u>
<b>Total cash, cash equivalents and deposits in banks</b>	6	4,141,755,353	5,164,789,833
Investments in securities	4, 8	4,721,752,582	4,190,431,132
Loans	4,9	22,574,260,273	20,824,218,578
Allowance for loan losses	4	<u>(707,785,328)</u>	<u>(692,939,937)</u>
<b>Loans at amortized cost</b>		<u>21,866,474,945</u>	<u>20,131,278,641</u>
Property and equipment, net		555,288,249	536,000,919
Acceptances outstanding		31,528,201	31,709,438
Other accounts receivable	4	372,654,843	385,098,812
Provision for accounts receivable	4	(6,598,101)	(6,760,140)
Goodwill and intangible assets, net		405,451,103	397,446,007
Deferred income tax		44,344,330	64,485,134
Other assets		<u>183,998,133</u>	<u>155,374,925</u>
<b>Total assets</b>		<u><u>32,316,649,638</u></u>	<u><u>31,049,854,701</u></u>

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

<b><u>Liabilities and Equity</u></b>	<b><u>Note</u></b>	<b>September 30, 2023 (Unaudited)</b>	<b>December 31, 2022 (Audited)</b>
<b>Liabilities:</b>			
Deposits from customers:			
Demand		9,044,679,752	9,043,317,464
Savings		5,896,061,381	5,664,121,559
Time deposits		9,500,301,937	8,621,328,043
<b>Total deposits from customers</b>	10	<u>24,441,043,070</u>	<u>23,328,767,066</u>
Securities sold under repurchase agreements		68,778,396	260,710,165
Financial obligations	11	2,085,970,679	2,283,961,350
Other financial obligations	12	1,346,761,750	1,059,787,532
Lease liabilities	13	126,157,483	138,555,391
Acceptances outstanding		31,528,201	31,709,438
Income tax payable		18,088,572	65,164,551
Deferred income tax		60,640,556	49,812,370
Other liabilities		829,540,502	803,717,211
<b>Total liabilities</b>		<u>29,008,509,209</u>	<u>28,022,185,074</u>
<b>Equity:</b>			
Common stock	14	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		2,424,609,855	2,346,577,551
Regulatory reserves		328,032,117	259,511,063
Other comprehensive losses		(415,190,595)	(549,079,111)
<b>Total shareholder equity of the controlling Company</b>		<u>3,307,838,495</u>	<u>3,027,396,621</u>
Non-controlling interest of the Company		301,934	273,006
<b>Total equity</b>		<u>3,308,140,429</u>	<u>3,027,669,627</u>
<b>Total liabilities and equity</b>		<u>32,316,649,638</u>	<u>31,049,854,701</u>

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Condensed Consolidated Statement of Profit or Loss**

For the nine-month period ended September 30, 2023

(In U.S. dollars)

	<u>Note</u>	<u>September 30,</u> <u>2023</u>	<u>September 30,</u> <u>2022</u>
		<u>(Unaudited)</u>	
Interest income:			
Deposits in banks		44,719,181	13,905,849
Investments in securities		197,095,736	131,055,520
Loans		<u>1,686,569,921</u>	<u>1,363,238,518</u>
<b>Total interest income</b>		<u>1,928,384,838</u>	<u>1,508,199,887</u>
Interest expense:			
Deposits from customers		441,245,768	331,122,840
Financial obligations		96,270,675	47,777,713
Other financial obligations		82,280,615	46,808,175
Securities sold under repurchase agreements		10,753,969	4,701,219
Lease liabilities		<u>5,120,651</u>	<u>5,876,011</u>
<b>Total interest expense</b>		<u>635,671,678</u>	<u>436,285,958</u>
<b>Interest income, net</b>		<u>1,292,713,160</u>	<u>1,071,913,929</u>
Impairment loss due to credit risk on loans and interest	4	259,692,959	263,028,864
Impairment (reversal) loss due to credit risk on investments and interest bearing deposits	4	(2,526,184)	882,428
Impairment loss (reversal) due to credit risk on accounts receivable	4	<u>1,200,516</u>	<u>(307,049)</u>
<b>Interest income, net after provisions</b>		<u>1,034,345,869</u>	<u>808,309,686</u>
Other income (expenses):			
Gains in financial instruments, net	15	3,744,253	13,951,870
Service charges		452,948,774	372,619,167
Commissions and other fees, net		186,919,966	162,016,682
Gain on foreign currency exchange, net		34,389,511	92,243,157
Impairment of assets held for sale		(520,728)	(219,029)
Other income		<u>30,853,473</u>	<u>29,785,792</u>
<b>Total other income, net</b>		<u>708,335,249</u>	<u>670,397,639</u>
General and administrative expenses:			
Salaries and employee benefits		483,898,836	399,028,819
Depreciation and amortization		97,081,881	83,199,366
Administrative		79,946,357	72,280,578
Occupancy and related expenses		26,262,779	23,373,016
Other expenses		<u>453,679,514</u>	<u>395,216,967</u>
<b>Total general and administrative expenses</b>		<u>1,140,869,367</u>	<u>973,098,746</u>
<b>Income before income tax</b>		601,811,751	505,608,579
Current income tax		(131,125,838)	(154,105,301)
Deferred income tax		<u>(18,355,538)</u>	<u>9,075,650</u>
<b>Net income</b>		<u>452,330,375</u>	<u>360,578,928</u>
<b>Net income attributable to:</b>			
Controlling interest		452,290,616	360,550,028
Non-controlling interest		<u>39,759</u>	<u>28,900</u>
		<u>452,330,375</u>	<u>360,578,928</u>

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

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Condensed Consolidated Statement of Comprehensive Income**

For the nine-month period ended September 30, 2023

(In U.S. dollars)

	September 30, <u>2023</u>	September 30, <u>2022</u>
	<u>(Unaudited)</u>	
Net income	<u>452,330,375</u>	<u>360,578,928</u>
<b>Other comprehensive results:</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Employee benefits plan - change in actuarial effect	(279,502)	(447,850)
Net change in fair value of equity investments	(86,665)	30,232
<b>Items that are or can be reclassified to profit or loss</b>		
Foreign currency translation	119,409,149	(3,424,848)
Valuation for investments FVOCI:		
Net amount reclassified to profit or loss	(9,794)	(8,841,013)
Net change in fair value	<u>14,851,399</u>	<u>(186,942,952)</u>
<b>Other comprehensive results</b>	<u>133,884,587</u>	<u>(199,626,431)</u>
<b>Total comprehensive income</b>	<u><u>586,214,962</u></u>	<u><u>160,952,497</u></u>
<b>Total comprehensive income attributable to:</b>		
Controlling interest	586,179,132	160,929,763
Non-controlling interest	35,830	22,734
	<u><u>586,214,962</u></u>	<u><u>160,952,497</u></u>

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

**Condensed Consolidated Statement of Changes in Equity**

For the nine-month period ended September 30, 2023

(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			
<b>Balance as of January 1, 2022 (Audited)</b>	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	360,550,028	0	0	360,550,028	28,900	360,578,928	
<b>Other comprehensive results:</b>										
Foreign currency translation	0	0	0	0	0	(3,421,409)	(3,421,409)	(3,439)	(3,424,848)	
Valuation of FVOCI securities:										
Net amount reclassified to profit or loss	0	0	0	0	0	(8,840,571)	(8,840,571)	(442)	(8,841,013)	
Net change in fair value	0	0	0	0	0	(186,941,034)	(186,941,034)	(1,918)	(186,942,952)	
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	(199,620,265)	(199,620,265)	(6,166)	(199,626,431)	
Total comprehensive results	0	0	0	360,550,028	0	(199,620,265)	160,929,763	22,734	160,952,497	
<b>Other changes in equity:</b>										
Regulatory reserves	0	0	0	1,569,013	(1,569,013)	0	0	0	0	
<b>Transactions with the Bank's owners:</b>										
Transactions between the Bank and the non-controlling interest										
Reorganisation of entities under common control	0	0	0	0	0	0	0	1,139	1,139	
Complementary tax	0	0	0	1,015,390	0	0	1,015,390	0	1,015,390	
<b>Contributions and distributions:</b>										
Declared dividends	0	0	0	0	0	0	0	(3,619)	(3,619)	
Paid dividends	0	0	0	(25,000,000)	0	0	(25,000,000)	(4,117)	(25,004,117)	
Total transactions with the Bank's owners	0	0	0	(23,984,610)	0	0	(23,984,610)	(6,597)	(23,991,207)	
<b>Balance as of September 30, 2022 (Unaudited)</b>	<u>834,708,000</u>	<u>140,897,488</u>	<u>(5,218,370)</u>	<u>2,251,476,091</u>	<u>256,614,797</u>	<u>(596,469,666)</u>	<u>2,882,008,340</u>	<u>262,569</u>	<u>2,882,270,909</u>	
<b>Balance as of January 1, 2023 (Audited)</b>	834,708,000	140,897,488	(5,218,370)	259,511,063	259,511,063	(549,079,111)	3,027,396,621	273,006	3,027,669,627	
Impact of IFRS 17 adoption, as of January 1, 2023	0	0	0	(2,834,733)	0	0	(2,834,733)	0	(2,834,733)	
<b>Balance as of January 1, 2023, restated</b>	<u>834,708,000</u>	<u>140,897,488</u>	<u>(5,218,370)</u>	<u>2,343,742,818</u>	<u>259,511,063</u>	<u>(549,079,111)</u>	<u>3,024,561,888</u>	<u>273,006</u>	<u>3,024,834,894</u>	
Net income	0	0	0	452,290,616	0	0	452,290,616	39,759	452,330,375	
<b>Other comprehensive results:</b>										
Foreign currency translation	0	0	0	0	0	119,410,866	119,410,866	(1,717)	119,409,149	
Valuation of FVOCI securities:										
Net amount reclassified to profit or loss	0	0	0	0	0	(9,574)	(9,574)	(220)	(9,794)	
Net change in fair value	0	0	0	0	0	14,853,410	14,853,410	(2,011)	14,851,399	
Employee benefits plan - change in actuarial effect	0	0	0	0	0	(279,521)	(279,521)	19	(279,502)	
Net change in foreign currency of common stocks	0	0	0	0	0	(86,665)	(86,665)	0	(86,665)	
Total other comprehensive results	0	0	0	0	0	133,888,516	133,888,516	(3,929)	133,884,587	
Total comprehensive results	0	0	0	452,290,616	0	133,888,516	586,179,132	35,830	586,214,962	
<b>Other changes in equity:</b>										
Regulatory reserves	0	0	0	(68,521,054)	68,521,054	0	0	0	0	
<b>Transactions with the Bank's owners:</b>										
Complementary tax	0	0	0	897,475	0	0	897,475	0	897,475	
<b>Contributions and distributions:</b>										
Declared dividends	0	0	0	0	0	0	0	(2,603)	(2,603)	
Paid dividends	0	0	0	(303,800,000)	0	0	(303,800,000)	(4,299)	(303,804,299)	
Total transactions with the Bank's owners	0	0	0	(302,902,525)	0	0	(302,902,525)	(6,902)	(302,909,427)	
<b>Balance as of September 30, 2023 (Unaudited)</b>	<u>834,708,000</u>	<u>140,897,488</u>	<u>(5,218,370)</u>	<u>2,424,609,855</u>	<u>328,032,117</u>	<u>(415,190,595)</u>	<u>3,307,838,495</u>	<u>301,934</u>	<u>3,308,140,429</u>	

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

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Condensed Consolidated Statement of Cash Flows**

For the nine-month period ended September 30, 2023

(In U.S. dollars)

	<b>Note</b>	<b>September 30, 2023</b>	<b>September 30, 2022</b>
		<b>(Unaudited)</b>	
Cash flows from operating activities:			
Net Income		452,330,375	360,578,928
Adjustments to reconcile net income and cash by operating activities:			
Depreciation and amortization		97,081,881	83,199,365
Impairment loss due to credit risk on loans and interest	4	259,692,959	263,028,864
Impairment (reversal) loss due to credit risk on investments and interest bearing deposits	4	(2,526,184)	882,428
Impairment loss (reversal) due to credit risk on accounts receivable	4	1,200,516	(307,049)
Impairment of assets held for sale		520,728	219,029
Provision for losses on undisbursed commitments		(113,842)	156,746
Interest income, net		(1,292,713,160)	(1,071,913,930)
Gain on financial instruments, net	15	(3,744,253)	(13,951,871)
Net loss on sale and disposal of property and equipment		430,614	820,010
Net gain on sale of assets held for sale		(7,731,366)	(8,326,772)
Net loss on disposal of intangible assets		9,399	329,657
Dividends on equity securities		(2,035,993)	(716,431)
Income tax expense		149,481,376	145,029,651
<b>Changes in operating assets and liabilities:</b>			
Deposits with original maturities of 90 days or more		10,921,493	14,781,437
Investments in securities		2,918,858	8,504,876
Loans		(1,399,232,767)	(1,593,612,044)
Securities sold under agreements to repurchase		(197,802,202)	395,864,637
Other accounts receivable		79,025,882	20,871,482
Other assets		(30,808,462)	(19,214,645)
Deposits from costumers		400,123,576	625,497,772
Other liabilities		(38,424,113)	59,788,152
<b>Cash generated by operations:</b>			
Interest received		1,875,559,406	1,502,738,035
Interest paid		(608,898,065)	(426,861,545)
Dividends received		2,035,993	716,431
Income tax paid		(204,903,380)	(152,301,694)
<b>Net cash (used in) provided by operating activities</b>		<u>(457,600,731)</u>	<u>195,801,519</u>
Cash flows from investment activities:			
Proceeds from sale of investments in securities		225,643,953	495,727,185
Maturities, and prepayments of investments in securities		2,794,446,743	1,803,368,819
Purchase of investments in securities		(3,436,703,783)	(2,954,452,462)
Purchase of property and equipment		(63,344,359)	(56,099,183)
Proceeds from sale of property and equipment		690,231	636,513
Acquisition of intangible assets		(24,773,350)	(19,417,650)
Proceeds from sale of assets held for sale		29,840,319	26,018,073
<b>Net cash used in investment activities</b>		<u>(474,200,246)</u>	<u>(704,218,705)</u>
Cash flows from financing activities:			
Proceeds from financial obligations		1,069,073,495	1,357,676,285
Payment of financial obligations		(1,294,817,540)	(1,163,787,189)
Proceeds from other financial obligations		275,079,503	73,913,375
Payment of other financial obligations		(29,965,492)	(50,008,787)
Payment of lease liabilities		(22,546,676)	(22,741,859)
Paid dividends		(303,804,295)	(25,004,117)
<b>Net cash (used in) provided by financing activities</b>		<u>(306,981,005)</u>	<u>170,047,708</u>
Effect of exchange rate fluctuations on cash held		226,581,389	14,764,485
Net decrease in cash and cash equivalents		(1,012,200,593)	(323,604,993)
Cash and cash equivalents at beginning of the period		5,094,061,121	5,085,470,428
<b>Cash and cash equivalents at the end of the period</b>	6	<u>4,081,860,528</u>	<u>4,761,865,435</u>

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



## **BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Statements**

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

**Notes to the Condensed Consolidated Interim Financial Statements**

September 30, 2023

(In U.S. dollars)

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**(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. ("the Parent Company") and 0.0039% by other shareholders. BIC is an indirect subsidiary of BAC Holding International Corp. ("the Parent Company"), a company listed on the Panama Stock Exchange ("Latinex") and the Colombian Stock Exchange ("BVC"). These condensed consolidated interim financial statements as of September 30, 2023, include the Bank and its subsidiaries, which together will be referred to as the "Bank".

As of March 24, 2022, the Parent Company was wholly owned by Banco de Bogota, S.A., an authorized bank in the Republic of Colombia, which in turn is a subsidiary of Grupo Aval Acciones y Valores, S.A. ("Grupo Aval"), an entity domiciled in the Republic of Colombia.

On March 25, 2022, Banco de Bogota S.A. carried out the spin-off of 75% of its ownership in the Company in favor of its shareholders of said entity, through Sociedad Beneficiaria Bogota, S.A.S.

On March 28, 2022, Grupo Aval completed the spin-off its indirect equity participation in the parent company in favor of its shareholders. The shares, spun-off in a favor of Grupo Aval, shareholders were received as a result of the spin-off carried out by Banco de Bogota, S.A. on March 25, 2022.

BAC International Bank, Inc. provides, directly and through its subsidiaries, 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 significant entities:

<u>Subsidiary</u>	<u>Core Business</u>	<u>Country</u>	<u>Total voting rights held by the Bank</u>
BAC Bahamas Bank Limited	Banking	Bahamas	100.0000%
BAC Valores Inc.	Securities broker	Panama	100.0000%
Premier Assets Management Inc.	Mutual funds	Panama	100.0000%
BAC Latam SSC S.A.	Services	Costa Rica	100.0000%
BAC Latam Honduras, S.A.	Services	Honduras	100.0000%
Banco de America Central S.A.	Banking	Guatemala	99.9999%
Financiera de Capitales S.A.	Financial services	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	99.9999%
Negocios y Transacciones Institucionales S.A.	Leasing	Guatemala	99.9958%
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 Honduras	Mutual funds	Honduras	100.0000%
Inversiones Financieras Banco de America Central S.A.	Holding	El Salvador	99.9987%
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	El Salvador	99.9948%
Viajes Credomatic El Salvador S.A.	Travel Agency	El Salvador	100.0000%
Credit Systems, Inc.	Bancaria	Panama	100.0000%
Corporacion Tenedora BAC COM S.A.	Holding	Nicaragua	99.9769%
Banco de America Central S.A.	Banking	Nicaragua	99.9999%
Almacenes Generales de Deposito BAC S.A.	Fiscal Warehouse	Nicaragua	99.9994%
Credito S.A.	Card Industry	Nicaragua	99.6631%
Corporacion de Inversiones Credomatic S.A.	Holding	Costa Rica	100.0000%
Corporacion Tenedora BAC Credomatic S.A.	Holding	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%
Coinca Corporation	Holding	British Virgin Islands	100.0000%
Comunicaciones Inalambricas de Centroamerica S.A de C.V.	Telematic services	El Salvador	100.0000%
Namutek S.A.	Telematic services	Costa Rica	100.0000%
Comunicaciones Inalambricas de Centroamerica S.A.	Telematic services	Nicaragua	97.0000%
Comunicaciones Inalambricas de Centroamerica S.A.	Telematic services	Honduras	100.0000%
COSIC, S.A.	Telematic services	Guatemala	100.0000%
Agencia de Viajes Intertur S.A.	Travel Agency	Costa Rica	100.0000%
Credomatic of Florida, Inc.	Card Industry	United States of America	100.0000%
Red Land Bridge Reinsurance Ltd.	Reinsurance	Grand Cayman	100.0000%

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

##### (a) *Condensed consolidated financial statements*

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 conformity with IFRSs issued by the International Accounting Standards Board ("IASB"). No. 34 "Interim Financial Information", they must be read together with the latest consolidated financial statements for the period ended December 31 of 2022.

IASB 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 Board of Directors on November 2, 2023.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Statements

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

#### (c) *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 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.

#### (d) *Functional and presentation currency*

The items included in the accounts of each of the Bank's subsidiaries are measured using the currency of the main economic environment where the entity operates ("functional currency").

The Bank's condensed consolidated interim financial statements are presented in US dollars, which is also the Bank's functional currency. Information presented in US dollars is expressed in units, unless otherwise indicated.

#### (e) *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. Final results may differ from these estimates. These also requires the Bank's management to apply its judgment when applying the Bank's accounting policies. The main judgments made by management in applying the Bank's accounting policies and the main sources of uncertainty in the estimates have been the same as those described in the last annual financial statements.

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 the condensed consolidated interim financial statements is disclosed in Note 5.

### (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, 2022, 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 returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Statements

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

#### ***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 to 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 profit or loss. 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 profit or loss. All non-monetary items of the Bank are recorded in the functional currency at the time of the transaction.

Goodwill and adjustments to the 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.

#### ***Subsidiaries of the Bank***

The financial position and results of all of the Bank's subsidiaries that have a functional currency other than the Bank's functional currency are converted into the reporting currency as follows:

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

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

##### **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 at 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 held for trading, the Bank may elect to irrevocably recognized 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.

In addition, in the initial recognition, the Bank may irrevocably designate a financial asset that meets the measurement requirements to be classified 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.

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 at portfolio level to better represent how each subsidiary manages the business and how management information is reported. The information considered includes:

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

- 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 of the Bank on portfolio performance.
- The risks that affect the performance of the portfolios (and the financial assets held within them) 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 years, 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 are achieved and how cash flows are realized.

Financial assets held or managed for trading and where their performance is assessed 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.

#### ***Assessment of whether 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 risks 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 payments 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;



## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

- Terms that limit the Bank in obtaining cash flows from 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 criteria of solely payments of principal and interest, considering several factors that include whether:

- Debtors can prepay the loans without significant penalties;
- Competitive market factors ensure that interest rates are consistent among banks; and,
- Any regulatory protective provision on behalf 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 criteria of solely payments of principal and interest, 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.

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 ECL, which is determined on a weighted average basis.

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

- Fixed and variable – rate debt instruments;
- Lease payments receivable;
- Other accounts receivable;

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

- 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 credit 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 the date of the report.

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.

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 12 months following the measurement date:

- Investments in debt instruments determined to represent low credit risk at 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.

#### ***Measuring ECL***

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

- Financial assets with no credit impairment at the reporting date: the present value of all contractual cash payments in arrears (for example: the difference between contractual cash flows owed to the Bank and cash flows that the Bank expects to receive);
- Impaired financial assets at the reporting date: the difference between the gross book value and the present value of estimated future cash flows;

## **BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Statements**

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

- 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 of 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.

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 impaired, and their importance may vary over time to reflect changes in circumstances.

#### ***Significant increase in credit risk***

When determining whether the credit risk a financial asset has increased significantly since initial recognition, the Bank considers relevant fair and 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 is credit risk, including prospective information.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

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 a 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 the 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.

#### ***Rating 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 uses 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 vary depending on the type of exposure and the type of borrower.

Credit risk rating is defined and calibrated so that the risk of losses increases exponentially as the credit risk is impaired and so that, for example, the difference in the risk of losses between grade satisfactory and special mention rating is less than the difference between the credit risk between special mention and sub-standard rating.

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

#### ***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 defaults.

The Bank assesses 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 are adjusted by changes in maturity terms.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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#### (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 due.

#### **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 profit or loss 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, an extension of payment terms, reductions in balances owed, or a combination of the above.

If the Bank plans to modify a financial asset in a way that would result in the 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.

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 gain or loss in profit or loss.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

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 along 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 several reasons, including changes in market conditions, client retention and other factors unrelated to the actual or potential impairment of the client's loan.

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.

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 assesses the debtor's payment compliance as compared to the modified terms of the debt debtor or and considers several performance indicators for the group of debtors modified.

Generally, restructuring indicators are a relevant factor in increased credit risk. Therefore, a restructured debtor must demonstrate consistent payment behavior over a period of time before no longer being considered as an impaired loan or that the PD has decreased in such a way that the provision may be reversed, and the loan may be 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 profit or loss. The consideration paid includes the transferred of non-financial assets, if any, and the assumption of liabilities, including the new modified financial liability.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

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.

Credit risk ratings are a grouping criteria to determine the PD term structure for the different exposures. The Bank obtains information on the number of defaults on credit risk exposures analyzed by jurisdiction or region, type of product, and the credit risk rating assigned to calculate the PD.

The Bank uses statistical models to analyze the data collected and generates estimates of the probability of impairment in the remaining life of the exposures and how those probabilities of impairment will change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in impairment rates and key macroeconomic factors as well as an in-depth analysis of certain credit risk factors (e.g. loan write-offs). For most loans, key economic factors usually include gross domestic product growth, changes in market interest rates, and unemployment.

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 maturity terms of the exposures and the estimated prepayment rates.

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

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

LGD is the magnitude of probable losses in the event of non-compliance. 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 to value recovery model is used. For loans secured by mortgages and/or pledges, a history of the relationship between the selling price of assets available for sale and sold with respect to the balance of the loans is used as a recovery parameter. These loans are calculated on the bases of discounted cash flows using the effective interest rate of the loan.

EAD represents expected exposure in the event of non-compliance. 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 guarantees, the EAD considers the amount disbursed, as well as potential future amounts that may be disbursed or collected under the contract, which are estimated based on historical observations. Finally, for credit cards, due to their relative nature, the Bank determines the EAD by modeling a percentage of historical utilization over the 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 repayment of a loan or terminate a loan commitment or security guarantee granted.

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 does not limit the Bank's exposure to credit losses for the contractual period. 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 than only when the Bank finds that there has been an increase in credit risk for each loan. This longer period will be estimated considering the actions for credit risk management that the Bank expects to take and that mitigate the EAD. These measures include a reduction in limits and cancellation of loan contracts.

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.



## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

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### Notes to the Condensed Consolidated Interim Financial Statements

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

- Date of initial recognition.
- Remaining term until maturity.
- Geographical location of the debtor.

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

#### ***Projection of future conditions***

Semi-annually forecasted, macroeconomic scenarios 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, and Economic Commission for Latin America and the Caribbean, etc. (ii) the macroeconomic program of the Central American central banks and (iii) economists outside the Bank.

- **Central scenario:** According to current expectations, 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.

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.

## **BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Statements**

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

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 profit or loss when incurred for financial assets and liabilities at fair value with changes in the profit or loss, and they are recorded as part of the initial value of the instrument for assets and liabilities to AC and FVOCI. 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 them are received, the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all of the risks and benefits derived from their ownership.

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

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

##### ***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

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

##### ***Presentation of provision for PCE in the consolidated statement of position***

The provision for PCE is presented in the consolidated statement of financial position as follows:

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

##### (d) *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.

##### (e) *Recognition of the most significant income and expenses*

###### ***Interest income and expenses***

Interest income and expenses are recognized in profit or loss 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.

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.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Statements

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

Other fees and commissions received mainly relating to fees for transactions and services are recognized as income when they are received, and related services have been rendered.

#### ***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 profit or loss. 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.

#### (f) *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, and certain securities and deposits that generate interests, with original maturities of 90 days or less.

#### (g) *Property and equipment*

Property and equipment are presented at cost, less accumulated depreciation and any accumulated impairment losses 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 recognizes depreciation in profit or loss with an increase to the accumulated depreciation account. Land is not depreciated. The estimated useful lives of assets are:

<u>Category</u>	<u>Years/Base</u>
Buildings	20 - 50
Furniture and equipment	5 - 10
Vehicles	5
Computer's equipment	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.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

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.

##### (h) Leases

At the 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 the 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.

At inception or on a 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.

## **BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Statements**

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

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.

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.

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.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

##### 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".

##### (i) *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.

Non-controlling interests are recorded for the proportional part of the 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.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

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.

##### (j) *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 are mainly comprised of relations with the depositors, relations with credit card customers, 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 profit or loss as depreciation and amortization expenses.

Trade names are non-amortizable intangible assets.

##### (k) *Income tax*

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

The current tax expense is calculated based on the laws enacted on the reporting 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. 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 profit or loss nor taxable income or loss. Deferred tax is determined using tax rates (and laws) enacted or substantially enacted on the reporting 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 the temporary differences will likely be reversed in the future, and there is a sufficient future taxable income against which the temporary differences can be used.



## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

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.

(l) *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.

(m) *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 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.

(n) *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 (an exit price).

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.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

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 market pricing information.

##### (o) *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 the historical cost of the Parent Company 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.

##### (p) *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, 2023, 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.

##### (q) *Segments*

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 Management to make decisions on 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.

**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**

*(r) Reclassifications and non-material corrections*

Non-material amounts in the consolidated Financial Statements as of December 31, 2022 and September 30, 2022 were reclassified to align with the presentation of the condensed consolidated interim financial statement as of September 30, 2023. The Bank has identified non-material corrections that have been included in consolidated Financial Statements as of December 31, 2022 and the consolidated statement of income and cash flows for the period ended September 30, 2022

The following table shows a description of the non-material corrections identified:

	<b>December 31, 2022</b>		
	<b><u>Previously Reported Amount</u></b>	<b><u>Correction</u></b>	<b><u>Corrected Amount</u></b>
<b>Deposits in banks:</b>			
Demand deposits	3,846,465,925	(39,167,380)	3,807,298,545
Other assets	116,207,545	(39,167,380)	155,374,925
	<b>September 30, 2022</b>		
	<b><u>Previously Reported Amount</u></b>	<b><u>Correction</u></b>	<b><u>Corrected Amount</u></b>
<b>Other income (expenses):</b>			
Services charges	336,443,361	36,175,806	372,619,167
Other income	67,761,253	(37,975,461)	29,785,792
<b>General and administrative expense:</b>			
Administrative	75,752,633	(472,055)	72,280,578
Other expense	396,544,567	(1,327,600)	395,216,967
<b>Cash and cash equivalents</b>			
At the beginning of the period	5,124,637,808	(39,167,380)	5,085,470,428
At the end of the period	4,801,032,815	(39,167,380)	4,761,865,435

These reclassifications and corrections did not change the total assets, liabilities, equity or results of the respective period.

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**  
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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
<b>September 30, 2023</b>						
Cash, cash equivalents and deposits in banks	0	0	0	0	4,141,755,353	4,141,755,353
Investments in securities	27,769,389	13,076,224	4,628,894,373	3,074,901	48,937,695	4,721,752,582
Loans at amortized costs	0	0	0	0	21,866,474,945	21,866,474,945
Other accounts receivable	0	0	0	0	366,056,742	366,056,742
<b>Total financial assets</b>	<b>27,769,389</b>	<b>13,076,224</b>	<b>4,628,894,373</b>	<b>3,074,901</b>	<b>26,423,224,735</b>	<b>31,096,039,622</b>
<b>December 31, 2022</b>						
Cash, cash equivalents and deposits in banks	0	0	0	0	5,164,789,833	5,164,789,833
Investments in securities	27,877,482	13,078,802	4,102,738,448	3,175,100	43,561,300	4,190,431,132
Loans at amortized costs	0	0	0	0	20,131,278,641	20,131,278,641
Other accounts receivable	0	0	0	0	378,338,672	378,338,672
<b>Total financial assets</b>	<b>27,877,482</b>	<b>13,078,802</b>	<b>4,102,738,448</b>	<b>3,175,100</b>	<b>25,717,968,446</b>	<b>29,864,838,278</b>

As of September 30, 2023 and December 31, 2022 all of the financial liabilities held by the Bank are classified at amortized cost.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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#### (4) Risk Management, continued

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 risks, 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 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.

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

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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#### (4) Risk Management, continued

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 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 the 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 \$ 3,390,177,046 as of September 30, 2023 (December 31, 2022: \$ 4,385,193,988). Deposits are maintained at central banks and other financial institutions, most of which have A+ to CCC+ risk ratings, (December 31, 2022: A+ to CCC+ risk ratings) based on Standard & Poor's, Moody's, and/or Fitch Ratings. Of total deposits, excluding deposits in central banks, as of September 30, 2023, approximately \$12.8 million did not have a risk rating (December 31, 2022: \$4 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 September 30, 2023, all securities under resale agreements and bank deposits are up to date on the payment of principal and interest.

##### *Quality of the investments in securities*

The Bank segregates the investment portfolio into investments at FVPL, investments at FVOCI, As of September 30, 2023, investments amounted to \$ 4,721,752,582 (December 2022: \$ 4,190,431,132).

- Investments at FVLP

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

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

**(4) Risk Management, continued**

The following table summarizes investments at FVLP categories:

	September 30, 2023	December 31, 2022
<b>Governments and agencies</b>		
AA+	4,262,319	0
B+	23,507,070	0
B	<u>0</u>	<u>26,355,405</u>
<b>Total Governments and agencies</b>	<u>27,769,389</u>	<u>26,355,405</u>
<b>Corporate</b>		
B	<u>0</u>	<u>1,016,532</u>
<b>Total Corporates</b>	<u>0</u>	<u>1,016,532</u>
<b>Total investments at FVLP</b>	<u>27,769,389</u>	<u>27,371,937</u>

• **Investments at FVOCI**

The following table summarizes the investments at FVOCI categories:

	September 30, 2023			December 31, 2022		
	12 months ECL	Lifetime ECL - without impairment	Total investments at FVOCI	12 months ECL	Lifetime ECL - without impairment	Total investments at FVOCI
<b>Governments and agencies</b>						
AA+	516,153,600	0	516,153,600	230,626,073	0	230,626,073
BBB	293,323,707	0	293,323,707	236,576,825	0	236,576,825
BB+ a CCC+	<u>3,335,467,147</u>	<u>0</u>	<u>3,335,467,147</u>	<u>3,071,757,791</u>	<u>0</u>	<u>3,071,757,791</u>
<b>Total governments and agencies</b>	<u>4,144,944,454</u>	<u>0</u>	<u>4,144,944,454</u>	<u>3,538,960,689</u>	<u>0</u>	<u>3,538,960,689</u>
<b>Corporate</b>						
AA	2,050,734	0	2,050,734	2,000,750	0	2,000,750
A+	4,920,026	0	4,920,026	11,918,163	0	11,918,163
A	283,573	0	283,573	0	0	0
A-	109,429,415	0	109,429,415	170,986,629	0	170,986,629
BBB+	50,888,951	0	50,888,951	39,208,650	0	39,208,650
BBB	28,341,646	0	28,341,646	31,369,109	0	31,369,109
BBB-	50,564,010	0	50,564,010	53,749,599	0	53,749,599
BB+ a CCC+	236,463,866	0	236,463,866	254,544,859	0	254,544,859
No Qualification	<u>1,007,698</u>	<u>0</u>	<u>1,007,698</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total corporate</b>	<u>483,949,919</u>	<u>0</u>	<u>483,949,919</u>	<u>563,777,759</u>	<u>0</u>	<u>563,777,759</u>
<b>Total</b>	<u>4,628,894,373</u>	<u>0</u>	<u>4,628,894,373</u>	<u>4,102,738,448</u>	<u>0</u>	<u>4,102,738,448</u>
<b>Allowance for ECL</b>	<u>17,570,012</u>	<u>0</u>	<u>17,570,012</u>	<u>20,818,098</u>	<u>0</u>	<u>20,818,098</u>

As of September 30, 2023, and December 31, 2022, investments at FVOCI are current and do not reflect impairment.

*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.

• **Investments at AC**

The following table summarizes the investments at AC categories:

	September 30, 2023			December, 2022		
	12 monts ECL	Lifetime ECL - without impairment	Total investments at AC	12 months ECL	Lifetime ECL - without impairment	Total investments at AC
<b>Governments and Agencies</b>						
BB+ a BB-	44,095,775	0	44,095,775	43,561,300	0	43,561,300
<b>Total Governments and Agencies</b>	<u>44,095,775</u>	<u>0</u>	<u>44,095,775</u>	<u>43,561,300</u>	<u>0</u>	<u>43,561,300</u>
<b>Corporate</b>						
BB+ a B+	4,841,920	0	4,841,920	0	0	0
<b>Total Corporate</b>	<u>4,841,920</u>	<u>0</u>	<u>4,841,920</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<u>48,937,695</u>	<u>0</u>	<u>48,937,695</u>	<u>43,561,300</u>	<u>0</u>	<u>43,561,300</u>
<b>Allowance for ECL</b>	<u>141,600</u>	<u>0</u>	<u>141,600</u>	<u>115,089</u>	<u>0</u>	<u>115,089</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 grading used for each stated term:

<b>September 30, 2023</b>	<b>Loans</b>			<b>Total</b>
	<b>12 months ECL</b>	<b>Lifetime ECL - credit unimpaired</b>	<b>Lifetime ECL - credit impaired</b>	
<b>Corporate</b>				
Satisfactory	8,576,913,783	8,928,333	0	8,585,842,116
Special mention	0	351,400,533	0	351,400,533
Sub-standard	0	0	131,725,671	131,725,671
Doubtful	0	0	30,884,048	30,884,048
Loss	<u>0</u>	<u>0</u>	<u>46,529,148</u>	<u>46,529,148</u>
<b>Gross amount</b>	<b>8,576,913,783</b>	<b>360,328,866</b>	<b>209,138,867</b>	<b>9,146,381,516</b>
Allowance for ECL	<u>(19,793,711)</u>	<u>(22,859,347)</u>	<u>(85,592,194)</u>	<u>(128,245,252)</u>
<b>Net amount</b>	<b>8,557,120,072</b>	<b>337,469,519</b>	<b>123,546,673</b>	<b>9,018,136,264</b>
<b>Small company</b>				
Satisfactory	1,008,272,689	65,519,899	0	1,073,792,588
Special mention	8,109,072	27,213,014	0	35,322,086
Sub-standard	0	0	4,262,231	4,262,231
Doubtful	0	0	4,795,474	4,795,474
Loss	<u>0</u>	<u>0</u>	<u>4,375,159</u>	<u>4,375,159</u>
<b>Gross amount</b>	<b>1,016,381,761</b>	<b>92,732,913</b>	<b>13,432,864</b>	<b>1,122,547,538</b>
Allowance for ECL	<u>(2,978,627)</u>	<u>(2,569,206)</u>	<u>(3,708,997)</u>	<u>(9,256,830)</u>
<b>Net amount</b>	<b>1,013,403,134</b>	<b>90,163,707</b>	<b>9,723,867</b>	<b>1,113,290,708</b>
<b>Mortgage</b>				
Satisfactory	3,198,467,774	140,028,378	0	3,338,496,152
Special mention	1,901,837	330,482,804	0	332,384,641
Sub-standard	0	0	116,512,733	116,512,733
Doubtful	0	0	35,289,580	35,289,580
Loss	<u>0</u>	<u>0</u>	<u>24,350,532</u>	<u>24,350,532</u>
<b>Gross amount</b>	<b>3,200,369,611</b>	<b>470,511,182</b>	<b>176,152,845</b>	<b>3,847,033,638</b>
Allowance for ECL	<u>(9,360,441)</u>	<u>(32,310,608)</u>	<u>(19,956,765)</u>	<u>(61,627,814)</u>
<b>Net amount</b>	<b>3,191,009,170</b>	<b>438,200,574</b>	<b>156,196,080</b>	<b>3,785,405,824</b>
<b>Personal Banking</b>	2,114,211,890	65,900,821	1,038,919	2,181,151,630
Satisfactory	3,106,711	60,932,306	1,006,988	65,046,005
Special mention	0	0	41,807,559	41,807,559
Sub-standard	0	0	15,701,548	15,701,548
Doubtful	<u>0</u>	<u>0</u>	<u>5,169,615</u>	<u>5,169,615</u>
Loss	<u>2,117,318,601</u>	<u>126,833,127</u>	<u>64,724,629</u>	<u>2,308,876,357</u>
<b>Gross amount</b>	<b>(40,832,877)</b>	<b>(22,203,908)</b>	<b>(27,324,059)</b>	<b>(90,360,844)</b>
Allowance for ECL	<u>2,076,485,724</u>	<u>104,629,219</u>	<u>37,400,570</u>	<u>2,218,515,513</u>
<b>Net amount</b>				
<b>Vehicles</b>				
Satisfactory	1,163,537,403	26,495,048	0	1,190,032,451
Special mention	3,790,310	82,540,826	0	86,331,136
Sub-standard	0	0	12,474,301	12,474,301
Doubtful	0	0	2,504,502	2,504,502
Loss	<u>0</u>	<u>0</u>	<u>941,724</u>	<u>941,724</u>
<b>Gross amount</b>	<b>1,167,327,713</b>	<b>109,035,874</b>	<b>15,920,527</b>	<b>1,292,284,114</b>
Allowance for ECL	<u>(6,267,571)</u>	<u>(7,228,764)</u>	<u>(3,708,594)</u>	<u>(17,204,929)</u>
<b>Net amount</b>	<b>1,161,060,142</b>	<b>101,807,110</b>	<b>12,211,933</b>	<b>1,275,079,185</b>
<b>Credit card</b>				
Satisfactory	4,097,199,922	198,557,320	3,528,763	4,299,286,005
Special mention	7,275,830	295,622,906	65,932,972	368,831,708
Sub-standard	0	0	16,496,883	16,496,883
Doubtful	436,164	57,556,334	13,935,460	71,927,958
Loss	<u>0</u>	<u>0</u>	<u>100,594,556</u>	<u>100,594,556</u>
<b>Gross amount</b>	<b>4,104,911,916</b>	<b>551,736,560</b>	<b>200,488,634</b>	<b>4,857,137,110</b>
Allowance for ECL	<u>(113,594,631)</u>	<u>(156,409,608)</u>	<u>(131,085,420)</u>	<u>(401,089,659)</u>
<b>Net amount</b>	<b>3,991,317,285</b>	<b>395,326,952</b>	<b>69,403,214</b>	<b>4,456,047,451</b>
<b>Net carrying amount of loans at amortized cost</b>	<b>19,990,395,527</b>	<b>1,467,597,081</b>	<b>408,482,337</b>	<b>21,866,474,945</b>



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**(4) Risk Management, continued**

<u>December 31, 2022</u>	Loans			<u>Total</u>
	<u>12 months ECL</u>	<u>Lifetime ECL - credit unimpaired</u>	<u>Lifetime ECL - credit impaired</u>	
<b>Corporate</b>				
Satisfactory	8,085,215,091	18,184,712	0	8,103,399,803
Special mention	0	360,858,811	0	360,858,811
Sub-standard	0	0	175,608,063	175,608,063
Doubtful	0	0	20,887,773	20,887,773
Loss	0	0	<u>31,734,475</u>	<u>31,734,475</u>
<b>Gross amount</b>	<u>8,085,215,091</u>	<u>379,043,523</u>	<u>228,230,311</u>	<u>8,692,488,925</u>
Allowance for ECL	<u>(42,511,739)</u>	<u>(41,411,764)</u>	<u>(92,427,129)</u>	<u>(176,350,632)</u>
<b>Net amount</b>	<u>8,042,703,352</u>	<u>337,631,759</u>	<u>135,803,182</u>	<u>8,516,138,293</u>
<b>Small company</b>				
Satisfactory	770,257,453	81,882,586	0	852,140,039
Special mention	39,349	42,125,631	0	42,164,980
Sub-standard	0	0	5,209,354	5,209,354
Doubtful	0	0	2,526,472	2,526,472
Loss	0	0	<u>3,864,968</u>	<u>3,864,968</u>
<b>Gross amount</b>	<u>770,296,802</u>	<u>124,008,217</u>	<u>11,600,794</u>	<u>905,905,813</u>
Allowance for ECL	<u>(4,204,288)</u>	<u>(3,984,043)</u>	<u>(3,217,174)</u>	<u>(11,405,505)</u>
<b>Net amount</b>	<u>766,092,514</u>	<u>120,024,174</u>	<u>8,383,620</u>	<u>894,500,308</u>
<b>Mortgage</b>				
Satisfactory	2,946,987,722	233,855,190	0	3,180,842,912
Special mention	2,968,867	374,818,843	0	377,787,710
Sub-standard	0	0	96,469,630	96,469,630
Doubtful	0	0	29,701,111	29,701,111
Loss	0	0	<u>40,808,262</u>	<u>40,808,262</u>
<b>Gross amount</b>	<u>2,949,956,589</u>	<u>608,674,033</u>	<u>166,979,003</u>	<u>3,725,609,625</u>
Allowance for ECL	<u>(13,754,941)</u>	<u>(37,608,498)</u>	<u>(36,972,603)</u>	<u>(88,336,042)</u>
<b>Net amount</b>	<u>2,936,201,648</u>	<u>571,065,535</u>	<u>130,006,400</u>	<u>3,637,273,583</u>
<b>Personal banking</b>				
Satisfactory	1,903,773,219	91,318,754	2,323,108	1,997,415,081
Special mention	4,517,623	66,417,134	806,741	71,741,498
Sub-standard	0	0	35,787,729	35,787,729
Doubtful	0	0	14,913,224	14,913,224
Loss	0	0	<u>7,603,125</u>	<u>7,603,125</u>
<b>Gross amount</b>	<u>1,908,290,842</u>	<u>157,735,888</u>	<u>61,433,927</u>	<u>2,127,460,657</u>
Allowance for ECL	<u>(32,082,991)</u>	<u>(21,918,007)</u>	<u>(24,623,249)</u>	<u>(78,624,247)</u>
<b>Net amount</b>	<u>1,876,207,851</u>	<u>135,817,881</u>	<u>36,810,678</u>	<u>2,048,836,410</u>
<b>Vehicles</b>				
Satisfactory	940,682,758	83,251,579	0	1,023,934,337
Special mention	257,776	98,429,546	0	98,687,322
Sub-standard	0	0	8,440,577	8,440,577
Doubtful	0	0	3,313,578	3,313,578
Loss	0	0	<u>89,247</u>	<u>89,247</u>
<b>Gross amount</b>	<u>940,940,534</u>	<u>181,681,125</u>	<u>11,843,402</u>	<u>1,134,465,061</u>
Allowance for ECL	<u>(7,047,265)</u>	<u>(12,587,002)</u>	<u>(4,034,126)</u>	<u>(23,668,393)</u>
<b>Net amount</b>	<u>933,893,269</u>	<u>169,094,123</u>	<u>7,809,276</u>	<u>1,110,796,668</u>
<b>Credit card</b>				
Satisfactory	3,583,130,029	145,542,334	3,261,814	3,731,934,177
Special mention	7,170,879	301,801,207	45,489,438	354,461,524
Sub-standard	0	0	16,624,162	16,624,162
Doubtful	266,545	39,427,927	14,317,869	54,012,341
Loss	0	0	<u>81,256,293</u>	<u>81,256,293</u>
<b>Gross amount</b>	<u>3,590,567,453</u>	<u>486,771,468</u>	<u>160,949,576</u>	<u>4,238,288,497</u>
Allowance for ECL	<u>(89,364,685)</u>	<u>(127,256,718)</u>	<u>(97,933,715)</u>	<u>(314,555,118)</u>
<b>Net amount</b>	<u>3,501,202,768</u>	<u>359,514,750</u>	<u>63,015,861</u>	<u>3,923,733,379</u>
<b>Net carrying amount of loans at amortized cost</b>	<u>18,056,301,402</u>	<u>1,693,148,222</u>	<u>381,829,017</u>	<u>20,131,278,641</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:

<u>September 30, 2023</u>	<u>Credit commitments and guarantees</u>			<u>Total</u>
	<u>12 months ECL</u>	<u>Lifetime ECL - credit unimpaired</u>	<u>Lifetime ECL - credit impaired</u>	
<b>Corporate</b>				
Satisfactory	716,646,151	0	0	716,646,151
Special mention	0	1,051,910	0	1,051,910
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	937,743	937,743
<b>Gross amount</b>	<u>716,646,151</u>	<u>1,051,910</u>	<u>937,743</u>	<u>718,635,804</u>
Allowance for ECL	<u>(168,951)</u>	<u>(6,312)</u>	<u>(937,743)</u>	<u>(1,113,006)</u>
<b>Net amount</b>	<u>686,473,815</u>	<u>1,045,598</u>	<u>0</u>	<u>717,522,798</u>
<b>Small company</b>				
Satisfactory				
Special mention	5,510,294	0	0	5,510,294
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	0	0
<b>Gross amount</b>	<u>0</u>	<u>0</u>	<u>260,556</u>	<u>260,556</u>
Allowance for ECL	<u>5,510,294</u>	<u>0</u>	<u>260,556</u>	<u>5,770,850</u>
<b>Net amount</b>	<u>(4,229)</u>	<u>0</u>	<u>(260,556)</u>	<u>(264,785)</u>
	<u>5,506,065</u>	<u>0</u>	<u>0</u>	<u>5,506,065</u>
<b>Mortgage</b>				
Satisfactory	60,796,207	0	0	60,796,207
Special mention	0	0	0	0
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	0	0
<b>Gross amount</b>	<u>60,796,207</u>	<u>0</u>	<u>0</u>	<u>60,796,207</u>
Allowance for ECL	<u>(6,079)</u>	<u>0</u>	<u>0</u>	<u>(6,079)</u>
<b>Net amount</b>	<u>50,790,128</u>	<u>0</u>	<u>0</u>	<u>60,790,128</u>
<b>Net carrying amount, net of reserve</b>	<u>782,773,393</u>	<u>1,045,598</u>	<u>0</u>	<u>783,818,991</u>

<u>December 31, 2022</u>	<u>Credit commitments and guarantees</u>			<u>Total</u>
	<u>12 months ECL</u>	<u>Lifetime ECL - credit unimpaired</u>	<u>Lifetime ECL - credit impaired</u>	
<b>Corporate</b>				
Satisfactory	684,523,735	0	0	684,523,735
Special mention	0	2,595,842	0	2,595,842
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	947,871	947,871
<b>Gross amount</b>	<u>684,523,735</u>	<u>2,595,842</u>	<u>947,871</u>	<u>688,067,448</u>
Allowance for ECL	<u>(237,669)</u>	<u>(27,189)</u>	<u>(947,871)</u>	<u>(1,212,729)</u>
<b>Net amount</b>	<u>684,286,066</u>	<u>2,568,653</u>	<u>0</u>	<u>686,854,719</u>
<b>Small company</b>				
Satisfactory	4,761,958	0	0	4,761,958
Special mention	0	0	0	0
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	0	0
<b>Gross amount</b>	<u>4,761,958</u>	<u>0</u>	<u>0</u>	<u>4,761,958</u>
Allowance for ECL	<u>(293,720)</u>	<u>0</u>	<u>0</u>	<u>(293,720)</u>
<b>Net amount</b>	<u>4,468,238</u>	<u>0</u>	<u>0</u>	<u>4,468,238</u>
<b>Mortgage</b>				
Satisfactory	49,932,510	0	0	49,932,510
Special mention	0	0	0	0
Sub-standard	0	0	0	0
Doubtful	0	0	0	0
Loss	0	0	0	0
<b>Gross amount</b>	<u>49,932,510</u>	<u>0</u>	<u>0</u>	<u>49,932,510</u>
Allowance for ECL	<u>(4,993)</u>	<u>0</u>	<u>0</u>	<u>(4,993)</u>
<b>Net amount</b>	<u>49,927,517</u>	<u>0</u>	<u>0</u>	<u>49,927,517</u>
<b>Net carrying amount, net of reserve</b>	<u>738,681,821</u>	<u>2,568,653</u>	<u>0</u>	<u>741,250,474</u>

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

**(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.

	September 30, 2023					
	Mortgage	Pledge	Certificates of deposit	Investments in securities	Unsecured	Total
Securities under resale agreements	0	0	0	33,680,721	0	33,680,721
Investments in securities	0	0	0	0	4,705,601,457	4,705,601,457
<b>Loans</b>						
<b>Corporate</b>						
Corporate	3,945,481,270	765,193,471	198,731,821	0	3,972,155,270	8,881,561,832
Corporate leases, net	0	264,819,684	0	0	0	264,819,684
<b>Total corporate</b>	3,945,481,270	1,030,013,155	198,731,821	0	3,972,155,270	9,146,381,516
<b>Personal Banking and Small company</b>						
<b>Small company</b>						
Small company	515,696,164	59,269,040	23,934,936	0	402,024,125	1,001,824,265
Small company leases, net	0	120,723,273	0	0	0	120,723,273
<b>Total Small company</b>	515,696,164	179,992,313	23,934,936	0	402,024,125	1,122,547,538
<b>Personal Banking</b>						
Mortgage	3,847,033,638	0	0	0	0	3,847,033,638
Personal	429,079,213	224,333	27,551,297	0	1,852,021,514	2,308,876,357
Vehicles	0	1,164,125,092	0	0	0	1,164,125,092
Personal leases, net of interest	0	128,159,022	0	0	0	128,159,022
Credit cards	0	0	0	0	4,857,137,110	4,857,137,110
<b>Total Personal Banking</b>	4,276,112,851	1,292,508,447	27,551,297	0	6,709,158,624	12,305,331,219
<b>Total Personal Banking and Small company</b>	4,791,809,015	1,472,500,760	51,486,233	0	7,112,082,749	13,427,878,757
Allowance for ECL	(142,389,772)	(31,163,751)	(636,687)	0	(533,595,118)	(707,785,328)
<b>Total loans</b>	<u>8,594,900,513</u>	<u>2,471,350,164</u>	<u>249,581,367</u>	<u>0</u>	<u>10,550,642,901</u>	<u>21,866,474,945</u>
Commitments and guarantees	95,493,557	3,953,255	39,579,616	1,585,255	644,591,178	785,202,861
Commitments and guarantees, allowance	(23,284)	(526)	(3,223)	(10)	(1,356,827)	(1,383,870)
<b>Total commitments and guarantees, net</b>	<u>95,470,273</u>	<u>3,952,729</u>	<u>39,576,393</u>	<u>1,585,245</u>	<u>643,234,351</u>	<u>783,818,991</u>

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

**(4) Risk Management, continued**

	December 31, 2022					
	Mortgage	Pledge	Certificates of deposit	Investments in securities	Unsecured	Total
Securities under resale agreements	0	0	0	10,696,871	0	10,696,871
Investments in securities	0	0	0	0	4,174,177,230	4,174,177,230
<b>Loans</b>						
<b>Corporate</b>						
Corporate	3,614,421,829	655,706,560	200,401,348	0	4,001,148,703	8,471,678,440
Corporate leases, net	0	219,799,473	1,011,012	0	0	220,810,485
<b>Total corporate</b>	3,614,421,829	875,506,033	201,412,360	0	4,001,148,703	8,692,488,925
<b>Personal Banking and Small company</b>						
<b>Small company</b>						
Small company	455,393,371	56,704,286	22,839,617	0	269,126,524	804,063,798
Small company leases, net	0	101,741,901	100,114	0	0	101,842,015
<b>Total Small company</b>	455,393,371	158,446,187	22,939,731	0	269,126,524	905,905,813
<b>Personal Banking</b>						
Mortgage	3,725,609,625	0	0	0	0	3,725,609,625
Personal	361,231,553	122,343	28,812,359	0	1,737,294,402	2,127,460,657
Vehicles	0	1,032,570,044	0	0	0	1,032,570,044
Personal leases, net of interest	0	101,895,017	0	0	0	101,895,017
Credit cards	0	0	0	0	4,238,288,497	4,238,288,497
<b>Total Personal Banking</b>	4,086,841,178	1,134,587,404	28,812,359	0	5,975,582,899	11,225,823,840
<b>Total Personal Banking and Small company</b>	4,542,234,549	1,293,033,591	51,752,090	0	6,244,709,423	12,131,729,653
Allowance for ECL	(196,330,849)	(50,146,621)	(3,410,754)	0	(443,051,713)	(692,939,937)
<b>Total loans</b>	<u>7,960,325,529</u>	<u>2,118,393,003</u>	<u>249,753,696</u>	<u>0</u>	<u>9,802,806,413</u>	<u>20,131,278,641</u>
Commitments and guarantees	70,415,350	4,066,454	35,162,280	825,764	632,292,068	742,761,916
Commitments and guarantees, allowance	(17,737)	(2,272)	(2,357)	(3)	(1,489,073)	(1,511,442)
<b>Commitments and guarantees, net</b>	<u>70,397,613</u>	<u>4,064,182</u>	<u>35,159,923</u>	<u>825,761</u>	<u>630,802,995</u>	<u>741,250,474</u>

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:

	September 30, 2023		December 31, 2022	
	Loans	Covered amount	Loans	Covered amount
<b>Corporates</b>				
Stage 1 and 2	3,825,191,708	3,715,766,503	3,820,785,517	3,800,416,102
Stage 3	151,840,201	151,216,758	165,068,999	164,978,703
<b>Total</b>	<u>3,977,031,909</u>	<u>3,866,983,261</u>	<u>3,985,854,516</u>	<u>3,965,394,805</u>

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

	September 30, 2023	December 31, 2022
Properties	10,996,075	21,925,214
Furniture and equipment	4,029,751	4,723,279
<b>Total</b>	<u>15,025,826</u>	<u>26,648,493</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.

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

**(4) Risk Management, continued**

***Residential mortgage loans***

The following table shows the index of loans from the mortgage portfolio to the value of collaterals 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	September 30, 2023		December 31, 2022	
	Loans	Credit and guarantee commitments	Loans	Credit and guarantee commitments
Less than 50%	788,376,033	2,508,005	887,224,834	2,199,240
51-70%	1,283,461,600	5,768,867	1,320,246,221	5,673,475
71-80%	1,239,524,329	14,281,271	1,097,491,698	12,840,862
81-90%	430,520,676	17,404,270	324,494,975	17,044,198
91-100%	90,366,679	20,332,913	69,819,189	12,044,627
More than 100%	14,784,321	500,881	26,332,708	130,108
<b>Total</b>	<b>3,847,033,638</b>	<b>60,796,207</b>	<b>3,725,609,625</b>	<b>49,932,510</b>

*Impaired loans*

LTV Ratio	September 30, 2023	December 31, 2022
Less than 50%	23,961,382	21,939,960
51-70%	50,804,401	50,104,237
71-80%	55,312,911	51,247,739
81-90%	35,237,699	32,942,121
91-100%	8,370,314	6,897,588
More than 100%	2,466,138	3,847,358
<b>Total</b>	<b>176,152,845</b>	<b>166,979,003</b>

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

**(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
<b>Slowdown of commercial partners:</b> Less dynamism is expected in developed economies; important commercial partners for the region.	1) Monetary policies are effective in controlling inflation and moderation is achieved without generating considerable distortions on economies globally.	1) Economic growth is affected by the contractionary interest rate cycle. Developed economies are slowing but growth remains positive.	1) Economic growth is considerably affected by policies to contain inflation. It results in significant levels of unemployment and growth is negative in several quarters of the year in developed countries.
<b>Global financial volatility:</b> With the contractionary cycle (in terms of monetary policies) financial volatility and risk aversion have increased, which is expected to reduce capital flows to emerging economies. This was exacerbated by the failure of some regional banks in the US	2) The contractionary cycle of interest rates eases as inflation returns to its usual levels. The issue of regional banks continues unabated and the soundness of the banking system is ratified; which gives confidence.	2) monetary policy rates around the world result in tighter international financial conditions. The issue of regional banks does not go further, but it brings volatility to the markets.	2) Inflation remains persistent and monetary authorities must further increase their reference rates. Political/military conflicts persist and worsen generating uncertainty in international markets.

The scenarios for each country are detailed below:

Scenario	Scenarios synthesis	Upside	Central	Downside
Guatemala	1. Economic growth is expected to slow from its historical growth. Even so, it remains one of the countries with the best outlook in the next 12 months in Central America due to macroeconomic solidity. 2. Macro prices remain stable, largely due to the positive behavior of the country's macroeconomic variables such as: remittances, exports, stable exchange rate, low level of sovereign debt, among others.	Rapid recovery of the external sector and trading partners drive higher-than-expected economic growth.	Economic growth slows but remains positive. Macroeconomic conditions remain stable and inflationary pressures ease so that inflation moderates in the short term	Economic growth shows a more pronounced slowdown than expected and inflation persists, forcing the Central Bank of Guatemala to raise the rate further.
Honduras	1. Economic activity grows at moderate rates relative to its historical performance. Activities related to agriculture and manufacturing have an impact on the dynamism of the national economy due to the lower international demand in these markets. 2. Macro prices are seen as stable, considering healthy and solid macroeconomic fundamentals of the country. The only imbalance is observed on the side of interest rates, where it is decided to maintain the MPR while international rates increase hand in hand with rate increases in the world.	Elections are held in a transparent manner and the winning candidate strengthens institutional confidence, favors growth and maintains stability in prices and interest rates.	The economy loses dynamism, but remains in positive territory. Fiscal indicators improve considerably and there is a moderation of inflation. Foreign exchange auctions resume, which appeases the convertibility risk contemplated during 2022 Q4 and 2023 Q1	Economy grows less than expected and inflation persists. Macroeconomic imbalance in interest rates generates a migration of capital in local currency to foreign currency which causes the currency to depreciate.

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

**(4) Risk Management, continued**

Scenario	Scenarios synthesis	Upside	Central	Downside
EI Salvador	<p>1. Economic growth slows and exhibits negative year-on-year growth for the month of April 2023. Financial stress could limit growth and increase uncertainty and country risk.</p> <p>2. Inflation outlook was aligned with forecasts of multilateral entities; improvements are seen in this area hand in hand with reductions in the same variable in the US. An increase in interest rates is contemplated, with the increase in the financial vulnerability of the government.</p>	<p>External economic growth above expectations, favoring higher income from remittances. Government proposes effective measures to balance budget and reduce financial vulnerability.</p>	<p>Economic growth slows and financial volatility remains. In addition, there will be uncertainty due to national elections and disagreements between the government and the IMF.</p>	<p>Faster-than-expected rises in international rates increase pressures on rates and hinder access to government financing.</p>
Nicaragua	<p>1. Recent economic growth exhibits slowdown and is below the average of Central American peers. Activities related to the agricultural and manufacturing sectors affect the overall dynamism of the economy.</p> <p>2. The inflation outlook was increased, considering the recent increase in the price level. It is expected that the exchange policy of mini-devaluations and interest rate increases will be maintained, considering the possibility of reducing external sources of financing for the government.</p>	<p>The country is benefiting from external economic growth. Sanctions by trading partners do not affect international trade and allow the country to benefit from external growth.</p>	<p>The democratic deterioration continues and the economy loses dynamism in relation to previous years. Good execution in terms of fiscal discipline is maintained.</p>	<p>Recrudescence of sociopolitical crisis; without economic growth and with higher rates, due to less access to international financing. Humanitarian crisis worsens and the flight of labor has a negative impact on productivity.</p>
Costa Rica	<p>1. Growth remains stable and the economy shows a dynamism driven by activities associated with services.</p> <p>2. Inflation is expected to remain in the upper half of the target range, with the possibility of exceeding it in the pessimistic scenario. A lower devaluation is expected than in December 31, 2022 and stability in interest rates.</p>	<p>Improvement in public finances, institutional strength, with transparent elections and advances in vaccination result in higher-than-expected growth and stability in interest rates.</p>	<p>Economy slows down due to the contractionary monetary policy of the BCCR, but growth remains positive. Fiscal discipline is maintained and the agreements stipulated with the IMF are complied with, which favors a lower debt/GDP than in the previous year. Change in portfolio composition of institutional investors push the exchange rate upwards, causing a moderate depreciation of the currency.</p>	<p>Political agreements are not reached to reduce the fiscal deficit, uncertainty generates exchange rate pressures and increase in the demand for loanable funds from the government pressures interest rates. Changes in portfolio composition of institutional investors significantly push the exchange rate upwards.</p>
Panama	<p>1. Panama's economic growth remains the highest among Central American countries.</p> <p>2. Regarding the last review, scenarios of higher inflation during September 30, 2023 and a gradual increase in interest rates are contemplated, in line with the rate trend in the United States.</p>	<p>Panama is favored by external economic growth above expectations, with fewer obstacles to international trade.</p>	<p>Economic growth slows but remains positive and is one of the fastest growing countries in the region. Conditions of macroeconomic stability and a significant moderation in inflationary pressures are expected.</p>	<p>The deterioration in government finances continues and there is a greater increase in the debt, which further pressures prices and affects economic growth.</p>

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**Notes to the Condensed Consolidated Interim Financial Statements**

**(4) Risk Management, continued**

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

September 30, 2023						
Scenario probability weighting	Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
Upside	40%	10%	5%	10%	25%	40%
Central	45%	65%	55%	65%	70%	55%
Downside	15%	25%	40%	25%	5%	5%

  

December 31, 2022						
Scenario probability weighting	Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
Upside	35%	15%	5%	10%	20%	20%
Central	55%	60%	55%	65%	70%	75%
Downside	10%	25%	40%	25%	10%	5%

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.



**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**  
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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.

		September 30, 2023					
		Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
		%	%	%	%	%	%
Annual rate of change in economic growth, expressed as a percentage	Upside	4.72	4.09	2.93	4.36	4.37	5.80
	Central	3.27	3.49	2.08	3.36	3.15	5.43
	Downside	3.00	2.66	1.81	2.30	1.30	3.99
Year-on-year rate of change of inflation, expressed as a percentage	Upside	2.12	5.53	2.03	2.70	1.81	1.55
	Central	5.63	6.15	3.20	5.26	3.22	2.35
	Downside	5.75	8.06	3.56	8.94	4.92	3.32
Nominal exchange rate of change, expressed as a percentage	Upside	0.01	1.74	-	1.11	3.23	-
	Central	1.45	3.86	-	1.27	4.78	-
	Downside	2.58	4.23	-	2.95	8.29	-
Annual difference in the local currency lending rate measured in basis points	Upside	(0.07)	(1.39)	-	0.12	(1.13)	-
	Central	(0.28)	0.00	-	0.86	(0.93)	-
	Downside	0.35	0.59	-	1.15	(0.01)	-
Annual difference in foreign currency lending rate measured in basis points	Upside	0.06	0.02	0.54	(0.01)	(1.25)	(0.94)
	Central	0.11	0.28	0.89	0.37	(0.27)	(0.43)
	Downside	1.21	1.41	0.91	1.12	(0.65)	0.47

		December 31, 2022					
		Guatemala	Honduras	El Salvador	Nicaragua	Costa Rica	Panama
		%	%	%	%	%	%
Annual rate of change in economic growth, expressed as a percentage	Upside	3.82	3.98	2.37	3.62	3.65	5.32
	Central	3.34	3.46	1.90	2.99	2.75	4.58
	Downside	2.62	2.74	1.36	2.63	1.93	4.00
Year-on-year rate of change of inflation, expressed as a percentage	Upside	3.93	4.27	2.54	4.12	3.99	2.64
	Central	4.22	6.76	3.94	5.61	4.96	3.62
	Downside	6.16	8.27	4.92	7.99	6.32	4.23
Nominal exchange rate of change, expressed as a percentage	Upside	0.59	2.67	-	1.12	0.80	-
	Central	0.91	4.23	-	1.60	2.57	-
	Downside	1.33	4.32	-	2.33	5.08	-
Annual difference in the local currency lending rate measured in basis points	Upside	0.98	1.18	-	0.91	1.25	-
	Central	1.49	1.47	-	1.54	1.74	-
	Downside	2.01	2.55	-	1.74	2.01	-
Annual difference in foreign currency lending rate measured in basis points	Upside	0.93	1.24	1.38	1.34	1.22	0.32
	Central	1.48	1.42	2.77	1.41	2.15	0.46
	Downside	2.47	2.26	3.27	1.68	2.46	1.31

***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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**Notes to the Condensed Consolidated Interim Financial Statements**

**(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, shown in note 3 (c).

<u>September 30, 2023</u>	<u>Upside</u>	<u>Central</u>	<u>Downside</u>
<b>Book Value</b>			
Corporate	9,146,381,516	9,146,381,516	9,146,381,516
Small company	1,122,547,538	1,122,547,537	1,122,547,538
Mortgage	3,847,033,638	3,847,033,639	3,847,033,638
Personal banking	2,308,876,357	2,308,876,357	2,308,876,357
Vehicles	1,292,284,114	1,292,284,114	1,292,284,114
Credit card	<u>4,857,137,110</u>	<u>4,857,137,110</u>	<u>4,857,137,110</u>
	<u>22,574,260,273</u>	<u>22,574,260,273</u>	<u>22,574,260,273</u>
<b>ECL Allowance</b>			
Corporate	125,153,376	128,993,306	131,987,833
Small company	7,162,629	8,521,521	9,923,172
Mortgage	57,869,861	62,818,495	67,751,222
Personal banking	86,481,511	90,567,591	93,931,419
Vehicles	17,493,524	19,068,730	20,230,114
Credit card	<u>386,440,009</u>	<u>403,767,238</u>	<u>416,076,334</u>
	<u>680,600,910</u>	<u>713,736,881</u>	<u>739,900,094</u>
<b>Proportion of assets in Stage 2</b>			
Corporate	3.91%	3.91%	3.91%
Small company	7.78%	7.94%	8.65%
Mortgage	11.68%	11.93%	12.01%
Personal banking	5.22%	5.50%	5.65%
Vehicles	8.16%	8.63%	8.85%
Credit card	<u>11.09%</u>	<u>11.17%</u>	<u>11.50%</u>
	7.35%	7.47%	7.62%
<u>December 31, 2022</u>	<u>Upside</u>	<u>Central</u>	<u>Downside</u>
<b>Book Value</b>			
Corporate	8,692,488,925	8,692,488,925	8,692,488,925
Small company	905,905,813	905,905,813	905,905,813
Mortgage	3,725,609,625	3,725,609,625	3,725,609,625
Personal banking	2,127,460,657	2,127,460,657	2,127,460,657
Vehicles	1,134,465,061	1,134,465,061	1,134,465,061
Credit card	<u>4,238,288,497</u>	<u>4,238,288,497</u>	<u>4,238,288,497</u>
	<u>20,824,218,578</u>	<u>20,824,218,578</u>	<u>20,824,218,578</u>
<b>ECL Allowance</b>			
Corporate	169,639,209	176,741,052	182,668,391
Small company	10,515,974	11,559,368	12,704,168
Mortgage	84,396,956	88,764,466	93,523,826
Personal banking	76,929,888	79,145,384	82,781,047
Vehicles	22,351,139	23,835,937	25,313,556
Credit card	<u>305,192,470</u>	<u>314,458,539</u>	<u>323,949,278</u>
	<u>669,025,636</u>	<u>694,504,746</u>	<u>720,940,266</u>
<b>Proportion of assets in Stage 2</b>			
Corporate	4.32%	4.32%	4.32%
Small company	13.30%	13.86%	14.89%
Mortgage	15.15%	15.75%	16.53%
Personal banking	7.22%	7.34%	7.93%
Vehicles	15.29%	15.53%	15.98%
Credit card	<u>11.26%</u>	<u>11.30%</u>	<u>11.31%</u>
	8.96%	9.12%	9.39%

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## Notes to the Condensed Consolidated Interim Financial Statements

### (4) Risk Management, continued

The following table shows a reconciliation of the opening and closing balances of the period as of September 30, 2023, of the financial assets' ECL allowance.

	September 30, 2023				December 31, 2022			
	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total
<b>Deposits in Banks</b>								
Balance on January 1	141,799	0	0	141,799	247,602	0	0	247,602
Net remeasurement of loss allowance	(83,138)	0	0	(83,138)	(165,986)	0	0	(165,986)
New financial assets originated	23,498	0	0	23,498	61,685	0	0	61,685
Foreign currency translation	149	0	0	149	(1,502)	0	0	(1,502)
<b>Balance at period end</b>	<b>82,308</b>	<b>0</b>	<b>0</b>	<b>82,308</b>	<b>141,799</b>	<b>0</b>	<b>0</b>	<b>141,799</b>
<b>Investments at FVOCI</b>								
Balance on January 1	20,818,098	0	0	20,818,098	26,751,693	0	0	26,751,693
Net remeasurement of loss allowance	(16,660,770)	0	0	(16,660,770)	(21,283,561)	0	0	(21,283,561)
New financial assets originated	14,167,715	0	0	14,167,715	16,578,905	0	0	16,578,905
Foreign currency translation	(755,031)	0	0	(755,031)	(1,228,939)	0	0	(1,228,939)
<b>Balance at period end</b>	<b>17,570,012</b>	<b>0</b>	<b>0</b>	<b>17,570,012</b>	<b>20,818,098</b>	<b>0</b>	<b>0</b>	<b>20,818,098</b>
<b>Investments at AC</b>								
Balance on January 1	115,089	0	0	115,089	0	0	0	0
Net remeasurement of loss allowance	(22,911)	0	0	(22,911)	0	0	0	0
New financial assets originated	49,422	0	0	49,422	115,089	0	0	115,089
<b>Balance at period end</b>	<b>141,600</b>	<b>0</b>	<b>0</b>	<b>141,600</b>	<b>115,089</b>	<b>0</b>	<b>0</b>	<b>115,089</b>
<b>Loans at AC</b>								
Balance on January 1	188,965,909	244,766,032	259,207,996	692,939,937	161,594,852	248,412,128	237,092,070	647,099,050
Transfer from stage 1 to 2	(53,148,213)	53,148,213	0	0	(57,266,121)	57,266,121	0	0
Transfer from stage 1 to 3	(540,011)	0	540,011	0	(64,399)	0	64,399	0
Transfer from stage 2 to 3	0	(198,858,035)	198,858,035	0	0	(201,359,780)	201,359,780	0
Transfer from stage 3 to 2	0	73,471,974	(73,471,974)	0	0	86,156,894	(86,156,894)	0
Transfer from stage 2 to 1	130,979,068	(130,979,068)	0	0	153,024,184	(153,024,184)	0	0
Transfer from stage 3 to 1	12,479,563	0	(12,479,563)	0	14,855,729	0	(14,855,729)	0
Net remeasurement of loss allowance	992,027	79,884,117	57,922,486	138,798,630	(10,550,754)	103,501,157	42,302,631	135,253,034
New financial assets originated	187,743,189	250,901,167	127,981,637	566,625,993	214,574,537	246,163,744	227,577,991	688,316,272
Net derecognition of financial assets	(274,643,674)	(128,752,959)	(42,335,031)	(445,731,664)	(287,202,119)	(142,350,048)	(47,789,220)	(477,341,387)
Charge-offs	0	0	(372,089,342)	(372,089,342)	0	0	(487,642,024)	(487,642,024)
Recovery	0	0	119,245,626	119,245,626	0	0	184,847,792	184,847,792
Foreign currency translation	0	0	7,996,148	7,996,148	0	0	2,407,200	2,407,200
<b>Balance at period end</b>	<b>192,827,858</b>	<b>243,581,441</b>	<b>271,376,029</b>	<b>707,785,328</b>	<b>188,965,909</b>	<b>244,766,032</b>	<b>259,207,996</b>	<b>692,939,937</b>

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

**(4) Risk Management, continued**

	September 30, 2023				December 31, 2022			
	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total
<b>Commitments and guarantee</b>								
<b>Balance on January 1</b>	536,382	27,189	947,871	1,511,442	199,186	51,485	1,111,261	1,361,932
Transfer from stage 1 to 2	0	0	0	0	(491)	491	0	0
Transfer from stage 1 to 3	(309,842)	0	309,842	0	(80,418)	0	80,418	0
Transfer from stage 3 to 2	0	947,871	(947,871)	0	0	273,094	(273,095)	(1)
Transfer from stage 2 to 1	3,246	(3,246)	0	0	9,107	(9,107)	0	0
Transfer from stage 3 to 1	0	0	0	0	1,111,673	0	(1,111,672)	1
Net remeasurement of loss allowance	191,733	(966,405)	888,457	113,785	(956,343)	(276,140)	1,976,836	744,353
New financial assets originated	99,169	4,889	0	104,058	409,570	21,991	0	431,561
Net derecognition of financial assets	(327,699)	(3,986)	0	(331,685)	(169,538)	(34,625)	(835,877)	(1,040,040)
Foreign currency translation	(13,730)	0	0	(13,730)	13,636	0	0	13,636
<b>Balance at period end</b>	<u>179,259</u>	<u>6,312</u>	<u>1,198,299</u>	<u>1,383,870</u>	<u>536,382</u>	<u>27,189</u>	<u>947,871</u>	<u>1,511,442</u>
	September 30, 2023				December 31, 2022			
	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total	12 months ECL	Lifetime ECL - unimpaired	Lifetime ECL - impaired	Total
<b>Other accounts receivable</b>								
<b>Balance on January 1</b>	6,760,140	0	0	6,760,140	8,177,092	0	0	8,177,092
Net remeasurement of loss allowance	(4,162,473)	0	0	(4,162,473)	(3,398,250)	0	0	(3,398,250)
New financial assets originated	5,362,989	0	0	5,362,989	3,477,880	0	0	3,477,880
Charge-offs	(1,829,907)	0	0	(1,829,907)	(1,806,145)	0	0	(1,806,145)
Recovery	409,326	0	0	409,326	457,296	0	0	457,296
Foreign currency translation	58,026	0	0	58,026	(147,733)	0	0	(147,733)
<b>Balance at period end</b>	<u>6,598,101</u>	<u>0</u>	<u>0</u>	<u>6,598,101</u>	<u>6,760,140</u>	<u>0</u>	<u>0</u>	<u>6,760,140</u>

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

**(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.

	September 30, <u>2023</u>	December 31, <u>2022</u>
Amortized cost before modification	2,870,917	23,121,321
Net loss due modification	<u>830,506</u>	<u>21,523,686</u>
<b>Total</b>	<u><b>3,701,423</b></u>	<u><b>44,645,007</b></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 is as follows:

	September 30, 2023						
	Loans at amortized cost	Commitments and guarantees	Securities purchased under resale agreements	Deposits in banks	Investments at FVOCI	Investments at FVPL	Investments at AC
<b>Concentration by sector</b>							
Government	0	0	33,127,352	2,827,947,496	4,144,944,454	27,769,389	44,095,775
<b>Corporate</b>							
Trade	2,239,991,378	211,187,731	0	0	0	0	0
General industry	1,778,202,791	68,257,904	0	0	4,193,843	0	0
Real estate	1,734,308,044	15,757,483	0	0	74,511,524	0	0
Services	1,340,747,380	61,036,601	0	0	5,253,092	0	0
Agricultural	992,123,943	8,949,133	0	0	0	0	0
Food industry	748,496,715	24,895,480	0	0	1,871,841	0	0
Hotels and restaurants	453,624,556	1,609,397	0	0	3,084,858	0	0
Financial	309,190,750	214,571,683	553,369	562,311,868	255,168,936	0	0
Telecommunications	227,559,164	19,778,548	0	0	18,222,532	0	4,841,920
Transport	256,988,495	15,959,213	0	0	2,544,620	0	0
Construction	187,695,838	82,403,481	0	0	7,109,636	0	0
Oil and derivatives	0	0	0	0	6,757,872	0	0
Public services	0	0	0	0	8,113,570	0	0
Energy	0	0	0	0	88,043,566	0	0
Personal banking	12,305,331,219	60,796,207	0	0	4,820,516	0	0
Media	0	0	0	0	1,202,135	0	0
Technology	0	0	0	0	2,043,680	0	0
Materials	0	0	0	0	1,007,698	0	0
Allowance for ECL	<u>(707,785,328)</u>	<u>(1,383,870)</u>	<u>0</u>	<u>(82,318)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net carrying amount</b>	<u><b>21,866,474,945</b></u>	<u><b>783,818,991</b></u>	<u><b>33,680,721</b></u>	<u><b>3,390,177,046</b></u>	<u><b>4,628,894,373</b></u>	<u><b>27,769,389</b></u>	<u><b>48,937,695</b></u>
<b>Geographic location:</b>							
Costa Rica	6,442,537,938	238,369,689	553,368	1,204,562,413	1,477,902,044	23,507,071	4,841,919
Panama	4,822,729,226	357,718,718	0	171,026,086	494,733,329	0	0
Guatemala	4,276,350,818	6,375,986	33,127,353	401,485,576	786,810,900	0	0
Honduras	3,344,426,681	40,784,340	0	583,411,401	436,273,272	0	44,095,776
El Salvador	2,457,114,398	125,187,587	0	299,132,330	298,520,995	0	0
Nicaragua	1,231,101,212	16,766,541	0	248,198,911	342,695,561	0	0
North America	0	0	0	464,650,098	730,110,939	4,262,318	0
Europe	0	0	0	17,785,616	0	0	0
South America	0	0	0	0	59,796,599	0	0
Others	0	0	0	6,933	2,050,734	0	0
Allowance for ECL	<u>(707,785,328)</u>	<u>(1,383,870)</u>	<u>0</u>	<u>(82,318)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net carrying amount</b>	<u><b>21,866,474,945</b></u>	<u><b>783,818,991</b></u>	<u><b>33,680,721</b></u>	<u><b>3,390,177,046</b></u>	<u><b>4,628,894,373</b></u>	<u><b>27,769,389</b></u>	<u><b>48,937,695</b></u>

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

**(4) Risk Management, continued**

	December 31, 2022						
	Loans at amortized cost	Commitments and guarantees	Securities purchased under resale agreements	Deposits in banks	Investments at FVOCI	Investments at FVPL	Investments at AC
<b>Concentration by sector</b>							
Government	0	0	10,696,871	3,165,166,212	3,538,960,689	26,355,405	43,561,300
<b>Corporate</b>							
Trade	2,056,263,372	104,117,923	0	0	0	0	0
Services	1,954,881,962	117,288,713	0	0	1,729,169	0	0
Real estate	970,754,185	7,383,847	0	0	84,465,942	0	0
Food industry	1,118,301,208	30,119,128	0	0	6,870,335	0	0
General industry	1,117,184,014	36,124,946	0	0	2,918,468	0	0
Construction	835,839,656	78,310,347	0	0	7,839,974	0	0
Agricultural	486,709,453	7,064,607	0	0	0	0	0
Hotels and restaurants	276,684,273	1,543,007	0	0	2,991,011	0	0
Financial	312,886,278	247,829,463	0	1,220,169,584	319,534,811	1,016,532	0
Telecommunications	325,072,927	47,101,837	0	0	22,723,103	0	0
Transport	143,817,410	15,945,588	0	0	2,531,568	0	0
Oil and derivatives	0	0	0	0	11,621,778	0	0
Public services	0	0	0	0	8,252,868	0	0
Energy	0	0	0	0	87,262,379	0	0
Personal banking	11,225,823,840	49,932,510	0	0	5,036,353	0	0
Allowance for ECL	(692,939,937)	(1,511,442)	0	(141,808)	0	0	0
<b>Net carrying amount</b>	<u>20,131,278,641</u>	<u>741,250,474</u>	<u>10,696,871</u>	<u>4,385,193,988</u>	<u>4,102,738,448</u>	<u>27,371,937</u>	<u>43,561,300</u>
<b>Geographic location:</b>							
Costa Rica	5,844,847,000	213,467,848	1,554,019	1,179,454,615	1,274,155,798	27,371,937	0
Panama	4,744,617,675	311,871,439	0	149,344,075	451,976,068	0	0
Guatemala	4,047,879,179	5,580,429	9,142,852	682,296,136	685,981,793	0	0
Honduras	2,837,056,079	44,350,888	0	711,539,021	541,898,929	0	43,561,300
El Salvador	2,292,440,352	160,890,550	0	326,817,296	260,446,159	0	0
Nicaragua	1,057,378,293	6,600,762	0	280,274,218	316,156,551	0	0
North America	0	0	0	1,034,102,257	504,716,970	0	0
Europe	0	0	0	21,493,181	0	0	0
South America	0	0	0	0	65,405,432	0	0
Others	0	0	0	14,997	2,000,748	0	0
Allowance for ECL	(692,939,937)	(1,511,442)	0	(141,808)	0	0	0
<b>Net carrying amount</b>	<u>20,131,278,641</u>	<u>741,250,474</u>	<u>10,696,871</u>	<u>4,385,193,988</u>	<u>4,102,738,448</u>	<u>27,371,937</u>	<u>43,561,300</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.

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.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Statements

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### (4) Risk Management, continued

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 year:

	<u>% of Liquidity</u>	
	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
As of period end	25.4	32.1
Maximum	34.2	35.4
Average	29.6	31.8
Minimum	25.1	26.9

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**Notes to the Condensed Consolidated Interim Financial Statements**

**(4) Risk Management, continued**

As of September 30, 2023, and December 31, 2022, 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:

September 30, 2023							
<i>Amounts in thousands</i>	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
<b>Liabilities</b>							
Demand deposits	9,044,680	(9,044,680)	(9,044,680)	0	0	0	0
Savings deposits	5,896,061	(5,896,061)	(5,896,061)	0	0	0	0
Time deposits	9,500,302	(10,096,010)	(948,790)	(1,519,126)	(4,347,386)	(3,079,586)	(201,122)
Securities sold under repurchase agreements	68,778	(69,903)	(15,684)	0	(54,219)	0	0
Financial obligations	2,085,971	(2,337,793)	(136,917)	(269,231)	(721,079)	(1,048,633)	(161,933)
Other financial obligations	1,346,762	(1,543,397)	(23,765)	(55,195)	(150,811)	(1,204,006)	(109,620)
Lease Liabilities	126,157	(145,764)	(3,086)	(14,986)	(17,236)	(84,121)	(26,335)
<b>Sub-total liabilities</b>	<b>28,068,711</b>	<b>(29,133,608)</b>	<b>(16,068,983)</b>	<b>(1,858,538)</b>	<b>(5,290,731)</b>	<b>(5,416,346)</b>	<b>(499,010)</b>
Commitments and guarantees	76,351	(76,351)	(7,843)	(6,552)	(61,956)	0	0
Acceptances	31,528	(31,528)	(1,128)	(22,220)	(8,180)	0	0
<b>Total liabilities</b>	<b>28,176,590</b>	<b>(29,241,487)</b>	<b>(16,077,954)</b>	<b>(1,887,310)</b>	<b>(5,360,867)</b>	<b>(5,416,346)</b>	<b>(499,010)</b>
<b>Assets</b>							
Cash and cash equivalents	717,898	717,898	717,898	0	0	0	0
Securities purchased under resale agreements	33,681	33,681	1,599	32,082	0	0	0
Deposits in banks	3,390,177	3,393,398	3,331,918	8,388	13,881	39,211	0
Investments at FVPL (1)	27,769	31,201	0	65	5,006	23,315	2,815
Investments at FVOCI (1)	4,629,670	5,631,445	193,888	394,974	1,139,737	2,452,559	1,450,287
Investments at AC (1)	48,162	85,310	0	459	1,546	11,103	72,202
Other accounts receivable	366,057	366,057	274,543	20,993	34,286	36,235	0
Loans	21,866,475	30,870,704	3,260,587	4,695,860	4,581,541	8,635,616	9,697,100
<b>Sub-total assets</b>	<b>31,079,889</b>	<b>41,129,694</b>	<b>7,780,433</b>	<b>5,152,821</b>	<b>5,775,997</b>	<b>11,198,039</b>	<b>11,222,404</b>
Acceptances outstanding	31,528	31,528	1,128	22,220	8,180	0	0
<b>Total assets</b>	<b>31,111,417</b>	<b>41,161,222</b>	<b>7,781,561</b>	<b>5,175,041</b>	<b>5,784,177</b>	<b>11,198,039</b>	<b>11,222,404</b>

(1) Common stocks are excluded

December 31, 2022							
<i>Amounts in thousands</i>	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
<b>Liabilities</b>							
Demand deposits	9,043,317	(9,043,317)	(9,043,317)	0	0	0	0
Savings deposits	5,664,122	(5,664,122)	(5,664,122)	0	0	0	0
Time deposits	8,621,328	(9,262,396)	(986,837)	(1,494,139)	(3,596,859)	(2,862,873)	(321,688)
Securities sold under repurchase agreements	260,710	(262,395)	(125,273)	(53,350)	(83,772)	0	0
Financial obligations	2,283,961	(2,533,862)	(166,090)	(210,420)	(1,182,875)	(816,044)	(158,433)
Other financial obligations	1,059,788	(1,230,374)	(2,434)	(18,853)	(143,028)	(1,026,291)	(39,768)
Lease Liabilities	138,555	(158,262)	(2,966)	(14,628)	(17,015)	(93,793)	(29,860)
<b>Sub-total liabilities</b>	<b>27,071,781</b>	<b>(28,154,728)</b>	<b>(15,991,039)</b>	<b>(1,791,390)</b>	<b>(5,023,549)</b>	<b>(4,799,001)</b>	<b>(549,749)</b>
Commitments and guarantees	61,751	(61,751)	(4,599)	(10,259)	(46,480)	(413)	0
Acceptances	31,709	(31,709)	(26,089)	(4,981)	(639)	0	0
<b>Total liabilities</b>	<b>27,165,241</b>	<b>(28,248,188)</b>	<b>(16,021,727)</b>	<b>(1,806,630)</b>	<b>(5,070,668)</b>	<b>(4,799,414)</b>	<b>(549,749)</b>
<b>Assets</b>							
Cash and cash equivalents	768,899	768,899	768,899	0	0	0	0
Securities purchased under resale agreements	10,697	10,697	10,697	0	0	0	0
Deposits in banks	4,424,361	4,469,970	4,320,728	3,724	20,203	55,887	69,428
Investments at FVPL (1)	27,877	31,854	1,279	131	5,379	23,919	1,146
Investments at FVOCI (1)	4,102,843	5,028,395	274,646	518,335	682,190	2,159,844	1,393,380
Investments at AC (1)	43,457	78,160	0	0	2,137	8,944	67,079
Other accounts receivable	378,339	378,339	306,030	23,375	33,953	14,981	0
Loans	20,131,279	28,283,856	2,722,117	4,060,661	4,424,984	7,916,262	9,159,832
<b>Sub-total assets</b>	<b>29,887,752</b>	<b>39,050,170</b>	<b>8,404,396</b>	<b>4,606,226</b>	<b>5,168,846</b>	<b>10,179,837</b>	<b>10,690,865</b>
Acceptances outstanding	31,709	31,709	26,089	4,981	639	0	0
<b>Total assets</b>	<b>29,919,461</b>	<b>39,081,879</b>	<b>8,430,485</b>	<b>4,611,207</b>	<b>5,169,485</b>	<b>10,179,837</b>	<b>10,690,865</b>

(1) Common stocks are excluded



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**(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:

	September 30, <u>2023</u>	December 31, <u>2022</u>
Cash and cash equivalents	717,897,586	768,898,974
Securities bought under resale agreements	33,680,721	10,696,871
Deposits in central banks	2,629,791,794	2,815,413,990
Deposits due from banks maturing in less than 90 days	700,490,427	1,499,051,285
Deposits due from banks greater than 90 days	<u>59,894,825</u>	<u>70,728,713</u>
<b>Total cash, cash equivalents and deposits in banks</b>	<b><u>4,141,755,353</u></b>	<b><u>5,164,789,833</u></b>
Not committed sovereign debt instruments	3,962,534,723	3,398,517,301
Other credit lines available (1)	<u>2,015,410,272</u>	<u>1,282,263,357</u>
<b>Total liquidity reserve</b>	<b><u>10,119,700,348</u></b>	<b><u>9,845,570,491</u></b>

(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:

	Committed		Uncommitted		Total
	As Collateral	Available as Collateral	Legal Reserve (1)	Others (2)	
<b>September 30, 2023</b>					
Cash and cash equivalents	0	0	0	717,897,586	717,897,586
Securities purchased under resale agreements	0	0	33,680,721	0	33,680,721
Deposits due from banks	151,991	140,844,418	2,570,017,890	679,162,747	3,390,177,046
Investments at FVOCI	270,648,708	4,145,862,477	0	256,303,702	4,672,814,887
Investments at AC	0	0	44,046,354	4,891,341	48,937,695
Loans at amortized cost	<u>266,116,636</u>	<u>0</u>	<u>0</u>	<u>21,600,358,309</u>	<u>21,866,474,945</u>
<b>Total assets</b>	<b><u>536,917,335</u></b>	<b><u>4,286,706,895</u></b>	<b><u>2,647,744,965</u></b>	<b><u>23,258,613,685</u></b>	<b><u>30,729,982,880</u></b>

(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.

	Committed		Uncommitted		Total
	As Collateral	Available as Collateral	Legal Reserve (1)	Others (2)	
<b>December 31, 2022</b>					
Cash and cash equivalents	0	0	0	768,898,974	768,898,974
Securities purchased under resale agreements	0	0	10,696,871	0	10,696,871
Deposits due from banks	37,299,690	400,710,653	2,572,067,579	1,375,116,066	4,385,193,988
Investments at FVOCI	315,410,141	3,630,233,234	0	201,226,457	4,146,869,832
Investments at AC	0	0	43,561,300	0	43,561,300
Loans at amortized cost	<u>249,490,222</u>	<u>0</u>	<u>0</u>	<u>19,881,788,419</u>	<u>20,131,278,641</u>
<b>Total assets</b>	<b><u>602,200,053</u></b>	<b><u>4,030,943,887</u></b>	<b><u>2,626,325,750</u></b>	<b><u>22,227,029,911</u></b>	<b><u>29,486,499,606</u></b>

(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.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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#### (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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**Notes to the Condensed Consolidated Interim Financial Statements**

**(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>September 30, 2023</u>					
<i>Amounts in US millions</i>	<u>Quetzales</u>	<u>Lempiras</u>	<u>Cordobas</u>	<u>Colones</u>	<u>Total</u>
Cash, cash equivalents and deposits in banks	301	440	134	653	1,528
Investments in securities	584	441	159	585	1,769
Loans, net	<u>2,429</u>	<u>2,498</u>	<u>143</u>	<u>2,473</u>	<u>7,543</u>
<b>Total assets</b>	<b>3,314</b>	<b>3,379</b>	<b>436</b>	<b>3,711</b>	<b>10,840</b>
Deposits	2,800	2,631	420	2,826	8,677
Obligations	<u>243</u>	<u>210</u>	<u>0</u>	<u>695</u>	<u>1,148</u>
<b>Total liabilities</b>	<b>3,043</b>	<b>2,841</b>	<b>420</b>	<b>3,521</b>	<b>9,825</b>
<b>Contingencies</b>	<u>0</u>	<u>28</u>	<u>0</u>	<u>66</u>	<u>94</u>
<b>Exchange risk exposure</b>	<u>271</u>	<u>566</u>	<u>16</u>	<u>256</u>	<u>1,109</u>
<u>December 31, 2022</u>					
<i>Amounts in US millions</i>	<u>Quetzales</u>	<u>Lempiras</u>	<u>Cordobas</u>	<u>Colones</u>	<u>Total</u>
Cash, cash equivalents and deposits in banks	525	598	165	616	1,904
Investments in securities	480	545	0	367	1,392
Loans, net	<u>2,272</u>	<u>2,074</u>	<u>124</u>	<u>2,183</u>	<u>6,653</u>
<b>Total assets</b>	<b>3,277</b>	<b>3,217</b>	<b>289</b>	<b>3,166</b>	<b>9,949</b>
Deposits	2,771	2,521	385	2,507	8,184
Obligations	<u>335</u>	<u>181</u>	<u>0</u>	<u>544</u>	<u>1,060</u>
<b>Total liabilities</b>	<b>3,106</b>	<b>2,702</b>	<b>385</b>	<b>3,051</b>	<b>9,244</b>
<b>Contingencies</b>	<u>0</u>	<u>25</u>	<u>0</u>	<u>58</u>	<u>83</u>
<b>Exchange risk exposure</b>	<u>171</u>	<u>540</u>	<u>(96)</u>	<u>173</u>	<u>788</u>

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

**(4) Risk Management, continued**

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 or the maturity date, as applicable:

<b>September 30, 2023</b>	<b>Without exposure</b>	<b>Up to 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Cash and cash equivalents	717,897,586	0	0	0	717,897,586
Securities purchased under resale agreements	43,967	33,636,754	0	0	33,680,721
Deposits due from Banks	1,956,082,151	1,397,739,895	36,355,000	0	3,390,177,046
Investments in securities	1,334,376,946	663,793,740	1,631,046,267	1,092,535,629	4,721,752,582
Loans at amortized cost	<u>180,590,615</u>	<u>19,161,749,340</u>	<u>1,850,973,030</u>	<u>673,161,960</u>	<u>21,866,474,945</u>
<b>Total assets</b>	<b><u>4,188,991,265</u></b>	<b><u>21,256,919,729</u></b>	<b><u>3,518,374,297</u></b>	<b><u>1,765,697,589</u></b>	<b><u>30,729,982,880</u></b>
Deposits	1,365,932,686	19,963,238,564	2,912,570,916	199,300,904	24,441,043,070
Securities sold under resale agreements	406,088	68,372,308	0	0	68,778,396
Financial obligations	26,155,836	1,453,693,373	303,056,043	303,065,427	2,085,970,679
Other financial obligations	<u>18,217,162</u>	<u>239,008,579</u>	<u>995,451,009</u>	<u>94,085,000</u>	<u>1,346,761,750</u>
<b>Total liabilities</b>	<b><u>1,410,711,772</u></b>	<b><u>21,724,312,824</u></b>	<b><u>4,211,077,968</u></b>	<b><u>596,451,331</u></b>	<b><u>27,942,553,895</u></b>
<b>Exposure to interest rate risk</b>	<b><u>2,778,279,493</u></b>	<b><u>(467,393,095)</u></b>	<b><u>(692,703,671)</u></b>	<b><u>1,169,246,258</u></b>	<b><u>2,787,428,985</u></b>
<b>December 31, 2022</b>	<b>Without exposure</b>	<b>Up to 1 year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Cash and cash equivalents	768,898,974	0	0	0	768,898,974
Securities purchased under resale agreements	17,051	10,679,820	0	0	10,696,871
Deposits due from Banks	1,967,817,619	2,372,366,369	42,700,000	2,310,000	4,385,193,988
Investments in securities	968,400,930	574,456,033	1,609,998,421	1,037,575,748	4,190,431,132
Loans at amortized cost	<u>188,643,647</u>	<u>17,754,304,731</u>	<u>1,673,210,348</u>	<u>515,119,915</u>	<u>20,131,278,641</u>
<b>Total assets</b>	<b><u>3,893,778,221</u></b>	<b><u>20,711,806,953</u></b>	<b><u>3,325,908,769</u></b>	<b><u>1,555,005,663</u></b>	<b><u>29,486,499,606</u></b>
Deposits	1,361,903,516	19,079,534,609	2,566,725,215	320,603,726	23,328,767,066
Securities sold under resale agreements	2,024,460	258,685,705	0	0	260,710,165
Financial obligations	18,117,281	1,617,969,303	351,932,325	295,942,441	2,283,961,350
Other financial obligations	<u>9,696,825</u>	<u>137,452,171</u>	<u>877,709,385</u>	<u>34,929,151</u>	<u>1,059,787,532</u>
<b>Total liabilities</b>	<b><u>1,391,742,082</u></b>	<b><u>21,093,641,788</u></b>	<b><u>3,796,366,925</u></b>	<b><u>651,475,318</u></b>	<b><u>26,933,226,113</u></b>
<b>Exposure to interest rate risk</b>	<b><u>2,502,036,139</u></b>	<b><u>(381,834,835)</u></b>	<b><u>(470,458,156)</u></b>	<b><u>903,530,345</u></b>	<b><u>2,553,273,493</u></b>

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:

	<u>Increase of 100 bps (1)</u>	<u>Decrease of 100 bps (1)</u>
<b>Impact on equity to interest rate movements</b>		
<b>September 30, 2023</b>	(79,737,009)	79,737,009
Average for the year	(71,408,807)	71,408,807
Maximum for the year	(86,080,394)	86,080,394
Minimum for the year	(59,786,967)	59,786,967
<b>December 31, 2022</b>	(57,546,906)	57,546,906
Average for the year	(63,825,989)	63,825,989
Maximum for the year	(75,126,821)	75,126,821
Minimum for the year	(55,007,284)	55,007,284
<b>Impact on net income from interests</b>		
<b>September 30, 2023</b>	79,829,688	(79,829,688)
Average for the year	79,043,601	(79,043,601)
Maximum for the year	81,686,263	(81,686,263)
Minimum for the year	75,826,488	(75,826,488)
<b>December 31, 2022</b>	81,399,435	(81,399,435)
Average for the year	71,747,677	(71,747,677)
Maximum for the year	81,749,291	(81,749,291)
Minimum for the year	65,915,385	(65,915,385)

(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.

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.

## **BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Statements**

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

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) 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 profit or loss, the Bank's 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.

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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

##### *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.

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.

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**Notes to the Condensed Consolidated Interim Financial Statements**

**(6) Cash, Cash Equivalents and Deposits**

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

	September 30, 2023	September 30, 2022
Cash and cash equivalents	717,897,586	634,993,959
Securities purchased under resale agreements	33,680,721	30,159,765
Deposits in central banks	2,629,791,794	2,846,143,671
Deposits in banks and deposits due in less than 90 days	<u>700,490,427</u>	<u>1,250,568,040</u>
<b>Cash and cash equivalents in the condensed consolidated statement of cash flows</b>	<b>4,081,860,528</b>	<b>4,761,865,435</b>
Deposits in banks greater than 90 days and pledged	<u>59,894,825</u>	<u>74,637,631</u>
<b>Total cash, cash equivalents and deposits in banks</b>	<b><u>4,141,755,353</u></b>	<b><u>4,836,503,066</u></b>

**(7) Securities Purchased Under Resale Agreements**

As of September 30, 2023, securities purchased under resale agreements amounted to \$33,680,721 (December 31, 2022: \$10,696,871), which had maturity dates in October 2023 (December 31, 2022: January 2023) and an interest rate between 5.4% and 6.0% (December 31, 2022: between 3.8% and 7.6%). These securities were guaranteed with local government bonds and corporate bonds, which amounted to \$28,116,957 (December 31, 2022: \$11,409,533).

**(8) Investments in Securities**

As of September 30, 2023, investments in securities amounted to \$4,721,752,582 (December 31, 2022: \$4,190,431,132) are summarized as follows:

*(a) Investments at FVPL*

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

	September 30, 2023	December 31, 2022
Government bonds	27,769,389	26,355,405
Corporate bonds	0	1,016,532
Mutual funds	0	505,545
Common stocks	<u>13,076,224</u>	<u>13,078,802</u>
	<u>40,845,613</u>	<u>40,956,284</u>

As of September 30, 2023, there are no investments in securities to the FVPL used as collateral in repurchase agreements (December 31, 2022: \$1,661,157) are used as collateral for repurchase agreements.

*(b) Investments at FVOCI*

The portfolio of investments at FVOCI is detailed as follows:

	September 30, 2023	December 31, 2022
Government and Agencies:		
United States of America	456,180,281	165,827,573
Other governments	<u>3,688,764,173</u>	<u>3,373,133,116</u>
	4,144,944,454	3,538,960,689
Corporate bonds	483,949,919	563,777,759
Common stocks	<u>3,074,901</u>	<u>3,175,100</u>
	<u>4,631,969,274</u>	<u>4,105,913,548</u>



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**(8) Investments in Securities, continued**

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

Entity	Country	September 30, 2023	December 31, 2022
Latinex Holdings, Inc.	Panama	501,527	588,192
Grupo APC, S. A.	Panama	445,582	445,582
Transacciones y Transferencias, S.A.	Guatemala	305,278	305,516
Compañía de Procesamiento de Medio de Pago	Guatemala	388,912	299,560
Servicios Financieros, S.A.	El Salvador	247,500	247,500
ACH de Nicaragua	Nicaragua	184,766	186,302
Bancajeros BANET	Honduras	179,536	179,860
Fondo Hondureño de Inversion Turistica	Honduras	176,587	176,906
ICG Imagenes Computarizadas de Guatemala, S.A.	Guatemala	140,249	140,358
Asociacion Bancaria de Guatemala	Guatemala	91,864	91,568
Others	Others	<u>413,100</u>	<u>513,756</u>
		<u>3,074,901</u>	<u>3,175,100</u>

As of September 30, 2023, the portfolio of common stocks at FVOCI had a variation in Other Comprehensive Results of the Bank of -\$86,665 (December 31, 2022: \$28,217), As of September 30, 2023, the Bank received \$2,035,993 in dividends of common stocks at FVOCI (December 31, 2022: \$3,049,832).

**(c) Investments at AC**

The investment portfolio at AC is detailed as follows:

	September 30, 2023	December 31, 2022
Government bonds	44,095,775	43,561,300
Corporate bonds	<u>4,841,920</u>	<u>0</u>
	<u>48,937,695</u>	<u>43,561,300</u>

**(9) Loans**

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

	September 30, 2023			December 31, 2022		
	Portfolio	Allowance for ECL	Net portfolio of allowance	Portfolio	Allowance for ECL	Net portfolio of allowance
<b>Loans</b>						
<b>Corporate</b>						
Corporate loans	8,881,561,832	(124,049,899)	8,757,511,933	8,471,678,440	(170,380,788)	8,301,297,652
Corporate leases, net (1)	<u>264,819,684</u>	<u>(4,195,353)</u>	<u>260,624,331</u>	<u>220,810,485</u>	<u>(5,969,844)</u>	<u>214,840,641</u>
<b>Total Corporate</b>	<u>9,146,381,516</u>	<u>(128,245,252)</u>	<u>9,018,136,264</u>	<u>8,692,488,925</u>	<u>(176,350,632)</u>	<u>8,516,138,293</u>
<b>Personal Banking and Small company</b>						
<b>Small company</b>						
Small company loans	1,001,824,265	(8,493,373)	993,330,892	804,063,798	(10,461,204)	793,602,594
Small company leases, net (1)	<u>120,723,273</u>	<u>(763,457)</u>	<u>119,959,816</u>	<u>101,842,015</u>	<u>(944,301)</u>	<u>100,897,714</u>
<b>Total Small company</b>	<u>1,122,547,538</u>	<u>(9,256,830)</u>	<u>1,113,290,708</u>	<u>905,905,813</u>	<u>(11,405,505)</u>	<u>894,500,308</u>
<b>Personal Banking</b>						
Mortgage loans	3,847,033,638	(61,627,814)	3,785,405,824	3,725,609,625	(88,336,042)	3,637,273,583
Personals	2,308,876,357	(90,360,844)	2,218,515,513	2,127,460,657	(78,624,247)	2,048,836,410
Vehicles	1,164,125,092	(13,286,660)	1,150,838,432	1,032,570,044	(19,253,976)	1,013,316,068
Personal leases, net (1)	128,159,022	(3,918,269)	124,240,753	101,895,017	(4,414,417)	97,480,600
Credit Cards	<u>4,857,137,110</u>	<u>(401,089,659)</u>	<u>4,456,047,451</u>	<u>4,238,288,497</u>	<u>(314,555,118)</u>	<u>3,923,733,379</u>
<b>Total Personal Banking</b>	<u>12,305,331,219</u>	<u>(570,283,246)</u>	<u>11,735,047,973</u>	<u>11,225,823,840</u>	<u>(505,183,800)</u>	<u>10,720,640,040</u>
<b>Total Personal Banking and Small company</b>	<u>13,427,878,757</u>	<u>(579,540,076)</u>	<u>12,848,338,681</u>	<u>12,131,729,653</u>	<u>(516,589,305)</u>	<u>11,615,140,348</u>
<b>Total loans at AC</b>	<u>22,574,260,273</u>	<u>(707,785,328)</u>	<u>21,866,474,945</u>	<u>20,824,218,578</u>	<u>(692,939,937)</u>	<u>20,131,278,641</u>
(1) Total leases, net of interest	<u>513,701,979</u>	<u>(8,877,079)</u>	<u>504,824,900</u>	<u>424,547,517</u>	<u>(11,328,562)</u>	<u>413,218,955</u>

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**(9) Loans, continued**

The net value of the financial lease's receivable is presented below:

	September 30, <u>2023</u>	December 31, <u>2022</u>
Minimum lease payments receivable	525,989,273	437,718,025
Less: unearned interest	<u>5,204,843</u>	<u>7,601,067</u>
Minimum lease payments receivable, net	520,784,430	430,116,958
Less: allowance for loss in leases	8,877,079	11,328,562
Less: net deferred commissions	<u>7,082,451</u>	<u>5,569,441</u>
Net value of investment in finance leases	<u>504,824,900</u>	<u>413,218,955</u>

The following table summarizes the minimum lease payments receivable as of September 30, 2023:

<u>Year ended December 31</u>	
2023	34,274,028
2024	109,277,173
2025	105,226,047
2026	94,430,973
2027 and thereafter	<u>177,576,209</u>
	<u>520,784,430</u>

**(10) Deposits from Customers**

Deposits from customers are detailed below:

	September 30, <u>2023</u>	December 31, <u>2022</u>
<b>Retail customers</b>		
Demand	1,286,880,260	1,286,284,614
Savings	3,754,127,623	3,572,070,437
Time deposits	1,426,895,164	1,243,958,928
<b>Corporate customers</b>		
Demand	7,757,799,492	7,757,032,850
Savings	2,141,933,758	2,092,051,122
Time deposits	<u>8,073,406,773</u>	<u>7,377,369,115</u>
	<u>24,441,043,070</u>	<u>23,328,767,066</u>

As of September 30, 2023, time deposits include book balances, net of origination costs for \$1,198,248,995 (December 31, 2022: \$1,275,479,033) subscribed with special purpose vehicles (hereinafter SPV), which are detailed below:

Vehicle	Series	Fixed interest rate	September 30, 2023		December 31, 2022	
			Principal amount	Origination cost	Principal amount	Origination cost
BIB Merchant Voucher Receivables Limited	2017-1	4.08%	211,312,599	1,788,949	249,791,367	2,174,213
BIB Merchant Voucher Receivables Limited	2018-1	4.18%	300,319,976	2,389,972	342,479,779	2,794,233
BIB Central American Card Receivables Limited	2019-1	3.50%	<u>700,000,000</u>	<u>9,204,659</u>	<u>700,000,000</u>	<u>11,823,667</u>
			<u>1,211,632,575</u>	<u>13,383,580</u>	<u>1,292,271,146</u>	<u>16,792,113</u>

BIB Merchant Voucher Receivables Limited (SPV) issued financial obligations subscribed by international holders secured by the collection rights of accounts receivable, which are generated in transactions in affiliated businesses and processed by the Bank, with credit cards issued with the Visa and MasterCard brands in Panama. The obligations have an average original duration of 7 years. Principal repayments of the 2017-1 and 2018-1 obligations will be paid through Citibank N.A., beginning in January 2021 and January 2022, respectively. As of September 30, 2023, the weighted average duration of the certificates is 2.05 years and 2.58 years, respectively.

**BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**  
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**(10) Deposits from Customers, continued**

BIB Central American Card Receivables Limited (SPV) issued financial obligations subscribed by international holders guaranteed by the collection rights of accounts receivable, which are generated in transactions in affiliated businesses 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 the American Express brand for those countries and Panama; with an average original duration of 7 years. Principal repayments of the 2019-1 obligation will be paid through Citibank N.A., beginning in October 2023. As of September 30, 2023, the weighted average duration of the certificates is 3.50 years.

The collection rights of the accounts receivable were assigned by BAC International Bank Inc. to the SPV's, and the SPV's invested the amount received for the notes issued in fixed-term certificates of deposits in BAC International Bank Inc.

**(11) Financial Obligations**

Financial obligations are detailed below:

<b>September 30, 2023</b>			
	<b>Interest rate</b>	<b>Maturities up to</b>	<b>Carrying amount</b>
Payable in US dollars:			
Fixed rate	1.50% to 8.48%	2042	373,391,110
Floating rate	5.44% to 10.59%	2028	1,137,776,227
Payable in quetzales (Guatemala):			
Fixed rate	5.50% to 6.50%	2025	245,121,853
Payable in lempiras (Honduras):			
Fixed rate	1.00% to 11.50%	2058	153,435,956
Payable in colones (Costa Rica):			
Fixed rate	0.80%	2025	136,135,041
Floating rate	7.53% to 10.19%	2038	40,110,492
<b>Total financial obligations at amortized cost</b>			<b><u>2,085,970,679</u></b>
<b>December 31, 2022</b>			
	<b>Interest rate</b>	<b>Maturities up to</b>	<b>Carrying amount</b>
Payable in US dollars:			
Fixed rate	1.50% to 7.00%	2029	463,184,690
Floating rate	3.14% to 22.44%	2027	1,162,107,125
Payable in quetzales (Guatemala):			
Fixed rate	4.40% to 5.25%	2024	337,609,417
Floating rate			
Payable in lempiras (Honduras):			
Fixed rate	0.00% to 15.00%	2058	146,338,936
Payable in colones (Costa Rica):			
Fixed rate	0.80%	2025	149,693,794
Floating rate	8.02% to 9.72%	2037	25,027,388
<b>Total financial obligations at amortized cost</b>			<b><u>2,283,961,350</u></b>

As of September 30, 2023, the carrying amount of the principal issued by BAC San Jose DPR Funding Limited, a special purpose vehicle (hereinafter SPV), amounted to \$150,000,000 (December 31, 2022: \$150,000,000), corresponding to the 2020-1 series with a balance of \$150,000,000. The origination costs pending amortization of the certificates amounted to \$1,152,055 as of September 30, 2023 (December 31, 2022: \$1,872,261). The notes issued by the SPV are secured by current and future Diversified Payment Rights denominated in US dollars, originated by a subsidiary of the Bank and sold to the SVP. Series 2020-1 obligations 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 September 30, 2023, the weighted average duration of the notes is 2.79 years.

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## Notes to the Condensed Consolidated Interim Financial Statements

### (11) Financial Obligations, continued

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

### (12) Other Financial Obligations

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

<u>Payable in:</u>	<u>September 30, 2023</u>		<u>December 31, 2022</u>	
	<u>Interest rate</u>	<u>Carrying amount</u>	<u>Interest rate</u>	<u>Carrying amount</u>
US dollars	3.20% to 10.00%	772,564,426	2.00% to 10.00%	718,653,466
Lempiras	4.75% to 7.00%	56,227,037	4.75% to 7.00%	34,792,850
Colones	4.71% to 12.35%	517,970,287	4.71% to 12.35%	306,341,216
<b>Total of other financial obligations at amortized cost</b>		<u>1,346,761,750</u>		<u>1,059,787,532</u>

Through Resolution No. 208-20 of May 14, 2020, issued by the Superintendency of the Securities Market of the Republic of Panama, BAC International Bank Inc., an indirect subsidiary of the Bank's is authorized to offer a Public Offering, Perpetual Subordinated Corporate Bonds convertible into common shares for a nominal value of \$700 million. The bonds are issued in registered form, registered 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 bear an interest rate of 10% and interest is payable quarterly, unless the issuer exercises its right not to pay interest. As of September 30, 2023, the balance of the perpetual bonds is \$520,000,000, and they have been acquired by Grupo AVAL Limited, a related party.

The Bank has not had any breaches of principal, interest or other contractual clauses in relation to its other financial obligations.

### (13) Lease Liabilities

Lease liabilities are detailed below:

	<u>September 30, 2023</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	123,007,323	142,170,085
Payable in quetzales (Guatemala)	5.22%	2029	1,853,615	2,064,312
Payable in lempiras (Honduras)	5.22% to 7.58%	2029	729,962	856,919
Payable in colones (Costa Rica)	3.96% to 7.99%	2033	566,583	672,856
<b>Total lease liabilities</b>			<u>126,157,483</u>	<u>145,764,172</u>
	<u>December 31, 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	134,575,695	150,513,232
Payable in quetzales (Guatemala)	5.22%	2029	2,213,203	4,371,453
Payable in lempiras (Honduras)	5.22% to 7.58%	2029	959,482	2,432,216
Payable in colones (Costa Rica)	3.96% to 7.99%	2033	807,011	944,393
<b>Total lease liabilities</b>			<u>138,555,391</u>	<u>158,261,294</u>

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**(13) Lease Liabilities, continued**

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

	September 30, <u>2023</u>	December 31, <u>2022</u>
Less than a year	35,308,276	34,608,732
One to two years	30,014,536	31,507,830
Two to three years	21,690,703	25,823,447
Three to four years	18,382,771	19,952,578
Four to five years	14,033,111	16,509,028
More than five years	<u>26,334,775</u>	<u>29,859,679</u>
	<u>145,764,172</u>	<u>158,261,294</u>

The following are the items recognized in the profit or loss, related to lease liabilities:

	September 30, <u>2023</u>	September 30, <u>2022</u>
Interest on leases	5,120,651	5,876,011
Expense for leases with less than 12 months	2,793,708	2,543,260
Expense for leases of low-value assets	<u>9,032,639</u>	<u>7,410,930</u>
	<u>16,946,998</u>	<u>15,830,201</u>

**(14) Common Stock**

As of September 30, 2023, and December 31, 2022 the Bank's authorized stock comprises 850,000 authorized stock and 834,708 issued and outstanding stock and 814 shares in Treasury with a nominal value of \$1,000 per share.

**(15) Gains in Financial Instruments, Net**

Gain in financial instruments, net, included in the consolidated statement of profit or loss is summarized below:

	September 30, <u>2023</u>	September 30, <u>2022</u>
Net income from the sale of investments at FVOCI	442,053	12,579,222
Unrealized net losses from securities at FVPL	(486,723)	(3,113,439)
Unrealized net gains from securities at FVPL	2,612,379	2,777,674
Net fair value gains on derivative financial instruments	<u>1,176,544</u>	<u>1,708,413</u>
	<u>3,744,253</u>	<u>13,951,870</u>

**(16) Income Taxes**

As of September 30, 2023, the Bank maintains an effective tax rate of 24.84% (December 31, 2022: 30.5%).

The Bank's earnings are taxed in various jurisdictions. As of September 30, 2023, the Bank had unrecognized tax positions for \$286,551 (December 31, 2022: \$657,567). Interest expense and penalties related to income tax liabilities and recognized as part of income tax expenses for the year ended September 30, 2023, amounted to -\$891,320 (December 31, 2022: -\$7,983,696). As of September 30, 2023, total interest and penalties expenses included in other liabilities amounted to \$233,649 (December 31, 2022: \$614,890).

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### (17) 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 September 30, 2023, the Bank had outstanding revolving available to its credit card customers in each of the various countries of operation that ranged from approximately \$484 million to \$4,359, million (December 31, 2022: from \$432 million to \$3,761 million). The unused portion of the total amount available in each country, aggregated approximately from \$348 million to \$3,180 million (December 31, 2022: from \$311 million to \$2,764 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 September 30, 2023, outstanding letters of credit and financial guarantees are as follows:

	September 30, 2023	December 31, 2022
Stand-by letters of credit	166,387,899	189,165,870
Commercial letters of credit	116,137,565	34,907,083
Financial guarantees	426,326,162	456,937,880
Commitments and guarantees (1)	<u>76,351,235</u>	<u>61,751,083</u>
	<u>785,202,861</u>	<u>742,761,916</u>

(1) Includes commercial and mortgage payment promise letter

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**Notes to the Condensed Consolidated Interim Financial Statements**

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**(17) 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 September 30, 2023, are detailed as follows:

	September 30, <u>2023</u>	December 31, <u>2022</u>
Up to 1 year	625,671,131	619,107,950
Over 1 year	<u>71,944,165</u>	<u>88,746,883</u>
	<u>697,615,296</u>	<u>707,854,833</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 September 30, 2023, the assets held as collateral, that the Bank can obtain and liquidate to recover totally or partially the amounts paid under guarantees amounted to \$139,026,430 (December 31, 2022: \$109,644,085).

As of September 30, 2023, the Bank maintains an irrevocable guarantee to VISA in the amount of \$28,550,00 (December 31, 2022: \$20,000,000) to support the payment of the interchange settlement. Such guarantee is covered by a stand-by letter of credit in the amount of \$7,600,000 (December 31, 2022: \$16,100,000) signed with an International Bank accepted by VISA.

**(18) 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 Measured 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.

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

*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. 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.

Assets and liabilities recorded at fair value on a recurring basis are summarized below:

	Other significant observable assumptions (Level 2)	Significant unobservable assumptions (Level 3)	September 30, 2023
<b>Assets</b>			
Investments at FVPL:			
Other governments	4,262,319	0	4,262,319
Mutual funds	23,507,070	0	23,507,070
Common stocks	<u>0</u>	<u>13,076,224</u>	<u>13,076,224</u>
Total investments at FVPL	<u>27,769,389</u>	<u>13,076,224</u>	<u>40,845,613</u>
Investments at FVOCI:			
Governments and Agencies bonds:			
United States of America	456,180,281	0	456,180,281
Other governments	<u>3,688,764,173</u>	<u>0</u>	<u>3,688,764,173</u>
	4,144,944,454	0	4,144,944,454
Corporate debentures	483,949,919	0	483,949,919
Common stocks	<u>947,109</u>	<u>2,127,792</u>	<u>3,074,901</u>
Total investments at FVOCI	<u>4,629,841,482</u>	<u>2,127,792</u>	<u>4,631,969,274</u>
Investments at AC:			
Other governments	44,095,775	0	44,095,775
Corporate debentures	<u>4,841,920</u>	<u>0</u>	<u>4,841,920</u>
Total investments at AC	<u>48,937,695</u>	<u>0</u>	<u>48,937,695</u>
<b>Total assets</b>	<u>4,706,548,566</u>	<u>15,204,016</u>	<u>4,721,752,582</u>



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

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

	Other significant observable assumptions (Level 2)	Significant unobservable Assumptions (Level 3)	December 31, 2022
<b>Assets</b>			
Investments at FVPL:			
Other governments	26,355,405	0	26,355,405
Corporate debentures	1,016,532	0	1,016,532
Mutual funds	505,545	0	505,545
Common stocks	<u>0</u>	<u>13,078,802</u>	<u>13,078,802</u>
Total investments at FVPL	<u>27,877,482</u>	<u>13,078,802</u>	<u>40,956,284</u>
Investments at FVOCI:			
Governments	165,827,573	0	165,827,573
United States of America	<u>3,373,133,116</u>	<u>0</u>	<u>3,373,133,116</u>
Other governments	3,538,960,689	0	3,538,960,689
Corporate debentures	563,777,759	0	563,777,759
Common stocks	<u>1,033,775</u>	<u>2,141,325</u>	<u>3,175,100</u>
Total investments at FVOCI	<u>4,103,772,223</u>	<u>2,141,325</u>	<u>4,105,913,548</u>
Investments at AC:			
Other governments	<u>43,561,300</u>	<u>0</u>	<u>43,561,300</u>
Total investments at AC	<u>43,561,300</u>	<u>0</u>	<u>43,561,300</u>
<b>Total assets</b>	<u>4,175,211,005</u>	<u>15,220,127</u>	<u>4,190,431,132</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 September 30, 2023, there were no transfers between levels.

The table below includes the movement of the figures in the condensed consolidated statement of financial position for the period ended September 30, 2023 (including changes in fair value) of the financial instruments at FVPL classified by the Bank within Level 3 of the fair value hierarchy. 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>September 30, 2023</u>	<u>Investments Common Stocks</u>
<b>Assets</b>	
Fair value at January 01, 2023	13,078,802
Foreign currency translation	<u>(2,578)</u>
Fair value at September 30, 2023	<u>13,076,224</u>
<b>December 31, 2022</b>	
<b>Assets</b>	
Fair value at January 01, 2022	12,147,983
Valuation of investments at FVPL	948,216
Foreign currency translation	<u>(17,397)</u>
Fair value at December 31, 2022	<u>13,078,802</u>

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**Notes to the Condensed Consolidated Interim Financial Statements**

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

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.	(2,3)
	Market prices of suppliers or local regulators in markets with lower marketability.	
	Discounted cash flows are used for various bonds using a market rate of an instrument with a similar remaining maturity.	
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	(3)
	Foreign currency cash flows	

**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:

*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, considering 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.

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

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

*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>September 30, 2023</u>	<u>Fair value</u>	<u>Valuation technique</u>	<u>Quantitative information of Level 3 fair values</u>	
			<u>Unobservable assumptions</u>	<u>Range (weighted average)</u>
Common stocks	15,204,016	Discounted cash flows	Increase annual rate	20% - 25%

  

<u>December 31, 2022</u>	<u>Fair value</u>	<u>Valuation technique</u>	<u>Quantitative information of Level 3 fair values</u>	
			<u>Unobservable assumptions</u>	<u>Range (weighted average)</u>
Common stocks	15,220,127	Discounted cash flows	Increase annual rate	10% - 15%

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>September 30, 2023</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total carrying amount</u>
<b>Financial assets</b>				
Cash and cash equivalents	717,897,586	0	717,897,586	717,897,586
Securities purchased under resale agreements	0	33,680,721	33,680,721	33,680,721
Deposits in banks	0	3,390,177,046	3,390,177,046	3,390,177,046
Loans, excluding financial leases	0	20,936,592,524	20,936,592,524	21,361,650,045
Acceptances outstanding	0	31,528,201	31,528,201	31,528,201
<b>Total financial assets</b>	<u>717,897,586</u>	<u>24,391,978,492</u>	<u>25,109,876,078</u>	<u>25,534,933,599</u>
<b>Financial liabilities</b>				
Deposits from customers	14,940,741,133	9,690,225,805	24,630,966,938	24,441,043,070
Securities sold under repurchase agreements	0	68,778,396	68,778,396	68,778,396
Financial obligations	0	2,085,395,626	2,085,395,626	2,085,970,679
Other financial obligations	0	1,312,164,597	1,312,164,597	1,346,761,750
Acceptances outstanding	0	31,528,201	31,528,201	31,528,201
<b>Total financial liabilities</b>	<u>14,940,741,133</u>	<u>13,188,092,625</u>	<u>28,128,833,758</u>	<u>27,974,082,096</u>
<b>December 31, 2022</b>				
<b>Financial assets</b>				
Cash and cash equivalents	768,898,974	0	768,898,974	768,898,974
Securities purchased under resale agreements	0	10,696,871	10,696,871	10,696,871
Deposits in banks	0	4,385,193,988	4,385,193,988	4,385,193,988
Loans, excluding financial leases	0	19,087,089,069	19,087,089,069	19,718,059,686
Acceptances outstanding	0	31,709,438	31,709,438	31,709,438
<b>Total financial assets</b>	<u>768,898,974</u>	<u>23,514,689,366</u>	<u>24,283,588,340</u>	<u>24,914,558,957</u>
<b>Financial liabilities</b>				
Deposits from customers	14,707,439,023	8,774,607,054	23,482,046,077	23,328,767,066
Securities sold under repurchase agreements	0	260,710,165	260,710,165	260,710,165
Financial obligations	0	2,326,802,889	2,326,802,889	2,283,961,350
Other financial obligations	0	1,009,686,439	1,009,686,439	1,059,787,532
Acceptances outstanding	0	31,709,438	31,709,438	31,709,438
<b>Total financial liabilities</b>	<u>14,707,439,023</u>	<u>12,403,515,985</u>	<u>27,110,955,008</u>	<u>26,964,935,551</u>

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

**(19) Administration of Trust Contracts and Securities Custody**

As of September 30, 2023, several subsidiaries of the Bank manage and keep custody of securities for a total amount of approximately \$4,128,913,697 (December 31, 2022: \$3,372,210,190).

**(20) 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 book value.

The following table shows the balances and transactions with related parties as of September 30, 2023:

	September 30, 2023		December 31, 2022	
	Key personnel and directors	Related parties	Key personnel and directors	Related parties
<b>Assets:</b>				
Deposits due from banks	0	0	0	0
Interest bearing deposits	0	47,895,000	0	56,550,000
Investments in securities	0	764,629	0	810,370
Loans	19,160,256	341,304,439	16,510,865	372,773,342
Allowance for loan losses	(91,974)	(403,310)	(112,873)	(718,246)
Accumulated interest receivable and other accounts receivable	87,491	9,007,394	65,310	4,782,707
	<u>19,155,773</u>	<u>398,568,152</u>	<u>16,463,302</u>	<u>434,198,173</u>
<b>Liabilities:</b>				
Demand deposits	5,909,244	62,548,987	6,769,041	49,669,785
Time deposits	13,171,722	51,851,343	11,914,524	40,767,114
Other financial obligations	0	527,729,420	0	520,000,000
Accumulated interest payable and other liabilities	215,284	2,891,423	140,086	2,816,985
	<u>19,296,250</u>	<u>645,021,173</u>	<u>18,823,651</u>	<u>613,253,884</u>
	September 30, 2023		September 30, 2022	
	Key personnel and directors	Related parties	Key personnel and directors	Related parties
Interest income and other income	<u>863,201</u>	<u>29,170,493</u>	<u>660,192</u>	<u>14,083,106</u>
Interest expense and other operating expenses	<u>519,659</u>	<u>42,535,080</u>	<u>302,428</u>	<u>43,932,426</u>
Key management personnel benefit	13,177,719	0	18,050,342	0

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

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Statements

### (21) Operating 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 companies. operation in relation to other entities operating within the industry.

	<u>BAC Guatemala</u>	<u>BAC El Salvador</u>	<u>BAC Honduras</u>	<u>BAC Nicaragua</u>	<u>BAC Costa Rica</u>	<u>BAC Panama</u>	<u>Others</u>	<u>Elimination</u>	<u>Total</u>
<b>September 30, 2023</b>									
<b>Total assets</b>	<u>5,769,096,318</u>	<u>3,266,270,526</u>	<u>4,713,373,870</u>	<u>2,104,750,007</u>	<u>9,541,068,997</u>	<u>7,337,578,442</u>	<u>316,038,252</u>	<u>(731,526,774)</u>	<u>32,316,649,638</u>
<b>Total liabilities</b>	<u>5,185,245,809</u>	<u>2,915,777,080</u>	<u>4,141,029,149</u>	<u>1,635,002,754</u>	<u>8,317,205,975</u>	<u>7,490,977,559</u>	<u>54,806,936</u>	<u>(731,536,053)</u>	<u>29,008,509,209</u>
<b>Consolidated Statement of Income</b>									
Interest income	353,162,118	197,389,831	306,525,833	121,201,563	621,566,619	348,516,666	4,634,218	(24,612,010)	1,928,384,838
Interest expense	<u>132,521,523</u>	<u>59,418,261</u>	<u>62,134,630</u>	<u>14,353,962</u>	<u>184,182,161</u>	<u>206,721,731</u>	<u>951,420</u>	<u>(24,612,010)</u>	<u>635,671,678</u>
Net interest income	<u>220,640,595</u>	<u>137,971,570</u>	<u>244,391,203</u>	<u>106,847,601</u>	<u>437,384,458</u>	<u>141,794,935</u>	<u>3,682,798</u>	<u>0</u>	<u>1,292,713,160</u>
Provision for credit risk of financial instruments	<u>61,959,038</u>	<u>26,873,649</u>	<u>33,820,076</u>	<u>(6,664,054)</u>	<u>79,548,635</u>	<u>62,867,386</u>	<u>(37,439)</u>	<u>0</u>	<u>258,367,291</u>
Net interest income after provisions	<u>158,681,557</u>	<u>111,097,921</u>	<u>210,571,127</u>	<u>113,511,655</u>	<u>357,835,823</u>	<u>78,927,549</u>	<u>3,720,237</u>	<u>0</u>	<u>1,034,345,869</u>
Other income, net	98,380,615	41,680,600	105,823,530	48,919,991	244,645,244	71,351,116	283,900,653	(186,366,500)	708,335,249
General and administrative expense	<u>172,110,954</u>	<u>108,843,507</u>	<u>193,769,527</u>	<u>72,860,999</u>	<u>462,605,898</u>	<u>140,531,878</u>	<u>176,513,104</u>	<u>(186,366,500)</u>	<u>1,140,869,367</u>
Income before income tax	<u>84,951,218</u>	<u>43,935,014</u>	<u>122,625,130</u>	<u>89,570,647</u>	<u>139,875,169</u>	<u>9,746,787</u>	<u>111,107,786</u>	<u>0</u>	<u>601,811,751</u>
Less: Income tax	<u>13,146,538</u>	<u>11,881,798</u>	<u>32,930,081</u>	<u>26,931,275</u>	<u>55,515,288</u>	<u>9,082,127</u>	<u>(5,731)</u>	<u>0</u>	<u>149,481,376</u>
Net income	<u>71,804,680</u>	<u>32,053,216</u>	<u>89,695,049</u>	<u>62,639,372</u>	<u>84,359,881</u>	<u>664,660</u>	<u>111,113,517</u>	<u>0</u>	<u>452,330,375</u>
<b>December 31, 2022</b>									
<b>Total assets</b>	<u>5,810,608,498</u>	<u>3,144,648,362</u>	<u>4,412,793,342</u>	<u>1,901,813,324</u>	<u>8,951,929,720</u>	<u>7,387,789,196</u>	<u>262,238,374</u>	<u>(821,966,115)</u>	<u>31,049,854,701</u>
<b>Total liabilities</b>	<u>5,230,826,261</u>	<u>2,810,164,717</u>	<u>3,895,488,543</u>	<u>1,477,979,323</u>	<u>7,900,352,284</u>	<u>7,463,921,860</u>	<u>65,418,201</u>	<u>(821,966,115)</u>	<u>28,022,185,074</u>
<b>September 30, 2022</b>									
<b>Consolidated Statement of Income</b>									
Interest Income	285,464,337	166,298,048	251,775,188	91,835,887	435,319,676	300,397,292	1,117,472	(24,008,013)	1,508,199,887
Interest expenses	<u>90,337,978</u>	<u>44,933,694</u>	<u>52,111,912</u>	<u>12,162,935</u>	<u>95,539,453</u>	<u>164,025,697</u>	<u>1,182,302</u>	<u>(24,008,013)</u>	<u>436,285,958</u>
Net interest income	<u>195,126,359</u>	<u>121,364,354</u>	<u>199,663,276</u>	<u>79,672,952</u>	<u>339,780,223</u>	<u>136,371,595</u>	<u>(64,830)</u>	<u>0</u>	<u>1,071,913,929</u>
Provision for credit risk of financial instruments	<u>41,782,737</u>	<u>41,249,223</u>	<u>33,748,755</u>	<u>(907,169)</u>	<u>59,876,648</u>	<u>87,958,038</u>	<u>(103,989)</u>	<u>0</u>	<u>263,604,243</u>
Net interest income after provisions	<u>153,343,622</u>	<u>80,115,131</u>	<u>165,914,521</u>	<u>80,580,121</u>	<u>279,903,575</u>	<u>48,413,557</u>	<u>39,159</u>	<u>0</u>	<u>808,309,686</u>
Other income, net	89,865,541	42,105,787	101,159,616	49,107,400	257,201,935	58,405,604	223,153,693	(148,802,282)	672,197,294
General and administrative expense	<u>150,444,855</u>	<u>96,890,223</u>	<u>167,518,948</u>	<u>64,612,334</u>	<u>375,598,319</u>	<u>123,497,880</u>	<u>145,138,124</u>	<u>(148,802,282)</u>	<u>974,898,401</u>
Income before income tax	<u>92,764,308</u>	<u>25,330,695</u>	<u>99,555,189</u>	<u>65,075,187</u>	<u>161,507,191</u>	<u>(16,678,719)</u>	<u>78,054,728</u>	<u>0</u>	<u>505,608,579</u>
Less: Income tax	<u>19,528,433</u>	<u>6,659,116</u>	<u>27,737,243</u>	<u>19,556,606</u>	<u>58,651,375</u>	<u>12,780,330</u>	<u>116,548</u>	<u>0</u>	<u>145,029,651</u>
Net income	<u>73,235,875</u>	<u>18,671,579</u>	<u>71,817,946</u>	<u>45,518,581</u>	<u>102,855,816</u>	<u>(29,459,049)</u>	<u>77,938,180</u>	<u>0</u>	<u>360,578,928</u>

## BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Condensed Consolidated Interim Financial Statements

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#### (22) Litigations

As of September 30, 2023, 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 condensed consolidated interim financial statements of the Bank in the event of an adverse result.

#### (23) 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 September 30, 2023, 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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**Notes to the Condensed Consolidated Interim Financial Statements**

**(23) 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 September 30, 2023

	<u>September 30, 2023</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	9,533,212,204	478,423,111	131,864,273	33,066,422	63,231,720	10,239,797,730
Consumer loans	<u>11,411,130,439</u>	<u>557,658,888</u>	<u>98,374,113</u>	<u>92,839,383</u>	<u>52,468,328</u>	<u>12,212,471,151</u>
<b>Total</b>	<u>20,944,342,643</u>	<u>1,036,081,999</u>	<u>230,238,386</u>	<u>125,905,805</u>	<u>115,700,048</u>	<u>22,452,268,881</u>
Specific reserve	<u>0</u>	<u>81,123,356</u>	<u>51,683,864</u>	<u>71,384,553</u>	<u>63,685,099</u>	<u>267,876,872</u>

  

	<u>December 31, 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	8,760,566,454	522,359,610	200,910,339	22,346,371	65,041,934	9,571,224,708
Consumer loans	<u>10,132,867,536</u>	<u>725,819,609</u>	<u>103,499,961</u>	<u>100,044,568</u>	<u>51,492,757</u>	<u>11,113,724,431</u>
<b>Total</b>	<u>18,893,433,990</u>	<u>1,248,179,219</u>	<u>304,410,300</u>	<u>122,390,939</u>	<u>116,534,691</u>	<u>20,684,949,139</u>
Specific reserve	<u>0</u>	<u>97,717,906</u>	<u>61,290,662</u>	<u>71,870,323</u>	<u>54,698,738</u>	<u>285,577,629</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 September 30, 2023, the classification of the amortized cost loan portfolio by maturity profile based on Agreement No. 4-2013:

	<u>September 30, 2023</u>			<u>Total</u>
	<u>Current</u>	<u>Past due</u>	<u>Overdue</u>	
Corporate loans and other loans	10,160,830,420	24,464,372	54,502,938	10,239,797,730
Consumer loans	<u>11,727,493,832</u>	<u>271,374,485</u>	<u>213,602,833</u>	<u>12,212,471,151</u>
<b>Total</b>	<u>21,888,324,253</u>	<u>295,838,857</u>	<u>268,105,771</u>	<u>22,452,268,881</u>

  

	<u>December 31, 2022</u>			<u>Total</u>
	<u>Current</u>	<u>Past due</u>	<u>Overdue</u>	
Corporate loans and other loans	9,492,780,094	34,344,295	44,100,319	9,571,224,708
Consumer loans	<u>10,662,783,534</u>	<u>240,887,105</u>	<u>210,053,792</u>	<u>11,113,724,431</u>
<b>Total</b>	<u>20,155,563,628</u>	<u>275,231,400</u>	<u>254,154,111</u>	<u>20,684,949,139</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:

- 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.

# BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Condensed Consolidated Interim Financial Statements

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### (23) Regulatory Aspects, continued

Total loans from BAC International Bank, Inc. ("Parent Bank") as of September 30, 2023 in non-interest calculation status amounts to \$144,690,061 (December 31, 2022: \$172,719,922). Total unrecognized interest as income on these loans is \$5,930,397 (December 31, 2022: \$15,950,374).

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%
Corporate loans with real estate guarantees	At the beginning of the third year	50%

As of September 30, 2023, and December 31, 2022, the Bank constituted an estate provision of \$8,080,719 and \$8,878,613, respectively, pursuant to Agreement No. 11-2019.

The General Resolution of the Board of Directors SBP-GJD-0007-2020 of July 16, 2020, for the purposes of the provisions of articles 36, 37 and 38 of Agreement No.4-2013 on credit risk, temporarily suspends the obligation to constitute the dynamic provision established in the aforementioned articles, in order to provide financial relief to the banks of the square during the State of National Emergency decreed by the National Government due to the pandemic of COVID-19.

On June 6, 2023, the General Resolution of the Board of Directors SBP-GJD-R-2023-01125 is issued, which Reestablishes the constitution of the dynamic provision amounts, in accordance with the regulatory criteria established in articles 36, 37 and 38 of Agreement No.4-2013 and repeals in all its parts the General Resolution of the Board of Directors SBP-GJD-0007-2020 of July 16, 2020



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

**Notes to the Condensed Consolidated Interim Financial Statements**

**(23) Regulatory Aspects, continued**

As of September 30, 2023, 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 \$314,226,545 (December 31, 2022: \$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.

As of September 30, the Bank maintains a percentage of 1.71% on risk-weighted assets. 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 September 30, 2023. These percentages represent the following amounts:

	September 30, <u>2023</u>	December 31, <u>2022</u>
1.25%	<u>230,132,828</u>	<u>205,284,368</u>
2.50%	<u>460,265,656</u>	<u>410,568,736</u>

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

	September 30, <u>2023</u>	December 31, <u>2022</u>
<b>Component 1</b>		
Risk – weighted assets (credit facilities – Normal category)	18,410,626,234	16,422,749,428
For alpha coefficient (1.50%)		
<b>Result</b>	<u>276,159,394</u>	<u>246,341,241</u>
<b>Component 2</b>		
Variation (positive) between the current quarter versus the previous risk – weighted assets		
For beta coefficient (5.00%)	642,148,540	810,770,386
<b>Result</b>		
<b>Less:</b>	<u>32,107,427</u>	<u>40,538,519</u>
<b>Component 3</b>		
Amount of change in the balance of specific provisions in the quarter	<u>3,331,580</u>	<u>6,324,534</u>
<b>Gross dynamic reserve balance</b>	<u>304,935,241</u>	<u>280,555,226</u>
<b>Plus:</b>		
Amount restriction as set forth in paragraphs “a” and “b” of Article 37 and consolidation effect.	<u>9,291,304</u>	<u>(35,214,269)</u>
<b>Net dynamic reserve balance</b>	<u>314,226,545</u>	<u>245,340,957</u>

As of September 30, 2023 and December 31, 2022, 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 September 30, 2023, and December 31, 2022, 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.

## **BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Statements**

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#### **(23) Regulatory Aspects, continued**

Agreement No.1-2015, which lays down capital adequacy rules for banks and banking groups, began to govern on 1 January 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 1 July 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 1 January 2020.

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

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.

Resolution SBP-GDP-R-2023-01034, published on April 11, 2023, nullifies the special and temporary considerations contemplated in the General Resolution of the Board of Directors SBP-GJD-005-2020, the application of the provisions of this resolution will be reflected in the report corresponding to September 2023.

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

**Notes to the Condensed Consolidated Interim Financial Statements**

**(23) Regulatory Aspects, continued**

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:

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Ordinary Primary Capital (Pillar I)</b>		
Common stocks	834,708,000	834,708,000
Additional paid in capital	140,897,488	140,897,488
Retained earnings	2,424,609,855	2,346,577,551
Non-controlling interest	301,934	273,006
Other Comprehensive losses	(415,190,595)	(549,079,111)
Less: Goodwill	(335,280,660)	(334,304,446)
Less: Intangible assets	(70,170,443)	(63,141,561)
Less: Treasury stock	<u>(5,218,370)</u>	<u>(5,218,370)</u>
<b>Total Ordinary Primary Capital</b>	<u><b>2,574,657,209</b></u>	<u><b>2,370,712,556</b></u>
<b>Additional Primary Capital</b>		
Perpetual bond issued by the Bank	<u>520,000,000</u>	<u>520,000,000</u>
<b>Total Additional Primary Capital</b>	<u><b>520,000,000</b></u>	<u><b>520,000,000</b></u>
<b>Total Primary Capital (Net)</b>	<u><b>3,094,657,209</b></u>	<u><b>2,890,712,556</b></u>
<b>Secondary Capital (Pillar II)</b>		
Subordinated debt	<u>0</u>	<u>0</u>
<b>Total Secondary Capital</b>	<u><b>0</b></u>	<u><b>0</b></u>
<b>Dynamic Provision</b>	<u>314,226,545</u>	<u>245,340,957</u>
<b>Total Regulatory Capital Fund</b>	<u><b>3,408,883,754</b></u>	<u><b>3,136,053,514</b></u>
Total Assets Weighted by Net Risk deductions	25,952,243,001	23,970,522,249
Operational Risk Weighted Assets (Agreement No.11-2018)	<u>1,411,305,086</u>	<u>1,223,648,249</u>
<b>Total risk weighted assets</b>	<u><b>27,363,548,087</b></u>	<u><b>25,194,170,498</b></u>
<b>Ratios:</b>		
Capital Adequacy Ratio	<u>12.46%</u>	<u>12.45%</u>
Primary Capital Ratio	<u>11.31%</u>	<u>11.48%</u>

- *Liquidity Ratio*

The percentage of the liquidity index reported by BAC International Bank, Inc. to the regulatory body, under the parameters of Agreement No. 4-2008, as of September 30, 2023, was 49.41% (December 31, 2022: 45.67%).

- *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%

## **BAC INTERNATIONAL BANK, INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

### **Notes to the Condensed Consolidated Interim Financial Statements**

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#### **(23) Regulatory Aspects, continued**

As of September 30, 2023, the Bank constituted provision of the awarded properties amounting to \$5,724,853 (December 31, 2022: \$5,291,493), 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 23 July 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 8 July 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.

#### **(24) Subsequent Events**

The Bank has assessed the subsequent events to November 2, 2023, 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.