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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

Unibank, S.A. and Subsidiaries

Consolidated financial statements for the year ended December 31, 2020 and Independent Auditors' Report as at February 5, 2021

This document has been prepared with the understanding that its contents will be made available to investors and the general public

Deloitte LATCO
Firma miembro de
Deloitte Touche Tohmatsu Limited

Unibank, S.A. and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements as at December 31, 2020

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of
Unibank, S.A. and Subsidiaries

We have audited the accompanying consolidated financial statements of **Unibank, S.A. and Subsidiaries** ("the Bank") which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of **Unibank, S.A. and Subsidiaries** as at December 31, 2020, and its financial performance and cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities in accordance with these standards are further described in the Auditor´s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent from the Bank in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accounting Professionals (IESBA Code) and the Professional Code of Ethics for Authorized Public Accountants in Panama (Chapter V of Law 57 of September 1, 1978), and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

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

Key audit matter

Provision for losses on uncollectible loans

See Note 3.10 and 4.2 of the consolidated financial statements.

Provision for possible losses on uncollectible loans	How our audit addressed the key audit matter
The estimation for the provision for expected credit losses (ECLs) in loans is one of the most significant and complex estimates in the preparation of the consolidated financial statements as at December 31, 2020.	Our work on estimating the provision for loan ECLs has focused on the evaluation of internal controls, as well as performing detailed tests on credit risk provisions. We have also analyzed the impact on the initial application of IFRS 9. Specifically, our audit procedures in this area include, among others:

As at December 31, 2019, ECLs in loans is a highly subjective area due to the level of judgment applied by Management in the measurement of impairment provisions on loans, which represent 66% of the Bank's assets

The processes of these models require an increased level of judgment in the determination of the ECLs considering factors such as the identification and classification by stages of impaired assets or with a significant increase in credit risk, development of the probability of default (PD) and loss given default (LGD) and the use of assumptions such as macroeconomic scenarios and segmentation criteria

For the year ended December 31, 2020, due to the pandemic declared since March 2020 by the World Health Organization that has affected the world's health and economy, the Bank updated its ECL model by updating the forward looking and adding an additional haircut (cut) on the value of the guarantees.

- We tested a sample of significant loans not identified as impaired and challenged Management's assumptions about its conclusion that the credit was not impaired by the loan’s credit rating being reprocessed using the updated credit and financial information of the credit file and taking in consideration, when available, public information that will show an event of deterioration.

- We tested a sample for impaired loans and evaluated the measurement of the impairment made by Management through: (a) assessment of the value by guarantee cash flows through the review of the information that gives the right to the Bank on the guarantee and review of the Bank's independent appraisers. (b) evaluation of the net value of realization of the appraisal and (c) recalculation of the ECLs’ value.

- Control tests were assisted by our specialists in information systems to prove the delinquencies of the loan portfolio and to test the accuracy and integrity of the information used to calculate the parameters for the establishment of the ECLs.

- We involved specialists to reprocess the methodologies used by Management in determining the provisions for the ECLs. We tested the main models with respect to: i) methodology used to estimate the parameters of expected losses; ii) methodology used to generate the macroeconomic scenarios; iii) information used in the calculation and generation and iv) criteria for the significant increase in credit risk and the classification by stages of the loans.

Other matter

The Bank evaluated the events subsequent to December 31, 2020 to assess the need for recognition or disclosure in the consolidated financial statements. Based on this evaluation, it was determined to disclose the occurrence of the disease COVID-19 as a subsequent event, which was classified as a pandemic by the World Health Organization during the month of March 2020.

Other information

Management is responsible for the other information. Other information comprises information included in the Annual Update Report for the Superintendency of the Securities Market of Panama, but does not include the consolidated financial statements and the auditors' report on the same. The Annual Update Report is expected to be available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion regarding the same.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears materially misstated.

When we read the Annual Update Report, if we conclude that there is a material misstatement contained therein, we are required to report the matter to those in charge of corporate governance and the Bank must address the matter and prepare a modified Annual Update Report to be forwarded to the Superintendency of the Securities Market of Panama.

Complementary information

Management is responsible for the other information. The other information covers Annexes I, and II, but is not included in the consolidated financial statements and in the auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion regarding the same.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears materially misstated. Based on the work we have done, if we conclude that there is a material error in this other information, we are required to report this fact. We have nothing to report on this matter.

Management's Responsibilities and of those in care of governance for the consolidated financial statements

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

In preparing the consolidated financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those in charge of corporate governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the International Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- We conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those in charge of corporate governance regarding, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those in charge of corporate governance with a statement that we have complied with the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and when applicable, the related safeguards.

From the matters communicated with those in charge of corporate governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that the matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

The partner in charge of the audit that has prepared this independent auditor´s report is Diana Mosquera.

(Signed by Deloitte)

February 5, 2021
Panama, Republic of Panama

Unibank, S.A. and Subsidiaries

Consolidated statement of financial position
December 31, 2020
(In balboas)

	Notes	2020	2019
Assets			
Cash and cash equivalents	8	66,548,622	54,725,448
Investments in securities, net	9	87,040,206	82,599,645
Loans, net	7,10	359,866,832	371,926,498
Property, furniture, equipment and improvements, net	11	2,801,158	2,727,833
Right-of-use asset	12	293,695	329,875
Investment in associate	14	8,421,279	6,463,317
Asset held for sale	13	5,144,837	5,502,513
Other assets	7,15	18,070,224	13,839,233
Total assets		548,186,853	538,114,362
Liabilities and equity			
Liabilities			
Customer deposits	7	405,851,185	407,359,858
Borrowings received	18	58,030,170	47,992,777
Marketable securities	19	6,021,037	4,994,015
Lease obligations	17	315,748	339,187
Other liabilities	7,16	6,997,601	8,403,170
Total liabilities		477,215,741	469,089,007
Equity			
Common shares	20	62,259,992	61,660,000
Regulatory reserves	26	6,129,532	7,582,966
Investments reserves		2,585,714	1,501,285
Net changes in investments in securities		(1,947,359)	(1,366,553)
Retained earnings		1,625,521	(680,582)
Complementary tax		(280,530)	(271,761)
Equity attributable to owners of controlling company		70,372,870	68,425,355
Non-controlling interests		598,242	600,000
Total equity		70,971,112	69,025,355
Total liabilities and equity		548,186,853	538,114,362

The notes are an integral part of these consolidated financial statements.

Unibank, S.A. and Subsidiaries

Consolidated statement of profit or loss
for the year ended December 31, 2020
(In balboas)

	Notes	2020	2019
Interest income	7	28,118,451	29,034,488
Interest expenses	7	(18,765,946)	(18,823,048)
Net interest income		9,352,505	10,211,440
Commission income	21	4,011,853	4,552,118
Commission expenses	22	(1,163,415)	(981,874)
Net commission income		2,848,438	3,570,244
Total interest and commission incomes		12,200,943	13,781,684
Other income:			
Realized gain on investment securities	9	79,107	310,671
Other income	21	490,186	853,236
Total other income		569,293	1,163,907
Net financial results		12,770,236	14,945,591
Provisions:			
Provisions for loans	10	(919,056)	(147,029)
Provision for investment securities	9	(1,103,419)	(1,212,437)
Provisions for foreclosed assets		(43,321)	(75,717)
Total provisions		(2,065,796)	(1,435,183)
General and administrative expenses			
Personnel expenses	7	(4,602,871)	(5,054,471)
Professional fees and services		(631,389)	(641,401)
Operating leases' expenses		(7,500)	(583)
Depreciation and amortization	11,12,15	(666,184)	(1,062,400)
Other expenses	22	(2,789,446)	(3,245,661)
Total general and administrative expenses		(8,697,390)	(10,004,516)
Profit for the year before income tax		2,007,050	3,505,892
Deferred income tax expense	25	(25,395)	(366,819)
Income tax expense	25	(439,988)	(72,889)
Profit for the year		1,541,667	3,066,184
Profit for the year attributable to:			
Owners of the controlling company		1,006,247	2,540,967
Non-controlling interest		535,420	525,217
		1,541,667	3,066,184

The notes are an integral part of these consolidated financial statements.

Unibank, S.A. and Subsidiaries

Consolidated statement of comprehensive income
for the year ended December 31, 2020
(In balboas)

	Note	2020	2019
Profit for the year		1,541,667	3,066,184
Other comprehensive income:			
Items that can be subsequently reclassified to profit or loss:			
Use of investment reserves		-	(2,112,161)
Investment reserves		1,084,429	1,213,470
Net changes in valuation of securities available for sale	9	(582,564)	3,239,822
Total comprehensive income for the year		2,043,532	5,407,315
Comprehensive income attributable to:			
Owners of controlling company		1,509,870	4,878,730
Non-controlling interest		533,662	528,624
Total comprehensive income		2,043,532	5,407,354

The notes are an integral part of these consolidated financial statements.

Unibank, S.A. and Subsidiaries

Consolidated statement of changes in equity
for the year ended December 31, 2020
(In balboas)

	Notes	Common shares	Regulatory reserves	Investments reserves	Net changes in securities available for sale	Retained deficit	Complementary tax	Total of controlling company	Non-controlling interest	Total
Balance at December 31, 2018		61,000,000	5,524,365	2,399,976	(4,602,968)	(2,413,458)	(253,018)	61,654,897	1,110,220	62,765,117
Incorporation of subsidiary in consolidation		-	-	-	-	1,248,074	-	1,248,074	-	1,248,074
Profit for the year		-	-	-	-	2,540,967	-	2,540,967	525,217	3,066,184
Other comprehensive income for the year:										
Use of investment reserves		-	-	(2,112,161)	-	-	-	(2,112,161)	-	(2,112,161)
Investment reserves		-	-	1,213,470	-	-	-	1,213,470	-	1,213,470
Net changes in securities available for sale during the year	9	-	-	-	3,236,415	-	-	3,236,415	3,407	3,239,822
Total other comprehensive income		-	-	(898,691)	3,236,415	2,540,967	-	4,878,691	528,624	5,407,315
Other equity transactions										
Increase in dynamic reserve		-	2,056,165	-	-	(2,056,165)	-	-	-	-
Increase in regulatory reserve on foreclosed assets		-	2,436	-	-	-	-	2,436	-	2,436
		-	2,058,601	-	-	(2,056,165)	-	2,436	-	2,436
Shareholders' contributions and distributions:										
Capital contribution		660,000	-	-	-	-	-	660,000	-	660,000
Dividends paid		-	-	-	-	-	-	-	(1,038,844)	(1,038,844)
Complementary tax		-	-	-	-	-	(18,743)	(18,743)	-	(18,743)
Total shareholders' contributions and distributions		660,000	-	-	-	-	(18,743)	641,257	(1,038,844)	(397,587)
Balance at December 31, 2019		61,660,000	7,582,966	1,501,285	(1,366,553)	(680,582)	(271,761)	68,425,355	600,000	69,025,355
Balance at December 31, 2019		61,660,000	7,582,966	1,501,285	(1,366,553)	(680,582)	(271,761)	68,425,355	600,000	69,025,355
Profit for the year		-	-	-	-	1,006,247	-	1,006,247	535,420	1,541,667
Other comprehensive income for the year:										
Investments reserves		-	-	1,084,429	-	-	-	1,084,429	-	1,084,429
Net changes in securities available for sale during the year	9	-	-	-	(580,806)	-	-	(580,806)	(1,758)	(582,564)
Total other comprehensive income		-	-	1,084,429	(580,806)	1,006,247	-	1,509,870	533,662	2,043,532
Other equity transactions										
Increase in dynamic reserve		-	(1,050,047)	-	-	1,299,856	-	249,809	-	249,809
Increase in regulatory reserve on loans		-	(249,809)	-	-	-	-	(249,809)	-	(249,809)
Increase in regulatory reserve on foreclosed assets		-	(153,578)	-	-	-	-	(153,578)	-	(153,578)
		-	(1,453,434)	-	-	1,299,856	-	(153,578)	531,904	(153,578)
Shareholders' contributions and distributions:										
Capital contribution	20	599,992	-	-	-	-	-	599,992	-	599,992
Dividends paid		-	-	-	-	-	-	-	(535,420)	(535,420)
Complementary tax		-	-	-	-	-	(8,769)	(8,769)	-	(8,769)
Total shareholders' contributions and distributions		599,992	-		-	-	(8,769)	591,223	(535,420)	55,803
Balance at December 31, 2020		62,259,992	6,129,532	2,585,714	(1,947,359)	1,625,521	(280,530)	70,372,870	1,130,146	70,971,112

The notes are an integral part of these consolidated financial statements.

Unibank, S.A. and Subsidiaries

Consolidated statement of cash flows
for the year ended December 31, 2020
(In balboas)

	Notes	2020	2019
Operating activities:			
Net profit		1,541,667	3,066,223
Adjustments for reconciling net profit and cash			
from operating activities:			
Provision for losses on uncollectible loans	10	919,056	147,029
Provision for investments	9	1,103,419	1,212,437
Provision for foreclosed assets		43,321	75,717
Depreciation of furniture, equipment and improvements	11	230,686	384,780
Depreciation from right-of-use lease assets	12	36,180	137,095
Loss from disposal of furniture and fixtures	11	2,720	-
Amortization of intangible asset	15	399,318	540,525
Gain on sale of asset available for sale		(196,899)	(73,281)
Gain on sale of investments		(79,107)	(310,671)
Current income tax	25	439,988	72,889
Deferred tax	25	25,395	366,819
Interest and commission income		(28,118,451)	(29,034,488)
Interest expenses		18,765,946	18,803,842
Changes in operating assets and liabilities:			
Time deposits with contractual maturities greater than 90 days		-	100,000
Unearned discounted loans and commissions		11,140,610	16,585,627
Other assets		(1,503,651)	(4,927,503)
Customer deposits		(1,508,673)	(23,517,556)
Other liabilities		(937,514)	1,824,923
Cash generated from operations:			
Income tax expense		(461,339)	(53,539)
Interest income		23,499,340	29,422,900
Interest expense		(18,677,190)	(18,896,276)
Net cash provided by (used in) operating activities		6,664,822	(4,072,508)
Investment activities:			
Acquisition of investment at FVTOCI	9	(83,467,960)	(53,132,072)
Proceeds from sale and redemption of investments at FVTOCI	9	85,864,608	56,185,129
Acquisition of investments in securities at amortized cost	9	(10,677,409)	(9,733,228)
Proceeds from sale and redemption of securities held to maturity	9	3,047,695	20,028,106
Purchase and addition to furniture, equipment and improvements	11	(306,731)	(7,100)
Purchase of intangible assets	15	(398,630)	(32,718)
Net cash generated by investment activities		(5,938,427)	13,308,117
Financing activities:			
Capital contribution	20	599,992	660,000
Issuance of negotiable commercial securities	19	6,030,000	7,026,416
Proceeds from payment of negotiable commercial securities	19	(5,002,978)	(5,029,107)
Payments of leasing commitments		(23,439)	(127,783)
Borrowings	18	58,315,584	19,874,296
Installments and cancellations of borrowings	18	(48,278,191)	(9,719,948)
Dividends paid net of tax		(535,420)	(1,038,844)
Complementary tax		(8,769)	(18,743)
Net cash generated (used in) provided by financing activities		11,096,779	11,626,287
Net increase in cash and cash equivalents		11,823,174	20,861,896
Cash and cash equivalents at the beginning of the year		54,725,448	33,863,552
Cash and cash equivalents at the end of the year	8	66,548,622	54,725,448

The notes are an integral part of these consolidated financial statements.

1. General information

Unibank S.A., hereinafter “the Bank”, was organized and incorporated under Panamanian law, and was granted a General Banking License by Resolution No.163-2010 of July 19, 2010 from the Superintendency of Banks of Panama (hereinafter the “Superintendency of Banks”). The General Banking License allows conducting of banking business, anywhere in the Republic of Panama, as well as to perform transactions that are completed or take effect abroad, and undertaking such other activities authorized by the Superintendency of Banks.

Unibank, S.A. is supervised by the Superintendency of Banks under Decree Law No.9 of February 26, 1998, and relevant regulations, as amended by Decree Law No. 2 of February 22, 2008. The Superintendency of Banks has all the faculties to monitor, regulate and inspect banking operations.

Unibank, S.A. provides directly and through its subsidiary, financial services, corporate banking, personal banking and private banking in addition to other financial services; these activities are subject to supervision by regulatory authorities.

The Bank owns 100% of the issued and outstanding shares of Uni Leasing, Inc., which was organized and incorporated under Panamanian business law, and was granted license by Resolution No. 393 of September 15, 2011, to conduct leasing transactions. The leasing operations in Panama are regulated by the Directorate of Financial Institutions of the Ministry of Trade and Industry in accordance with Law No. 7 of July 10, 1990.

The Bank is a subsidiary 100% owned by Uni B&T Holding, Inc., a company registered under the laws of the Republic of Panama, in the Public Registry in the mercantile section under Microjacket No. 682912 and document No.1712451 dated January 15, 2010.

The Bank owns 100% of the issued and outstanding shares of the following subsidiaries:

- Uni Leasing, Inc.: an entity organized and constituted under Panamanian legislation, which was granted a license by Resolution No. 393 of September 15, 2011, to carry out financial leasing operations. Financial leasing operations in Panama are regulated by the Directorate of Financial Companies of the Ministry of Commerce and Industries according to the legislation established in Law No.7 of July 10, 1990.

- Uni Trust, Inc. is a trustee with a license granted by the Superintendency of Banks of Panama, under resolution No.SBP-FID-0019-2019 of August 26, 2019, to carry out the Trust business in the Republic of Panama.

- Bienes Raíces Uni, S.A.: a company registered under the laws of the Republic of Panama, in the Public Registry in the mercantile section under Microjacket No.790241 and document No.2303503 of December 21, 2012, whose main activity is the administration of the Group's real estate.

In September 2014, the Bank acquired 50% of the shares of the company Invertis Securities, S.A., incorporated in the Republic of Panama through Public Deed No.11,653 of December 12, 2012. Invertis Securities, S.A. has been incorporated to engage in or from the Republic of Panama, in the Stock Exchange business in accordance with the national legal provisions.

2. New and amended IFRS standards that are effective for the current year

2.1 Impact of the initial application of *Interest Rate Benchmark Reform* (*Amendments to IFRS 9 IAS 39, and IFRS 7*)

In September 2019, the IASB issued the *Interest Rate Benchmark Reform* (amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The Bank adopted the Benchmark Interest Rate Reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR Reform Phase 1) effective as of January 1, 2020. Phase 1 of the IBOR reform includes a number of exemptions, which apply to all hedging relationships that are directly affected by the benchmark interest rate reform. A hedging relationship is affected if the reform results in uncertainties about the timing or amount of benchmark-based cash flows of the hedged item or hedging instrument during the year prior to the replacement of an existing benchmark interest rate with an alternative near-risk-free rate (RFR). This can lead to uncertainty as to whether a forecast transaction is highly probable and whether the hedging relationship is expected to be highly effective. Phase 1 of the IBOR reform provides relief that requires the Bank to assume that hedging relationships are not affected by the uncertainties caused by the IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. In addition, the exemptions allow the Bank not to discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. Phase 1 of the IBOR Reform also requires disclosures regarding hedging relationships to which the exemptions apply. This amendment has no impact on the Bank's consolidated financial statements because the Bank does not maintain interest rate hedging relationships.

2.2 Impact of the initial application of other new and amended IFRSs that are effective for the current year

In the current year, the Bank has applied the following amendments to IFRS Standards and Interpretations by the Board of Directors that are effective for annual periods beginning on or after January 1, 2020. Their adoption has not had a significant impact on the disclosures or amounts reported in these consolidated financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

The Bank has adopted the amendments included in *“Amendments to References to the Conceptual Framework in IFRS Standards”* for the first time”. The amendments include consequential amendments to the affected Standards so that they refer to the new *Framework.* Not all amendments, however, update those pronouncements with regard to references to and quotes from the *Framework*. Some pronouncements are only updated to indicate which version of the *Framework* they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised *Framework* of 2018) or to indicate that the definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

Amendments to IFRS 3 – Definition of a business

The Bank has adopted amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, these are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability of creating outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or group of assets. The amendments are applied prospectively to all business combinations and assets.

Amendments to IAS 1 and IAS 8 - Definition of material

The Bank has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of "obscuring" material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence". The definition of material in IAS 8 has been replaced by a reference to the definition in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of "material" or refers to the term "material" to ensure consistency.

2.3 New and/or revised standards and interpretations

Management is in the process of assessing the potential impact of new and revised standards that have been issued but are not yet effective as at December 31, 2020.

IFRS 17 - Insurances

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 - *Insurance contracts*.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued *Amendments to IFRS 17* to address concerns and implementation challenges after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after January 1, 2023. At the same time, the IASB issued the Extension of the Temporary Exemption from the Application of IFRS 9 (*Amendments to IFRS 4*) that extends the fixed expiration date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after January 1, 2023.

IFRS 17 should be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purposes of the transition requirements, the date of initial adoption is the start, if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.

Amendments to IAS 1 - *Classification of liabilities as current or non-current*

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the consolidated statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of «settlement» to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

Amendments to IFRS 3 – *Reference to the Conceptual Framework*

The amendments update IFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated *Conceptual Framework*) at the same time or earlier.

Amendments to IAS 16 – Property, plant and equipment—proceeds before intended use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 *Inventories*.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the consolidated statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the consolidated statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

Amendments that specify the «cost of fulfilling» a contract, comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of the net equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

Annual Improvements to IFRS Standards 2018–2020

The *Annual Improvements* include amendments to four Standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

IFRS 9 – Financial instruments

The amendment clarifies that in applying the «10 per cent» test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

IFRS 16 - Leasing

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

IAS 41 - Agriculture

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 *Fair Value Measurement* to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

3. Most significant accounting policies

3.1 Basis of preparation

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

The consolidated financial statement have been prepared in accordance with the International Financial Reporting Standards (IFRSs). Accounting policies used in the preparation of consolidated financial statements have been applied consistently in relation to previous years.

3.2 Going concern

Management has at the time of approving the financial statements, a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

3.3 Principle of consolidation

The consolidated financial statements include the consolidated financial statements of Unibank, S.A. and its subsidiaries, Uni Leasing, Inc.; Invertis Securities, S.A.; Bienes Raíces Uni, S.A.; and Uni Trust, Inc.

Control is obtained when the Bank:

- Has power over an investee;
- Is exposed to, or has rights to, variable yields from its relationship with the investee; and
- Has the ability to use its power over the investee and influence the amount of the investor's returns.

The Bank reevaluates whether or not it controls an investee, if the facts and circumstances indicate that there are changes to one or more of the three aforementioned control elements.

The Bank considers all relevant facts and circumstances when evaluating whether or not the voting rights of the Bank in an investee are sufficient to give it power, including:

- The size of the percentage of voting rights of the Bank relative to the size and dispersion of the percentages of other voting holders;
- Potential voting rights held by the Bank, other shareholders or other parties;
- Rights derived from contractual agreements; and
- Any additional facts or circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns in prior shareholders' meetings.

The consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ends when the Bank loses control of the subsidiary. Specifically, the income and expenses of a subsidiary acquired or sold during the year are included in the consolidated statement of profit or loss and the consolidated statement of comprehensive income from the date the Bank obtains control until the date on which the Bank ceases to control the subsidiary.

The gains or losses on each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. The total comprehensive income of the subsidiaries is attributed to the owners of the Bank and to the non-controlling interests, even if the results of the non-controlling interests have a negative balance.

If necessary, adjustments are made to the consolidated financial statements of the subsidiaries to align their accounting policies to those used by other members of the Bank.

All transactions, balances, income and expenses between companies are eliminated in the consolidation.

3.4 Foreign currency transactions

Assets and liabilities held in foreign currency are converted into balboas at the exchange rate in effect on the date of the consolidated statement of financial position, with the exception of those transactions with contractually agreed upon fixed rates. Transactions in foreign currency are recorded at the exchange rates in effect on the dates of the transactions. Non-monetary assets and liabilities denominated in foreign currencies that are valued at fair value are converted to the functional currency at the exchange rate on the date on which the fair value was determined. The differences in foreign currency arising during the conversion are recognized in gains or losses, except in the case of exchange differences arising from the conversion of available-for-sale equity instruments, from the difference in changes coming from monetary items related to the net investment in an operation abroad, or from the exchange cash flow hedges, which are recognized directly in the consolidated statement of comprehensive income.

3.5 Functional currency

Records are carried in balboas (B/.) and the consolidated financial statements are expressed in balboas (B/.), the currency of the Republic of Panama, which is at par and freely exchangeable with the United States dollar (US$). The Republic of Panama does not issue paper currency and instead uses the dollar (US$) as legal tender.

3.6 Financial assets

The financial assets that it holds are classified in the following specific categories: Investments in securities at fair value through other comprehensive income, Investment in securities at amortized cost and Loans. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Investments in securities at FV through OCI

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

When applicable, the Bank measures the fair value of an instrument using a quoted price in an active market for that instrument. A market is considered as active if the transactions of these assets or liabilities take place frequently and sufficient volume to provide information to fix prices on an ongoing basis.

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

The best evidence of fair value is a quoted market price in an active market. In the event that the market for a financial instrument is not considered active, a valuation technique is used. The decision of whether a market is active can include, but is not limited to, consideration of factors such as the magnitude and frequency of commercial activity, the availability of prices and the magnitude of offers and sales. In markets that are not active, the guarantee to obtain that the transaction price provides evidence of fair value or to determine the adjustments to the transaction prices that are necessary to measure the fair value of the instrument, requires additional work during the valuation process.

These debt instruments are measured at fair value with change in other comprehensive income if the following two conditions are met:

- The financial asset is maintained in accordance with a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets; y,
- The contractual conditions of the financial assets give rise on specified dates to the cash flows that are solely payments of principal and interest on the outstanding principal.

Unrealized gains or losses are reported as net increases or decreases in other comprehensive income ("OCI") in the consolidated statement of changes in equity until they are realized. Gains or losses realized from the sale of securities included in the net gain on the sale of securities are determined using the specific identification method. For an equity instrument designated as measured at FVTOCI, the accumulated gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but may be transferred within equity.

Investment in securities at amortized cost

Investments in securities at amortized cost are non-derivative financial assets with fixed or determined payments and fixed maturities, which the Bank's Management has the intention and ability to hold until maturity.

Assets held to maturity are recognized at amortized cost using the effective interest method less any impairment, with income recognized on an effective rate basis.

Financial assets at amortized cost represent securities and loans whose objective is to be held in order to obtain the contractual cash flows over the life of the instrument. These securities and loans are valued at amortized cost if the following two conditions apply:

- The financial asset is maintained within the business model whose objective is to hold the financial assets to obtain the contractual cash flows, and

- The contractual terms of the financial asset give rise, on the specified dates, to cash flows that are solely payments of principal and interest (SPPIs) on the outstanding principal amount.

Loans

Loans receivable are non-derivative financial assets with fixed or determinable payments not quoted in an active market, except: (a) those that the entity will expect to sell immediately or on a short term, which are classified as trading, and those that the entity in its initial recognition designates at fair value through profit or loss, (b) those that the entity upon initial recognition designates as available-for-sale, or (c) those for which the holder do not recover substantially all of its initial investment, unless due to credit impairment.

Loans are recognized at amortized cost using the effective interest method less any impairment, with recognized income based on the effective rate.

At the start date, the Bank as the lessor, will recognize in its consolidated statement of financial position the assets held under finance leases and present them as a receivable for an amount equal to the net investment in the lease.

Modified loans

A modified or renegotiated loan is a loan whose borrower is experiencing financial difficulties and the renegotiation constitutes a concession to the borrower. A concession may include the modification of terms such as an extension of the maturity, reduction in the stated interest rate, rescheduling of future cash flows, and reduction of the nominal amount of the loan or reduction of accrued interest, among others.

When a financial asset is modified, the Bank verifies whether this modification results in a derecognition (1). According to the Bank's policies, the modification results in a derecognition when it gives rise to significantly different terms. In determining whether the modified terms are significantly different from the original contractual terms, the Bank considers the following:

- Qualitative factors, such as contractual cash flows after the modification are no longer SPPI, change of currency or change of counterparty, the extent of the change in interest rate, maturity, and payment arrangements. If they do not clearly identify a major modification then;
- A quantitative valuation is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, and both amounts discounted at the original effective interest rate.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines whether the credit risk of the financial asset has increased significantly since initial recognition by comparison:

- The estimated probability of default over the remaining life, based on data at initial recognition and the original contractual terms; with
- The probability of default over the remaining life at the reporting date, based on the modified terms.

For the IFRS Provision model, elements have been incorporated to the model for credits and the pandemic effect of the IFRS engine is incorporated:

- To the engine with risk levels (high, medium and low) by type of activity affected from the Covid-19 Pandemic in the definition of the Buckets' model.

- Forward-looking is updated with the Macroeconomic variables available at the end of 2020 and these are projected until the end of 2023 with a weighting of 3 scenarios between base, optimistic and conservative. The conservative and base scenarios are weighted more heavily.

- An additional and temporary weighting is incorporated while the financial relief measures are in force of 5% and 10% on the real estate guarantees to the portfolio.

- The estimation by transition matrices is maintained for the calculation of PDs, as well as the LGD's methodology.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to receive cash flows have expired or when the Bank has transferred financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank does not transfer or retain substantially all the risks and benefits of ownership and control continues with the asset transferred, the Bank recognizes its retained interest in the assets and liabilities related to the amounts that it might have to pay. If the Bank retains substantially all risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a liability secured by the amount received.

3.7 Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

Debt and equity instruments issued are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest on the assets of an entity after deducting all its liabilities. Equity instruments issued by the Bank are recorded at the amount received, net of direct issuance costs.

An equity financial instrument is considered as such, only if the following 2 conditions are met:

- The instrument does not include the contractual obligation for the issuer to deliver cash or another financial asset to another entity.

- It does not exchange financial assets or liabilities with another entity under conditions that are potentially unfavorable to the issuer.

If the instrument will be or can be liquidated by the issuer through its own equity instruments, then it is:

- A non-derivative instrument that includes non-contractual obligations for the issuer to deliver a variable number of its own equity instruments or,

- A derivative that will be settled only through the exchange of the issuer of a certain amount of cash or another financial asset for a certain number of its own equity instruments.

Consequently, an equity financial instrument is a contract that manifests a participation in the assets of an entity.

Equity financial instruments that do not have a quoted market price in an active market may be measured at fair value reliably if:

- The variability in the range of fair value estimates is not significant for that asset, or
- The probabilities of various estimates within that range can be reasonably evaluated and used in the estimation of fair value.

It is possible that the variability in the range of reasonable estimates of the fair value of equity financial instruments that do not have a quoted market price is not significant in many occasions. Normally, it is possible to estimate the fair value of a financial instrument of equity that the Bank has acquired from a third party. However, if the range of reasonable estimates of fair value is significant and the probabilities of the various estimates cannot be reasonably assessed, the fair value measurement by the Bank will be excluded and measured at cost.

Therefore, if the measurement of the fair value of an equity financial instrument is no longer available or unreliable (for example, an equity instrument measured at fair value through profit or loss), its carrying value on the last date on which the reliability of the financial instrument was measured will become its new cost. The Bank will measure the financial instrument at this cost value less impairment, until a reliable measure of fair value becomes available.

Liabilities of financial guarantee contracts

Financial guarantees are contracts that require an entity to pay specified payments by a third party assuming that it fails to do so, regardless of the manner in which this obligation is carried out whether by bond, financial or technical guarantee, documented credit irrevocably issued or confirmed by the entity, insurance and derived from credit.

Financial guarantees, whoever is the owner, instrument holder and other circumstance, are analyzed periodically in order to determine the credit risk to which they are exposed and, where appropriate, the needs to constitute a provision for them estimated. This is determined by applying criteria similar to those established to quantify the impairment losses experienced by debt instruments valued at their amortized cost as detailed in the impairment note of financial assets.

Financial guarantees are initially recognized in the consolidated financial statements at fair value at the date in which the guarantee was issued. Subsequent to the initial recognition, the bank liability under said guarantees is measured at the higher of the initial recognition, less the amortization calculated to recognize income from fees earned based on the straight line over the life of the guarantee and the best estimate of the disbursement required to cancel any financial obligation that arises as of the date of the consolidated statement of financial position. These estimates are determined based on the experience of similar transactions and the history of past losses, complemented by Management's judgment.

Borrowings

Borrowings are initially recognized at cost, net of costs incurred in the transaction. Subsequently, they are presented at amortized cost using the effective interest method, with interest expense recognized based on the effective rate.

Other financial liabilities

Other financial liabilities, including debts, are initially measured at cost, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expenses recognized based on the effective rate.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired.

3.8 Compensation of financial instruments

Financial assets and liabilities are subject to compensation, that is, of the presentation in the consolidated statement of financial position for their net amount, only when the subsidiaries have both the right, legally required, to offset the amounts recognized in the aforementioned instruments, such as the intention to settle the net amount, or to realize the asset and proceed to the payment of the liability simultaneously.

3.9 Interest income and expenses

Income and interest expense are recognized in the consolidated statement of profit or loss under the effective interest rate method for all interest-bearing financial instruments. The effective interest rate is the rate that exactly discounts the estimated cash flows through the estimated life of a financial instrument, or when appropriate in a shorter period, to its net carrying value. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument.

The effective interest rate method is the method used to calculate the amortized cost of a financial asset or liability and to distribute the interest income or expense over a period. The effective interest rate is the rate that exactly discounts the estimated cash flows through the estimated life of a financial instrument, or when appropriate in a shorter period, to its net carrying value. When calculating the effective interest rate, cash flows are estimated considering the contractual terms of the financial instrument.

3.10 Fee and commission income

Generally, fees and commissions on short-term loans, letters of credit and other banking services are recognized as cash-based income due to their short-term maturity. The income recognized under the cash method is not significantly different from the income that would be recognized under the accrual method. Fees and commissions on medium and long-term transactions are deferred and amortized as income using the effective interest rate method over the life of the loan.

3.11 Impairment of financial assets

<u>*Loans*</u>

The Bank assesses if there is objective evidence that a financial asset or group of financial assets are impaired.

A financial asset or group of financial assets is impaired and incurred in an impairment loss only if there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or financial group that can be estimated reliably.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- For economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider, is granted to the borrower.
- It becoming probable that the borrower will enter bankruptcy or another financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of the existence of an impairment of individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment.

Review and calibration of the IFRS reserve model

The Bank carried out a review and calibration of the IFRS reserve model complying with international standards, which include some modifications incorporated in 2019 and another update in 2020 under the Covid 19 scenario. These updates are detailed below:

- A collective analysis is performed, i.e., the entire portfolio (Bucket 1, 2 and 3) is included within the calculation. In accordance with agreed discussions, criteria will be evaluated to determine significant credits that merit an individual estimate.
- There is a scoring model based on decision trees, which seeks to group the portfolio based on various characteristics, establishing nodes independently. From this model, a risk classification from 1 to 5 is obtained, being 1 the best and 5 the worst, and subsequently a bad rate is estimated with respect to the defaults.
- The estimation by transition matrices is based on the nodes resulting from the scoring model. The initial nodes are compared with the nodes 12 months later, in order to obtain an annual ECL of the resulting matrix. For the ECLs of the following years, a multiplication of the matrix n times is performed.
- The new LGD (loss given default) is included at the portfolio level (mortgage, consumer and corporate) which is constructed with respect to the recovery flows and the estimated cure rate with respect to the historical defaults recorded.
- In 2020 the forward looking was reviewed and updated, post-model adjustments were incorporated, the portfolio was classified according to economic activity and a haircut was added. See Note 4.2 Impairment and provision policies section.

Guarantees are considered as a mitigating factor for the entire portfolio, since they are collateral available to the Bank in the event of default. These are included in the EDP flows, so as to estimate provisions according to the net amount exposed to risk. The rates stipulated by SBP Agreement 04-2013 are considered as a deflator.

The Bank measures loss amounts in an amount equal to the expected credit losses during the life time, except for the following, which are measured as expected credit losses during the next 12 months:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments on which the credit risk has not increased significantly since initial recognition.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

In order to update the allowance model, the following updates were made:

- Update of the PDs (Probability of Default) provided in the Standard and Poor`s report, whose estimation is based on behavior history of transaction of corporate instrument risk ratings over a 38-year horizon (1981 -2019).

- The new LGD at the portfolio-level is updated to Basel standards (45%) for all instruments.

- The model weighs credit quality as measured by issuer risk ratings from the time of acquisition and during the asset's tenure in the investment portfolio. To the extent that the asset suffers downgrades, the model automatically penalizes issuer provisions.

- Those issuers that default automatically go to an individual model that based on judgment, the unrealized loss and potential recovery of the holder will have to provision the amount of loss resulting from the analysis.

Collectively assessed loans

The Bank performs the collective impairment assessment, grouping loans according to similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows on groups of such assets, which are key indicators of the debtors' ability to pay the amounts due under the contractual terms of the assets being evaluated.

The Bank determines the expected credit loss model by classifying it in three stages according to the credit exposures:

Stage 1: In credit exposures where a significant increase in credit risk has not happened since its initial recognition, the Bank provisions the expected credit losses resulting from predetermined events that are possible within 12 months after the date of presentation.

Stages 2 and 3: In credit exposures where there has been a significant increase in credit risk since the initial recognition, the Bank provisioned the expected credit losses resulting from default over the expected life of the instrument.

Reversal of impairment

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment event was recognized, the previously recognized impairment loss is reversed by reducing the reserve account for loan losses. The amount of any reversal is recognized in the consolidated statement of profit or loss. When a loan is uncollectible, it is canceled against the allowance for loans. Such loans are written-off after all the necessary procedures have been considered and the amount of the loss has been determined. Subsequently, recoveries of amounts previously written off are credited to the reserve.

3.12 Furniture, equipment and improvements

Property, furniture, equipment and improvements are stated at cost, net of accumulated depreciation and amortization. Major improvements are capitalized, while other minor repairs and maintenance, which do not increase its useful life or improve the assets, are charged to expenses as incurred.

Depreciation and amortization are charged to current operations under the straight-line method, based on the estimated useful lives of the assets:

Assets	Useful life
Property	50 years
Furniture and office equipment	3 – 7 years
Vehicle	3 – 5 years
Computer equipment	5 – 7 years
Property improvements	20 – 50 years

Assets that are subject to amortization are reviewed for impairment whenever changes in the circumstances indicate that carrying values are not recoverable. The carrying value of fixed assets is immediately reduced to its recoverable value, which is the higher between the fair value less cost and the value in use.

3.13 Leases

(i) The Bank as lessee

The Bank leases real estate and other assets. The terms of the contracts are negotiated individually and contain different characteristics and conditions.

The Bank assesses whether a contract is or contains a lease, at the beginning of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability in relation to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a term of 12 months or less) and low-value asset leases. For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which the economic benefits of the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments not paid at the start date, discounted using the implicit rate in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

The incremental borrowing rate used was based on the Bank's rate curve, where the incremental borrowing rate was based on the economic environment, market comparability and terms. The average rate determined by the Bank was 7.28%.

The lease liability is initially measured at the present value of future payments (excluding disbursements made before or at inception), discounted at the Bank's incremental borrowing rate. Future payments include:

- Fixed payments.
- Variable payments that are based on an index or rate.
- Amounts expected to be paid by the lessee as residual value guarantees.
- Price of a purchase option if the lessee is reasonably certain to exercise it.
- Penalties for termination of the lease.

The lease liability is presented as a separate line item in the consolidated statement of financial position.

The Bank re-measures the lease liability (and makes appropriate adjustments related to the right-of-use asset) provided that:

- The lease term has changed or there is a change in the assessment of the exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in an expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease is changed and the change in lease is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Bank has not made these adjustments during the period presented.

Right-of-use assets comprise the initial measurement of the related lease liability, lease payments made on or before the start date, and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the life of the underlying asset. Depreciation begins on the start date of the lease.

(ii) The Bank as lessor

The Bank enters into leases as lessor with respect to some of its investment properties. Leases for which the Bank is lessor are classified as financial or operating leases. As long as the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. The other leases are classified as operating leases.

When the Bank is an intermediate lessor, it accounts for the main lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset derived from the main lease.

The rental income from operating leases is recognized on a straight-line basis over the corresponding lease term. Initial direct costs incurred in the negotiation and organization of an operating lease are added to the carrying value of the leased asset and are recognized on a straight-line basis over the term of the lease.

Amounts due from lessees under finance leases are recognized as receivables in the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Bank's net investment in the leases.

3.14 Intangible assets

Licenses and software acquired separately are stated at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortization. Depreciation is computed using the straight-line method to allocate the cost of licenses over their estimated lives of between five to ten years. Software licenses acquired are capitalized on the basis of costs incurred to acquire and are able to use the specific software.

3.15 Foreclosed assets available for sale

Foreclosed assets available for sale are stated at the lower of the carrying value of the unpaid loans and its estimated market value less costs to sell. Any impairment that affects the value of the foreclosed assets is adjusted against a provision that was recorded in the results of operations.

3.16 Assets held for sale

The Bank maintains assets and liabilities, which it expects to recover through a sale and not through its continued use, and are classified as held for sale. Immediately before being classified as held for sale, the assets or components of a group of assets for disposal will be re-measured in accordance with the Bank's accounting policies.

From this classification, they are recognized by the lower of their carrying value and its fair value less sale costs. An impairment loss is recognized due to the reductions of the initial value of the assets. Impairment losses on initial and subsequent classification as held for sale are recognized in the consolidated statement of profit or loss.

3.17 Impairment of non-financial assets

At each consolidated statement of financial position date, the Bank reviews the carrying values of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is calculated in order to determine the extent of the impairment loss (if any). In case the asset does not generate cash flows by itself, that are independent from other assets, the Bank calculates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) is decreased to its recoverable amount. Immediately an impairment loss is recognized in operating results.

3.18 Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Subsequently, borrowings are recorded at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the consolidated statement of profit or loss over the financing period, using the effective interest rate method.

3.19 Employee benefits

Panamanian labor law requires that employers create a Severance Fund to guarantee payment of seniority premiums and indemnity in cases of unjustified dismissals or resignation. For the establishment of this fund, employers have to contribute to the fund based on 1.92% of total salaries paid in the Republic of Panama and 5% of the monthly quota part of the indemnity. Payments should be deposited on a quarterly basis in a trust. Such contributions are recognized as expense in the results of operations. The Severance Fund is maintained in a private trust and it is managed by a separate entity from the Bank and its subsidiaries.

3.20 Income tax

The income tax of the year comprises current tax and deferred tax. The income tax is recognized in the results of operations for the current year. The current income tax refers to the estimated payable on taxable income for the year, using the effective rate at the date of the consolidated statement of financial position.

Deferred tax is calculated based on the liability method, on temporary differences between the carrying values of assets and liabilities reported for financial purposes and the amounts used for tax purposes, using the income tax rate in force at the date of the consolidated statement of financial position. These temporary differences are estimated to be reversed in future dates.

3.21 Cash equivalents

For purposes of the consolidated statement of cash flows, cash equivalents includes cash, demand and time deposits with banks that earn interest with original maturities of three months or less as of the acquisition date of the deposit.

3.22 Segment reporting

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

3.23 Comparative

Certain items in the statement of financial position and statement of changes in equity have been reclassified for a better comparison.

4. Financial risk instruments

4.1 Objectives of financial risk management

The Bank's activities are exposed to a variety of financial risks and those activities include the analysis, evaluation, acceptance and administration of certain degree of risks or combination of risks. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in the business. Therefore, the objective of the Bank is to achieve an appropriate balance between risk and return and minimize the potential adverse effects on the financial return of the Bank.

The activities of the Bank are mainly related with the use of financial instruments, and, as such, the consolidated statement of financial position is mainly composed of financial instruments. The Bank is therefore exposed to the following risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational and technological risk
- Country risk
- Money laundering and financing of terrorism risk

The Board of Directors of the Bank has the responsibility to establish and overlook the policies of financial instruments risk management. In that effect, it has appointed committees in charge of the periodic management and to overlook the risks to which the Bank is exposed. The committees are the following:

- Audit Committee
- Assets and Liabilities Committee (ALCO)
- Risk Committee
- Compliance Committee
- Credit Committee
- Committee for Prevention of Money Laundering
- Technology Committee
- Human Capital Committee
- Corporate Governance Committee

In addition, the Bank is subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of the Securities Market of Panama, in relation to concentration risks, liquidity and capitalization risk, among others.

4.2 Credit risk

Credit risk is the risk of a financial loss for the Bank that may take place if a client or a counterparty of a financial instrument fails to meet their contractual obligations arising mainly on loans to clients and investment securities.

For purposes of risk management, the Bank considers and consolidates all the elements of exposure of credit risk, debtor risk, country risk, and sector or industry risk. The credit risk that originates in maintaining securities is managed independently, but reported as a component of credit risk exposure.

The respective committees appointed by the Board of Directors periodically monitor the financial condition of the debtors and issuers of negotiable instruments that involve a credit risk for the Bank. The Credit Committee consists of members of the Board of Directors, credit management staff, and representatives of the business areas. This Committee is in charge of developing the changes to credit policies, and to present them to the Bank's Board of Directors.

The Bank has established certain procedures to manage credit risk summarized as follows:

Establishment of credit policies

Credit policies are issued and revised by recommendation of any member of the Credit Committee or by the Vice-Presidents or Managers of Credit Banking, as well as by the control areas, which must suggest by written considering the following factors:

- Changes in market conditions.
- Risk factors.
- Changes in laws and regulations.
- Changes in financial conditions and credit availability.
- Other factors relevant at the moment.

All changes in policies or the issuance of new policies must be approved by the Credit Committee, who in turn submits them to the Board of Directors for approval, issuing a memorandum of instructions for subsequent disclosure and implementation.

Establishment of authorization limits

The limits for approval of credits depend on the significance of each amount related to the equity of the Bank. These limit levels are presented to the Credit Committee, who in turn submits them for the approval of the Board of Directors of the Bank.

Exposure limits

To limit exposure, maximum limits have been set out for an individual debtor or an economic group based on the capital funds of the Bank.

Concentration limits

To limit concentration per activity or industry, exposure limits have been approved based on capital distribution and the strategic orientation set for the loan portfolio.

The Bank has also limited its exposure in different geographical areas through the country risk policy, in which countries have been defined where the Bank is willing to have exposure based on its strategic plan; in turn, credit and investment exposure limits have been implemented in such countries based on the credit rating of each one.

Maximum limits per counterparty

With respect to exposures by counterparties, limits have been defined based on the counterparty's risk rating, as a proportion of the Bank's capital.

Impairment and provisioning policies

Each business unit is responsible for the quality and performance of the loans in their portfolios as well as for the control and monitoring of risks. However, through the Risk Department, which is separate from the business areas, the debtor's financial condition and ability to pay is evaluated periodically, giving primary importance to the biggest individual debtors. While the rest of the loans not individually significant are being monitored through the delinquency of their payments, and the individual characteristics of such portfolios.

The new impairment model will be applicable to financial assets measured at amortized cost, contract assets and debt investments at fair value through other comprehensive income, except for investments in equity instruments and leases.

Under IFRS 9, provisions for losses will be measured using one of the following bases:

- 12-month ELCs: These are expected credit losses resulting from possible default events within 12 months after the filing date; and

- Lifetime ELCs: These are expected credit losses resulting from possible default events during the expected life of a financial instrument.

The measurement of Lifetime ECLs applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and the measurement of expected credit losses of 12 months applies if this risk has not increased. The entity may determine that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk at the reporting date. The Bank considers that impairment losses are likely to increase and become more volatile for assets within the scope of the IFRS 9 impairment model.

Updates to the IFRS 9 Model under the COVID scenario

The Bank revised its reserve model under the COVID scenario and added some conditions that seek to incorporate risk scenarios under the uncertainty caused by the pandemic, and be able to estimate reserve levels appropriately. Among these updates we can highlight:

- Revision and update of the Forward-looking for a scenario (unprecedented) on the GDP fall and increase in unemployment.
- Classification of the portfolio according to economic activity in low, medium and high risk.
- And an additional haircut was added on the value of guarantees (already included in the model) on mortgage guarantees, land or commercial premises.

Maximum exposure to credit risk before retained guarantee or other credit enhancements

The credit risk exposure related to assets in the consolidated statement of financial position is presented below:

	Maximum exposure	
	2020	**2019**
Deposits placed in banks	65,916,880	53,556,800
Loans	359,866,832	371,926,498
Investments:		
Investments in securities at FVTOCI	65,154,734	68,225,834
Investments in securities at amortized cost	21,885,472	14,373,811
Total included in balance sheet	512,823,918	508,082,943
Exposure to credit risk relate to off - balance sheet operations:		
Guarantees	448,154,894	476,728,318
Promissory notes	5,655,159	6,237,675
Total included in off - balance sheet	453,810,053	482,965,993

The exposure presented for the assets in the consolidated statement of financial situation are based on the carrying value reported in the consolidated statement of financial position.

The following table analyzes the loan portfolio of the Bank that is exposed to credit risk and its corresponding assessment:

	Loans receivable	
	2020	**2019**
Maximum exposure		
Carrying value	359,866,832	371,926,498
At amortized cost:		
Level 1: Normal	339,946,401	343,012,498
Level: special mention	9,635,515	17,205,643
Level 3: Subnormal	6,211,009	6,314,539
Level 4: Doubtful	711,710	2,199,946
Level 5: Uncollectible	7,169,649	6,145,823
Gross amount	363,674,284	374,878,449
Impairment provision	(3,712,667)	(2,795,762)
Unearned discounted interest and commissions	(94,785)	(156,189)
Carrying value, net	359,866,832	371,926,498
Not delinquent or impaired		
Level 1	339,946,401	343,012,498
Level 2	9,635,515	17,205,643
Sub-total	349,581,916	360,218,141
Individually impaired		
Level 3	6,211,009	6,314,539
Level 4	711,710	2,199,946
Level 5	7,169,649	6,145,823
Sub-total	14,092,368	14,660,308
Reserve for loans		
With expected losses	3,712,667	2,795,762
Total impairment reserve	3,712,667	2,795,762

In the previous table, the major risk exposure factors and information on impaired assets have been detailed, and the assumptions used for such disclosures are as follows:

- *Impairment on loans* - The Bank determines if there is objective evidence of impairment in loans and investments, taking into account the following factors:

  - Contractual default on the payment of principal or interest.
  - Evident difficulties in the cash flows of the borrower or issuer.
  - Breach of any of the originally agreed terms and conditions.
  - Start of a bankrupt process by the borrower or issuer.
  - Impairment in the value of the collateral given as guarantee.

- *Delinquent loans without impairment* – The Bank considers delinquent loans without impairment those loans whose agreed contractual principal and interest payments are in arrears, but the collateral and payment sources are sufficient to cover the carrying value of said loan.

- *Impairment provisions* – The Bank has established impairment reserves, which represent, an estimate of expected losses in the loan portfolio. The main components of this reserve is related to individual risks, and the reserve for loan losses is established on a collective basis.

- *Write-off policy* – Loans are charged to losses when they are determined uncollectible. This determination is taken after an analysis of financial conditions made from the time the payment obligation was not performed and when it is determined that the guarantee is not sufficient for full payment of the facility granted.

The Bank holds collaterals on loans granted to mortgage customers such as mortgages and other guarantees for said asset. The fair value estimates are based on the value of the collateral according to the loan period and are generally not updated unless the credit is impaired on an individual basis.

The carrying value of the loan portfolio's collaterals is as follow:

	2020	**2019**
Personal property	5,880,760	5,906,388
Real estate property	364,458,879	380,057,925
Pledge deposits in same bank	64,053,687	76,738,661
Other guarantees	13,761,568	14,025,344
Total	448,154,894	476,728,318

The following table analyzes investments in securities exposed to credit risk and their corresponding evaluation based on their rating:

2020	**Investment in securities at FVTOCI**	**Investment in securities at amortized cost**	**Total investments**
Investment grade	49,480,484	16,074,236	65,554,720
Standard monitoring	6,275,603	-	6,275,603
Special monitoring	5,432,117	-	5,432,117
No investment grade	3,966,530	5,811,236	9,777,766
	65,154,734	21,885,472	87,040,206

2019	Investment in securities at FVTOCI	Investment in securities at amortized cost	Total investments
Investment grade	49,296,715	11,899,017	61,195,732
Standard monitoring	11,852,750	-	11,852,750
Special monitoring	3,502,470	-	3,502,470
No investment grade	3,573,899	2,474,794	6,048,693
	68,225,834	14,373,811	82,599,645

In the above table, the factors of greatest risk exposure for investments in securities at FVTOCI and investments in securities at amortized cost have been broken down.

To manage financial risk exposures of investments in securities, the Bank uses the indicators of external rating agents, as follows:

Rating	External ratings
Investment grade	AAA, AA+, AA-, A+, A, BBB+, BBB, BBB-
Standard monitoring	BB+, BB, BB-, B+, B, B-
Special monitoring	CCC to C
Default	D
No investment grade	----

Risk concentration of financial assets with credit risk

The Banks monitors the credit risk concentration by sector and geographic location. The analysis of the credit risk concentration at the date of the consolidated statement of financial position is as follows:

	Loans		Investments in securities	
	2020	2019	2020	2019
Concentration by sector:				
Corporate:				
Commercial and overdrafts	283,792,891	281,441,285	31,696,217	28,204,405
Mortgages	20,465,273	29,329,926	-	-
Consumer:				
Personal and overdraft	23,413,090	23,774,662	-	-
Mortgage	19,581,459	21,734,423	-	-
Others.				
Banks and financial entities	10,393,698	13,346,324	34,899,836	32,020,093
Pretoleum and derivatives	-	-	6,275,603	8,398,414
Government entities	-	-	5,500,638	3,495,040
Power generation	2,220,421	2,299,878	8,667,912	10,481,693
Sub total	359,866,832	371,926,498	87,040,206	82,599,645

The geographical concentrations of loans are based on the debtor’s location while investments are based on the issuer’s domicile.

	Loans		Investments securities	
	2020	**2019**	**2020**	**2019**
Geographical concentrations:				
Panama	341,408,105	352,480,650	61,912,070	47,106,344
Central America and the Caribbean	12,700,870	12,951,795	-	-
United States of America	-	-	11,841,973	15,332,255
Others	5,757,857	6,494,053	13,286,163	20,161,046
Sub total	359,866,832	371,926,498	87,040,206	82,599,645

4.3 Market risk

The Bank is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and stocks, which are exposed to general market movements and specific changes in the level and volatility of market rates or prices such as interest rates, credit spread, the exchange rates and share prices.

Reports on market risks arising from marketable and non-marketable activities are presented for assessment and consideration by the Risk Committee, and then submitted to the Board of Directors for review and approval.

Marketable portfolios include positions arising from transactions occurring in the market in which the Banks act as principal with customers or with the market. Non-marketable portfolios primarily arise from the management of the Bank's interest rates and the assets and liabilities of corporate banking.

As part of market risk, the Bank is mainly exposed to interest rate risk. For these purposes, cash flow and fair value interest rate risk is understood as follows:

The interest rate risk of cash flows and the interest rate risk of fair value are the risks that future cash flows and the value of a financial instrument will fluctuate because of changes in market interest rates. The Asset and Liability Committee (ALCO) and the Risk Committee review the exposure to interest rate risk.

Market risk management

To measure and control market risk, the Bank has limits such as net exposure by currency, by issuer, by country risk, offering size and maximum maturity periods, among others.

The following table summarizes the calculation of VaR (Value at Risk) for an investment portfolio at fair value of the Bank at the date of the consolidated financial statements:

	2020	**2019**
Total VaR	1,337,896	597,581

As at December 31, 2020, in order to calculate the VaR or Value at Risk, the Bank uses the Parametric method to determine the variance and Co-variance of the portfolio. This method looks to randomly allocate variables and obtain different scenarios and results, using a timeline of two weeks and a confidence level of 99%.

Although the VaR model is an important tool for measuring market risk, it involves the following assumptions:

- Normal market movements (major financial crisis are excluded).
- It does not calculate the maximum loss of the portfolio.
- Some of the subsequent portfolio losses are above VaR.
- The Bank maintains its entire portfolio in securities available for sale and securities held to maturity, so the portfolio's risk is strictly credit risk.

The limitations of the VaR methodology are recognized and complemented with other structures of sensitivity limits, including limits to address potential concentration risks within each marketable portfolio.

<u>Provision for country risk</u>

These are generated on the measurement of exposure to country risk related to all placements, loans and repurchase agreements, investments in securities, derivative financial instruments, and irrevocable contingencies, provided they are not exempt from provision. These provisions for country risk are constituted over the balances exposed in these operations according to the country risk classification category.

Basis of calculation

In compliance with Agreement 7-2018, which came into force in June 2019, general country risk evaluations are performed, provided that the sum of the individual exposures by country as a whole is equal to or greater than 30% of the total operations subject to country risk, or that individually any of these operations has a concentration in one country equal to or greater than 5%. Regulated entities must make a general evaluation of each country in which they have exposure. The result of these general assessments is used to assign the country risk classification category.

The calculation of the provision is made based on the balances exposed to country risk by the percentage of the country risk classification category, which are determined in accordance with the methodology developed and established by the Company.

Country risk classification categories are associated with a sovereign risk rating issued by an international rating agency, in accordance with Standard & Poor's methodology or its equivalent, as shown below:

Rating category	International rating
Group 1, countries with low risk	should not be less than "AA-"
Group 2, countries with normal risk	should not be less than "BBB-"
Group 3, countries with moderate risk	should not be less than "BB-"
Group 4, countries with difficulties	should not be less than "B-"
Group 5, doubtful countries	should not be less than "C"
Group 6, countries with serious problems	"D"

The following shall be considered exempt from provisions for country risk:

1. Foreign trade operations with a term of less than one year.
2. Investments in Group 1 and 2 countries, traded in markets with high liquidity and depth, which are valued at market price and whose valuation is carried out daily.
3. Derivative operations that are carried out in centralized trading mechanisms that require the constitution of deposits or guarantee margins adjustable daily, located in the countries of groups 1 and 2.
4. Exposures with multilateral development agencies listed in the Credit Risk and Counterparty Risk Weighted Assets Agreement.

Accounting treatment

The country risk provision to be established is the maximum between that which results from comparing the country risk provision with the provisions corresponding to the nature of the operation analyzed. The final provision for country risk will be the one calculated after deducting the provisions established corresponding to the nature of the operation analyzed.

As at December 31, 2020, the balance of the country risk reserve is B/.72,566 (2019: B/.84,931), and is presented as part of the reserve for expected losses on assets where there is a country risk position.

Exchange rate risk

It is the risk that the value of a financial instrument will fluctuate because of changes in exchange rates of foreign currencies, and other financial variables as well as the reaction of market participants to political and economic events.

The Bank has no significant own positions in foreign currencies; it only keeps operating accounts to meet the demand of its customers.

The Bank holds transactions of monetary financial instruments in the consolidated statement of financial position, contracted in foreign currencies, which are presented below:

Expressed in USD	2020	2019
Bank deposits	1,230,302	1,378,442
Other assets	(125,545)	(111,644)
Total assets	1,104,757	1,266,798
Deposits received	1,104,779	1,266,818
Other liabilities	(22)	(20)
Total liabilities	1,104,757	1,266,798

The sensitivity analysis for exchange rate risk is mainly considered for the measurement of a position within a specific currency. The analysis consists of verifying on a monthly basis how much would the position represent in the functional currency if converted from its current currency, and, as a result, the combination of exchange rate risks.

Fair value hedge of interest rate risk

The cash flow interest rate risk and the fair value interest rate risk are the risks that future cash flows and the fair value of a financial instrument will fluctuate because of changes in market interest rates.

The following table summarizes the Bank's exposure to interest rate risk. Current, delinquent and overdue loans are included for up to a year. This includes the balances of the Bank's financial instruments, classified according to the most recent date between the contractual restated dates or maturity date.

2020	Uo to 1 year	1 to 3 years	3 to 5 years	More than 5 years	No maturity no sensitivity to interest rate	Total
Assets:						
Demand deposits	-	-	-	-	28,916,880	28,916,880
Time deposits in banks	37,000,000	-	-	-	-	37,000,000
Investment in securities at FVTOCI	26,470,218	5,044,679	3,604,248	30,035,589	-	65,154,734
Investment in securities at amortized cost	-	-	-	21,905,417	-	21,905,417
Loans	96,439,986	65,851,906	65,302,028	136,080,364	-	363,674,284
Total	159,910,204	70,896,585	68,906,276	188,021,370	28,916,880	516,651,315
Liabilities:						
Customers deposits	177,565,491	160,146,121	28,529,767	14,540,376	25,069,430	405,851,185
Borrowings received	30,315,584	-	-	27,714,586	-	58,030,170
Marketable securities	6,021,037	-	-	-	-	6,021,037
Total	213,902,112	160,146,121	28,529,767	42,254,962	25,069,430	469,902,392
Total sensitivity to interest rates	(53,991,908)	(89,249,536)	40,376,509	145,766,408	3,847,450	46,748,923

2019	Up to 1 year	1 to 3 years	3 to 5 years	Moren than 5 years	No maturity no sensitivity to interest rate	Total
Assets:						
Demand deposits	-	-	-	-	29,556,800	29,556,800
Time deposits in banks	24,000,000	-	-	-	-	24,000,000
Investment in securities at FVTOCI	20,514,301	1,228,440	2,546,115	43,936,978	-	68,225,834
Investment in securities at amortized cost	-	-	-	14,374,766	-	14,374,766
Loans	95,886,330	83,263,482	59,685,985	136,042,652	-	374,878,449
Total	140,400,631	84,491,922	62,232,100	194,354,396	29,556,800	511,035,849
Liabilities:						
Customer deposits	93,157,318	47,196,238	82,394,883	159,330,174	25,281,245	407,359,858
Borrowings received	33,203,124	-	-	14,789,653	-	47,992,777
Marketable securities	4,994,015	-	-	-	-	4,994,015
Total	131,354,457	47,196,238	82,394,883	174,119,827	25,281,245	460,346,650
Total sensitivity to interest rate	9,046,174	37,295,684	(20,162,783)	20,234,569	4,275,555	50,689,199

The Bank's Management, based on IFRS 7 requirements, when assessing the risks of interest rates and their impact on the fair value of financial assets and liabilities, performs simulations to determine the sensitivity of the financial margin to changes in interest rates.

The base analysis carried out monthly by Management is to determine the impact on assets and liabilities due to increases or decreases of 100 and 200 basis points in interest rates. The following table summarizes the impact on profit or loss:

2020	**Increase of 100 bps**	**Decrease of 100 bps**	**Increase of 200 bps**	**Decrease of 200 bps**
Average for the year	533,780	(533,780)	1,067,561	(1,067,561)
Maximum for the year	831,565	(831,565)	1,663,130	(1,663,130)
Minimum for the year	346,472	(346,472)	692,944	(692,944)

2019	**Increase of 100 bps**	**Decrease of 100 bps**	**Increase of 200 bps**	**Decrease of 200 bps**
Average for the year	794,607	(794,607)	1,576,497	(1,576,497)
Maximum for the year	1,183,871	(1,183,871)	2,367,743	(2,367,743)
Minimum for the year	415,447	(415,447)	830,893	(830,893)

As at December 31, 2020, customer deposits accrued annual interest rates ranging between 0.50% to 6% (2019: 0.50% to 6%).

4.4 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet all its payment obligations related to its financial liabilities at their maturity date and to replace the funds when they are withdrawn. The consequence may be the failure to meet its repayment obligations regarding customer deposits and its lending commitments.

Process for liquidity risk management

The Bank's process for liquidity risk management includes:

- Managing and monitoring future cash flows to ensure that requirements can be met. This includes replenishing funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to prevent any non-compliance;

- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen availability of cash flows;

- Monitoring liquidity rate of the consolidated financial position against internal and regulatory requirements;

- Managing the concentration and profile of the maturities of financial liabilities.

The Asset and Liability Committee (ALCO) reviews the above detailed management process.

The monitoring and the report, prepared by Management, become tools for measuring and projecting cash flow for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturities of financial liabilities and the expected collection date of financial assets.

Management also monitors assets in the medium term, the level and type of debt obligation, the use of overdraft facilities and the impact of contingent liabilities, such as 'standby' letters of credit and guarantees.

Liquidity risk exposure

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to net deposits received from customers. Liquid assets are cash and cash equivalents and debt securities, for which there is an active and liquid market less any deposit received from banks, debt securities issued, other borrowings and commitments maturing within the next month. . A similar calculation, but not identical, is used for measuring liquidity limits set by the Bank in compliance with that indicated by the Superintendency of Banks of Panama with respect to liquidity risk measurement.

The corresponding ratios for the net liquid asset margin on deposits received from the Bank’s customers at the date of the consolidated financial statements are as follows:

	2020	2019
At the end of the year	54.23%	45.23%
Average for the year	47.97%	50.99%
Maximum for the year	54.23%	62.41%
Minimum for the year	40.85%	42.79%

The Bank is exposed to daily requirements on its resources of funds available from overnight deposits, current accounts, maturing deposits, loan disbursements and collateral and margin requirements settled in cash.

The Bank maintains cash resources to meet all these needs, as experience shows that a minimum level of reinvestment of funds that are maturing can be predicted with a high level of security. The Board of Directors sets limits on the minimum proportion of available funds to meet these requirements and the minimum level of interbank facilities.

The table below shows the Bank's financial assets and liabilities according to contractual maturity groupings based on the outstanding period at the date of the consolidated statement of financial position concerning the contractual maturity dates:

2020	Up to 1 year	1 to 3 years	3 to 5 years	More than years	Total
Assets:					
Demand deposits	28,916,880	-	-	-	28,916,880
Time deposits in banks	37,000,000	-	-	-	37,000,000
Investment in securities at FVTOCI	32,527,027	4,272,326	6,458,348	21,897,033	65,154,734
Investment in securities at amortized cost	-	6,197,371	-	15,708,046	21,905,417
Loans	188,416,900	70,962,278	66,363,023	37,932,083	363,674,284
Total	286,860,807	81,431,975	72,821,371	75,537,162	516,651,315
Liabilities:					
Client deposits	319,343,126	76,138,559	10,369,500	-	405,851,185
Borrowings received	30,315,584	-	12,337,557	15,377,029	58,030,170
Marketable securities	6,021,037	-	-	-	6,021,037
Total	355,679,747	76,138,559	22,707,057	15,377,029	469,902,392
Total sensitivity to insterest rate	(68,818,940)	5,293,416	50,114,314	60,160,133	46,748,923

2019	Up to 1 year	1 to 3 years	3 to 5 years	Mote than 5 years	Total
Assets:					
Demand deposits	29,556,800	-	-	-	29,556,800
Time deposits in banks	24,000,000	-	-	-	24,000,000
Investment in securities at FVTOCI	24,512,359	10,401,936	10,001,873	23,309,666	68,225,834
Investment in securities at amortized cost	-	1,740,748	7,599,832	5,034,186	14,374,766
Loans	197,028,494	67,567,501	71,609,492	38,672,962	374,878,449
Total	275,097,653	79,710,185	89,211,197	67,016,814	511,035,849
Liabilities:					
Client deposits	329,317,396	67,918,188	9,629,274	495,000	407,359,858
Borrowings received	33,203,124	-	-	14,789,653	47,992,777
Marketable securities	4,994,015	-	-	-	4,994,015
Total	367,514,535	67,918,188	9,629,274	15,284,653	460,346,650
Total sensitivity to interest rate	(92,416,882)	11,791,997	79,581,923	51,732,161	50,689,199

To manage liquidity risk arising from financial liabilities, the Bank maintains liquid assets such as cash and cash equivalents and investment grade investments for which an active market exists. These assets can be readily sold to meet liquidity requirements.

In addition, the Bank monitors on a daily basis the liquidity coverage ratio, the contractual maturities of financial instruments. In the case of investments, they are sold according to their liquidity needs, margin and funding lines are maintained with financial institutions, and liquidity GAP analysis is performed by the ALCO Committee, among others.

In compliance with the provisions established in Agreement 2-2018 "Through which the provisions on liquidity risk management and the short-term liquidity coverage ratio (LCR) are established," the Bank developed and established a methodology for the control of intraday liquidity as required by the Regulator. Likewise, the Bank reported as at December 31, 2020, an index of 115.49% which meets the 50% limit required by the Regulator.

Off balance sheet items

The table below summarizes the maturity structure of financial endorsements and guarantees, letters of credit, and operating lease commitments, based on the most recent maturity date:

	2020			2019		
	Up to 1 year	**Over 1 year**	**Total**	**Up to 1 year**	**Over 1 year**	**Total**
Letters of credit	950,920	-	950,920	864,303	88,418	952,721
Endorsements and guarantees	1,706,456	-	1,706,456	45,000	-	45,000
Promissory notes	5,655,159	-	5,655,159	6,237,675	-	6,237,675
Credit lines	13,189,632	-	13,189,632	5,641,216	-	5,641,216
	21,502,167	-	21,502,167	12,788,194	88,418	12,876,612

4.5 Capital risk management

The Bank manages its capital to ensure:

- Compliance with all requirements established by the Superintendency of Banks of Panama.
- Maintaining a capital base, strong enough to support business performance.

The Bank, as an entity regulated by the Superintendency of Banks of Panama, is required to maintain a total capital ratio measured based on risk-weighted assets. The Bank's Management, based on guidelines and techniques developed by the Superintendency of Banks of Panama, monitors capital adequacy and the use of regulatory capital. Information requirements are sent to the regulator on a quarterly basis.

In the year ended December 31, 2016, according to the requirements of the Superintendency of Banks of Panama, new provisions for the calculation of capital adequacy for banks in the Republic of Panama entered into force. These new provisions were established by the publication of Agreements No.3-2016 of March 22, 2016, which established the rules for the determination of assets weighted by credit risk and counterparty risk; and Agreement No.1-2015 of February 3, 2015, which establishes the standards for capital adequacy applicable to banks and banking groups in the Republic of Panama.

On April 20, 2020, the Superintendency of Banks of Panama issued a General Resolution of the Board of Directors SBP-GJD-0005-2020, making temporary modifications to the weighting of assets by categories, where it specifically leaves without effect what concerns categories 7 and 8, whose weighting is 125% and 150% respectively, including them as categories 6, whose weighting is 100%.

The Panamanian Banking Law requires general license banks to maintain a minimum paid-in capital of B/.10,000,000, an equity of at least 8% of risk-weighted assets, including financial instruments outside the consolidated statement of financial position. For these purposes, assets must be considered net of their respective allowances or reserves and with the weighted considerations specified in the Agreement of the Superintendency of Banks of Panama.

For the purpose of calculating capital requirements and the capital adequacy ratio, regulatory capital funds consist of:

Primary capital

Ordinary primary capital is composed of:

- Paid-in share capital, which includes share capital provided by capitalized retained earnings.
- Issuance premiums arising from instruments included in ordinary primary capital.
- Declared reserves, meaning, those classified by the regulated entity as capital reserve to strengthen its financial position, generated by the carrying value of retained earnings and subject to what is established in Article No.69 of the Banking Law.
- Retained earnings. The regulated entity may include in the ordinary primary capital the profits from the current period, before a formal decision has been taken confirming the results, making sure to deduct all possible foreseeable expenses, interest or dividends from said profits.
- Share interest representative of the non-controlling interest in capital accounts of consolidating subsidiaries that meet the criteria for inclusion in the ordinary primary capital.
- Other (total) cumulated comprehensive income items, in particular, net unrealized gains or losses on the assets available for sale portfolio.
- Other provisions authorized by the Superintendency of Banks of Panama.

Secondary capital

The secondary capital is comprised of the following elements:

- Instruments issued by the regulated entity that meet the criteria for inclusion in the secondary capital and are not included in the primary capital.
- Issuance premiums arising from instruments included in the secondary capital.
- Instruments issued by consolidating subsidiaries of the regulated entity and controlled by third parties that meet the criteria for inclusion in the secondary capital and are not included in the primary capital.
- The reserves established for unidentified future losses may be classified as part of the secondary capital. Provisions assigned to the identified individual asset impairment evaluated individually or collectively are excluded. These reserves may not exceed a maximum of 1.25 percentage points of the assets weighted for credit risk. Reserved established as dynamic provisions according to Agreement No.4-2013 will be excluded from the secondary capital.

For the calculation of the amount of capital funds of a General License Bank, deductions must be considered, which will be made on a quarterly basis and are detailed as follows:

- Current year losses and cumulative losses from prior years.
- Goodwill or commercial funds present in the valuation of the significant investment in the capital of banking, financial and insurance entities, which are outside of the regulatory consolidation framework.

- Intangible assets and deferred taxes defined by the IFRS.
- Cash flow hedge reserves associated with hedging of items not recognized at fair value.
- Unrealized gains and losses arising from variations in own credit risk on financial liabilities recognized at fair value.
- Investment in treasury shares.
- Reciprocal cross-interest in banking, financial and insurance entities; also, interests in non-financial entities included within the consolidation framework.

In 2018, the Superintendency of Banks of Panama approved Agreement No.03-2018 by means of which, new capital requirements were established for the financial instruments registered in the trading portfolio, where banks must include the assets weighted by market and operational risk in their capital adequacy indicator.

The Bank maintains a regulatory capital position for the year ended December 31, 2020, which is broken down as follows:

		2020	2019
Regulatory capital funds			
Paid -inn share capital		62,859,992	62,260,000
Dynamic provision		5,392,283	6,442,329
Superávit (déficit) acumulado		1,625,521	(680,543)
Net changes in investments in securities at FVTOCI		(1,949,117)	(1,366,553)
Less regulatory adjustments to the calculation of ordinary primary capital:			
Other intangible assets		(3,168,495)	(3,169,183)
Deferred tax assets		(1,086,125)	(1,111,520)
Total		63,674,059	62,374,530
Weighted asset for operating risks		9,757,379	10,641,451
Risk-weighted assets		348,853,192	344,106,622
		358,610,571	354,748,073
Capital ratio	**Minimum**		
Total regulatory capital express as percentage ofrisk-weighted assets	8%	17.76%	17.58%

Capital ratio	**As of January 2019 Minimum**	**2020**	**2019**
Capital adequacy	8.00%	17.76%	17.58%
Ordinary capital	4.50%	17.76%	17.58%
Primary capital	6.00%	17.76%	17.58%

5. Fair value of financial instruments

The Bank's Management has used the following assumptions to estimate the fair value of each class of financial instrument in the consolidated statement of financial position:

- *Demand and time deposits* – For these financial instruments, the carrying value approximates their fair value due to their short-term nature.

- *Investments in securities* – For securities available for sale, their fair value is based on quoted market prices or quoted prices from brokers; investment securities held to maturity are calculated using discounted cash flows. If a reliable quoted market price is unavailable, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

- *Loans* – The estimated fair value of loans represents the discounted amount of estimated future cash flows receivable. Expected cash flows are discounted using effective interest rates to determine their fair value.

- *Demand and savings deposits received* – For savings and demand deposits received, the carrying value approximates their fair value due to their short-term nature.

- *Time deposits received* – For time deposits received, their fair value is based on discounted cash flows using the interest rate offered to new deposits with similar residual maturity periods.

- *Borrowings received* – The carrying value of borrowings received with maturity of one year or less approximate their fair value due to their short-term nature. For obligations with maturities greater than one year, the discounted cash flows method is used based on the current market interest rate to determine their fair value.

Marketable securities – To determine the fair value of these financial instruments, the discounted cash flows method is used applying the current market interest rate.

These estimates are subjective by nature, involve uncertainty and critical judgment elements and therefore cannot be determined with accuracy. Changes in assumptions and criteria can significantly affect the estimates.

IFRS 13 specifies a hierarchy level of valuation techniques based on whether the information included in those valuation techniques are observable or unobservable:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities for which the entity has 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 valued instruments using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where data significant inputs are directly or indirectly observable in a market.

- Level 3 – This category includes all instruments for which the input data is not based on observable market information and have a significant effect on the fair value measurement.

Below are the Bank's financial assets measured at fair value at the end of each year. The following table shows the information on how the fair value of these assets is determined:

Financial asset	Fair value 2020	Fair value 2019	Fair value hierarchy	Valuation techniques and key imputs	Input rage	Input sensitivity	Sensitivity of fair value measurement to significant unobservable inputs
Investments in securities at FVTOCI	21,135,635	31,192,282	Level 1	Quoted prices in active markets	Score * 8 trough 10		
Investments in securities at FVTOCI	39,923,354	33,481,563	Level 2	Quoted prices of similar instruments in active markets	Score * from 1 through 7	-	
Investments in securities at FVTOCI	4,095,745	3,551,989	Level 3	Discounted cash flows	Score * of 0	1.00% -	An increase or (decrease) in the unobservable input data separately would give a lower or (higher) fair value measurement
	65,154,734	68,225,834					

The carrying value and fair value of the Bank's main financial assets and liabilities not presented in the consolidated statement of financial position at fair value are summarized as follows:

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Demand deposits in banks	28,916,880	28,916,880	29,556,800	29,356,387
Time deposits in banks	37,000,000	37,000,000	24,000,000	24,000,000
Investments in securities at amortized cost	21,905,417	26,438,947	14,374,766	15,756,423
Loans	363,674,284	366,755,174	374,878,449	376,388,870
	451,496,581	459,111,001	442,810,015	445,501,680
Financial liabilities				
Deposits	405,851,185	411,934,015	407,359,858	413,112,905
Borrowings received	58,030,170	54,146,025	47,992,777	51,745,669
Marketable securities	6,021,037	6,084,336	4,994,015	5,026,732
	469,902,392	472,164,376	460,346,650	469,885,306

2020	Level 1	Level 2	Level 3	Total
Financial assets:				
Demand deposits in banks	-	-	28,916,880	28,916,880
Time deposits in banks		37,000,000	-	37,000,000
Investments in securities at amortized cost	-	-	26,438,947	26,438,947
Loans	-	-	366,755,174	366,755,174
Financial liabilities:				
Deposits	-	-	411,934,015	411,934,015
Borrowings received	-	-	54,146,025	54,146,025
Marketable securities	-	-	6,084,336	6,084,336

2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Demand deposits in banks	-	-	29,356,387	29,356,387
Time deposits in banks		24,000,000	-	24,000,000
Investments in securities at amortized cost	-	-	15,756,423	15,756,423
Loans	-	-	376,388,870	376,388,870
Financial liabilities:				
Loans	-	-	413,112,905	413,112,905
Borrowings received	-	-	51,745,669	51,745,669
Marketable securities	-	-	5,026,732	5,026,732

Methodology for determining the fair value of financial instruments at amortized cost

Financial instuments	Valuation techniques	Level
Local corporate bonds	Quoted prices in active markets	1
Local corporate bonds	Quoted prices in active markets	2
Local corporate bonds	Discounted cash flows with discount rate	3
Foreign corporate bonds	Discounted cash flows with discount rate	3

6. Accounting estimates and critical judgments

The Bank makes estimates and judgments that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events believed to be reasonable under the circumstances.

a. Impairment losses on loans and investments

The Bank reviews the loan and investment portfolio to assess impairment on a monthly basis. When determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Bank uses several models and assumptions in ECL estimates. Judgment is applied to identify the most appropriate model for each type of asset, as well as to determine the assumptions used in those models, including the assumptions related to key credit risk drivers. See Note 3 for more details on ECLs.

The following are key estimates that Management has used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

- Probability of default: PD is a key input in the measurement of PD. It is an estimate of the probability of default during a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss that arises from default. It is based on the difference between the contractual cash flows owed and those that the Bank would expect to receive, taking into account the cash flows from the collateral and comprehensive credit improvements.
- Incorporation of prospective information: When the Group measures the ECLs, it uses reasonable and supported prospective information, which is based on assumptions for the future movement of the different economic drivers and how those drivers will affect each other.
- Significant increase in credit risk: As explained in Note 3, ECLs are measured as a provision equal to the 12-month ECL for Stage 1 assets, or Lifetime ECL for stage 2 assets or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly from initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. When assessing whether the credit risk of an asset has increased significantly, the Bank considers reasonable and supported prospective information, both qualitative and quantitative.

b. Income tax

- *Current income tax* – The Bank is subject to income tax under the jurisdiction of the Republic of Panama. Estimates are made through a tax projection to determine the provision for income taxes and the liabilities arising from said estimates are recognized. When the final tax result is different from the amounts recorded, those differences will affect the provisions for income taxes and deferred taxes in the period in which the determination was made.

- *Deferred income tax* – The recognition of deferred income tax assets is based on budget earnings estimates developed by Management, which are based on available evidence and historical earning levels, which indicate the likelihood that the Group will have future earning against which the asset can be used.

7. Balances and transactions with related parties

Balances and transactions with related parties included in the consolidated statement of financial position and consolidated statement of profit or loss are summarized below:

	2020		2019	
	Directors and key management personnel	Related companies	Directors and key management personnel	Related companies
Assets:				
Accounts receivable	-	1,691,391	-	985,967
Investment in securities ar amortized cost	-	2,505,000	-	2,470,017
Inversión en valores a VR con cambios en ORI	-	2,598,138	-	-
Loans	2,450,093	19,748,428	2,353,989	20,433,653
Accrued interest receivable	41,456	270,286	6,351	78,015
Accounts payable	-	672,692	-	672,692
Liabilities:				
Demand deposits	270,352	1,048,759	227,434	4,044,436
Savings deposits	1,360,101	6,359,813	1,584,056	3,145,130
Time deposits	2,412,007	22,087,305	8,238,847	7,795,630
Accrued interest payable	123,843	336,718	338,025	255,842

	2020		2019	
	Directors and Key management personnel	Related companies	Directors and Key management personnel	Related companies
Interest income:				
Interest earned on loans	80,624	803,236	110,667	891,167
Interest earned on investments	-	145,417	-	101,389
Interest and commissions expenses:				
Interest paid on deposits	168,231	1,278,299	482,939	459,344
Other expenses:				
Key executive salaries	1,165,766	-	1,296,844	-
Allowances	439,050	-	506,850	-
Leases	-	7,200	-	35,972

Loans to related parties as at December 31, 2020, amounted to B/.19,748,428 (2019: B/.20,433,653), with an interest rate between 4.75% and 24%, and with various maturities up to 2023 (2019: 4.75% and 24%, with maturities up to 2023).

Loans granted to directors and key executives as at December 31, 2020, amounted to B B/.2,450,093 (2019: B/.2,353,989), with an interest rate between 3.25% and 10%; and with various maturities up to 2049 (2019: 3.25% and 10% with maturities up to 2049).

The Bank presents an account receivable with its associates Top & Selected Properties, Inc., Unibank, S.A. and Subsidiaries Group, amounting to B/.1,691,391 (2019: B/.985,967), which has no maturity and does not generate interest.

8. Cash and cash equivalents

Cash, cash equivalents and cash deposits in Banks are as follows:

	2020	2019
Cash and cash equivalents	631,742	1,168,648
Demand deposits in banks	28,916,880	29,556,800
Time deposits in banks	37,000,000	24,000,000
Total cash, cash equivalents and deposits in banks in the consolidated statement of financial position	66,548,622	54,725,448

As at December 31, 2020, the annual interest rates accrued on time deposits ranged between 0.15% y 0.80% (2019: 1.40% y 2.19%).

9. Investments in securities, net

Investments in securities at FVTOCI

The investments in securities classifies as at FVTOCI are as follows:

2020	1 - 5 years	5 - 10 years	Over 10 years	Fair value	Nominal value
Government debt securities	6,512,767	-	-	6,512,767	6,500,000
Private debt securities	36,852,665	17,294,715	4,494,587	58,641,967	56,408,427
	43,365,432	17,294,715	4,494,587	65,154,734	62,908,427

2019	1 - 5 years	5 - 10 years	Over 10 years	Fair value	Nominal value
Government debt securities	4,513,342	-	-	4,513,342	4,500,000
Private debt securities	40,402,827	19,811,121	3,498,544	63,712,492	60,871,248
	44,916,169	19,811,121	3,498,544	68,225,834	65,371,248

As at December 31, 2020, the annual interest rates accrued on investment in securities at FVTOCI ranged between 2.00% y 9.75% (2019: 2.63% y 6.88%).

The change in fair value during the year, on investments in securities at FVTOCI as at December 31, 2020, was an unrealized loss of B/.582,564 (2019: B/.3,239,822), which is part of the amount of the valuation in equity.

The movement of investments in securities at FVTOCI is as follows:

	2020	**2019**
Balance at the beginning of the year	68,225,834	68,018,661
Purchases	83,467,960	53,132,072
Amortization of premiums and discounts	(196,647)	(290,263)
Sales and redemptions	(85,864,608)	(56,185,129)
Realized gain on sale of investments	104,759	310,671
Net unrealized gain (loss) resulting from evaluation during the year	(582,564)	3,239,822
	65,154,734	68,225,834

During 2020, the Bank made sales and redemptions of investments in securities at FVTOCI for an amount of B/.85,864,608 (2019: B/.56,185,129), which generate a gain on sale of investments of B/.104,759 (2019: B/.310,671).

As at December 31, 2019, the Bank established a provision for impairment of investments in securities at FVTOCI for B/.1,084,429 (2019: B/.1,213,586).

2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Balance at the beginning of the year	3,042	73,346	1,424,897	1,501,285
Net effect from changes in reserve for expected credit losses	5,378	692,537	379,298	1,077,213
New acquired instruments	12,158	-	-	12,158
Cancelled investments	(1,487)	(3,455)	-	(4,942)
Balance at the end of the year	19,091	762,428	1,804,195	2,585,714

2019	**level 1**	**Level 2**	**Level 3**	**Total**
Balance at the beginning of the year	19,742	24,741	2,355,493	2,399,976
Net effect from changes in reserve for expected credit losses	(11,815)	60,054	777,162	825,401
Reclasificación	12	-	-	12
Cancelled investments	(5,013)	(11,449)	(1,707,642)	(1,724,104)
Balance at the end of the year	2,926	73,346	1,425,013	1,501,285

As at December 31, 2020, the Bank guarantees borrowings payable with the portfolio of investments in securities at FVTOCI of B/.18,948,198 (2019: B/.24,746,872). See Note 18.

Investment in securities at amortized cost

Investment in securities classified at amortized cost as at December 31, 2020, are as follows:

2020	1-5 years	5-10 years	More than 10 years	Amortized cost	Nominal value
Private debt securities	6,197,371	15,638,411	69,635	21,905,417	22,959,635
Less:					
Provision for impairment of investments	(1,343)	(18,602)	-	(19,945)	-
Total	6,196,028	15,619,809	69,635	21,885,472	22,959,635

2019	1-5 years	5-10 years	More than 10 years	Amortized cost	Nominal value
Private debt securities	9,340,580	5,034,186	-	14,374,766	14,226,182
Less:					
Provision for impairment of investments	(259)	(695)	-	(955)	-
Total	9,340,321	5,033,491	-	14,373,811	14,226,182

As at December 31, 2020, the annual interest rates accrued on investments in securities at amortized cost, ranged between 4.00% y 6.75% (2019: 4.00% y 6.75%).

The movement of investments in securities at amortized cost is as follows:

	2020	2019
Balance at the beginning of the year	14,373,812	24,724,084
Purchases	10,677,409	9,733,228
Amortization of premiums and discounts	(73,412)	(56,428)
Sales, redemtions and others	(3,047,695)	(20,028,106)
Losses on redemption of investments	(25,652)	-
Reversal of provision for investments	(18,990)	1,033
	21,885,472	14,373,811

As at December 31, 2020, the Bank made sales and redemptions for B/.3,047,695 (2019: B/.20,028,106); which generate a loss for B/.25,652.

As at December 31, 2020, the Bank established a provision for impairment of securities at amortized cost for B/.1,082 B/.18,990 (2019: B/.1,082).

The accumulated reserves for investments recorded at amortized cost are presented below:

2020	Level 1	Level 2	Level 3	Total
Balance at the beginning of the year	955	-	-	955
Net effect from changes in reserve for expected credit losses	5,715	-	-	5,715
New acquired instruments	13,379	-	-	13,379
Cancelled investments	(104)	-	-	(104)
Balance at the end of the year	19,945	-	-	19,945

2019	Level 1	Level 2	Level 3	Total
Balance at the beginning of the year	1,988	-	-	1,988
Net effect from reserve changes for expected credit losses	(359)	-	-	(359)
Reclassification	-	-	-	-
New acquired instruments	156	-	-	156
Cancelled investments	(830)	-	-	(830)
Balance at the end of the year	955	-	-	955

As at December 31, 2020, the Bank guarantees borrowings payable with investment securities portfolio at amortized cost for B/.5,096,764 (2019: B/.0).

10. Loans

Detail of loans by type is as follows:

	2020	2019
Internal sector		
Corporate loans	273,687,223	286,105,571
Personal	23,185,707	23,151,417
Automobile	16,713	25,021
Residential mortgage	19,640,354	21,819,802
Overdrafts	17,013,753	13,004,656
Financial leasing	10,618,128	10,286,444
Total internal sector	344,161,878	354,392,911
External sector		
Corporate loans	19,168,300	20,241,893
Overdrafts	344,106	243,645
Total external sector	19,512,406	20,485,538
Subtotal	363,674,284	374,878,449
Less:		
Provision for losses on uncollectible loans	(3,712,667)	(2,795,762)
Unearned commissions	(94,785)	(156,189)
Total loans, net	359,866,832	371,926,498

As at December 31, 2020, the annual interest rates on loans and overdrafts ranged between 2% y 24% (2019: 2% y 24%).

The movement of the provision for losses on uncollectible loans is as follows:

2020	Level 1	Level 2	Level 3	Total
Balance at the beginning of the year	402,150	76,799	2,316,813	2,795,762
Transfer for 12 months (level 1)	9,476	(9,246)	(230)	-
Transferred to non-impairment during lifetime (level 2)	(2,240)	2,240	-	-
Transferred to impairment during lifetime (Level 3)	(44,325)	-	44,325	-
Net effect from reserve changes for expected credit losses	707,032	1,946	70,649	779,627
New loans	293,657	388	-	294,045
Cancelled loans	(150,470)	(4,027)	(119)	(154,616)
Loans written-off	-	-	(2,151)	(2,151)
Balance at the end of the year	1,215,280	68,100	2,429,287	3,712,667

2019	Level 1	Level 2	Level 3	Total
Balance at the beginning of the year	661,311	351	5,009,516	5,671,178
Transfer for 12 months (level 1)	1,536	(1,536)	-	-
Transferred to non-impairment during lifetime (level 2)	(61,124)	68,353	(7,229)	-
Transferred to impairment during lifetime (Level 3)	(7,775)	(12,470)	20,245	-
Net effect from reserve changes for expected credit losses	(160,250)	51,230	(313,351)	(422,371)
New loans	200,821	-	258,251	459,072
Loans writte-off	(435,842)	(147)	(2,586,454)	(3,022,443)
Other movements	203,473	(28,981)	(64,164)	110,328
Balance at the end of the year	402,150	76,799	2,316,813	2,795,762

As at December 31, 2020, the loan portfolio secured by deposits in the same bank amounted to B/.64,053,687 (2019: B/.72,851,503), which represents 17.61% (2019: 19.43%) of the total portfolio.

Financial leasing

The net balance of financial leases and the maturity profile of the minimum payments are summarized as follows:

	2020	2019
Up to 1 year	3,719,234	3,306,907
1 to 5 years	8,317,096	8,333,293
Total minimum paymemts	12,036,330	11,640,200
Less: unearned interest	(1,418,202)	(1,353,756)
Less: reserve for losses on leases	(35,584)	(29,227)
Less: unearned discounted commissions	(14,328)	(34,008)
Total financial leasing, net	10,568,216	10,223,209

11. Furniture, equipment and improvements, net

Detail of furniture, equipment and improvements is summarized as follows:

2020	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost:				
At the beginning of the year	1,806,234	1,258,986	2,932,833	5,998,053
Additions	43,305	7,774	255,652	306,731
Sales and disposals	(2,849)	-	-	(2,849)
At the end of the year	1,846,690	1,266,760	3,188,485	6,301,935
Accumulated depreciation:				
At the beginning of the year	1,248,893	1,045,276	976,051	3,270,220
Expense for the year	125,979	52,990	51,717	230,686
Reclassifications	(129)	-	-	(129)
At the end of the year	1,374,743	1,098,266	1,027,768	3,500,777
Net balance	471,947	168,494	2,160,717	2,801,158

2019	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Cost:				
At the beginning of the year	1,799,134	1,258,986	2,932,833	5,990,953
Additons	7,100	-	-	7,100
At the end of the year	1,806,234	1,258,986	2,932,833	5,998,053
Accumulated depreciation:				
At the beginning of the year	1,122,314	976,579	786,547	2,885,440
Expense for the year	126,579	68,697	189,504	384,780
At the end of the year	1,248,893	1,045,276	976,051	3,270,220
Net balance	557,341	213,710	1,956,782	2,727,833

12. Assets in right-of-use leases

2020 assets in right-of-use leases

	Real estate
Balance at December 31, 2019	329,875
Additions	-
Gross balance as at December 31, 2020	329,875
Depreciation	(36,180)
Net depreciation balance as at December 31, 2020	293,695

2019 assets in right-of-use leases

	Inmuebles
Balance as at January 1, 2019 (IFRS 16)	466,970
Additions	-
Gross balance as at December 31, 2019	466,970
Depreciation	(137,095)
Net depreciation balance as at december 31, 2019	329,875

13. Asset held for sale

As at December 31, 2020, the Bank owns 100% of the common shares of two real estate companies obtained through a payment of B/.5,144,837 (2019: B/.5,502,513). The Bank is carrying out all necessary procedures to proceed with the short-term sale of the asset, resulting from the settlement of a credit operation.

14. Investment properties

On October 2, 2019, the appraisals of the properties were carried out by the appraisal company Tinsa Panama, S.A., with a revalued value of B/.1,299.375 (Property 82136), B/.2,223,427 (Property 82137), B/.909,618 (Property 82139), B/.1,121,278 (Property 82140) and B/.909,619 (Property 82141), which were recorded in books on December 19, 2019.

On November 30, 2020, Properties 82142 and 82143 were purchased at a purchase value of B/.978,981 each. For the closing as of December 31, 2020, a total of B/.6,463,317 is maintained. The fair value hierarchy is Level 3.

On November 12, 2019, a purchase/sale contract was entered into between the subsidiary Bienes Raíces Uni, S.A. and the company Lemy Panamá, S.A. The continuity of said contract is expected for October 2021 with the fourth purchase/sale of the properties of said contract.

15. Other assets

Detail of other assets is summarized as follows:

	2020	2019
Intangible assets, net of amortization	3,168,495	3,169,183
Prepaid tax and expenses	409,828	729,840
Assets and projects under development	471,193	951,001
Foreclosed properties	170,216	786,786
Other accounts receivable	488,542	478,577
Guarantee deposits	6,009	26,084
Accounts receivable employees	407,540	387,189
Accounts receivable related parties	1,691,391	985,967
Tax credits receivable	318,006	563,659
Defrerred tax	1,086,125	1,111,520
Accrued interest receivable	7,774,176	2,885,007
Other assets	2,078,703	1,764,420
Total	18,070,224	13,839,233

The asset under development consists primarily of costs incurred in the purchase and implementation of the computerized systems platform for the management and reporting process in the Bank.

Tax credits receivable correspond to mortgage loans with preferential interest processed with the Ministry of Economy and Finance pending receipt from the years between 2013 and 2020, and credits of tax estimates paid for income tax.

Intangible assets with finite lives are represented by data processing computer software and licenses, whose movements are as follows:

	2020	2019
Balance at the beginning of the year	3,169,183	3,676,990
Additions	398,630	32,718
Amortization for the year	(399,318)	(540,525)
Balance at the end of the year	3,168,495	3,169,183

16. Other liabilities

Detail of other liabilities is summarized as follows:

	2020	2019
Employee provisons and withholdings	185,188	369,604
Accued expenses payable	12,721	19,388
FECI payable	200,388	203,241
Dividends paid	535,420	525,217
Accounts payable related parties	672,692	672,692
Accounts payable and outstanding transactions	717,195	894,255
Cashiers cheks and certified checks	392,085	1,525,617
Accrued interest payable	4,281,912	4,193,156
Total	6,997,601	8,403,170

17. Lease obligations

Lease liabilities

The lease liabilities are detailed below:

2020	Interest rate	Maturity	Carrying value
Lease liabilities	7%	Various up to 10 years	315,748

Obligation from lease agreement	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Carrying value
Discounted maturity analysis	25,203	59,599	72,252	158,694	315,748
Undiscounted maturity analysis	47,360	98,383	101,464	231,146	478,353

2019	Interest rate	Maturity	Carrying value
Lease liabilities	7%	Various up to 10 years	339,187

Obligation from lease agreement	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Carrying value
Discounted maturity analysis	23,439	53,231	66,326	196,191	339,187
Undiscounted maturity analysis	47,360	95,854	100,548	231,146	474,908

18. Borrowings

The Bank's terms and conditions of borrowings received are as follows:

Type of financing	Interest rate	Maturity	Valor en libros 2020	Valor en libros 2019
Margin line	1.22%	-	4,740,012	16,916,697
Trade financing	4.50%	January 2020	-	1,000,000
Trade financing	2.83%	July 2020	-	6,742,081
Trade financing	3.68%	April 2020	-	1,500,000
Trade financing	3.67%	June 2020	-	1,500,000
Trade financing	3.67%	June 2020	-	5,544,346
Margin line	4.50%	-	262,987	-
Trade financing	2.20%	January 2021	1,000,000	-
Trade financing	4.34%	January 2021	3,000,000	-
Trade financing	2.78%	March 2021	2,538,348	-
Trade financing	2.75%	April 2021	1,961,652	-
Trade financing	2.46%	June 2021	4,039,924	-
Trade financing	2.46%	June 2021	1,313,130	-
Trade financing	1.46%	July 2021	6,459,531	-
Trade financing	4.00%	September 2021	5,000,000	-
Trade financing	6.79%	September 2025	12,337,557	14,789,653
Trade financing	4.00%	March 2027	7,884,539	-
Trade financing	1.50%	September 2027	7,492,490	-
			58,030,170	47,992,777

As at December 31, 2020, margin lines have an open maturity, reviewed daily. The Bank maintains borrowings received for a total of B/.58,030,170 (2019: B/.47,992,777). These obligations are secured by an assortment of elements from the portfolio of investments in securities at FVTOCI for B/. B/.24,044,962 (2019: B/.24,746,872). See Note 9.

As at December 31, 2020, the changes in borrowings received are reflected below:

	2020	2019
Balance at the beginning of the year	47,992,777	37,838,429
Borrowings acquired	58,315,584	19,874,296
Borrowings paid	(48,278,191)	(9,719,948)
Balance at the end of the year	58,030,170	47,992,777

19. Marketable securities

The Bank was authorized by SMV Resolution No.498-13 of November 29, 2013, issued by the Superintendency of Securities Market of Panama, to offer Marketable Securities (VCNs) through a Public Offering, for a nominal value of up to B/.50,000,000 with maturity of up to one year from their issuance.

Marketable securities have been issued on a renewal basis, registered, with coupons, in denominations of B/.1,000 or multiples thereof and through as many series as the Bank deems appropriate according to its needs and market demands. Marketable securities bear a fixed annual interest rate that will depend on the term of the securities and be determined at the time the sale offer is made. Interest is paid monthly, bi-monthly, quarterly or semi-annually, depending on the series and may not be redeemed early. These marketable securities are guaranteed by the Bank's general credit.

VCNs issued as at December 31, 2020 are detailed below:

Description	Maturity	Interest rate	2020	2019
Y series	January 2020	3.88%	-	1,000,000
AA series	April 2020	4.00%	-	3,500,000
X series	July 2020	4.00%	-	500,000
AD series	January 2021	4.25%	1,000,000	-
AE series	April 2021	3.88%	2,530,000	-
AF series	April 2021	4.25%	400,000	-
AG series	April 2021	3.88%	600,000	-
AG series	April 2021	3.88%	1,500,000	-
		Total :	6,030,000	5,000,000
		Transaction costs:	8,963	5,985
		Total, net of transactions costs:	6,021,037	4,994,015

As at December 31, 2020, the annual movement of marketable securities are shown below:

	2020	2019
Balance at the beginning of the year	4,994,015	2,996,706
Marketable securities issued	6,030,000	7,026,416
Marketable securities paid	(5,002,978)	(5,029,107)
Balance at the end of the year	6,021,037	4,994,015

20. Equity

The Bank's authorized share capital is represented by 62,259,992 common shares as at December 31, 2020 (2019: 61,660,000) with a nominal value of B/.1 (2019: B/.1) each. The total balance of paid-in share capital is B/.62,259,992.

On December 31, 2020, Grupo Unibank, S.A., a wholly-owned subsidiary of the Bank, contributed funds to the capital for B/.599,992 (2019: B/.660,000),by issuing 599,992 (2019: 660,000)common shares.

Once dividends are declared, the shareholder has the right to receive them periodically and is entitled to one vote per share at the shareholders' meetings.

21. Other commissions and income

Other commissions and income are as follows:

	2020	2019
Commission income:		
Loan commissions	576,488	861,558
Transfers	138,666	345,907
Banking services	2,744,618	2,582,239
Letters of credit and documentary collections	54,710	53,946
Other commissions	497,371	708,468
Total	4,011,853	4,552,118

Other income:		
Net gain on foreign currency exchange	143,977	194,577
Dividend income	188,654	36,823
Other income	157,555	621,836
Total	490,186	853,236

22. Commission expenses and other general and administrative expenses

Commission expenses and other general and administrative expenses are presented below:

	2020	2019
Commission expenses:		
Correspondent banking relationships	548,817	484,483
Other commissions	614,598	497,391
Total	1,163,415	981,874

	2020	2019
Other general and administrative expenses:		
Other taxes	793,229	782,491
Utilities	147,622	181,876
Tecnological services	634,323	743,196
Maintenance and security	77,865	113,910
Supplies and stationery	36,394	48,143
Subscriptions	43,747	53,194
Insurance	236,997	183,932
Transportation	16,293	32,454
Advertising and marketing	57,160	162,398
Other expenses	745,816	944,067
Total	2,789,446	3,245,661

23. Commitments and contingencies

Commitments

The Bank maintains off-balance sheet commitments and contingencies arising from the normal course of its operations that may involve elements of credit and liquidity risk.

The letters of credit and promissory notes include exposure to a certain risk element of credit loss in the event of default by the client The Bank's credit policies and procedures for approving credit commitments and contingencies are similar to those used for granting loans that are recognized in the Bank's assets.

The Bank's Management does not anticipate that the Bank will incur in losses arising from these commitments and contingencies for the benefit of the clients. As at December 31, 2020, the Bank has no contingency reserve for off-balance sheet credit risk since it classified these transactions as involving normal risk.

Contingencies

A summary of transactions with off-balance sheet credit risk is presented below:

	2020	2019
Letters of credit	950,920	952,722
Endorsements and guarantees	1,706,456	45,000
Promissory notes	5,655,159	6,237,675
Credit lines - overdrafts	13,189,632	5,641,216
Total	21,502,167	12,876,613

As at December 31, 2020, there are legal proceedings against the Bank in the amount of B/.837,553 (2019: B/.1,037,553). The Bank's Management and its legal advisors estimate that the results of these proceedings will not have a material adverse effect on the consolidated financial position, consolidated financial performance and operations of the Bank.

24. Assets under management

The subsidiary Invertis Securities, S.A., acting as financial intermediary, holds securities at its own risk and under its customers' risk under the custody of third parties (Central Latinoamericana de Valores, S. A. ("LatinClear"), UBS AG, Morgan Stanley, Pershing LLC. and Interactive Brokers), which are not part of the subsidiary's statement of financial position.

The portfolio of investments under custody are distributed among the custodians in the following manner:

	2020	2019
International custodian	136,566,830	146,738,669
Local custodian	79,516,341	81,581,031
	216,083,171	228,319,700

As at December 31, 2020, the subsidiary Uni Trust, Inc. manages fiduciary agreements on behalf of and at the risk of customers in the amount of B/.141,407,310 (2019: B/.25,311,686), with the objective of managing and safeguarding investments in shares, savings accounts, time deposits and movable and immovable property. The assets under management are not part of the Bank's consolidated financial statements. Considering the nature of these services, Management considers that there is no significant risk for the Bank.

25. Income tax

Income tax returns of companies incorporated in the Republic of Panama are subject to examination by the tax authorities for the last three years, including the year ended December 31, 2020, according to current fiscal regulations.

According to current Panamanian tax legislation, companies are exempt from payment of income tax on profits derived from foreign operations, interest earned on time deposits placed in local banks, interest earned on Panamanian Government securities and securities issued through the Panamanian Securities Exchange.

In reference to Law No.8 of March 15, 2010 published in Official Gazette No.26489-A, general income tax rates (ISR) are amended to 25% as of January 1, 2014 for financial institutions.

Through Law 8 of March 15, 2010, the alternate calculation method of income tax called (CAIR) is eliminated and is replaced with the presumption of Income Tax, forcing all entities that earn income in excess of one million five hundred thousand dollars (B/.1,500,000), to determine the taxable amount of such tax, the amount greater of: (a) the net taxable income calculated by the standard method established in the Tax Code and (b) the net taxable income resulting from the application of four point sixty-seven percent (4.67%) to total taxable income.

Income tax expense is as follows:

	2020	**2019**
Profit before income tax	2,007,050	3,505,892
Less: tax effect of non-taxable income	(9,651,672)	(13,270,234)
Less: temporary difference from assets and liabilities	24,005	1,282,978
Plus: tax effect of non-deductible expenses	9,830,614	8,782,159
Less: carryforward loss	(450,045)	(9,240)
Tax base	1,759,952	291,555
Current income tax expense	439,988	72,889

The current income tax expense for the year is as follows:

	2020	**2019**
Income tax generated	439,988	72,889
Deferred income tax	25,395	366,819
Net income tax	465,383	439,708

As at December 31, 2020, the average effective current income tax rate was 23% (2019: 13%).

26. General regulatory laws and features

(a) Banking law

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of Panama, according to the law established by Executive Decree No.52 of April 30, 2008, adopting the single text of Decree Law No.9 of February 26, 1998, as amended by Decree Law No.2 of February 22, 2008, whereby the banking system in Panama is established and the Superintendency of Banks and the rules governing it are created.

(b) Financial lease law

Operations of financial companies in Panama are regulated by the Directorate of Financial Enterprises of the Ministry of Trade and Industry according to the provisions established in Law No.7 of July 10, 1990.

(c) Regulatory standards issued by the Superintendency of Banks that became effective during 2014.

General Resolution SBP-GJD-003-2013 of the Board of Directors dated July 9, 2013, which establishes the accounting treatment for those differences arising from prudential regulations issued by the Superintendency of Banks and International Financial Reporting Standards (IFRS), in such a way that 1) the accounting records and financial statements are to be prepared in accordance with IFRS as required by Agreement 6-2012 of December 18, 2012 and, 2) in the event that the calculation of a provision or reserve under prudential rules applicable to banks, that present additional specific accounting aspects to those required by IFRS is greater than the respective calculation under IFRS, the excess of the provision or reserve under prudential standards will be recognized in a regulatory provision in equity. This General Resolution took effect for accounting periods ending on or after December 31, 2014.

Subject to prior approval from the Superintendency of Banks, banks may reverse the established provision, partially or totally, based on the justifications properly evidenced and presented to the Superintendency of Banks.

Agreement No.4-2013 dated May 28, 2013, which establishes provisions on the management and administration of the credit risk inherent to the loan portfolio and operations outside the statement of financial position, including general classification criteria of credit facilities for the purpose of determining the specific and dynamic provisions to cover the Bank's credit risk. In addition, this agreement sets certain minimum required disclosures in line with IFRS disclosure requirements on credit risk management and administration.

This Agreement supersedes Agreement No.6-2000 of June 28, 2000 in its entirety and all its amendments, Agreement 6-2002 of August 12, 2002 and Article 7 of Agreement No.2-2003 of March 12, 2003. This agreement became effective on September 30, 2014.

On September 11, 2020, under Agreement No.9-2020, which amends Agreement No.2-2020 through which additional, exceptional and temporary measures are established for the compliance with the provisions contained in Agreement No.4-2013 on credit risk, the Superintendency of Banks of Panama included the figure of modified loans, which allow the debtor the adequate attention of its obligation before the potential or real deterioration of the possibility of payment. In the face of the crisis caused by the COVID-19, the banking entities may modify the originally agreed conditions of the credits without these adjustments being considered as a restructuring of credits according to the provisions of Agreement No. 4-2013.

Risk of money laundering prevention and financing of terrorism

It is the risk that the Bank may incur arising from transactions performed by its clients, which can be used as money laundering and/or terrorist-financing instruments. The Bank’s objective is to reduce the risk on Prevention of Money Laundering and Financing of Terrorism, in order to avoid financial losses and damages to the Entity’s reputation.

The Bank has established a risk management policy to prevent money laundering, the financing of terrorism and the financing that enables the proliferation of weapons of mass destruction. The Committee for the Prevention of Money Laundering is in charge of reviewing the steps taken to mitigate this risk.

The preventive risk management structure has been developed to provide a segregation of responsibilities between the owners, the executors, the control areas and the areas that are responsible for ensuring compliance with policies and procedures. The Bank’s business units and services take an active role in identifying, measuring, controlling and monitoring this risk, becoming the Bank’s first line of defense. The implementation of this structure implies that the Bank has adopted a methodology for the assessment of customer profiles, supported by technological tools that enable it to document and have early warnings regarding unusual transactions. The Comprehensive Risk Department, through its programs, ensures the compliance with the identified procedures and controls. This is carried out together with the compliance area. Concerning human resources, existing policies have been strengthened in terms of periodic and continuous training on the Bank’s existing controls to manage this risk.

The Bank has performed a significant investment to improve the technological platform for being more efficient with controls using an updated database and the issuance of alerts given the customers’ transactional profiles.

Specific provisions

Agreement No.004-2013 indicates that specific provisions arise from objective and concrete evidence of impairment. These provisions must be established for credit facilities classified in the risk category called special mention, substandard, doubtful or irrecoverable, both for the individual credit facilities as well as to a group of such facilities. In case of a group, it corresponds to circumstances indicating the existence of deterioration in credit quality, although individual identification is not yet possible.

2020	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	297,621,614	9,635,473	6,210,947	-	7,031,712	320,499,746
Consumer loans	42,324,787	42	62	711,710	137,937	43,174,538
Total	339,946,401	9,635,515	6,211,009	711,710	7,169,649	363,674,284
Specific reserve	-	(987,189)	-	(133,044)	(2,488,252)	(3,608,485)

2019	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	297,617,199	17,205,643	6,214,068	2,128,610	6,080,646	329,246,166
Consumer loans	45,395,300	-	100,471	71,336	65,176	45,632,283
Total	343,012,499	17,205,643	6,314,539	2,199,946	6,145,822	374,878,449
Specific reserve	-	(1,247,242)	(1,560)	(214,017)	(2,215,557)	(3,678,376)

Calculation basis

The calculation is made based on the following weighting table and it is the difference between the amount of the credit facility classified in the above-mentioned categories, and the present value of the guarantee to mitigate the potential loss. If the difference is negative, the result is zero.

Loan categories	Weights
Special mention	20%
Subnormal	50%
Doubtful	80%
Uncollectible	100%

The table below shows the balances for delinquent and overdue loans for the main categories and the amounts of the specific provisions for each portfolio as required in Article No.29 of Agreement 4-2013:

	2020				2019			
Clasification	**Current**	**Delinquent**	**Overdue**	**Total**	**Current**	**Delinquent**	**Overdue**	**Total**
Corporate loans	313,468,035	-	7,031,712	320,499,747	320,311,335	-	8,934,832	329,246,167
Consumer loans	41,912,910	349,119	912,508	43,174,537	43,781,149	1,614,150	236,983	45,632,282
Total	355,380,945	349,119	7,944,220	363,674,284	364,092,484	1,614,150	9,171,815	374,878,449

Accounting treatment

As a minimum, banks must calculate and maintain at all times the amount of the specific provisions determined by the method specified in this agreement, which takes into account the outstanding balance of each credit facility classified in one of the categories subject to provision mentioned in the previous paragraph; the present value of each benefit available as mitigating risk, as required by type of guarantee in this agreement; and a table of weightings applied to the net balance exposed to loss of such credit facilities.

In case of an excess in a specific provision, calculated in accordance with this agreement on the provision calculated according to IFRS, this excess shall be accounted for in a regulatory reserve in equity which increases or decreases with allocations to or from retained earnings. The balance of the regulatory reserve will not be considered as capital funds for purposes of calculating certain ratios or prudential ratios mentioned in the agreement.

An analysis of the impact of the differences between the IFRS reserve and Agreement No.4-2013 arising from the regulatory provisions is shown below:

	2020	**2019**
Provisions according to IFRS		
Collective	3,712,667	2,795,762
Total provisions IFRS	3,712,667	2,795,762
Regulatory reserves:		
Specific provisions	3,608,485	3,678,376
Differences between IFRS and regulatory reserves	104,182	(882,614)

Dynamic reserve

Agreement No.4-2013 indicates that the dynamic reserve is a reserve established to meet possible future needs for creating specific provisions, which is governed by own prudential criteria specific of banking regulation. The dynamic reserve is constituted on a quarterly basis on credit facilities lacking the specific assigned reserve, that is, credit facilities classified in the normal category.

By means of the Board of Directors' General Resolution SBP-GJD-0007-2020 of July 16, 2020, the Superintendency of Banks of Panama, temporarily suspended the obligation to create the dynamic provision as of the second quarter of 2020 , established in Articles 36, 37 and 38 of Agreement No. 4-2013, in order to provide financial relief to banks in the Panamanian market. The dynamic reserve is an equity account that affects retained earnings. The credit balance of this dynamic reserve is part of the regulatory capital, but does not replace or offset the capital adequacy requirements established by the Superintendency of Banks of Panama (SBP). This means that the dynamic reserve decreases the amount of retained earnings of each bank until it meets with the minimum amount required.

The Bank's dynamic reserve balance for December 31, 2020, was B/.5,191,874 (2019: B/.6,230,039) which according to Agreement No.4-2013 is within the minimum amount required by the regulator and for its subsidiary Uni Leasing, Inc., is of B B/.200,409 (2019: B/.212,290).

As at December 31, 2020, the amount for the dynamic reserve is as follows:

	2020	2019
Component 1		
Times Alpha coefficient (1.50%)	3,968,891	3,892,320
Component 2		
Quarterly variation times Beta coefficient (5.00%)	79,448	47,662
Component 3		
Less: positive quarterly variation of specific reserve	759	479,380
Total dynamic reserve (2.5%)	4,047,580	3,460,602

Restrictions:

Total dynamic reserve	5,392,283	6,442,329
Minimum (1.25% of risk-weighted assets in the normal category)	3,174,683	3,243,600
Maximum (2.50% of risk-weighted assets in the normal category)	6,349,365	6,487,200

For purposes of the provisions of the Superintendency of Banks of Panama, in paragraph c of article 37 of Agreement No.4-2013, stating restrictions to the amount of the dynamic provision, it is established as an exceptional and temporary measure that the banking entities may use up to eighty percent (80%) of the dynamic provision only to compensate the retained earnings decreased by the constitution of IFRS and generic provisions on the modified special mention portfolio. This use of the dynamic provision shall be made under the accounting terms established in Circular No.124 of April 15, 2020.

(d) Loans in modified special mention category

On September 11, 2020, the Superintendency of Banks of Panama issued Agreement No.9-2020 that modifies Agreement No.2-2020 through which additional, exceptional and temporary measures are established for compliance with the provisions contained in Agreement No.4-2013 on credit risk, effective as of September 21, 2020. Agreement No.9-2020 includes a new risk category called “modified special mention” for the determination of provisions to be applied to modified credits. The credits classified within this category will comprise the entire credit portfolio that has been modified as a consequence of the economic crisis caused by the COVID-19 pandemic.

In order to cover the credit risk, the Banks shall establish provisions on the modified loan portfolio classified in the "Modified Special Mention" category, ensuring compliance with the International Financial Reporting Standards (IFRSs) and the established prudential norms. For such purposes, the Banks shall constitute a provision equivalent to the greater value between the provision according to IFRS of the modified special mention portfolio and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio, including uncollected accrued interest and capitalized expenses; being able to exclude from this calculation those modified loans guaranteed with deposits pledged in the same bank up to the guaranteed amount. For this purpose, the following scenarios will be considered:

1. In those cases in which the IFRS provision is equal to or higher than the 3% generic provision established in this article, the Bank shall account for the corresponding IFRS provision in the results of the year.

2. In those cases in which the IFRS provision is lower than the 3% generic provision established in this article, the Bank shall account for such IFRS provision in the results of the year and the difference shall be recorded in profit or loss or in a regulatory reserve in equity, taking into consideration the following aspects:

   a. When the IFRS provision is equal to or greater than 1.5%, the Bank shall record such IFRS provision in the statement of profit or loss. Likewise, the difference to complete the 3% of the generic provision established in this article must be recorded in a regulatory reserve in equity.
   b. When the IFRS provision is less than 1.5%, the Bank shall ensure that this percentage is completed and recorded in statement of profit or loss. Likewise, the difference to complete the 3% of the generic provision established in this article must be recorded in a regulatory reserve in equity.

Below are the loans by special mention category and their respective provisions and regulatory reserves as at December 31, 2020:

	Level 1	Level 2	Level 3	Total
Modified special mention category loans				
Modified loans:				
Individuals				
Corporate	10,253,009	690	-	10,253,699
Less: modified loans secured by pledged deposits with the same bank up to the amount secured	45,738,380	-	-	45,738,380
Plus: accrued interest receivable	(200,000)	-	-	(200,000)
Less: unearned discounted interest and commissions	2,976,916	13	-	2,976,929
Total portfolio subject to allowances of Agreement No. 9-2020	(10,689)	-	-	(10,689)
	58,757,616	703	-	58,758,319
Provisions:				
IFRS 9 provision				
	1,058,858	22	-	1,058,880
Generic provision (complement to 1.5%)				
Regulatory reserve (complement to 3%)				-
Total provisions and reserves				704,190
Total provisiones y reservas				1,763,070

Below is a detail of the guarantees of the modified loans:

	2020	**2019**
Movable goods	979,722	-
Immovable property	77,241,834	-
Pledged deposits in same bank	200,000	-
Total	78,421,556	-

As explained in Note 27 on the effects of COVID-19, as of March 31, 2020, the Bank granted an automatic grace period to borrowers affected in their commercial or personal activities due to COVID-19 until June 30, 2020. As of that date, and as a result of an agreement signed between the Government of Panama and the Panamanian Banking Association, as well as the issuance of the moratorium law No.156, the Bank extended the financial relief until December 31, 2020 to those who were affected by COVID-19 and who so requested. These financial relief measures consist mainly of the granting of principal and interest grace periods to customers whose income has been affected by the pandemic.

As part of the Bank's risk management, both individual and collective analyses of the condition of the loans have been developed, including the segmentation of the portfolio with the objective of identifying the labor situation or opening of economic activity of each client, and defining those who will be able to comply with their banking obligations, those who will have difficulties in doing so and those who will definitely not be able to comply. This will determine if there has been a significant increase in risk and classify such loans according to the corresponding stage of impairment; likewise, all these classifications by type of risk have been incorporated in the analysis and provision models for IFRS 9. Additionally, different agreements have been reached with the clients according to the individual analysis of their capacity to generate cash flows necessary to comply with their obligations and subsequently these clients can retake their risk assessment and comply with the regulations to return to what has been stipulated in agreement No.4-2013.

COVID-19 has resulted in a disruption in economic activities that have adversely affected, and are likely to continue to adversely affect the Bank's business, financial condition, liquidity and results of operations. The Bank's cash flows have been significantly diminished as a result of the aforementioned moratoriums, as shown in the following table detailing the percentage of the value of the modified special mention loans, including interest, as at December 31, 2020, which have no installment payments as of the last one recorded at the time of the loan modification:

	Up to 90 days	**91 to 120 days**	**121 to 180 days**	**181 to 270 days**	**Total**
Personal loans	25.82%	7.56%	1.61%	65.01%	100.00%
Corporate loans	27.98%	0.00%	0.00%	72.02%	100.00%

It is important to note that in addition to the modified special mention loans, the Bank does not hold loans that are in the substandard, doubtful or unrecoverable category and that are subject to the moratorium of Law No.156 of June 30, 2020.

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

In accordance to the agreement mentioned in the previous paragraph in regard to the modified special mention loan portfolio, the banks shall constitute a provision equivalent to the greater value between the provision according to IFRS of the modified special mention portfolio and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio, including uncollected accrued interest and capitalized expenses; being able to exclude from this calculation those modified loans guaranteed with deposits pledged in the same bank up to the guaranteed amount. For this purpose, the following scenarios will be considered:

1. In those cases in which the IFRS provision is equal to or higher than the 3% generic provision established in this article, the Bank shall account for the corresponding IFRS provision in the results of the year.

2. In those cases in which the IFRS provision is lower than the 3% generic provision established in this article, the Bank shall account for such IFRS provision and the difference shall be recorded in profit or loss or in a regulatory reserve in equity, taking into consideration the following aspects:

   a. When the IFRS provision is equal to or greater than 1.5%, the Bank shall record such IFRS provision in the statement of profit or loss. Likewise, the difference to complete the 3% of the generic provision established in this article must be recorded in a regulatory reserve in equity.
   b. When the IFRS provision is less than 1.5%, the Bank shall ensure that this percentage is completed and recorded in the statement of profit or loss. Likewise, the difference to complete the 3% of the generic provision established in this article must be recorded in a regulatory reserve in equity.

27. Going concern – COVID 19

On March 11, 2020, the World Health Organization declared the pandemic outbreak of the new coronavirus ("COVID-19") in China, due to its rapid global expansion to a large number of countries. This unprecedented event has greatly affected the world economy and consequently Panama. As of that date, the Bank has evaluated events including those after December 31, 2020.

The Bank has established a multidisciplinary Committee that was launched on March 17, 2020, where all possible future impacts on the banking industry have been evaluated, such as:

- Liquidity risks
- Impairment of non-financial assets
- Expected loss provision
- Measurement at market value
- Breach of agreements
- Staff shortage
- Going concern, among others

The Bank, as a financial entity regulated by the Superintendency of Banks of Panama, has complied with the guidelines issued by the Regulator that allow banks to have the necessary mechanisms to support their clients, both personal banking and commercial and corporate clients, in view of the current public health situation generated by COVID-19.

We believe that the impact on the Bank's financial position in the coming years will depend on the evolution, extension and duration of the virus, which is uncertain at the date of approval of the consolidated financial statements, so an estimate of the possible effect cannot be made.

28. Segment information

The segmentation of the business by type is presented below:

2020	Banking and financial activities	Securities brokerage house	Trusts	Total consolidated
Interest and commission income	29,238,968	2,664,830	226,506	32,130,304
Interest and provision expense	(21,118,356)	(876,801)	-	(21,995,157)
Other income, net	554,546	9,202	5,545	569,293
Other expenses	(7,160,626)	(680,159)	(190,421)	(8,031,206)
Depreciation an amortization expenses	(643,225)	(22,959)	-	(666,184)
Profit before income tax	871,307	1,094,113	41,630	2,007,050
Income tax	(432,088)	(23,273)	(10,022)	(465,383)
Net gain	439,219	1,070,840	31,608	1,541,667
Total assets	544,400,456	3,339,824	446,573	548,186,853
Total liabilities	475,883,801	1,143,339	188,601	477,215,741

2019	Banking and financial activities	Securities brokerage house	Trusts	Total consolidated
Interest and commission income	30,963,834	2,543,557	79,215	33,586,606
Interest and provision expense	(20,443,812)	(777,154)	-	(21,220,966)
Other income, net	1,121,138	(4,031)	46,800	1,163,907
Other expenses	(8,254,493)	(686,520)	(20,242)	(8,961,255)
Depreciation and amortization expenses	(1,036,982)	(25,418)	-	(1,062,400)
Profit before income tax	2,349,685	1,050,434	105,773	3,505,892
Income tax	(413,467)	-	(26,202)	(439,669)
Net gain	1,936,218	1,050,434	79,571	3,066,223
Total assets	534,818,206	3,296,156	-	538,114,362
Total liabilities	467,992,851	1,096,156	-	469,089,007

29. Subsequent events

The Bank has evaluated events after December 31, 2020, to assess the need for possible recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated through February 5, 2021, the date these consolidated financial statements were available to be issued. Based on this evaluation, it was determined that no subsequent events occurred that would require recognition or disclosure in the financial statements.

30. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for their issuance on February 5, 2021.

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