

**LA HIPOTECARIA, S.A. DE C.V.**  
**(Salvadoran Company Subsidiary of Banco La Hipotecaria, S.A.)**  
**(San Salvador, Republic of El Salvador)**

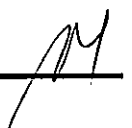
**Financial Statements**

June 30, 2022

(With Accountant Certification)

(FREE ENGLISH LANGUAGE TRANSLATION  
FROM SPANISH VERSION)

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**LA HIPOTECARIA, S.A. DE C.V.**  
**(Salvadoran Company Subsidiary of Banco La Hipotecaria, S.A.)**  
(San Salvador, Republic of El Salvador)

**Notes to the Financial Statements**

June 30, 2022

(With corresponding figures from 2021)

(Figures in Dollars of the United States of America)

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**FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION**

**AUTHORIZED PUBLIC ACCOUNTANT CERTIFICATION**

We have prepared the financial statements of La Hipotecaria, S. A. de C. V. ("the Company"), which comprise the statement of financial positions of June 30, 2022, the statements of income, comprehensive income, changes in equity and cash flows for the period, and notes, comprising a summary of significant accounting policies and other explanatory information.

We believe that the internal control procedures established in the Company, allows us to prepare and present fairly, in all material respects, the financial position of the Company, free from material misstatement, whether due to fraud or error.

The financial statements of La Hipotecaria, S.A. de C. V as of June 30, 2022 have been prepared internally in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee ("IASC").



Roberto Romero  
CPA 0153-2012

July 27, 2022



**LA HIPOTECARIA, S.A. DE C.V.****(Salvadorian Company Subsidiary of Banco La Hipotecaria, S.A.)****(San Salvador, Republic of El Salvador)****Statement of Financial Position**

As of June 30, 2022

(with 2021 figures)

(Stated in U.S. Dollars)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
<b>Assets;</b>			
Cash		700	700
Demand deposits		11,243,426	8,589,528
Savings deposits		115,161	121,178
<b>Total cahs and cash equivalents</b>	<b>6</b>	<b>11,359,287</b>	<b>8,711,406</b>
Investment, net	8	1,880,400	2,024,600
Loans	3, 7	118,798,810	120,789,643
Minus: loan loss reserves	7	(410,659)	(455,626)
Loans, net		118,388,151	120,334,017
Furniture, equipment and improvements, net	9	65,198	99,911
Investment in Affiliate	4	362,260	362,260
Accounts and interest receivable	5	1,830,640	2,036,564
Deferred taxes	16	143,379	157,464
Right-of-use assets, net	15	177,037	217,886
Other assets		858,044	1,025,730
<b>Total del activo</b>		<b>135,064,396</b>	<b>134,969,838</b>
<b><u>Liabilities and Equity</u></b>			
<b>Liabilities:</b>			
Investment certificates	3,10	18,713,779	19,494,497
Other negotiable debts	3,11	7,575,000	10,845,465
Borrowings	3,12	88,073,612	82,816,961
Leases Liabilities	15	188,913	222,914
Other liabilities		2,280,555	2,228,025
<b>Total liabilities</b>		<b>116,831,859</b>	<b>115,607,862</b>
<b>Equity:</b>	<b>16</b>		
Common Shares		5,799,000	5,799,000
Legal reserve		1,159,800	1,159,800
Capital reserve		1,800,000	1,800,000
Voluntary waiver reserve		(6,547)	(6,547)
Fair Value reserve of acquired portfolio		588,704	667,684
Investment reserves		2,520	2,040
Loss on financial investments		(153,087)	(12,131)
Retained earnings		9,042,147	9,952,130
<b>Total equity</b>		<b>18,232,537</b>	<b>19,361,976</b>
<b>Total liabilities and equity</b>		<b>135,064,396</b>	<b>134,969,838</b>

The accompanying notes in pages 9 to 54 are an integral part of the financial statements.

**LA HIPOTECARIA, S.A. DE C.V.**  
**(Salvadorian Company Subsidiary of Banco La Hipotecaria, S.A.)**  
(San Salvador, República de El Salvador)

**Statement of Income and Other Comprehensive Income**

Period ended June 30, 2022

(With 2021 figures)

(Stated in U.S. Dollars)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Operating income:			
Interest:			
Loans		4,538,578	4,706,976
Investment Securities		13,089	0
Deposits in banks		1,673	2,183
Commission for administration and management, net		556,429	607,635
Commission for receivable loans		76,373	102,910
<b>Total de ingresos por intereses y comisiones</b>		<u>5,186,142</u>	<u>5,419,704</u>
Interest expense and commissions:			
Borrowings, debt securities issued and leases		2,433,353	2,651,915
Commissions		175,220	80,997
<b>Total interest expense and commissions</b>		<u>2,608,573</u>	<u>2,732,912</u>
<b>Net interest income and commissions</b>		2,577,569	2,686,792
Investment loss provisions		(33,682)	(91,336)
Loan loss provisions	7	<u>480</u>	<u>0</u>
Net interest income and commissions, after provisions for impaired loans		<u>2,610,771</u>	<u>2,778,128</u>
<b>Other income:</b>			
Other income		105,790	75,138
<b>Total other income</b>		<u>105,790</u>	<u>75,138</u>
General and administrative expenses:			
Salaries and other personnel benefits	13	411,440	402,525
Depreciation and amortization	8	49,592	71,689
Depreciation of right-of-use assets		40,848	36,387
Professional and legal fees		202,191	313,196
Taxes		245,719	255,694
Other expenses	13	160,423	144,358
<b>Total operating expenses</b>		<u>1,110,213</u>	<u>1,223,849</u>
<b>Net income before income tax</b>		1,606,348	1,629,417
Income tax, estimated	15	<u>(516,331)</u>	<u>(515,320)</u>
<b>Net Income</b>		<u>1,090,017</u>	<u>1,114,097</u>

*The accompanying notes in pages 9 to 54 are an integral part of the financial statements.*

**LA HIPOTECARIA, S.A. DE C.V.**  
**(Salvadorian Company Subsidiary of Banco La Hipotecaria, S.A.)**  
 (San Salvador, República de El Salvador)

**Statement of Other Comprehensive Income**

Period ended June 30, 2022

(With 2021 figures)

(Stated in U.S. Dollars)

	<u>2022</u>	<u>2021</u>
<b>Utilidad neta</b>	<u>1,090,017</u>	<u>1,114,097</u>
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified subsequently to the result of the period</b>		
Movement in the reserve for voluntary withdrawal:		
Voluntary Retirement Reserve	0	0
<b>Items that are or may be subsequently reclassified to the income statement:</b>		
Movement in the fair value reserve of financial instruments debt to FVOCI:		
Net change in fair value	(140,956)	0
Movement in the reserve for expected credit losses (ECL) of debt instruments to FVOCI:		
Net change in reserve for ECL	480	0
Movement in the fair value reserve of the acquired portfolio:		
Amortization of fair value acquired portfolio	(78,980)	716,355
<b>Total other comprehensive income</b>	<u>(219,456)</u>	<u>716,355</u>
<b>Total comprehensive income</b>	<u>870,561</u>	<u>1,830,452</u>

*The accompanying notes in pages 9 to 54 are an integral part of the financial statements.*

LA HIPOTECARIA, S.A. DE C.V.  
(Salvadorian Company Subsidiary of Banco La Hipotecaria, S.A.)  
(San Salvador, República de El Salvador)

Consolidated Statement of Changes in Equity

Period ended June 30, 2022  
(With 2021 figures)

(Stated in U.S. Dollars)

	Notes	Common shares	Legal reserve	Capital reserve	Reserve of fair value of investment in securities	Reserve of ECL of investment in securities	Reserve of fair value of portfolio	Voluntary waiver voluntaria	Retained earnings	Total equity
Balance as of December 31, 2021		5,799,000	1,159,800	1,800,000	(12,131)	2,040	667,684	-6,547	9,952,130	19,361,976
Net income - 2022		0	0	0	0	0	0	0	1,090,017	1,090,017
Comprehensive results for the year										
Other comprehensive income (loss):										
Fair value reserve – debt instruments at FVOCI:										
Net change in fair value		0	0	0	(140,956)	0	0	0	0	(140,956)
Expected credit loss (ECL) reserve – debt instruments at FVOCI:										
Debt investments at FVOCI – net change in ECL reserve		0	0	0	0	480	0	0	0	480
Fair value reserve for loan portfolio acquired:										
Amortization of fair value		0	0	0	0	0	(79,980)	0	0	(79,980)
Total other comprehensive income (loss)		0	0	0	(140,956)	480	(79,980)	0	0	(220,456)
Total comprehensive income		5,799,000	1,159,800	1,800,000	(153,087)	2,520	587,704	(6,547)	11,042,147	20,231,537
Other equity transactions:										
Allocation of regulatory reserves		0	0	0	0	0	0	0	0	0
Transactions with equity holders of the Company:										
Dividends Paid		0	0	0	0	0	0	0	(2,000,000)	(2,000,000)
Balance at June 30, 2022	17	5,799,000	1,159,800	1,800,000	(153,087)	2,520	587,704	(6,547)	9,042,147	18,231,537

The accompanying notes in pages 9 to 54 are an integral part of the financial statements.

**LA HIPOTECARIA, S.A. DE C.V.**

(Salvadorian Company Subsidiary of Banco La Hipotecaria, S.A.)

(San Salvador, República de El Salvador)

**Statement of cash flow**

Period ended June 30, 2022

(With 2021 figures)

(Stated in U.S. Dollars)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
<b>Operating activities</b>			
Net Income		1,090,017	1,114,097
Adjustment to reconcile net income and cash from operating activities:			
Depreciation and amortization	9	49,592	71,689
Depreciation of right-of-use assets	15	45,969	45,969
Provision for credit losses		(33,682)	(91,336)
Provision for Investment in securities losses		480	0
Cost for present service for voluntary retirement reserve		0	1,695
Interest income		(4,553,340)	(4,709,159)
Interest expenses		2,433,353	2,651,915
Tax expenses	16	516,331	515,320
<b>Sub total</b>		<u>(451,280)</u>	<u>(399,810)</u>
<b>Changes in operating assets and liabilities</b>			
(Increase) decrease in asstes:			
Loans		1,979,548	(3,648,095)
Intereses and account receivable		178,980	307,579
Others assets		97,671	622,971
Increase (decrease) in liabilities:			
Others liabilities		<u>(373,092)</u>	<u>(589,898)</u>
<b>Cash generate from operations before interest and taxes</b>		<u>1,431,827</u>	<u>(3,707,253)</u>
Tax expenses paid		(77,160)	(81,021)
Interest received		4,580,284	4,736,103
Interest paid		<u>(2,446,902)</u>	<u>(2,665,464)</u>
<b>Cash flow's from operating activities</b>		<u>3,488,049</u>	<u>(1,717,635)</u>
<b>Cash flow's from investment activities:</b>			
Purshased of Investment securities		1,407	0
Acquisition of furniture, equipment and improvements		<u>(13,104)</u>	<u>(1,499)</u>
<b>Cash flow's of investment activities</b>		<u>(11,697)</u>	<u>(1,499)</u>
<b>Cash flow's from Financing activities:</b>			
Repayments of borrowings		(6,743,349)	(10,992,761)
Proceeds of borroeings		12,000,000	24,000,000
Redemption of investment certificates		(4,562,718)	(10,403,216)
Proceeds of investment certificates		3,782,000	7,100,000
Redemption of negotiable debts		(4,995,465)	(13,066,840)
Proceeds of negotiable debts		1,725,000	5,000,000
Payment of lease liabilities		(34,001)	(78,404)
Dividend Paid		<u>(2,000,000)</u>	<u>0</u>
<b>Cash flow's from Financing activities:</b>		<u>(828,533)</u>	<u>1,558,779</u>
<b>Net increase in cash</b>		<u>2,647,819</u>	<u>(162,780)</u>
<b>Cash at the beginning of the year</b>		<u>8,711,406</u>	<u>6,885,539</u>
<b>Cash at the end of the year</b>		<u>11,359,225</u>	<u>6,722,759</u>

The accompanying notes in pages 9 to 54 are an integral part of the financial statements.

**(1) Constitution and Operations**

La Hipotecaria, S.A. de C.V. (hereinafter "the Company") was incorporated on June 3, 2002 and registered at number 33 from folio 218 to folio 233 of book 1716 of the Companies Registry of the Commercial Registry of the Republic of El Salvador. Its main activity is granting, managing and securitizing residential mortgage loans.

La Hipotecaria, S.A. de C.V. is a private company whose main shareholder is Banco La Hipotecaria, S.A. a bank incorporated under the laws of Panama, Republic of Panama and supervised by the Superintendency of Banks of Panama.

Banco La Hipotecaria, S.A. is owned 100% by La Hipotecaria (Holding), Inc. whose shareholders are Grupo ASSA, S.A. with 79.16%.

The main office is located at Alameda Roosevelt N° 3107 and 59ª Avenida Sur, Colonia Escalón, Edificio La Centroamericana, San Salvador.

The Administration of La Hipotecaria, S.A. de C.V. authorized the issuance of these financial statements on January 17, 2022. The financial statements can only be modified by resolution of the General Shareholders' Meeting, which constitutes the highest authority of the Company.

As of June 30, 2022, and 2021, the Company had a total of 56 and 61 employees respectively.

**(2) Summary of Significant Accounting Policies**

*(a) Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), promulgated by the International Accounting Standards Board ("IASB").

*(b) Basis of measurement*

The financial statements as of and for the period from January 1 to June 30, 2022 have been prepared in United States dollars (US \$) on the basis of historical cost or amortized cost, except for certain items that the Company decide to carry the fair value, which are appropriately identified.

Notes to the Financial Statements

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

In preparing the financial statements in accordance with IFRS, Management has made certain accounting estimates and critical assumptions, and has exercised its judgment in the process of applying the Company's accounting policies, which affect the reported figures of the assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the figures reported in the statement of comprehensive income during the period. The estimates and related assumptions are based on historical experiences and other factors, which are believed to be reasonable under the circumstances, which results in the basis on which the book value is established with which some assets and liabilities that cannot be recorded are established, be determined otherwise. Actual results may differ from these estimates (see note 18).

(c) *Financial assets and liabilities*

(c.1) *Recognition*

The Company initially recognizes loans and receivables, investment securities, deposits, debt securities issued and borrowings on the date on which they are originated. All other financial instruments are recognized on the trade date.

(c.2) *Classification*

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, at FVOCI or at FVTPL. A Financial asset is classified based on the Company business model for its management and its contractual characteristics of cash flows.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest (sppl) on the principal amount outstanding.

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

- The asset is held within a business model which objective is achieved by both collecting contractual cash flows and selling financial assets; and;
- The contractual terms of the financial asset give rise on specific dates to cash flows that are sppl on the principal amount outstanding.

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

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets not classified as measured at amortized cost or at FVOCI, as described above, are classified as measured at FVTPL.

In addition, on the initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Company has not made use of this option so far.

*Business model assessment*

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- How the business managers are remunerated (for example, if the compensation is based on the fair value of the assets under management or on the contractual cash flows obtained)
- The frequency, value and timing of sales in prior periods, the reasons for those sales, and its expectations about future sales activity.

*Assessment of whether the contractual cash flows are solely payments of principal and interest*

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as the consideration of the time value of money and the credit risk associated with the amount of the principal amount outstanding during a particular period of time and for other basic lending risk and costs (i.e. liquidity risk and administrative costs), as well as profit margin.

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

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet this condition.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial liabilities

The Company classifies all financial liabilities as subsequently measured at amortized cost

*(d) Derecognition of financial assets and financial liabilities*

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The guarantee on the transferred asset is measured as the lower between the original book value of the asset and the maximum amount of the consideration that the Company could be obliged to pay.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

*(d.1) Modification of financial assets*

Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

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

*(d.2) Offsetting of financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

*(e) Fair value measurement*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active', if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is not evidenced by a price quoted in an active market for an identical asset or liability nor is it based on a valuation technique for which is judged to be insignificant relative to the measurement, then the financial instrument is initially measured at its fair value, adjusted to differ the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference will be recognized in income on an appropriate basis throughout the useful life of the instrument, but at the latest when the valuation is fully supported by observable market data or when the transaction closes.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

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

*(f) Impairment*

The Company recognizes loss allowances for 'expected credit loss' (ECL) on the following financial instruments that are not measured at FVTPL:

- Loans

No impairment loss is recognized on equity instruments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measure as 12-month ECL:

Financial instruments on which the credit risk has not increased significantly since their initial recognition. The 12-month ECL is the portion of the ECL that results from loss events on a financial instrument that are possible within a period of 12 months after the reporting date.

*Measurement of ECL*

La PCE es la probabilidad ponderada estimada de pérdida crediticia y es medida de la siguiente manera:

- Financial assets that do not show credit impairment at the reporting date: the present value of all arrears of contractual cash payments.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

*Restructured financial assets*

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

*Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of a loan or advance by the bank on terms that bank would not consider otherwise;

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a personal loan that is overdue for more than 90 days and for more than 180 days for a mortgage loan is considered credit-impaired.

*Presentation of allowance for ECL in the statement of financial position*

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

- *Financial assets measured at amortized cost:* as a deduction from the gross carrying amount of the assets.

*Write-off*

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off, with no course of action by the Company to foreclose the collaterals (in the case they maintain). However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company procedures for recovery of amounts due.

*(g) Cash and cash equivalents*

For purpose of the statement of cash flows, cash equivalents include demand deposits with banks and term deposits with original maturities of three months or less, excluding restricted deposits.

*(h) Negotiable assets and liabilities*

Negotiable assets and liabilities are those that the Company acquires or contracts mainly for the purpose of selling or repurchasing in the short term, or they are held as part of a portfolio that is jointly managed to take positions or short-term gains.

Negotiable assets and liabilities are initially recognized and are subsequently measured at fair value in the statement of financial position, with transaction costs recognized in income. All changes in fair value are recognized as part of the net marketable income in results.

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

*(i) Loans*

Loans are non-derivative financial assets with fixed determinable payments that are not quoted in the active market, and are generally originated by providing funds to debtors and the Company does not intend to sell immediately or in the near term.

Loans are presented at amortized cost considering the principal amount and the interest receivable, less the loss allowance for ECL. The loans are measured initially at its fair value plus those incremental direct transaction costs; subsequently at their amortized cost using the effective interest rate method.

*(j) Allowance for Expected credit loss*

The allowance for credit losses is established to cover the losses derived from the credit granting process, inherent to the loan portfolio and loan commitments. Increases to the reserve for ECL are made with a charge to results. ECL are deducted from the allowance, and subsequent recoveries are added. The allowances is also reduced by reversals of the reserve with credit to results

The allowance attributable to financial instruments measured to AC is presented as a deduction for loans.

The Company measures ECL in a way that reflects: a) an unbiased probability weighted amount that is determined by evaluating a range of possible outcomes; b) the value of money over time; and c) reasonable and supportable information that is available without undue cost or effort on the date of the presentation on past events, current conditions and the forecast of future economic conditions.

The ECL model reflects the general pattern of deterioration or improvement in the credit quality of financial assets. The amount of ECL recognized as a reserve or provision depends on the degree of credit impairment from initial recognition. There are two endpoints:

- 12-month ECL (stage 1), which is applied to all financial assets (on initial recognition), as long as there is no significant deterioration in credit quality, and
- ECL during the life time (stages 2 and 3), which is applied when there has been a significant increase in credit risk individually or collectively. In these stages 2 and 3, interest income is recognized. In stage 2 (as in stage 1), there is a complete decoupling between interest recognition and impairment and interest income is calculated on the gross carrying amount. In stage 3, is when the financial asset becomes impaired.

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

The provision for ECL includes a specific active component and a formula-based component. The specific asset component, or the specific allocation, refers to the provision for losses on financial assets considered impaired and evaluated individually, on a case-by-case basis. A specific provision is established when the discounted cash flows (or observable fair value of collateral) of the financial asset is less than the book value of that asset. The component based on the formula (collective tax base), covers the Company's normal loan portfolio and is established based on a process that estimates the probable loss inherent in the portfolio, based on the statistical analysis and qualitative judgment of the company. Management. This analysis considers comprehensive information that incorporates not only delinquency data, but other relevant credit information, such as forward-looking macroeconomic information.

In order to determine whether there has been a significant increase in the credit risk of the financial asset, the evaluation is based on quantitative information and qualitative information. The Company considers the following factors, although not exhaustive, in measuring the significant increase in credit risk:

- a) Significant changes in credit risk indicators as a consequence of a change in credit risk from the beginning;
- b) Significant changes in the external market indicators of credit risk for a specific financial instrument or similar financial instruments with the same expected life;
- c) An actual or expected significant change in the external credit rating of the financial instrument;
- d) Significant changes in the value of the collateral that supports the obligation.

As a limit, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due for personal loans or, for mortgage loans, more than 180 days past due. Days past due are determined by counting the number of days since the earliest due date for which full payment has not been received. Due dates are determined without considering any grace period that may be available to the debtor.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk through periodic reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; Y
- There is no unjustified volatility in the allocation for loss of transfers between the 12-month Probability of Default (PI) (stage 1) and the remaining lifetime PI (stage 2).

The balances of the allowance for PCE are calculated by applying the following formula:

$$ECL = \sum (EAD \times PD \times LGD); \text{ where:}$$

(2) Summary of Significant Accounting Policies, continued

Exposure at default (EAD): it is defined as the current balance of the principal as of the date of the statement of financial position. In the case of credits or loans that include a line of credit with a quota that can be used in its entirety in the form of loan contracts, this parameter includes the Company's expectations of future disbursements incorporating a credit conversion factor (CCF).

Probability of default (PD): the probability that a client will not meet the full and timely payment of credit obligations over a one-year horizon. The estimated PI for a 12-month period is adjusted using the Loss Identification Period (LIP) to estimate the probability of specific default as of the date of the statement of financial position.

The one-year default probability applied to the portfolio for expected losses of less than 12 months and during the lifetime for expected losses of more than 12 months. The default percentages are based on the historical performance of the Company's portfolio by rating category.

Loss Given Default (LGD): a factor based on historical information is used.

(k) *Investment Securities*

Investment securities caption in the statement of financial position includes

- Debt and equity investment securities mandatorily measured at FVTPL: these are at fair value with changes recognized immediately in profit or loss.
- Debt securities measured at FVTPL, gains and losses are recognized in the statement of comprehensive income, except for the following, which are recognized in earnings or losses in the same way as for financial assets measured at amortized cost:
  - Interest income using the effective interest method;
  - Reserves for PCE and reversals.

When the investment values measured at FVTPL are derecognized, the gain or accumulated loss previously recognized in the statement of comprehensive income and is reclassified of equity to profit or loss.

(l) *Furniture, equipment and improvements*

Furniture, equipment and improvements are measured at cost less accumulated depreciation and amortization. The historic cost includes the expense that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the book value of the asset or recognized as a separate asset, as appropriate, only when there is a probability that the economic benefit associated with the asset will return to the Company and the cost of the asset can be recorded in a reliable way. Costs considered as repairs and maintenance are charged to the comprehensive income statement when incurred.

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

The depreciation expense of furniture and equipment, and amortization of improvements to the leased property is charged to current period using the straight-line method over the estimated useful life. The estimated useful life of furniture, equipment and improvement for the current and comparative periods are as follows:

Furniture and equipment	3 – 10 years
Vehicles	5 years
Improvements	3 – 10 years

The assets useful lives and residual value are reviewed, and adjusted if appropriate, at each statement of financial position date.

Furniture, equipment and improvements are subject to review for impairment when there are events or changes in the circumstances that indicate that the carrying value may not be recoverable. An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

*(m) Employee benefits*

*(m.1) Termination benefits*

Termination benefits are recognized as expenses whichever occurs first when the Company can no longer withdraw the offers of these benefits, or when the Company recognizes costs for a restructuring. If the benefits are not expected to be canceled within twelve months from the date of the statement of financial position, then such benefits are discounted to determine their present value.

*(m.2) Short-term benefits*

Short-term benefits are recognized as expenses when the service has been received by the Company. The liability is recognized for the undiscounted amount to be paid by the Company and there is a present obligation, legal or implicit, to make such payments as a result of past events and a reliable estimate of the obligation can be made.

*(m.3) Provision for voluntary withdrawal*

The "Regulatory Law of the Economic Benefit for Voluntary Resignation" establishes that private sector institutions and autonomous institutions whose labor relations are governed by the Labor Code, will be obliged to cancel an economic benefit due to the voluntary resignation of their workers. To be entitled to the economic benefit, the worker must have at least two years of continuous and effective service in the company accredited and must give a written notice to the employer. Workers will receive an economic benefit equivalent to 15 days of the basic salary in force for each year of service, said salary may not be greater than twice the current legal minimum daily salary corresponding to the economic activity sector of the employer.

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

The Company establishes a provision for this obligation based on calculations made by an independent actuary using the actuarial method of the Projected Credit Unit, which consists of awarding one unit of credit per year of the worker's service. New measurements of the provision for labor obligation, which include actuarial gains and losses, are immediately recognized in other comprehensive income.

*(n) Assets impairment*

The book values of the Company's assets are reviewed as of the date of the statement of financial position to determine if there is an impairment in their value. If such impairment exists, the asset's recoverable value is estimated and an impairment loss equal to the difference between the asset's book value and its estimated recovery value is recognized. An impairment loss in the value of an asset is recognized as an expense in the statement of comprehensive income.

*(o) Loans payable and debt securities issued*

Loans payable are the result of the resources that the Company requests to maintain liquidity. The Company classifies equity instruments into financial liabilities or equity instruments according to the substance of the contractual terms of the instrument.

These are initially measured at fair value, plus transaction costs, and are subsequently measured at amortized cost using the effective interest method, except for liabilities that the Company decides to record at fair value with changes in comprehensive income.

*(p) Interest income and expense*

*Effective interest rate*

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

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

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

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

*Amortized cost and gross carrying amount*

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

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

*Calculation of interest income and expense*

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

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

*Presentation*

Interest income calculated using the effective interest method presented in the statements of profit or loss and OCI includes:

- Interest on financial assets and financial liabilities measured at amortized cost calculated using the effective interest method

Interest income and expenses on all marketable assets and liabilities are considered incidental to the Company's trading operations and are presented together with all other changes in the fair value of marketable assets and liabilities in net business income.

**(q) Income Tax**

Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted at the statement of financial position date, and any adjustment to the tax payable in respect of previous years.

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying accounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the tax rates enacted at the statement of financial position date. These temporary differences are expected to be reversed in future years. If it is determined that the deferred tax would not be realized in future years, the deferred tax will be totally or partially reduced.

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

*(r) Leases*

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

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

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

*As Lessee*

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be easily determined, the Company incremental borrowing rate. The Bank uses its incremental borrowing interest rate as the discount rate. The Company uses its incremental interest rate as the discount rate and a term of three years.

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

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

- Fixed payments, including fixed payments in substance
- Variable lease payments that depend on an index or a rate, initially measured using the index or the rate on the commencement date,
- Amounts expected to be paid under a residual value guarantee; and
- The exercise price under a call option that the Company is reasonably certain to exercise, the lease payments in an optional renewal period if the Company is reasonably certain of exercising an extension option, and the penalties for the early termination of a lease unless the Company is reasonably certain not to terminate early.

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

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

The Company presents right-of-use assets and the liabilities for leases separated line items in the statement of financial position.

*Short-term leases and low-value asset leases*

The Company has chosen not to recognize right-of-use assets and liabilities for leases of computer equipment that have a term of 12 months or less and for leases of low-value assets. The Company recognizes the lease payments associated with these leases as a straight-line expense during the term of the lease, in the statement of comprehensive income.

**(s) Trust Operation**

Assets held on trusts or in function of the trustee are not considered part of the Company and therefore, those assets and its corresponding income are not included in its financial statements. It is a Company's obligation to manage the resources of the trusts in conformity with the contracts and independently of its equity.

The Company charges a commission for the trusteeship of the funds in trusts, which is paid by the trustors based on the value of the trust's portfolio or according to agreements between the parties. These commissions are recognized as income in accordance with the terms of the trust contracts, whether monthly, quarterly or annually on an accrual basis.

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

*(t) New regulations and amendments to regulations that were effective in the current period*

New standards and interpretations that were effective in the current period

Certain new standards became effective during the year 2022. The Company evaluated and adopted the relevant standard for its financial statements according to the following detail:

– Amendments to IFRS 3, Business Combinations, related to the evaluation of whether a business or a group of assets has been acquired.

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

New standards, interpretations and amendments to IFRS have been published, but are not mandatory as of June 30, 2022, and have not been early adopted by the Company.

The Company is in the process of evaluating the possible impact that the application of IFRS 17 will have on its financial statements at the time of its implementation:

- IFRS 17, Insurance Contracts, requires insurance liabilities to be measured at a current compliance value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the objective of consistent, principles-based accounting for insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts and will come into effect in annual financial reporting periods beginning on or after January 1, 2023.

**(3) Financial Risk Management**

A financial instrument is any contract that originates in turn a financial asset in one entity and a financial liability or an equity instrument in another entity. The activities of the Company are related to the use of financial instruments including derivatives and, as such, the statement of financial position is mainly composed of financial instruments.

The Company's Board of Directors is responsible for establishing and monitoring the risk management policies for financial instruments. To this end, it has established certain committees for the administration and periodic surveillance

of the risks to which the Company is exposed, among these committees are the following: Credit Committee, Collections Committee and Audit Committee.

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

### (3) Financial Risk Management, continued

#### Credit Risk:

It is the risk that the debtor or issuer of a financial asset owned by the Company does not comply, completely and on time, with any payment that should be made to the Company in accordance with the terms and conditions agreed upon at the time the Company acquired the financial asset. respective.

To mitigate credit risk, the Company has formulated a credit policy manual to comply with it, which establishes the terms and conditions that each loan granted by the Company must comply with.

Additionally, the Company has a credit department that analyzes each loan request, conducts the pertinent, valid investigations and certifies compliance with credit policies, and submits and supports said request to the credit committee. The credit committee assigned by the Board of Directors monitors compliance with the credit policies of each approved loan.

The Company has established some procedures to manage credit risk, as summarized below:

- *Formulation of credit policies:* These credit policies are reviewed and updated taking into account the macroeconomic environment of the country, the experience that the Company has maintained in its own loan portfolio, and the trends and practices of the industry in which it operates. the company. The credit executive committee, which formulates credit policies, is made up of the General Manager, the Executive Vice President of Business, the Country Manager, and the Vice President of Assets and Collections.
- *Establishment of authorization limits:* The Company has established maximum loan granting limits amounting to US\$200,000 for mortgage loans and US\$25,000 for personal loans. Additionally, each loan request must have the approval of a minimum of two members of the credit committee, which is made up of the General Manager, Country Manager, the Vice President of Assets and Collections, the Credit Manager, and the Credit Officer. . This credit committee is made up of members from Panama and El Salvador.
- *Concentration and exposure limits:* The Company's technological platform allows defining certain levels of concentration of clients within its portfolio, of which the credit area analyzes the exposure for distant siblings, the exposure for a specific project and the exhibition of houses that we can take within a project.
- *Development and maintenance of risk assessment:* The Company's risk department established a collections committee, which meets on a monthly basis to evaluate the credit profiles of clients who have fallen into default during the month immediately prior to the meeting date. The objective of this meeting is to evaluate trends and behaviors of clients who have fallen into default and evaluate credit policies to make recommendations for pertinent adjustments to them.
- *Review of compliance with policies:* The review of compliance with credit policies falls on the credit department, which reviews and analyzes each loan application, and on the credit committee that evaluates and approves loan applications

**(3) Financial Risk Management, continued**

**Credit Quality Analysis**

The following table presents information on the credit quality of financial assets measured at the AC. Unless specifically noted, for financial assets, the amounts in the table represent gross book values.

	2022			2021	
	12-month ECL ( <u>'Stage 1'</u> ) US\$	Lifetime ECL (not credit-impaired) ( <u>'Stage 2'</u> ) US\$	Lifetime ECL (credit- impaired) ( <u>'Stage 3'</u> ) US\$	Total US\$	Total US\$
Loans					
Normal or low-fair risk	111,058,125	0	0	111,058,125	113,922,848
Watch list	4,571,313	0	0	4,571,313	3,713,563
Subnormal	0	834,743	50,092	884,835	1,025,241
Doubtful	0	337,688	131,978	469,666	402,851
Loss	0	0	1,814,871	1,814,871	1,725,140
<b>Monto bruto</b>	<b>115,629,438</b>	<b>1,172,431</b>	<b>1,996,941</b>	<b>118,798,810</b>	<b>120,789,643</b>
Loss allowance (ECL)	<u>(182,140)</u>	<u>(46,303)</u>	<u>(182,216)</u>	<u>(410,659)</u>	<u>(455,626)</u>
Total loans at AC	<u>115,447,298</u>	<u>1,126,128</u>	<u>1,814,725</u>	<u>118,388,151</u>	<u>120,333,817</u>

As of June 30, 2022, the Company maintains in a "non-delinquent without impairment" classification, deposits in banks for the sum US\$ 11,359,287 (2021: US\$ 8,710,706).

***Guarantees and Other Improvements to Reduce Credit Risk and its Financial Effect***

The Company maintains guarantees and other credit enhancements to ensure the collection of its financial assets exposed to credit risk. The table below presents the main types of collateral maintained with respect to different types of financial assets.

	% of explosure that is Subject to collateral requirement		
	2022	2021	type of colateral held
Loans	92%	91%	Properties

### **(3) Financial Risk Management, continued**

#### *Residential mortgage lending*

The following tables stratify credit exposures from residential mortgage loans by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination. For credit-impaired loans, the value of collaterals is based on the most recent appraisals.

	<u>2022</u> US\$	<u>2021</u> US\$
<b><u>Ratio of loans to the value of the guarantee (LTV)</u></b>		
<b>Loans without impairment</b>		
0-20%	182,630	191,881
20-40%	1,741,121	1,707,870
40-60%	6,175,815	5,934,037
60-80%	36,349,411	33,188,376
80-100%	<u>67,988,762</u>	<u>71,895,769</u>
Total	<u>112,437,739</u>	<u>112,917,933</u>

The Company does not routinely update the valuation of the guarantees held. Collateral appraisals are updated for home loans when the credit risk of a loan deteriorates significantly and the loan is more closely monitored. For doubtful loans, the Company obtains the collateral appraisal because the present value of the collateral is an input for measuring impairment.

#### *Assets obtained by taking possession of collateral*

Details of assets obtained by the Company during the year by taking possession of collateral held as security against loans and held at the year-end are shown below:

	<u>2022</u> US\$	<u>2021</u> US\$
Properties	<u>190,063</u>	<u>223,331</u>

#### *Amounts arising from expected credit losses (ECL)*

When evaluating whether the credit risk of a financial instrument has increased significantly, the Company considers the change in default risk that occurs since initial recognition. For a financial instrument that incurs an event of default, management will consider the criteria based on the different stages of default as established for the implementation of the Expected Loss, while evaluating the application of other criteria used in the default risk model. Internal credit such as behavioral scoring, bureau score and / or qualitative aspects and factors, where applicable. On each reporting date, the Company assesses whether there is a significant increase in credit risk based on the change in default risk that occurs during the expected life of the credit instrument. In order to evaluate whether a significant credit impairment has occurred, the Company considers reasonable and sustainable information that is available without undue cost or effort comparing:

- The risk of default that occurs in the financial instrument on the reporting date

**(3) Financial Risk Management, continued**

*Credit risk grades*

The Company allocates each exposure to a credit risk grade based on the delinquency transitions that the operation generates. These migrations are assigned to a 'Probability of Default' (PD) based on the results of transition matrices that were reviewed at 1, 2 and 3 years, which gives a real default rate based on the default level at which the operation is. Moreover, the Company is in the process of adapting other variables in addition to the actual rate of default, such as behavior scoring, bureau scoring and/or collective factors, depending on the economic events that the sectors of the economy can present.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on the initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Consequently, the Company will periodically determine the changes in the credit risk of financial assets throughout their remaining life, with respect to that evaluated on the date of their initial recognition. Based on this evaluation, the Bank assigns each financial asset in one of the following three 'stages' ('buckets') of credit risk impairment:

- Stage 1: Financial instruments with a low credit risk;
- Stage 2: Financial instruments with significant impairment of credit risk;
- Stage 3: Impaired financial instruments (high credit risk).

The objective of the assignment to different stages of credit risk is to adjust the algorithm for calculating the ECL, in such a way that the losses of the instruments that would have been assigned to 'Stage 1' will be determined for a horizon of 12 months. The losses for instruments assigned to 'Stage 2 or 3', will be calculated for the residual life of the instruments, that is, until their maturity or expiration ('lifetime').

The Company, has implemented an internal rating for the assessment of credit impairment, based mainly on the delinquency information of financial assets. Therefore, for the assignment of credit impairment ratings, the Bank uses the scheme of arrears or delinquency ranges of financial assets, these being as detailed below:

- A1 – Current (without arrears or delinquency) and from 1 to 30 days (Normal)
- A2 – Delinquency range from 31 to 60 days (Low-fair risk)
- B1 – Delinquency range from 61 to 90 days (Watch-list)
- B2 – Delinquency range from 91 to 120 days (Substandard)
- C1 – Delinquency range from 121 to 150 days (Doubtful)
- C2 – Delinquency range from 151 to 180 days (Doubtful)
- D – Delinquency range greater than 180 days (Loss)

**(3) Financial Risk Management, continued**

*Construction of the probability of default (PD) term*

*Instrument treatment approach*

Given the homogeneity of the profiles of the borrowers that comprise the Company credit portfolios, when determining their credit impairment, it was established, that in a general, except for certain exceptions, they will be treated under a collective approach. For practical purposes, this implies that the determined PD and loss given default (LGD) values will be shared collectively, either partially or totally, by all the instruments that participate in each identified segment.

For the calculation of the PD, transition matrices have been structured that reflect the annual migration of the risk categories of the instruments taken monthly. For structuring the matrix, the historical series of grades of each instrument that makes up each portfolio segment of each country will be used, which will be arranged in historical series of five (5) years for each instrument. With this database, the grade (risk category) of an instrument is compared monthly at the end of a certain month, with the category of that instrument for the same months of different time horizons (1, 2, 3 or more years).

The Company has identified that the instruments comprising the Company's loans portfolio present similar risk profiles in relation to the amount of exposure, interest rate, guarantees and other factors within the group to which they belong.

For this, dispersion statistics (volatility) of the values of such profiles were determined around average values. To date, the Company has not identified instruments in its loan portfolio that require individual evaluation.

Consequently, management determined as convenient to group the financial instruments that make up the credit portfolio of the Company by segments about the guarantee. Consequently, two segments were defined:

- a) Residential loans with mortgage guarantee and personal loans with mortgage guarantee (LWMG);
- b) Personal loans without guarantee (LWOG).

The implementation of this instrument grouping criterion arises, not only from the risk sharing requirement, but from the need to facilitate the subsequent calculation of the LGD of the segments, a parameter significantly associated with the guarantees of the instruments.

In the sense, in the case of the LWMG, the loss rate includes in the calculation, the value of recoveries derived from the execution of mortgages and appropriations in payment, which explains the importance of its disaggregation with respect to another type of recoveries that do not present such quality of guarantees. In the specific case of the LWMG, the main risk factor they share, in addition to the volatility of the value of the mortgaged property, is the moral risk, in as much as the houses financed by the Company, in general, are of the residential type for use of the borrowers, which present a relatively low to middle income level, and their families. The LGD of the LWOG segment will be determined through the recoveries.

In order to determine the PD of the segments identified, and in the context of the collective treatment of credit portfolios, the Company will focus the measurement based on the processes denominated 'Markov Chain', through which the probability (conditional) that an instrument, which is at a certain moment in a certain risk category, migrates to another in a time horizon that is also determined. Mathematically, it is expressed as the probability that an event A will occur, given another event B. The Company calculation process will determine the probability that an instrument that at the reporting date presents a certain grade will default for a horizon of time.

**(3) Financial Risk Management, continued**

For the calculation of the PD, transition matrices have been structured that reflect the annual migration of the risk categories of the instruments taken monthly. For the structuring of the matrix will be based on the historical series of ratings of each instrument that makes up each portfolio segment of each country, which will be arranged in historical series of five years to each instrument. With this database, the rating is compared monthly (category of risk) of an instrument at the close of a given month, with the category of that same instrument for the same months of different time horizons (1, 2, 3 or more years).

Through this process, "pairs" of categories corresponding to a historical period of five years will be formed within each segment. Each "pair" represents the risk grade of each instrument for a given month (T) and the same month of the following year (T + 12), the same month as other years (T + 24, T + 36, T + n), depending on the time horizon analyzed. With arranging the matrix pairs and calculating the frequencies of their occurrence, the conditional probability of migration between the current category of risk of the instrument and the category of default for different time horizons will be obtained.

The Company uses statistical models to analyze the data collected and generate PD estimates for the remaining life of the exposures and how they are expected to change as a result of the passage of time.

General approach for determining default and refutation of presumptions:

The behavior and payment commitment of the clients when it comes to taking care of their home, causes the delinquency of the loans granted by the Company to be very low when compared to the behavior of other types of loans. Even the unsecured personal loans granted by the Company remain below the default curves of the market. It is estimated that this behavior is due to the fact that the Company only offers personal or consumer loans to clients that have mortgages with the Company.

The previous hypothesis is reinforced by the implementation of adequate origination policies and an effective collection strategy. Undoubtedly, another important aspect about the low delinquency of the loan portfolio, is the high number of clients that pay their debts to by Direct Discount, which is one of the conditions for the approval of credit in the Company

By virtue of the foregoing, to define 'default' in each segment, the different transitions of arrears that the credit facilities have shown have been analyzed according to their default heights (delinquency ranges).

As a first approach for the identification of the level of default, its calculation was made using the default heights (by days of arrears) of the operations in each segment (mortgage and personal loans), made by the Company.

Under this statistical approach, intermediate 66 matrices were initially developed in a monthly basis for each segment between 2012 and 2017, containing the monthly roll-rates of delinquency of the loans granted by the Company according to their rates of delinquency. From these matrices, 2 matrices were elaborated with average data, corresponding to each credit segment, in such a way that they reflect a probability of occurrence of arrears according to ranges of delinquency.

**(3) Financial Risk Management, continued**

The values allow, in each segment, to determine the range of delinquency in which it is estimated that the default would occur from a percentage considered as the acceptance limit. Based on this information, the Company has decided that the default would be established from 180 days for the segments of mortgage-backed credit instruments and 90 days for the segments of personal credit instruments without mortgage guarantee.

The Company intends to implement or incorporate other variables and elements to complement the Probability of Default or Real Rate of Default. These elements may include the incorporation of a behavioral scoring, the incorporation of credit bureau scores and / or collective elements associated with economic situations.

*Modified financial assets*

The contractual terms of a loan can be modified for a number of reasons, including changes in market conditions, customer retention, and other factors unrelated to the customer's current or potential credit impairment. An existing loan whose terms have been modified can be derecognized and the renegotiated loan is recognized as a new loan at fair value in accordance with the accounting policy established in note (2 literal d1).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects the comparison of:

- The risk of default on the remaining life time on the filing date based on the modified terms; with
- The risk of non-compliance with the remaining life time estimated based on the data in the initial recognition and the original contractual terms.

The Company renegotiates loans for clients in financial distress (known as "tolerance activities") to maximize collection opportunities and minimize the risk of default. Credit tolerance is selectively granted if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the terms set forth in the original contract and the debtor is expected to be able to comply with the revised terms.

The revised terms generally include extending the maturity, changing the interest payment schedule, and modifying the terms of the loan agreements. Both mortgage and consumer loans are subject to tolerance activities.

For financial assets modified as part of the Company's tolerance activities, the default risk estimate reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar actions. tolerance. As part of this process, the Company assesses the performance of the debtor's payment against the modified contractual terms and considers various performance indicators.

In general, tolerance is a qualitative indicator of a significant increase in credit risk, and an expectation of tolerance can be evidence that an exposure is credit-impaired or delinquent. A client must demonstrate consistently good payment behavior, over a period of time before the exposure is no longer considered credit impaired or in default or the risk of default is considered to have diminished so that the loss allows it to be re-measured at an amount equal to 12 months of estimated credit losses

**(3) Financial Risk Management, continued**

*Definition of default*

The Company considers a financial asset to be in default when

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as the performance of the guarantees (if any is held); or
- The borrower is more than 90 days past due in personal loans and more than 180 days in residential mortgage loans;

When evaluating if a borrower is in default, the Company considers indicators that are:

- Qualitative– Breaches of covenants.
- Quantitative– Overdue status and non-payment on another obligation of the same borrower or issuer to the bank; and based data developed internally and obtained from external sources

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

*Incorporation of forward-looking information*

The incorporation of 'forward-looking' information into the Company calculation process for ECL is made based on the possible impact that could be recorded in the value of those losses, caused by expected changes in the short and medium term of the behavior of macroeconomic variables that could affect the payment flow of the instruments.

In the Central American region and especially in the countries where the Bank operates, statistics on macroeconomic aggregates are provided almost exclusively by state statistical agencies, and in practice they constitute the main source of information for obtaining these external indicators and inputs. Given these limitations, in order to identify those external inputs that could impact the payment behavior of its financial assets, the Bank determined it appropriate to use those that meet at least a series of profiles that make them suitable for this type of measurement. These are: a) that they are regularly available; b) that they are accessible to the public in a relatively simple way; c) that they are reasonably reliable. In order to have acceptable data to measure the ECL of the loan portfolio, and as long as there are no alternative sources that allow confirming or validating other possible macroeconomic inputs that could have an impact on the behavior of payments for these financial instruments, the Bank has selected from among the available variables, those that present the indicated profiles of regularity, accessibility and reliability, as detailed below:

- a) Inflation (CPI)
- b) Unemployment
- c) Volume Index of Economic Activity (VIEA)
- d) Gross Domestic Product
- e) Past due loan portfolio
- f) Past due loan portfolio of the financial system

**(3) Financial Risk Management, continued**

The methodology implemented by the Bank to identify the 'forward-looking' variables that would be used in the determination of ECL, is based on a 'Multiple Correlation Coefficient' calculation. The process of defining the most significant variables among the universe of those that are available, consists of the following three steps:

- i. The Multiple Correlation and Explanation coefficients were calculated between the historical series of the annual percentage variations of the value of the Company 'Past Due Loan Portfolio' (taken as a dependent variable), and the historical series of the values of the inter-annual variations of GDP, MIEA, Inflation and Unemployment (which are considered independent variables). This calculation allows to determine if those could explain and/or reasonably infer the possible impacts on the payment behavior of the instruments in the future.
- ii. Once the existence of an acceptable degree of association between these variables was determined, the Bank proceeded to calculate the marginal contribution of each, separately, to the value of the multiple correlation, by neglecting the contribution of each one to the value of that correlation. This is achieved by recalculating the multiple correlation by sequentially eliminating each variable that participates in the original series. The new multiple correlation value after these eliminations, would allow to infer the contribution of each elimination to the originally calculated correlation value.
- iii. Finally, the results were compared with those corresponding to the existing correlation between the Company's 'Past Due Loans Portfolio' and those of the financial system of each country, in order to confirm the meaning of the associations.

As a result of the application of the methodology outlined above, and based on historical series corresponding to annual periods between 2016 and 2021, the following variables were identified:

El Salvador Operation with Guarantee (Unemployment).  
El Salvador Operation Without Guarantee (IVAE).

The Company incorporates forward-looking information in its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of estimated credit losses. Based on the advice of the Company's Credit Committee and economic experts and the consideration of a variety of external real and forecast information, the Company formulates a "base case" view of the future direction of relevant economic variables, as well as, a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by government agencies and monetary authorities in the countries where the Company operates.

The base case represents the most likely outcome and is aligned with the information used by the Company for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic results. Periodically, the Company conducts more extreme stress tests to calibrate its determination of these other representative scenarios.

**(3) Financial Risk Management, continued**

*Measure of estimated credit losses*

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

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD).

These parameters are usually derived from internally developed statistical models and other historical data. They are adjusted to reflect the forward-looking information as described above

For the determination of the PD of the identified segments, and in the context of the collective treatment of the loan portfolios, the Company will focus the measurement from the processes known as Markov Chains, through which the probability is calculated (conditional) that an instrument, which is at one time in a certain risk category, migrate to another within a certain time horizon as well. Mathematically it is expressed as the probability that an event A occurs, given another event B. In the calculation process in the Company, the probability that an instrument that at the reporting date presents a certain rating, fails to comply for horizons of weather.

The Company estimates LGD parameters based on the history of claims recovery rates against impaired counterparties. PDI models consider the structure, collateral, claim age, counterparty industry, and recovery costs of any collateral that is integral to the financial asset. For property secured loans, loan to value (LTV) ratios are a key parameter in determining LGD.

PD estimation

The calculation of the PD is implemented for each segment identified and requires comparing the amounts recovered in each of those against the unrecovered amounts. The convenience of providing information on 'closed' cases was established, that is, the data of non-compliance and recoveries will correspond to specific events, whose collection management has been. The final objective of the calculations is to establish the percentage ratio of recoveries over the value of unrecovered exposures. The following are definitions relevant to the calculation of PD in the Company.

PD of mortgage operations that have gone through legal process and/or in lieu of payment

For its calculation, a database was used where all the operations for which the Company has received the asset, have been registered, either by means of in lieu of payment or by adjudication via legal process. The information in this database is recorded when the loan starts the legal process and the good is received until it is sold or is placed again in the figure of a credit to another customer. Legal and repairs expenses that for the recovery of the asset were incurred by the Company are also taken into consideration. This will allow calculating the PD of operations received in lieu of payment or via legal process.

**(3) Financial Risk Management, continued**

*PD of operations that reached more than 90 days for personal loans, which were canceled or recognized as a loss*

For this case, personal loan operations that reach the number of days in arrears indicated above and which ended up canceled or in the portfolio at loss are taken into consideration, that is, the recoveries of the personal loans that were recognized as a loss and also those of personal loans who having reached the point of default were canceled. Then the average of both PD is obtained and averaged to obtain the PD of the Personal Loans Segment. In the case of personal loans, due to their nature, legal recovery expenses are not incurred.

*Exposure at Default (EAD)*

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For loan commitments and financial guarantees, the EAD includes the amount used, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The EAD is the amortized cost of the balances exposed. The Company determines the annual EAD over the remaining life of the instruments for subsequent weighting by the respective marginal annual default probability.

In the Company, the value of the annual nominal EAD will be calculated from the projection of the balances at amortized cost of the instruments. To calculate the EAD, the Company periodically projections the loan amortization tables for each segment until they are canceled. Based on the above, the annual average of the residual capital balances (projected) is obtained annually, a value that is used as the annual exposure (EAD) projected for the life of the instruments. Finally, these balances are discounted at the annual effective rate.

Aggrupation is subject to periodic review to ensure that exposures within a particular group remain appropriately homogenous.

**(3) Financial Risk Management, continued**

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the date of the consolidated financial statements is as follows:

	<u>Loans</u>		<u>Deposits</u>	
	<u>2022</u> US\$	<u>2021</u> US\$	<u>2022</u> US\$	<u>2021</u> US\$
<b><u>Concentration by sector:</u></b>				
Mortgage banking	112,437,739	112,917,933	0	0
Personal banking	6,949,775	7,871,710	0	0
Other sectors	<u>0</u>	<u>0</u>	<u>11,358,587</u>	<u>8,710,706</u>
	<u>119,387,514</u>	<u>120,789,643</u>	<u>11,358,587</u>	<u>8,710,706</u>

	<u>Loans</u>		<u>Deposits</u>	
	<u>2022</u> US\$	<u>2021</u> US\$	<u>2022</u> US\$	<u>2021</u> US\$
<b><u>Concentration by location:</u></b>				
El Salvador	119,771,875	120,789,643	8,121,194	7,865,967
Panamá	<u>0</u>	<u>0</u>	<u>57,046</u>	<u>844,739</u>
Book Value	<u>119,771,875</u>	<u>120,789,643</u>	<u>8,178,240</u>	<u>8,710,706</u>

Geographical concentrations of loans and deposits with banks are based on the location of the debtor

**Liquidity Risk**

Liquidity risk is defined as the inability of the Company to meet all its obligations due to, among others, an unexpected withdrawal of funds contributed by creditors or clients, the deterioration of the quality of the loan portfolio, the reduction in the value of the investments, the excessive concentration of liabilities in a particular source, the mismatch between assets and liabilities, the lack of liquidity of the assets, or the financing of long-term assets with short-term liabilities. The Company manages its liquid resources to honor its liabilities upon maturity under normal conditions.

**Liquidity risk management**

The Company controls this risk with appropriate reserves of liquidity and easily realizable assets with adequate maturity between assets and liabilities and with contingency plans that are periodically reviewed and updated.

(3) Financial Risk Management, continued

The following table analyzes the assets and liabilities of the Company in groups of estimated principal maturity:

<b>2022</b>	<b>to 1 year US\$</b>	<b>1 to 5 years US\$</b>	<b>More than 5 years US\$</b>	<b>Total US\$</b>
<b>Assets:</b>				
Cash	700	0	0	700
Bank accounts	11,358,587	0	0	11,358,587
Loans	0	0	1,880,400	1,880,400
Receivable accounts	43,606	1,021,388	117,911,862	118,976,856
<b>Total assets</b>	<u>846,632</u> <u>12,249,525</u>	<u>0</u> <u>1,021,388</u>	<u>0</u> <u>119,792,262</u>	<u>846,632</u> <u>133,063,175</u>
<b>Liabilities:</b>				
Negotiable debts				
Investment certificates	7,592,086	0	0	7,592,086
Borrowings	13,100,000	5,639,663	0	18,739,663
Other Liabilities	12,619,051	55,599,997	20,444,369	88,663,417
<b>Total Liabilities</b>	<u>825,950</u>	<u>0</u>	<u>0</u>	<u>825,950</u>
<b>Net liquidity margin</b>	<u>34,137,087</u>	<u>61,239,660</u>	<u>20,444,369</u>	<u>115,821,116</u>

<b>2021</b>	<b>to 1 year US\$</b>	<b>1 to 5 years US\$</b>	<b>More than 5 years US\$</b>	<b>Total US\$</b>
<b>Assets:</b>				
Cash	700	0	0	700
Bank accounts	8,710,706	0	0	8,710,706
Loans	0	0	2,024,600	2,024,600
Receivable accounts	62,613	909,174	119,817,856	120,789,643
<b>Total assets</b>	<u>2,036,564</u> <u>10,810,583</u>	<u>0</u> <u>909,174</u>	<u>0</u> <u>121,842,456</u>	<u>2,036,564</u> <u>133,562,213</u>
<b>Liabilities:</b>				
Negotiable debts	10,845,465	0	0	10,845,465
Investment certificates	19,494,497	0	0	19,494,497
Borrowings	8,571,432	55,520,373	18,725,156	82,816,961
Other Liabilities	<u>2,450,939</u>	<u>0</u>	<u>0</u>	<u>2,450,939</u>
<b>Total Liabilities</b>	<u>41,362,333</u>	<u>55,520,373</u>	<u>18,725,156</u>	<u>115,607,862</u>
<b>Net liquidity margin</b>	<u>(30,551,750)</u>	<u>(54,611,199)</u>	<u>103,117,300</u>	<u>17,954,351</u>

The Company has the possibility of securitizing mortgage loans, with this characteristic of securitizing its loan portfolio and maintaining notarized lines of credit, mitigating any mismatch in its liquidity.

**(3) Financial Risk Management, continued**

The following table sets out the availability of the Company financial assets to support future funding.

<u>2022</u>	<u>Pledged as Collateral</u> US\$	<u>Available as Collateral</u> US\$	<u>Total</u> US\$
Cash and cash equivalent	0	11,359,287	11,359,287
Investment securities	0	1,880,400	1,880,400
Loans at AC	54,942,862	63,445,289	118,388,151
Receivable loans interest	0	1,830,640	1,830,640
Non-financial assets	0	1,605,918	1,605,918
	<u>54,942,862</u>	<u>78,515,615</u>	<u>136,064,396</u>

<u>2021</u>	<u>Restringidos como colateral</u> US\$	<u>No restringidos disponible para colateral</u> US\$	<u>Total</u> US\$
Cash and cash equivalent	0	8,711,406	8,711,406
Investment securities	0	2,024,600	2,024,600
Loans at AC	52,285,718	68,048,299	120,334,017
Non-financial assets	0	2,036,564	2,036,564
	<u>0</u>	<u>1,407,625</u>	<u>1,407,625</u>

Market Risk

It is the risk that the value of a financial asset is reduced as a result of changes in interest rates, in monetary exchange rates, stock prices and other financial variables, as well as the reaction of market participants to political and economic events. These elements cause that the Company is subject to latent losses as to potential profit. The objective of the Bank's market risk management is to manage and control market risk exposures within the acceptable parameters to ensure the Bank's solvency while optimizing the return on risk.

Interest rate risk

Interest rate risk is the exposure of the Company's financial situation (financial margin and market value of equity), due to possible losses derived from adverse movements in interest rates.

The Company assumes an exposure to the effects of fluctuations in the prevailing levels of market interest rates, both in its fair value risk and in its cash flow risk. Interest margins may increase as a result of such changes, but may decrease or create losses in the event of unexpected movements. On a monthly basis, the Board of Directors reviews the behavior of interest rates on assets and liabilities, measures the impact of the mismatch on the Company's results and takes the appropriate measures to minimize negative repercussions on the Company's financial results.

(3) Financial Risk Management, continued

The basic analysis carried out every month by management consists in determining the impact caused on financial assets and liabilities by increases or decreases of 25 and 50 basis points in interest rates. The impact on net interest income and equity is summarized below:

<u>Sensitivity</u> <u>Of projected net interest income</u>	<u>25pb</u> <u>increase</u> <u>US\$</u>	<u>25pb</u> <u>decrease</u> <u>US\$</u>	<u>50pb de</u> <u>increase</u> <u>US\$</u>	<u>50pb de</u> <u>decrease</u> <u>US\$</u>
<b>2022</b>				
June 30	82,533	(82,533)	165,066	(165,066)
<b>2021</b>				
December 31	93,046	(93,046)	186,091	(186,091)
<u>Sensitivity</u> <u>Of reported equity to interest rate</u> <u>movement</u>				
<b>2022</b>				
June 30	82,533	(82,533)	165,066	(165,066)
<b>2021</b>				
December 31	93,046	(93,046)	186,091	(186,091)

The table below summarizes the Company's exposure to interest rate risks. The assets and liabilities of the Company are included in the table at their book value, classified by categories by whichever occurs first between the new contractual rate setting or the expiration dates.

<b>2022</b>	<u>1 year</u> <u>US\$</u>	<u>More than</u> <u>1 year</u> <u>US\$</u>	<u>no</u> <u>interest</u> <u>US\$</u>	<u>Total</u> <u>US\$</u>
<b>Assets:</b>				
Banks	11,358,587	0	0	11,358,587
Investment Securities	0	1,880,400	0	1,880,400
Loans	<u>118,388,151</u>	<u>0</u>	<u>0</u>	<u>118,388,151</u>
<b>Total Assets</b>	<u>129,746,738</u>	<u>1,880,400</u>	<u>0</u>	<u>131,627,138</u>
<b>Liabilities:</b>				
Investment Certificate	0	18,732,000	0	18,732,000
Negotiable debts	7,575,000	0	0	7,575,000
Borrowings	<u>12,619,051</u>	<u>76,166,667</u>	<u>0</u>	<u>88,785,718</u>
<b>Total liabilities</b>	<u>20,194,051</u>	<u>94,898,667</u>	<u>0</u>	<u>115,092,718</u>
<b>Interest rate sensitivity, net</b>	<u>109,552,687</u>	<u>(93,018,267)</u>	<u>0</u>	<u>16,534,420</u>
<b>2021</b>	<u>1 year</u> <u>US\$</u>	<u>More than</u> <u>1 year</u> <u>US\$</u>	<u>no</u> <u>interest</u> <u>US\$</u>	<u>Total</u> <u>US\$</u>
<b>Assets:</b>				
Banks	8,710,706	0	0	8,710,706
Loans	0	2,024,600	0	2,024,600
<b>Total Assets</b>	<u>120,334,017</u>	<u>0</u>	<u>0</u>	<u>120,334,017</u>
	<u>129,044,723</u>	<u>2,024,600</u>	<u>0</u>	<u>131,069,323</u>
<b>Liabilities:</b>				
Investment Certificate				
Negotiable debts	4,550,000	14,950,000	0	19,500,000
Borrowings	10,850,000	0	0	10,850,000
<b>Total liabilities</b>	<u>8,571,432</u>	<u>55,999,996</u>	<u>19,000,004</u>	<u>83,571,432</u>
<b>Interest rate sensitivity, net</b>	<u>23,971,432</u>	<u>70,949,996</u>	<u>19,000,004</u>	<u>113,921,432</u>

**(3) Financial Risk Management, continued**

The Company obtains its funds mainly with liabilities whose interest rates fluctuate in the following ways: 1) Fixed rates for periods not exceeding one year. 2) Variable rates according to fluctuations in the LIBOR rate adjusted, quarterly or semi-annually. 3) Fixed rates for periods greater than one year.

Interest rates earned on the Company's assets fluctuate in the following ways: 1) Variable rates that are adjusted as determined by the Company, from time to time, based on the cost of its liabilities. 2) Rates determined by the Company where the liquidity is deposited.

The following table presents the different classes of assets and liabilities and the number of the different classes described above.

<b>Liabilities Category</b>	<b>2022 US\$</b>	<b>2021 US\$</b>
Variable rates according to the LIBOR adjusted		
Quarterly or semi-annually	85,785,718	83,571,432
Fixed rates for periods not exceeding one-year negotiable obligations	7,850,000	10,850,000
Fixed rates for periods greater than one-year negotiable obligations	17,500,000	19,500,000
<b>Assets category</b>		
Adjusted rates as determined by the Company, from time to time in based on the cost of the Company's liabilities	119,771,885	120,789,643
Variable rates for periods less than one year (current account, savings and time deposits)	8,178,240	8,710,706

In general, the interest rate risk position is managed directly by the Company's Treasury in order to eliminate or minimize the sensitivity between interest rate fluctuations between financial assets and financial liabilities.

**Operational risk**

Operational risk is the risk of potential losses, direct or indirect, related to the Company's processes, personnel, technology and infrastructure, and external factors that are not related to credit and liquidity risks, such as those arising from legal and regulatory requirements.

The Company's objective is to manage operational risk, seeking to avoid financial losses and damage to the Company's reputation.

The main responsibility for the development and implementation of controls over operational risk is assigned to senior management within each business area. The General Management monitors important operational risks supported by its management team and designs and implements adequate controls that mitigate those important operational risks. The policies and procedures that formalize these controls are developed and monitored. Before being implemented, all policies are approved by the General Management.

During the year, the General Management together with its management team performs continuous evaluations on the effectiveness in the design and operation of the key controls. Weaknesses in the design or operation of the processes are attacked immediately to prevent future errors.

**(3) Financial Risk Management, continued**

This responsibility is supported by the development of standards to manage operational risk, developed and implemented by the General Management in the following areas:

- Aspects of the adequate segregation of duties, including independence in the authorization of transactions.
- Requirements on the adequate monitoring and reconciliations of transactions.
- Compliance with regulatory and legal requirements.
- Documentation of controls and processes
- Report of losses in operations and the proposals for the solution of these.
- Development of the contingency plan.
- Development of training for the Company's personnel.
- Application of ethical standards in the business.
- Development of activities to mitigate risk, including security policies.

These policies established by the Company are supported by a program of periodic reviews. The results of these reviews are discussed with the personnel in charge of each business unit for their corrective action.

**(4) Related Parties**

Then we submit the balances with related parties as of June 30, 2022:

	<u>2022</u> US\$	<u>2021</u> US\$
<b>Assets:</b>		
Savings account deposits	<u>7,104</u>	<u>7,017</u>
Investment in affiliate	<u>362,260</u>	<u>362,260</u>

The principal transactions with related companies for the ended June 30 are:

	<u>2022</u> US\$	<u>2021</u> US\$
Income from insurance brokerage income commission	<u>76,761</u>	<u>39,822</u>

## **(5) Accounts Receivable and Interest Receivable**

The accounts receivable and interest receivable as of June 30, 2022, are detailed as follows:

	<u>2022</u> US\$	<u>2021</u> US\$
Accounts receivable:		
Customers	225,665	980,014
Employees	2,787	630
Others	<u>752,796</u>	<u>624,274</u>
	981,248	1,604,918
Interest receivable:		
Investment securities	2,760	2,677
Clients	<u>846,632</u>	<u>428,970</u>
	<u><u>1,830,640</u></u>	<u><u>2,036,565</u></u>

## **(6) Cash and Cash Equivalents**

The cash and cash equivalents are detailed as follows:

	<u>2022</u> US\$	<u>2021</u> US\$
Cash	700	700
Demand deposits	11,243,426	8,589,528
Saving accounts	<u>115,161</u>	<u>121,178</u>
	<u><u>11,359,287</u></u>	<u><u>8,711,406</u></u>

## **(7) Loans - Nets**

The composition of the loans portfolio is summarized as follows:

	<u>2022</u> US\$	<u>2021</u> US\$
Loans:		
Personal and others	6,949,775	7,871,710
Residential mortgages	<u>111,849,035</u>	<u>112,917,933</u>
	118,798,810	120,789,643
Less loss allowance	<u>(410,658)</u>	<u>(455,626)</u>
	<u><u>118,388,151</u></u>	<u><u>120,334,017</u></u>

As of June 30, 2022, the Company had mortgage loans for por US\$ 54,942,862 (2021: US\$ 52,285,718) as collateral for obligations contracted with various financial institutions (see note 12).

**(7) Loans – Nets, continued**

The annual interest rates that mortgage loans accrue ranged from 6.50 % a 10.25 % (2021: 6.50 % a 10.25 %) and personal loans accrued interest ranging from 6.50 % a 17.00 % (2021: 6.50 % a 17.00 %).

The movement of the allowance for expected credit losses on loans is detailed below.

	2022			
	12-month ECL ('Stage (Stage 1') US\$	Lifetime ECL (not credit- impaired / collectively assessed (('Stage 2') US\$	Lifetime ECL (credit-impaired / individually assessed) (('Stage 3') US\$	Total US\$
Balance at January 1	221,411	45,786	188,429	455,626
Transfer to Stage 1	203,887	(142,771)	(61,116)	0
Transfer to Stage 2	(77,464)	87,545	(10,081)	0
Transfer to Stage 3	0)	(72,154)	72,154	0
Net reamesurement of loss allowance	(157,362)	123,464	13,987	(19,911)
New financial assets originated	2,166	5,086	0	7,252
Financial instruments that have been derecognized	(10,498)	(654)	(9,871)	(21,024)
Write-off	0	0	(11,286)	(11,286)
Recovery amounts previously	0	0	0	0
Overlay liberation	0	0	0	0
Balance at June 30, 2022	182,140	46,303	182,216	410,659

	2021			
	12-month ECL ('Stage (Stage 1') US\$	Lifetime ECL (not credit- impaired / collectively assessed (('Stage 2') US\$	Lifetime ECL (credit-impaired / individually assessed) (('Stage 3') US\$	Total US\$
Balance at January 1	750,508	38,089	180,287	968,884
Transfer to Stage 1	382,544	(271,275)	(111,269)	0
Transfer to Stage 2	(122,109)	218,611	(96,502)	0
Transfer to Stage 3	(14,324)	(213,951)	228,275	0
Net reamesurement of loss allowance	(116,521)	267,566	225,876	376,921
New financial assets originated	12,938	20,282	8,015	41,235
Financial instruments that have been derecognized	(37,728)	(13,535)	(61,696)	(112,959)
Write-off	0	0	(184,558)	(184,558)
Recovery amounts previously	29,158	0	0	29,158
Overlay liberation	(663,055)	0	0	(663,055)
Balance at December 31, 2021	221,411	45,787	188,428	455,626

(8) Investment securities

Investments in securities are detailed below:

	<u>2022</u>	<u>2021</u>
Investment in securities FVOCI:	<u>1,880,400</u>	<u>2,024,600</u>

Investment in securities at FVOCI

The investment portfolio in securities measured at FVOCI is made up as follows:

	<u>Maturity</u>	<u>2022</u>	<u>2021</u>
<b><u>Bonos de gobiernos:</u></b>			
US Notes	Nov, 26	<u>1,880,400</u>	<u>2,024,600</u>
<b>Total investment measured at FVOCI</b>		<u>1,880,400</u>	<u>2,024,600</u>

ECP Reserve

The following tables show a reconciliation of the beginning and ending balances of the reserve for impairment losses on financial assets. The basis for determining transfers between 'Stages' due to changes in credit risk.

	<u>12-month ECL (('Stage (Stage 1)')</u>	<u>2022 Lifetime ECL (not credit- impaired / collectively assessed (('Stage 2'))</u>	<u>Total</u>
<b><u>Investment in securities FVOCI:</u></b>			
Balance at the beginning of the period	3,240	0	3,240
Allowance for credit losses for investment	<u>(720)</u>	<u>0</u>	<u>(720)</u>
Balance at the end of the period	<u>2,520</u>	<u>0</u>	<u>2,520</u>

(9) Furniture, Equipment and Improvements

Furniture, equipment and improvements are summarized as follows:

	<u>Furniture US\$</u>	<u>Office Equipment US\$</u>	<u>June 30, 2022 Vehicles US\$</u>	<u>Leasehold improvements US\$</u>	<u>Total US\$</u>
<b><u>Cost:</u></b>					
Balance at the beginning	37,207	556,039	40,509	217,548	851,303
Additions	<u>0</u>	<u>14,879</u>	<u>0</u>	<u>0</u>	<u>14,879</u>
Balance at the end of the period	<u>37,207</u>	<u>570,918</u>	<u>40,509</u>	<u>217,548</u>	<u>866,182</u>
<b><u>Accumulated depreciation:</u></b>					
Balance at the beginning	35,722	508,051	29,920	177,699	751,392
Depreciation for the year	706	27,026	2,481	19,379	49,592
Balance at the end of the period	<u>36,428</u>	<u>535,077</u>	<u>32,401</u>	<u>197,078</u>	<u>800,984</u>
Net Balance	<u>779</u>	<u>35,841</u>	<u>8,108</u>	<u>20,470</u>	<u>65,198</u>

**LA HIPOTECARIA, S.A. DE C.V.**  
**(Salvadoran Company Subsidiary of Banco La Hipotecaria, S.A.)**  
**(San Salvador, Republic of El Salvador)**

**(9) Furniture, Equipment and Improvements, continued**

	<b>December 31, 2021</b>				
	<b>Furniture</b>	<b>Office</b>	<b>Vehicles</b>	<b>Leasehold</b>	<b>Total</b>
	<b>US\$</b>	<b>Equipment</b>	<b>US\$</b>	<b>improvements</b>	<b>US\$</b>
		<b>US\$</b>		<b>US\$</b>	
<b>Cost:</b>					
Balance at the beginning	36,757	547,145	40,509	217,548	841,959
Additions	<u>450</u>	<u>8,794</u>	<u>0</u>	<u>0</u>	<u>9,244</u>
Balance at the end of the year	<u>37,207</u>	<u>555,939</u>	<u>40,509</u>	<u>217,548</u>	<u>851,203</u>
<b>Accumulated depreciation:</b>					
Balance at the beginning	34,070	424,329	24,811	137,624	620,834
Depreciation for the year	<u>1,652</u>	<u>83,722</u>	<u>5,109</u>	<u>40,075</u>	<u>130,558</u>
Balance at the end of the year	<u>35,341</u>	<u>507,951</u>	<u>29,920</u>	<u>177,699</u>	<u>751,292</u>
Net Balance	<u>1,485</u>	<u>47,988</u>	<u>10,589</u>	<u>39,849</u>	<u>99,911</u>

**(10) Investment Certificates**

The Company is authorized by the Superintendence of Securities Market of El Salvador two issuance of Investment Certificates up to US\$50,000,000. As of June 30, 2022, and the amounts are:

<b>Type</b>	<b>Program</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>2022</b>	<b>2021</b>
				<b>US\$</b>	<b>US\$</b>
18	CILHIPO3	5.35%	march-2022	0	1,000,000
19	CILHIPO3	5.35%	march-2022	0	1,000,000
21	CILHIPO3	5.75%	msy-2022	0	350,000
22	CILHIPO3	5.75%	june-2022	0	2,200,000
23	CILHIPO3	5.75%	august-2022	5,000,000	5,000,000
24	CILHIPO3	5.75%	august-2022	2,000,000	2,000,000
26	CILHIPO3	5.38%	january-23	500,000	500,000
01	CILHIPO4	5.00%	february-23	600,000	600,000
02	CILHIPO4	5.00%	march-23	1,000,000	1,000,000
03	CILHIPO4	5.00%	march-23	1,000,000	1,000,000
05	CILHIPO4	5.00%	april-23	1,000,000	1,000,000
06	CILHIPO4	5.00%	april-23	2,000,000	2,000,000
07	CILHIPO4	5.00%	august-23	850,000	850,000
04	CILHIPO4	5.00%	Sept -23	1,000,000	1,000,000
08	CILHIPO4	4.75%	December-23	1,850,000	0
09	CILHIPO4	5.25%	June -25	<u>1,932,000</u>	<u>0</u>
				18,732,000	19,500,000
			Less: cost of issuance	<u>(18,221)</u>	<u>(5,503)</u>
				<u>18,713,779</u>	<u>19,494,497</u>

**(11) Negotiable debts**

The Company has authorized by the Superintendence of the Financial System of El Salvador two rotating plans of up to US\$35,000,000 each in Stock Paper, which are backed with the general credit of the Company

As of June 30, 2022, the balance is composed as follows:

<b>2022</b>			
<b>Type</b>	<b>Interet rate</b>	<b>Maturity</b>	<b>Amount</b>
			US\$
Tranche 09	5.7500%	August 2022	850,000
Tranche 13	5.7500%	September 2022	3,000,000
Tranche 14	5.7500%	November 2022	2,000,000
Tranche 18	4.5000%	June 2023	<u>1,725,000</u>
	Total nominal		7,575,000
	Less: costs of issuance		<u>(0)</u>
	Total		<u>7,575,000</u>

<b>2021</b>			
<b>Type</b>	<b>Interet rate</b>	<b>Maturity</b>	<b>Amount</b>
			US\$
Tranche 70	5.2500%	January 2022	500,000
Tranche 71	5.2500%	January 2022	2,000,000
Tranche 72	4.7500%	February 2022	500,000
Tranche 73	4.5000%	June 2022	2,000,000
Tranche 09	5.7500%	August 2022	850,000
Tranche 13	5.7500%	September 2022	3,000,000
Tranche 14	5.3750%	November 2022	<u>2,000,000</u>
	Total nominal		10,850,000
	Less: costs of issuance		<u>(4,535)</u>
	Total		<u>10,845,465</u>

## **(12) Borrowings**

The borrowings are summarized as follows

	<u>2022</u> US\$	<u>2021</u> US\$
Line of credit for working capital for B/.8,000,000, with maturity in the year 2023, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	8,000,000	0
Line of credit for working capital for B/.25,000,000, with maturity in the year 2022, and an annual Libor interest rate plus a margin, backed by a portfolio of residential mortgage loans.	1,785,718	3,571,432
Line of credit for working capital for B/.10,000,000, with maturity in the year 2028, and an annual fixed interest, backed by a portfolio of residential mortgage loans	10,000,000	10,000,000
Line of credit for working capital for B/.60,000,000, with maturity in the year 2028, and an annual fixed interest, backed by a portfolio of residential mortgage loans	19,000,000	15,000,000
Line of credit for working capital for B/.50,000,000, with maturity in the year 2028, and an annual fixed interest, backed by a portfolio of residential mortgage loans	20,000,000	20,000,000
Line of credit for working capital for B/.15,000,000, with maturity in the year 2026, and an annual fixed interest,	10,000,000	15,000,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2026, and an annual fixed interest	10,000,000	10,000,000
Line of credit for working capital for B/.10,000,000, with maturity in the year 2026, and an annual fixed interest.	<u>10,000,000</u>	<u>10,000,000</u>
Total of Borrowings	85,785,718	83,571,432
Less issuance costs	<u>(573,386)</u>	<u>(754,471)</u>
Total Balance of borrowings	<u>85,212,332</u>	<u>82,816,961</u>

The Company had mortgage loans receivable for US\$ 54,942,862 (2021: US\$ 52,285,718) in guarantee of the obligations contracted with financial institutions (see note 7).

## **(13) Segment Information**

The information by segments of the Company is presented regarding the businesses and has been prepared by Management exclusively to be included in these financial statements. The internal reports structured and produced regularly by the Administration do not contemplate the separation of assets, liabilities, income and expenses corresponding to each business segment.

**(13) Información de Segmentos, continuación**

The composition of the business segments is described as follows:

- *Mortgages as assets:* Within this concept interest income is recognized less costs generated by financing mortgages loans that Bank hold as assets, plus commissions for disbursements and the proportional share of the commissions from collections and reinsurance services from the insurance Company to which it provides the service of reinsurance.
- *Trust management:* This segment includes commissions earned by management and collection of mortgage and personal loans belonging to third parties, which hires the Company under management contracts to carry out such function.
- *Personal loans as assets:* Within this concept interest income is recognized less costs generated by financing personal loans that Bank hold as assets, plus commissions for granted and the proportional share of the commissions from collections and reinsurance services from the insurance Company to which it provides the service of reinsurance.
- *Other investments:* This concept includes the income generated by other investments of the Company.

All of the Company's operations are concentrated within the Republic of El Salvador.

<b>2022</b>	<b>Trust management US\$</b>	<b>Mortgage as assets US\$</b>	<b>Personal loans as assets US\$</b>	<b>Other investment US\$</b>	<b>Total US\$</b>
Interest Income	0	4,177,215	361,363	14,762	4,553,340
Interest expenses	0	(2,427,238)	(142,719)	(38,616)	(2,608,573)
Net income from granting loans		75,547	826	0	76,373
Income for commission and administration management	489,030	67,399	0	0	556,429
Others incomes	0	98,047	6,092	1,651	105,790
Allowance for expected credit losses		18,717	14,965	(480)	33,202
Operation expenses	(16,317)	(1,044,304)	0	0	(1,060,621)
Depreciation and amortization	(763)	(48,829)	0	0	(49,592)
Profit by segment before income tax	<u>471,950</u>	<u>916,554</u>	<u>240,527</u>	<u>(22,683)</u>	<u>1,606,348</u>
Segment assets	<u>0</u>	<u>125,181,648</u>	<u>7,778,201</u>	<u>2,104,547</u>	<u>135,064,396</u>
Segment liabilities	<u>0</u>	<u>108,285,090</u>	<u>6,726,720</u>	<u>1,820,049</u>	<u>116,831,859</u>

<b>2021</b>	<b>Trust management US\$</b>	<b>Mortgage as assets US\$</b>	<b>Personal loans as assets US\$</b>	<b>Other investment US\$</b>	<b>Total US\$</b>
Interest Income	0	3,965,893	559,065	857	4,525,815
Interest expenses	0	(2,538,016)	(266,146)	0	(2,804,162)
Net income from granting loans	109,022	3,744	0	0	112,766
Income for commission and administration management	613,188	21,057	0	0	634,245
Others incomes	0	73,057	0	0	73,057
Allowance for expected credit losses		(73,025)	(170,391)	0	(243,416)
Operation expenses	(3,696)	(61,216)	(5,545)	0	(70,457)
Depreciation and amortization	(73,589)	(1,141,756)	(110,583)	0	(1,325,929)
Profit by segment before Income tax	<u>644,925</u>	<u>249,737</u>	<u>6,400</u>	<u>857</u>	<u>901,919</u>
Segment assets	<u>0</u>	<u>124,152,843</u>	<u>8,604,040</u>	<u>2,212,955</u>	<u>134,969,838</u>
Segment liabilities	<u>0</u>	<u>106,318,809</u>	<u>7,368,106</u>	<u>1,895,073</u>	<u>115,581,988</u>

**(14) Salaries, Other Personnel Expenses, and Operational Expenses**

Salaries, other personnel expenses and other operating expenses for the period ended June 30, are detailed below:

	<u>2022</u> US\$	<u>2021</u> US\$
<b><u>Salaries and other personnel benefits:</u></b>		
Wages	274,911	256,315
Bonuses	69,120	85,000
Employer fees	44,058	34,478
Employment benefits	1,885	2,226
Travel, per diem and fuel	1,000	1,718
Other	<u>20,466</u>	<u>22,788</u>
	<u>411,440</u>	<u>402,525</u>
<b><u>Other operational expenses:</u></b>		
Rent	1,361	3,010
Rigth of use depreciation	40,848	36,387
Advertising	31,327	12,855
Equipment maintenance	13,853	24,655
Office supplies	1,184	1,560
Public services	19,397	26,564
Insurance	12,283	14,769
Other	<u>40,170</u>	<u>24,558</u>
	<u>160,423</u>	<u>144,358</u>

**(15) Leases**

As of June 30, 2022, the Company maintains real estate leases mainly where its offices operate, which do not meet the definition of investment properties in IAS 40.

Leases have a term of no more than 1 to 3 years and some include an option to renew the lease for an additional period of the same duration after the end of the lease term.

**(15) Leases, continued**

Right of use assets

As of June 30, 2022, the book value of the right to use assets of real estate lease contracts is as follows:

<u>2022</u>	<u>US\$</u>
Properties	
Balance at January 1	217,886
Acquisitions	0
Cancellation	0
Depreciation for the year	<u>(40,849)</u>
Balance at June 30	<u>177,037</u>
<u>2021</u>	<u>US\$</u>
Properties	
Balance at January 1	116,926
Acquisitions	245,089
Cancellation	(68,496)
Depreciation for the year	<u>(75,633)</u>
Balance at December 31	<u>217,886</u>

As of June 30, 2022, the Company has recognized depreciation expenses for right-of-use assets for US\$ 40,848 (2021: US\$ 36,387), as part of other expenses in the statement of comprehensive income (see note 13)

Lease liabilities

As of June 30, 2022, the Company's lease liabilities amount to US\$ 188,913 (2021: US\$ 222,914) and its maturity analysis is as follows:

	<u>2022</u>	<u>2021</u>
	<u>US\$</u>	<u>US\$</u>
1 to 3 years	<u>188,913</u>	<u>222,914</u>

As of June 30, 2022, the Company has recognized expenses related to leases of 'short-term' and 'low value' for US\$ 8,862 (US\$ 3,010) as part of rental expenses in profit or loss.

## **(16) Income tax**

The total income tax expense presented in the statement of profit or loss is detailed as follows:

	<u>2022</u> US\$	<u>2021</u> US\$
Current tax expense, estimate - expense	502,246	280,708
Deferred tax expense – temporary differences - income	<u>14,085</u>	<u>12,095</u>
Total income tax expense	<u>516,331</u>	<u>292,803</u>
Effective tax rate	<u>31.27%</u>	<u>36.48%</u>

Current tax income is determined by applying 30% to taxable net income. The reconciliation between financial income before income tax and taxable net income as of June 30 is detailed below:

	<u>2022</u> US\$	<u>2021</u> US\$
Net income before income tax	1,606,348	1,629,417
Deductions not counted as expenses	(17,579)	(17,439)
Non deductible expenses	<u>37,920</u>	<u>16,523</u>
Net taxable income	<u>1,626,689</u>	<u>1,628,501</u>
Impuesto sobre la renta corriente	516,331	515,320
Pago a cuenta	<u>(77,160)</u>	<u>(81,021)</u>
Impuesto sobre la renta por pagar	<u>439,171</u>	<u>434,299</u>

The Tax Administration has the power to audit the last three fiscal periods.

The Administration made estimates of deferred income tax for temporary differences that mainly originate from the reserve for losses on loans and labor provisions using the 30% rate for both years, resulting in a deferred income tax asset of de US\$ 143,379 (2021: US\$ 157,464), and an expense for the year of US\$ 14,084 (2021: ingreso US\$ 12,095).

## **(17) Capital and Reserves**

### Capital management

Management's policy is to maintain a solid capital structure. The issued share capital as of June 30, 2022 and 2021 is US\$5,799,000 for both years, of which US\$12,000 constitutes minimum share capital, and US\$5,787,000 is variable share capital. The capital stock is made up of 579,900 common shares with a par value of US\$10 each.

**(17) Capital y Reserves, continuation**

The Company's businesses are managed and directed by the Board of Directors. Consequently, the Board of Directors or the Executives it designates may assign loan portfolio to guarantee obligations to local or foreign financial institutions.

The Company must annually allocate 7% of its profits before tax to constitute a legal reserve until reaching a minimum of 20% of the capital stock. This reserve must be maintained in the manner prescribed by law, which requires that a certain portion of it be invested in certain types of assets. As of June 30, 2022, and 2021, the legal reserve is US\$1,159,800 for both years.

As of June 30, 2022, Management has designated a capital reserve to back any loss in the loan portfolio for US\$1,800,000, based on prudential credit risk management criteria. This reserve was created from accumulated earnings as of December 31, 2008.

There is no time limit for the distribution of profits. The profits or dividends that are distributed, either in cash or in shares, corresponding to profits obtained up to December 31, 2010, constitute income not taxed on income tax for the partner or shareholder who receives them, as long as the company that distributes them has paid the corresponding income tax. The distribution of dividends from the profits obtained as of fiscal year 2011 will be subject to a 5% withholding that will constitute the definitive payment of income tax for the shareholder who receives the dividend.

At the end of each fiscal period, the Board of Directors evaluates the results after deducting income tax and a percentage for the purchase of equipment and reserve for investments, to determine participation to executives and distribution of dividends, if any. As of June 30, 2022, retained earnings total US\$ 9,042,147 (2021: US\$ 9,952,130).

As of June 30, 2022, the Company pay its shareholders dividends for US\$2,000,000 (2021: US\$ 7,000,000)

As of June 30, 2022, it maintains a reserve as a result of the termination of the fair value of the acquired portfolio of the ninth mortgage loan trust for US\$ 588,704.

As of June 30, 2022, it maintains a fair value reserve for financial instruments of US\$153,087 (2021: US\$12,131 and a reserve for expected investment losses of US\$2,520 (2020:US\$ 2,040.)

As of June 30, 2022, it maintains a reserve for voluntary withdrawal of US\$6,547. (2020: 6,547)

**(18) Fair value of Financial Instruments**

The following assumptions were made by Management to estimate the fair value of each category of financial instrument in the statement of financial position:

- (a) *Cash on hand and banks / accrued interest receivable / accounts receivable / accrued interest payable / other liabilities*

For the above financial instruments, the book value is close to its fair value due to its short-term nature.

**(18) Fair value of Financial Instruments, continued**

*(b) Investment securities*

Some investments are measured at fair value based on valuation techniques that include unobservable input data and have a significant effect on determining fair value. Other investments are measured using valuation through discounted cash flows.

*(c) Loans*

The estimated fair value for loans represents the discounted amount of estimated future cash flows to be received. The cash flows provided are discounted at current market rates to determine their fair value.

*(d) Borrowings*

The fair value for loans payable with interest rate adjustments is determined using future cash flows discounted at the current market interest rate.

*(e) Negotiable debts*

The book value of securities with a maturity of one year or less is close to its fair value, due to its short-term nature.

*(f) Investment certificate*

The fair value for investment certificates is determined using future cash flows discounted at the current market interest rate.

Fair value estimates are made at a specified date, based on market estimates and information on financial instruments. These estimates do not reflect any premium or discount that may result from the offer to sell a particular financial instrument at a given date. These estimates are subjective by their nature, they involve uncertainty and elements of judgment, therefore, they cannot be determined with accuracy. Any change in the assumptions can significantly affect the estimates.

The estimated fair values for the financial instruments defined above are summarized below:

	<u>2022</u>		<u>2021</u>	
	<u>Book</u> <u>value</u> US\$	<u>Fair</u> <u>value</u> US\$	<u>Book</u> <u>value</u> US\$	<u>Fair</u> <u>value</u> US\$
Loans	119,387,514	117,725,923	120,789,643	119,126,486
Investment Certificate	(18,732,000)	(18,772,576)	(19,500,000)	(19,543,297)
Negotiable debt	(7,575,000)	(7,589,988)	(10,850,000)	(10,898,129)
Borrowings	(88,785,718)	(88,750,619)	(83,571,432)	(83,538,953)

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and decisions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) *Financial assets classification*

When determining the classification of financial assets, the Company uses its judgment to evaluate the business model within which the assets are held and whether the contractual terms of the financial asset are only payments of the principal, and interest on the amount of the principal, pending.

b) *Impairment losses on loans and advances*

The Company reviews its loan portfolios for impairment on at least a quarterly basis. In determining whether an impairment loss should be recorded, Management makes decisions as to whether there is observable information indicating that there is a reduction that can be measured in the estimated future cash flows of a loan portfolio before the reduction can be identified with an individual loan in that portfolio.

This evidence includes observable information that indicates that there has been an adverse change in the payment condition of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on experience of expected losses for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when programming its future cash flows. The methodology and assumptions used to estimate the sum and timing of future cash flows are regularly reviewed to reduce any difference between loss estimates and current loss experience.

**(20) Provision for Labor Obligation**

The Company has recorded a provision for benefits payable to employees who voluntarily resign; said obligation is unfunded. The main assumptions used in the calculation as of June 30, 2022 are the minimum wage increase rate of 3.91% (3.85% for 2021), the staff turnover rate of 25.52% (25.21% for 2021), and the discount rate of 1.27%. (0.65% for 2021).

A summary of the movement of the estimate balance is as follows:

	<u>2022</u> US\$	<u>2021</u> US\$
Initial Balance	69,252	66,468
Present services cost	0	14,743
Financial cost	0	408
Actuarial losses	0	(3,385)
Benefits paid	<u>(1,980)</u>	<u>(8,982)</u>
Final balance	<u>67,272</u>	<u>69,252</u>

**(21) Critical Accounting Estimates and Judgments in the Application of Accounting Policies, continued**

Sensitivity analysis

Reasonably possible changes in the relevant actuarial assumptions at the reporting date, provided that the other assumptions remained constant, would have affected the obligation in the amounts as detailed below:

<u>Variables</u>	<u>2022</u>	
	<u>Increase</u>	<u>Decrease</u>
Minimum salary (1% variation)	(13,140)	17,413
Discount rate (1% variation)	(13,935)	18,126
Personal rotation rate (1% variation)	(1,145)	1,145

**(22) Main Applicable Laws and Regulations**

The main laws and regulations applicable in the Republic of El Salvador are detailed below:

*(a) Commercial Code*

The operations of commercial companies in El Salvador are regulated by the Commercial Code, contained in Legislative Decree No. 671 of May 26, 1970.

*(b) Taxes*

The applicable tax regulation is mainly made up of the following laws:

- i) Income Tax Law, contained in Legislative Decree No. 134 of December 18, 1991 and its amendments.
- ii) Law of Tax on the Transfer of Goods and the Provision of Services (VAT), contained in Legislative Decree No. 296 of July 24, 1992 and its amendments.
- iii) Tax Code, contained in Legislative Decree No. 230 of December 14, 2000 and its amendments.

*(c) Securities regulation*

The Securities Market Law issued in Decree No. 809 of February 16, 1994, regulates the public offering of securities and these, their transactions, their respective intermediary markets and issuers. The Superintendence of the Financial System is the Institution that oversees compliance with this Law and other regulations on the issuance of securities in El Salvador.

**(23) Effects of the Global Pandemic of the propagation of the Coronavirus or COVID-19**

The Company is characterized by having a long-term vision, which historically has guided its strategy and will continue to be key in its growth path, likewise, the experience acquired over the years has allowed it to consolidate knowledge on issues associated with the evaluation and management of risks, as well as the allocation of capital, essential to take care of the continuity of its businesses and the well-being of its employees, customers and suppliers in times of high volatility and uncertainty such as those caused by this health crisis.

Likewise, management considers that the dynamics that the Company's operations bring, as well as the financial strategy that it has followed, including the optimization of its portfolio in recent years and its strategy of maintaining its robust capital, place it in an adequate position. in view of the possible impacts of the COVID-19 crisis.