

**LA HIPOTECARIA (HOLDING), INC.  
AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Financial Statements  
and Consolidated Information**

December 31, 2021

(With Independent Auditors' Report Thereon)

(FREE ENGLISH LANGUAGE TRANSLATION  
FROM SPANISH VERSION)

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**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

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## **FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION**

### **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Shareholders of  
La Hipotecaria (Holding), Inc.

#### ***Report on the Audit of the Consolidated Financial Statements***

##### ***Opinion***

We have audited the consolidated financial statements of La Hipotecaria (Holding), Inc. and Subsidiaries ('the Company'), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

##### ***Basis for Opinion***

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

##### ***Key Audit Matters***

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

### *Allowance for loan losses*

*See Notes 3 (c.7) and 4 (a) to the consolidated financial statements*

#### Key audit matter

The allowance for loan losses in loans at amortized cost is considered one of the most significant matters as its methodology requires the use of judgements and assumptions made by management for the construction of expected credit loss model ("ECL") including the COVID-19 impact. The loan portfolio represents 75% of the Company's total assets as of December 31, 2021. The allowance for loan losses comprises the ECL as a result of the loan rating model and the methodology to determine the probability of default of the loan according to the impairment stage in which it is assigned.

The model for estimating the ECL incorporates estimates of the probability of default, loss given default, forward-looking analysis and exposure at default.

The evaluation of whether or not a significant increase in the credit risk of the loans has been presented entails the application of important judgements in those methodologies. This is a challenge from an audit perspective due to the complexity in estimating the components used to perform these calculations and the application of judgement by management.

#### How the key matter was addressed during the audit

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

- We assessed the key controls over delinquency calculations, approval of the model and the methodology used, and approval of the updates of the key inputs used in the calculation of the impairment reserve for the collective models.
- The methodology applied by the Company in the estimation model of the ECL was assessed in accordance with IFRS 9 *Financial Instruments*, through the inspection of policies, manuals and methodology documented and approved by the Company corporate governance.
- Tests of the key inputs used in the calculation of the impairment reserve for the collective models.
- An independent assessment was made for the inputs used in the methodology, and a recalculation was carried out for the ECL estimation model.
- We assessed the judgements applied by management on assumptions related to the current conditions of the economy, including the COVID-19 impact and the considerations on the forward-looking analysis that could change the level of ECL, based on our experience and knowledge of the industry.

#### *Another Matter – Supplementary Information*

Our audit was performed for the purpose of expressing an opinion on the consolidated financial statements as a whole. The supplementary information included in Exhibits 1 to 2 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly presented in all material respects in relation to the consolidated financial statements as a whole.

## *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

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

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

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

## *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

#### **Other legal information requirements**

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

- The direction, execution and supervision of this audit engagement has been physically performed in Panamanian territory.
- The audit partner who has prepared this independent auditors' report is Juan Carlos Castillo.
- The engagement team that has participated in the group audit to which this report refers, is formed by Juan Carlos Castillo, Partner; Nicole Ramsauer, Partner; Zita Segismond, Director; Kevin Rojas, Manager; Angelo Welch, Manager; Ileana Aleman, Supervisor.

KPMG (SIGNED)

PARTNER NAME (SIGNED)

Panama, Republic of Panama  
March 21, 2022

Juan Carlos Castillo  
Partner  
C.P.A 3592

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Statement of Financial Position**

December 31, 2021

(Expressed in dollars of the United States of America)

<b><u>Assets</u></b>	<b><u>Note</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>
Cash and cash equivalents		242,052	252,571
Demand deposits in banks		52,290,916	53,657,485
Saving deposits in banks		8,567,577	16,345,212
<b>Total cash, cash equivalents and deposits in banks</b>	7	61,100,545	70,255,268
Investment securities, net	8	114,062,959	99,370,338
Loans at amortized cost (AC)	9, 30	656,803,162	735,453,869
Furniture, equipment and improvements, net	10	1,683,192	2,210,849
Accounts receivable and interest receivable on investment securities at fair value	11	9,350,652	8,879,372
Accounts receivable - related parties	6	466,749	470,514
Tax credit	32	24,077,858	19,418,736
Deferred tax assets	24	1,284,879	1,829,646
Right-of-use assets	29	1,978,284	2,506,132
Other assets	12	4,850,048	8,593,577
<b>Total assets</b>		<b>875,658,328</b>	<b>948,988,301</b>

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

<b><u>Liabilities and Equity</u></b>	<b><u>Note</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>
<b>Liabilities:</b>			
Deposits from customers:			
Saving deposits	6	2,911,514	1,980,490
Time deposits	6	367,056,823	337,602,643
<b>Total deposits from customers</b>		<b>369,968,337</b>	<b>339,583,133</b>
Negotiable commercial papers	13, 30	35,315,094	84,830,135
Negotiable commercial notes	14, 30	55,524,085	107,092,006
Covered bonds	15, 30	51,347,808	51,074,683
Ordinary bonds	16, 30	13,009,668	15,091,711
Investment certificates	17, 30	19,523,626	37,911,676
Other negotiable debts	18, 30	10,888,482	28,224,978
Borrowings	19, 30	227,414,806	194,781,434
Leases liabilities	29	2,405,253	2,821,728
Income tax payable		988,181	722,967
Other liabilities	20	6,905,857	5,693,611
<b>Total liabilities</b>		<b>793,291,197</b>	<b>867,828,062</b>
<b>Equity:</b>			
Common shares		18,095,550	18,095,550
Treasury shares		(308,259)	(308,259)
Preferred shares	21	20,752,709	20,752,709
Capital reserve		1,800,000	1,800,000
Regulatory reserves		9,615,293	10,418,223
Fair value reserve		279,058	2,258,287
Foreign currency translation reserve		(14,369,066)	(11,049,651)
Retained earnings		46,501,846	39,193,380
<b>Total equity</b>		<b>82,367,131</b>	<b>81,160,239</b>
Commitments and contingencies	28		
<b>Total liabilities and equity</b>		<b>875,658,328</b>	<b>948,988,301</b>



**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Consolidated Statement of Profit or Loss**

For the year ended December 31, 2021

(Expressed in dollars of the United States of America)

	<b>Note</b>	<b>2021</b>	<b>2020</b>
Interest income calculated using the effective interest method:			
Loans		51,440,998	50,976,088
Investment in securities		3,482,445	3,629,357
Deposits in banks		136,482	315,341
<b>Total interest income</b>		<b>55,059,925</b>	<b>54,920,786</b>
Interest expense:			
Deposits from customers	6	15,971,654	15,137,987
Borrowings, debt securities in issue and leases		23,612,540	25,536,719
<b>Total interest expense</b>		<b>39,584,194</b>	<b>40,674,706</b>
<b>Net interest income</b>		<b>15,475,731</b>	<b>14,246,080</b>
Impairment losses on financial assets:			
Provision for credit losses on loans at AC	4	597,953	4,080,449
Provision for credit losses on investment securities at AC	4	2,017	928
Provision for (reversal of) credit losses on investment securities at FVOCI	4	7,933	(7,434)
Net loss arising from modified loans at AC	4	582,257	0
<b>Net interest income, after provisions for impairment losses on financial assets</b>		<b>14,285,571</b>	<b>10,172,137</b>
Income from banking services, commissions and others, net:			
Net income from investment securities at FVTPL		1,751,466	1,555,049
Net income from sale of investment securities at FVOCI	8	0	2,098,078
Management and servicing commissions	22	6,368,062	6,285,329
Reinsurance income	6	5,281,756	5,300,114
Reinsurance claims and benefits	6	(2,324,562)	(1,624,965)
Other commissions incurred	6	(1,701,699)	(1,305,910)
Other income	6,22	2,822,717	820,705
<b>Total income from banking services and others, net</b>		<b>12,197,740</b>	<b>13,128,400</b>
General and administrative expenses			
Salaries and other personnel benefits	6,23	7,473,543	8,321,859
Depreciation and amortization of furniture, equipment and improvements	10	703,688	794,532
Depreciation of right-of-use assets	29	538,249	603,042
Professional and legal fees	6	1,785,793	2,033,627
Taxes		2,201,866	2,516,898
Other expenses	23	4,682,221	3,600,702
<b>Total general and administrative expenses</b>		<b>17,385,360</b>	<b>17,870,660</b>
<b>Net income before income tax</b>		<b>9,097,951</b>	<b>5,429,877</b>
Current tax expense		1,140,438	966,278
Deferred tax expense		456,802	(827,204)
<b>Total income tax expense</b>	24	<b>1,597,240</b>	<b>139,074</b>
<b>Net income</b>		<b>7,500,711</b>	<b>5,290,803</b>

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

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Statement of Comprehensive Income**

For the year ended December 31, 2021

(Expressed in dollars of the United States of America)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
<b>Net income</b>		<u>7,500,711</u>	<u>5,290,803</u>
<b>Other comprehensive income:</b>			
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Movement in fair value reserve for FVOCI debt instruments:			
Debt investments at FVOCI – net change in fair value		(2,575,505)	2,139,385
Debt investments at FVOCI – reclassified to profit or loss	8	0	(2,098,078)
Movement in expected credit loss (ECL) reserve for FVOCI debt instruments:			
Debt investments at FVOCI – net change in ECL reserve		7,933	(7,434)
Movement in fair value reserve for loan portfolio acquired:			
Amortization of fair value		588,343	(79,341)
Movement in foreign currency translation reserve:			
Foreign operations – foreign currency translation differences		<u>(3,319,415)</u>	<u>(1,077,839)</u>
<b>Total other comprehensive (loss) income</b>		<u>(5,298,644)</u>	<u>(1,123,307)</u>
<b>Total comprehensive income</b>		<u><u>2,202,067</u></u>	<u><u>4,167,496</u></u>

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

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic de Panama)

**Consolidated Statement of Changes in Equity**

For the year ended December 31, 2021

(Expressed in dollars of the United States of America)

	<u>Note</u>	<u>Common shares</u>	<u>Treasury shares</u>	<u>Preferred shares</u>	<u>Capital reserve</u>	<u>Regulatory reserves</u>	<u>Fair value reserve</u>			<u>Foreign currency translation reserve</u>	<u>Retained earnings</u>	<u>Total equity</u>
							<u>Fair value reserve for debt instruments at FVOCI</u>	<u>ECL reserve for debt instruments at FVOCI</u>	<u>Fair value reserve for loan portfolio acquired</u>			
<b>Balance at December 31, 2019</b>		17,907,020	0	22,752,709	1,800,000	8,252,509	1,984,853	136,567	182,335	(9,971,812)	37,572,097	80,616,278
Net income		0	0	0	0	0	0	0	0	0	5,290,803	5,290,803
<b>Other comprehensive income (loss)</b>												
Fair value reserve – debt instruments at FVOCI:												
Debt investments at FVOCI – net change in fair value		0	0	0	0	0	2,139,385	0	0	0	0	2,139,385
Debt investments at FVOCI – reclassified to profit or loss	8	0	0	0	0	0	(2,098,078)	0	0	0	0	(2,098,078)
Expected credit loss (ECL) reserve – debt instruments at FVOCI:												
Debt investments at FVOCI – net change in ECL reserve		0	0	0	0	0	0	(7,434)	0	0	0	(7,434)
Fair value reserve for loan portfolio acquired:												
Amortization of fair value		0	0	0	0	0	0	0	(79,341)	0	0	(79,341)
Foreign currency translation reserve:												
Foreign operations – foreign currency translation differences		0	0	0	0	0	0	0	0	(1,077,839)	0	(1,077,839)
<b>Total other comprehensive income (loss)</b>		0	0	0	0	0	41,307	(7,434)	(79,341)	(1,077,839)	0	(1,123,307)
<b>Total comprehensive income</b>		0	0	0	0	0	41,307	(7,434)	(79,341)	(1,077,839)	5,290,803	4,167,496
<b>Other equity transactions:</b>												
Allocation of regulatory reserves - dynamic and specific and Agreement SBP No.009-2020		0	0	0	0	2,165,714	0	0	0	0	(2,165,714)	0
<b>Transactions with equity holders of the Company:</b>												
Contributions and distributions:												
Common shares issuance		188,530	0	0	0	0	0	0	0	0	0	188,530
Treasury shares		0	(308,259)	0	0	0	0	0	0	0	0	(308,259)
Redemption of preferred shares		0	0	(2,000,000)	0	0	0	0	0	0	0	(2,000,000)
Dividends paid on preferred shares		0	0	0	0	0	0	0	0	0	(1,471,329)	(1,471,329)
Share-based payments		0	0	0	0	0	0	0	0	0	11,280	11,280
Complementary tax		0	0	0	0	0	0	0	0	0	(43,757)	(43,757)
<b>Total contributions and distributions</b>		188,530	(308,259)	(2,000,000)	0	0	0	0	0	0	(1,503,806)	(3,623,535)
<b>Balance at December 31, 2020</b>		18,095,550	(308,259)	20,752,709	1,800,000	10,418,223	2,026,160	129,133	102,994	(11,049,651)	39,193,380	81,160,239
Net income		0	0	0	0	0	0	0	0	0	7,500,711	7,500,711
<b>Other comprehensive income (loss)</b>												
Fair value reserve – debt instruments at FVOCI:												
Debt investments at FVOCI – net change in fair value		0	0	0	0	0	(2,575,505)	0	0	0	0	(2,575,505)
Debt investments at FVOCI – reclassified to profit or loss		0	0	0	0	0	0	0	0	0	0	0
Expected credit loss (ECL) reserve – debt instruments at FVOCI:												
Debt investments at FVOCI – net change in ECL reserve		0	0	0	0	0	0	7,933	0	0	0	7,933
Fair value reserve for loan portfolio acquired:												
Amortization of fair value		0	0	0	0	0	0	0	588,343	0	0	588,343
Foreign currency translation reserve:												
Foreign operations – foreign currency translation differences		0	0	0	0	0	0	0	0	(3,319,415)	0	(3,319,415)
<b>Total other comprehensive income (loss)</b>		0	0	0	0	0	(2,575,505)	7,933	588,343	(3,319,415)	0	(5,298,644)
<b>Total comprehensive income</b>		0	0	0	0	0	(2,575,505)	7,933	588,343	(3,319,415)	7,500,711	2,202,067
<b>Other equity transactions:</b>												
Allocation of regulatory reserves - dynamic and specific and Agreement SBP No.009-2020		0	0	0	0	(802,930)	0	0	0	0	802,930	0
<b>Transactions with equity holders of the Company:</b>												
Contributions and distributions:												
Dividends paid on preferred shares		0	0	0	0	0	0	0	0	0	(1,432,500)	(1,432,500)
Share-based payments		0	0	0	0	0	0	0	0	0	441,600	441,600
Complementary tax		0	0	0	0	0	0	0	0	0	(4,275)	(4,275)
<b>Total contributions and distributions</b>		0	0	0	0	0	0	0	0	0	(995,175)	(995,175)
<b>Balance at December 31, 2021</b>		18,095,550	(308,259)	20,752,709	1,800,000	9,615,293	(549,345)	137,066	691,337	(14,369,066)	46,501,846	82,367,131

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

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Consolidated Statement of Cash Flows**

For the year ended December 31, 2021

(Expressed in dollars of the United States of America)

	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>Operating activities:</b>			
Net income		7,500,711	5,290,803
<b>Adjustments to reconcile net income and cash from operating activities:</b>			
Depreciation and amortization of furniture, equipment and improvements	10	703,688	794,532
Depreciation of right-of-use assets	29	538,249	603,042
Provision for credit losses on loans at AC	4	597,953	4,080,449
Provision for credit losses on investment securities at AC	4	2,017	928
Provision for (reversal of) credit losses on investment securities at FVOCI	4	7,933	(7,434)
Net loss arising from modified loans at AC	4	582,257	0
Net interest income		(15,475,731)	(14,246,080)
Net gain on investment securities at FVTPL		(1,751,466)	(1,555,049)
Net gain on sale of investment securities at FVOCI	8	0	(2,098,078)
Net loss (gain) on sale of furniture and equipment		(1,358)	2,527
Gain on sale of foreclosed assets		(242,203)	(76,053)
Income tax expense	24	1,597,240	139,074
<b>Changes in operating assets and liabilities:</b>			
Investment securities at FVTPL		(2,638,910)	(372,211)
Loans		68,917,593	(29,365,505)
Accounts receivable		(1,792,365)	(5,802,882)
Accounts receivable - related parties		3,765	119,582
Sale of tax credits	32	9,616,762	4,930,874
Accrual of tax credits		(14,275,884)	(14,311,659)
Other assets		3,985,732	(4,576,784)
Saving deposits from customers		931,024	395,443
Time deposits from customers		29,516,092	49,227,797
Other liabilities		1,212,246	115,206
<b>Cash generated from operations:</b>			
Interest received		54,707,810	48,399,332
Interest paid		(40,723,995)	(40,848,596)
Income tax paid		(787,259)	(819,871)
<b>Cash flows from operating activities</b>		<b>102,731,901</b>	<b>19,387</b>
<b>Investment activities:</b>			
Acquisition of investment securities at FVOCI		(16,225,000)	(21,067,258)
Proceeds from sale and redemption of investment securities at AC and at FVOCI	8	2,429,100	24,359,017
Acquisition of furniture, equipment and improvements	10	(212,486)	(263,767)
Proceeds from sale of furniture and equipment		55,141	32,962
<b>Cash flows from investment activities</b>		<b>(13,953,245)</b>	<b>3,060,954</b>
<b>Financing activities:</b>			
Proceeds from issue of negotiable commercial papers		35,233,000	106,281,000
Redemption of negotiable commercial papers		(84,606,000)	(128,809,000)
Proceeds from issue of negotiable commercial notes		35,515,999	34,718,000
Redemption of negotiable commercial notes		(87,090,000)	(44,205,000)
Proceeds from issue of ordinary bonds		0	15,070,536
Redemption of ordinary bonds		0	(4,351,756)
Proceeds from issue of investment certificates		7,950,000	11,550,000
Redemption of investment certificates		(26,307,000)	(10,666,000)
Proceeds from issue of negotiable debts		5,000,000	28,135,000
Redemption of negotiable debts		(22,285,000)	(28,850,000)
Proceeds from borrowings		216,960,750	191,908,544
Repayment of borrowings		(179,714,092)	(142,754,083)
Payment of lease liabilities		(418,236)	(476,348)
Common shares issuance		0	188,530
Treasury shares		0	(308,259)
Redemption of preferred shares		0	(2,000,000)
Dividends paid on preferred shares		(1,432,500)	(1,471,329)
Share-based payments		441,600	11,280
Complementary tax		(4,275)	(43,757)
<b>Cash flows from financing activities</b>		<b>(100,755,754)</b>	<b>23,927,358</b>
<b>Net increase in cash and cash equivalents</b>		<b>(11,977,098)</b>	<b>27,007,699</b>
Cash and cash equivalents at the beginning of the year		70,255,268	44,124,624
Effect of exchange rate fluctuations on cash and cash equivalents held		2,822,375	(877,055)
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>61,100,545</b>	<b>70,255,268</b>

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

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

December 31, 2021

(Expressed in dollars of the United States of America)

### (1) General Information

La Hipotecaria (Holding), Inc. was incorporated on July 7, 2000, under the laws of the British Virgin Islands and its principal activity is the ownership of capital shares.

The entities which are wholly-owned or controlled by the Company are the following:

	<u>Activity</u>	<u>Country of Incorporation</u>	<u>Controlling Interest</u>	
			<u>2021</u>	<u>2020</u>
Banco La Hipotecaria, S. A. and Subsidiaries	Banking and financial activities	Panama	100%	100%
Online Systems, S. A.	Development and maintenance of information system programs	Panama	100%	100%
Mortgage Credit Reinsurance Limited	Reinsurance services	Turks and Caicos	100%	100%
Securitization and Advisors, Inc.	International financial advisory services	British Virgin Islands	100%	100%

Hereinafter, La Hipotecaria (Holding), Inc. and Subsidiaries will be referred to as 'the Company'.

The main shareholder of the Company is Grupo ASSA, S. A. with a 69.01%.

The main office of the Company is located on Via España, Plaza Regency, floor No. 13, Panama City.

Banco La Hipotecaria, S. A. provides, directly and through its subsidiaries, La Hipotecaria, S. A. de C. V. and La Hipotecaria Compañía de Financiamiento, S. A., financial services in Panama, El Salvador and Colombia.

### (2) Basis of Preparation

#### (a) Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Audit Committee of the Company authorized the issuance of these consolidated financial statements on March 21, 2022.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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### (2) Basis of Preparation, continued

#### (b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for the following items:

<u>Item</u>	<u>Basis of measurement</u>
Investment securities measured at fair value through profit or loss (FVTPL)	Fair value
Investment securities measured at fair value through other comprehensive income (FVOCI)	Fair value

#### (c) Functional and presentation currency

The consolidated financial statements are presented in Dollars (US\$) of the United States of America. The Republic of Panama does not issue its own currency paper and, instead, the United States of America Dollar is used as a legal tender. The functional currency of the subsidiary in Colombia is the Colombian peso (COP), and the functional currency of the subsidiaries in Turks and Caicos, El Salvador and Virgin Islands is the United States of America Dollar (US\$).

### (3) Summary of Significant Accounting Policies

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

#### (a) Base of consolidation

##### (a.1) Subsidiaries

The subsidiaries are participated entities controlled by the Company. The Company 'controls' a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company reassesses whether it has control over a participated entity if there are changes to one or more of the three elements of control. The financial statements of subsidiaries, as described in Note 1, are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

##### (a.2) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, as when the rights to vote related only to administrative tasks and the relevant activities are directed by contractual agreements.

In the evaluation to determine if the Company has sufficient rights to give power on these participated entities, the Company considers factors of the participated entity; such as, its purpose and design; its present ability to direct the relevant activities; the nature of its relation with other parties; and the exposition to the implication in the participated entity.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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

#### (a.3) *Non-controlling interests*

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### (a.4) *Loss of control*

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

#### (a.5) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### (a.6) *Funds administration*

The Company acts as administrator and trustee of trust contracts at the risk of customers. The financial statements of these entities are not part of these consolidated financial statements except when the Company has control over the entity.

### (b) *Foreign currency*

#### (b.1) *Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currency at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Foreign currency differences arising on translation are generally recognized in the consolidated statement of profit or loss. However, foreign currency differences arising from the translation of equity instruments measured at FVOCI, are recognized in OCI.

#### (b.2) *Foreign operations*

The financial position and the results of any subsidiary in a different functional currency are translated to the presentation currency as follows:

- Assets and liabilities, at the current exchange rate at the reporting date.
- Income and expenses, at the monthly average exchange rate of the year.
- Equity accounts are measured at historical cost, at relevant exchange rate at the time of each transaction.
- The resulting exchange differences due to translation are recognized in a separate account directly in the consolidated statement of changes in equity, under foreign currency translation reserve.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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

##### (c) *Financial assets and liabilities*

##### (c.1) *Recognition and initial measurement*

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, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

##### (c.2) *Classification*

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's 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 specified dates to cash flows that are solely payments of principal and interest (SPPI) 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 specified dates to cash flows that are SPPI on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's 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 and accounting mismatch that would otherwise arise. The Company has not made use of this option so far.



# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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

#### Business model assessment

The Company makes an assessment of the objective of the business model in which a financial 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. These include whether management's strategy focuses on earning contractual interest income, 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 Company'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
- The frequency, value and timing of sales in prior periods, the reasons for such sales, and its expectations about future sales activity; however, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis, are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### 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 for the time value of money and for 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 (e.g., liquidity risk and administrative costs), as well as profit margin.

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

- Contingent events that would change the amount and timing of the cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specific assets (e.g. non-recourse asset agreements); and
- Features that modify the considerations of the time value of money (e.g., periodical reset of interest rates).

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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

Interest rates on certain consumer loans are based on variable interest rates that are established at the Company's discretion. Variable interest rates are generally determined in accordance with the policies established by the Company. In these cases, the Company assesses whether the discretionary feature is consistent with the criterion of SPPI, considering a factor that includes whether the debtors are in a position to prepay the loans without significant penalties.

All fixed rate consumer loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion, if the prepaid amounts substantially represent unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for the early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its nominal contractual amount, and the prepaid amount substantially represents contractual par amount plus accrued but unpaid contractual interest (which may include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

#### 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.

#### (c.3) *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 Company 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 carrying amount of the asset and the maximum amount of the consideration that the Company could be obliged to pay.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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

The Company, sporadically and in accordance to its liquidity needs, enters into transactions whereby it transfers assets recognized in the consolidated statement of financial position, such as the securitizations of residential mortgage loans, which result in the sale of these assets to unconsolidated structured entities and in the Company transferring substantially all of the risks and rewards of ownership. The securitization vehicles in turn issue debt securities to investors.

Interests in the securitized assets are generally retained in the form of 'senior' or 'subordinated' tranches, or other residual interests (retained interests). Retained interests or interests are recognized as investment securities in debt instruments in the consolidated statement of financial position, and are measured as explained in Note 3 (f).

#### Financial liabilities

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

#### (c.4) *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.

#### (c.5) *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.

#### (c.6) *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.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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

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 take into account in pricing a transaction.

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 establishes a fair value hierarchy that classifies the input data of valuation techniques used to measure fair value into three levels. The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

#### (c.7) *Impairment of financial assets*

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

- Investments in debt instruments; and
- Loans receivable.

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 measured as 12-month ECL:

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

The Company considers a debt investment security to have low credit risk when its 'credit risk rating' is equivalent to the globally understood definition of 'investment grade'. The Company does not apply the low credit risk exemption to any other financial instrument.

12-month ECL are the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. Financial instruments for which 12-month ECL are recognized are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to 'Stage 1' have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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

Lifetime ECL are the ECL that result from all possible events of default over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to 'Stage 2' are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognized and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

##### *Measurement of ECL*

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- *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 (referred to as 'Stage 3 financial instruments'). 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.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (3) 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 Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

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.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

*Presentation of allowance for ECL in the consolidated statement of financial position*  
Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *Financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets; and
- *Debt instruments measured at FVOCI*: no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve in equity.

#### *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's procedures for recovery of amounts due.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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

#### (d) *Cash and cash equivalents*

For purpose of the consolidated 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.

#### (e) *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. Loans are measured initially at its fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

#### (f) *Investment securities*

'Investment securities' caption in the consolidated statement of financial position includes:

- Debt investment securities measured at amortized cost: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- Debt and equity investment securities mandatorily measured at FVTPL: these are measured at fair value with changes recognized immediately in profit or loss;
- Debt securities measured at FVOCI.

For debt instruments measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method; and
- ECL and reversals.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

#### (g) *Furniture, equipment and improvements*

Furniture, equipment and improvements include buildings, furniture and equipment used by branches and offices of the Company. All 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 expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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### (3) 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 values are reviewed, and adjusted if appropriate, at each consolidated 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.

#### (h) *Assets classified as held-for-sale*

Non-current assets, or disposal groups comprising assets and liabilities, including foreclosed assets held-for-sale, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held-for-sale. Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. An impairment loss is recognized due to reductions in the initial value of such assets. Impairment losses on initial and subsequent classification of a non-current asset as held-for-sale are recognized in the consolidated statement of profit or loss.

#### (i) *Deposits, borrowings and debt securities in issue*

These financial liabilities correspond to the Company's main sources of debt funding. They are initially measured at fair value minus incremental direct transaction costs, and subsequently are measured their amortized cost using the effective interest method.

#### (j) *Share-based payments*

The fair value of the options granted to participants, are recognized as a personal expense in the subsidiaries against the outstanding balance to the parent company. The Company records these options in equity accounts with counterparty to the outstanding balances of the subsidiaries. The fair value of the option on the granting date is recognized as an expense of the subsidiaries of the Company, during the option's vesting period.

#### (k) *Employee benefits*

##### (k.1) *Termination benefits*

Termination benefits are recognized as expenses at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring.



# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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

If benefits are not expected to be settled wholly within twelve months of the consolidated statement of financial position date, then such benefits are discounted to determine their present value.

#### (k.2) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably

#### (l) Segment reporting

An operating segment is a main component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The operating segments presented in the consolidated financial statements correspond to a main component of the Company responsible for providing a single product or service or a group of related products or services within a particular economic environment and that is subject to risks and returns that are different from the other business segments.

#### (m) 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 (POCI), the Company estimates future cash flows considering all contractual terms of the financial instrument, but not the ECL. For POCI 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.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (3) 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 allowance.

##### *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 subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

##### *Presentation*

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

- Interest on financial assets and financial liabilities measured at amortized cost;
- Interest on debt instruments measured at FVOCI.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

#### (n) *Fees and commission*

Income and expenses from fees and commissions, both paid and received, other than those included in determining the effective interest rate, include banking services, premium and other service fees, administration and management of accounts which are recognized as the related services are performed or received.

The Company receives recurrent income related to management services of trusts. These incomes are registered under the accrual method. It is a Company's obligation to manage the resources of the trusts in conformity with the contracts and independently of its equity.

##### Performance obligations and revenue recognition policy for fees and commission income

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a service to a customer.

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements**

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

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Private banking services	The Company provides banking services to retail and corporate customers that maintains saving or time deposits, for the issuance of checks, the execution of bank transfers and bank confirmations issue.	Revenue related to transactions is recognized at the point in time when the transaction takes place or the service is provided.
Portfolio management for trusts	The Company provides portfolio management services.  Fees for portfolio management services are calculated based on a fixed percentage of the value of portfolio managed and charged to the trust fund on a monthly basis.	Revenue from portfolio management services is recognized over time as the services are provided.
Insurance management and collection	The Company provides insurance management and collection services.  Commissions for insurance management and collection services are calculated based on a fixed percentage and are received in a monthly basis.	Revenue from insurance management services is recognized over time as the services are provided.
Reinsurance service fees	The Company provides reinsurance services over collective life and unemployment policies.  Commissions for reinsurance services are calculated based on a fixed percentage and are received in a monthly basis.	Reinsurance income is recognized over time, as services are provided.

**(o) Trusts operations**

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 consolidated 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. See Note 3 (n).

**(p) Net Income from as financial instruments at fair value through profit or loss**

Net income from other financial instruments at FVTPL relates to investment securities designated as at FVTPL. The line item includes realized and unrealized gains and losses arising from fair value changes, interests and differences from exchange rates fluctuations.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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

##### (q) *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 Company 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 the 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 Company 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 at 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 at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which 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 readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing interest rate as the discount rate.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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### Notes to the Consolidated Financial Statements

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

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's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

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

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

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

The Company has chosen not to recognize right-of-use assets and lease liabilities for short-term leases of computer equipment that have a lease term of 12 months or less and leases of low-value assets, or those that imply the use of assets whose purchase amount, as if new, is equal to or less than \$5,000.

The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term in profit or loss.

#### (r) *Income tax*

Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted at the consolidated 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 amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the tax rates enacted at the consolidated 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.

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

A series of new standards and amendments to standards are effective for annual periods beginning after January 1, 2022 and earlier application is permitted; however, the Company has not early adopted these new standards or amendments in preparing these consolidated financial statements as of December 31, 2021.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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### Notes to the Consolidated Financial Statements

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

The following new standards and amendments, required shortly by IFRS, are not expected to have a significant impact on the Company's consolidated financial statements.

Effective date — Annual periods beginning on:	New standards or amendments (upcoming IFRS requirements)
1 January 2022	<ul style="list-style-type: none"><li>• Annual Improvements to IFRS Standards 2018-2020</li></ul>
1 January 2023	<ul style="list-style-type: none"><li>• IFRS 17 Insurance Contracts and Amendments to IFRS 17</li><li>• Definition of Accounting Estimates – Amendments to IAS 8</li><li>• Disclosure of Accounting Policies – Amendment to IAS 1 and IFRS Practice Statement 2</li></ul>

#### (4) Financial Risk Management

A financial instrument is any contract that originates a financial asset in one entity and a financial liability or equity instrument in another entity. The Company's activities are mainly related to the use of financial instruments and therefore, the consolidated statement of financial position is comprised mainly of financial instruments. These instruments expose the Company to various types of risks. The Company's Board of Directors has approved a Risk Management Policy, which identifies each of the main risks to which the Company is exposed.

To manage and monitor these risks, the Board of Directors has established the following committees:

- Credit Committee
- Collections Committee
- Audit Committee
- Compliance Committee
- Risk Committee
- Asset and Liability Committee (ALCO).

The Audit Committee of the Company supervises the way in which management monitors the compliance of the policies and procedures of risk management and it reviews if the risk management framework is appropriate in respect of the risks that the Company confronts.

This Committee is assisted by Internal Audit in its supervision role. Internal Audit makes periodic reviews of the controls and procedures of risk management, and these results are reported to the Audit Committee.

The Company's Risk Committee has its origins under the Agreement No.008-2010 of the Superintendence of Banks of Panama and has as its objective that the Company has a body of the highest level to assess, agree on, define and establish the objectives and policies for Comprehensive Risk Management; as well as the risk exposure limits approved by the Board of Directors.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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

The Company's Risk Committee main responsibilities are the following:

1. Oversight of the performance and independence of the Risk Department of the Company, according to its role.
2. To monitor the risk expositions and compare those expositions to the risk limits approved by the Board of Directors; as to bring to the Board of Directors the presented results.
3. To develop and to propose methodologies, procedures, limits and strategies for the administration of the risks; as well as to propose improvements to the risk management policies.
4. Issue recommendations to support the maintenance and/or improvement of the risk qualification of the Company.
5. Periodically, as well as prior to performing significant assets and liabilities operations, help management quantify the possible losses which the Company might incur, in case of an operation is carried out.
6. To propose contingency plans on the risks subject, which will be submitted to the approval of the Board of Directors, and to recommend courses of action or mechanisms which can normalize any situation in which the Company has left of the established limits.
7. To oversight the promotion of a culture of risk management.
8. To develop and maintain the Company's risk classifications in order to categorize exposures according to the degree of the risk of default.

The Company's current risk grade framework for the segments of its loan portfolio, consists of seven (7) classifications based on delinquency, reflecting the different degrees of the risk of default. These grades are associated or related to the different delinquency levels presented by the loan instrument. While the Company adopts the inclusion of a behavioral 'scoring', the grades will be based on delinquency levels.

9. To develop and maintain the Company's processes for measuring the losses allowance for ECL, including the processes for its initial approval, regular assessment and validation, and the back-testing of the models used in its estimation; and the incorporation of forward-looking information.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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

The main risks identified by the Company are credit, liquidity, market and operational risk, which are described as follows:

(a) *Credit risk:*

It is the risk that the debtor, issuer or counterpart of a financial asset owned by the Company does not fully and timely comply with any payment due to the Company, in conformity with the agreed upon terms and conditions, when the financial asset was acquired or originated by the Company. Also, this risk is conceived as an impairment in the credit quality of the counterpart, of the collateral and/or of the guarantee agreed initially.

To mitigate the credit risk, the risk management policies establish processes and controls to follow for loans or credit facilities approvals. The Company structures the levels of credit risk acceptable by the establishment of limits over the quantity of accepted risk in relation to only one borrower, or group of borrowers, and geographic segment. These credits are controlled constantly and are subject to a periodic review.

Exposure to credit risk is also managed through a periodic analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. The exposure to credit risk is also mitigated through collaterals, corporate, and personals obtained by the Company.

Risk management is carried out under policies approved by the Board of Directors; these policies are reviewed and modified to reflect changes in markets, regulations, and other factors when defining these policies.

The Company has several risk assessments reports to evaluate the performance of its credit portfolio, allowance requirements, and especially to anticipate the circumstances that can affect the repayment ability of its borrowers.

The Board of Directors has delegated responsibility for managing the credit risk to the Credit Committee, Credit Management Committee, Risk Committee and Collection Committee, which periodically monitor the financial condition of the respective debtors and issuers, involving a credit risk for the Company.

#### ***Credit quality analysis***

The following table sets out information about the credit quality of financial assets measured at amortized cost and investment securities measured at FVOCI, without taking into account collateral or credit enhancement. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For promissory notes (loan commitments), the amounts in the table represent the amounts committed.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3', is included in Note 3 (c.7).



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**Notes to the Consolidated Financial Statements**

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

	2021			
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit-impaired) (‘Stage 2’)	Lifetime ECL (credit-impaired) (‘Stage 3’)	Total
<b>Loans at AC:</b>				
A1 – Until 30 days	570,124,255	1,688,260	16,530,440	588,342,955
A2 – Until 60 days	15,326,796	0	5,882,927	21,209,723
B1 – Until 90 days	6,505,183	792,562	6,198,555	13,496,300
B2 – Until 120 days	0	3,972,847	5,188,142	9,160,989
C1 – Until 150 days	0	2,098,561	3,273,540	5,372,101
C2 – Until 180 days	0	964,157	1,913,762	2,877,919
D – More than 181 days	0	0	10,744,135	10,744,135
<b>Subtotal</b>	<b>591,956,234</b>	<b>9,516,387</b>	<b>49,731,501</b>	<b>651,204,122</b>
Accrued interest receivable	9,621,783	253,391	220,076	10,095,250
Net loss arising from modification	(582,257)	0	0	(582,257)
<b>Gross carrying amount</b>	<b>600,995,760</b>	<b>9,769,778</b>	<b>49,951,577</b>	<b>660,717,115</b>
Loss allowance (ECL)	(957,739)	(214,388)	(2,741,826)	(3,913,953)
<b>Total loans at AC</b>	<b>600,038,021</b>	<b>9,555,390</b>	<b>47,209,751</b>	<b>656,803,162</b>
<b>Investment securities at AC:</b>				
Normal or low-fair risk	765,118	0	0	765,118
<b>Gross carrying amount</b>	<b>765,118</b>	<b>0</b>	<b>0</b>	<b>765,118</b>
Loss allowance (ECL)	(3,299)	0	0	(3,299)
<b>Total investments at AC</b>	<b>761,819</b>	<b>0</b>	<b>0</b>	<b>761,819</b>
<b>Investment securities at FVOCI:</b>				
Normal or low-fair risk	83,109,833	0	0	83,109,833
Loss allowance (ECL)	137,066	0	0	137,066
<b>Promissory notes:</b>				
Normal or low-fair risk	74,377,289	0	0	74,377,289
	2020			
	12-month ECL (‘Stage 1’)	Lifetime ECL (not credit-impaired) (‘Stage 2’)	Lifetime ECL (credit-impaired) (‘Stage 3’)	Total
<b>Loans at AC:</b>				
A1 – Until 30 days	683,261,320	202,167	0	683,463,487
A2 – Until 60 days	18,274,389	0	0	18,274,389
B1 – Until 90 days	8,950,305	1,446,124	0	10,396,429
B2 – Until 120 days	0	4,105,577	774,152	4,879,729
C1 – Until 150 days	0	2,418,058	421,942	2,840,000
C2 – Until 180 days	0	1,627,348	355,893	1,983,241
D – More than 181 days	0	0	9,363,829	9,363,829
<b>Subtotal</b>	<b>710,486,014</b>	<b>9,799,274</b>	<b>10,915,816</b>	<b>731,201,104</b>
Accrued interest receivable	8,223,181	42,036	36,509	8,301,726
<b>Gross carrying amount</b>	<b>718,709,195</b>	<b>9,841,310</b>	<b>10,952,325</b>	<b>739,502,830</b>
Loss allowance (ECL)	(3,349,234)	(100,010)	(599,717)	(4,048,961)
<b>Total loans at AC</b>	<b>715,359,961</b>	<b>9,741,300</b>	<b>10,352,608</b>	<b>735,453,869</b>
<b>Investment securities at AC:</b>				
Normal or low-fair risk	852,740	0	0	852,740
<b>Gross carrying amount</b>	<b>852,740</b>	<b>0</b>	<b>0</b>	<b>852,740</b>
Loss allowance (ECL)	(1,282)	0	0	(1,282)
<b>Total investments at AC</b>	<b>851,458</b>	<b>0</b>	<b>0</b>	<b>851,458</b>
<b>Investment securities at FVOCI:</b>				
Normal or low-fair risk	72,437,306	0	0	72,437,306
Loss allowance (ECL)	129,133	0	0	129,133
<b>Promissory notes:</b>				
Normal or low-fair risk	43,668,127	0	0	43,668,127

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**Notes to the Consolidated Financial Statements**

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

At December 31, 2021, the Company performed the credit quality analysis over its off-balance accounts. Of total of the off-balance sheet transactions, 100% correspond to revocable promissory notes and its credit risk has been assessed as 'normal or low-fair risk'.

The following table sets out information about the overdue status of loans receivable in 'Stages 1, 2 and 3', according to their gross carrying amount.

	2021			
	('Stage 1')	('Stage 2')	('Stage 3')	Total
<b><u>Personal loans:</u></b>				
Current	45,178,726	21,450	1,886,980	47,087,156
Overdue < 30 days	2,817,744	0	836,890	3,654,634
Overdue > 30 and < 60 days	1,267,149	0	811,154	2,078,303
Overdue > 60 and < 90 days	0	792,562	665,446	1,458,008
Overdue > 90 days	0	0	3,086,312	3,086,312
<b><u>Residential mortgage loans:</u></b>				
Current	486,248,737	1,666,810	7,828,832	495,744,379
Overdue < 30 days	35,879,049	0	5,977,737	41,856,786
Overdue > 30 and < 90 days	20,564,829	0	10,604,882	31,169,711
Overdue > 90 and < 180 days	0	7,035,565	8,075,406	15,110,971
Overdue > 180 days	0	0	9,957,862	9,957,862
	2020			
	('Stage 1')	('Stage 2')	('Stage 3')	Total
<b><u>Personal loans:</u></b>				
Current	56,205,647	34,121	0	56,239,768
Overdue < 30 days	3,757,989	0	0	3,757,989
Overdue > 30 and < 60 days	1,987,799	0	0	1,987,799
Overdue > 60 and < 90 days	0	1,446,124	0	1,446,124
Overdue > 90 days	0	0	2,080,868	2,080,868
<b><u>Residential mortgage loans:</u></b>				
Current	585,148,073	168,045	0	585,316,118
Overdue < 30 days	38,149,613	0	0	38,149,613
Overdue > 30 and < 90 days	25,236,894	0	0	25,236,894
Overdue > 90 and < 180 days	0	8,150,983	0	8,150,983
Overdue > 180 days	0	0	8,834,948	8,834,948

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**Notes to the Consolidated Financial Statements**

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

The following table sets out the analysis of the credit quality of investments in securities measured at FVTPL, which is monitored according to the issuer's international risk rating provided by the agencies Standard & Poor's, Moody's, and/or Fitch Ratings Inc., and in its absence using internal ratings.

<u>Investment securities at FVTPL:</u>	<u>2021</u>	<u>2020</u>
<u>Government bonds:</u>		
BBB+ to BBB-	1,257,592	1,868,264
	<u>1,257,592</u>	<u>1,868,264</u>
<u>Residential mortgage-backed securities (RMBS):</u>		
Normal or low-fair risk	8,095,052	5,678,037
	<u>8,095,052</u>	<u>5,678,037</u>
<u>Residual interests:</u>		
Normal or low-fair risk	20,603,473	18,379,017
	<u>20,603,473</u>	<u>18,379,017</u>
<b>Total investment securities at FVTPL</b>	<u>29,956,117</u>	<u>25,925,318</u>

*Deposits placed with banks*

At December 31, 2021, the Company held deposits placed with banks for \$60,858,493 (2020: \$70,002,697). These deposits are held with banks and other financial institution counterparties that are rated at least BBB- y BBB+, based on Fitch Ratings Inc., Moody's, and/or Standard & Poor's.

At December 31, 2021, the Company has not recognized an allowance for ECL on deposits in banks, because their credit risk has been assessed as normal or low-fair risk and management considers that the resulting amounts would not be material to the consolidated financial statements.

*Collateral held and other credit enhancements*

The Company holds collateral and other credit enhancements against certain of its credit exposures, as security for their collection. The following table sets out the principal types of collateral held against different types of financial assets.

	<b>% of exposure that is subject to collateral requirements</b>		
<u>Type of credit exposure:</u>	<u>2021</u>	<u>2020</u>	<u>Type of collateral held</u>
Loans	90%	90%	Residential properties
Investment securities	50%	50%	Mortgage loan portfolio

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**Notes to the Consolidated Financial Statements**

**(4) 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.

	<b><u>2021</u></b>	<b><u>2020</u></b>
<b><u>'LTV' ratio</u></b>		
0-20%	2,032,313	1,847,125
20-40%	12,733,389	12,788,369
40-60%	40,213,964	42,825,397
60-80%	230,349,186	265,156,278
80-100%	<u>303,776,034</u>	<u>336,532,239</u>
<b>Total</b>	<b><u>589,104,886</u></b>	<b><u>659,149,408</u></b>
<i>Credit impaired loans</i>		
0-20%	361,089	186,437
20-40%	219,513	157,324
40-60%	168,762	99,758
60-80%	2,251,735	1,771,128
80-100%	<u>7,743,036</u>	<u>6,472,495</u>
<b>Total</b>	<b><u>10,744,135</u></b>	<b><u>8,687,142</u></b>

*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:

	<b><u>2021</u></b>	<b><u>2020</u></b>
Residential properties	<u>978,010</u>	<u>934,312</u>
<b>Total</b>	<b><u>978,010</u></b>	<b><u>934,312</u></b>

The Company's policy is to pursue timely realization of the collateral in an orderly manner to cover the balances due. It is not the Company's policy to use the collaterals granted for its own use in its operations.

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

The accounting policies established by the Company for the measurement of the allowance for ECL on financial assets are disclosed in Note 3 (c.7).

***Significant increase in credit risk***

When determining whether the credit risk of a financial asset has increased significantly since its initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment, including forward-looking information.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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### Notes to the Consolidated Financial Statements

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default as at the reporting date; with
- the remaining lifetime probability of default for this point in time that was estimated at the time of initial recognition of the exposure.

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movements in probability of default;
- qualitative indicators; and
- that the financial instrument has a delinquency of more than 60 days for personal loans and more than 90 days for mortgage loans.

On the special occasion of the pandemic caused by COVID, the "doubtful" and "unrecoverable" subcategories are monitored, which are dealt with in Agreement No.006-2021 of the Superintendence of Banks of Panama, for those loans classified as "modified", that is, those credits that suffered changes in their payment plan as a result of the affectation in the payment capacity of the debtors.

#### Credit risk grades for the loan portfolio

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 Company 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).

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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

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 Company 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
- A2 – Delinquency range from 31 to 60 days
- B1 – Delinquency range from 61 to 90 days
- B2 – Delinquency range from 91 to 120 days
- C1 – Delinquency range from 121 to 150 days
- C2 – Delinquency range from 151 to 180 days
- D – Delinquency range greater than 180 days

#### Credit risk grades for the investment securities portfolio

For the government bond investment portfolio, the degree of credit risk is determined through transition matrices based on the issuer's international risk ratings obtained from rating agencies. For residential mortgage-backed securities, transition matrices are based on the risk ratings obtained from the agencies based on their underlying assets.

#### Generating the term structure of PD

- *Instrument treatment approach:*

Given the homogeneity of the profiles of the borrowers that comprise the Company's credit portfolios, when determining their credit impairment, it was established, that in 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.

Management 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.

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

Consequently, management determined as convenient to group the financial instruments that make up the Company's credit portfolio by country and by segment according to their guarantee. Therefore, two (2) segments were defined per country:

- 1) Residential loans with mortgage guarantee and personal loans with mortgage guarantee (LWMG);
- 2) 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 LGD 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 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's 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.

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.

Given the pandemic caused by COVID 19 and the eventual increase in the impairment of loans given the uncertainty due to the impact that this pandemic may have on households, for the current fiscal year, the transition matrices that deal with the previous paragraph were designed taking into account a stress scenario of delinquency; after which in an alternative exercise, the delinquency was increased for loans that received relief in their monthly payment as a measure granted by the Company to improve the debtor's cash flows.

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

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).

Through this process, 'pairs' of categories corresponding to a historical period of five (5) 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.

For investments in sovereign debt securities, the Company obtains their PD, mainly, from the Bloomberg financial platform, generated through the Merton and CDS methodologies, by instrument or issuer.

When obtaining the PD from the Bloomberg financial platform, the Company uses the option 'Basic Exponentiation Client's PD', which corresponds to a photo of an instrument's PD at a given date. For the exposure methodology, the Company uses 'constant', which in turn allows it to be more conservative, since the amortized values are tied to the amortization frequency that the Company has and the effect that buying at premium or at discount may have in the expected cash flows. For the amortization methodology, the Company uses 'duration', which allows to obtain an appropriate interpolation for instruments with a remaining life of less than one (1) year.

For investments in 'residential mortgage-backed securities', their PD are determined using a default criterion based on their underlying assets.

- 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 institution.

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 the Company by 'Direct Discount', which is one of the conditions for the approval of credit in the Company.



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

By virtue of the foregoing, to define 'default' in each segment for each country, 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 of the Company's portfolio (mortgage and personal loans), taking as a basis the historical series for Panama, El Salvador and Colombia.

Under this statistical approach, intermediate matrices were initially developed in a monthly basis for each segment and country between 2015 and 2020, containing the monthly roll-rates of delinquency of the loans granted by the Company according to their rates of delinquency. Subsequently, the Company has periodically prepared updated matrices, for each credit segment by country, in order to reflect a probability of occurrence of arrears based on delinquency ranges.

The matrices show the probabilities that an instrument reaches a certain height of default according to the range of delinquency at the beginning of the period in a horizon of one (1) year. Also shown are the accumulated percentage of arrears in which the instruments of the segment fall within a horizon of 12 months after the month of the start of the count.

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.

#### Determining whether credit risk has increased significantly

The Company assesses whether the credit risk has increased significantly since initial recognition at each reporting date.

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

- Significant changes in credit risk indicators as a consequence of a change in credit risk since its initial recognition;
- Significant changes in the external credit risk market indicators for a specific financial instrument or similar financial instruments with the same expected life;
- A significant actual or expected change in the external credit rating of the financial instrument; and
- Significant changes in the value of the collateral that supports the obligation.

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

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when a personal loan is more than 60 days past due or, for residential mortgage loans, more than 90 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Company determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. When the contractual terms of a loan have been modified, evidence that the criteria for recognizing lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular 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 the personal loans become 60 days past due, and for the residential mortgage loans, 90 days past due;
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD ('Stage 1') and lifetime PD ('Stage 2').

#### *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 Company in full, without recourse by the Company 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;
- For fixed income financial instruments, the following factors are considered, among others:
  - Downgrade of the issuer's external rating;
  - Contractual payments are not made on the due date or within the stipulated period or grace period;
  - There is a high probability of suspension of payments;

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### Notes to the Consolidated Financial Statements

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

- The issuer is likely to go bankrupt or file for bankruptcy or similar action;
- The financial asset stops trading in an active market due to its financial difficulties.

Additionally, in the case of loans at AC, those that have been classified as 'modified' due to the COVID-19 pandemic, that have failed to comply with their new payment plan and that have a subcategory of 'doubtful' or 'unrecoverable' under the Agreement No.006-2021 of the Superintendence of Banks of Panama, are considered to be in default.

In assessing whether a borrower is in default, the Company considers indicators that are:

- Qualitative: e.g., breaches of covenants;
- Quantitative: e.g., overdue status and non-payment on another obligation of the same borrower or issuer to the Company; and
- Based on 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. The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

#### Incorporation of forward-looking information

The incorporation of 'forward-looking' information into the Company's 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 Company 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 Company 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 Company has selected from among the available variables, those that present the indicated profiles of regularity, accessibility and reliability, as detailed below:

- a) Inflation (Consumer Price Index or 'CPI')
- b) Unemployment
- c) Social security contributors

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

- d) Gross Domestic Product ('GDP')
- e) Monthly Index of Economic Activity ('MIEA')
- f) Market currency exchange rate
- g) Past due loan portfolio of the Company
- h) Past due loan portfolio of the financial system.

Considering that during 2021, the main macroeconomic indicators maintain data whose behavior diverges from historical information as a result of the COVID-19 pandemic, which also caused an economic recession worldwide; it was determined that for the estimation of the forward-looking model, exercises will not be carried out with different macroeconomic variables until finding the one that correlates with the overdue portfolio of the Company, but instead, the model will correlate and obtain an adjustment factor to the ECL incorporating the unemployment rate in the 3 countries.

The above, in addition, for the following reasons.

- a. Historically, one of the variables in which it was tried to find correlations was the GDP and the other variables related to economic growth such as the IVAE or the ISE in Colombia. These variables, as at the date of preparation of this methodology, show economic recessions in the 3 countries, and market organizations such as Moody's and the IMF projected recessions at the end of 2020 in the 3 countries, with uncertainty over the recovery expectations for 2021.
- b. Unemployment has historically been the variable that best correlates the variation of the Company's overdue portfolio, which also has a very high business logic, since the Company's business model is specially designed to serve employees in the 3 countries; in addition to some profiles of retirees or independent.
- c. In previous years, an attempt has also been made to obtain correlations with the variations in the overdue portfolio in the market, figures published by the Superintendence of Banks in each country; however, the existence of financial relief for those clients who have failed to comply their payments during 2020, does not allow the market to really reflect the impairment in the loan portfolio; and as warned by the Financial Superintendence of Colombia in its monthly report as of September 2020; and the Superintendence of Banks of Panama in its presentation of the same period, the impairment in the loan portfolio will not be reflected until the end of the relief period granted by moratorium laws

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

During 2020, the methodology implemented by the Company to identify the 'forward-looking' variables that would be used in the determination of ECL, was based on a 'Multiple Correlation Coefficient' calculation. The process of defining the most significant variables among the universe of those that are available, consisted 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's '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 Company 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 2014 and 2020, the Company determined as appropriate to use the following 'forward-looking' variables as part of the ECL model by country and segment, for the period 2021:

- a) Panama – Operations with Guarantees (Unemployment)
- b) Panama – Operations without Guarantees (Unemployment)
- c) El Salvador – Operations with Guarantees (Unemployment)
- d) El Salvador – Operations without Guarantees (Unemployment)
- e) Colombia – Operations with Guarantees (Unemployment)
- f) Colombia – Operations without Guarantees (Unemployment)

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

The following table presents a summary of the forward-looking information incorporated by the Company in the estimation process of the ECL for the loan portfolio as of December 31, 2021:

Segment	Forward-looking variable correlated with past due portfolio	Historical variable			Incorporation of forward-looking ('FL') variables in the estimation of the ECL as of Dec 31, 2021				
		2019	2020	2021	Scenario	Expected trend	Projected FL variable	'FL' Factor	Impact on the ECL
Panama – Operations with Guarantees	Unemployment	7.10%	18.5%	11.3%	Unique	Increase	18.50%	1.0300%	\$1,187
Panama – Operations without Guarantees	Unemployment	7.10%	18.5%	11.3%	Unique	Increase	18.50%	1.0500%	\$23,392
Salvador – Operations with Guarantees	Unemployment	6.3%	6.19%	9.5%	Unique	Increase	12.12%	1.0000%	\$1,221
Salvador – Operations without Guarantees	Unemployment	6.3%	6.19%	9.5%	Unique	Increase	12.12%	1.0000%	\$3,289
Colombia – Operations with Guarantees	Unemployment	9.53%	13.4%	10.8%	Unique	Increase	13.37%	1.0600%	\$132
Colombia – Operations without Guarantees	Unemployment	9.53%	13.4%	10.8%	Unique	Increase	13.37%	1.0800%	\$3,666

**Modified financial assets**

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3 (c.4).

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 comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to 'Stage 1' (assuming it is not credit-impaired at that time).

The Credit Committee periodically reviews reports on the renegotiation activities of the terms of the loans receivable.

The renegotiation of the terms of a loan may represent a qualitative indicator that there is a significant increase in the credit risk of a financial asset, which may constitute evidence that the exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired or in default or the PD is considered to have decreased such that it falls within the '12-month PD' ranges for the asset to be considered 'Stage 1'.

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

##### *Measurement of expected credit losses (ECL)*

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

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

ECL for exposures in 'Stage 1' are calculated by multiplying the '12-month PD' by LGD and EAD. Lifetime ECL are calculated by multiplying the 'lifetime PD' by LGD and 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.

The methodology for estimating PDs of the identified segments, is explained above under the heading 'Generating the term structure of PD', and in the context of the collective treatment of the credit portfolios, the Company's methodology used when determining the loan segments' PD is focused on the process denominated as 'Markov Chain'.

The Company estimates the PD parameters based on the history of recovery rates of claims against impaired counterparts. The PD models consider the structure, the guarantee, the antiquity of the claim, the counterpart industry and the recovery costs of any guarantee that is integral to the financial asset. For secured loans with properties, LTV ratios are a key parameter for determining the PD.

##### PD estimation

The calculation of the PD is implemented for each segment identified in each country, 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 determined as completed by the Company, either due to the total recovery of the amounts owed or due to justified withdrawal from collection according to approved credit management policies. 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 by 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.

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### Notes to the Consolidated Financial Statements

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#### (4) 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.

- Mortgage PD for the Colombian operations

For the mortgage portfolio of Colombia, the Company does not have historical data on recoveries of residential mortgage loans that allow estimating its PD. Therefore, to determine its PD, the Company take into consideration variables as the property value growth in Colombia, the current housing deficit, the LTV at disbursement and the average of the portfolio.

#### 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 Company determines the annual EAD over the remaining life of the instruments for its subsequent weighting by the respective marginal annual PD.

The Company estimates the value of the annual nominal EAD from the projection of the balances at amortized cost of the instruments. In order to determine the EAD, the Company periodically makes a projection of the amortization tables of the loans of each segment until their cancellation. Based on the above, the projected annual average of the residual capital balances is obtained, a value that is used as the projected annual EAD exposure for the life of the instruments. Finally, these balances are discounted at the effective annual interest rate.

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



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

*Loss allowance*

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in the accounting policy. See Note 3 (c.7).

	<b>2021</b> <b>12-month ECL</b> <b>('Stage 1')</b>	<b>2020</b> <b>12-month ECL</b> <b>('Stage 1')</b>
<b><u>Investment securities at AC:</u></b>		
Balance at the beginning of the year	1,282	354
Net remeasurement of loss allowance	2,017	(2,830)
New financial assets purchased	<u>0</u>	<u>3,758</u>
Balance at the end of the year	<u>3,299</u>	<u>1,282</u>

  

	<b>2021</b>	
	<b>Lifetime ECL</b>	
	<b>(not-credit</b>	
	<b>impaired)</b>	
	<b>('Stage 2')</b>	
	<b>12-month ECL</b>	<b>Total</b>
	<b>('Stage 1')</b>	
<b><u>Investment securities at FVOCI:</u></b>		
Balance at the beginning of the year	69,680	129,133
Net remeasurement of loss allowance	(4,351)	5,893
New financial assets purchased	2,040	2,040
Financial assets that have been derecognized	<u>0</u>	<u>0</u>
Balance at the end of the year	<u>67,369</u>	<u>137,066</u>

  

	<b>2020</b>	
	<b>Lifetime ECL</b>	
	<b>(not-credit</b>	
	<b>impaired)</b>	
	<b>('Stage 2')</b>	
	<b>12-month ECL</b>	<b>Total</b>
	<b>('Stage 1')</b>	
<b><u>Investment securities at FVOCI:</u></b>		
Balance at the beginning of the year	39,558	136,567
Net remeasurement of loss allowance	34,412	(3,144)
New financial assets purchased	20,910	20,910
Financial assets that have been derecognized	<u>(25,200)</u>	<u>(25,200)</u>
Balance at the end of the year	<u>69,680</u>	<u>129,133</u>

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

	2021			<b>Total</b>
	<b>12-month ECL (‘Stage 1’)</b>	<b>Lifetime ECL (not credit- impaired / collectively assessed (‘Stage 2’)</b>	<b>Lifetime ECL (credit-impaired / individually assessed) (‘Stage 3’)</b>	
<b>Loans at AC:</b>				
<b>Balance at the beginning of the year</b>	3,349,234	100,010	599,717	4,048,961
Transfer to Stage 1	935,298	(656,614)	(278,684)	0
Transfer to Stage 2	(404,440)	847,862	(443,422)	0
Transfer to Stage 3	(108,877)	(973,311)	1,082,188	0
Net remeasurement of loss allowance	(2,755,057)	882,841	2,622,122	749,906
New financial assets originated	62,262	36,731	8,015	107,008
Financial instruments that have been derecognized	(82,120)	(23,131)	(153,710)	(258,961)
Write-offs	0	0	(694,400)	(694,400)
Effect of exchange rates fluctuations	(38,561)	0	0	(38,561)
<b>Balance at the end of the year</b>	<b>957,739</b>	<b>214,388</b>	<b>2,741,826</b>	<b>3,913,953</b>

  

	2020			<b>Total</b>
	<b>12-month ECL (‘Stage 1’)</b>	<b>Lifetime ECL (not credit- impaired / collectively assessed (‘Stage 2’)</b>	<b>Lifetime ECL (credit-impaired / individually assessed) (‘Stage 3’)</b>	
<b>Loans at AC:</b>				
<b>Balance at the beginning of the year</b>	239,631	119,208	319,914	678,753
Transfer to Stage 1	243,874	(143,021)	(100,853)	0
Transfer to Stage 2	(89,186)	264,652	(175,466)	0
Transfer to Stage 3	(6,645)	(206,373)	213,018	0
Net remeasurement of loss allowance	2,957,756	70,061	1,145,113	4,172,930
New financial assets originated	20,620	1,136	2,016	23,772
Financial instruments that have been derecognized	(13,626)	(5,653)	(96,974)	(116,253)
Write-offs	0	0	(707,051)	(707,051)
Effect of exchange rates fluctuations	(3,190)	0	0	(3,190)
<b>Balance at the end of the year</b>	<b>3,349,234</b>	<b>100,010</b>	<b>599,717</b>	<b>4,048,961</b>

As of December 31, 2020, the Company maintained \$821,046 as part of its allowance for expected credit losses (ECL) on loans receivable, in accordance with the result of the estimate based on the 'post-model' methodology ('overlay model') defined by management. This methodology considered the impact of the COVID-19 pandemic on the macroeconomic conditions of the countries in which the Company's loan portfolio was concentrated and, consequently, on the borrower's' repayment capacity.

For 2021, after implementing the changes in the methodology for estimating the ECL on loans receivable detailed above, in response to the changes in macroeconomic conditions brought about by COVID-19, the Company discontinued the use of the "post-model".

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements**

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

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'impairment losses on financial instruments' line items in the consolidated statement of profit or loss.

	<b>2021</b>			
	<b>Investment securities at AC</b>	<b>Investment securities at FVOCI</b>	<b>Loans at AC</b>	<b>Total</b>
Net remeasurement of loss allowance	2,017	5,893	749,906	757,816
New financial assets originated or purchased	0	2,040	107,008	109,048
Financial assets that have been derecognized	0	0	(258,961)	(258,961)
<b>Total</b>	<b>2,017</b>	<b>7,933</b>	<b>597,953</b>	<b>607,903</b>

  

	<b>2020</b>			
	<b>Investment securities at AC</b>	<b>Investment securities at FVOCI</b>	<b>Loans at AC</b>	<b>Total</b>
Net remeasurement of loss allowance	(2,830)	(3,144)	4,172,930	4,166,956
New financial assets originated or purchased	3,758	20,910	23,772	48,440
Financial assets that have been derecognized	0	(25,200)	(116,253)	(141,453)
<b>Total</b>	<b>928</b>	<b>(7,434)</b>	<b>4,080,449</b>	<b>4,073,943</b>

*Credit-impaired financial assets*

The accounting policies established by the Company related to credit-impairment financial assets are disclosed in Note 3 (c.7).

Credit-impairment financial assets are classified by the Company in risk categories from 'B2' to 'D' for personal loans and 'D' for residential mortgage loans, these being assigned to 'Stage 3'.

The contractual amount outstanding on loans receivable that were written off during the year ended December 31, 2021 and that are still subject to enforcement activity is \$694,400 (2020: \$707,051).

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
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**Notes to the Consolidated Financial Statements**

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

*Concentrations of credit risk*

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:

	<b>Loans at AC</b>		<b>Investment securities</b>		<b>Promissory notes</b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>
<b>Gross carrying amount</b>	<u>660,717,115</u>	<u>739,502,830</u>	<u>114,066,259</u>	<u>99,371,620</u>	<u>74,377,290</u>	<u>43,668,127</u>
<b><u>Concentration by sector:</u></b>						
Mortgage banking	598,035,623	667,090,742	77,304,887	61,631,424	74,377,290	43,668,127
Personal banking	62,681,492	72,412,088	0	0	0	0
Other sectors	0	0	36,761,372	37,740,196	0	0
	<u>660,717,115</u>	<u>739,502,830</u>	<u>114,066,259</u>	<u>99,371,620</u>	<u>74,377,290</u>	<u>43,668,127</u>
<b><u>Concentration by location:</u></b>						
Panama	462,843,165	537,821,648	77,526,156	61,227,543	74,377,290	43,668,127
El Salvador	122,372,071	120,477,773	0	0	0	0
Colombia	75,501,879	81,203,409	4,533,053	5,984,127	0	0
United States of America	0	0	32,007,050	32,159,950	0	0
	<u>660,717,115</u>	<u>739,502,830</u>	<u>114,066,259</u>	<u>99,371,620</u>	<u>74,377,290</u>	<u>43,668,127</u>

Concentration by location for loans at AC is based on the customer's country of domicile and for investment securities is based on the country of domicile of the issuer of the security.

**(b) Liquidity risk:**

The liquidity risk consists of two definitions and depends on its origination:

*Funding liquidity risk:*

It represents the difficulty of an entity to obtain the resources necessary to comply with all its obligations, through the income generated by their assets or by the acquisition of new liabilities. This type of risk, generally, is occasioned by a drastic and sudden deterioration of the quality of the assets which originates an extreme difficulty to turn them into liquid resources.

*Market liquidity risk:*

It is the probability of economic loss due to the difficulty of disposing assets without a significant reduction in its price. It is incurred in this class of risk as a result of changes in the market (prices, rates, etc.), or when investments realized are in markets or instruments for which does not exist an ample offer and demand.

*Liquidity risk management:*

The Company monitors this risk with sufficient and appropriate liquid funds and assets that can easily be liquidated, usually at level required by the regulator and maintains an adequate gap between maturities of assets and liabilities which is assessed periodically.

The ALCO Committee is in charge of the management of the liquidity risk in order to assure the Company can respond in case of unexpected cash withdrawals of deposits or unscheduled loans commitments.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

### (4) Financial Risk Management, continued

Company's management and the ALCO Committee are responsible to monitor the liquidity position through an analysis of the contractual maturity are structure, stability of deposits by type of customer, and the compliance with regulations and corporate policies.

#### *Exposure to liquidity risk*

The key measure used by the Company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. The net liquid assets are considered as including cash and cash equivalents and debt securities for which there is an active and liquid market less any deposit from banks, debt securities issued and other borrowings.

The ratio of net liquid assets to deposits from customers of Banco La Hipotecaria, S. A. reported to the Superintendence of Banks of Panama; this ratio should not be less than 30%:

	<u>2021</u>	<u>2020</u>
At December 31	90.69%	94.40%
Average for the year	90.12%	115.69%
Maximum for the year	105.45%	154.66%
Minimum for the year	67.54%	91.65%

The table below sets out the undiscounted cash flows of the financial assets and liabilities of the Company and its loan commitments not recognized.

<u>2021</u>	<u>Carrying amount</u>	<u>Gross nominal amount (outflow)/inflow</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>
<b>Financial liabilities:</b>						
Saving deposits	2,911,514	(2,911,514)	(2,911,514)	0	0	0
Time deposits	367,056,823	(386,869,016)	(211,193,444)	(175,675,572)	0	0
Negotiable commercial papers	35,315,094	(35,636,642)	(35,636,642)	0	0	0
Negotiable commercial notes	55,524,085	(59,629,997)	(17,525,046)	(42,104,951)	0	0
Covered bonds	51,347,808	(55,672,205)	(1,073,455)	(54,598,750)	0	0
Ordinary bonds	13,009,668	(15,268,516)	(658,592)	(14,609,924)	0	0
Investment certificates	19,523,626	(20,383,148)	(11,892,624)	(8,490,524)	0	0
Other negotiable debts	10,888,482	(11,154,268)	(11,154,268)	0	0	0
Borrowings	227,414,806	(259,118,051)	(18,731,299)	(185,360,274)	(55,026,478)	0
Lease liabilities	<u>2,405,253</u>	<u>(3,269,842)</u>	<u>(858,275)</u>	<u>(2,411,567)</u>	<u>0</u>	<u>0</u>
<b>Total financial liabilities</b>	<u>785,397,159</u>	<u>(849,913,199)</u>	<u>(311,635,159)</u>	<u>(483,251,562)</u>	<u>(55,026,478)</u>	<u>0</u>
<b>Financial assets:</b>						
Cash	242,052	242,052	242,052	0	0	0
Deposits in banks	60,858,493	60,858,493	60,858,493	0	0	0
Investment securities	114,062,959	122,542,397	9,740,119	38,553,729	41,150,431	33,098,118
Loans	<u>656,803,162</u>	<u>980,907,003</u>	<u>52,047,136</u>	<u>202,962,553</u>	<u>224,936,325</u>	<u>500,960,989</u>
<b>Total financial assets</b>	<u>831,966,666</u>	<u>1,164,549,945</u>	<u>122,887,800</u>	<u>241,516,282</u>	<u>266,086,756</u>	<u>534,059,107</u>
<b>Commitments and contingencies:</b>						
Promissory notes	<u>(74,377,289)</u>	<u>(74,377,289)</u>	<u>(74,377,289)</u>	<u>0</u>	<u>0</u>	<u>0</u>

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
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**Notes to the Consolidated Financial Statements**

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

<u>2020</u>	<u>Carrying amount</u>	<u>Gross nominal amount (outflow)/inflow</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>
<b>Financial liabilities:</b>						
Saving deposits	1,980,490	(1,980,490)	(1,980,490)	0	0	0
Time deposits	337,602,643	(362,680,106)	(210,701,263)	(151,978,843)	0	0
Negotiable commercial papers	84,830,135	(86,211,517)	(86,211,517)	0	0	0
Negotiable commercial notes	107,092,006	(111,662,474)	(68,394,972)	(43,267,502)	0	0
Covered bonds	51,074,683	(58,190,452)	(2,518,247)	(55,672,205)	0	0
Ordinary bonds	15,091,711	(18,476,058)	(763,992)	(17,712,066)	0	0
Investment certificates	37,911,676	(43,264,720)	(4,780,369)	(38,484,351)	0	0
Other negotiable debts	28,224,978	(29,157,998)	(23,657,192)	(5,500,806)	0	0
Borrowed funds	194,781,434	(213,250,081)	(94,629,863)	(86,565,655)	(32,054,563)	0
<b>Total financial liabilities</b>	<u>2,821,728</u>	<u>(3,862,887)</u>	<u>(636,402)</u>	<u>(2,160,896)</u>	<u>(1,065,589)</u>	<u>0</u>
	<u>861,411,484</u>	<u>(928,736,783)</u>	<u>(494,274,307)</u>	<u>(401,342,324)</u>	<u>(33,120,152)</u>	<u>0</u>
<b>Financial assets:</b>						
Cash						
Deposits in banks	252,571	252,571	252,571	0	0	0
Investment securities	70,002,697	70,002,697	70,002,697	0	0	0
Loans	99,370,338	174,011,112	4,938,597	27,473,997	54,585,541	87,012,977
<b>Total financial assets</b>	<u>735,453,869</u>	<u>1,216,449,709</u>	<u>63,019,714</u>	<u>246,072,993</u>	<u>275,562,544</u>	<u>631,794,458</u>
	<u>905,079,475</u>	<u>1,460,716,089</u>	<u>138,213,579</u>	<u>273,546,990</u>	<u>330,148,085</u>	<u>718,807,435</u>
<b>Commitments and contingencies:</b>						
Promissory notes	<u>(43,668,127)</u>	<u>(43,668,127)</u>	<u>(43,668,127)</u>	<u>0</u>	<u>0</u>	<u>0</u>

For the financial assets and financial liabilities, their gross carrying amount is measured based on undiscounted flows which include estimated interest payments, for this reason the amounts differ from the consolidated statement of financial position.

The following table sets out the carrying amounts of financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

	<u>2021</u>	<u>2020</u>
<b>Financial assets:</b>		
Loans	<u>650,621,864</u>	<u>730,744,418</u>
Investment securities	<u>113,065,950</u>	<u>95,887,877</u>
<b>Financial liabilities:</b>		
Time deposits	<u>370,671,438</u>	<u>135,415,365</u>
Negotiable commercial notes	<u>38,326,000</u>	<u>40,275,000</u>
Covered bonds	<u>52,000,000</u>	<u>52,000,000</u>
Ordinary bonds	<u>12,991,411</u>	<u>15,070,536</u>
Investment certificates	<u>7,950,000</u>	<u>33,250,000</u>
Other negotiable debts	<u>0</u>	<u>5,000,000</u>
Borrowings	<u>209,666,783</u>	<u>101,710,940</u>
Leases liabilities	<u>2,185,326</u>	<u>2,342,650</u>

The Company is dedicated to generate residential mortgage and personal loans and is capable of securitize part of its loans in accordance with its liquidity needs. Residential mortgage loans reflect a monthly flow in capital subscriptions and interest payments which are not listed in the table above.

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**Notes to the Consolidated Financial Statements**

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

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

<u>2021</u>	<u>Pledged as Collateral</u>	<u>Available as Collateral</u>	<u>Total</u>
Cash and cash equivalent	0	61,100,545	61,100,545
Investment securities	0	114,062,959	114,062,959
Loans at AC	200,910,697	455,892,465	656,803,162
Non-financial assets	0	43,691,662	43,691,662
	<u>200,910,697</u>	<u>674,747,631</u>	<u>875,658,328</u>

  

<u>2020</u>	<u>Pledged as Collateral</u>	<u>Available as Collateral</u>	<u>Total</u>
Cash and cash equivalent	0	70,255,268	70,255,268
Investment securities	0	99,370,338	99,370,338
Loans at AC	238,395,359	497,058,510	735,453,869
Non-financial assets	0	43,908,826	43,908,826
	<u>238,395,359</u>	<u>710,592,942</u>	<u>948,988,301</u>

**(c) 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 Company's market risk management is to manage and control market risk exposures within the acceptable parameters to ensure the Company's solvency while optimizing the return on risk.

***Market risk management***

The management of this risk is supervised regularly by the General Management. To mitigate this risk, the Company has documented in its control policies related to investment limits, classification and valuation of investments, qualification of portfolio, cross-check of interest payments, sensibility and stress tests.

Below are detailed the composition and analysis of each of the types of market risk:

**Foreign exchange risk:**

Foreign exchange risk is the risk that the value of a financial instrument fluctuates as a consequence of changes in exchange rates of foreign currencies and other financial variables, and the reaction of market participants to political and economic events. For purposes of IFRS 7, this risk does not derive from financial instruments that are not monetary items, nor for financial instruments denominated in the functional currency.

As of December 31, 2021, the Company did not have transactions in foreign currency in the consolidated statement of financial position that were exposed to foreign exchange risk, because all its financial instruments have been denominated in their functional currency, including those of the subsidiaries in Colombia, El Salvador, British Virgin Islands and Turks and Caicos.

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**Notes to the Consolidated Financial Statements**

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

Interest rate risk:

Interest rate risk is the Company's financial exposure (net margin and equity market value) to possible losses in the event of unexpected fluctuations in the interest rates.

The Company has an ALCO Committee, which under parameters defined by the Board of Directors, analyzes the sensitivity of variations in interest rates, and determines the balance sheet structure, the term of the different items and the investment strategies.

The table below summarizes the Company's exposure to interest rate risk. It includes the Company's assets and liabilities at carrying value, categorized by the earlier of contractual repricing rate or maturity.

<u>2021</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>	<u>Total</u>
<b>Assets:</b>					
Deposits in banks (1)	32,603,906	0	0	0	32,603,906
Investments securities at FVTPL	235,190	1,257,592	0	28,698,525	30,191,307
Investments securities at AC	0	543,850	221,268	0	765,118
Investments securities at FVOCI	29,744,600	4,521,021	29,982,450	18,861,762	83,109,833
Loans at AC	660,717,115	0	0	0	660,717,115
<b>Total assets</b>	<u>723,300,811</u>	<u>6,322,463</u>	<u>30,203,718</u>	<u>47,560,287</u>	<u>807,387,279</u>
<b>Liabilities:</b>					
Saving deposits	2,911,514	0	0	0	2,911,514
Time deposits	173,553,070	193,503,753	0	0	367,056,823
Borrowings	80,711,697	121,703,109	25,000,000	0	227,414,806
Debts securities in issue	95,515,576	90,093,187	0	0	185,608,763
<b>Total liabilities</b>	<u>352,691,857</u>	<u>405,300,049</u>	<u>25,000,000</u>	<u>0</u>	<u>782,991,906</u>
<b>Interest rate sensitivity, net</b>	<u>370,608,954</u>	<u>(398,977,586)</u>	<u>5,203,718</u>	<u>47,560,287</u>	<u>24,395,373</u>

(1) Includes only interest-bearing bank deposits.

<u>2020</u>	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>	<u>Total</u>
<b>Assets:</b>					
Deposits in banks (1)	39,603,044	0	0	0	39,603,044
Investments securities at FVTPL	1,868,264	0	0	24,057,054	25,925,318
Investments securities at AC	632,120	0	220,620	0	852,740
Investments securities at FVOCI	16,459,260	3,327,487	31,535,450	21,115,109	72,437,306
Loans at AC	739,502,830	0	0	0	739,502,830
<b>Total assets</b>	<u>798,065,518</u>	<u>3,327,487</u>	<u>31,756,070</u>	<u>45,172,163</u>	<u>878,321,238</u>
<b>Liabilities:</b>					
Saving deposits	1,980,490	0	0	0	1,980,490
Time deposits	206,897,796	130,704,847	0	0	337,602,643
Debts securities in issue	194,781,434	0	0	0	194,781,434
Borrowings	184,460,113	139,765,076	0	0	324,225,189
<b>Total liabilities</b>	<u>588,119,833</u>	<u>270,469,923</u>	<u>0</u>	<u>0</u>	<u>858,589,756</u>
<b>Interest rate sensitivity, net</b>	<u>209,945,685</u>	<u>(267,142,436)</u>	<u>31,756,070</u>	<u>45,172,163</u>	<u>19,731,482</u>

(1) Includes only interest-bearing bank deposits.



# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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## Notes to the Consolidated Financial Statements

### (4) 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>25 bp increase</u>	<u>25 bp decrease</u>	<u>50 bp increase</u>	<u>50 bp decrease</u>
<b>Sensitivity of projected net interest income:</b>				
<b><u>2021</u></b>				
At December 31	1,294,636	(1,294,636)	2,589,271	(2,589,271)
Average for the year	1,438,051	(1,438,051)	2,876,103	(2,876,103)
Maximum for the year	1,573,049	(1,573,049)	3,146,097	(3,146,097)
Minimum for the year	1,294,636	(1,294,636)	2,589,271	(2,589,271)
<b><u>2020</u></b>				
At December 31	1,319,446	(1,319,446)	2,639,827	(2,639,827)
Average for the year	1,216,629	(1,263,189)	2,433,732	(2,526,378)
Maximum for the year	1,350,656	(1,350,656)	2,701,313	(2,701,313)
Minimum for the year	1,020,693	(1,020,093)	2,042,345	(2,042,345)
<b>Sensitivity of reported equity to interest rate movements:</b>				
<b><u>2021</u></b>				
At December 31	(2,035,541)	2,035,541	(4,071,083)	4,071,083
Average for the year	(1,587,848)	1,587,848	(3,175,695)	3,175,695
Maximum for the year	(1,600,936)	1,600,936	(3,201,871)	3,201,871
Minimum for the year	(1,574,759)	1,574,759	(3,149,518)	3,149,518
<b><u>2020</u></b>				
At December 31	(1,639,670)	1,639,670	(3,279,339)	3,279,333
Average for the year	(1,724,738)	1,767,436	(3,449,476)	3,534,873
Maximum for the year	(1,778,100)	1,778,100	(3,556,201)	3,556,201
Minimum for the year	(1,724,410)	1,724,410	(3,448,820)	3,513,544

To evaluate the interest rate risk and its impact in the fair value of financial assets and liabilities, management of the Company makes stress tests to determine the sensibility of financial assets and liabilities.

#### Price risk:

It is the risk that the value of a financial instrument fluctuates due to changes in market prices, independently that they are caused by specific factors related to the particular instrument or its issuer, or factors that affect all securities traded on the market.

The Company is exposed to price risk of equity instruments classified as at FVOCI or securities at FVTPL. To mitigate the price risk in equity or debt instruments, the Company diversifies its portfolio according to the established investment limits.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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

(d) *Operational risk:*

Operational risk involves potential losses, directly or indirectly related to the banking process. It could be caused by personnel, technology, infrastructure, as well as external factors that are not related to credit, market and liquidity risks. These external factors involve government legal requirements and regulatory requirements and generally accepted standards of corporate behavior.

The function of Operational Risk is to guarantee the adequate management of this risk, achieve its understanding, identify the operational risks present in the activities of the organization, to reinforce controls, reduce the number of incidents or events, and minimize monetary losses. For the above, an Operational Risk methodology and a management framework have been defined, which allows the identification, measurement, mitigation, monitoring, control and information to be carried out in order to minimize levels of associated losses.

All Company's personnel must apply this methodology and are responsible for the adequate management of the operational risks associated with their areas and activities and mainly consists of the following stages:

- Identification and evaluation of risks.
- Risk measurement (collection of events and incidents).
- Risk mitigation (implementation of controls and action plans).
- Risk monitoring (risk indicators).
- Testing of the effectiveness of controls.
- Evaluation of operational risk in new Company's initiatives, products and/or services, significant improvements to processes.
- Periodic training with the different areas of the Company.

We have defined and formalized the methodology for Operational Risk Management through:

- Operational Risk Policy and Manual
- Operational Risk Limits
- Operational Risk Indicators
- Operational Risk Managers
- Tool for event management
- Operational Risk Matrices
- Database of Operational Risk
- Capital requirement calculations for Operational Risk.

The Operational Risk management framework, in order to guide the objectives and essential components, is made up of the following phases:

#### **Phase 1 - Culture**

Stage in which all the organization's personnel are sensitized about the importance of Operational Risk management.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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## Notes to the Consolidated Financial Statements

### (4) Financial Risk Management, continued

#### Phase 2 - Qualitative Management

Stage in which the organizational structure, policies, risk identification and prioritization of responses, development of indicators and self-assessments are defined.

#### Phase 3 - Quantitative Management

Stage in which the capture, maintenance of data and collection of losses occurs for the design of internal indicators that allow to carry out contrasts against the capital requirement for operational risk that the entity manages.

### (e) Capital Management:

One of the Company's policies is to maintain a level of capital that accompanies the credit and investment businesses for their growth within the market, maintaining a balance between the return on investments made and the capital adequacy required by the regulators.

The banking subsidiary of the Company, Banco La Hipotecaria, S. A. and Subsidiaries ('the Bank'), is subject to the Panamanian Banking Law, which states that the total capital adequacy ratio shall not be less than 8% of its total weighted assets and off-balance accounts which represent an irrevocable contingency, weighted based on their risks.

Based in the Agreements No.001-2015 and its amendments and No.003-2016, issued by the Superintendence of Banks of Panama, as of December 31, 2021, the Bank has a regulatory capital position that is comprised as follows.

	<u>2021</u>	<u>2020</u>
<b>Primary Ordinary Capital</b>		
Common shares	15,000,000	15,000,000
Additional paid-in-capital	25,051,203	25,051,203
Capital reserves	1,800,000	1,800,000
Non-controlling interest	819,206	879,953
Retained earnings	36,393,322	30,807,282
Other items of comprehensive income (1)		
Gains on securities and allowance for ECL on investment securities at FVOCI	(412,279)	2,155,293
Adjustment for translation of foreign currency	(10,856,150)	(7,661,410)
Treasury shares	(727,000)	(727,000)
Less: deferred tax	(351,656)	(780,504)
<b>Total Primary Ordinary Capital</b>	<u>66,716,647</u>	<u>66,524,817</u>
<b>Dynamic provision</b>	<u>4,706,953</u>	<u>4,803,937</u>
<b>Total Regulatory Capital</b>	<u>71,423,600</u>	<u>71,328,754</u>
<b>Total of Risk-Weighted Assets</b>	<u>584,443,598</u>	<u>567,665,414</u>

<u>Ratios:</u>	<u>Minimum required</u>		
Capital Adequacy Ratio	<u>8.00%</u>	<u>12.22%</u>	<u>12.57%</u>
Primary Ordinary Capital Ratio	<u>4.50%</u>	<u>11.42%</u>	<u>11.72%</u>
Primary Capital Ratio	<u>6.00%</u>	<u>11.42%</u>	<u>11.72%</u>
Leverage Coefficient	<u>3.00%</u>	<u>7.74%</u>	<u>7.14%</u>

(1) Excludes the fair value of the portfolio acquired

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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### (5) Use of Estimates and Judgements in Applying Accounting Policies

In preparing these consolidated financial statements in accordance with International Financial Reporting Standards, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, taking into consideration historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognized prospectively.

Management evaluates the selection, disclosures and application of critical accounting policies related to significant estimation uncertainties.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

#### (a) *Classification of financial assets*

When determining the classification of financial assets, the Company uses its judgement to assess the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. See Note 3 (c.2).

#### (b) *Impairment of financial assets – Significant increase in credit risk*

The Company uses its judgement to establish the criteria for determining whether a financial asset has significantly increased its credit risk since its initial recognition, and in the selection and approval of the models used to measure the ECL.

In accordance with the defined criteria, the Company assesses at each reporting date whether the credit risk of financial assets has increased significantly since their initial recognition. See Note 3 (c.7) and Note 4 (a).

#### (c) *Income tax*

The Company is subject to income taxes under the jurisdictions of the Republic of Panama, Colombia, and El Salvador. Significant estimates are required in determining the provision for income taxes. Estimates are made through a tax projection to determine the provision for income taxes and the resulting liabilities are recognized. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income taxes in the period in which such determination was made. See Note 3 (s) and Note 24.

#### (d) *Non-consolidated structured entities*

The Company's management periodically evaluates whether the trusts in which it acts as administrator, and which are considered as structured entities, need to be consolidated with the Company. This analysis includes the evaluation of the agent and principal premises of IFRS 10 and the criteria to derecognize financial assets of IFRS 9, mainly. See Note 3 (a.2), Note 26 and Note 27.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

### (5) Use of Estimates and Judgements in Applying Accounting Policies, continued

Information about assumptions and uncertainty in the Company's significant accounting estimates is included in the following notes:

(a) *Impairment of financial assets - Key inputs and assumptions used for the measurement of ECL*

The evaluation performed by the Company's management to determine the inputs used in the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information, is disclosed in detail in Note 3 (c.7) and Note 4 (a).

(b) *Measurement of the fair value of financial instruments with significant unobservable inputs*

Information about the significant unobservable inputs used by the Company's management in the measurement of financial instruments classified in 'Level 3' of the fair value hierarchy of IFRS 13, is disclosed in Note 30.

### (6) Balances and Transactions with Related Parties

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

	<b>Directors and key management personnel</b>		<b>Related Companies</b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>
<b><u>Asset:</u></b>				
Accounts receivable	<u>0</u>	<u>0</u>	<u>466,749</u>	<u>470,514</u>
<b><u>Liabilities:</u></b>				
Saving deposits	<u>121,547</u>	<u>104,708</u>	<u>1,940,645</u>	<u>1,310,921</u>
Time deposits	<u>816,394</u>	<u>1,148,203</u>	<u>44,466,046</u>	<u>43,925,783</u>
Accrued interest payable	<u>3,726</u>	<u>4,027</u>	<u>469,380</u>	<u>285,650</u>
Accounts payable	<u>0</u>	<u>0</u>	<u>671</u>	<u>2,114</u>
<b><u>Other income (expenses):</u></b>				
Interest expense on deposits	<u>42,765</u>	<u>45,420</u>	<u>2,133,492</u>	<u>1,711,383</u>
Commission paid on surety bonds	<u>0</u>	<u>0</u>	<u>16,498</u>	<u>11,716</u>
Reinsurance income	<u>0</u>	<u>0</u>	<u>5,308,414</u>	<u>5,300,114</u>
Reinsurance claims and benefits costs	<u>0</u>	<u>0</u>	<u>2,324,562</u>	<u>1,624,964</u>
Other commission costs	<u>0</u>	<u>0</u>	<u>569,381</u>	<u>552,962</u>
Other expenses for reinsurance claims	<u>0</u>	<u>0</u>	<u>50,000</u>	<u>40,000</u>
Professional fees	<u>0</u>	<u>0</u>	<u>185,000</u>	<u>185,000</u>
Insurance expense	<u>0</u>	<u>0</u>	<u>113,437</u>	<u>116,953</u>
Short-term benefits to executives	<u>931,550</u>	<u>1,092,708</u>	<u>0</u>	<u>0</u>

#### Reinsurance income

As of December 31, 2021, Mortgage Credit Reinsurance, Ltd., a subsidiary of the Company that engages in certain reinsurance activities, recognized income from reinsurance on unemployment insurance policies for \$1,633,893 (2020: \$1,596,435) and on collective life insurance policies for \$3,647,863 (2020: \$3,703,679), related to contracts entered into with related companies.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (6) Balances and Transactions with Related Parties, continued

The insurance policies that are reinsured by this subsidiary of the Company, are linked to credit facilities of clients that are part of the Company's loan portfolio.

##### Transactions with Directors and Key Management Personnel

The Company has paid fees for \$63,421 (2020: \$48,700) to Directors that attend the meetings of the Board of Directors and other Committees.

The salaries and other benefits of key management personnel amount to \$931,550 (2020: \$1,092,708), which include short-term benefits such as wages, bonuses and life insurance, mainly.

#### (7) Cash and Cash Equivalents

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	242,052	252,571
Demand deposits	52,290,916	53,657,485
Saving accounts	<u>8,567,577</u>	<u>16,345,212</u>
<b>Cash and cash equivalents in the consolidated statement of cash flows</b>	<u>61,100,545</u>	<u>70,255,268</u>

#### (8) Investment Securities

Investment securities are classified as follows:

	<u>2021</u>	<u>2020</u>
Investment securities measured at FVTPL	30,191,307	26,081,574
Investment securities measured at amortized cost	761,819	851,458
Investment securities measured at FVOCI	<u>83,109,833</u>	<u>72,437,306</u>
<b>Total investment securities, net</b>	<u>114,062,959</u>	<u>99,370,338</u>

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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## Notes to the Consolidated Financial Statements

### (8) Investment Securities, continued

*Investment securities measured at fair value through profit or loss (FVTPL)*

The portfolio of investment securities measured at FVTPL is detailed as follows:

	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
<b><u>Retained interests in securitizations:</u></b>			
<b>Residential mortgage-backed securities ('RMBS'):</b>			
XI Mortgage Loan Bond Trust	Oct-41	1,838,844	1,849,873
XII Mortgage Loan Bond Trust	Nov-42	796,241	839,470
XIII Mortgage Loan Bond Trust	Dic-45	925,211	926,208
XIV Mortgage Loan Bond Trust	Sep-46	1,234,466	1,236,095
XV Mortgage Loan Bond Trust	Jul-47	825,683	826,391
XVI Mortgage Loan Bond Trust	Jul-52	<u>2,474,607</u>	<u>0</u>
		<u>8,095,052</u>	<u>5,678,037</u>
<b>Residual Interest:</b>			
Residual interest in the VIII Mortgage Loan Bond Trust	Dic-36	2,546,827	2,432,057
Residual interest in the IX Mortgage Loan Bond Trust	Dic-22	0	391,131
Residual interest in the X Mortgage Loan Bond Trust	Sep-39	7,377,699	6,639,209
Residual interest in the XI Mortgage Loan Bond Trust	Oct-41	4,055,344	3,691,247
Residual interest in the XII Mortgage Loan Bond Trust	Nov-42	2,171,578	1,943,835
Residual interest in the XIII Mortgage Loan Bond Trust	Dic-45	2,033,726	1,852,388
Residual interest in the XIV Mortgage Loan Bond Trust	Sep-46	721,656	653,690
Residual interest in the XV Mortgage Loan Bond Trust	Jul-47	850,708	775,460
Residual interest in the XVI Mortgage Loan Bond Trust	Jul-52	<u>845,935</u>	<u>0</u>
		<u>20,603,473</u>	<u>18,379,017</u>
<b>Total retained interests in securitizations</b>		<u>28,698,525</u>	<u>24,057,054</u>
<b><u>Government bonds:</u></b>			
Agricultural development securities of the Republic of Colombia	Jul-22	<u>1,257,592</u>	<u>1,868,264</u>
<b>Total of government bonds</b>		<u>1,257,592</u>	<u>1,868,264</u>
<b><u>Others equity investments:</u></b>			
Mutual funds	N/A	<u>235,190</u>	<u>156,256</u>
<b>Total of others equity investments</b>		<u>235,190</u>	<u>156,256</u>
<b>Total of investments securities at FVTPL</b>		<u>30,191,307</u>	<u>26,081,574</u>

The trust's residual interests were determined by discounting the future cash flows in commissions and incentives that the Company will receive as trustee. At the time of creation of these trusts, the realization of values was estimated in 30 years for the Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth and Fifteenth and Sixteenth Mortgage Loan Bond Trusts: (maturing in 2022, 2036, 2039, 2041, 2042, 2045, 2046, 2047 and 2052 respectively). See Note 27.

### *Investment securities measured at AC*

The portfolio of investment securities measured at AC is detailed as follows:

	<u>Interest rate</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
<b><u>Government bonds:</u></b>				
Bonds of the Republic of Colombia	3.05%	31-May-22	543,850	632,120
Bonds of the Republic of Panama	8.88%	31-Dec-27	<u>221,268</u>	<u>220,620</u>
			765,118	852,740
Less: loss allowance (ECL)			<u>(3,299)</u>	<u>(1,282)</u>
<b>Total of investment securities at AC</b>			<u>761,819</u>	<u>851,458</u>

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**Notes to the Consolidated Financial Statements**

**(8) Investment Securities, continued**

The bonds of the Republic of Panama that form part of the Company's portfolio of investments in securities measured at amortized cost, are kept under the custody of the National Bank of Panama at the disposal of the Superintendence of Banks of Panama, to guarantee the adequate compliance of the Company's fiduciary obligations.

*Investment securities at fair value through other comprehensive income (FVOCI)*

The portfolio of investment securities measured at FVOCI is detailed as follows:

	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
<b><u>Retained interests in securitizations:</u></b>			
<b>Residential mortgage-backed securities ('RMBS'):</b>			
VIII Mortgage Loan Bond Trust	Dic-36	5,332,761	1,490,801
IX Mortgage Loan Bond Trust	Dic-22	0	186,119
X Mortgage Loan Bond Trust	Sep-39	7,033,003	7,065,867
XI Mortgage Loan Bond Trust	Oct-41	2,187,157	2,653,642
XII Mortgage Loan Bond Trust	Nov-42	7,313,226	7,716,474
XIII Mortgage Loan Bond Trust	Dic-45	3,825,213	4,500,425
XIV Mortgage Loan Bond Trust	Sep-46	5,841,851	6,023,832
XV Mortgage Loan Bond Trust	Jul-47	7,007,541	7,937,209
XVI Mortgage Loan Bond Trust	Jul-52	<u>10,065,610</u>	<u>0</u>
<b>Total retained interests in securitizations</b>		<b><u>48,606,362</u></b>	<b><u>37,574,369</u></b>
<b><u>Government bonds:</u></b>			
Colombian Treasury bonds	Ago-26	2,496,421	3,327,487
U.S. Treasury bonds	Ago-27	<u>32,007,050</u>	<u>31,535,450</u>
<b>Total of government bonds</b>		<b><u>34,503,471</u></b>	<b><u>34,862,937</u></b>
<b>Total of investment securities at FVOCI</b>		<b><u>83,109,833</u></b>	<b><u>72,437,306</u></b>

At December 31, 2021, the allowance for ECL of debt instruments classified as measured at FVOCI, amounts to \$137,066 (2020: \$129,133). This allowance is not recognized in the consolidated statement of financial position because the carrying amount of the debt instruments measured at FVOCI is their fair value. However, it is presented in the consolidated statement of changes in equity as part of the fair value reserve.

During 2021, the Company did not sale investment securities measured at FVOCI (2020: made sales for \$22,598,078, realizing a net gain of \$2,098,078).

*Risk concentration and information about the loss allowance (ECL)*

The credit risk concentration by economic sector and geographic location of the investment securities portfolio, and other detailed information about its allowance for expected credit losses (ECL), are disclosed in Note 4 (a).



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**Notes to the Consolidated Financial Statements**

**(9) Loans at Amortized Cost (AC)**

The composition of the loans portfolio measured at amortized cost is summarized as follows:

	<u><b>2021</b></u>	<u><b>2020</b></u>
<b><u>Domestic loans:</u></b>		
Personal	41,328,836	45,260,353
Residential mortgages	<u>413,999,734</u>	<u>486,937,869</u>
<b>Total domestic loans</b>	<u><b>455,328,570</b></u>	<u><b>532,198,222</b></u>
<b><u>Foreign loans:</u></b>		
Personal	20,770,400	26,791,343
Residential mortgages	<u>175,105,152</u>	<u>172,211,539</u>
<b>Total foreign loans</b>	<u><b>195,875,552</b></u>	<u><b>199,002,882</b></u>
Accrued interest receivable	10,095,250	8,301,726
Net loss arising from modification	<u>(582,257)</u>	<u>0</u>
<b>Gross carrying amount</b>	<u><b>660,717,115</b></u>	<u><b>739,502,830</b></u>
Less: loss allowance (ECL)	<u>(3,913,953)</u>	<u>(4,048,961)</u>
<b>Total loans at AC</b>	<u><b>656,803,162</b></u>	<u><b>735,453,869</b></u>

The credit risk concentration by economic sector and geographic location of the loans receivable portfolio measured at AC, and other detailed information about its allowance for expected credit losses (ECL), are disclosed in Note 4 (a).

In 2015, the Company purchased residential mortgage loan portfolios from the Sixth and Seventh Mortgage Loan Bond Trusts, which had a fair value of \$4,517,878 and \$4,773,715, respectively. Similarly, in the first quarter of 2021, the Company made the purchase of the Ninth Mortgage Loan Bond Trust with a fair value of \$3,204,062. The difference between the amount paid and the fair value of these purchased loans amounts to \$1,702,992, and was recorded in the fair value reserve line item in the consolidated statement of changes in equity. The pending amortization value to date is \$691,337 (2020: \$102,994).

During 2021, the Company sold residential mortgage loans portfolios with a carrying amount of \$112,500,000, to the Sixteenth Mortgage Loan Bond Trusts (unconsolidated securitization vehicle), without generating profit or loss in the transaction. According to management's evaluation, the portfolio sold to the structured entity was derecognized from the Company's accounts as it met the criteria in IFRS 9. See Note 27.

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**Notes to the Consolidated Financial Statements**

**(10) Furniture, Equipment and Improvements, net**

Furniture, equipment and improvements are summarized as follows:

<u>2021</u>	<u>Furniture</u>	<u>Office equipment</u>	<u>Vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
<b><u>Cost:</u></b>					
Balance at the beginning of the year	894,264	4,049,677	501,014	2,557,132	8,002,087
Additions	4,458	208,028	0	0	212,486
Sales and disposals	(11,120)	(78,775)	(25,991)	(109,256)	(225,142)
Effect of exchange rates fluctuations	(2,025)	(13,508)	0	(1,795)	(17,328)
<b>Balance at the end of the year</b>	<u>885,577</u>	<u>4,165,422</u>	<u>475,023</u>	<u>2,446,081</u>	<u>7,972,103</u>
<b><u>Accumulated depreciation:</u></b>					
Balance at the beginning of the year	744,031	3,318,723	353,231	1,375,253	5,791,238
Depreciation for the year	50,197	375,291	62,174	216,026	703,688
Sales and disposals	(8,150)	(91,313)	(25,991)	(45,905)	(171,359)
Effect of exchange rates fluctuations	(4,051)	(27,015)	0	(3,590)	(34,656)
<b>Balance at the end of the year</b>	<u>782,027</u>	<u>3,575,686</u>	<u>389,414</u>	<u>1,541,784</u>	<u>6,288,911</u>
<b>Net balances</b>	<u>103,550</u>	<u>589,736</u>	<u>85,609</u>	<u>904,297</u>	<u>1,683,192</u>
<u>2020</u>	<u>Furniture</u>	<u>Office equipment</u>	<u>Vehicles</u>	<u>Leasehold improvements</u>	<u>Total</u>
<b><u>Cost:</u></b>					
Balance at the beginning of the year	894,822	3,895,495	547,302	2,716,229	8,053,848
Additions	8,704	228,300	14,813	11,950	263,767
Sales and disposals	(6,045)	(60,060)	(61,101)	(179,515)	(306,721)
Effect of exchange rates fluctuations	(3,217)	(14,058)	0	8,468	(8,807)
<b>Balance at the end of the year</b>	<u>894,264</u>	<u>4,049,677</u>	<u>501,014</u>	<u>2,557,132</u>	<u>8,002,087</u>
<b><u>Accumulated depreciation:</u></b>					
Balance at the beginning of the year	695,444	2,955,866	310,385	1,301,585	5,263,280
Depreciation for the year	55,677	427,234	65,950	245,671	794,532
Sales and disposals	(6,149)	(62,374)	(23,104)	(179,605)	(271,232)
Effect of exchange rates fluctuations	(941)	(2,003)	0	7,602	4,658
<b>Balance at the end of the year</b>	<u>744,031</u>	<u>3,318,723</u>	<u>353,231</u>	<u>1,375,253</u>	<u>5,791,238</u>
<b>Net balances</b>	<u>150,233</u>	<u>730,954</u>	<u>147,783</u>	<u>1,181,879</u>	<u>2,210,849</u>

**(11) Accounts Receivable and Interest Receivable on Investment Securities at Fair Value**

The accounts receivable and interest receivable from investment securities at fair value are detailed as follows:

	<u>2021</u>	<u>2020</u>
<b><u>Accounts receivable:</u></b>		
Customers	2,514,219	1,745,298
Employees	18,569	13,267
Insurance	50,876	54,162
Trusts	3,211,355	3,410,500
Other	<u>3,024,027</u>	<u>2,966,126</u>
	8,819,046	8,189,353
<b><u>Interest receivable:</u></b>		
On investment securities measured at FVTPL and at FVOCI	<u>531,606</u>	<u>690,019</u>
<b>Total</b>	<u>9,350,652</u>	<u>8,879,372</u>

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**

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**Notes to the Consolidated Financial Statements**

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**(12) Other assets**

The other assets are detailed as follows:

	<u><b>2021</b></u>	<u><b>2020</b></u>
Guarantee deposits	56,325	56,326
Trust license	25,000	25,000
Employee severance fund	730,834	718,813
Prepaid expenses	1,824,184	1,722,964
Advances in assets purchase	9,948	116,244
Assets in foreclosure process	828,659	779,114
Foreclosed assets	922,410	934,312
Advance payment of stock exchange transactions (to holders of issued debt securities)	0	3,947,907
Other	<u>452,688</u>	<u>292,897</u>
<b>Total</b>	<u><b>4,850,048</b></u>	<u><b>8,593,577</b></u>

As of December 31, 2020, as part of the other assets, \$3,947,907 were recorded, corresponding to the advances of funds sent to the payment agent of the debt securities issued by the Company through the stock exchange, to support the payment to the holders at their due date, in accordance with the contractual terms. As of December 31, 2021, there were no advances of funds sent to the payment agent of the debt securities.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

### (13) Negotiable Commercial Papers

The Company has six (2020: six) rotating programs of negotiable commercial papers up to \$200,000,000 (2020: \$200,000,000), authorized by the Superintendence of the Securities Market of the Republic of Panama, which are backed up by the general credit of the Company. Of these rotating programs, one program for the amount of \$10,000,000 (2020: \$10,000,000), is backed up by Grupo ASSA, S.A. At the reporting date, no paper has been issued under this program.

<u>Description</u>	<u>Interest rate</u>	<u>2021</u> <u>Maturity</u>	<u>Amount</u>
Series CER	3.7500%	January 2022	500,000
Series CES	3.7500%	January 2022	2,500,000
Series BEA	3.7500%	February 2022	1,100,000
Series BEB	3.7500%	February 2022	1,100,000
Series BEC	3.7500%	February 2022	1,250,000
Series BED	3.7500%	February 2022	500,000
Series BEE	3.7500%	February 2022	600,000
Series BC	3.7500%	March 2022	1,600,000
Series BD	3.7500%	March 2022	2,500,000
Series BE	3.7500%	March 2022	2,500,000
Series BF	3.7500%	March 2022	2,175,000
Series BG	3.7500%	March 2022	533,000
Series DEF	3.7500%	April 2022	500,000
Series DEG	3.5000%	May 2022	1,000,000
Series BH	3.5000%	May 2022	4,593,000
Series CET	3.5000%	May 2022	1,000,000
Series DEH	3.5000%	June 2022	2,000,000
Series CEU	3.5000%	June 2022	905,000
Series BI	3.5000%	July 22	2,106,000
Series BEF	3.5000%	July 22	2,246,000
Series BJ	3.5000%	August 22	4,025,000
<b>Total nominal amount</b>			<b>35,233,000</b>
Accrued interest payable			133,293
Less: issuance costs			(51,199)
<b>Total negotiable commercial papers at AC</b>			<b><u>35,315,094</u></b>

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements**

**(13) Negotiable Commercial Papers, continued**

<u>Description</u>	<u>Interest rate</u>	<u>2020</u> <u>Maturity</u>	<u>Amount</u>
Series CEG	4.0000%	February 2021	1,000,000
Series CEH	4.0000%	February 2021	4,897,000
Series BDR	4.0000%	February 2021	2,183,000
Series BDQ	4.0000%	February 2021	2,167,000
Series AI	4.0000%	February 2021	2,500,000
Series BDS	4.0000%	February 2021	1,000,000
Series BDT	4.0000%	February 2021	1,179,000
Series DDP	4.0000%	March 2021	700,000
Series AH	4.0000%	March 2021	900,000
Series CEI	4.0000%	March 2021	4,000,000
Series BDU	4.0000%	March 2021	1,000,000
Series BDV	4.0000%	March 2021	5,000,000
Series DDQ	4.0000%	March 2021	2,175,000
Series DDR	4.0000%	March 2021	533,000
Series DDV	4.0000%	May 2021	820,000
Series AM	4.5000%	April 2021	4,091,000
Series DDZ	4.5000%	May 2021	1,000,000
Series AR	4.5000%	May 2021	4,593,000
Series CEL	4.5000%	May 2021	889,000
Series DDY	4.5000%	June 2021	1,600,000
Series ABJ	4.5000%	June 2021	5,000,000
Series CEM	4.5000%	June 2021	875,000
Series CEN	4.2500%	July 2021	1,106,000
Series AW	4.5000%	July 2021	1,000,000
Series BDW	4.2500%	August 2021	2,196,000
Series AX	4.2500%	August 2021	4,025,000
Series AY	4.2500%	August 2021	4,000,000
Series CEO	4.2500%	August 2021	1,500,000
Series BDX	4.2500%	September 2021	1,376,000
Series DEA	4.2500%	September 2021	1,000,000
Series AZ	4.2500%	September 2021	2,000,000
Series DEB	4.2500%	September 2021	2,521,000
Series DEC	4.2500%	September 2021	1,460,000
Series DED	4.2500%	September 2021	554,000
Series DEE	4.2500%	September 2021	1,200,000
Series BDY	4.2500%	September 2021	750,000
Series CEP	4.2500%	September 2021	3,000,000
Series CEQ	4.2500%	October 2021	2,011,000
Series BDZ	4.2500%	October 2021	2,105,000
Series BA	4.2500%	November 2021	3,600,000
Series BB	4.2500%	December 2021	1,100,000
<b>Total nominal amount</b>			<b>84,606,000</b>
Accrued interest payable			390,476
Less: issuance costs			(166,341)
<b>Total negotiable commercial papers at AC</b>			<b>84,830,135</b>

As of December 31, 2021, the Company has complied with the payment terms of principal and interest for its negotiable commercial papers.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

### (14) Negotiable Commercial Notes

The Company has four (2020: four) programs of negotiable commercial notes totaling \$240,000,000 (2020: \$240,000,000). The placements of the first issuance by \$40,000,000 are guaranteed by the general credit of the Company and a trust guarantee of loan mortgages. At the reporting date, the Company does not have outstanding notes related to this program.

The placements of the other three programs for the sum of \$50,000,000, \$50,000,000 and \$100,000,000, respectively, are only supported by the general credit of the Company.

<u>Description</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
Series AE	4.250%	January 2021	0	3,940,000
Series AR	4.500%	February 2021	0	2,000,000
Series BT	4.250%	February 2021	0	355,000
Series BU	4.250%	February 2021	0	622,000
Series AA	4.750%	February 2021	0	1,761,000
Series E	5.000%	February 2021	0	7,017,000
Series AA	4.375%	February 2021	0	39,000
Series BV	4.250%	March 2021	0	1,404,000
Series BO	4.375%	March 2021	0	1,290,000
Series K	5.000%	April 2021	0	4,991,000
Series BQ	4.375%	May 2021	0	2,466,000
Series BD	4.500%	May 2021	0	1,100,000
Series AC	4.375%	June 2021	0	2,000,000
Series AD	4.375%	July 2021	0	1,500,000
Series AI	4.750%	July 2021	0	1,200,000
Series BS	4.375%	July 2021	0	3,000,000
Series U	5.000%	September 2021	0	1,858,000
Series BW	4.375%	September 2021	0	2,363,000
Series AL	4.125%	September 2021	0	4,000,000
Series CF	4.125%	September 2021	0	545,000
Series BY	4.375%	October 2021	0	1,000,000
Series AI	4.375%	October 2021	0	2,000,000
Series AJ	4.375%	November 2021	0	2,000,000
Series CA	4.375%	November 2021	0	5,000,000
Series CL	4.600%	November 2021	0	3,000,000
Series X	5.000%	November 2021	0	1,657,000
Series AP	4.600%	November 2021	0	3,690,000
Series CB	4.375%	December 2021	0	5,000,000
Series Y	4.675%	January 2022	0	3,145,000
Series BM	4.675%	January 2022	0	2,397,000
Series BN	4.675%	January 2022	0	500,000
Series CC	4.250%	February 2022	1,378,000	1,378,000
Series AM	4.250%	March 2022	2,000,000	2,000,000
Series CE	4.250%	March 2022	1,710,000	1,710,000
Series CP	4.375%	March 2022	260,000	260,000
Series CJ	4.250%	March 2022	40,000	40,000
Series CK	4.250%	March 2022	1,000,000	1,000,000
Series BR	4.675%	June 2022	0	2,000,000
Series AQ	4.700%	June 2022	2,558,000	2,558,000
Series AS	4.500%	June 2022	2,000,000	2,000,000
Series CM	4.500%	July 2022	2,500,000	2,500,000
Series AF	4.675%	August 2022	0	2,540,000
Series CN	4.500%	August 2022	727,000	727,000
Series AG	4.675%	August 2022	0	500,000
Series AH	4.675%	September 2022	0	720,000
Series BX	4.675%	September 2022	0	1,990,000
Series BZ	4.675%	October 2022	0	1,000,000
<b>Subtotal continues on next page</b>			<u>14,173,000</u>	<u>95,763,000</u>

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements**

**(14) Negotiable Commercial Notes, continued**

<u>Description</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
<b>Subtotal continues from previous page</b>			<u>14,173,000</u>	<u>95,763,000</u>
Series CQ	4.500%	November 2022	3,000,000	3,000,000
Series CD	4.500%	February 2023	1,500,000	1,500,000
Series AK	4.500%	March 2023	2,000,000	2,000,000
Series C	4.000%	March 2023	1,000,000	0
Series AB	4.750%	March 2023	0	2,000,000
Series E	4.000%	March 2023	3,255,000	0
Series J	3.750%	May 2023	2,466,000	0
Series K	3.750%	May 2023	1,100,000	0
Series AT	4.700%	June 2023	2,000,000	2,000,000
Series CO	4.700%	August 2023	810,000	810,000
Series O	3.625%	August 2023	1,000,000	0
Series B	4.250%	February 2024	3,000,000	0
Series D	4.250%	March 2024	2,705,000	0
Series F	4.125%	April 2024	1,000,000	0
Series H	4.000%	May 2024	2,990,000	0
Series L	4.000%	June 2024	2,000,000	0
Series CR	4.000%	December 2024	5,000,000	0
Series I	4.250%	May 2025	2,000,000	0
Series A	4.900%	January 2026	1,000,000	0
Series G	4.750%	April 2026	1,000,000	0
Series M	4.500%	June 26	1,500,000	0
Series N	4.500%	July 26	<u>1,000,000</u>	<u>0</u>
<b>Total nominal amount</b>			<b>54,499,000</b>	<b>107,073,000</b>
Accrued interest payable			103,416	229,174
Less: issuance costs			<u>(78,331)</u>	<u>(210,168)</u>
<b>Total negotiable commercial notes at AC</b>			<b><u>55,524,085</u></b>	<b><u>107,092,006</u></b>

As of December 31, 2021, the Company has complied with the payment terms of principal and interest for its negotiable commercial notes.

**(15) Covered Bonds**

On May 24, 2018, the Company's Board of Directors authorized the issuance of a covered bond program for up to \$200,000,000.

The Company has issued three tranches of covered medium-term bonds, net of commissions, amounting to \$51,347,808 (2020: \$51,074,683), at an interest rate of 5.50%, 4.75% and 4.125% for 3.5 and 5 years term.

The covered bonds are guaranteed with mortgage loans portfolio amounting to \$65,000,000 (2020: \$65,000,000).

As of December 31, 2021, the Company has complied with the payment terms of principal and interest for its covered bonds.

**(16) Ordinary Bonds**

The Financial Superintendence of Colombia authorized the incorporation of Ordinary Bonds in the National Registration of Securities and Issuers and its public offer.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

#### (16) Ordinary Bonds, continued

As of December 31, 2021, the Colombian subsidiary has issued medium-term ordinary bonds for \$13,009,668 (2020: \$15,091,711) at an interest rate of 6.29% (2020: 6.29%) for of 5 years term, maturing on June 23, 2025.

The ordinary covered are guaranteed with a Panamanian mortgage loans portfolio amounting to \$17,330,304 (2020: \$18,864,638).

As of December 31, 2021, the Company has complied with the payment terms of principal and interest for its ordinary bonds.

#### (17) Investment Certificates

The Company is authorized by the Superintendence of Securities Market of El Salvador for two (2020: two) issuances of Investment Certificates up to \$100,000,000 (2020: \$100,000,000). Currently, both programs have no special guarantees.

<u>Description</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
Tranche 08	5.750%	March 2021	0	1,407,000
Tranche 04	6.000%	September 2021	0	1,000,000
Tranche 16	5.750%	November 2021	0	700,000
Tranche 17	5.750%	December 2021	0	1,500,000
Tranche 18	5.350%	March 2022	1,000,000	1,000,000
Tranche 19	5.350%	March 2022	1,000,000	1,000,000
Tranche 21	5.750%	May 2022	350,000	350,000
Tranche 22	5.750%	June 2022	2,200,000	2,200,000
Tranche 23	5.750%	August 2022	5,000,000	5,000,000
Tranche 24	5.750%	August 2022	2,000,000	2,000,000
Tranche 15	6.000%	September 2022	0	700,000
Tranche 26	5.375%	January 2023	500,000	0
Tranche 01	5.000%	February 2023	600,000	0
Tranche 02	5.000%	March 2023	1,000,000	0
Tranche 03	5.000%	March 2023	1,000,000	0
Tranche 05	5.000%	April 2023	1,000,000	0
Tranche 06	5.000%	April 2023	2,000,000	0
Tranche 12	6.300%	May 2023	0	2,000,000
Tranche 07	4.500%	August 2023	850,000	0
Tranche 04	5.125%	September 2023	1,000,000	0
Tranche 09	6.500%	February 2024	0	4,500,000
Tranche 10	6.500%	April 2024	0	4,500,000
Tranche 11	6.500%	May 2024	0	5,000,000
Tranche 13	6.500%	May 2024	0	2,500,000
Tranche 14	6.500%	June 2024	0	2,500,000
<b>Total nominal of investment certificates</b>			<b>19,500,000</b>	<b>37,857,000</b>
Accrued interest payable			29,129	72,705
Less: issuance costs			(5,503)	(18,029)
<b>Total investment certificates at AC</b>			<b>19,523,626</b>	<b>37,911,676</b>

As of December 31, 2021, the Company has complied with the payment terms of principal and interest for its investment certificates.



**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements****(18) Other Negotiable Debts**

The Company has two (2020: two) revolving plan of negotiable debt (stock market paper) up to \$35,000,000 (2020: \$35,000,000), which was authorized by the Superintendence of the Securities of El Salvador. These programs have no specific guarantees.

<b>2021</b>			
<u>Description</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Amount</u>
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	2,000,000
<b>Total nominal amount</b>			<b>10,850,000</b>
Accrued interest payable			43,017
Less: issuance costs			(4,535)
<b>Total other negotiable debts at AC</b>			<b>10,888,482</b>

<b>2020</b>			
<u>Description</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Amount</u>
Tranche 66	5.1500%	January-21	2,000,000
Tranche 67	5.1500%	January-21	3,000,000
Tranche 69	5.1500%	February-21	2,200,000
Tranche 68	5.1500%	February-21	1,150,000
Tranche 01	5.1500%	March-21	980,000
Tranche 02	5.1500%	March-21	765,000
Tranche 06	5.5000%	May-21	3,000,000
Tranche 07	5.5000%	July-21	1,775,000
Tranche 09	5.7500%	August-21	850,000
Tranche 08	5.5000%	August-21	1,000,000
Tranche 10	5.5000%	August-21	1,915,000
Tranche 11	5.5000%	September-21	1,000,000
Tranche 12	5.5000%	September-21	500,000
Tranche 15	5.2500%	November-21	1,000,000
Tranche 16	5.2500%	November-21	1,000,000
Tranche 17	5.2500%	December-21	1,000,000
Tranche 13	5.7500%	September-22	3,000,000
Tranche 14	5.3750%	November-22	2,000,000
<b>Total nominal amount</b>			<b>28,135,000</b>
Accrued interest payable			138,316
Less: issuance costs			(48,338)
<b>Total other negotiable debts at AC</b>			<b>28,224,978</b>

As of December 31, 2021, the Company has complied with the payment terms of principal and interest for its negotiable debt.

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements**

**(19) Borrowings**

The borrowings are summarized as follows

	<u>2021</u>	<u>2020</u>
Line of credit for working capital for \$5,000,000, with maturity in the year 2021 and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	0	3,000,000
Line of credit for working capital for \$30,000,000, with maturity in the year 2021 and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	0	3,443,250
Line of credit for working capital for \$50,000,000, with maturity in the year 2028 and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	25,000,000	0
Line of credit for working capital for \$15,000,000, with maturity in the year 2023, renewable at the parties' option and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	0	6,000,000
Line of credit for working capital for \$5,000,000, with maturity at 24 months, renewable at the parties' option and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	0	5,000,000
Line of credit for working capital for \$5,000,000, with maturity at 24 months, renewable at the parties' option and an annual Libor interest rate plus a margin	0	2,000,000
Line of credit for working capital for \$45,000,000, with maturity in the year 2022, renewable at the parties' option and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	5,000,000	35,000,000
Line of credit for working capital for \$12,000,000, with maturity in the year 2022, renewable at the parties' option and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	0	10,500,000
Line of credit for working capital for \$10,000,000, with maturity in the year 2022, renewable at the parties' option and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	0	8,000,000
Line of credit for working capital for \$13,000,000, with maturity in the year 2021, and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	0	1,153,846
Line of credit for working capital for \$25,000,000, with maturity in the year 2028, and an annual fixed interest rate, guaranteed by a portfolio of residential mortgage loans	25,000,000	25,000,000
Line of credit for working capital for \$60,000,000, with maturity in the year 2028 and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	25,000,000	0
Line of credit for working capital for \$45,000,000, with maturity in the year 2023 and fixed interest rate	32,500,000	40,000,000
Line of credit for working capital for \$40,000,000, with maturity in the year 2023 and fixed interest rate	<u>40,000,000</u>	<u>0</u>
<b>Subtotal continues on next page</b>	<u>152,500,000</u>	<u>139,097,096</u>

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements**

**(19) Borrowings, continued**

	<u>2021</u>	<u>2020</u>
<b>Subtotal continues from previous page</b>	<u>152,500,000</u>	<u>139,097,096</u>
Line of credit for working capital for \$10,000,000, with maturity in the year 2026 and fixed interest rate	10,000,000	0
Line of credit for working capital for \$15,000,000, with maturity in the year 2021, and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	0	916,667
Line of credit for working capital for \$10,000,000, with maturity in the year 2026 and fixed interest rate	10,000,000	0
Line of credit for working capital for \$25,000,000, with maturity in the year 2022, and fixed interest rate, guaranteed by a portfolio of residential mortgage loans	3,571,432	7,142,860
Line of credit for working capital for \$3,000,000, with maturity in the year 2022 and fixed interest rate	3,000,000	3,000,000
Line of credit for working capital for \$32,000,000, with maturity in the year 2026, and an annual Libor interest rate plus a margin, guaranteed by a portfolio of residential mortgage loans	16,571,429	21,142,857
Line of credit for working capital for \$7,250,000, with maturity in the year 2024 and fixed interest rate	7,250,000	7,250,000
Indexed loan for working capital up to approximately \$8,000,000 (COP 32 billion), and annual fixed interest rate with maturity in the year 2024	7,957,336	5,241,542
Line of credit for working capital up to approximately \$1,600,000, (COP 6 billion) and annual fixed interest rate with maturity in the year 2023	1,111,485	0
Indexed loan for working capital up to approximately \$9,042,590 (COP 36 billion), and annual fixed interest rate with maturity in the year 2025	8,995,773	10,433,681
Line of credit for working capital up to approximately \$1,000,000, (COP 6 billion) and fixed interest rate with maturity in the year 2023	1,507,098	0
Line of credit for working capital up to approximately \$2,100,000, (COP 8 billion) and IBR plus margin interest rate with maturity in the year 2023	2,009,465	0
Line of credit for working capital up to approximately \$7,600,000 (COP 30 billion) and IBR interest rate plus margin with maturity in the year 2023	502,366	
Line of credit for working capital up to approximately \$2,100,000, (COP 8 billion) and IBR interest rate plus margin with maturity in the year 2022	502,366	0
Line of credit for working capital up to approximately \$2,600,000 (COP 10 billion) and IBR interest rate plus margin with maturity in the year 2023	<u>2,511,831</u>	<u>0</u>
<b>Total nominal amount</b>	<u>227,990,581</u>	<u>194,224,703</u>
Accrued interest payable	1,694,282	1,286,950
Less: issuance costs	<u>(2,270,057)</u>	<u>(730,219)</u>
<b>Total borrowings at AC</b>	<u>227,414,806</u>	<u>194,781,434</u>

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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### (19) Borrowings, continued

The Company maintains borrowings payable with two foreign banking institutions with which it failed to comply with a financial ratio related to arrears; however, these banking institutions have communicated to the Company that they were preparing the corresponding waivers for the non-compliance with those clauses. For the abovementioned, the credit facilities and collaterals remain in force, their contractual dates are unchanged, and the payments are up to date.

As of December 31, 2021, the balance used of these credit facilities amounts to a total of \$38 million. No change has been communicated to the Company in the terms of the contracts to the date of this report.

### (20) Other Liabilities

The other liabilities are detailed as follows:

	<u>2021</u>	<u>2020</u>
Sundry creditors	1,374,971	1,094,547
Cashier's checks	1,030,975	375,794
Provision for labor benefits and other remunerations	1,858,332	1,014,281
Advances from customers	1,647,476	2,214,261
Other	<u>994,103</u>	<u>994,728</u>
<b>Total</b>	<u><b>6,905,857</b></u>	<u><b>5,693,611</b></u>

### (21) Capital and Reserves

The composition of common shares, preferred shares, and capital reserves is detailed as follows:

#### **Common Shares**

The Company has an authorized capital of 2,000,000 common shares (2020: 2,000,000 shares) without par value.

The Company's common shares are detailed below:

	<u>2021</u> <u>Shares</u> <u>quantity</u>	<u>2020</u> <u>Shares</u> <u>quantity</u>
<b>Authorized and issued shares:</b>		
<b>Shares issued at the beginning of year</b>	1,059,815	1,059,815
Options on shares exercised	0	5,646
Treasury shares	<u>0</u>	<u>(5,646)</u>
<b>Shares issued at the end of the year</b>	<u><b>1,059,815</b></u>	<u><b>1,059,815</b></u>
<b>Carrying amount of the common shares</b>	<u><b>17,787,291</b></u>	<u><b>17,787,291</b></u>

In April 2020, the Company issued 5,646 common shares as a result of the execution of share options by a key executive in connection with the share option programs approved in the years 2012, 2014, 2016 and 2019; the options were exercised at an average price of \$26.22, \$27.98, \$30.46 and \$38.94, respectively. Subsequently, these shares were fully repurchased by the Company and recorded as treasury shares.

Information about the Company's common share option programs is presented in Note 23.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (21) Capital and Reserves, continued

##### ***Preferred shares***

As of December 31, 2021, the Company's preferred shares amount to \$20,752,709 (2020: \$22,752,709).

On September 26, 2011, the Company received authorization from the Superintendence of the Securities Market of Panama for the public issue of non-cumulative preferred shares Series A, for a total of up to 150,000 shares with a nominal value of one hundred dollars (\$100.00) each, registered with the Superintendence of the Securities Market of Panama and listed on the Panama Stock Exchange. The total of preferred shares is \$15,000,000 at an annual rate of 6.75% non-cumulative and quarterly dividend payments. Preferred shares' issuance costs amounted to US\$106,234.

The informative prospect of the public offer, set the following conditions:

- Non-cumulative Preferred Shares (hereinafter the 'Preferred Shares') entitled to receive dividends when they are declared by the Board, but shall have no voice or vote.
- The declaration and payment of dividends is a power of the Board of the Issuer. The Series A Preferred Shares shall be entitled to receive an annual dividend, non-cumulative face value.
- The payment of dividends on an annual basis, once declared, will be made by quarterly payments, on March fifteen (15), June fifteen (15), September fifteen (15), and December fifteen (15) each year.

On September 24, 2008, the Company made a public issue of non-cumulative Series A preferred shares, for a total of up to 100,000 shares with a nominal value of one hundred dollars (\$100.00) each, registered in the Superintendence of the Securities Market of Panama and listed on the Panama Stock Exchange. The total of preferred shares is \$10,000,000 at an annual rate of 7% non-cumulative and quarterly dividend payments.

As of June 30, 2008, were issued \$10,000,000. Preferred shares' issuance cost amounted to \$141,057.

The informative prospect of the public offering set the following conditions:

- Non-cumulative Preferred Shares Series A (hereinafter the 'Series A Preferred Shares') entitled to receive dividends when they are declared by the Board, but shall have no voice or vote.
- The declaration and payment of dividends is a power of the Board of the Issuer. The Series A Preferred Shares shall be entitled to receive an annual dividend, non-cumulative face value.
- The payment of dividends on an annual basis, once declared, will be made by quarterly payments, on March fifteen (15), June fifteen (15), September fifteen (15), and December fifteen (15) each year.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (21) Capital and Reserves, continued

During 2021, no preferred shares were issued by the Company.

During the period, the Company did not redeem preferred shares (2020: \$2,000,000) related to the program that has been in circulation since 2008.

#### **Reserves**

Nature and purpose of reserves:

##### *Capital reserve*

One of the subsidiaries constitutes a reserve to support any impairment loss in its loan portfolio considering the country risks in which the debtors are located. This reserve is established from the retained earnings.

##### *Fair value reserve*

Comprises the cumulative net change in the fair value of financial assets at FVOCI, until the assets are derecognized, redeemed, or impaired. In addition, it includes the net amount of the fair value of an acquired loan portfolio, which will be amortized during the remaining life of the loans or until their cancellation

##### *Currency conversion reserve*

Comprises all exchange differences that arise from the conversion of foreign currency to the presentation currency in the financial statements of the foreign subsidiaries with a functional currency other than the presentation currency, for presentation purposes in the consolidated financial statements.

##### *Regulatory reserves*

###### Dynamic provision

It is constituted according to prudential criteria on all credit facilities that lack specific provision allocated, i.e., on credit facilities classified in the 'Normal' category, as defined in the Agreement No.004-2013 issued by the Superintendence of Banks of Panama. It corresponds to an equity account presented under the 'heading' of regulatory reserve in the consolidated statement of changes in equity and it is appropriated from retained earnings. See Note 33.

###### Specific provision in excess

Provisions that are to be constituted on the basis of the classification of credit facilities in the risk categories Special Mention, Substandard, Doubtful or Unrecoverable, as provided in the Agreement No.004-2013 issued by the Superintendence of Banks of Panama. They are for individual credit facilities as for a group of these. For a group corresponds to circumstances indicating the existence of impairment in credit quality, although it is not yet possible the individual identification. It corresponds to an equity account that is presented under the heading of regulatory reserve in the statement of changes in equity and appropriates retained earnings. See note 33.

###### Regulatory reserve – Modified special mention

It is the reserve that must be established on the credit facilities classified in the category 'Modified Special Mention', as established in Agreement No.009-2020 that modifies Agreement No.002-2020, both issued by the Superintendence of Banks of Panama as subsequent solidarity measures adopted to support clients before the declaration of 'state of emergency' of the Republic of Panama on March 13, 2020 product of the COVID-19 pandemic. See Note 33.

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements**

**(22) Management and Service Commissions, and Other Income**

The service commissions and other income are detailed as follows:

	<b><u>2021</u></b>	<b><u>2020</u></b>
<b><u>Management and servicing commissions:</u></b>		
Trust management	1,854,673	1,903,687
Collection management	2,440,156	2,406,157
Insurance management	656,192	600,909
Other	<u>1,417,041</u>	<u>1,374,576</u>
	<u>6,368,062</u>	<u>6,285,329</u>
<b><u>Other income:</u></b>		
Gain on sale of tax credit	0	78,673
Insurance	157,081	160,520
Gain on sale of foreclosed assets	242,203	76,053
Other	<u>2,423,433</u>	<u>505,549</u>
	<u>2,822,717</u>	<u>820,705</u>

**(23) Salaries, Other Personnel Expenses, and Other General and Administrative Expenses**

Salaries, other personnel expenses, and other general and administrative expenses are detailed as follows:

	<b><u>2021</u></b>	<b><u>2020</u></b>
<b><u>Salaries and other personnel benefits:</u></b>		
Wages	4,097,851	4,796,728
Representation expenses	798,309	909,651
Bonuses	927,582	240,000
Social security costs	568,608	691,891
Employment benefits	281,590	938,829
Travel, per diem and fuel	172,776	121,349
Insurance	128,268	151,290
Training and seminars	207,415	137,653
Other	<u>291,144</u>	<u>334,468</u>
<b>Total</b>	<u>7,473,543</u>	<u>8,321,859</u>
<b><u>Other general and administrative expenses:</u></b>		
Rent	109,023	92,311
Advertising	630,354	536,961
Equipment maintenance	861,993	1,024,298
Office supplies	53,737	48,816
Utilities expense	270,367	283,252
Bank charges	272,237	203,040
Services	401,116	313,635
Insurance	78,050	79,559
Foreclosed assets	364,656	285,402
Other	<u>1,640,688</u>	<u>733,428</u>
<b>Total</b>	<u>4,682,221</u>	<u>3,600,702</u>

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

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### (23) Salaries, Other Personnel Expenses, and Other General and Administrative Expenses, continued

#### *Share purchase option plan*

In 2019, 2016, 2014 and 2012, the Board of Directors of La Hipotecaria (Holding), Inc. approved plans to grant share purchase options to executives of the Company for 7,220 options with a unit fair value of \$24.166, 15,550 options with a unit fair value of \$15.025, 15,200 options with a unit fair value of \$8.591 and 14,290 options with a unit fair value of \$3.694, respectively, and with an exercise maturity in 10 years for each plan.

As of December 31, 2021, there are 45,782 options outstanding (2020: 45,782), 0 options were cancelled (2020: 832) and 0 options were executed (2020: 5,646). These options have a weighted-average price of exercise of \$29.69 (2020: \$29.69). The plans give the executive the right to exercise the options over the Company's shares, at the time of the first anniversary of the plans. During 2021, the Company has recorded \$438,305 expense for options issuance (2020: \$27,179).

### (24) Income Tax

The income tax returns of the Company's subsidiaries incorporated in the Republic of Panama, according to current tax regulations are subject to review by tax authorities for up to three (3) years. According to current tax regulations, companies incorporated in Panama are exempt of income tax for earnings from foreign operations, interest earned on deposits in local banks, government securities and from securities listed with the Superintendence of the Securities Market and traded on the Bolsa de Valores de Panama, S. A. (Stock Exchange of Panama).

The Article 699 of the Tax Code, as amended by Article 9 of Law No. 8 of March 15, 2010 with effect from January 1, 2010, requires that the income tax for legal entities engaged in the banking business in the Republic of Panama, should be calculated at a rate of 25%.

Additionally, legal entities whose annual taxable income exceeds one million five hundred thousand dollars (\$1,500,000), will pay tax by the applicable income tax rate to the taxable net income according to current legislation in the Republic of Panama or the alternative calculation, which results higher.

Law No. 52 of August 28, 2012, restored the payment of estimated income tax from September 2012. According to this law, the estimated income tax is payable in three equal amounts over June, September and December each year.

The Company's subsidiaries shall calculate the income tax according to the following rates:

	<u>Colombia</u>	<u>El Salvador</u>
Current rates	31%	30%



## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (24) Income Taxes, continued

On December 28, 2018, the Congress of the Republic of Colombia issued Law No. 1943 (Financing Law), through which new rules were introduced in tax material, whose most relevant aspects are presented below:

- Gradual reduction in the corporate income tax and complementary rate as follows: taxable year 2019, 33% rate; taxable year 2020, 32% rate; taxable year 2021, 31% rate; and as of taxable year, 2022, 30% rate.
- For financial institutions, a 4% surcharge is created for taxable year 2019 and 3% for taxable years 2020 and 2021, when the taxable net income exceeds 120,000 tax value unit (TVU).
- Gradual reduction and finally elimination of the presumed income in the following terms: taxable year 2018, 3.5% rate; taxable year 2019, 1.5% rate; taxable year 2020, 1.5% rate; and from the taxable year 2021, 0% rate.
- General rule that determines that 100% of the taxes, rates and contributions effectively paid in the taxable year will be deductible, which have a causal relationship with the generation of income (except income tax). As special rules, it is stated that 50% of the tax on financial transactions (TFT) will be deductible, regardless of whether or not it has a causal relationship with the income generating activity.
- 50% of the industry and commerce tax may be taken as a tax deduction for the income tax in the taxable year in which it is effectively paid and to the extent that it has a causal link with its economic activity. As of the year 2022 it can be discounted 100%.
- For the taxable periods 2020 and 2021, the audit benefit is maintained for taxpayers who increase their net income tax of the taxable year in relation to the net income tax of the immediately preceding year by at least 30% or 20%, with which the income statement will be finalized within 6 or 12 months following the date of its presentation, respectively.
- Starting from 2017, tax losses may be compensated with ordinary liquid income obtained in the following 12 taxable periods.
- Excess of presumptive income can be compensated in the following 5 taxable periods.

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

	<u>2021</u>	<u>2020</u>
Current tax expense	1,140,438	966,278
Deferred tax expense – temporary differences	<u>456,802</u>	<u>(827,204)</u>
<b>Total income tax expense</b>	<b><u>1,597,240</u></b>	<b><u>139,074</u></b>

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements**

**(24) Income Taxes, continued**

The effective tax rate is detailed as follows:

	<u>2021</u>	<u>2020</u>
Net income before income tax	9,097,951	5,429,877
Income tax expense	1,597,240	139,074
<b>Effective tax rate</b>	<u>17.56%</u>	<u>2.56%</u>

The reconciliation between the income tax calculated using the current tax rate and the income tax expense recorded in the consolidated statement of profit or loss is detailed as follows:

	<u>2021</u>	<u>2020</u>
Net income before income tax	9,097,951	5,429,877
Tax using the Company's domestic tax rate	2,274,488	1,357,469
Effect of tax rates in foreign jurisdictions	(1,117,906)	(458,248)
Tax effect of:		
Tax-exempt income	(183,768)	(2,899,285)
Non-deductible expenses	167,624	2,966,342
Recognition of deductible temporary differences	456,802	(827,204)
<b>Total income tax expense</b>	<u>1,597,240</u>	<u>139,074</u>

The Company's deferred tax asset arises from temporary differences relating to the provision for loan losses (ECL), to the provision for the voluntary retirement incentive plan and to the operative losses carry forward. Deferred tax asset is included as part of other assets in the consolidated statement of financial position.

Deferred income tax is comprised as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Temporary differences</u>	<u>Deferred tax</u>	<u>Temporary differences</u>	<u>Deferred tax</u>
<b>Deferred tax asset</b>				
Allowance for ECL on loans	3,564,311	913,859	3,886,237	1,027,790
Voluntary retirement incentive plan	69,253	20,776	71,173	21,352
Operating losses carried forward <sup>(1)</sup>	1,167,061	350,244	2,365,164	780,504
	<u>4,800,625</u>	<u>1,284,879</u>	<u>6,322,574</u>	<u>1,829,646</u>

(1) Correspond to losses carried forward in Colombia, without expiration date.

The movement in deferred tax balances is as follows:

<u>2021</u>	<u>Balance at the beginning of the year</u>	<u>Recognized in profit or loss</u>	<u>Effect of exchange rates</u>	<u>Balance oot the end of the year</u> <u>Deferred tax asset</u>
Allowance for ECL on loans	1,027,790	(81,811)	(32,120)	913,859
Voluntary retirement incentive plan	21,352	(576)	0	20,776
Operating losses carried forward <sup>(1)</sup>	780,504	(374,415)	(55,845)	350,244
<b>Deferred tax asset</b>	<u>1,829,646</u>	<u>(456,802)</u>	<u>(87,965)</u>	<u>1,284,879</u>

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

### (24) Income Taxes, continued

<u>2020</u>	<u>Balance at the beginning of the year</u>	<u>Recognized in profit or loss</u>	<u>Effect of exchange rates</u>	<u>Balance at the end of the year</u> <u>Deferred tax asset</u>
Allowance for ECL on loans	195,125	832,665	0	1,027,790
Voluntary retirement incentive plan	26,813	(5,461)	0	21,352
Operating losses carried forward <sup>(1)</sup>	858,559	0	(78,055)	780,504
<b>Deferred tax asset</b>	<b>1,080,497</b>	<b>827,204</b>	<b>(78,055)</b>	<b>1,829,646</b>

Based on its current and projected financial results, the Company's management believes that there will be sufficient taxable income to absorb the deferred tax assets.

As of December 31, 2021, the Company has not recognized a liability for deferred income tax of approximately \$2,750,666 (2020: \$2,360,927) for the retained earnings of its operations abroad, as the Company considers that approximately \$45,844,428 (2020: \$39,193,380) of these earnings will be reinvested indefinitely.

### (25) Trusts Under Management

As of December 31, 2021, the Company maintains fiduciary contracts under its management at the risk of the customer amounting to \$342,248,852 (2020: \$254,422,644). Taking into consideration the nature of these services, management believes that they do not represent a significant risk to the Company. Information about the Company's involvement with non-consolidated structures entities is detailed in Note 26.

### (26) Involvement with Non-Consolidated Structured Entities

The following table describes the types of structured entities that the Company does not consolidate, but in which it holds an interest and acts as agent for them.

<u>Type of structured entity</u>	<u>Nature and purpose</u>	<u>Interest held by the Company</u>	<u>2021</u>	<u>Total assets</u> <u>2020</u>
Residential mortgage loan securitization trusts	<p>To generate:</p> <ul style="list-style-type: none"> <li>Funds for the Company's lending activities</li> <li>Commission for administration and management of loan portfolio</li> </ul> <p>These trusts are financed through the sale of debt instruments.</p>	<ul style="list-style-type: none"> <li>Investments in residential mortgage-backed securities ('RMBS') issued by the trusts</li> <li>Residual interest</li> </ul>	<u>342,248,852</u>	<u>254,422,644</u>

The following table sets out an analysis of the carrying amount of interests held by the Company in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

<u>Carrying amount by the Company</u>	<u>2021</u> <u>Investment in securities</u>	<u>2020</u> <u>Investment in securities</u>
Residential mortgage loan securitization trusts	<u>77,304,887</u>	<u>61,631,423</u>
<b>Total</b>	<b><u>77,304,887</u></b>	<b><u>61,631,423</u></b>

During 2021, the Company has not granted financial support to unconsolidated structured entities.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### **(27) Transfers of Financial Assets**

In the ordinary course of business, the Company enters into transactions that result in the transfer of financial assets, primarily residential mortgage loans, for securitizations through unconsolidated structured entities. In accordance with the accounting policy set out in Note 3 (c.3), the transferred financial assets continue to be recognized in the Company's consolidated statement of financial position to the extent of its involvement or interest in the securitization vehicles, or are derecognized in their entirety

##### *Mortgage loan securitizations*

Residential mortgage loans are sold by the Company to securitization vehicles (trusts), which in turn issue notes to investors collateralized by the purchased assets.

Taking into consideration that, the Company sells the assets to an unconsolidated securitization vehicle, then the transfer of the assets is from the Company (which excludes the securitization vehicle) to the securitization vehicle directly. The transfer of assets is completed in the form of a sale of the underlying assets to the securitization vehicle.

##### *Sales to unconsolidated structures entities*

Throughout its years of operation and in accordance with its liquidity needs, the Company has sporadically undertaken securitization transactions that have resulted in derecognition of the transferred assets in their entirety. This is the case when the Company has transferred substantially all the risks and rewards of ownership of financial assets to an unconsolidated securitization vehicle (trust) and retains a relatively small interest in the vehicle or a servicing arrangement in respect to the transferred financial assets. If the financial assets are derecognized in their entirety, then the interest in unconsolidated securitization vehicles that the Company receives as part of the transfer and servicing arrangements represent a continuing involvement with those assets.

In October 2021, the Company sold certain residential mortgage loans to unconsolidated securitization vehicles (trusts) and, as part of the consideration, received bonds issued by these securitization vehicles. The bonds received represent 11% of the total issued. The Company classifies these debt securities as measured at VRCOUI and VRCCR, considering the criteria defined in the accounting policy for the classification of financial instruments. In accordance with the sales contracts agreed with the securitization vehicles, the Company did not generate profits or losses in this transaction.

During 2021, the Company has recognized as part of the interest income from investment in securities calculate using the effective interest method \$2,881,457 (2020: \$2,779,195) of interest earned on residential mortgage-backed securities received from securitization transactions and that are part of the Company's investment portfolio in securities measured at FVOCI.

Additionally, the Company has recognized as part of the net gain on investment securities at FVTPL, \$1,751,466 (2020: gain \$1,555,049) related to interest income and unrealized gain in fair value changes on residential mortgage-backed securities and residual interest received from securitization transactions and that are part of the Company's investment portfolio in securities measured at FVTPL.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

#### (27) Transfers of Financial Assets, continued

As part of the residential mortgage loan securitization transactions that result in the Company derecognizing the transferred financial assets, the Company retains servicing rights in respect of the transferred financial assets. Under the servicing arrangement, the Company collects the cash flows on the transferred mortgages on behalf of the unconsolidated securitization vehicles. In return, the Company receives a fee that is expected to compensate the Company adequately for servicing the related assets. The servicing fees are based on a fixed percentage of the cash flows that the Company collects as an agent on the transferred residential mortgages. Potentially, a loss from servicing activities may occur if the costs that the Company incurs in performing the servicing activity exceed the fees receivable or if the Company does not perform in accordance with the service arrangements.

During 2021, the Company has recognized commission income from servicing activities provided to securitization vehicles amounting to \$1,854,673 (2020: \$1,903,687) in profit or loss.

The following table sets out the details of the assets that represent the Company's continuing involvement with the transferred assets that are derecognized in their entirety.

<u>Type of continuing involvement</u>	<u>Carrying amount</u>	<u>Fair value</u>	
	<u>Investment securities</u>	<u>Assets</u>	<u>Liabilities</u>
<b>Bonds issued by unconsolidated securitization vehicles</b>			
December 31, 2021	<u>56,701,414</u>	<u>56,701,414</u>	<u>0</u>
December 31, 2020	<u>43,252,406</u>	<u>43,252,406</u>	<u>0</u>
<b>Residual interest:</b>			
December 31, 2021	<u>20,603,473</u>	<u>20,603,473</u>	<u>0</u>
December 31, 2020	<u>18,379,017</u>	<u>18,379,017</u>	<u>0</u>

The amount that best represents the Company's maximum exposure to loss from its continuing involvement in the form of bonds issued by unconsolidated securitization vehicles and residual interest is their carrying amount.

#### (28) Commitments and Contingencies

In the ordinary course of business, the Company held financial instruments with off-balance sheet risks to cover the financial needs of its customers. As of December 31, 2021, the Company has issued promise letters for \$74,377,289 (2020: \$43,668,127), of which \$3,335,283 (2020: \$2,687,720) are irrevocable.

#### (29) Leases

At December 31, 2021, the Company leases office premises mainly for its bank branch and loan granting centers, which do not meet the definition of investment properties in IAS 40. These lease contracts run for periods of between 1, 5 and 10 years, and some include renewal options for an additional period of the same duration after the end of the lease term.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (29) Leases, continued

##### *Right-of-use assets*

The carrying amount of the right-of-use assets of lease contracts is as follows:

	<u>2021</u>	<u>2020</u>
<b><u>Property:</u></b>		
Balance at the beginning of the year	2,506,132	3,178,540
New contracts	245,090	0
Cancellation	(243,329)	(33,534)
Depreciation for the year	(538,249)	(603,042)
Effect of exchange rates fluctuations	<u>8,640</u>	<u>(35,832)</u>
Balance at the end of the year	<u>1,978,284</u>	<u>2,506,132</u>

##### *Lease liabilities*

As of December 31, 2021, the Company's lease liabilities amount to \$2,405,253 (2020: \$2,821,728). See Note 4 (b) for maturity analysis of lease liabilities.

##### *Amounts recognized in the consolidated statement of profit or loss*

As of December 31, 2021, the Company has recognized interest expenses on its lease liabilities for \$153,807 (2020: \$184,557) as part of its financial costs (interest on financing activities) in profit or loss.

Additionally, the Company has recognized expenses related to leases of 'short-term' and 'low value assets' for \$98,854 (2020: \$92,311) as part of rental expenses in profit or loss. See Note 23.

##### *Amounts recognized in the consolidated statement of cash flows*

As of December 31, 2021, the total cash outflows for leases recognized in the consolidated statement of cash flows amounts to \$681,066 (2020: \$753,216). This amount includes the portion of payments to principal of lease contracts classified as part of the financing activities for \$418,236 (2020: \$476,348), the portion of interest on lease liabilities for \$153,807 (2020: \$184,557) and the portion of expenses relating to short-term leases and leases of low-value assets for \$109,023 (2020: \$92,311) classified as operating activities.

#### (30) Fair value of Financial Instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair value using other valuation techniques.

For financial instruments that are traded on a low frequency and have few availability of pricing information, the fair value is less objective, and its determination requires the use of varying degrees of judgement that depend on liquidity, geographical concentration, uncertainty of market assumptions factors in determining prices and other risks affecting the specific instrument.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (31) Fair value of Financial Instruments, continued

##### *Valuation models*

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- *Level 1:* inputs that are quoted market prices (unadjusted) in active markets for identical instruments
- *Level 2:* Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3:* This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Other valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premises used in estimating discount rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Company uses widely recognized valuation models in determining the fair value of common and simple financial instruments, which use only observable market information and require little management judgement. Observable prices and model inputs are usually available in the market for listed debt and exchange-traded equity securities.

The availability of observable market prices and model inputs reduces the need for management judgements and estimation, and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to change based on specific events and the general conditions of financial markets.

For more complex instruments, the Company uses proprietary designed valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates, or estimated based on assumptions. Examples of instruments involving significant unobservable inputs, include investment securities for which there is no active market or retained interests in securitizations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair values.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (31) Fair value of Financial Instruments, continued

Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Company considers that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account the credit risk of the Company and the counterparty, where appropriate

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

#### Mortgage-backed securities and residual interest on securitizations

During 2021, there has not been sufficient trading volume to establish an active market for certain asset-backed securities (e.g., residential mortgage loan bonds and residual interest in securitizations), and so the Company has determined the fair value for these asset-backed securities using other valuation techniques. These securities held by the Company are backed by static pools of residential mortgages and enjoy a senior claim on cash flows.

The Company's methodology for valuing of these asset-backed securities uses a discounted cash flow technique that takes into account the probability of default and loss severity, by considering the original underwriting criteria, vintage borrower attributes, 'LTV' ratios and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the 'waterfall' applicable to the security and discounted at risk-adjusted rate. The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

#### *Valuation framework*

The Company has established a control framework regarding the measurement of fair values. This control framework includes a control unit which is independent of Management and reports directly to the Executive Vice President of Finance, and which has overall responsibility for independently verifying the results of investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- validation or 're-performance' of the valuation models;
- a review and approval process for new models and changes to actual valuation models;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month.



**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
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**Notes to the Consolidated Financial Statements**

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

The Company uses a third party as a service provider. The control unit assesses and documents the evidence obtained from third parties to support the conclusion that the valuations meet the requirements of IFRS. This includes:

- verify that the pricing service is approved by the Company;
- obtain an understanding of how the fair value has been determined and whether it reflects current market transactions; and
- when prices for similar instruments are used to determine fair value, how these prices have been adjusted to reflect the characteristics of the instrument being measured.

This process is also monitored by the Audit Committee through Internal Audit.

*Financial instruments measured at fair value – Fair value hierarchy*

The following table analyzes financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on values recognized in the consolidated statement of financial position.

<u>2021</u>	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<u>Assets:</u>					
<b>Financial assets measured at fair value:</b>					
Investment securities at FVOCI	83,109,833	32,007,050	2,496,421	48,606,362	83,109,833
Investment securities at FVTPL	30,191,307	0	1,257,592	28,933,715	30,191,307

  

<u>2020</u>	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<u>Assets:</u>					
<b>Financial assets measured at fair value:</b>					
Investment securities at FVOCI	72,437,306	31,535,450	3,327,487	37,574,369	72,437,306
Investment securities at FVTPL	26,081,574	0	1,868,264	24,213,310	26,081,574

During 2021, no transfers were made in the fair value hierarchy for investment securities measured at FVOCI or at FVTPL.

*Fair value measurements - Level 3*

**Reconciliation**

The following table shows a reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	61,787,679	61,853,118
Total gains or losses:		
In profit or loss	1,751,466	1,555,203
In OCI	(763,906)	85,242
Purchases	17,365,977	123,645
Settlements	(2,601,139)	(1,829,529)
<b>Balance at the end of the year</b>	<u>77,540,077</u>	<u>61,787,679</u>

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**Notes to the Consolidated Financial Statements**

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

Unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

<u>Type of financial instrument</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Quantitative information – Level 3 fair values</u>	
			<u>Range of estimates (weighted-average)</u>	
			<u>2021</u>	<u>2020</u>
Residential mortgage-backed securities ('RMBS')	Discounted cash flows	Standard Default Assumptions ('SDA')	1.68% - 0.10% (0.62%)	2.22% - 0.11% (0.64%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	48.72% - 29.51% (41.08%)	50.05% - 9.67% (40.59%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 months	12 months
Residual interest in securitizations	Discounted cash flows	Standard Default Assumptions ('SDA')	1.68% - 0.10% (0.62%)	2.22% - 0.11% (0.64%)
		PSA Prepayment Model (PSA) and Conditional Prepayment Rate (CPR)	48.72% - 29.51% (41.08%)	50.05% - 9.67% (42.14%)
		Recoveries percentage	90%	90%
		Estimated time to perform the recoveries	12 months	12 months
Government bonds	The valuation model is based on different prices of observable references on an active market. Present value of the cash flows of a security, discounted with a reference rate and the corresponding margin.	N/A	N/A	N/A

Effect of unobservable inputs on fair value measurement

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more assumptions used to reasonably possible alternative assumptions would have the following effects.

	<u>Effect on profit or loss</u>		<u>Effect on OCI</u>	
	<u>Favorable</u>	<u>(Unfavorable)</u>	<u>Favorable</u>	<u>(Unfavorable)</u>
<b>Residual interests in securitizations and government bonds:</b>				
Investment securities at FVTPL	1,821,592	(567,386)	0	0
Investment securities at FVOCI	0	0	2,285,878	(1,688,439)
	<u>1,821,592</u>	<u>(567,386)</u>	<u>2,285,878</u>	<u>(1,688,439)</u>

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
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**Notes to the Consolidated Financial Statements**

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

	<b>2020</b>		<b>2020</b>	
	<b>Effect on profit or loss</b>		<b>Effect on OCI</b>	
	<b>Favorable</b>	<b>(Unfavorable)</b>	<b>Favorable</b>	<b>(Unfavorable)</b>
<b>Residual interests in securitizations and government bonds:</b>				
Investment securities at FVTPL	1,145,106	(1,066,346)	0	0
Investment securities at FVOCI	0	0	1,433,812	(1,165,938)
	<u>1,145,106</u>	<u>(1,066,346)</u>	<u>1,433,812</u>	<u>(1,165,938)</u>

The favorable and unfavorable effects of using reasonably possible alternative assumptions for the valuation of residential mortgage-backed securities and residual interest in securitizations have been calculated recalibrating the model values, using unobservable inputs based on the Company's possible estimates.

The most significant unobservable inputs refer to the risk discount rates. The reasonable alternative assumptions are 0.5% below and 0.5% above of discount rates used in the models, respectively.

*Financial instruments not measured at fair value*

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. This table does not include information about the fair value of financial instruments not measured at fair value when its carrying approximates their fair value.

	<b>2021</b>	<b>Carrying amount</b>	<b>Fair value</b>		<b>Total</b>
			<b>Level 2</b>	<b>Level 3</b>	
<b>Assets:</b>					
<b>Financial assets not measured at fair value:</b>					
Loans at AC		656,803,162	0	661,651,223	661,651,223
Investment securities at AC		761,819	848,061	0	848,061
<b>Liabilities:</b>					
<b>Financial liabilities not measured at fair value:</b>					
Time deposits from customers		367,056,823	0	343,833,080	343,833,080
Negotiable commercial papers		35,315,094	0	35,233,070	35,233,070
Negotiable commercial notes		55,524,085	0	51,891,992	51,891,992
Covered bonds		51,347,808	0	51,940,748	51,940,748
Ordinary bonds		13,009,668	0	12,991,411	12,991,411
Investment certificates		19,523,626	0	19,543,297	19,543,297
Other negotiable debt		10,888,482	0	10,898,129	10,898,129
Borrowings		227,414,806	0	227,963,952	227,963,952

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**Notes to the Consolidated Financial Statements**

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

		<u>Fair value</u>		
<u>2020</u>	<u>Carrying amount</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets:</u>				
<b>Financial assets not measured at fair value:</b>				
Loans at AC	735,453,869	0	742,825,667	742,825,667
Investment securities at AC	851,458	957,079	0	957,079
<u>Liabilities:</u>				
<b>Financial liabilities not measured at fair value:</b>				
Time deposits from customers	337,602,643	0	338,702,023	338,702,023
Negotiable commercial papers	84,830,135	0	83,073,497	83,073,497
Negotiable commercial notes	107,092,006	0	102,783,361	102,783,361
Covered bonds	51,074,683	0	51,956,241	51,956,241
Ordinary bonds	15,091,711	0	15,070,536	15,070,536
Investment certificates	37,911,676	0	37,868,306	37,868,306
Other negotiable debt	28,224,978	0	28,156,365	28,156,365
Borrowings	194,781,434	0	194,666,480	194,666,480

**Inputs used in measuring the fair value of financial instruments not measured at fair value**

The table below details information about the significant inputs and assumptions used in measuring the fair value as of December 31, 2021, for the financial instruments that are not measured at fair value.

<u>Financial instrument</u>	<u>Valuation technique and inputs used in the measurement of fair value</u>
<b>Not measured at fair value:</b>	
Deposits from customers	For saving deposits its fair value represents the outstanding amount expected to receive/pay at reporting date. For time deposits its fair value is determined using discounted cash flows at market interest rate.
Investment securities at AC	Fair value represents the amount receivable / payable at the reporting date.
Loans	The fair value of loans represents the discounted expected cash flow to receive. The cash flows are discounted at market interest rates to assess its fair value.
Borrowings	The fair value for loans payable in semiannual interest rate adjustments are determined using the future cash flows discounted at the current market interest rate.
Covered and ordinary bonds	The fair value for covered and ordinary bonds is determined using the future cash flows discounted at the current market interest rate.
Negotiable commercial papers	The fair value for negotiable commercial papers is determined using the future cash flows discounted at the current market interest rate.
Other negotiable debts	The fair value for other negotiable debt is determined using the future cash flows discounted at the current market interest rate.
Negotiable commercial notes and investment certificate	Fair value for the negotiable commercial notes is determined using future cash flows discounted at the current interest rate of the market.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

### (31) Segment Information

The segment information of the Company is presented regarding its business lines and has been determined by management based on reports reviewed by senior management for their decision making.

The composition of the business segments is described as follows:

- *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.
- *Reinsurance*: This concept includes the income of the collective life and unemployment reinsurance as a result of the policies contracted at the time a loan is granted, the incurred claim expenses and the financial charges for foreign remittances incurred.
- *Mortgages as assets*: Within this concept interest income is recognized less costs generated by financing mortgages loans that Company hold as assets, plus commissions for disbursements and the proportional share of the commissions from collections.
- *Personal loans as assets*: Within this concept interest income is recognized less costs generated by financing personal loans that Company hold as assets, plus commissions for granted and the proportional share of the commissions from collections.
- *Other investments*: This concept includes the income generated by other investments of the Company.

Financial information related to each reportable segment is set out below:

<u>2021</u>	<u>Trust management</u>	<u>Reinsurance</u>	<u>Mortgage as assets</u>	<u>Personal loans as assets</u>	<u>Other investments</u>	<u>Total</u>
Interest income	0	881	43,940,930	7,500,068	3,618,046	55,059,925
Interest expense	0	0	(32,606,746)	(2,461,048)	(4,516,400)	(39,584,194)
Provisions for loan losses and for investment securities at AC and at FVOCI	0	0	(362,029)	(235,654)	(10,220)	(607,903)
Net loss arising from modification of loans at AC	0	0	(193,239)	(389,018)	0	(582,257)
Net gain on investments at FVTPL	0	0	0	0	1,751,466	1,751,466
Management and servicing commissions	2,767,264	0	3,303,949	296,849	0	6,368,062
Other income, net of commissions paid	0	2,414,471	159,320	60,825	1,443,596	4,078,212
General and administrative expenses	(1,508,386)	(917,380)	(11,241,330)	(2,871,029)	(847,235)	(17,385,360)
<b>Segment income before tax</b>	<u>1,258,878</u>	<u>1,497,972</u>	<u>3,000,855</u>	<u>1,900,993</u>	<u>1,439,253</u>	<u>9,097,951</u>
Segment assets	<u>0</u>	<u>3,599,363</u>	<u>670,433,534</u>	<u>71,073,993</u>	<u>130,551,438</u>	<u>875,658,328</u>
Segment liabilities	<u>0</u>	<u>516,762</u>	<u>652,834,537</u>	<u>49,329,528</u>	<u>90,610,370</u>	<u>793,291,197</u>

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**Notes to the Consolidated Financial Statements**

**(31) Segment Information, continued**

<u>2020</u>	<u>Trust management</u>	<u>Reinsurance</u>	<u>Mortgage as assets</u>	<u>Personal loans as assets</u>	<u>Other investments</u>	<u>Total</u>
Interest income	0	5,679	42,417,793	8,558,295	3,939,019	54,920,786
Interest expense	0	0	(34,079,645)	(2,755,506)	(3,839,555)	(40,674,706)
Provisions for loan losses and for investment securities at FVOCI and at amortized cost	0	0	(2,608,816)	(1,471,633)	6,506	(4,073,943)
Net gain on investments at FVTPL	0	0	0	0	1,555,049	1,555,049
Realized gain on investment at FVOCI	0	0	0	0	2,098,078	2,098,078
Management and servicing commissions	2,726,020	0	3,261,671	309,354	(11,716)	6,285,329
Other income, net of commissions paid	0	3,154,756	75,273	6,086	(46,171)	3,189,944
General and administrative expenses	(2,256,917)	(150,417)	(10,885,828)	(3,132,548)	(1,444,950)	(17,870,660)
<b>Segment income before tax</b>	<u>469,103</u>	<u>3,010,018</u>	<u>(1,819,552)</u>	<u>1,514,048</u>	<u>2,256,260</u>	<u>5,429,877</u>
Segment assets	<u>0</u>	<u>3,092,011</u>	<u>742,922,989</u>	<u>84,752,479</u>	<u>118,220,821</u>	<u>948,988,301</u>
Segment liabilities	<u>0</u>	<u>227,658</u>	<u>726,816,329</u>	<u>58,785,069</u>	<u>81,999,006</u>	<u>867,828,062</u>

The composition of the geographic segments is described as follows:

<u>2021</u>	<u>Panama</u>	<u>El Salvador</u>	<u>Colombia</u>	<u>Caribbean Islands</u>	<u>Total</u>
Interest income	36,505,253	9,594,654	8,958,858	1,160	55,059,925
Interest expense	(29,940,608)	(5,175,650)	(4,467,936)	0	(39,584,194)
Provisions for loan losses and for investment securities at AC and at FVOCI	(711,780)	355,820	(251,943)	0	(607,903)
Net loss arising from modification of loans at AC	(582,257)	0	0	0	(582,257)
Net gain on investments at FVTPL	1,751,466	0	0	0	1,751,466
Commission on management and servicing	4,805,690	1,225,773	336,599	0	6,368,062
Other income net of commissions	(26,009)	56,153	285,925	3,762,143	4,078,212
General and administrative expenses	(12,007,926)	(2,136,151)	(2,811,109)	(430,174)	(17,385,360)
<b>Segment income before tax</b>	<u>(206,171)</u>	<u>3,920,599</u>	<u>2,050,394</u>	<u>3,333,129</u>	<u>9,097,951</u>
Segment assets	<u>643,534,400</u>	<u>134,600,561</u>	<u>92,423,087</u>	<u>5,100,280</u>	<u>875,658,328</u>
Segment liabilities	<u>605,556,882</u>	<u>115,575,440</u>	<u>71,228,804</u>	<u>930,071</u>	<u>793,291,197</u>

  

<u>2020</u>	<u>Panama</u>	<u>El Salvador</u>	<u>Colombia</u>	<u>Caribbean Islands</u>	<u>Total</u>
Interest income	37,165,538	9,354,260	8,397,142	3,846	54,920,786
Interest expense	(30,128,271)	(5,678,451)	(4,867,984)	0	(40,674,706)
Provisions for loan losses and for investment securities at AC and at FVOCI	(2,894,978)	(778,668)	(400,297)	0	(4,073,943)
Net gain on investments at FVTPL	1,555,049	0	0	0	1,555,049
Realized gain on investment at FVOCI	2,098,078	0	0	0	2,098,078
Commission on management and servicing	4,691,200	1,315,873	289,972	(11,716)	6,285,329
Other income net of commissions	(198,269)	180,624	109,255	3,098,334	3,189,944
General and administrative expenses	(11,916,040)	(2,797,817)	(2,701,226)	(455,577)	(17,870,660)
<b>Segment income before tax</b>	<u>372,307</u>	<u>1,595,821</u>	<u>826,862</u>	<u>2,634,887</u>	<u>5,429,877</u>
Segment assets	<u>708,593,315</u>	<u>128,736,278</u>	<u>108,677,619</u>	<u>2,981,089</u>	<u>948,988,301</u>
Segment liabilities	<u>675,560,535</u>	<u>106,014,399</u>	<u>85,480,661</u>	<u>772,467</u>	<u>867,828,062</u>

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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### Notes to the Consolidated Financial Statements

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#### **(32) Preferential Interests on Mortgage Loans**

According to current fiscal regulations in Panama, the financial institutions that grant mortgage loans not exceeding \$180,000 with preferential interest, receive the benefit of an annual fiscal credit. From July 2010 according to the law 8 of March 15, 2010 repealing Article 6 of Law No.3 of 1985, it increases the benefit of a tax credit from the first ten (10) years, to, the first fifteen (15) years for new loans for the purpose of new houses in the amount equal to the difference between the income that the lender would have received if you have taken the benchmark interest rate market, which has been in effect during that year and the actual income received in interest in relation to each preferential mortgage loans.

Law No.3 of May, 1985 of the Republic of Panama establishes that fiscal credit can be used for payment of national taxes, including income tax. The fiscal credit, under Law No.11 of September 1990, which extends the previous law, and Law No.28 of June 1995, establishes that it can be used only for payment of income tax. If in any fiscal year the financial institution cannot effectively use the entire fiscal credits to which it is entitled, then it can use the excess credit over the next three years, at their convenience, or transfer, in whole or in part, to another taxpayer.

During 2021, the Company recognized preferential interest income on residential mortgage loans net of reserve amounting to \$14,256,766 (2020: \$14,223,326) in profit or loss. The Company sold prior years' fiscal credits to third parties for an amount of \$9,616,762 (2020: \$4,930,874) without generating profit or loss on its sale (2020: \$78,673).

As of December 31, 2021, the accumulated tax credit amounts to \$24,077,858 (2020: \$19,418,736), and is included as a line item in the consolidated statement of financial position.

#### **(33) Main Applicable Laws and Regulations**

The principal laws and regulations applicable in the Republic of Panama are:

*(a) Banking Law*

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendence of Banks of the Republic of Panama, according to the laws established by Executive Decree No.52 of April 30, 2008, which adopts the sole text Decree Law No.9 of February 26, 1998, as amended by Decree Law No.2 of February 22, 2008, by which the banking system in Panama is established and the Superintendence of Banks and the rules that govern it is created.

*(b) Trust Law*

Trust operations in Panama are regulated by the Superintendence of Banks of Panama in accordance with the legislation established in Law No. 1 of January 5, 1984, amended by Law No.21 of May 10, 2017.

*(c) Securities Law*

The operations brokerage firm in Panama are regulated by the Superintendence of the Securities Market in accordance with the legislation established in Decree Law No.1 of July 8, 1999, amended by Law No.67 of September 1, 2011.

# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

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## Notes to the Consolidated Financial Statements

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### (35) Main Applicable Laws and Regulations, continued

The operations of brokerage houses are in the process of adaptation to the Agreement No.004-2011, amended on certain provisions by Agreement No.008-2013, established by the Superintendence of the Securities Market, which indicate that they have to comply with the capital adequacy rules and modalities.

The main regulations or standards in the Republic of Panama, which have an effect on the preparation of these consolidated financial statements are described below:

(a) *General Board Resolution SBP-GJD-0003-2013 issued by the Superintendence of Banks of Panama on July 9, 2013*

This resolution establishes the accounting treatment for those differences arising between prudential standards issued by the Superintendence of Banks and International Financial Reporting Standards (IFRS), such that 1) the accounting records and financial statements are prepared in accordance with IFRS as required by the Agreement No.006 - 2012 December 18, 2012 and 2) in the event that the calculation of a provision or reserve under prudential rules applicable to banks to submit additional accounting specific aspects required IFRS, is greater than the respective calculation under IFRS oversupply or under prudential reserves is recognized in a regulatory reserve in equity.

Prior authorization of the Superintendence of Banks, banks shall be able to partially or totally reverse the provision established, after submitting due justification before the Superintendence of Bank.

(b) *Agreement No. 003 – 2009 Dispositions on Acquired Foreclosed Assets, issued by the Superintendence of Banks of Panama on May 12, 2009*

For regulatory purposes, the Superintendence sets a term of five (5) years, effective the date of registration before the Public Registry to sell immovable goods acquired for the payment of past due credits. If after that term the Company has not sold the property acquired, it shall conduct an independent appraisal to determine if its value has decreased, by applying in such case the provisions of IFRS.

Likewise, the Company shall create a reserve in equity, through the appropriation in the following order of: a) undistributed earnings; b) profits for the period, to which the following value of the foreclosed asset will be transferred:

First year:	10%
Second year:	20%
Third year:	35%
Fourth year:	15%
Fifth year:	10%

The aforementioned reserves shall maintain until the acquired asset is actually transferred, and it shall not be considered a regulatory reserve for purposes of calculating the equity ratio.



# LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

## Notes to the Consolidated Financial Statements

### (35) Main Applicable Laws and Regulations, continued

- (c) *Agreement No. 004-2013, 'Whereby provisions on credit risk management inherent of in credit portfolio and off-balance sheet transactions are established', issued by the Superintendence of Banks of Panama on May 28, 2013.*

Sets forth general classification criteria for credit facilities in order to determine the specific and dynamic provisions to cover the Company's credit risk. Additionally, this Agreement establishes certain required minimum disclosures, in line with IFRS disclosure requirements about credit risk management and administration.

This Agreement is effective as of June 30, 2014 and repeals all parts of the Agreement No.006-2000 of June 28, 2000 and all amendments, Agreement No.006-2002 of August 12, 2002 and Article 7 of Agreement No.002-2003 of March 12, 2003.

#### *Specific provisions*

Agreement No.004-2013 sets forth that specific provisions are generated by any objective and concrete evidence of impairment. These provisions shall be recorded for credit facilities classified in the risk categories named: Special Mention, Substandard, Doubtful or Unrecoverable, both for individual or collective credit facilities.

Banks shall calculate and maintain the amount of the specific provisions determined through the methodology explained in this Agreement, which takes into consideration the balance owed by each credit facility classified in any of the categories subjected to provision, mentioned in the preceding paragraph; the present value of each collateral available as risk mitigating, as established per type of collateral in this Agreement, and a table of estimates applied to the net balance exposed to losses for such credit facilities.

In case of an excess in the specific provision, calculated in conformity with this Agreement, over the provision calculated in accordance with IFRS; this surplus shall be accounted for as a regulatory reserve in equity increasing or decreasing through allocations from or to retained earnings. The balance of the regulatory reserve shall not be considered as capital funds for purposes of calculating certain ratios mentioned in this Agreement.

The table below summarizes the classification, based on Agreement No.004-2013, of the loans at amortized cost of Banco La Hipotecaria, S. A. (Panamanian bank), subsidiary of the Company, classified according to its carrying amount, and the specific provisions for each category:

<u>Classification</u>	<u>Balance</u>	<u>2021</u>	<u>Balance</u>	<u>2020</u>
		<u>Allowance</u>		<u>Allowance</u>
Normal	421,787,266	0	511,235,650	0
Special mention	11,284,612	604,874	7,672,755	534,828
Substandard	7,457,247	1,480,346	3,472,369	831,184
Doubtful	7,388,189	1,646,583	4,204,891	1,119,033
Unrecoverable	7,411,255	1,941,125	5,612,557	1,220,794
<b>Total</b>	<u>455,328,569</u>	<u>5,672,928</u>	<u>532,198,222</u>	<u>3,705,839</u>

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements****(33) Main Applicable Laws and Regulations, continued**

The table below summarizes the balances of past due and default loans for the principal categories:

<u>2021</u>	<u>Current</u>	<u>Past due</u>	<u>Default</u>	<u>Total</u>
Loans to customers	<u>404,531,242</u>	<u>28,540,634</u>	<u>22,256,693</u>	<u>455,328,569</u>
<u>2020</u>	<u>Current</u>	<u>Past due</u>	<u>Default</u>	<u>Total</u>
Loans to customers	<u>496,408,532</u>	<u>22,249,592</u>	<u>13,540,098</u>	<u>532,198,222</u>

As of December 31, 2021, the balances of the loans for which their accumulation of interests has been suspended due to an impairment in their credit quality or for the non-performance of payments, in accordance with the established in the Agreement No.004-2013 amounted to \$16,232,555 (2020: \$9,938,305).

*Dynamic provision*

Agreement No.004 - 2013 dictates that the dynamic provision is a reserve established to meet possible future needs for establishment of specific provisions, which is governed by its own prudential bank regulation criteria. The dynamic provision constitutes at quarterly basis on credit facilities that lack specific provision allocated, i.e., on credit facilities classified as Normal.

The dynamic provisioning is an equity item that increases or decreases through allocations from or to retained earnings. The credit balance of this provision is part of dynamic regulatory capital but does not replace or offset the capital adequacy requirements established by the Superintendence.

The balance of the Company's dynamic provision is detailed as follows:

	<u>2021</u>	<u>2020</u>
Banco La Hipotecaria, S. A.	2,517,152	2,614,136
La Hipotecaria, S. A. de C.V.	1,468,441	1,468,441
La Hipotecaria C. F., S. A.	<u>721,360</u>	<u>721,360</u>
<b>Total</b>	<u>4,706,953</u>	<u>4,803,937</u>

With this Agreement, the Company establishes a dynamic provision which will not be less of 1.25%, nor higher to 2.50% of the risk weighed assets corresponding to credit facilities classified as normal.

By requirements of Agreement No.004-2013, a regulatory provision was constituted, amounted \$2,570,398 (2020: \$3,208,856), which represents the excess of regulatory provision over the allowance for loan losses in accordance with IFRS.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (33) Main Applicable Laws and Regulations, continued

- (d) *Agreement No.007-2018 through which provisions on country risk management are established, issued by the Superintendence of Banks of Panama on May 8, 2018*

##### *Country risk exposure*

In order to maintain an efficient management of the risk and resources in foreign countries, a country risk factor has been incorporated into the process of risk identification, measurement, evaluation, monitoring, communication and mitigation. Thus, a detailed analysis for the operations in foreign countries was performed, and a series of guidelines, policies and procedures were duly approved by the Board of Directors, for risk management purposes.

##### *Management framework*

When incorporating the country risk factor, the Company designed a document with the initial analyzes; as well as, the determination of limits, policies, procedures, technical manuals, which rest in the section of policies and procedures manuals of the risk area and were duly approved by the corresponding instances and the Board of Directors.

##### *Country risk provision*

In accordance with the provisions of Article 15 of Agreement No.007-2018, *"the maximum provisions must be established between those resulting from comparing those corresponding to the nature of the operation and the provisions for country risk. The final provision constituted by country risk will be calculated after deducting the provisions established corresponding to the nature of the operation in question."* For the operations and resources exposed to country risk, as of December 31, 2021, it was not necessary to make additional provisions, or charges in the Company's consolidated financial statements.

It is important to mention that, in the future operations may occur that due to their nature could require provisions for country risk; therefore, the Company's Risk Area provides periodic monitoring that enables timely action to be taken.

- (e) *Agreement No. 009-2020 that modifies Agreement No.002-2020 through which additional, exceptional and temporary measures are established to comply with the provisions contained in Agreement No.004-2013 on credit risk*

##### Modified special mention (watch list) category loans

In accordance with the requirements of Article 8 of Agreement No. 006-2021 of December 22, 2021, below is a detail of the modified special mention category loan portfolio and its respective provisions and regulatory reserves as of December 31, 2021, classified according to the codifications indicated in the General Resolution of the Board of Directors SBP-GJD-0003-2021 and according to the risk stage of IFRS 9:

**LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Notes to the Consolidated Financial Statements**

**(33) Main Applicable Laws and Regulations, continued**

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Modified Special Mention Loans				
Modified - normal	32,772,310	600,692	138,485	33,511,487
Modified - special mention	0	0	0	0
Modified - substandard I	12,268,673	643,213	98,163	13,010,049
Modified - doubtful	0	0	30,241,533	30,241,533
Modified - unrecoverable	0	0	<u>9,277,398</u>	<u>9,277,398</u>
Total modified loans	<u>45,040,983</u>	<u>1,243,905</u>	<u>39,755,579</u>	<u>86,040,467</u>
(+) Interest receivable	122,067	14,680	289,614	426,360
(+) Account receivable COVID	<u>2,261,897</u>	<u>91,262</u>	<u>2,702,258</u>	<u>5,055,416</u>
Total of loans subject to provision of Agreement No. 6-2021	<u>47,424,946</u>	<u>1,349,846</u>	<u>42,747,451</u>	<u>91,522,243</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Allowance				
Allowance under IFRS 9	297,126	28,225	2,007,472	2,332,564
Regulatory reserves (equity)				<u>2,337,942</u>
Total allowance and reserves				<u>4,670,506</u>

As explained in Note 34 on the effects of COVID-19, as of March 31, 2020, the Company granted an automatic grace period to borrowers affected in their business or personal activities by COVID-19, until June 30, 2020. As of that date, and as a result of an Agreement signed between the Government of Panama and the Banking Association of Panama, as well as the issuance of Law No. 156 of moratorium, extended until December 31, 2020 financial relief to those affected by COVID-19 and who requested it. These financial relief measures consist mainly of granting grace periods for capital and interest to customers whose income has been affected by the pandemic.

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

COVID-19 has resulted in a disruption in economic activities that have affected and are likely to continue to affect the Panamanian Banking business, its financial conditions, liquidity and results of operations.

The Company has not had a significant impact on the aforementioned conditions, since during the period it maintained very solid liquidity levels that guaranteed the continuity of its operations. Similarly, at the cash flow level, it did not present significant effects as a consequence of the aforementioned moratoriums.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (33) Main Applicable Laws and Regulations, continued

The following table shows the percentage of the value of the modified special mention loans, which as of December 31, 2021 did not present payments of their installments counted from the last payment of the full installment registered at the time of the credit modification.

	<u>Up to 90 days</u>	<u>Between 91 and 120 days</u>	<u>Between 121 and 180 days</u>	<u>Between 181 and 270 as</u>
Loans to persons	82%	0.55%	0.47%	0%

As mentioned at the beginning of this note, on September 11, 2020, the Superintendence of Banks issued Agreement No. 009-2020 that modifies Agreement No. 002-2020 of March 16, 2020, through which, among others things defines that loans classified as normal and special mention (watch list), as well as restructured loans that are not in arrears, may be modified in accordance with the guidelines established in the aforementioned Agreement. On the other hand, these modified loans in the normal category and special mention will be classified in the category "modified special mention" for purposes of determining the respective provisions. Modified restructured loans that were in the category of substandard, doubtful or unrecoverable will maintain the credit rating they had at the time of their modification with their respective provision.

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

Through Agreement No. 006-2021, the Superintendence repealed the article that required the generic provision indicated in the previous paragraph, however, taking into consideration the new circumstances derived from COVID-19 and the significant increase in credit risk as a result of the passage of time , banking entities will not be able to reverse the provisions previously established (on profit or loss or equity) at the cut-off date of November 2021 for the entire modified portfolio as of that date, in accordance with the provisions of Article 8 of Agreement No. 002- 2021.

Notwithstanding the foregoing, in the event that a modified credit is reinstated to the application of Agreement No. 004-2013 in the normal category, banking entities may use the corresponding portion of the previously constituted provision to constitute the IFRS provision. required. This provision will be in force until the Superintendence determines it, based on the future behavior of the modified portfolio.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (33) Main Applicable Laws and Regulations, continued

The principal laws and regulations applicable in the Republic of El Salvador are:

(a) *Law of the Superintendence of Corporate Obligations (formerly Business Enterprises)*

The operations of business enterprises in El Salvador are regulated by the Superintendence of Companies and Corporations, contained in Legislative Decree No.448 of October 9, 1973.

(b) *Securities Law*

The operations of issuers and brokerage positions in El Salvador are regulated by the Superintendence of Securities in accordance with the procedures established in the Decree Law No.809 of April 31, 1994. According to Legislative Decree No.592 of 14 January 2011, the Securities ceased to exist as of August 2, 2011, which contains the Law on Regulation and Supervision of the Financial System, published in Official Journal No.23 of February 2, 2011, effective as of August 2, 2011, and gave rise to the creation of the new Financial System Superintendence as single supervisory body that integrates the functions of the former Superintendence of the Financial System, Pensions and Securities.

The principal laws and regulations applicable in the Republic of Colombia are:

(a) *Laws for Commercial Business*

The operations of commercial business in Colombia are regulated by the Superintendence of Companies in accordance with the laws established in the Decree Law No.222 of December 20, 1995.

(b) *Equity Tax*

According to Decree 4825 of December 29, 2010, issued by the Ministry of Finance and Public Credit, establishing the state tax applicable to juridical persons, natural and de facto societies. This tax is generated by the possession of wealth by January 1st of 2011, whose value equals or exceeds one billion Colombian pesos and less than three billion Colombian pesos. The tax rate ranges from 1% to 1.4% and added a surcharge of 25% is added to the wealth tax result. The wealth tax is presented in the consolidated statement of profit or loss in the tax line item.

#### (34) Response to the COVID-19 Crisis

During the year ended December 31, 2021, new variants of Coronavirus (COVID-19) have been detected in different regions of the world, resulting in some restriction measures, which could maintain the global economic slowdown and continue with effect on various industries.

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.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### **(34) Response to the COVID-19 Crisis, continued**

Likewise, management considers that the dynamics brought about by the Company's operations, as well as the financial strategy that it has followed, including the optimization of its portfolio in recent years and the capital allocation decisions, place it in an adequate position before the possible impacts of the COVID-19 crisis.

As of December 31, 2021, except for some specific cases mentioned below, the impact of COVID-19 has not been significant to the Company.

Management considers that the main factors of the COVID-19 crisis that have an impact on the Company's consolidated financial statements, based on the information available and the analyzes carried out to date, are those described below:

##### *(a) Human talent*

For the Company, the care of the staff has been a priority, for which it maintains a portion of its workforce working remotely, complying with the social distancing instruction given by the governments and, likewise, all the measures of protection with those who perform sensitive functions for the continuity of services or processes in physical locations (customer service branches, mainly).

The main measures taken by the Company in terms of the protection of human talent and its performance are detailed below:

- Accompaniment and care of all employees: Monitoring of mental and physical health, financial health, accompaniment of leaders, measurement of the collective mood and pulse of confidence of employees in the Company and monitoring of the evolution of the pandemic in each country.
- Accompaniment and special care for employees in face-to-face work: Training and motivation for appropriation of prevention habits, use of protection elements, reduction of transfers between headquarters, and alternate schedules.
- Communication: Close relationship, circulating recommendations and permanent quality information.

##### *(b) Risk management*

As is disclosed in detail in Note 4, the Company has management systems that allow it to monitor exposure to different financial risks (credit, liquidity and market risks), as well as operational risk.

##### **Credit and market risk**

The Company has strengthened the active management of its placements in banks, investment portfolio and loan portfolio, aware of their high relevance in terms of liquidity and financial soundness.

##### **Liquidity risk**

The liquidity risk has taken on vital importance as a result of the economic conditions generated by the pandemic. In this sense, the Company monitors its liquidity on a recurring basis through projected liquidity scenarios.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### (34) Response to the COVID-19 Crisis, continued

The Company maintains its liabilities with definite expiration dates, which allows it to precisely program liquidity needs, mitigating risk.

On the other hand, the Company has approved credit facilities, such as revolving lines of credit, maintained with national and international financial institutions, which project financial solidity. Additionally, the Company has access to domestic and international financial markets, through which it issues short, medium and long-term debt securities, such as negotiable commercial papers (VCNs), negotiable commercial notes (NCNs) and bonds with or without guarantees, which are part of its strategy for liquidity risk management.

Based on the foregoing, the administration does not foresee that the Company will have liquidity problems to meet its obligations in accordance with their contractual maturity.

#### ***Exchange rate risk***

As disclosed in Note 4, the Company does not have significant exposures in foreign currencies. However, to manage exposure to exchange rate risk, the Company monitors its exposures and, if necessary, determines the convenience of having some hedging scheme, constantly monitored by the areas in charge and aligned with the guidelines issued by their Boards of Directors.

#### ***Operational risk***

The Company has taken measures for financial and operational control, which allows it to counteract the adverse effects of the pandemic, such as: the establishment of direct communication channels with its customers, the provision of physical and online means of payment for borrowers, and access to a digital platform for managing loan applications, among others.

#### (c) *Impairment of financial assets*

The Company's financial assets that are within the scope of the expected credit losses (ECL) model of IFRS 9 (loans receivable, and investments in debt instruments measured at AC and at FVOCI) are being recurrently evaluated to incorporate the impact of COVID-19 in the measurement of their ECL, considering the measures adopted by the governments of each of the countries where the Company operates, if any. Based on the above, the impacts are expected to take place mainly in the following aspects:

- Measurement of the ECL over a 12-month horizon ('Stage 1') or during the life of the financial asset ('Stage 2 or 3', as appropriate). In cases where a significant increase in credit risk (default risk) is identified for financial assets classified in 'Stage 1', derived from the effects of COVID-19, these will be classified in 'Stage 2 or 3', as appropriate, and their ECL will be measured over your lifetime; and
- The estimate of the ECL includes:
  - Credit risk, whose behavior could vary according to the segment structure of the Company's loan portfolio and how affected they are by the situation, eventually increasing the ECL percentages even at the end of the second half of 2021.



## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### **(34) Response to the COVID-19 Crisis, continued**

- The estimated loss as a result of default (loss given the default), which could increase considering that in some cases there could be a decrease in the fair value of non-financial assets pledged as collateral.

The estimate of ECL on financial assets as of December 31, 2021 incorporates parameters and inputs considered adequate based on the projections that arise from forward-looking information, reflecting the effects of the public policy decisions implemented in relation to COVID-19 and taking into account the high level of uncertainty regarding the intensity and duration of the disruption in the economy. The ECL estimate is based on the best available information obtained, considering the different geographic areas where the Company operates and incorporates the possible effects on its loan segments and portfolios, which are exposed to different risks and situations. When considering forward-looking information (including macroeconomic information), additional adverse scenarios are included along with those previously used in the Company's ECL models.

The Company's management will subsequently make the pertinent updates to the estimation of the ECL on financial assets, considering the evolution of the COVID-19 pandemic and its impacts on macroeconomic conditions, and based on the best available information available that could be obtained.

#### ***Financial relief to clients***

Until June 30, 2021, the Company offered reliefs, in the form of interest payments, commissions and insurance on loans, to the operations of Panama.

For the Colombian operation, financial relief was extended as of September 30, 2021 to clients that meet the criteria established by the regulator.

It is important to mention that financial relief is limited only to clients who are up to date in their capital and interest payments on the date of application to the Company, that is, for those who are classified in a credit risk category. 'normal' or 'special mention'. Additionally, the granting of these exemptions to clients in relation to their existing loans or loan agreement implies the renegotiation of their terms.

The Company continuously monitors the pronouncements of the regulators and state entities, as well as the conditions and events that could impact the repayment capacity of clients who have availed themselves of financial relief, and therefore in the ECL on the balances owed, in a timely manner.

These balances are considered when estimating the ECL on the loan portfolio receivable.

#### ***Measuring the impact of COVID-19 on ECL***

In this sense, the Company has carried out an analysis of the possible effects by grouping its clients in the loan portfolio based on the industry where they work, in order to classify them as low, medium or high risk.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### **(34) Response to the COVID-19 Crisis, continued**

Likewise, high impact scenarios have been developed that allow determining the potential impairments of these financial assets and estimating the portfolio default under each scenario, as well as the possible provisions that will be required in the future, in order to maintain reserve levels that allow them to face the impacts on default once the financial relief related to COVID-19 ends.

#### ***Investment portfolio in debt instruments***

The Company maintains a conservative portfolio of investments in debt instruments measured at AC and FVOCI, made up of government bonds and residual interests in securitizations, which is monitored on a recurring basis in terms of its credit and market risk.

In particular, for the closing of December 31, 2021, the consolidated financial statements do not reflect representative impacts associated with the impairment of the investment securities portfolio, since the increases that were perceived in market interest rates are more due to a decrease in liquidity, associated with the capital outflow of international investors from emerging markets, given the situation of COVID-19, but not with a decrease in the ratings of issuers due to the inability to honor their obligations in the short term.

Notwithstanding the foregoing, with respect to not observing significant impacts associated with the credit risk of the investment securities portfolio as of December 31, 2021, the Company's management is aware of the volatility and high uncertainty generated by the current situation, therefore that the measures adopted by the governments and the implications that these may have on the behavior of the different sectors are permanently monitored, among others, the interruption in supply chains, extensive suspension of productive activity, increased unemployment, recession of the income for some sectors, price behavior (inflation), economic slowdown, etc.

In this sense, for investments in securities measured at AC, an impact on the investment portfolios and the Company's results would be expected in the event of downgrades in the credit rating of the issuers. The securities classified at market value on a recurring basis incorporate the effects of the quotation and fluctuations in interest rates, therefore, they do not imply additional effects associated with the 'prospective impairment' analyzes. However, as a consequence of the reduction in the credit rating of the issuers, for those securities classified as measured at fair value with changes in the OCI (FVOCI), the Company may reflect negative impacts on the results of the period associated with an estimated impairment, which are offset in terms of equity due to the positive movements in the OCI that allow the securities to be kept at their fair value.

It is important to mention that the market risk, associated with the changes in the price and rate conditions of the instruments that make up the Company's investment portfolios, which during 2021 has increased due to the volatility that has dominated the financial markets, has generated effects on the operation and results of the Company, as a result of the natural exposure of its businesses to this class of instruments. However, as of December 31, 2021, these effects are not adverse.

## LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES

(Panama, Republic of Panama)

### Notes to the Consolidated Financial Statements

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#### **(34) Response to the COVID-19 Crisis, continued**

##### *(d) Ongoing business*

The Company considers that at the moment none of its operations present significant difficulties that prevent it from continuing as a going concern. The continuity plans and the appropriate management of the Company's operation have allowed the implementation of the remote work modality, enabling access to the systems and technological resources required to meet this objective and facilitating preventive isolation.

On the other hand, in terms of technology risk management and information security, the Company has carried out the necessary tasks to ensure the protection of information, maintaining the controls and security schemes defined to mitigate cybersecurity risks to those that can be seen exposed.

At a financial level, the Company evaluated its liquidity, in order to verify its financial capacity in the scenario projected by the COVID-19 situation and thus ensure compliance with its obligations and the preservation of its operations.

As a result of this evaluation, it was evidenced that the Company has an adequate liquidity and solvency position that allows it to face the current situation and continue operating under the ongoing business principle.

##### *(e) Measurement of financial instruments - Leases*

The terms and conditions of the leasing contracts have not been modified as a result of the general impacts of COVID-19, so the Company has not required to recognize gains or losses in profit or loss.

##### *(f) Tax measures and tax implications*

The governments of some of the countries where the Company operates have adopted fiscal relief measures; however, the Company has decided not to take advantage of any of them, deciding to pay all its taxes according to the previous regulations.

#### **(35) Subsequent Events**

At the period ended on January 31, 2022, Grupo ASSA, S.A. and Inversiones Americasa, S.A. increased their ownership interest in the Company by acquiring the shares owned by The International Finance Corporation (IFC) owned since 2009.

The IFC, a multilateral financial institution and member of the World Bank Group, held a 13.5% shareholding in the Company, represented by 143,042 common shares. The IFC has participated for 13 years as a strategic partner of the Company, supporting its regional expansion as well as contributing to the strengthening of the social impact the Company has through the granting of mortgage loans to low and lower-middle income families in Panama, El Salvador and Colombia.

The subsidiaries of the Company have maintained a close and growing strategic relationship with IFC since 2004, receiving long-term lines of credit for a total amount of \$150 million, being the latest, in June 2021 for US\$50 million, from which a second disbursement was successfully made in December 2021.

## **LA HIPOTECARIA (HOLDING), INC. AND SUBSIDIARIES**

(Panama, Republic of Panama)

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

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#### **(35) Subsequent Events, continued**

With the purchase of the common shares from the IFC, the share distribution is modified, henceforth being composed by 79.85% of Grupo ASSA, S.A., 19.64% of Inversiones Americasa, S.A. and 0.51% of Fundación Biomat.

**Consolidated Schedule - Information of the Consolidated Statement of Financial Position**

December 31, 2021

(Expressed in dollars of the United States of America)

<b>Assets</b>	<b>Total Consolidated</b>	<b>Eliminations</b>	<b>Subtotal</b>	<b>La Hipotecaria (Holding), Inc.</b>	<b>Banco La Hipotecaria and Subsidiaries</b>	<b>Online Systems, S.A.</b>	<b>Mortgage Credit Reinsurance Limited</b>	<b>Securitization and Investment Advisors, Inc.</b>
Cash and cash equivalents	242,052	0	242,052	0	242,052	0	0	0
Demand deposits in banks	52,290,916	0	52,290,916	118,236	48,562,775	1,914	2,390,060	1,217,931
Saving deposits in banks	8,567,577	(321,348)	8,888,925	10,030	8,061,464	79,490	737,941	0
<b>Total cash, cash equivalents and deposits in banks</b>	<b>61,100,545</b>	<b>(321,348)</b>	<b>61,421,893</b>	<b>128,266</b>	<b>56,866,291</b>	<b>81,404</b>	<b>3,128,001</b>	<b>1,217,931</b>
Investment securities, net	114,062,959	0	114,062,959	0	114,062,959	0	0	0
Loans at amortized cost (AC)	656,803,162	0	656,803,162	0	656,803,162	0	0	0
Furniture, equipment and improvements, net	1,683,192	0	1,683,192	0	1,683,192	0	0	0
Investment in affiliates	0	(42,468,922)	42,468,922	41,744,401	0	362,260	0	362,261
Accounts receivable and interest receivable on investment securities at fair value	9,350,652	0	9,350,652	94,765	9,198,465	0	0	57,422
Accounts receivable - related parties	466,749	0	466,749	0	0	0	466,749	0
Tax credit	24,077,858	0	24,077,858	0	24,077,858	0	0	0
Deferred tax assets	1,284,879	0	1,284,879	0	1,284,879	0	0	0
Right-of-use assets	1,978,284	0	1,978,284	0	1,978,284	0	0	0
Other assets	4,850,048	0	4,850,048	2,416	4,759,734	83,168	4,613	117
<b>Total assets</b>	<b>875,658,328</b>	<b>(42,790,270)</b>	<b>918,448,598</b>	<b>41,969,848</b>	<b>870,714,824</b>	<b>526,832</b>	<b>3,599,363</b>	<b>1,637,731</b>
<b>Liabilities and Equity</b>								
Liabilities:								
Deposits from customers:								
Saving deposits	2,911,514	(321,348)	3,232,862	0	3,232,862	0	0	0
Time deposits	367,056,823	0	367,056,823	0	367,056,823	0	0	0
<b>Total deposits from customers</b>	<b>369,968,337</b>	<b>(321,348)</b>	<b>370,289,685</b>	<b>0</b>	<b>370,289,685</b>	<b>0</b>	<b>0</b>	<b>0</b>
Negotiable commercial papers	35,315,094	0	35,315,094	0	35,315,094	0	0	0
Negotiable commercial notes	55,524,085	0	55,524,085	0	55,524,085	0	0	0
Covered bonds	51,347,808	0	51,347,808	0	51,347,808	0	0	0
Ordinary bonds	13,009,668	0	13,009,668	0	13,009,668	0	0	0
Investment certificates	19,523,626	0	19,523,626	0	19,523,626	0	0	0
Other negotiable debts	10,888,482	0	10,888,482	0	10,888,482	0	0	0
Borrowings	227,414,806	0	227,414,806	0	227,414,806	0	0	0
Leases liabilities	2,405,253	0	2,405,253	0	2,405,253	0	0	0
Income tax payable	988,181	0	988,181	0	988,181	0	0	0
Other liabilities	6,905,857	(657,417)	7,563,274	57,094	6,633,203	0	516,762	356,215
<b>Total liabilities</b>	<b>793,291,197</b>	<b>(978,765)</b>	<b>794,269,962</b>	<b>57,094</b>	<b>793,339,891</b>	<b>0</b>	<b>516,762</b>	<b>356,215</b>
Equity:								
Common shares	18,095,550	(15,010,500)	33,106,050	18,095,550	15,000,000	500	5,000	5,000
Treasury shares	(308,259)	727,000	(1,035,259)	(308,259)	(727,000)	0	0	0
Preferred shares	20,752,709	0	20,752,709	20,752,709	0	0	0	0
Additional paid in capital	0	(26,441,203)	26,441,203	0	25,051,203	615,000	95,000	680,000
Capital reserve	1,800,000	0	1,800,000	0	1,800,000	0	0	0
Regulatory reserves	9,615,293	0	9,615,293	0	9,615,293	0	0	0
Fair value reserve	279,058	0	279,058	0	279,058	0	0	0
Foreign currency translation reserve	(14,369,066)	(407,798)	(13,961,268)	(3,105,119)	(10,856,149)	0	0	0
Retained earnings	46,501,846	140,202	46,361,644	6,477,873	36,393,322	(88,668)	2,982,601	596,516
<b>Total equity attributable to the controlling interest</b>	<b>82,367,131</b>	<b>(40,992,299)</b>	<b>123,359,430</b>	<b>41,912,754</b>	<b>76,555,727</b>	<b>526,832</b>	<b>3,082,601</b>	<b>1,281,516</b>
Non-controlling interest	0	(819,206)	819,206	0	819,206	0	0	0
<b>Total liabilities and equity</b>	<b>875,658,328</b>	<b>(42,790,270)</b>	<b>918,448,598</b>	<b>41,969,848</b>	<b>870,714,824</b>	<b>526,832</b>	<b>3,599,363</b>	<b>1,637,731</b>

See the accompanying independent auditors' report

Consolidated Schedule - Information of the Consolidated Statement of Income

For the year ended December 31, 2021

(Expressed in dollars of the United States of America)

	<u>Total Consolidated</u>	<u>Eliminations</u>	<u>Subtotal</u>	<u>La Hipotecaria (Holding), Inc.</u>	<u>Banco La Hipotecaria and Subsidiaries</u>	<u>Online Systems, S.A.</u>	<u>Mortgage Credit Reinsurance Limited</u>	<u>Securitization and Investment Advisors, Inc.</u>
Interest income calculated using the effective interest method:								
Loans	51,440,998	0	51,440,998	0	51,440,998	0	0	0
Investment in securities	3,482,445	0	3,482,445	0	3,482,445	0	0	0
Deposits in banks	136,482	(4,034)	140,516	741	135,322	888	3,514	51
<b>Total interest income</b>	<b>55,059,925</b>	<b>(4,034)</b>	<b>55,063,959</b>	<b>741</b>	<b>55,058,765</b>	<b>888</b>	<b>3,514</b>	<b>51</b>
Interest expenses:								
Deposits from customers	15,971,654	(4,034)	15,975,688	0	15,975,688	0	0	0
Borrowings, debt securities in issue and leases	23,612,540	0	23,612,540	0	23,612,540	0	0	0
<b>Total interest expenses</b>	<b>39,584,194</b>	<b>(4,034)</b>	<b>39,588,228</b>	<b>0</b>	<b>39,588,228</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net interest income</b>	<b>15,475,731</b>	<b>0</b>	<b>15,475,731</b>	<b>741</b>	<b>15,470,537</b>	<b>888</b>	<b>3,514</b>	<b>51</b>
Impairment losses on financial assets:								
Provision for credit losses on loans at AC	597,953	0	597,953	0	597,953	0	0	0
Provision for credit losses on investment securities at AC	2,017	0	2,017	0	2,017	0	0	0
Provision for credit losses on investment securities at FVOCI	7,933	0	7,933	0	7,933	0	0	0
Net loss arising from modified loans at AC	582,257	0	582,257	0	582,257	0	0	0
<b>Net interest income, after provisions for impairment losses on financial assets</b>	<b>14,285,571</b>	<b>0</b>	<b>14,285,571</b>	<b>741</b>	<b>14,280,377</b>	<b>888</b>	<b>3,514</b>	<b>51</b>
Income from banking services, commissions and others, net:								
Net gain on investment securities at FVTPL	1,751,466	0	1,751,466	0	1,751,466	0	0	0
Management and servicing commissions	6,368,062	(660,000)	7,028,062	(16,498)	7,044,560	0	0	0
Reinsurance income	5,281,756	0	5,281,756	0	0	0	5,281,756	0
Reinsurance claims and benefits	(2,324,562)	0	(2,324,562)	0	0	0	(2,324,562)	0
Other commissions incurred	(1,701,699)	0	(1,701,699)	0	(1,132,318)	0	(569,381)	0
Other income	2,822,717	(1,400,021)	4,222,738	1,400,021	1,448,387	13,572	26,658	1,334,100
<b>Total income from banking services and others, net</b>	<b>12,197,740</b>	<b>(2,060,021)</b>	<b>14,257,761</b>	<b>1,383,523</b>	<b>9,112,095</b>	<b>13,572</b>	<b>2,414,471</b>	<b>1,334,100</b>
General and administrative expenses								
Salaries and other personnel benefits	7,473,543	0	7,473,543	0	7,473,543	0	0	0
Depreciation and amortization of furniture, equipment and improvements	703,688	0	703,688	0	703,688	0	0	0
Depreciation of right-of-use assets	538,249	0	538,249	0	538,249	0	0	0
Professional and legal fees	1,785,793	(660,000)	2,445,793	4,652	1,439,610	750	855,581	145,200
Taxes	2,201,866	0	2,201,866	0	2,189,393	10,473	2,000	0
Other expenses	4,682,221	0	4,682,221	22,599	4,599,413	67	59,799	343
Total general and administrative expenses	17,385,360	(660,000)	18,045,360	27,251	16,943,896	11,290	917,380	145,543
<b>Net income before income tax</b>	<b>9,097,951</b>	<b>(1,400,021)</b>	<b>10,497,972</b>	<b>1,357,013</b>	<b>6,448,576</b>	<b>3,170</b>	<b>1,500,605</b>	<b>1,188,608</b>
Current tax expense	1,140,438	0	1,140,438	0	1,140,438	0	0	0
Deferred tax expense	456,802	0	456,802	0	456,802	0	0	0
<b>Total income tax expense</b>	<b>1,597,240</b>	<b>0</b>	<b>1,597,240</b>	<b>0</b>	<b>1,597,240</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net income</b>	<b>7,500,711</b>	<b>(1,400,021)</b>	<b>8,900,732</b>	<b>1,357,013</b>	<b>4,851,336</b>	<b>3,170</b>	<b>1,500,605</b>	<b>1,188,608</b>

See the accompanying independent auditors' report