DÉCIMO SEXTO FIDEICOMISO DE BONOS DE PRÉSTAMOS HIPOTECARIOS

(Fourteen Mortgage Backed Notes Trust)
(With Banco La Hipotecaria, S. A. acting as Fiduciary)

(Panama, Republic of Panama)

Financial Statements

December 31, 2022

(With Independent Auditors' Report Thereon)

"This document has been prepared with the knowledge that its content will be made available to the public investors and general public."

(FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION)

DÉCIMO SEXTO FIDEICOMISO DE BONOS DE PRÉSTAMOS HIPOTECARIOS
(With Banco La Hipotecaria, S. A., acting as Fiduciary)
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Fiduciary
Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Décimo Sexto de Bonos de Préstamos Hipotecarios ("The Trust") with Banco La Hipotecaria, S. A. acting as Fiduciary ("the Fiduciary"), which comprise the statement of financial position as at December 31, 2022, the statements of profit or loss changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios with Banco La Hipotecaria, S. A. acting as Fiduciary as of December 31, 2022, and its of financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

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 Financial Statements* section of our report. We are independent of the Trust 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 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 judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Allowance for loan losses
See notes 4 (d), 6 and 8 to the financial statements

Key audit matter	How the key matter was addressed by the audit
The allowance for loan losses in loans at amortized cost is considered one of the most significant matters as it requires the use of judgments and assumptions made by management for the construction of expected credit loss model ("ECL"). The loan portfolio at amortized cost represents 99% of the total assets of the Trust. The reserve for losses on loans at amortized cost includes the PCE as the result of the loan qualification 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 is made up of estimates of the probability of default, loss given default, prospective analysis and exposure to 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 judgments 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 judgment by the Trustee.	Our audit procedures 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 Bank 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. • 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 judgments applied by management on assumptions related to the current conditions of the economy, and the considerations on the prospective analysis that could change the level of ECL, based on our experience and knowledge of the industry.

Responsibilities of Fiduciary for the Financial Statements

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

In preparing the financial statements, the Fiduciary is responsible for assessing the Trust'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 the Fiduciary and/or Trustees either intends to liquidate the Trust or to cease operations, or has no realistic alternative, other than this.

La Hipotecaria (Holding), Inc. (the "Trustee"), is responsible for overseeing the Trust's financial reporting process.

Auditors' responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Fiduciary's internal control.

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

- Conclude on the appropriateness of the Fiduciary'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 Trust's 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 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 Trust to cease to continue as a going concern.

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

We communicate with the Fiduciary 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 provided the Fiduciary 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, the actions taken to eliminate the threats or the safeguards that have been applied.

From the matters communicated with the Fiduciary, we determine those matters that were of most significance in the audit of the 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 profession of authorized public accountant in the Republic of Panama, we declare the following:

- The direction, execution and supervision of this audit work has been carried out physically in Panamanian territory.

- The audit partner who has prepared this report of the independent auditors is Juan Carlos Castillo S.

- The engagement team that has participated in the audit referred to in this report is made up of Juan Carlos Castillo, partner; Christian Galvez, manager.

KPMG (SIGNED)

Panama, Republic of Panama
March 31, 2023

JUAN CARLOS CASTILLO S. (SIGNED)

Juan Carlos Castillo S.
Partner
C.P.A 3592

DÉCIMO SEXTO FIDEICOMISO DE BONOS DE PRESTAMOS HIPOTECARIOS
(with Banco La Hipotecaria, S. A., acting as FIduciary)
(Panama, Republic of Panama)

Statement of Financial Position

December 31, 2022

(Stated in Balboas)

Assets	**Note**	**2022**	**2021**
Cash in banks	6, 7	832,361	542,206
Residential mortgage loans at amortized cost (AC)	6, 8, 13	103,487,119	111,480,046
Account receivable		5,445,986	912,017
Total assets		109,765,466	112,934,269
Liabilities and Equity			
Liabilities:			
Bonds payable at amortized cost (AC)	6, 9, 12, 13	109,562,579	112,805,717
Account payable	12	197,887	123,552
Total Liabilities		109,760,466	112,929,269
Equity:			
Trust's equity	2, 6	5,000	5,000
Total equity		5,000	5,000
Total liabilities and equity		109,765,466	112,934,269

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

DÉCIMO SEXTO FIDEICOMISO DE BONOS DE PRESTAMOS HIPOTECARIOS
(with Banco La Hipotecaria, S. A., acting as FIduciary)
(Panama, Republic of Panama)

Statement of Income

For the year ended December 31, 2022

(Stated in Balboas)

	Note	2022	2021
Interest income calculated using the effective interest method:			
Loans		6,042,737	1,214,080
Deposits in banks		1,424	248
Total interest income		6,044,161	1,214,328
Interest expense on bonds to AC	12	5,160,913	1,003,489
Net interest income		883,248	210,839
Provision for default of financial assets			
Provision for loan losses to AC	6	3,356	834
Net interest income, after provision for default of financial assets		879,892	210,005
Othe income		0	22
Operational expenses:			
Commissions	12	826,603	199,367
Other		53,289	10,660
Total operational expenses		879,892	210,027
Excess of income over expenses		0	0

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

Statement of Changes in Equity

For the year ended December 31, 2022

(Stated in Balboas)

	Note	2022	2021
Trust's equity:			
Balance at the beginning and end of the year	6	5,000	5,000

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

DÉCIMO SEXTO FIDEICOMISO DE BONOS DE PRESTAMOS HIPOTECARIOS
(with Banco La Hipotecaria, S. A., acting as Fiduciary)
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Statement of Cash Flows

For the year ended December 31, 2022

(Stated in Balboas)

	Note	2022	2021
Operating activities:			
Adjustments to reconcile net income to net cash from operating activities:			
Provision for loan losses	6	3,356	834
Net Interest income		(883,248)	(210,839)
Changes in operating assets and liabilities:			
Residential mortgage loans at amortized cost (AC)		7,996,819	(111,434,064)
Accounts receivable		(4,533,969)	(912,017)
Accounts payable		74,335	123,552
Cash provided by operations:			
Interest received		6,036,913	1,167,512
Interest paid		(6,039,495)	(623,332)
Cash flows from financing activities		2,654,711	(111,888,354)
Financing activities:			
Product of the issuance of bonds payable at AC		(2,364,556)	112,500,000
Capital contribution		0	5,000
Payments of bonds payable at AC		0	(74,440)
Cash flows from operating activities		(2,364,556)	112,430,560
Net increase on cash		290,155	542,206
Cash at the beginning of the year		542,206	0
Cash at the end of the period	7	832,361	542,206

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

(1) Incorporation of the Trust and Fiduciary

La Hipotecaria (Holding), Inc., a company incorporated under the laws of the British Virgin Islands, is the wholly owner of the shares issued with voting rights of Banco La Hipotecaria, S. A., among other companies. The main stockholder of La Hipotecaria (Holding), Inc. is Grupo ASSA, S. A. with a 79.16%.

Banco La Hipotecaria, S. A., (the 'Fiduciary' or 'Administrator') previously La Hipotecaria, S. A., incorporated on November 7, 1996, under the laws of the Republic of Panama. As per resolution S.B.P. N° 120-2010 of June 4, 2010, the Superintendence of Banks of Panama granted a General Banking License to initiate operations officially as a Bank on June 7, 2010. Its principal activity is granting residential mortgages and personal loans, managing and securitizing residential mortgages and personal loans.

The Trust's business in Panama is regulated by the law No.1 of January 5, 1984, and the Executive Decree No. 21 of May 10, 2017. In order to support the fiduciary operation, the Bank has government bonds in favor of the Superintendence of Banks with a nominal value of B/.225,000 and a deposit in the Banco Nacional de Panama amounted B/.25,000, both in guarantee for the due compliance of its obligations arising from the Fiduciary License.

By Public Deed No. 12,681 of October 25, 2019, La Hipotecaria (Holding) Inc., as Trustee and Trustor and Banco La Hipotecaria S. A. as Fiduciary, constituted the Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios (the Trust), with the objectives of, among others, to transfer a portfolio of mortgage loans to a guarantee trust (the Guarantee Trust) to support the payment of bonds to be issued by the fiduciary of the Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios. Banco General, S. A. acts as Trustor of the Guarantee Trust and paying agent, and Banco La Hipotecaria, S. A. is the Administrator in the Guarantee Trust.

The manager, subject to the terms and conditions of the Management Agreement, is required to manage, for and on behalf of the fiduciary of the Guarantee Trust, the mortgage loans, including the setting up and operating the administrative and operating accounts, pay ordinary expenses and determine principal and interest payments of the bonds, among other duties. This Trust started its operations on October 22, 2021.

The main office of the Fiduciary and Administrator is located in Vía España, Plaza Regency, floor No.13, Panama City.

The issuance of these financial statements were authorized by the Administrator of the Trust on March 31, 2023

(2) General Terms of the Trust

Below are presented the most important terms of the Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios:

- The equity of the Trust consists in an initial contribution of the Trustor of B/.5,000, and any other real estate or fixed asset, tangible or of any other nature, that from time to time be transferred in trust by the trustor, or by third parties, to the Fiduciary.
- The Fiduciary may issue and sell mortgage loan bonds through a public offering up to the amount of sixty million dollars (US$112,500,000), legal currency of the United States of America; buy mortgage loans to Banco La Hipotecaria, S. A. with funds generated by the sale of mortgage loans bonds and, under these activities, exercise all the functions and responsibilities of the issuer of securities and mortgagee.
- The mortgage loan bonds will be issued in denominations of B/.1,000 or multiples of that amount, nominative and registered, without coupons attached, in two (3) series. The bonds will be registered with the Superintendence of Securities Market in Panama and will be sold in initial public offerings through the Stock Exchange of Panama.
- The mortgage loans bonds will be secured solely by the assets of the Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios and by the guarantee trust constituted by the Fiduciary of the Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios, acting as Trustor and Banco General as Fiduciary, for the benefit of the bondholders whose assets are primarily mortgage loans.
- The Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios will use the proceeds from the placement of bonds mainly to pay to Banco La Hipotecaria, S. A. the agreed price for the transfer of residential mortgages or be able to pay that price through the issuance and delivery of the bonds to Banco La Hipotecaria, S. A.
- The Fiduciary of the Guarantee Trust shall exercise all the rights and actions granted as mortgagee and enter with a third party, an administration and servicing contract for the mortgage loans.
- The maturity of the mortgage loan bonds will be July 14, 2052 or the maturity date of the last mortgage loan, whichever occurs first. The Trust may make partial principal payments monthly on bonds of Series A, and once fully amortized Series A bond's principal will deliver the principal payments for Series B bonds, and once fully amortized Series B bond's principal will deliver the principal payments for Series C bonds. Payment of principal of Series A bonds has priority over the payment of principal of the bonds Series B and the payment of principal of Series B bonds has priority over the payment of principal of the bonds Series C.

(2) General Terms of the Trust, continued

- The commission received by the Fiduciary for the management of the Trust is calculated on the basis of zero point five percent of one hundred (0.50%) per annum of the unpaid principal balance of the mortgage loans, payable in a monthly basis.

- The commission received by the Fiduciary of the Guarantee Trust will be calculated based on an annual eighth of one percent (0.125%) of the unpaid principal balance of the mortgage loans, payable monthly. The commission received by the Paying Agent of the Trust will be calculated based on an annual sixteenth of one percent (0.0625%) of the unpaid principal balance of the mortgage loans, payable monthly.

- At December 31, 2022, the Trust had paid in fees the amount of B/.747,203 (2021: B/.151,403) to the Fiduciary, the Guarantee Trust's Fiduciary and Paying Agent, which were recognized as commissions in profit or loss.

- Besides the management fee, the Administrator will receive as compensation for the services provided under the Administration Agreement the amounts debtors pay monthly as expenses for management under the terms of the loan agreements. In addition to the management fee and commission described above, the Administrator is entitled to receive (a) from the insurance companies any compensation agreed upon from time to time for the management of insurance policies, (b) the fees paid by customers regarding the renewal or restructuring of its loans agreements and (c) the penalties charged in connection with the late payment of mortgage loans. This commission will be paid directly to the Administrator by insurance companies or customers, as appropriate

- Ordinary expenses such as administrative expenses, secretarial, accounting, stationery, communications and post, incurred by the Administrator in the ordinary course of their obligations under the Administration Agreement will be borne by the Administrator of the Trust.

- The Trust will remain in effect until the residential mortgage bonds issued and outstanding are redeemed and mortgage loans have been paid in full or have been transferred by the Trust; or if the Trust is terminated by mutual agreement.

La Hipotecaria (Holding) Inc., Banco La Hipotecaria, S. A., Banco General, Inc. and their respective shareholders, subsidiaries or affiliates do not guarantee or be liable for the obligations of the Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios including payment of mortgage loan bonds.

Subject to the terms of the Administration Agreement that establishes a priority of payments of the funds available, Banco La Hipotecaria S. A., in its capacity as Issuer the Fiduciary may receive from the Trust a commission equivalent up to zero point five basis points (0.50%) per annum of the unpaid principal balance of the mortgage loans, accrued monthly and payable according to the availability of funds and in accordance with the conditions established in the Administration Agreement and other Agreement Documents. At December 31, 2022, the Trust has paid commissions for B/.543,420 (2021: B/.110,111) to the Fiduciary for this item.

(2) General Terms of the Trust, continued

Subject to the terms of the Administration Agreement that establishes a priority of payments of the funds available, Banco La Hipotecaria S. A., as manager may receive monthly from the funds in trust an incentive for timely collection equivalent to the amount of funds available after meeting with all other obligations established in the Issuer Trust, and payable only if funds are available and in accordance with the conditions established in the Administration Agreement and other Agreement Documents. At December 31, 2022 the Trust had not paid the manager, incentive fees for timely collection

The Trust recorded for the payment of these fees the amount of de B/.127,365 (2021: B/.47,965) under accounts payable in the statement of financial position.

(3) Basis of Preparation

(a) Statement of Compliance

The financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

(b) Basis of Measurement

The financial statements were prepared based on their historical cost.

(c) Functional Currency and Presentation

The financial statements financial statements are presented in Balboas (B/.), the monetary unit of the Republic of Panama, which is at par and is freely exchangeable with the dollar of the United States of America (U.S. Dollar). The Republic of Panama does not issue its own currency paper and, instead, the U.S. Dollar is used as the legal tender. The functional currency of the Trust is the Balboa.

(4) Summary of Significant Accounting Policies

The significant accounting policies summarized as follows have been consistently applied by the Trust for all periods presented in these financial statements.

(a) Financial Assets and Liabilities

(a.1) Recognition

Initially, the Trust initially recognizes loans and receivables, and debt instruments issued on the date on which they are originated or date of settlement.

(a.2) Classification

The Trust classifies its financial assets as subsequently measured at amortized cost (AC), fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL), based on the business models of the Trust for the management of these financial assets and in accordance with their contractual cash flow characteristics.

(4) Summary of Significant Accounting Policies, continued

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest (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 specific 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 Trust may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. Those includes, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- The risks that affect the performance of the portfolios (and the financial assets held in the business model) and the way in which such risks are managed;

(4) Summary of Significant Accounting Policies, continued

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

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as the consideration of the time value of money and the credit risk associated with the amount of the principal amount outstanding during a particular period of time and for other basic lending risk.

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

Reclassification

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

(a.3) Derecognition of financial assets and financial liabilities

Financial assets

The Trust 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 Trust neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

Financial liabilities

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

(a.4) Modification of financial assets

Financial assets

If the terms of a financial asset are modified, then the Trust 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.

(4) Summary of Significant Accounting Policies, continued

(a.5) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Trust 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, or for gains and losses arising from a group of similar transactions, such as those derived from financial instruments held for trading.

(b) 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 Trust has access at that date. The fair value of a liability reflects its non-performance risk.

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

If there is no quoted price in an active market, then the Trust 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 Trust establishes a fair value hierarchy that classifies the input data of valuation techniques used to measure fair value into three levels. The Trust recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(c) Impairment of Financial Assets

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

- Loans at amortized cost.

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

- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

(4) Summary of Significant Accounting Policies, continued.

'12-month ECL' are the portion of lifetime ECL that result 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.

Lifetime ECL are the ECL that result from all possible events of default over the expected life of the financial instrument or its maximum contractual period of exposure. The 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 Trust 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.

(4) Summary of Significant Accounting Policies, continued.

Credit-impaired financial assets

At each reporting date, the Trust assesses whether financial assets carried at AC 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.

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 Trust on terms that the Trust would not consider otherwise.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

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 loan that is overdue for more than 180 days is considered credit-impaired.

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

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

- financial assets measured at AC: as a deduction from the gross carrying amount of the assets.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering in its entirety or a portion thereof. This is generally the case when the Trust 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 Trust to foreclose the collaterals (in the case they maintain). However, the financial assets that are written off could still be subject to enforcement activities in order to comply with the Trust's procedures for recovery of amounts due.

(d) 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 Trust does not intend to sell immediately or in the near term.

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

(4) Summary of Significant Accounting Policies, continued.

(e) Debt Securities in Issue

The Trust classifies the debt instruments as financial liabilities in accordance with the substance of the instrument's contractual terms. They are initially measured at fair value less incremental direct transaction costs, and subsequently are measured at amortized cost using the effective interest rate method.

(f) 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 Trust estimates future cash flows considering all contractual terms of the financial instrument, but no 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 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.

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 expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss 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 on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset.

(4) Summary of Significant Accounting Policies, continued

Presentation
Interest income presented in the statement of income includes:

- Interest on financial assets and financial liabilities measured at AC calculated using the effective interest method.

(g) Foreclosed Assets Held for Sale
Non-current assets, or disposal group comprising assets and liabilities, including foreclosed assets held for sale, that are expected to be recovered primarily through sales rather than recovered through continued use are classified as available for sale.

(h) New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted
A series of new rules go into effect for annual periods beginning after January 1, 2023 and early application is allowed; however, the Trust has not early adopted these new standards or amendments when preparing these financial statements as of December 31, 2022.

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

Effective date — Annual periods beginning on:	New standards or amendments (upcoming IFRS requirements)
	• Definition of Accounting Estimates – Amendments to IAS 8
1 January 2023	• Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
	• Related Deferred Tax - Amendments to IAS 12
	• Classification of Liabilities as Current ot Non Currents – Amendments to IAS 1
	• Non Currents liabilities with agreed conditioms – Amendments to IAS 1
1 January 2024	• Lease liabilities for sale with leaseback – Amendments to IFRS 16

(5) Use of Estimates and Judgments in Applying Accounting Policies
In preparing these financial statements in accordance with International Financial Reporting Standards, the Administrator has made judgements, estimates and assumptions that affect the application of the Trust’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.

(5) Use of Estimates and Judgments in Applying Accounting Policies

The Administrator 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 financial statements is included in the following notes:

(a) *Classification of financial assets*
When determining the classification of financial assets, the Administrator uses its judgment 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 4 (a.2).

(b) *Impairment of financial assets*
The Administrator uses its judgment to determine the criterion of when 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 Administrator assesses at each reporting date whether the credit risk of financial assets has increased significantly since their initial recognition. See Note 4 (c) and Note 6 (a).

Information about the assumptions and uncertainty in the Trust's significant accounting estimates of the Trust 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 Administrator 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 4 (c) and Note 6 (a).

(6) 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 statement of financial position is comprised mainly of financial instruments.

The manager of the Trust is responsible for establishing and overseeing the risk management policies of financial instruments. For this purpose, it has created certain controls for management regular monitoring of risks to which the Trust is exposed.

(6) Financial Risk Management, continued

These instruments expose bondholders to various types of risks. The main risks identified by the Fiduciary are credit risk, market and liquidity.

(a) Credit Risk:

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

The Trust's Administrator meets in a monthly basis to evaluate credit profiles of customers who have fallen into arrears during the month immediately preceding the date of the meeting.

The purpose of this meeting is to assess trends and customer behaviors that have fallen into arrears and make the necessary arrangements based on the Trust's credit policies

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at AC, without taking into account collateral or credit enhancement. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

The definitions of the term ´State 1´, ´Stage 2´ and ´Stage 3´ is present in Note 4 (c)

	2022		
	12-month ECL ('Stage 1')	**Lifetime ECL (not credit-impaired) ('Stage 2')**	**Total**
Loans at AC:			
A1, 2 - Normal or low-fair risk	101,003,068	0	101,003,068
B1 - Watch-list	938,700	0	938,700
B2 - Substandard	0	1,495,477	1,495,477
Accrued interest receivable	54,064	0	54,064
Gross carrying amount	101,995,832	1,495,477	103,491,309
Loss allowance (ECL)	(1,148)	(3,042)	(4,190)
Total loans at AC	101,994,684	1,492,435	103,487,119

(6) Financial Risk Management, continued

	2021		
	12-month ECL ('Stage 1')	**Lifetime ECL (not credit-impaired) ('Stage 2')**	**Total**
Loans at AC:			
A1, 2 - Normal or low-fair risk	111,197,717	0	111,197,717
B1 - Watch-list	185,154	0	185,154
B2 - Substandard	0	51,193	51,193
Accrued interest receivable	46,816	0	46,816
Gross carrying amount	111,429,687	51,193	111,480,880
Loss allowance (ECL)	(761)	(73)	(834)
Total loans at AC	111,428,926	51,120	111,480,046

Deposits placed with banks
At December 31, 2022, the Bank held deposits placed with banks for B/.832,361 (2021: B/.542,206). The deposit placed is held in a bank with investment grade BBB+, based on the agency Fitch Ratings, Inc.

Collateral held and other credit enhancements
The Trust 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.

Type of credit exposure:	2022	2021	Type of collateral held
Loans	100%	100%	Residential properties

Residential mortgage loans
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.

LTV Ranges	2022	2021
0-20%	0	0
21-40%	57,403	978,789
41-60%	3,046,304	6,134,838
61-80%	69,470,794	61,655,557
81-100%	30,862,744	42,664,880
Total	103,437,245	111,434,064

(6) Financial Risk Management, continued

As of December 31, 2022, the estimated value of the mortgage guarantees on the properties amounted to a B/.138,142,186 (2021: B/.143,934,704) and covered 100% of the portfolio exposure.

Assets obtained by taking possession of collateral
As of December 31, 2022, the Trust has not take possession of non-financial assets as collateral to ensure the collection of customers loans.

Amounts arising from expected credit losses (ECL)
The accounting policies established by the Administrator for the measurement of the allowances for ECL on financial assets are disclosed in Note 4 (c).

Significant increase in credit risk
When determining whether the credit risk of a financial asset has increased significantly since its initial recognition, the Administrator 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 Administrator's historical experience and expert credit assessment, including forward-looking information.

The objective of this assessment is to identify if there has been a significant increase in credit risk for each exposure by comparing:

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

The Administrator uses three criteria to 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 greater than 90 days for mortgage loans.

<u>Credit risk grades for the loan portfolio</u>
The Administrator 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 Administrator 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.

(6) Financial Risk Management, continued

Credit risk grades are defined and calibrated so that risk of default occurring increases exponentially as credit risk deteriorates, 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 Administrator 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 Administrator assigns each financial asset in one of the following three 'stages' ('buckets') of credit risk impairment:

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

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

The Administrator, 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 Administrator 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

Generating the term structure of PD

- *Instrument treatment approach:*
  Given the homogeneity of the profiles of the borrowers that comprise the Trust'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.

(6) Financial Risk Management, continued

The Administrator has identified that the instruments comprising the Trust'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 Administrator has not identified instruments in the Trust's loan portfolio that require individual evaluation.

Consequently, the Administrator determined as convenient to group the financial instruments that make up the Trust's credit portfolio in the following segment:

- Residential loans with mortgage guarantee (LWMG);

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

In the sense, in the case of the LWMG, the loss rate includes in the calculation, the value of recoveries derived from the execution of mortgages and appropriations in payment. 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 Trust, in general, are of the residential type for use of the borrowers, which present a relatively low to middle income level, and their families.

In order to determine the PD of the segments identified, and in the context of the collective treatment of credit portfolios, the Bank 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 Bank'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.

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

- *General approach for determining default and refutation of presumptions:*
  The behavior and payment commitment of the clients when it comes to taking care of their home, causes the delinquency of the loans granted by the Trust to be very low when compared to the behavior of other types of loans.

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

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

  As a first approach to the identification of the level of default, its calculation was made using the default heights (by days of arrears) for the loan portfolio of the identified segment, taking as a basis its historical series.

  Under this statistical approach, intermediate matrices were initially developed in a monthly basis, for the identified segment, between January 2014 and July 2020, containing the monthly roll-rates of delinquency of the loans granted by the Trust according to their rates of delinquency. Subsequently, the Administrator has periodically prepared updated matrices in order to reflect a probability of occurrence of arrears based on delinquency ranges.

(6) Financial Risk Management, continued

The arrays 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 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 Administrator has decided that the default would be established from 180 days for the segment of mortgaged-backed credit instruments of the Trust.

Determine whether credit risk has increased significantly

The Administrator 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 information and qualitative information. The Administrator 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 value of the collateral that supports the obligation.

As a backstop, the Administrator considers that a significant increase in credit risk occurs no later than when a residential mortgage loans is 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. In these cases, the Bank 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 Administrator 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 residential mortgage loans become 90 days past due;

(6) Financial Risk Management, continued

- 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 Administrator considers that a financial asset is impaired when:

- the borrower is unlikely to pay its credit obligations to the Trust in full, without recourse by the Administrator to actions such as the performance of the guarantees (if any is held); or
- the borrower is more than 180 days in residential mortgage loans.

When evaluating if a borrower is in default, the Administrator 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 Bank; and
- Based data developed internally and obtained from external sources.

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

Incorporation of forward-looking information
The incorporation of ‘forward-looking’ information into the Administrator’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 country where the Trust’s loan portfolio is geographically concentrated, 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 Administrator 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.

(6) Financial Risk Management, continued

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 Administrator 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
d) Gross Domestic Product ('GDP')
e) Monthly Index of Economic Activity ('MIEA')
f) Past due loan portfolio of the Trust
g) Past due loan portfolio of the financial system.

Taking into consideration that during 2022, the main macroeconomic indicators maintain figures that do not keep a behavior similar to the historical one, as a result of the pandemic caused by COVID 19, 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 La Hipotecaria, but instead it will be chosen to correlate and obtain an adjustment factor to the Expected Loss with the variable of unemployment.

As a result of the application of the methodology outlined above, and based on historical series corresponding to annual periods between 2015 and 2022, the Administrator determined as appropriate to use the following 'forward-looking' variables as part of the ECL model for the segment identified for the Trust's loan portfolio, for the period 2022:

a) Panama – Operations with Guarantees (Unemployment).

The following table presents a summary of the forward-looking information incorporated by the Administrator in the estimation process of the ECL for the loan portfolio as of December 31, 2022:

			Historical variable			Incorporation of forward-looking ('FL') variables in the estimation of the ECL as of Dec 31, 2021			
Segment	**Forward-looking variable correlated with past due portfolio**	**2020**	**2021**	**2022**	**Scenario**	**Expected Trend**	**Projected FL variable**	**'FL' Factor**	**Impact on the ECL**
Panama – Operations with Guarantees	Unemployment in Panama	7.10%	18.5%	11.3%	Only	Increase	18.50%	1.0300%	B/.9

Modification of 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 4 (a.4).

(6) Financial Risk Management, continued

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

- 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 Trust Manager periodically monitors reports on loan receivable renegotiation activities.
Renegotiation of loan terms 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 client is required to demonstrate timely payment behavior based on the revised terms consistently over a defined period of time before its exposure is no longer considered credit-impaired or in default, or for its PI to be considered to have decreased to the ranges of a PI 'for the next 12 months', and thus be considered appropriate for assignment to 'Stage 1'.

Measurement of estimated credit losses (ECL)
The key inputs in the measurement of ECL are the structure terms of the following variables:

- Probability at Default (PD);
- Loss Given Default (LGD);
- 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 and are adjusted to reflect the forward-looking information as described above.

As previously mentioned, for the determination of the PD of the identified segments, as explained previously under the heading ‘Generating the term structure of PD’, and in the context of the collective treatment of the credit portfolios, the Administrator’s methodology used when determining the loan segments’ PD is focused in the process denominated as ‘Markov Chain’.

The Administrator 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.

(6) Financial Risk Management, continued

PD estimation

The calculation of the PD 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 Administrator, 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 the estimated PD for the Trust's loan portfolio:

- *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 Trust 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 Trust are also taken into consideration. This will allow calculating the PD of operations received in lieu of payment or via legal process.

Exposure at Default (EAD)

EAD represents the expected exposure in case of default. The Administrator determines the EAD of the current exposure of the counterparty and the possible 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.

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

The Administrator 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 Administrator 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.

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 4 (c).

(6) Financial Risk Management, continued

	2022		
Loans at AC:	**12-month ECL (‘Stage 1’)**	**Lifetime ECL (not credit-impaired / collectively assessed (‘Stage 2’)**	**Total**
Balance at January 1	761	73	834
Transfer to Stage 2	833	(833)	0
Net remeasurement of loss allowance	(425)	3,869	3,444
Financial instruments that have been derecognized	(21)	(67)	(88)
Balance at December 31	1,148	3,042	4,190

	2021		
Loans at AC:	**12-month ECL (‘Stage 1’)**	**Lifetime ECL (Not credit-impaired / collectively assessed (‘Stage 2’)**	**Total**
Balance at January 1	0	0	0
Transfer to Stage 2	(22)	22	0
Net remeasurement of loss allowance	784	51	835
Financial instruments that have been derecognized	(1)	0	(1)
Balance at December 31	761	73	834

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowances for the financial instruments; and
- the ‘impairment losses on financial instruments’ line item in the statement of income.
-

	2022	2021
	Loans at AC	**Loans at AC**
Net remeasurement of loss allowance	3,444	835
Financial assets that have been derecognized	(88)	(1)
Total	3,356	834

Credit-impaired financial assets

The accounting policies established by the Administrator related to credit-impairment financial are disclosed in Note 4 (c).

(6) Financial Risk Management, continued

Credit-impairment financial assets are classified by the Bank in risk category 'D' for residential mortgage loans, these being assigned to 'Stage 3'.

Concentration of credit risk
The Trust's residential mortgage loans are geographically concentrated in the Republic of Panama.

(a) *Liquidity Risk:*
The liquidity risk is defined as the inability of the Trust to comply with all its obligations because of, among other reasons, the impairment of the quality of the loans portfolio, the devaluation of securities, the excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of asset liquidity, or financing of long-term assets with short-term liabilities.

Liquidity risk management
The Trust mitigates its liquidity risk, according to their maturity structure of liabilities for periods compatible with the maturities of its assets.

The table below sets out the undiscounted cash flows of the financial assets and liabilities of the Trust with respect to the contractual maturity date.

2022	Carrying Amount	Gross nominal (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years
Financial liabilities:						
Bonds payable at AC	109,562,579	(148,807,666)	(16,755,873)	(45,278,481)	(37,808,101)	(48,965,211)
Total financial liabilities	109,562,579	(148,807,666)	(16,755,873)	(45,278,481)	(37,808,101)	(48,965,211)
Financial assets:						
Deposits in banks	832,361	832,361	832,361	0	0	0
Residential mortgages loans at AC	103,487,119	122,341,364	4,928,828	19,715,314	24,637,787	73,059,435
Total financial assets	104,319,480	123,173,725	5,761,189	19,715,314	24,637,787	73,059,435

2021	Carrying Amount	Gross nominal (outflow)/inflow	Up to 1 year	From 1 to 5 years	From 5 to 10 years	More than 10 years
Financial liabilities:						
Bonds payable at AC	112,805,717	(152,512,878)	(9,303,077)	(51,404,150)	(41,235,552)	(50,570,099)
Total financial liabilities	112,805,717	(152,512,878)	(9,303,077)	(51,404,150)	(41,235,552)	(50,570,099)
Financial assets:						
Deposits in banks	542,206	542,206	542,206	0	0	0
Residential mortgages loans at AC	111,480,046	130,577,306	5,144,969	20,579,875	25,720,171	79,132,291
Total financial assets	112,022,252	131,119,512	5,687,175	20,579,875	25,720,171	79,132,291

(6) Financial Risk Management, continued

The following table shows the amounts of financial assets and liabilities that are expect to recover or settle after twelve months after the reporting date:

	2022	2021
Financial Assets:		
Loans	103,437,245	111,434,064
Financial Liabilities:		
Bonds	95,568,493	107,417,677

Loans receivables with a gross carrying amount of B/.103,491,309 (2021: B/.111,480,880) are pledged as guarantee of the bonds payable issued by the Trust.

(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.

The Trust has no assets nor liabilities in other currencies different to its functional currency, therefore the Trust has no exchange rate risk.

Cash flow's Interest rate risk

The interest rate risk of the cash flow is the risk of fluctuation of the future cash flows and the value of a financial instrument due to changes in market interest rates. The interest rate risk of the fair value is the risk of fluctuation of a financial instrument's value due to changes in interest market rates.

The Administrator reviews in a monthly basis the performance of interest rates of assets and liabilities, measures the impact of mismatch on the results of the Trust and takes appropriate measures to minimize negative impact on its financial results.

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:

	Increase of 25 bp	Decrease of 25 bp	Increase of 50 bp	Decrease of 50 bp
Sensitivity of projected net interest income:				
December 31, 2022	12,166	(12,166)	24,333	(24,333)
December 31, 2021	2,479	(2,479)	4,957	(4,957)
Sensitivity of reported equity to interest rate movements:				
December 31, 2022	12,166	(12,166)	24,333	(24,333)
December 31, 2021	2,479	(2,479)	4,957	(4,957)

(6) Financial Risk Management, continued

The Trust significantly mitigates its exposure to the effects of fluctuations in market interest rates, as a result of the variability in rates of assets based on the rates structure of its liabilities.

(d) Capital management:

As of December 31, 2022, the Trust held primary capital of B/.5,000 (2021: B/.5,000) La Hipotecaria (Holding) Inc., Banco La Hipotecaria S. A., BG Trust, Inc. and their respective shareholders, subsidiaries or affiliates do not guarantee or are liable for the obligations, residual profits or losses of the Décimo Sexto Fideicomiso de Bonos de Préstamos Hipotecarios including the payment of mortgage loan bonds.

(7) Cash in Trusts

As of December 31, 2022, the Trust held savings accounts at a local Trust, with a balance of B/.832,361 (2021: B/.542,206) bearing interest ranging from 0.25% annually on its average balance.

(8) Residential Mortgage Loans at Amortized Cost (AC)

The group of mortgages which comprised the Trust consists of 2,802 (2021: 2,910) residential mortgage loans, whose original disbursements amounted on B/.123,554,213 (2021: B/.128,915,475), which at December 31, 2022 had an outstanding principal balance of B/.103,437,245 (2021: B/.111,434,064). Residential mortgage loans have maturities from January 14, 2030 to December 30, 2030.

At December 31, 2022, the residential mortgage loans measured at AC are detailed as follows:

	2022	**2021**
Residential mortgage loans	103,437,245	111,434,064
Accrued interest receivable	54,064	46,816
Gross carrying amount	103,491,309	111,480,880
Less: loss allowance (ECL)	(4,190)	(834)
Total loans at AC	103,487,119	111,480,046

The mortgage loans bear interests ranging ranges from 0.25% a 5.75% (2021: 0.25% a 5.75%).

The credit risk concentration by geographic location of the residential mortgage loans portfolio measured at AC, and other detailed information about its allowance for expected credit losses (ECL), are disclosed in Note 6 (a).

As disclosed in Note 2, the loans have been assigned to a guaranteed trust for the benefit of the Bondholders.

(9) Bonds Payable at Amortized Cost (AC)

As of December 31, 2022, the bonds payable at amortized cost amounted to B/.109,562,579 (2021: B/.112,805,717).

On October 22, 2021, the Trust issued three series of mortgage bonds for a total of B/.112,500,000: Series A mortgage bonds with a par value of B/.100,000,000 Series B mortgage bonds for B/.10,000,000, and Series C mortgage bonds for B/.2,500,000. These bonds were issued in nominative form and registered without coupons attached, in amounts of B/.1,000 or multiples of that amount. The maturity of the bonds is July 14, 2052 or the maturity of the last mortgage loan, whichever occurs first.

The interest rate established for mortgage bonds is as follows:

- Series A Bonds: The Series A bonds will accrue interest at an annual variable rate equal to the reference rate on the date of determination of the interest rate that corresponds to such payment calculation date, minus 1.35%. The Series A Bonds will pay interest monthly until the due date. If a Payment Date is not a business day, said Date shall be extended to the business day immediately after, but without affecting the Payment Calculation Date, the Accumulation Period or the Payment Date in order to compute the amount of interest to be paid to the Holder. As of December 31, 2022, the interest rate paid was 4.4000% (2021: 4.4000%).

- Series B Bonds: The Series B bonds will accrue interest at a variable interest rate equal to the reference rate that prevails on the date of determination of the rate bond interest minus 0.25%. The Series B Bonds will pay interest monthly until the Expiration Date. If a Payment Date is not a business day, said Payment Date must be extended to the business day immediately after, but without affect the Payment Calculation Date, the Accumulation Period or the Payment Date to end to compute the amount of interest to be paid to the Holder. As of December 31, 2022, the interest rate paid was 5.5000% (2021: 5.5000%).

- Series C Bonds: The Series C bonds will accrue interest at a variable interest rate equal to the reference rate that prevails on the date of determination of the rate interest on the bonds plus 1.00%. On any Payment Calculation Date, the Holders of Series C Bonds will be entitled to receive monthly, on each Payment Day, an amount (each, a "Series C Interest Payment"), from the Available Funds, said sum is subordinated to the payment of interest from series A and of the B series.

As of December 31, 2022, the balance of Series A bonds payable is B/.95,803,841 (2021: B/.99,925,560) and B/.10,000,000 (2021: B/.10,000,000) for Series B bonds and B/.2,500,000 (2021: B/.2,500,000 for Series C bonds.

As of December 31, 2022, Trust kept interest payable was B/.1,258,738 (2021: B/.380,157) on the Series A bonds for B/.374,276 (2021: B/.238,403), interest payable on Series B bonds for B/.676,806 (2021: B/.108,472) and interest payable on Series C bonds for B/.207,656 (2021: B/.33,282).

(10) Preferred Interest on Mortgage Loans

According to current tax regulations in Panama, financial institutions that grant mortgage loans not exceeding B/.180,000 with preferred interest, receive an annual benefit of a tax credit.

From July 2010 under the Law 8 of March 15, 2010 which supersedes Article 6 of Law 3 of 1985, the benefit of a tax credit for the first ten (10) years, is increased to the first fifteen (15) years for new loans, for an amount equal to the difference between the income that the lender would have received if there collected the market's interest rate in effect during that year, and the revenue actually received as interest in relation to each such preferred mortgage loans.

The Law 3 of May 1985 of the Republic of Panama, establishes that the tax credit could be used for the payment of national taxes, including the income tax. The tax credit under the Law 11 of September 1990, which extends the previous law, and the Law 28 of June 1995, establishes that the tax credit could be only for the payment of income tax.

Whether the financial entity in any fiscal year could not use all of its tax credits, then could use the exceeding credit during the next three years, at its preference, or transfer it complete or in part to another taxpayer.

The trust recorded preferential interest income on the loan portfolio residential mortgages for the amount of B/.4,533,969 (2021: B/.912,017)

As of December 31, 2022, the Trust did not sell tax credit and did not record income from preferential interest on the residential mortgage loan portfolio.

Once this amount is recognized by the tax authority, a tax credit is recorded and could be used for income tax payments up to 100% of the tax debt, according to tax regulations in Panama.

As of December 31, 2022, the trust did not sell tax credit or generate profit. The tax credit is included in the statement of financial position in accounts receivable; and the same amounts net of reserve to B/.5,445,986 (2021: B/.912,017).

(11) Taxes

The Trust pays taxes in accordance with the general regime for determining and paying income tax of the Republic of Panama according to Article 699 of the Tax Code, which establishes an income tax of 25%, whichever is greater between the following two calculations:

- The net taxable income calculated by the traditional method.
- The net taxable income that results from applying to total taxable income, four-point sixty-seven percent (4.67%) (CAIR).

The income tax returns of companies incorporated in the Republic of Panama are subject to review by the tax authorities for the past three years, including the year ended December 31, 2019.

On December 31, 2022, the Trust did not generate taxable income, therefore it did not incur income tax expense.

(11) Taxes, continued

According to current tax law are not considered taxable gains or deductible losses from the sale of bonds for the purpose of income tax, dividend tax and complementary tax, as long as the securities have been issued by a person registered with the Superintendence of Market Securities.

The interest paid to bondholders will be exempt from income tax as long as they are authorized by the Superintendence of Market Securities and to be placed in primary public offering through a stock exchange duly established and licensed to operate in the Republic of Panama.

(12) Transaction with the Fiduciary

In the ordinary course of business, the Trust has incurred in transactions with its Fiduciary. On December 31, 2022, the balances and aggregate results regarding these transactions are detailed as follows:

	2022	**2021**
Bonds payable	12,500,000	12,500,000
Interest payable	854,515	135,764
Accounts payable	127,365	47,965
Interest expense on bonds	508,849	512,915
Commissions	622,820	149,422

(13) Fair Value of Financial Instruments

The fair value of financial assets and financial liabilities that are traded in active markets are based in quoted prices in this markets or quotes from market participants. For every other financial instrument, the Trust determine fair values using other valuation techniques.

For financial instruments that are traded infrequently and have little price information available, the fair value is less objective, and its determination requires the use of varying degrees of judgment dependent on liquidity, concentration, uncertainty of market factors, assumptions in the determination of prices and other risks affecting the specific instrument.

The Trust measures the fair value using the following levels of hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities to which the Trust may access at the measurement date.

- 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.

(13) Fair Value of Financial Instruments, continued

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data 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 market observable prices exist and other valuation models. The assumptions and inputs used in valuation techniques include free reference rate risk, credit spreads and other assumptions used in estimating discount rates.

The objective of a valuation technique it to arrive at a fair value measurement that affects the price that would be received to sell the assets or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The following table sets out the fair value of financial instruments not measured at fair value on a recurring basis. This table does not include information about the fair value of financial instruments when their book value approaches their fair value.

	2022		2021	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Residential mortgage loans at AC	103,487,119	106,920,182	111,480,046	114,108,969
Financial liabilities:				
Bonds payable at AC	109,562,579	109,818,780	112,805,717	113,170,430

As of December 31, 2022, these instruments are classified as level 3 if the fair value hierarchy, based on the inputs and valuation techniques used. The table below describes the valuation techniques and inputs data used in fair value measurements of financial instruments not measured at fair value classified in level 3:

Financial Instruments	Valuation Techniques and Data Used Posts
Residential mortgage loans at AC	The fair value of loans represents the discounted amount of estimated future cash flows to be received. Provided cash flows are discounted at current market rates to determine fair value.
Bonds payable	The fair value of mortgage loan bonds payable represents the discounted cash flow at current market rates.