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U.S.$1,000,000,000

BANCO NACIONAL DE PANAMÁ

2.500% Senior Notes due 2030

We are offering U.S.$1,000,000,000 aggregate principal amount of our 2.500% senior notes due 2030 (the "Notes"). The Notes will mature on August 11, 2030, and will bear interest at the rate of 2.5000% per annum. Interest on the Notes will be payable semi-annually on February 11 and August 11 of each year, beginning on February 11, 2021.

The Notes will be our senior unsecured obligations and (i) will rank at all times at least *pari passu*, without any preference among themselves, equally in right of payment with all of our other existing and future senior unsecured and unsubordinated indebtedness, if any, and (ii) will be effectively subordinated to all of our existing and future secured indebtedness to the extent of the value of, and only in relation to, the assets securing such indebtedness. For a more detailed description of the Notes, see "Description of the Notes" beginning on page 146.

We will be required to offer to repurchase all of our outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued interest, if any, to the date of purchase if (i) we cease to be an autonomous entity (*entidad autónoma*) of, or wholly owned by, the Republic of Panama, (ii) Republic of Panama ceases to own more than 50% of our voting stock, or (iii) the Republic of Panama ceases to hold the power, directly or indirectly, to direct or cause to direct the appointment of the members of our board of directors.

We may redeem the Notes in whole or in part at any time and from time to time on or after May 11, 2030 (three months prior to the maturity date of the Notes) (the "Par Call Date"), at a redemption price equal to the greater of par and a redemption price based on a "make-whole" premium described herein, plus additional amounts and accrued and unpaid interest, if any, on the principal amount of the Notes to be redeemed to the date of redemption. On and after the Par Call Date, we may redeem the Notes in whole or in part at par, plus additional amounts and accrued and unpaid interest, if any, on the principal amount of the Notes to be redeemed to the date of redemption. In addition, in the event of certain changes in Panamanian tax laws, we may redeem the Notes, in whole but not in part, at a price equal to 100% of their principal amount, plus accrued interest and additional amounts payable to the redemption date. For a further description of redemption provisions in the Notes, see "Description of the Notes—Redemption."

There is currently no public market for the Notes. We have applied to list the Notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market. This offering memorandum constitutes a prospectus for purposes of Part IV of the Luxembourg law on prospectuses for securities dated July 16, 2019.

Pursuant to the Organic Law (as defined below), all liabilities of Banco Nacional de Panamá ("Banconal" or the "Bank") are subsidiarily guaranteed by Panama. This general subsidiary guarantee is not a direct guarantee of the Notes, but a general subsidiary guarantee of the Bank's liabilities that, while in effect at all times, unless the applicable law is changed or repealed, would be triggered only if the Bank were to default on its obligations and all legal remedies under Panama law against the Bank would have been exhausted. For a further description of the Organic Law, see "Summary—Legal Framework."

Investing in the Notes involves risks. See "Risk Factors" beginning on page 15 for a discussion of certain risks that you should consider in connection with an investment in the Notes.

Issue price: 99.912% of principal amount plus accrued interest, if any, from August 11, 2020.

We have not registered the Notes under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or under any U.S. state securities laws or the securities laws of any other jurisdiction. The Notes may not be offered or sold within the United States or to any U.S. persons, except (a) to qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("Rule 144A"), in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (b) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act ("Regulation S"). This offering memorandum has been prepared on the basis that any offer of Notes in the European Economic Area ("EEA") or the United Kingdom ("UK") will be made pursuant to an exemption in the Prospectus Regulation from the requirement to publish a

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prospectus for offers of the Notes. This offering memorandum has not been approved by a competent authority within the meaning of the Prospectus Regulation. The expression "Prospectus Regulation" means Regulation (EU) 2017/1129 (as amended or superseded). For further details about eligible offerees and resale restrictions, see "Transfer Restrictions."

We expect that delivery of the Notes will be made to investors in book-entry form through the facilities of The Depository Trust Company, for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream"), on August 11, 2020.

Joint Bookrunners

Credit Suisse **Goldman Sachs & Co. LLC**

The date of this offering memorandum is August 4, 2020

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IMPORTANT NOTICES

All references to "Banconal," "the Bank," "we," "us," "our" or "our company" in this offering memorandum are to Banco Nacional de Panamá, a state-owned bank, organized and existing under the laws of Panama, and, unless otherwise indicated or the context requires otherwise.

You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, financial condition, results of operations and prospects may have changed since that date. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this offering memorandum.

We have prepared the offering memorandum for use solely in connection with the proposed offering of the Notes. This offering memorandum does not constitute an offer to any person other than the offeree to whom it has been delivered, or to the public in general, to subscribe for or otherwise acquire the Notes. No one is authorized to give information other than that contained in this offering memorandum and in the documents referred to in this offering memorandum and which are made available to the public. This offering memorandum may be used only for the purpose for which it has been published.

This offering memorandum is intended solely for the purpose of soliciting indications of interest in the Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions relating to the terms of the Notes contained in the indenture entered into in connection with the issuance of the Notes as described herein and in other transaction documents described herein. The market information in this offering memorandum has been obtained by us from publicly available sources deemed by us to be reliable. We accept responsibility for correctly extracting and reproducing such information. Notwithstanding any investigation that the initial purchasers may have conducted with respect to the information contained in this offering memorandum, the initial purchasers accept no liability in relation to the information contained in this offering memorandum, its distribution or with regard to any other information supplied by us or on our behalf.

This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this offering memorandum and must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither us nor any of the initial purchasers will have any responsibility therefor.

The Notes offered through this offering memorandum are subject to restrictions on transferability and resale and may not be transferred or resold in the United States except as permitted under the Securities Act and applicable U.S. state securities laws pursuant to registration under, or exemption from, such laws. By purchasing the Notes, you will be deemed to have made certain acknowledgments, representations, restrictions and agreements as set forth under "Transfer Restrictions."

Banco Nacional de Panamá, with a registered office at Vía España, Torre Banconal, 0816-05220 Panama City, Panama, has taken reasonable care to ensure that the information contained in this offering memorandum is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Bank, there has been no omission of information which, in the context of the issue of the Notes, would make this offering memorandum as a whole or any such information misleading in any material respect. Banconal accepts responsibility accordingly.

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading the Notes on the professional segment of the Euro MTF market of the Luxembourg Stock Exchange. This offering memorandum forms the prospectus for admission to the Luxembourg Stock Exchange. The

Luxembourg Stock Exchange takes no responsibility for the contents of this offering memorandum, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. In making an investment decision, prospective investors must rely on their examination of us and the terms of this offering, including the merits and risks involved. These Notes have not been approved or recommended by any United States federal or state securities commission or any other United States, Panamanian or other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense in the United States.

Neither we, the initial purchasers nor any of our or their respective affiliates or representatives are making any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of any investment by such offeree or purchaser under any applicable law. Each prospective investor should consult with its own advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA AND THE UNITED KINGDOM

This offering memorandum and the offer of the Notes are only addressed to and directed at persons of the EEA who are "qualified investors" pursuant to the Prospectus Regulation ("Qualified Investors"). In addition, in the UK the offering memorandum is only being distributed to persons who have professional experience in matters relating to investments falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), high net worth entities falling within article 49(2)(a) to (d) of the Order, and to other persons to whom it may lawfully be communicated (all such persons together being referred to as "Relevant Persons"). Any investment or investment activity to which this offering memorandum relates is available only to (i) in the UK, Qualified Investors who are Relevant Persons, and (ii) in any other member state of the EEA, Qualified Investors, and will be engaged in only with such persons. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity, within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA"), received by it in connection with the issue or sale of the Notes other than in circumstances in which Section 21(1) of the FSMA does not apply to us.

The Notes described in this offering memorandum are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA and the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded, the "Insurance Distribution Directive"), as implemented in any member state of the EEA or in the UK, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or the UK may be unlawful under the PRIIPs Regulation.

NOTICE REGARDING PANAMANIAN SECURITIES LAW

The Notes have not been and will not be registered under the Panamanian Securities Law Law-Decree No. 1 of July 8, 1999 (as amended and restated from time to time, the "Panamanian Securities Law") with the Panamanian Superintendence of Capital Markets (*Superintendencia del Mercado de Valores de la República de Panamá*) (the "SMV", for its acronym in Spanish) in reliance upon the exemption from registration of securities issued by the Republic of Panama or by certain entities of the Republic of Panama, which includes Banco Nacional de Panamá.

These listing particulars have not been screened by, and we will not be subject to supervision by, the SMV.

NOTICE TO PROSPECTIVE INVESTORS IN CERTAIN COUNTRIES

The information for investors in certain countries, see "Plan of Distribution."

AVAILABLE INFORMATION

For so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser or subscriber of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser or subscriber, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

STABILIZATION

In connection with the offering of the Notes, the initial purchasers (or persons acting on their behalf) (the "Stabilizing Managers") may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Managers will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Notes is made and, if begun, may be ended at any time, but it must end no later than 30 days after the date on which we received the proceeds of the issue, or no later than 60 days after the date of allotment of the relevant Notes, whichever is earlier.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains certain forward-looking statements within the meaning of Section 21E of the Exchange Act, as amended, and Section 27A of the Securities Act. These statements appear throughout this offering memorandum, principally in "Summary," "Management's Discussion and Analysis of Financial Position and Results of Operations" and "Business." Such estimates and forward-looking statements are primarily based on current expectations and projections about future events and financial trends that affect, or may affect, our business, financial condition, results of operations and prospects.

There are many significant risks, uncertainties and assumptions that might cause our business, financial condition, results of operations and prospects to differ materially from those set out in our estimates and forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding our or our officers' intent, belief or current expectations with respect to, among other things, the use of proceeds of the offering, our financing plans, trends affecting our business, the impact of competition, and future plans and strategies.

Forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "anticipates," "believes," "continues," "could," "expects," "estimates," "intends," "may," "plans," "potential," "projects" "should," "seeks" and "will," among others (including, in each case, their negative or other variations or comparable terminology). Forward-looking statements speak only as of the date they were made, and neither we nor the initial purchasers undertake to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things:

- events in the global economy, including as a result of the outbreak of novel coronavirus ("COVID-19"), or in the global financial system and its impact on the Panamanian economy, other global or local pandemics and the Panamanian government's response thereto;
- changes in regional or global markets;
- economic, business and political developments in Panama;
- changes in laws and regulations in Panama;
- systemic risk in the Panamanian banking sector arising from the lack of a lender of last resort;
- an acceleration of the Notes causing a cross default with Panama's outstanding sovereign bonds;
- increased competition in our markets and industry consolidation may adversely affect our results of operations;
- the ability to maintain sufficient liquidity and access to capital markets, as well as downturns in the capital markets and changes in capital markets in general that affect policies or attitudes towards lending to Panama or Panamanian companies or securities issued by Panamanian companies;
- our ability to implement and continue to improve our credit risk management system;
- credit and other risks of lending, such as increases in defaults by borrowers;
- the concentration of default risks in our loan portfolio;
- market and interest rate fluctuations, and our ability to manage interest rate risk;
- deposit attrition and liquidity risks;

- fraud, a failure in our information technology systems, our banking platform or a breach of our security systems;
- our capacity to retain key personnel and ability to hire new personnel;
- the effect of changes in liquidity, capital and reserve requirements and other regulatory requirements and penalties;
- regulatory inspections, examinations, inquiries or audits in Panama by local or international regulatory bodies or agencies;
- sanctions, fines and other penalties resulting from regulatory inspections, examinations, inquiries and audits by local or international regulatory bodies or agencies;
- a failure to comply with anti-money laundering and anti-terrorist financing laws;
- changes in IFRS accounting standards; and
- other risk and uncertainties described in "Risk Factors."

In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this offering memorandum might not occur. Any such forward-looking statements are not guarantees of future performance. As a result, prospective investors should not make an investment decision based on the forward-looking statements contained in this offering memorandum.

ENFORCEABILITY OF CIVIL LIABILITIES

We are an autonomous entity of the Republic of Panama, with a legal personality, our own assets and administrative independence created by Laws 74 of 1904, 27 of 1906 and 11 of 1956, reorganized by Law 20 of 1975, subrogated by Decree Law 4 of 2006, as amended by Law 24 of 2017, and unified in a single text by the National Assembly of Panama as published in the Official Gazette N°28,837-B of the 16th of October of 2017 (the "Organic Law"). All of our directors and officers and certain other persons named in this offering memorandum reside outside the United States. Our assets are only located in Panama, and all or a substantial portion of the assets of our directors and officers and certain other persons named in this offering memorandum are located in Panama. None of our directors or executive officers is domiciled in the United States. As a result, it may not be possible for you to effect service of process within the United States upon such persons, including with respect to matters arising under the federal securities laws of the United States, or to enforce against them or against us judgments obtained in U.S. courts or in other jurisdictions outside of Panama. See "Risk Factors—Risks relating to the Notes—Panama is a sovereign state, and we are an autonomous entity of the Republic of Panama, with a legal personality, our own assets and administrative independence; consequently, it may be difficult to enforce judgments against us."

In the terms and conditions of the Notes, we will (i) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, the City of New York, will have jurisdiction to hear and determine any suit, action or proceeding and to settle any disputes that may arise out of or in connection with the Notes, and for such purposes we will submit to the jurisdiction of such courts, and (ii) name an agent for service of process in the Borough of Manhattan, the City of New York. See "Description of the Notes."

There is uncertainty as to the enforceability in Panama, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws. See "Risk Factors—Risks Related to the Notes—The ability of investors to enforce civil liabilities under U.S. securities laws may be limited." Notwithstanding this fact, we understand that, subject to specific requirements described below, a final conclusive judgment for payment of a determined sum of money rendered by any court in the United States in respect of the Notes would be recognized in Panamanian courts (to the extent that Panamanian courts may have jurisdiction), and such courts would enforce such judgment without any retrial or reexamination of the merits of the original action subject to the issuance of a *writ of exequatur* by the Supreme Court of Justice of Panama. Currently, such ratification will be issued, provided that:

- such foreign court grants reciprocity to the enforcement of judgments of courts of Panama;
- the party against whom the judgment was rendered, or its agent, was personally (service by mail not being sufficient) served in such action within such foreign jurisdiction;
- the judgment arises out of a personal action against the defendant;
- the obligation in respect of which the judgment was rendered is lawful in Panama and does not contradict the public policy of Panama;
- the judgment, in accordance with the laws of the country where it was rendered, is final and not subject to appeal;
- the judgment is properly authenticated by diplomatic or consular officers of Panama or pursuant to the 1961 Hague Convention Abolishing the Requirement of Legalization of Foreign Public Documents; and
- a copy of the final judgment is translated into Spanish by a translator licensed in Panama.

Notwithstanding the foregoing, no assurance can be given that such ratification would be obtained, that the process described above could be conducted in a timely manner or that a Panamanian court would enforce a monetary judgment for violation of U.S. federal securities laws. If any of the transaction documents are submitted as evidence before any court or other government authority in Panama, stamp taxes at a rate of U.S.$0.10 for each U.S.$100.00 will be due with respect to such transaction document, if such stamp tax has not been paid before.

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Furthermore, your rights under the Notes will be subject to the insolvency and administrative laws of Panama, and we cannot assure you that you will be able to effectively enforce your rights in such insolvency or similar proceedings. In addition, insolvency, administrative and other laws of Panama may be materially different from, or in conflict with, each other, including in the areas of rights of creditors, priority of government entities and related party creditors, and the ability to obtain post-bankruptcy filing loans or to pay interest. The application of these laws, or any conflict among them, could call into question what and how Panamanian laws should apply. The laws of Panama may not be as favorable to your interests as the laws of jurisdictions with which you are familiar.

Pursuant to the Organic Law, in all judicial or administrative proceeding of which we are a party to, we will be entitled to all the privileges that the procedural laws grant to the State.

Panamanian courts will grant us the privileges that our procedural law grants to the State by Articles 1047, 1048, 1650 (14) and 1939 of the Judicial Code of Panama. These benefits would be applicable in the event actions are taken through Panamanian courts. Said articles state the following:

Article 1047 of the Judicial Code of Panama sets forth that if the judgment in which an autonomous entity of the Republic of Panama, such as Banconal, is ordered to pay a sum of money, the judge would send an authenticated copy of the decision to the Executive Branch of the Government through the Ministry of Economy and Finance, or to the legal representative of Banconal, to enforce the judgment to the extent within its authority. If compliance with the judgment is outside its authority, the governmental entity to whom the judgment was communicated will, within thirty days from receiving said communication, notify the Cabinet Council (*Consejo de Gabinete*), the relevant municipal council (*Consejo Municipal*) or the relevant entity, so that the relevant council or corporation, as the case may be, orders the taking of any necessary action to comply with the judgment. If after one year from the date in which the communication is sent, the judgment has not been enforced, the corresponding court shall request, through the President of the Supreme Court of Panama, to the President of the Republic of Panama, the Mayor of the respective district, or the President of the entity in question, to take the necessary action to comply with the judgment.

Article 1048 of the Judicial Code of Panama states that if after three years from the validation of the foreign judgment by the Supreme Court of Panama, we have not satisfied the court judgement, you may request the Supreme Court of Panama to instruct Banco Nacional de Panamá to make available for payment of the court judgement any moneys that we may have in our accounts with the Banconal, if any.

Article 1650 (14) of the Judicial Code of Panama sets forth that the assets that belong to the State, municipalities, autonomous or semi-autonomous state entities cannot be subject to attachment. Notwithstanding the foregoing, an attachment, embargo or any other injunction is declared by a court in Panama against assets owned by us, pursuant to the Banking Law the Court shall provide the relevant order to the Superintendency of Banks before its execution. The Superintendency of Banks shall have 30 days to make the proper arrangements in accordance with the provisions of the Banking Law. If the Superintendency of Banks makes no arrangement or does not take any measures whatsoever within this period, the judge will continue with the execution of the respective resolution as provided for in the Judicial Code of Panama, without prejudice to the powers that the Banking Law grants to the Superintendency of Banks. Such issues may adversely affect your ability to enforce your rights under the Notes in Panama, as the case may be, or limit any amounts that you may receive.

Article 1939 of the Judicial Code of Panama sets forth, among other things, that no cautionary measure can be taken against Panama and municipalities, with the exception of those relative to enforcement.

PRESENTATION OF FINANCIAL INFORMATION AND CERTAIN OTHER INFORMATION

General

All references to "Banconal," "the Bank," "we," "us," "our" or "our company" in this offering memorandum are to Banco Nacional de Panamá, a state-owned bank, organized and existing under the laws of Panama, and, unless otherwise indicated or the context requires otherwise.

All references to "Panama" in this offering memorandum are to the Republic of Panama. All references to the "United States" or "U.S." in this offering memorandum are to the United States of America.

Accounting terms included in this offering memorandum have the definitions set forth under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), except where otherwise indicated or where the context otherwise requires.

Financial Statements

In making an investment decision, you must rely upon your own examination of our company, the terms of the Notes and this offering, and the financial information included herein.

Financial Statements of Banconal

This offering memorandum includes our audited financial statements as of December 31, 2019 and 2018 and for the years then ended, our audited financial statements as of December 31, 2018 and 2017 and for the years then ended (collectively, our "Audited Financial Statements"), and our unaudited condensed interim financial information as of March 31, 2020 and for the three-month periods ended March 31, 2020 and 2019 (the "Unaudited Financial Statements" and, together with our Audited Financial Statements, our "Financial Statements").

Our Audited Financial Statements are presented in Balboas and were prepared in conformity with IFRS as issued by the IASB and were audited by KPMG (the "Independent Accountants"), which issued an unqualified opinion with respect thereto. Our Unaudited Financial Statements were prepared in conformity with International Accounting Standard No. 34, *Interim Financial Reporting* ("IAS 34").

We urge you to consult your own advisors regarding the differences between IFRS as currently in effect and U.S. GAAP and how such differences might affect the Financial Statements and the rest of the financial information included in this offering memorandum.

Pursuant to Accord No. 4-2013, as amended, of the Superintendency of Banks, we are required to maintain additional specific reserves in the event that our impairment allowance made in accordance with IFRS are lower than the specific impairment allowance guidelines set forth in Accord No. 4-2013. We are also required to establish dynamic reserves, calculated on the basis of the aggregate value of loans categorized as standard and adjusted quarterly based on (i) the increase (but not adjusted for any decrease) of such total aggregate value and (ii) quarterly variations in the specific impairment allowance.

Our Financial Statements are expressed in Balboas (B/.), the official monetary unit of Panama. The Balboa is freely exchangeable for the U.S. dollar on a one-to-one basis. There are no circulating Balboa bills. Panama does not issue paper currency. Pursuant to Article 1171 of the Panamanian Tax Code (*Código Fiscal de la República de Panamá*) (the "Panamanian Tax Code"), as supplemented by Article 2 of Cabinet Decree No. 136, dated as of August 17, 1972, Panama uses the U.S. dollar as its legal tender. For ease of reference, all amounts discussed herein are expressed in U.S. dollars, the lawful currency of the United States of America.

Average Information

In this offering memorandum, except as otherwise noted, the average balance information for the years ended December 31, 2019, 2018 and 2017 has been calculated using the balances of the statement of financial position that

are generated daily in the Bank, calculating the daily sum divided by 365 days for each year. The average balance information for the current year to March 31, 2020 has been calculated from our statement of financial position as the daily balance sum to March 31, 2020 divided by 91 days. We have arithmetically calculated the average rate information based on the average balance volumes and the yield information (derived from the Financial Statements).

Nominal average interest rates have been calculated by dividing interest earned on assets or paid on liabilities by the corresponding average balances on such assets or liabilities.

Portfolio Information

In this offering memorandum, except as otherwise indicated, loan amounts are presented before deduction for impairment allowance.

Currencies

All references herein to "Balboas" or "B/." are to Balboas, the official monetary unit of the Republic of Panama. All references to "dollars," "U.S.$" and "$" are to United States dollars. Shortly after Panama's separation from Colombia in 1903, through a monetary agreement with the United States executed on June 20, 1904, Panama established the U.S. dollar as legal tender. Pursuant to Article 1171 of the Panamanian Tax Code, as supplemented by Article 2 of Cabinet Decree No. 136, dated as of August 17, 1972, Panama uses the U.S. dollar as its legal tender. The Balboa/U.S. dollar exchange rate has been fixed at B/.1.00 to U.S.$1.00 since the Balboa was first introduced in 1904 and has always circulated alongside U.S. dollars in Panama. Balboas only circulate in coins, with values of B/.1.00 or less. There are no circulating Balboa bills. When amounts originally expressed in Balboas are presented in U.S.$, they have been converted at the rate of B/.1.00 to U.S.$1.00.

Rounding Adjustments

Certain figures included in this offering memorandum and in our Financial Statements have been rounded for ease of presentation. Percentage figures included in this offering memorandum have not in all cases been calculated on the basis of such rounded figures, but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this offering memorandum may vary from those obtained by performing the same calculations using the figures in our Financial Statements. Certain other amounts that appear in this offering memorandum may not sum due to rounding.

Non-IFRS Measures

We have included in this offering memorandum certain alternative financial measures, including return on average equity ("ROAE"), return on average assets ("ROAA"), Operating Efficiency ratio, Asset Quality ratios and Liquidity ratio. We generally refer to total equity as total capital funds. We have presented this additional financial information because we believe these measures may assist investors in understanding our operations by providing additional information on what we consider to be the principal drivers of our results of operations.

These alternative financial measures have important limitations as analytical tools, and you should not consider them in isolation or as a basis for dividend distribution, a substitute for analysis of our results of operations or as an indicator of operating performance or liquidity. ROAE, ROAA, Operating Efficiency ratio, Asset Quality ratios and Liquidity ratio, and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing these measures or data as reported by us to measures reported by other companies, including other financial institutions. ROAE, ROAA, Operating Efficiency ratio, Asset Quality ratios and Liquidity ratio are not measures of financial performance or liquidity under IFRS and should not be considered as alternatives to other indicators of our operating performance, cash flows or any other measure of performance derived in accordance with IFRS, such as operating results and cash flows from operating, financing and investing activities. These financial measures should be viewed as supplemental to, and not substitutive for, our financial statements included elsewhere in this offering memorandum. Because this financial information is not prepared in accordance with IFRS, investors are cautioned not to place undue reliance on these alternative financial measures.

ROAE and ROAA

ROAE and ROAA are alternative financial measures prepared by us. We defined ROAE as net income for the period divided by average total equity and ROAA as net income for the period divided by average total assets. ROAA and ROAE for the three months ended March 31, 2020 have been annualized by multiplying the indicator's result by 365 days and dividing by 91 days. We present average balances and nominal average interest rates in this offering memorandum. The average balance information for the years ended December 31, 2019, 2018 and 2017, has been calculated using the balances of the statement of financial position that are generated daily in the Bank, calculating the daily sum divided by 365 days for each year. The average balance information for the current year to March 31, 2020 has been calculated from our statement of financial position as the daily balance sum to March 31, 2020 divided by 91 days.

Nominal average interest rates have been calculated by dividing interest earned on assets or paid on liabilities by the corresponding average balances on such assets or liabilities.

Reconciliation of ROAE and ROAA

The table below sets out a reconciliation of Banconal's ROAE for the three months ended March 31, 2020, and the years ended December 31, 2019, 2018 and 2017.

	As of March 31,	As of December 31,		
	2020	2019	2018	2017
		(U.S.$ in thousands)		
Net income for the period	44,754.9	168,553.2	183,905.2	160,430.3
Total capital funds	938,970.4	901,453.9	809,823.2	867,353
Average				
Average total capital funds for the period	918,982.4	889,884.5	832,828.7	867,550.7
Ratio				
ROAE	19.6%	18.9%	22.1%	18.5%

The table below sets out a reconciliation of Banconal's ROAA for the three months ended March 31, 2020, and the years ended December 31, 2019, 2018 and 2017.

	As of March 31,	As of December 31,		
	2020	2019	2018	2017
		(U.S.$ in thousands)		
Net income for the period	44,754.9	168,553.2	183,905.2	160,430.3
Total assets	10,135,049.3	10,823,384.2	9,140,409.3	9,740,480.8
Average				
Average total assets for the period	10,328,630.8	9,696,907.5	9,214,676.6	10,047,551.6
Ratio				
ROAA	1.7%	1.7%	2.0%	1.6%

Operating Efficiency Ratio

We also present our Operating Efficiency Ratio. Our Operating Efficiency Ratio is a core indicator of our profitability and is calculated as the ratio of total general and administrative expenses to net interest and commission income, after provisions plus total other income, net.

Reconciliation of Operating Efficiency Ratio

The table below sets out a reconciliation of Banconal's Operating Efficiency Ratio for the three months ended March 31, 2020, and the years ended December 31, 2019, 2018 and 2017.

	For the three months ended March 31,	For the year ended December 31,		
	2020	2019	2018	2017
		(U.S.$)		
Interest income and fee income	96,351,730	391,040,357	360,679,770	334,080,498
Interest expense	22,404,325	99,272,355	79,432,983	66,125,914
Net interest income and commission income	73,947,405	291,768,002	281,246,787	267,954,584
Impairment Allowances [(1)]	5,497,069	9,746,808	5,330,231	9,399,736
Net interest and commission income, after provisions	68,450,336	282,021,194	275,916,556	258,554,848
Fees for banking services	4,937,945	17,078,544	17,054,680	17,530,856
Other income [(2)]	5,125,120	14,592,402	30,976,266	21,125,121
Other expenses	261,067	(398,593)	896,861	597,585
Total Other income, net	9,801,998	32,069,539	47,134,085	38,058,392
Total general and administrative expenses	33,497,433	145,537,485	139,145,453	136,182,932
Net income	44,754,901	168,553,248	183,905,188	160,430,308
Operating Efficiency Ratio	**42.80%**	**46.30%**	**43.10%**	**45.90%**

(1) Includes (reversal of) provision for losses in deposits with banks, (reversal of) provision for investment securities losses, provision for loan losses and provision for valuation of foreclosed assets.

(2) Includes dividends, net gain on investments in securities and others.

Asset Quality Ratios

We also present our Asset Quality Ratios. Our Asset Quality Ratio is calculated as the ratio of overdue loans divided by total gross loans and allowance for loan losses divided by total gross loans. These ratios are used by the Bank to measure and analyze the behavior of loans based on their repayment and the percentage of reserve coverage for possible credit losses. The level of efficiency in which the Bank controls and monitors the credit risk positively influences this rating. In addition, these ratios are used by the Superintendency of Banks to measure the asset quality of the National Banking System.

Reconciliation of Asset Quality Ratios

	As of March 31,		As of December 31,	
	2020	2019	2018	2017
		(U.S.$)		
Overdue loans	52,262,182	40,986,054	30,198,433	26,454,111
Private sector, gross	4,264,102,628	4,148,752,895	3,788,102,451	3,421,103,174
Public sector, gross	310,545,198	310,636,844	464,327,629	219,742,778
Total gross loans	**4,574,647,826**	**4,459,389,739**	**4,252,430,080**	**3,640,845,952**
Ratio				
Asset Quality Ratio - Overdue loans	**1.1%**	**0.9%**	**0.7%**	**0.7%**

	As of March 31,	As of December 31,		
	2020	2019	2018	2017
		(U.S.$)		
Allowance for loan losses	68,999,096	62,917,878	53,607,992	34,675,449
Private sector, gross	4,264,102,628	4,148,752,895	3,788,102,451	3,421,103,174
Public sector, gross	310,545,198	310,636,844	464,327,629	219,742,778
Total gross loans	**4,574,647,826**	**4,459,389,739**	**4,252,430,080**	**3,640,845,952**
Ratio				
Asset Quality Ratio – Allowance for loan losses	**1.5%**	**1.4%**	**1.3%**	**1.0%**

Liquidity

We also present our liquidity ratio. Regulatory liquid assets are determined based on guidelines established by the Superintendency of Banks. Regulatory liquid assets include cash, demand deposits, time deposits with remaining maturities of less than 186 days, notes issued by the Panamanian government with maturities of more than one year, payment of loans and interest at 186 days and investment-grade foreign debt securities.

Reconciliation of Liquidity Ratio

	As of March 31,	As of December 31,		
	2020	2019	2018	2017
		(U.S.$)		
Total Liquid Assets	**4,990,941,718**	**5,761,793,000**	**4,206,749,883**	**5,584,144,209**
Cash and cash equivalents	444,165,155	219,898,465	236,150,366	311,017,486
Demand deposits and time deposits with remaining maturities of less than 186 days maturities of more than one year	2,238,734,665	3,045,272,324	1,782,037,831	2,486,251,485
Notes issued by the Panamanian government with maturities of more than one year and investment-grade foreign debt securities	1,767,927,612	2,067,434,661	1,820,048,573	2,424,501,251
Payment of loans and interest at 186 days	540,114,286	429,187,550	368,513,113	362,373,987
Total Liquid Liabilities	**7,601,161,683**	**8,076,478,541**	**5,653,170,052**	**5,860,333,624**
Demand deposits - non banking institutions	2,476,457,701	2,603,741,317	2,652,102,372	2,503,996,439
Savings deposits	703,507,853	709,752,928	692,680,094	667,515,720
Time deposits with a remaining maturity of 186 days	3,165,025,909	3,823,737,315	1,300,504,246	1,347,458,701
Deposits from banks	1,258,771,167	942,139,215	1,011,260,388	1,345,538,286
Less: Pledged deposits	2,600,947	2,892,234	3,377,048	4,175,522
Liquidity Ratio	**65.7%**	**71.3%**	**74.4%**	**95.3%**

SUMMARY

This summary highlights information contained elsewhere in this offering memorandum. It does not contain all of the information that an investor should consider before making a decision to invest in the Notes. For further information on our *business and this offering, this summary must be read together with the detailed information included in the other sections of this offering memorandum, in particular the information included in "Risk Factors," "Management's Discussion and Analysis of Financial Position and Results of Operations" and "Business" as well as in our Financial Statements.*

Overview

Banconal is an independent, state-owned bank in Panama, with U.S.$10,135 million of total assets as of March 31, 2020. Banconal serves a systemically important role, serving as the financial arm of the Panamanian government and all public entities. As of March 31, 2020, Banconal is the second largest Panamanian banking entity in terms of total assets and the third in terms of customer loans. Banconal operates in the largest Panamanian credit segments, such as mortgages, commercial, consumer and construction loans, which represent 87% of domestic loans in Panama.

Banconal provides a wide variety of financial services, including corporate and commercial and retail banking, as well as brokerage and leasing services. Banconal operates as a general license bank offering universal banking services to the public sector, companies and individuals with the widest geographical coverage across Panama, helping to promote the country's economic development. Banconal's lending exposures are diversified among economic segments with a portfolio that was 16.6% commercial loans, 30.3% mortgages and 25.8% consumer loans as of March 31, 2020. As of March 31, 2020, Banconal was the largest provider of agricultural loans in Panama with a 33.8% market share, the largest provider of loans to the financial sector in Panama with a 40.0% market share and the fifth largest provider of mortgages in Panama with a 7.6% market share.

Banconal serves as the financial arm of the Panamanian government. In addition to its statutory purposes set forth in the Organic Law, Banconal provides financial support for the development of Panama's economy through its engagement in banking activities in its capacity as the official bank of the Panamanian government. Additionally, Banconal serves as facilitator and procurement agent for the financing programs aimed at the country's development and provides a majority of the check-clearing and compensation-clearing services in Panama. It directs Panama's inter-bank exchange and the clearing and settlement system for the Panamanian financial system. Banconal also acts as trust and fiscal agent for the Panamanian government and since 1979, following the Canal Treaties, is in charge of the distribution and recollection of U.S. dollar bills in Panama. The Bank is also the largest holder of deposits from public entities and the country's social security fund. As the largest state-owned bank of Panama, Banconal plays an important role in times of crisis, like the current one related to COVID-19, by increasing its lending exposure to the Panamanian financial system. Credit facilities granted by Banconal on a bilateral basis to its financial institutions clients post-COVID-19 have totaled more than U.S.$407.6 million.

While fully owned by Panama, Banconal is an autonomous legal entity with independent capital that operates with administrative, operational, budgetary and financial independence, subject to the supervision of the Panamanian government and its supervisory entities (*Contraloría General de la República* and the *Superintendencia de Bancos de Panamá*). The operation and business activities of Banconal are governed primarily by the Organic Law, and by other relevant decrees, which provide the regulatory framework for the Panamanian banking sector. Banking transactions in Panama are subject to regulation and oversight by the Superintendency of Banks pursuant to various decrees further described in "Regulatory Matters."

Banconal holds a broker-dealer license granted by the Superintendency of Capital Markets (previously called the National Securities Commission) of the Republic of Panama (*Superintendencia del Mercado de Valores de la República de Panamá*). Banconal, as an Official Bank is also authorized to act as trustee without the need for a separate license. With U.S.$2,922.1 million in assets under management and U.S.$1,149.6 million in annual transactions during 2019, Banconal's trust services is one of the country's most relevant players in the industry. Including flagship mandates such as Panama's sovereign fund, among many other asset management and large infrastructure projects, Banconal's fiduciary services continue to offer added value to its selected client base, including Panamanian and private sector entities.

Banconal serves its customers through a nationwide network of 3,502 employees, 89 branches, 299 ATMs and eleven drive-through ATMs as of March 31, 2020. In addition, Banconal offers online, mobile and telephone banking services and an innovative "Electronic Wallet" product. Banconal's introduction of its Electronic Wallet product in February 2020, which is designed to increase the penetration of banking services among the Panamanian population, as the starting point in Banconal's path towards its digital transformation. It is expected to have a positive impact on beneficiaries of the Panamanian government's social programs and on any Panamanian citizen who may elect to participate in this initiative. The Electronic Wallet is an application that allows its customers to store their funds intended for day-to-day expenses and to easily execute other transactions (e.g., money transfers, withdrawals, payments and reloads) using their smartphones. This application is designed as a complement to the mobile banking features already available to Banconal's customers, allowing them to safely keep their savings separate from the rest of their money and to manage their financial resources. This initiative is a part of Banconal's plans for the expansion of its coverage and increased proximity and access to its more than half a million customers.

As of March 31, 2020, Banconal's total capital funds were U.S.$939.0 million. Banconal's regulatory capitalization ratio is one of the highest in Panama and, as of March 31, 2020, Banconal had a Tier 1 Capital ratio of 16.04%. Banconal ranks fifth in terms of total capital funds of banks holding a general license ("General License Banks") within Panama's National Banking System (the "National Banking System"), according to data from Superintendency of Banks as of March 31, 2020.

For the three-month period ended March 31, 2020 and 2019, Banconal's net income was U.S.$44.8 million and U.S.$44.5 million, respectively. For the years ended December 31, 2019, 2018 and 2017, Banconal's net income was U.S.$168.5 million, U.S.$183.9 million and U.S.$160.4 million, respectively. Banconal's ROAE for the three-month period ended March 31, 2020 was 19.6%, and our ROAA for the three-month period ended March 31, 2020 was 1.7%.

Legal Framework

We trace our origins to the enactment of Law No. 74 on June 13, 1904, which provided for the establishment of *Banco Hipotecario y Prendario* in Panama City. In 1911, *Banco Hipotecario y Prendario* was renamed Banco Nacional de Panamá. In 1975, Banconal underwent a reorganization as a stand-alone state-owned entity whose primary purpose is to foster the development of Panama's economy, with full autonomy with respect to its governance and the management of its internal affairs, subject only to the oversight powers of the government's Executive Branch.

The principal provisions of the Organic Law include the following:

Purposes: Banconal is a stand-alone state-owned entity vested with full autonomy and separate assets. As a stand-alone official bank Banconal is vested with full administrative, budgetary and financial autonomy, subject to the oversight powers of the Executive Branch of the Panamanian government and the competent regulatory authorities. Banconal serves as the financial arm of the Panamanian government. In addition to its statutory purposes under the Organic Law, Banconal endeavors to provide financial support for the development of Panama's economy through its engagement in banking activities as the official bank for the Panamanian government.

The main purpose of the Bank is to safeguard the Republic of Panama's funds. Therefore, Banconal operates under extremely conservative policies to manage its liquid assets. As an autonomous entity, Banconal is also required to have self-sufficient operations. As a result, Banconal provides funding to the National Banking System through loan programs for financial institutions, companies and individuals.

Regulation: The operation and business activities of Banconal are governed primarily by the Organic Law, and by the relevant provisions of Decree/Law No. 2 of February 26, 1998, which contains the regulatory framework for the Panamanian banking sector.

State subsidiary guarantee: Banconal's liabilities are subsidiarily guaranteed by the Republic of Panama. Article 3 of the Organic Law expressly states that the Republic of Panama is "subsidiarily" (*subsidiariamente*) responsible for Banconal's obligations. The Republic of Panama is not a guarantor of the Notes. In the event Banconal were to become insolvent and all remedies against Banconal under Panamanian law are exhausted, the Organic Law

would allow for creditors of Banconal, including holders of the Notes to demand the enforcement of the subsidiary guarantee in order for the Republic of Panama to support Banconal's obligations. While the Organic Law provides for the guarantee on a subsidiary basis of Banconal's obligations, there are no precedents as to if or how creditors of Banconal, including holders of the Notes, could or would directly enforce the subsidiary guarantee. See "Description of the Notes—Ranking of Notes; Organic Law" for a discussion on the Notes and "Risk Factors—Risks Relating to the Notes—If Banconal defaults on its payment obligations under the Notes, the statutory responsibility of Panama under the Organic Law may be difficult to enforce."

In addition, certain of the Republic of Panama's outstanding New York law-governed sovereign bonds contain a cross default provision which would allow for acceleration of those bonds by their holders in the event there was an acceleration of an aggregate principal amount of other public indebtedness of the Republic of Panama that exceeds U.S.$25,000,000 due to non-payment of amounts due under that other indebtedness. Public indebtedness of the Republic of Panama is defined to include indebtedness arising from any contingent liability of the Republic of Panama. Therefore, to the extent the subsidiary guarantee of the Notes pursuant to Article 3 of the Organic Law constitutes a contingent liability of the Republic of Panama under the sovereign bonds, so long as the outstanding aggregate principal amount of Notes is at least U.S.$25,000,000, an acceleration of the Notes due to non-payment of amounts due should be sufficient for holders of the relevant sovereign bonds to accelerate those bonds pursuant to the cross default provision. As the Organic Law obligates the Republic of Panama to guarantee the obligations of Banconal on a subsidiary basis, as further described in "Description of the Notes—Ranking of Notes; Organic Law," we would expect the Republic of Panama to account for its statutory subsidiary guarantee of the obligations of Banconal, including the Notes, as contingent liabilities under Panamanian law, but we cannot ensure that the Republic of Panama would do so. For a discussion of the risks relating to whether an acceleration of the Notes due to a default in the payment of amounts owed would allow the holders of certain of the Republic of Panama's sovereign bonds to accelerate those bonds, see "Risk Factors—Risks Relating to the Notes—We cannot ensure you that a failure to pay under the Notes would trigger a cross default with Panama's outstanding sovereign bonds."

Capitalization: As of March 31, 2020, Banconal's paid-in capital by Republic of Panama amounts to U.S.$650 million. Banconal's capital may be increased from time to time upon decree of its Board of Directors, subject to the prior receipt of a favorable opinion from the Executive Branch of the Panamanian government, based upon the Bank's earnings.

Provision of banking services to government entities: Banconal is required to provide basic banking services (as defined by Banconal's Board of Directors) to the Republic of Panama and to all municipal agencies therein, free-of-charge. However, Banconal may charge public sector entities, state-owned companies and municipal agencies for any special service provided to them which is not expressly included in the Organic Law.

Exemptions: Banconal is exempt from all obligations for the payment of taxes, duties, fees and other contributions at the national, municipal and local levels, except for the obligation to contribute to the Panamanian Social Security, Education Insurance and Occupational Hazards Prevention systems as an employer engaged in the provision of public services, and except as provided by the applicable laws. In addition, Banconal enjoys all of the privileges conferred upon the Republic of Panama by the country's procedural laws in connection with any and all judicial or administrative proceedings to which it may be a party. These exemptions and privileges do not extend to Banconal's employees.

Public funds: Subject to the exemptions provided for in the applicable laws, all government entities, state-owned companies and municipal agencies are required to deposit all funds into accounts maintained by them at Banconal. Banconal must file with the Comptroller General and the Ministry of Economy and Finance (*Ministerio de Economía y Finanzas*), on a daily basis, a report on the status of such accounts. Banconal reserves the right to charge the aforementioned entities for any banking service provided to them in connection with any interest-bearing account.

Financial reporting obligations: Banconal is required to file with the Comptroller General, the Superintendency of Banks and the National Assembly all of the financial statements provided for in the applicable laws. In addition, Banconal is required to file with the Executive and Legislative branches of the Panamanian government, on an annual basis, a report with respect to its operation and activities.

Clearinghouse: Banconal is responsible for managing and operating the central Clearinghouse for the National Banking System at large. The power and authority to establish the rules that govern the operation of such Clearinghouse lies with Banconal's Board of Directors.

Strengths

Top Tier Panamanian Bank

According to the Superintendency of Banks, as of March 31, 2020, Banconal was the second largest bank of Panamanian origin operating within Panama in terms of total assets, with 9.3% market share. We are ranked second in terms of total deposits, with 11.3% market share. We are ranked third in total domestic loans with 8.2% market share. In the personal loans segment, we are ranked second with 13.6% market share. Panamanian banks are banks that operate in the country whose owners are Panamanians.

Banconal is the leading lender to Panama's agricultural sector, with a 33.8% market share as of March 31, 2020. We are also the leading local provider of credit facilities to the Panamanian financial sector with a 40.0% market share.

Financial Stability with High Quality and Levels of Assets

Our financial position is one of the strongest in the market with a robust liquidity position; a well-managed and diversified credit portfolio; strong capitalization; low concentration of loans by segment and economic sectors; low past-due loan ratio; high capital position and sufficient reserves. Our healthy capital adequacy position combined with the government support gives us the opportunity to grow and to attend to customer demand.

Banconal's funding and liquidity are among its main credit strengths. The Bank's funding base consists of a high percentage of deposits, which accounts for 94% of all liabilities. As of March 31, 2020, 73% of our deposit base comes from public entities. Given that most of our funding structure consists of customer deposits, we do not have significant short-term financial obligations. Banconal has sufficient liquid assets to comply with its daily obligations.

As of March 31, 2020, our total cash, cash equivalents and bank deposits was U.S.$2,686 million and our total deposits and interest payable was U.S.$8,650 million. Our financial liquidity level is 31.1%, as compared to the average of 20.23% of the National Banking System. Banconal owns, as part of its liquid assets, a securities portfolio of U.S.$2,733 million invested in high rated instruments, with an average international credit rating of BBB+. Banconal believes it manages its liquid assets based upon highly conservative policies. We place our excess liquidity with top tier correspondent banks. Our main U.S. dollar clearing banks are JP Morgan Chase, Bank of New York Mellon, Bank of America, Wells Fargo and Citibank. As of March 31, 2020, our liquidity ratio was equal to 65.7%, more than double the 30% required by the Panamanian regulator.

As of March 31, 2020, Banconal had a Tier One Capital ratio of 16.04%, well above the regulatory minimum of 8.0% We are among only a few Latin American banks with two investment grade ratings from international reputed rating agencies. Banconal's ratings are driven by the Organic Law which provides a subsidiary guarantee by its owner, the Republic of Panama. The Panamanian government is responsible (on a subsidiary basis, if Banconal become insolvent and after all legal remedies against Banconal have been exhausted) for all obligations contracted by Banconal, as specified in Article 3 of the Organic Law of the National Bank of Panama (*Ley Orgánica del Banco Nacional de Panamá*). Banconal's ratings outlook is equal to, and has historically mirrored, Panama's sovereign rating. Banconal's credit rating also reflects its strong franchise, high liquidity, low cost of funding and strong capitalization.

Brand Recognition

We have been operating for more than 115 years, and we have been recognized by the United States Federal Reserve Bank as a Central Bank and are authorized to circulate and use U.S. dollars in Panama. Our strong presence in Panama, together with a strong brand awareness that delivers on customer appeal and loyalty, allows us to service a wide spectrum of customers, increase revenue and gain market share.

The internationally acknowledged organization MERCO (*Monitor Empresarial de Reputación Corporativa*) ranked us among the top ten best reputed companies in the country and second in our industry. The president of the Board of Directors of the Bank, Lizbeth Ann Henriquez L., was one of the 14 women among the top 75 corporate leaders with the best reputation in the country. The General Manager of the institution, Javier Carrizo Esquivel, was also among the most reputed corporate leaders in the country.

In addition to its activities furthering Panama's economic development, Banconal is involved in a number of social measures that directly and indirectly benefit the Panamanian population, focusing primarily on culture, health, education, and environment.

Prudent Credit Underwriting Policies

We follow conservative credit underwriting policies in our origination process for all of our loan products. The assessment of each loan application takes into account a variety of factors relating to each customer's financial circumstances obtained from the applicant at the time the loan application is submitted, as well as information obtained from credit checks done through the Credit Bureau of the Panamanian Credit Association (*Asociación Panameña de Crédito - APC*), an independent credit reporting agency that provides detailed historical information of consumer credit activity in the Panamanian market for up to 24 months prior to the date of the loan application.

We have in place an experienced team with ample knowledge of the Panamanian loan market and each of our products. Most of the members of our credit department have on average more than five years of banking experience. Similarly, each of the managers and officers of our credit department have at least ten years of underwriting experience in the Panamanian market and in their areas of specialization.

Our prudent underwriting policies have allowed us to keep a low delinquency level in our loan portfolio. As of March 31, 2020, our 90 days past due loan portfolio represented 1.1% of our total outstanding loan portfolio. We have a high collateralized loan portfolio. For a loan portfolio of U.S.$4.5 billion dollars, we have guarantees for U.S.$5.1 billion dollars (112.57%).

Convenient and Broad Consumer Distribution Network

We have an extensive distribution network, composed of 89 branches, a network of 299 ATMs and eleven drive-through ATMs (*autobancos*) as of March 31, 2020. Our geographic coverage and service infrastructure is the largest among banks in Panama, covering all of the country. In addition to this extensive distribution network, we provide online banking services, mobile banking and call centers, providing our customers with increased banking flexibility and accessibility.

Safekeeper of Government Funds

The Government Banking Service within the Bank provides services to the central government and the wider public sector. It is responsible for holding the working balances of government ministries and other public bodies, in demand accounts and time deposits to meet their safety and liquidity objectives and maximize efficiency. This unit also provides financing, night depositories, credit cards, checkbooks, letters of credit, international and local transfers, among other services. This function entails having effective risk management and strong internal controls, which the Bank has been exercising effectively for decades, while having the necessary local regulatory knowledge and industry expertise to provide such services proactively.

Central to its risk-based objectives and management of government funds, the Bank has very conservative standards in regards to the placement and investment of its portfolio.

Social Responsibility

During 2019 and continuing in 2020, Banconal has developed various actions that have directly and indirectly benefited thousands of Panamanians. The ISR program focuses on four pillars: culture, health, education, and environment.

Promoting our culture: Banconal held a series of temporary exhibitions at the Bank's branches and at our own museum (*Casa Museo*), the only numismatic and philately venue in Panama. We sponsored the XXIV Collections Fair organized by Banconal and the Numismatic Association of Panama. The 2020 Art Contests include the traditional photography contest "Carlos Endara" Version XXXVI; the National Painting Competition for Novel Artists Version XII; the "Sculpture" contest Version IV, and "Amateur Films" contest Version III.

Supporting health programs: The Bank takes pride in its mission to go beyond the banking business, supporting various activities and organizations by fundraising and providing volunteers. Among the most important organizations supported are: Fundación Pro Niños del Darién, Fundación Psoriasis, Kiwanis Panama, FundaCancer, FundAyuda, Autism Wave, and Fundación Yo Soy Capaz.

More than Education, a Commitment: The most important contribution to education is our Center for the Integrated Care of Children, which, for the last 38 years, has provided full daycare and education services to around 140 employees' children every year, from one to five years of age, including Pre Kinder and Kinder education.

Caring for our environment: Banconal is committed to recycling and promoting good environmental practices among employees and customers. Fundación Pro Eco Azuero, which is dedicated to saving the habitat of the Spider Monkey in the Azuero region, a dry tropical forest, through reforestation and environmental education for the children in the region, has become a focal point of our environmental efforts.

Strategy

In recent decades, the Bank has consistently set out five-year strategic plans to be implemented by management. The latest plan was outlined in the second half of 2019, and management began to implement the plan in the first quarter of 2020. However, once the COVID-19 pandemic began to affect the local economy, management instead prioritized risk management activities and the support of several governmental social initiatives. As a result, some of the components of our strategic plan have been postponed.

We aim to offer our customers high-quality financial products and services in order to foster their development and the development of Panama. We endeavor to recruit and retain a highly skilled workforce and to provide our employees with ongoing training, so as to keep them motivated to work as a team in furtherance of our goals. We seek to maintain technology systems that allow for the optimization of the automation of our business processes in an efficient manner. We are committed to the principles of operational transparency and ethical conduct, and to moral values. We are focused on distributing our banking products and services efficiently and on improving quality of life for Panamanians. We aim to fulfill our mission by maintaining our leadership in the Panamanian financial system, safeguarding government funds, facilitating funding to other financial institutions in Panama, supporting the agribusiness sector, strengthening our risk and control functions, increasing our productivity and efficiency, improving our technology platform, expanding our presence in the consumer segment, improving our customer experience and developing our organizational and human resources.

Maintain our position as a leading bank in Panama, including in the agribusiness segment

In line with our Strategic Plan for 2020-2024, we aim to continue as one of the leading banks in Panama by strengthening our significant role in the development of the Panamanian economy, maintaining superior profitability levels, and providing excellent customer service. We intend to continue to be a market-leading bank in key sectors in Panama and to seek to maintain or improve our market share in deposits and loans. We work to strengthen our role in the development and welfare of Panama and to promote greater financial inclusion that improves the conditions of Panamanians.

Banconal is the leading lender among all banks in Panama in providing financial services to the Panamanian agricultural sector with a 33.8% market share as of March 31, 2020. We focus primarily on providing credit facilities to small and medium-sized agricultural producers throughout the country. We have strategically positioned ourselves to be able to service agricultural regions with high levels of productivity and primarily hire employees from the local population who are predominantly agricultural engineers.

We will continue to strive to maintain our prominent position as one of the key brokerage-service providers and plan to start offering and structuring investment banking products with selective corporate and bank clients.

Expand our presence in the financial institutions and consumer segments

Banconal is the leading local provider of credit facilities to Panamanian financial institutions with a 40.0% market share as of March 31, 2020, serving as a bank to banks. We have recently become more involved in the structuring, administration, and raising of funding stemming from multilateral organizations to on lend to other Panamanian banks, as well as to Small to Mid-size Enterprises (SMEs).

We are currently focused on expanding our consumer or retail business. Our strategy is to combine our ability to offer competitive rates with a wider array of products and services, while increasing our cross-selling efforts and offering an improved overall customer experience. We plan to continue to support the key market segment of mortgage loans to low-income households. We plan on increasing our market share across all business segments in the Panamanian market by expanding our current customer base and achieving economies of scale.

Continue to improve our risk management practices

Risk management, at all levels, has been and will continue to be a main focus of our activities. We aim to improve our risk management processes by refining the tools that allow us to recognize and qualify our customer's performance and by offering customers more fine-tuned pricing adjusted to their risk profile. In order to achieve our strategic goals, we have defined specific levels for a series of key risk indicators to be adopted following international risk management standards. Continue to improve our productivity and efficiency

We have been working to improve our human resources management practices to maximize productivity per employee, update and leverage technology to reduce costs, improve competitiveness and maintain a range of products and services that will increase risk-adjusted returns. We are working to streamline the organizational structure of certain segments and divisions, are committed to building a highly motivated team with the skills, capacity and training to provide first class customer service.

Advance our technology platform and improve the customer experience

Innovation and information technology are key components of our renewed strategy, and we seek to foster knowledge sharing and to promote creativity among our employees. By improving our integrated IT infrastructure, we aim to cover or solve the different requirements of our central government and public bodies, vis-à-vis their financial needs and that of their employees. We continue to expand the usage of electronic solutions. We plan on improving our support functions by investing in and implementing better technology in order to optimize our network infrastructure. We are also improving existing offices and branches to provide better customer service. Additionally, the Bank will explore outsourcing as a measure to reduce costs, especially in connection with technology expenditures.

The improvement in the quality of the service provided to our customers is one of the main pillars of the current administration of Banconal; therefore, several initiatives been implemented in an effort to provide a world class "Customer Experience" in our organization. The Bank has identified two main objectives: promoting a customer service culture within Banconal and creating a customer-oriented organizational structure. Banconal firmly believes that a better overall customer experience, translates into both better service quality and higher profits.

The scope of work for the promotion of a customer service strategy at Banconal entails a national polling campaign, as well as both internal and external focus groups to better understand current customer preferences and the Bank's public perception. Other strategies, such as customer segmentation and differentiated service channels, will also be implemented in 2020. Our commitment is to always maintain the client at the center of all business decisions we make. Banconal's motto is: "Our Majesty: the Client".

In order to properly achieve our companywide goal for cultural evolution, the Bank has created an interdisciplinary steering team that initially reviews and implements our strategies. Initially, Banconal has hired a well-known customer experience consultant to provide her expertise and assist in our efforts to better develop such an

ambitious strategy. Our goal is to create the optimal organizational structure aimed at embracing and enabling this new customer centric approach. Banconal expects to launch a customer experience department within the next year.

Organizational and human resource development

In 2019, the Bank began optimizing efforts under new management that is focused on customers, employee motivation and the improvement of internal processes with the goal of becoming a world-class bank.

By the end of June 2020, the Bank had 3,502 employees. The Bank has highly motivated personnel with a low turnover of 1.08% per quarter.

Banconal's initiatives to attract and retain talent include:

Competitive salary compensation: With the modification of the Bank's Organic Law (Law No. 24 of May 16, in 2017), the management acquired administrative autonomy to establish its own salary scale. Through the performance of a technical compensation study related to the local financial industry, the Bank approved and implemented a new salary scale in order to attract, motivate, and retain qualified personnel. As a second step, during 2019, more than 500 positions were evaluated under an international methodology with the help of external consultants which will allow us to establish a salary scale relative to each position, based on the level of contribution, decision making, innovation and knowledge in order to guarantee fair and competitive compensation and attract and retain human talent.

Strengthening of the Organizational Structure: In March 2020, changes were implemented in the Bank's organizational structure, as recommended by an international advisory firm. These changes were aimed at strengthening areas such as: risk and compliance, cybersecurity, data governance, capital markets, social responsibility and governance.

Human Resource Development and training: The Bank has a Specialized Training Center (Corporate University) with high technologic standards, which provides flexibility for our employees to keep learning and continuously improve. The center uses virtual courses and e-learning platforms as part of the learning strategy. The training objectives are aligned with the Bank's Career and Succession Plans.

Corporate Wellbeing: The Bank has different wellness strategies to improve the quality of life of its employees. The Bank offers medical services in its headquarters in two well-equipped clinics. It also has two lactation rooms and other benefits. We have an Early Childhood Care Center (CAIPI) that takes care and educates our employee's children and has more than 37 years of experience.

Commercial Strategy 2020-2024

Our commercial strategy for the period between 2020 and 2024 is aimed at identifying, developing and exploiting business opportunities that will maintain the Bank's steady and profitable growth.

The main commercial goals expected to be achieved by 2024, in comparison to figures from December 2019 are:

- Increase the Bank's total assets.
- Maintain the Bank's leading position in the agribusiness and financial institutions segments.
- Maintain the Bank's position as the second largest provider in the personal loans segment.
- Move from being the fifth largest to the third largest provider in the mortgages segment.
- Move from being the ninth largest to the sixth largest provider in the corporate/commercial loans segment.

In order to achieve these objectives, we will develop a proposal for new products and services with significant value to grow our loan portfolio, so as to improve the Bank's competitiveness in the granting of commercial/corporate, agricultural, financial institution, mortgage and personal loans.

Among the new products that will be deployed, we can highlight the following: (i) granting of interim loans for construction, (ii) payment acquirer business, where Banconal processes credit or debit card payments on behalf of businesses, and (iii) improvement of the flow of mortgage processes (in a so-called mortgage factory), among others. Earlier this year, Banconal also began providing factoring services.

We also implemented a new organizational structure, which regroups our branches according to the volume and type of customers, facilitating the implementation of a new sales culture. This structure will allow us to organize our array of products and services in a more efficient and orderly manner.

Recent Developments

MIGA Credit Facility

On July 23, 2020, Banconal entered into two credit facilities for an aggregate amount of U.S.$510 million with Société Générale and Goldman Sachs, respectively (together, the "MIGA Credit Facility"). The lenders are beneficiaries of a partial credit guarantee of 95% provided by the Multilateral Investment Guarantee Agency, an agency of the World Bank ("MIGA"). As an obligation of Banconal, the MIGA Credit Facility benefits from a subsidiary guarantee of the Republic of Panama pursuant to the Organic Law. Neither of the credit facilities has been drawn down as of yet. Each credit facility has a tenor of seven years. Société Générale provided a U.S.$150 million credit facility and Goldman Sachs provided a U.S.$360 million credit facility. The MIGA Credit Facility is expected to be disbursed in a single installment within the first two weeks of August 2020, and the proceeds are expected to be used to fund Banconal's COVID-19 response program.

COVID-19 Pandemic

The COVID-19 outbreak has had, and may continue to have, a disruptive effect on Banconal, both directly and indirectly through its impact on our customers, counterparties, employees and other stakeholders, as a result of, among other things, protective measures taken by the Panamanian government in order to mitigate the impact of the virus. As of the date of this offering memorandum, the impact of the COVID-19 pandemic is uncertain, and it is difficult to predict the spread or duration of the pandemic. Given the uncertainty around the extent and timing of the future spread of COVID-19 and, in turn, the potential imposition of additional protective measures or the relaxation of existing measures, it is not possible to predict the full extent of the effects that the pandemic will have on our business, operations or financial condition, as well as on those of our clients, counterparties and other stakeholders. See "Risk Factors—Risk Relating to Our Business— The global COVID-19 health pandemic has, and may continue to, adversely affect our business, financial condition and results of operations."

Measures Adopted by the Panamanian Government

In order to attempt to mitigate the economic effects of the COVID-19 pandemic, on June 30, 2020, the President sanctioned Law 156 of 2020 (the "Moratorium Law"), which mandates, among other things, a moratorium on the debts owed by certain clients to local banks, including Banconal, cooperatives and financing companies (*financieras*). The Moratorium Law provides that:

- The moratorium applies retroactively from March 1, 2020 until December 31, 2020.
- The moratorium applies to loans, including, among others, mortgage, commercial, personal and car loans, credit cards and others.
- Clients that may benefit from the moratorium are only those "persons affected by the economic crisis caused by the COVID-19 pandemic, that is, persons whose labor contract has been suspended or terminated, independent workers and merchants whose activity has been affected by the health measures

established by the Executive Branch." Clients must duly document that they have been affected, either by way of a sworn statement or by providing evidence of the termination, suspension or decrease in working hours, in their labor contract.

During the term of the moratorium, banks are not be able to collect, increase the interest rates, fees or any other interest for lack of payment, late payment or for any other reason, on the loans to the beneficiaries of the Moratorium Law. Once the moratorium term expires, the banks and the beneficiaries may negotiate a refinancing or prorate of its debt, without charging any fee for late payment or any other administrative expense.

As of June 30, 2020, modified loans due as a result of the Moratorium Law was amounted to U.S.$532.3 million. This amount represents 11.5% of the total loan portfolio of the Bank and 2% of all modified loans in the National Banking System.

Effect on and Measures Adopted by Banconal

The COVID-19 outbreak has had an impact on the global and Panamanian economies and financial markets, resulting in, among other things, price volatility and changes in access to liquidity and the cost of funds. Given Banconal's funding structure, these effects have not had a significant impact on our business.

We nevertheless expect asset quality deterioration related to the economic disruption caused by COVID-19. For example, we expect delays in recognition of impaired loans, as temporary measures from Panamanian regulators have enabled us to extend grace periods on loans affected by the COVID-19 pandemic without reclassifying them. Banconal's loan portfolio has a low exposure to economic sectors or products that will suffer the highest negative effects due to COVID-19, such as construction, credit cards and car loans. However, the uncertainty generated by COVID-19 will remain for the foreseeable future and in light of the economic impact of this pandemic on our clients in the second half of 2020 and 2021, we are expecting an increase in our allowance for loan losses. As of December 31, 2019, our allowance for loan losses was U.S.$62.9 million. We anticipate significantly increasing our reserves incrementally through 2021 due to COVID-19 and the anticipated growth of the portfolio. We expect to increase our reserves in 2020 over our current reserve amount by approximately U.S.$41.5 million. In 2021, we expect to increase our reserves by approximately U.S.$30 million.

The pandemic has also resulted in the implementation of our business continuity program, which modifies our work patterns and risk management initiatives to cope with the changing times. We have implemented health and safety measures and internal protocols to safeguard the health of our employees and customers, including:

- Rebalancing workloads across operational sites, given that some locations will be affected more than others.
- Temporary closing of smaller branches to strengthen flagship branches.
- Adjustment of branch hours and staffing mix.
- Enhanced facility cleaning, social distancing, use of facemasks and remote work, where appropriate, to reduce exposure to COVID-19.

Banconal also launched a campaign to promote its alternate service channels (e.g., mobile bank, online bank, info-voice and our Electronic Wallet) to allow our customers to do their transactions from the comfort of their homes. In order to support customers, Banconal waived credit card minimum payments without late fees for 90 days, and applied 0% financing for purchases in supermarkets, hospitals and pharmacies from April 10 until July 9, 2020.

In addition, in accordance with an agreement between the Panamanian government and the Panamanian Banking Association, we have granted to qualifying COVID-19 affected customers grace periods as indicated in the "Measures Adopted by the Panamanian Government" subsection above.

Further, as part of our role as the main state-owned bank in Panama, we are setting up a liquidity program to support the rest of the Panamanian financial sector. Credit facilities granted by Banconal on a bilateral basis to its financial institutions clients post-COVID-19 has been more than U.S.$407.6 million. Besides those credit facilities, we are in negotiations with several multilateral organizations, working hand-in-hand with Panama's Ministry of Finance and the Superintendency of Banks to establish a comprehensive and timely package of short-term loans to financial institutions and to small and medium-sized enterprises.

Availability of Second Quarter 2020 Financial Results

As of the date of this offering memorandum, we do not have available financial information or unaudited financial statements for the three-month period ended June 30, 2020. Based on available financial information, we currently expect our net income for the three-month period ended June 30, 2020 to show a decrease as compared to the corresponding period in 2019, primarily due to the increase of impairment allowance due to the COVID-19 pandemic. This preliminary financial information for the three-month period ended June 30, 2020 may be subject to changes.

According to management's estimates, which are based on available information as of the date of this offering memorandum, we expect our financial statements for the three-month period ended June 30, 2020 to be substantially consistent with the trends and performance reflected in the financial information included in this offering memorandum, including but not limited to those seen during the month of March 2020, other than as disclosed throughout this offering memorandum and with the financial information reported for the corresponding period in 2019. Nevertheless, the reviews and processes necessary to finalize our financial statements for the three-month period ended June 30, 2020 have not yet been completed, nor subject to a limited review by our auditors, and the financial information presented above is not indicative of the results that may be expected for the three-month period ended June 30, 2020, the current fiscal year or any other period. This preliminary financial information is derived from calculations or figures that have been prepared internally by our management and should not be viewed as substitute for full financial statements prepared in accordance with IFRS. As a result, we cannot assure you that our financial statements for the three-month period ended June 30, 2020, which we will release following the completion of the offering of the Notes, will be consistent with the trends and performance reflected in the financial information included in this offering memorandum, or that the market perception to the results set forth in our financial statements for the three-month period ended June 30, 2020 will not adversely affect the trading price of our Notes.

Corporate Information

Banconal's registered offices are located at Vía España, Torre Banconal, 0816-05220 Panama City, Panama. Its telephone number at this address is +505-2000 and its fax number is +505-0277. Banconal's website address is www.banconal.com.pa. As of the date hereof, Banconal operates a network of 89 branch offices, of which 45 are located in the Metro Area (39 in Panama City and Guna Yala, four in Colón, and two in Darién), 27 are located in Central Panama (six in Coclé, nine in Herrera, five in Los Santos and seven in Veraguas) and the remaining 17 are located in Western Panama (13 in Chiriquí and four in Bocas del Toro).

THE OFFERING

This summary of certain terms and conditions of the Notes is subject to, and qualified in its entirety by, reference to the "Description of the Notes" section of this offering memorandum.

Issuer	Banco Nacional de Panamá
Securities Offered	U.S.$1,000,000,000 aggregate principal amount of 2.500% Senior Notes due 2030.
Issue Price	99.912% of principal amount plus accrued interest, if any, from August 11, 2020.
Maturity Date	The Notes will mature on August 11, 2030.
Interest	The Notes will accrue interest at a rate of 2.500% per year.
Interest Payment Dates	Interest on the Notes will be payable semi-annually in arrears, on February 11 and August 11 of each year, commencing on February 11, 2021.
Ranking	The Notes will (i) be the Bank's direct, general, unsecured and unsubordinated obligations; (ii) other than as set forth below, at all times rank at least pari passu (without any preferences among themselves) with all of the Bank's other existing and future general unsecured and unsubordinated obligations from time to time outstanding; (iii) rank senior in right of payment to all existing and future subordinated indebtedness of the Bank, if any; (iv) be effectively subordinated to (a) all of the Bank's existing and future secured indebtedness to the extent of the value of, and only in relation to, the Bank's assets securing such indebtedness; (b) debts of the liquidation estate (*deudas de la masa*) in the event of the Bank's forceful liquidation; (c) new deposits created during a reorganization period ordered by the Superintendency of Banks; (d) deposits with a balance of B/.10,000.00 or less; (e) claims from employees for unpaid wages and other employee's severance and compensation payments; (f) claims from the Panamanian Social Security Administration (*Caja de Seguro Social*) for unpaid employer-employee social security contributions; and (g) other claims that are granted preference as a matter of law; and (v) be structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables) of the subsidiaries of the Bank. Pursuant to the Organic Law, all liabilities of the Bank are subsidiarily guaranteed by Panama. For the avoidance of doubt, this general subsidiary guarantee is not a direct guarantee of the Notes, but a general subsidiary guarantee of the Bank's liabilities that, while in effect at all times, unless the applicable law is changed or repealed, would be triggered only if the Bank were to default on its obligations and to become insolvent, and all legal remedies under Panamanian law against the Bank have been exhausted. Holders of the Notes may not have a direct claim against the Republic even after exhausting all remedies against the Bank. See "Description of the Notes—Ranking of Notes; Organic Law."
Additional Amounts	All payments in respect of the Notes will be made without any withholding or deduction for any present or future taxes imposed or levied by or on behalf of any taxing authority in any jurisdiction in which the Bank is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made, unless such withholding or deduction is required by law or by the interpretation or administration thereof. In that event, the Bank will pay such additional amounts as will result in receipt by the holders of Notes of such amounts as would have been received by them had no such withholding or deduction for taxes been required, subject to certain exceptions set forth under "Description of the Notes—Additional Amounts."
Repurchase of Notes upon a Change of Control	We will be required to offer to repurchase all of our outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued interest, if any, to the date of purchase if (i) we cease to be an autonomous entity (*entidad autónoma*) of, or wholly owned by, the Republic of Panama, (ii) Republic of Panama ceases to own more than 50% of our voting stock, or (iii) the Republic of Panama ceases to hold

	the power, directly or indirectly, to direct or cause to direct the appointment of the members of our board of directors.
Optional Redemption at Par	At any time or from time to time on or after May 11, 2030 (three months prior to the maturity date of the Notes) (the "Par Call Date"), the Bank will have the right to redeem the Notes in whole or in part, upon giving not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the outstanding principal amount of the Notes plus accrued but unpaid interest (if any) on the principal amount of the Notes to be redeemed and any Additional Amounts to, but excluding, the redemption date. See "Description of the Notes—Redemption—Optional Redemption at Par."
Optional Redemption with "Make-Whole" Amount	The Bank will have the right to redeem any of the Notes, in whole or in part, at any time or from time to time prior to the Par Call Date, at its option, upon giving not less than 30 nor more than 60 days' prior notice at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes to be redeemed and (2) the sum of the present values of each remaining scheduled payment of principal and interest thereon as if redeemed on the Par Call Date (exclusive of interest accrued to the redemption date) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 30 basis points, in each case plus accrued but unpaid interest (if any) on the principal amount of the Notes to be redeemed and any Additional Amounts to, but excluding, the redemption date. See "Description of the Notes—Redemption—Optional Redemption with "Make-Whole" Amount."
Redemption Prior to Maturity for Taxation Reasons	The Bank will have the right to redeem the Notes, in whole but not in part, at any time at the principal amount thereof plus accrued and unpaid interest due thereon if, as a result of changes in the laws or regulations affecting taxation, and if other conditions are met, the Bank will be required to pay additional amounts. See "Description of the Notes—Redemption— Redemption Prior to Maturity for Taxation Reasons."
Securities Offered	The indenture contains covenants that, among other things: • limit our ability to consolidate with or merge into, or sell, lease, convey or transfer, in one transaction or series of transactions, all or substantially all our properties and assets substantially to any Person. • require us to maintain an office or agent for service of process in the Borough of Manhattan, the City of New York. • require us to make available, to the Trustee: (i) within 120 days following the end of each of our fiscal years, our audited consolidated financial statements; and (ii) within 75 days following the end of the first three fiscal quarters in our fiscal years and 120 days after the end of each fiscal year, our unaudited consolidated interim financial statements. • require us to make available, upon request, to any holder, any owner of a beneficial interest in any note or any prospective purchaser designated by a holder or owner, certain supplementary and periodic information, documents and reports. • require us to obtain and maintain all governmental approvals, authorizations, consents or licenses of any governmental authority under the law of Panama, except to the extent that a failure to do so would not have a material adverse effect on us or our obligations under the indenture or the Notes. These covenants are subject to important exceptions and qualifications. See "Description of the Notes—Covenants."
Events of Default	For a discussion of certain events of default that will permit acceleration of the principal of the Notes plus accrued and unpaid interest, and any other amounts due with respect to the Notes, see "Description of the Notes—Events of Default."

Further Issues	We may from time to time, without notice or consent of the holders of the Notes, create and issue an unlimited principal amount of additional notes of the same series as the Notes offered hereby.
Use of Proceeds	We intend to use the net proceeds from sales of the Notes to fund, in whole or in part, the growth of the loan portfolio and other general corporate purposes, as described under "Use of Proceeds." See "Use of Proceeds."
Form and Denomination	The Notes will be issued in book-entry form, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof, and will be represented by global notes deposited with, or on behalf of, DTC and registered in the name of a nominee of DTC. Beneficial interest in the global notes will be shown on, and transfers will be effected only through, records maintained by DTC for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of Euroclear, and Clearstream. The global notes will be exchangeable or transferable for certificated notes only in limited circumstances. See "Description of the Notes—Principal, Maturity and Interest."
Transfer Restrictions	The Notes have not been and will not be registered under the Securities Act. As a result, the Notes are subject to limitations on transferability and resale. For more information, see "Transfer Restrictions."
Listing and Trading	We have applied to have the Notes listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market.
Governing Law	The indenture and the Notes will be governed by, and construed in accordance with, the law of the State of New York.
Trustee, Registrar, Transfer Agent and Paying Agent	The Bank of New York Mellon.
Luxembourg Listing Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Risk Factors	You should carefully consider all of the information in this offering memorandum. See "Risk Factors" in this offering memorandum for a description of the principal risks involved in making an investment in the Notes.

RISK FACTORS

Investing in the Notes involves a high degree of risk. Prospective investors should carefully consider the risks discussed below, as well as the other information included in this offering memorandum, before deciding to purchase any Notes. If any of the following risks should occur, our business, financial condition and results of operations could be adversely affected. As a result, the trading price of the Notes could fall, and investors could lose all or part of their investment in the Notes. The risks discussed below are not the only risks that we face. Additional risks not presently known to us or that we currently deem immaterial could also materially and adversely affect our business, financial condition and results of operations.

Risks Relating to Our Business

Any disruption in the sources of our fee revenue and deposits could adversely affect our results.

The interest and commission payments that Banconal receives from corporate, commercial and consumer financings, as well as lending to financial institutions, are its primary source of income. Banconal benefits from low costs of financing, since public and government entities must maintain deposit accounts with Banconal. As a result, Banconal's future results will depend on continued fee revenue and deposits from these established sources and the efficient administration of its loan portfolio and the resources that finance its operations. Banconal has moderate to low presence in some credit segments, such as credit card loans, auto loans and construction loans, and therefore has limited access to these alternative sources of revenue. If Banconal is unable to access alternative sources of revenue or experiences a significant decrease in its access to deposits, an increase in its cost of funds or a reduction of its loan portfolio, it may have a material adverse effect on its business, financial condition and results of operations.

The global COVID-19 health pandemic has, and may continue to, adversely affect our business, financial condition and results of operations.

In late 2019, a novel strain of coronavirus, COVID-19, was reported in Wuhan, China. While initially concentrated primarily in China, the COVID-19 outbreak spread to countries throughout the world, including Panama. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. Governmental authorities of many countries around the world implemented significant measures to control the spread of the virus. In Panama, the protective measures implemented by the government included declaring a national state of emergency, decreeing a national curfew, suspending international passenger flights and extending tax amnesty. The protective and preventative measures mandated or suggested by Panamanian governmental authorities or otherwise elected by companies in Panama have adversely affected workforces, customers and consumer sentiment, and along with decreased consumer spending, have resulted in the start of an economic downturn in Banconal's markets. Ongoing closure measures are also resulting in increased unemployment and decreased debt repayment capacity at many companies, which is likely to decrease asset quality and profitability of assets in the National Banking System.

In response to the COVID-19 outbreak in Panama, Banconal rebalanced workloads across its operational sites, kept flagship banking branches open while temporarily closing smaller, less used branches in the same or nearby neighborhoods, adjusted branch hours and staffing mixes and enhanced facility cleaning, social distancing, constant hand cleaning, use of facemasks and remote work, where appropriate. Banconal also promoted its alternate service channels such as mobile and online banking and its Electronic Wallet (also called "BEN"), waived credit card minimum payments without late fees for 90 days, and applied 0% financing for purchases in supermarkets, hospitals and pharmacies from April 10 until July 9, 2020. In addition, in accordance with an agreement between the Panamanian government and the Panamanian Banking Association, Banconal has granted to qualifying COVID-19 affected customers grace periods in the payment of their mortgages and other loans until December 31, 2020, and other loan payment deferrals and extensions.

As part of Banconal's role as the main state-owned bank in Panama, Banconal is also setting up a liquidity program to support the rest of the Panamanian financial sector. Apart from the existing credit facilities that Banconal has granted on a bilateral basis to its bank clients, Banconal is in negotiations with several multilateral organizations, working hand in hand with Panama's Ministry of Finance and the Superintendency of Banks to establish a comprehensive and timely package of short-term loans to financial institutions and to small and medium-sized enterprises.

Although Banconal entered the current economic downturn with low delinquency ratios, Banconal nevertheless expects asset quality deterioration related to the economic disruption caused by COVID-19. As of December 31, 2019, past due loans of over 90 days accounted for 0.9% and loan loss reserves coverage was 159%. Banconal expects delays in recognition of impaired loans, as temporary measures from Panamanian regulators have enabled Banconal to extend grace periods on loans affected by the COVID-19 pandemic without reclassifying them, thus not requiring additional reserves. Although this will relieve some pressures on asset quality metrics, risks of lower cash flows and delayed effects on non-performing loans ("NPLs") once regulatory forbearance ends remain.

Banconal's loan portfolio has a low exposure to economic sectors or products with highest negative effects due to COVID-19, such as construction, credit cards and car loans. However, the uncertainty from COVID-19 will remain for the foreseeable future and in light of the economic impact of the pandemic on Banconal's clients in the second half of 2020 and 2021, Banconal currently expects an increase in its loan loss reserves in 2020 and 2021.

The worldwide scale, rapid development of the COVID-19 pandemic restricts Banconal's ability to predict how COVID-19 could impact its business and operations going forward. The extent of the impact of COVID-19 on Banconal's business and results of operations, and the National Banking System as a whole, will depend on future developments, which are highly uncertain, including the duration and severity of the outbreak, the effects of subsequent waves of COVID-19 and restrictions on Banconal's business and personnel that may be imposed by governmental rules and regulations implemented to contain or treat COVID-19. If the spread of COVID-19 is prolonged, it could adversely affect the economies and financial markets of Panama and of many other countries, resulting in a continuing economic downturn that could, among other effects, reduce international trade flows, including shipments through the Panama Canal and air traffic through the Tocumen Airport. The occurrence of these events could have an adverse effect on Panama's economy, on Banconal's customer base and on Banconal.

Failure of our credit risk management system to accurately assess credit risks could materially and adversely affect our business operations and prospects.

Credit risk is inherent in Banconal's business as a corporate, commercial and consumer bank. An important part of Banconal's credit risk management system is to closely monitor risks related to loan products directed to consumers, such as personal loans, mortgage loans and credit cards, and risks related to corporate loans, in each case through approval of credit policies, loan credit approvals and credit quality indicators. As this process involves detailed quantitative and qualitative analysis of the customer and credit risk, it is subject to human error and may result in Banconal's exposure to higher credit risks than indicated by Banconal's risk rating system. Failure to effectively implement, consistently adhere to or continuously refine Banconal's credit risk management system may result in a higher risk exposure for Banconal and could materially and adversely affect its business.

Additionally, Banconal's businesses rely on data collection, management and processing, and on information systems, the failure of which could have a material adverse effect on Banconal. The proper functioning of financial control, accounting or other data collection and processing systems is critical to Banconal's businesses and to its ability to compete effectively. Any failure of these primary systems could materially and adversely affect Banconal's decision-making process, its risk management and internal control systems, as well as its ability to respond on a timely basis to changing market conditions.

Our businesses rely heavily on data collection, management and processing, and on information systems, the failure of which could have a material adverse effect on us, including on the effectiveness of our risk management and internal control systems.

Banconal's main businesses are highly dependent on its ability to timely collect and process a large amount of financial and other information across numerous and diverse markets at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to Banconal's businesses and to its ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect Banconal's decision-making processes, risk management and internal control systems, as well as its ability to respond on a timely basis to changing market conditions. If Banconal cannot maintain an effective data collection, management and processing system, its businesses may be materially and adversely affected.

Banconal is also dependent on information systems to operate its website, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. Banconal may experience operational problems with its information systems as a result of system failures (including failure to update systems), viruses, computer "hackers" or other causes. Banconal's ability to remain competitive depends in part on its ability to upgrade its information technology on a timely and cost-effective basis. Banconal continually makes investments and improvements in its information technology infrastructure in order to remain competitive. In the future, its businesses may not be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of Banconal's information technology infrastructure. Any failure to effectively improve or upgrade information technology infrastructure and management information systems in a timely manner could have a material adverse effect on Banconal's business.

In addition, Banconal's business requires the use of several highly specialized information systems, such as its core banking system. The proper functioning of Banconal's accounting, payroll, treasury, human resources, workflow and online banking systems is critical to its operations and business management. These systems may, from time to time, require modifications or improvements as a result of changes in technology, the growth of Banconal's business and the functioning of each of these systems. Banconal's contingency plans, backup information systems and communication redundant systems, testing and certification procedures and information technology auditing systems, among others, cannot completely protect Banconal against certain events such as natural disasters, fraud, computer viruses, hacking, communication failures, equipment breakdown, software errors and other technical problems.

Banconal may incur significant costs to protect against security threats or to alleviate problems caused by failures of or breaches to its systems. However, no assurance can be given that these measures will be adequate to prevent disruptions in all cases, the occurrence of which could significantly disrupt Banconal's operations, resulting in increased costs, a decline in revenue and significant harm to its business.

We face interest rate risk that is caused by the mismatch in maturities of interest-earning assets and interest-bearing liabilities, as well as exposure to interest rate volatility.

If not managed properly, a mismatch of interest-earning assets and interest-bearing liabilities can reduce Banconal's net interest income as interest rates fluctuate. Banconal faces interest rate risk because interest-bearing liabilities generally re-price at a different pace than interest-earning assets. Banconal's exposure to instruments whose values vary with the level or volatility of interest rates contributes to Banconal's interest rate risk. Failure to adequately manage eventual mismatches may reduce Banconal's net interest income during periods of fluctuating interest rates.

A decline in asset quality, including our loan portfolios, may have an adverse impact on our financial condition and results of operations.

Changes in the financial condition or credit profiles of Banconal's customers and increases in inflation or interest rates could have a negative effect on the quality of Banconal's loan portfolios, causing them to increase loan loss reserves and resulting in reduced profitability. In particular, the level of non-performing loans may increase in the future as a result of factors beyond Banconal's control, such as economic conditions and political events affecting Panama generally or specific sectors of the economy. A substantial number of Banconal's customers are individuals and small-sized and medium-sized enterprises, and these customers are more likely to be adversely affected by downturns in the Panamanian economy than large corporations and high-income individuals. For example, unemployment directly affects the ability of individuals to obtain and repay consumer and residential mortgage loans. Consequently, Banconal may experience higher levels of non-performing loans, which could result in increased loan loss provisions due to defaults by, or deterioration in the credit profiles of, individual borrowers. Non-performing loans and resulting loan losses may increase materially in the future and adversely affect Banconal's financial condition and results of operations. Existing loan loss reserves may not be adequate to cover any increases in non-performing loans or deterioration in the credit quality of loan portfolios due to materially adverse changes. As a result, Banconal may be required to increase loan

Cybersecurity events and operational problems, errors, criminal events or terrorism could negatively affect us and may result in litigation, and a failure to protect personal information could adversely affect us.

Banconal has access to large amounts of confidential financial information and holds substantial financial assets belonging to its customers as well as to Banconal. In addition, Banconal provides its customers with continuous online access to their accounts and the possibility of transferring substantial financial assets by electronic means while purchasing goods or withdrawing funds, in Panama and abroad, with credit and debit cards issued by Banconal. Banconal's information technology systems are essential for Banconal to interact with its customers and to conduct its internal operations. Accordingly, any vulnerability in Banconal's cybersecurity is a material risk for Banconal.

Banconal depends on a variety of internet-based data processing, communication, and information exchange platforms and networks. No assurance can be given that all of Banconal's systems and those of third parties with whom Banconal contracts are entirely free from vulnerability. Additionally, Banconal enters into contracts with several third parties to provide its customers with data processing and communication services. Therefore, if information security is breached, or if one of Banconal's employees or external service providers breaches compliance procedures, information could be lost or misappropriated, which may affect Banconal, damage others or result in potential litigation.

Banconal is also exposed to cyber-attacks and other cybersecurity incidents in the normal course of business. There has recently been an increased level of attention focused on cyber-attacks against large corporations that include, but are not limited to, obtaining unauthorized access to digital systems for purposes of misappropriating cash, other assets or sensitive information, corrupting data, or causing operational disruption. Cybersecurity incidents, such as computer break-ins, "phishing," identity theft and other disruptions, could negatively affect the security of information stored in and transmitted through Banconal's computer systems and network infrastructure.

Failure to protect personal information could adversely affect Banconal.

Banconal manages and holds confidential personal information of customers in the conduct of its banking operations. Although Banconal has procedures and controls to safeguard personal information in its possession, unauthorized disclosures could subject Banconal to legal actions, reputational harm and administrative sanctions as well as damages.

Banconal's investment activities are subject to factors beyond its control, including adverse conditions in the international credit and capital markets, and losses from Banconal's exposures could result in a material adverse effect on Banconal and its ability to meet funding and liquidity needs.

As part of Banconal's treasury operations, Banconal invests in various financial instruments and other assets, including debt, fixed income and currency. Banconal is exposed to numerous factors that are beyond Banconal's control, including overall market trading activity, interest rate levels, the credit risk of Banconal's counterparties and general market volatility.

Liquidity and costs of obtaining funding internationally are related to international credit and capital market conditions. Global credit and capital markets have experienced higher volatility in recent years. While there have been periods of stability in these markets, the environment has become more unpredictable. The recent volatility in global financial markets has added to the uncertainty about the global economic outlook, and a number of countries are experiencing slowing economic activity. These events have damaged, and may continue to damage, market confidence, and access to, and costs of, funding, and may slow the activity of Banconal's clients and have other impacts on the entities with which Banconal does business. The vulnerable nature of several sovereign nations and the associated impact on market conditions have resulted in a tightening of credit markets and wholesale funding conditions. If market conditions continue to deteriorate due to economic, financial, political or other reasons, Banconal's funding costs may be adversely affected, and its liquidity, funding and lending activities may be constrained.

Banconal is exposed to the risk of a decrease in the value of its investments due to volatility in market conditions, real estate prices, equity values and interest rates, among other factors, many of which are beyond Banconal's control. In addition, as a holder of a large portfolio of debt investments and fixed income securities, Banconal is exposed to the risk that the issuer of its fixed income securities may default.

Furthermore, Banconal's investments may be subject to impairment, which could adversely affect Banconal.

We may not be able to successfully implement our business strategy, and we may not be able to meet our expected goals.

Banconal's aggregate gross loan portfolio from December 31, 2017 to December 31, 2019 grew 22.5% in nominal terms to U.S.$4,459 million. Banconal's business strategy includes initiatives to foster an internal and external client service culture, simplify, modernize and redesign its processes to improve productivity, modernize its digital banking and alternative service channels, enhance its technology infrastructure and implement new technologies for service delivery. Implementing its business strategy will require Banconal to, among other things, obtain significant funding beyond traditional deposits. Banconal's access to funding will depend on many factors, including factors beyond its control, such as conditions in the international capital markets and investor perceptions of the risks of investing in Panama and in emerging markets generally. If Banconal is unable to source sufficient funds through domestic savings and time deposits, by obtaining lines of credit from other financial institutions on favorable terms or at all, or by accessing the international capital markets on favorable terms or at all, Banconal may not be able to implement its strategy, which could have a material adverse effect on its ability to sustain its business.

Banconal's success and ability to implement its business strategy and meet expected goals and returns may be impacted by any of the following factors, among others:

- inability to successfully respond to customer demands;
- inability to allocate adequate resources to key focus areas of its business;
- difficulties in achieving economies of scale;
- failure to make correct assumptions, estimates and judgments with respect to its assets;
- difficulty in hiring, training and fostering its client service culture and standards to qualified employees;
- future laws and regulations that apply to its business; and
- the availability of external financing to grow its business.

Any of these factors may impact the success of Banconal's business plans or its financial condition, prospects or results of operations, which could result in Banconal being unable to meet its expected goals, execute its business strategy and meet the demands of the market. Even if Banconal is able to implement some or all of the initiatives of its business strategy successfully, its operating results may not meet its expectations.

Implementation of Banconal's business strategy could also be affected by a number of external factors such as increased competition, legal developments, government regulation, general economic conditions or increased operating costs or expenses. In addition, to the extent Banconal has misjudged the nature and extent of industry trends or its competition, it may have difficulty in achieving its strategic objectives. Any failure to implement Banconal's business strategy successfully may adversely affect its business, results of operations, financial condition or prospects and thus, Banconal's ability to service debt, including the Notes. In addition, Banconal may decide to alter or discontinue certain aspects of its business strategy at any time.

Our allowance for loan losses may not be adequate to cover future actual losses to our loan portfolio.

As of December 31, 2019, our allowance for loan losses was U.S.$62.9 million. The amount of our allowance for loan losses is based on our current assessment of, and expectations concerning, various factors affecting the quality of our loan portfolio. These factors include, among other things, borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Panama's economy, government macroeconomic policies, interest rates and the legal and regulatory environment. Many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for loan losses require recalibration, which can lead to increased provision expenses.

If our assessment of and expectations concerning the above-mentioned factors differ from actual developments, if the quality of our loan portfolio deteriorates or if future actual losses exceed our estimates, our impairment allowance may not be adequate to cover actual losses, and we may need to make additional provisions for impairment allowance, which may materially and adversely affect our results of operations and financial condition. Due to the adverse impacts of COVID-19 pandemic, we expect to increase our reserves in 2020 over our current reserve amount by approximately U.S.$41.5 million. In 2021, we expect to increase our reserves by approximately U.S.$30 million. See "Risks Relating to Our Business—The global COVID-19 health pandemic has, and may continue to, adversely affect our business, financial condition and results of operations."

Our results of operations and financial condition could be negatively impacted by the depreciation of Panamanian sovereign and other debt securities.

Banconal's investment portfolio is composed of Panamanian sovereign, local debt securities and international corporate debt securities, including securities issued by supranational entities, emerging markets government entities, U.S. government, and financial institutions. The value of certain of these investments may decline significantly due to volatile financial markets and may fluctuate over short periods of time. Therefore, Banconal's results of operations are exposed to credit, market and liquidity risks associated with Panamanian sovereign debt and other debt securities. As of March 31, 2020, our total investment portfolio represented 26.97% of our total assets; 61.76 % of these securities were issued by the Panamanian government or otherwise exposed to Panamanian sovereign risk; 11.29% were issued by other Panamanian issuers; and 26.95% were issued by other issuers. Debt securities issued by financial institutions consisted of 3.3% of our total assets as of March 31, 2020.

Banconal is subject to liquidity risk, which may result in increases to funding costs.

Banconal's principal sources of funding are savings accounts, term deposits and current accounts, which together represented 94% of Banconal's total liabilities at December 31, 2019. Because Banconal relies primarily on short-term deposits for funding, a sudden or unexpected shortage of funds in the banking systems and money markets in Panama may prevent Banconal from meeting obligations or obtaining necessary funding without incurring higher costs or selling certain assets at prices below prevailing market values. This in turn could materially and adversely affect Banconal's results of operations and financial condition.

Banconal cannot assure the timely development and acceptance of new products by its customers.

Banconal cannot assure the continual development of new products and the acceptance of such products by its customers. Banconal continuously seeks to develop new products and monitor the new products being offered by its competitors. Should Banconal not be able to develop a new product on time or should its customers not accept a new product that it developed, its business, ability to compete, financial condition and results of operations could be materially adversely affected.

We rely on third parties to provide certain components of our business infrastructure.

Third parties provide key components of Banconal's business infrastructure, such as IT systems, Internet connections and network access, and other voice or data communication services. Given the high volume of transactions process by Banconal on a daily basis, certain errors may be repeated or compounded before they are discovered and successfully rectified. Disruptions in IT systems, Internet, network access or other voice or data communication services provided by these third parties could adversely affect Banconal's ability to deliver products and services to customers and otherwise conduct business.

We are exposed to operational and infrastructure risks.

Banconal is exposed to many types of operational risk, including the risk of loss resulting from inadequate or failed internal processes and systems, human error or external events and from fraud or unauthorized transactions by employees, customers and other third parties. Shortcomings or failures in Banconal's internal processes, systems or people, including any of its financial, accounting or other data processing systems could lead to, among other consequences, financial loss and reputational damage. In addition, despite the contingency plans that Banconal has

in place, it ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports its businesses and the communities in which they are located. This may include a disruption involving electricity infrastructure, communications, transportation or other services used by Banconal or by third parties with which Banconal conducts business.

We face competition from other banking and financial institutions, and, if we are unable to compete successfully, our business may be adversely affected.

The banking market in Panama is highly competitive. Banconal faces strong competition from domestic and foreign banks, including new participants, which has placed pressure on margins. Competition may reduce the average interest rates that Banconal can charge its customers, increase the average rates Banconal must pay on deposits and negatively affect loan growth. Some competitors may have access to greater resources and be more successful in the development of technologically advanced products and services that may compete directly with Banconal's products and services. If competitors are successful in developing products and services that are more effective or less expensive than the products and services that Banconal offers, Banconal may be unable to compete successfully. Even if Banconal products and services prove to be more effective than those developed by other competitors, such other competitors may be more successful in marketing their products and services because of their greater financial resources, higher sales, marketing capacity and other factors. Banconal may not be able to maintain its market share if it not able to match its competitors' loan pricing or keep pace with their development of new products and services. Adverse impact resulting from increased competition could have a material adverse effect on Banconal's results of operations and financial condition.

We are subject to litigation and other legal, administrative and regulatory proceedings and we may be adversely affected by the application and interpretation of regulations.

Banconal is subject to extensive regulation by the Panamanian government through the Superintendency of Banks. Accordingly, the results of Banconal's operations depend on the applicable regulatory framework and its interpretation by the Superintendency of Banks. Banconal is generally required to comply with a wide variety of regulations to operate its business. As of the date of this offering memorandum, Banconal was in compliance in all material respects with existing regulations applicable to it, but Banconal may incur significant additional costs as a result of its need to comply with future regulations. If Banconal fails to comply with these regulations, it could be subject to penalties from the Superintendency of Banks. In addition, existing regulations may be revised or reinterpreted, new regulations may be adopted or become applicable to Banconal or to its business, and future changes in regulations may have a detrimental effect on Banconal's business and financial results. The current regulatory environment, which has resulted in an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material compliance costs and subject Banconal to regulatory enforcement actions, fines and penalties. It is not possible to predict what future changes may be made to the regulatory framework or the effect of any changes on Banconal's business or results of operations.

Banconal is regularly party to litigation and other legal proceedings relating to claims resulting from its operations in the normal course of business. See "Business—Legal Proceedings." Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. No assurance can be given that these or other legal, administrative and regulatory proceedings will not materially and adversely affect Banconal's ability to conduct its business in the manner that it expects or otherwise adversely affect its results of operations and financial position should one or more unfavorable rulings occur.

Banconal is routinely involved in legal proceedings arising in the ordinary course of business, most frequently as a plaintiff seeking recovery for overdue credits. Banconal is also a defendant in a limited number of proceedings. These proceedings arise in connection with the ordinary course of its operations and do not materially impact its ability to conduct operations or meet its forecasted goals. As of the date of this offering memorandum, Banconal did not have any outstanding labor litigation. The following is a list of Banconal's significant ongoing proceedings as of the date of this offering memorandum:

- On May 24, 2018, Mr. Abdul Waked Fares filed suit against Panama (Banconal) in the Third Chamber of the Supreme Court of Panama for an amount of U.S.$1,268,704,177.00, requesting that Panama (Banconal) be sentenced for damages, prejudices, plus interest, caused by supposed infractions in the

exercise of Banconal's functions as trustee of the trust established to manage the sale of Soho Mall, a large commercial real property development in Panama City previously owned by Mr. Waked, among others. The case was admitted by the Supreme Court on August 23, 2018; however, Panama (through the Ministry of the Presidency) has filed a request to annul such admission, which is currently being considered by the Supreme Court.

- On June 25, 2019, V.P. Global Investment filed suit against Balboa Bank & Trust Corp, Banconal, Strategic Investors Group Inc. and Corporación BCT, S.A. in the twelfth court of the civil circuit from the first judicial circuit of the Province of Panama for U.S.$$50 million. V.P. Global Investment requested that the creation of the Balboa Escrow be nullified and that Balboa Bank & Trust Corp.'s previous ownership conditions be returned. The case was admitted on September 2, 2019, and it has not moved forward due to several motions brought by the defendants.

In addition, as of May 30, 2020, Banconal was a party to several legal proceedings brought against it by various plaintiffs. These include civil actions involving an aggregate amount of U.S.$56,420,271.52 and administrative proceedings involving an aggregate amount of U.S.$1,270,489,032.00. In the opinion of Banconal's management and independent legal advisors, most of these proceedings are not likely to be resolved in a manner such that Banconal would be required to pay the total amounts claimed.

While Banconal believes that the above claims have no legal or factual merit and intends to defend itself vigorously in this case, a verdict against Banconal could have an adverse effect on Banconal's results of operations.

Any failure to comply with anti-money laundering, anti-corruption, anti-bribery and anti-terrorist financing laws and regulations could damage our reputation and/or expose us to penalties.

Financial crime is continually evolving and has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. Anti-money laundering ("AML"), anti-terrorist financing, anti-corruption, sanctions and "know your customer ("KYC") laws and regulations are increasingly complex and detailed and have become the subject of enhanced regulatory supervision, requiring improved systems, sophisticated monitoring and skilled compliance personnel.

Banconal strongly believes that it is in compliance in all material respects with applicable AML, anti-terrorist financing, anti-corruption and sanctions laws and all applicable regulations and has adopted policies and procedures, including internal controls and KYC policies and procedures, aimed at preventing money laundering, terrorist financing and similar financial crimes. These require implementation and embedding within its business of effective controls and monitoring, which in turn requires ongoing changes to systems and operational activities and proactive and adaptable responses from Banconal so that it is able to deter threats and criminality effectively. Even known threats can never be fully eliminated, and there may be instances where Banconal could be used by other parties to engage in money laundering and other illegal or improper activities. In addition, Banconal relies heavily on its employees to assist Banconal by identifying and reporting such activities, and its employees have varying degrees of experience in recognizing criminal tactics and understanding the level of sophistication of criminal organizations. If Banconal is unable to apply the necessary scrutiny and oversight, there remains a risk of regulatory breach.

If Banconal is unable to fully comply with applicable AML, anti-terrorist financing and sanctions laws and regulations, or the KYC or other standards, procedures or expectations related thereto, its regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties on Banconal, including requiring a complete review of its business systems, day-to-day supervision by external consultants, any of which could have a material adverse effect on Banconal.

The Superintendency of Banks routinely examines banks to assess compliance with these laws, regulations and procedural standards and may provide comments or findings of deficiencies. Banconal is permanently responding to comments or findings by the Superintendency of Banks, following their annual examination on what Banconal believes are routine situations resulting from the implementation of new regulations that affected financial institutions in general. Banconal believes that its AML, anti-terrorist financing, sanctions, KYC and other such policies and procedures are in compliance in all material respects with the applicable provisions of Panamanian law. Any failure

to comply with applicable laws, regulations, procedural standards or expectations could cause Banconal considerable reputational damage.

Any investigation of potential violations of anti-corruption, sanctions, anti-bribery or AML laws by governmental authorities in the jurisdiction where Banconal operates could materially and adversely affect Banconal's business, financial condition, results of operations and prospects. In addition, if Banconal's officers, employees, shareholders, counterparties or other entities related to Banconal fail to comply with any applicable anti-corruption, sanctions, anti-bribery or AML laws, they may be subject to criminal, administrative or civil penalties and other remedial measures. Moreover, adverse publicity about any such regulatory or legal actions or investigations and allegations by other parties with respect to violations of applicable anti-corruption, sanctions, anti-bribery or AML laws by Banconal's officers, employees, shareholders, counterparties or other entities related to Banconal could damage Banconal's reputation and brand image, negatively impact its ability to, when applicable, obtain contracts, assignments, permits and other government authorizations, even if the regulatory or legal action is unfounded or not material to Banconal's operations.

As a financial institution, we are subject to reputational risk that could materially affect us.

Corporate reputation is a crucial competitive advantage for Banconal, as it allows Banconal to attract and retain customers, appeal to investors and avoid employee attrition. This is especially true because Banconal is the largest state-owned and oldest Panamanian bank, holds funds from the government and all public entities in Panama as deposits, and provides services to a financial system that was designed to operate without a central bank. Moreover, access to funding is driven by the confidence of depositors and the opinion of ratings agencies on the value of Banconal's franchise. Therefore, any disreputable event, including employee misconduct, legal proceedings, regulatory sanctions, failure to deliver minimum standards of service quality, failure to comply with regulatory requirements, unethical behavior by Banconal's staff, key executives or affiliates or involvement in political issues or public scandals (or rumors related thereto) could damage Banconal's reputation and produce significant harm to it. Furthermore, Banconal's reputation is highly aligned with the reputation of the banking industry in which Banconal participates, and, therefore, actions by other providers of financial services or the banking industry as a whole in Panama and the region could also harm Banconal's reputation.

Additionally, the reputational damage to Banconal's business and brand would be severe if it were found to have breached AML, anticorruption or sanctions requirements. Banconal's reputation could also suffer if it is unable to protect its customers' data or bank products and services from being accessed or used for illegal or improper purposes.

Further, the ability to manage potential conflicts of interest has become an increasingly important factor for Banconal's business given its widespread operations in many economic sectors with diverse third parties. Accordingly, the failure to address—or even the perceived failure to address—conflicts of interest could affect the willingness of customers and investors to work with Banconal or could lead to legal actions against Banconal. Although Banconal continuously improves its corporate governance standards by detecting potential failures and adopting applicable principles and procedures, no assurance can be given that Banconal will not face reputational events in the future that could harm it.

Banconal engages in transactions with certain related parties that could result in conflicts of interest.

Certain parties related to Banconal have been involved, directly or indirectly, in credit transactions with Banconal. In accordance with Panamanian law, related parties for purposes of legal lending limits include directors, principal executive officers and Holders that own, directly or indirectly, more than 5% of Banconal's shares, as well as any entity that is part of their "economic group" as defined by the Superintendency of Banks. Under Panamanian law, all loans or credit facilities to related parties (executives, directors, employees or any other person that owns more than 5% of Banconal's shares, either directly or indirectly) must be made on terms of cost and tenor no more favorable than those offered to third parties. The Superintendency of Banks regulates and closely monitors related-party transactions and establishes a limit on aggregate related-party transactions equivalent to 25% of a bank's consolidated regulatory capital.

As of December 31, 2019, Banconal's total credit facilities to related parties were U.S.$313.7 million, which comprised 7.0% of Banconal's gross loan portfolio, of which 92.9% were classified as Standard, 4.0% as a Special Mention and 2.2% as Sub-standard. As of December 31, 2019, loans and other credits to Banconal's key personnel amounted to U.S.$1.8 million.

Banconal believes it is in compliance with all related-party transaction requirements imposed by Panamanian law and the Superintendency of Banks. Although it intends to continue entering into transactions with related parties on terms similar to those that would be offered by or to an unaffiliated third party, such financial transactions create the potential for, or could result in, conflicts of interest.

Changes in accounting standards could impact our results of operations.

The IASB and other regulatory bodies, including the Superintendency of Banks, periodically introduce modifications to financial accounting and reporting standards or issue new financial accounting and reporting standards under which Banconal prepares its financial statements. These changes can materially impact the means by which Banconal reports financial information, affecting Banconal's results of operations. Also, Banconal could be required to apply new or revised standards retroactively. Recent changes to these accounting and reporting standards include the following:

IFRS 9 Financial Instrument

As from January 1, 2018, the Bank has adopted IFRS 9 Financial Instruments. This standard supersedes IAS 39 Financial Instruments: Recognition and Measurement.

Changes in accounting policies resulting from the adoption of IFRS 9 were made using the standard's exemption from restatement of comparative information for prior periods. The differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 were recognized in retained earnings on January 1, 2018.

The significant new accounting policies and the nature and impact of the changes from the policies previously held at December 31, 2017, are detailed below.

Classification and measurement of financial instruments under IFRS 9

IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale investments securities.

The adoption of IFRS 9 has not had a significant effect on the Bank's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is detailed below.

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Bank classifies financial assets under the adopted business model as: measured at amortized cost (AC) and at fair value through changes in other comprehensive income (FVOCI).

Business model assessment

The Bank makes an assessment of the business model for each group of financial instruments, in order to reflect the best way the business is managed and information is provided to management. The information includes:

- The policies and objectives identified for each group of financial instruments and the compliance with those guidelines in practice. These include whether management's strategy focuses on earning contractual interest revenue, or the sale of assets, achieving expected returns according to the business model;

- The measurement and risks management that affect the compliance with the business model and the performance of financial instruments;

- How managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Assessment of whether contractual cash flows are solely payments of principal and interests (SPPI)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding at a particular period of time and for other basic risks of a basic loan agreement and other associated costs (e.g. liquidity risk and administrative costs), as well as the profit margin.

Classification and Measurement

The Bank classifies a financial asset at AC and not at fair value through profit or loss (FVTPL) if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to obtain contractual cash flows; and

- The contractual terms of the financial asset meet the SPPI criteria.

A financial asset is classified as FVOCI only if it meets both of the following conditions and has not been designated as an FVTPL:

- The asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling these financial assets; and

- The contractual terms of the financial asset meet SPPI criteria.

The Bank classifies a financial asset as FVTPL if the contractual cash flows do not meet SPPI criteria.

Upon initial recognition of an equity investment that is not held for trading, the Bank irrevocably elected to designate such investments as measured through FVOCI, and therefore they are measured at fair value and changes in fair value are recognized directly in the statement of comprehensive income.

IFRS 16 "Leases"

The Bank adopted IFRS 16 on its initial adoption date of January 1, 2019, using the modified retrospective approach, whereby the cumulative effect of initial application if applied is recognized in retained earnings at January 1, 2019. The Bank had no impact on retained earnings at January 1, 2019 from the initial adoption of IFRS 16.

Definition of a lease

Previously, the Bank determined at the contract's inception whether an arrangement is or contains a lease under IFRIC 4 "Determining whether an Arrangement contains a Lease". Under IFRS 16, the Bank assesses whether an arrangement is or contains a lease based on the definition of a lease as explained in Financial Statements as of December 31, 2019.

On transition to IFRS 16, the Bank elected to apply the practical expedient to evaluate which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC

4. Contracts that were not identified as leases under those standards were not reassessed to determine whether a lease existed. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or amended on or after January 1, 2019.

As a Lessee

The Bank has previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. As at January 1, 2019, the Bank did not have any finance leases. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for most leases, i.e., these leases are in the statement of financial position.

The Bank decided to apply recognition exemptions for short-term leases of certain bank branches and ATM spaces (which contractually contained a clause enabling termination of the commitment by either party, with prior notice subject to a set amount of time, and without payment of any penalty) as well as for the lease of supplies for internal fairs and events. For leases of other assets, which were classified in accordance with IAS 17, the Bank recognized the right-of-use assets and lease liabilities.

Policy applicable from January 1, 2019

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

- the contract conveys the use of an asset: this may be specified explicitly or implicitly, and must be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has the right of substantial substitution, then an asset is not identified;

- the Bank has the right to obtain substantially all of the economic benefits arising from the use of the asset during the period of use; and

- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, when the decision on how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:

    - the Bank has the right to operate the asset; or

    - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy applies to contracts entered into or modified on or after January 1, 2019.

At inception or reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component based on its relative independent prices. However, for leases of administrative offices and bank branches, ATM space, warehouses/deposits, parking lots/land, multifunctional/printers in which it is the lessee, the Bank has elected not to separate the non-lease components, and to account for the lease components to be recognized as a single lease component.

Part of the information included in Banconal's financial statements considers assumptions, estimates and modelling which, if inaccurate, could have a material impact on it.

The preparation of Banconal's financial statements requires management to make judgments and estimates that affect the amounts of assets, liabilities, income and expenses reported in its financial statements. Estimates and assumptions are based on historical experience, expert judgment and other factors, including expectations of future developments under certain alternative scenarios. Although assumptions and estimates are evaluated and revised on

a continuous basis, Banconal cannot rule out that projected scenarios could dramatically change in the short term, causing a severe impact on fundamentals and estimates.

Banconal is also subject to model risk since the valuation of financial instruments relies on models and inputs, which—in some cases—are not observable. Accordingly, computed values for securities and financial instruments may be inaccurate or subject to change, since the inputs used for specific models may not be available, particularly for illiquid assets or under scenarios of financial turmoil. In these cases, Banconal will make assumptions and judgments in order to establish the fair value of certain instruments, which involves uncertainty and may translate into inaccurate estimates of actual results.

The main accounting items subject to risk of incorrect valuation include impairment of loans and advances, valuation of financial instruments, impairment of available-for-sale securities, deferred tax assets and provisions for liabilities. If Banconal's judgment, assumptions or models used in valuing these items are inaccurate, there could be a material adverse effect on Banconal.

The performance of our agribusiness portfolio is subject to factors that are beyond our control, which may adversely affect us.

Our agribusiness credit portfolio accounts for 14% of our total loan portfolio as of March 31, 2020. The performance of our agribusiness credit portfolio is subject to factors that are beyond our control, such as the price of agricultural commodities, weather conditions, crop failures and the government's policy relating to agricultural subsidies and credit. To the extent any of these external factors have a negative impact the agricultural sector and on our agribusiness clients, this may in turn have a material adverse effect on our business, financial condition or results of operations.

The loss of senior management, or our inability to attract, hire and maintain additional personnel, could have a material adverse effect on us.

The success of Banconal's business and its ability to maintain its competitive position and implement its growth strategy depends upon its ability to recruit, retain and train highly skilled, competent people at all levels of Banconal's organization.

In particular, Banconal has a senior management team with significant experience in the Panamanian banking industry, which has developed a strong reputation and strong relationships both internally within Banconal and externally. Banconal's success depends, to a significant degree, upon the continued contribution of its senior management who are critical to the overall management of the organization, as well as its culture, strategic direction and operating model. Banconal's ability to retain its senior management or to attract suitable replacements is dependent upon competition in the labor market. The unexpected loss of the services of any member of senior management, a limitation in their availability or a failure by Banconal to seek and develop a succession plan for its senior management could have a material adverse effect on Banconal's know-how and internal best practices as well as on Banconal's business, results of operations, financial condition or prospects.

Our existing insurance coverage may be insufficient and future coverage may be difficult or expensive to obtain.

Although Banconal believes that its insurance policies provide adequate coverage for the risks inherent in its business, these insurance policies typically exclude certain risks and are subject to certain thresholds and limits. As such, no assurance can be given that Banconal's properties, equipment, inventories and other assets will not suffer damages due to unforeseen events or that the proceeds available from Banconal's insurance policies will be sufficient to protect Banconal from all possible loss or damage resulting from such events. Banconal renews its insurance policies on an annual basis. The cost of coverage may increase to such an extent that Banconal may choose to reduce its policy limits or agree to certain exclusions from its coverage. Among other factors, adverse political developments, security concerns and natural disasters may materially adversely affect available insurance coverage and as a result increase Banconal's insurance premiums. As a result, Banconal's insurance coverage may prove to be inadequate for events that may cause significant disruption to its operations, which may have a material adverse effect on Banconal.

Banking regulations may restrict Banconal's operations and thereby adversely affect its financial condition and results of operations.

Banconal is subject to regulation by the Superintendency of Banks. The global financial crisis has led to an increase in government regulation of the financial services industry in several countries. There could also be an increase in government regulation in Panama, including the imposition of higher capital requirements, heightened disclosure standards and restrictions on certain type of transaction structures. Novel regulatory proposals may be discussed or proposed and if enacted, new regulations could require Banconal to inject further capital into its business restricting the type or volume of transactions Banconal enters into, or setting limits on or requiring the modification of rates or fees it charges on certain loans or other products, any of which could lower the return on its investments, assets and equity. Banconal may also face increased compliance costs and limitations on its ability to pursue certain business opportunities.

Risks Relating to Panama and the Panamanian Banking Industry

Our business and financial condition depend upon prevailing economic conditions in the Republic of Panama.

Banconal's operations are mainly oriented to corporate, commercial and consumer financing operations in the Republic of Panama. As a result, Banconal's financial condition depends mainly on the prevailing economic conditions in the Republic of Panama. A 2% downturn in economic activity is expected in Panamá for the year 2020, and a 4.2% increase in economic activity is expected for 2021. No assurance can be given that a lengthier or more severe downturn in economic activity in Panama will not occur, or that any expected increase in economic activity will materialize.

We are subject to risks inherent in the National Banking System, which affects our creditworthiness.

The activities that Banconal carries out are subject to risk factors specific to the National Banking System, including the local and international economic environment and national trade policies and regulations that could have a negative impact on banking activity. Banconal is subject to competition risks within the national financial system, between the financing and deposit segments. Competition risks could impact Banconal's profits, in the event that market margins are reduced and there is more aggressive competition within the sector, since Banconal's products and services are also offered by other banks, cooperatives and financial companies.

Panama's economy is dollarized and, accordingly, the Panamanian government has no ability to print paper currency. There is no government-provided prime interest rate. In addition, there is no government entity in the National Banking System that acts as a lender of last resort to which banking institutions with liquidity problems or which require financial assistance can turn.

Accordingly, while Panamanian banks are regulated by the Superintendency of Banks, banks located in Panama may be less creditworthy than banks in countries with a central bank that can provide liquidity. This means that Panamanian banks, including Banconal, could face a more difficult recovery from the type of liquidity problems that have in the past affected banks in the United States and Europe.

Any downgrade in Panama's or Banconal's credit rating could increase its cost of funding.

Panama has been rated BBB+ (negative outlook) by S&P, Baa1 (stable) by Moody's and BBB (negative outlook) by Fitch. Banconal has been rated BBB+ (negative outlook) by S&P and BBB (negative outlook) by Fitch. Banconal's current credit ratings determine the cost and the terms upon which Banconal is able to obtain funding in the ordinary course of business. Rating agencies regularly evaluate Banconal by taking into account diverse factors, including its financial strength, the business environment and the economic backdrop in which it operates. Thus, methodologies used by rating agencies evaluate Panama's sovereign debt ratings when determining Banconal's ratings. Accordingly, if Panama's sovereign debt is downgraded, Banconal's credit rating could also be downgraded. In addition, any downgrade in Banconal's debt credit ratings could result in higher borrowing costs for Banconal while requiring it to post additional collateral or limiting its access to capital markets. All of these factors could adversely

impact Banconal's commercial business by affecting its ability to: (i) sell or market its products, (ii) obtain long-term debt and engage in derivatives transactions, (iii) retain customers who need minimum ratings thresholds to operate with Banconal, (iv) maintain derivative contracts that require Banconal to have a minimum credit rating, and (v) enter into new derivative contracts, which could impact Banconal's market risk profile, among other effects. Any of these factors could have an adverse effect on Banconal.

Due to the volatility in the financial markets in recent years and concerns about the soundness of developed and emerging economies, no assurance can be given that rating agencies will maintain Banconal's and Panama's current sovereign debt ratings and outlooks.

Potential expropriation, nationalization or confiscation of Banconal's assets could affect the market price of the Notes.

The market price of the Notes may be affected by exchange control regulations, foreign taxes, higher transaction and other costs, expropriation, nationalization or confiscation of Banconal's assets.

Our ability to make required payments on the Notes may be adversely affected if Panama were to impose exchange controls.

Since shortly after its independence from Colombia in 1903, Panama has used the U.S. dollar as legal tender and sole paper currency, using the Balboa only as coinage and as a unit of account with an exchange rate set at parity with the U.S. dollar. Panama's inflation was -0.4%, 0.8% and 0.9% in 2019, 2018 and 2017, respectively. Given the dependence on the U.S. dollar and the U.S. economy, no assurance can be given that appreciation or depreciation of the U.S. dollar against other currencies or the existence of sustained higher levels of inflation in the U.S. economy (and the resultant effect on the value of the U.S. dollar) or increases or decreases in interest rates generally in the United States will not adversely affect the Panamanian monetary system or, indirectly, Banconal and its ability to repay the Notes. In addition, there are currently no exchange controls or other restrictions imposed by Panamanian law on payments in U.S. dollars by Banconal, and capital moves freely in and out of the country, without domestic currency risk. However, in the event that foreign exchange or payment restrictions are imposed by the Panamanian government, Banconal's ability to meet its obligations on the Notes could be adversely affected.

Panama's economy remains vulnerable to external shocks, including the recent global economic crisis and those that could be caused by future significant economic difficulties of its major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on Panama's economic growth and its ability to service its public debt.

Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

Accordingly, adverse changes in relationships with Panama's trading partners or their economic growth could negatively impact Panama's growth. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, Panama could be adversely affected by negative economic or financial developments in other emerging market countries. Panama is also vulnerable to external developments due to its reliance on foreign creditors.

In 2015, real GDP grew by 5.7%, primarily due to growth of port activity, mining, financial intermediation, tourism, and Panama Canal services. For 2016, real GDP grew by 5.0%, primarily due to construction, mining, real estate and financial intermediation activities. For 2017, preliminary real GDP grew by 5.6% primarily due to port activity, air transport, financial intermediation, and Panama Canal services. For 2018, estimated real GDP grew by 3.7% primarily due to port activity, air transport, financial intermediation, Panama Canal services, and construction. For 2019, estimated real GDP grew by 3.0% primarily due to mining sector, due in turn to the increase in the extraction of copper activity. In addition, port activities, air transport and Panama Canal services contributed to the economic growth.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Panama. In addition, there can be no assurance that these events will not adversely affect Panama's economy, its ability to raise funding in the external debt markets in the future or its ability to service its public debt.

We are dependent on the political, legal and economic climate of Panama.

The Panamanian economy is small and relatively undiversified, largely focused on the service sector, which represented approximately 70.5% of the country's GDP as of December 31, 2019, according to the General Comptroller's Office of Panama. A significant portion of Panama's economic activity is linked directly or indirectly to the Panama Canal, shipping and port activities, a large free trade zone, an international banking center and tourism services. Due to the small size and limited focus of the Panamanian economy, adverse developments in Panama could have a more pronounced effect than would be the case if the developments occurred within the context of a larger, more diversified economy. Investing in an emerging market country, such as Panama, carries economic risks. These risks include many different factors that may affect Panama's economic results, including the following:

- interest rates in the United States and financial markets outside Panama;
- changes in economic or tax policies;
- the imposition of trade barriers;
- general economic and business conditions in Panama and the global economy;
- the ability of Panama to effect key economic reforms;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the decisions of international financial institutions regarding the terms of their financial assistance to Panama.

Any adverse effect on the Panamanian economy could adversely affect Banconal's business, thereby impairing the ability to meet its payment obligations under the Loan.

Tensions with countries in the region may affect the Panamanian economy and, consequently, our financial condition and results of operations.

The Republic of Panama is located in a geographic region that has a history of political unrest and turmoil, and there is no guarantee that political stability and peace will prevail in this region in the upcoming future. Panama enjoys significant commercial ties with its neighboring countries, including Colombia, and the export and banking industries may be affected by economic and political changes in the region. In particular, political and civil unrest in countries such as Venezuela and Colombia could potentially destabilize the Panamanian economy and the banking sector. As such, no assurance can be given that economic and political unrest in neighboring countries will not adversely affect the Panamanian economy and banking sector and, as a result, Banconal's financial conditions and results of operations.

The perception of Panama by certain international financial regulatory bodies as a jurisdiction with increased susceptibility to shortcomings in financial compliance may result in increased international regulatory requirements or adverse publicity which may adversely affect the Panamanian financial sector and the Panamanian economy and, consequently, our financial condition and results of operations.

Supranational organizations rate jurisdictions for tax transparency, governance, real economic activity, corporate tax rate, prevention of money laundering, financing of terrorism, among others. Depending on prevailing international regulatory concerns, certain countries that are considered to less than adequately cooperate with such supranational organizations may be put on a "grey" or "black" list. From time to time in the recent past, Panama has

been included or threatened with inclusion on these aforementioned lists. For example, from June 2014 until February 2016, Panama was included in the "grey" list of the Financial Action Task Force ("FATF"). In June 2019, Panama was once again included on the FATF "grey" list. Banconal cannot assure you that Panama will be able to exit the FATF "grey" list at all or, if it is able to do so, if its exit will occur in a comparable period of time, if at all.

In addition, in February 2019 the European Commission proposed to include Panama, together with other 22 countries, in a blacklist of nations determined by the European Commission to have lax controls against terrorism financing and/or money laundering. Although that proposal was not initially approved by the country members of the European Union, the European Commission later announced in May 2020 that it had added Panama to its blacklist. Further, during 2017, the EU Economic and Financial Affairs Council, or ECOFIN, released a list of non-cooperative jurisdictions for tax purposes. The stated aim of this list, and accompanying report, was to promote good governance worldwide in order to maximize efforts to prevent tax fraud and tax evasion. In February 2020, Panama was placed by the EU on its list of non-cooperative jurisdictions for tax purposes. Inclusion on these lists may result in significant reputational damage.

The Republic of Panama has implemented several initiatives to strengthen its regulatory framework, such as the enactment of Law No. 23 in 2015 to create a regulatory framework for various supervisory agencies, individuals and legal entities to monitor, control, promote and strengthen international cooperation in the prevention of money laundering, financing of terrorism and proliferation of weapons of mass destruction.

Nevertheless, and depending on international regulatory concerns, continued efforts by Panama to adopt additional regulatory reform may not be readily accepted by international financial regulatory bodies. In the event Panama is included in any such "grey" list or "black" list, even if such inclusion is later rescinded, the resulting reputational and regulatory consequences may adversely affect the Panamanian economy and, consequently, Banconal's financial condition and results of operations. Moreover, measures imposed by supranational organizations against "grey-"or "black-" listed jurisdictions may also include the enactment of substantive laws and regulations with which Banconal and other participants in the Panamanian financial sector may be obligated to comply. These additional laws and regulations, as well as any international standards adopted therewith, could increase regulatory costs or otherwise have a material adverse effect on Banconal's business, financial condition and results of operations.

Banconal's operations require the maintenance of banking and other licenses and any non-compliance with applicable license and operating obligations could have a material adverse effect on Banconal.

All banks, brokerage firms and financing entities (*empresas financieras*) established in Panama require certain licenses and authorizations (by law or otherwise) in order to operate in Panama. To maintain these licenses and authorizations, Banconal is required to comply with applicable laws and regulations, which impose requirements on Banconal with respect to, among others, loan loss provisions, regulatory capital and other minimum capital adequacy rules, as well as minimum reserves, liquidity ratios, lending limits, related party transactions and integral risk management and controls.

Although Banconal believes Banconal is currently in compliance with their respective existing material license, authorizations and reporting obligations, Banconal may not be able to maintain the necessary licenses and authorizations in the future. For example, future changes to existing laws and regulations, or stricter interpretation or enforcement of existing laws and regulations, could impair Banconal's ability to comply with such laws and regulations and thus with the terms of its licenses. If Banconal does not comply with applicable statutory and regulatory requirements, the regulatory authorities could preclude or temporarily suspend Banconal from carrying on some or all of their banking or insurance activities or monetarily penalize them.

The loss of a license or an authorization, a breach of the terms of a license by Banconal or the failure to obtain any further required licenses in the future could have a material adverse effect on Banconal.

Banking regulations, accounting standards and corporate disclosure applicable to Banconal differ from those in the United States and other countries.

While many of the policies underlying Panamanian banking regulations are similar to those underlying regulations applicable to banks in other countries, Panamanian banking regulations may differ in material respects from regulations applicable to banks in the United States and other countries. For example, capital adequacy requirements for banks under Panamanian regulations differ from those under U.S. regulations and may differ from those of other countries.

There may be less publicly available information about Banconal than is regularly published by or about U.S. issuers or issuers in other countries. Corporate governance and shareholder accountability protections applicable to Panamanian companies may be less stringent than those applicable to public companies in the United States. Banconal does not intend to register the Notes under the U.S. securities laws. Accordingly, Banconal will not be subject to the corporate disclosure, governance and accounting standards applicable to companies whose securities are registered under U.S. securities laws.

We are subject to extensive regulation by the Superintendency of Banks and other regulators and may be adversely affected by the application and interpretation of regulations.

Banconal's banking operations are subject to extensive regulations by governmental authorities, regarding its organization, operations, liquidity, capitalization, corporate governance, transactions with related parties and other matters. These regulations impose numerous requirements on Banconal's banking operations, including the maintenance of minimum risk-based capital levels and loan loss reserves, regulation of their business practices (including bank fees charged), diversification of their investments, regulation of loan granting policies, application of required accounting regulations, maintenance of liquidity ratios and capital adequacy requirements, all of which limit Banconal's operational flexibility.

Although recent indicators show that there has been positive growth in the Panamanian banking sector, there is no guarantee that such growth will continue with respect to total loans, assets and deposits, nor that, if such growth continues, it will be of the size and nature of the growth seen in recent periods. In addition, any adverse changes to the banking sector, including changes in reserve requirements over loans, reductions in the margins of interests, increases in the levels of default by banks and the levels of non-accruing loans could have an adverse effect on the industry in general and thus over Banconal as well.

In addition, banks that operate in Panama are subject to periodic inspections by the Superintendency of Banks, as well as compliance with varying norms regarding their activities, including minimum capital and reserve requirements, limitations on loans to a single entity or related parties, and other credit restrictions, as well as accounting and statistical requirements. In the event of non-compliance with applicable regulations, Banconal could be subject to fines, sanctions or the revocation of licenses or permits to operate its business. Failure to comply with any regulatory changes imposed by the Superintendency of Banks, failure to pass any periodic inspections or any sanctions, fines and other penalties resulting from non-compliance with regulations could adversely affect Banconal's business, financial condition and results of operations, thereby impairing the ability to meet its payment obligations under the Notes.

Continually evolving banking regulations may materially and adversely affect Banconal's business, financial condition and results of operations.

The consumer and corporate lending market is affected by macroeconomic changes that may negatively impact household income, and a downturn in the economy could result in increased allowance for loan losses.

Part of Banconal's strategy is to continue to grow its consumer and corporate loan portfolios. As a result, Banconal's loan portfolio will become increasingly vulnerable to macroeconomic changes that could negatively impact the household income of consumers and result in increased loan loss reserves. Furthermore, there is little basis on which to evaluate how the consumer sector will perform in the event of a significant economic crisis, such as a recession. Consequently, historical loan loss reserve experience may not be indicative of the performance of Banconal's loan portfolio in the future.

Panama's U.S. dollar monetary ***arrangements impose constraints on monetary policy, and Panama has no central bank or an official lender of last resort, which affects Banconal's creditworthiness.***

Panama's economy is dollarized, and thus heavily influenced by U.S. dollar-based arrangements dating to 1904. Accordingly, the Panamanian government has no ability to print paper currency. The national currency, the Balboa, is used primarily as a unit of account linked to the U.S. dollar at a ratio of one dollar per one Balboa. A limited amount of coinage is minted. Panama does not issue paper currency; instead it uses the U.S. dollar as its legal tender. Although the absence of a printed national currency and of domestic budgetary financing through the banking system (other than from 1987 to 1989) reduces the risk of runaway inflation, it imposes constraints on fiscal and monetary policy, particularly in response to external shocks, that are not present in countries that can finance their deficits by printing local currency through central banks that can act as lender of last resort. Given the dependence on the U.S. dollar and the U.S. economy, appreciation or depreciation of the U.S. dollar against other currencies or the existence of sustained higher levels of inflation in the U.S. economy (and the resultant effect on the value of the U.S. dollar) or increases or decreases in interest rates generally in the United States may affect the Panamanian monetary system or, indirectly, Banconal.

Adverse conditions in the international credit and capital markets may significantly affect our ability to meet funding and liquidity needs and may increase our cost of funding.

Global credit and capital markets have experienced higher volatility in recent years. While there have been periods of stability in these markets, the environment has become more unpredictable. The recent volatility in global financial markets has added to the uncertainty about the global economic outlook, and a number of countries are experiencing slowing economic activity. These events have damaged, and may continue to damage, market confidence, and access to and costs of funding, and may slow the activity of Banconal's customers and have other impacts on the entities with which Banconal does business. The vulnerable nature of several sovereign nations and the associated impact on market conditions have resulted in a tightening of credit markets and wholesale funding conditions.

The United Kingdom (the "U.K.") left the European Union ("Brexit") on January 31, 2020, subject to a transitional period ending December 31, 2020. During the transitional period, although the U.K. is no longer a member state of the EU, it remains subject to EU law and regulations as if it were still a member state. The U.K. and the EU are to negotiate the terms of their future trading relationship during the transitional period. The outcome of such negotiations may give rise to significant uncertainties and instability in the financial markets as the U.K. negotiates the terms of its future relationship with the EU. Brexit could adversely affect European or worldwide political, regulatory, economic or market conditions and could contribute to instability in global political institutions, regulatory agencies and financial markets. Such volatility and negative economic impact could, in turn, adversely affect the value and trading of the Notes.

If market conditions continue to deteriorate due to economic, financial, political or other reasons, Banconal's funding costs may be adversely affected, and its liquidity, funding and lending activities may be constrained. If Banconal is unable to source appropriate funding from the capital markets, it may also be forced to reduce its lending or begin to sell liquid securities. Such actions may adversely impact Banconal's business, results of operations, liquidity, capital resources and financial condition.

Changes in Panamanian government policies regarding agricultural loan and mortgage portfolio subsidies could adversely affect our business, financial condition and results of operations.

A large part of our agricultural loan and mortgage portfolio is subsidized by the Panamanian government. The Panamanian government promotes agricultural and residential housing loan programs by offering subsidies to borrowers in the domestic market. Under the current agricultural loan program, we receive from the Panamanian government a monthly subsidy in cash. Under the current residential housing loan program, we offer mortgage loans with a preferential rate and receive a subsidy from the Panamanian government in the form of a tax credit that currently varies from 1.5% to 5.75%, depending on the value of the property. As of March 31, 2020, 99.5% of the agricultural loan portfolio and 59.3% of our mortgage loan portfolio had the benefit of these subsidies from the Panamanian government. There can be no assurance that the Panamanian government will maintain the current strategy and policies with respect to subsidies to the agricultural and residential mortgage businesses and that it will not adopt

policies that would negatively affect our profitability and potential growth in the agricultural and residential mortgage market.

Minimum capital requirement limits imposed on Panamanian financial institutions may adversely affect us.

In June 2004, the Basel Committee approved a framework for risk-based capital adequacy ("Basel II"). Basel II sets out the details for adopting more risk-sensitive minimum capital requirements for financial institutions. The Superintendency of Banks adopted and implemented various guidelines under Basel II through the Banking Law (as defined below).

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced changes to the existing capital requirements and endorsed previous agreements on the design of the capital and liquidity reform package ("Basel III"), which was presented at the Seoul G20 Leaders Summit in November 2010. In line with Basel III, the Superintendency of Banks adopted Accord No. 001-2015, as amended by Accord No. 13-2015, which became effective on July 1, 2016, establishing capital adequacy requirements applicable to banks and banking groups to implement the Basel III guidelines. In addition, the Superintendency of Banks has indicated its intention to pass new rules and regulations related to market risk and operational risk and hybrid instruments in the future, some of which have already been passed, including Accord No. 11-2017, establishing guidelines for derivative operations, and Accord No. 3-2018, as amended, establishing capital requirements for the financial instruments registered in the negotiation portfolio.

On March 22, 2016, the Superintendency of Banks issued Accord No. 003-2016 ("Accord 3-2016"), which became effective on July 1, 2016 and modified the methodology for calculating risk-weighted assets for capital adequacy measurement purposes. Accord 3-2016 stipulates that the total risk-weighted assets of a bank is the sum of (i) the risk-weight of all assets of such bank; (ii) the risk-weight of all irrevocable contingent obligations; and (iii) the risk-weighting of counterparty risk which takes into consideration admissible values of collateral, admissible guarantees, permitted credit default swaps and total return swaps, among others. Modifications in the methodology of the calculation of the risk-weighted assets may result in an increase in the risk-weighted assets and as a result a decrease in the capital adequacy ratio.

Furthermore, the Panama Superintendency of Banks has adopted Accord No. 2-2018, as amended, whereby provisions regarding management of liquidity risk and the short-term liquidity coverage ratio are established, mandatorily requiring banks to maintain liquidity coverage ratios as established by Basel III, as adjusted by the Superintendency of Banks.

Pursuant to Accord No. 2-2018, as amended, banks must mandatorily comply with a short-term liquidity coverage ratio, which is defined by means of the quotient of two quantities. The first quantity corresponds to the high-quality liquid assets (as defined in Accord No. 2-2018, as amended) fund, and the second quantity corresponds to the net cash outflows over the next 30 days. Therefore, the ratio is defined as high-quality liquid funds over net cash outflow over the next 30 days.

The regulation establishes two bands of ratios that can be applicable to banks in Panama. The Panama Superintendency of Banks will determine, according to internal criteria, the band applicable to each bank. The band 1 banks will be required to gradually reach a ratio of 50% by December 2022 and band 2 banks will be required to gradually reach a ratio of 100% by December 2022.

General License Banks and Official Banks (such as Banconal) are required to maintain a minimum paid-in capital of U.S.$10 million and to maintain total regulatory capital over risk-weighted assets ratio of 8.0%. Panamanian Law further requires us to divide our primary capital into ordinary primary capital and additional primary capital and to progressively increase the ratios of such capital over risk-weighted assets on a yearly basis. As of March 31, 2020, our paid-in capital was U.S.$650 million, our total regulatory capital over risk-weighted assets ratio was 17.13% and our total Tier 1 over risk-weighted assets ratio was 16.04%.

The Panamanian banking industry is currently undergoing a process of strengthening its regulation and supervision through the implementation of Basel II and Basel III, as adjusted by the Superintendency of Banks. While Banconal's management believes that Banconal has enough flexibility to comply with any heightened requirements that may be introduced by the Superintendency of Banks as a result of its implementation of Basel III, any changes in capital adequacy regulations may limit Banconal's credit operations and its ability to dispose of assets and/or take other measures, which may adversely affect Banconal's business, financial condition and results of operations.

Risks Relating to the Notes

If Banconal defaults on its payment obligations under the Notes, the statutory responsibility of Panama under the Organic Law may be difficult to enforce.

Under Article 3 of Banconal's Organic Law, all of its obligations are subsidiarily guaranteed by Panama. While the Republic of Panama is not a guarantor of the Notes, in the event Banconal were to become insolvent and all remedies against Banconal under Panamanian law are exhausted, the Organic Law would allow for creditors of Banconal, including holders of the Notes, to demand the enforcement of the guarantee in order for the Republic of Panama to support Banconal's obligations. Subject to the following paragraph, rights of certain holders of Notes against Panama under Article 3 of its Organic Law may be exercised if Banconal defaults on its obligations and subsequently becomes insolvent, and all legal remedies against Banconal under Panamanian law are exhausted. Panama's statutory subsidiary guarantee under its Organic Law arises and would be enforceable solely in Panama and under Panamanian law.

There are no precedents as to if or how creditors of Banconal, including holders of the Notes, could or would directly enforce the subsidiary guarantee. Panamanian law does not provide for a specific procedure, including time periods, to enforce the statutory subsidiary guarantee of Panama. As a result, it may be difficult for holders of the Notes to enforce that statutory subsidiary guarantee in Panama, and in any event any action would be significantly delayed to account for exhaustion of remedies against Banconal, as well as the insolvency of Banconal. Under Panamanian law, the Republic of Panama also enjoys the same immunities available to Banconal as described in "Enforcement of Civil Liabilities" and "—Panama is a sovereign state, and we are an autonomous entity of the Republic of Panama, with a legal personality, our own patrimony and administrative independence; consequently, it may be difficult to enforce judgments against us."

The statutory guarantee provided under the Organic Law may be repealed, amended or otherwise restricted, and as a result its obligations may no longer be subsidiarily guaranteed by Panama, or may become only partially guaranteed thereby.

As a result of a future amendment to Banconal's Organic Law, a repeal of the relevant articles of its Organic Law or a repeal of such Organic Law or its subrogation by another law, the statutory guarantee currently contained in the Organic Law whereby the Republic of Panama is subsidiarily responsible for all of Banconal's obligations, may no longer be in effect or available to Banconal in the future. As a result, Banconal may lose the ability to present a payment claim against Panama in case Banconal were to default on its obligations and all legal remedies under Panama law against Banconal would be exhausted.

There is no existing market for the trading of the Notes, and we cannot assure you that you will be able to sell your Notes in the future.

The Notes will constitute a new issue of securities. There is no existing market for trading of the Notes, and we cannot assure you that in the future a market for the Notes will develop, that you will be able to sell any Notes you have purchased or that any such Notes may be sold for any particular price. Although application has been made to list the Notes on the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange, we cannot provide you any assurance regarding the future development of a market for the Notes, the ability of holders of the Notes to sell their Notes or the price at which such holders may be able to sell their Notes. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price, depending on many factors, including prevailing interest rates, our results of operations and financial condition, the interest of securities dealers in making a market for them, political and economic developments in and affecting Panama and the markets for similar securities, and economic, financial, geopolitical,

regulatory or judicial events that affect us or the financial markets generally. The initial purchasers have advised us that they currently intend to make a market in the Notes, but they are not under any obligation to do so, and any market-making with respect to the Notes may be discontinued at any time without notice at the sole discretion of the initial purchasers.

There are restrictions on your ability to transfer the Notes.

The Notes have not been registered under the Securities Act, any U.S. state securities laws or the laws of any other jurisdiction. As a result, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. These exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("QIBs"). For a discussion of certain restrictions on resale and transfer, see "Plan of Distribution" and "Transfer Restrictions." Consequently, a holder of Notes and an owner of beneficial interests in those Notes must be able to bear the economic risk of their investments in the Notes for the term of the Notes.

Our ability to service our debt, including the Notes, depends on our ability to generate significant cash flows in the future.

Our ability to meet our payment and other obligations under our debt instruments, including the Notes, depends on our ability to generate significant cash flows in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors, as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flows from operations, or that future obligations with financial institutions will be available to us under our existing or any future credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes and our other debt and to fund other liquidity needs. If we are unable to generate sufficient cash flows to service our debt obligations, we may need to refinance or restructure our debt, including the Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt.

We may invest or spend our net proceeds from this offering in ways that may not yield an acceptable return to you.

We intend to use the net proceeds of this offering for general corporate purposes, which may include, without limitation, repaying certain indebtedness, funding the growth of our loan portfolio, and offering new products and services. You will have no opportunity to evaluate our decisions and may not agree with the manner in which we spend the proceeds of the offering. We may invest or spend the net proceeds of this offering in ways that may not yield an acceptable return to you.

We cannot assure you that the credit ratings for the Notes will not be lowered, suspended or withdrawn by the rating agencies.

The credit ratings of the Notes may change after issuance. Such ratings are limited in scope and do not address all material risks relating to an investment in the Notes but, rather, reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the Notes.

Different disclosure requirements in Panama and the United States may provide you with different or less information about us than you expect.

Securities disclosure requirements in Panama differ from those applicable in the United States. Accordingly, the information about us that is available to you may not be the same as the information available to security holders of a U.S. company. There may be less publicly available information about us than is regularly published about companies in the United States and certain other jurisdictions. We are not subject to the periodic reporting requirements of the Exchange Act, and therefore are not required to comply with the information disclosure requirements that it imposes.

Our obligations under the Notes are subordinated to our payment of certain statutory liabilities and could be subordinated to any of our senior unsecured indebtedness that is outstanding on the date the Notes are issued.

The Notes will be Banconal's general unsecured unsubordinated obligations. Under Panamanian law, such unsecured obligations are subordinated to certain statutory preferences. In the event of Banconal's insolvency, intervention, reorganization or compulsory liquidation, such statutory preferences, such as (i) all of Banconal's secured indebtedness with respect to the value of its assets securing that indebtedness; (ii) debts of the liquidation estate (*deudas de la masa*) in the event of forced liquidation; (iii) new deposits created during a reorganization period ordered by the Superintendency of Banks; (iv) deposits with a balance of U.S.$10,000.00 or less; (v) claims from employees for unpaid wages and other employee's severance and compensation payments; (vi) claims from the Panamanian Social Security Administration (*Caja de Seguro Social*) for unpaid employer-employee social security contributions; and (vii) other claims that are granted preference as a matter of law, will have preference over any other unsecured claims, including the claims by any investor in respect of the Notes. In addition, the Notes are not obligations of or guaranteed by any other entity.

In addition, under the Panamanian civil code, previously issued senior unsecured indebtedness could be treated as senior to any subsequently issued senior unsecured indebtedness. Accordingly, under the Panamanian civil code, the Notes may be subordinated to any senior unsecured indebtedness that is outstanding on the date the Notes are issued. As of December 31, 2019, Banconal had U.S.$205.7 million in aggregate principal amount of senior unsecured indebtedness outstanding. Any senior unsecured indebtedness that remains outstanding on the date the Notes are issued, could be senior to the Notes under the Panamanian civil code in the event of its intervention, reorganization, compulsory liquidation, winding-up or similar proceeding.

The Notes will be effectively subordinated to any secured indebtedness that Banconal currently has or that it may incur in the future.

The Notes will not be secured by any of Banconal's assets. As a result, the Notes will be effectively subordinated to any secured indebtedness that Banconal have currently outstanding or may incur in the future (or any indebtedness that is initially unsecured to which Banconal subsequently grants security) to the extent of the value of the assets securing such indebtedness. As of December 31, 2019, Banconal's outstanding financial obligations amounted to U.S.$260.2 million. The indenture governing the Notes does not prohibit Banconal from incurring additional secured (or unsecured) indebtedness in the future. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of Banconal's existing or future secured indebtedness may assert rights against the assets pledged to secure that indebtedness and may consequently receive payment from these assets before they may be used to pay other creditors, including the holders of the Notes.

The ability of investors to enforce civil liabilities under U.S. securities laws may be limited.

Most of our directors or executive officers are not domiciled in the United States. All or a substantial portion of our assets and those of our directors and executive officers are located outside of the United States. As a result, it may not be possible for investors in our securities to effect service of process within the United States upon such persons or to enforce judgments of U.S. courts against them or us, including in any action based on civil liabilities under the U.S. federal securities laws. There is uncertainty as to the enforceability against such persons in Panama, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

Additionally, in the event of nonpayment of any amount payable by us, including amounts payable under the Notes, if we were required to pay a certain sum, a specific process would need to be followed as determined by

Panamanian law in order to provide the corresponding payment after it has been included in our budget. Such processes could result in substantial delay in payment.

Panama is a sovereign state, and we are an autonomous entity of the Republic of Panama, with a legal personality, our own assets and administrative independence; consequently, it may be difficult to enforce judgments against us.

Panama is a sovereign state, and we are an autonomous entity of the Republic of Panama, with a legal personality, our own assets and administrative independence. Consequently, it may be difficult to enforce judgments of courts in the United States or elsewhere against us. No treaty currently exists between the United States and Panama providing for the reciprocal enforcement of foreign judgments.

Under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in the United States a judgment against us. In addition, under the laws of Panama, attachment or other form of execution before or after judgment on our property and revenues may be difficult.

Pursuant to the Organic Law, in all judicial or administrative proceedings to which we are a party, we will be entitled to all the privileges that the procedural laws grant to the State.

In addition, Panamanian courts will grant us the privileges that our procedural law grants to the State through Articles 1047, 1048, 1650 (14) and 1939 of the Judicial Code of Panama. These benefits would be applicable in the event actions are taken through Panamanian courts. These articles state the following:

- Article 1047 of the Judicial Code of Panama provides that if the judgment in which an autonomous entity of the Republic of Panama, such as Banconal, is ordered to pay a sum of money, the judge would send an authenticated copy of the decision to the Executive Branch of the Government through the Ministry of Economy and Finance, or to the legal representative of Banconal, to enforce the judgment to the extent within its authority. If compliance with the judgment is outside its authority, the governmental entity to whom the judgment was communicated shall, within thirty days from receiving said communication, notify the Cabinet Council (*Consejo de Gabinete*), the relevant municipal council (*Consejo Municipal*) or the relevant entity, so that the relevant council or corporation, as the case may be, orders the taking of any necessary action to comply with the judgment. If after one year from the date in which the communication is sent, the judgment has not been enforced, the corresponding court shall request, through the President of the Supreme Court of Panama, to the President of the Republic of Panama, the Mayor of the respective district, or the President of the entity in question, to take the necessary action to comply with the judgment.

- Article 1048 of the Judicial Code of Panama states that if after three years from the validation of the foreign judgment by the Supreme Court of Panama, we have not satisfied the court judgement, you may request the Supreme Court of Panama to instruct us to make available for payment of the court judgment any moneys that we may have in our accounts, if any.

- Article 1650 (14) of the Judicial Code of Panama sets forth that the assets that belong to the State, municipalities, autonomous or semi-autonomous state entities cannot be subject to attachment. In the event that notwithstanding the foregoing, in case of an attachment, embargo or any other injunction is declared by a court in Panama against assets owned by us, pursuant to the Banking Law the Court shall provide the relevant order to the Superintendency of Banks before its execution. The Superintendency of Banks shall have 30 days to make the proper arrangements in accordance with the provisions of the Banking Law. If the Superintendency of Banks makes no arrangement or does not take any measures whatsoever within this period, the judge will continue with the execution of the respective resolution as provided for in the Judicial Code of Panama, without prejudice to the powers that the Banking Law grants to the Superintendency of Banks. Such issues may adversely affect your ability to enforce your rights under the Notes in Panama, as the case may be, or limit any amounts that you may receive.

- Article 1939 of the Judicial Code of Panama sets forth, among other things that no cautionary measure can be taken against Panama and municipalities, with the exception of those relative to enforcement.

See "Enforceability of Civil Liabilities."

We cannot ensure you that a failure to pay under the Notes would trigger a cross default with Panama's outstanding sovereign bonds.

Certain of the Republic of Panama's outstanding New York law-governed sovereign bonds contain a cross default provision which would allow for acceleration of those bonds by their holders in the event there was an acceleration of an aggregate principal amount of other public indebtedness of the Republic of Panama that exceeds U.S.$25,000,000 due to non-payment of amounts due under that other indebtedness. To the extent the Republic of Panama 's subsidiary guarantee of the Notes pursuant to Article 3 of the Organic Law constitutes a contingent liability of the Republic of Panama under the sovereign bonds, so long as the outstanding aggregate principal amount of Notes is at least U.S.$25,000,000, an acceleration of the Notes due to non-payment of amounts due should be sufficient for holders of the relevant sovereign bonds to accelerate those bonds pursuant to the cross default provision. The holders of the Notes would need to accelerate the Notes for a failure to pay amounts due under the Notes in order to give rise to a cross default under Panama's sovereign bonds.

While the Republic of Panama should consider their subsidiary guarantee of Banconal's obligations pursuant to the Notes to be a contingent liability under Panamanian law, we have no control over how the Republic of Panama accounts for its statutory obligation, or how a New York court might then interpret the accounting treatment under the defined notion of "Public Indebtedness."

In addition, the National Assembly of Panama could change or amend the Organic Law in a manner that limits or changes the obligations of the Republic of Panama or its accounting of those obligations. A change in the Organic Law could change the nature of the relationship between Banconal and the Republic of Panama, and potentially the analysis under the sovereign bonds of whether or not the Notes would constitute Public Indebtedness of the Republic of Panama, which in turn could impact on whether or not an acceleration of the Notes for non-payment of amounts owed would constitute a cross default under certain of the Republic of Panama's sovereign bonds. While an amendment to the Organic Law may constitute an Event of Default, which could lead to an acceleration of the Notes as set forth in "Description of the Notes—Events of Default", it may preclude the ability of holders of certain sovereign bonds from enforcing a cross default in the event of an acceleration of the Notes due to non-payment of amounts owed.

Enforcing your rights as a holder of Notes in Panama may prove difficult.

Your rights under the Notes will be subject to the insolvency, intervention, reorganization or compulsory liquidation and administrative laws of Panama, and we cannot assure you that you will be able to effectively enforce your rights in such insolvency, intervention, reorganization or compulsory liquidation or similar proceedings. In addition, insolvency, intervention, reorganization or compulsory liquidation, administrative and other laws of Panama may be materially different from, or in conflict with, each other, including in the areas of rights of creditors, priority of government entities and related party creditors, and the ability to obtain post-intervention, reorganization or compulsory liquidation loans or to pay interest. The application of these laws, or any conflict among them, could call into question what and how Panamanian laws should apply. The laws of Panama may not be as favorable to your interests as the laws of jurisdictions with which you are familiar. We are an Official Bank established in Panama and, therefore, the courts will grant us the privileges that our procedural laws grant to the Republic of Panama through articles 1047, 1048, 1650 (14) and 1939 of the Judicial Code of Panama and the protections that the Banking Law grants to any bank against attachments, embargoes, or any other injunction in Panama against assets owned by banks. See "Enforceability of Civil Liabilities." Such issues may adversely affect your ability to enforce your rights under the Notes in Panama, as the case may be, or limit any amounts that you may receive.

Certain economic risks are inherent in any investment in an emerging market country such as Panama.

Investing in an emerging market country such as Panama carries economic risks. These risks include many different factors that may affect Panama's economic results, including the following:

- interest rates in the United States and financial markets outside Panama;
- political or governmental developments in Panama;
- changes in economic or tax policies;
- the imposition of trade barriers;
- general economic and business conditions in Panama and the global economy;
- the ability of the Panama Canal to remain a competitive route for inter-oceanic transportation;
- hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the occurrence of natural disasters, regional or global pandemics, or similar events.

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the liquidity of, and any trading market that may develop for the Notes.

The perception of higher risk in other countries, especially in emerging economies, may adversely affect the Panamanian economy, our business and the market price of Panamanian securities issued by Panamanian issuers, including the Notes.

The market price of the Notes may be adversely affected by developments in the international financial markets and world economic conditions. Panamanian securities markets are influenced, to varying degrees, by economic and market conditions in other countries, especially those in Latin America and other emerging markets. Emerging markets like Panama are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in Panama and adversely affect the price of the Notes.

Although economic conditions are different in each country, investor reaction to the developments in one country may affect the securities of issuers in other countries, including Panama. Financial turmoil in any important emerging market country may adversely affect prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. An increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Panama and adversely affect the Panamanian economy in general, and the interest of investors in the Notes, particularly in Panama. Panama's economy remains vulnerable to external shocks, including those that could be caused by future significant economic difficulties of its major regional trading partners or a global slowdown in economic growth. We cannot assure you that the value of the Notes will not be negatively affected by events in other emerging markets or the global economy in general.

Payments to, on and with respect to the Notes may be subject to U.S. withholding tax when paid to certain investors.

As described in "Taxation- U.S. Federal Income Tax Considerations," in certain cases payments on the Notes may be subject to a withholding tax pursuant to the Foreign Account Tax Compliance Act ("FATCA"). Neither the Bank, any paying agent nor any other person will be required to pay any Additional Amounts with respect to any FATCA withholding or deduction.

Each holder of Notes should consult its own tax advisor to obtain a more detailed explanation of FATCA and to learn how it might affect such holder in its particular circumstances.

USE OF PROCEEDS

The estimated net proceeds from the sale of the Notes will be approximately U.S.$997.5 million, after deducting underwriting commissions and other transaction costs. We intend to use the net proceeds from the offering to fund the growth of our loan portfolio and for other general corporate purposes, which may include, without limitation, repaying certain indebtedness and offering new products and services.

CAPITALIZATION

Pursuant to Article 4 of Decree/Law No. 4 of January 18, 2006, as of March 31, 2020, Banconal's paid-in capital by the Republic of Panama amounts to U.S.$650 million. Banconal's total capital funds may be increased from time to time upon decree of its Board of Directors, subject to the prior receipt of a favorable opinion from the Executive Branch of the Panamanian government, based upon the Bank's earnings.

Pursuant to the Banking Law, Banconal and other banks holding a general license are required to maintain a minimum paid-in capital of U.S.$10.0 million. Beginning on July 1, 2016, pursuant to Accord 1-2015, as amended, General License Banks were required to maintain a total regulatory capital over risk-weighted assets ratio of 8.0%; a progressive increase of the ratio of ordinary primary capital over risk-weighted assets of 3.75% as of July 2016, 4.00% as of January 2017, 4.25% as of January 2018 and 4.50% as of January 2019; and a ratio of primary capital over risk-weighted assets of 5.25% as of July 2016, 5.50% as of January 2017, 5.75% as of January 2018 and 6.00% as of January 2019. As of March 31, 2020, and each of December, 31, 2019, 2018 and 2017, Banconal's total regulatory capital over risk weighted assets ratios have been 17.13%, 16.05%, 16.63% and 16.87%, respectively. See "Management's Discussion and Analysis of Financial Position and Results of Operations—Liquidity and Capital Resources—Regulatory Capital" and "Regulatory Matters—General—Banking Supervision and Regulation."

The following table sets forth our indebtedness and capitalization as of March 31, 2020:

- on a historical basis; and
- as such historical information is adjusted to give effect to the offering of the Notes and the application of the net proceeds therefrom as described under the heading "Use of Proceeds."

The historical financial information as of March 31, 2020 has been derived from the Unaudited Financial Information.

This table should be read in conjunction with "Summary Financial Information," and "Management's Discussion and Analysis of Financial Position and Results of Operations," as well as the Financial Statements and notes thereto contained elsewhere in this offering memorandum. From March 31, 2020 to the date of this offering memorandum and except as otherwise described in this offering memorandum, there has been no material change in our capitalization.

	As of March 31, 2020	As adjusted[1]
	(U.S.$ thousands)	
Liabilities		
Demand deposits	3,414,260	3,414,260
Savings deposits	703,508	703,508
Time deposits	4,457,875	4,457,875
Restricted - inactive accounts	17,776	17,776
Restricted - escrow funds	56,609	56,609
Foreign borrowings received at amortized cost	50,035	50,035
Securities sold under repurchase agreements at amortized cost	101,215	101,215
Bonds payable at amortized cost	206,216	1,203,757
Lease liabilities	3,649	3,649
Total other liabilities	**184,936**	184,936
Total liabilities	**9,196,079**	**10,193,620**
Capital Funds:		
Paid-in capital by Government of Panama	650,000	650,000
Valuation of investment securities	5,867	5,867
Actuarial valuation	355	355
Reserves [2]	60,664	60,664
Retained earnings	222,084	222,084
Total Capital Funds	**938,970**	**938,970**
Total capitalization	**10,135,049**	**11,132,590**

(1) “As adjusted” figures reflect an increase in bonds payable at amortized cost for US$997.5 million derived from the net proceeds of this offering. As the MIGA Credit Facility has not been drawn down, it is not reflected in the “as adjusted” column. See "Summary—Recent Developments—MIGA Credit Facility.

(2) The reserves include the regulatory reserve for foreclosed assets and dynamic regulatory provision.

SELECTED FINANCIAL INFORMATION AND OTHER INFORMATION

The following table presents selected financial data for us for the periods and as of the dates presented and should be read together with "Management's Discussion and Analysis of Financial Position and Results of Operations" and our Audited Financial Statements and Unaudited Financial Information for such periods included elsewhere in this offering memorandum. The selected financial data set forth below as of and for the years ended December 31, 2019, 2018 and 2017 are derived from our Audited Financial Statements and have been prepared in accordance with IFRS. The selected financial data set forth below as of and for the three-month periods ended March 31, 2020 and 2019 are derived from our Unaudited Financial Information and have been prepared in accordance with IAS 34. Our historical results are not necessarily indicative of results that may be expected for any future period and our historical results for an interim period are not necessarily indicative of results for a full year.

Statement of Profit or Loss Data

	For the three months ended March 31,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
			(U.S.$)		
Interest and fee income	96,351,730	93,852,005	391,040,357	360,679,770	334,080,498
Interest expense	22,404,325	21,855,323	99,272,355	79,432,983	66,125,914
Net interest and commission income	**73,947,405**	**71,996,682**	**291,768,002**	**281,246,787**	**267,954,584**
Impairment Allowance [1]	5,497,069	1,412,939	9,746,808	5,330,231	9,399,736
Net interest and commission income, after provisions	**68,450,336**	**70,583,743**	**282,021,194**	**275,916,556**	**258,554,848**
Fees for banking services	4,937,945	3,922,992	17,078,544	17,054,680	17,530,856
Other income[2]	5,125,120	3,490,540	14,592,402	30,976,266	21,125,121
Total other expenses	261,067	306,443	(398,593)	896,861	597,585
Total other income, net	9,801,998	7,107,089	32,069,539	47,134,085	38,058,392
Salaries and other personnel expenses	21,684,375	20,832,003	88,200,043	82,425,298	85,740,951
Rentals	239,669	259,466	1,136,818	2,040,759	1,868,669
Repairs and maintenance	2,248,528	2,541,450	12,076,431	11,057,621	10,733,872
Depreciation and amortization	3,164,696	3,463,290	13,392,843	16,607,721	13,165,642
Electricity	896,834	757,665	3,249,561	3,118,070	2,911,992
Advertising	667,970	1,108,952	3,373,432	3,180,069	3,376,027
Communications	1,509,568	1,404,638	6,048,932	5,221,563	4,819,354
Insurance	41,027	154,821	614,403	529,287	634,294
Stationery and office supplies	324,193	271,671	3,059,144	1,665,019	1,898,720
Fees and professional services	894,196	840,765	4,393,446	3,604,997	3,222,114
Transportation of personnel	273,111	295,794	1,153,429	1,316,070	997,407
Transportation of valuables	90,943	479,735	1,972,503	1,800,557	1,738,762
ATMs	380,892	240,466	1,039,475	1,541,716	996,784
Others	1,081,431	545,913	5,827,025	5,036,706	4,078,344
Total general and administrative expenses	**33,497,433**	**33,196,629**	**145,537,485**	**139,145,453**	**136,182,932**
Net income	**44,754,901**	**44,494,203**	**168,553,248**	**183,905,188**	**160,430,308**

(1) Includes (reversal of) provision for losses in deposits with banks, (reversal of) provision for investment securities losses, provision for loan losses and provision for valuation of foreclosed assets.

(2) Includes dividends, net gain on investments in securities and others.

Statement of Financial Position Data

	As of March 31,		As of December 31,	
	2020	**2019**	**2018**	**2017**
		(U.S.$)		
Total cash, cash equivalents and bank deposits at amortized cost[1]	2,686,462,956	3,269,554,337	2,019,266,542	2,801,927,673

	As of March 31,		As of December 31,	
	2020	2019	2018	2017
		(U.S.$)		
Securities purchased under resale agreements at amortized cost	48,768,889	68,563,265	100,993,413	72,482,875
Investments in securities, net	2,733,364,436	2,941,635,063	2,637,188,708	3,096,870,616
Loans at amortized cost	4,510,567,863	4,399,006,196	4,200,143,165	3,604,634,776
Property and equipment, net	82,982,467	84,016,213	80,071,356	74,086,575
Right of use assets	3,549,024	3,855,808	0	0
Total other assets[2]	69,353,617	56,753,268	102,746,075	90,478,290
Total assets	**10,135,049,252**	**10,823,384,150**	**9,140,409,259**	**9,740,480,805**
Total deposits and interest payable at amortized cost	8,650,028,030	9,446,913,442	8,067,708,051	8,608,100,414
Foreign borrowings received at amortized cost	50,035,369	50,003,818	35,198,829	0
Securities sold under repurchase agreement at amortized cost	101,214,621	0	0	0
Bonds payable at amortized cost	206,216,051	206,216,051	0	0
Lease liabilities	3,649,263	3,939,119	0	0
Total other liabilities [3]	184,935,537	214,857,818	227,679,214	265,027,407
Total liabilities	9,196,078,871	9,921,930,248	8,330,586,094	8,873,127,821
Total capital funds[4]	**938,970,381**	**901,453,902**	**809,823,165**	**867,352,984**
Total liabilities and capital funds	**10,135,049,252**	**10,823,384,150**	**9,140,409,259**	**9,740,480,805**

(1) Includes cash and cash equivalents, foreign and domestic demand deposits, foreign and domestic time deposits and reserve for bank deposit losses.

(2) Includes borrowers' foreclosed assets, net, intangible assets, including licenses and software, tax credits on preferential interest and miscellaneous.

(3) Includes guarantee certificates for legal proceedings at amortized cost, accrued interests payable, miscellaneous creditors, cashier´s and certified checks, management checks and certificates, miscellaneous and others.

(4) Includes paid-in capital by the Republic of Panama, regulatory reserve for foreclosed assets, valuation on investments securities, actuarial valuation, dynamic regulatory provision and retained earnings.

Selected Financial Ratios

The following table presents our selected financial ratios which shows our profitability levels, and capital adequacy. These indicators are most used by management for decision-making purposes.

	As of March 31,		As of December 31,	
	2020[4]	2019	2018	2017
Non-IFRS Measure: Profitability[1]				
ROAA[2]	1.7%	1.7%	2.0%	1.6%
ROAE[3]	19.6%	18.9%	22.1%	18.5%
Capital adequacy				
Equity-to-assets ratio	9.3%	8.3%	8.9%	8.9%
Capital adequacy ratio	17.13%	16.05%	16.63%	16.87%

(1) Data as of March 31, 2020, presented on an annualized basis.

(2) Calculated as net income for the period divided by average total assets.

(3) Calculated as net income for the period divided by average total equity.

(4) Banconal's ROAA and ROAE for the three months ended March 31, 2020 have been annualized by multiplying the indicator's result by 365 days and dividing by 91 days.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following discussion contains an analysis of our results of operations and financial position as of March 31, 2020, and for the three months ended March 31, 2020 and 2019, and as of and for each of the years ended December 31, 2019, 2018 and 2017. The following discussion should be read in conjunction with our Audited Financial Statements included elsewhere in this offering memorandum. The following discussion contains forward-looking statements that involve risks and uncertainties. See "Forward Looking Statements" and "Risk Factors" for a discussion of *important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this offering memorandum. The Audited Financial Statements in this offering memorandum have been prepared in accordance with IFRS as adopted by the International Accounting Standards Board and our Unaudited Financial Information has been prepared in conformity with IAS 34.*

Our Financial Statements are expressed in Balboas (B/.), the official monetary unit of Panama. The Balboa is freely exchangeable for the U.S. dollar on a one-to-one basis. Panama does not issue paper currency; instead, it uses the U.S. dollar as its legal currency.

Overview

Banconal is an independent, state-owned bank in Panama, with U.S.$10,135 million of total assets as of March 31, 2020. Banconal serves a systemically important role, serving as the financial arm of the Panamanian government and all public entities. As of March 31, 2020, Banconal is the second largest Panamanian banking entity in terms of total assets and the third in terms of customer loans. Banconal operates in the largest Panamanian credit segments, such as mortgages, commercial, consumer and construction loans, which represent 87% of domestic loans in Panama.

Banconal provides a wide variety of financial services, including corporate and commercial and retail banking, as well as brokerage and leasing services. Banconal operates as a general license bank offering universal banking services to the public sector, companies and individuals with the widest geographical coverage across Panama, helping to promote the country's economic development. Banconal's lending exposures are diversified among economic segments with a portfolio that was 16.6% commercial loans, 30.3% mortgages and 25.8% consumer loans as of March 31, 2020. As of March 31, 2020, Banconal was the largest provider of agricultural loans in Panama with a 33.8% market share, the largest provider of loans to the financial sector in Panama with a 40.0% market share and the fifth largest provider of mortgages in Panama with a 7.6% market share.

Banconal serves as the financial arm of the Panamanian government. In addition to its statutory purposes set forth in the Organic Law, Banconal provides financial support for the development of Panama's economy through its engagement in banking activities in its capacity as the official bank of the Panamanian government. Additionally, Banconal serves as facilitator and procurement agent for the financing programs aimed at the country's development and provides a majority of the check-clearing and compensation-clearing services in Panama. It directs Panama's inter-bank exchange and the clearing and settlement system for the Panamanian financial system. Banconal also acts as trust and fiscal agent for the Panamanian government and since 1979, following the Canal Treaties, is in charge of the distribution and recollection of U.S. dollar bills in Panama. The Bank is also the largest holder of deposits from public entities and the country's social security fund. As the largest state-owned bank of Panama, Banconal plays an important role in times of crisis, like the current one related to COVID-19, by increasing its lending exposure to the Panamanian financial system. Credit facilities granted by Banconal on a bilateral basis to its financial institutions clients post-COVID-19 have totaled more than U.S.$407.6 million.

For the three-month period ended March 31, 2020 and 2019, Banconal's net income was U.S.$44.8 million and U.S.$44.5 million, respectively. For the years ended December 31, 2019, 2018 and 2017, Banconal's net income was U.S.$168.5 million, U.S.$183.9 million and U.S.$160.4 million, respectively. Banconal's ROAE for the three-month period ended March 31, 2020 was 19.6%, and our ROAA for the three-month period ended March 31, 2020 was 1.7%.

Interest Income

Our income is derived from income from loans, bank deposits, securities and loan fees. Our loan portfolio comprises consumer, agribusiness, corporate, project and financial institution and trade finance, and our strategy is to continue to grow these sectors as set forth in "Summary—Strategies— Commercial Strategy 2020-2024."

As of March 31, 2020, the contribution to total interest income was 60.3% for the consumer lending business, 15.2% for the agribusiness, 11.3% for the corporate finance business, 5.1% for the project finance and financial institutions lending business and 3.8% for the trade finance business.

Interest Expenses

Our expenses are substantially comprised of financial expenses, provisions for possible impairment allowance, commission expenses, selling, general and administrative expenses and other expenses. Financial expenses are primarily comprised of interest and fees on customer deposits, amounts due to banks and correspondents, and interest on bonds and obligations outstanding.

Sources of Funds

Our primary sources of funds are deposits and other obligations. Our deposits include demand deposits, time deposits, savings deposits and bank deposits and represented 96.0% of our sources of funding as of March 31, 2020. Obligations include securities sold under repurchase agreement, working capital loans with financial institutions, securities issued and lease liabilities. These obligations represented 4.0% of our sources of funding as of March 31, 2020.

As of March 31, 2020, demand deposits totaled U.S.$3,414.3 million, or 37.9% of our sources of funding; time deposits, restricted inactive accounts and restricted escrow funds totaled U.S.$4,532.3 million, or 50.3% of our sources of funding and savings deposits amounted U.S.$703.5 million, 7.8% of our sources of funding. Aggregate bank deposits for the same period amounted U.S.$1,200.9 million. Bank deposits are included in the demand deposits and time deposits categories set out above.

In addition to deposits, we have other sources of funding that represent a total of 4% as of March 31, 2020. As of March 31, 2020, we had incurred U.S.$101.2 million in securities sold under repurchase agreements, or 1.1% of our sources of funding; U.S.$50.0 million in foreign borrowings received at amortized cost, or 0.6% of our sources of funds; and U.S.$206.2 million in bonds payable at amortized cost, or 2.3% of our sources of funding and U.S.$3.6 million in lease liabilities, or 0.04% of our sources of funding.

Principal Trends Affecting Our Business

According to the International Monetary Fund (IMF) and the Organization for Economic Development and Cooperation (OECD), in 2020 the global economy is expected to decrease 4.9% to 6.02% due to the impact of COVID-19 on the economy.

Panamanian Economic Conditions

All of our operations are conducted in Panama. As a result, our results of operations and financial condition are dependent on the Panamanian economy, inflation, interest rates, regulation, taxation, social instability, political unrest and other developments affecting Panama. The Panamanian economy has been one of the best performing in Latin America as a result of its diversified economy, driven by its well-developed services sector. The services sector, which accounts for more than three-quarters of the country's GDP, includes the Panama Canal operations and a thriving banking sector, and is complemented by strong transportation and communications sectors that support Panama's position as a transportation and logistics hub.

In the first quarter 2020, Panama's preliminary GDP growth was 0.4%, compared to 3.1% in 2019. Inflation, as measured by CPI with base year 2013, was -0.4% in 2019, compared to 0.8% in 2018. The unemployment rate increased from 6.0% in 2018 to 7.1% in 2019.

The transportation, storage and communications sector grew by 4.4% as of March 2020. Growth was primarily due to increased operations in the Panama Canal as well as increased activity in ports and in air and ground transportation. Mining activities increased by 103.8%. Growth in mining activities was primarily due to exports of metallic minerals to other countries in the order of 56,000 tons.

Free-on-board (FOB) export sales of goods for first quarter of 2020 were B/.175.1 million, an increase of 11.7% over the same period in 2019. The increase in FOB export sales was attributable primarily to an increase in sales of flour and fish oil (199.9%), coffee (55.4%), beef (161.9%), banana (2.1%), clothing (38.2%), shrimp (45.1%) and other goods (6.5%).

Trade revenues from the Colón free-trade zone for first quarter 2020 decreased by 19.0% over the same period in 2018. The negative growth reported by the wholesale industry was attributable to a 22.6% decrease in cost, insurance and freight (CIF) over the same period in 2018.

The construction sector decreased 6.9% in the first quarter of 2020. This decrease in the construction sector was primarily due to a slowdown construction of residential and non-residential projects, also the cancelation of some public projects having a great impact over the economy and the non-completion of private infrastructure projects.

The financial intermediation sector decreased 1.4% in the first quarter of 2020. Decrease in the financial intermediation sector was attributable mainly to a drop in banking activity such as private loans in construction and commerce sectors.

The manufacturing sector decreased by 3.9% in 2020 compared to same period in 2019. The decrease in the manufacturing sector was primarily due to a slow-down in the production of cement, carbonated drinks, rum and fish products.

The agricultural sector grew by 6.0% in the first quarter of 2020 compared to 2019, Growth in the agricultural sector was primarily due to an increase in the production of bananas (83.5%) and pineapple (2.2%). The fisheries sector decreased by 4.9% in the first quarter of 2020 compared to same period 2019. The decrease in the fisheries sector was primarily due to a decrease in the fish exports.

The commerce sector and the hotels and restaurants sector decreased by 2.9% and 5.2%, respectively, in the first quarter of 2020 compared to 2019. Growth in the commerce, hotels and restaurants sector was primarily due to a decrease in sales of automobiles, electronic devices and a decrease in the tourism sector.

Panama's strategic location for international trading and its resulting role as a regional hub is underpinned by the use of the U.S. dollar as its functional currency and a politically stable democracy fostering economic stability and strong foreign direct investment. After several initiatives by the Panamanian government, in February 2016, Panama was removed from the FATF grey list, onto which Panama had been placed in June 2014. Among such initiatives was the enactment of Law No. 23 in 2015 to create a regulatory framework for various supervisory agencies, individuals and legal entities to monitor, control, promote and strengthen international cooperation in the prevention of money laundering, financing of terrorism and proliferation of weapons of mass destruction. More recently, the government strengthened its regulatory framework by adopting Basel III regulations, as adjusted by the Superintendency of Banks, making Panama one of the countries with the strictest financial regulations, particularly in Latin America.

Panama continues to be one of six countries in Latin America, along with Chile, Colombia, Mexico, Peru and Uruguay, to have sovereign debt investment-grade ratings from Standard & Poor's, Fitch and Moody's.

Growth of the Panamanian Banking Sector

According to the Superintendency of Banks, the net loan portfolio of the National Banking System has increased from U.S.$65.1 billion as of March 31, 2018 to U.S.$68.0 billion as of March 31, 2019, to U.S.$68.3 billion as of March 31, 2020. Likewise, the deposits in the National Banking System have grown from U.S.$72.3 billion as of March 31, 2018 to U.S.$73.3 billion as of March 31, 2019, to U.S.$75.6 billion as of March 31, 2020.

In the last decade, there have been several important mergers and acquisitions in the National Banking System. One of the most relevant is the case of HSBC Bank (Panamá) S.A., acquired by Bancolombia S.A. in 2013, as well as the acquisition by Grupo Aval S.A. (one of Colombia's largest financial groups) of BAC-Credomatic in 2010, one of the largest financial conglomerates in Central America, and in 2013 of BBVA Panama. Grupo Aval also acquired Multibank in October 2019, which continues to operate under the same brand. In addition, Global Bank acquired Banvivienda in 2018, and Banco Aliado acquired Banco Panama (by way of merger) in August 2019.

As of March 31, 2020, our main competitors were Banco General, S.A., Banistmo S.A., BAC International Bank Inc. and Global Bank Corporation.

Interest Rate Fluctuation

The benchmark interest rates in the local market are typically stable and tend to remain without adjustment for long periods of time regardless of the trends of international markets, however they may reflect slight adjustments on the consumer sector given variations in domestic demand.

The decision of the United States Federal Reserve to lower the benchmark interest rates by 0.5% on March 3, 2020 and another 1.00% on March 16, 2020, has had no impact on the interest rates in the Panamanian market. Panamanian banks do not foresee any changes on the benchmark interest rates of loans and deposits for 2020.

Inflation

Historically, inflation in Panama has been relatively low compared to other countries in the region, and banking performance is not impacted via interest rates, since both lending and borrowing rates are not adjusted in the same magnitude by a change in inflation. The inflation rate in Panama was 0.9%, 0.8% and (0.4)% in 2017, 2018 and 2019, respectively.

Shortly after its independence from Colombia in 1903, Panama has used the U.S. dollar as legal currency as well as the Balboa, which also works as a reference unit tied to the U.S. dollar.

Due to the dependence of Panama on the U.S. dollar and its economy, the appreciation or depreciation of the U.S. dollar against other currencies or the existence of sustained inflation, or an increase or decreases of benchmark interest rates in the United States may impact the Panamanian economy.

Recent Developments

MIGA Credit Facility

On July 23, 2020, Banconal entered into the two MIGA Credit Facilities for an aggregate amount of U.S.$510 million with Société Générale and Goldman Sachs, respectively. The lenders are beneficiaries of a partial credit MIGA guarantee of 95% provided by the Multilateral Investment Guarantee Agency, an agency of the World Bank. As an obligation of Banconal, the MIGA Credit Facility benefits from a subsidiary guarantee of the Republic of Panama pursuant to the Organic Law. Neither of the credit facilities has been drawn down as of yet. Each credit facility has a tenor of seven years. Société Générale provided a U.S.$150 million credit facility and Goldman Sachs provided a U.S.$360 million credit facility. The MIGA Credit Facility is expected to be disbursed in a single installment within the first two weeks of August 2020, and the proceeds are expected to be used to fund Banconal's COVID-19 response program.

COVID-19 Pandemic

The COVID-19 outbreak has had, and may continue to have, a disruptive effect on Banconal, both directly and indirectly through its impact on our customers, counterparties, employees and other stakeholders, as a result of, among other things, protective measures taken by the Panamanian government in order to mitigate the impact of the virus. As of the date of this offering memorandum, the impact of the COVID-19 pandemic is uncertain, and it is difficult to predict the spread or duration of the pandemic. Given the uncertainty around the extent and timing of the future spread of COVID-19 and, in turn, the potential imposition of additional protective measures or the relaxation of existing measures, it is not possible to predict the full extent of the effects that the pandemic will have on our business, operations or financial condition, as well as on those of our clients, counterparties and other stakeholders. See "Risk Factors—Risk Relating to Our Business— The global COVID-19 health pandemic has, and may continue to, adversely affect our business, financial condition and results of operations."

Measures Adopted by the Panamanian Government

In order to attempt to mitigate the economic effects of the COVID-19 pandemic, on June 30, 2020, the President sanctioned Law 156 of 2020, which mandates, among other things, a moratorium on the debts owed by certain clients to local banks, including Banconal, cooperatives and financing companies (*financieras*). The Moratorium Law provides that:

- The moratorium applies retroactively from March 1, 2020 until December 31, 2020.
- The moratorium applies to loans, including, among others, mortgage, commercial, personal and car loans, credit cards and others.
- Clients that may benefit from the moratorium are only those "persons affected by the economic crisis caused by the COVID-19 pandemic, that is, persons whose labor contract has been suspended or terminated, independent workers and merchants whose activity has been affected by the health measures established by the Executive Branch." Clients must duly document that they have been affected, either by way of a sworn statement or by providing evidence of the termination, suspension or decrease in working hours, in their labor contract.

During the term of the moratorium, banks are not be able to collect, increase the interest rates, fees or any other interest for lack of payment, late payment or for any other reason, on the loans to the beneficiaries of the Moratorium Law. Once the moratorium term expires, the banks and the beneficiaries may negotiate a refinancing or prorate of its debt, without charging any fee for late payment or any other administrative expense.

As of June 30, 2020, modified loans due as a result of the Moratorium Law was amounted to U.S.$532.3 million. This amount represents 11.5% of the total loan portfolio of the Bank and 2% of all modified loans in the National Banking System.

Effect on and Measures Adopted by Banconal

The COVID-19 outbreak has had an impact on the global and Panamanian economies and financial markets, resulting in, among other things, price volatility and changes in access to liquidity and the cost of funds. Given Banconal's funding structure, these effects have not had a significant impact on our business.

We nevertheless expect asset quality deterioration related to the economic disruption caused by COVID-19. For example, we expect delays in recognition of impaired loans, as temporary measures from Panamanian regulators have enabled us to extend grace periods on loans affected by the COVID-19 pandemic without reclassifying them. Banconal's loan portfolio has a low exposure to economic sectors or products that will suffer the highest negative effects due to COVID-19, such as construction, credit cards and car loans. However, the uncertainty generated by COVID-19 will remain for the foreseeable future and in light of the economic impact of this pandemic on our clients in the second half of 2020 and 2021, we are expecting an increase in our allowance for loan losses. As of December 31, 2019, our allowance for loan losses was U.S.$62.9 million. We anticipate significantly increasing our reserves

incrementally through 2021 due to COVID-19 and the anticipated growth of the portfolio. We expect to increase our reserves in 2020 over our current reserve amount by approximately U.S.$41.5 million. In 2021, we expect to increase our reserves by approximately U.S.$30 million.

The pandemic has also resulted in the implementation of our business continuity program, which modifies our work patterns and risk management initiatives to cope with the changing times. We have implemented health and safety measures and internal protocols to safeguard the health of our employees and customers, including:

- Rebalancing workloads across operational sites, given that some locations will be affected more than others.
- Temporary closing of smaller branches to strengthen flagship branches.
- Adjustment of branch hours and staffing mix.
- Enhanced facility cleaning, social distancing, use of facemasks and remote work, where appropriate, to reduce exposure to COVID-19.

Banconal also launched a campaign to promote its alternate service channels (e.g., mobile bank, online bank, info-voice and our Electronic Wallet) to allow our customers to do their transactions from the comfort of their homes. In order to support customers, Banconal waived credit card minimum payments without late fees for 90 days, and applied 0% financing for purchases in supermarkets, hospitals and pharmacies from April 10 until July 9, 2020.

In addition, in accordance with an agreement between the Panamanian government and the Panamanian Banking Association, we have granted to qualifying COVID-19 affected customers grace periods as indicated in the "Measures Adopted by the Panamanian Government" subsection above.

Further, as part of our role as the main state-owned bank in Panama, we are setting up a liquidity program to support the rest of the Panamanian financial sector. Credit facilities granted by Banconal on a bilateral basis to its financial institutions clients post-COVID-19 has been more than U.S.$407.6 million. Besides those credit facilities, we are in negotiations with several multilateral organizations, working hand-in-hand with Panama's Ministry of Finance and the Superintendency of Banks to establish a comprehensive and timely package of short-term loans to financial institutions and to small and medium-sized enterprises.

Availability of Second Quarter 2020 Financial Results

As of the date of this offering memorandum, we do not have available financial information or unaudited financial statements for the three-month period ended June 30, 2020. Based on available financial information, we currently expect our net income for the three-month period ended June 30, 2020 to show a decrease as compared to the corresponding period in 2019, primarily due to the increase of impairment allowance due to the COVID-19 pandemic. This preliminary financial information for the three-month period ended June 30, 2020 may be subject to changes.

According to management's estimates, which are based on available information as of the date of this offering memorandum, we expect our financial statements for the three-month period ended June 30, 2020 to be substantially consistent with the trends and performance reflected in the financial information included in this offering memorandum, including but not limited to those seen during the month of March 2020, other than as disclosed throughout this offering memorandum and with the financial information reported for the corresponding period in 2019. Nevertheless, the reviews and processes necessary to finalize our financial statements for the three-month period ended June 30, 2020 have not yet been completed, nor subject to a limited review by our auditors, and the financial information presented above is not indicative of the results that may be expected for the three-month period ended June 30, 2020, the current fiscal year or any other period. This preliminary financial information is derived from calculations or figures that have been prepared internally by our management and should not be viewed as substitute for full financial statements prepared in accordance with IFRS. As a result, we cannot assure you that our financial statements for the three-month period ended June 30, 2020, which we will release following the completion

of the offering of the Notes, will be consistent with the trends and performance reflected in the financial information included in this offering memorandum, or that the market perception to the results set forth in our financial statements for the three-month period ended June 30, 2020 will not adversely affect the trading price of our Notes.

Results of Operations for the Three Months Ended March 31, 2020, Compared to the Three Months Ended March 31, 2019

The following table sets forth the principal components of our net income for the period ended March 31, 2020 and 2019.

	For the three months ended March 31,			
	2020	**2019**	**Change**	
	(U.S.$, except percentages)			
Interest and fee income	96,351,730	93,852,005	2,499,725	3%
Interest expense	22,404,325	21,855,323	549,002	3%
Net interest and commission income	**73,947,405**	**71,996,682**	**1,950,723**	**3%**
Impairment Allowances, net [(1)]	5,497,069	1,412,939	4,084,130	289%
Net interest and commission income, after provisions	**68,450,336**	**70,583,743**	**(2,133,407)**	**(3%)**
Fees for banking services	4,937,945	3,922,992	1,014,953	26%
Other income[(2)]	5,125,120	3,490,540	1,634,580	47
Total other expenses	261,067	306,443	(45,376)	(15%)
Total other income, net	**9,801,998**	**7,107,089**	**2,694,909**	**38%**
Total general and administrative expenses	33,497,433	33,196,629	300,804	1%
Net income	**44,754,901**	**44,494,203**	**260,698**	**1%**

(1) Includes (reversal of) provision for losses in deposits with banks, (reversal of) provision for investment securities losses, provision for loan losses and provision for valuation of foreclosed assets.

(2) Includes dividends, net gain on investments in securities and others.

Net income for the period increased by U.S.$0.3 million, or 1%, from the three months ended March 31, 2019 to the three months ended March 31, 2020. This increase was mainly due to our strategy to increase in volume our credit portfolio. This increase in interest and fee income was partially offset by an increase in the impairment allowance in the livestock farm segment. The impairment allowance in the livestock segment grew 45.3% from the three months ended March 31, 2019, to the three months ended March 31, 2020, and is the result of the increased rate of past-due loans of over 30 days. We expect delinquency rates in this segment to decrease in the following months as delinquent debtors in this segment recover from the crisis caused by COVID-19 and continue to repay their loans.

Net interest and commission income

The following table sets forth the principal components of our net interest income and commission income for the three months ended March 31, 2020 and 2019.

	For the three months ended March 31,			
	2020	**2019**	**Change**	
	(U.S.$, except percentages)			
Interest income and commission income				
Loans	58,699,273	57,200,034	1,499,239	3%
Deposits	10,316,851	10,455,984	(139,133)	(1%)
Securities	25,130,293	23,909,697	1,220,596	5%
Loan commission and fee incomes fees	2,205,313	2,286,290	(80,977)	(4%)
Total interest, commission and fee income	**96,351,730**	**93,852,005**	**2,499,725**	**3%**
Interest expense				
Expenses on deposits	20,606,423	21,686,118	(1,079,695)	(5%)
Borrowings	1,748,428	129,412	1,619,016	1,251%

	For the three months ended March 31,			
	2020	2019	Change	
	(U.S.$, except percentages)			
Lease liabilities	49,474	39,793	9,681	24%
Total interest expenses	**22,404,325**	**21,855,323**	**549,002**	**3%**
Net interest and commission income	**73,947,405**	**71,996,682**	**1,950,723**	**3%**

For the three months ended March 31, 2020, our net interest income and fee income increased 3% to U.S.$73.9 million from U.S.$72.0 million for the same period in 2019. This increase was mainly driven by our strategy to increase the balance of our credit portfolio. This increase was also driven by higher yields on securities experienced during the three months ended March 31, 2020, partially offset by an increase in total interest expenses as a result of an increase in borrowings.

Our interest income from loans increased 3%, from U.S.$57.2 million in the first quarter of 2019 to U.S.$58.7 million in the first quarter of 2020. This reflected an increase in the average balance of this portfolio, partially offset by a decrease in average rates.

Our interest income from time deposits decreased 1%, from U.S.$10.5 million in the first quarter of 2019 to U.S.$10.3 million in the first quarter of 2020. This reflected a decrease in average rates on these deposits, partially offset by an increase in the average balance.

Our interest income from securities increased 5%, from U.S.$23.9 million in the first quarter of 2019 to U.S.$25.1 million in the first quarter of 2020, which reflected a decrease in average interest rates on that portfolio, partially offset by an increase in the average balance.

Our expenses on deposits decreased 5%, from U.S.$21.7 million in the first quarter of 2019 to U.S.$20.6 million in the first quarter of 2020, which primarily reflected a decrease in the average balance of our time deposits.

Our expenses from borrowings increased 1,251%, from U.S.$0.1 million in the first quarter of 2019 to U.S.$1.7 million in the first quarter of 2020, which reflected an increase in the average balance on that portfolio, particularly bonds payable at amortized cost as a result of our local bond offering in 2019, partially offset by a decrease in the average rates.

Interest income from the consumer lending business for the three-month period ended March 31, 2020, was U.S.$35.4 million, an increase of 11.5% or U.S.$3.7 million over interest income from the consumer lending business of U.S.$31.8 million for the three-month period ended March 31, 2019.

Interest income from the agribusiness business for the three-month period ended March 31, 2020 was U.S.$9.0 million and U.S.$9.0 million for the three-month period ended March 31, 2019.

Fees for Banking Services

The following table sets forth the principal components of our fees for banking services for the three months ended March 31, 2020 and 2019.

	For the three months ended March 31,			
	2020	2019	Change	
	(U.S.$, except percentages)			
Letters of Credit	24,551	13,423	11,128	83%
Transfers	129,850	147,160	(17,310)	(12%)
Card Services	2,335,481	2,210,546	124,935	6%
Fund management, custody and brokerage	447,162	483,065	(35,903)	(7%)
Current accounts	569,617	205,013	364,604	178%
Savings accounts	945	1,589	(644)	(41%)
Government services	99,853	153,322	(53,469)	(35%)

	For the three months ended March 31,			
	2020	2019	Change	
		(U.S.$, except percentages)		
Guarantee certificates and cashier's checks	139,408	157,189	(17,781)	(11%)
National stamps	1,799	1,935	(136)	(7%)
Clearinghouse services	939,531	327,920	611,611	187%
Others	249,748	221,830	27,918	13%
Total Fees for banking services	**4,937,945**	**3,922,992**	**1,014,953**	**26%**

For the three months ended March 31, 2020, our fees for banking services increased 26% to U.S.$4.9 million from U.S.$3.9 million for the same period 2019. This increase was primarily due to fees on clearinghouse services as a result of the early redemption of investment securities.

Other Income

The following table sets forth the principal components of our other income for the three months ended March 31, 2020 and 2019.

	For the three months ended March 31,			
	2020	2019	Change	
		(U.S.$, except percentages)		
Dividends	93,956	36,954	57,002	154%
Net gain on investments in securities	1,510,291	0	1,510,291	(100%)
Others	3,520,873	3,453,586	67,287	2%
Total other income	**5,125,120**	**3,490,540**	**1,634,580**	**47%**

Other income increased 47% to U.S.$5.1 million in the three months ended March 31, 2020, from U.S.$3.5 million in the same period in 2019. This increase was primarily due to an increase of U.S.$1.5 million in net gain on sale of investment securities.

General and Administrative Expenses

The following table sets forth the components of our other expenses, general and administrative expenses for the three months ended March 31, 2020 and 2019.

	For the three months ended March 31,			
	2020	2019	Change	
		(U.S.$, except percentages)		
Salaries and other personnel expenses	21,684,375	20,832,003	852,372	4%
Rentals	239,669	259,466	(19,797)	(8%)
Repairs and maintenance	2,248,528	2,541,450	(292,922)	(12%)
Depreciation and amortization	3,164,696	3,463,290	(298,594)	(9%)
Electricity	896,834	757,665	139,169	18%
Advertising	667,970	1,108,952	(440,982)	(40%)
Communications	1,509,568	1,404,638	104,930	7%
Insurance	41,027	154,821	(113,794)	(74%)
Stationery and office supplies	324,193	271,671	52,522	19%
Fees and professional services	894,196	840,765	53,431	6%
Transportation of personnel	273,111	295,794	(22,683)	(8%)
Transportation of valuables	90,943	479,735	(388,792)	(81%)
ATMs	380,892	240,466	140,426	58%
Others	1,081,431	545,913	535,518	98%
Total general and administrative expenses	**33,497,433**	**33,196,629**	**300,804**	**1%**

Our general and administrative expenses increased 1% to U.S.$33.5 million in the three months ended March 31, 2020, from U.S.$33.2 million in the same period in 2019. This increase was primarily due to an increase in salaries and operating expenses related to the opening of new branches, which was partially offset by the transportation of valuables expense and the maintenance and repairs expense resulting from a mismatch in the recording of expenses attributable to unexpected delays in executing the 2020 contracts with the transport supplier.

Allowance for loan losses

The following table sets forth the movements in our provision for impairment allowance for the three months ended March 31, 2020 and December 31, 2019.

	For the three months ended March 31,	For the year ended December 31,	Change	
	2020	2019		
	(U.S.$, except percentages)			
Balance at the beginning of the period	62,917,878	53,607,992	9,309,886	17%
Reserve charged to expenses	5,704,051	10,180,316	(4,476,265)	(44%)
Recoveries	379,955	2,505,837	(2,125,882)	(85%)
Write-off loans	(2,788)	(3,376,267)	3,373,479	(100%)
Balance at the end of the period / year	**68,999,096**	**62,917,878**	**6,081,218**	10%

Our balance of allowance for loan losses increased 10% to U.S.$69.0 million for the three months ended March 31, 2020, from U.S.$62.9 million at the end of 2019. In addition, provisions charged to expenses for possible impairment allowance amounts to U.S.$5.7 million for the three months ended March 31, 2020.

Results of Operations for the Year Ended December 31, 2019, Compared to the Year Ended December 31, 2018

The following table sets forth the principal components of our net income for the years ended December 31, 2019 and 2018.

	For the year ended December 31,			
	2019	2018	Change	
	(U.S.$ except percentages)			
Interest income and fee income	391,040,357	360,679,770	30,360,587	8%
Interest expense	99,272,355	79,432,983	19,839,372	25%
Net interest income and commission income	**291,768,002**	**281,246,787**	**10,521,215**	**4%**
Impairment Allowances, net [1]	9,746,808	5,330,231	4,416,577	83%
Net interest income and commission income, after provisions	**282,021,194**	**275,916,556**	**23,864**	**2%**
Fees for banking services[2]	17,078,544	17,054,680	23,864	0.1%
Other income[2]	14,592,402	30,976,266	(16,383,864)	(53%)
Total other expenses	(398,593)	896,861	(1,295,454)	(144%)
Total other income, net	**32,069,539**	**47,134,085**	**(15,064,546)**	(32%)
Total general and administrative expenses	145,537,485	139,145,453	6,392,032	5%
Net income	**168,553,248**	**183,905,188**	**(15,351,940)**	**(8%)**

(1) Includes (reversal of) provision for losses in deposits with banks, (reversal of) provision for investment securities losses, provision for loan losses and provision for valuation of foreclosed assets.

(2) Includes dividends, net gain on investments in securities and others.

Net income for the year decreased by U.S.$15.4 million, or 8%, from U.S.$183.9 million in 2018 to U.S.$168.6 million in 2019. This decrease was mainly due to an increase of 5% in general and administrative expenses

mainly as a result of an increase in salaries, rent, and new branch openings, partially offset by the gain on sale of securities for U.S.$13.0 million made in 2018 accounted in other income.

Net Interest and Commission Income

The following table sets forth the principal components of our net interest income and commission income for the years ended December 31, 2019 and 2018.

	For the year ended December 31,			
	2019	**2018**	**Change**	
	(U.S.$, except percentages)			
Interest and commission income				
Loans	235,573,730	213,785,677	21,788,053	10%
Deposits in banks	46,376,674	34,417,685	11,958,989	35%
Securities	99,447,418	102,820,649	(3,373,231)	(3%)
Loan fees	9,642,535	9,655,759	(13,224)	0%
Total interest and commission income	**391,040,357**	**360,679,770**	**30,360,587**	**8%**
Interest expense				
Deposits	96,284,950	77,998,470	18,286,480	23%
Borrowings	2,810,795	1,434,513	1,376,282	96%
Lease liabilities	176,610	0	176,610	-
Total interest expenses	**99,272,355**	**79,432,983**	**19,839,372**	**25%**
Net interest and commission income	**291,768,002**	**281,246,787**	**10,521,215**	**4%**

In 2019, our net interest income and commission income increased 4% to U.S.$291.8 million from U.S.$281.2 million in 2018. This was primarily due to an interest margin increase and a growth in the volume of our overall loan portfolio.

Our interest income from loans increased 10%, from U.S.$213.8 million in 2018 to U.S.$235.6 million in 2019. This reflected an increase in the average balance of this portfolio from U.S.$4,048.2 million to U.S.$4,424.4 million while average interest rates on this portfolio remained at 3.5%.

Our interest income from deposits increased 35%, from U.S.$34.4 million in 2018 to U.S.$46.4 million in 2019, which reflected an increase in average interest rates on these deposits from 2.1% to 2.4% and an increase in the average balance of these deposits from U.S.$1,666.6 million to U.S.$1,923.4 million.

Our interest income from securities decreased 3%, from U.S.$102.8 million in 2018 to U.S.$99.4 million in 2019, which reflected a decrease in the average balance of this portfolio from U.S.$2,904.9 million to U.S.$1,923.4 million despite an increase in average interest rates on this portfolio from 3.4% to 3.5%.

Our expenses from deposits increased 23%, from U.S.$78.0 million in 2018 to U.S.$96.2 million in 2019, which primarily reflected an increase in average balance on time deposits from U.S.$4,194.5 million to U.S.$4,787.6 million, partially offset by a decrease in the average interest rates of these deposits from 1.7% to 1.9%.

Our expenses from borrowings increased from U.S.$1.4 million in 2018 to U.S.$2.8 million in 2019, which reflected an increase in borrowings due to our corporate bond issuance in September 2019.

Fees for Banking Services

The following table sets forth the principal components of our fees for banking services for the years ended December 31, 2019 and 2018.

	For the year ended December 31,			
	2019	**2018**	**Change**	
	(U.S.$, except percentages)			
Letters of Credit	86,751	130,566	(43,815)	(34%)
Transfers	617,036	717,035	(99,999)	(14%)
Card Services	9,062,304	9,170,118	(107,814)	(1%)
Fund management, custody and brokerage	2,270,530	2,103,424	167,106	8%
Current accounts	1,025,376	747,362	278,014	37%
Savings accounts	4,136	4,779	(643)	(13%)
Government services	473,533	511,700	(38,167)	(7%)
Guarantee certificates and cashier's checks	647,147	629,242	17,905	3%
National stamps	18,975	16,188	2,787	17%
Clearinghouse services	1,299,972	1,354,642	(54,670)	(4%)
Others	1,572,784	1,669,624	(96,840)	(6%)
Total Fees for banking services	**17,078,544**	**17,054,680**	**23,864**	**0.1%**

In 2019, our fees for banking services remained stable with a slight increase of U.S.$24 thousand. The increase was primarily due to fund management, custody and brokerage and current accounts.

Other Income

The following table sets forth the components of our total other income for the years ended December 31, 2019 and 2018.

	For the year ended December 31,			
	2019	**2018**	**Change**	
	(U.S.$, except percentages)			
Dividends	1,001,251	913,424	87,827	10%
Net gain on investments in securities	0	13,039,225	(13,039,225)	(100%)
Others	13,591,151	17,023,617	(3,432,466)	(20%)
Other income	**14,592,402**	**30,976,266**	**(16,383,864)**	**(53%)**

Other income decreased 53% from U.S.$31.0 million in 2018 to U.S.$14.6 million in 2019. This decrease was primarily due to gains on investment securities of U.S.$13.0 million in 2018.

General and Administrative Expenses

The following table sets forth the components of our general and administrative expenses for the years ended December 31, 2019 and 2018.

	For the year ended December 31,			
	2019	**2018**	**Change**	
	(U.S.$, except percentages)			
Salaries and other personnel expenses	88,200,043	82,425,298	5,774,745	7%
Rentals	1,136,818	2,040,759	(903,941)	(44%)
Repairs and maintenance	12,076,431	11,057,621	1,018,810	9%
Depreciation and amortization	13,392,843	16,607,721	(3,214,878)	(19%)
Electricity	3,249,561	3,118,070	131,491	4%
Advertising	3,373,432	3,180,069	193,363	6%
Communications	6,048,932	5,221,563	827,369	16%
Insurance	614,403	529,287	85,116	16%
Stationery and office supplies	3,059,144	1,665,019	1,394,125	84%

	For the year ended December 31,			
	2019	2018	Change	
		(U.S.$, except percentages)		
Fees and professional services	4,393,446	3,604,997	788,449	22%
Transportation of personnel	1,153,429	1,316,070	(162,641)	(12%)
Transportation of valuables	1,972,503	1,800,557	171,946	10%
ATMs	1,039,475	1,541,716	(502,241)	(33%)
Others	5,827,025	5,036,706	790,319	16%
Total general and administrative expenses	**145,537,485**	**139,145,453**	**6,392,032**	**5%**

Our general and administrative expenses increased 5% to U.S.$145.5 million in 2019 from U.S.$139.1 million in 2018. This increase was primarily due to salaries and other personnel expenses and operating expenses due to opening new branches.

Allowance for Loan Losses

The following table sets forth the movements in our allowance for loan losses for the years ended December 31, 2019 and 2018:

	For the year ended December 31,			
	2019	2018	Change	
		(U.S.$, except percentages)		
Balance at the beginning of the year	53,607,992	34,675,449	18,932,543	55%
Adoption of IFRS 9	0	17,421,127	(17,421,127)	(100%)
Reserve charged to expenses	10,180,316	4,599,885	5,580,431	121%
Recoveries	2,505,837	1,687,339	818,498	49%
Write-off loans	(3,376,267)	(4,775,808)	1,399,541	(29%)
Balance at the end of the year	**62,917,878**	**53,607,992**	**9,309,886**	**17%**

Our balance of allowance for loan losses increased 17% to U.S.$62.9 million in 2019 from U.S.$53.6 million in 2018. This increase was mainly due to the growth of our loan portfolio. Provisions charged to expenses for possible impairment allowance increased from U.S.$4.6 million in 2018 to U.S.$10.2 million in 2019. This increase was mainly due to the growth in volume of the credit portfolio.

Results of Operations for the Year Ended December 31, 2018, Compared to the Year Ended December 31, 2017

The following table sets forth the principal components of our net income for the years ended December 31, 2018 and 2017:

	For the year ended December 31,			
	2018	2017	Change	
		(U.S.$, except percentages)		
Interest and commission income	360,679,770	334,080,498	26,599,272	8%
Interest expense	79,432,983	66,125,914	13,307,069	20%
Net interest and commission income	**281,246,787**	**267,954,584**	**13,292,203**	**5%**
Impairment Allowances, net[(1)]	5,330,231	9,399,736	(4,069,505)	(43%)
Net interest and commission income, after provisions	**275,916,556**	**258,554,848**	**17,361,708**	**7%**
Fees for banking services	17,054,680	17,530,856	(476,176)	(3%)
Other income[(2)]	30,976,266	21,125,121	9,851,145	47%
Total other expenses	896,861	597,585	299,276	50%
Total other income, net	47,134,085	38,058,392	9,075,693	24%
Total general and administrative expenses	139,145,453	136,182,932	2,962,521	2%
Net income	**183,905,188**	**160,430,308**	**23,474,880**	**15%**

(1) Includes (reversal of) provision for losses in deposits with banks, (reversal of) provision for investment securities losses, provision for loan losses and provision for valuation of foreclosed assets.

(2) Includes dividends, net gain on investments in securities and others.

Net income for the year increased by U.S.$23.5 million, or 15%, from U.S.$160.4 million in 2017 to U.S.$183.9 million in 2018. This increase was primarily due to the growth in volume of our loan portfolio, which generated more interests and commissions income, and a net gain on sale of securities sold for U.S.$13.0 million.

Net Interest and Commission Income

The following table sets forth the principal components of our net interest and commission income for the years ended December 31, 2018 and 2017.

	For the year ended December 31,			
	2018	**2017**	**Change**	
	(U.S.$, except percentages)			
Interest income				
Loans	213,785,677	194,431,952	19,353,725	10%
Deposits in banks	34,417,685	35,873,395	(1,455,710)	(4%)
Securities	102,820,649	96,060,817	6,759,832	7%
Loan fees	9,655,759	7,714,334	1,941,425	25%
Total interest income	**360,679,770**	**334,080,498**	**26,599,272**	**8%**
Interest expense				
Deposits	77,998,470	65,892,600	12,105,870	18%
Borrowings	1,434,513	233,314	1,201,199	515%
Total interest expenses	**79,432,983**	**66,125,914**	**13,307,069**	**20%**
Net interest and commission income	**281,246,787**	**267,954,584**	**13,292,203**	**5%**

In 2018, our net interest income increased 5% to U.S.$281.2 million in 2018 from U.S.$268.0 million in 2017. This increase was mainly driven by an increase in our loan portfolio volume and an increase in our securities investments interests. This increase was partially offset by an increase in interest expenses on deposits due to higher interest rates during 2018.

Our interest income from loans increased 10%, from U.S.$194.4 million in 2017 to U.S.$213.8 million in 2018. This reflected an increase in the average balance of this portfolio from U.S.$3,721.7 million to U.S.$4,048.2 million, as average rates remained the same.

Our interest income from securities increased 7%, from U.S.$96.1 million in 2017 to U.S.$102.8 million in 2018, which reflected an increase in average interest rates on that portfolio from 3.2% in 2017 to 3.4% in 2018. The average balance of this portfolio remained at essentially the same level.

Our expenses from deposits increased 18%, from U.S.$65.9 million in 2017 to U.S.$78.0 million in 2018. This reflected an increase in average rates on time deposits from 1.3% to 1.7%, partially offset by a decrease in the average balance of these deposits from U.S.$4,562.9 million to U.S.$4,194.5 million.

Our expenses from borrowings increased from U.S.$0.2 million in 2017 to U.S.$102.8 million, which reflected an increase as a result of our foreign borrowings in 2018.

Fees for Banking Services

The following table sets forth the principal components of our fee for banking services for the years ended December 31, 2018 and 2017.

	For the year ended December 31,			
	2018	2017	Change	
		(U.S.$, except percentages)		
Letters of Credit	130,567	360,895	(230,328)	(64%)
Transfers	717,034	700,377	16,657	2%
Card Services	9,170,118	10,970,434	(1,800,316)	(16%)
Fund management, custody and brokerage	2,103,424	893,340	1,210,084	135%
Current accounts	747,360	667,952	79,408	12%
Savings accounts	4,780	4,535	245	5%
Government services	511,701	549,399	(37,698)	(7%)
Guarantee certificates and cashier's checks	629,242	634,463	(5,221)	(1%)
National stamps	16,187	18,792	(2,605)	(14%)
Clearinghouse services	1,354,643	700,213	654,430	93%
Others	1,669,624	2,030,456	(360,832)	(18%)
Total Fees for banking services	**17,054,680**	**17,530,856**	**(476,176)**	**(3%)**

Fees for banking services decreased 3% to U.S.$17.1 million in 2018 from U.S.$17.5 million in 2017, due to a decrease of U.S.$1.8 million in card services fees. This decrease was partially offset by an increase in fund management, custody and brokerage of U.S.$1.2 million.

Other Income

The following table sets forth the components of our other income for the years ended December 31, 2018 and 2017:

	For the year ended December 31,			
	2018	2017	Change	
		(U.S.$ except percentages)		
Dividends	913,424	1,305,541	(392,117)	(30%)
Net gain on sales of investments in securities	13,039,225	949,746	12,089,479	1273%
Others	17,023,617	18,869,834	(1,846,217)	(10%)
Other income	**30,976,266**	**21,125,121**	**9,851,145**	**47%**

Other income increased 47% to U.S.$31.0 million in 2018 from U.S.$21.1 million in 2017. This increase was primarily due to the net gain of U.S.$13.0 million on investment securities sold in 2018.

General and Administrative Expenses

The following table sets forth the components of our, general and administrative expenses for the years ended December 31, 2018 and 2017.

	For the year ended December 31,			
	2018	**2017**	**Change**	
		(U.S.$, except percentages)		
Salaries and other personnel expenses	82,425,298	85,740,951	(3,315,653)	(4%)
Rentals	2,040,759	1,868,669	172,090	9%
Repairs and maintenance	11,057,621	10,733,872	323,749	3%
Depreciation and amortization	16,607,721	13,165,642	3,442,079	26%
Electricity	3,118,070	2,911,992	206,078	7%
Advertising	3,180,069	3,376,027	(195,958)	(6%)
Communications	5,221,563	4,819,354	402,209	8%
Insurance	529,287	634,294	(105,007)	(17%)
Stationery and office supplies	1,665,019	1,898,720	(233,701)	(12%)
Fees and professional services	3,604,997	3,222,114	382,883	12%
Transportation of personnel	1,316,070	997,407	318,663	32%
Transportation of valuables	1,800,557	1,738,762	61,795	4%
ATMs	1,541,716	996,784	544,932	55%
Others	5,036,706	4,078,344	958,362	23%
Total general and administrative expenses	**139,145,453**	**136,182,932**	**2,962,521**	**2%**

Total general and administrative expenses increased 2% to U.S.$139.1 million in 2018 from U.S.$136.1 million in 2017. This increase was mainly due to an increase in depreciation and amortization as a result of adjustments to the recalculation of asset useful life and acquisition through leasing of other fixed assets, partially offset by a decrease in salaries and other personnel expenses, mainly resulting from an increase in the reserve of seniority premiums for 2017.

Allowance for loan losses

The following table sets forth the movements for allowance for loan losses for the years ended December 31, 2018 and 2017.

	For the year ended December 31,			
	2018	**2017**	**Change**	
		(U.S.$, except percentages)		
Balance at the beginning of the year	34,675,449	24,216,081	10,459,368	43%
Adoption of IFRS 9	17,421,127	0	17,421,127	-
Reserve charged to expenses	4,599,885	9,466,368	(4,866,483)	(51%)
Recoveries	1,687,339	1,729,727	(42,388)	(2%)
Write-off loans	(4,775,808)	(736,727)	(4,039,081)	548%
Balance at the end of the year	**53,607,992**	**34,675,449**	**18,932,543**	**55%**

Allowance for loan losses increased 55% to U.S.$53.6 million in 2018 from U.S.$34.7 million in 2017. This increase was mainly due to the adoption of IFRS 9 in 2018, which increased our allowance, partially offset by a decrease in reserves charged to expenses and our write-off loans.

Liquidity and Capital Resources

Sources of Funds

Our primary sources of funds have traditionally consisted of deposits and other obligations, which amounted to U.S.$9.0 billion as of March 31, 2020. As of March 31, 2020, total deposits amounted to U.S.$8.7 billion, of which 1% were deposits of our top ten largest private customers. Our deposits include demand deposits, time deposits,

savings deposits and bank deposits. We also finance our operations through other sources of funds, which include securities sold under repurchase agreements, obligations with financial institutions, and securities and obligations issued. Funding from customer deposits amounted to 96.0% of our sources of funds as of March 31, 2020. Customer deposits provide us with a low-cost and diverse source of funding.

The following table sets forth our deposits and other sources of funds as of March 31, 2020, and each of December 31, 2019, 2018 and 2017.

	As of March 31,	As of December 31,		
	2020	2019	2018	2017
		(U.S.$)		
Deposits				
Demand deposits	3,414,259,868	3,403,626,533	3,149,602,759	3,033,504,725
Savings deposits	703,507,853	709,752,928	692,680,095	667,515,720
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	4,532,260,309	5,333,533,981	4,225,425,197	4,907,079,969
Total Deposits	**8,650,028,030**	**9,446,913,442**	**8,067,708,051**	**8,608,100,414**
Other Sources of Funds				
Securities sold under repurchase agreements at amortized cost	101,214,621	0	0	0
Foreign borrowings received at amortized cost	50,035,369	50,003,818	35,198,829	0
Bonds payable at amortized cost	206,216,051	206,216,051	0	0
Lease liabilities	3,649,263	3,939,119	0	0
Total other sources of funds	**361,115,304**	**260,158,988**	**35,198,829**	**0**
Total Sources of funds	**9,011,143,334**	**9,707,072,430**	**8,102,906,880**	**8,608,100,414**

Demand Deposits

We receive significant amounts of funding from demand deposits, which consist primarily of checking account deposits made by our corporate and consumer banking customers. Our portfolio of demand deposits totaled U.S.$3.4 billion as of March 31, 2020, and U.S.$3.4 billion, U.S.$3.1 billion and U.S.$3.0 billion as of December 31, 2019, 2018 and 2017, respectively.

Time Deposits, Restricted Inactive Accounts and Restricted Escrow Funds

Our primary funding source is from time deposits, which includes certificates of deposit issued to individuals, corporate and institutional customers. Our portfolio of time deposits, restricted inactive accounts and restricted escrow funds totaled U.S.$4.5 billion as of March 31, 2020, and U.S.$5.3 billion, U.S.$4.2 billion and U.S.$4.9 billion as of December 31, 2019, 2018 and 2017, respectively.

Savings Deposits

Our funding from savings deposits consists primarily of interest-bearing savings account deposits from consumer and foreign and domestic corporate banking customers. Our portfolio of savings deposits totaled U.S.$703.5 million as of March 31, 2020, and U.S.$709.8 million, U.S.$692.7 million and U.S.$667.5 million as of December 31, 2019, 2018 and 2017, respectively.

Bank Deposits

Our funding from bank deposits consists primarily of deposits from domestic and foreign banks with maturity of up to one year. Our portfolio of bank deposits totaled U.S.$1,200.9 million as of March 31, 2020 and U.S.$817.5 million, U.S.$797.7 million and U.S.$1,008.5 million as of December 31, 2019, 2018 and 2017, respectively. An important portion of these funds are deposited in Banconal for its role as Panamanian clearing agency.

Securities Sold Under Repurchase Agreements at Amortized Cost

Our portfolio of securities under repurchase agreements totaled U.S.$101.2 million as of March 31, 2020. During the years ended December 31, 2019, 2018 and 2017, we did not have any securities under repurchase agreements.

Foreign Borrowings Received at Amortized Cost

We obtain funding from the proceeds of issuances of debt instruments. The proceeds of these issuances have been used to expand our loan portfolio. As of March 31, 2020, we had U.S.$206.2 million of securities issued with a maturity of ten years.

The following table sets forth a summary of our obligations with foreign financial institutions as of March 31, 2020, and each of December 31, 2019, 2018 and 2017.

	As of March,	As of December 31,		
	2020	**2019**	**2018**	**2017**
		(U.S.$ in thousands)		
Type of obligation				
With foreign banks	50,035,369	50,003,818	35,198,829	0
Total	**50,035,369**	**50,003,818**	**35,198,829**	**0**

Bonds Payable at Amortized Cost

We obtain funding from the proceeds of issuances of debt instruments. The proceeds of these issuances have been used to expand our loan portfolio.

In September 2019, we issued an aggregated principal amount of U.S.$205,736,000 of our 3.00% Senior Unsecured Notes due 2029. The notes are governed by Panamanian law, are denominated in U.S. dollars and have an annual interest rate payable quarterly. This issuance was structured by Banconal and the notes were sold and listed on the Panama Stock Exchange (*Bolsa de Valores de Panamá*).

As of March 31, 2020, we had U.S.$206.2 million of securities outstanding. As of March 31, 2020 and December 31, 2019, interest payable was U.S.$480,051.

	As of March 31,	As of December 31,		
	2020	**2019**	**2018**	**2017**
		(U.S.$)		
Securities Placed				
Corporate bonds	206,216,051	206,216,051	0	0
Total issuances outstanding	**206,216,051**	**206,216,051**	**0**	**0**

Regulatory Capital

The table below sets forth our regulatory capital as of March 31, 2020, and each of December 31, 2019, 2018 and 2017.

	As of March 31,	As of December 31,		
	2020	**2019**	**2018**	**2017**
		(U.S.$ in thousands, except percentages)		
Primary Capital (Tier 1)				
Capital funds	650,000,000	650,000,000	650,000,000	570,000,000
Retained earnings	199,706,364	182,229,675	93,289,354	151,031,041
Other items in comprehensive income	6,222,353	8,424,542	6,106,661	86,074,116
Less: intangible assets	11,989,977	12,649,126	14,473,048	16,673,745
Total Primary Capital	**843,938,740**	**828,005,091**	**734,922,967**	**790,431,412**

	As of March 31,	As of December 31,		
	2020	2019	2018	2017
		(U.S.$ in thousands, except percentages)		
Dynamic regulatory provision	56,928,983	56,928,983	56,598,706	56,598,706
Total regulatory Capital	**900,867,723**	**884,934,074**	**791,521,673**	**847,030,118**
Total Risk-weighted assets	**5,260,046,904**	**5,514,461,919**	**4,758,976,792**	**5,021,365,961**
Capital adequacy ratio				
Total regulatory capital over risk-weighted assets	**17.13%**	**16.05%**	**16.63%**	**16.87%**
Total Tier 1 over risk-weighted assets	**16.04%**	**15.02%**	**15.44%**	**15.74%**

As of March 31, 2020 and December 31, 2019, the Bank's capital adequacy ratio is determined in accordance with Agreements No. 001-2015, 003-2016, 003-2018 and 011-2018 of the Superintendency of Banks of Panama.

As of December 31, 2018 and 2017, the Bank's capital adequacy ratio is determined in accordance with Agreements No. 001-2015 and 003-2016 of the Superintendency of Banks of Panama.

Banking regulations on capital adequacy in Panama take into account the recommendations of the Basel Committee. Basel has been partially implemented in Panama through the guidelines and recommendations issued from time to time by the Superintendency of Banks.

Pursuant to the Banking Law, General License Banks were required to maintain a minimum paid-in capital of U.S.$10.0 million. Beginning on July 1, 2016, pursuant to Accord 1-2015, as amended, General License Banks were required to maintain a total regulatory capital over risk-weighted assets ratio of 8.0%; a progressive increase of the ratio of ordinary primary capital over risk-weighted assets of 3.75% as of July 2016, 4.00% as of January 2017, 4.25% as of January 2018 and 4.50% as of January 2019; and a ratio of primary capital over risk-weighted assets of 5.25% as of July 2016, 5.50% as of January 2017, 5.75% as of January 2018 and 6.00% as of January 2019. See "Regulatory Matters—General—Banking Supervision and Regulation." Risk-weighted assets are calculated in accordance with Accord 3-2016, which became effective on July 1, 2016, as amended by Accord No.8-2016. Under Accord 1-2015, as amended, the value of the assets is calculated without taking into consideration the provisions for allowance. As such, risk-weighted assets are the sum of cash and deposits in banks, investments in securities, loans, property, plant, equipment and improvements, derivatives, other assets, off-balance operations, and allowance for investments and impairment allowance.

Under Accord 1-2015, as amended, we must calculate our capital adequacy ratio on a quarterly basis. Pursuant to Accord 1-2015, as amended, the following items must be deducted from the capital adequacy calculation: (i) current and cumulative losses, (ii) capital gains on significant investments on financial non-consolidated entities, (iii) other intangible assets, (iv) deferred taxes contingent on profitability of the bank, (v) provisions created to cover hedges not accounted at their fair market value, (vi) gains or losses from variations in credit risk, (vii) investments in proprietary shares, (viii) crossed ownership participation with other entities for purposes of artificially increasing the bank's capital, (ix) significant consolidated participation on non-financial entities and (x) significant participation in paid-capital on non-consolidated financial, banking and insurance entities.

Liquidity Risk

Liquidity risk represents the potential for loss as a result of limitations on our ability to adjust future cash flows to meet the needs of depositors and borrowers and to fund operations on a timely, cost-effective basis.

Liquidity risk is measured by using the Liquidity Gap or Financial Mismatch methods. Under these methods, simulations and stress tests are performed based on the difficulties caused by the lack of liquidity, such as unexpected withdrawals of funds contributed by creditors or deposited by customers, impairment in the quality of the loan portfolio, volatility of resources obtained, or any activity that could negatively impact our liquidity.

Our Assets and Liabilities Steering Committee is in charge of periodically monitoring the availability of liquid funds, given our exposure to daily requirements, current accounts, time deposits at maturity and loan disbursements. As provided by the Banking Law, Panamanian banks are required to maintain a minimum balance of liquid assets of no less than 30.0% over the total amount of net deposits received from customers or other banks. We regularly maintain a greater balance of liquid assets than that required by the Superintendency of Banks. As of March 31, 2020, our liquidity ratio was 65.7%, and, as of December 31, 2019, 2018 and 2017, our liquidity ratio was 71.3%, 74.4% and 95.3%, respectively.

Our ability to replace interest-bearing deposits at their maturity is a key factor in determining liquidity requirements. Our principal source of funding is deposits. We have developed a diversified and stable deposit base in each of our main business segments. Our deposit funding strategy has focused on certain core products, namely, demand deposits, savings deposits and time deposits.

We believe that funds from our deposit-taking operations generally will continue to meet our liquidity needs for the foreseeable future. To a lesser extent, we also fund our operations through other types of deposits (including foreign and domestic deposits with other financial institutions), securities and bond issuances, and short-term and long-term obligations with financial institutions.

Interest Rate Risk

The regulations of the Superintendency of Banks do not mandate, and market practice in Panama is such, that Panamanian banks do not base their interest rates on loans and deposits on a fixed rate or a single reference rate published regularly by an official source. Rather, interest rates in Panama are determined individually by lenders based on market conditions. The agreements for loans and demand and savings deposits specify the initial interest rate and usually state that the applicable interest rate may change depending on market conditions. We evaluate interest rates on a regular basis for all deposit products. Interest rates in Panama have floated freely based on supply and demand.

A key component of our assets and liabilities management policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest revenue due to the maturity or reprising characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets and liabilities matures or reprices in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A positive gap position denotes asset sensitivity and means that an increase in interest rates would have a positive effect on net financial income (interest and commission income), whereas a decrease in interest rates would have a negative effect on the net financial income (interest and commission income).

Our interest rate sensitivity strategy takes into account not only the rates of return and the underlying degree of risk, but also liquidity requirements, including minimum regulatory cash reserves, regulatory liquidity ratios, withdrawal and maturity deposits, capital costs, and additional demand for funds. Our compliance with regulatory limits for mismatches and positions is monitored by our Assets and Liabilities Steering Committee and is managed within established internal limits proposed by our market risk division and approved by our Assets and Liabilities Steering Committee.

In addition, as part of our interest rate risk strategy, subject to market conditions, we enter, from time to time, into hedging agreements to hedge any interest rate risk.

The following table presents the interest-earning assets and interest-bearing liabilities by the earlier of contractual repricing or maturity dates, whichever occurs first, as of March 31, 2020.

	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Interest Receivable / Payable	Total
Assets:						
Time deposits in banks	2,118,215,000	0	0	0	3,665,981	2,121,880,981
Securities purchased under resale agreements	48,600,435	0	0	0	168,454	48,768,889

	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Interest Receivable / Payable	Total
Investments in securities	708,598,600	778,380,663	507,617,805	713,309,846	21,488,665	2,729,395,579
Loans and interest receivable, gross balance	753,502,755	446,645,697	279,925,651	3,094,573,723	31,707,866	4,606,355,692
Total	**3,628,916,790**	**1,225,026,360**	**787,543,456**	**3,807,883,569**	**57,030,966**	**9,506,401,141**
Liabilities:						
Savings deposits	703,507,853	0	0	0	0	703,507,853
Time and restricted deposits	3,670,714,774	292,823,502	118,356,207	445,081,146	5,284,680	4,532,260,309
Borrowings received	50,000,000	0	0	0	35,369	50,035,369
Securities sold under repurchase agreement	101,172,467	0	0	0	42,154	101,214,621
Bonds Payable	0	0	0	205,736,000	480,051	206,216,051
Total	**4,525,395,094**	**292,823,502**	**118,356,207**	**650,817,146**	**5,842,254**	**5,593,234,203**
Net interest sensitivity margin	**(896,478,304)**	**932,202,858**	**669,187,249**	**3,157,066,423**	**51,188,712**	**3,913,166,938**

Commitments and Contractual Obligations

We entered into various commitments and contractual obligations that may require future cash payments. The following table summarizes our outstanding commitments and contractual obligations as of March 31, 2020.

	As of March 31, 2020 *(U.S.$)*
Wells Fargo, S.A. Foreign borrowings received at amortized cost	50,035,369
Banco Bilbao Vizcaya Securities sold under repurchase agreement at amortized cost	101,214,621
Bonds payable at amortized cost	206,216,051
Lease liabilities	3,649,263
Total	**361,115,304**

Certain loan agreements include standard clauses requiring us to comply with financial ratios, use of funds criteria and other administrative matters. In our management's opinion, such standard clauses do not limit our normal operation and are substantially fulfilled in the application of standard international banking practices.

Material Contracts

The following subsections provide descriptions of our most significant contracts, other than contracts we entered into in the ordinary course of our business:

Credit Facility Agreement with BCIE

On November 8, 2018, we entered into a U.S.$100 million global credit facility agreement with Banco Centroamericano de Integración Economica ("BCIE") for the financing of certain transactions within the financial intermediation programs of BCIE accessible to Banconal. The line of credit has a one-year term, renewable by BCIE on an annual basis at its option, and the parties may agree to new conditions upon renewal.

Credit Facility Agreement with Wells Fargo Bank N.A.

On August 2, 2018, we entered into a U.S.$25 million credit facility agreement with Wells Fargo Bank N.A. for working capital purposes. On March 28, 2019, the amount of the credit line was increased to U.S.$100 million. The line of credit has a one-year term renewable on an annual basis, and the parties may agree to new conditions upon renewal.

Risk Management

Banconal's risk management practices are carried out in accordance with the Superintendency of Banks' Accord No. 008-2010 (Integral Risk Management), Accord No. 011-2018 (Operational Risk), Accord No. 004-2013 (Credit Risk and Administration), and Accord No 04-2008 (Liquidity Risk). These are the main regulations for the management of risk. The Bank's Board of Directors has the responsibility for establishing and monitoring financial and non-financial risks. For this purpose, it has appointed certain committees to manage and periodically monitor the risks to which the Bank is exposed. These committees are: Risk and Policy Steering Committee, Credit Steering Committee, Asset and Liability Steering Committee, Audit Steering Committee and the Money Laundering Prevention Steering Committee.

The main risks identified by the Bank are credit, market and liquidity and operational risks. We have specific risk management policies and procedures designed to identify and manage these risks:

- *Credit Risk*. This is the risk that the debtor, issuer or counterparty of a financial asset owned by the Bank will not comply with any payment due to the Bank in accordance with the terms and conditions agreed at the time the Bank acquired or originated the respective financial asset.

- *Market and Liquidity Risk***.** Defined as the risk of loss resulting from the reduction in the value of a financial asset due to volatility in interest rates, foreign exchange rates, stock prices, market availability and other financial variables.

- *Operational Risk*. Defined as the risk of loss resulting from inadequate internal processes, personnel errors, infrastructure or system failures, legal matters or unexpected external events. Operational risk includes the legal exposure to the relevant incident but excludes the risk of loss of earnings, the reputational risk and the strategic risk.

- *Environmental and Social Risk.* Defined as risk arising as a result of non-compliance with environmental and social regulations and norms, or from unexpected changes in environment and social conditions.

The risk management function is entrusted with developing a centralized, integrated risk management framework to proactively and preemptively manage all of our relevant risk areas. We monitor the risks to which we are exposed at all times, from the pre-approval stage and the approval process for proposed transactions to ongoing portfolio management and board oversight. Our Risk Management department reports directly to the Risk Committee of the Board of Directors, which serves as an independent channel for communications. The Risk Management department is structured to include Specialized Risk Units for specific risks, to account for the nature and complexity of our operations and structure.

We have adopted a risk management framework and established objective metrics and thresholds to periodically monitor our evolving risk profile. The framework was approved by the board of directors, and is managed and monitored by the Risk Management department. The adoption of a risk appetite framework reflects our commitment to aligning our forward-looking business strategy with our corporate risk vision.

The risk management department has different management areas, including consumer credit risk, corporate credit risk, market and liquidity risk, operational risk, technology risk and business continuity areas, among others. This structure allows us to segregate and better understand each risk by area. It also allows us to constantly monitor and maintain communications among different risk management areas. In addition, the risk management department interacts with other important departments, such as the credit management and finance departments, certain business units, internal and external auditors. Also, personnel from the risk management department also participates in Board of Directors steering committees, such as the Risk and Policy Steering Committee, the Credit Steering Committee, the Assets and Liabilities Steering Committee, the Audit Steering Committee and the Anti-money Laundering Prevention Steering Committee. This allows the risk management department to have a complete understanding of the risks Banconal faces.

Credit Risk Management

To mitigate credit risk, the Bank has a management framework whose main elements include:

- *Analysis by Independent Risk Unit.* The risk analysis of loans is carried out independently of the business unit. Its main function is to identify, evaluate and quantify the credit risks of the loan proposals and to determine the impact on the Bank's credit portfolio.

- *Validation by Control Area.* A control area is responsible for validating that the credit proposals are within the Bank's policies and limits, that they are approved according to the level of risk assumed, and that they comply with the terms and conditions of the approval.

- *Approval Process.* The approval process is carried out through various credit committees within the Bank in accordance with the maximum lending limits for each credit committee.

- *Risk Monitoring*. A portfolio management process which focuses on monitoring risk trends with the objective of anticipating any signs of portfolio deterioration.

- *Adequate Collateral Coverage.* Compliance with collateral policies, including required coverage on loan amounts established by the Credit Steering Committee.

The credit committees assigned by the Board of Directors periodically monitor the financial condition of debtors. The Bank monitors credit risk concentration by sector based on the economic activity and by geographic location.

Loan Classification System

We analyze the creditworthiness of each specific borrower and their credit facilities in accordance with the methodology defined by the Superintendency of Banks. In line with these guidelines, we maintain a five-tier rating system for classifying credit exposures. The classification rating categories are Standard, Special Mention, Sub-standard, Doubtful and Unrecoverable. Based on the assigned rating, the Superintendency of Banks defines a range of required regulatory provisions. We review risk classifications and calculate loan provisions monthly and perform a more in-depth analysis of material loans annually.

For consumer credit purposes, the rationale behind an assigned rating is the amount of time a facility has been past due. When loans are restructured, we maintain the last given rating (at the time of restructuring) for a period of at least six months. For corporate and commercial banking facilities, the risk rating is based on a comprehensive evaluation of the major financial, operational, internal and external risks factors that a client may have, in addition to the client's loan payment history in order to determine its debt repayment capacity.

We report all credit exposures on a monthly basis to the Superintendency of Banks, reflecting the individual credit risk ratings and the applicable reserves.

We are currently developing an internal risk-based model for classifying corporate credit exposures, with the objective of further distinguishing risk levels and to support the application of IFRS 9 accounting policy.

Loan Provisioning

Our provisions and allowances for loan losses are assessed based on the regulations of the Superintendency of Banks (regulatory provisions) and of the IFRS 9 provisioning guidelines. IFRS 9 calculate loan provisions based on activity segments and the losses identified as expected take into account past historical performance of the portfolio.

Provisions for loan losses are accounted as a charge to income and added to the allowance for loan losses to bring the allowance to an appropriate level. Any subsequent charge-offs are applied against this allowance. A specific provision is made against problem loans when, in the judgment of management, the estimated repayment receivable

from the debtor, including the value of any available collateral, is likely to fall short of the amount of principal and interest outstanding on the debtor's loan or overdraft account. The amount of the specific provision made in our financial statements is intended to cover the difference between the balance outstanding on impaired loans and estimated recoveries (i.e., the present value of future cash flows).

Credit Approval Processes

We maintain a centralized and uniform approval policy for our corporate credits and another for consumer credits. In addition to these policies, we have specific credit manuals for each business area. These manuals include details on policies, controls, processes, and criteria that must be taken into account in connection with the portfolio approval and monitoring process. In order to grant corporate credit facilities, we analyze and evaluate the financial condition of the client or economic group. This analysis includes qualitative and quantitative aspects of the client's financial indicators, its economic activity and other information, such as: (i) macroeconomic effects, (ii) cash flow projections, (iii) seasonality, (iv) the position of the economic group and the debtor companies, and (v) the respective qualitative analysis of the debtor or the companies comprising the group.

The approval authority for material exposures is centralized at the level of executive credit committee, the Credit Steering Committee and the Board of Directors.

The approvals of smaller exposures is delegated to executives and managers within the relevant business segments. Currently, approval limits apply to the agricultural banking and commercial banking units.

Consumer credit approvals are based on defined, standardized and product-identified criteria and parameters (e.g., mortgages, credit cards, automobiles, and personal loans), where the analysis and evaluation of credit applications is primarily conducted based on confirmation of a client's capacity and willingness to repay its debts. Some of this criteria include: (i) the applicant's income (including individual or family income, depending on whether the credit is requested by more than one client), (ii) level of indebtedness, (iii) the client's stability in her current employment (including job continuity), (v) payment capacity, (vi) verification of internal and external references and payment history, and (vii) customer verification (including her own verification and credit score verification).

Consumer credit loans are approved by the instances of executives and managers within the relevant business segments or the executive committee of consumer credit, according to an approval matrix for this type of products.

Conservative Credit Structure

Our diverse and experienced management team has established policies and procedures that significantly mitigate credit risk and allow us to continue growing organically in a conservative manner according to the evolution of the business, while maintaining a conservative risk profile. We follow strict guidelines for related party loans and credit exposures, which are reviewed as economic groups.

Corporate loans are granted based on an in-depth analysis of the customer's financial statements and market position.

We are very selective when choosing projects to finance, working exclusively with experienced builders and developers with proven track records in the market and product segments in which we choose to participate. We manage exposure and concentrations actively, promoting diversification of segments, products and geographies to ensure that residential loans become a feeder of attractive opportunities for our residential mortgage portfolio.

To ensure a consistent application of credit policies and responsiveness to our non-retail clients, a relationship manager is assigned to each corporate client. These managers are strategically located nationally and their responsibilities include dealing with clients, reviewing and presenting credit proposals for approval considering applicable limits, continuously monitoring the portfolio and providing banking advice to existing and potential customers of the Bank.

Regarding the consumer loan portfolio, a high concentration of our personal loans and our residential mortgage portfolio provide for direct salary discounts. This means that Banconal receives payment directly from a debtor's employer, which results in a very low delinquency rate, as well as a small number of past due loans. Additionally, for residential mortgage loans, we have strict payment policies, employment quality and employment stability metrics. In addition to this product, the client is asked to provide insurance with a minimum coverage of 80% of the value of any property improvements as collateral, as well as a life insurance policy equal to the loan's amount.

Market and Liquidity Risk Management

The objective of market risk management is to manage and control the risks to which we are exposed so that they are kept at acceptable levels. We have little or no exposure to commodity risk, equity and foreign exchange rate risk. In order to control our market risk exposure, the Board of Directors has established investment policies based on the recommendations of the Assets and Liabilities Steering Committee and the Risk and Policy Steering Committee that include portfolios limits according to: total amount, credit rating, permitted asset type, overall duration, issuer or issue, and individual security duration and rating, among others.

Our risk management policies provide indicators depending on the financial activities. The interest rate risk position is managed directly by the Bank's Treasury, which uses instruments such as investments in securities, deposits in banks and deposits from banks to manage the general position of the Bank's activities. Value at Risk is an estimate of probable loss over a given time horizon, which allows Banconal to set limits or caps on exposures in its investment portfolio. VaR is computed using a 99.0% confidence level, with a one-year horizon and more than one year of historical data in computing the covariances between instruments. Banconal's VaR is calculated with a 99.0% confidence level, over a one day portfolio holding period.

We manage the market risks associated with financial instruments through regular reports to inform upper management, the Assets and Liabilities Steering Committee and the Risk and Policy Steering Committee about the level of risk and to take action if a risk is at a level higher than the Bank's acceptable risk level.

Our assets and liability management activities include an ongoing analysis of our assets and liabilities by maturity and interest rate.

Operational Risk Management

We have adopted a risk-based methodology to assess business processes. Under this methodology, key processes related to the banks strategic objectives are identified, establishing control mechanisms to mitigate the risks. This risk assessment methodology seeks to add value to each of our activities by decreasing the possibilities of failure and loss.

Our operational risk management policies have been designed to identify and segregate functions among process areas, control areas and staff areas. Such policies are contained in Banconal's Operational Risk Management Manual and have been approved by its Board of Directors. Our different business units take an active role in measuring, controlling and monitoring the day-to-day operational risks to which we are exposed.

Banconal has developed a database for use in connection with the identification, measurement, mitigation and oversight of operational risk-related incidents. This database satisfies all of the minimum requirements imposed the Superintendency of Banks pursuant to Article 23 of its Accord No. 011-2018.

In addition, our risk unit is responsible for providing ongoing specialized training to all of Banconal's risk managers as a means for fostering the development of a risk culture across the institution. As part of this effort, the risk unit regularly delivers to all employees brief informational messages via e-mail.

Our internal audit area controls and reviews all activities regarding compliance pursuant to operational risk management laws, rules and regulations, as well as Banconal's internal policies.

Environmental & Social Risk Management

Environmental and social risks arise as a result of non-compliance with environmental and social regulations and norms, or from unexpected changes in environment and social conditions. These risks are considered, to a certain extent, in all credit and investment decisions made by financial institutions. If a bank does not properly analyze and manage these inherent risks, they also can be adversely affected by various type of risks, including financial, legal and reputational risks.

Accordingly, we have created an environmental and social risk management unit, which is responsible for designing the policies, procedures, and methodologies for the environmental and social risk management system ("ESMS") to systematically integrate the analysis of environmental and social issues within our operations and credit approval decisions. These procedures, policies and methodologies are constantly under development and include a set of tools to ensure the identification, categorization, evaluation and administration of environmental and social risks of the projects or activities in different portfolios to be financed (i.e., corporate and commercial credit portfolio, as well as residential mortgage projects). The system also provides a clear mandate to supervise and report any risks, staff responsibilities and staff training.

We currently maintain a list of activities for which financing is not granted (i.e., the exclusion list), considering whether they represent a negative social or environmental impact. These activities include gaming-related companies, including casinos, activities involving non-compliance with fundamental principles and rights of employees in the workplace, and activities involving the marketing of protected species, ozone-depleting substances subject to international phase out. Others activities will be included once the methodology has been developed. We also identify the related legal requirements specific to the project and/or sector, within the legal framework of the applicable jurisdiction and we require our clients and prospective clients to present us with all applicable environmental impact assessments, permits, monitoring reports or resolutions.

Banconal is signatory to the "Panama Sustainable Finance Protocol" promoted by the Banking Association of Panama. Signatory banks commit to make efforts in order to perform their activities in accordance with sustainability practices and implement any sustainability components and recommendations provided by the Banking Association as guidelines. In addition, we are part of the Sustainable Finance Working Group, which gathers Panama's key players looking forward to situate Panama as a hub for sustainable finance.

Off-Balance Sheet Arrangements

We have various contractual arrangements that are not recognized as liabilities on our Financial Statements but are required to be registered in off-balance sheet accounts. We enter into these off-balance sheet arrangements to generate fees from guarantees and endorsements, letters of credit and notes offered to customers.

The following table sets forth our off-balance sheet arrangements as of March 31, 2020 and each of December 31, 2019, 2018 and 2017.

	As of March 31,	As of December 31,		
	2020	2019	2018	2017
		(U.S.$)		
Commitments and Contingencies				
Letters of credit	11,200,082	6,173,094	955,427	2,464,000
Payment pledges	457,861,492	462,941,715	403,265,222	374,504,852
Loan commitments	21,212,696	18,019,161	7,642,305	7,072,822
Guarantees and endorsements	0	0	7,039,472	5,605,013
Total off-balance sheet accounts	**490,274,270**	**487,133,970**	**418,902,426**	**389,646,687**

Critical Accounting Policies

Pursuant to Executive Decree No. 52 of April 30, 2008 and Decree Law No. 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, the Superintendency of Banks is in charge of supervising,

inspecting and controlling all banking and financial institutions domiciled in Panama. As a result, all aspects related to the issuance and authorization of banking licenses, minimum capital and liquidity requirements, consolidated supervision, risk assessment, management control, the prevention of money laundering activities, and the preparation and filing of financial statements, among others, are subject to the supervision of the Superintendency of Banks.

Banconal is a public entity with proper legal status, its own capital funds and autonomous and independent regulations, budget and internal management, subject to the supervision of the Executive Body and the corresponding supervisory bodies, under the terms established by applicable law. As the Nation's primary financial institution, the Bank is responsible, among other things, for performing banking activities within the official sector, and obtaining the necessary funds to develop the national economy. The Bank is exempt of any tax and other fiscal contributions, either national or municipal, with the exception of the social security employer's contributions, educational insurance, professional risks, fees for public services and other exceptions provided for in applicable law. The Bank is granted procedural privileges in any judicial or administrative litigation in which it is a party, and summary jurisdiction to enforce the collection of overdue credits owed to the Bank. The Bank is responsible for directing and managing the clearing operations for the entire National Banking System.

Significant accounting principles and practices used in the preparation of the Financial Statements are described below.

Basis for Presentation

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

These financial statements have been prepared on a historical cost or amortized cost basis, except for certain investments in equity securities which are presented at fair value through other comprehensive income; and foreclosed assets of borrowers, which are measured at the lower of book value or fair value less costs to sell.

The Bank recognizes financial assets and financial liabilities at the settlement date.

Summary of Significant Accounting Policies

Changes in Accounting Policies IFRS 16 "Leases"

The Bank adopted IFRS 16 on January 1, 2019, using the modified retrospective approach, whereby the cumulative effect of initial application if applied is recognized in retained earnings at January 1, 2019. The Bank had no impact on retained earnings at January 1, 2019, when IFRS 16 were adopted.

Financial Assets

Classification and measurement of financial instruments

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. According to the business model adopted, the Bank classifies financial assets as measured at amortized cost (AC) and at fair value through changes in other comprehensive income (FVOCI).

The Bank classifies a financial asset at CA and not at fair value through profit or loss ("FVTPL") if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to obtain contractual cash flows; and

- The contractual terms of the financial asset meet SPPI criteria.

A financial asset is classified as 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 whose objective is achieved by collecting contractual cash flows and selling these financial assets; and
- The contractual terms of the financial asset meet SPPI criteria.

The Bank classifies a financial asset as FVTPL the contractual cash flows do not meet SPPI criteria.

Impairment of Financial Assets

IFRS 9 requires that considerable judgment be applied with respect to how changes in economic factors affect the expected credit loss ("ECL"), which will be determined on a weighted average basis.

The impairment model is applicable to the following financial assets that are not measured at FVTPL:

- Deposits in banks
- Debt instruments
- Loans
- Irrevocable loan commitments

No impairment losses are recognized on investments in equity instruments.

The ECL is measured on the following basis:

- *12-month ECL:* is the portion of the ECL resulting from loss events on a financial instrument that are possible within 12 months of the reporting date.
- *ECL over the life of the asset:* are the losses that result from all possible impairment events over the life of a financial instrument.

Allowance for losses are recognized at an amount equal to the ECL over the life of the asset, except in the following cases in which the recognized amount is equivalent to 12-month ECL:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments (other than leases receivable) for which the credit risk has not increased significantly since initial recognition.

Significant increase in credit risk

The assessment of whether there has been a significant increase in the credit risk of a financial asset is one of the critical judgments implemented in the impairment model.

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

Definition of Default

In assessing whether a debtor is in default, the Bank will consider indicators that are:

- Qualitative (e.g. breach of contract clauses);
- Quantitative (e.g. default status and non-payment of another obligation of the same issuer to the Bank); and
- Based on internally developed data (for loans and investments in local securities) and data obtained from external sources, such as risk ratings by rating agencies (for cases of placements and investments in foreign securities) and Panama's sovereign risk.

Inputs regarding ECL measuring

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

- Probability of default ("PD").
- Loss given default ("LGD").
- Exposure at default ("EAD").

The Bank obtains these parameters from internal statistical models and other historical data, which are adjusted to reflect forward-looking information as described above.

PD estimates are made at a certain date, at which time the Bank uses one-year regulatory transition matrices with a 60-month observation horizon, in accordance with the Bank's defined portfolio segmentation. These statistical models are based on internally compiled data composed of both qualitative and quantitative factors. Similarly, market information for prospective analysis, when available, is used to adjust the loan portfolio's PD. The statistical analyses performed determined that the monthly economic activity index ("IMAE") is the macroeconomic variable that shows the highest correlation with the levels of non-performing loans by segments of the Bank's economic activity.

To determine the PD of the portfolios of interbank placements and investments in sovereigns and financial institutions, market information from external rating agencies is used. The Bank established that it is not necessary to incorporate the impact of the context of macroeconomic variables for prospective analysis, since the external ratings produced by the rating firms capture such impacts.

The LGD is the magnitude of the loss given a default event. The Bank estimates the parameters of the LGD based on a historical recovery rate of claims against defaulting counterparts (doubtful and loss). LGD models consider the structure, collateral, counterparty portfolio segment and recovery costs of any comprehensive guarantees for the financial asset. It should be calculated on a discounted cash flow basis using the effective interest rate of the loans as a discount factor.

The EAD represents the expected exposure in the event of default. The Bank determines the EAD of the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including any amortization. For loan commitments, financial guarantees and unused credit line balances, the EAD considers the expected amount, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and projections.

The Bank evaluates at each reporting date, the ECL of financial assets held at amortized cost. The amount of losses determined during the period is recognized as a provision expense in profit or loss and increases a reserve account for losses on loans, deposits in banks or investments in securities at amortized cost. The reserve is presented as a deduction from the financial assets that generated it, in the statement of financial position

When a loan is determined to be a loss, the amount lost is decreased from the referred reserve account. Subsequent recoveries of loans previously written off as uncollectible increase the reserve account.

The incorporation of forward looking information in the process of estimating the ECL in the Bank is made based on the possible impact that could be registered 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 flow of payments of the assets.

Loan Impairment

The Bank determines the expected loss on loans using two bases for the assessment:

Individually Assessed Loans

Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is not objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics, and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the original effective interest rate of the loan, versus its current carrying value, and the amount of any loss is recognized as an allowance for loan losses in the statement of profit or loss. The carrying value of impaired loans is decreased through the use of the allowance for loan losses account.

Collectively Assessed Loans

For purposes of a collective assessment for impairment, the Bank principally uses statistical methods with a formula approach based on historical loss rate experience, the opportunity of recoveries and the actual loss incurred and makes an adjustment if current economic and credit conditions are such that it is likely that the actual losses are higher or lower than those suggested by historical trends. Roll rates, loss rates and the expected future recoveries terms are regularly benchmarked against actual loss experience, in order to assure that they are still appropriate.

Credit Risk Rating

The Bank assigns each exposure the regulatory classification of the Superintendency of Banks of Panama. These risk classifications are defined using qualitative and quantitative factors that are indicative of risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Since the Bank uses regulatory classifications as input for the calculation of the PD, it considers the normal classification (1) as the classification of all loans at initial recognition. Exposures will be subject to ongoing monitoring, which may result in the movement of an exposure to a different credit risk classification.

Generating the term structure of PD

Regulatory credit risk classifications are the main input to determine the PD term structure for the different loan portfolios. The Bank obtains performance and loss information on credit risk exposures analyzed by jurisdiction

or region, by the type of product and borrower, as well as by credit risk rating. For some portfolios, information from external credit reference agencies may also be used.

Significant increase in credit risk in the loan portfolio

The Bank considers a loan with a significant increase in risk by business segments of the loan portfolio when: it is in substandard classification (3) for all business segments, with the exception of the retirees segment, for which the special mention classification (2) is used.

Definition of default in the loan portfolio

The Bank considers a financial asset to be default by business segment when the debtor by business segment presents regulatory classifications of doubtful and loss (4) and (5) and for the retiree segment the substandard, doubtful and loss classifications.

The following table shows the stages of impairment by business segment established for the loan portfolio:

	Superintendency of Banks of Panama Regulatory Classification Categories		
Segment	**Low Risk**	**Significant Risk**	**Default**
Agricultural	1 and 2	3	4 and 5
Livestock	1 and 2	3	4 and 5
Commercial	1 and 2	3	4 and 5
Consumer	1 and 2	3	4 and 5
Consumer – Retirees	1	2	3, 4 and 5
Mortgage – Preferential	1 and 2	3	4 and 5
Mortgage - Non-preferential	1 and 2	3	4 and 5

Impairment of deposits in banks and investments at AC

For interbank placements and investment instruments, allocations to the impairment stages for the calculation of losses are based on external ratings, which are shown below:

- *Low risk:* International low risk financial instruments, that is, those with an investment grade higher or equal to BBB- at the time of the evaluation; and for local financial instruments rated as BB+, BB and BB- that maintained the same rating from their acquisition to the evaluation date.

- *Significant risk:* financial instruments with risk ratings lower than or equal to BB but higher than CCC.

- *Default:* financial instruments with risk ratings lower than or equal to CCC.

Borrower Assets

Foreclosed borrower assets are recognized at the lowest value of the carrying value of the unpaid loans and the fair value of the asset less the cost of sale. The difference between these values is maintained as an impairment allowance in order to maintain control over the original value of the foreclosed assets recognized. The provision for impairment is recognized in the statement of profit or loss.

Customer Deposits and Obligations

Customer deposits are initially measured at fair value. Subsequently, they are measured at amortized cost, using the effective interest rate method.

Securities Sold under Agreements to Repurchase

Securities sold under repurchase agreements are short-term financing transactions secured by securities, in which there is an obligation to repurchase the securities sold at a future date and at a specified price. The difference between the sale price and the future purchase value is recognized as interest expense under the effective interest rate

method

Dynamic Provision

The dynamic provision is an equity item that will be increased or decreased through transfers from and to retained earnings and is constituted by requirement of Agreement No. 004-2013 of the Superintendency of Banks of Panama.

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain of our selected statistical information and ratios for the periods indicated. The selected statistical information should be read in conjunction with the information in the Financial Statements included herein and the notes thereto appearing elsewhere in this offering memorandum.

Average Balance Sheets and Income from Interest-Earning Assets and Interest-Bearing Liabilities

The tables below set forth, by currency of denomination, the daily average balances and, where applicable, interest earned on interest-earning assets and interest paid on interest-bearing liabilities for the three-month period ended March 31, 2020 and 2019 and each of the years ended December 31, 2019, 2018 and 2017.

Average Balance Sheets

Assets, Interest and Average Interest Rates

ASSETS	For the three months ended March 31, 2020 Average Balance[1]	Interest Earned/ Paid	Nominal Average Rate	For the years ended December 31, 2019 Average Balance	Interest Earned/ Paid	Nominal Average Rate	2018 Average Balance	Interest Earned/ Paid	Nomina Average Rate
Interest-earning assets[2]									
Time deposits at amortized cost	2,483,808,458	10,316,851	1.7%	1,923,402,515	46,376,674	2.4%	1,666,617,963	34,417,685	2.1%
Securities purchased under resale agreements at amortized cost	53,242,731	417,175	3.1%	49,290,196	1,947,952	4.0%	85,244,163	3,265,716	3.8%
Investments in securities, net	2,841,407,606	24,713,118	3.5%	2,755,433,232	97,499,466	3.5%	2,904,877,631	99,554,933	3.4%
Loans at amortized cost[3]	4,390,171,443	58,699,273	5.4%	4,424,412,036	235,573,730	5.3%	4,048,165,775	213,785,677	5.3%
Total interest-earning assets	**9,768,630,238**	**94,146,417**	**3.9%**	**9,152,537,979**	**381,397,822**	**4.2%**	**8,704,905,532**	**351,024,011**	**4.0%**
Non-interest-earning assets									
Cash and cash equivalents	316,687,813			258,523,129			244,366,161		
Demand deposits - foreign	87,293,572			92,013,901			87,873,192		
Securities at fair value with changes in OCI.	9,061,297			7,785,005			6,806,321		
Property and equipment, net	85,002,714			82,012,959			85,684,137		
Right of use assets	3,650,747			1,755,630			0		
Other assets	58,304,465			102,278,887			85,041,262		
Total non-interest-earning assets	**560,000,608**			**544,369,511**			**509,771,073**		
Total Assets	**10,328,630,846**			**9,696,907,490**			**9,214,676,605**		

(1) The average balance information for the years ended December 31, 2017, 2018 and 2019, has been calculated using the balances of the statement of financial positi calculating the daily sum divided by 365 days for each year. For the three-month period ended March 31, 2020 and 2019, from our statement of financial position has been c 2020 and 2019 divided by 91 days. We have arithmetically calculated the average rate information based on the average balance volumes and the yield information (derived f

(2) Assets that generate interest income are loans, deposits in banks and securities. Loan fees are excluded.

(3) Figures for gross loans include past due loans and non-accruing loans.

Average Balance Sheets

Liabilities, Interest Paid and Average Interest Rates

LIABILITIES	For the three months ended March 31, 2020 Average Balance[1]	Interest Earned/ Paid	Nominal Average Rate	For the years ended December 31, 2019 Average Balance	Interest Earned/ Paid	Nominal Average Rate	2018 Average Balance	Interest Earned/ Paid	Nomina Average Rate
Interest-bearing liabilities:									
Demand deposits	4,308,654,440	854,981	0.1%	2,972,184,059	415,086	0.0%	0	0	
Savings deposits	692,509,418	1,525,036	0.9%	667,360,326	5,838,357	0.9%	658,532,340	5,688,028	0.9
Time deposits	3,882,703,860	18,151,645	1.9%	4,787,632,765	89,725,985	1.9%	4,194,462,261	71,928,502	1.7
Restricted deposits	72,228,604	3,476	0.0%	65,758,014	14,510	0.0%	62,792,931	15,983	0.0
Securities sold under repurchase agreements	6,670,692	42,155	2.5%	10,044,674	293,706	2.9%	31,852,304	949,591	3.0
Foreign borrowings received at amortized cost	20,879,121	146,108	2.8%	14,328,767	476,874	3.3%	14,575,342	484,922	3.3

	Liabilities, Interest Paid and Average Interest Rates								
	For the three months ended March 31,			For the years ended December 31,					
	2020			2019			2018		
LIABILITIES	**Average Balance[1]**	**Interest Earned/ Paid**	**Nominal Average Rate**	**Average Balance**	**Interest Earned/ Paid**	**Nominal Average Rate**	**Average Balance**	**Interest Earned/ Paid**	**Nomina Average Rate**
Bonds payable at amortized cost	206,761,948	1,560,165	3.0%	67,395,065	2,040,215	3.0%	0	0	
Lease liabilities	3,744,418	49,474	5.3%	1,788,863	176,610	9.9%	0	0	
Guarantee certificates for legal proceedings at amortized cost	111,071,531	71,285	0.3%	115,422,221	291,012	0.3%	142,290,369	365,957	0.3
Total interest-bearing liabilities	**9,305,224,032**	**22,404,325**	**1.0%**	**8,701,914,754**	**99,272,355**	**1.1%**	**5,104,505,547**	**79,432,983**	**1.6**
Non-interest-bearing liabilities and Capital Funds									
Demand deposits							3,163,133,967		
Other liabilities	104,424,408			105,108,265			114,208,425		
Capital funds	918,982,406			889,884,471			832,828,666		
Total non-interest-bearing liabilities and Capital funds	**1,023,406,814**			**994,992,736**			**4,110,171,058**	**0**	
Total liabilities and capital funds	**10,328,630,846**			**9,696,907,490**			**9,214,676,605**		

(1) The average balance information for the years ended December 31, 2017, 2018 and 2019, has been calculated using the balances of the statement of financial positio the daily sum divided by 365 days for each year. For the current year to March 31, 2020, from our statement of financial position has been calculated as the daily balance su have arithmetically calculated the average rate information based on the average balance volumes and the yield information (derived from the Financial Statements).

Net Financial Income and Expense: Volume and Rate Analysis

The following table sets forth, by currency of denomination, changes in our revenue and expenses between changes in the averag interest-bearing liabilities and changes in their respective nominal interest rates from March 31, 2019 to March 31, 2020, from December 31 December 31, 2017 to December 31, 2018. Volume and rate variances have been calculated based on movements in average quarterly ba rates, average interest-earning assets, and average interest-bearing liabilities. The net change attributable to changes in both volume and ra the change due to volume and the change due to rate.

	March 31, 2020/2019			December 31, 2019/2018			
	Increase/(Decrease) Due to changes in:			Increase/(Decrease) Due to changes in:			
	Rate[1]	**Volume[2]**	**Net Change**	**Rate[1]**	**Volume[2]**	**Net Change**	
	(*U.S.$, except percentages*)						
Interest-earning assets (Interest Income)							
Time deposits at amortized cost	(941,430,430)	941,291,296	(139,133)	(244,825,563)	256,784,552	11,958,989	1,2
Securities purchased under resale agreements at amortized cost	17,830,636	(18,165,267)	(334,631)	34,636,203	(35,953,967)	(1,317,764)	(
Investments in securities, net	(237,533,252)	239,088,479	1,555,227	147,388,932	(149,444,399)	(2,055,467)	
Loans at amortized cost[3]	(84,707,505)	86,206,744	1,499,239	(354,458,208)	376,246,261	21,788,053	(3
Total interest-earning assets	**(1,245,840,551)**	**1,248,421,252**	**2,580,702**	**(417,258,636)**	**447,632,447**	**30,373,811**	**8**
Interest-bearing liabilities (Interest Expense):							
Demand deposits	(1,186,488,192)	1,187,343,173	854,981	191,364,994	(190,949,908)	415,086	5
Savings deposits	(28,332,866)	28,429,685	96,819	(8,677,657)	8,827,986	150,329	(
Time deposits	278,306,507	(280,333,815)	(2,027,308)	(575,373,021)	593,170,504	17,797,483	3

	March 31, 2020/2019			December 31, 2019/2018			
	Increase/(Decrease) Due to changes in:			Increase/(Decrease) Due to changes in:			
	Rate[1]	Volume[2]	Net Change	Rate[1]	Volume[2]	Net Change	
	(*U.S.$, except percentages*)						
Interest-earning assets (Interest Income)							
Restricted deposits	(7,450,426)	7,450,237	(189)	(2,966,556)	2,965,083	(1,473)	
Securities sold under repurchase agreement at amortized cost ..	(3,312,838)	3,330,359	17,521	21,151,745	(21,807,630)	(655,885)	(
Foreign borrowings received at amortized cost	(8,603,361)	8,644,691	41,330	238,527	(246,575)	(8,048)	(
Bonds payable at amortized cost	(205,201,783)	206,761,948	1,560,165	(65,354,850)	67,395,065	2,040,215	
Lease liabilities	(745,527)	755,208	9,681	(1,612,253)	1,788,863	176,610	
Guarantee certificates for legal proceedings at amortized cost .	5,325,439	(5,329,437)	(3,998)	26,793,203	(26,868,148)	(74,945)	
Total interest-bearing liabilities	**(1,156,503)**	**1,157,052,049**	**549,002**	**(414,435,868)**	**434,275,240**	**19,839,372**	**8**
Total	**(89,337,504)**	**91,369,203**	**2,031,700**	**(2,822,768)**	**13,357,207**	**10,534,439**	

(1) Rate: corresponds to the impacts generated by changes in interest rates applied to assets and liabilities.

(2) Volume: corresponds to the impacts generated by changes in the volumes (balances or amounts) of assets and liabilities.

(3) Figures for Gross loans include past due loans and non-accruing loans.

Interest-Earning Assets: Net Interest Margin and Yield Spread

The following table sets forth for each of the periods indicated our levels of average interest-earning assets, net interest income, gross yield, net interest margin and yield spread, all on a nominal basis.

	For the three-month period ended March 31,	For the year ended December 31,
	2020	2019
	(*U.S.$ in thousands, except for percentages*)	
Average Interest-earning asset	9,768,630	9,152,538
Average interest-bearing liabilities	9,305,224	8,701,915
Net interest and commission income [(1)]	73,947	291,768
Gross yield[(2)]	3.97%	4.27%
Net interest margin[(3)]	3.04%	3.19%
Yield Spread [(4)]	0.92%	1.08%

(1) Net interest and commission income" is defined as interest revenue earned, less interest expense incurred.

(2) Gross yield" is defined as interest income divided by average interest-earning assets.

(3) Net interest margin is calculated as follows: net interest income divided by average interest-earning assets

(4) Yield Spread is the difference between Gross yield and Net interest margin.

Investment Portfolio

Prior to the implementation of IFRS 9, we classified our portfolio as securities acquired under repurchase agreements, securities held to maturity and securities available-for-sale.

We recognized securities available-for-sale at fair value and recognized gains or losses arising from changes in the fair value of these assets in equity until they were discharged from financial assets. Our investment portfolio is composed of sovereign and corporate debt securities, including securities issued by Panamanian, American, Latin American and Supranational institutions.

The following table sets forth our investment portfolio by type as of December 31, 2017 with our accounting policies used before January 2018.

	2017	
	(U.S.$ in millions, except for percentages)	
	Amount	%
Securities available-for sale		
Panamanian Sovereign	1,335,448,064	43.52%
Panamanian Other-Public	40,964,917	1.33%
Local Corporate	569,092,612	18.55%
Local Financials	38,487,860	1.25%
Foreign Issuers	742,478,220	24.20%
Foreign Financial	342,108,395	11.15%
Total Securities available for sale	**3,068,580,067**	**100.00%**

Commencing on January 2018 our accounting policies for financial assets were reclassified to the following categories in order to comply with IFRS 9 accounting rules: (i) securities purchased under resale agreements, (ii) investments at fair value through profit and loss, (iii) investments at fair value through other comprehensive income, and (iv) investments at amortized cost.

Following our reclassification, we measure as investments at amortized costs any non-derivative debt instruments with fixed or determinable payments, with the purpose to collect cash flows solely from payments of principal and interest (SPPI). Conversely, we measure debt instruments with the purpose of not only collecting their

cash flows for payments of principal and interest, but also for the possibility of selling them as investments at fair value through other comprehensive income (FVOCI). Any other debt instrument managed at fair value basis are consequently measured as investments at fair value through profit and loss (FVTPL).

The following table sets forth our investment portfolio by type as of March 31, 2020, December 31, 2019, and December 31, 2018.

	As of March 31, 2020		As of December 31, 2019		As of December 31, 2018	
	(U.S.$ in millions, except for percentages)					
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Securities purchased under resale agreements						
Panamanian sovereign	13,013,245	27%	5,040,000	7%	36,438,625	36%
Panamanian non-sovereign	35,587,190	73%	62,903,909	93%	50,540,580	50%
Foreign Issuer					13,297,060	13%
Securities purchased under resale agreements at amortized cost	48,600,435	100%	67,943,909	100%	100,276,265	100%
Investment at Fair Value through Other Comprehensive Income						
Panamanian non-sovereign	1,428,354	0.1%	1,372,520	0.0%	572,468	0.0%
Financial institutions	5,555,354	0.2%	7,813,377	0.3%	5,759,585	0.2%
Total Investment at Fair Value through Other Comprehensive Income	6,983,708	0.3%	9,185,897	0.3%	6,332,052	0.2%
Investments at Amortized Cost (gross)						
Panamanian sovereign	1,139,650,698	42.0%	1,057,975,869	36%	772,249,841	29%
Panamanian Other Public	536,957,909	19.8%	535,823,349	18%	471,973,109	18%
Local Corporate	187,138,500	6.9%	186,383,278	6%	193,415,266	7%
Local Financial	116,400,000	4.3%	118,900,000	4%	134,500,000	5%
Foreign Issuers	442,950,136	16.3%	613,706,952	21%	665,618,919	25%
Foreign Financial	284,809,672	10.5%	400,120,534	14%	376,398,057	14%
Total Investments at Amortized Cost (gross)	2,707,906,914	99.7%	2,912,909,982	99.7%	2,614,155,193	99.8%
Total investment in securities holdings (gross)	**2,714,890,622**	**100.0%**	**2,922,095,879**	**100.0%**	**2,620,487,245**	**100.0%**

As of March 31, 2020, our investment portfolio in securities acquired under repurchase agreements represented 1.79% of the total amount of our investments, 0.48% of the value of our assets and 5.39% of our regulatory capital.

As of March 31, 2020, our investment portfolio at fair value through other comprehensive income represented 0.26% of the total amount of our investments, 0.07% of the value of our assets and 0.78% of our regulatory capital.

As of March 31, 2020, our investment portfolio at amortized cost represented 99.74% of the total amount of our investments, 26.72% of the value of our assets and 300.59% of our regulatory capital.

The weighted average yield in our interest and dividend-earning investment portfolio was 3.50% as of March 31, 2020, 3.57% as of December 31, 2019, 3.46% as of December 31, 2018, and 3.27% as of December 31, 2017.

The following table sets forth the maturities of our investment portfolio by type as of March 31, 2020:

	Within 1 year or less	After 1 year but within 5 years	After 5 years but within 10 years	After 10 years	Total
			(U.S.$)		
Securities acquired under repurchase agreements					
Panamanian sovereign	13,013,245	-			13,013,245
Panamanian non-sovereign	35,587,190				35,587,190
Foreign governments					-
Foreign issuers					-
Total securities acquired under repurchase agreement	**48,600,435**	**-**	**-**	**-**	**48,600,435**
Securities Investment at Fair Value through Other Comprehensive Income					
Panamanian non-sovereign				1,428,354	1,428,354
Financial institutions				5,555,354	5,555,354
Total Investment at Fair Value through Other Comprehensive Income	**-**	**-**	**-**	**6,983,707**	**6,983,707**
Investments at Amortized Cost					
Panamanian sovereign	121,798,296	595,807,576	356,471,826	65,573,000	1,139,650,698
Panamanian Other Public	-	308,399,017	83,272,354	145,286,538	536,957,909
Local Corporate	14,267,601	99,064,770	62,706,128	5,000,000	181,038,500
Local Financial	47,100,000	68,400,000	-	-	115,500,000
Foreign Issuers	324,070,806	108,396,262	-	-	432,467,068
Foreign Financial	201,361,896	100,930,843	-	-	302,292,739
Total Amortized Cost	**708,598,600**	**1,280,998,469**	**502,450,308**	**215,859,538**	**2,707,906,914**
Total	**708,598,600**	**1,280,998,469**	**502,450,308**	**222,843,246**	**2,714,890,622**

The following table sets forth our investment portfolio breakdown by country as of December 31, 2019.

Country	Book Value (U.S.$)	% of Total
Panama	1,901,461,729	65%
United States	715,484,190	24%
Supranational	211,137,629	7%
Canada	44,842,415	2%
Other[1]	49,169,917	2%
Total	**2,922,095,879**	**100%**

(1) Other includes Peru, Chile, Great Britain, and Colombia.

The following table sets forth our investment portfolio by rating as of December 31, 2019.

Rating[1]	Book Value (U.S.$)	% of Total
AAA	149,442,457	5%
AA+	91,390,400	3%
AA	44,962,810	2%
AA-	49,049,389	2%
A	167,998,958	6%
A+	345,827,477	13%
A-	115,869,629	4%
BBB+	67,294,851	2%
BBB	1,507,376,772	54%
BBB-	12,265,930	1%
BB+[2]	138,479,447	5%

Rating[1]	Book Value (U.S.$)	% of Total
BB-[2]	91,000,000	3%
Total	**2,780,958,120**	**100%**

(1) This table only includes bonds that are rated by International Credit Rating Agencies.

(2) These bonds are not part of our liquid portfolio.

Loan Portfolio

The following table sets forth our gross loan portfolio by type of loan as of March 31, 2020 and each of December 31, 2019, 2018 and 2017. A significant majority of our loans are fixed rate, which can be reset at Banconal's unilateral option, at any time. The remaining loans, 8% of the loan portfolio, are floating rate loans based on LIBOR with a floor.

	As of March 31,		As of December 31,					
	2020		2019		2018		2017	
	(U.S.$, except percentages)							
Public sector, gross	310,545,198	6.9%	310,636,844	7.1%	464,327,629	11.1%	219,742,778	6.1%
Private sector, gross:								
Mortgage Loans	1,367,414,512	30.3%	1,307,682,597	29.7%	1,124,482,465	26.8%	967,466,588	26.8%
Personal	1,162,435,814	25.8%	1,155,535,117	26.3%	1,112,655,003	26.5%	1,061,147,676	29.4%
Agricultural	619,379,367	13.7%	621,617,729	14.1%	585,728,440	13.9%	550,114,394	15.3%
Commercial	746,867,619	16.6%	809,093,331	18.4%	696,753,735	16.6%	653,212,975	18.1%
Financial Institutions	317,425,520	7.0%	203,946,559	4.6%	217,591,416	5.2%	137,548,237	3.8%
Industrials	49,958,545	1.1%	50,354,977	1.1%	50,674,309	1.2%	51,292,734	1.4%
Overdrafts	621,251	0.0%	522,585	0.0%	217,083	0.0%	320,570	0.0%
Total gross private sector	**4,264,102,628**	**94.5%**	**4,148,752,895**	**94.3%**	**3,788,102,451**	**90.2%**	**3,421,103,174**	**94.9%**
Total gross loans	**4,574,647,826**	**101.4%**	**4,459,389,739**	**101.4%**	**4,252,430,080**	**101.2%**	**3,640,845,952**	**101.0%**
Accrued interest receivable	31,707,866	0.7%	29,488,660	0.7%	28,231,790	0.7%	24,630,680	0.7%
Allowance for loan losses	(68,999,096)	(1.5%)	(62,917,878)	(1.4%)	(53,607,992)	(1.3%)	(34,675,449)	(1.0%)
Interest and unearned commissions	(26,788,733)	(0.6%)	(26,954,325)	(0.6%)	(26,910,713)	(0.6%)	(26,166,407)	(0.7%)
Loans at amortized cost	**4,510,567,863**	**100.0%**	**4,399,006,196**	**100.0%**	**4,200,143,165**	**100.0%**	**3,604,634,776**	**100.0%**

The classification of the loan portfolio by type of loan as set forth in the table above is based upon our internal guidelines. Pursuant to our guidelines, loans are categorized as follows:

Consumer Personal Banking

Residential mortgage loans. Residential mortgage loans are made to finance the purchase of a residential property. Banconal offers mortgage lending products designed to meet the specific needs of each customer based on property value, at highly competitive interest rates. Except for mortgage loans for the purchase of a customer's first home, whether new or pre-used, in order to qualify for a mortgage loan from Banconal the applicant must have or must open a savings account. Residential mortgage loans represented 29.9% of total loans as of March 31, 2020 and 29.3% as of December 31, 2019.

Personal loans. Banconal offers personal lending products designed to meet the specific needs of its customers, at the most competitive interest rates available in the market. Customers can use the proceeds from these loans to address their private needs, fund home improvements or consolidate their debts. These loans are for personal use and are not intended for the production and marketing of goods or services. Personal loans represented 25.4% of total loans as of March 31, 2020 and 25.9% as of December 31, 2019.

Corporate and Commercial Banking

Corporate and commercial loans. We offer lending products to corporate customers engaged in commercial and industrial activities, in order to enable them to satisfy their working capital requirements, finance acquisitions

such as land, retail space and inventories, finance the construction and improvement of warehouses, retail outlets and other real properties, manage their accounts receivable and obtain letters of credit or overdraft lines. Corporate and commercial loans represented 16.3% of total loan portfolio as of March 31, 2020 and 18.2% as of December 31, 2019.

Small business loans. We offer lending products to dynamic individuals who are interested in growing their small- or medium-sized businesses in Fixed-term: Fixed-term deposits accrue interest throughout their terms, at agreed-upon rates. Interest on fixed-term deposits are payable either periodically or at maturity. Minimum initial deposit: U.S.$10,000.00. Interest payments: Interest payments may be capitalized on a monthly, bi-monthly, quarterly, semi-annual or annual basis, or at maturity.

Industrial Loans

Industrial loans are loans made to entities in the manufacturing or infrastructure business. As of December 31, 2019, our industrial loan portfolio represented 1.1% of the total amount of our loans.

Financial Institutions

Financial institution loans are loans made to entities in the banking and financial sector. As of December 31, 2019, loans to financial institutions represented 4.6% of the total amount of our loans. As of March 31, 2020, loans to financial institutions represented 6.9% of the total loan portfolio.

Agricultural Lending

Banconal has been at the forefront of the development of Panama's farming sector since its very beginning. Its proven experience in the agribusiness market and its portfolio of agribusiness products, which are designed to best address the specific needs of this economic segment, have allowed Banconal to position itself as market leader. Banconal attributes the success of its agricultural agribusiness products to its solid business strategy for the segment, which focuses on the maintenance of one-on-one personal relationships with its customers to share with them its experience as an institution that knows its home country. Agricultural lending represented 13.5% of total loans as of March 31, 2020 and 13.9% as of December 31, 2019.

Term loans. Banconal offers short-, medium- and long-term lending products to farm customers engaged in the agricultural activities permitted by law. The amount of financing available through these products, which are eligible for subsidies, ranges from U.S.$3,000.00 to U.S.$200,000.00. The loans accrue interest at an annual reference rate of 8% minus the discount rate pursuant to Executive Decree No. 29 of August 8, 1996, if intended for activities that compete with the AGROCOMPITA program, or an annual reference rate of 6% minus the discount rate pursuant to Executive Decree No. 87 of July 19, 2008, if intended for other purposes. The loans in excess of U.S.$200,000.00 are not eligible for any subsidy. The maximum term of these loans is 15 years.

Livestock farm loans. Livestock farming is one of Panama's most important economic activities. Accordingly, Banconal offers financing solutions that are specifically designed for use in connection with activities associated with the bovine, porcine, avian, ovine and caprine animal species, equine species bread for farm work, other less meaningful species and, within each of these categories, the activities associated with lineages and breeds that have proven adaptable, are competitive and offer a new window of opportunity. Livestock loans represented 10.6% of total loans as of March 31, 2020.

In order to qualify for this type of loans the prospective borrower must be an experienced farmer or must have retained the technical advisory services of an industry expert, must have demonstrated capacity to meet its payment obligations and must present Banconal with an overview or assessment of the project, including its proposed collateral for the loan, cash flows, cost and return forecasts any other material aspect thereof.

Credit Cards

The VISA international credit card is an electronic payment method that allows its holders to purchase goods and services. The VISA credit cards offered by Banconal also allow their holders to make cash withdrawals through

ATMs in Panama or abroad in exchange for an additional fee. "Vive Panamá" Visa: It is the only credit card that offers discounts and a 1.5% cash back when used at affiliated establishments associated with the tourism industry. Visa Classic: Annual membership: U.S.$45.00. Requisite income: no less than U.S.$600.00. Annual interest: 15%. Visa Gold: Annual membership: U.S.$60.00. Requisite income: no less than U.S.$3,500.00. Annual interest: 15%. Credit Cards represent only 0.3% of total loan portfolio as of March 31, 2020.

Maturity Composition of the Performing Loan Portfolio

The following table sets forth an analysis of our performing loan portfolio, collectively, as of March 31, 2020, and each of December 31, 2019, 2018 and 2017, by type and by time remaining to maturity. Loans are stated before allowance for loan losses and without interest receivable and unearned commissions.

	As of March 31,	As of December 31,		
	2020	2019	2018	2017
		(U.S.$)		
Maturity				
Up to 30 days	123,737,329	49,700,423	87,261,321	43,443,436
Between 31 and 90 days	59,012,912	155,776,424	132,495,647	108,095,240
Between 91 and 186 days	178,738,872	106,599,227	105,123,043	41,841,158
Between 187 and 365 days	196,195,493	101,523,798	111,345,545	257,820,056
Over 365 days	3,945,436,416	4,009,214,968	3,788,793,616	3,168,148,094
Past due loan amounts	71,526,805	36,574,899	27,410,908	21,497,968
Total gross loans	**4,574,647,826**	**4,459,389,739**	**4,252,430,080**	**3,640,845,952**

Classification of the Loan Portfolio

Our policies and manuals for the classification of our loan portfolio meet the regulatory requirements imposed by the Superintendency of Banks through its Decision No. 4-2013 (as amended by Decision No. 8-2014 and Decision No. 2019).

For purposes of determining the relevant allowances and dynamics, all loans are classified under one of the following categories based on their book value as of the date of review:

Consumer Loans

In classifying our consumer loans, we take into account the following criteria:

- *Personal consumer loans*: We classify our consumer loans, both secured and unsecured, under one of the following categories:

- *Standard*: Loans which are not delinquent or are no more than 60 days past due.

- *Special Mention*: Loans which have been delinquent for a period from 61 to 90 days, or up to 180 days if secured by real assets with a value in excess of 50% of the loan amount.

- *Underperforming*: Loans which have been delinquent for a period from 91 to 120 days, or up to 270 days if secured by real assets with a value in excess of 50% of the loan amount.

- *Doubtful*: Loans which have been delinquent for a period from 121 to 180 days, or up to 360 days if secured by real assets with a value in excess of 50% of the loan amount.

- *Loss*: Loans which have been delinquent more than 180 days, or more than 360 days if secured by real assets with a value in excess of 50% of the loan amount.

Occasional personal loan overdrafts which are no more than 30 days past due are classified Standard. At the end of this period, loans are reclassified Sub-standard for a period not to exceed from 30 days. At the end of the second 30-day period, loans must be reclassified Loss.

Residential Mortgage Loans

We classify our residential mortgage loans under one of the following categories:

- *Standard*: Loans which are not delinquent or are no more than 60 days past due.
- *Special Mention*: Loans which have been delinquent for a period from 61 to 90 days, or up to 180 days if secured by real assets with a value in excess of 70% of the loan amount.
- *Sub-standard*: Loans which have been delinquent for a period from 91 to 180 days, or up to 270 days if secured by real assets with a value in excess of 70% of the loan amount.
- *Doubtful*: Loans which have been delinquent for a period from 181 to 360 days, or up to 360 days if secured by real assets with a value in excess of 70% of the loan amount.
- *Unrecoverable*: Loans which are more than 360 days past due.

Corporate and other loans

We classify our corporate and other loans under one of the following categories:

- *Standard:* Loans which are not delinquent or are no more than 30 days past due. A loan is classified Standard when the borrower's operating cash flow is sufficient to satisfy or exceeds the borrower's debt-service obligations through the cancellation of the loan and, in addition:
  - The financial condition of the borrower in terms of its leverage ratio is acceptable;
  - The borrower is able to satisfy its obligations when due, without resorting to new direct financing;
  - The collateral pledged has been verified and clearly defined and is reviewed on a regular basis by professionals unrelated to the borrower;
  - The borrower's management system has proven adequate by allowing it to understand at all times its financial condition, and the borrower maintains effective internal controls; and
  - The performance of the industry in which the borrower is engaged is conducive to the sound development of its business in the ordinary course.
- *Special Mention:* Loans classified under this category are reflective of weaknesses relating to the borrower. In addition, the borrower's overall condition and the collateral securing its financial commitment warrant special attention to ensure recovery should the borrower's repayment ability deteriorate. Weaknesses may arise as a result of:
  - A delinquency lasting from 31 to 90 days, or up to 180 days if the loan is secured by real assets with a value in excess of 50% of the its amount;
  - Factors affecting the borrower directly or indirectly, such as a high leverage ratio, adverse industry conditions, inadequacies in the loan agreement, decreasing operating cash flows and potential impairment of the value of the collateral due to expected future economic conditions;
  - The borrower's failure to comply with its financial reporting obligations in a timely manner; or

- The loan having been granted other than on the basis of a detailed analysis, or for subjective reasons.

- *Sub-standard:* A loan must be classified Sub-standard when the operating cash flow or other primary source of repayment is inadequate and jeopardizes the recovery of the outstanding balance. If the deficiencies are not corrected in a timely manner, we consider enforcing the collateral taking into account its realizable market value. In addition, we take into consideration whether any of the following circumstances are present:

  - A delinquency lasting from 91 to 180 days, or up to 270 days if the loan is secured by real assets with a value in excess of 50% of its amount;

  - Insufficiency of the borrower's operating cash flow or other primary source of repayment to satisfy the borrower's debt- service obligations in the agreed-upon terms;

  - The existence of known delinquent obligations to other banks and/or of pending judicial collection proceedings in respect of such obligations;

  - Clear evidence of a deterioration in working capital that renders the borrower unable to repay the loan in the agreed-upon terms; and

  - Strained financial relationships between the borrower and its suppliers and customers.

- *Doubtful:* Loans classified Doubtful are those whose recovery is highly unlikely as a result of a material deterioration in the borrower's financial condition —typically followed by the commencement of legal action— such that its revenue sources or assets, or the collateral pledged, will allow us to recover only a portion of the loan. In classifying a loan Doubtful we also take into consideration whether any of the following circumstances are present:

  - A delinquency lasting from 181 to 270 days, or up to 360 days if the loan is secured by real assets with a value in excess of 50% of its amount;

  - An operating cash flow or other primary source of repayment which has consistently proven insufficient to satisfy the borrower's debt- service obligations in the agreed-upon terms;

  - Adverse conditions beyond the control of the borrower which may affect the recoverability of the loan, such as changes in the economic cycles in the country where the source of repayment is based, or certain specific types of unforeseen events such as fire, changes in technology and political changes, among others; and

  - More than one loan renewal notwithstanding the absence of payments of principal or interest thereon, or deviations of loan proceeds to other projects.

- *Loss:* Loans classified as Loss are those whose collection is so obviously unfeasible that their continuance as financial assets is not warranted and must be written-off in a timely manner to account for their loss, even though the Bank may eventually effect a full or partial recovery. These include loans to companies who rely for revenues on other companies whose precarious financial condition due to their indebtedness or operational deficiencies, or to prevailing conditions in the economic sector in which they are engaged, renders them unable to satisfy their own payment obligations. In classifying a loan Loss we also take into consideration whether any of the following circumstances are present:

  - A delinquency lasting more than 270 days, or more than 360 days if the loan is secured by real assets with a value in excess of 50% of its amount;

  - A deterioration in the borrower's payment capacity that jeopardizes its survival as a going concern; pending reorganization proceedings with respect to the borrower, making it safe to assume that the

borrower will also find it difficult to comply with the terms of its reorganization plan; or the insolvency of the borrower or the filing of a petition to award it bankrupt;

- The discontinuation of its operations by the borrower and the existence of judicial collection proceedings in respect of its debt;

- The Bank not fully knowing the client, especially as it relates to the client's recent financial condition and current whereabouts;

- Inadequacies, deficiencies or falsehoods in the loan documents; and

- Absence or insufficient amount of collateral, or defects in the creation of the relevant security interest.

Occasional corporate loan overdrafts and other sporadic overdrafts which are no more than 30 days past due are classified Standard. At the end of this period, loans are reclassified Sub-standard for a period not to exceed from 30 days. At the end of the second 30-day period, loans must be reclassified Loss.

Past Due Portfolio

The following table sets forth the repayment status our loan portfolio as of March 31, 2020, and each of December 31, 2019, 2018 and 2017:

	As of March 31,	As of December 31,		
	2020	**2019**	**2018**	**2017**
		(*U.S.$, except percentages*)		
Current	4,450,858,839	4,381,828,786	4,194,820,739	3,592,893,873
Past due	71,526,805	36,574,899	27,410,908	21,497,968
Overdue 31-90 days	2,748,182	1,390,951	3,168,486	2,233,227
Overdue 91 days or more	49,514,000	39,595,103	27,029,947	24,220,885
Total past due and overdue loans	**123,788,987**	**77,560,953**	**57,609,341**	**47,952,080**
Total gross loans	**4,574,647,826**	**4,459,389,739**	**4,252,430,080**	**3,640,845,953**
Past due loan amounts as a percentage of total gross loans	2.7%	1.7%	1.4%	1.3%

The following table sets forth our past due and overdue loans portfolio as of March 31, 2020, and each of December 3, 2019, 2018 and 2017:

	As of March 31,	As of December 31,		
	2020	**2019**	**2018**	**2017**
		(*U.S.$*)		
Past due loan amounts				
Loans	123,458,226	77,409,063	57,609,341	47,952,080
Refinanced loans	330,761	151,890	0	0
Total past due portfolio	**123,788,987**	**77,560,953**	**57,609,341**	**47,952,080**
Loss allowance:				
Collective	28,032,917	21,740,517	14,187,748	14,257,026
Total provisions for possible impairment allowance	**28,032,917**	**21,740,517**	**14,187,748**	**14,257,026**
Total past due portfolio, net of total provision	**95,756,070**	**55,820,436**	**43,421,592**	**33,695,054**

Collateralization to Reduce Risk Exposure

We request our borrowers to collateralize their indebtedness, which allows us to reduce our risk exposure and ensure the collection of our financial assets. The following table sets forth the level of collateralization by type of loan as of March 31, 2020, and each of December 31, 2019, 2018 and 2017:

Type	As of March 31, 2020		As of December 31, 2019		As of December 31, 2018		As of December 31, 2017	
	(U.S.$, except percentages)							
Agricultural loans	1,642,605,614	32%	1,646,060,575	32%	1,842,575,156	34%	1,722,203,599	37%
Commercial loans	465,604,319	9%	450,700,546	9%	480,690,105	9%	422,411,600	9%
Corporate loans	526,334,217	10%	681,555,818	13%	728,696,509	14%	565,320,733	12%
Financial Institutions	203,420,384	4%	178,215,579	3%	200,409,956	4%	97,963,990	2%
Mortgages loans	1,810,619,728	36%	1,731,639,600	34%	1,683,756,913	31%	1,473,664,253	32%
Personal loans	392,663,183	8%	386,167,981	8%	406,858,340	8%	361,103,006	8%
Credit cards loans	270,204	0%	283,721	0%	332,387	0%	369,349	0%
Government Institutions	-	0%	-	0%	3,079,286	0%	34,500,000	1%
Other loans	36,149,967	1%	24,002,760	0%	-	0%	-	0%
Total	**5,077,667,615**	100%	**5,098,626,579**	100%	**5,346,398,652**	100%	**4,677,536,529**	100%

Allowance for Loan Losses

The following table sets forth the changes in our allowance for loan losses and movements as of March 31, 2020, and each of December 31, 2019, 2018 and 2017:

	As of March 31,	As of December 31,		
	2020	2019	2018	2017
		(*U.S.$*)		
Balance at the beginning of the year	62,917,878	53,607,992	34,675,449	24,216,081
Impact of adoption of IFRS 9 to January 1, 2018	0	0	17,421,127	0
Reserve charged to expenses	5,704,051	10,180,315	4,599,885	9,466,368
Recoveries	379,955	2,505,837	1,687,339	1,729,727
Write-off loans	(2,788)	(3,376,266)	(4,775,808)	(736,727)
Balance at the end of the period	**68,999,096**	**62,917,878**	**53,607,992**	**34,675,449**

See "Classification of the Loan Portfolio" for a discussion of the risk elements in the loan portfolio and the factors considered in determining the amount of specific allowance.

Allocation of Allowance for Loan Losses

The following table sets forth the amounts of our allowance for loan losses attributable to consumer and corporate loans as of March 31, 2020, and each of December 31, 2019, 2018 and 2017.

	As of March 31,		As of December 31,					
	2020		2019		2018		2017	
			(*U.S.$, except percentages*)					
Consumer	13,204,509	19%	12,554,888	20%	10,621,838	20%	9,158,891	26%
Commercial	17,253,764	25%	16,659,836	26%	15,264,342	28%	10,494,298	30%
Agricultural	5,490,522	8%	4,671,486	7%	4,524,156	8%	2,735,820	8%
Secured by pledge[1]								
Overdraft	2,655	0	10,899	0	1,018	0	0	0
Mortgages	9,441,094	14%	3,486,637	7%	5,171,741	10%	3,184,604	9%
Livestock	17,910,808	26%	16,527,106	26%	11,756,377	22	6,103,525	18%
Retirees	3,941,962	6%	3,928,148	7%	3,906,686	7%	2,225,354	6%
Credit cards	434,766	0%	373,973	1%	266,568	0	0	0
Financial Institutions l	442,664	1%	341,813	1%	639,307	1%	772,957	2%
Public Sector	348,121	0%	348,224	1%	927,727	2%	0	0
Factoring								0
Unallocated[2]	528,231	1%	528,232	1%	528,232	1%	0	0
Total loans	**68,999,096**	**100%**	**62,917,878**	**100%**	**53,607,992**	**100%**	**34,675,449**	**100%**

(1) We do not make any provisions for loans secured by pledge, as their guaranty is rapidly enforceable upon the debtor's failure to comply with the applicable payment schedule.

(2) Refers to provisions we made in accordance with Panamanian regulations on regulatory capital and our internal policies to mitigate the risk of loan delinquency.

Composition of Deposits

The following table sets forth the components of our deposit base as of March 31, 2020, and each of December 31, 2019, 2018 and 2017.

	As of March 31,		As of December,	
	2020	2019	2018	2017
	(U.S.$)			
Deposits				
Demand deposits	3,414,259,868	3,403,626,533	3,149,602,759	3,033,504,725
Savings deposits	703,507,853	709,752,928	692,680,095	667,515,720
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	4,532,260,309	5,333,533,981	4,225,425,197	4,907,079,969
Total Deposits	**8,650,028,030**	**9,446,913,442**	**8,067,708,051**	**8,608,100,414**

Maturity of Deposits

The following table sets forth information regarding the maturity of our deposits as of March 31, 2020:

	As of March 31, 2020						
	1 month	1-3 months	3 months to 1 year	1-5 years	+ 5 years	Interest receivable	Total
	(*U.S.$ in thousands, except percentages*)						
Time deposits	1,713,215,000	305,000,000	100,000,000	0	0	3,665,981	2,121,880,981
Demand deposits	120,519,665	0	0	0	0	0	120,519,665
Total	**1,833,734,665**	**305,000,000**	**100,000,000**	**0**	**0**	**3,665,981**	**2,242,400,646**
Percentage of Total	81.8%	13.6%	4.4%	0.0%	0.0%	0.2%	100%

Return on Equity and Assets

The following table sets forth the components for our return on equity and assets for the three months ended March 31, 2020, and each of December 31, 2019, 2018 and 2017:

	For the three-month period ended March 31,	For the year ended December 31,		
	2020	2019	2018	2017
ROAA[(1)]	1.7%	1.7%	2.0%	1.6%
ROAE[(2)]	19.6%	18.9%	22.1%	18.5%
Equity-to-assets ratio[(4)]	9.3%	8.3%	8.9%	8.9%

(1) Net income of the period divided by average of total assets of the current period. The average balance information for the years ended December 31, 2017, 2018 and 2019, has been calculated using the balances of the statement of financial position that are generated daily by Banconal, calculating the daily sum divided by 365 days for each year. The average balance information for the three months ended March 31, 2020 has been calculated from Banconal's statement of financial position as the daily balance sum to March 31, 2020 divided by 91 days.

(2) Net income for the period is divided by average of total capital funds. The average balance information for the years ended December 31, 2017, 2018 and 2019, has been calculated using the balances of the statement of financial position that are generated daily by Banconal, calculating the daily sum divided by 365 days for each year. The average balance information for the three months ended March 31, 2020 has been calculated from Banconal's statement of financial position as the daily balance sum to March 31, 2020 divided by 91 days.

(3) Total Capital Funds divided by total assets, computed for the year-end balance as of December 31, 2017, 2018 and 2019, and the three-month

ended balance as of March 31, 2020.

Short-Term Obligations with Financial Institutions

As of March 31, 2020, Banconal had the following short-term obligations with financial institutions:

- Repo Transaction with Banco Bilbao Vizcaya Argentaria, S.A. for U.S.$101.2 million with a maturity date of September 22, 2020.

- Credit Agreement for working capital with Wells Fargo Bank N.A. for U.S.$50 million with a maturity date of September 18, 2020.

Long-Term Obligations

Pursuant to Resolution No. 118-2010 dated May 3, 2010, as amended by Resolution No. 307-2010 dated November 15, 2010, our Board of Directors authorized the issuance and public offering of a debt program for an aggregate nominal value up to U.S.$600 million and a maturity of up to ten years. The listing and trading of the bonds were duly authorized by the Panama Stock Exchange.

Further, as of March 31, 2020, we have issued notes in the amount of U.S.$205.7 million with maturity date September 4, 2029.

BUSINESS

Overview

Banconal is an independent, state-owned bank in Panama, with U.S.$10,135 million of total assets as of March 31, 2020. Banconal serves a systemically important role, serving as the financial arm of the Panamanian government and all public entities. As of March 31, 2020, Banconal is the second largest Panamanian banking entity in terms of total assets and the third in terms of customer loans. Banconal operates in the largest Panamanian credit segments, such as mortgages, commercial, consumer and construction loans, which represent 87% of domestic loans in Panama.

Banconal provides a wide variety of financial services, including corporate and commercial and retail banking, as well as brokerage and leasing services. Banconal operates as a general license bank offering universal banking services to the public sector, companies and individuals with the widest geographical coverage across Panama, helping to promote the country's economic development. Banconal's lending exposures are diversified among economic segments with a portfolio that was 16.6% commercial loans, 30.3% mortgages and 25.8% consumer loans as of March 31, 2020. As of March 31, 2020, Banconal was the largest provider of agricultural loans in Panama with a 33.8% market share, the largest provider of loans to the financial sector in Panama with a 40.0% market share and the fifth largest provider of mortgages in Panama with a 7.6% market share.

Banconal serves as the financial arm of the Panamanian government. In addition to its statutory purposes set forth in the Organic Law, Banconal provides financial support for the development of Panama's economy through its engagement in banking activities in its capacity as the official bank of the Panamanian government. Additionally, Banconal serves as facilitator and procurement agent for the financing programs aimed at the country's development and provides a majority of the check-clearing and compensation-clearing services in Panama. It directs Panama's inter-bank exchange and the clearing and settlement system for the Panamanian financial system. Banconal also acts as trust and fiscal agent for the Panamanian government and since 1979, following the Canal Treaties, is in charge of the distribution and recollection of U.S. dollar bills in Panama. The Bank is also the largest holder of deposits from public entities and the country's social security fund. As the largest state-owned bank of Panama, Banconal plays an important role in times of crisis, like the current one related to COVID-19, by increasing its lending exposure to the Panamanian financial system. Credit facilities granted by Banconal on a bilateral basis to its financial institutions clients post-COVID-19 have totaled more than U.S.$407.6 million.

While fully owned by Panama, Banconal is an autonomous legal entity with independent capital that operates with administrative, operational, budgetary and financial independence, subject to the supervision of the Panamanian government and its supervisory entities (*Contraloría General de la República* and the *Superintendencia de Bancos de Panamá*). The operation and business activities of Banconal are governed primarily by the Organic Law, and by other relevant decrees, which provide the regulatory framework for the Panamanian banking sector. Banking transactions in Panama are subject to regulation and oversight by the Superintendency of Banks pursuant to various decrees further described in "Regulatory Matters."

Banconal holds a broker-dealer license granted by the Superintendency of Capital Markets (previously called the National Securities Commission) of the Republic of Panama (*Superintendencia del Mercado de Valores de la República de Panamá*). Banconal, as an Official Bank is also authorized to act as trustee without the need for a separate license. With U.S.$2,922.1 million in assets under management and U.S.$1,149.6 million in annual transactions during 2019, Banconal's trust services is one of the country's most relevant players in the industry. Including flagship mandates such as Panama's sovereign fund, among many other asset management and large infrastructure projects, Banconal's fiduciary services continue to offer added value to its selected client base, including Panamanian and private sector entities.

Banconal serves its customers through a nationwide network of 3,502 employees, 89 branches, 299 ATMs and eleven drive-through ATMs as of March 31, 2020. In addition, Banconal offers online, mobile and telephone banking services and an innovative "Electronic Wallet" product. Banconal's introduction of its Electronic Wallet product in February 2020, which is designed to increase the penetration of banking services among the Panamanian population, as the starting point in Banconal's path towards its digital transformation. It is expected to have a positive impact on beneficiaries of the Panamanian government's social programs and on any Panamanian citizen who may

elect to participate in this initiative. The Electronic Wallet is an application that allows its customers to store their funds intended for day-to-day expenses and to easily execute other transactions (e.g., money transfers, withdrawals, payments and reloads) using their smartphones. This application is designed as a complement to the mobile banking features already available to Banconal's customers, allowing them to safely keep their savings separate from the rest of their money and to manage their financial resources. This initiative is a part of Banconal's plans for the expansion of its coverage and increased proximity and access to its more than half a million customers.

As of March 31, 2020, Banconal's total capital funds were U.S.$939.0 million. Banconal's regulatory capitalization ratio is one of the highest in Panama and, as of March 31, 2020, Banconal had a Tier 1 Capital ratio of 16.04%. Banconal ranks fifth in terms of total capital funds of General License Banks within the National Banking System, according to data from Superintendency of Banks as of March 31, 2020.

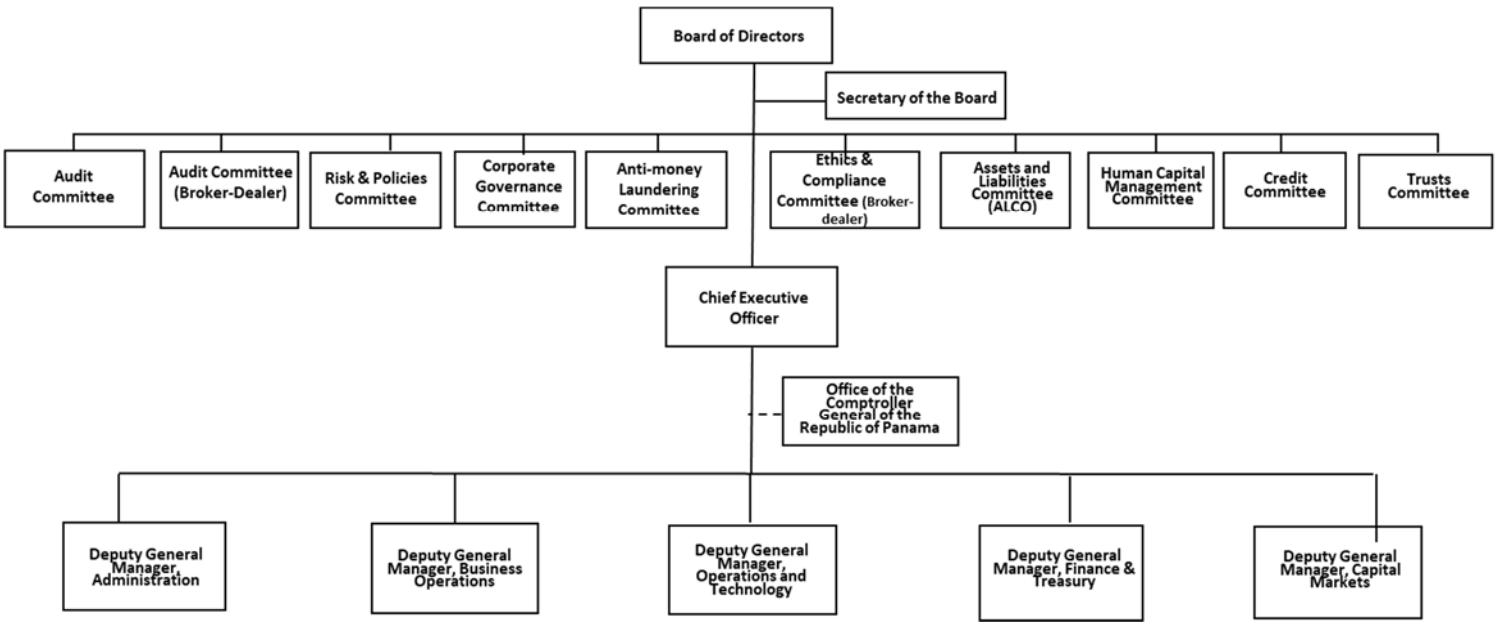
For the three-month period ended March 31, 2020 and 2019, Banconal's net income was U.S.$44.8 million and U.S.$44.5 million, respectively. For the years ended December 31, 2019, 2018 and 2017, Banconal's net income was U.S.$168.5 million, U.S.$183.9 million and U.S.$160.4 million, respectively. Banconal's ROAE for the three-month period ended March 31, 2020 was 19.6%, and our ROAA for the three-month period ended March 31, 2020 was 1.7%.

Pursuant to the Organic Law, all liabilities of Banconal are subsidiarily guaranteed by Panama. For the avoidance of doubt, this general subsidiary guarantee is not a direct guarantee of the Notes, but a general subsidiary guarantee of the Banconal's liabilities. Since the guarantee included in the Organic Law is a guarantee granted by law, it cannot be considered irrevocable, as the Organic Law could be amended or wholly or partially repealed to amend or repeal the statutory guarantee. The current Article 3 of the Organic Law expressly states that Panama is "subsidiarily" (*subsidiariamente*) responsible for Banconal's obligations, meaning that the Holders would have to claim payment from Banconal in first instance and exhaust all legal remedies under Panama law against it before claiming payment from Panama.

Our Structure

Banconal is a state-owned bank whose corporate existence and assets are separate and independent from those of its owner. It enjoys of full administrative, budgetary and financial autonomy, subject to the oversight powers and authority of the Executive Branch and the competent regulatory authorities under Decree/Law No. 4 of January 18, 2006.

Banconal's organizational structure is depicted below.



Strengths

Top Tier Panamanian Bank

According to the Superintendency of Banks, as of March 31, 2020, Banconal was the second largest bank of Panamanian origin operating within Panama in terms of total assets, with 9.3% market share. We are ranked second in terms of total deposits, with 11.3% market share. We are ranked third in total domestic loans with 8.2% market share. In the personal loans segment, we are ranked second with 13.6% market share. Panamanian banks are banks that operate in the country whose owners are Panamanians.

Banconal is the leading lender to Panama's agricultural sector, with a 33.8% market share as of March 31, 2020. We are also the leading local provider of credit facilities to the Panamanian financial sector with a 40.0% market share.

Financial Stability with High Quality and Levels of Assets

Our financial position is one of the strongest in the market with a robust liquidity position; a well-managed and diversified credit portfolio; strong capitalization; low concentration of loans by segment and economic sectors; low past-due loan ratio; high capital position and sufficient reserves. Our healthy capital adequacy position combined with the government support gives us the opportunity to grow and to attend to customer demand.

Banconal's funding and liquidity are among its main credit strengths. The Bank's funding base consists of a high percentage of deposits, which accounts for 94% of all liabilities. As of March 31, 2020, 73% of our deposit base comes from public entities. Given that most of our funding structure consists of customer deposits, we do not have significant short-term financial obligations. Banconal has sufficient liquid assets to comply with its daily obligations.

As of March 31, 2020, our total cash, cash equivalents and bank deposits was U.S.$2,686 million and our total deposits and interest payable was U.S.$8,650 million. Our financial liquidity level is 31.1%, as compared to the average of 20.23% of the National Banking System. Banconal owns, as part of its liquid assets, a securities portfolio of U.S.$2,733 million invested in high rated instruments, with an average international credit rating of BBB+. Banconal believes it manages its liquid assets based upon highly conservative policies. We place our excess liquidity with top tier correspondent banks. Our main U.S. dollar clearing banks are JP Morgan Chase, Bank of New York Mellon, Bank of America, Wells Fargo and Citibank. As of March 31, 2020, our liquidity ratio was equal to 65.7%, more than double the 30% required by the Panamanian regulator.

As of March 31, 2020, Banconal had a Tier One Capital ratio of 16.04%, well above the regulatory minimum of 8.0% We are among only a few Latin American banks with two investment grade ratings from international reputed rating agencies. Banconal's ratings are driven by the Organic Law which provides a subsidiary guarantee by its owner, the Republic of Panama. The Panamanian government is responsible (on a subsidiary basis, if Banconal become insolvent and after all legal remedies against Banconal have been exhausted) for all obligations contracted by Banconal, as specified in Article 3 of the Organic Law of the National Bank of Panama (*Ley Orgánica del Banco Nacional de Panamá*). Banconal's ratings outlook is equal to, and has historically mirrored, Panama's sovereign rating. Banconal's credit rating also reflects its strong franchise, high liquidity, low cost of funding and strong capitalization.

Brand Recognition

We have been operating for more than 115 years, and we have been recognized by the United States Federal Reserve Bank as a Central Bank and are authorized to circulate and use U.S. dollars in Panama. Our strong presence in Panama, together with a strong brand awareness that delivers on customer appeal and loyalty, allows us to service a wide spectrum of customers, increase revenue and gain market share.

The internationally acknowledged organization MERCO (*Monitor Empresarial de Reputación Corporativa*) ranked us among the top ten best reputed companies in the country and second in our industry. The president of the

Board of Directors of the Bank, Lizbeth Ann Henriquez L., was one of the 14 women among the top 75 corporate leaders with the best reputation in the country. The General Manager of the institution, Javier Carrizo Esquivel, was also among the most reputed corporate leaders in the country.

In addition to its activities furthering Panama's economic development, Banconal is involved in a number of social measures that directly and indirectly benefit the Panamanian population, focusing primarily on culture, health, education, and environment.

Prudent Credit Underwriting Policies

We follow conservative credit underwriting policies in our origination process for all of our loan products. The assessment of each loan application takes into account a variety of factors relating to each customer's financial circumstances obtained from the applicant at the time the loan application is submitted, as well as information obtained from credit checks done through the Credit Bureau of the Panamanian Credit Association (*Asociación Panameña de Crédito - APC*), an independent credit reporting agency that provides detailed historical information of consumer credit activity in the Panamanian market for up to 24 months prior to the date of the loan application.

We have in place an experienced team with ample knowledge of the Panamanian loan market and each of our products. Most of the members of our credit department have on average more than five years of banking experience. Similarly, each of the managers and officers of our credit department have at least ten years of underwriting experience in the Panamanian market and in their areas of specialization.

Our prudent underwriting policies have allowed us to keep a low delinquency level in our loan portfolio. As of March 31, 2020, our 90 days past due loan portfolio represented 1.1% of our total outstanding loan portfolio. We have a high collateralized loan portfolio. For a loan portfolio of U.S.$4.5 billion dollars, we have guarantees for U.S.$5.1 billion dollars (112.57%).

Convenient and Broad Consumer Distribution Network

We have an extensive distribution network, composed of 89 branches, a network of 299 ATMs and eleven drive-through ATMs (*autobancos*) as of March 31, 2020. Our geographic coverage and service infrastructure is the largest among banks in Panama, covering all of the country. In addition to this extensive distribution network, we provide online banking services, mobile banking and call centers, providing our customers with increased banking flexibility and accessibility.

Safekeeper of Government Funds

The Government Banking Service within the Bank provides services to the central government and the wider public sector. It is responsible for holding the working balances of government ministries and other public bodies, in demand accounts and time deposits to meet their safety and liquidity objectives and maximize efficiency. This unit also provides financing, night depositories, credit cards, checkbooks, letters of credit, international and local transfers, among other services. This function entails having effective risk management and strong internal controls, which the Bank has been exercising effectively for decades, while having the necessary local regulatory knowledge and industry expertise to provide such services proactively.

Central to its risk-based objectives and management of government funds, the Bank has very conservative standards in regards to the placement and investment of its portfolio.

Social Responsibility

During 2019 and continuing in 2020, Banconal has developed various actions that have directly and indirectly benefited thousands of Panamanians. The ISR program focuses on four pillars: culture, health, education, and environment.

Promoting our culture: Banconal held a series of temporary exhibitions at the Bank's branches and at our own museum (*Casa Museo*), the only numismatic and philately venue in Panama. We sponsored the XXIV Collections Fair organized by Banconal and the Numismatic Association of Panama. The 2020 Art Contests include the traditional photography contest "Carlos Endara" Version XXXVI; the National Painting Competition for Novel Artists Version XII; the "Sculpture" contest Version IV, and "Amateur Films" contest Version III.

Supporting health programs: The Bank takes pride in its mission to go beyond the banking business, supporting various activities and organizations by fundraising and providing volunteers. Among the most important organizations supported are: Fundación Pro Niños del Darién, Fundación Psoriasis, Kiwanis Panama, FundaCancer, FundAyuda, Autism Wave, and Fundación Yo Soy Capaz.

More than Education, a Commitment: The most important contribution to education is our Center for the Integrated Care of Children, which, for the last 38 years, has provided full daycare and education services to around 140 employees' children every year, from one to five years of age, including Pre Kinder and Kinder education.

Caring for our environment: Banconal is committed to recycling and promoting good environmental practices among employees and customers. Fundación Pro Eco Azuero, which is dedicated to saving the habitat of the Spider Monkey in the Azuero region, a dry tropical forest, through reforestation and environmental education for the children in the region, has become a focal point of our environmental efforts.

Strategy

In recent decades, the Bank has consistently set out five-year strategic plans to be implemented by management. The latest plan was outlined in the second half of 2019, and management began to implement the plan in the first quarter of 2020. However, once the COVID-19 pandemic began to affect the local economy, management instead prioritized risk management activities and the support of several governmental social initiatives. As a result, some of the components of our strategic plan have been postponed.

We aim to offer our customers high-quality financial products and services in order to foster their development and the development of Panama. We endeavor to recruit and retain a highly skilled workforce and to provide our employees with ongoing training, so as to keep them motivated to work as a team in furtherance of our goals. We seek to maintain technology systems that allow for the optimization of the automation of our business processes in an efficient manner. We are committed to the principles of operational transparency and ethical conduct, and to moral values. We are focused on distributing our banking products and services efficiently and on improving quality of life for Panamanians. We aim to fulfill our mission by maintaining our leadership in the Panamanian financial system, safeguarding government funds, facilitating funding to other financial institutions in Panama, supporting the agribusiness sector, strengthening our risk and control functions, increasing our productivity and efficiency, improving our technology platform, expanding our presence in the consumer segment, improving our customer experience and developing our organizational and human resources.

Maintain our position as a leading bank in Panama, including in the agribusiness segment

In line with our Strategic Plan for 2020-2024, we aim to continue as one of the leading banks in Panama by strengthening our significant role in the development of the Panamanian economy, maintaining superior profitability levels, and providing excellent customer service. We intend to continue to be a market-leading bank in key sectors in Panama and to seek to maintain or improve our market share in deposits and loans. We work to strengthen our role in the development and welfare of Panama and to promote greater financial inclusion that improves the conditions of Panamanians.

Banconal is the leading lender among all banks in Panama in providing financial services to the Panamanian agricultural sector with a 33.8% market share as of March 31, 2020. We focus primarily on providing credit facilities to small and medium-sized agricultural producers throughout the country. We have strategically positioned ourselves to be able to service agricultural regions with high levels of productivity and primarily hire employees from the local population who are predominantly agricultural engineers.

We will continue to strive to maintain our prominent position as one of the key brokerage-service providers and plan to start offering and structuring investment banking products with selective corporate and bank clients.

Expand our presence in the financial institutions and consumer segments

Banconal is the leading local provider of credit facilities to Panamanian financial institutions with a 40.0% market share as of March 31, 2020, serving as a bank to banks. We have recently become more involved in the structuring, administration, and raising of funding stemming from multilateral organizations to on lend to other Panamanian banks, as well as to Small to Mid-size Enterprises (SMEs).

We are currently focused on expanding our consumer or retail business. Our strategy is to combine our ability to offer competitive rates with a wider array of products and services, while increasing our cross-selling efforts and offering an improved overall customer experience. We plan to continue to support the key market segment of mortgage loans to low-income households. We plan on increasing our market share across all business segments in the Panamanian market by expanding our current customer base and achieving economies of scale.

Continue to improve our risk management practices

Risk management, at all levels, has been and will continue to be a main focus of our activities. We aim to improve our risk management processes by refining the tools that allow us to recognize and qualify our customer's performance and by offering customers more fine-tuned pricing adjusted to their risk profile. In order to achieve our strategic goals, we have defined specific levels for a series of key risk indicators to be adopted following international risk management standards. Continue to improve our productivity and efficiency

We have been working to improve our human resources management practices to maximize productivity per employee, update and leverage technology to reduce costs, improve competitiveness and maintain a range of products and services that will increase risk-adjusted returns. We are working to streamline the organizational structure of certain segments and divisions, are committed to building a highly motivated team with the skills, capacity and training to provide first class customer service.

Advance our technology platform and improve the customer experience

Innovation and information technology are key components of our renewed strategy, and we seek to foster knowledge sharing and to promote creativity among our employees. By improving our integrated IT infrastructure, we aim to cover or solve the different requirements of our central government and public bodies, vis-à-vis their financial needs and that of their employees. We continue to expand the usage of electronic solutions. We plan on improving our support functions by investing in and implementing better technology in order to optimize our network infrastructure. We are also improving existing offices and branches to provide better customer service. Additionally, the Bank will explore outsourcing as a measure to reduce costs, especially in connection with technology expenditures.

The improvement in the quality of the service provided to our customers is one of the main pillars of the current administration of Banconal; therefore, several initiatives been implemented in an effort to provide a world class "Customer Experience" in our organization. The Bank has identified two main objectives: promoting a customer service culture within Banconal and creating a customer-oriented organizational structure. Banconal firmly believes that a better overall customer experience, translates into both better service quality and higher profits.

The scope of work for the promotion of a customer service strategy at Banconal entails a national polling campaign, as well as both internal and external focus groups to better understand current customer preferences and the Bank's public perception. Other strategies, such as customer segmentation and differentiated service channels, will also be implemented in 2020. Our commitment is to always maintain the client at the center of all business decisions we make. Banconal's motto is: "Our Majesty: the Client".

In order to properly achieve our companywide goal for cultural evolution, the Bank has created an interdisciplinary steering team that initially reviews and implements our strategies. Initially, Banconal has hired a well-known customer experience consultant to provide her expertise and assist in our efforts to better develop such an

ambitious strategy. Our goal is to create the optimal organizational structure aimed at embracing and enabling this new customer centric approach. Banconal expects to launch a customer experience department within the next year.

Organizational and human resource development

In 2019, the Bank began optimizing efforts under new management that is focused on customers, employee motivation and the improvement of internal processes with the goal of becoming a world-class bank.

By the end of June 2020, the Bank had 3,502 employees. The Bank has highly motivated personnel with a low turnover of 1.08% per quarter.

Banconal's initiatives to attract and retain talent include:

Competitive salary compensation: With the modification of the Bank's Organic Law (Law No. 24 of May 16, in 2017), the management acquired administrative autonomy to establish its own salary scale. Through the performance of a technical compensation study related to the local financial industry, the Bank approved and implemented a new salary scale in order to attract, motivate, and retain qualified personnel. As a second step, during 2019, more than 500 positions were evaluated under an international methodology with the help of external consultants which will allow us to establish a salary scale relative to each position, based on the level of contribution, decision making, innovation and knowledge in order to guarantee fair and competitive compensation and attract and retain human talent.

Strengthening of the Organizational Structure: In March 2020, changes were implemented in the Bank's organizational structure, as recommended by an international advisory firm. These changes were aimed at strengthening areas such as: risk and compliance, cybersecurity, data governance, capital markets, social responsibility and governance.

Human Resource Development and training: The Bank has a Specialized Training Center (Corporate University) with high technologic standards, which provides flexibility for our employees to keep learning and continuously improve. The center uses virtual courses and e-learning platforms as part of the learning strategy. The training objectives are aligned with the Bank's Career and Succession Plans.

Corporate Wellbeing: The Bank has different wellness strategies to improve the quality of life of its employees. The Bank offers medical services in its headquarters in two well-equipped clinics. It also has two lactation rooms and other benefits. We have an Early Childhood Care Center (CAIPI) that takes care and educates our employee's children and has more than 37 years of experience.

Commercial Strategy 2020-2024

Our commercial strategy for the period between 2020 and 2024 is aimed at identifying, developing and exploiting business opportunities that will maintain the Bank's steady and profitable growth.

The main commercial goals expected to be achieved by 2024, in comparison to figures from December 2019 are:

- Increase the Bank's total assets.
- Maintain the Bank's leading position in the agribusiness and financial institutions segments.
- Maintain the Bank's position as the second largest provider in the personal loans segment.
- Move from being the fifth largest to the third largest provider in the mortgages segment.
- Move from being the ninth largest to the sixth largest provider in the corporate/commercial loans segment.

In order to achieve these objectives, we will develop a proposal for new products and services with significant value to grow our loan portfolio, so as to improve the Bank's competitiveness in the granting of commercial/corporate, agricultural, financial institution, mortgage and personal loans.

Among the new products that will be deployed, we can highlight the following: (i) granting of interim loans for construction, (ii) payment acquirer business, where Banconal processes credit or debit card payments on behalf of businesses, and (iii) improvement of the flow of mortgage processes (in a so-called mortgage factory), among others. Earlier this year, Banconal also began providing factoring services.

We also implemented a new organizational structure, which regroups our branches according to the volume and type of customers, facilitating the implementation of a new sales culture. This structure will allow us to organize our array of products and services in a more efficient and orderly manner.

History

The Bank was created as a result of Panama's separation from Colombia. We were founded on October 12, 1904, with an initial staff of six employees. Since its inception, Banconal has been committed to the sustained development of the country and particularly to its productive sector. Our first General Manager was Albino Hermógenes Arosemena and our first Board of Directors was comprised of Federico Boyd, Manuel Espinosa Batista, Julio Fábrega, Camilo Quelquejeu and Constantino Arosemena.

In 1911, our bank was formally renamed Banco Nacional de Panamá and consolidated itself as the driver of Panama's productive sector's growth and, more, specifically, that of its farming sector. In 1919, we opened our first branch offices in Panama's various provinces.

In 1956, we were awarded the designation of "official bank" and were vested with full autonomy with respect to the management of our internal affairs, subject only to the oversight powers of the Executive Branch of the Panamanian government.

Over the course of our history, our principal offices have been located at four separate addresses. Our headquarters first opened in 1904 on Calle Quinta Catedral, where they remained until the 1938 move to the premises at Avenida Séptima Central, which continues to house one of our branches. In 1956 our principal office was relocated to the building across from Plaza Porras that now houses the Electoral Tribunal. Finally, on February 24, 1978, the Bank moved to its current location on Vía España.

In 2019, under the new leadership of Javier E. Carrizo Esquivel and a senior management team that is largely focused on customer satisfaction, we began to focus on optimizing our operations, increasing employee motivation and improving our business processes with the aim of becoming a world-class bank.

We recently celebrated the 115th anniversary of our founding, and also celebrated a historical milestone in terms of gender equality: for the first time in Panama's history, the Board of Directors of Banconal is chaired by a woman, Lizbeth Ann Henríquez Leonard, who was appointed in 2019.

Major Business Lines

We are a full-service, state-owned bank, operating mainly in Panama. We provide a wide range of financial services to consumer, commercial, corporate and institutional customers. Our primary business lines are corporate banking, commercial banking, agricultural banking, consumer banking, financial institutions and government banking.

The following table sets forth the composition of our combined loan portfolio by size of customer as of March 31, 2020:

	As of March 31, 2020	
	Amount (U.S.$ in millions)	**(%) of total loan portfolio**
10 largest customers	870.6	19.0%
11 to 20 largest customers	214.4	4.7%
21 to 30 largest customers	116.8	2.6%
Other customers	3,372.8	73.7%
Total gross loans	**4,574.6**	**100.0%**

Corporate Banking

Banconal's Corporate Banking business serves corporate customers in key economic sectors that create jobs and contribute to Panama's economic growth. Banconal's Corporate Banking business serves primarily the industrial, commercial, service and logistics sectors, providing financing at competitive rates and on competitive terms. In the industrial sector, Banconal's Corporate Banking business provides loans to companies that process food products and intermediate products through working capital financing. In the commercial sector, Banconal's resources support the real estate and construction industry and provide financing to supermarkets and food distributors engaged in the sale of finished foods and basic products. In the services industry, Banconal serves companies focused on providing data transmission services, cable and satellite television and energy distribution, providing financing of working capital, capital expenditures. Finally, in the logistical sector, Banconal serves as guarantor for the Panama Canal Authority and provides invoice payment services to concessionaires. It works closely with other Panamanian banks to support commercial activity through syndicated loans.

Banconal's corporate banking division is responsible for servicing customers with gross income over U.S.$5 million. For these customers, Banconal offers short-, medium- and long-term credit facilities and a broad range of other products to provide financing for working capital, equipment purchase and replacement, facility expansion, farmland purchases and construction of improvements.

As of March 31, 2020, the corporate loan portfolio represented 12.9% of the total loan portfolio. As of December 31, 2019, Banconal's corporate loan portfolio increased by 18.03% to U.S.$646.0 million from U.S.$547.3 million in 2018. The following table sets forth the composition of Banconal's corporate loan portfolio as of December 31, 2019, 2018 and 2017:

	As of December 31,		
	2019	**2018**	**2017**
		(U.S.$)	
Corporate	595,512,355	496,455,783	524,101,594
Corporate Industrial	50,354,977	50,674,309	51,569,096
Visa Corporate Card	135,065	202,599	149,971
Total	**646,002,397**	**547,332,691**	**575,820,661**

The composition of the corporate loan portfolio by sector is 27% Communications, 23% Energy, 8% construction, 8% health care, 8% aviation, and others.

Commercial Banking

Through the commercial banking area, we offer commercial and industrial financing to small, medium and large companies nationwide. Our financing programs include loans for working capital, foreign trade operations, purchase or restitution of fixed assets and short- and long-term facilities, with products such as lines of credit, interim construction loans and term loans. According to our credit policies, all of our loans must be collateralized by tangible assets.

In March of this year, we officially launched our new factoring service. This new product will satisfy the liquidity needs of our private and public clients through the discount of their receivables at very competitive rates.

The commercial banking area performs careful supervision of its portfolio and maintains adequate management practices to ensure the best financial indicators possible. Likewise, the area continues to explore new business opportunities, anticipating and mitigating all potential risks.

As of December 31, 2019, our commercial portfolio reached U.S.$148.3 million, an increase of 5.18% compared to U.S.$140.9 million in loans as of December 31, 2018.

As of March 2020, despite the effects of COVID-19 Pandemic, our commercial portfolio remained at U.S.$150.6 million with a delinquency rate of 8.00%. This index is in contrast to the 3.99% index shown at the end of the previous month, February 2020.

As of July 2020, we will include among our products, the financing program called Opportunity Banking. This new service will target small businesses and new entrepreneurs, primarily those in crafts, tourism, and technology. The program seeks to encourage entrepreneurial culture and to revitalize the small business sector of the economy.

Agricultural Banking

As of December 31, 2019, our bank was the leader in Panama in terms of offering financing services to the agricultural sector. Banconal focuses primarily on providing credit facilities to agricultural producers throughout Panama, representing 13.9% of Banconal's gross loan portfolio. Banconal has strategically positioned itself to be able to service agricultural regions with high levels of productivity. We mainly offer two types of financing: short-term lines of credit and long-term loans up to 20 years. The main segments are rice, coffee, sugar cane, pigs, cows, poultry and more.

Banconal generally requires land as collateral over its agricultural loans and typically works with an overcollateralization ratio between 10% and 25%. Over the last ten years the agricultural loan portfolio increased by 900 clients and U.S.$342 million in loans. Livestock and agricultural producers represent the most important sector of this portfolio, 78% of which is corresponds to the cattle farming sector, 21% to the other livestock sector and the remaining 1% to other agricultural sectors. The most important segments for Banconal's agricultural sector are producers of rice, coffee and sugar cane and pig, cattle and poultry farmers, among others.

Additionally, we actively participate in agricultural fairs, to train not only our staff but also the clients. In 2019, we held six Agricultural Encounters nationwide, with an attendance of approximately 1,800 producers.

As of March 31, 2020, our Bank had a 33.8% market share in the Panamanian agricultural sector, and our agricultural loan portfolio represented 13.5% of the total loan portfolio.

As of March 2020, the principal balance outstanding of agricultural loans amounted to U.S.$619 million. The loans concentration by area is 28% metropolitan area, 32% central area and 40% occidental area. The concentration by economic activity is 78% Bovine, 21% livestock and 1% others.

Additionally, the Panamanian government promotes agricultural loan programs by offering interest rate subsidies to borrowers in the local market with the resources of the special fund for compensation of interest (*fondo especial de compensación de intereses* or "FECI"). FECI is funded with a 1% surcharge that all banks licensed in Panama must charge to all personal, commercial, and industrial loans except for some exempted loans. Under the FECI program, local banks and financial entities, including Banconal, are entitled to (i) receive a reimbursement of the subsidized interest rate from the Panamanian government within 30 days following the reimbursement request and (ii) be compensated with the FECI funds, as mandated by the FECI program, which funds would otherwise be transferred by the entity to the Superintendency of Banks pursuant to the FECI program.

Consumer Banking

The area of Consumer Banking offers loans and credit cards to individuals. This unit accomplishes its objectives with committed personnel and high standards of excellence. As of December 31, 2019, the portfolio of products of Consumer Banking represents 55.3% of the total loan portfolio of the Bank. The main loan products offered by our consumer banking division are personal loans, mortgage loans and credit cards.

The following table sets forth the composition of our consumer loan portfolio as of March 31, 2020, and each of December 31, 2019, 2018 and 2017, respectively:

	As of March 31,	As of December 31,		
	2020	**2019**	**2018**	**2017**
	(U.S.$ in millions, except percentages)			
Personal loans[(1)]	1,148	1,142	1,100	1,049
Mortgage loans	1,368	1,308	1,124	968
Credit card loans	14	13	13	12
Total	**2,530**	**2,463**	**2,237**	**2,029**

(1) Includes loans to retirees

Personal Loans: The personal loans program is focused on people that derive their income from wages, retirement plans and from certain stable independent activities.

Our consumer products distribution focuses on clients with good job stability mainly in the following sectors: health, education, firefighters, police, and others. Loan amounts for this business range from U.S.$500.00 to U.S.$75,000.00, and tenors from 6 months to 23 years. Interest rates offered for these products range between 6% to 12%, based on the segment. The marketing for these products is carried out through constant marketing campaigns on the radio, in the press, on the television, by flyers and on websites.

The Bank is the second largest provider in Panama of personal loans, and as of March 31, 2020, our personal loan portfolio balance was U.S.$1,148 million, with a delinquency rate of 1.6%. In the last three years, this portfolio has recorded an average growth of 6.27%.

Mortgage Loans: The mortgage loan program is focused on people that derive their income from wages, retirement plans and from certain stable independent activities. The income level of the family or individual is analyzed in order to give this type of loans. The products are offered up to 30 years. The rates offered on these products are from 5% to 7%. The marketing of this product occurs mainly in housing fairs, our branches and permanent campaigns on the radio, in the press, on the television and on websites.

The Preferential Mortgage Loan Program is subsidized by the State and covers amounts of up to U.S.$180,000.00 with current subsidies from 5.75% to 2%.

This portfolio represents 59.4% of the Bank's mortgage portfolio. The mortgage portfolio in the last three years has experienced an average growth of 14.97%. As of March 31, 2020, the mortgage loan portfolio had a balance of U.S.$1,367 million with a default rate of 3.6% and a market share of 7.6%.

Credit Cards: The credit card program is focused on people that derive their income from wages, retirement plans and from certain stable independent activities, with income from U.S.$700.00.

On March 5, 2012, we entered into a client services and trademark license agreement with Visa International Servicios de Pago de España, S.R.L. and Visa International Service Association to allow us to issue Visa credit cards to our customers.

Under the Visa brand, we offer Golden, Classic, Business and Vive Panama Visas, with rates from 13% to 16%, with fraud and life insurance coverage. As of March 31, 2020, our credit card portfolio had a balance of U.S.$14.2 million and a delinquency rate of 5.9%. The marketing of this product is carried out through marketing campaigns and cross-selling with consumer credit products.

Financial Institutions and Project Financing

Our financial institutions and project financing unit is a multi-product unit that provides wholesale banking and working capital to other banks, financial intermediaries and savings unions to enhance and strengthen the national financial system.

This unit also provides financial solutions to major development projects in Panama, including airports, highways and energy projects, among others.

Banconal provides to financial institutions all the products and services it offers to its private clients. These banking services include: Loans, Demand Deposits, Bonds, Term Deposits, Current Accounts, Guarantee Accounts, Letters of Credit and International transfers, among others.

As of December 31, 2019, the Total Portfolio of Financial Institutions and Project Financing was U.S.$980 million, reflecting the following:

- Loans and Lines of Credit totaled U.S.$280 million.
- Investments represented 71% (U.S.$700 million) of the Portfolio (Bonds, VCN'S and Repos).

As of March 31, 2020, the Total Portfolio of Financial Institutions and Project Financing was U.S.$1,080 million, reflecting the following:

- Loans and Lines of Credit totaled U.S.$400 million.
- Investments represented 62% (U.S.$680 million of the Portfolio (Bonds, VCN'S and Repos).

As of March 31, 2020, the portfolio of Financial Institutions and Project Financing closed with a balance of U.S.$1,080 million, reflecting an increase of 10% compared to December 31, 2019.

Government Banking

Our Government Banking division is unique among the banking sector in Panama, as Banconal is the only bank where the Panamanian government is allowed to open accounts and is, therefore, where all of the State's money is deposited. Every loan, financing or proceeds from debt issuances are eventually deposited in an account with Banconal.

Being the government's bank also carries responsibilities such as supporting the execution the government's plans and goals, modernizing the government's payment system, reaching areas of Panama that other banks view as less profitable and offering the bank's wide network of branches to pay government subsidies.

For our government clients, we offer a full range of products and services, such as loans, time deposits, letters of credit, among others. Other products and services offered include certified checks and international and domestic transfers.

As of March 31, 2020, our loan balance was U.S.$300 million and time deposits balance was U.S.$2,833.6 million, while our overnight deposits were U.S.$1,163.3 million. For this same period, Government Banking income from the products and services mentioned before totaled U.S.$2.5 million.

Distribution Channels

Points of Service

We provide financial products and services mainly through our branch network, ATMs, drive-through ATMs (*autobancos*), online banking, mobile banking, and call centers. As of March 31, 2020, we served our customer base through a total of 89 branches nationwide, a network of 299 ATMs nationwide and eleven drive-through ATMs.

Through our branch network, our customers conducted over 2.7 million transactions during the three months ended March 31, 2020 (12.4 million transactions during the fiscal year ended December 2019).

Based on our current number of branches, including ATMs and drive-through ATMs, our geographic coverage and service infrastructure is the largest in Panama.

Online, Call Centers and Telephone Banking

Through our web site (www.banconal.com.pa), we offer Internet banking services in Spanish. On this website, our customers may conduct financial transactions 24 hours a day, seven days a week and find complete information on all of the banking and financial products and services we offer. Through our online banking system, we provide services to our customers, who on average conducted over 534,313 transactions through our portal and 51,208 mobile banking transactions each month during the first quarter of 2020. The number of monthly total transactions decreased 11% with the COVID-19 pandemic.

Information Technology Unit

Banconal runs all programs for the government's banking activities. Therefore, our information technology unit is responsible for providing technology infrastructure, telecommunications network and computer systems to support and satisfy the government's needs. The unit develops and uses in-house technological solutions as well as third-party banking software solutions. The information technology unit focuses on providing efficiency on data processing, improving data protection and security, managing and controlling cost efficiency, managing disaster recovery plans and implementing technology projects.

Our internal interconnection network is comprised of three data sites, one located in our main datacenter, which is used to run our day-to-day operations, a second one in Clayton with Telecarrier, near Panama City, which contains the same information found in our main data center, and is used as a back-up system in case of failure, and a third one is at Howard with Kio Network and serves as contingency security for virtual channels.

LBTR (*Liquidación Bruta en Tiempo Real*) is our new platform launched to provide the Panamanian financial market with a real time clearing and funds settlement system among members participating in each of the transactional networks in place in Panama, such as: Clave, ACH, PID, interbank payments and Latinclear. LBTR is operated by Banconal under supervision of the Superintendency of Banks and the Payments Committee of the Panama Banking Association (ABP). The platform allows settling transactions among participants in as many cycles as needed.

Our technology investment budget for the year ending December 31, 2020 is U.S.$6.32 million, and our operating budget is U.S.$18.14 million. Projects included in this budget seek to expand the processing capacity of the system to cope with our expected increase in transaction volume and update of the entire online service platform.

As of March 31, 2020, our information technology network served approximately 3,800 workstations, 89 branches, 299 ATMs and eleven drive-through ATMs.

Panamanian Banking Industry and Competition

According to the Superintendency of Banks, as of March 31, 2020, Panama's International Banking Center was comprised of 59 banks authorized to engage in banking activities in and/or from Panama, and 10 offices authorized to represent, serve as liaisons for and promote the activities of banks who have no operations in Panama.

The banking market in Panama is divided between state-owned banks and privately-owned banks. State-owned banks are banks that are autonomous entities of Panama created by law. Privately-owned banks are banks whose majority shareholder is a private person, corporation or other business organization. Privately-owned banks require a license from the Superintendency of Banks to conduct banking business in Panama. There are three types of banking licenses that may be obtained: a general banking license, an international banking license and a representation banking license. We, as an official bank created by law, do not require a banking license to offer banking services in Panama. For additional information on banking licenses, see "Regulatory Matters—General" below.

The following table indicates the number of banks currently operating in Panama by class:

International Banking Center
Banks in Operation as of March 31, 2020

Banks in operation	**Number**
Official banks	2
Foreign banks	25
Panamanian private banks	14
Total banks in the National Banking System	**41**
Holders of international banking licenses	18
Holders of representation licenses	10

Source: *Superintendency of Banks* (www.superbancos.gob.pa).

The performance of the International Banking Center as of March 31, 2020 was reflective of a stable and safe banking system, with an average liquidity ratio of 55.8%, a ROAA of 1.5% and a ROAE of 11.9%.

Financial indicators for the International Banking Center as of March 31, 2020 were also reflective of a strong and stable banking system with total assets of B/.125,221 million, an increase of 0.2% over total assets of B/.124,990 million as of December 31, 2019. This increase was attributable to an increase of 13.1% in other assets, an increase of 11.7% in other liabilities, an increase of 4.3% in financial obligations, an increase of 3.2% in liquid assets, an increase of 0.9% in the loan portfolio, an increase of 0.9% in internal loan portfolio and an increase of 0.2% in external deposits.

International Banking Center
Statement of Financial Position
(Millions of Balboas)

	As of March 31, 2019	**As of December 31, 2019**	**As of March 31, 2020**	**Change from December 31, 2019 to March 31, 2020**	
				Change	**%**
International Banking Center:					
Liquid assets	16,905	20,335	20,984	648	3.20%
Loan portfolio	77,120	76,134	76,056	(78)	(0.10%)
Internal	53,787	54,027	54,509	482	0.90%
External	23,333	22,107	21,547	(560)	(2.50%)
Investment securities	22,245	23,222	22,186	(1,036)	(4.50%)
Other assets	5,217	5,299	5,996	697	13.10%
Total assets	**121,487**	**124,990**	**125,221**	**231**	**0.20%**
Deposits	84,016	88,057	87,093	(964)	(1.10%)
Internal	52,646	55,846	54,828	(1,018)	(1.80%)
External	31,370	32,211	32,265	54	0.20%
Obligations	18,533	17,176	17,923	747	4.30%
Other liabilities	3,777	3,861	4,314	454	11.70%
Net worth	**15,161**	**15,896**	**15,891**	**(5)**	**0.00%**

Source: *Superintendency of Banks.*

Our banking operations in the first quarter of 2020 were characterized by an increase in funds from capital sources in the local interbank market and an increase in drawings on the credit facilities established with our correspondent banks. Funds from international capital sources increased by U.S.$54.0 million and were not affected by the current health crisis due to COVID-19, which has had a negative impact on the global financial markets.

Within this context, the International Banking Center recorded a net profit of B/.458.0 million, a decrease of 6.3% from the same period in 2019. This decrease was attributable to our efforts to comply with the regulatory requirements relating to the allocation of our allowance for bad loans, which gave rise to an increase in expenses of 39.1% as compared with the same period in 2019.

International Banking Center
Comprehensive Income Statement
(Millions of Balboas)

	For the three months ended March 31, 2019	For the year ended December 31, 2019	For the three months ended March 31, 2020	Change from December 31, 2019 to March 31, 2020 Change	%
International Banking Center					
Income, net of interest expense	696	2,774	648	(47.1)	(6.8%)
Other income	525	2,265	608	82.7	15.7%
Operating revenues	1,221	5,039	1,256	35.6	2.9%
General expenses	601	2,546	616	15.1	2.5%
Profit before allowances	620	2,493	640	20.5	3.3%
Expense for allowances	130	643	181	51.1	39.1%
Profit for the period	**489**	**1,850**	**458**	**(30.6)**	**(6.3%)**

Source: *Superintendency of Banks.*

As a precautionary measure in anticipation of the potential negative effects due to COVID-19, the bank members of the International Banking Center recorded increased allowances for loan losses using a conservative approach. This allows for the maintenance of an adequate balance between the valuation of assets based on their realizable market value, and the financial information contained in the system's balance sheet. Notwithstanding the increase in allowances, the banks reported positive profits for the period ended March 31, 2020, and their capital adequacy ratios as of such date were strong.

In order to preserve the stability of the Panamanian financial system and mitigate the potential effects of any deterioration thereof on the condition of the International Banking Center due to COVID-19, the Superintendency of Banks has authorized banks to use the dynamic allowance included in their assets during periods characterized by substantial economic growth or in periods of economic slowdown such as the current period.

Competition

Panama is an international financial center and is expected to remain an attractive jurisdiction for the execution of financial transactions. Its use of the U.S. dollar as its functional currency, its standards for customer service and data management and its overall stability, among other factors, have translated into economic growth at one of the fastest rates in Latin America and have helped position the National Banking System as one of the world's strongest and most reliable.

Banconal competes directly in the domestic market with Panamanian private banks and with certain foreign banks that are holders of general banking licenses and are engaged in the provision of corporate, commercial and consumer financing. We believe that our competition is concentrated to a substantial degree in the medium- and high-income segments of the Panamanian population and the medium-to-large company segment of the corporate finance market, which are the market segments typically targeted by banks whose efforts are focused on these types of lending transactions.

To a lesser degree, Panamanian banks also face competition from non-banking financial intermediaries who offer similar products and services. These competitors include fintech companies, which are awaiting the definition of their regulatory framework to expand their operations. In the meantime, Panamanian banks have introduced advances such as electronic wallets to make payments and transfer money online.

The National Banking System is comprised of the two Panamanian state-owned banks and all general license private banks operating in Panama. Banks operating under an international license are not part of the National Banking

System. Banconal ranks in the top three banks in the National Banking System by total assets, as shown in the following table:

	As of March 31, 2020	As of March 31, 2019
	Total Market Share	
	%	%
Banco General, S.A……..	16.2%	16.4%
Banistmo, S.A. ……	9.4%	9.4%
Banco Nacional de Panamá…….	9.3%	9.0%
BAC International Bank Inc.……	8.6%	8.2%
Global Bank Corporation.…….....	8.0%	6.8%
Other banks……..	48.5%	50.2%
Total National Banking System……	**100.0%**	**100.0%**

(1) Information from financial reports for the quarter ended March 31, 2020.
(2) Total includes all National Banking System.

Source: *Superintendency of Banks*.

Main Sectors of Competition

Banconal competes in the banking market in Panama in the following segments: agribusiness, corporate banking, and commercial banking. We also have two unique business lines: government banking and financial institutions. As the government's bank, we hold most of the funds of all Panamanian government institutions. We also serve their investment banking needs. Through our financial institutions unit, we provide funding solutions for other Banks.

Banconal is currently engaged in competition in the following principal segments of the National Banking System:

Deposits

The following table sets forth select data for our main competitors in the Panamanian deposits market (excluding international banks with operations outside Panama):

	As of March 31, 2020	As of March 31, 2019
	Deposit Market Share	
	%	%
Banco General, S.A.	16.3%	16.2%
Banco Nacional de Panamá	11.3%	11.2%
Banistmo, S.A.	9.3%	9.3%
Global Bank Corporation	7.1%	5.4%
BAC International Bank Inc.	6.9%	6.2%
Other banks	49.1%	51.7%
Total National Banking System	**100.0%**	**100.0%**

(1) Information from financial reports for the quarter ended March 31, 2020.
(2) Total includes all National Banking System.

Source: *Superintendency of Banks*.

Agribusiness

Banconal has historically held a leading position in the provision of financial support to Panama's farming industry. As of March 31, 2020, the farm loan portfolio of the National Banking System amounted to U.S.$1,828.5 million, of which the largest share, i.e., 33.8%, was contributed by Banconal.

The following table sets forth select data for our main competitors in the Panamanian agricultural loans market (excluding international banks with operations outside of Panama):

	As of March 31, 2020	As of March 31, 2019
	Agricultural Loan Market Share	
	%	%
Banco Nacional de Panamá	33.8%	31.9%
Global Bank Corporation	22.3%	16.0%
Multibank, Inc.	14.0%	13.0%
Banistmo, S.A.	8.9%	9.3%
Banesco (Panamá), S.A.	4.2%	3.8%
Other banks	16.8%	26.1%
Total National Banking System	**100.0%**	**100.0%**

(1) Information from financial reports for the quarter ended March 31, 2020.
(2) Total includes all National Banking System.

Source: *Superintendency of Banks*.

Commercial Lending Industry

As of March 31, 2020, Banconal was the ninth largest provider of loans to Panama's commercial sector (which encompasses its commercial and corporate lending businesses), with 3.8% of the National Banking System's U.S.$20,906.4 million commercial loan portfolio. The Superintendency of Banks classifies commercial loans under the following activity categories: Colón Free-trade Zone, Wholesale, Industrial, Construction, Services and Rest of the Country.

Through its commercial and corporate lending businesses, Banconal aims to provide financial support to Panama's commercial sector, in the form of loans to supermarkets and distributors, for use in connection with activities such as the sale of finished food products and basic products. In addition, Banconal offers financial support to companies engaged in the transmission of data, the provision of fixed and subscription-based TV services and the distribution of electric power.

The following table sets forth select data for our main competitors in the Panamanian industrial loans market (excluding international banks with operations outside of Panama):

	As of March 31, 2020	As of March 31, 2019
	Industrial Loan Market Share	
	%	%
The Bank Of Nova Scotia	21.3%	19.5%
Banco General, S.A.	15.5%	13.0%
Banistmo, S.A.	10.8%	15.2%
Banco Nacional de Panamá	8.6%	6.9%
Global Bank Corporation	7.9%	8.0%
Other banks	35.9%	37.5%
Total National Banking System	**100.0%**	**100.0%**

(1) Information from financial reports for the quarter ended March 31, 2020.
(2) Total includes all National Banking System.

Source: *Superintendency of Banks*

The following table sets forth select data for our main competitors in the Panamanian domestic loans market (excluding international banks with operations outside Panama):

	As of March 31, 2020	As of March 31, 2019
	Domestic Loans Market Share	
	%	%
Banco General, S.A.	19.0%	19.3%
Banistmo, S.A.	13.2%	13.0%
Global Bank Corporation	10.9%	8.8%
Banco Nacional de Panamá	8.2%	8.5%
BAC International Bank Inc.	6.6%	6.8%
Other banks	42.1%	43.7%
Total National Banking System	**100.0%**	**100.0%**

(1) Information from financial reports for the quarter ended March 31, 2020.
(2) Total includes all National Banking System.

Source: *Superintendency of Banks*

Consumer Finance Industry

The following table sets forth select data for our main competitors in the Panamanian personal loans market (excluding international banks with operations outside of Panama):

	As of March 31, 2020	As of March 31, 2019
	Personal Loan Market Share	
	%	%
Banco General, S.A.	18.6%	19.0%
Banco Nacional de Panamá	13.6%	14.1%
Caja de Ahorros	13.0%	13.5%
BAC International Bank Inc.	10.6%	10.8%
Banistmo, S.A.	9.4%	9.5%
Other Banks	34.8%	33.1%
Total National Banking System	**100.0%**	**100.0%**

(1) Information from financial reports for the quarter ended March 31, 2020. Excludes overdrafts, pledged, leasing and factoring.
(2) Total includes all National Banking System.
(3) Includes commercial, construction, industrial and agribusiness from Superintendency of Banks.

Source: *Superintendency of Banks*.

The following table sets forth select data for our main competitors in the Panamanian mortgage loans market (excluding international banks with operations outside of Panama):

	As of March 31, 2020	As of March 31, 2019
	Mortgage Loan Market Share	
	%	%
Banco General, S.A.	23.4%	23.4%
Banistmo, S.A.	12.5%	12.6%
Global Bank Corporation	10.9%	7.9%
Caja de Ahorros	10.6%	9.7%
Banco Nacional de Panamá	7.6%	6.8%
Other	34.9%	39.5%
Total National Banking System	**100.0%**	**100.0%**

(1) Information from financial reports for the quarter ended March 31, 2020.
(2) Total includes all National Banking System.

Source: *Superintendency of Banks.*

Financial Institutions Segment

Banconal's project finance business has grown at a sustained pace as a result of its engagement in the provision of financing for the development of renewable energy (hydraulic, gas and wind) projects, the expansion of Panama's power grid (specifically, its third transmission line) and the execution of roadway, mass transportation and airport infrastructure projects, thereby fostering social development.

Facilities

As of March 31, 2020 Banconal's fixed assets (net of depreciation and amortization) accounted for 0.8% of its total assets. The table below contains a breakdown of these assets.

	As of March 31, 2020		
	Cost	**Depreciation**	**Net Book Value**
		(U.S.$, except percentages)	
Land, constructions and improvements	86,726,265	(34,140,129)	52,586,136
Office furniture and equipment	87,652,212	(67,659,026)	19,993,186
Motor Vehicles	11,378,248	(7,855,139)	3,523,109
Construction in Progress	6,880,036	-	6,880,036
Total	**192,636,761**	**(109,654,294)**	**82,982,467**

The property line item is comprised of land and construction sites occupied by the Bank at its branch locations. All items of property and equipment are reported at cost and are net of accumulated depreciation and amortization.

The costs for subsequent improvements are either included in the book value or the assets or reported as separate assets, as applicable. Other repairs and improvements that do not materially extend the useful live of the asset are charged to the earnings for the relevant period.

Depreciation and amortization expenses are charged to current operations using the straight-line method over the estimated useful life of the relevant assets, except for land, which is not depreciated. The table below contains a breakdown of our assets.

Real properties	40 years
Improvements	5 to 20 years
Furniture and equipment	5 to 20 years
Motor vehicles	4 to 11.7 years

The useful lives and estimated residual values of the assets are reviewed and, if appropriate, adjusted on the date of publication of each earnings report.

As of the date of this offering memorandum, our property, furniture, equipment and improvements are free and clear from any mortgage or other lien.

Legal Proceedings

Banconal is routinely involved in legal proceedings arising in the ordinary course of business, most frequently as a plaintiff seeking recovery for overdue credits. Banconal is also a defendant in a limited number of proceedings. These proceedings arise in connection with the ordinary course of its operations and do not materially impact its ability to conduct operations or meet its forecasted goals. As of the date of this offering memorandum, Banconal did not have any outstanding labor litigation. The following is a list of Banconal's significant ongoing proceedings as of the date of this offering memorandum.

Waked Proceedings

On May 24, 2018, Mr. Abdul Waked Fares filed suit against Banconal and the Republic of Panama before the Third Chamber of the Supreme Court of Panama for an amount of U.S.$1,268,704,177.00, requesting that Banconal and the Republic of Panama be jointly and severally liable for damages, plus interest, caused by alleged infractions in the exercise of Banconal's functions as trustee of the trust established to hold the shares in the company that owned the Soho Mall in connection with the sale of the mall, a large commercial real property development in Panama City previously indirectly owned by Mr. Waked. The case was admitted by the Supreme Court on August 23, 2018; however, Panama (through the Ministry of the Presidency) has filed a request to annul the admission of the case, which is currently being considered by the Third Chamber of the Supreme Court. The proceeding has not begun its evidentiary phase.

Banconal has a well-defined legal strategy for this case that considers the possible legal arguments to be made by the plaintiff, and it has concluded that its defense is legally solid; thus, Banconal's administration, based on the opinion of the special external counsel that represents us in this case, considers that there is a high probability of a judgment in favor of Banconal and, therefore, it has not made any provisions with respect to these proceedings.

The decisions of the Third Chamber of the Supreme Court, where the lawsuit has been filed, are final, definitive and mandatory. The Third Chamber of the Supreme Court is not an appellate court.

If a final judgment is entered into by the court against Banconal, the following must be taken into consideration:

- A declaration of insolvency by a Panamanian court against Banconal is not legally viable, since pursuant to applicable banking laws, banks are either voluntarily or forcefully liquidated;

- In accordance with the Organic Law, Banconal benefits from the privileges that Panama's Judicial Code grants to the Republic of Panama by Articles 1047, 1048, 1650 (14) and 1939 of the Judicial Code of Panama (see "Enforcement of Civil Liabilities"), which would guarantee the continued operations of the Bank.

V.P. Global Investment

On June 25, 2019, V.P. Global Investment filed suit against Balboa Bank & Trust Corp, Banconal, Strategic Investors Group Inc. and Corporación BCT, S.A. in the twelfth court of the civil circuit from the first judicial circuit of the Province of Panama for U.S.$50 million. V.P. Global Investment requested that the creation of the Balboa Escrow be nullified and that Balboa Bank & Trust Corp.'s previous ownership conditions be returned. The case was admitted on September 2, 2019, and it has not moved forward due to several motions brought by the defendants.

Other

In addition, as of May 30, 2020, Banconal was a party to several legal proceedings brought against it by various plaintiffs. These include civil actions involving an aggregate amount of U.S.$56,420,271.52 and administrative proceedings involving an aggregate amount of U.S.$1,270,489,032.00. In the opinion of Banconal's management and independent legal advisors, most of these proceedings are not likely to be resolved in a manner such that Banconal would be required to pay the total amounts claimed.

While Banconal believes that the above claims have no legal or factual merit and intends to defend itself vigorously in this case, a verdict against Banconal could have an adverse effect on Banconal's results of operations.

Sanctions

At the end of 2014 and beginning in 2015, the Superintendency of Banks started an inspection to review our procedures to prevent money laundering and financing of terrorism. As a result, the Bank was fined in 2017 for U.S.$106,750.00 and U.S.$21,875.00 due to flaws in the identification and management of accounts related to Political Exposed Persons ("PEPs") and lack of back-up information related to extraordinary payments made in loans by PEPs. Banconal paid those fines accordingly.

As a result of the findings of those inspections, Banconal made changes to its procedures relating to the development of policies, the opening of accounts and the management of relationships with PEPs. These changes were mainly implemented in our KYC due diligence processes and were aimed at improving the procedures for documenting transactions with PEPs.

After 2017, the Superintendency of Banks has performed three additional inspections on the Bank and has not identified any further issues in connection with our PEPs procedures.

Employees

As of June 30, 2020, Banconal had 3,502 employees. A majority of these employees had prior experience worked in the banking industry. Banconal has not entered into any collective bargaining or other agreement with any union.

The following table shows our total number of employees by operative area:

Management	Personnel
General Management	501
Business Deputy Management	896
Finance and Treasury Deputy Management	100
General Deputy Management of Capital Markets	22
General Deputy Management of Operations and Technology	1,116
Deputy Administrative Management	867
Total	**3,502**

The following table shows our total number of employees by geographic location:

Province	Personnel
Panamá	2,549
Chiriquí	338
Herrera	227
Veraguas	84
Coclé	84
Los Santos	82
Colon	59
Bocas del Toro	48
Darién	28
Comarca Guna Yala	3
Total	**3,502**

Employee Benefits

In line with our strategic plan to enhance customer experience, in 2019, Banconal carried out 599 training sessions representing an investment of U.S.$657,008.00. These trainings included seminars for our customer service specialists and trainings in the use of sign language to enhance customer service experience for the hearing impaired.

In addition, in the agriculture and livestock sectors, we offered e-learning trainings sessions to 1,200 employees and field trips to Brazil to our personnel. In order to keep our employees updated according to the Regulations of the Superintendency of Banks, we also offered regulatory seminars on to all employees working in the service and operations areas. These seminars included training sessions on anti-money laundering and terrorism financing prevention.

Corporate wellbeing and safety are essential to create a healthy and productive working place. Banconal is conscious about this and, during the summer, we invited employees' children to summer farewell activity, where they enjoyed numerous activities provided at our sports facilities. Among others, they also received soccer classes taught by our employees and swimming lessons from the Bank's lifeguard. In addition, Banconal also offers women's soccer, mixed volleyball and basketball leagues for its personnel. Starting in 2019, Banconal's internal health day sessions were increased. Laboratory exams, EKGs and general medical care were also made available to our employees. In addition, we increased the budget for medical supplies to U.S.$6,000 and equipped the health clinics located at our headquarters and Transistmica facilities with defibrillators.

Our university studies reimbursement program continues to operate under normal conditions, allowing Banconal's employees to pursue higher education. Our employees are highly motivated and better trained because of this program, which contributes to the personal and professional advancement of its participants. Further, to help lower our employees' back-to-school expenses, we sponsored a school fair at our headquarters, where books and school supplies were offered at reduced prices.

MANAGEMENT

Corporate Governance Overview

Banconal is a financial institution at the service of the Panamanian government. It endeavors to provide financial support for the development of the country's economy through its engagement in the practice of banking activities within Panama's public sector. Banconal's corporate governance system has been designed to be consistent with international standards and best practices and to comply with applicable laws and regulations enacted by regulatory authorities.

Banconal has built a robust structure of good transparency, ethics and conduct, internal control, risk management and audit practices that contribute to and foster the development of not only the Bank itself, but of its management and employees as well.

The structure of our corporate governance model rests on four pillars:

- Optimum corporate governance practices;
- Ethics;
- Transparency; and
- Accountability.

The Board of Directors of Banconal has approved a "Corporate Governance Manual" that sets forth the general guidelines relating to the rules, practices and structure of Banconal's corporate governance system. The guidelines provided in such manual constitute a summary of the practices and policies adopted by Banconal, which aims to comply with the corporate governance practices imposed by the competent regulatory authorities and by international standards.

Members of the Board of Directors are appointed to their positions by the Executive Branch and such appointments must be ratified by the Legislative Branch of the Panamanian government. Banconal's management is entrusted to a Board of Directors comprised of nine members appointed by the Executive Branch of the Panamanian government to the following positions: One member appointed Chairman, one member appointed Vice Chairman, and seven regular members.

Banconal's senior management is comprised of its General Manager, five Deputy General Managers responsible for the areas of Business; Finance and Treasury; Capital Markets; Operations and Technology; and Administration; and 30 Executive Managers. In addition, Banconal has established several committees to evaluate and make decisions with respect to various operational, lending and administrative matters, such as an Audit Committee, a Risk and Policies Committee, an Assets and Liabilities Committee (ALCO), a Corporate Governance Committee, a Trust Committee, an Ethics and Compliance Committee, an Anti-Money Laundering Prevention Committee, a Credit Committee, and a Human Management Committee.

Banconal is subject to a various laws and regulations relating to the management of its human resources, including Panama's Administrative Code (*Código Administrativo*), the Organic Law or Decree/Law No. 4 of 2006, the Law No. 9 of 1994 and the Law No. 9 of 1994 relating to the careers in the public sector, Internal Workplace Regulations, Code of Ethics and Organizational, Job Classification and Administrative Policies manuals.

In addition, Banconal has adopted a series of internal control standards which are contained in its Corporate Governance Manual, Lending Policies Manual, Operating Procedures Manual and various other manuals.

There are no service agreements between us and the members of our Board of Directors and there are no potential conflicts of interest of the members of the Board of Directors between their duties to us and their private interests and/or other duties.

Below is a summary of the provisions of the Organic Law relating to the management of Banconal:

Management: The management, direction and administration of Banconal are entrusted to its Board of Directors and its General Manager. The Board of Directors is responsible for establishing the policies relating to Banconal's operation, improvement and modernization, and for overseeing their implementation, in each case in accordance with the aforementioned Decree/Law. The General Manager is responsible for enforcing the policies adopted by the Board of Directors and for managing Banconal's day-to-day operations.

The Board of Directors must be comprised of no less than five and no more than nine voting members appointed by the Executive Branch of the Panamanian government. In appointing the members of Banconal's Board of Directors the Executive Branch must aim for at least one-third female membership.

The Chairman and Vice Chairman of the Board of Directors are appointed by board members among themselves in accordance with the rules and regulations adopted to such effect. In addition, there is a Secretary of the Board of Directors, who is not a member thereof.

The quorum for any meeting of the Board of Directors is one-half plus one of its members. Where the General Manager is in attendance, he or she has the right to address the meeting.

Eligibility requirements for board members include:

- Being a citizen of Panama who is not a relative through blood within four degrees or by marriage within two degrees, or the spouse, of any other board member or the General Manager.
- Holding a college degree and have at least seven years' experience in finance, trade, agriculture, industrial or administrative functions in an executive capacity, as well as knowledge of and experience in the banking industry and the risks relating thereto.
- Being recognized for their honesty and moral integrity.
- Not being an employee (i.e., payrollee) of any other banking institution.
- Not having been found guilty of any crime against property or public trust, or of money laundering or any other financial crime; and having never filed for bankruptcy or other proceedings to protect creditors' rights or been found to be insolvent.
- Being free from any material contractual relationship with Banconal or any member of its senior management, and from any material business, professional, ethical or other conflict of interest with Banconal; and must not be the sole or a material supplier of any goods or services to the Bank or a payrollee at any Panamanian government entity. A supplier is not deemed material if sales to Banconal account for less than 5% of the supplier's total sales; and a natural person shall not be deemed a material customer if such person is a user of banking services within the meaning of Article 199(1) of the Banking Law.
- Not being a director, officer, executive or direct or indirect holder of more than five percent of the shares of stock of, any bank authorized to operate in Panama or any economic group which includes such a bank.
- Not being a direct or indirect borrower in arrears of any Panamanian public or private financial institution.
- Not being prohibited by the Superintendency of Banks from serving as an officer of any bank.

Term: Members of the Board of Directors are appointed for a term of five years from the date of ratification of their appointments. A member appointed to fill a premature vacancy serves the remaining term of the member he or she replaced.

Validity of decisions: Action at board meetings may be taken by the affirmative vote of a majority of the members present, subject, where required by the Organic Law or by decision of the Board of Directors itself, to the General Manager's approval. Absent approval where otherwise required, action at board meetings may be taken by the affirmative vote of at least one-half plus one of all board members.

Removal of Board Members: Members of the Board of Directors may be removed from office if they approve transactions which are in violation of the Organic Law or Banconal's internal regulations, become permanently unable to perform their duties, file for bankruptcy or other proceedings to protect the rights of their creditors, are determined to be in a state of manifest insolvency, cease to meet the eligibility criteria for board membership, engage in dishonest conducts or commit an indictable offense against the public administration.

Directors

The following table sets forth the composition of our Board of Directors:

Name	Age
Lizbeth Ann Henríquez Leonard	56
Leroy John Sheffer Montes	50
Ricardo Adolfo Pérez González	49
Ana Cristina Rubinoff Guardia	38
Angel Dapena Lambridge	68
Dora María Pérez Balladares	52
José Antonio Paredes Duque	42
Juan Octavio Silvera de Alba	70
Carlos Guillermo De Ycaza Córdoba	68

The business address for each of the directors listed above is Vía España, Torre Banconal, 0816-05220 Panama City, Panama.

Lizbeth Ann Henríquez Leonard. Ms. Henríquez has served as Chairman of the board since February 28, 2019. She holds a Bachelor of Arts degree from Dartmouth College and a degree in business administration from INCAE Business School. Prior to joining our board of directors, Ms. Henríquez served as CEO of Franquicias Panameñas from August 1998 to April 2015. She is a senior executive management professional with vast experience in corporate finance, strategic planning, marketing strategies and business development. Ms. Henríquez actively participates in our Credit, Audit, Human Resource, Asset And Liabilities and Corporate Governance Committees. Further, she is also the president of Franquicias Panameñas S.A., a fast food restaurant operator holding a franchise license of KFC, PH and Dairy Queen.

Leroy John Sheffer Montes. Mr., Sheffer Montes has served as our Vice Chairman since August 29, 2019. Mr. Sheffer practices law and is currently a Managing Partner of the ITAS Group and of the law firm Sheffer & Paolo Attorneys at Law. Mr. Sheffer is an expert lawyer in foreign trade and public policy. He has been an important part of commercial negotiations in several free trade agreements in Panama. Mr. Sheffer holds a political science degree from the University of Panama and an LL.M. degree from the James E. Rodger College of Law of the University of Arizona. Mr. Sheffer currently participates in our Credit, Anti-Money Laundering, Risk and Policies and Trust Committees.

Ricardo Adolfo Pérez González. Mr. Pérez González has served as our director since October 27, 2017. Mr. Perez has acted as director of Productos Lácteos San Antonio, S.A. (PROLACSA) since 1994, the main agro-industrial production company in Panama dedicated to the production, processing and marketing of milk and milk derivatives, along with other related agricultural and livestock activities. He is currently a member of several industrial and agri-food trade associations. Mr. Perez holds a Bachelor of Agriculture with a major in food industry and technology from the University of Wisconsin. Mr. Pérez actively participates in our Audit, Human Management, Credit and Corporate

Governance Committees. Further, Mr. Pérez serves as operations director of PROLACSA, a dairy products distribution company.

Ana Cristina Rubinoff Guardia. Ms. Rubinoff Guardia was appointed director of Banconal on February 18, 2019. Mrs. Rubinoff has a broad experience working in financial institutions in areas such as institutional funding and negotiations of international finance agreements. She is currently active in our Assets and Liabilities Steering Committee, Trust, Ethics And Compliance, Corporate Governance, Anti-Money Laundering and Risk and Policies Committees. She holds a bachelor's degree in sciences and letters from the George Washington University, Elliott School of International Affairs and an MBA from the IE Business School of Madrid, Spain. Ms. Rubinoff is also the owner of an infant clothing store.

Angel Dapena Lambridge. Mr. Dapena Lambridge has served as our director since August 21, 2019. His professional activity began in an important audit firm of Panama. Afterwards, he provided audit services to local and international companies in several sectors, such as banking, industrial, commercial and government. He is currently an active member of the College of Certified Public Accountants and participates in several steering committees. Mr. Dapena holds a degree in commerce with a major in accounting from the Universidad de Panama. Mr. Dapaena actively participates in our Audit, Risk and Policies and Assets and Liabilities Steering Committees. Further, Mr. Dapena also provides independent consulting services.

Dora María Pérez Balladares. Ms. Perez Balladares has been a member of the board since August 21, 2019. She holds a Bachelor of Arts degree from the University of Pennsylvania. Prior to joining our board of directors, Ms. Perez Balladares worked in in the areas of Corporate Banking and Asset Management of several banking and financial institutions, where she was responsible for corporate loans and portfolio supervision. Ms. Perez Balladares actively participates in our Credit, Audit, and Trust Committees. Further, she does not perform any other business-related activities or otherwise, besides serving as member of the Board of Directors.

José Antonio Paredes Duque. Mr. Paredes Duque has served as our Director since August 21, 2019. Mr. Paredes has vast experience in private equity investments and real estate development investments. He is responsible for managing family office and private investment companies. Mr. Paredes holds a master's degree in business administration from the Boston University and a master's degree in financial planning from Bentley College. Mr. Paredes actively participates in our Ethics and Compliance, Credit, Audit, Assets and Liabilities Steering Committees, Corporate Governance and Trust Committees. Further, Mr. Duque is the Chief Executive officer of Back Bay Holdings, S.A, a family office, private equity and investment company.

Juan Octavio Silvera de Alba. Mr. Silvera de Alba has served as our director since August 21, 2019. He has experience in financial, administrative, planning and financing sector in local and international banks. He previously held important management positions at Banconal. Mr. Silvera de Alba holds a bachelor of arts degree with a major in economics from Youngstown State University and a master's degree in business administration from the University of Georgia. Mr. Silvera actively participates in our Audit, Risk and Policies, Anti-Money Laundering, Human Management and Assets and Liabilities Steering Committees. Further, Mr. Silvera is retired and does not perform any other business-related activities or otherwise, besides serving as member of the Board of Directors.

Carlos Guillermo De Ycaza Córdoba. Mr. De Ycaza has been a member of the board since August 21, 2019. He holds a bachelor of business administration with a major in marketing from Saint Edwards University in Austin, Texas. Prior to joining our board of directors, Mr. De Ycaza acted as senior manager of a marketing company. Also, he has acted as manager of commercial and industrial companies. Mr. De Ycaza actively participates in our Ethics and Compliance and Human Management Committees. In addition to being a member of the Board of Directors, Mr. De Ycaza provides strategic consulting services in branding, marketing and communications.

Executive Officers

The following table sets forth the information concerning our principal officers:

Name	Position	Age
Javier Carrizo E.	General Manager	62
Sergio Altamiranda	Business Deputy Manager	51

Name	Position	Age
Milciades Denis	Deputy General Manager of Finance and Treasury	58
Juan Eliseo Melillo Uribe	Deputy General Manager of Capital Markets	39
Luis Armando Lasso De Gracia	Deputy General Manager of Operations and Technology	65
Roberto Javier Sousa Núñez	Administrative Deputy General Manager	57

Javier Carrizo E. Mr. Carrizo has served as our General Manager since July 25, 2019. He previously served as PVP of New Corporate Business Development at Multibank (2005-2019), Executive Vice President at Banco Uno-Costa Rica (2004-2005), Vice President of Corporate and Commercial Banking at Banistmo (1998-2003), Vice President of Corporate Banking at Banco Continental de Panamá (1984-1998), Treasurer at Banco de Colombia-Panamá (1981-1984) and Credit Analyst at Chase Manhattan Bank-Panamá (1979-1981). Mr. Carrizo holds a bachelor's degree of business science from Babson College.

Sergio Altamiranda. Mr. Altamiranda has been a Business Deputy Manager since August 13, 2019. Prior to joining Banconal, Mr. Altamiranda served as an Independent Banking Consultant (since January 2018), Vice President of Finance at Grupo Shahani (2015-2018), General Manager at Banco Universal (2014-2015), Consultant Advisor at Cartera de Inversiones Venezolanas, S.A. (2009-2014), General Manager at the Savings Bank (2004-2009), Manager of Special Credits at Primer Banco del Istmo (2003-2004) and Manager of Corporate Branch Banking at Banco de Latinoamérica, S.A. (1990 to 2003). He holds a finance degree from the Universidad Católica Santa María la Antigua de Panama.

Milciades Denis. Mr. Denis was appointed Deputy General Manager of Finance and Treasury of Banconal on July 2, 2019. Mr. Denis has a broad experience working previously as Director of Treasury at Banco Latinoamericano de Comercio Exterior (1988-2011) and as Vice President of Treasury and Investments at Multibank (2011-2018). Mr. Denis holds a bachelor of science from Louisiana State University.

Juan Eliseo Melillo Uribe. Mr. Melillo Uribe has served as our Deputy General Manager of Capital Markets since July 16, 2019, and previously served as Director of Private Banking from 2010 to 2014 at Andbank, as Vice President at Mundial Asset Management from 2004 to 2010, as Financial Specialist at Wachovia Bank / Wachovia Securities during 2003 and as Financial Representative at Northwestern Mutual Financial Network from 2002 to 2003. Mr. Melillo holds a Master of Business Administration from the University of South Florida.

Luis Armando Lasso De Gracia. Mr. Lasso De Gracia has been a Deputy General Manager of Operations and Technology since August 1, 2015. Prior to joining Banconal, Mr. Lasso served as General Manager and Director of Corporate Technology (2010-2012) in E-Pago International Inc., Vice President of Operations and Technology at Citibank, N.A. (2001-2009), he was a member of the integration team of the merger between Citibank, Banco Uno and Cuscatlán. He holds a degree in systems administration from the University of Florida and a diploma in Business Solutions from Georgetown University.

Roberto Javier Sousa Núñez. Mr. Sousa Nuñez was appointed Administrative General Deputy Manager of Banconal on October 6, 2014. Mr. Sousa has a broad experience as he previously worked at Rodelag, S.A. (2007-2009), he acted as Senior Finance Manager at Hospital Punta Pacifica, S.A. (2005-2007), as a Financial and Accounting Advisor at ChevronTexaco-West Africa (Congo-Benin-Togo-Ivory Coast) (2003-2004), and Accountant, Section Supervisor at Refinería Panamá, S.A. (ChevronTexaco Company) (1986-2002). Mr. Sousa holds a diploma in tax management from Columbus University (2007), a bachelor's degree in accounting from ULACIT (1993) and a bachelor's degree in finance from the Universidad Santa María La Antigua (1990).

Compensation

The compensation paid to members of Banconal's Board of Directors —including the compensation paid to members of the committees established in accordance with sound corporate governance practices — for their attendance of the meetings thereof or official engagements is determined by the Executive Branch of the Panamanian government, pursuant to the Organic Law.

Our executive officers are compensated on a monthly basis based on salaries agreed on in advance under their respective employment agreements. Our directors are compensated for each meeting they attend. The amount

of compensation is decided by the Executive Branch. Our Board of Directors determines the compensation of the General Manager and delegates to the General Manager the decision to determine the compensation of our other key executives.

For the three-month period ended March 31, 2020, the total amount of compensation paid to our executive officers and our directors was U.S.$0.766 million.

Board and Executive Committees

Banconal has 19 committees; ten of them are Board Committees and nine are Executive Committees. The frequency of meetings of each committee is stipulated by their own mandates. However, depending of the circumstances, extraordinary meetings may be held by a committee. Each Board Committee is presided over by a Director and allows for the participation of one or more guests, who generally may not cast votes on the relevant committee's decisions.

Banconal's Board Committees are as follows: (i) the Audit Board Committee, (ii) the Audit Board Committee - Broker Dealer, (iii) the Risks and Policies Board Committee, (iv) the Anti-Money Laundering Prevention Board Committee, (v) the Ethics and Compliance Board Committee - Broker Dealer, (vi) the Credit Board Committee, (vii) the Trust Board Committee, (viii) the Human Management Board Committee, (ix) the Assets and Liabilities Board Committee and (x) the Corporate Governance Board Committee.

Banconal's Executive Committees are comprised of: (i) the National Consumer Credit Executive Committee, (ii) the National Corporate Credit Executive Committee, (iii) the Technology Executive Committee, (iv) the Operational Risk and Technological Executive Risk Committee, (v) the Procurement Review Executive Committee, (vi) Procedures Executive Committee, (vii) the Energy Executive Committee, (viii) the Ethics and Conduct Committee and (ix) Investment Executive Committee.

Board Committees

Audit Board Committee

The main objective of this committee is to provide support the Board of Directors as it makes decisions related to the supervision of the internal control system and the evaluation of the results of both internal and external audits. This committee is also responsible for ensuring correct compliance with the rules, laws and other regulations applicable to the Bank.

It is comprised of four Directors, who act as members of the committee, and the General Manager and the Executive Manager of Internal Audit, acting as guests. The Audit Board Committee meets on a monthly basis.

Audit Board Committee - Broker Dealer

This committee provides support to the Board of Directors as it makes decisions regarding the supervision of the internal control system and the evaluation of the outcome of both internal and external audits related to our broker dealer services.

It is comprised of three Directors and the Deputy General Manager of Finance and Treasury, who are members of the committee. Further, the Executive Manager of Internal Audit also participates in this committee as a permanent guest. This committee meets on a quarterly basis.

Risks and Policies Board Committee

This committee's purpose is to maintain the Bank within a controlled risk profile by objectives and policies for comprehensive risk management objectives and policies. It also monitors risk exposure limits previously approved by the Board of Directors.

The Risk and Policies Board Committee is composed of four Directors, the General Manager, the Deputy General Manager of Finance and Treasury and the Business Deputy Manager, all of whom are members of the committee. Notwithstanding, only the member Directors and General Manager are allowed to cast votes on the decisions made by this committee. The Risks and Policies Board Committee meets on a quarterly basis.

Anti-Money Laundering Prevention Board Committee

The objective of this committee is to establish the measures, policies and strategies necessary to prevent the Bank's products and services from being used to introduce to the financial system any funds resulting from money-laundering activities or for the financing of terrorism activities or the proliferation of weapons of mass destruction.

The Anti-Money Laundering Prevention Board Committee is comprised of three Directors, the General Manager, the Business Deputy Manager, the Deputy General Manager of Operations and Technology, the Executive Manager of Internal Audit, the Integral Risk Executive Manager and the Compliance Officer, all of whom are members of the committee. Notwithstanding, only the member Directors and General Manager are allowed to cast votes on the decisions made by this committee. The Anti-Money Laundering Prevention Board Committee meets on a bimonthly basis.

Ethics and Compliance Board Committee – Broker Dealer

The purpose of this committee is to ensure that Banconal, as holder of a broker dealer's license, complies with applicable law, including the Securities Market Law and any measures aimed at preventing the use of its services to carry out money laundering activities and the financing of terrorism or the proliferation of weapons of mass destruction.

It is composed of three Directors, the Compliance Officer, the General Manager, the Business Deputy Manager, the Deputy General Manager of Operations and Technology, the Executive Manager of Internal Audit and the Integral Risk Executive Manager, all of whom are members of the committee. Notwithstanding, only the member Directors and Integral Risk Executive Manager are allowed to cast votes on the decisions made by this committee. This Ethics and Compliance Board Committee – Broker Dealer committee meets on a quarterly basis.

Credit Board Committee

The main function of the Credit Board Committee is to analyze, approve or decline all credit requests, including their terms and conditions, to ensure they are within the applicable limits for approval and other guidelines approved by the Board of Directors.

The Credit Board Committee is composed of five Directors, who act as members, and the General Manager, the Business Deputy Manager, the Integral Risk Executive Manager and the Executive Manager of Credit Administration, acting as permanent guests. A legal advisor from the legal department participates as well, and is also a permanent guest of the committee. This committee regularly meets on a weekly basis but at least once per month.

Trust Board Committee

The Trust Board Committee is focused on improving the development of the Bank's fiduciary activities by approving and establishing policies and guidelines related to this business.

This committee is integrated by four Directors, the Business Deputy Manager, the General Manager, the Legal Counsel, the Compliance Officer and the Integral Risk Executive Manager, all of whom are members of the committee, and the Trust Area Manager, as a permanent guest. Notwithstanding, only the member Directors and Business Deputy Manager are allowed to cast votes on the decisions made by this committee. The Trust Board Committee meets on a quarterly basis.

Human Management Board Committee

The Human Management Board Committee's main objective is to provide support to the Board of Directors and the Bank's management by ensuring the implementation of best practices in human resource management.

This committee is comprised of four Directors, the General Manager and the Administrative General Deputy Manager, all of whom are members of the committee, and the Human Resource Executive Manager, as permanent guest. The Human Management Board Committee meets on a quarterly basis.

Assets and Liabilities Board Committee

The main objective of the Assets and Liabilities Board Committee is to ensure the proper management of the Bank's assets and liabilities in connection with liquidity risk, interest rate risk and market risk. It is responsible for reviewing all policies and procedures related to the management of assets and liabilities and recommending new ones to the Board of Directors, in order to meet profitability, liquidity and market risk control objectives.

The Assets and Liabilities Board Committee is composed of five Directors, the General Manager, the Deputy General Manager of Finance and Treasury, the Business Deputy Manager, the Integral Risk Executive Manager, the Executive Finance Manager and the Executive Treasury Manager, all of whom are members of the committee, and the Assets and Liabilities Area Manager, as a permanent guest. Notwithstanding, only the member Directors and General Manager are allowed to cast votes on the decisions made by this committee. The Assets and Liabilities Board Committee meets on a bimonthly basis.

Corporate Governance Board Committee

The Corporate Governance Board Committee provides support to the Board of Directors by implementing effective corporate governance structures, including an internal control system that contributes to the adequate internal oversight of the Bank.

This committee is composed of four Directors and the General Manager, all of whom are members of the committee, and the Corporate Governance Executive Manager, as a permanent guest. Notwithstanding, only the member Directors are allowed to cast votes on the decisions made by this committee. The Corporate Governance Board Committee meets on a monthly basis.

Executive Committees

National Consumer Credit Executive Committee

The main function of the Credit Board Committee is to analyze, approve or decline all credit requests, including their terms and conditions, to ensure they are within the applicable limits for approval and other guidelines approved by the Board of Directors.

This committee is comprised of the Business Deputy Manager, the Assistant Business Deputy General Manager, the Executive Manager of Credit Administration, the Executive Manager of Financial Institutions, the Consumer Credit Area Manager, the Executive Manager of Consumer Banking, the Integral Risk Executive Manager and a legal advisor. This committee meets on a weekly basis.

National Corporate Credit Executive Committee

The main purpose of the National Corporate Credit Executive Committee is to approve, modify and recommend credit transactions or other transactions related to corporate credit facilities submitted for consideration within the authorized approval limits. Further, it also evaluates, approves and recommends credit and investment to hone the Bank's competitiveness and profitability.

This committee is comprised of the General Manager, the Business Deputy Manager, the Integral Risk Executive Manager, the Executive Manager of Credit Administration, the Executive Manager of Agricultural Banking, the Executive Manager of Financial Institutions, the Corporate Banking Executive Manager, the Commercial Banking Executive Manager and the Assistant Business Deputy General Manager. This committee meets on a weekly basis.

Technology Executive Committee

The objective of the Technology Executive Committee is to ensure optimal business operations through the search for value-generating solutions. It also ensures business alignment with the Bank's technology and promotes continuous improvement in this segment.

This committee is integrated by the Deputy General Manager of Operations and Technology, the Executive Manager of Innovation and Technology, the Executive Operations Manager, the Executive Planning Manager, the Executive Manager of Processes and Continuous Improvement, the Executive Manager of Internal Control, the Executive Manager of Consumer Banking, the Integral Risk Executive Manager and the Core Bank's Platform Area Manager. This committee meets on a monthly basis.

Operational and Technological Risk Executive Committee

This committee's main purpose is to ensure a sound management of operational and technological risks, in accordance with the provisions of the resolutions issued by the Superintendency of Banks of Panama. The committee assesses any of the Bank's operational incidents under its risk control profile.

The Operational and Technological Risk Executive Committee is composed of the Integral Risk Executive Manager, the Executive Manager of Processes and Continuous Improvement, the Executive Manager of Innovation and Technology, the Executive Manager of Internal Control, the Executive Operations Manager, the Legal Counsel, the Operational Risk Area Manager, the IT Risk Area Manager, the Business Continuity Area Manager and the Cybersecurity Executive Manager. This committee meets on a quarterly basis.

Procurement Review Executive Committee

The Procurement Review Executive Committee ensures the correct application of contractor selection procedures, as established by the government procurement rules.

This committee is comprised of Executive Manager of Administrative Services, the Integral Risk Executive Manager, Compliance Officer and Procurement Area Manager. The frequency of meetings is monthly.

Procedures Executive Committee

The Procedures Executive Committee evaluates and approves requests, initiatives and proposals to improve or change the Bank's manuals, procedures and processes, in order to strengthen its internal control system.

This committee is comprised of the Executive Manager of Processes and Continuous Improvement, the Executive Manager of Internal Control, the Integral Risk Executive Manager and the Compliance Officer. This committee meets on a monthly basis.

Energy Executive Committee

This committee is in charge of developing and implementing the energy efficiency management plan. It sets forth the processes, activities, projects and inspection systems to continuously improve the Bank's energy performance.

The Energy Executive Committee is comprised of the Maintenance Area Manager, the General Services Area Manager, the Business Support Area Manager, the PR Area Manager, the Chief of Economic and Financial Analysis

Department, the Chief of UPS, the Elevators and Electrical Plant Department and the Chief of Air Conditioning Department. This committee meets on a monthly basis.

Ethics and Conduct Committee

The Ethics and Conduct Committee is in charge of reviewing any reports of non-compliance events pursuant to the Ethics and Business Conduct Code of Banconal.

This committee is comprised of the Compliance Officer, the Executive Human Resources Manager, the Legal Counsel and the Corporate Governance Executive Manager. This committee meets every four months.

Investments Executive Committee

The Investments Executive Committee's purpose is to incorporate best practices into the processes for the analysis, management and investment monitoring of the Bank's investment portfolio. In addition, it is aimed at strengthening the Bank's investment policy.

This committee is comprised of the General Manager, the Finance and the Treasury Deputy General Manager, the Security Markets Executive Manager, the Treasury Executive Manager and the Risk Executive Manager. This committee meets on a monthly basis.

Corporate Governance

The concept of corporate governance is related to the definition established in Agreement 005-2011 issued by the Superintendency of Banks of Panama and the Agreement 6-2018 issued by the Superintendency of the Securities Market. Its objective is to facilitate the creation of an environment of trust, transparency and accountability necessary to promote long-term investments, financial stability and business integrity; all of this to contribute to the solid growth and the development of more inclusive societies. A sound governance structure allows for the alignment among the decisions made by the Bank, its objectives and those of its owner, which in this particular case is the Panamanian State.

The corporate governance system of Banconal is oriented to follow any recommendations indicated by international standards and best practices, as well as to comply with the different regulations coming from our different regulatory entities. The Bank has a strong structure of good practices of transparency, ethics and conduct, internal control, risk management and auditing, all of which guarantee the management of corporate governance, and seek to improve the performance of the Bank, its directors and employees.

For more information on the corporate governance regulatory requirements, see "Regulatory Matters—Banking Risk and Other Applicable Regulation—Corporate Governance."

OWNERSHIP

Banconal is an autonomous, fully state-owned bank established in 1904. As a stand-alone entity, Banconal has administrative, budgetary and financial autonomy and is subject to oversight by the executive branch of the Panamanian government and the competent regulatory authorities pursuant to Decree/Law No. 4, dated January 18, 2006 as amended by Law 24 of 2017, and unified in a single text by the National Assembly of Panama, as published in the Official Gazette N°28,837-B on October 16, 2017.

Pursuant to the Organic Law, which created Banconal, all liabilities of Banconal are subsidiarily guaranteed by Panama. See "Summary—Legal Framework" and "Business—Overview."

RELATED PARTY TRANSACTIONS

Under Panamanian law, a bank or a bank-holding company may not grant loans or issue guarantees or any other obligation to a related party exceeding 5.0% of its total capital funds, in the case of unsecured transactions, or 10.0% of its total capital funds, in the case of collateralized transactions (other than loans secured by deposits in the bank). Furthermore, the total limit to all related parties is set at a maximum of 25% of the bank or bank holding company's total capital funds. Other important norms include that a bank may not grant to its applicable related parties loans or other credit facilities secured solely with the shares of such bank or bank holding company; if the applicable related party is an employee, a bank may not grant unsecured and unguaranteed loans or credit facilities to such employee in an amount exceeding the annual salary of such employee; and a bank may not grant loans or other credit facilities underpriced or with terms that are more favorable than those found in the market.

For these purposes, a related party includes: (i) one or more of the bank's directors, (ii) any stockholder of the bank who directly or indirectly owns at least 5.0% of the voting shares of the bank or bank-holding company, (iii) any company of which one or more of the bank's directors is a director or officer or where one or more of the bank's directors is a guarantor of the loan or credit facility, (iv) any company or entity in which the bank or any one of its directors or officers can exercise a controlling influence, (v) any company or entity in which the bank or any one of its directors or officers owns 20.0% or more of the voting shares, and (vi) the managers, officers and employees of the bank or their respective spouses (other than home mortgage loans or guaranteed personal loans under general programs approved by the bank for employees). Because the Banking Law takes into account economic groups in defining related parties, any person that forms an economic group with any of the above will be considered a related party.

As mentioned, the Superintendency of Banks currently limits the total amount of loans, credit facilities, guarantees or any other obligations (other than credit facilities fully secured by deposits in the bank) granted by a bank or the ultimate parent of a banking group to related parties exceeding 25.0% of the total consolidated regulatory capital of the Bank. In accordance with the Banking Law, the following loans are not computed when determining the 25.0% threshold: loans guaranteed 100% by cash, mortgage loans used for the purchase or construction of the borrower's primary residence, and personal loans guaranteed by a mortgage.

Additionally, pursuant to the Organic Law, we may not grant, directly or indirectly, loans in favor of our directors or general manager or to the spouses or children of these persons, or to the entities of which they are directors, officers or shareholders in which they exercise control or in which they have a participation of 5% or more of capital stock, nor to trusts or private interest foundations in which these persons have a participation. During the exercise of their functions, no director, general manager or employee of Banconal, nor their spouses, children or entities of which they are directors, officers or shareholders in which they exercise control or in which they or in which they have a participation of 5% or more of capital stock, may become a joint and several guarantor (*fiador solidario*) *vis-a-vis* Banconal.

In the ordinary course of our business, we engage in related party transactions involving members of our senior management and autonomous or semi-autonomous government entities. As a state-owned bank, financial agent for the Panamanian government and depositary of the public sector's funds, we hold large concentrations of loans to and deposits from Panamanian government entities. The following table contains a breakdown of the aggregate balance of our related party transactions as of March 31, 2020.

	Directors and Key Management Personnel		Government sector	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
	(*U.S.$*)			
Assets:				
Investment securities at amortized cost	0	0	1,375,361,466	1,292,147,211
Loans:				
Loans outstanding at beginning of year	1,809,885	2,091,314	310,636,844	464,327,629
Loans issued during the year	550,887	558,480	0	687,646,130
Loans cancelled during the year	(822,131)	(839,909)	(91,646)	(841,336,915)
Gross balance	1,538,641	1,809,885	310,545,198	310,636,844
Accrued interest receivable	606	1,046	3,719,772	1,255,363
Loans outstanding at the end of period, at amortized cost	1,539,247	1,810,931	314,264,270	311,892,207
Fiscal credit from preferential interest on loans	0	0	26,152,096	18,852,202
Liabilities:				
Deposits, at amortized cost				
Demand deposits	4,636	13,127	2,292,510,230	2,473,131,465
Savings deposits	261,026	513,265	0	0
Time deposits	0	0	4,045,086,137	5,038,158,036
Restricted deposits	0	0	8,205,492	6,746,523
Bonds payable at amortized cost	0	0	206,216,051	206,216,051
Commitments:				
Letters of credit	0	0	8,015,492	6,566,523
	March 31, 2020	**March 31, 2019**	**March 31, 2020**	**March 31, 2019**
Profit or Loss				
Interest and commissions income				
Investments in securities	0	0	12,671,210	10,295,451
Loans	12,770	18,455	2,585,067	5,502,841
Interest expense:				
Deposits	416	385	16,572,561	18,258,332
General and administrative expenses:				
Directors' allowances	60,250	68,000	0	0
Salaries	664,076	711,009	0	0
Employee benefits	42,003	42,874	0	0

Banconal's senior management is comprised of nine directors and 36 executive officers or managers.

Loans to members of our senior management are subject to the same terms and conditions available to all of our other employees. As of March 31, 2020, loans to related parties were all classified as low-risk and our allowance for loan losses was U.S.$351,387, compared to U.S.$352,086 as of December 31, 2019.

REGULATORY MATTERS

General

Banconal operates in Panama under Laws 74 of 1904, 27 of 1906, 6 of 1911, 11 of 1956, and reorganized under Law 20 of 1975 as subrogated by Law 22 of 2006, and amended by Law 24 of 2017 and unified in a single text by the National Assembly of Panama as published in the Official Gazette N°28,837-B of the 16th of October of 2017 (the "Organic Law") and is recognized by the Banking Law as one of the two official banks (an "Official Bank"). Official Banks may engage in all banking-related activities in or from Panama, including taking local and offshore deposits, as well as making local and international loans. For purposes of the Banking Law, Official Banks are required to comply with the regulatory requirements imposed by the Superintendency of Banks to General License Banks, with some exceptions which are included herein.

The Organic Law establishes that the operations of Banconal that relate to its banking business as well as those regulated by the Banking Law will be governed by the Banking Law and all regulations and accords issued thereunder.

The Organic Law sets forth that Official Banks are subject to inspection and surveillance by the Comptroller General of the Republic under the provisions of the Constitution and legislation, and to supervision by the Superintendency, as well as to compliance with all norms, regulations, prerogatives, rights, and requirements that, according to the Banking Law, are applicable to the rest of the banks for the same type of operations and situations.

Banconal has no role in the regulation and supervision of banks in Panama. Banconal is an Official Bank and, as such, may engage in all banking-related activities in or from Panama. However, in accordance with Banconal's Organic Law, it acts as a depositary of the government's funds and as a clearing agency.

According to the Banking Law and the Organic Law, the Superintendency of Banks is the regulatory body responsible for the implementation and enforcement of the Banking Law in Panama and the supervision and regulation of all banks domiciled in Panama, and no person may engage in the banking business in or from Panama without having been properly licensed by the Superintendency of Banks or authorized by law, as is Banconal's case. Under the Banking Law, three types of licenses may be issued:

- General Banking License, which allows an entity to engage in banking activities in Panama, as well as carry out transactions that are executed, performed or take effect outside Panama and perform any other activity authorized by the Superintendency of Banks.

- International Banking License, which allows the Bank to engage from an office established within Panama transactions that are perfected, consummated or have their desired effect outside the territory of Panama and perform any other activity authorized by the Superintendency of Banks.

- Representation Banking License, which allows licensed foreign banks to establish representation offices in Panama and perform any activity authorized by the Superintendency of Banks.

The Superintendency of Banks has the authority to (i) grant and revoke banking licenses; (ii) set capital and liquidity ratio requirements, lending limits, mandatory reserves and mandatory accounting standards; (iii) authorize the opening and closing of branches and material changes in the ownership of banks; (iv) authorize the merger, sale or consolidation of banks or the sale of all or substantially all of their assets; (v) decide on the liquidation, intervention, merger or reorganization of any bank; (vi) decide on the removal of executive officers of any bank; (vii) impose sanctions on banks; (viii) issue secondary rules and regulations in accordance with the Banking Law; and (ix) interpret the banking laws.

The Superintendency of Banks has signed and executed agreements or letters of understanding with 27 foreign supervisory authorities for the sharing of supervisory information under the principles of reciprocity, appropriateness, national agreement, and confidentiality. These foreign supervisory authorities include the U.S. Federal Reserve Board, the Office of the Comptroller of Currency of the Treasury Department, the Federal Deposit

Insurance Corporation and the Office of Thrift Supervision and the Office for Savings Supervision. In addition, the Statement of Cooperation between the United States and Panama promotes cooperation between U.S. and Panamanian banking regulators and demonstrates the commitment of the U.S. regulators and the Superintendency of Banks to the principles of comprehensive and consolidated supervision.

Banking Supervision and Regulation

Banking regulations on capital adequacy in Panama take into account the recommendations of the Basel Committee. The Superintendency of Banks has adopted and implemented various guidelines under Basel III through the Banking Law and various regulations, principally by Accord 1-2015, as amended by Accord 13-2015 which became effective on July 1, 2016. Accord 1-2015 ("Accord 1-2015") sets forth new capital adequacy requirements applicable to banks and banking groups licensed in Panama.

Capital Adequacy Requirements

Accord 1-2015, applies to regulated banking entities, including General License Banks and Official Banks (such as Banconal), and international license banks whose supervisor of origin is the Superintendency of Banks. Accord 1-2015 also applies to bank holding companies that are part of a corporate banking group with consolidated operations in Panama, of which the Superintendency of Banks is the supervisor of origin. In addition, Accord 1-2015 provides the Superintendency of Banks the power to apply such capital adequacy requirements to any financial institution not contemplated above to secure the stability of Panama's financial system.

Accord No. 1-2015 breaks down capital into smaller sub-groups and sets forth the specific criteria financial instruments must have in order to be designated primary or secondary capital. Under Accord 1-2015, a bank's capital is divided into primary capital or tier 1 capital, secondary capital or tier 2 capital, and dynamic reserves. Primary capital or tier 1 capital is further divided into ordinary capital and additional capital.

- *Primary Capital.*

  - *Ordinary Primary Capital*. Includes paid-in capital in shares, surplus capital, declared reserves, retained earnings, minority interests in equity accounts of consolidated subsidiaries, other items of net total earnings and any other reserves authorized by the Superintendency of Banks.

  - *Additional Primary Capital*. Includes instruments issued by a bank that meet the criteria to be classified as additional primary capital and that are not classified as ordinary primary capital, issuance premiums from financial instruments considered additional primary capital, financial instruments that qualify as additional primary capital that are held by a third party and (i) are not considered ordinary primary capital and (ii) are issued by consolidated affiliates of the bank and any other financial instrument resulting from capital adjustments of ordinary primary capital.

- *Secondary Capital*. Includes (i) financial instruments that meet the criteria for classification as secondary capital set forth in Accord No. 1-2015, as amended to date; (ii) subscription premiums paid on financial instruments that are classified as secondary capital; (iii) financial instruments issued by consolidated affiliates of the bank to third parties; and (iv) reserves for future losses (excluding provisions assigned to the deterioration of assets valued on an individual or collective basis).

- *Dynamic Reserves.* The calculation of the dynamic reserve is equal to (i) the sum of the result of multiplying the outstanding amount of the Risk-Weighted Assets classified as Standard by the alpha factor of 1.50% plus the result of multiplying the positive variation between quarters of the Risk-Weighted Assets classified as Standard by the beta factor of 5%, if the result is negative then the number added is zero; minus (ii) the quarterly variation of the outstanding amount of the Specific Reserve. The Dynamic Reserve must be between 1.25% and 2.50% of the Risk-Weighted Assets corresponding to the credit facilities classified as "Standard Risk"; and cannot decrease in respect to the amount calculated for the previous quarter, except for cases when such decrease is a result of a conversion from the Dynamic Reserve to the Specific Reserve.

As a result of the COVID-19 pandemic, the Superintendency of Banks issued Accord 2-2020 as amended by Accord 3-2020 ("Accord 2-2020") as an exceptional and temporary measure, banking entities may use up to 80% of the Dynamic Reserve for the constitution of Specific Reserves. In those cases, in which the banking entities require to use more than 80% of the amount of the Dynamic Provisions, they shall obtain prior authorization from the Superintendency of Banks. Banking entities may only pay dividends once they have restituted the amount of the Dynamic Reserve corresponding to their loan portfolio. The increases or decreases of the Specific Reserve and the Dynamic Reserve are allocated to, or from, retained earnings, and do not affect recorded net profit. Such reserves cannot be distributed to shareholders. Furthermore, as an exceptional and temporary measure and to provide further relief to the banks, the Superintendency of Banks issued Resolution SBP-GJD-0007-2020 suspending the provisioning of the Dynamic Reserve starting for the second quarter of 2020. The suspension will remain in place until the Superintendency of Banks revokes this General Resolution.

The following items are the regulatory adjustments applicable to ordinary primary capital: (i) current and cumulative losses; (ii) capital gains on significant investments on financial nonconsolidated entities; (iii) other intangible assets; (iv) deferred taxes contingent on profitability of the bank; (v) provisions created to cover hedges not accounted for at their fair value; (vi) gains or losses from variations credit risk; (vii) investments in proprietary shares; (viii) significant consolidated participation on nonfinancial entities; and (ix) significant participation in paid capital on nonconsolidated financial, banking and insurance entities.

The following items will be adjusted from the corresponding type of adjusted capital: (a) crossed ownership participation with other entities for purposes of artificially increasing the bank's capital; and (b) investment instruments that are not common shares and require a significant participation.

General License Banks and Official Banks (such as Banconal) are required to maintain a total regulatory capital over risk-weighted assets ratio of 8.00% and, as of January 1, 2019 an ordinary primary capital over risk-weighted assets of 4.50% and a primary capital over risk-weighted assets of 6.00%.The Panama Superintendency of Banks has the power to impose additional capital adequacy requirements not contemplated above on any financial institution to secure the stability of Panama's financial system.

The total Risk-Weighted Assets of a bank are the sum of (i) the Risk-Weighted Assets of such bank; (ii) the risk-weighted irrevocable contingent obligations; and (iii) the risk-weighted counterparty risk, which takes into consideration admissible values of collateral, admissible guarantees, permitted credit default swaps, and total return swaps, among others.

Banks classify risk-weighted assets into ten different weight categories, which range from 0% to 250.0%. Risk-weight categories include, but are not limited to; (i) the risk-weighted assets allocated to loans granted exclusively to Panama or instruments issued by Panama of 0% interest; (ii) the risk-weight allocated to residential and commercial mortgage loans, ranging between 35.0% and 100.0% and depending upon the loan-to-value ("LTV") and the age of the appraisal of the applicable property; (iii) the riskweight allocated to certain delinquent loans, which are now classified as having the same weight as overdue loans (i.e., 125.0%); and (iv) the risk-weight assigned to derivatives that lack a contested valuation of 200.0%. The methodology of calculation of Risk-Weighted Assets also considers future potential exposure for derivative transactions and the irrevocable contingent obligations of a bank.

Liquidity

General License Banks and, for all purposes, Official Banks are currently required to maintain 30% of their global deposits in liquid assets (which include short-term loans to other investment grade banks and other liquid assets) of the type prescribed by the Superintendency of Banks. Additionally, General License Banks and, for all purposes, Official Banks are required to maintain assets in Panama of no less than 60% of their local deposits or any other percentage fixed by the Superintendency of Banks, as amended by Accord No. 14-2019. Under the Banking Law, deposits from central banks and other similar depositories of the international reserves of sovereign states are immune from attachment or seizure proceedings. Pursuant to the Banking Law, deposits from the subsidiaries or affiliates located overseas are excluded from gross global deposits for purposes of calculating the liquidity ratio. Currently, Banconal does not have subsidiaries or affiliates located overseas.

Liquidity Coverage Ratio

The Panama Superintendency of Banks requires General License Banks and International License Banks of which it is the home supervisor to provide reports with the calculation of the liquidity coverage ratio as determined by the Basel Committee on Banking Supervision in accordance with Basel III standards. The Panama Superintendency of Banks has adopted Accord No. 2-2018, as amended, (whereby provisions regarding management of liquidity risk and the short term liquidity coverage ratio are established) which requires banks to maintain liquidity coverage ratios as established by Basel III, as adjusted by the Superintendency of Banks.

Pursuant to Accord No. 2-2018, as amended, the short term liquidity coverage ratio is defined as the stock of high-quality liquid assets over total net cash outflows over the next 30 calendar days. The definition is based on the Basel III Liquidity Coverage Ratio and liquidity risk monitoring tools published by the Basel Committee on Banking Supervision and adjusted by the Superintendency of Banks.

Banks are required to have a contingent funding plan which should include: (i) a diversified pool of contingent funding options; (ii) provide details as to potential amounts and values that could be obtained from each of the funding options; (iii) procedures that detail the priority of the funding sources; and (iv) a flexible framework which will allow the bank to react effectively to different situations.

Banks are required to comply with the short term liquidity coverage ratio at all times. Accord No. 2-2018, as amended, establishes two bands of ratios that can be applicable to banks in Panama. The Panama Superintendency of Banks will determine, according to internal criteria, the band applicable to each bank. The band 1 banks will be required to gradually reach by December 2022 a ratio of 50% and band 2 banks will be required to gradually reach by December 2022 a ratio of 100%. Accord No. 2-2018, as amended, went into full force and effect as of July 1, 2018, however there will be an transition period for compliance with the short term liquidity coverage ratio (including the prospective reports corresponding to the calculation of said liquidity coverage ratio) set forth therein, as follows: (a) band 1 banks to which the liquidity coverage ratio is applicable at 50.0% must comply with a short term liquidity coverage ratio of (i) 25.0% as of December 2019, (i) 37.5% as of December 2020, (iii) 44.0% as of December 2021, and (iv) 50.0% as of December 2022, whereas (b) band 2 banks to which the short term liquidity coverage ratio is applicable at 100.0% must comply with a short term liquidity coverage ratio of (i) 50.0% as of December 2019, (ii) 65.0% as of December 2020, (iii) 80.0% as of December 2021, and (iv) 100.0% as of December 2022.

Liquid Assets

Qualifying liquid assets for purposes of the regulatory liquidity ratio include: (i) gold; (ii) credit balances in the banking clearing agency; (iii) certain domestic bank deposits and domestic obligations with a maturity not exceeding 186 days; (iv) certain foreign bank deposits with a maturity not exceeding 186 days; (v) treasury notes and other securities issued by Panama with a maturity not exceeding one year; (vi) certain obligations guaranteed by foreign governments with investment grade; (vii) certain investment grade, marketable obligations issued by foreign governments or by international financial institutions of which Panama is a member; (viii) certain obligations guaranteed by banks; (ix) certain marketable securities issued by foreign private and governmental agencies (with long-term investment grade of AAA/Aaa or higher); and (x) deposits within the banking group, subject to restrictions set in Accord 4-2008, as amended to date. Qualifying liquid assets must be free of liens, encumbrances and transfer restrictions. The Superintendency of Banks may impose concentration limits and cash requirements, as well as weights per type of liquid assets.

Lending Limits

Under the Banking Law, banks, their holding companies and any other affiliates of the bank are prohibited from granting, directly or indirectly, to any individual or legal person, including any entity that is part of the economic group of a bank, any loan or credit facility, guarantee or any other obligation (other than credit facilities fully secured by deposits in the bank) ("Credit Facilities") in favor of said person exceeding at any time, individually or jointly, 25% of the total regulatory capital of the bank. The Banking Law also limits a bank and the ultimate parent of the banking group in granting loans or issuing guarantees or any other obligation to "related parties" that exceed (i) 5% of its total capital, in the case of unsecured transactions, and (ii) 10% of its total capital, in the case of collateralized transactions (other than loans secured by deposits in the bank). For these purposes, a "related party" is (a) at least one

or more of the bank's directors, (b) any stockholder of the bank who directly or indirectly owns 5% of the voting shares of the bank or the bank holding company, (c) any company of which one or more of the bank's directors is a director or officer or where one or more of the bank's directors is a guarantor of the loan or credit facility, (d) any company or entity in which the bank or any one of its directors or officers can exercise a controlling influence, (e) any company or entity in which the bank or any one of its directors or officers that either has a preponderant influence, significant interest or owns 20% or more of the voting shares of the bank or bank holding company, and (f) managers, officers and employees of the bank, or their respective spouses (other than home mortgage loans or guaranteed personal loans under general programs approved by the bank for employees).

The Banking Law contains additional limitations and restrictions with respect to related party loans and credit facilities. For instance, under the Banking Law, banks may not grant credit facilities to any employee in an amount that exceeds the employee's annual compensation package, and all credit facilities to managers, officers, employees or stockholders who are owners of 5% or more of the issued and outstanding capital stock of the lending bank or the ultimate parent of the banking group will be made on terms and conditions similar to those given by the bank to its customers in arm's-length transactions and that reflect market conditions for a similar type of operation. Shares of a bank cannot be pledged or offered as security for loans or credit facilities issued by the bank.

Concentration in One Person

The Banking Law provides that banks and their holding companies are prohibited from directly or indirectly granting loans, credits or other guarantees to, or contracting any other obligation in favor of, a person or legal entity, including others that form an economic group with that person or legal entity, when the individual or aggregate amount of the obligations would at any time exceed 25.0% of the capital funds of the bank.

Furthermore, pursuant to the Banking Law, loans or credits duly secured by a lien on deposits in the same bank up to the value of the collateral are exempted from the provisions of the Banking Law regarding concentration in one person prohibitions. Loans granted to the Republic of Panama or secured by the Republic of Panama and loans granted to a foreign state that has an international investment grade credit rating or guaranteed by such foreign state are also exempted from the concentration requirements of the Banking Law. The Superintendent of Banks can grant an exception to this general rule to Official Banks. The exception will apply only for credits granted by Official Banks to companies 100% owned by the Republic of Panama. Any exception to this rule (i) cannot exceed 40% of the capital funds of the bank, (ii) must be granted for a finite term which can be renewed for up to two additional periods, and (iii) must be presented with a detailed explanation of the exemption request.

According to the Banking Law, Panamanian banks are restricted from certain lending activities with related parties. Panamanian banks may not grant credit facilities in an aggregate amount exceeding 25.0% of regulatory capital to related parties, which include: (i) stockholders owning 5.0% or more of the bank's capital stock, (ii) managers, directors, officers or employees of the bank, as well as their spouses and certain relatives, (iii) companies controlled by such managers, directors, officers or employees, in the manner determined by regulation, (iv) entities whose directors or officers are also directors of the bank, or (v) any person or entity that forms an economic group with any of the aforementioned persons.

Limitations on Transactions with Related Parties

Banks and their holding companies are prohibited from:

- granting unsecured loans or unsecured credits to any of their employees in an amount greater than the salaries, wages and other annual emoluments for that employee.

- granting loans or credits under more favorable conditions of cost and maturity than are usual in the market for that particular type of operation to their managers, officers and employees, or any person or legal entity that owns 5.0% of the stock of the bank or its holding company or anyone who forms an economic group with these persons.

- directly or indirectly granting unsecured credits that exceed 5.0% of their capital funds or loans secured with real estate collateral other than deposits that exceed 10.0% of their capital funds, in favor of:

    - one or more directors or any person or legal entity that, directly or indirectly, jointly or severally, owns 5.0% or more of the stock of the bank or its holding company;

    - any legal entity in which one or more directors are directors or officers of the bank or guarantors of the loan or credit;

    - any legal entity or association of persons in which the bank, its holding company or one or more of the bank's directors or officers owns, individually or jointly, either a significant interest, a preponderant influence or more than 20.0% of the entity; and

    - their managers, officers, employees, and their spouses, except residential mortgages for their principal living quarters or secured personal loans granted under personnel benefit plans.

The aggregate of unsecured loans and loans secured with real estate collateral other than deposits granted by the bank and other firms that make up a banking group to related parties mentioned above, may not in any case exceed the percentage of capital funds established periodically by the Superintendency of Banks, which will, in no case, exceed 25.0% of the capital funds of the bank.

Likewise, pursuant to the Banking Law, loans or credits duly secured by a lien on deposits in the same bank up to the value of the collateral are exempted from the provisions of the Banking Law regarding related parties transactions.

Other Requirements

In addition to the foregoing requirements, there are certain other requirements applicable to banks, including that a bank must (1) notify the Superintendency of Banks before opening or closing a branch or office in Panama and obtain approval from the Superintendency of Banks before opening or closing a branch or subsidiary outside Panama; (2) obtain approval from the Superintendency of Banks before it liquidates its operations, merges or consolidates with another bank or sells all or substantially all of its assets; (3) notify the Superintendency of Banks, within the first three months of each fiscal term, regarding the name of the certified public accounting firm that it wishes to appoint as its independent auditor for the new fiscal term; (4) obtain prior approval from the Superintendency of Banks of the credit rating entity it wishes to hire to perform the credit rating assessment; (5) a bank must publish in a local newspaper the credit rating issued by the rating agency and any credit rating update; and (6) a bank must provide written affirmation of its audited financial statements signed by the Chairman of the Board, the General Manager and Chief Financial Officer of the bank. Subsidiaries of Panamanian banks established in foreign jurisdictions must observe the legal and regulatory provisions applicable in Panama regarding the sufficiency of capital, as prescribed under the Banking Law.

Regulation of Banking Groups

The Banking Law regulates banks and the entire "banking group" to which each bank belongs. Banking groups are defined as the holding company and all direct and indirect subsidiaries of the holding company, including the bank in question. Banking groups must comply with audit standards and various limitations set forth in the Banking Law, in addition to all compliance requirements applicable to the bank in question. The Banking Law provides that banks, and banking groups, in Panama are subject to inspection by the Superintendency of Banks, which must take place at least once every two years. The Superintendency of Banks is empowered to request from any bank or any company that belongs to the economic group of which a bank in Panama is a member the documents and reports pertaining to its operations and activities. Banks are required to file with the Superintendency of Banks weekly, monthly, quarterly and annual information, including financial statements, an analysis of their credit facilities and any other information requested by the Superintendency of Banks. In addition, banks are required to make available for inspection any reports or documents that are necessary for the Superintendency of Banks to ensure compliance with Panamanian banking laws and regulations. Banks subject to supervision may be fined by the Superintendency of Banks for violations of Panamanian banking laws and regulations.

The banking groups that fall under the supervision of the Superintendency of Banks must maintain a functional corporate governance structure that ensures the banking group's strategic orientation and the board of directors' effective control of and responsibility to the group and its shareholders. For that purpose, the board of directors of bank holding companies must ensure that best and appropriate corporate governance practices are in place.

The banking group must apply appropriate internal control systems that fit the nature, complexity and inherent risk of its business. These must be periodically reviewed and adapted to environmental changes and requirements.

Compliance reports on the consolidated exposure limits of the banking group must be made as established by the Superintendency of Banks. The information must be reported by the bank subject to the Superintendency of Banks' supervision and control. The bank shall be responsible for communication between the regulator and the banking group and for the timely submittal of the required information. Banking groups must conduct comprehensive management of their risks, including the identification, measurement, monitoring, control and reporting of all material risks they face, including the management of risks arising from intragroup transactions.

Banking groups must manage credit, counterparty, market, liquidity, operational, country, strategic, contagion and reputation risks, as well as any other risks identified by the Superintendency of Banks, that affect the banking group at the consolidated level.

Loan Classification

Panamanian banking regulations contain specific guidelines on loan classification. There are five categories of loans: standard, special mention, sub-standard, doubtful and loss. Panamanian banking regulations contain specific guidelines on loan classification. The following qualitative requirements, in addition to the quantitative requirements listed in the table below, are the requirements for loan classifications:

- *Standard*: Loans that do not have a delay in the payment of quotas or, if any, the delay is less than 30 days. A loan is considered standard when the operational cash flow of the borrower exceeds or is sufficient to the debt service requirements until the cancellation of such loan.

- *Special Mention*: Loans where the borrower has presented a weakness resulting in excessive indebtedness of the borrower or weak cash flow has delays in the presentation of reporting requirements; and as such, the borrower and its guaranties require special attention in order to recover the loan proceeds.

- *Sub-standard*: Loans that have their cash flow or other source of payment classified as inadequate and there is a risk in the recovery of the outstanding amount of the loan.

- *Doubtful*: Loans determined as unlikely to be recovered because of a deteriorated financial situation of the borrower, and usually the bank has initiated legal action against such borrower in order to recover the outstanding amount of the loan.

- *Loss*: Loans that the bank has estimated it has no chance of recovering. Loss loans must be written off promptly, but in any case within the year of being classified as loss, regardless of if at some point the bank may eventually recover part of the outstanding amount of the loan. This category also includes loans where the source of repayment of such loan is the flows from another company that is not able to meet its obligations.

The banking regulations set out clear requirements intended to achieve consistent credit classifications, including assessing the loans based on which banking portfolio they fall into (*i.e.*, consumer, corporate, etc.) and how to calculate specific and general impairment allowance provisions.

Regardless of the type of loan, the number of days elapsed since full or partial payment was due will be sufficient reason for classification in any of the categories previously provided, with the clarification that corporate

loans must be classified in the appropriate category when one or more of the circumstances provided pertains, regardless of the days elapsed since the last payment.

All operations by a client will be classified in the category for the operation that is farthest in arrears. In the case of operations of the same economic group, when one or more companies of the same economic group is classified in a higher risk category and those operations represent twenty-five (25%) of the economic group's total, the group's entire exposure will be classified in the higher risk category. However, in particular cases, and with justification, the bank may request a waiver of this requirement from the Superintendency of Banks. The Superintendency of Banks may grant the waiver on its merits, as long as the delay is not due to a weakness in the client's ability to pay.

The files for clients with operations classified as sub-standard, doubtful and loss will clearly contain the recovery strategy and the results of the actions taken. Pursuant to the provisions of Accord No. 4-2013, as amended, the risk committee will ensure that the whole portfolio is classified appropriately and in a timely manner.

Loan classification also takes into account the days the loan remains past due and classifies loans into one of the abovementioned categories in accordance with the table below.

Portfolio Classification	**Corporate**		**Personal Loans**			
			Consumer		**Residential Mortgages**	
		Loans guaranteed with real estate where the loan amount is under 50% of the value of the guarantee		*Loans guaranteed with real estate where the loan amount is under 50% of the value of the guarantee*		*Loans guaranteed with real estate where the loan amount is under 70% of the value of the guarantee*
Standard.....	From 0 to 30 days	From 0 to 30 days	From 0 to 60 days	From 0 to 60 days	From 0 to 60 days	From 0 to 60 days
Special Mention	From 31 to 90 days	From 31 to 180 days	From 61 to 90 days	From 61 to 180 days	From 61 to 90 days	From 61 to 180 days
Sub-standard....	From 91 to 180 days	From 181 days to 270 days	From 91 to 120 days	From 181 to 270 days	From 91 to 180 days	From 181 to 270 days
Doubtful.....	From 181 to 270 days	From 271 to 360 days	From 121 to 180 days	From 271 to 360 days	From 181 to 360 days	From 271 to 360 days
Loss.....	More than 270 days	More than 360 days	More than 180 days	More than 360 days	More than 360 days	More than 360 days

The implementation and effectiveness of the regulations on loan classification and impairment allowances are verified by the Superintendency of Banks through off-site and on-site examination, based on the credit risk information available in the credit risk registry and by assessments conducted on-site on the credit management process and through tests regarding the quality of the credit evaluation.

In addition to the aforementioned general criteria for loan classification, there are more specific rules that apply to commercial, consumer, residential and other loans. On May 28, 2013, the Superintendency of Banks issued Accord No. 4 of 2013, as amended by Accord No. 8 of 2014 and by Accord No. 11-2019 ("**Accord 4-2013**"), amended the impairment allowance provision amounts for specific reserves and established provision amounts for what are now known as dynamic reserves (previously classified as general provisions).

Accord No. 4 of 2013, as amended by Accord No. 8 of the 2014 and by Accord No. 11-2019, requires banks to suspend the recognition of interest on non-performing loans as follows: (i) when the bank determines the deterioration of the debtor's repayment capacity; (ii) when a debtor has not made payments on interest and capital in more than 90 days for loans that finance commercial activities and/or production, including corporate loans and other loans, when a debtor has not made payments on interest and capital in more than 90 days for consumer loans and personal loans secured by mortgages or when a debtor has not made payments on interest and capital in more than 120 days for loans secured with residential mortgages; (iii) when a loan has been granted making an exception to credit policies and procedures and such exceptions have not been amended or satisfied and there have been no payments 60 days after disbursement; (iv) when the bank determines the probability of not recovering an overdraft in

case of an expiration date, when the debtor has not paid 30 days after said expiration date and without an expiration date in reference to occasional overdrafts, when the debtor has not paid 30 days after the first date of use.

The criteria to establish reserves includes both qualitative and quantitative factors. These regulations relating to loan classification and determination of impairment allowances are generally different than those applicable to banks in the United States and certain other countries.

Specific Reserves

The Specific Reserves are required in connection with the loan classification. They are created for individual credit facilities as well as for a consolidated group of credit facilities. The minimum reserve requirements depend on the classification of the loan according to the following criteria: (i) 0% for Standard, (ii) 20% for Special Mention, (iii) 50% for Sub-standard, (iv) 80% for Doubtful, and (v) 100% for Loss. Specific Reserve requirements take into account the classification of the loan as well as the guarantees provided by the borrowers to secure such loans. Guarantees are calculated at present value in accordance with the requirements established by banking regulation.

Banks may create their own financial models to determine the amount of the Specific Reserves, subject to the approval of the Superintendency of Banks. In any event, the internal financial models used by each bank must comply with the aforementioned minimum Specific Reserve requirements.

The Superintendency of Banks, through Accord No. 4-2013, requires that provisions not be lower than the standards set forth in the table above, but allows entities to determine the amount of provisions through internal models.

The criteria to establish reserves includes both qualitative and quantitative factors. These regulations relating to loan classification and determination of impairment allowances are generally different than those applicable to banks in the United States and certain other countries.

Additional, Exceptional and Temporary measure for the compliance of the provisions set forth in Agreement No. 4-2013 on credit risk

As a result of the COVID-19 pandemic, the Superintendency of Banks issued Accord 2-2020 (amended by Accord 3-2020 and by Accord 7-2020), which created a new category of loans defined as modified loans ("Modified Loans"). Under the accord, clients can request a bank to modify the terms and conditions of their loans if they have been directly affected by the COVID-19 pandemic. Loans that are amended are classified as Modified Loans and not as restructured loans. Under Accord No. 4-2013, when a banking institution modifies the original lending terms and conditions of a loan, such loan is considered a "restructured loan" and must be classified within the same risk category in which it was classified before being restructured or in a higher-risk category. Once a loan has been restructured, it must remain in its new risk category for a period of not less than 6 months, before it can be reclassified to a lower-risk category based on the payment capacity of the borrower and the borrower's compliance with its obligations.

Pursuant to Accord No. 2-2020, a Modified Loan is a loan for which the original terms and conditions have been modified at the request of the borrower or at the bank's initiative, if the borrower has been directly affected by the COVID-19 pandemic without being considered a restructured loan. The new terms and conditions of Modified Loans have to consider financial feasibility criteria based on the borrower's capacity to pay and the bank's credit policies. Modified Loans are subject to special monitoring by the bank, and if the borrower does not comply with the new terms and conditions, the Modified Loan will be considered a restructured loan.

Pursuant to Accord No. 2-2020, as an exceptional and temporary measure, banks may use up to 80% of the dynamic reserve for the constitution of Specific Reserves. The Superintendency of Banks, through Resolution SBP-GJD-0007-2020 has suspended the provisioning of the Dynamic Reserve starting for the second quarter of 2020. The suspension will remain in place until the Superintendence of Banks revokes this General Resolution.

The "modified loans" shall have the following characteristics:

- The new terms and conditions shall attend to financial viability criteria taking into consideration the debtor payment capacity and the bank's loan policies

- They shall be the object of special monitoring by the banking entity.

- The loans that are under the modified loan category and that do not comply with the new terms and conditions shall be recognized as a restructured loan.

The loan modifications pursuant to Accord No. 2-2020, must not become a generalized practice to regularize the behavior of the loan's portfolio. Additionally, the banking entities must ensure the application of the following rules:

- Loans classified as standard and without special mentions, as well as restructured loans that are in good standing, may be modified pursuant to the guidelines set forth in Accord No. 2-2020.

- Loans that are modified during the period in which the exceptional and temporary measures are in force and effect shall be clearly identified by the banking entities, to the effect that these can be extensively monitored by the Superintendency of Banks.

- During the period in which the exceptional and temporary measures are in force and effect, the banking entities shall procure at the moment in which they agree the terms and conditions of the modified loans (principally as to terms and interest), taking into consideration the current situation that the country is undergoing,

- The modification of the credits shall be exempted from the applications of charges and commissions from the banking entity, with the exception of legal, notarial and registration fees paid to third parties.

- The modification of the loans shall be exempted from the requirement of appraisal updates.

- The banking entity shall establish specific policies and proceedings for the follow-up of the requests of the modification of the conditions of these loans pursuant to the aforementioned described criteria.

- It shall be considered as amendment date that in which the debtor has accepted the amendment by any means of modality (including, without limitation, electronic means, tacit acceptance, presumed acceptance by silence, etc.) and, as of said date, the bank may consider the loan as a modified loan for purposed of Accord No. 2-2020 and of Accord No. 4-2013.

The banking entity shall have until December 31, 2020 to evaluate the loans of those debtors which cash flow or payment capacity that have been affected by the COVID-19 situation or that have a 90-day delinquency. Said loans may be object of a review of its terms and conditions, due to which the banks may agree and/or grant a grace period maintaining the loan classification at the date in which Agreement No.2-2020 enters into force and effect.

Insurance of Deposits

The Panamanian government does not insure any deposits.

In case of a compulsory liquidation of a bank, new deposits established during a bank's reorganization and deposits of U.S.$10,000 or less have priority of payment under the Panama Banking Law.

Investments in Financial Instruments

The Panama Banking Law restricts the types of financial instruments in which Panamanian banks may invest. As a result, Panamanian banks may only invest in the permitted types of investments, including equity instruments traded on a stock exchange, debt instruments (if certain requirements are satisfied), sovereign debt instruments and quotas in mutual and investment funds.

Limitation on subsidiaries outside the banking and financial sectors

The Panama Banking Law restricts banks and bank holding companies from acquiring or maintaining any shares or participations in any entities not related with the banking or financial business, in the aggregate, in excess of 25.0% of their regulatory capital. Subject to prior approval of the Panama Superintendency of Banks, a bank or a bank holding company may purchase or sell shares of any company engaged in securing bank deposits, promoting a securities market in Panama or improving the financing of economic development system.

Banking Risks and Other Applicable Regulation

Corporate Governance

The board of directors of a bank must be comprised of at least seven members with knowledge and experience in the banking business, including at least two independent directors. The majority of the members of the board of directors may not be part of the banks' management nor have material conflicts of interest. Neither the General Manager, nor the Chief Operating Officer or Chief Financial Officer may preside over the board of directors. Members of the board of directors who participate in board-established committees must have specialized knowledge and experience in the areas assigned to the committees in which they participate. The Organic Law establishes that the board of directors must meet at least once a month and the presence of the majority of its directors constitutes a quorum. The board of directors must keep detailed minutes of all meetings.

Minimum corporate governance requirements for banking institutions include: (a) documentation of the corporate values, strategic objectives and codes of conduct; (b) documentation that evidences compliance with the corporate values and code of conduct of the bank; (c) a defined corporate strategy that can be used to measure the contribution to the bank of each level of the corporate governance structure; (d) the designation of responsibilities and authorized decision-making authorities within the bank, and their individual powers and approval levels; (e) the creation of a system that regulates interaction and cooperation of the board of directors, senior management and external and internal auditors; (f) creation of control systems for independent risk management; (g) prior approval, monitoring and verification of risks for credit facilities with existing conflicts of interest; (h) creation of policies for recruitment, induction, continuous and up-to-date staff training and financial and administrative incentives; (i) existence of internal and public information that guarantee the transparency of the corporate governance system; (j) creation of a direct supervision system for each level of the organizational structure; (k) external audits independent of management or the board of directors; and (l) internal audits not related to the management of the bank.

Banks are required to maintain an internal control system to assess risks related to the nature and complexity of their activities. Internal control systems must at least have (a) a control environment; (b) an evaluation of the risks; (c) control activities, including policies, manuals and procedures; (d) adequate information and communication; (e) computer systems that guarantee the development, availability and contingency plans of the system; (f) monitoring of the system and its developments; and (g) independent supervision, self-assessment and evaluation of the effectiveness of the system.

Banks are required to have an internal audit department that is responsible for the assessment and constant monitoring of the internal control system of the bank. The internal audit department must be independent and have the powers necessary to assess compliance with the policies and adequate management of the risks to which the bank is exposed. The internal audit department must provide at least semi-annual reports to the board of directors and management of the bank that include results of audits performed by the department, recommendation for improvement and risk mitigations and the input from the corresponding audited areas of the bank in connection with any discrepancies and proposed corrective actions that are to be undertaken.

The Audit Committee must be comprised of members of the board of directors who are not part of the bank's management. The committee must meet at least once every two months and at least the general manager and internal auditor must participate in every meeting.

Banks are further required to develop and maintain policies for human resources, customer relationships, and related party transactions as well as a policy for selection, retribution, assessment and training of the members of the board of directors, management and other employees.

Integral Risk Management

Panamanian banking regulations contain guidelines for integral risk management of financial institutions. Integral risk management is a process intended to identify potential events that can affect banks and to manage those events according to their nature and risk level. This regulation covers all kinds of risks that could affect a banking operation, such as: operational, market, credit, strategic, liquidity, legal, country, contagion, counterparty, technological and reputational risks. Banks are required to have policies for the management and mitigation of all risks to which they are exposed. The board of directors, Management and the Risk Committee of the Board of Directors are responsible for compliance with the integral risk management policies created to mitigate the exposure of the bank to such risks.

Investments in Financial Instruments

The Banking Law allows Panamanian banks to invest in financial instruments such as equity instruments traded on a stock exchange, debt instruments (to the extent that certain requirements are satisfied), sovereign debt instruments, and quotas in mutual and investment funds, thereby restricting the types of financial instruments a bank may invest in.

Credit Risk

Accord No. 8-2010, as amended by Accord 9-2017 ("Accord 8-2010") defines credit risk as the probability of a bank incurring losses as a result of the inability of its debtors to comply with the terms of a credit agreement. We use the standardized approach or internal rating-based (IRB) methodology to calculate our regulatory capital requirements for credit risk, which utilizes the parameters set by the Superintendency of Banks for risk-weighting of assets. Accord 3-2016, which became effective on July 1, 2016, as amended by Accord No. 8-2016, establishes that the total risk-weighted assets of a bank are the sum of (i) the risk-weight of all assets of such bank; (ii) the risk-weight of all irrevocable contingent obligations; and (iii) the risk-weight of all counterparty risk that takes into consideration admissible values of collateral, admissible guarantees, permitted credit default swaps and total return swaps, among others.

Accord 3-2016, as amended, also establishes an increase in the maximum available weight percentage from 150% to 250%, which affects the categories of weights assigned to assets. Relevant changes in these categories include (i) the risk-weighted assets allocated to loans granted exclusively to Panama or instruments issued by Panama is at 0%; (ii) the risk-weighted assets under several categories allocated to interest to be collected on certain assets; (iii) an increase in demand deposits available from 0% to 10%, including (a) loans granted to autonomous entities and private-public enterprises fully, jointly and severally, and unconditionally guaranteed by Panama and instruments issued by autonomous entities and private-public enterprises fully, jointly and severally, and unconditionally guaranteed by Panama, and (b) interest to be collected over these assets; (iv) the risk-weight allocated to loans and investments with tenors exceeding one year, which ranges between 20% and 100%; (v) the risk-weight allocated to non-residential and non-commercial mortgage loans, which ranges between 50% and 100%; (vi) the risk-weight allocated to residential and commercial mortgage loans, which ranges between 35% and 100% and depends upon the loan-to-value (LTV) and the age of the appraisal of the applicable property; and (vii) the risk-weight allocated to certain delinquent loans, which are now classified as having the same weight as overdue loans (*i.e.*, 125%). The new methodology of calculation of risk-weighted assets also considers future potential exposure for derivative transactions and the irrevocable contingent obligations of a bank.

These changes in the risk-weighted assets calculation have the purpose of updating regulation in accordance with the standards of the Basel Committee and the Panamanian banking industry.

Market Risk

Regulations for the supervision of market risk require banks to establish internal policies and procedures to monitor these risks. Accord No. 8-2010, as amended, defines market risk as the probability of loss derived from exposure to various classes of commodities, securities, foreign exchanges, derivative operations or commercial assets that banks may hold in their portfolio, which may or may not be accounted for in their balance sheets. Current Panamanian regulations do not impose on banks the obligation to comply with minimum capital requirements to counterbalance the potential losses arising from market risks.

Operational Risk

Accord No. 8-2010, as amended, defines operational risk as the possibility of suffering financial losses from deficiencies in internal procedures, information technology, infrastructure or personnel, or the occurrence of adverse external events. We have established responsibilities for developing policies and procedures to identify, measure, control and report such risks. Pursuant to Accord No. 11-2018, as amended, banks are required to mitigate operational risks involved in their operations and services in order to minimize possible financial losses due to inadequate or nonexistent policies or procedures. Current Panamanian regulations do not impose on banks the obligation to comply with minimum capital requirements to counterbalance the potential losses arising from operational risks.

Liquidity Risk

Accord No. 2-2018, as amended, defines liquidity risk as the risk that a bank might be unable to meet all the obligations relating to its financial liabilities, which are settled through cash or any other financial asset liquidity risk might be affected for reasons, such as: (i) unexpected withdrawal of funds contributed by customers, (ii) the impairment of quality of the loan portfolio, (iii) the decline in value of investments, (iv) the excessive concentration of liabilities in any particular source, (v) the mismatch between assets and liabilities, and (vi) lack of assets' liquidity or financing of long-term assets with short term liabilities.

Bank Consumer Protection

Bank consumer protection is mainly regulated by the Banking Law and its regulations. With respect to holders of credit cards issued by banks, in addition to bank consumer protection provisions established in the Banking Law, the provisions set forth in Law 45 of 2007, as amended, are also applicable, in addition to consumer protection provision established in the Banking Law and its regulations. The Superintendency of Banks is responsible for overseeing compliance with bank consumer protection regulations, and it is empowered to develop the necessary standards and determine their scope and interpretation. In addition, the Banking Law establishes that banks must have a department that tracks consumer complaints and their resolution. Bank consumer protection regulations principally relate to limits on penalties that the bank may impose, transparency of information on accounts, fees, commissions, and other charges to bank consumers, and notification of price increases.

Banconal is a user of credit reporting data, which is regulated by consumer protection laws in Panama. The consumer protection laws establish guidelines as to the use of credit information published by the domestic Panamanian credit bureau.

Insolvency, Intervention, Reorganization and Compulsory Liquidation

Under the Banking Law, the Superintendency of Banks can assume the administrative and operating control of a bank, including possession of its assets and seizure of its management in order to defend the best interest of the bank's depositors and creditors, under any of the following grounds: (i) at the request of the bank; (ii) if the bank may not continue operations without endangering the interests of the depositors; (iii) as a consequence of the evaluation of an advisor's report; (iv) noncompliance with the measures ordered by the Superintendency of Banks; (v) if the bank carries out its operations in an illegal, negligent or fraudulent manner; (vi) if the bank has suspended payment of its obligations; and (vii) if the Superintendency of Banks confirms that capital adequacy, solvency or liquidity of the bank has deteriorated in such a way as to require the Superintendency of Bank's intervention. At the moment of seizing administrative and operating control of the bank, the Superintendent will designate an interim administrator to

exclusively exercise the legal representation of the bank on behalf of the Superintendency. The term of the interim administration will not be longer than 30 days, except in extraordinary circumstances where such term is extended, in which case the extension shall not be longer than 30 days. The interim administrator may be an employee of the seized bank.

Upon expiration of the period of administrative control, the Superintendent will decide upon the reorganization of the bank, the compulsory liquidation of the bank or the return of administrative and operating control to the directors or legal representatives of the bank, as the case may be.

If the Superintendency of Banks decides on a reorganization, the reorganizer shall have ample powers, including those to (i) amortize all losses against Primary Capital and Secondary Capital, as well as to determine the value of the stock at that point in time; (ii) appoint new executive officers; (iii) authorize the issuance of new stock as well as its sale to third parties at a price determined by the reorganizer; (iv) negotiate and execute the merger or consolidation of the bank with one or more banks, obtaining of loans for the bank, the sale or partial liquidation of the bank's assets or the acceptance of liens over said assets; and (v) recommend to the Superintendency the compulsory liquidation of the bank.

If the Superintendency of Banks considers that the compulsory liquidation of the bank is necessary, it will order the administrative liquidation of the bank and will designate a liquidator. In the event of liquidation, the bank's obligations will be paid in the following order of precedence: (i) all of the secured indebtedness to the extent of the value of, and only in relation to the value of assets securing such indebtedness; (ii) debts of the liquidation estate (*deudas de la masa*) in the event of a forceful liquidation; (iii) new deposits created during a reorganization period ordered by the Superintendency of Banks; (iv) deposits with a balance of U.S.$10,000 or less; (v) claims from employees for unpaid wages and other employee's severance and compensation payments; (vi) claims from the Panamanian Social Security Administration (*Caja de Seguro Social*) for unpaid employer-employee social security contributions (vii) claims from the Panamanian government or any municipality for unpaid taxes; and (viii) other claims that are granted preference as a matter of law.

Under Panama law, senior secured obligations secured by collateral rank senior in right of payments to all existing and future senior indebtedness to the extent of the value of the collateral, and senior to all existing and future unsecured indebtedness. While the Banking Law treats senior unsecured indebtedness issued at different times as *pari passu* in accordance with the terms of that indebtedness, the civil code treats previously issued senior unsecured indebtedness as senior to any new senior unsecured indebtedness. As of December 31, 2019, Banconal had U.S.$206.2 million in Bonds payable at amortized cost and U.S.$50 million in Foreign borrowings received at amortized cost. While Banconal expects that a court would treat all of its senior unsecured indebtedness as *pari passu* in accordance with the Banking Law. Banconal cannot assure you that a court would not apply the civil code, which would make all senior unsecured debt issued prior to the Notes senior to the Notes. See "Risk Factors—Risks Relating to the Notes— Enforcing your rights as a holder of Notes in Panama may prove difficult."

The liquidator or liquidation board will have ample powers, including those to: (i) suspend or limit the payment of obligations in accordance with the availability of funds; (ii) manage, control and guard the assets of the Bank; (iii) assign or sell assets at fair market value, net of reserves and any other adjustment required by the Superintendency of Banks; (iv) transfer to a trust a portion or all of the assets and liabilities of the bank; (v) take any action and enter into any contract that will permit the transfer of the assets or liabilities to a trust; (vi) establish the terms and conditions of the trust for purposes of the liquidation of the transferred assets and liabilities; and (vii) any other power granted by the Superintendency of Banks.

Panamanian Anti-Money Laundering Laws and Regulations

Panamanian anti-money laundering requirements are primarily regulated by (i) Executive Decree No. 136 of June 9, 1995, which created a Financial Analysis Unit ("Panama UAF") for the Prevention of Money Laundering and (ii) Law No. 23 of April 27, 2015 ("Law No. 23"), regulated by Executive Decree No. 363 of August 13, 2015, pursuant to which banks and trust corporations, among other financial institutions, are required to perform their operations with due diligence and due care conducive to preventing such operations from being performed with funds, or over funds, generated from activities related to money laundering.

Panamanian Law No. 23-2015 and Accord No. 7-2015 provide that the following entities are deemed to be "supervised entities" for purposes of money laundering, terrorism financing or any other illicit activity(i) banks, (ii) bank groups, (iii) trust corporations, (iv) leasing companies, (v) factoring companies, (vi) credit, debit or pre-paid card processing entities, (vii) companies engaged in remittances or wire transfers, and (viii) companies that provide any other service related to trust companies. These entities must take necessary measures to prevent their operations and/or transactions from being used for money laundering operations, terrorism financing or any other illicit activity under a risk based approach methodology. Specifically, banks, trust corporations and bank groups must adopt these measures in accordance with, among others, Accord No. 10-2015, as amended.

Law No. 23 and Accord No. 10-2015, as amended, require supervised entities to perform a due diligence reviews of their customers and their transactions. It also provides minimum due diligence requirements that supervised entities must perform on their customers in order to comply with the regulation. Supervised entities have the obligation to ensure that the information provided by their customers is continuously updated, especially for customers classified as higher risk customers. Banks, trusts and banking groups are further required to create a system of classification and assignment of risk profiles to each of their customers. The minimum requirements that must be included in all risk profile classifications include: nationality, country of birth or constitution, domicile, profession or trade, geographic zone of customer's activities, corporate structure, type, amount and frequency of transactions, source of funds, politically exposed persons, products, services and channels that will be used by the customer. Furthermore, banks' customers are required to disclose the identity of the owners of an entity—the disclosure of ultimate beneficiaries is limited to up to 10.0% ownership if the owner is a natural person; otherwise, further disclosure is required. This requirement does not apply to listed entities. By December 31st, 2020, foreign clients of banks must also provide the bank with the foreign tax identification number of the country where the client is a taxpayer and a sworn statement which states that flows of the deposits and disbursements held or issued by the bank will comply with all fiscal obligations in the country or countries where said foreign client has fiscal residence.

Furthermore, Law No. 23 provides that the supervised entities are required to provide transaction reports to the Panama UAF, and/or require from their customers, attorneys-in-fact or representatives, the necessary declarations for purposes of this law, particularly for the following cases:

- Deposits or withdrawals of money in cash or quasi-cash made in accounts from person or entities for an amount of U.S.$10,000 or more, or through successive transactions that, although individually are for amounts inferior to U.S.$10,000, at the end of the day or of the week total U.S.$10,000 or more.

- Exchanges of cash in low denominations for cash in high denominations or vice versa, for an amount of U.S.$10,000 or more, or through successive transactions that, although individually are for amounts inferior to U.S.$10,000, at the end of the day or of the week total U.S.$10,000 or more.

- Cashing of cashier's checks, traveler checks or money orders, issued to the bearer, with blank endorsements and issued on the same date or nearby dates for the same issuers or issuers of the same market.

- Purchase and sale of currency different from the legal tender in Panama, equivalent to U.S.$10,000 or more, or through successive transactions that, although individually are for amounts inferior to U.S.$10,000, at the end of the day or of the week total U.S.$10,000 or more.

- Payments or collections in cash or quasi-cash for an amount of U.S.$10,000 or more, or the sum of such amounts in one week that total U.S.$10,000 or more, by a single customer or by a third party acting on behalf of a single customer.

Supervised entities are subject to sanctions for noncompliance with the anti-money laundering and antiterrorist financing requirements by the supervisory authorities in accordance with each supervisory authority's sanctioning powers.

Non-compliance with Law 23, or those dictated by the pertinent authorities for supervision of each activity for which there is no specific sanction established, will be subject to fines ranging from U.S.$5,000 to U.S.$1,000,000.

Some of the measures that these entities adopted in order to prevent their operations and/or transactions from being used for money laundering operations include: (i) compliance with KYC policies by creating a profile for each customer, paying special attention to accounts over U.S.$10,000; (ii) supervision of employee activities; (iii) tracking the movement of every customer's account, in order to know their regular activities to be able to identify unusual transactions; (iv) keeping a registry of every suspicious transaction and notifying, if deemed convenient, the Financial Analysis Unit (a governmental agency under the Ministry of the Presidency); (v) conduct internal audits and independent third party review with a risk-based approach; (vi) enhanced due diligence and continuous monitoring of costumers accounts of high risk costumer and of those labeled as politically exposed persons or "PEP"; (vii) general and specific training for employees at least once a year.

Accord No. 7-2015 provides a red flag catalog of transactions and behaviors to which Banks are required to pay special attention. These include employee conduct, as well as wire transfers, cash deposits and withdrawals, payments and ATM withdrawals, among others.

Accord No. 7-2016 provides that banks that are established in Panama, which are regulated and supervised by the Superintendency of Banks and render correspondent services to foreign banking entities, must know the nature of their customers' activities and evaluate the risks of money laundering, terrorism financing or any other illicit activities.

Accord No. 2-2017, in accordance with FATF recommendation # 16, establishes the minimum standards that financial entities should apply to national and international electronic transfers, in order to mitigate their misuse.

The FATF placed Panama on its "Grey List" in 2014 a result of an analysis by the IMF which highlighted certain deficiencies in Panama´s money laundering laws. The main deficiencies highlighted by the IMF and the FATF were gaps in the supervision of financial activities and other designated non-financial businesses and professions, as well as a lack of identification and verification of beneficial owners of corporations and trusts. As a result, in 2015, Panama issued Law 23 of April 27th, 2015 (the "AML Law"), which adopts measures to prevent money laundering, terrorism financing and financing of proliferation of weapons of mass destructions and establishes a regulatory framework for financial activities and non-financial entities that because of the nature of their activities are exposed to risks related to money laundering and financing of terrorism. In 2016, Panama was taken off the "Grey List" after FATF determined that Panama had made significant progress in improving its "anti-money laundering/combating the financing terrorism" regime.

In June 2019, the FATF placed Panama back on its "Grey List." The FATF identified as the most significant strategic deficiencies the following: (i) the entry of funds related to crimes committed abroad; (ii) the fact that Panama does not criminalize tax crimes as money laundering.; (iii) the need to strengthen the control with regard to the accuracy and updating of the information on the beneficial owner and the continuous monitoring of the activity of legal persons; and (iv) the need to strengthen the Designated Non-Financial Businesses and Professions (DNFBPs)´ level of understanding of money laundering and financial terrorism risks. To comply with the FATF´s recommendations and strengthen its legal framework, Panama has enacted several laws that tackle the above-listed deficiencies: (i) Panama's Law 70 of January 31, 2019 criminalizes tax fraud and defines it as a precedent for money laundering. The newly enacted law classifies as a criminal offense actions taken by any person that directly or indirectly engages in receiving, possessing, transferring, depositing, negotiating, or exchanging cash, securities bonds or any financial assets that such person knows the source of those assets is the product of crimes against the treasury (*Tesoro Nacional*). Under this law, tax fraud is considered a criminal act when the amount defrauded in a fiscal year equals or exceeds U.S.$300,000; (ii) Law 129 of March 17, 2020 creates a single registry of final beneficiaries of legal entities and an official registry of resident agents; and (iii) Law No. 124 of January 7, 2020, upgraded the Intendency of Supervision and Regulation of Non-Financial Subjects to Superintendence of Non-Financial Obligated Subjects. Overall, the FATF has recognized that Panama has recently adopted several laws and regulations with the aim of improving the prevention of money laundering and financial terrorism, as well as the transparency of Panamanian corporations, foundations and other legal arrangements, but expects more effectiveness in the enforcement of these laws and sees the lack of overall enforcement as a deficiency.

Fiduciary Activity

Banconal's fiduciary activities are regulated by the Fiduciary Law of Panama and supervised by the Superintendency of Banks. This law establishes the norms of operating as a fiduciary (trustee) in the Republic of Panama, including minimum guarantees that must be established and periodic reporting requirements.

The trust activities of Banconal are regulated by Law 1-1984, as amended by Law 21-2017, which regulates trust activities in Panama. Trustees require a trust license issued by the Superintendency of Banks. Trustees have minimum capital requirements of at least U.S.$150,000 and a guarantee in favor of the Superintendency of Banks of at least U.S.$250,000. Trustees are also subject to the supervision of the Superintendency of Banks and must provide periodic reports in connection with their trust activities.

Disclosure of Information to the SMV

Banconal has registered securities with the SMV and have listed said securities on the Panama Stock Exchange. As such, Panama's securities laws impose disclosure requirements on us, including the filing of an annual report together with our audited financial statements and the report of independent auditors, quarterly reports together with unaudited financial statements, and reporting certain material nonpublic "relevant events" (*hechos relevantes*) that could have an impact on the market price of a security and/or the behavior of the investors and/or sellers of securities.

Securities Regulation

Securities market activities in Panama are subject to the supervision, control and oversight of the SMV. These activities are primarily regulated by the Panamanian Securities Law, which established important changes to the system in order to strengthen the regulatory framework of the Panamanian securities market and increase investors' confidence. The principal aspects of the securities business regulated and supervised by the SMV are (i) licensing requirements of securities brokers, investment advisors, fund administrators and self-regulated organizations; (ii) registration requirements of risk-rating agencies, securities price suppliers, securities, public offerings, funds and administrative service suppliers of the securities market; (iii) authorization for requesting voting powers regarding registered securities; (iv) notification requirements of public offerings for the acquisition of registered shares; (v) options, futures contracts and derivatives; (vi) custody, clearing and settlement of securities; (vii) penalization procedures and penalties; (viii) voluntary wind-up, reorganization and bankruptcy of securities brokers, self-regulated organizations, funds and fund administrators; (ix) reporting of issuers of registered securities, securities brokers, investment advisors, funds, fund administrators, self-regulated organizations and other registered entities; (x) on-site inspection of securities brokers, investment advisors, self-regulated organizations, funds, fund administrators, administrative service suppliers of the securities market, securities price suppliers and rating agencies; (xi) capital requirements, liquidity requirements, risk assessment, confidentiality, conflict of interest, suitability, compliance and money laundering of securities brokers; and (xii) communication of events of importance by issuers of registered securities.

DESCRIPTION OF THE NOTES

As used below in this "Description of the Notes" section, the "Bank" means Banco Nacional de Panama, an autonomous entity of the Republic of Panama (*entidad autónoma del Estado*) created by law and existing under the laws of Panama with its own independent legal status, and its successors, taken as a whole. The Bank currently has no subsidiaries. The Bank will issue the Notes (as defined herein) described in this offering memorandum under an indenture to be dated as of August 11, 2020 (the "Indenture") to be executed among the Bank and The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent (the "Trustee"). You should refer to the Indenture for more detailed information regarding the terms and conditions of the Notes and the Indenture, including the Bank's obligations and your rights. You may obtain a copy of the Indenture from the Bank at its address set forth elsewhere in this offering memorandum.

The following is a summary of the material terms and provisions of the Notes. The following summary does not purport to be a complete description of the Notes and is subject to the detailed provisions of, and qualified in its entirety by reference to, the Indenture. You can find definitions of certain terms used in this description under the heading "—Certain Definitions."

The 2.500% senior notes due 2030 (the "Notes") are being issued by the Bank as senior unsecured notes under the Indenture. The Notes are not treated under the banking laws and regulations of Panama as bank deposits, and the Holders are not required to open accounts with the Bank. Holders will not have recourse to deposit insurance or any other protections afforded to depositors in financial institutions under the laws of any jurisdiction.

Principal, Maturity and Interest

The Notes will mature on August 11, 2030, at par. The Notes will bear interest on the outstanding principal amount at the rate of 2.500% per year, payable semi-annually on February 11 and August 11 of each year (each, an "interest payment date"), commencing on February 11, 2021, to Holders of record at the close of business on February 10 or August 10, as the case may be, immediately preceding the relevant interest payment date. Interest on the Notes will be computed on the basis of a 360-day year comprised of twelve 30-day months. The outstanding principal amount of the Notes will be paid at maturity unless repaid as a result of the occurrence and continuation of an Event of Default or the occurrence of a repurchase or redemption as set forth below. See "—Events of Default," "—Repurchase of Notes upon a Change of Control" and "—Redemption." If any interest payment date, repurchase or redemption date or final maturity date is a day that is not a Business Day, the related payment of the principal and interest will be made on the next succeeding Business Day as if it were made on the date the payment was due, and no interest will accrue on the amounts so payable for the next period from and after the interest payment date or the final maturity date, as the case may be, to the next succeeding Business Day.

The Notes will be issued in registered form, without coupons, and in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act ("Rule 144A") will be issued in the form of beneficial interests in one or more permanent global securities in fully registered form and deposited with a custodian for, and registered in the name of a nominee of, DTC. The Notes sold to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be issued in the form of beneficial interests in one or more permanent global securities in fully registered form and deposited with a custodian for, and registered in the name of a nominee of, DTC. See "—Book-Entry System; Delivery and Form."

The Bank will pay the principal of and interest on the Notes and any Additional Amounts (as defined below) in U.S. Dollars.

In addition to the Notes being issued in this offering, the Bank may issue an unlimited principal amount of additional Notes having terms and conditions identical (other than the issue date, issue price and in certain cases, first interest payment date) to the Notes being issued in this offering (the "Additional Notes"). Any Additional Notes will be part of the same issue as the Notes being issued in this offering and will be treated as one class with the Notes being issued in this offering, including for purposes of voting, redemptions and offers to purchase; provided, however, that if the Additional Notes are not fungible with the Notes for U.S. federal income tax purposes, the Additional Notes will have a separate CUSIP, ISIN or Common Code from the Notes. Holders of Additional Notes would have the right

to vote together with Holders of the Notes issued hereby as one class. For purposes of this "Description of the Notes," references to the Notes include Additional Notes, if any.

Additional Amounts

All payments made by the Bank under or with respect to the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future Taxes imposed or levied by or on behalf of any Taxing Authority in any jurisdiction in which the Bank is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made (each a "Relevant Taxing Jurisdiction"), unless the Bank is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. In such case, the Bank will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by each Holder (including Additional Amounts) after such withholding or deduction (including withholding or deduction with respect to Additional Amounts payable hereunder) will equal the amount the Holder would have received if such Taxes had not been withheld or deducted; provided, however, that no Additional Amounts will be payable with respect to any Tax:

(1) to the extent such Tax is imposed by reason of any present or former connection between the Holder and the Relevant Taxing Jurisdiction (including being a citizen, domiciliary, resident or national of, or carrying on a business, being incorporated in or maintaining a permanent establishment in, or being physically present in, the Relevant Taxing Jurisdiction) other than the mere holding of the Notes or enforcement of rights thereunder or the receipt of payments in respect thereof;

(2) to the extent such Tax is imposed due to the failure to satisfy any certification, identification or other reporting requirements whether imposed by statute, treaty, regulation or administrative practice that the applicable Holder or beneficial owner is legally entitled to satisfy, provided, however, that the Bank has delivered a request to the Holder to comply with such requirements at least 30 days prior to the date by which such compliance is required;

(3) to the extent such Tax is imposed due to the failure by the Holder or beneficial owner to present a Note (where presentation is required) for payment within 30 days after the date such payment was due and payable or was duly provided for, whichever is later, provided that the Bank will pay Additional Amounts to which a Holder would have been entitled had such Note been surrendered on the last day of such 30-day period;

(4) where such Tax is an estate, inheritance, gift, value added, excise, transfer, personal property, use or sales Tax or any similar Tax; or

(5) any Taxes imposed or levied by reason of any combination of clauses (1) through (4) above.

Notwithstanding anything to the contrary in the preceding paragraph, none of the Bank, any paying agent or any other person will be required to pay any Additional Amounts with respect to any withholding or deduction imposed on or in respect of any note pursuant to Sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended ("FATCA"), any treaty, law, regulation or other official guidance enacted by a Relevant Taxing Jurisdiction implementing FATCA, or any agreement between the Bank or a paying agent and the United States, a Relevant Taxing Jurisdiction or any authority of any of the foregoing implementing FATCA.

In addition, Additional Amounts will not be payable if the registered holder of a Note is a fiduciary, partnership or any other Person other than the sole beneficial owner of, or Person ultimately entitled to obtain an interest in, such Note and such beneficiary or settlor with respect to a fiduciary, a member of a partnership or the beneficial owner of such payment would not have been entitled to the payment of Additional Amounts by reason of clauses (1) to (5) above if it had been the registered holder of such Note. In addition, Additional Amounts will not be payable with respect to any Tax which is not payable by way of withholding or deduction from payments of, or in respect of principal of, or any interest or other amounts payable on or with respect to, the Note.

Whenever in the Indenture or in this "Description of the Notes" there is mentioned, in any context, the payment of amounts based upon the principal amount of a Note or of principal, interest or any other amount payable under or with respect to any of the Note, such mention will be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Taxes are, were or would be payable in respect thereof.

The Bank will provide documentation satisfactory to the Trustee evidencing the payment of any Taxes deducted or withheld.

The Bank will pay any present or future stamp, court or documentary taxes, or any other excise or property taxes, charges or similar levies which arise in any Relevant Taxing Jurisdiction from the initial execution, delivery, enforcement or registration of the Notes or any other document or instrument referred to therein.

Notices

For so long as the Notes in global form are outstanding, notices to be given to Holders will be given to DTC in accordance with its applicable policies as in effect from time to time. The Bank will consider a notice to be given at the time it is mailed or delivered electronically to DTC in accordance with such procedures. If the Bank issues the Notes in definitive form, notices to be given to Holders will be sent by mail to the respective addresses of the Holders as they appear in the security registrar's records, and will be deemed given when mailed.

In addition, so long as the Notes are listed on the Luxembourg Stock Exchange (the "LuxSE") for trading on the Euro MTF Market and the rules of such exchange so require, we will provide notices to Holders as required by the rules of such exchange.

Neither the failure to give any notice to a particular Holder, nor any defect in a notice given to a particular Holder, will affect the sufficiency of any notice given to another Holder.

Ranking of Notes; Organic Law

The Notes will: (i) be the Bank's direct, general, unsecured and unsubordinated obligations; (ii) other than as set forth below, at all times rank at least *pari passu* (without any preferences among themselves) with all of the Bank's other existing and future general unsecured and unsubordinated obligations from time to time outstanding; (iii) rank senior in right of payment to all existing and future subordinated indebtedness of the Bank, if any; (iv) be effectively subordinated to (a) all of the Bank's existing and future secured indebtedness to the extent of the value of, and only in relation to, the Bank's assets securing such indebtedness; (b) debts of the liquidation estate (*deudas de la masa*) in the event of the Bank's forceful liquidation; (c) new deposits created during a reorganization period ordered by the Superintendency of Banks; (d) deposits with a balance of B/.10,000.00 or less; (e) claims from employees for unpaid wages and other employee's severance and compensation payments; (f) claims from the Panamanian Social Security Administration (*Caja de Seguro Social*) for unpaid employer-employee social security contributions; and (g) other claims that are granted preference as a matter of law; and (v) be structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables) of the subsidiaries of the Bank. It is understood that this provision will not be construed so as to require the Bank to make payments under the Notes ratably with payments being made under any other of the Bank's senior unsecured and unsubordinated indebtedness. In addition, under the Panamanian civil code, previously issued senior unsecured indebtedness could be treated as senior to any subsequently issued senior unsecured indebtedness under the Panamanian civil code in the event of its intervention, reorganization, compulsory liquidation, winding-up or similar proceeding. As of March 31, 2020, the Bank had B/.256.2 million of outstanding unsecured indebtedness (consisting of B/.206.2 million in bonds payable at amortized cost and B/.50 million in foreign borrowings received at amortized cost), no secured indebtedness and no subordinated indebtedness. See "Capitalization" and the Unaudited Financial Statements for information concerning the Bank's indebtedness as of March 31, 2020.

Pursuant to the Organic Law, all liabilities of the Bank are subsidiarily (*subsidiariamente*) guaranteed by the Republic. For the avoidance of doubt, this general subsidiary guarantee is not a direct guarantee of the Notes, but a general subsidiary guarantee of the Bank's liabilities. Since the guarantee included in the Organic Law is a guarantee granted by law, it cannot be considered irrevocable, as the Organic Law could be amended or wholly or partially

repealed to amend or repeal the statutory guarantee. The current Article 3 of the Organic Law expressly states that the Republic is "subsidiarily" (*subsidiariamente*) responsible for the Bank's obligations, meaning that the Holders would have to claim payment from the Bank in the first instance and exhaust all legal recourses under Panamanian law against it before claiming payment from the Republic. The Republic is not a guarantor of the Notes, and Holders of the Notes may not have a direct claim against the Republic even after exhausting all remedies against the Bank. Panamanian law does not provide for a specific procedure, including time periods, to enforce the statutory responsibility of the Republic.

Repurchase of Notes upon a Change of Control

Upon the occurrence of a Change of Control (as defined below), the Bank will be required to make an offer to each Holder of the Notes to repurchase all or any part (with any residual equal to U.S.$200,000 or any integral multiple of U.S.$1,000 thereof) of such Holder's Notes, at such Holder's option, prior to their stated maturity date (such offer, "Change of Control Offer") at a price equal to 101% of the aggregate principal amount of the Notes repurchased, together with accrued and unpaid interest to, but not including, the Change of Control Payment Date (as defined below) (the "Change of Control Payment"), subject to the right of the Holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date.

Within 30 days following the date upon which the Change of Control occurred, or, at the option of the Bank, prior to any Change of Control but after public announcement of the transaction(s) constituting or that may constitute such Change of Control, a notice will be mailed (or delivered in accordance with the procedures of DTC) to Holders of Notes (a "Change of Control Notice") by the Bank through the Trustee and the Paying Agent describing the transaction(s) constituting or that may constitute such Change of Control and making the Change of Control Offer to repurchase all such Notes on the date specified in the Change of Control Notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is transmitted or, if the notice is transmitted prior to the Change of Control, no earlier than 30 days and no later than 60 days from the date on which the Change of Control with respect to the Notes occurs (the "Change of Control Payment Date"). On and after any Change of Control Payment Date, unless the Change of Control Payment is not made on the Change of Control Payment Date, interest will cease to accrue on the Notes called for repurchase. Any Change of Control Offer made prior to the occurrence of a Change of Control but after public announcement thereof will be contingent upon consummation of such Change of Control on or prior to the Change of Control Payment Date.

On the Change of Control Payment Date, the Bank will, to the extent lawful:

(i) accept for payment all Notes or portion of Notes properly tendered pursuant to the Change of Control Offer;

(ii) deposit with the paying agents an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and

(iii) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being repurchased.

For purposes of the above,

"*Change of Control*" means the Bank:

(a) no longer being an autonomous entity (*entidad autónoma*) of, or wholly owned by, the Republic; or

(b) no longer being under the Control of the Republic.

"*Control*" means:

(a) ownership of a majority of the Voting Stock of another entity; or

(b) the power, directly or indirectly, by contract, law, through ownership of Voting Stock or otherwise, to direct or cause to direct the appointment of the members of the board of directors (or equivalent body) of the Bank, subject to the provisions of the Organic Law.

"*Share Capital*" means, with respect to any person, any and all shares of stock, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting) such person's equity (including any preferred stock, but excluding any debt securities convertible into or exchangeable for such Share Capital), regardless of whether such interests are represented by physical instruments or created by law.

"*Voting Stock*" means, with respect to any person, any security, interest or participation that may exist by law or otherwise evidencing any class of Share Capital of such person entitling the holders thereof to vote in the election of members of the board of directors or equivalent governing body of such person.

The Bank will publicly announce the results of the Change of Control Offer on or as soon as possible after the Change of Control Payment Date.

The Bank will not be required to make a Change of Control Offer if a third party makes such Change of Control Offer in the manner, at the time and otherwise in compliance with the requirements for Change of Control Offer required to be made by the Bank and the third party properly completes such Change of Control Offer and repurchases all Notes properly tendered pursuant to such Change of Control Offer.

The Bank will not be required to repurchase any Notes if on the Change of Control Payment Date an event of default under the Indenture has occurred and is continuing, other than a default in the payment of the Change of Control Payment upon a Change of Control.

The Bank will comply in all material respects with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of the Change of Control Offer. To the extent that the provisions of any such securities laws or regulations conflict with the provisions of the Indenture or the Notes applicable to the Change of Control Offer, those securities laws and regulations will prevail and the Bank will not be deemed to have breached its obligations under the Change of Control Offer provisions of the Indenture or the Notes as a consequence of compliance with such securities laws and regulations.

Redemption

Optional Redemption at Par

At any time or from time to time on or after May 11, 2030 (three months prior to the maturity date of the Notes) (the "Par Call Date"), the Bank will have the right to redeem the Notes in whole or in part, upon giving not less than 30 nor more than 60 days' prior notice, as provided herein under "—Notices," at a redemption price equal to 100% of the outstanding principal amount of the Notes plus accrued but unpaid interest (if any) on the principal amount of the Notes to be redeemed and any Additional Amounts to, but excluding, the redemption date (subject to the right of the Holders of record on the relevant record date to receive interest and Additional Amounts (if any) on the relevant redemption date).

Optional Redemption with "Make-Whole" Amount

The Bank will have the right to redeem any of the Notes, in whole or in part, at any time or from time to time prior to the Par Call Date, at its option, upon giving not less than 30 nor more than 60 days' prior notice, as provided herein under "—Notices," at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes to be redeemed and (2) the sum of the present values of each remaining scheduled payment of principal and interest thereon as if redeemed on the Par Call Date (exclusive of interest accrued to the redemption date) discounted to the

redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 30 basis points, in each case plus accrued but unpaid interest (if any) on the principal amount of the Notes to be redeemed and any Additional Amounts to, but excluding, the redemption date (subject to the right of the Holders of record on the relevant record date to receive interest and Additional Amounts (if any) on the relevant redemption date). Neither the Trustee nor the paying agent shall have any obligation to determine the redemption price.

For purposes of the above,

"*Comparable Treasury Issue*" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the Par Call Date, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of investment grade corporate debt securities of comparable maturity to the Par Call Date.

"*Comparable Treasury Price*" means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations, as calculated by the Independent Investment Banker, for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Bank obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

"*Independent Investment Banker*" means one of the Reference Treasury Dealers appointed by the Bank to act as the "Independent Investment Banker."

"*Reference Treasury Dealer*" means Credit Suisse Securities (USA) LLC and Goldman Sachs & Co. LLC, or their affiliates which are primary United States government securities dealers and two other leading primary United States government securities dealers in New York City designated by the Bank; provided, however, that if any of the foregoing will cease to be a primary United States government securities dealer in New York City (a "*Primary Treasury Dealer*"), the Bank will substitute therefor another Primary Treasury Dealer.

"*Reference Treasury Dealer Quotation*" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to us by such Reference Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

"*Treasury Rate*" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

If the Bank redeems the Notes in part, the Trustee will select the Notes for redemption by lot; provided, however, that the selection of any Notes held in the form of a Global Note will be subject to the applicable procedures of the depositary therefor. The Bank will not redeem Notes of U.S.$200,000 principal amount in part, and Notes of a principal amount in excess of U.S.$200,000 may be redeemed in part only in multiples of U.S.$1,000; provided, however, that if the Notes are redeemed in part only, Notes in an aggregate principal amount of at least U.S.$100 million will remain outstanding after any such partial redemption. If any Note is to be redeemed in part only, the notice of redemption will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued upon the cancellation of the original Note.

On and after the redemption date, interest will cease to accrue on the Notes or any portion of the Notes called for redemption (unless the Bank defaults in the payment of the redemption price and accrued interest). On or before the Business Day prior to the redemption date, the Bank will deposit with the Trustee money sufficient to pay the redemption price of and accrued interest to, but excluding, the redemption date on the Notes to be redeemed on such date.

Redemption Prior to Maturity for Taxation Reasons

Upon the occurrence of a Withholding Tax Event in respect of the Notes, the Bank may, at its election, redeem the Notes in whole, but not in part, upon giving not less than 30 nor more than 60 days' prior notice to the holders of the Notes, in an amount equal to the Base Redemption Amount. The Bank will not give any such notice of redemption earlier than 90 days prior to the earliest date on which the Bank would be obligated to pay Additional Amounts if a payment in respect of the Notes was then due. Prior to the publication or, where relevant, transmitting of any notice of redemption of the Notes pursuant to the Indenture, the Bank will deliver to the Trustee (a) a certificate signed by two (2) officers of the Bank stating that the obligation to pay such Additional Amounts cannot be avoided by the Bank taking reasonable measures available to it, and (b) a written opinion of independent tax counsel to the Bank of recognized standing qualified under the laws of the relevant Taxing Jurisdiction (as defined below) to the effect that the Bank has or will become obligated to pay such Additional Amounts as a result of a Withholding Tax Event.

For purposes of the above,

"*Base Redemption Amount*" means the aggregate principal amount of the Notes plus accrued and unpaid interest in respect of the current interest period to (but excluding) the redemption date plus Additional Amounts, if any.

"*Withholding Tax Event*" means that, as a result of:

(i) any change in, amendment to or official pronouncement by a competent authority of Panama with respect to, the laws (or any regulations or rulings issued thereunder) of Panama, including any political subdivision thereof or any Taxing Authority therein, as applicable, which change, amendment or pronouncement is announced and becomes effective on or after the date of issuance of Notes; or

(ii) any change in the application, administration or official interpretation of such laws, regulations or rulings, including, without limitation, the holding of a court of competent jurisdiction, which change in application, administration or interpretation is announced or becomes effective on or after the date of issuance of Notes,

the Bank will be, on or after the date of issuance of Notes, obligated to pay such Additional Amounts in respect of the Notes on the next payment date, which obligation the Bank determines in good faith cannot be avoided by it taking reasonable measures available to it.

Certain Covenants

The Indenture will contain the following restrictive covenants:

Mergers, Consolidations, Etc.

The Bank will not consolidate with or merge into, or sell, lease, convey or transfer, in one transaction or a series of transactions, all or substantially all of the Bank's properties and assets to any Person, unless:

(i) the surviving entity, if not the Bank, or the Person which acquires by sale, lease, conveyance or transfer all or substantially all of the Bank's properties and assets is organized and existing under the laws of Panama, the United States or any member country of the Organisation for Economic Co-operation and Development and any state thereof (to the extent applicable) and assumes via supplemental indenture all of the Obligations;

(ii) the Bank, or the surviving entity or the Person which acquires by sale, lease, conveyance or transfer all or substantially all of the Bank's properties and assets, as the case may be, is not immediately after such transaction in Default under the Notes and the Indenture; and

(iii) the Bank, the surviving entity or the Person which acquires by sale, lease, conveyance or transfer all or substantially all of the Bank's properties and assets will have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each, in form and substance satisfactory to the Trustee, stating that such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Notes constitute legal, valid and binding obligations of the continuing person, enforceable in accordance with their terms.

Maintenance of Office or Agent for Service of Process

The Bank will maintain an office or agent for service of process in the Borough of Manhattan, The City of New York, where notices to and demands upon the Bank in respect of the Notes and the Indenture may be served. Initially this agent will be C T Corporation System, and the Bank will agree not to change the designation of such agent without prior notice to the Trustee and designation of a replacement agent in the Borough of Manhattan, The City of New York.

Provision of Financial Statements and Reports

So long as any Notes are outstanding, the Bank will furnish to the Trustee:

(i) within 120 days after the end of each fiscal year, an English version (or accompanied by an English translation thereof) of its consolidated audited financial statements for the most recent fiscal year, prepared in accordance with International Financial Reporting Standards ("IFRS"), together with an audit report thereon by its independent auditors and with the corresponding notes to the financial statements in English, accompanied by an officer's certificate stating that no Event of Default has occurred during such period or, if one or more has/have occurred, specifying each such event and what actions have been taken and/or will be taken with respect to each such event; and

(ii) within 75 days after the end of each of the first three fiscal quarters of each fiscal year and 120 days after the end of each fiscal year, an English version (or accompanied by an English translation thereof) of its unaudited financial statements for the most recent fiscal quarter, prepared in accordance with IFRS, accompanied by an officer's certificate stating that no Event of Default has occurred during such period or, if one or more has/have occurred, specifying each such event and what actions have been taken and/or will be taken with respect to each such event.

For so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Bank will furnish to any Holder of Notes or to any prospective purchaser designated by such Holder, upon request of such Holder, financial and other information described in paragraph (d)(4) of Rule 144A (as amended from time to time and including any successor provision) with respect to the Bank to the extent required in order to permit such Holder to comply with Rule 144A with respect to any resale of its Notes, unless, at the time of such request, the Bank is subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act or is exempt from such requirements pursuant to Rule 12g3-2(b) under the Exchange Act (as amended from time to time and including any successor provision).

Delivery of such reports, information and documents to the Trustee will be for informational purposes only and the Trustee's receipt of such reports, information and documents will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Bank's compliance with any of the covenants contained in the Indenture (as to which the Trustee will be entitled to conclusively rely upon an Officers' Certificate).

Maintenance of Approvals

The Bank will obtain and maintain in full force and effect all governmental approvals, authorizations, consents or licenses of any governmental authority under the law of Panama, except to the extent that the failure to so maintain does not have a Material Adverse Effect.

Events of Default

With respect to the Notes, each of the following is an "Event of Default":

(1) failure by the Bank to pay interest or Additional Amounts, if any, on any of the Notes when it becomes due and payable and the continuance of any such failure for 30 days;

(2) failure by the Bank to pay the principal on any of the Notes when it becomes due and payable, whether at stated maturity or otherwise;

(3) failure by the Bank to comply with any of its covenants in the Indenture or the Notes (other than those referred to in clauses (1) and (2) above), and the continuance of any such failure for 60 days after the notice specified below;

(4) the Bank or any Significant Subsidiary defaults with respect to any of its Indebtedness (whether such Indebtedness now exists or is created after the date of the Indenture), which default (a) is caused by failure to pay principal of or premium, if any, or interest on such Indebtedness when originally due, after giving effect to any grace period provided in such Indebtedness on the date of such default ("Payment Default"), or (b) results in the acceleration of such Indebtedness prior to its Stated Maturity; provided that, in the case of clauses (a) and (b), the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, totals U.S.$30 million or more in the aggregate (or the equivalent thereof at the time of determination);

(5) the Bank or any Significant Subsidiary enters into, or is entered into, a procedure involving, or subjecting the Bank or any Significant Subsidiary to, intervention or liquidation under United States or Panamanian law;

(6) the Bank or any Significant Subsidiary makes a general assignment for the benefit of its creditors;

(7) a court of competent jurisdiction or any relevant entity within the Panamanian government enters an order, decree or enacts a law that:

(a) is for relief against the Bank or any Significant Subsidiary as a debtor;

(b) appoints an entity to serve in a role equivalent to a custodian of the Bank or any Significant Subsidiary to serve in a role equivalent to a custodian for all or substantially all of the assets of the Bank or any Significant Subsidiary; or

(c) orders or requires the liquidation of the Bank, or any Significant Subsidiary and the order or requirement remains unstayed, or unrepealed, and in effect for 60 days;

(8) a resolution by any Bank Regulatory Authority (as defined below) is issued with respect to us, ordering the taking of administrative and operating control, reorganization, voluntary liquidation or forceful liquidation of us under Panamanian laws and regulations, and 60 days have passed since any such initial measure was taken and it, or a similar measure, remains in effect;

(9) any Bank Regulatory Authority will issue a cease and desist order to or in respect of the Bank or any of its subsidiaries;

(10) the Bank or any of its subsidiaries will cease accepting deposits or making commercial loans on the instruction of any Bank Regulatory Authority or any other national, Federal, state or other regulatory body with authority to give such instruction other than pursuant to any instruction generally applicable to banks organized under the jurisdiction or organization of such entity;

(11) the Republic (a) takes any action which deprives the Bank of the use of all or any material part of its assets (including through the expropriation of an asset of the Bank) and such action has or is reasonably likely to have a Material Adverse Effect; or (b) declares a general moratorium, standstill, waiver, restructuring deferral or adverse rescheduling with regard to the payment of any amount of principal or interest payable under the Notes; or

(12) any amendment, repeal or invalidation to the Organic Law is enacted which could reasonably be expected to: (a) adversely affect the financial condition of the Bank; (b) limit or restrict the rights of the Holders of the Notes under the Organic Law; (c) result in the Bank ceasing to benefit from the provisions of Article 3 of the Organic Law which provide that the Republic is "subsidiarily" (*subsidiariamente*) responsible for the Bank's obligations; or (d) otherwise have a Material Adverse Effect.

If the Bank fails to make payment of principal of or interest or Additional Amounts, if any, on a Note (and in the case of payment of interest or Additional Amounts, such failure to pay continues for 30 days), each Holder has the right to demand and collect under the Indenture and the Bank will pay to such Holders the applicable amount of such due and payable principal, accrued interest and Additional Amounts, if any, on such Note.

The Trustee is not to be charged with knowledge of any Default or Event of Default (other than a payment default under (1) or (2) above) or knowledge of any cure of any Default or Event of Default unless an authorized officer of the Trustee with direct responsibility for the Indenture has received written notice of such Default or Event of Default by the Bank or any Holder.

Consequences of an Event of Default

The Bank will deliver to the Trustee, within ten (10) Business Days after obtaining actual knowledge thereof, written notice of any Default or Event of Default that has occurred and is still continuing, its status and what action the Bank is taking or proposing to take in respect thereof. The Indenture provides that the Trustee may withhold notice to the Holders of any Default or Event of Default (except in payment of principal of, or interest or premium (and Additional Amounts), if any, on the Notes) if the Trustee in good faith determines that it is in the interest of the Holders.

If an Event of Default (other than an Event of Default described in clauses (5), (6), (7), (8), (9), (10), (11), or (12) above under "— Events of Default") will have occurred and be continuing, either the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Bank (and to the Trustee if notice is given by the Holders), may declare the unpaid principal amount of (and interest on) all the Notes to be due and payable immediately. If an Event of Default described in clauses (5), (6), (7), (8), (9), (10), (11) or (12) above under "—Events of Default" will have occurred, the principal of all outstanding Notes, the accrued interest and Additional Amounts, if any, will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. Any Notes owned by the Bank or any of its affiliates will be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Notes.

If the Bank cures all Defaults or such Defaults have been waived (except that nonpayment of principal of and accrued interest or premium and Additional Amounts on the Notes may not be waived) and certain other conditions are met, such declaration may be rescinded and annulled by the Holders of not less than a majority in aggregate principal amount of the Notes.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default will occur or be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the Holders, unless such Holders will have offered to the Trustee security

and indemnity satisfactory to the Trustee in its sole discretion. Subject to such provision for indemnification, the Holders of a majority in principal amount of the Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to the Notes; provided that the Trustee will have the right to decline to follow any such direction if the Trustee will determine that the action so directed conflicts with any law or the provisions of the Indenture or if the Trustee will determine that such action could be prejudicial to Holders not taking part in such direction.

No Holder will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless:

- such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Notes;
- the Holders of not less than 25% in principal amount of the outstanding Notes will have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee thereunder;
- such Holder or Holders have offered to the Trustee an indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;
- the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- no direction inconsistent with such written request has been given to the Trustee during such 60- day period by the Holders of a majority in principal amount of the outstanding Notes,

it being understood and intended that no one or more of such Holders will have any right in any manner whatsoever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all such Holders.

Notwithstanding any other provision of the Indenture, the Holder of any Note will have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and interest and Additional Amounts, if any, on such Note and to institute suit for the enforcement of any such payment, and such rights will not be impaired without the consent of such Holder.

Book-entry and other indirect Holders should consult their bank or brokers for information on how to give notice or direction to or make a request of the Trustee and how to declare or cancel an acceleration of the maturity.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to rights of registration of transfer or exchange of the Notes, which will survive until all Notes have been canceled and any other provisions that expressly survive the termination of the Indenture) as to all outstanding Notes when:

(a) either:

(1) all the Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes whose principal payment has become due and for whose payment money has been deposited in trust or segregated and held in trust by the Bank and thereafter repaid to the Bank or discharged from such trust) have been delivered to the Trustee for cancellation, or

(2) all Notes not theretofore delivered to the Trustee for cancellation otherwise have become due and payable and the Bank has irrevocably deposited or caused to be deposited with the Trustee trust funds in trust in an amount of money sufficient to pay and discharge the entire Indebtedness (including all principal and accrued interest) on the Notes not theretofore delivered to the Trustee for cancellation,

(b) the Bank has paid all sums payable by it under the Indenture,

(c) the Bank has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity, and

(d) the Holders have a valid, perfected, exclusive security interest in said trust.

In addition, the Bank must deliver an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent to satisfaction and discharge of the Indenture have been complied with.

Legal Defeasance and Covenant Defeasance

The Bank may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding Notes ("Legal Defeasance"). Legal Defeasance means that the Bank will be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes on the 91st day after the deposit specified in clause (1) of the second following paragraph, except for:

(1) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, and interest on the Notes (including any Additional Amounts) when such payments are due from the trust referred to below;

(2) the Bank's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments;

(3) the rights, powers, trusts, duties, indemnities and immunities of the Trustee as set forth in the Indenture and the Bank's obligations in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Bank may, at its option and at any time, elect to have its obligations released with respect to the covenants that are described under "—Certain Covenants" (other than that described under "—Certain Covenants—Mergers, Consolidations, Etc.") ("Covenant Defeasance") and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (other than non-payment and insolvency events) described under "—Events of Default" will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Bank must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of a nationally recognized firm of independent public accountants delivered to the Trustee, to pay the principal of, premium, if any, and interest (including Additional Amounts) on the outstanding Notes on the stated date for payment thereof or on the redemption date, as the case may be;

(2) in the case of Legal Defeasance, the Bank has delivered to the Trustee an Opinion of Counsel from U.S. counsel reasonably acceptable to the Trustee and independent of the Bank to the effect that:

- the Bank has received from, or there has been published by, the U.S. Internal Revenue Service a ruling; or

- since the Issue Date, there has been a change in the applicable U.S. federal income tax law,

in either case to the effect that, and based thereon such Opinion of Counsel states that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Bank has delivered to the Trustee an Opinion of Counsel from U.S. counsel reasonably acceptable to the Trustee and independent of the Bank to the effect that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) in the case of Legal Defeasance or Covenant Defeasance, the Bank has delivered to the Trustee (a) an Opinion of Counsel from Panamanian counsel reasonably acceptable to the Trustee and independent of the Bank to the effect that, based upon Panamanian law then in effect, Holders will not recognize income, gain or loss for Panamanian tax purposes, including withholding tax except for withholding tax then payable on interest payments due, as a result of such Legal Defeasance or Covenant Defeasance, as the case may be, and will be subject to Panamanian taxes, if applicable, on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance or Covenant Defeasance, as the case may be, had not occurred or (b) a ruling directed to the Trustee received from tax authorities of Panama to the same effect as the Opinion of Counsel described in clause (4)(a);

(5) no Default or Event of Default has occurred and is continuing on the date of the deposit pursuant to clause (1) of this paragraph;

(6) the Bank has delivered to the Trustee an Officers' Certificate stating that such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, the Indenture or any other material agreement or instrument to which the Bank is a party or by which the Bank is bound;

(7) the Bank has delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Bank with the intent of preferring the Holders over any other creditors of the Bank or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Bank or others; and

(8) the Bank has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel from U.S. counsel and independent of the Bank, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Transfer and Exchange

The Notes have not been registered under the Securities Act and are subject to restrictions on transfer. See "Transfer Restrictions."

Amendment, Supplement and Waiver

Subject to certain exceptions, the Indenture or the Notes may be amended with the consent (which may include consents obtained in connection with a tender offer or exchange offer for such Notes) of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding, and any Default or Event of Default

under, or compliance with any provision of, the Indenture may be waived (other than any continuing Default in the payment of the principal or interest on the Notes) with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of a majority in aggregate principal amount of the Notes then outstanding; provided, that without the consent of each Holder affected, no amendment or waiver may:

(1) reduce, or change the maturity of, the principal of any Note;

(2) reduce the rate of or extend the time for payment of interest and Additional Amounts on any Note;

(3) change the currency or place of payment of principal of or interest on the Notes;

(4) modify or change any provision of the Indenture (including the covenants in the Indenture) in a manner that adversely affects the Holders;

(5) reduce the principal amount of Notes whose Holders must consent to an amendment or waiver to the Indenture or the Notes;

(6) impair the rights of Holders to receive payments of, or to institute suit for the enforcement of any, principal of or interest on the Notes; or

(7) make any change in these amendment and waiver provisions without each Holder's consent.

Notwithstanding the foregoing, the Bank and the Trustee may amend or supplement the Indenture or the Notes without notice to, or the consent of, any Holder to cure any ambiguity, omission, defect or inconsistency (including, without limitation, any inconsistency between the text of the Indenture or the Notes and the description of the Indenture and the Notes contained in the offering memorandum), to provide for uncertificated notes in addition to or in place of certificated notes, to provide for the assumption of the Bank's obligations to the Holders in the case of a merger, consolidation or sale of all or substantially all of the assets in accordance with "—Certain Covenants—Mergers, Consolidations, Etc." to add to the covenants of the Bank, or to surrender any right or power under the Indenture conferred upon the Bank, for the benefit of the Holders, to conform the text of the Indenture or the Notes to any provision in this "Description of the Notes," to provide for the issuance of Additional Notes and to set forth the terms thereof, to add to the rights of the Holders, add guarantees or collateral with respect to the Notes, to provide for the acceptance of an appointment by a successor trustee, and to make any change that does not adversely affect the rights of any Holder.

Concerning the Trustee

The Bank of New York Mellon is the Trustee under the Indenture. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Indenture), it must eliminate such conflict or resign.

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. Except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. The Indenture provides that, in case an Event of Default occurs and is not cured, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in similar circumstances in the conduct of such person's own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder will have offered to the Trustee security and indemnity satisfactory to the Trustee in its sole discretion.

The Indenture does not require the Trustee to submit to the jurisdiction of any non-U.S. court or enforce remedies outside of the United States. The Indenture contains provisions for the replacement of the Trustee by the Bank.

The Bank may from time to time enter into normal banking and trustee relationships with the Trustee and its affiliates in the ordinary course of our business.

Registrar, Transfer Agent and Paying Agents

The Trustee will initially act as registrar for the Notes. The Trustee will also act as transfer agent and paying agent for the Notes. The Bank has the right at any time to change or terminate the appointment of the registrar, any paying agents or any transfer agents and to appoint a successor registrar or additional or successor paying agents or transfer agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as the Bank may require) in respect of any tax or other governmental charges that may be imposed in relation to it.

Unclaimed Amounts

Any money deposited with the Trustee or paying agent or held by the Bank, in trust, for the payment of principal, premium, interest or any Additional Amounts, that remains unclaimed for two (2) years after such amount becomes due and payable will, upon written request therefor to the Trustee (if held by the Trustee), be paid to the Bank or its requestor or, if held by the Bank, will be discharged from such trust. The Holder will look only to the Bank for payment thereof, and all liability of the Trustee, paying agent or of the Bank will thereupon cease. However, the Trustee or paying agent may at the expense of the Bank cause to be published once in a newspaper in each place of payment, or to be mailed to Holders, or both, notice that the money remains unclaimed and any unclaimed balance of such money remaining, after a specified date, will be repaid to the Bank.

No Sinking Fund

The Notes will not be entitled to the benefit of a sinking fund.

Listing

In the event that the Notes are admitted to listing on the Official List of the LuxSE and to trading on the Euro MTF Market, the Bank will use its reasonable best efforts to maintain such listing, provided that, if as a result of the European Union regulated market amended Directive 2001/34/EC (the "Transparency Directive") or any legislation implementing the Transparency Directive the Bank could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, or the Bank determines that it is unduly burdensome to maintain a listing on the LuxSE, the Bank may delist the Notes from the Euro MTF Market in accordance with the rules of the LuxSE and seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the LuxSE if reasonably available. Although the Bank cannot assure Holders as to the liquidity that may result from a listing on the LuxSE, delisting the Notes from the LuxSE may have a material effect on the ability of Holders of the Notes to resell those Notes in the secondary market.

Governing Law; Submission to Jurisdiction

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The Bank consents to the non-exclusive jurisdiction of any court of the State of New York or any United States Federal court sitting, in each case, in the Borough of Manhattan, New York, New York, United States of America, in respect of actions brought against it as a defendant in connection with the Notes and the Indenture, and waives, to the maximum extent permitted by law, any immunity from the jurisdiction of such courts over any suit, action or proceeding that may be brought in connection with the Indenture or the Notes and any right to which it may be entitled on account of place of residence or domicile. The Bank will appoint an agent for service of process with respect to any action brought in such courts against it as a defendant in connection with the Notes and the Indenture.

Currency Rate Indemnity

U.S. Dollars are the sole currency of account and payment for all sums payable by the Bank under or in connection with the Indenture and the Notes. Therefore, the Bank has agreed that, if a judgment or order made by any court for the payment of any amount in respect of any Note is expressed in a currency other than U.S. Dollars, the Bank will indemnify the Trustee and/or relevant Holder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. Any amount received or recovered in a currency other than U.S. Dollars (whether as a result of, or as a result of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Bank or otherwise) by the Trustee and/or any Holder in respect of any sum expressed to be due to it from the Bank will only constitute a discharge of the Bank to the extent of the U.S. Dollar amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). This indemnity will constitute a separate and independent obligation from the Bank's other Obligations under the Indenture and the Notes, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms.

"*amend*" means to amend, supplement, restate, amend and restate or otherwise modify; and "*amendment*" will have a correlative meaning.

"*Bank Regulatory Authority*" means the Superintendency of Banks (*Superintendencia de Bancos de Panamá*) or any other relevant bank regulatory authority of Panama.

"*Business Day*' means a day other than a Saturday, Sunday or other day on which banking institutions in New York or Panama are authorized or required by law to close.

"*Default*" means (1) any Event of Default or (2) any event, act or condition that, after notice or the passage of time or both, would be an Event of Default.

"*Exchange Act*' means the Securities Exchange Act of 1934, as amended.

"*Holder*" means any registered holder, from time to time, of Notes.

"*Indebtedness*" means, with respect to any Person, without duplication: (i) money borrowed and premiums (if any) and accrued interest in respect thereof, (ii) liabilities under or in respect of any acceptance or credit, (iii) the principal and premium (if any) and any accrued and unpaid interest in respect of any bonds, notes, debentures, debenture stock, loan stock, certificates of deposit or other securities whether issued for cash or in whole or in part for a consideration other than cash, (iv) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable in the ordinary course of business), and (v) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (i) through (iv) above.

"*Issue Date*" means August 11, 2020, the date on which the Notes are originally issued.

"*Material Adverse Effect*" means a material adverse effect on the Bank's business, operation or financial condition or the Bank's ability to comply with its obligations under the Indenture or the Notes, its business or the transactions contemplated herein, as well as of any third party under any agreement to which the Bank may be subject,

in connection with its execution, delivery and performance of the transaction documents related to this offering or the validity or enforceability thereof.

"*Obligation*" means any principal, interest, penalties, fees, indemnification, reimbursements, costs, expenses, damages and other liabilities payable under the Notes and the Indenture.

"*Officer*" means any of the following of the Bank: the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Treasurer or the Controller of the Bank (or, in each case, the officers of the Bank with equivalent positions).

"*Officers' Certificate*" means a certificate signed by two Officers.

"*Opinion of Counsel*" means a written opinion of counsel, who may (except as otherwise expressly provided in the Indenture) be an employee of, or counsel to, the Bank. Such opinion will be in form and substance satisfactory to the Trustee.

"*Organic Law*" means Decree Law No. 4 of January 18, 2006, as amended by Law No. 24 of May 16, 2017, and ordered by a sole text (which was published in Official Gazette No. 28387-B on October 16, 2017).

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof or other entity of any kind.

"*principal*" means, with respect to the Notes, the principal of, and premium, if any, on Notes. "*SEC*" means the U.S. Securities and Exchange Commission, or any successor thereto. "*Securities Act*' means the U.S. Securities Act of 1933, as amended.

"*Significant Subsidiary*" means a Subsidiary of the Bank, which would be a "significant subsidiary" within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC in effect on the date of the Indenture, assuming the Bank is the registrant referred to in such definition.

"*Subsidiary*" means any corporation or other business entity of which the Bank owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued Share Capital or other ownership interests, in each case having ordinary voting power to elect or appoint directors, managers or trustees of such corporation or other business entity (whether or not capital stock or other ownership interests or any other class or classes have or might have voting power upon the occurrence of any contingency).

"*Tax*" means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other liabilities related thereto).

"*Taxing Authority*" means any government or political subdivision or territory or possession of any government or any authority or agency therein or thereof having power to tax.

Book-Entry System; Delivery and Form

The Notes are being offered and sold in connection with the initial offering thereof solely to "qualified institutional buyers," as that term is defined in Rule 144A, pursuant to Rule 144A, and in offshore transactions to persons other than "U.S. persons," as defined in Regulation S, in reliance on Regulation S. Following the initial offering of the Notes, a Note may be resold (a) to the Bank or any of its subsidiaries, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A, (c) outside the United States in compliance with Rule 903 or 904 of Regulation S or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States and other jurisdictions. See "Book-Entry, Delivery and Form of the Notes" and "Transfer Restrictions."

Replacement of Notes

In the event that any note becomes mutilated, defaced, destroyed, lost or stolen, the Bank will execute and, upon the Bank's request, the Trustee will authenticate and deliver a note, of like tenor (including the same date of issuance) and equal principal amount, registered in the same manner, and bearing interest from the date to which interest has been paid on such note, in exchange and substitution for such note (upon surrender and cancellation thereof) or in lieu of and substitution for such note. In the event that such note is destroyed, lost or stolen, the applicant for a substitute note will furnish to the Bank and the Trustee such security or indemnity as may be required by them to hold each of them harmless, and, in every case of destruction, loss or theft of such note, the applicant will also furnish to the Bank and the Trustee satisfactory evidence of the destruction, loss or theft of such note and of the ownership thereof. Upon the issuance of any substituted note, the Bank or the Trustee may require the payment by the registered Holder thereof of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other fees and expenses (including the fees and expenses of the Trustee) connected therewith.

BOOK-ENTRY, DELIVERY AND FORM OF THE NOTES

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in reliance on Rule 144A under the Securities Act initially will be represented by permanent Notes in global, fully registered form without interest coupons (each, a "Restricted Global Note"). The Notes sold in offshore transactions in reliance upon Regulation S under the Securities Act will initially be represented by permanent Notes in global, fully registered form without interest coupons (each, a "Regulation S Global Note," and together with the Restricted Global Notes, the "Global Notes"). The Global Notes will be deposited with the trustee as a custodian for DTC, as depositary, and registered in the name of a nominee of such depositary.

The Global Notes (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the indenture and will bear the applicable legend regarding such restrictions set forth under the heading "Transfer Restrictions" herein. QIBs or non-U.S. purchasers may elect to take a Certificated Security (as defined below under "—Certificated Securities") instead of holding their interests through the Global Notes (collectively referred to herein as the "Non-Global Purchasers"), which Certificated Securities will be ineligible to trade through DTC, only in the limited circumstances described below. For a description of the restrictions on transfer of Certificated Securities and any interest in the Global Notes, see "Transfer Restrictions" and "Plan of Distribution—Notes Are Not Being Registered."

The Global Notes

We expect that, pursuant to procedures established by DTC, (i) upon the issuance of the Global Notes, DTC or its custodian will credit, on its internal system, the principal amount at maturity of the individual beneficial interests represented by such Global Notes to the respective accounts of persons who have accounts with such depositary ("participants") and (ii) ownership of beneficial interests in the Global Notes will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Such accounts initially will be designated by or on behalf of the initial purchasers, and ownership of beneficial interests in the Global Notes will be limited to participants or persons who hold interests through participants. Holders may hold their interests in the Global Notes directly through DTC if they are participants in such system, or indirectly through organizations that are participants in such system.

So long as DTC or its nominee is the registered owner or holder of the Notes, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Notes for all purposes under the indenture governing the Notes. No beneficial owner of an interest in the Global Notes will be able to transfer that interest except in accordance with DTC's procedures, in addition to those provided for under the indenture with respect to the Notes.

Payments of the principal of, and premium (if any) and interest on, the Global Notes will be made to DTC or its nominee, as the case may be, as the registered owner thereof. None of us, the trustee, any paying agent, any transfer agent or the registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

We expect that DTC or its nominee, upon receipt of any payment of principal of, and premium (if any) and interest on, the Global Notes, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Notes as shown on the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in the Global Notes held through such participants will be governed by standing instructions and customary practice, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

DTC has advised us that it will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an

event of default under the indenture, DTC will exchange the Global Notes for Certificated Securities, which it will distribute to its participants and which will be legended as set forth under the heading "Transfer Restrictions" and "Plan of Distribution—Notes Are Not Being Registered." DTC has advised us as follows: DTC is a limited-purpose trust company organized under New York banking law, a "banking organization" within the meaning of the New York banking law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for issues of U.S. and non- U.S. equity, corporate and municipal debt issues that participants deposit with DTC. DTC also facilitates the post-trade settlement among participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between participants' accounts. This eliminates the need for physical movement of securities certificates. Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC system is also available to indirect participants such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, it is under no obligation to perform such procedures, and such procedures may be discontinued at any time. None of us, the trustee, any paying agent, any transfer agent or the registrar will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Securities

A Global Note is exchangeable for certificated Notes in fully registered form without interest coupons ("Certificated Securities") only in the following limited circumstances: DTC notifies us that it is unwilling or unable to continue as depositary for the Global Note and we fail to appoint a successor depositary within 90 days of such notice, or there shall have occurred and be continuing an event of default with respect to the Notes under the indenture and DTC shall have requested the issuance of Certificated Securities.

Certificated Securities may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to the trustee a written certificate (in the form provided in the indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "Transfer Restrictions" and "Plan of Distribution—Notes Are Not Being Registered."

The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer the Notes will be limited to such extent.

Exchanges Between Regulation S Notes and Restricted Global Notes

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the 40-day period commencing on the original issue date of the Notes, and to which Global Note the transfer is being made, the seller may be required to provide certain written certifications in the form provided in the indenture. A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Restricted Global Notes will be effected by DTC by means of an instruction originated through the DTC deposit/withdrawal at custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Restricted Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

TAXATION

The following discussion summarizes certain Panamanian and U.S. federal income tax considerations that may be relevant to you if you purchase, own or sell the Notes. This summary is based on laws, regulations, rulings and decisions now in effect in each of these jurisdictions, including any relevant tax treaties. Any change could apply retroactively and could affect the continued accuracy and validity of this summary.

This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules.

The summary does not purport to be a comprehensive description of all potential Panamanian and U.S. federal income tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and is not intended as tax advice to any particular investor. This summary does not describe any tax consequences arising under the laws of any state, municipality or other taxing jurisdiction other than federal income tax consequences applicable in Panama and the United States.

You should consult your tax advisor about the tax consequences of acquiring, holding and disposing of the Notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, domestic or other tax laws.

Panamanian Tax Considerations

Panama's income tax regime is based on the principle of territoriality, under which only income deemed to arise from sources within Panama is subject to taxation. Therefore, income derived by corporations or individuals which is not deemed to be from a Panamanian source is not subject to income tax.

The following is a summary of the principal Panamanian income, stamp and certain other tax consequences in Panama resulting from the beneficial ownership and disposition of the notes by certain investors. This summary is based on the Organic Law, on the Panamanian Tax Code of 1956, as amended, and other applicable tax laws, decrees and regulations promulgated thereunder, interpretative rulings issued by tax authorities, and judicial decisions, all as in effect on the date hereof. This summary is subject to changes in these laws, decrees, regulations, rulings, and judicial decisions occurring after the date hereof, possibly with retroactive effect.

This summary is intended as a descriptive summary only and is not a complete analysis or listing of all potential Panamanian income, stamp and other tax consequences to noteholders. In particular, this summary does not address the tax treatment of investors that may be subject to special tax regimes or tax treaties. This summary is not intended as tax advice to any particular investor, nor does it purport to furnish information in the level of details as, or with attention to, an investor's specific circumstances that would be provided by an investor's own tax advisor.

Prospective purchasers of notes are urged to consult their own tax advisors as to the precise Panamanian and other tax consequences of acquiring, owning, and disposing of the Notes.

Taxation of Interest

Pursuant to the Organic Law, for the corresponding legal and tax purposes, securities issued by Banco Nacional de Panamá shall be considered as securities of the State, exempted from all taxes, including their interests, and may be used by banks in the Republic of Panama, by credit institutions and by insurance companies as part of the investments that pursuant to the regulations in force and effect are maintained in the Republic.

Moreover, since securities issued by Banco Nacional de Panamá are considered as securities of the State for all legal and tax purposes, pursuant to literal (f) Article 708 of the Tax Code of the Republic of Panama, interest paid or credited on the Notes are exempt from income tax and withholding requirements in Panama.

Taxation of Dispositions

Since securities issued by Banco Nacional de Panamá are considered as securities of the State for all legal and tax purposes, pursuant to the same literal (f) Article 708 of the Tax Code of the Republic of Panama, gains derived from the transfer of the Notes are exempt in Panama from income tax or capital gains tax.

Losses recognized on the sale or other disposition of the Notes will be disallowed as a deduction for income tax purposes in Panama

Stamp and Other Taxes

There are no other stamp, transfer or inheritance taxes applicable to the issue, transfer or other disposition of the Notes that are payable in Panama. For stamp tax purposes, the Notes are deemed to be bonds (*bonos*) under Panamanian Law.

Furthermore, pursuant to the Organic Law, securities issued by Banconal shall be considered as securities of the State, exempted from all taxes, which includes stamp taxes.

Foreign Investors

A Foreign Holder is not required to file a tax return in Panama, solely by reason of his or her ownership, sale or disposition of the Notes.

Tax Treaty

There is currently no tax treaty for the avoidance of double taxation between the United States and Panama. There is, however, a tax information exchange agreement in force between the United States and Panama.

The above summary is based upon statutes, regulations, rulings and opinions as in effect on the date hereof.

U.S. Federal Income Tax Considerations

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note offered by this offering memorandum by (i) a U.S. Holder (as defined below) whose functional currency is the U.S. dollar, who acquires the Note in the initial offering at the issue price of the Notes (the first price at which a substantial amount of the Notes is sold for money to investors) and not for an amount in excess of the stated principal amount of the Note and who holds the Note as a capital asset for U.S. federal income tax purposes (generally, property held for investment) and (ii) with respect to the discussion below under the heading "FATCA," any holder of a Note. This description also does not address tax considerations applicable to holders that may be subject to special tax rules, including:

- banks, thrifts or other financial institutions;
- insurance companies;
- certain former U.S. citizens or residents;
- real estate investment trusts or regulated investment companies;
- brokers, dealers or traders in securities or currencies;
- tax-exempt entities;
- persons that will hold the Notes as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for U.S. federal income tax purposes;

- persons subject to the U.S. federal alternative minimum tax;
- persons subject to the Medicare surtax on unearned income;
- persons that have a "functional currency" other than the U.S. dollar;
- accrual basis taxpayers subject to special tax accounting rules pursuant to Section 451(b)(1) of the Code; or
- partnerships or other pass-through entities or arrangements classified as partnerships for U.S. federal income tax purposes.

The discussion below is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, U.S. Treasury regulations thereunder, and judicial and administrative interpretations thereof, all as in effect as of the date of this offering memorandum and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below. In addition, no ruling has been or will be sought from the U.S. Internal Revenue Service (the "IRS") with respect to the matters discussed below, and there can be no assurances that the IRS would not assert, or that a U.S. court would not uphold, positions concerning the U.S. federal income tax consequences of a U.S. Holder's acquisition, ownership or disposition of a Note that are contrary to the discussion below.

For purposes of this description, a "U.S. Holder" is a beneficial owner of the Notes for U.S. federal income tax purposes that is:

- a citizen or individual resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if either (x) it is subject to the primary supervision of a court within the United States and one or more U.S. persons has the authority to control all substantial decisions of the trust or (y) it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

The U.S. federal income tax treatment of a partner in a partnership (including any entity or arrangement classified as a partnership for U.S. federal income tax purposes) that owns Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships and partners in such partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of the Notes by the partnership.

This discussion does not address any U.S. federal tax consequences other than U.S. federal income tax consequences (such as the estate and gift tax). This discussion additionally does not address U.S. state, domestic and non-U.S. tax consequences. You should consult your tax advisor with respect to the U.S. federal, state, domestic and non-U.S. tax consequences of acquiring, owning or disposing of the Notes, in your particular circumstances.

Characterization of the Notes

Although the issue is not free from doubt, the Bank intend to treat the Notes as indebtedness for U.S. federal income tax purposes. This position is binding on a U.S. Holder under the Code unless such U.S. Holder discloses its contrary position in a manner required by applicable U.S. Treasury regulations. However, this position is not binding on the IRS, which could seek to recharacterize the Notes. If the IRS successfully recharacterizes the Notes, then the timing and character of a U.S. Holder's income inclusions with respect to the Notes may be different than those described herein. For example, if the IRS were successful in treating the Notes as equity of the Bank, then, depending

on (among other things), whether the Bank is classified as a "passive foreign investment company" for U.S. federal income tax consequences, U.S. Holders may be subject to adverse U.S. federal income tax consequences, potentially including additional taxes on gain from the sale of the Notes, and certain additional information reporting obligations. U.S. Holders should consult their tax advisors regarding the potential consequences if the Notes are characterized for U.S. federal income tax purposes as other than debt. The remainder of this discussion assumes that the Notes are properly treated as debt for U.S. federal income tax purposes.

Taxation of interest and additional amounts

Stated interest. Stated interest on a Note (including Additional Amounts paid, if any) will be taxable to a U.S. Holder as ordinary interest income as received or accrued, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes. It is anticipated, and this discussion assumes, that the Notes will be issued with no more than a *de minimis* amount of original issue discount (generally, 0.0025 multiplied by the stated principal amount and the number of complete years to maturity from the issue date). If, however, the Notes are issued for an amount less than the principal amount and the difference is more than a *de minimis* amount, a U.S. Holder will be required to include the difference in income as original issue discount in accordance with a constant yield method. A U.S. Holder is urged to consult its own tax advisor in the event the Notes are issued with original issue discount.

Foreign tax credit

A U.S. Holder may, subject to certain limitations, be eligible to claim a credit or, at the election of such U.S. Holder, deduction (provided that the U.S. Holder elects to deduct, rather than credit, all foreign income taxes paid or accrued for the relevant taxable year) in respect of any non-U.S. taxes that are withheld from payments on the Notes for purposes of computing its U.S. federal income tax liability. Interest received or accrued on the Notes and Additional Amounts generally will constitute foreign source income to U.S. Holders for U.S. foreign tax credit purposes. The rules relating to foreign tax credits are complex and U.S. Holders should consult their own tax advisors with regard to the availability of foreign tax credits and the application of the foreign tax credit rules to their particular situation. See discussion above under "Panamanian Tax Consequences—Taxation of Interest" regarding whether Panamanian withholding tax may apply.

Sale, exchange, redemption, retirement at maturity or other taxable disposition of the Notes

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the sum of the amount of cash and the fair market value of any property received on the disposition (except to the extent the cash or property received is attributable to accrued and unpaid interest, which will be treated as described under "Taxation of interest and additional amounts" above) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the amount paid for the Note.

Gain or loss that a U.S. Holder recognizes upon the sale, exchange, redemption, retirement or other disposition of a Note generally will be U.S. source capital gain or loss and will be long term capital gain or loss if, at the time of the disposition, the U.S. Holder's holding period for the Note is more than one year. The deductibility of capital losses by corporate and non-corporate U.S. Holders is subject to limitations. Prospective investors should consult their own tax advisors as to the U.S. federal income tax and foreign tax credit implications of such sale, redemption, retirement or other disposition of a Note.

Information reporting and backup withholding

Information returns may be filed with the IRS in connection with payments of principal and interest in respect of, and the proceeds from certain sales of, Notes held by a U.S. Holder unless the U.S. Holder establishes that it is exempt from the information reporting rules. If a U.S. Holder does not establish that it is exempt from these rules, the U.S. Holder may be subject to backup withholding on these payments if it fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

U.S. Holders should consult their own tax advisors regarding any reporting obligations they may have as a result of their acquisition, ownership or disposition of Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

Tax return disclosure requirements

Certain U.S. Holders that hold "specified foreign financial assets" with an aggregate value in excess of certain thresholds are generally required to complete and attach an information form to their annual income tax returns (currently IRS Form 8938, Statement of Specified Foreign Financial Assets) with respect to such assets (and can be subject to substantial penalties for failure to file). For example, an unmarried U.S. Holder is subject to such reporting requirement if such U.S. Holder has specified foreign financial assets with an aggregate value in excess of $50,000 on the last day of the taxable year or $75,000 at any time during the taxable year. The definition of "specified foreign financial assets" includes a financial account maintained by a non-U.S. financial institution, such as a financial account in which notes are held. A U.S. Holder may be subject to these reporting requirements with respect to its Notes or the account in which its Notes are held unless its Notes are held in an account at a U.S. financial institution. U.S. Holders are urged to consult their own tax advisors regarding the possible reporting requirements with respect to their investment in the Notes and the penalties for non-compliance.

FATCA

Sections 1471 through 1474 of the Code and the Treasury Regulations promulgated thereunder (commonly referred to as "FATCA") generally impose a withholding tax of 30% on certain payments to certain non-U.S. financial institutions (including entities such as us) unless such institutions ("foreign financial institutions" or "FFIs" as defined under the Code) enter into an agreement with the IRS (an "FFI Agreement"). Such an agreement will require the provision of certain information regarding the FFI's "U.S. account holders" (which could include holders of the Notes) to the IRS.

FFI Agreements also require FFIs to withhold up to 30% of amounts payable to account holders that do not provide them with information required to comply with FATCA ("Recalcitrant Holders") or to FFIs that do not enter into an FFI Agreement with the IRS under FATCA and are not otherwise exempt from or in deemed compliance with FATCA ("Non-Participating FFIs"), if such amounts constitute foreign passthru payments ("Foreign Passthru Payments") under FATCA, which term is not yet defined. Such withholding is generally not required on payments made before the date that is two years after the date on which final regulations defining Foreign Passthru Payments are published in the U.S. Federal Register. Further, such withholding on payments with respect to the Notes is required only if the Notes are significantly modified after the date (the "Grandfathering Date") that is six months after the date such final regulations are published. However, if additional Notes that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "IGA"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership" or "withholding foreign trust" regimes). Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. On October 25, 2016, an IGA between the United States and Panama (the "Panama IGA"), based largely on the Model 1 IGA, entered into force.

Our management expects us to be treated as a Reporting FI under the Panama IGA and does not anticipate being obliged to withhold any amounts under FATCA from payments it makes. There can be no assurance, however, that we will be treated as a Reporting FI or that no withholding under FATCA or pursuant to the Panama IGA would be imposed on payments under the Notes. Regardless of whether we become a Reporting FI under the Panama IGA or enter into an FFI Agreement, owners of the Notes may be required to provide certain information, including, but

not limited to, (a) information to allow determination of whether the beneficial owner of a Note is a United States person as defined in Section 7701(a)(30) of the Code or a United States owned foreign entity as described in Section 1471(d)(3) of the Code and any additional information that may be requested in connection with FATCA, (b)(i) if the beneficial owner of a Note is a United States person, such United States person's name, address and U.S. taxpayer identification number, or (ii) if the beneficial owner of a Note is a United States-owned foreign entity, the name, address and taxpayer identification number of each of its substantial United States owners as defined in Section 1473(2) of the Code and any other information requested by us or our agent upon request, and (c) updated information promptly upon learning that any such information previously provided is obsolete or incorrect.

If FATCA were to require that an amount in respect of U.S. withholding tax were to be deducted or withheld from any payment on or with respect to the Notes, then neither we nor any paying agent or other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. Holders of the Notes should consult their own tax advisers regarding the effect, if any, of FATCA on their investment in the Notes.

The discussion of U.S. federal income tax consequences set forth above is for general information only. Prospective purchasers are urged to consult their tax advisors as to the particular tax consequences to them of the purchase, ownership and disposition of the Notes, including the tax consequences under U.S. federal, state and local, and any applicable non-U.S. tax laws, as well as the possible effects of the changes in U.S. or other tax laws.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement among us and the initial purchasers, we have agreed to sell to certain of the initial purchasers, and each such initial purchaser has agreed, severally and not jointly, to purchase from us, the principal amount of Notes set forth opposite its name below:

Initial Purchaser	Principal Amount of Notes
Credit Suisse Securities (USA) LLC	U.S.$500,000,000
Goldman Sachs & Co. LLC	U.S.$500,000,000
Total	**U.S.$1,000,000,000**

The purchase agreement provides that the obligation of the initial purchasers to purchase the Notes is subject to certain conditions precedent. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased to cover the commitment of the defaulting initial purchaser or that the purchase agreement may be terminated.

We have agreed to indemnify the initial purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The initial purchasers may offer and sell the Notes through their affiliates.

Listing

No public market exists for the Notes. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade on the professional segment of the Euro MTF Market of that exchange. However, we cannot assure you that the application will be approved. The initial purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. They are not obligated, however, to make a market in the Notes and any market-making may be discontinued at any time at their sole discretion and without notice. Accordingly, no assurance can be given as to the development or liquidity of any market for the Notes.

Commissions and Discounts

The initial purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

Notes are Not Being Registered

The Notes have not been and will not be registered under the Securities Act or any state securities laws. The initial purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The initial purchasers will not offer or sell the Notes except to persons they reasonably believe to be QIBs or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the

Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

New Issue of Notes

The Notes are a new issue of securities with no established trading market. Although application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange, we cannot assure you that an active market for the Notes will develop. We have been advised by the initial purchasers that they may make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors. See "Risk Factors—Risk Factors Relating to the Notes—There is no existing market for the trading of the Notes, and we cannot assure you that you will be able to sell your Notes in the future."

No Sales of Similar Securities

We have agreed that, for a period of 90 days after the date of this offering memorandum, we will not without first obtaining the prior written consent of Credit Suisse Securities (USA) LLC and Goldman Sachs & Co. LLC, directly or indirectly issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, any of our debt securities substantially similar to the Notes offered hereby in the international capital markets, except for the Notes sold to the initial purchasers pursuant to the purchase agreement.

Short Positions

In connection with the offering, the initial purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the initial purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the initial purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any of the initial purchasers make any representation that the initial purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Settlement

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be at least five business days after the date of pricing of the Notes (this settlement cycle being referred to as "T+5") but may be longer. Under Rule 15c6-1 of the SEC under the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially will settle after T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement.

Other Relationships

The initial purchasers are full service institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Some of the initial purchasers and their affiliates have engaged in, and may in the future engage in, lending, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. See "Summary—Recent Developments." They have received, or may in the future receive, customary fees and commissions for these transactions.

Notice to Prospective Investors in Panama

The Notes have not been and will not be registered under the Panamanian Securities Law with the SMV, in reliance upon the exemption from registration of securities issued by the Republic of Panama or by certain entities of the Republic of Panama, which includes Banco Nacional de Panamá. These listing particulars have not been screened by, and will not be subject to supervision by, the SMV.

Prohibition of Sales to European Economic Area and United Kingdom Retail Investors

The Notes may not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK. For these purposes, a "retail investor" means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by the PRIIPs Regulation) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

Notice to Prospective Investors in Switzerland

This offering memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this document nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this offering memorandum nor any other offering or marketing material relating to the offering nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority FINMA (FINMA), and investors in the Notes will not benefit from protection or supervision by such authority.

Notice to Prospective Investors in the United Kingdom

In the UK, this offering memorandum is being distributed only to, and is directed only at, qualified investors (as defined in the Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Order, or (ii) high net worth entities and other persons to whom it may be lawfully be communicated falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes in the UK will be engaged in only with, relevant persons. Any person in the UK who is not a relevant person should not act or rely on this offering memorandum or any of its contents.

Notice to Prospective Investors in Hong Kong

This offering memorandum neither constitutes a "prospectus" (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) (the "Companies (Winding Up and Miscellaneous Provisions) Ordinance"), nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "Securities and Futures Ordinance"). This offering memorandum is for distribution in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

Each of the underwriters has undertaken and agreed not to sell or offer in Hong Kong, by means of any document, the Notes other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or which do not constitute an invitation to the public within the meaning of the Securities and Futures Ordinance, or (ii) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder, or (iii) in other circumstances which do not result in the offering memorandum being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" in Hong Kong as defined in the Securities and Futures Ordinance and any rules made thereunder.

Notice to Prospective Investors in Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "FIEL") and each underwriter has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to Prospective Investors in Singapore

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the SFA. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SFA: We have determined, and hereby notify all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Notice to Prospective Investors in Brazil

The Notes have not been and will not be issued nor publicly placed, distributed, offered or negotiated in the Brazilian capital markets. The issuance of the Notes has not been nor will be registered with the *Comissão de Valores Mobiliários* ("CVM"). Any public offering or distribution, as defined under Brazilian laws and regulations, of the Notes in Brazil, except for public offerings or distribution under registration exemptions set forth by Instruction No. 400, issued by the CVM on December 29, 2003, as amended, is not legal without prior registration under Law No. 6,385/76, as amended, and Instruction No. 400. Documents relating to the offering of the Notes, as well as information contained therein, may not be supplied to the public in Brazil (as the offering of the Notes is not a public offering of securities in Brazil), nor be used in connection with any offer for subscription or sale of the Notes to the public in Brazil. Therefore, each of the initial purchasers has represented, warranted and agreed that it has not offered or sold, and will not offer or sell, the Notes in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation of securities in the Brazilian capital markets regulated by Brazilian laws and regulations.

Persons wishing to offer or acquire the Notes within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.

Notice to Prospective Investors in Chile

The offer of the Notes will begin on, 2020 and is subject to General Rule No. 336 of the Chilean Securities Commission (Superintendencia *de Valores y Seguros de Chile*, "SVS"). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and therefore, the Notes are not subject to the supervision of the SVS. As unregistered securities, we are not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

Notice to Prospective Investors in Colombia

The Notes have not been and will not be registered on the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) or in the Colombian Stock Exchange. Therefore, the Notes may not be publicly offered in Colombia. This material is for your sole and exclusive use as a determined entity, including any of your shareholders, administrators or employees, as applicable. You acknowledge the Colombian laws and

regulations (specifically foreign exchange and tax regulations) applicable to any transaction or investment consummated pursuant hereto and represent that you are the sole liable party for full compliance with any such laws and regulations.

Notice to Prospective Investors in Peru

The Notes and the information contained in this offering memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the Notes and therefore, the disclosure obligations set forth therein will not be applicable to the issuer or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this offering memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the Peruvian National Supervisory Commission of Companies and Securities (*Comisión Nacional Supervisora de Empresas y Valores*) nor have they been registered under the Securities Market Law (*Ley del Mercado de Valores*) or any other Peruvian regulations. Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein. The Notes have been registered with the Superintendency of Banking, Insurance and Private Pension Funds (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) so that they could qualify as eligible instruments and be acquired by Peruvian Private Pension Funds Administrators.

Notice to Prospective Investors in Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in the United Arab Emirates (excluding the Dubai International Financial Centre)

The Notes to be issued under this offering memorandum have not been and will not be offered, sold or publicly promoted or advertised in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities. The information contained in this offering memorandum does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1986 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this offering memorandum is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Notice to Prospective Investors in the Dubai International Financial Centre

The Notes to be issued under this offering memorandum will not be offered to any person in the Dubai International Financial Centre unless such offer is:

(a) deemed to be an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "DFSA"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

TRANSFER RESTRICTIONS

Because the following restrictions will apply with respect to the resale of the Notes, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Notes.

The Notes have not been, and will not be, registered under the Securities Act or any state securities laws, and they may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (A) to QIBs in compliance with Rule 144A and (B) outside of the United States in offshore transactions in reliance upon Rule 903 or Rule 904 of Regulation S under the Securities Act, or Regulation S. As used herein, the terms "United States" and "U.S. person" have the meanings given to them in Regulation S.

Each purchaser of the Notes in the United States will be deemed to have represented and agreed as follows: the purchaser is either (1) a QIB and is aware that the sale of the Notes to it is being made in reliance on exemptions from the registration requirements of the Securities Act, and such acquisition will be for its own account or for the account of a QIB or (2) a non-U.S. person who, at the time the buy order for the Notes was originated, was outside of the United States.

In making its decision to purchase the Notes, the purchaser understands and acknowledges that:

- the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act; that the Notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

- it shall not resell or otherwise transfer any of such Notes, except (A) to the Bank or any of its subsidiaries, (B) to a QIB in a transaction complying with Rule 144A, (C) outside of the United States in compliance with Rule 903 or Rule 904 of Regulation S, (D) in accordance with another exemption from the registration requirements of the Securities Act (if available and based upon an opinion of counsel if the Bank so requests), or (E) pursuant to an effective registration statement under the Securities Act;

- it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;

- prior to any proposed transfer of Notes in certificated form or of beneficial interests in a Global Note (in each case other than pursuant to an effective registration statement), the holder of Notes or the holder of beneficial interests in a Global Note, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the indenture;

- it understands that the Restricted Global Note will bear a legend substantially to the following effect unless otherwise agreed by us and the holder thereof:

  THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") AND, WITH RESPECT TO (A) AND (B), EXERCISES

SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.

THIS LEGEND MAY ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2A(V) ABOVE, THE ISSUER RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

- it understands that the Regulation S Global Note will bear a legend substantially to the following effect unless otherwise agreed by us and the holder thereof:

  THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")), THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON, EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE. THE TERMS "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.

- the foregoing restrictions apply to holders of beneficial interests in the Notes, as well as holders of the Notes;

- the trustee will not be required to accept any Notes for registration of transfer or exchange, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with; and

- we, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agree that, if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the Notes is no longer accurate, it shall promptly notify us and the initial purchasers. If it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account, and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each account.

LEGAL MATTERS

The validity of the Notes and certain matters governed by New York and U.S. federal laws will be passed upon for us by Norton Rose Fulbright US LLP, our U.S. counsel, and for the initial purchasers by Clifford Chance US LLP. Certain other matters governed by Panamanian law will be passed upon for us by Aleman, Cordero, Galindo & Lee, our Panamanian counsel, and for the initial purchasers by Arias, Fábrega & Fábrega.

INDEPENDENT AUDITORS

The financial statements of Banco Nacional de Panamá as of December 31, 2019 and 2018 and for the two years then ended December 31, 2019; as well as the financial statements as of December 31, 2018 and 2017 and for the two years then ended December 31, 2018, included herein, have been audited by KPMG, independent auditors, as stated in their reports appearing herein.

LISTING AND GENERAL INFORMATION

1. The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The CUSIP and ISIN numbers for the Notes are as follows:

	Restricted Global Note	Regulation S Global Note
CUSIP	059626 AC5	P1559L AA7
ISIN	US059626AC55	USP1559LAA72
Common Code	221542118	221542126

2. Copies of our latest audited annual and unaudited quarterly financial statements, copies of our organizational documents in English and copies of this offering memorandum may be obtained free of charge during normal business hours at our principal office, the offices of the trustee and any paying agent, including the principal paying agent. Copies of the trust deed (including the forms of the Notes) will be available during normal business hours for inspection at our principal office, the offices of the trustee and any paying agent, including the principal paying agent.

3. Except as disclosed in this offering memorandum, there has been no material adverse change in our prospects nor any significant change in our financial position since March 31, 2020, the date of the latest financial statements included in this offering memorandum.

4. Except as disclosed in this offering memorandum, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which we are aware), which may have, or have had during the twelve months prior to the date of this offering memorandum, a significant effect on our financial position or profitability.

5. Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the professional segment of the Euro MTF market of the Luxembourg Stock Exchange.

6. Our Board of Directors authorized the issuance of the Notes on May 28, 2020.

7. The legal entity identifier (LEI) of the Issuer is 529900H2Q7WMDKKIW109.

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BANCO NACIONAL DE PANAMÁ
(Panama, Republic of Panama)

Unaudited Condensed Interim Financial Information

March 31, 2020

BANCO NACIONAL DE PANAMÁ
(Panama, Republic of Panama)

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BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Condensed Interim Statement of Financial Position

As of March 31, 2020

(Expressed in Balboas)

	Note	March 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents		444,165,155	219,898,465
Deposits in banks at amortized cost:			
Demand deposits - foreign		120,519,665	75,972,323
Time deposits - local		178,082,993	137,071,613
Time deposits - foreign		1,943,797,988	2,836,750,829
Less: Reserve for bank deposit losses		102,845	138,893
Total bank deposits at amortized cost	6	2,242,297,801	3,049,655,872
Total cash, cash equivalents and bank deposits at amortized cost		2,686,462,956	3,269,554,337
Securities purchased under resale agreements at amortized cost	7	48,768,889	68,563,265
Investments in securities		2,736,379,287	2,944,794,556
Less: Reserve for investment losses		3,014,851	3,159,493
Investments in securities, net	8	2,733,364,436	2,941,635,063
Loans and interest receivable private sector		4,292,090,722	4,176,986,192
Government loans and interest receivable		314,264,970	311,892,207
Less: Allowance for loan losses		68,999,096	62,917,878
Interest and unearned commissions		26,788,733	26,954,325
Loans at amortized cost	9	4,510,567,863	4,399,006,196
Property and equipment, net		82,982,467	84,016,213
Right of use assets	10	3,549,024	3,855,808
Other assets:			
Foreclosed assets, net	11	7,883,751	8,498,494
Intangible assets - licenses and softwares		11,989,977	12,649,126
Fiscal credit from preferential interest on loans		26,152,096	18,852,202
Others	11	23,327,793	16,753,446
Total other assets		69,353,617	56,753,268
Total assets		10,135,049,252	10,823,384,150

The condensed interim statement of financial position should be read in conjunction with the notes that form an integral part of the condensend interim financial information.

	Note	March 31, 2020	December 31, 2019
Liabilities and Capital Funds			
Liabilities:			
Deposits and accrued interest payable at amortized cost:			
Demand deposits:			
Local - private		1,121,140,918	927,948,719
Local - public		2,292,510,230	2,473,131,465
Foreign		608,720	2,546,349
Savings:			
Local - private		702,121,823	708,330,062
Foreign		1,386,030	1,422,866
Time deposits:			
Local - private		397,104,809	210,678,951
Local - public		4,045,086,137	5,038,158,036
Foreign		15,684,219	15,645,967
Restricted - inactive accounts		17,775,836	16,417,592
Restricted - escrow funds		56,609,308	52,633,435
Total deposits and interest payable at amortized cost		8,650,028,030	9,446,913,442
Obligations:			
Foreign borrowings received at amortized cost	12	50,035,369	50,003,818
Securities sold under repurchase agreement at amortized cost	12	101,214,621	0
Bonds payable at amortized cost	12	206,216,051	206,216,051
Lease liabilities	10	3,649,263	3,939,119
Other liabilities:			
Guarantee certificates for legal proceedings at amortized cost		114,880,801	113,676,867
Miscellaneous creditors		24,978,821	52,938,607
Cashier's and certified checks		18,612,447	22,094,430
Others		26,463,468	26,147,914
Total other liabilities		184,935,537	214,857,818
Total liabilities		9,196,078,871	9,921,930,248
Capital funds:			
Paid-in capital by Government of Panama		650,000,000	650,000,000
Regulatory reserve for foreclosed assets		3,735,230	3,870,702
Valuation of investments securities		5,867,274	8,069,463
Actuarial valuation		355,079	355,079
Dynamic regulatory provision	19	56,928,983	56,928,983
Retained earnings		222,083,815	182,229,675
Total capital funds		938,970,381	901,453,902
Commitments and contingencies	13		
Total liabilities and capital funds		10,135,049,252	10,823,384,150

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Condensed Interim Statement of Profit or Loss

For the three months period ended March 31, 2020

(Expressed in Balboas)

	Note	March 2020	March 2019
Interest and commission income			
Interest on:			
Loans		58,699,273	57,200,034
Deposits in banks		10,316,851	10,455,984
Securities		25,130,293	23,909,697
Loan's fees		2,205,313	2,286,290
Total interest and fee income		96,351,730	93,852,005
Interest expense:			
Deposits		20,606,423	21,686,118
Borrowings		1,748,428	129,412
Lease liabilities	10	49,474	39,793
Total interest expenses		22,404,325	21,855,323
Net interest and commission income		73,947,405	71,996,682
(Reversal of) provision for losses in deposits with banks	4	(36,048)	55,251
Reversal of provision investment securities losses	4	(144,642)	(186,727)
Provision for loan losses	4	5,704,051	1,560,098
Reversal of valuation of foreclosed assets	11	(26,292)	(15,683)
Net interest and commission income, after provisions		68,450,336	70,583,743
Other income:			
Fees for banking services	14	4,937,945	3,922,992
Dividends	8	93,956	36,954
Net gain on investments in securities		1,510,291	0
Others		3,520,873	3,453,586
Total other income		10,063,065	7,413,532
Other expenses:			
Provision for fiscal credits, net		182,497	134,402
Commissions		78,570	172,041
Total other expenses		261,067	306,443
Total other income, net		9,801,998	7,107,089
General and administrative expenses:			
Salaries and other personnel expenses		21,684,375	20,832,003
Rentals		239,669	259,466
Repairs and maintenance		2,248,528	2,541,450
Depreciation and amortization		3,164,696	3,463,290
Electricity		896,834	757,665
Advertising		667,970	1,108,952
Communications		1,509,568	1,404,638
Insurance		41,027	154,821
Stationery and office supplies		324,193	271,671
Fees and professional services		894,196	840,765
Transportation of personnel		273,111	295,794
Transportation of valuables		90,943	479,735
ATM's		380,892	240,466
Others		1,081,431	545,913
Total general and administrative expenses		33,497,433	33,196,629
Net income		44,754,901	44,494,203

The condensed interim statement of profit or loss should be read in conjunction with the notes that are an integral part of the condensed interim financial information.

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Condensed Interim Statement of Other Comprehensive Income

For the three months period ended March 31, 2020

(Expressed in Balboas)

	Note	March 2020	March 2019
Net income		44,754,901	44,494,203
Other comprehensive loss (income):			
Items that are or may be reclassified to the statement of profit or loss.			
Valuation of investments in securities:			
Net change in valuation of investments at fair value with changes in other comprehensive income (FVOCI)	8	(2,202,189)	989,038
Other comprehensive loss (income) for the period		(2,202,189)	989,038
Total comprehensive income for the period		42,552,712	45,483,241

The condensed interim statement of other comprehensive income should be read in conjunction with the notes that are an integral part of the condensed interim financial information.

BANCO NACIONAL DE PANAMÁ
(Panama, Republic of Panama)

Condensed Interim Statement of Changes in Capital Funds

For the three months period ended March 31, 2020

(Expressed in Balboas)

	Note	Paid-in Capi by the Govern of Panam
Balance as of December 31, 2018		650,00
Net income for the period ended March 31, 2019		
Other comprehensive income (loss):		
Net change in valuation of investments to FVOCI		
Total other comprehensive income (loss) for the year		
Total comprehensive income (loss) for the year		
Other capital fund movements:		
Regulatory reserve for foreclosed assets		
Total other capital fund movements		
Balance as of March 31, 2019		650,00
Balance as of December 31, 2019		650,00
Net income for the period ended March 31, 2020		
Other comprehensive income (loss):		
Net change in valuation of investments to FVOCI	8	
Total other comprehensive income (loss) for the period		
Total comprehensive income (loss) for the period		
Other capital fund movements:		
Regulatory reserve for foreclosed assets		
Total other capital fund movements		
Transactions recorded directly in capital funds:		
Earnings distributed to the Government of Panama (Period 2019)		
Total transactions recorded directly in capital funds		
Balance as of March 31, 2020		650,00

The condensed interim statement of changes in capital funds must be read in conjunction with the notes th
integral part of the condensed interim financial information.

BANCO NACIONAL DE PANAMÁ
(Panama, Republic of Panama)

Condensed Interim Statement of Cash Flows

For the three months period ended March 31, 2020

(Expressed in Balboas)

	Note	March 2020	March 2019
Operating activities:			
Net income		44,754,901	44,494,203
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization		3,164,696	3,463,290
Reversal of (provision for) losses in deposits with banks		(36,048)	55,251
Reversal of investment securities losses		(144,642)	(186,727)
Provision for loan losses		5,704,051	1,560,098
Reversal of provision for valuation of foreclosed assets		(26,292)	(15,683)
Provision for fiscal credits, net		182,497	134,402
Net gain on sale of foreclosed assets		(218,863)	(10,201)
Gain on sale on furniture and equipment		(44,492)	(18,843)
Dividends	8	(93,956)	(36,954)
Net gain on investments in securities	8	(1,510,291)	0
Net interest and commission income		(73,947,405)	(71,996,682)
Changes in operating assets and liabilities:			
Time deposits in banks with original maturities greater than 90 days		0	(158,000,000)
Securities purchased under resale agreements, net		19,343,474	44,516,400
Loans		(176,673,112)	(405,246,404)
Other assets		(13,546,868)	(7,164,865)
Demand deposits received		10,633,335	85,311,507
Savings deposits received		(6,245,075)	(35,845,216)
Time deposits received		(802,156,329)	98,304,657
Guarantee certificates for legal proceedings at amortized cost		1,393,278	2,973,687
Cashier's and certified checks		(3,481,983)	(1,743,639)
Miscellaneous creditors		(27,959,786)	(9,378,159)
Other liabilities		315,554	347,449
Cash generated from operation:			
Interest and commissions received		95,595,825	90,153,508
Interest paid		(21,587,833)	(19,558,498)
Dividends received	8	93,956	36,954
Cash flows from operating activities		(946,491,408)	(337,850,465)
Investment activities:			
Acquisitions of investments in securities at amortized cost		(80,883,403)	(48,734,036)
Redemptions of investments in securities at amortized cost	8	290,984,282	114,057,398
Proceeds from the sale of securities at amortized cost	8	59,093,154	0
Acquisition of furniture and equipment		(1,199,564)	(1,565,325)
Proceeds from the sale and disposal of furniture and equipment		44,806	20,661
Acquisition of intangible assets - licenses and softwares		0	(61,959)
Proceeds from the sale of foreclosed assets of borrowers		349,195	82,848
Cash flows from investing activities		268,388,470	63,799,587
Financing activities:			
New borrowings received	12	50,000,000	20,000,000
Payments of borrowings received	12	(50,000,000)	(35,000,000)
Securities sold under repurchase agreements	12	101,172,467	60,126,308
Earnings distributed to the Government of Panama (Period 2019)		(5,036,233)	0
Lease payments	10	(304,264)	(252,165)
Cash flows from financing activities		95,831,970	44,874,143
Net decrease in cash and cash equivalents		(582,270,968)	(229,176,735)
Cash and cash equivalents at the beginning of the period		3,115,170,788	1,918,188,198
Cash and cash equivalents at the end of the period	6	2,532,899,820	1,689,011,463
Non-cash transactions			
Cancellation of customer loan Fundacion Amador with Public Debt Securities of the Republic of Panama	9	61,626,600	0

The condensed interim statement of cash flows statement condensed should be read in conjunction with the notes that are an integral part of the condensed interim financial information.

BANCO NACIONAL DE PANAMÁ
(Panama, Republic of Panama)

Notes to the Condensed Interim Financial Information

March 31, 2020

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BANCO NACIONAL DE PANAMÁ
(Panama, Republic of Panama)

Notes to the Condensed Interim Financial Information

March 31, 2020

(Expressed in Balboas)

(1) Incorporation and Operations

Banco Nacional de Panama (the "Bank") was created by Laws No.74 of 1904, 6 of January of 1911, 11 of 1956, reorganized by Law 20 of 1975, subrogated by Decree-Law 4 of 2006, as amended by Law 24 of 2017; is a public entity with its proper legal status, own capital funds, autonomous and independent in its regulations, budget and internal management, subject to the supervision of the Executive Body and the corresponding supervisory bodies, under the terms established by the Law. As the Nation's primary financial institution, the Bank is responsible, in addition to the objectives described in the above mentioned law, for performing banking activities within the official sector, and obtaining the necessary funds to develop the national economy.

The Bank is exempt of any tax and other fiscal contributions, either national or municipal, with the exception of the Social Security employer's contributions, educational insurance, professional risks, fees for public services and other exceptions provided for in the Law.

The Bank is granted procedural privileges in any judicial or administrative litigation in which it is a party, and summary jurisdiction to enforce the collection of overdue credits owed to the Bank.

The Bank is responsible for directing and managing the clearing operations for the entire national banking system.

The main office is located at Torre Banco Nacional, Via España and 55th Street, Panama City, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

The Bank's condensed interim financial information for the three months ended March 31, 2020 have been prepared in accordance with International Accounting standard (IAS) 34 *Interim Financial Reporting.*

These condensed interim financial information do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Bank's financial position and performance since the last annual financial statements. Although management believes that the disclosures included are adequate so that the financial information is interpreted incorrectly, it is suggested that this condensed interim financial information as of March 31, 2020 be read in conjunction with the Bank´s audited financial statements for the year ended on December 31, 2019.

This condensed interim financial information was approved by the Audit Steering Committee and by the Board of Directors on June 30, 2020.

(2) Basis of Preparation, continued

(b) Basis of Measurement

This condensed interim financial information have been prepared on a historical cost or amortized cost basis, except for certain investments in equity securities which are presented at fair value through other comprehensive income; and foreclosed assets of borrowers, which are measured at the lower of carrying value or fair value less costs to sell.

The Bank recognizes financial assets and financial liabilities at the settlement date.

(c) Functional and Presentation Currency

This condensed financial information are presented in balboas (B/.). The balboa is the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the Dollar of the United States of America (US$). The Republic of Panama does not issue its own paper currency, and in lieu, the Dollar (US$) of the United States of America is used as legal tender and is considered the functional currency of the Bank.

(3) Summary of Significant Accounting Policies

The accounting policies applied in these condensed interim financial information are the same as those applied in the Bank's financial statements as at and for the year ended December 31, 2019. A number of new standards are effective from January 1, 2020 but they do not have a material effect on the Bank's financial condensed interim financial information.

(4) Financial Risks Management

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. The Bank's activities relate primarily to the use of financial instruments and, as such, the condensed statement of financial position consists primarily of financial instruments.

The Bank's Board of Directors has the responsibility for establishing and monitoring financial instruments risk management. For this purpose, it has appointed certain committees to manage and periodically monitor the risks to which the Bank is exposed. These committees are: Risk and Policy Steering Committee, Credit Steering Committee, Audit Steering Committee and the Money Laundering Prevention Steering Committee.

Additionally, the Bank is subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of Securities Market of Panama, related to concentration, liquidity and capitalization risks, among others.

(4) Financial Risks Management, continued

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

(a) Credit Risk

This is the risk that the debtor, issuer or counterparty of a financial asset owned by the Bank will not comply, fully and on time, with any payment due to the Bank in accordance with the terms and conditions agreed at the time the Bank acquired or originated the respective financial asset. To assume this risk, the Bank has a management framework whose main elements include:

- The risk analysis or pre-approval is carried out independently of the business, whose objectives, in addition to identifying, evaluating and quantifying the risk of the proposals, are to determine the impact they will have on the Bank's credit portfolio.
- A control area is responsible for validating that the proposals are within the Bank's policies and limits, obtain the required approval according to the level of risk assumed, and comply with the conditions agreed upon in the approval, at the time the transaction is settled.
- The approval process is carried out through various instances within the Bank in accordance with the established approval limit policy.
- A portfolio management process focused on monitoring risk trends at the Bank level with the objective of anticipating any signs of portfolio deterioration.
- Compliance with collateral policies, including required coverage on loan amounts established by the Credit Steering Committee and reviewed periodically.

The respective management committees assigned by the Board of Directors periodically monitor the financial condition of the respective debtors and issuers that involve a credit risk for the Bank.

The Bank manages credit risk through:

- Credit and investment policies, which are periodically reviewed and amended.
- Authorization limits, which are periodically reviewed and amended.
- Exposure and concentration limits for the investment portfolios, placements and loans.
- Development and maintenance of credit risk assessment, through permanent review of the credit portfolio; frequent monitoring of credit classification and special attention to the portfolio with higher risk levels.
- Review of compliance with procedures and policies, through specialized administrative units.

To limit credit risk, the Bank has established policies that ensure diversification and allow for an adequate evaluation for each loan.

(4) Financial Risks Management, continued

The key procedures and practices in credit risk management are detailed as follows:

- Limitations on concentration risk (large credit extensions, loans to related parties, refinancing)
- Loan risk monitoring and rating matrix.
- Allowance for loan losses policy.
- Compliance with credit policies and credit management procedures
- Identification and monitoring of initial and changing credit risks observed in customers and in the economic activity carried out by those customers.
- Collection procedure on irregulars and classified loans.

When the estimation of the expected credit loss is carried out collectively, financial instruments are grouped on the basis of shared risk characteristics, which include:

- Type of instrument
- Credit risk ratings
- Type of guarantee; and
- The industry or economic activity

The groupings are subject to periodic review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available historical data.

Credit Quality Analysis
The Bank uses for the evaluation of loans the same credit risk classification system that the Superintendency of Banks of Panama has established for the determination of regulatory reserves. This classification system considers the evaluation of quantitative and qualitative factors of the debtor's financial condition and the market in which it operates to determine its credit risk classification, including the evaluation of the debtor's delinquency. Nevertheless, the consumer portfolio, given its nature, is mainly evaluated based on its delinquency to determine its credit risk classification.

(4) Financial Risk Management, continued

The following table analyzes the credit quality of financial assets at amortized cost, credit commitments and allowances per ECL for these assets held by the Bank as of March 31, 2020:

	March 31, 2020			
	Low risk	Significant Risk	Default Risk	Total
Loans				
Standard	4,265,284,155	0	0	4,265,284,155
Special-mention	224,283,123	0	0	224,283,123
Sub-standard	0	40,998,383	0	40,998,383
Doubtful	0	0	15,206,741	15,206,741
Loss	0	0	28,875,424	28,875,424
Gross Balance	4,489,567,278	40,998,383	44,082,165	4,574,647,826
Interest receivable	30,832,040	581,796	294,030	31,707,866
Interest and unearned commissions				(26,788,733)
Loss allowance	(29,661,021)	(9,827,805)	(29,510,270)	(68,999,096)
Loan balance at AC	4,490,738,297	31,752,374	14,865,925	4,510,567,863
Consumer Loans				
0 to 30 days	2,451,096,585	3,696,290	6,020,889	2,460,813,764
31 to 60 days	33,769,919	339,172	883,411	34,992,502
More than 61 days	13,333,258	5,384,724	15,347,513	34,065,495
Balance	2,498,199,762	9,420,186	22,251,813	2,529,871,761
Individually assessed loans	14,358,308	0	0	14,358,308
Loss allowance:				
Individual	(528,232)	0	0	(528,232)
Collective	(29,132,789)	(9,827,806)	(29,510,269)	(68,470,864)
Total loss reserve	(29,661,021)	(9,827,806)	(29,510,269)	(68,999,096)
Credit commitments				
Standard	490,274,270	0	0	490,274,270
Balance	490,274,270	0	0	490,274,270
Bank deposits at AC				
Standard	2,238,734,665	0	0	2,238,734,665
Gross balance	2,238,734,665	0	0	2,238,734,665
Interest receivable	3,665,981	0	0	3,665,981
Loss allowance	(102,845)	0	0	(102,845)
Balance of deposits in banks at AC	2,242,297,801	0	0	2,242,297,801
Investments in securities at AC				
Standard	2,707,906,914	0	0	2,707,906,914
Gross balance	2,707,906,914	0	0	2,707,906,914
Interest receivable	21,488,665	0	0	21,488,665
Loss allowance	(3,014,851)	0	0	(3,014,851)
Balance of investments in securities at AC	2,726,380,728	0	0	2,726,380,728

During the period ended March 31, 2020, the Bank carried out loan restructurings/modifications with an amortized cost before the modification of B/.11,506,907 (December 31, 2019: B/.8,070,143) and which generated an increase in the allowance for expected credit losses of B/.555,283 (December 31, 2019: B/.113,058).

(4) Financial Risk Management, continued

	December 31, 2019			
	Low risk	Significant Risk	Default Risk	Total
Loans				
Standard	4,142,068,118	0	0	4,142,068,118
Special-mention	179,917,424	0	0	179,917,424
Sub-standard	0	100,191,261	0	100,191,261
Doubtful	0	0	15,626,027	15,626,027
Loss	0	0	21,586,909	21,586,909
Gross Balance	4,321,985,542	100,191,261	37,212,936	4,459,389,739
Interest receivable	27,681,159	1,521,079	286,422	29,488,660
Interest and unearned commissions	0	0	0	(26,954,325)
Loss allowance	(27,077,920)	(10,678,065)	(25,161,893)	(62,917,878)
Loan balance at AC	4,322,588,781	91,034,275	12,337,465	4,399,006,196
Consumer Loans				
0 to 30 days	2,409,118,831	2,595,895	4,749,923	2,416,464,649
31 to 60 days	18,867,338	432,650	607,486	19,907,474
More than 61 days	7,585,197	6,509,532	12,769,106	26,863,835
Balance	2,435,571,366	9,538,077	18,126,515	2,463,235,958
Individually assessed loans	14,358,308	0	0	14,358,308
Loss allowance:				
Individual	(528,232)	0	0	(528,232)
Collective	(26,549,688)	(10,678,065)	(25,161,893)	(62,389,646)
Total loss reserve	(27,077,920)	(10,678,065)	(25,161,893)	(62,917,878)
Credit commitments				
Standard	487,133,970	0	0	487,133,970
Balance	487,133,970	0	0	487,133,970
Bank deposits at AC				
Standard	3,045,272,323	0	0	3,045,272,323
Gross balance	3,045,272,323	0	0	3,045,272,323
Interest receivable	4,522,442	0	0	4,522,442
Loss allowance	(138,893)	0	0	(138,893)
Balance of deposits in banks at AC	3,049,655,872	0	0	3,049,655,872
Investments in securities at AC				
Standard	2,912,909,982	0	0	2,912,909,982
Gross balance	2,912,909,982	0	0	2,912,909,982
Interest receivable	22,698,677	0	0	22,698,677
Loss allowance	(3,159,493)	0	0	(3,159,493)
Balance of investments in securities at AC	2,932,449,166	0	0	2,932,449,166

The Bank maintains deposits placed in banks with a gross balance of B/.2,238,734,665 as of March 31, 2020 (December 31, 2019: B/.3,045,272,323). Deposits placed are held with recognized financial institutions applying the limits established in the counterparty risk policy. These placements of the Bank's liquid resources are made under conditions of security, liquidity and yield, adjusting to risk and term diversification criteria, in banks with financial solvency and risk rating. At March 31, 2020, an expected loss reserve was established for interbank placements of B/.102,845 (December 31, 2019: B/.138,893)

(4) Financial Risk Management, continued

The following table presents the deposits placed in banks according to their local or international short-term credit risk rating, granted by risk rating agencies:

	March 31, 2020		
Rating of deposits in banks	**Local Rating**	**International Rating**	**Total**
A1, P1, F1	23,000,000	1,257,013,868	1,280,013,868
A2, P2, F2	25,000,000	727,896,060	752,896,060
A3, P3, F3	5,000,000	0	5,000,000
Unrated	0	200,824,737	200,824,737
Gross subtotal	53,000,000	2,185,734,665	2,238,734,665
Interest receivable	0	3,665,981	3,665,981
Loss reserve	0	(102,845)	(102,845)
Balance at amortized cost	53,000,000	2,189,297,801	2,242,297,801

	December 31, 2019		
Rating of deposits in banks	**Local Rating**	**International Rating**	**Total**
A1, P1, F1	7,000,000	1,397,528,361	1,404,528,361
A2, P2, F2	0	904,673,650	904,673,650
A3, P3, F3	5,000,000	0	5,000,000
Unrated	0	731,070,312	731,070,312
Gross subtotal	12,000,000	3,033,272,323	3,045,272,323
Interest receivable	0	4,522,442	4,522,442
Loss reserve	0	(138,893)	(138,893)
Balance at amortized cost	12,000,000	3,037,655,872	3,049,655,872

The deposits placed presented in the "Unrated" category correspond to resources placed in an international financial institution that only accepts deposits from central banks and, therefore, does not have a credit rating.

(4) Financial Risk Management, continued

The following table presents investments in debt securities according with their local or international long-term credit risk classification, granted by risk rating agencies.

Investments in securities	March 31, 2020 Local Rating	International Rating	Total
AAA	3,269,000	81,965,688	85,234,688
AA+ to A	42,125,724	560,539,339	602,665,063
A-	5,000,000	72,971,023	77,971,023
BBB+ to BBB-	32,662,500	1,762,705,773	1,795,368,273
BB+	5,000,000	10,149,987	15,149,987
BB to B-	0	91,000,000	91,000,000
Unrated	40,517,880	0	40,517,880
Gross subtotal	128,575,104	2,579,331,810	2,707,906,914
Interest receivable	947,425	20,541,240	21,488,665
Loss reserve	(370,006)	(2,644,845)	(3,014,851)
Balance at amortized cost	129,152,523	2,597,228,205	2,726,380,728

Investments in securities	December 31, 2019 Local Rating	International Rating	Total
AAA	3,269,000	149,442,457	152,711,457
AA+ to A	42,702,482	699,229,033	741,931,515
A-	5,000,000	115,869,629	120,869,629
BBB+ to BBB-	30,775,000	1,586,937,554	1,617,712,554
BB+	5,000,000	138,479,447	143,479,447
BB to B-	0	91,000,000	91,000,000
Unrated	45,205,380	0	45,205,380
Gross subtotal	131,951,862	2,780,958,120	2,912,909,982
Interest receivable	554,351	22,144,326	22,698,677
Loss reserve	(446,241)	(2,713,252)	(3,159,493)
Balance at amortized cost	132,059,972	2,800,389,194	2,932,449,166

(4) Financial Risk Management, continued

Credit risk concentration

The Bank monitors credit risk concentration by sector and geographic location. The analysis of credit risk concentration at the date condensed financial information is as follows:

	Loans		Investments in securities and securities purchased under resale agreements		Deposits in banks		Loan commitments and guarantees granted	
	March 31 2020	December 31 2019	March 31 2020	December 31 2019	March 31, 2020	December 31 2019	March 31 2020	December 31 2019
Gross book value	4,574,647,826	4,459,389,739	2,756,507,349	2,980,853,891	2,238,734,665	3,045,272,323	490,274,270	487,133,970
Concentration by sector:								
Corporate	1,416,805,348	1,481,570,378	892,568,840	1,058,014,541	0	0	43,761,650	41,012,718
Consumer	2,529,871,760	2,463,235,958	0	0	0	0	446,462,620	446,071,252
Financial institutions	317,425,520	203,946,559	369,358,158	383,239,385	1,634,114,685	2,704,419,660	0	0
Public sector	310,545,198	310,636,844	1,494,580,351	1,539,599,965	604,619,980	340,852,663	50,000	50,000
Gross book value	4,574,647,826	4,459,389,739	2,756,507,349	2,980,853,891	2,238,734,665	3,045,272,323	490,274,270	487,133,970
Geographic concentration:								
Panama	4,574,647,826	4,459,389,739	2,028,747,541	1,967,026,405	53,000,000	12,000,000	490,274,270	487,133,970
USA and Canada	0	0	568,721,604	766,522,887	987,839,834	1,526,179,554	0	0
Europe	0	0	10,088,405	10,129,241	375,069,128	450,022,049	0	0
Others	0	0	148,949,799	237,175,358	822,825,703	1,057,070,720	0	0
Gross book value	4,574,647,826	4,459,389,739	2,756,507,349	2,980,853,891	2,238,734,665	3,045,272,323	490,274,270	487,133,970

Concentrations by sector are based on the economic activity of the issuer or debtor. The public sector includes government and supranational entities. Geographic concentrations of loans and deposits in banks are based on the location of the debtor and correspondent bank, respectively. The geographic concentration for investments is determined based on the location of the issuer of the investment. All other assets and liabilities are located in the Republic of Panama.

The Bank also monitors and follows up on operations outside the condensed statement of financial position, which are those operations that although not reflected within that statement, are reviewed in detail because they may expose the Bank to financial obligations depending on future events or actions by other parties. These transactions are subject to the concentration limits (loans to a single person and to related parties) to which the loan portfolio recorded in the condensed statement of financial position is subject to.

(4) Financial Risk Management, continued

Expected credit losses

The following table provides a reconciliation between the opening and closing balance of the reserves for losses on financial assets at amortized cost:

	March 31, 2020			
	Low risk	Significant risk	Default risk	Total
Deposits at amortized cost				
Beginning balance	138,893	0	0	138,893
Allocation of reserve to new originated financial assets	10,335	0	0	10,335
Net remeasurement of loss allowance	(9,736)	0	0	(9,736)
Reversal of derecognised assets	(36,647)	0	0	(36,647)
Balance as of March 31, 2020	102,845	0	0	102,845
Investments in securities at amortized cost				
Beginning balance	3,159,493	0	0	3,159,493
Net remeasurement of loss allowance	(91,141)	0	0	(91,141)
Allocation of reserve to new purchased financial assets	117,746	0	0	117,746
Reversal of reserve due to derecognised assets	(171,247)	0	0	(171,247)
Balance as of March 31, 2020	3,014,851	0	0	3,014,851
Corporate Loans				
Biginning balance	16,845,390	9,099,237	12,442,033	38,386,660
Transfers to 12-month ECL (low risk)	534,376	(343,571)	(190,805)	0
Transfers to ECL lifetime (significant risk)	(299,560)	784,028	(484,468)	0
Transfers to ECL lifetime (default)	0	(1,243,685)	1,243,685	0
Net remeasurement of loss allowance	1,775,070	135,673	1,362,691	3,273,434
Allocation of reserve to new originated financial assets	686,533	168,359	59,232	914,124
Reversal of reserve due to derecognised assets	(593,705)	(477,531)	(441,237)	(1,512,473)
Recoveries	0	0	121,581	121,581
Balance as of March 31, 2020	18,948,104	8,122,510	14,112,712	41,183,326
Consumer Loans				
Beginning balance	9,542,493	1,578,828	12,719,860	23,841,181
Transfers to 12-month ECL (low risk)	1,129,887	(320,758)	(809,129)	0
Transfers to ECL lifetime (significant risk)	(76,212)	165,776	(89,564)	0
Transfers to ECL lifetime (default)	(83,919)	(470,991)	554,910	0
Net remeasurement of loss allowance	(826,854)	806,736	2,754,152	2,734,034
Allocation of reserve to new originated financial assets	326,119	107	224,359	550,585
Reversal of reserve due to derecognised assets	(89,381)	(54,403)	(212,616)	(356,400)
Loans written off	0	0	(2,788)	(2,788)
Recoveries	0	0	258,374	258,374
Balance as of March 31, 2020	9,922,133	1,705,295	15,397,558	27,024,986
Financial institution loans				
Beginning balance	341,813	0	0	341,813
Net remeasurement of loss allowance	(19,343)	0	0	(19,343)
Allocation of reserve to new originated financial assets	120,916	0	0	120,916
Reversal of reserve due to derecognised assets	(723)	0	0	(723)
Balance as of March 31, 2020	442,663	0	0	442,663
Public Sector Loans				
Beginning balance	348,224	0	0	348,224
Net remeasurement of loss allowance	(103)	0	0	(103)
Balance as of March 31, 2020	348,121	0	0	348,121

(4) Financial Risk Management, continued

	December 31 2019			
	Low risk	Significant risk	Default risk	Total
Deposits at amortized cost				
Beginning balance	47,724	0	0	47,724
Allocation of reserve to new originated financial assets	12,040	0	0	12,040
Net remeasurement of loss allowance	155,980	0	0	155,980
Reversal of derecognised assets	(76,851)	0	0	(76,851)
Balance as of December 31, 2019	138,893	0	0	138,893
Investments in securities at amortized cost				
Beginning balance	4,386,163	0	0	4,386,163
Net remeasurement of loss allowance	(1,470,886)	0	0	(1,470,886)
Allocation of reserve to new purchased financial assets	1,062,736	0	0	1,062,736
Reversal of reserve due to derecognised assets	(818,520)	0	0	(818,520)
Balance as of December 31, 2019	3,159,493	0	0	3,159,493
Corporate Loans				
Beginning balance	15,364,658	4,388,947	12,519,024	32,272,629
Transfers to 12-month ECL (low risk)	3,710,299	(2,394,618)	(1,315,681)	0
Transfers to ECL lifetime (significant risk)	(1,531,753)	6,312,467	(4,780,714)	0
Transfers to ECL lifetime (default)	(90,453)	(3,614,043)	3,704,496	0
Net remeasurement of loss allowance	(1,243,422)	4,508,366	5,860,962	9,125,906
Allocation of reserve to new originated financial assets	3,810,413	460,660	1,480,836	5,751,909
Reversal of reserve due to derecognised assets	(3,174,352)	(562,542)	(4,192,471)	(7,929,365)
Loans written off	0	0	(2,090,112)	(2,090,112)
Recoveries	0	0	1,255,693	1,255,693
Balance as of December 31, 2019	16,845,390	9,099,237	12,442,033	38,386,660
Consumer Loans				
Beginning balance	10,859,508	836,576	8,271,767	19,967,851
Transfers to 12-month ECL (low risk)	3,392,922	(957,259)	(2,435,663)	0
Transfers to ECL lifetime (significant risk)	(236,115)	1,089,477	(853,362)	0
Transfers to ECL lifetime (default)	(209,602)	(1,068,427)	1,278,029	0
Net remeasurement of loss allowance	(5,201,189)	1,860,433	6,801,105	3,460,349
Allocation of reserve to new originated financial assets	1,422,782	3,867	220,155	1,646,804
Reversal of reserve due to derecognised assets	(485,813)	(185,839)	(526,160)	(1,197,812)
Loans written off	0	0	(1,286,155)	(1,286,155)
Recoveries	0	0	1,250,144	1,250,144
Balance as of December 31, 2019	9,542,493	1,578,828	12,719,860	23,841,181
Financial institution loans				
Beginning balance	439,785	0	0	439,785
Net remeasurement of loss allowance	(97,972)	0	0	(97,972)
Balance as of December 31, 2019	341,813	0	0	341,813
Public Sector Loans				
Beginning balance	927,727	0	0	927,727
Net remeasurement of loss allowance	(397,994)	0	0	(397,994)
Reversal of reserve due to derecognised assets	(181,509)	0	0	(181,509)
Balance as of December 31, 2019	348,224	0	0	348,224

(4) Financial Risk Management, continued

Market Risk

The table below summarizes the Bank's exposure to interest rate risk. The Bank's assets are included in the table at their carrying values, classified by categories, based on the earlier of contractual repricing date or maturity dates. Financial assets and liabilities that do not have contractual fixed returns are excluded.

	March 31, 2020					
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Interest receivable/ payable	Total
Assets:						
Time deposits in banks	2,118,215,000	0	0	0	3,665,981	2,121,880,981
Securities purchased under resale agreements	48,600,435	0	0	0	168,454	48,768,889
Investments in securities	708,598,600	778,380,663	507,617,805	713,309,846	21,488,665	2,729,395,579
Loans and interest receivable, gross balance	753,502,755	446,645,697	279,925,651	3,094,573,723	31,707,866	4,606,355,692
Total	3,628,916,790	1,225,026,360	787,543,456	3,807,883,569	57,030,966	9,506,401,141
Liabilities:						
Savings deposits	703,507,853	0	0	0	0	703,507,853
Time and restricted deposits	3,670,714,774	292,823,502	118,356,207	445,081,146	5,284,680	4,532,260,309
Borrowings received	50,000,000	0	0	0	35,369	50,035,369
Securities sold under repurchase agreement	101,172,467	0	0	0	42,154	101,214,621
Bonds Payable	0	0	0	205,736,000	480,051	206,216,051
Total	4,525,395,094	292,823,502	118,356,207	650,817,146	5,842,254	5,593,234,203
Net interest sensitivity margin	(896,478,304)	932,202,858	669,187,249	3,157,066,423	51,188,712	3,913,166,938

	December 31, 2019					
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Interest receivable/ payable	Total
Assets:						
Time deposits in banks	2,969,300,000	0	0	0	4,522,442	2,973,822,442
Securities purchased under resale agreements	67,943,909	0	0	0	619,356	68,563,265
Investments in securities	806,883,527	851,944,386	538,031,505	716,050,564	22,698,677	2,935,608,659
Loans and interest receivable, gross balance	520,253,256	623,786,279	282,372,584	3,032,977,620	29,488,660	4,488,878,399
Total	4,364,380,692	1,475,730,665	820,404,089	3,749,028,184	57,329,135	10,466,872,765
Liabilities:						
Savings deposits	709,752,928	0	0	0	0	709,752,928
Time and restricted deposits	4,427,166,008	321,616,092	106,604,883	473,744,975	4,402,023	5,333,533,981
Bonds Payable	0	0	0	205,736,000	480,051	206,216,051
Borrowing received	50,000,000	0	0	0	3,818	50,003,818
Total	5,186,918,936	321,616,092	106,604,883	679,480,975	4,885,892	6,299,506,778
Net interest sensitivity margin	(822,538,244)	1,154,114,573	713,799,206	3,069,547,209	52,443,243	4,167,365,987

The interest rate risk position is managed directly by the Bank's Treasury, which uses instruments such as investments in securities, deposits in banks and deposits from banks to manage the general position of the Bank's activities.

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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. Estimates and assumptions are evaluated periodically and are based on historical experience and other factors, including expectations of future events, believed to be reasonable under the circumstances. Any changes in assumptions or criteria may significantly affect the estimates.

(a) Impairment losses on loans

The Bank reviews its loan portfolio at each reporting date to determine if there is impairment in a loan or loan portfolio that should be recognized in profit or loss of the year. In determining whether an impairment loss should be recorded in the condensed statement of profit or loss, the Bank makes decisions as to whether there is observable information indicating that there is a reduction in the value of the loan that can be measured in the estimated future cash flows of the loans.

This evidence includes observable information indicating that there has been an adverse change in the payment condition of borrowers or economic conditions that correlate with defaults on loans in the Bank. The methodology and assumptions used to estimate the amount and timing of future cash flows are regularly reviewed to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of investment instruments

The Bank determines that investments in securities are impaired when there has been a significant or prolonged decline in fair value below cost. This determination of what is a significant or prolonged decline requires judgment.

In addition, impairment may be considered when there is evidence of a deterioration in the financial health of the issuer, in the performance of the industry and sector, due to changes in technology and in its operating and financial cash flows.

(c) Fair value

For investment instruments listed on active markets, the fair value is determined by the instrument's reference price published on stock exchanges and stock exchange electronic systems. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data. These techniques include discounted future cash flow analyses and other valuation techniques commonly used by market participants. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

(d) Foreclosed assets of borrowers

Foreclosed properties that are impaired are reserved as such impairment occurs.

(6) Cash and Cash Equivalents

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

	March 31, 2020	December 31, 2019
Cash and cash equivalents	444,165,155	219,898,465
Demand deposits	120,519,665	75,972,323
Time deposits	2,118,215,000	2,969,300,000
Total gross cash, cash equivalents and deposits with banks in the condensed statement of financial position, excluding interest receivable	2,682,899,820	3,265,170,788
Less: Time deposits in banks with original maturities over 90 days	150,000,000	150,000,000
Total cash and cash equivalents in the condensed statement of cash flows:	2,532,899,820	3,115,170,788

As of March 31, 2020, the Bank maintains a reserve for expected losses on deposits in banks of B/.102,845 (December, 31, 2019: B/. 138,893).

(7) Securities Purchased under Resale Agreements

At March 31, 2020 and December 31, 2019, the Bank holds securities purchased under resale agreements as follows:

Maturity Date	Interest Rate Libor	Interest Rate Margin	Collateral	March 31, 2020	December 31, 2019
01/20/2020	9 months	1.50%	Local corporate bonds	0	1,892,800
01/20/2020	9 months	1.50%	Local corporate bonds	0	6,606,709
01/30/2020	6 months	1.25%	Republic of Panama Global Bond	0	5,040,000
02/12/2020	6 months	1.25%	Local corporate bonds	0	1,600,000
02/12/2020	6 months	1.25%	Local corporate bonds	0	6,400,000
02/19/2020	3 months	1.50%	Local corporate bonds	0	3,600,000
02/19/2020	3 months	1.50%	Local corporate bonds	0	1,600,000
02/27/2020	3 months	1.50%	Local corporate bonds Vcn's	0	2,320,000
03/13/2020	5 months	1.00%	Local corporate bonds	0	5,956,800
03/13/2020	5 months	1.00%	Local corporate bonds	0	8,519,600
03/13/2020	5 months	1.00%	Local corporate bonds	0	4,000,000
03/13/2020	5 months	1.00%	Local corporate bonds	0	2,800,000
03/13/2020	5 months	1.00%	Local corporate bonds	0	5,672,000
06/12/2020	6 months	1.25%	Local corporate bonds	2,728,000	2,728,000
06/12/2020	6 months	1.25%	Local corporate bonds	432,000	432,000
06/12/2020	6 months	1.25%	Local corporate bonds	2,376,000	2,376,000
06/12/2020	6 months	1.25%	Local corporate bonds	6,400,000	6,400,000
07/28/2020	6 months	1.25%	Local corporate bonds	5,040,000	0
08/10/2020	6 months	1.25%	Local corporate bonds	1,600,000	0
08/10/2020	6 months	1.25%	Local corporate bonds	6,400,000	0
09/09/2020	6 months	1.25%	Letters of Republic of Panama	878,670	0
09/09/2020	6 months	1.25%	Notes from the Republic of Panama	457,875	0
09/09/2020	6 months	1.25%	Notes from the Republic of Panama	1,676,700	0
09/09/2020	6 months	1.25%	Local corporate bonds	673,274	0
09/25/2020	6 months	1.25%	Local corporate bonds	2,400,000	0
09/25/2020	6 months	1.25%	Local corporate bonds	3,750,000	0
09/25/2020	6 months	1.25%	Local corporate bonds	3,787,916	0
09/28/2020	6 months	1.25%	Notes from the Republic of Panama	10,000,000	0
			Gross subtotal	48,600,435	67,943,909
			Interest receivable	168,454	619,356
				48,768,889	68,563,265

These securities purchased under resale agreements are held with local financial institutions with a credit risk rating between BBB and A+.

(8) Investments in Securities

The detail and classification of investments in securities is as follows:

	March 31, 2020		
	FVOCI	**AC**	**Total**
Public debt securities	0	1,494,580,350	1,494,580,350
Private debt securities	0	1,213,326,564	1,213,326,564
Private equity shares	6,983,708	0	6,983,708
Subtotal	6,983,708	2,707,906,914	2,714,890,622
Interest receivable	0	21,488,665	21,488,665
Loss reserve	0	(3,014,851)	(3,014,851)
Balance of investments in securities	6,983,708	2,726,380,728	2,733,364,436

	December 31, 2019		
	FVOCI	**AC**	**Total**
Public debt securities	0	1,539,599,965	1,539,599,965
Private debt securities	0	1,373,310,017	1,373,310,017
Private equity shares	9,185,897	0	9,185,897
Subtotal	9,185,897	2,912,909,982	2,922,095,879
Interest receivable	0	22,698,677	22,698,677
Loss reserve	0	(3,159,493)	(3,159,493)
Balance of investments in securities	9,185,897	2,932,449,166	2,941,635,063

Equity investments at fair value with changes in other comprehensive income as of March 31, 2020, recorded a net unrealized loss of B/.2,202,189 as a result of the net change in fair value (December 31, 2019: net unrealized gain: B/.2,853,845).

As of March 31, 2020, the Bank received dividends on private equity investments of B/.93,956 (March 31,2019: B/.36,954).

As of March 31, 2020, the Bank sold securities at amortized cost for B/.59,093,154 (March 31, 2019: the Bank did not sell securities at amortized cost obtaining net realized gains of B/.1,510,291 included in the condensed statement of profit or loss). The sales made were circumstantial and does not affects the business model adopted by the Bank.

As of March 31, 2020, securities at amortized cost were redeemed for B/.290,984,282 (March 31, 2019: B/.114,057,398).

As of March 31, 2020, the Bank maintains a reserve for expected credit losses on investments in securities at amortized cost of B/.3,014,851 (December 31, 2019: B/.3,159,493).

(9) Loans

The distribution by economic activity of the loan portfolio, net of the allowance for loan losses and unearned interest and commissions, is summarized below:

	March 31, 2020	December 31, 2019
Public sector, gross	310,545,198	310,636,844
Private sector, gross:		
Residential mortgages	1,367,414,512	1,307,682,597
Personal	1,162,435,814	1,155,535,117
Agricultural	619,379,367	621,617,729
Commercial	746,867,619	809,093,331
Financial institutions	317,425,520	203,946,559
Industrials	49,958,545	50,354,977
Overdrafts	621,251	522,585
Total gross private sector	4,264,102,628	4,148,752,895
Total gross loans	4,574,647,826	4,459,389,739
More (less):		
Accrued interest receivable	31,707,866	29,488,660
Reserve for loan losses	(68,999,096)	(62,917,878)
Interest and unearned commissions	(26,788,733)	(26,954,325)
Loans at amortized cost	4,510,567,863	4,399,006,196

As of March 31, 2020, non-cash transactions were carried out for purposes of the statement of cash flows, due to the cancellation of the Amador Foundation loan, through Public Debt Securities of the Republic of Panama for B/.61,626,600.

(10) Leases

As a Leaseholder

The Bank leases 5 types of real estate: Administrative offices and bank branches, ATM´s space, warehouses/deposits, galleries, parking lots/land, multifunctionals/printers. Below is the information of the leases in which the Bank is a leaseholder:

Right-of-use assets

March 31, 2020	Administrative Offices and Bank Branches	ATM's space	Parking lots/ Land	Galleries, Storage Warehouses	Multifunctionals/ Printers	Total
Beginning balance	3,513,062	59,206	986	139,704	142,850	3,855,808
Early cancelation	(34,233)	0	0	0	0	(34,233)
Depreciation for the period	(184,158)	(2,180)	(246)	(32,398)	(53,569)	(272,551)
Balance as of march 31, 2020	3,294,671	57,026	740	107,306	89,281	3,549,024

The Bank decided to take the option of total termination of a lease, which ended on December 31, 2019, the decision, is due to relocation of the offices to another location. Termination is established in the contract where either party may terminate within a 30 calendar days written notice.

December 31, 2019	Administrative Offices and Bank Branches	ATM's space	Parking lots/ Land	Galleries, Storage Warehouses	Multifunctionals / Printers	Total
Balance as of January 1, 2019	2,514,099	0	0	269,292	347,376	3,130,767
Additions	1,657,743	61,876	1,151	0	4,874	1,725,644
Depreciation for the year	(658,780)	(2,670)	(165)	(129,588)	(209,400)	(1,000,603)
Balance as of December 31, 2019	3,513,062	59,206	986	139,704	142,850	3,855,808

Lease Liabilities

Maturity analysis - Undiscounted contractual cash flows

	March 31, 2020	December 31, 2019
Less than one year	296,559	178,297
One to five years	506,764	857,920
More than five years	3,575,084	3,682,455
Total undiscounted lease liabilities at march 31, 2020	4,378,407	4,718,672
Lease liability included in condensed statement of financial position at March 31, 2020	3,649,263	3,939,119

In measuring the lease liabilities, the Bank discounted the lease payments using its incremental interest rate. As of March 31, 2020, the weighted average rate applied is 5.22% (December 31, 2019: 5.22%).

(10) Leases, continued

Amount recognized in the condensed statement of profit or loss

	March 31, 2020	March 31, 2019
Interest expense on lease liabilities	49,474	39,793
Expenses related to short-term leases	117,919	301,612

Amounts recognized in the condensed statement of cash flows

	March 31, 2020	March 31, 2019
Total cash outflow from leases, net	471,657	593,570

As of March 31, 2020 total lease cash recognized in the condensed statement of cash flow includes the portion of the payment to principal as a financing activity for B/.304,264 (March 31, 2019 B/.252,165), the portion of interest for B/.49,474 (March 31, 2019 B/.39,793) and the portion of short-term leases for B/.117,919 (March 31, 2019 B/.301,612) as an operating activity.

(a) Real estate leases

The Bank leases buildings in which it has its administrative offices and branches. Office leases are normally executed for a period of 2 to 7 years and branch leases for 2 to 15 years, except for certain branch and ATM space leases. Some leases include an option to renew the lease for an additional period of the same duration after the end of the lease term.

Extension Options

The lease of the premises for the branch in San Felipe contains an option to extend the term for equal periods that can be automatically extended. Where possible, the Bank seeks to include extension options in new leases to provide operational flexibility. Extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at the outset of the lease whether it is reasonably certain that it will exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

(b) Other leases

The Bank also leases IT infrastructure such as data center services for different business areas, as well as multifunctional printers and equipment and space for the management of radio stations. These contracts are normally agreed for terms of 1 to 2 years; they do not contain a clause that determines an option for extension of the term, however, renegotiation is highly probable.

(10) Leases, continued

As mentioned in the previous paragraph, the Bank has certain leases of premises for offices and bank branches, space for ATM's, galleries, storage/deposits, technology/communications, whose terms can vary between 1 and 3 years, which have been included in the classification as short-term and/or low value leases. IFRS 16. C10 (C), which allows the requirements of paragraph C8 to be waived for leases that terminate within 12 months of the initial application date. The Bank has decided to adopt the practical solution described in IFRS 16.6, which allows the lessee to recognize lease payments associated with such contracts as an expense on a straight-line basis over the term of the lease.

(c) Depreciation by type of underlying asset

During the three-month period, the Bank depreciated the following amounts by asset class:

Type of Asset	March 31, 2020	March 31, 2019
Bank Branches / Administrative Offices	184,158	145,640
ATM's spaces	2,180	0
Parking lots / Land	246	0
Galleries, Storage / Warehouses	32,398	32,397
Multifunctional / Printers / Services Data Transmission	53,569	52,106
Total	272,551	230,143

(11) Other Assets

Borrowers' foreclosed assets

The foreclosed assets of borrowers correspond to real estate that guaranteed loans, and whose guarantee was foreclosed and awarded to the Bank. Management expects to recover the written-off balance of principal and interest through the sale of these properties.

The foreclosed assets of borrowers are detailed as follows:

	March 31, 2020	December 31, 2019
Foreclosed assets of borrowers	10,977,373	11,707,097
Impairment reserve	(3,093,622)	(3,208,603)
Net balance	7,883,751	8,498,494

(11) Other Assets, continued

The movement of the impairment reserve of borrower's foreclosed assets is detailed below:

	March 31, 2020	December 31, 2019
Balance at the beginning of the period	3,208,603	9,319,799
Provision for valuation of foreclosed assets	26,292	701,993
Discharged assets	(141,273)	(6,813,189)
Balance at end of year	3,093,622	3,208,603

As of March 31, 2020, the Bank made sales of foreclosed assets from borrowers for B/.349,195 (March 31, 2019: B/.82,848), with a gain of B/.218,863 (March 31, 2019: B/.10,201).

The other miscellaneous assets are detailed as follows:

	March 31, 2020	December 31, 2019
Numismatic and other currencies	2,581,553	2,584,906
Financing program ("Profinco")	601,804	612,967
Printing and supplies	2,770,953	2,220,169
Account receivable - FECI grant	4,627,363	3,688,102
Other remittances and transfers in transit	6,122,931	1,825,330
Prepaid expenses and insurance	559,823	557,671
Cultural property	259,092	260,239
Cash withdrawals to be compensated – Clave Debit Card	406,217	1,232,012
Insurance receivable on loans	346,054	300,142
Balance of loans receivable through life insurance policies	1,151,359	1,124,243
Others	3,900,644	2,347,665
	23,327,793	16,753,446

(12) Obligations

Foreign Borrowing Received

As of March 31, 2020, the Bank maintains a foreign borrowing received, gross, for B/.50,000,000 maturing on September 18, 2020 at an interest rate of 2.83% (December 31, 2019: B/.50,000,000 at a rate of 2.75%). As of March 31, 2020, interest payable amounts to B/.35,369 (December 31, 2019: B/.3,818.).

Securities sold under repurchase agreement

The Bank as of March 31, 2020, maintains obligations as a result of securities sold under repurchase agreements, which amount to B/.101,172,467 maturing on September 22, 2020, at an interest rate of 2.50%. These securities are guaranteed with investment values of B/.105,205,000. As of March 31, 2020, the interest payable amounts to B/.42,154.

(12) Obligations, continued

Bonds Payable
Revolving Bonds:

Type	Interest Rate	Maturity	March 31, 2020	December 31, 2019
Series D – Issuance on September 2019	3.00%	Sep- 29	205,736,000	205,736,000

The bonds in this issunce are backed by the Bank's general credit and constitute general obligations of the Bank, not secured by specific assets or rights and without special privileges. Interest is payable quarterly and payment of principal at maturity. The bonds may be redeemed in advance by the Bank. As of March 31, 2020, interest payable amounts to B/.480,051 (December 31, 2019: B/.480,051).

The following is a detail of the movement in the obligations payable for the purpose of reconciliation with the cash flows statement condensed:

	March 31, 2020	December 31, 2019
Balance at the beginning of the period	256,219,869	35,198,829
Proceeds from new borrowings received	50,000,000	150,000,000
Payments of borrowings received	(50,000,000)	(135,000,000)
Securities sold under repurchased agreements	101,172,467	0
Issuance of bonds payable	0	205,736,000
Interest paid	(1,674,723)	(2,525,755)
Recognition of interests	1,748,428	2,810,795
Balance at the end of the period	357,466,041	256,219,869

(13) Commitments and Contingencies

In the normal course of its operations, the Bank maintains financial instruments with risks outside the condensed statement of financial position to meet the financial needs of its clients. These financial instruments include letters of credit, guarantees issued and promises to pay and involve, to various degrees, elements of credit risk.

Commercial letters of credit, guarantees and endorsements issued on behalf of customers and promises of payment involve some element of risk of loss in the event of customer default, net of the tangible guarantees covering these transactions. The Bank's policies and procedures for granting these contingent credits are similar to those used for extending loans. Management does not anticipate that the Bank will incur material losses resulting from these contingent credits granted for the benefit of customers.

(13) Commitments and Contingencies, continued

The financial instruments outside the condensed statement of financial position, which are subject to credit risk, are presented below.

	March 31, 2020	December31, 2019
Letters of credit	11,200,082	6,173,094
Guarantees and endorsements given	0	0
Payments pledges	457,861,492	462,941,715
Loan commitments	21,212,696	18,019,161
	490,274,270	487,133,970

As of March 31, 2020, there were lawsuits filed against Banco Nacional de Panamá for the amount of B/.1,326,909,303 (December 31, 2019: B/.1,326,859,031).The Bank's management and attorneys believe that there is a high possibility that the Bank will not be sentenced to pay the total amount claimed. As of March 31, 2020, the Bank maintains a provision of B/.49,484 (December 31,2019: B/.49,484) in connection with court cases. In relation to the claim for B/.1,268,704,177, management, based on the opinion of the external lawyers in charge of the case, considers that there is a high probability of a judgment in favor of the Bank, and therefore it is not deemed necessary to make provisions in respect of this process.

(14) Fees for Banking Services

The breakdown of the most significant fees for banking service revenues reconciled to the reportable segments in Note 15 is as follows:

	March 31, 2020						
	Corporate and Commercial	Agriculture and Forestry	Consumer	Financial Institutions	Government Sector	Treasury	Total
Letters of Credit	3,264	3,439	13,333	1,060	939	2,516	24,551
Transfers	19,169	20,200	78,315	6,229	5,513	424	129,850
Card Services	345,910	364,510	1,413,181	112,397	99,483	0	2,335,481
Fund management, custody and brokerage	43,197	45,520	176,478	14,036	12,423	155,508	447,162
Current accounts	26,849	28,292	109,687	8,724	7,722	388,343	569,617
Savings accounts	140	148	572	45	40	0	945
Government services	14,789	15,585	60,420	4,806	4,253	0	99,853
Guarantee certificates and cashier's checks	20,647	21,757	84,349	6,709	5,938	8	139,408
National stamps	266	281	1,088	87	77	0	1,799
Clearinghouse services	139,155	146,637	568,502	45,216	40,021	0	939,531
Others	13,891	14,638	56,752	4,514	3,995	155,958	249,748
Total baking services fees (see note 15)	627,277	661,007	2,562,677	203,823	180,404	702,757	4,937,945

(14) Fees for Banking Services, continued

	March 31, 2019						
	Corporate and Commercial	Agriculture and Forestry	Consumer Consumo	Financial Institutions	Government Sector	Treasury	Total
Letters of Credit	1,844	2,132	7,492	714	1,241	0	13,423
Transfers	20,219	23,369	82,131	7,833	13,608	0	147,160
Card Services	303,693	351,017	1,233,644	117,656	204,396	140	2,210,546
Fund management, custody and brokerage	53,605	61,959	217,752	20,768	36,078	92,903	483,065
Current accounts	27,337	31,597	111,046	10,591	18,399	6,043	205,013
Savings accounts	218	252	887	85	147	0	1,589
Government services	21,065	24,348	85,570	8,161	14,178	0	153,322
Guarantee certificates and cashier's checks	21,594	24,959	87,720	8,366	14,534	16	157,189
National stamps	266	307	1,080	103	179	0	1,935
Clearinghouse services	2,679	3,096	10,881	1,038	1,803	308,423	327,920
Others	13,369	15,452	54,307	5,179	8,998	124,525	221,830
Total baking services fees (see note 15)	465,889	538,488	1,892,510	180,494	313,561	532,050	3,922,992

(15) Segment Information

Management has established the reportable segments according to the line of business to which the customers belong. These segments offer various products and services and are managed separately based on the Bank's organizational structure. Segment information is presented below.

	March 31,2020						
Detail	Corporate and Commercial	Agrocultural and Forestry	Consumer	Financial Institutions	Government sector	Treasury	Total
Interest and fee income	9,020,627	9,505,673	36,852,871	2,931,095	2,594,320	35,447,144	96,351,730
Interest expenses	(3,318,323)	(3,496,751)	(13,556,675)	(1,078,231)	(954,345)	0	(22,404,325)
Reversal of losses on bank deposits	0	0	0	0	0	36,048	36,048
Reversal of provision for investment losses	0	0	0	0	0	144,642	144,642
Provision for loan losses	(979,853)	(828,538)	(3,384,186)	(511,474)	0	0	(5,704,051)
Reversal of valuation of foreclosed assets	0	(6,400)	32,692	0	0	0	26,292
Fees for banking services	627,277	661,007	2,562,677	203,823	180,404	702,757	4,937,945
Other income	759,086	799,902	3,101,169	246,651	218,312	0	5,125,120
General, administrative and other expenses	(4,924,511)	(5,189,305)	(20,118,597)	(1,600,134)	(1,416,283)	(509,670)	(33,758,500)
Net income	1,184,303	1,445,588	5,489,951	191,730	622,408	35,820,921	44,754,901
Segment assets	716,041,383	605,465,770	2,473,041,299	373,766,348	942,303,327	5,024,431,125	10,135,049,252
Segment liabilities	1,288,449,434	1,089,478,971	4,450,006,295	672,557,552	1,695,586,619	0	9,196,078,871

	March 31,2019						
Detail	Corporate and Commercial	Agrocultural and Forestry	Consumer	Financial Institutions	Government sector	Treasury	Total
Interest and fee income	8,172,958	9,446,539	33,199,771	3,166,354	5,500,702	34,365,681	93,852,005
Interest expenses	(3,002,751)	(3,470,666)	(12,197,623)	(1,163,321)	(2,020,962)	0	(21,855,323)
Provision for losses on bank deposits	0	0	0	0	0	(55,251)	(55,251)
Reversal of provision for investment losses	0	0	0	0	0	186,727	186,727
Provision for loan losses	(279,756)	(241,971)	(932,317)	(106,054)	0	0	(1,560,098)
Provision for valuation of foreclosed assets	0	0	15,683	0	0	0	15,683
Fees for banking services	465,889	538,488	1,892,510	180,494	313,561	532,050	3,922,992
Other income	479,573	554,304	1,948,097	185,795	322,771	0	3,490,540
General, administrative and other expenses	(4,532,205)	(5,238,452)	(18,410,491)	(1,755,859)	(3,050,341)	(515,724)	(33,503,072)
Net income	1,303,708	1,588,242	5,515,630	507,409	1,065,731	34,513,483	44,494,203
Segment assets	670,415,557	579,867,822	2,234,233,852	254,149,965	1,427,925,220	4,209,572,105	9,376,164,521
Segment liabilities	1,105,664,117	956,330,796	3,684,747,724	419,149,725	2,354,965,753	0	8,520,858,115

(16) Balances and Transactions with Related Parties

The Bank has incurred in transactions in the ordinary course of business with certain related parties such as key management personnel and government entities, including autonomous and semi-autonomous entities. Given the Bank's government-owned nature and its role as a financial agent of the government and official depository of the nation's funds, significant concentrations of loans and deposits received from government entities are maintained. At December 31, 2019, the following were the aggregate balances in respect of transactions with related parties:

	Directors and Key Management Personnel		Government sector	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Assets				
Investments in securities at amortized cost	0	0	1,375,361,466	1,292,147,211
Loans:				
Loans outstanding at beginning of year	1,809,885	2,091,314	310,636,844	464,327,629
Loans issued during the year	550,887	558,480	0	687,646,130
Loans cancelled during the year	(822,131)	(839,909)	(91,646)	(841,336,915)
Gross Balance	1,538,641	1,809,885	310,545,198	310,636,844
Accrued interest receivable	606	1,046	3,719,772	1,255,363
Loans outstanding at end of period at amortized cost	1,539,247	1,810,931	314,264,270	311,892,207
Fiscal credit from preferential interest on loans	0	0	26,152,096	18,852,202
Liabilities				
Deposits at amortized cost:				
Demand deposits	4,636	13,127	2,292,510,230	2,473,131,465
Savings deposits	261,026	513,265	0	0
Time deposits	0	0	4,045,086,137	5,038,158,036
Restricted deposits	0	0	8,205,492	6,746,523
Bonds payable at amortized cost	0	0	206,216,051	206,216,051
Commitments:				
Letters of credit	0	0	8,015,492	6,566,523

	March 31 2020	March 31 2019	March 31 2020	March 31 2019
Profit and Loss				
Interest and commission income:				
Investments in securities	0	0	12,671,210 0	10,295,451
Loans	12,770	18,455	2,585,067	5,502,841
Interest expenses:				
Deposits	416	385	16,572,561	18,258,332
General and administrative expenses:				
Directors' allowances	60,250	68,000	0	0
Salaries	664,076	711,009	0	0
Employee Benefits	42,003	42,874	0	0

The Bank's group of directors and key management personnel consists of 9 directors and 31 executive managers.

(16) Balances and Transactions with Related Parties, continued

Loans to key management personnel are granted with the same terms and conditions that are available to other employees. As of March 31, 2020, loans granted to related parties have been classified as low risk and they maintain an allowance for expected credit losses of B/.351,387 (December 31,2019: B/.352,086).

(17) Assets under administration and custody

As of March 31, 2020, the Bank held under administration trust agreements contracts by account and risk of third parties for B/.2,990,344,648 (December 31, 2019: B/.2,935,732,982).Given the nature of these services, management considers that the Bank does not assume significant risks in the execution of the terms and conditions contained in those contracts.

The Bank currently has a trust agreement with Balboa Bank & Trust and Balboa Securities, Corp. as Trustee. This trust, hereinafter the Balboa-Liabilities Trust, consists of the custody of the assets in trust, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and patrimonial separation of the assets in trust.

The Bank has a trust agreement with Felix B. Maduro, S. A. and Grupo Cima Panama, S. A. (the trustors), who transferred to the Bank (as Trustee) the ownership of the shares of certain companies. Notwithstanding the foregoing, the management and control of these companies is not under the administration of the Trustee, but of a Board of Directors. The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks in the execution of the terms and conditions contained in these contracts.

The Bank has a trust agreement with Leemart Property, Ltd. (the Settlors), who transferred ownership of Westline Enterprises, Inc. shares to the Bank (as Trustee). (the owner of the Soho Mall) to the Bank (as Trustee). The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks in the execution of the terms and conditions contained in these contracts.

The Bank provides securities brokerage and custody services. This activity is carried out under a securities firm license, at the clients' risk. As at March 31, 2020 the carrying value of this portfolio amounted to approximately B/.5,064,160,498 (December 31, 2019 B/.5,168,999,705) and is controlled in off-balance accounts that are not part of the Bank's statement of financial position. Given the nature of these services, management considers that there is no significant risk of loss to the Bank in the provision of such services.

(17) Assets under administration and custody, continued

As of March 31, 2020, the Bank obtained income from commissions earned from trust activities for B/.80,088 (March 31, 2019: B/.82,570), brokerage and custody services for B/.534,750 (March 31, 2019: B/123,491) and securities services for B/.155,508 (March 31, 2019: B/.92,903) During 2020, the Bank incurred financial services expenses for B/.206,496 (March 31, 2019: B/.165,550).

Banco Nacional de Panamá does not have a portfolio under discretionary management of third-party accounts.

(18) 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's price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that are not frequently traded and for which there is little availability of pricing information, fair value is less objective, and its determination requires the use of varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

- Level 1: prices quoted (unadjusted) in active markets for identical assets or liabilities that are accessible to the Bank's management at the measurement date.

- Level 2: input data other than quoted prices included in Level 1 that are observable, either directly (i.e., prices) or indirectly (i.e., determined on the basis of prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques where significant input data are directly or indirectly observable in a market.

- Level 3: this category covers all instruments where valuation techniques include unobservable inputs and have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable assumptions or adjustments reflect the difference between the instruments.

Other valuation techniques include net present value, discounted cash flow models, comparisons with similar instruments for which there are observable market prices, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free reference rates, credit spreads and other assumptions used in estimating discount rates and share prices.

(18) Fair Value for Financial Instruments, continued

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or transfer the liability between market participants would occur at the date of measurement under current market conditions.

The fair value and carrying amount of financial assets and liabilities are detailed as follows:

	March 31, 2020	
	Carrying Value	Fair Value
Financial assets:		
Time deposits at AC	2,121,778,136	2,121,880,981
Investments in securities at AC	2,726,380,728	2,772,156,813
Investments in securities at FVOCI	6,486,240	6,486,240
Loans at AC	4,510,567,863	4,100,622,936
	9,365,212,967	9,001,146,970
Financial liabilities:		
Time deposits at AC	4,457,875,165	4,420,105,081
Bonds payable	206,216,051	206,008,394
	4,664,091,216	4,626,113,475

	December 31, 2019	
	Carrying Value	Fair Value
Financial assets:		
Time deposits at AC	2,973,683,549	2,973,822,442
Investments in securities at AC	2,932,449,166	3,018,861,723
Investments in securities at FVOCI	8,688,429	8,688,429
Loans at AC	4,399,006,196	3,994,287,323
	10,313,827,340	9,995,659,917
Financial liabilities:		
Time deposits at AC	5,264,482,954	5,209,694,340
Bonds payable	206,216,051	205,771,592
	5,470,699,005	5,415,465,932

As of March 31, 2020, the Bank holds equity securities for B/.497,468 (December 31, 2019: B/.497,468), recorded at its acquisition cost. These investments are maintained at cost because no active market prices are available and there is no other reliable way to determine its fair value.

(18) Fair Value for Financial Instruments, continued

The following table analyses financial instruments measured at fair value on a recurring basis. These instruments are classified at different levels of the fair value hierarchy based on the data input and valuation techniques used:

March 31, 2020	Fair Value Level 1	Level 2	Total
Investments in securities at FVOCI:			
Equity shares	5,555,354	930,886	6,486,240
	5,555,354	930,886	6,486,240

December 31, 2019	Fair Value Level 1	Level 2	Total
Investments in securities at FVOCI:			
Equity shares	7,813,377	875,052	8,688,429
	7,813,377	875,052	8,688,429

For investment instruments in securities that are quoted in active markets, the fair value is determined by the instrument's reference price published on stock exchanges, in electronic stock information systems, or provided by price providers. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data.

The following table analyzes the fair value of financial instruments that are not carried at fair value, classified by level, as follows:

Description	March 31, 2020 Level 2	Level 3	December 31, 2019 Level 2	Level 3
Assets:				
Time deposits	0	2,121,880,981	0	2,973,822,442
Investments in securities at AC	2,772,156,813	0	3,018,861,723	0
Loans	0	4,100,622,936	0	3,994,287,323
	2,772,156,813	6,222,503,917	3,018,861,723	6,968,109,765
Llabilities:				
Time deposists	0	4,420,105,081	0	5,209,694,340
Bonds payable	0	206,008,394	0	205,771,592
	0	4,626,113,475	0	5,415,465,932

(18) Fair Value for Financial Instruments, continued

The table below describes the valuation techniques and inputs used in the valuation of financial assets and liabilities not measured at fair value that are classified in the fair value hierarchy within Level 2 and 3:

Financial Instruments	Valuation Technique and Data Inputs Used
Investments in securities at amortized cost - Public and private debt securities - local	Future cash flows discounted at current market rates for the term and type of instrument.
Investments in securities at amortized cost - Public and private debt securities - foreign	Observable market reference prices that are not active.
Loans at amortized cost	Future cash flows discounted at current market rates.
Time deposits placed with banks and received from customers at amortized cost	Future cash flows discounted using current market rates for new deposits with similar remaining maturities.
Bonds payable at amortized cost	Future cash flows discounted using current market interest rates for new financings with similar remaining maturities.

For customer demand deposits, customer savings deposits, and demand deposits at banks, foreign borrowings received, and securities purchased under resale agreements, the carrying value approximates fair value due to their short-term nature.

(19) Principal Applicable Laws and Regulations

General Laws and Regulations

(a) Banking Law

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of the Republic of Panama, pursuant to the regulations established in Executive Decree No.52 of April 30, 2008, which adopted the sole text of Decree Law 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, whereby establishing the banking system in Panama and creates the Superintendency of Banks and its regulations.

For purposes of compliance with the prudential norms issued by the Superintendency of Banks of Panama, the Bank will prepare an estimate of the regulatory credit reserve. If the regulatory calculation is greater than the corresponding estimate determined under IFRS, the excess reserve is recognized in a regulatory equity reserve.

(b) Securities Law

The securities market in the Republic of Panama is regulated by Law Decree No. 1 of July 8,1999, which has been modified by Law 67 of September 1, 2011.

(19) Principal Applicable Laws and Regulations, continued

In the year 2013, the regulatory entity issued Agreement No. 008-2013, which modified rules that are within Agreement No. 004-2011 on capital adequacy, total minimum required capital, solvency ratio, liquidity ratio and credit concentrations that must be attended by brokerage firms in Panama and those financial institutions that have a brokerage firm license.

The following is a description of the modified rules in the Agreement No. 008-2013 of the Superintendency of Securities Market and the indexes on each of these provisions:

- Total Minimum Required Capital: Banks with a brokerage firm license must constitute and maintain free of encumbrances, at all times, a total minimum required capital, which shall be the sum of the amounts of capital required for each license. The Superintendency of Banks of Panama requires a minimum capital of B/.10,000,000, and the Superintendency of the Securities Market requires a minimum capital of B/.350,000. The capital maintained by the Bank according to these criteria exceeds that total minimum required capital.

- Additional Capital Requirement: Article 4-A of Agreement No. 008-2013, establishes that all Brokerages firms that offer the service of managing custody accounts in physical form or through third parties, must comply with the additional capital requirement. As of March 31, 2020, the Bank had an additional capital requirement of B/.2,962,774 (As of December 31, 2019: B/.3,157,177).

  As of March 31, 2020, the capital contributed by the State for B/.650,000,000 covers the minimum total capital required and the additional capital requirement, required by the Superintendency of Banks of Panama and the Superintendency of Securities Market.

- Solvency Ratio: The brokerage houses must maintain at all times a minimum capital adequacy ratio of eight percent (8%) of the total assets and off balance sheet operations, weighted according to their risks. The calculation of the solvency ratio, should not include the customers' or third parties accounts that must be separated from the assets of the Brokerage House.

- Liquidity Ratio: Brokerage firms shall maintain, at all times a volume of investments in low risk and high liquidity assets that shall be at least thirty per cent (30%) of the total liabilities due with a residual term of less than one (1) year.

- Credit Risk Concentrations: The risks maintained by Brokerage firms with respect to an issuer, individual client or a group of issuers or clients related to each other, shall be considered as a concentration situation when the accumulated value of these risks exceeds ten percent (10%) of the total value of its capital funds.

(19) Principal Applicable Laws and Regulations, continued

Due to the nature of the operations and services provided by the Bank, management considers that there is no risk of concentration of credit risk.

(c) Trust Law

The exercise of the Trust business in the Republic of Panama is regulated by the Superintendency of Banks of Panama in accordance with the regulations established by Law No. 1 of January 5, 1984, as amended by Law No. 21 of May 10, 2017, which establishes the rules for the regulation and supervision of the trustee business and the trust business and dictates other provisions.

The objective of said law is to promote an appropriate and flexible legal platform to boost the trust market and maintain adequate levels of trust and transparency; the strengthening of management by the Superintendency in terms of the application of standards for comprehensive risk-based regulation and supervision, in accordance with the particular characteristics of the trust business.

The following is a summary of the most important aspects introduced by Law 21 of May 10, 2017:

- Composition of capital: Article 25 establishes that companies that are authorized to act as trustees shall issue shares representing their capital stock exclusively in nominative form.

- Minimum paid-in or assigned capital: Article 26 establishes that the minimum paid-in or assigned capital to apply for and maintain a trust license shall be one hundred and fifty thousand balboas (B/.150,000).

(d) Public Sector Employees Seniority Premium

Law 23 of May 12, 2017 includes a new right for public employees, by establishing that the permanent, transitory or contingent public employee, whatever the cause of termination of functions, will be entitled to receive a seniority bonus, at the rate of one week's salary for each year worked in the institution, from the beginning of the permanent relationship.

In addition, it is established that the right to the seniority premium will become effective upon the appointment of three judges to the Civil Service Administrative Tribunal.

As at the reporting date, only one of the three judges of the Civil Service Administrative Tribunal have been appointed, so the seniority premium requirement has not yet become effective and the corresponding liability has not been recorded. The liability to be recorded by the Bank to recognize the seniority premium for public servants will be approximately B/.15.4 million, according to evaluations and calculations made by management.

(19) Principal Applicable Laws and Regulations, continued

(e) By Law 3 of 1985, some mechanisms were established to stimulate the housing property market by applying preferential interest rates to mortgages loans with values that have been changing over time until the present. The preferential interest is the stretch between the reference rate and the lower rate applied by the banks that participate in the preferential interest program. Financial institutions that grant mortgage loans with preferential interest rates that do not exceed the limit established in the Law, receive the annual benefit of a fiscal credit. According to Law No. 8 of March 15, 2010 which repeals Article 6 of Law No. 3 of 1985, the benefit of the preferential interest of the first ten (10) years of the credit is increased to the first fifteen (15) years in new credits and consequently the right of the financial entities to receive fiscal credits during the same period, according to the indicated table.

The fiscal credit established in Law No. 3 of 1985, as amended by Law No. 29 of 2008, may be used for the payment of national taxes, including income tax. The fiscal credit under Act No. 11 of 1990, Act No. 28 of 1994 and Act No. 50 of 1999 can only be used for the payment of income tax. If in any tax year a bank is not able to use effectively all tax credits to which it is entitled, then it may use the excess credit during the next three years at its discretion or transfer it, in whole or in part, to another taxpayer. Article 7 of Law 3 of 1985 was amended by Article 9 of Law No. 66 of 2017, which included a transitory paragraph, which stipulates that the tax credits established and regulated, which would have expired in 2017, based on the three-year prescription term, will regain their validity and will be subject to the five-year prescription term.

The last amendment to Law 3 was made through Law No.94 of September 20, 2019, published in Official Gazette No.28866-A of September 23, 2019, which establishes the essential elements and unique requirements to access the preferential interest regime in certain mortgage loans.

This Law 94 is in force from September 23, 2019 until August 1, 2024, that is for five years, two months and 23 days; which does not have retroactive effects. It applies to all credits approved as of the date of enactment. The tax credits to which financial entities are entitled will be received in accordance with the terms established for each case established in the Law.

Specific regulations of the Superintendency of Banks of Panama

(a) Acquired Foreclosed Assets

For regulatory purposes the Superintendency of Banks of Panama sets at term of (5) years, from the date of registration in the Public Register, the deadline to alienate property acquired in settlement of unpaid loans. If after that term the Bank has not sold the acquired property, it shall conduct an independent appraisal of the property to determine if its value has decreased, by applying in such case the provisions of IFRS.

(19) Principal Applicable Laws and Regulations, continued

Additionally, the Bank must create a reserve in an equity account, through the appropriation in the following order: a) its undistributed profits; and b) profits of 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 above 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.

(b) Loans and off-balance sheet operations

Agreement No. 004-2013 issued by the Superintendency of Banks of Panama establishes provisions on the management and administration of credit risk inherent to the loan portfolio and off-balance sheet operations, including general criteria for the classification of credit facilities for the purpose of determining specific provisions and dynamics for the coverage of the Bank's credit risk. In addition, this Agreement establishes certain minimum required disclosures, in line with IFRS disclosure requirements, on the management and administration of credit risk.

Specific provisions

The Agreement No.004-2013 establishes 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 referred as: special-mention, substandard, doubtful or loss, both for individual or collective credit facilities.

Banks must at all times calculate and maintain the amount of specific provisions determined through the methodology specified in this Agreement, which takes into consideration the balance due of each credit facility classified in one of the categories subject to provisioning, mentioned in the previous paragraph; the present value of each guarantee available as a risk mitigator, as established by type of guarantee in this Agreement; and a weighting table that is applied to the net balance exposed to loss of such credit facilities.

In case of a surplus in the specific provisions, calculated according to this Agreement, on the provision calculated under IFRS, this surplus shall be accounted for as a regulatory reserve in equity, increasing or decreasing allocations to or from retained earnings. The balance of the regulatory reserves will not be considered as capital funds for purposes of calculating certain prudential indices or ratios mentioned in the Agreement.

(19) Principal Applicable Laws and Regulations, continued

The following table summarizes the classification of the Bank's loan portfolio based on Agreement No. 004-2013:

	March 31, 2020		December 31, 2019	
	Loans, Gross	Allowance	Loans, Gross	Allowance
Standard	4,265,284,155	0	4,142,068,118	0
Special mention	224,283,123	4,676,774	179,917,424	2,923,511
Sub-standard	40,998,383	3,519,574	100,191,261	3,696,622
Doubtful	15,206,741	3,292,251	15,626,027	4,199,391
Loss	28,875,424	11,972,020	21,586,909	9,097,612
Gross Amount	4,574,647,826	23,460,619	4,459,389,739	19,917,136

In addition, based on Agreement No. 008-2014, the recognition of interest income is suspended based on the days of delay in the payment of principal and/or interest and the type of credit operation according to the following:

a) For consumer and commercial loans, if it is overdue in more than 90 days; and
b) For residential mortgage loans, if it is overdue in more than 120 days.

As of March 31, 2020, the Bank maintains loans for B/.28,408,441 (December 31, 2019: B/.21,080,381) in nonaccrual status and the not received interests amounts to B/.1,748,643 (December 31,2019: B/.1,359,959).

Agreement No. 004-2013 defines as past due any credit facility that presents any unpaid amount, in terms of principal, interest or expenses contractually agreed, with a delinquency of more than 30 days and up to 90 days, as of the date established for compliance with the payments.

The Agreement No.004-2013 defines as overdue any credit facility whose failure to pay the contractual amounts agreed, presents a delinquency over 90 days. This period shall be calculated from the date set for compliance with payments. The operations with a single payment at its maturity date and overdrafts, are considered overdue when its lack of payment exceeds 30 days from the date on which the obligation was determined to be paid.

The balances of past due and overdue loans based on Agreement No. 004-2013 are detailed below:

March 31, 2020			December 31, 2019		
Past due	Overdue	Total	Past due	Overdue	Total
71,526,805	52,262,182	123,788,987	36,574,899	40,986,054	77,560,953

During the period ended March 31, 2020, loans with a gross balance as of March 31 of B/.5,836,664 (December 31, 2019: B/.12,516,534) were renegotiated.

(19) Principal Applicable Laws and Regulations, continued

Dynamic provision

Agreement No. 004-2013 sets forth that a dynamic provision is a reserve established to meet future requirements of specific provisions, which is ruled by prudential criteria inherent to the banking regulation. The dynamic provision is constituted on a quarterly basis on credit facilities without specific provision assigned, that is, on credit facilities classified as normal.

This Agreement regulates the methodology to calculate the amount of the dynamic provision, which considers a maximum and minimum percentage restriction applicable to the amount of provision determined on credit facilities classified as normal.

The dynamic provision is an equity item that increases or decreases through allocations from or to retained earnings. The credit balance of this dynamic provision forms part of the regulatory capital but does not replace nor offset capital adequacy requirements established by the Superintendency.

As of March 31, 2020 the dynamic provision of the bank amounted to B/.56,928,983 (December 31, 2019: B/.56,928,983).

Trading Portfolio

The Superintendency of Banks of Panama issued Agreement No. 003-2018, modified by Agreement No. 006-2019, through which provisions are established on the management of the market risk inherent to the investment portfolio of the Banks in Panama, based on the general criteria of classification of the trading portfolio with the purpose of determining the capital requirement of those instruments applied as established in said agreements.

The Agreement establishes that the regulatory trading portfolio for the purpose of estimating capital requirements for market risk is composed of the financial instruments that meet one or more of the following purposes:

- Closing a short-term position with profits, whether through its purchase or sale, considering the original position of the financial instrument;
- To obtain short-term valuation gains;
- To obtain arbitrage profits;
- To hedge risks that arise from instruments meeting any of the above criteria.

In addition, financial instruments decided by this Superintendency of Banks on the basis of their special characteristics, and whose economic fund responds to the purposes indicated above shall be included in the trading portfolio, regardless of the classification of the financial instrument according to International Financial Reporting Standards (IFRS).

(19) Principal Applicable Laws and Regulations, continued

Additionally, any financial instrument that may be identified with any of the following characteristics is part of the trading portfolio:

- An instrument held for accounting purposes, in accordance with IFRSs, as an asset or liability for trading purposes (so that it would be measured daily at market prices, with valuation differences being recognized in the statement of profit or loss).
- Instruments resulting from market-making activities.
- Instruments resulting from underwriting commitments.
- Equity investment in a fund, except when the daily market price is not available for determining the fund's value.
- Representative value of capital quoted on the stock exchange.
- Short position in short,
- Derivative contracts, except those that serve to hedge positions that are not recorded in the trading book.
- Financial instruments that include derivatives, whether explicit or implicit, that are part of the banking book and whose underlying is related to equity risk or credit risk.

The Bank has defined policies and procedures that provide for limits, and there is a process for keeping the Board of Directors and senior management informed, as an integral part of the Bank's risk management process.

The value of the capital requirement for market risk of the trading portfolio, as defined by Agreement No. 003-2018, as amended by Agreement No. 006-2019, and the unrealized gains during the three months ended at March 31, 2020, are detailed below by type of position:

Type of instruments	Maturity Date	Market Value	Unrealized Gain
Common shares	NA	1,522,816	978,850
Common shares	NA	4,032,538	4,032,538
Common shares	NA	736,744	699,244
Common shares	NA	194,142	156,642

The capital requirement for these instruments at March 31, 2020 is B/.939,365 (December 31, 2019: B/.584,821).

(20) Subsequent Events

Effects of the Global Pandemic on the Spread of the Coronavirus or Covid – 19
On March 11, 2020, the World Health Organization declared the COVID-19 / Coronavirus outbreak a pandemic. On March 13, 2020, the Panamanian Government declared a national health emergency and decreed the immediate suspension of all non-essential activities, significantly impacting a large portion of the economy. The situation is constantly monitored by government officials in order to implement measures that minimize the negative impact to the economy and the population.

During March 2020, the Bank, being socially responsible and solidary, granted all of its retail and mortgage loan clients that make voluntary payments (those made through bank teller, online banking, transfers or debit to account) an automatic grace period on loan payments of up to ninety (90) days, free of charges, fees or penalties.

This moratorium for clients affected by COVID-19 does not imply an exoneration of capital and or interest, FECI, or restructuring of the amounts due. These changes in terms and conditions were duly authorized by the Superintendency of Banks of Panama on March 2020.

As of March 31, 2020, the most significant impact on the condensed interim financial information are as follows:

	March 31, 2020
Additional allowance for loan losses (note 4) (1)	6,081,218
Liquidity coverage ratio (2)	65.7%
Capital adequacy ratio (2)	16.5%

(1) As of June 30, 2020, the provision for loan loss amounts to B/.80,252,795 compared to B/.68,999,096 as of March 31, 2020.

(2) As of June 30, 2020, a projected capital adequacy ratio of 15.95% and liquidity coverage ratio of 73.85%.

For the remainder of the year, the expected credit loss estimate will be revised to incorporate the effects of public policy decisions related to COVID-19 and take into account the high level of uncertainty as a result of the economic disruption. The updates will incorporate the impact by industry segment and exposure on loan portfolios.

Obligations
During the month of April 2020, news obligations were received through securities sold under a repurchase agreement for B/.199,833,260 maturing on October 9, 2020 and foreign borrowing for B/.16,500,000 due July 22, 2020.

In May 2020, foreign borrowing was received for B/.83,500,000 maturing on August 26, 2020.

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Financial Statements and
Supplementary Information

As of December 31, 2019

(With Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

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

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

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(FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Banco Nacional de Panama

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banco Nacional de Panamá (hereinafter, the "Bank"), which comprise the statement of financial position as at December 31, 2019, the statements of profit or loss, other comprehensive income, changes in capital funds 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 Bank as at December 31, 2019, and of its financial performance and its 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 Financial Statements* section of our report. We are independent of the Bank in accordance with the 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. This matter was addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on this matter.

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Allowance for losses on financial assets
See notes 3(f) and 4 to the financial statements

Key Audit Matters	How the matter was dealt with in the Audit
The allowance for losses on financial assets at amortized cost is considered one of the most significant issues since it requires the application of judgments and the use of assumptions by management in the construction of the expected credit loss ("ECL") model. Assets at amortized cost subject to the allowance for expected credit losses represent 96% of the Bank's total assets. The allowance for losses on financial assets at amortized cost comprises the ECL as a result of the loan rating model, the external ratings assigned to interbank placements and investment instruments, and the mechanism for determining the probability of default of the financial asset according to the stage of impairment at which it is assigned. The model for estimating the ECL is determined according to the grouping of financial assets at amortized cost with similar credit risk characteristics. The methodology applied by the model is composed of estimates of the probability of default, loss given default, prospective analysis and exposure to default. The evaluation of whether there has been a significant increase in the credit risk of financial assets entails the application of important judgments in said methodology. This is a challenge from an audit perspective because of the complexity in estimating the components used to make these calculations and applying management's judgment.	Our audit procedures, considering the use of specialists, included: • Evaluation of key controls on delinquency calculations, internal customer risk ratings, external risk ratings of banks and investment instruments, review of accuracy of customer information and of the model and methodologies used. • Evaluation tests of whether the contractual cash flows of the financial assets at amortized cost represent Solely Payments of Principal and Interest ("SPPI"). • For a sample of financial assets, classified by type of activity or industry, and debtors with changes in risk classification based on quantitative and qualitative factors, the respective credit files were inspected, including the financial information of the debtors, the values of the guarantees that support the credit operations determined by expert appraisers, the investment prospects and other publicly available information, and other factors that could represent a loss event, to determine the reasonableness of the assigned credit risk rating. • The methodologies applied by the Bank in the ECL estimation model were evaluated in accordance with IFRS 9, through the inspection of policies, manuals and documented methodologies. • An independent evaluation of the inputs used was carried out based on the methodology used by the Bank and the recalculation was made according to the ECL estimation model. • We evaluated management's judgments on assumptions regarding current economic conditions and prospective analysis considerations that may change the level of ECL, based on our experience and knowledge of the industry.

Other Matter – Supplementary Information

Our audit was conducted for the purpose of expressing an opinion on the financial statements as a whole. The supplementary information included in the schedule is presented for purposes of additional analysis and is not required as part of the financial statements. This information has been subject to the audit procedures applied during the audit of the financial statements and, in our opinion, is presented fairly in all material respects, in relation to the financial statements as a whole.

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

Management 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 due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank´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 are free of 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis on these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment 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 understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, we conclude on whether or not there are material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that material uncertainty exist, we are required to draw attention in our auditors' report to the related disclosured 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, subject to decisions by the Panamanian government, may cause the Bank to cease to be 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 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 provided to those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear or our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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.

The partner in charge of the audit who has prepared this independent auditors’ report is Gastón G. González F.

KPMG (SIGNED)

Panama, Republic of Panama
January 31, 2020

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Financial Position

December 31, 2019

(Expressed in Balboas)

Assets	Note	2019	2018
Cash and cash equivalents		219,898,465	236,150,367
Deposits in banks at amortized cost:			
Demand deposits- foreing		75,972,323	64,737,831
Time deposits - local		137,071,613	87,108,263
Time deposits - foreign		2,836,750,829	1,631,317,805
Less: Reserve for bank deposit losses		138,893	47,724
Total bank deposits at amortized cost		3,049,655,872	1,783,116,175
Total cash, cash equivalents and bank deposits at amortized cost	6	3,269,554,337	2,019,266,542
Securities purchased under resale agreements at amortized cost	7	68,563,265	100,993,413
Investments in securities	8	2,944,794,556	2,641,574,871
Less: Reserve for investment losses		3,159,493	4,386,163
Investments in securities, net		2,941,635,063	2,637,188,708
Loans and interest receivable private sector		4,176,986,192	3,814,797,951
Government loans and interest receivable		311,892,207	465,863,919
Less: Allowance for loan losses		62,917,878	53,607,992
Interest and unearned commissions		26,954,325	26,910,713
Loans at amortized cost	9	4,399,006,196	4,200,143,165
Property and equipment, net	10	84,016,213	80,071,356
Right of use assets	12	3,855,808	0
Other assets:			
Foreclosed assets, net	14	8,498,494	8,659,284
Intangible assets - licenses and softwares	11	12,649,126	14,473,048
Fiscal credit from preferential interest on loans	13	18,852,202	60,629,982
Others	14	16,753,446	18,983,761
Total other assets		56,753,268	102,746,075
Total assets		10,823,384,150	9,140,409,259

The statement of financial position should be read in conjunction with the notes that form an integral part of the financial statements.

Liabilities and Capital Funds	Notes	2019	2018
Liabilities:			
Deposits and accrued interest payable at amortized cost:			
Demand deposits:			
Local - private		927,948,719	760,064,166
Local - public		2,473,131,465	2,363,986,666
Foreign		2,546,349	25,551,927
Savings:			
Local - private		708,330,062	689,627,303
Foreign		1,422,866	3,052,792
Time deposits:			
Local - private		210,678,951	405,362,008
Local - public		5,038,158,036	3,738,947,495
Foreign		15,645,967	16,795,922
Restricted - inactive accounts	15	16,417,592	14,030,612
Restricted - escrow funds	15	52,633,435	50,289,160
Total deposits and interest payable at amortized cost		9,446,913,442	8,067,708,051
Obligations:			
Foreign borrowings received at amortized cost	16	50,003,818	35,198,829
Bonds payable at amortized cost	16	206,216,051	0
Lease liabilities	12	3,939,119	0
Other liabilities:			
Guarantee certificates for legal proceedings at amortized cost		113,676,867	115,721,271
Miscellaneous creditors	17	52,938,607	59,339,740
Cashier's and certified checks		22,094,430	27,204,991
Others	17	26,147,914	25,413,212
Total other liabilities		214,857,818	227,679,214
Total liabilities		9,921,930,248	8,330,586,094
Capital funds:			
Paid-in capital by Government of Panama	4	650,000,000	650,000,000
Regulatory reserve for foreclosed assets		3,870,702	3,828,444
Valuation of investments securities		8,069,463	5,215,618
Actuarial valuation	17	355,079	891,043
Dynamic regulatory provision	26	56,928,983	56,598,706
Retained earnings		182,229,675	93,289,354
Total capital funds		901,453,902	809,823,165
Commitments and contingencies	18		
Total liabilities and capital funds		10,823,384,150	9,140,409,259

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Profit or Loss

For the year ended December 31, 2019

(Expressed in Balboas)

	Note	2019	2018
Interest and commission income			
Interest on:			
Loans		235,573,730	213,785,677
Deposits in banks		46,376,674	34,417,685
Securities		99,447,418	102,820,649
Loan's fees		9,642,535	9,655,759
Total interest and fee income		391,040,357	360,679,770
Interest expense:			
Deposits		96,284,950	77,998,470
Borrowings		2,810,795	1,434,513
Lease liabilities	12	176,610	0
Total interest expenses		99,272,355	79,432,983
Net interest and commission income		291,768,002	281,246,787
Provision for (reversal of) losses in deposits with banks	4	91,169	(838,836)
(Reversal of) provision for investment securities losses	4	(1,226,670)	1,226,298
Provision for loan losses	4	10,180,316	4,599,885
Provision for valuation of foreclosed assets	14	701,993	342,884
Net interest and commission income, after provisions		282,021,194	275,916,556
Other income:			
Fees for banking services	19	17,078,544	17,054,680
Dividends	8	1,001,251	913,424
Net gain on investments in securities		0	13,039,225
Others	20	13,591,151	17,023,617
Total other income		31,670,946	48,030,946
Other expenses:			
(Reversal of) provision for fiscal credits, net	13	(827,241)	413,127
Commissions		428,648	483,734
Total other expenses		(398,593)	896,861
Total other income, net		32,069,539	47,134,085
General and administrative expenses:			
Salaries and other personnel expenses	21	88,200,043	82,425,298
Rentals		1,136,818	2,040,759
Repairs and maintenance		12,076,431	11,057,621
Depreciation and amortization	10, 11, 12	13,392,843	16,607,721
Electricity		3,249,561	3,118,070
Advertising		3,373,432	3,180,069
Communications		6,048,932	5,221,563
Insurance		614,403	529,287
Stationery and office supplies		3,059,144	1,665,019
Fees and professional services		4,393,446	3,604,997
Transportation of personnel		1,153,429	1,316,070
Transportation of valuables		1,972,503	1,800,557
ATM's		1,039,475	1,541,716
Others	21	5,827,025	5,036,706
Total general and administrative expenses		145,537,485	139,145,453
Net income		168,553,248	183,905,188

The statement of income should be read in conjunction with the notes that are an integral part of the financial statements.

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Comprehensive Income

For the year ended December 31, 2019

(Expressed in Balboas)

	Note	2019	2018
Net income		168,553,248	183,905,188
Other comprehensive income (loss):			
Items that are or may be reclassified to the statement of profit or loss.			
Valuation of investments in securities:			
Net change in valuation of investments at fair value with changes in other comprehensive income (FVOCI)	8	2,853,845	(1,054,952)
Net change in actuarial valuation	17	(535,964)	891,043
Other comprehensive income (loss) for the year		2,317,881	(163,909)
Total comprehensive income for the year		170,871,129	183,741,279

The statement of comprehensive income should be read in conjunction with the notes that are an integral part of the financial statements.

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Changes in Capital Funds

For the year ended December 31, 2019

(Expressed in Balboas)

	Note	Paid-in Capital by the Government of Panama	Regulatory reserve for foreclosed Assets	Valuation of investments securities	Actuaria valuation
Balance as of December 31, 2017		570,000,000	3,649,121	86,074,116	
Impact on initial appliciation of IFRS 9 on January 1, 2018		0	0	(79,803,546)	
Balance as of January 1, 2018		570,000,000	3,649,121	6,270,570	
Net income, 2018		0	0	0	
Other comprehensive income (loss):					
Net change in valuation of investments to FVOCI	8	0	0	(1,054,952)	
Net change in actuarial valuation	17	0	0	0	891,04
Total other income (loss) comprehensive income for the year		0	0	(1,054,952)	891,04
Total comprehensive income (loss) for the year		0	0	(1,054,952)	891,04
Other capital fund movements:					
Regulatory reserve for foreclosed assets		0	179,323	0	
Transactions recorded directly in capital funds:					
Capitalization of profits		80,000,000	0	0	
Earnings distributed to the Government of Panama		0	0	0	
Total transactions recorded directly in equity funds		80,000,000	0	0	
Balance as of December 31, 2018		650,000,000	3,828,444	5,215,618	891,04
Net income, 2019		0	0	0	
Other comprehensive income (loss):					
Net change in valuation of investments to FVOCI	8	0	0	2,853,845	
Net change in actuarial valuation	17	0	0	0	(535,96
Total other comprehensive income (loss) for the year		0	0	2,853,845	(535,96
Total comprehensive income for the year		0	0	2,853,845	(535,96
Other capital fund movements:					
Regulatory reserve for foreclosed assets		0	42,258	0	
Dynamic regulatory provision		0	0	0	
Total other capital fund movements		0	42,258	0	
Transactions recorded directly in capital funds:					
Earnings distributed to the Government of Panama		0	0	0	
Total transactions recorded directly in equity funds		0	0	0	
Balance as of December 31, 2019		650,000,000	3,870,702	8,069,463	355,07

The statement of changes in equity must be read in conjunction with the notes that are an integral part of the financial statements.

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Cash Flows

For the year ended December 31, 2019

(Expressed in Balboas)

	Note	2019	2018
Operating activities:			
Net income		168,553,248	183,905,188
Adjustments to reconcile net income to cash from operating activities:			
Depreciation and amortization	10, 11, 12	13,392,843	16,607,721
Provision for (reversal of) losses in deposits with banks	4	91,169	(838,836)
(Reversal of) provision for investment securities losses	4	(1,226,670)	1,226,298
Provision for loan losses	4	10,180,316	4,599,885
Provision for valuation of foreclosed assets	14	701,993	342,884
(Reversal of) provision for fiscal credits, net	13	(827,241)	413,127
Net gain on sale of foreclosed assets		(362,939)	(1,575,033)
Gain on sale on furniture and equipment		(171,014)	(250,581)
Dividends	14	(1,001,251)	(913,424)
Net gain on investments in securities		0	(13,039,225)
Net interest and commission income		(291,768,002)	(281,246,787)
Changes in operating assets and liabilities:			
Time deposits in banks with original maturities greater than 90 days	6	(50,000,000)	875,000,000
Securities purchased under resale agreements, net		32,332,356	(27,966,665)
Loans		(291,169,477)	(613,928,291)
Other assets		(12,190,995)	(17,374,621)
Demand deposits received		254,023,774	116,098,034
Savings deposits received		17,072,833	25,164,375
Time deposits received		1,107,112,374	(681,460,314)
Guarantee certificates for legal proceedings at amortized cost		(2,114,462)	(21,781,488)
Cashier's and certified checks		(5,110,561)	(24,042,002)
Miscellaneous creditors		(6,401,133)	11,397,570
Other liabilities		198,738	183,982
Cash generated from operation:			
Interest and commissions received		379,810,200	370,349,541
Interest paid		(97,744,237)	(81,643,824)
Dividends received		1,001,251	913,424
Cash flows from operating activities		1,224,383,113	(159,859,062)
Investment activities:			
Acquisitions of investments in securities at amortized cost		(1,010,784,456)	(752,415,862)
Redemptions of investments in securities at amortized cost		855,884,321	833,978,221
Proceeds from the sale of securities at amortized cost		0	295,605,200
Acquisition of furniture and equipment		(13,419,021)	(18,859,642)
Proceeds from the sale and disposal of furniture and equipment		190,264	260,405
Acquisition of intangible assets - licenses and softwares		(1,113,404)	(1,541,987)
Proceeds from the sale of foreclosed assets of borrowers		1,440,067	3,751,954
Cash flows from investing activities		(167,802,229)	360,778,289
Financing activities:			
New borrowings received	16	150,000,000	35,000,000
Payments of borrowings received	16	(135,000,000)	0
Issuance of bonds payable	16	205,736,000	0
Earnings distributed to the Government of Panama		(79,240,392)	(140,000,000)
Lease payments	12	(1,093,902)	0
Cash flows from financing activities		140,401,706	(105,000,000)
Net increase in cash and cash equivalents		1,196,982,590	95,919,227
Cash and cash equivalents at the beginning of the year		1,918,188,198	1,822,268,971
Cash and cash equivalents at the end of the year	6	3,115,170,788	1,918,188,198
Non-cash transactions			
Recognition of tax credits from preferential interest on loans with Public Debt Securities of the Republic of Panama	13	55,407,000	0
Cancellation of loans from customers located in the Colon Free Zone with Public Debt Securities of the Republic of Panama	9	83,383,000	0

The cash flow statement should be read in conjunction with the notes that are an integral part of the financial statements.

BANCO NACIONAL DE PANAMÁ
(Panama, Republic of Panama**)**

Financial Statements

December 31, 2019

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(1) Incorporation and Operations

Banco Nacional de Panama (the "Bank") was created by Laws No.74 of 1904, 6 of January of 1911, 11 of 1956, reorganized by Law 20 of 1975, subrogated by Decree-Law 4 of 2006, as amended by Law 24 of 2017; is a public entity with its proper legal status, own capital funds, autonomous and independent in its regulations, budget and internal management, subject to the supervision of the Executive Body and the corresponding supervisory bodies, under the terms established by the Law. As the Nation's primary financial institution, the Bank is responsible, in addition to the objectives described in the above mentioned law, for performing banking activities within the official sector, and obtaining the necessary funds to develop the national economy.

The Bank is exempt of any tax and other fiscal contributions, either national or municipal, with the exception of the Social Security employer's contributions, educational insurance, professional risks, fees for public services and other exceptions provided for in the Law.

The Bank is granted procedural privileges in any judicial or administrative litigation in which it is a party, and summary jurisdiction to enforce the collection of overdue credits owed to the Bank.

The Bank is responsible for directing and managing the check clearing operations for the entire national banking system.

The main office is located at Torre Banco Nacional, Via España and 55th Street, Panama City, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

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

These financial statements were reviewed by the Audit Steering Committee on January 28, 2020 and approved by the Board of Directors for issuance on January 30, 2020.

(b) Basis of Measurement

These financial statements have been prepared on a historical cost or amortized cost basis, except for certain investments in equity securities which are presented at fair value through other comprehensive income; and foreclosed assets of borrowers, which are measured at the lower of book value or fair value less costs to sell.

The Bank recognizes financial assets and financial liabilities at the settlement date.

(2) Basis of Preparation, continued

(c) Funcional and Presentation Currency

These financial statements are presented in balboas (B/.). The balboa is the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the Dollar of the United States of America (US$). The Republic of Panama does not issue its own paper currency, and in lieu, the Dollar (US$) of the United States of America is used as legal tender and is considered the functional currency of the Bank.

(3) Summary of Significant Accounting Policies

The accounting policies applied in these financial statements are the same as those applied in the financial statements for the year ended December 31, 2018, except as explained in Note 3 (a) and (i).

(a) Changes in Accounting Policies IFRS 16 "Leases"

The Bank adopted IFRS 16 on its initial adoption date of January 1, 2019, using the modified retrospective approach, whereby the cumulative effect of initial application if applied is recognized in retained earnings at January 1, 2019. The Bank had no impact on retained earnings at January 1, 2019 from the initial adoption of IFRS 16.

Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. Under IFRS 16, the Bank assesses whether an arrangement is or contains a lease based on the definition of a lease as explained in Notes 3(i) and 12.

On transition to IFRS 16, the Bank elected to apply the practical expedient to evaluate which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Contracts that were not identified as leases under those standards were not reassessed to determine whether a lease existed. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or amended on or after January 1, 2019.

As a Lessee

The Bank has previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. As at January 1, 2019, the Bank did not have any finance leases. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for most leases, i.e., these leases are in the statement of financial position.

(3) Summary of Significant Accounting Policies, continued

The Bank decided to apply recognition exemptions for short-term leases of certain bank branches and ATM spaces (which contractually contained a clause enabling termination of the commitment by either party, with prior notice subject to a set amount of time, and without payment of any penalty (see Notes 3 (i) and 12), as well as for the lease of supplies for internal fairs and events. For leases of other assets, which were classified in accordance with IAS 17, the Bank recognized the right-of-use assets and lease liabilities.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at January 1, 2019.

Rights-of-use assets are measured at:

- their carrying value as if IFRS 16 had been applied from the commencement date of the lease, discounted at the lessee's incremental borrowing rate at the date of initial application; the Bank applied this approach for most of its leased properties; or

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Bank applied this approach to all other leases.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- It applied a single discount rate to a portfolio of leases with similar characteristics.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(3) Summary of Significant Accounting Policies, continued

Impact on financial statements

On the date of transition to IFRS 16, the Bank recognized B/.3,130,767 of right-of-use assets and B/.3,130,767 of lease liabilities. At the transition date, there was no impact on the Bank's retained earnings.

In measuring the lease liabilities, the Bank discounted the lease payments using its incremental interest rate as of January 1, 2019. The weighted average rate applied is 5.26%.

	As of January 1 2019
Operating lease commitments at 31 December 2018 under IAS 17	4,360,341
Commitments discounted using the incremental borrowing rate as of January 1, 2019	3,811,076
Finance lease liabilities recognized as at 31 December 2018	0
- Recognition exemption for:	
- Short-term leases	(1,229,979)
- Leases of low-value assets	0
- Extension and termination options reasonably certain to be exercised	549,670
- Variable lease payments based on an index or a rate	0
- Residual value guarantees	0
Lease liabilities recognized at January 1, 2019	3,130,767

(b) Fair Value Measurement

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

Where applicable, the Bank measures the fair value of an instrument using a price quoted in an active market for that instrument. A market is considered active if transactions in these assets or liabilities occur with enough frequency and volume to provide information for pricing on an ongoing basis.

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

The fair value of a demand deposit is not less than the amount payable when it becomes due, discounted from the first date on which payment may be required.

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

(3) Summary of Significant Accounting Policies, continued

(c) Foreign Currency Transactions

Assets and liabilities held in foreign currencies are translated into balboas at the exchange rate prevailing at the statement of financial position date.

Transactions in foreign currencies are translated at the exchange rates prevailing on the dates of the transactions. Gains or losses on foreign currency translation are reflected in the accounts of other income or other expenses in the statement of profit or loss.

(d) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include deposits with banks with original maturities of three months or less.

(e) Securities Purchased under Resale Agreements

Resale agreements represent secured financing transactions and are stated at the amount at which the securities are acquired, plus accrued financial returns. Generally, the Bank takes possession of securities purchased under resale agreements. The related income or expense is recognized in the statement of profit or loss.

(f) Financial Assets

(f.1) Classification and measurement of financial instruments

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. According to the business model adopted, the Bank classifies financial assets as: measured at amortized cost (AC) and at fair value through changes in other comprehensive income (FVOCI).

Business model assessment

The Bank makes an assessment of the business model for each group of financial instruments, in order reflect the best way the business is managed and information is provided to management. The information considered includes:

- The policies and objectives identified for each group of financial instruments and the compliance with those guidelines in practice. These include whether management's strategy focuses on earning contractual interest revenue, or the sale of assets, achieving expected returns according to the business model;

- The measuring and risks management that affect the compliance with the business model and the performance of financial instruments;

- how managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

(3) Summary of Significant Accounting Policies, continued

- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Assessment of whether contractual cash flows are solely payments of principal and interests *(SPPI)*
For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the amount of principal outstanding at a particular time period and for other basic risks of a basic loan agreement and other associated costs (e.g. liquidity risk and administrative costs), as well as the profit margin.

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

- Contingent events that would change the amount and timing of cash flows;

- Leverage features

- Prepayment and extension terms;

- Terms that limit the Bank´s claim to cash flows from specific assets (for example, non-recourse asset agreements); and

- features that modify consideration of the time value of money (for example, periodical reset of interest rates).

Classification and Measurement
The Bank classifies a financial asset at CA and not at fair value through profit or loss (FVTPL) if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to obtain contractual cash flows; and

- The contractual terms of the financial asset meet SPPI criteria.

(3) Summary of Significant Accounting Policies, continued

A financial asset is classified as 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 whose objective is achieved by collecting contractual cash flows and selling these financial assets; and

- The contractual terms of the financial asset meet SPPI criteria.

The Bank classifies a financial asset as FVTPL the contractual cash flows do not meet SPPI criteria.

On initial recognition of an equity investment that is not held for trading, the Bank irrevocably elected to designate such investments as measure through FVOCI, and therefore they are measured at fair value and changes in fair value are recognized directly in the statement of comprehensive income.

Financial assets are not reclassified after initial recognition, except if the Bank changes its business model for managing the financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is measured initially at fair value plus transaction-related costs directly attributable to its acquisition; except for investments accounted for at FVTPL.

The following accounting policies are applied to the subsequent measurement of financial assets.

Financial assets measured at AC	These assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income and impairment losses are recognized in the statement of profit or loss, like are any gains or losses.
Investments in equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in the statement of profit or loss. Other net gains and losses are recognized in the statement of comprehensive income and will never be recorded in the statement of income.
Investments in FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the statement of profit or loss.

(3) Summary of Significant Accounting Policies, continued

Financial assets derecognition

A financial asset (or, in some cases, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- Contractual rights to the cash flows from the financial asset expire.
- The Bank have transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retain substantially all of the risk and rewards of ownership and it does not retain control of the financial asset.
- The Bank retain the rights to receive the contractual cash flows of the asset but has the obligation to pay the total amount of cash flows received, without a material delay to a third party.
- When the Bank has transferred its right to receive cash flows from an asset or has entered into a transferred agreement, and has not transferred nor retained any substantial risk or benefit from the asset, nor transfer the control of the asset, the asset is recognized according to the Bank´s ownership over the asset. In that case, the Bank also recognized the associated liability. The transferred asset and the associated liability are based in a measure that reflects the contractual right and obligations that the Bank has retained. The continuous participation that takes the form of a guarantee on the transferred asset is measured at the lowest of the original book value of the asset and the maximum amount of consideration that the Bank could be obliged to pay.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position but retains either all or substantially all the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized.

Modified or Restructured Financial Assets

The contractual terms of the loans may be modified for various reasons, such as difficulties in the debtor's ability to pay, changes in market conditions, customer retention or other factors unrelated to an actual or potential impairment of the loan.

The Bank renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the probability of default. The Bank's policies consider the granting of concessions that generally correspond to decreases in interest rates, changes in terms or changes in payments. These loans, once restructured, are classified within the category in which they were at the time of their restructuring or in a higher risk category and will remain in that category for a prudential period, which will not be less than 6 months or their next payment period, if this is longer.

(3) Summary of Significant Accounting Policies, continued

After this period, the Bank will evaluate if, according to its payment capacity and compliance with its obligations, there is a basis for its classification to a lower risk category or, on the contrary, it should be classified in a higher category.

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

- The PD ("Probability of Default") for the remaining life at the reporting date based on the modified terms with;
- PD for the estimated remaining life based on data at the initial recognition date and the original contractual terms.

For financial assets modified as part of the Bank's renegotiation policies, the estimate of the PD will reflect whether the modifications have improved or restored the Bank's ability to collect interest and principal and the Bank's prior experience of similar actions. As part of this process, the Bank evaluates the debtor's compliance with the modified terms of the debt and considers various indicators of the behavior of the debtor or group of modified debtors.

Generally, restructuring indicators are a relevant factor in the increase of credit risk. Therefore, a restructured debtor needs to demonstrate consistent payment behavior over a period of time before it is no longer considered an impaired credit or that the PD has decreased such that the provision can be reversed and the credit measured for impairment within 12 months from the reporting date.

(f.2) Impairment of financial assets

IFRS 9 requires that considerable judgment be applied with respect to how changes in economic factors affect the ECL "expected credit loss", which will be determined on a weighted average basis.

The impairment model is applicable to the following financial assets that are not measured at FVTPL:

- Deposits in banks
- Debt instruments
- Loans
- Irrevocable loan commitments

No impairment losses are recognized on investments in equity instruments.

(3) Summary of Significant Accounting Policies, continued

The ECL is measured on the following basis:

- 12-month ECL: is the portion of the ECL resulting from loss events on a financial instrument that are possible within 12 months of the reporting date.
- ECL over the life of the asset: are the losses that result from all possible impairment events over the life of a financial instrument.

Allowance for losses are recognized at an amount equal to the ECL over the life of the asset, except in the following cases in which the recognized amount is equivalent to 12-month ECL:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments (other than leases receivable) for which the credit risk has not increased significantly since initial recognition.

Significant increase in credit risk

The assessment of whether there has been a significant increase in the credit risk of a financial asset is one of the critical judgments implemented in the impairment model.

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

Definition of Default

In assessing whether a debtor is in default, the Bank will consider indicators that are:

- Qualitative (e.g. breach of contract clauses).
- Quantitative (e.g. default status and non-payment of another obligation of the same issuer to the Bank); and
- Based on internally developed data (for loans and investments in local securities) and data obtained from external sources, such as risk ratings by rating agencies (for cases of placements and investments in foreign securities) and Panama's sovereign risk.

(3) Summary of Significant Accounting Policies, continued

Inputs in ECL measurement

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

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The Bank obtains these parameters from internal statistical models and other historical data, which are adjusted to reflect forward-looking information as described above.

PD estimates are made at a certain date, at which time the Bank uses one-year regulatory transition matrices with a 60-month observation horizon, in accordance with the Bank's defined portfolio segmentation. These statistical models are based on internally compiled data composed of both qualitative and quantitative factors. Similarly, market information for prospective analysis, when available, is used to adjust the loan portfolio's PD. The statistical analyses performed determined that the monthly economic activity index (IMAE) is the macroeconomic variable that shows the highest correlation with the levels of non-performing loans by segments of the Bank's economic activity.

To determine the PD of the portfolios of interbank placements and investments in sovereigns and financial institutions, market information from external rating agencies is used. The Bank established that it is not necessary to incorporate the impact of the context of macroeconomic variables for prospective analysis, since the external ratings produced by the rating firms capture such impacts.

The LGD is the magnitude of the loss given a default event. The Bank estimates the parameters of the LGD based on a historical recovery rate of claims against defaulting counterparts (doubtful and unrecoverable). LGD models consider the structure, collateral, counterparty portfolio segment and recovery costs of any comprehensive guarantees for the financial asset. It should be calculated on a discounted cash flow basis using the effective interest rate of the loans as a discount factor.

The EAD represents the expected exposure in the event of default. The Bank determines the EAD of the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including any amortization. For loan commitments, financial guarantees and unused credit line balances, the EAD considers the expected amount, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and projections.

(3) Summary of Significant Accounting Policies, continued

The Bank evaluates at each reporting date, the ECL of financial assets held at amortized cost. The amount of losses determined during the period is recognized as a provision expense in profit or loss and increases a reserve account for losses on loans, deposits in banks or investments in securities at amortized cost. The reserve is presented as a deduction from the financial assets that generated it, in the statement of financial position

When a loan is determined to be uncollectible, the unrecoverable amount is decreased from the referred reserve account. Subsequent recoveries of loans previously written off as uncollectible increase the reserve account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by decreasing the allowance account for losses on loans, investments in securities at amortized cost or deposits in banks, as applicable. The amount of any reversal is recognized in the statement of profit or loss

The Bank has approved policies for determining the write-off of loans that are uncollectible. This determination is made after an analysis of the days of arrears of the loan, the financial conditions and payment capacity of the debtor(s) and the evaluation of the risk mitigating guarantees that support the loan. For loans of smaller amounts, write-offs are generally based on the length of time past due on the loan.

Incorporation of Forward Looking Information
The incorporation of forward looking information in the process of estimating the expected credit loss (ECL) in the Bank is made based on the possible impact that could be registered 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 flow of payments of the assets.

The methodology used in the Bank, for the purpose of incorporating forward looking information, was based on the relationship between macroeconomic variables and credit losses. The process of defining the most significant variables among the universe of those available, consists of three steps:

(3) Summary of Significant Accounting Policies, continued

Multiple correlation and explanation coefficients were calculated between the historical series of the value of the Bank's Past Due Portfolio (taken as a dependent variable), and the historical series of the values of the interannual variations of Gross Domestic Product ("GDP"), Monthly Economic Activity Index ("IMAE"), Inflation and Unemployment (considered as independent variables). This calculation allows us to determine whether the latter could reasonably explain and/or infer the possible impacts on the payment behavior of credit assets in the future. It considers the variable that is adequately related to losses.

Loan Impairment

The Bank determines the expected loss on loans using two basis for the assessment:

- *Individually Assessed Loans*
  Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is not objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the original effective interest rate of the loan, versus its current carrying value and the amount of any loss is recognized as an allowance for loan losses in the consolidated statement of profit or loss. The carrying value of impaired loans is decreased through the use of the allowance for loan losses account.

- *Collectively Assessed loan*
  For purposes of a collective assessment for impairment, the Bank principally uses statistical methods with a formula approach based on historical loss rate experience, the opportunity of recoveries and the actual loss incurred and make an adjustment if current economic and credit conditions are such that it is likely that the actual losses are higher or lower than those suggested by historical trends. Roll rates, loss rates and the expected future recoveries terms are regularly benchmarked against actual loss experience, in order to assure that they are still appropriate.

Credit Risk Rating

The Bank assigns each exposure the regulatory classification of the Superintendency of Banks of Panama (SBP). These risk classifications are defined using qualitative and quantitative factors that are indicative of risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

(3) Summary of Significant Accounting Policies, continued

Since the Bank uses regulatory classifications as input for the calculation of the PD, it considers the normal classification (1) as the classification of all loans at initial recognition. Exposures will be subject to ongoing monitoring, which may result in the movement of an exposure to a different credit risk classification.

Generating the term structure of PDF
Regulatory credit risk classifications are the main input to determine the PD term structure for the different loan portfolios. The Bank obtains performance and loss information on credit risk exposures analyzed by jurisdiction or region, by the type of product and borrower, as well as by credit risk rating. For some portfolios, information from external credit reference agencies may also be used.

Significant increase in credit risk in the loan portfolio
The Bank considers a loan with a significant increase in risk by business segments of the loan portfolio when: it is in substandard classification (3) for all business segments, with the exception of the retirees segment, for which the special mention classification (2) is used.

Definition of default in the loan portfolio
The Bank considers a financial asset to be default by business segment when the debtor by business segment presents regulatory classifications of doubtful and loss (4) and (5) and for the retiree segment the substandard, doubtful and loss classifications.

The following table shows the stages of impairment by business segment established for the loan portfolio:

	SBP regulatory classification categories		
Segment	**Low Risk**	**Significant Risk**	**Default**
Agricultural	1 y 2	3	4 y 5
Livestock	1 y 2	3	4 y 5
Commercial	1 y 2	3	4 y 5
Consumer	1 y 2	3	4 y 5
Consumer - Retirees	1	2	3, 4 y 5
Mortgage - Preferential	1 y 2	3	4 y 5
Mortgage - Non-preferential	1 y 2	3	4 y 5

(3) Summary of Significant Accounting Policies, continued

Impairment of deposits in banks and investments at AC

For interbank placements and investment instruments, allocations to the impairment stages for the calculation of losses are based on external ratings, which are shown below:

- Low risk: International low risk financial instruments, that is, those with an investment grade higher or equal to BBB- at the time of the evaluation; and for local financial instruments rated as BB+, BB and BB- that maintained the same rating from their acquisition to the evaluation date.
- Significant risk: financial instruments with risk ratings lower than or equal to BB but higher than CCC.
- Default: financial instruments with risk ratings lower than or equal to CCC.

In certain instances, using its expert judgment and, to the extent possible, relevant historical experience, the Bank may determine that an exposure has significantly increased its credit risk based on particular qualitative indicators that it believes are indicative of this and whose effect would not otherwise be fully reflected through timely quantitative analysis.

The Bank intends to monitor the effectiveness of the criteria used to identify significant increases in credit risk through regular reviews to confirm that the criteria can identify significant increases in credit risk before an exposure is in default.

(g) Dynamic Provision

The dynamic provision is an equity item that will be increased or decreased through transfers from and to retained earnings and is constituted by requirement of Agreement No. 004-2013 of the Superintendency of Banks of Panama.

(h) Property and Equipment

Properties include land, buildings used by the Bank's offices and branches. Property and equipment are recorded at historical cost and are shown net of accumulated depreciation and amortization.

Subsequent major improvements are included in the carrying value of the assets or are recognized as a separate asset, as appropriate. Other repairs and improvements that do not significantly extend the life of the asset are recognized as expenses in the statement of profit or loss as incurred.

(3) Summary of Significant Accounting Policies, continued

Depreciation and amortization expenses are recognized in current operations, using the straight-line method, over the estimated useful life of the related assets up to their residual value, except for land which is not depreciated. The estimated useful life of the assets is summarized as follows:

Buildings	40 years
Improvements	5 to 20 years
Furniture and equipment	5 to 20 years
Transportation equipment	4 to 11.7 years

In 2018, management conducted a review of the useful life of certain properties and equipment, specifically in the areas of furniture and equipment and transportation equipment. This change in the estimated useful life was applied prospectively and did not have a significant effect on the depreciation expense recognized in the statement of profit or loss.

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of an asset is immediately reduced to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the cost to sell and its value in use.

(i) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and continues to be reported in accordance with IAS 17 and IFRIC 4.

Policy applicable from January 1, 2019

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

- the contract conveys the use of an asset: this may be specified explicitly or implicitly, and must be physically distinct or represent substantially all of the capacity of a physically distinct asset If the supplier has the right of substantial substitution, then an asset is not identified;

- the Bank has the right to obtain substantially all of the economic benefits arising from the use of the asset during the period of use; and

(3) Summary of Significant Accounting Policies, continued

- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases, when the decision on how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
    - the Bank has the right to operate the asset; or
    - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy applies to contracts entered into or modified on or after January 1, 2019.

At inception or reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component based on its relative independent prices. However, for leases of administrative offices and bank branches, ATM´s space, warehouses/deposits, parking lots/land, multifunctional/printers in which it is the lessee, the Bank has elected not to separate the non-lease components, and to account for the lease components to be recognized as a single lease component.

Policy applicable before January 1, 2019
For contracts entered into prior to January 1, 2019, the Bank determined whether the agreement was or contained a lease based on the assessment of whether:

- compliance with the agreement was dependent on the use of a specific asset or assets; and

- the agreement had transferred the right to use the asset. An arrangement transferred the right to use the asset if one of the following conditions was met:

    - the buyer has the ability or right to operate the asset while it obtains or controls a non-negligible amount of the output or other benefits from the asset;

    - the purchaser has the ability or right to control physical access to the asset while obtaining or controlling a non-negligible amount of production or other benefits from the asset

    - the facts and circumstances indicated that it was remote that one or other parties other than the buyer would be likely to obtain more than an insignificant amount of the output or other benefits that the asset generates during the period of the arrangement and that the price that the buyer will pay for the output is not contractually fixed per unit of output or equal to the current market price per unit of output at the date of delivery of the output.

(3) Summary of Significant Accounting Policies, continued

i. As a Lessor

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

The Bank applied the practical solution and excluded initial direct costs in measuring the right-to-use asset at the initial application date.

The right-to-use asset is subsequently depreciated using the straight-line method from the start date to the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of assets with rights of use are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced for impairment losses, if applicable, and adjusted for certain remeasurements to the lease liability.

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

- fixed payments, including essentially fixed payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the inception date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an option to extend the term of the contract, and penalties payments for early termination of a lease unless the Bank is reasonably certain not to terminate the contract early.

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

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

(3) Summary of Significant Accounting Policies, continued

Short-term leases and leases of low value assets
The Bank has elected not to recognize right-of-use assets and lease liabilities for short-term leases of its administrative offices and bank branches, ATM´s space, warehouses/deposits, parking lots/land, multifunctional/printers that have a term of 12 months or less. At the date of adoption, no leases of low value assets were identified. The Bank recognizes lease payments associated with these leases as a straight-line expense over the term of the lease.

Application of the portfolio approach
The Bank decided to apply, to the extent possible, the practical record of applying the portfolio approach to leases with similar characteristics and it is reasonably expected that the financial statement effects of applying this Standard to the portfolio would not differ significantly from its application to individual leases portfolio.

The main elements considered in the determination of leases portfolios are: the type of underlying asset and the remaining term of the contract. Considering the above, the contracts included in the different portfolios will be accounted for together and the standard will not be applied individually.

Under IAS 17
Assets held under other leases were classified as operating leases and were not recognized in the Bank's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense over the term of the lease.

(j) Intangible Assets - Licenses and Programs
Licenses and software purchased separately are shown at historical cost. Licenses and software have a defined useful life, which is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses and programs over their estimated useful lives of 5 to 10 years. Software licenses acquired are capitalized on the basis of the costs incurred to acquire and use the specific technology program.

In 2018, management conducted a review of the useful life of certain intangible assets. This change in the estimated useful life was applied prospectively and did not have a significant effect on the amortization expense recognized in the statement of profit or loss.

(3) Summary of Significant Accounting Policies, continued

(k) Foreclosed Borrowers' Assets

Foreclosed borrower´s assets are recognized at the lowest value of the carrying value of the unpaid loans and the fair value of the asset less the cost of sale. The difference between these values is maintained as an impairment allowance, in order to maintain control over the original value of the foreclosed assets recognized. The provision for impairment is recognized in the statement of profit or loss.

(l) Customer Deposits and Obligations

Customer deposits are initially measured at fair value. Subsequently, they are measured at amortized cost, using the effective interest rate method.

(m) Securities Sold under Agreements to Repurchase

Securities sold under repurchase agreements are short-term financing transactions secured by securities, in which there is an obligation to repurchase the securities sold at a future date and at a specified price. The difference between the sale price and the future purchase value is recognized as interest expense under the effective interest rate method.

(n) Certificates of Warranties for Legal Proceedings

The funds that support guarantee certificates and/or judicial deposit certificates are deposited under the provisions of article 570 of the Judicial Code, as amended by article 9 of Law 67 of October 30 2009, to guarantee the results of judicial proceedings or as bail to ensure the personal freedom of a person subject to criminal proceedings. These funds are measured at amortized cost and generate interest at the rate established by the Bank and are received in custody, by provision of said Law and the funds are consigned to the orders of the respective Judge subject to compliance with a judicial process.

(o) Seniority bonus provision

The Bank grants a seniority bonus to the Bank's employees when the following two conditions are met: they have accumulated fifteen or more years of service and terminate their employment relationship due to old age pension or absolute disability.

The cost of providing this benefit is determined annually by an actuary using the projected unit credit method. Actuarial gains and losses are recognized in full in the period they occur in the statement of comprehensive income. The liability comprises the present value of the defined benefit obligation. The Bank determines the net interest cost on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year, taking into account any changes in the benefit liability during the period as a result of the benefit payments.

(p) Interest Income and Expense

Interest income and expense are recognized in the statement of profit or loss using the effective interest rate method.

(3) Summary of Significant Accounting Policies, continued

The effective interest rate method is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant term. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (e.g., prepayment options), but does not consider future credit losses. The calculation includes all fees and commissions paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts. Transaction costs are costs incurred that are directly attributable to the acquisition, issuance or disposal of an asset.

(q) Performance Obligations and Fee and Commission Income Recognition Policy

Fee and commission income from customer contracts is measured based on the consideration specified in a customer contract. The Bank recognizes revenue when the customer receives the service.

The following table presents information on the nature and timing of performance obligations under customer contracts, including significant payment terms, and related revenue recognition policies.

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Corporate and Commercial Banking, Agriculture and Forestry, Consumer, Financial Institutions and Public Sector	The Bank provides banking services to corporate clients and individuals, including the administration of bank accounts, credit and overdraft lines, credit cards and other banking services. The Bank reviews its fees for services on an annual basis. Charges for services related to account management are made directly to the customer's account at the time it is provided. Fees for credit lines and overdrafts are charged directly to the customer's account when the transaction takes place. Banking service charges are made monthly and are based on rates reviewed periodically by the Bank.	Income from bank account management services and fees for banking services are recognized over the time the services are provided. Revenues related to transactions are recognized at the time the transaction takes place.
Treasury	The treasury segment includes the Brokerage House, which provides various financial services including stock brokerage on behalf of third parties or for its own account, custody of securities and investment advice. Fees are charged for ongoing services on a monthly basis directly to the client's bank account. Commissions based on transactions linked to stock brokerage are charged when the transaction is carried out.	Revenues from securities management and custody services are recognized over the period in which the services are provided. Revenues related to transactions are recognized at the time the transaction takes place.
Asset Management	The Bank provides asset management services. Fees for asset management services are calculated based on negotiation with the client and are charged on an annual basis.	Asset management revenues are recognized over time as the services are provided.

(3) Summary of Significant Accounting Policies, continued

(r) Uniformity in the Presentation of the Financial Statements

The accounting policies described above have been applied consistently in the periods presented in the financial statements.

Certain amounts in the 2018 financial statements have been reclassified to clarify their presentation to that of 2019, specifically in the statement of profit or loss, between interest income on loans and commissions on loans and in the statement of financial position, specifically interest receivable and payable which were included within the amortized cost of financial assets and liabilities..

(s) New IFRSs and Unadopted Interpretations

New standards, interpretations and amendments to IFRS have been published, but are not mandatory as of December 31, 2019, and have not been early adopted by the Bank.

The following amendments to IFRS are not expected to have a significant impact on the Bank's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8: Definition of “Material”

(4) Financial Risks Management

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. The Bank's activities relate primarily to the use of financial instruments and, as such, the statement of financial position consists primarily of financial instruments.

The Bank's Board of Directors has the responsibility for establishing and monitoring financial instruments risk management. For this purpose, it has appointed certain committees to manage and periodically monitor the risks to which the Bank is exposed. These committees are: Risk and Policy Steering Committee, Credit Steering Committee, Audit Steering Committee and the Money Laundering Prevention Steering Committee.

Additionally, the Bank is subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of Securities Market of Panama, r related to concentration, liquidity and capitalization risks, among others.

(4) Financial Risk Management, continued

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

(a) Credit Risk

This is the risk that the debtor, issuer or counterparty of a financial asset owned by the Bank will not comply, fully and on time, with any payment due to the Bank in accordance with the terms and conditions agreed at the time the Bank acquired or originated the respective financial asset. To assume this risk, the Bank has a management framework whose main elements include:

- The risk analysis or pre-approval is carried out independently of the business, whose objectives, in addition to identifying, evaluating and quantifying the risk of the proposals, are to determine the impact they will have on the Bank's credit portfolio.
- A control area is responsible for validating that the proposals are within the Bank's policies and limits, obtain the required approval according to the level of risk assumed, and comply with the conditions agreed upon in the approval, at the time the transaction is settled.
- The approval process is carried out through various instances within the Bank in accordance with the established approval limit policy.
- A portfolio management process focused on monitoring risk trends at the Bank level with the objective of anticipating any signs of portfolio deterioration.
- Compliance with collateral policies, including required coverage on loan amounts established by the Credit Steering Committee and reviewed periodically.

The respective management committees assigned by the Board of Directors periodically monitor the financial condition of the respective debtors and issuers that involve a credit risk for the Bank.

The Bank manages credit risk through:

- Credit and investment policies, which are periodically reviewed and adjusted.
- Authorization limits, which are periodically reviewed and adjusted.
- Exposure and concentration limits for the investment portfolios, placements and loans.
- Development and maintenance of credit risk assessment, through permanent revision of the credit portfolio; constant monitoring of credit classification and special attention to the portfolio with higher risk levels.
- Review of compliance with procedures and policies, through specialized administrative units.

To limit credit risk, the Bank has established policies that ensure diversification and allow for an adequate evaluation for each loan.

(4) Financial Risk Management, continued

The key procedures and practices in credit risk management are detailed as follows:

- Limitations on concentration risk (large credit extensions, loans to related parties, refinancing)
- Loan risk monitoring and rating matrix.
- Allowance for loan losses policy.
- Compliance with credit policies and credit management procedures
- Identification and monitoring of initial and changing credit risks observed in customers and in the economic activity carried out by those customers.
- Collection procedure on irregulars and classified loans.

When the estimation of the expected credit loss is carried out collectively, financial instruments are grouped on the basis of shared risk characteristics, which include:

- Type of instrument
- Credit risk ratings
- Type of guarantee; and
- The industry or economic activity

The groupings are subject to periodic review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available historical data.

The portfolios for which the external benchmark information represents a significant input into the ECL measurement are detailed as follow:

Detail	Gross amount	PD	LGD
Placements	3,045,272,323	S&P default study	Moody´s recovery studies
Investments	2,912,909,982	S&P default study	Moody´s recovery studies
Loans - Financial Institutions	203,946,559	S&P default study	Moody´s recovery studies
Loans - Public Sector	310,636,844	S&P default study	Moody´s recovery studies
Loans - Rest of portfolios, excluding loans analyzed individually	3,930,448,028	The Bank uses one-year regulatory transition matrices with a 60-month observation horizon, in accordance with the Bank's defined portfolio segmentation.	The Bank estimates the parameters based on a historical recovery rate of claims against defaulting (doubtful and loss) counterparties.

Credit Quality Analysis

The Bank uses for the evaluation of loans the same credit risk classification system that the Superintendency of Banks of Panama has established for the determination of regulatory reserves. This classification system considers the evaluation of quantitative and qualitative factors of the debtor's financial condition and the market in which it operates to determine its credit risk classification, including the evaluation of the debtor's delinquency. Nevertheless, the consumer portfolio, given its nature, is mainly evaluated based on its delinquency to determine its credit risk classification.

(4) Financial Risk Management, continued

The following table analyzes the credit quality of financial assets at amortized cost, credit commitments and allowances per ECL for these assets held by the Bank as of December 31, 2019:

	2019			
	Low risk	Significant Risk	Default Risk	Total
Loans				
Standard	4,142,068,118	0	0	4,142,068,118
Special-mention	179,917,424	0	0	179,917,424
Sub-standard	0	100,191,261	0	100,191,261
Doubtful	0	0	15,626,027	15,626,027
Loss	0	0	21,586,909	21,586,909
Gross Balance	4,321,985,542	100,191,261	37,212,936	4,459,389,739
Interest receivable	27,681,159	1,521,079	286,422	29,488,660
Interest and unearned commissions	0	0	0	(26,954,325)
Loss allowance	(27,077,920)	(10,678,065)	(25,161,893)	(62,917,878)
Loan balance at AC	4,322,588,781	91,034,275	12,337,465	4,399,006,196
Consumer Loans				
0 to 30 days	2,409,118,831	2,595,895	4,749,923	2,416,464,649
31 to 60 days	18,867,338	432,650	607,486	19,907,474
More than 61 days	7,585,197	6,509,532	12,769,106	26,863,835
Balance	2,435,571,366	9,538,077	18,126,515	2,463,235,958
Individually assessed loans	14,358,308	0	0	14,358,308
Loss allowance:				
Individual	(528,232)	0	0	(528,232)
Collective	(26,549,688)	(10,678,065)	(25,161,893)	(62,389,646)
Total loss reserve	(27,077,920)	(10,678,065)	(25,161,893)	(62,917,878)
Credit commitments				
Standard	487,133,970	0	0	487,133,970
Balance	487,133,970	0	0	487,133,970
Bank deposits at AC				
Standard	3,045,272,323	0	0	3,045,272,323
Gross balance	3,045,272,323	0	0	3,045,272,323
Interest receivable	4,522,442	0	0	4,522,442
Loss allowance	(138,893)	0	0	(138,893)
Balance of deposits in banks at AC	3,049,655,872	0	0	3,049,655,872
Investments in securities at AC				
Standard	2,912,909,982	0	0	2,912,909,982
Gross balance	2,912,909,982	0	0	2,912,909,982
Interest receivable	22,698,677	0	0	22,698,677
Loss allowance	(3,159,493)	0	0	(3,159,493)
Balance of investments in securities at AC	2,932,449,166	0	0	2,932,449,166

During the year ended December 31, 2019, the Bank carried out loan restructurings/modifications with an amortized cost before the modification of B/.8,070,143 and which generated an increase in the allowance for expected credit losses of B/.113,058.

(4) Financial Risk Management, continued

	2018			
	Low risk	Significant Risk	Default Risk	Total
Loans				
Standard	3,975,505,309	0	0	3,975,505,309
Special-mention	227,465,999	526,896	0	227,992,895
Sub-standard	0	20,234,912	101,442	20,336,354
Doubtful	0	0	12,221,080	12,221,080
Loss	0	0	16,374,442	16,374,442
Gross Balance	4,202,971,308	20,761,808	28,696,964	4,252,430,080
Interest receivable	27,848,471	183,797	199,522	28,231,790
Interest and unearned commissions				(26,910,713)
Loss allowance	(27,591,677)	(5,225,522)	(20,790,793)	(53,607,992)
Loan balance at AC	4,203,228,102	15,720,083	8,105,693	4,200,143,165
Consumer Loans				
0 to 30 days	2,198,162,367	1,159,562	2,521,721	2,201,843,650
31 to 60 days	16,824,530	304,398	363,891	17,492,819
More than 61 days	5,031,778	3,839,764	8,947,258	17,818,800
Balance	2,220,018,675	5,303,724	11,832,870	2,237,155,269
Individually assessed loans	14,358,308	0	0	14,358,308
Loss allowance:				
Individual	(528,232)	0	0	(528,232)
Collective	(27,063,445)	(5,225,522)	(20,790,793)	(53,079,760)
Total los reserve	(27,591,677)	(5,225,522)	(20,790,793)	(53,607,992)
Credit commitments				
Standard	418,902,426	0	0	418,902,426
Balance	418,902,426	0	0	418,902,426
Loss allowance	(332,502)	0	0	(332,502)
Total loss reserve	418,569,924	0	0	418,569,924
Bank deposits at AC				
Standard	1,782,037,831	0	0	1,782,037,831
Gross balance	1,782,037,831	0	0	1,782,037,831
Interest receivable	1,126,068	0	0	1,126,068
Loss allowance	(47,724)	0	0	(47,724)
Balance of deposits in banks at AC	1,783,116,175	0	0	1,783,116,175
Investments in securities at AC				
Standard	2,614,155,193	0	0	2,614,155,193
Gross balance	2,614,155,193	0	0	2,614,155,193
Interest receivable	21,087,626	0	0	21,087,626
Loss allowance	(4,386,163)	0	0	(4,386,163)
Balance of investments in securities at AC	2,630,856,656	0	0	2,630,856,656

The Bank maintains deposits placed in banks with a gross balance of B/.3,045,272,323 as of December 31, 2019 (2018: B/.1,782,037,831). Deposits placed are held with recognized financial institutions applying the limits established in the counterparty risk policy. These placements of the Bank's liquid resources are made under conditions of security, liquidity and yield, adjusting to risk and term diversification criteria, in banks with financial solvency and risk rating. At 31 December 2019, an expected loss reserve was established for interbank placements of B/.138,893 (2018: B/.47,724).

(4) Financial Risk Management, continued

The following table presents the deposits placed in banks according to their local or international short-term credit risk rating, granted by risk rating agencies:

Rating of deposits in banks	2019	2018
A1, P1, F1	1,397,528,361	696,022,671
A2, P2, F2	904,673,650	947,932,770
A3	5,000,000	5,000,000
B	0	25,000,000
F1(pa)	7,000,000	7,000,000
Unrated	731,070,312	101,082,390
Gross subtotal	3,045,272,323	1,782,037,831
Interest receivable	4,522,442	1,126,068
Loss reserve	(138,893)	(47,724)
Balance at amortized cost	3,049,655,872	1,783,116,175

The deposits placed presented in the "Unrated" category correspond to resources placed in an international financial institution that only accepts deposits from central banks and, therefore, does not have a credit rating.

The following table presents investments in debt securities according with their local or international long-term credit risk classification, granted by risk rating agencies.

	2019		
Investments in securities	Local Rating	International Rating	Total
AAA	3,269,000	149,442,457	152,711,457
AA+ to A	42,702,482	699,229,033	741,931,515
A-	5,000,000	115,869,629	120,869,629
BBB+ to BBB-	30,775,000	1,586,937,554	1,617,712,554
BB+	5,000,000	138,479,447	143,479,447
BB to B-	0	91,000,000	91,000,000
Unrated	45,205,380	0	45,205,380
Gross subtotal	131,951,862	2,780,958,120	2,912,909,982
Interest receivable	554,351	22,144,326	22,698,677
Loss reserve	(446,241)	(2,713,252)	(3,159,493)
Balance at amortized cost	132,059,972	2,800,389,194	2,932,449,166

	2018		
Investments in securities	Local Rating	International Rating	Total
AAA	10,008,529	107,152,702	117,161,231
AA+ a A	25,704,839	736,525,644	762,230,483
A-	0	115,629,409	115,629,409
BBB+ a BBB-	35,000,000	1,285,533,211	1,320,533,211
BB+	70,000,000	59,917,143	129,917,143
BB to B-	0	91,000,000	91,000,000
Unrated	77,683,716	0	77,683,716
Gross subtotal	218,397,084	2,395,758,109	2,614,155,193
Interest receivable	1,536,476	19,551,150	21,087,626
Loss reserve	(861,294)	(3,524,869)	(4,386,163)
Balance at amortized cost	219,072,266	2,411,784,390	2,630,856,656

(4) Financial Risk Management, continued

Guarantees and their Financial Effect

The Bank maintains guarantees and other improvements to reduce credit risk, to ensure collection of its financial assets exposed to credit risk. The table below presents the main types of guarantees taken with respect to different types of financial assets.

	% of exposure that is subject to warranty requirements		Tipo de garantía
	2019	2018	
Values under resale agreements	100%	100%	Debt securities
Loans	58%	54%	Cash, property and equipment (movable and immovable)

Residential Mortgage Loans

The following table presents the range of loan to value (LTV) ratios of the mortgage portfolio. LTV is a mathematical equation that measures the relationship between what is loaned and the value of the property that will be the subject (and collateral) of the loan. Gross amounts do not include any provision for impairment. The valuation of the collateral does not include all adjustments for obtaining and selling the collateral. The value of collateral for consumer mortgage loans is based on the value of the collateral at the date of disbursement and is generally not updated, unless the loan is updated based on changes in the price indexes of the collateral.

Gross consumer mortgage loans:

% LTV	2019	2018
Less than 50%	105,172,729	134,375,321
51-70%	153,309,485	252,503,854
71-90%	410,307,645	458,156,490
91-100%	638,892,738	279,446,800
Gross total	1,307,682,597	1,124,482,465

Assets Received under Guarantee

The Bank has taken possession of financial and non-financial assets that were constituted as collateral to ensure the collection of impaired loans. As of December 31, 2019, the Bank holds properties that have been awarded to the Bank for a value of B/.11,707,097 (2018: B/.17,979,083).

The Bank's policy is to realize or execute the sale of these assets, to cover the balances due, in case of their foreclosure. Generally, it is not the Bank's policy to use non-financial assets for its own operations, but in the event of foreclosure the intention is to dispose of these assets for sale in the short term.

(4) Financial Risk Management, continued

Concentration of credit risk

The Bank monitors credit risk concentration by sector and geographic location. The analysis of credit risk concentration at the date of the financial statements is as follows:

	Loans		Investments in securities and securities purchased under resale agreements		Deposits in banks		Loan commitments and guarantees granted	
	2019	2018	2019	2018	2019	2018	2019	2018
Gross book value	4,459,389,739	4,252,430,080	2,980,853,891	2,714,431,458	3,045,272,323	1,782,037,831	487,133,970	418,902,426
Concentration by sector:								
Corporate	1,481,570,378	1,333,355,765	1,058,014,541	1,110,490,003	0	0	41,012,718	39,861,400
Consumer	2,463,235,958	2,237,155,270	0	0	0	0	446,071,252	370,152,150
Financial institutions	203,946,559	217,591,416	383,239,385	458,015,992	2,704,419,660	1,424,037,831	0	162,950
Public sector	310,636,844	464,327,629	1,539,599,965	1,145,925,463	340,852,663	358,000,000	50,000	8,725,926
Gross book value	4,459,389,739	4,252,430,080	2,980,853,891	2,714,431,458	3,045,272,323	1,782,037,831	487,133,970	418,902,426
Geographic concentration:								
Panama	4,459,389,739	4,252,430,080	1,967,026,405	1,659,117,421	12,000,000	87,000,000	487,133,970	418,902,426
USA and Canada	0	0	766,522,887	850,349,339	1,526,179,554	1,210,877,216	0	0
Europe	0	0	10,129,241	25,097,087	450,022,049	126,160,597	0	0
Others	0	0	237,175,358	179,867,611	1,057,070,720	358,000,018	0	0
Gross book value	4,459,389,739	4,252,430,080	2,980,853,891	2,714,431,458	3,045,272,323	1,782,037,831	487,133,970	418,902,426

Concentrations by sector are based on the economic activity of the issuer or debtor. The public sector includes government and supranational entities. Geographic concentrations of loans and deposits in banks are based on the location of the debtor and correspondent bank, respectively. The geographic concentration for investments is determined based on the location of the issuer of the investment. All other assets and liabilities are located in the Republic of Panama.

The Bank also monitors and follows up on operations outside the statement of financial position, which are those operations that although not reflected within that statement, are reviewed in detail because they may expose the Bank to financial obligations depending on future events or actions by other parties. These transactions are subject to the concentration limits (loans to a single person and to related parties) to which the loan portfolio recorded in the statement of financial position is subject to.

(4) Financial Risk Management, continued

Expected credit losses

The following table provides a reconciliation between the opening and closing balance of the reserves for losses on financial assets at amortized cost:

	2019			
	Low risk	Significant risk	Default risk	Total
Deposits at amortized cost				
Balance as of January 1, 2019	47,724	0	0	47,724
Allocation of reserve to new originated financial assets	12,040	0	0	12,040
Net remeasurement of loss allowance	155,980	0	0	155,980
Reversal of derecognised assets	(76,851)	0	0	(76,851)
Balance as of December 31, 2019	138,893	0	0	138,893
Investments in securities at amortized cost				
Balance as of January 1, 2019	4,386,163	0	0	4,386,163
Net remeasurement of loss allowance	(1,470,886)	0	0	(1,470,886)
Allocation of reserve to new purchased financial assets	1,062,736	0	0	1,062,736
Reversal of reserve due to derecognised assets	(818,520)	0	0	(818,520)
Balance as of December 31, 2019	3,159,493	0	0	3,159,493
Corporate Loans				
Balance as of January 1, 2019	15,364,658	4,388,947	12,519,024	32,272,629
Transfers to 12-month ECL (low risk)	3,710,299	(2,394,618)	(1,315,681)	0
Transfers to ECL over the life of the credit (significant risk)	(1,531,753)	6,312,467	(4,780,714)	0
Transfers to ECL over the life of the loan (default)	(90,453)	(3,614,043)	3,704,496	0
Net remeasurement of loss allowance	(1,243,422)	4,508,366	5,860,962	9,125,906
Allocation of reserve to new originated financial assets	3,810,413	460,660	1,480,836	5,751,909
Reversal of reserve due to derecognised assets	(3,174,352)	(562,542)	(4,192,471)	(7,929,365)
Loans written off	0	0	(2,090,112)	(2,090,112)
Recoveries	0	0	1,255,693	1,255,693
Balance as of December 31, 2019	16,845,390	9,099,237	12,442,033	38,386,660
Consumer Loans				
Balance as of January 1, 2019	10,859,508	836,576	8,271,767	19,967,851
Transfers to 12-month PCE (low risk)	3,392,922	(957,259)	(2,435,663)	0
Transfers to PCE over the life of the credit (significant risk)	(236,115)	1,089,477	(853,362)	0
Transfers to PCE over the life of the loan (default)	(209,602)	(1,068,427)	1,278,029	0
Net remeasurement of loss allowance	(5,201,189)	1,860,433	6,801,105	3,460,349
Allocation of reserve to new originated financial assets	1,422,782	3,867	220,155	1,646,804
Reversal of reserve due to derecognised assets	(485,813)	(185,839)	(526,160)	(1,197,812)
Loans written off	0	0	(1,286,155)	(1,286,155)
Recoveries	0	0	1,250,144	1,250,144
Balance as of December 31, 2019	9,542,493	1,578,828	12,719,860	23,841,181
Financial institution loans				
Balance as of January 1, 2019	439,785	0	0	439,785
Net remeasurement of loss allowance	(97,972)	0	0	(97,972)
Balance as of December 31, 2019	341,813	0	0	341,813
Public Sector Loans				
Balance as of January 1, 2019	927,727	0	0	927,727
Net remeasurement of loss allowance	(397,994)	0	0	(397,994)
Reversal of reserve due to derecognised assets	(181,509)	0	0	(181,509)
Balance as of December 31, 2019	348,224	0	0	348,224

(4) Financial Risk Management, continued

	2018			
	Low risk	Significant risk	Default risk	Total
Deposits at amortized cost				
Balance as of January 1, 2018	886,560	0	0	886,560
Allocation of reserve to new originated financial assets	(772,352)	0	0	(772,352)
Net remeasurement of loss allowance	2,632	0	0	2,632
Reversal of reserve due to derecognised assets	(69,116)	0	0	(69,116)
Balance as of December 31, 2018	47,724	0	0	47,724
Investments in securities at amortized cost				
Balance as of January 1, 2018	3,159,865	0	0	3,159,865
Net remeasurement of loss allowance	174,221	0	0	174,221
Allocation of reserve to new purchased financial assets	1,819,551	0	0	1,819,551
Reversal of reserve due to derecognised assets	(767,474)	0	0	(767,474)
Balance as of December 31, 2018	4,386,163	0	0	4,386,163
Loans at amortized cost				
Corporate Loans				
Balance as of January 1, 2018	17,231,388	4,614,837	8,371,392	30,217,617
Transfers to 12-month ECL (low risk)	922,619	(689,252)	(233,367)	0
Transfers to ECL over the life of the credit (significant risk)	(16,977)	224,786	(207,809)	0
Transfers to ECL over the life of the loan (default)	(105,966)	(448,631)	554,597	0
Net remeasurement of loss allowance	(3,558,231)	610,329	6,939,796	3,991,894
Allocation of reserve to new originated financial assets	2,140,618	549,319	2,109,670	4,799,607
Reversal of reserve due to derecognised assets	(1,248,793)	(472,441)	(4,519,988)	(6,241,222)
Loans written off	0	0	(1,010,331)	(1,010,331)
Recoveries	0	0	515,064	515,064
Balance as of December 31, 2018	15,364,658	4,388,947	12,519,024	32,272,629
Consumer Loans				
Balance as of January 1, 2018	10,224,761	2,696,641	8,391,758	21,313,160
Transfers to 12-month ECL (low risk)	3,385,086	(1,636,467)	(1,748,619)	0
Transfers to ECL over the life of the credit (significant risk)	(44,407)	348,761	(304,354)	0
Transfers to ECL over the life of the loan (default)	(101,979)	(620,528)	722,507	0
Net remeasurement of loss allowance	(3,685,459)	148,729	4,426,033	889,303
Allocation of reserve to new originated financial assets	1,699,033	33,698	159,606	1,892,337
Reversal of reserve due to derecognised assets	(617,527)	(134,258)	(781,962)	(1,533,747)
Loans written off	0	0	(3,765,477)	(3,765,477)
Recoveries	0	0	1,172,275	1,172,275
Balance as of December 31, 2018	10,859,508	836,576	8,271,767	19,967,851
Financial institution loans				
Balance as of January 1, 2018	236,185	0	0	236,185
Net remeasurement of loss allowance	122,021	0	0	122,021
Allocation of reserve to new originated financial assets	81,579	0	0	81,579
Balance as of December 31, 2018	439,785	0	0	439,785
Public Sector Loans				
Balance as of January 1, 2018	329,614	0	0	329,614
Net remeasurement of loss allowance	(5,306)	0	0	(5,306)
Allocation of reserve to new originated financial assets	605,393	0	0	605,393
Reversal of reserve due to derecognised assets	(1,974)	0	0	(1,974)
Balance as of December 31, 2018	927,727	0	0	927,727

(4) Financial Risk Management, continued

Loans written off as of December 31, 2019 in the amount of B/.3,376,267 (2018: B/.4,775,808) are still subject to collection activities.

Weighting of macroeconomic scenarios and their incorporation in prospective information
In order to incorporate not only a perspective in the prospective information, the Bank carries out weightings in order to recognize the uncertainty that exists around the short- and medium-term economic context that the country will experience. The Bank incorporates three scenarios: base, optimistic and pessimistic.

Each of the scenarios is intended to reflect reasonable expectations and have a relevant level of probability associated with them.

The base scenario corresponds to the one with the highest probability of occurrence and comes directly from the results of the projection models developed for each indicator; this scenario has a weight of 60%. On the other hand, both the optimistic and pessimistic scenarios are determined based on the values of the base scenario adjusted according to the standard error of the projections (each scenario has a weight of 20%).

Next, the macroeconomic variable selected to incorporate the prospective information and its projections:

	IMAE Evolution Projection		
	Base	**Optimistic**	**Pessimistic**
2020	4.03%	4.67%	3.38%
2021	3.39%	4.04%	2.74%
2022	3.28%	3.92%	2.63%
2023	3.17%	3.82%	2.53%
2024	3.08%	3.72%	2.43%

The following table shows the estimated impact on the allowance for loan losses caused by assumed increases or decreases of 2% and 3% in the IMAE:

	200bp of increase	**200 pb of decrease**	**300 pb of increase**	**300 pb of decrease**
As of December 31, 2019	(242,816)	264,638	(244,121)	270,093
	200 pb of increase	**200 pb of decrease**	**300 pb of increase**	**300 pb of decrease**
As of December 31, 2018	(526,890)	564,328	(544,779)	568,238

(4) Financial Risk Management, continued

(b) Liquidity risk

Liquidity risk is defined as the risk that the Bank is unable to meet all of its obligations due to, among other things, unexpected withdrawal of funds by creditors or customers, impairment in the quality of the loan portfolio, decrease in the value of investments, excessive concentration of liabilities in a particular source, mismatch between assets and liabilities, lack of liquidity of assets, or funding of long-term assets with short-term liabilities. The Bank manages its liquid resources to meet its liabilities as they mature under normal conditions.

Risk Management of Liquidity Risk

The Superintendency of Banks of Panama requires that banks with a general license allways should maintain a liquidity of no less than 30%, defined based on the parameters established in Agreement No. 004-2008. However, the liquidity risk management policies establish the estimation of alternative liquidity indicators, which contemplate high liquidity assets.

Monitoring of the liquidity position includes daily reviews and monthly deposit volatility analysis. Stress tests are developed in different scenarios considering that they cover normal or more severe conditions. All policies and procedures are subject to review and approval by the Asset-Liability Steering Committee (ALCO) and the Risk and Policy Steering Committee.

The Board of Directors has established minimum liquidity levels on the proportion of funds available to meet these requirements and on the minimum level of inter-bank and other lending facilities that must exist to cover withdrawals at unexpected levels of demand. The Bank maintains a portfolio of short-term assets, comprised largely of liquid investments and inter-bank placements, to ensure that it maintains enough liquidity.

Agreement No. 002-2018 of the Superintendency of Banks of Panama establishes the provisions for the Liquidity Coverage Ratio (LCR), the Bank must ensure compliance with 50% by December 2019. As of December 31, 2019, the Bank's indicator exceeds the 50% established by that Agreement.

Liquidity Risk Exposure

The Bank uses the legal liquidity ratio as the basis for liquidity risk management. It is the ratio of net liquid assets to deposits received from customers. Net liquid assets are cash and cash equivalents and debt securities for which there is an active and liquid market, deposits with maturities of less than 186 days and bond payments with maturities of no more than 186 days.

(4) Financial Risk Management, continued

The result of the estimation of the legal liquidity index as of the date of the statement of financial position is detailed below:

	2019	2018
As of December 31	71.3%	74.4%
Average of the year	70.8%	75.5%
Maximum of the year	75.3%	91.6%
Minimum of the year	67.4%	65.8%

The following table details the undiscounted cash flows from financial assets and liabilities, and loan commitments not recognized, in contractual maturity groupings for the remaining period from the date of the statement of financial position:

2019	Book Value	Gross nominal amount (outgoings)/incomings	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years
Financial liabilities						
Customer deposits at amortized cost	9,446,913,442	(9,542,188,862)	(5,564,281,090)	(338,386,169)	(119,533,626)	(3,519,987,977)
Borrowings at amortized cost	260,158,988	(302,141,183)	(50,114,583)	0	0	(252,026,600)
Loan commitments	0	(469,114,809)	(107,252,438)	(361,862,371)	0	0
Financial guarantees/endorsements	0	(18,019,161)	(13,062,940)	(4,956,221)	0	0
	9,707,072,430	(10,331,464,015)	(5,734,711,051)	(705,204,761)	(119,533,626)	(3,772,014,577)
Financial Assets						
Cash, cash equivalents and bank deposits at amortized cost	3,269,554,337	3,272,174,578	3,272,174,578	0	0	0
Investments in securities and securities purchased under resale agreements, net	3,010,198,328	3,019,681,852	854,101,048	668,007,770	638,897,451	858,675,583
Loans at amortized cost	4,399,006,196	5,228,492,698	407,841,432	716,888,236	331,603,532	3,772,159,498
	10,678,758,861	11,520,349,128	4,534,117,058	1,384,896,006	970,500,983	4,630,835,081

2018	Book Value	Gross nominal amount (outgoings)/incomings	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years
Financial liabilities						
Customer deposits at amortized cost	8,067,708,051	(8,152,205,398)	(3,683,378,167)	(1,157,573,673)	(65,759,643)	(3,245,493,915)
Borrowings at amortized cost	35,198,829	(35,099,458)	(35,099,458)	0	0	0
Loan commitments	0	(410,907,527)	(151,357,815)	(259,549,712)	0	0
Financial guarantees/endorsements	0	(7,994,899)	(7,836,085)	(158,814)	0	0
	8,102,906,880	(8,606,207,282)	(3,877,671,525)	(1,417,282,199)	(65,759,643)	(3,245,493,915)
Financial Assets						
Cash, cash effects and bank deposits at amortized cost	2,019,266,542	2,022,772,419	2,022,772,419	0	0	0
Investments in securities and securities purchased under resale agreements, net	2,738,182,121	2,831,581,260	486,030,063	962,400,490	540,394,921	842,755,786
Loans at amortized cost	4,200,143,165	5,011,280,224	433,239,942	769,818,385	146,006,395	3,662,215,502
	8,957,591,828	9,865,633,903	2,942,042,424	1,732,218,875	686,401,316	4,504,971,288

For non-derivative financial assets and liabilities, the gross nominal amount is measured based on undiscounted cash flows and includes estimated interest payable and receivable, which is why it differs from the amounts presented in the statement of financial position.

(4) Financial Risk Management, continued

The following table shows the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled after twelve months after the balance sheet date:

	2019	2018
Assets:		
Investments in securities	2,106,026,455	2,195,719,042
Loans	3,963,062,012	3,746,480,024
Total assets	6,069,088,467	5,942,199,066
Liabilities:		
Time deposits	901,965,950	1,623,279,668
Bonds payable	205,736,000	0
	1,107,701,950	1,623,272,668

(c) Market Risk

It is the risk that the value of a Bank's financial asset will be reduced due to changes in interest rates, monetary exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events. The objective of market risk management is to manage and monitor risk exposures, and to keep them within acceptable parameters.

Risk management policies provide for compliance with limits by financial instrument, concentration limits, instrument rating limits, limits with respect to the maximum amount of loss from which the closing of the positions that caused such loss is required; and the requirement that, except for Board of Directors' approval, substantially all assets and liabilities are denominated in US dollars or in balboas.

Market Risk Management

The Bank does not currently maintain a trading portfolio; therefore, the risk inherent in this activity is substantially reduced.

The Bank maintains investments in securities that are presented in the Bank's statement of financial position at either amortized cost or fair value. Changes in the fair value of investments measured at FVOCI are recorded directly and recognized in a valuation account in the equity funds until the securities are sold or redeemed; in these cases, the cumulative gains or losses previously recognized in the equity funds are transferred to retained earnings.

(4) Financial Risk Management, continued

The Bank manages the market risk of its financial instruments through periodic reports to the Asset-Liability Steering Committee (ALCO) and the Risk and Policy Steering Committee, in which price changes in each instrument are analyzed and Value at Risk (VaR) is estimated daily to monitor and make decisions about its portfolio, based on the VaR limit that has been established.

Value at Risk is an estimate of probable loss over a given time horizon, which allows the Bank to set limits or caps on exposures in its investment portfolio.

The VaR model used by the Bank is based on the correlation method and considers a 99% confidence level over a one (1) day portfolio holding period.

The Bank has established maximum realized and unrealized loss limits for both individual instruments and the total investment portfolio. The market value of the securities investment portfolio is compared daily against these limits. If there is an excess in some limits, the Bank may liquidate the position or maintain it in the portfolio until its maturity or until its prices allow the sale of the securities without incurring losses, since it considers that these are usually market effects and not an impairment in the payment capacity of the issuer.

Although the VaR model is one of the most widely used tools for measuring market risks, its main limitation is that the result obtained depends closely on the information used to calibrate the models and the historical data used. VaR is considered a good measure for estimating the risk of loss under normal market conditions, but practice has shown that it fails significantly in crisis conditions. Stress analyses seek to cover these deficiencies.

An impairment loss is recognized when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a loss) and that loss has an impact on future estimates of the security's cash flows, which can be reasonably estimated.

The Bank's Board of Directors has determined that all market risk issues are managed and monitored directly by the Assets and Liabilities Steering Committee (ALCO) and the Risk and Policy Steering Committee; these committees are responsible for the development of market risk management policies, as well as reviewing and approving the implementation of those policies.

(4) Financial Risk Management, continued

The Bank manages its exposure to market risk from the following perspectives:

- Monitoring the price of the different securities on a daily basis, in order to verify if they are within the limits established by the Board of Directors, with respect to the global losses of its investment portfolio and on the losses of individual instruments.

- Determining the effect on the Bank's profits and on the value of financial assets and liabilities.

The composition and analysis of each type of market risk is presented in detail below:

- *Exchange rate risk:*
  It is the risk that the value of a financial instrument fluctuates as a consequence of variations in the exchange rates of foreign currencies, and other financial variables, as well as the reaction of market participants to political and economic events. For the purposes of accounting standards, this risk does not arise from financial instruments that are not monetary items, nor from financial instruments denominated in the functional currency.

  Generally, the Bank conducts its transactions in United States dollars; however, it maintains some deposits in euros and yen.

  Considering current market conditions and the amount these balances represent, the Bank currently assumes the exchange rate risk.

  The following table shows the operations of monetary financial instruments in the statement of financial position, agreed upon in foreign currencies, which are presented in their equivalent in balboas, as follows:

	2019			2018		
	Euro	Yen	Total	Euro	Yen	Total
Deposits in bank	22,049	409	22,458	78,207	19	78,226
Total assets	22,049	409	22,458	78,207	19	78,226

- *Cash flow interest rate risk:*
  These are the risks that the future cash flows and value of a financial instrument will fluctuate due to changes in market interest rates. The Assets and Liabilities Steering Committee (ALCO) and the Risks and Policies Steering Committee follow up on rate sensitivity reports.

  The Bank's management, in order to evaluate interest rate risks and their impact on the fair value of financial assets and liabilities, performs simulations to determine the sensitivity of financial assets and liabilities.

(4) Financial Risk Management, continued

In order to mitigate this risk, the Bank periodically performs a sensitivity analysis of the financial and equity margin by measuring the impact of interest rate changes on rate-sensitive financial assets and liabilities, using the following tools:

– Financial margin sensitivity
The variation in the sensitivity of the financial margin is estimated by determining the changes in the financial margin before decreases or increases of 50 and 100 basis points (bp) of the market interest rate.

– Sensitivity of the equity margin
Measures the impact on the value of equity at the reporting date of changes of 50 and 100 basis points (bp) in the value of financial assets and liabilities.

The base analysis performed by management consists of determining the impact on financial assets and liabilities caused by increases or decreases of 50 and 100 basis points (bps) in interest rates. The impact is summarized below:

Sensitivity in the projected net interest income

2019	**50 bp of increase**	**50 bp of decrease**	**100 bp of increase**	**100 bp of decrease**
As of December 31	4,814,835	(5,549,612)	9,629,670	(11,791,854)
Average of the year	4,341,171	(4,435,985)	8,682,342	(10,156,124)
Maximum of the year	4,814,835	(5,549,612)	9,629,670	(11,791,854)
Minimum of the year	3,977,372	(3,977,374)	7,954,745	(8,918,950)
2018				
As of December 31	4,453,556	(4,453,554)	8,907,111	(9,583,964)
Average of the year	4,586,668	(4,816,980)	9,173,336	(10,990,732)
Maximum of the year	4,881,778	(5,481,688)	9,763,553	(12,954,625)
Minimum of the year	3,871,859	(3,871,860)	7,743,718	(8,534,173)

Sensitivity in equity to rate changes in financial assets and liabilities

2019	**50 bp of increase**	**50 bp of decrease**	**100 bp of increase**	**100 bp of decrease**
As of December 31	4,794,934	(5,482,863)	9,566,444	(11,681,780)
Average of the year	556,823	(312,090)	977,217	(842,911)
Maximum of the year	4,794,934	(5,482,863)	9,566,444	(11,681,780)
Minimum of the year	(483,330)	507,536	(521,647)	541,280
2018				
As of December 31	4,038,273	(4,807,396)	(4,899,559)	(9,907,085)
Average of the year	222,514	(519,744)	(601,852)	(952,405)
Maximum of the year	4,038,273	(4,807,396)	560,721	(9,907,085)
Minimum of the year	(1,172,043)	654,055	(4,899,559)	685,166

(4) Financial Risk Management, continued

Market Risk

The table below summarizes the Bank's exposure to interest rate risk. The Bank's assets are included in the table at their carrying values, classified by categories, based on the earlier of contractual repricing date or maturity dates. Financial assets and liabilities that do not have contractual fixed returns are excluded.

	2019					
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Interest receivable	Total
Assets:						
Time deposits in banks	2,969,300,000	0	0	0	4,522,442	2,973,822,442
Securities purchased under resale agreements	67,943,909	0	0	0	619,356	68,563,265
Investments in securities	806,883,527	851,944,386	538,031,505	716,050,564	22,698,677	2,935,608,659
Loans and interest receivable, gross balance	520,253,256	623,786,279	282,372,584	3,032,977,620	29,488,660	4,488,878,399
Total	4,364,380,692	1,475,730,665	820,404,089	3,749,028,184	57,329,135	10,466,872,765
Liabilities:						
Savings deposits	709,752,928	0	0	0	0	709,752,928
Time and restricted deposits	4,427,166,008	321,616,092	106,604,883	473,744,975	4,402,023	5,333,533,981
Bonds Payable	0	0	0	205,736,000	480,051	206,216,051
Borrowing received	50,000,000	0	0	0	3,818	50,003,818
Total	5,186,918,936	321,616,092	106,604,883	679,480,975	4,885,892	6,299,506,778
Net interest sensitivity margin	(822,538,244)	1,154,114,573	713,799,206	3,069,547,209	52,443,243	4,167,365,987

	2018					
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Interest receivable	Total
Activos:						
Time deposits in banks	1,717,300,000	0	0	0	1,126,068	1,718,426,068
Securities purchased under resale agreements	100,276,265	0	0	0	717,148	100,993,413
Investments in securities	418,436,150	925,741,141	649,988,086	619,989,816	21,087,626	2,635,242,819
Loans and interest receivable, gross balance	612,218,613	643,719,048	130,277,324	2,866,215,095	28,231,790	4,280,661,870
Total	2,848,231,028	1,569,460,189	780,265,410	3,486,204,911	51,162,632	8,735,324,170
Pasivos:						
Savings deposits	692,680,095	0	0	0	0	692,680,095
Time and restricted deposits	2,598,739,916	1,096,300,154	56,730,059	470,249,455	3,405,613	4,225,425,197
Borrowing received	35,000,000	0	0	0	198,829	35,198,829
Total	3,326,420,011	1,096,300,154	56,730,059	470,249,455	3,604,442	4,953,304,121
Net interest sensitivity margin	(478,188,983)	473,160,035	723,535,351	3,015,955,456	47,558,190	3,782,020,049

The interest rate risk position is managed directly by the Bank's Treasury, which uses instruments such as investments in securities, deposits in banks and deposits from banks to manage the general position of the Bank's activities.

- *Price risk:*
  The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to the particular instrument or its issuer, or by factors affecting all securities traded in the market.

  The Bank is exposed to price risk on equity instruments classified as available for sale. To manage the price risk arising from investments in equity instruments, the Bank diversifies its portfolio according to the limits set by the Bank.

(4) Financial Risk Management, continued

(d) Operational Risk

Operational risk is the risk of potential losses, direct or indirect, related to the Bank's processes, people, technology and infrastructure, external factors and legal aspects, which are not related to credit, market and liquidity risks, such as those arising from legal and regulatory requirements and from the performance of generally accepted corporate standards.

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

The main responsibility for the development and implementation of operational risk controls is assigned to senior management within each business area, the Operational Risk and Technology Risk Committee, the Risk and Policy Steering Committee, the Executive Compliance Management, the Executive Internal Control Management, the Executive Audit Management and the Executive Comprehensive Risk Management. This responsibility is supported by the development of standards for managing operational risk, contained in the Bank's Risk Manual.

These standards are related to the identification of the different operational risks faced by the Bank (risk map) and the collection of information related to the different operational risk events that have occurred, in order to identify the frequency and impact of each one of them.

(e) Capital Management

The Bank's policy is to maintain strong capital that can ensure the future development of the investment and credit business within the market, with adequate levels of return on shareholder capital and capital adequacy required by regulators. Law Decree No. 4 of 2006, as amended by Law No. 24 of May 16, 2017, establishes the Bank's capital at B/.500,000,000. This capital may be periodically increased by the Board of Directors, subject to a favorable opinion of the Executive Body through a Decree, in accordance with the provisions of banking legislation or best banking practices. As of December 31, 2019, the Bank maintains capital funds of B/.650,000,000 (2018: B/.650,000,000).

The Superintendency of Banks of Panama and the Superintendency of the Securities Market of Panama, as regulatory entities, require the Bank to maintain a total capital index measured based on risk weighted average assets. The Bank complies with the regulatory capital requirements to which it is subject.

(4) Financial Risk Management, continued

Article No. 81 of Law Decree No. 2 of 2008, which amends Article No. 45 of Decree-Law No. 9 of 1998, provides that banks with a general and international license must maintain capital funds equivalent to at least eight percent (8%) of their total assets and operations outside the state of financial position, weighted according to their risks. This article was regulated by Agreement No. 001-2015 of the Superintendency of Banks of Panama, which establishes the capital adequacy standards applicable to banks and came into force on January 1, 2016. Agreement No. 003-2016 of the Superintendency of Banks of Panama establishes the rules for the determination of credit risk weighted assets and counterparty risk, this began to be effective on July 1, 2016.

Agreement No. 003-2018 establishes the capital requirements for financial instruments, registered in the trading portfolio and Agreement No.011-2018 establishes the capital requirements for operational risk, both of which began to be effective on December 31, 2019.

As of December 31, 2019, the Bank's capital adequacy ratio is determined in accordance with Agreements No. 001-2015, 003-2016, 003-2018 and 011-2018 of the Superintendency of Banks of Panama:

	2019
Primary Capital	
Capital funds	650,000,000
Retained earnings	182,229,675
Other items in comprehensive income	8,424,542
Less: intangible assets	12,649,126
Primary Capital	828,005,091
Dynamic regulatory provision	56,928,983
Total Capital Funds	884,934,074
Total risk-weighted assets	5,514,461,919
Capital adequacy ratio	16.05%

As of December 31, 2018, The Bank´s capital adequacy ratio is determined in accordance with Agreements No. 001-2015 y 003-2016 of the Superintendency of Banks of Panama:

	2018
Primary Capital	
Capital funds	650,000,000
Retained earnings	93,289,354
Other items in comprehensive income	6,106,661
Less: intangible assets	14,473,048
Primary Capital	734,922,967
Dynamic regulatory provision	56,598,706
Total Capital Funds	791,521,673
Total risk-weighted assets	4,758,976,792
Capital adequacy ratio	16.63%

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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. Estimates and assumptions are evaluated periodically and are based on historical experience and other factors, including expectations of future events, believed to be reasonable under the circumstances. Any changes in assumptions or criteria may significantly affect the estimates.

(a) Impairment losses on loans

The Bank reviews its loan portfolio at each reporting date to determine if there is objective evidence of impairment in a loan or loan portfolio that should be recognized in profit or loss of the year. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes decisions as to whether there is observable information indicating that there is a reduction in the value of the loan that can be measured in the estimated future cash flows of the loans.

This evidence includes observable information indicating that there has been an adverse change in the payment condition of borrowers or economic conditions that correlate with defaults on loans in the Bank. The methodology and assumptions used to estimate the amount and timing of future cash flows are regularly reviewed to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of investment instruments

The Bank determines that investments in securities are impaired when there has been a significant or prolonged decline in fair value below cost. This determination of what is a significant or prolonged decline requires judgment.

In addition, impairment may be considered when there is evidence of a deterioration in the financial health of the issuer, in the performance of the industry and sector, due to changes in technology and in its operating and financial cash flows.

(c) Fair value

For investment instruments listed on active markets, the fair value is determined by the instrument's reference price published on stock exchanges and stock exchange electronic systems. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data. These techniques include discounted future cash flow analyses and other valuation techniques commonly used by market participants. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

(d) Foreclosed assets of borrowers

Foreclosed properties that are impaired are reserved as such impairment occurs.

(6) Cash and Cash Equivalents

Cash and cash equivalents are detailed below for purposes of reconciliation with the cash flows statement:

	2019	2018
Cash and cash equivalents	219,898,465	236,150,367
Demand deposits	75,972,323	64,737,831
Time deposits	2,969,300,000	1,717,300,000
Total gross cash, cash equivalents and deposits with banks in the statement of financial position, excluding interest receivable	3,265,170,788	2,018,188,198
Less: Time deposits in banks with original maturities over 90 days	150,000,000	100,000,000
Total cash and cash equivalents in the cash flow statement	3,115,170,788	1,918,188,198

As of December 31, 2019, the Bank maintains a reserve for expected losses on deposits in banks of B/.138,893 (2018: B/.47,724).

(7) Securities Purchased under Resale Agreements

At December 31, 2019, the Bank holds securities purchased under resale agreements as follows:

Maturity Date	Interest Rate Libor	Interest Rate Margin	Collateral	2019	2018
01/04/2019	2 months	1.35%	Local corporate bonds	0	12,000,000
01/04/2019	2 months	1.35%	Supranational entity bonds	0	3,102,500
01/28/2019	3 months	1.35%	Supranational entity bonds	0	1,997,500
01/28/2019	3 months	1.35%	Republic of Panama Global Bond	0	18,000,000
03/21/2019	3 months	1.35%	Local corporate bonds	0	5,956,800
03/21/2019	3 months	1.35%	Local corporate bonds	0	9,416,400
03/21/2019	3 months	1.35%	Local corporate bonds	0	5,672,000
04/24/2019	9 months	1.50%	Local corporate bonds	0	6,607,380
05/27/2019	12 months	1.50%	Notes from the Republic of Panama	0	5,950,000
06/17/2019	6 months	1.50%	Republic of Panama Global Bond	0	6,196,050
06/17/2019	6 months	1.50%	Local corporate bonds	0	3,528,000
06/17/2019	6 months	1.50%	Local corporate bonds	0	960,000
06/17/2019	6 months	1.50%	Notes from the Republic of Panama	0	4,942,575
06/17/2019	6 months	1.50%	Notes from the Republic of Panama	0	1,350,000
06/17/2019	6 months	1.50%	Local corporate bonds	0	6,400,000
06/28/2019	12 months	1.50%	Supranational entity bonds	0	8,197,060
01/20/2020	9 months	1.50%	Local corporate bonds	1,892,800	0
01/20/2020	9 months	1.50%	Local corporate bonds	6,606,709	0
01/30/2020	6 months	1.25%	Republic of Panama Global Bond	5,040,000	0
02/12/2020	6 months	1.25%	Local corporate bonds	1,600,000	0
02/12/2020	6 months	1.25%	Local corporate bonds	6,400,000	0
02/19/2020	3 months	1.50%	Local corporate bonds	3,600,000	0
02/19/2020	3 months	1.50%	Local corporate bonds	1,600,000	0
02/27/2020	3 months	1.50%	Local corporate bonds Vcn's	2,320,000	0
03/13/2020	5 months	1.00%	Local corporate bonds	5,956,800	0
03/13/2020	5 months	1.00%	Local corporate bonds	8,519,600	0
03/13/2020	5 months	1.00%	Local corporate bonds	4,000,000	0
03/13/2020	5 months	1.00%	Local corporate bonds	2,800,000	0
03/13/2020	5 months	1.00%	Local corporate bonds	5,672,000	0
06/12/2020	6 months	1.25%	Local corporate bonds	2,728,000	0
06/12/2020	6 months	1.25%	Local corporate bonds	432,000	0
06/12/2020	6 months	1.25%	Local corporate bonds	2,376,000	0
06/12/2020	6 months	1.25%	Local corporate bonds	6,400,000	0
			Gross subtotal	67,943,909	100,276,265
			Interest receivable	619,356	717,148
				68,563,265	100,993,413

These securities purchased under resale agreements are held with local financial institutions with a credit risk rating between BBB and A+.

(8) Investments in Securities

The composition and classification of investments in securities is as follows:

	2019		
	FVOCI	**AC**	**Total**
Public debt securities	0	1,539,599,965	1,539,599,965
Private debt securities	0	1,373,310,017	1,373,310,017
Private equity shares	9,185,897	0	9,185,897
Subtotal	9,185,897	2,912,909,982	2,922,095,879
Interest receivable	0	22,698,677	22,698,677
Loss reserve	0	(3,159,493)	(3,159,493)
Balance of investments in securities	9,185,897	2,932,449,166	2,941,635,063

	2018		
	FVOCI	**AC**	**Total**
Public debt securities	0	1,145,925,463	1,145,925,463
Private debt securities	0	1,468,229,730	1,468,229,730
Private equity shares	6,332,052	0	6,332,052
Subtotal	6,332,052	2,614,155,193	2,620,487,245
Interest receivable	0	21,087,626	21,087,626
Loss reserve	0	(4,386,163)	(4,386,163)
Balance of investments in securities	6,332,052	2,360,856,656	2,637,188,708

Equity instruments at fair value with changes in other comprehensive income as of December 31, 2019, recorded a net unrealized gain of B/.2,853,845 as a result of the net change in fair value (2018: net unrealized loss: B/.1,054,952).

As of December 31, 2019, the Bank received dividends on private equity investments of B/.1,001,251 (2018: B/.913,424).

As of December 31, 2019, the Bank did not sell securities at amortized cost (2018: B/.295,605,200 obtaining net realized gains of B/.13,039,225 included in the statement of income).

As of December 31, 2019, securities at amortized cost were redeemed for B/.855,884,321 (2018: B/.833,978,221).

As of December 31, 2019, the Bank maintains a reserve for expected credit losses on investments in securities at amortized cost of B/.3,159,493 (2018: B/.4,386,163).

(9) Loans

The distribution by economic activity of the loan portfolio, net of the allowance for loan losses and unearned interest and commissions, is summarized below:

	2019	2018
Public sector, gross	310,636,844	464,327,629
Private sector, gross:		
Residential mortgages	1,307,682,597	1,124,482,465
Personal	1,155,535,117	1,112,655,003
Agricultural	621,617,729	585,728,440
Commercial	809,093,331	696,753,735
Financial institutions	203,946,559	217,591,416
Industrials	50,354,977	50,674,309
Overdrafts	522,585	217,083
Total gross private sector	4,148,752,895	3,788,102,451
Total gross loans	4,459,389,739	4,252,430,080
More (less):		
Accrued interest receivable	29,488,660	28,231,790
Reserve for loan losses	(62,917,878)	(53,607,992)
Interest and unearned commissions	(26,954,325)	(26,910,713)
Loans at amortized cost	4,399,006,196	4,200,143,165

As of December 31, 2019, non-cash transactions were carried out for purposes of the statement of cash flows, due to the cancellation of the Colon Free Zone loans, through Public Debt Securities of the Republic of Panama for B/.83,383,000.

(10) Property and Equipment

The properties and equipment are summarized as follows:

2019	Land, Buildings and Improvements	Office Furniture and Equipment	Vehicles	Constructions in Progress	Total
Cost:					
At the beginning of the year	81,036,780	82,317,782	13,432,880	7,987,320	184,774,762
Purchases	0	7,224,730	89,423	6,104,868	13,419,021
Sales and disposals	(1,537,379)	(2,421,734)	(1,807,234)	0	(5,766,347)
Reclassifications	7,183,721	129,692	4,750	(7,318,163)	0
At the end of the year	86,683,122	87,250,470	11,719,819	6,774,025	192,427,436
Accumulated depreciation and amortization:					
At the beginning of the year	33,217,652	63,220,669	8,265,085	0	104,703,406
Expense of the year	2,334,567	5,718,488	1,401,859	0	9,454,914
Sales and disposals	(1,522,712)	(2,419,384)	(1,805,001)	0	(5,747,097)
At the end of the year	34,029,507	66,519,773	7,861,943	0	108,411,223
Net balance	52,653,615	20,730,697	3,857,876	6,774,025	84,016,213

(10) Property and Equipment, continued

2018	Land, Buildings and Improvements	Office Furniture and Equipment	Vehicles	Constructions in Progress	Total
Cost:					
At the beginning of the year	78,113,475	74,915,937	12,273,601	6,822,892	172,125,905
Purchases	0	9,040,812	3,108,825	6,710,005	18,859,642
Sales and disposals	(2,556,472)	(1,704,767)	(1,949,546)	0	(6,210,785)
Reclassifications	5,479,777	65,800	0	(5,545,577)	0
At the end of the year	81,036,780	82,317,782	13,432,880	7,987,320	184,774,762
Accumulated depreciation and amortization:					
At the beginning of the year	33,145,099	55,806,940	9,087,291	0	98,039,330
Expense of the year	2,629,026	9,108,772	1,127,239	0	12,865,037
Sales and discards	(2,556,473)	(1,695,043)	(1,949,445)	0	(6,200,961)
At the end of the year	33,217,652	63,220,669	8,265,085	0	104,703,406
Net balance	47,819,128	19,097,113	5,167,795	7,987,320	80,071,356

The Bank maintains within the construction in progress category, its own properties under construction for B/.3,927,990 (2018: B/.5,987,689) and purchases in transit for B/.2,846,035 (2018: B/.1,999,631). Additionally, within the office furniture and equipment classification, there are purchases in transit for B/.4,251,047 (2018: B/.4,024,410).

(11) Intangible Assets - Licenses and Programs

The movement of intangible assets - licenses and technology programs is summarized below:

	2019	2018
Balance at the beginning of the year	14,473,048	16,673,745
Purchases	1,113,404	1,541,987
Amortization for the year	(2,937,326)	(3,742,684)
Balance at the end of the year	12,649,126	14,473,048

(12) Leases

As a Leaseholder

The Bank leases 5 types of real estate: Administrative offices and bank branches, ATM´s space, warehouses/deposits, galleries, parking lots/land, multifunctionals/printers. Below is the information of the leases in which the Bank is a leaseholder:

Right-of-use assets

December 31, 2019	Administrative Offices and Bank Branches	ATM's space	Parking lots/ Land	Galleries, Storage Warehouses	Multifunctionals/ Printers	Total
Balance as of January 1, 2019	2,514,099	0	0	269,292	347,376	3,130,767
Additions	1,657,743	61,876	1,151	0	4,874	1,725,644
Depreciation for the year	(658,780)	(2,670)	(165)	(129,588)	(209,400)	(1,000,603)
Balance as of December 31, 2019	3,513,062	59,206	986	139,704	142,850	3,855,808

Lease Liabilities

Maturity analysis - Undiscounted contractual cash flows

	2019
Less than one year	178,297
One to five years	857,920
More than five years	3,682,455
Total undiscounted lease liabilities at December 31, 2019	4,718,672
Lease liability included in statement of financial position at December 31, 2019	3,939,119

Amount recognized in the statement of profit or loss

	2019
Interest expense on lease liabilities	(176,610)
Expenses related to short-term leases	(810,484)

Amounts recognized in the cash flow statement

	2019
Total cash outflow from leases, net	2,080,996

As of December 31, total lease cash recognized in the statement of cash flow includes the portion of the payment to principal as a financing activity for B/.1,093,902, the portion of interest for B/.176,610 and the portion of short-term leases for B/.810,484 as an operating activity.

(12) Leases, continued

(a) Real estate leases

The Bank leases buildings in which it has its administrative offices and branches. Office leases are normally executed for a period of 2 to 7 years and branch leases for 2 to 15 years, except for certain branch and ATM space leases. Some leases include an option to renew the lease for an additional period of the same duration after the end of the lease term.

Extension Options

The lease of the premises for the branch in San Felipe contains an option to extend the term for equal periods that can be automatically extended. Where possible, the Bank seeks to include extension options in new leases to provide operational flexibility. Extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at the outset of the lease whether it is reasonably certain that it will exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

(b) Other leases

The Bank also leases IT infrastructure such as data center services for different business areas, as well as multifunctional printers and equipment and space for the management of radio stations. These contracts are normally agreed for terms of 1 to 2 years; they do not contain a clause that determines an option for extension of the term, however, renegotiation is highly probable.

As mentioned in the previous paragraph, the Bank has certain leases of premises for offices and bank branches, space for ATM's, galleries, storage/deposits, technology/communications, whose terms can vary between 1 and 3 years, which have been included in the classification as short-term and/or low value leases. IFRS 16. C10 (C), which allows the requirements of paragraph C8 to be waived for leases that terminate within 12 months of the initial application date. The Bank has decided to adopt the practical solution described in IFRS 16.6, which allows the lessee to recognize lease payments associated with such contracts as an expense on a straight-line basis over the term of the lease.

(12) Leases, continued

(c) Depreciation by type of underlying asset

During the year ended December 31, 2019, the Bank depreciated the following amounts by asset class:

Type of Asset	2019
Bank Branches / Administrative Offices	658,780
ATM's spaces	2,670
Parking lots / Land	165
Galleries, Storage / Warehouses	129,588
Multifunctional / Printers / Services Data Transmission	209,400
Total	1,000,603

(13) Fiscal credit from preferential interest on loans

In accordance with current tax regulations in Panama, financial entities that grant mortgage loans not exceeding B/.120,000 with preferential interest, receive the annual benefit of a fiscal credit. As of July 2010, according to Law No. 8 of March 15, 2010, which repeals article 6 of Law No. 3 of 1985, the benefit of a tax credit is increased from the first ten (10) years to the first (15) years for new loans, for the amount equivalent to the difference between the income that the financial entity would have received if it had collected the market reference interest rate, which was in effect during that year, and the income actually received as interest in relation to each of such preferential mortgage loans.

The fiscal credit under Law No. 3 of 1985, as amended by Law No. 29 of 2008, can be used for the payment of national taxes, including income tax. The fiscal credit under Act No. 11 of 1990, Act No. 28 of 1994 and Act No. 50 of 1999 can be used only for the payment of income tax. If in any tax year a bank is not able to use effectively all tax credits to which it is entitled, then it may use the excess credit during the next three years at its discretion or transfer it, in whole or in part, to another taxpayer. Article 7 of Law 3 of 1985 was amended by Article 9 of Law No. 66 of 2017, which included a transitory paragraph, which stipulates that the tax credits established and regulated, which would have expired in 2017, based on the three-year statute of limitations, will regain their validity and will be subject to the five-year statute of limitations.

(13) Fiscal credit from preferential interest on loans, continued

As of December 31, 2019, there were unrecognized tax credits from the General Revenue Authority (DGI) amounting to B/.12,280,150 (2018: B/.57,963,376) and current tax credits amounting to B/.6,740,566 (2018: B/.2,734,981). As of December 31, 2019, the DGI recognized tax credits of the Bank for B/.70,147,854 (2018: B/.6,796,765), and sales were made for B/.10,734,981. The Bank's management has established a valuation allowance for the portion of the tax credits that it estimates will not be recovered through their sale. As of December 31, 2019, the Bank maintains a valuation allowance for tax credits in the amount of B/.168,514 (2018: B/.68,375). The movement of this reserve is presented below:

	2019	2018
Balance at the beginning of the year	68,375	73,215
(Reversal of) provision charged to income	(827,241)	413,127
Reserve used	927,380	(417,967)
Balance at the end of the year	168,514	68,375

As of December 31, 2019, non-cash transactions were made for the purpose of the statement of cash flows, for the payment of fiscal credits for mortgage loans with preferential interest, through Public Debt Securities of the Republic of Panama for B/.55,407,000.

(14) Other Assets

Borrowers' foreclosed assets

The foreclosed assets of borrowers correspond to real estate that guaranteed loans, and whose guarantee was foreclosed and awarded to the Bank. Management expects to recover the written-off balance of principal and interest through the sale of these properties.

The foreclosed assets of borrowers are detailed as follows:

	2019	2018
Foreclosed assets of borrowers	11,707,097	17,979,083
Impairment reserve	(3,208,603)	(9,319,799)
Net balance	8,498,494	8,659,284

The movement of the impairment reserve of borrower's foreclosed assets is detailed below:

	2019	2018
Balance at the beginning of the year	9,319,799	9,005,580
Provision for valuation of foreclosed assets	701,993	342,884
Discharged assets	(6,813,189)	(28,665)
Balance at end of year	3,208,603	9,319,799

As of December 31, 2019, the Bank made sales of foreclosed assets from borrowers for B/.1,440,067 (2018: B/.3,751,954).

(14) Other Assets, continued

The other miscellaneous assets are detailed as follows:

	2019	2018
Numismatic and other currencies	2,584,906	2,532,067
Financing program ("Profinco")	612,967	667,346
Printing and supplies	2,220,169	3,210,964
Account receivable - FECI grant	3,688,102	3,785,951
Other remittances and transfers in transit	1,825,330	1,823,028
Prepaid expenses and insurance	557,671	894,631
Cultural property	260,239	256,738
Cash withdrawals to be compensated – Clave Card	1,232,012	411,117
Insurance receivable on loans	300,142	274,236
Balance of loans receivable through life insurance policies	1,124,243	1,502,215
Others	2,347,665	3,625,468
	16,753,446	18,983,761

(15) Restricted Deposits

As of December 31, 2019, restricted deposits at amortized cost amounted to B/.69,051,027 (2018: B/.64,319,772) and consisted of deposits received from banks operating in Panama under a general and international license and entities with a trust license in compliance with the Banking Law, and other restricted deposits from customers for various concepts.

(16) Obligations

Foreign Borrowing Received

As of December 31, 2019, the Bank maintains a borrowing received from abroad, gross for B/.50,000,000 maturing on January 31, 2020 at an interest rate of 2.75% (2018: B/.35,000,000 at a rate of 3.19%). As of December 31, 2019, interest payable amounts to B/.3,818 (2018: B/.198,829).

Bonds Payable

Revolving Bonds:

Type	Interest Rate	Maturity	Gross Amount 2019	Gross Amount 2018
Series D – Issuance on September 2019	3.00%	Sep - 29	205,736,000	0

The bonds in this issuance are backed by the Bank's general credit and constitute general obligations of the Bank, not secured by specific assets or rights and without special privileges. Interest is payable quarterly and payment of principal at maturity. The bonds may be redeemed in advance by the Bank. As of December 31, 2019, interest payable amounts to B/.480,051 (2018: B/.0).

(16) Obligations, continued

The following is a detail of the movement in the obligations payable for the purpose of reconciliation with the cash flows statement:

	2019	2018
Balance at the beginning of the year	35,198,829	0
Proceeds from new borrowings received	150,000,000	35,000,000
Payments of borrowings received	(135,000,000)	0
Issuance of bonds payable	205,736,000	0
Interest paid	(2,525,755)	(1,235,684)
Recognition of interests	2,810,795	1,434,513
Balance at the end of the year	256,219,869	35,198,829

(17) Other Liabilities

Miscellaneous Creditors

As of December 31, 2019, in the sundry creditors item, items were recorded in transitory accounts for ATM transactions accumulated at the end of the year and which are offset on the following business day by B/.21,420,547 (2018: B/.39,339,985).

Miscellaneous Liabilities

The detail of miscellaneous liabilities is summarized below:

	2019	2018
Labor liabilities	8,807,710	8,117,442
Seniority bonus provision	12,299,993	11,639,221
Other provisions	1,126,898	2,551,896
Others	3,913,313	3,104,653
	26,147,914	25,413,212

Seniority Bonus Provision

The seniority bonus is a defined post-employment benefit granted to Bank employees when the following two conditions are met: they have accumulated fifteen or more years of service and terminate the employment relationship due to old age pension or absolute disability; these employees will be entitled to a seniority bonus at the rate of one week's salary for each working year, up to a maximum of ten months. This benefit is based on the Law of the Banco Nacional de Panama.

(17) Other Liabilities, continued

The table below shows a reconciliation between the opening and closing balances of the defined benefit liability:

	2019	2018
Balance as of 1 January	11,639,221	12,001,533
Included in the year's result:		
Current cost of service	707,893	732,716
Interest cost (income)	470,050	443,869
Employer-paid contribution	0	0
Included in OCI:		
Actuarial Loss (Gain)	535,964	(891,043)
Others:		
Benefits paid	(1,053,135)	(647,854)
Balance as of December 31	12,299,993	11,639,221

According to the latest actuarial calculations as of December 31, 2019, the total accumulated seniority bonus obligation is B/.12,299,993 (2018: B/.11,639,221).

Below are the main actuarial assumptions as of December 31, 2019:

	2019	2018
Discount rate	3.31%	4.35%
Salary increase	1.15%	1.93%
Inflation rate	1.15%	1.93%

The discount rate to be used to discount the flows related to the defined long-term benefits was determined considering, as a first reference, the market yields at the date of the analysis of the high-quality corporate bonds or debentures. The currency and term of the high-quality corporate bonds must be consistent with the currency and estimated term of payment of the post-employment benefit obligations.

Mortality assumptions are based on statistics published by the World Health Organization (WHO), in Table 2016 for Panama, separately for men and women.

(17) Other Liabilities, continued

The population of Bank employees at the date of the analysis was composed of 1,986 women (2018: 1,912) and 1,535 men (2018: 1,528) for a total of 3,521 employees (2018: 3,440), as follows:

	2019			2018		
	Women's	Men's	Total	Women's	Men's	Total
Employee population						
Employees (number)	1,986	1,535	3,521	1,912	1,528	3,440
Average age (years)	40	44	42	40	44	42
Seniority age (years)	11	14	12	11	14	13
Population of employees with more than 15 years of seniority						
Employees (number)	528	533	1,061	517	530	1,047
Average age (years)	50	55	53	50	55	53
Seniority age (years)	25	28	27	25	29	27

Sensitivity analysis

Post-employment defined benefit obligations were calculated using the projected unit credit method. The obligations and expenses may change in the future as a result of future changes in actuarial methods and assumed changes in the Bank's policy, or as a result of future gains and losses.

The effect that an increase or decrease in major actuarial inputs could have in the period is presented below.

	Discount rate		Rate of salary increase	
2019	100 bp of increase	100 bp of decrease	200 bp of increase	200 bp of decrease
Seniority bonus liability	(1,106,551)	1,325,981	1,342,426	(1,138,357)

	Discount rate		Rate of salary increase	
2018	100 bp of increase	100 pb of decrease	200 bp of increase	200 bp of decrease
Seniority bonus liability	(893,431)	1,058,898	1,074,785	(921,167)

(18) Commitments and Contingencies

In the normal course of its operations, the Bank maintains financial instruments with risks outside the statement of financial position to meet the financial needs of its clients. These financial instruments include letters of credit, guarantees issued and promises to pay and involve, to various degrees, elements of credit risk.

Commercial letters of credit, guarantees and endorsements issued on behalf of customers and promises of payment involve some element of risk of loss in the event of customer default, net of the tangible guarantees covering these transactions. The Bank's policies and procedures for granting these contingent credits are similar to those used for extending loans. Management does not anticipate that the Bank will incur material losses resulting from these contingent credits granted for the benefit of customers.

(18) Commitments and Contingencies, continued

The financial instruments outside the statement of financial position, which are subject to credit risk, are presented below.

	2019	2018
Letters of credit	6,173,094	955,427
Guarantees and endorsements given	0	7,039,472
Payments pledges	462,941,715	403,265,222
Loan commitments	18,019,161	7,642,305
	487,133,970	418,902,426

As of December 31, 2019, there were lawsuits filed against Banco Nacional de Panamá for the amount of B/.1,326,859,031 (2018: B/.1,274,796,126). The Bank's management and attorneys believe that there is a high possibility that the Bank will not be sentenced to pay the total amount claimed. As of December 31, 2019, the Bank maintains a provision of B/.49,484 (2018: B/.49,484) in connection with court cases. In relation to the claim for B/.1,268,704,177, management, based on the opinion of the external lawyers in charge of the case, considers that there is a high probability of a judgment in favor of the Bank, and therefore it is not deemed necessary to make provisions in respect of this process.

(19) Fees for Banking Services

The breakdown of the most significant fees for banking service revenues reconciled to the reportable segments in Note 22 is as follows:

	2019						
	Corporate and Commercial	Agricultural and Forestry	Consumer	Financial Institutions	Government Sector	Treasury	Total
Letters of Credit	12,334	13,700	49,270	4,396	6,951	100	86,751
Transfers	87,134	96,780	348,065	31,053	49,103	4,901	617,036
Card Services	1,289,951	1,432,750	5,152,813	459,714	726,931	145	9,062,304
Fund management, custody and brokerage	217,511	241,590	868,866	77,517	122,575	742,471	2,270,530
Current accounts	110,223	122,425	440,296	39,281	62,115	251,036	1,025,376
Savings accounts	589	654	2,351	210	332	0	4,136
State services	67,405	74,867	269,254	24,022	37,985	0	473,533
Guarantee certificates and cashier's checks	92,111	102,307	367,943	32,826	51,907	53	647,147
National stamps	2,701	3,000	10,790	962	1,522	0	18,975
Clearinghouse services	174,726	194,068	697,955	62,269	98,464	72,490	1,299,972
Others	149,490	166,039	597,151	53,275	84,243	522,586	1,572,784
Total banking service fees (see note 22)	2,204,175	2,448,180	8,804,754	785,525	1,242,128	1,593,782	17,078,544

	2018						
	Corporate and Commercial	Agricultural and Forestry	Consumer	Financial Institutions	Government Sector	Treasury	Total
Letters of Credit	18,086	21,624	75,281	7,386	6,359	1,830	130,566
Transfers	100,735	120,443	419,299	41,141	35,417	0	717,035
Card Services	1,288,293	1,540,330	5,362,370	526,142	452,942	41	9,170,118
Fund management, custody and brokerage	226,263	270,529	941,795	92,407	79,550	492,880	2,103,424
Current accounts	99,685	119,187	414,927	40,712	35,048	37,803	747,362
Savings accounts	671	803	2,795	274	236	0	4,779
State services	71,888	85,952	299,226	29,359	25,275	0	511,700
Guarantee certificates and cashier's checks	88,342	105,624	367,712	36,079	31,059	426	629,242
National stamps	2,274	2,719	9,466	929	800	0	16,188
Clearinghouse services	14,217	16,999	59,178	5,806	4,999	1,253,443	1,354,642
Others	175,529	209,869	730,618	71,686	61,713	420,209	1,669,624
Total banking service fees (see note 22)	2,085,983	2,494,079	8,682,667	851,921	733,398	2,206,632	17,054,680

(20) Other Income

The other income included in the statement of profit or loss is summarized below:

	2019	2018
Miscellaneous banking services	938,040	858,232
Gain on sale of foreclosed assets	362,939	1,575,033
Cash management	1,315,328	1,076,638
Inspections and appraisals	83,923	92,195
Legal income	219,875	235,409
Employee resource management	158,051	159,369
Foreign exchange gain, net	527,119	707,599
Insurance administration and collection management	7,817,907	7,513,704
Others	2,167,969	4,805,438
	13,591,151	17,023,617

(21) General and Administrative Expenses

The breakdown of salary and other personnel expenses and other general and administrative expenses is as follows:

	2019	2018
Salaries and other staff costs		
Salaries and other remunerations	64,490,467	60,888,351
Seniority bonus	1,177,943	1,176,585
Social Security	9,749,965	9,507,409
Employee Benefits	11,568,932	9,497,210
Training	958,437	1,053,015
Others	254,299	302,728
	88,200,043	82,425,298
Other expenses		
Banking regulation and supervision fees	199,520	168,590
Legal	198,428	134,618
Water service	125,854	112,905
Disposals and loss of assets	3,985	10,116
Provisions (reversal of) and other expenses	1,200,000	(394,586)
Surveillance service	1,029,351	966,613
Food	216,512	263,450
Others	2,853,375	3,775,000
	5,827,025	5,036,706

(22) Segment Informtion

Management has established the reportable segments according to the line of business to which the customers belong. These segments offer various products and services and are managed separately based on the Bank's organizational structure. Segment information is presented below.

Detail	Corporate and Commercial	Agrocultural and Forestry	Consumer	2019 Financial Institutions	Government sector	Treasury	Total
Interest and Fee Income	34,905,255	38,769,303	139,431,847	12,439,556	19,670,303	145,824,093	391,040,357
Interest expenses	(14,130,902)	(15,695,207)	(56,447,022)	(5,035,979)	(7,963,245)	0	(99,272,355)
Provision for losses on bank deposits	0	0	0	0	0	(91,169)	(91,169)
Reversal of provision for investment losses	0	0	0	0	0	1,226,670	1,226,670
Provision for loan losses	(1,950,317)	(1,525,342)	(6,044,351)	(660,306)	0	0	(10,180,316)
Provision for valuation of foreclosed assets	(215,146)	(235,684)	(251,163)	0	0	0	(701,993)
Fees for banking services	2,204,175	2,448,180	8,804,754	785,525	1,242,128	1,593,782	17,078,544
Other income	2,077,152	2,307,095	8,297,352	740,257	1,170,546	0	14,592,402
General and administrative expenses	(20,391,942)	(22,649,350)	(81,457,249)	(7,267,293)	(11,491,555)	(1,881,503)	(145,138,892)
Net income	2,498,275	3,418,995	12,334,168	1,001,760	2,628,177	146,671,873	168,553,248
Segment assets	777,589,205	608,151,958	2,409,876,202	263,263,327	732,489,733	6,032,013,725	10,823,384,150
Segment liabilities	1,610,225,294	1,259,356,045	4,990,351,708	545,163,520	1,516,833,681	0	9,921,930,248

Detail	Corporate and Commercial	Agrocultural y Forestry	Consumer	2018 Financial Institutions	Government sector	Treasury	Total
Interest and Fee Income	31,391,023	37,532,243	130,661,449	12,820,168	11,036,553	137,238,334	360,679,770
Interest expenses	(11,159,446)	(13,342,637)	(46,449,884)	(4,557,544)	(3,923,472)	0	(79,432,983)
Provision for losses on bank deposits	0	0	0	0	0	838,836	838,836
Reversal of provision for investment losses	0	0	0	0	0	(1,226,298)	(1,226,298)
Provision for losses on loans at amortized cost	(836,076)	(711,249)	(2,716,573)	(335,987)	0	0	(4,599,885)
Provision for valuation of foreclosed assets	(61,666)	(246,138)	(35,080)	0	0	0	(342,884)
Fees for banking services	2,085,983	2,494,079	8,682,667	851,921	733,398	2,206,632	17,054,680
Other income	4,351,819	5,203,192	18,113,936	1,777,293	1,530,026	0	30,976,266
General and administrative expenses	(19,433,429)	(23,235,311)	(80,889,366)	(7,936,658)	(6,832,465)	(1,715,085)	(140,042,314)
Net income	6,338,208	7,694,179	27,367,149	2,619,193	2,544,040	137,342,419	183,905,188
Segment assets	676,791,968	575,745,761	2,199,027,015	271,976,371	918,500,690	4,498,367,454	9,140,409,259
Segment liabilities	1,214,567,640	1,033,230,598	3,946,363,398	488,087,499	1,648,336,959	0	8,330,586,094

(23) Balances and Transactions with Related Parties

The Bank has incurred in transactions in the ordinary course of business with certain related parties such as key management personnel and government entities, including autonomous and semi-autonomous entities. Given the Bank's state-owned nature and its role as a financial agent of the state and official depository of the nation's funds, significant concentrations of loans and deposits received from government entities are maintained. At December 31, 2019, the following were the aggregate balances in respect of transactions with related parties:

	Directors and Key Management Personell		Government sector	
	2019	2018	2019	2018
Assets				
Investments in securities at amortized cost	0	0	1,292,147,211	996,219,745
Loans:				
Loans outstanding at beginning of year	2,091,314	2,070,102	464,327,629	219,742,778
Loans issued during the year	558,480	590,786	687,646,130	898,844,519
Loans cancelled during the year	(839,909)	(569,574)	(841,336,915)	(654,259,668)
Accrued interest receivable	1,046	286	1,255,363	1,536,290
Loans outstanding at year-end at amortized cost	1,810,931	2,091,600	311,892,207	465,863,919
Fiscal credit from preferential interest on loans	0	0	18,852,202	60,629,982
Liabilities				
Deposits at amortized cost:				
Demand deposits	13,127	46,544	2,473,131,465	2,363,986,666
Savings deposits	513,265	327,677	0	0
Time deposits	0	0	5,038,158,036	3,738,947,495
Restricted deposits	0	0	6,746,523	3,414,152
Bonds payable at amortized cost	0	0	206,216,051	0
Commitments:				
Letters of credit	0	0	6,566,523	3,404,152
Profit and Loss				
Interest and commission income:				
Investments in securities	0	0	44,123,183	45,563,766
Loans	70,025	67,734	19,572,618	16,314,855
Interest expenses:				
Deposits	10,372	17,934	81,727,609	68,099,893
General and administrative expenses:				
Directors' allowances	397,250	265,000	0	0
Salaries	3,389,554	3,331,568	0	0
Employee Benefits	171,449	169,529	0	0

The Bank's group of directors and key management personnel consists of 9 directors and 31 executive managers.

(23) Balances and Transactions with Related Parties, continued

Loans to key management personnel are granted with the same terms and conditions that are available to other employees. As of December 31, 2019, loans granted to related parties have been classified as low risk and they maintain an allowance for expected credit losses of B/.352,086 (2018: B/.935,203).

(24) Assets under administration and custody

As of December 31, 2019, the Bank held under administration trust agreements for the account and risk of third parties for B/.2,935,732,982 (2018: B/.2,551,135,838). Given the nature of these services, management considers that the Bank does not assume significant risks in the execution of the terms and conditions contained in those contracts.

The Bank currently has a trust agreement with Balboa Bank & Trust and Balboa Securities, Corp. as Trustee. This trust, hereinafter the Balboa-Liabilities Trust, consists of the custody of the assets in trust, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and patrimonial separation of the assets in trust.

The Bank has a trust agreement with Felix B. Maduro, S. A. and Grupo Cima Panama, S. A. (the trustors), who transferred to the Bank (as Trustee) the ownership of the shares of certain companies. Notwithstanding the foregoing, the management and control of these companies is not under the administration of the Trustee, but of a Board of Directors. The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks in the execution of the terms and conditions contained in these contracts.

The Bank has a trust agreement with Leemart Property, Ltd. (the Settlors), who transferred ownership of Westline Enterprises, Inc. shares to the Bank (as Trustee). (the owner of the Soho Mall) to the Bank (as Trustee). The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks in the execution of the terms and conditions contained in these contracts.

The Bank provides securities brokerage and custody services. This activity is carried out under a securities firm license, at the clients' risk. As at December 31, 2019, the carrying value of this portfolio amounted to approximately B/.5,168,999,705 (2018: B/.3,941,288,735) and is controlled in off-balance accounts that are not part of the Bank's statement of financial position. Given the nature of these services, management considers that there is no significant risk of loss to the Bank in the provision of such services.

(24) Assets under administration and custody, continued

As of December 31, 2019, the Bank obtained income from commissions earned from trust activities for B/.984,018 (2018: B/.1,189,310), brokerage and custody services for B/.765,427 (2018: B/.421,234) and securities services for B/.742,471 (2018: B/.492,880) During 2019, the Bank incurred financial services expenses for B/.899,626 (2018: B/.767,404).

Banco Nacional de Panamá does not have a portfolio under discretionary management of third-party accounts.

(25) 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's price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that are not frequently traded and for which there is little availability of pricing information, fair value is less objective, and its determination requires the use of varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

- Level 1: prices quoted (unadjusted) in active markets for identical assets or liabilities that are accessible to the Bank's management at the measurement date.

- Level 2: input data other than quoted prices included in Level 1 that are observable, either directly (i.e., prices) or indirectly (i.e., determined on the basis of prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques where significant input data are directly or indirectly observable in a market.

- Level 3: this category covers all instruments where valuation techniques include unobservable inputs and have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable assumptions or adjustments reflect the difference between the instruments.

Other valuation techniques include net present value, discounted cash flow models, comparisons with similar instruments for which there are observable market prices, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free reference rates, credit spreads and other assumptions used in estimating discount rates and share prices.

(25) Fair Value for Financial Instruments, continued

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or transfer the liability between market participants would occur at the date of measurement under current market conditions.

The fair value and carrying amount of financial assets and liabilities are detailed as follows:

	2019	
	Carying Value	Fair Value
Financial assets:		
Time deposits at AC	2,973,683,549	2,973,822,442
Investments in securities at AC	2,932,449,166	3,018,861,723
Investments in securities at FVOCI	8,688,429	8,688,429
Loans at AC	4,399,006,196	3,994,287,323
	10,313,827,340	9,995,659,917
Financial liabilities:		
Time deposits at AC	5,264,482,954	5,209,694,340
Bonds payable	206,216,051	205,771,592
	5,470,699,005	5,415,465,932

	2018	
	Carying Value	Fair Value
Financial assets:		
Time deposits at AC	1,718,378,353	1,718,426,068
Investments in securities at AC	2,630,856,656	2,640,750,625
Investments in securities at FVOCI	5,759,585	5,759,585
Loans at AC	4,200,143,165	4,028,015,214
	8,555,137,759	8,392,951,492
Financial liabilities:		
Time deposits at AC	4,161,105,425	4,071,466,300

As of December 31, 2019, the Bank holds equity securities for B/.497,468 (2018: B/.572,467), recorded at its acquisition cost. These investments are maintained at cost because no active market prices are available and there is no other reliable way to determine its fair value.

(25) Fair Value for Financial Instruments, continued

The following table analyses financial instruments measured at fair value on a recurring basis. These instruments are classified at different levels of the fair value hierarchy based on the data input and valuation techniques used:

	Fair Value		
2019	**Level 1**	**Level 2**	**Total**
Investments in securities at FVOCI:			
Equity shares	7,813,377	875,052	8,688,429
	7,813,377	875,052	8,688,429

	Fair Value	
2018	**Level 1**	**Total**
Investments in securities at FVOCI:		
Equity shares	5,759,585	5,759,585
	5,759,585	5,759,585

For investment instruments in securities that are quoted in active markets, the fair value is determined by the instrument's reference price published on stock exchanges, in electronic stock information systems, or provided by price providers. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data.

The following table analyzes the fair value of financial instruments that are not carried at fair value, classified by level, as follows:

	2019		2018	
Description	**Level 2**	**Level 3**	**Level 2**	**Level 3**
Assets:				
Time deposits	0	2,973,822,442	0	1,718,426,068
Investments in securities at AC	3,018,861,723	0	2,640,750,625	0
Loans	0	3,994,287,323	0	4,028,015,214
	3,018,861,723	6,968,109,765	2,640,750,625	5,746,441,282
Liabilities:				
Time deposits	0	5,209,694,340	0	4,071,466,300
Bonds payable	0	205,771,592	0	0
	0	5,415,465,932	0	4,071,466,300

(25) Fair Value for Financial Instruments, continued

The table below describes the valuation techniques and inputs used in the valuation of financial assets and liabilities not measured at fair value that are classified in the fair value hierarchy within Level 2 and 3:

Financial Instruments	Valuation Technique and Data Inputs Used
Investments in securities at amortized cost - Public and private debt securities - local	Future cash flows discounted at current market rates for the term and type of instrument.
Investments in securities at amortized cost - Public and private debt securities - foreign	Observable market reference prices that are not active.
Loans at amortized cost	Future cash flows discounted at current market rates.
Time deposits placed with banks and received from customers at amortized cost	Future cash flows discounted using current market rates for new deposits with similar remaining maturities.
Bonds payable at amortized cost	Future cash flows discounted using current market interest rates for new financings with similar remaining maturities.

For customer demand deposits, customer savings deposits, and demand deposits at banks, foreign borrowings received, and securities purchased under resale agreements, the carrying value approximates fair value due to their short-term nature.

(26) Major Applicable Laws and Regulations

General Laws and Regulations

(a) Banking Law

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of the Republic of Panama, pursuant to the regulations established in Executive Decree No.52 of April 30, 2008, which adopted the sole text of Decree Law 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, whereby establishing the banking system in Panama and creates the Superintendency of Banks and its regulations.

For purposes of compliance with the prudential norms issued by the Superintendency of Banks of Panama, the Bank will prepare an estimate of the regulatory credit reserve. If the regulatory calculation is greater than the corresponding estimate determined under IFRS, the excess reserve is recognized in a regulatory equity reserve.

(b) Securities Law

The securities market in the Republic of Panama is regulated by Law Decree No. 1 of July 8, 1999, which has been modified by Law 67 of September 1, 2011.

(26) Principal Applicable Laws and Regulations, continued

In the year 2013, the regulatory entity issued Agreement No. 008-2013, which modified rules that are within Agreement No. 004-2011 on capital adequacy, total minimum required capital, solvency ratio, liquidity ratio and credit concentrations that must be attended by brokerage firms in Panama and those financial institutions that have a brokerage firm license.

The following is a description of the modified rules in the Agreement No. 008-2013 of the Superintendency of Securities Market and the indexes on each of these provisions:

- Total Minimum Required Capital: Banks with a brokerage firm license must constitute and maintain free of encumbrances, at all times, a total minimum required capital, which shall be the sum of the amounts of capital required for each license. The Superintendency of Banks of Panama requires a minimum capital of B/.10,000,000, and the Superintendency of the Securities Market requires a minimum capital of B/.350,000. The capital maintained by the Bank according to these criteria exceeds that total minimum required capital.

- Additional Capital Requirement: Article 4-A of Agreement No. 008-2013, establishes that all Brokerages firms that offer the service of managing custody accounts in physical form or through third parties, must comply with the additional capital requirement. As of December 31, 2019, the Bank had an additional capital requirement of B/.3,157,177 (2018: B/.2,311,120).

  As of December 31, 2019, the capital contributed by the State for B/.650,000,000 covers the minimum total capital required and the additional capital requirement, required by the Superintendency of Banks of Panama and the Superintendency of Securities Market.

- Solvency Ratio: The brokerage houses must maintain at all times a minimum capital adequacy ratio of eight percent (8%) of the total assets and off balance sheet operations, weighted according to their risks. The calculation of the solvency ratio, should not include the customers' or third parties accounts that must be separated from the assets of the Brokerage House.

- Liquidity Ratio: Brokerage firms shall maintain, at all times a volume of investments in low risk and high liquidity assets that shall be at least thirty per cent (30%) of the total liabilities due with a residual term of less than one (1) year.

- Credit Risk Concentrations: The risks maintained by Brokerage firms with respect to an issuer, individual client or a group of issuers or clients related to each other, shall be considered as a concentration situation when the accumulated value of these risks exceeds ten percent (10%) of the total value of its capital funds.

(26) Principal Applicable Laws and Regulations, continued

Due to the nature of the operations and services provided by the Bank, management considers that there is no risk of concentration of credit risk.

(c) Trust Law

The exercise of the Trust business in the Republic of Panama is regulated by the Superintendency of Banks of Panama in accordance with the regulations established by Law No. 1 of January 5, 1984, as amended by Law No. 21 of May 10, 2017, which establishes the rules for the regulation and supervision of the trustee business and the trust business and dictates other provisions.

The objective of said law is to promote an appropriate and flexible legal platform to boost the trust market and maintain adequate levels of trust and transparency; the strengthening of management by the Superintendency in terms of the application of standards for comprehensive risk-based regulation and supervision, in accordance with the particular characteristics of the trust business.

The following is a summary of the most important aspects introduced by Law 21 of May 10, 2017:

- Composition of capital: Article 25 establishes that companies that are authorized to act as trustees shall issue shares representing their capital stock exclusively in nominative form.
- Minimum paid-in or assigned capital: Article 26 establishes that the minimum paid-in or assigned capital to apply for and maintain a trust license shall be one hundred and fifty thousand balboas (B/.150,000).

(d) Public Sector Employees Seniority Premium

Law 23 of May 12, 2017 includes a new right for public employees, by establishing that the permanent, transitory or contingent public employee, whatever the cause of termination of functions, will be entitled to receive a seniority bonus, at the rate of one week's salary for each year worked in the institution, from the beginning of the permanent relationship.

In addition, it is established that the right to the seniority premium will become effective upon the appointment of three judges to the Civil Service Administrative Tribunal.

As at the date of the financial statements, only one of the three judges of the Civil Service Administrative Tribunal have been appointed, so the seniority premium requirement has not yet become effective and the corresponding liability has not been recorded. The liability to be recorded by the Bank to recognize the seniority premium for public servants will be approximately B/.15.4 million, according to evaluations and calculations made by management.

(26) Principal Applicable Laws and Regulations, continued

(e) By Law 3 of 1985, some mechanisms were established to stimulate the housing property market by applying preferential interest rates to mortgages loans with values that have been changing over time until the present. The preferential interest is the stretch between the reference rate and the lower rate applied by the banks that participate in the preferential interest program. Financial institutions that grant mortgage loans with preferential interest rates that do not exceed the limit established in the Law, receive the annual benefit of a fiscal credit. According to Law No. 8 of March 15, 2010 which repeals Article 6 of Law No. 3 of 1985, the benefit of the preferential interest of the first ten (10) years of the credit is increased to the first fifteen (15) years in new credits and consequently the right of the financial entities to receive fiscal credits during the same period, according to the indicated table.

The fiscal credit established in Law No. 3 of 1985, as amended by Law No. 29 of 2008, may be used for the payment of national taxes, including income tax. The fiscal credit under Act No. 11 of 1990, Act No. 28 of 1994 and Act No. 50 of 1999 can only be used for the payment of income tax. If in any tax year a bank is not able to use effectively all tax credits to which it is entitled, then it may use the excess credit during the next three years at its discretion or transfer it, in whole or in part, to another taxpayer. Article 7 of Law 3 of 1985 was amended by Article 9 of Law No. 66 of 2017, which included a transitory paragraph, which stipulates that the tax credits established and regulated, which would have expired in 2017, based on the three-year prescription term, will regain their validity and will be subject to the five-year prescription term.

The last amendment to Law 3 was made through Law No.94 of September 20, 2019, published in Official Gazette No.28866-A of September 23, 2019, which establishes the essential elements and unique requirements to access the preferential interest regime in certain mortgage loans.

This Law 94 is in force from September 23, 2019 until August 1, 2024, that is for five years, two months and 23 days; which does not have retroactive effects. It applies to all credits approved as of the date of enactment. The tax credits to which financial entities are entitled will be received in accordance with the terms established for each case established in the Law.

Specific regulations of the Superintendency of Banks of Panama

(a) Acquired Foreclosed Assets

For regulatory purposes the Superintendency of Banks of Panama sets at term of (5) years, from the date of registration in the Public Register, the deadline to alienate property acquired in settlement of unpaid loans. If after that term the Bank has not sold the acquired property, it shall conduct an independent appraisal of the property to determine if its value has decreased, by applying in such case the provisions of IFRS.

(26) Principal Applicable Laws and Regulations, continued

Additionally, the Bank must create a reserve in an equity account, through the appropriation in the following order: a) its undistributed profits; and b) profits of 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 above 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.

(b) Loans and off-balance sheet operations

Agreement No. 004-2013 issued by the Superintendency of Banks of Panama establishes provisions on the management and administration of credit risk inherent to the loan portfolio and off-balance sheet operations, including general criteria for the classification of credit facilities for the purpose of determining specific provisions and dynamics for the coverage of the Bank's credit risk. In addition, this Agreement establishes certain minimum required disclosures, in line with IFRS disclosure requirements, on the management and administration of credit risk.

Specific provisions

The Agreement No.004-2013 establishes 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 referred as: special-mention, substandard, doubtful or loss, both for individual or collective credit facilities.

Banks must at all times calculate and maintain the amount of specific provisions determined through the methodology specified in this Agreement, which takes into consideration the balance due of each credit facility classified in one of the categories subject to provisioning, mentioned in the previous paragraph; the present value of each guarantee available as a risk mitigator, as established by type of guarantee in this Agreement; and a weighting table that is applied to the net balance exposed to loss of such credit facilities.

I In case of a surplus in the specific provisions, calculated according to this Agreement, on the provision calculated under IFRS, this surplus shall be accounted for as a regulatory reserve in equity, increasing or decreasing allocations to or from retained earnings. The balance of the regulatory reserves will not be considered as capital funds for purposes of calculating certain prudential indices or ratios mentioned in the Agreement.

(26) Principal Applicable Laws and Regulations, continued

The following table summarizes the classification of the Bank's loan portfolio based on Agreement No. 004-2013:

	2019		2018	
	Loans, Gross	Provision	Loans, Gross	Provision
Standard	4,142,068,118	0	3,975,505,309	0
Special mention	179,917,424	2,923,511	227,992,895	2,195,162
Sub-standard	100,191,261	3,696,622	20,336,354	1,085,777
Doubtful	15,626,027	4,199,391	12,221,080	2,066,048
Loss	21,586,909	9,097,612	16,374,442	6,670,178
Gross Amount	4,459,389,739	19,917,136	4,252,430,080	12,017,165

The Bank has made the classification of irrevocable off-balance sheet operations and has estimated the reserves based on Agreement No.004-2013 issued by the Superintendency of Banks of Panama, which is shown below:

2019	Letters of credit	Reserves	Guarantees and endorsements granted	Reserves
Standard	0	0	0	0

2018	Letters of credit	Reserves	Guarantees and endorsements granted	Reserves
Standard	955,427	0	7,039,472	0

In addition, based on Agreement No. 008-2014, the recognition of interest income is suspended based on the days of delay in the payment of principal and/or interest and the type of credit operation according to the following:

a) For consumer and commercial loans, if it is overdue in more than 90 days; and
b) For residential mortgage loans, if it is overdue in more than 120 days.

As of December 31, 2019, the Bank maintains loans for B/.21,080,381 (2018: B/.15,936,891) in nonaccrual status and the interest not received amounts to B/.1,359,959 (2018: B/.1,043,646).

Agreement No. 004-2013 defines as past due any credit facility that presents any unpaid amount, in terms of principal, interest or expenses contractually agreed, with a delinquency of more than 30 days and up to 90 days, as of the date established for compliance with the payments.

(26) Principal Applicable Laws and Regulations, continued

The Agreement No.004-2013 defines as overdue any credit facility whose failure to pay the contractual amounts agreed, presents a delinquency over 90 days. This period shall be calculated from the date set for compliance with payments. The operations with a single payment at its maturity date and overdrafts, are considered overdue when its lack of payment exceeds 30 days from the date on which the obligation was determined to be paid.

The balances of past due and overdue loans based on Agreement No. 004-2013 are detailed below:

2019			2018		
Past due	**Overdue**	**Total**	**Past due**	**Overdue**	**Total**
36,574,899	40,986,054	77,560,953	27,410,908	30,198,433	57,609,341

During the year ended December 31, 2019, loans with a gross balance as of December 31 of B/.12,516,534 (2018: B/.13,212,828) were renegotiated.

Dynamic provision
Agreement No. 004-2013 sets forth that a dynamic provision is a reserve established to meet future requirements of specific provisions, which is ruled by prudential criteria inherent to the banking regulation. The dynamic provision is constituted on a quarterly basis on credit facilities without specific provision assigned, that is, on credit facilities classified as normal.

This Agreement regulates the methodology to calculate the amount of the dynamic provision, which considers a maximum and minimum percentage restriction applicable to the amount of provision determined on credit facilities classified as normal.

The dynamic provision is an equity item that increases or decreases through allocations from or to retained earnings. The credit balance of this dynamic provision forms part of the regulatory capital but does not replace nor offset capital adequacy requirements established by the Superintendency.

As of December 31, 2019 the dynamic provision of the bank amounted to B/.56,928,983 (2018: B/.56,598,706).

Trading Portfolio
The Superintendency of Banks of Panama issued Agreement No. 003-2018, modified by Agreement No. 006-2019, through which provisions are established on the management of the market risk inherent to the investment portfolio of the Banks in Panama, based on the general criteria of classification of the trading portfolio with the purpose of determining the capital requirement of those instruments applied as established in said agreements

(26) Principal Applicable Laws and Regulations, continued

The Agreement establishes that the regulatory trading portfolio for the purpose of estimating capital requirements for market risk is composed of the financial instruments that meet one or more of the following purposes:

- Closing a short-term position with profits, whether through its purchase or sale, considering the original position of the financial instrument;
- To obtain short-term valuation gains;
- To obtain arbitrage profits;
- To hedge risks that arise from instruments meeting any of the above criteria.

In addition, financial instruments decided by this Superintendency of Banks on the basis of their special characteristics, and whose economic fund responds to the purposes indicated above shall be included in the trading portfolio, regardless of the classification of the financial instrument according to International Financial Reporting Standards (IFRS).

Additionally, any financial instrument that may be identified with any of the following characteristics is part of the trading portfolio:

- An instrument held for accounting purposes, in accordance with IFRSs, as an asset or liability for trading purposes (so that it would be measured daily at market prices, with valuation differences being recognized in the statement of profit or loss).
- Instruments resulting from market-making activities.
- Instruments resulting from underwriting commitments.
- Equity investment in a fund, except when the daily market price is not available for determining the fund’s value.
- Representative value of capital quoted on the stock exchange.
- Short position in short,
- Derivative contracts, except those that serve to hedge positions that are not recorded in the trading book.
- Financial instruments that include derivatives, whether explicit or implicit, that are part of the banking book and whose underlying is related to equity risk or credit risk.

The Bank has defined policies and procedures that provide for limits, and there is a process for keeping the Board of Directors and senior management informed, as an integral part of the Bank's risk management process.

(26) Principal Applicable Laws and Regulations, continued

The value of the capital requirement for market risk of the trading portfolio, as defined by Agreement No. 003-2018, as amended by Agreement No. 006-2019, and the unrealized gains during the year ended December 31, 2019, are detailed below by type of position:

Type of instruments	Maturity Date	Market Value	Unrealized Gain
Common shares	NA	3,097,791	2,553,825
Common shares	NA	4,689,984	4,689,984
Common shares	NA	700,823	0
Common shares	NA	174,230	0

The capital requirement for these instruments at December 31, 2019 is B/.584,821.

(27) Subsecuent Event

On January 24, 2020, the Bank made an additional dividend payment for the year ended December 31, 2019 for B/.5,036,232.

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Schedule 1 - Supplementary Information from the Brokerage House

December 31, 2019

(**Expressed in Balboas**)

Banco Nacional de Panamá (the "Bank") operates under a general banking license issued by the Superintendency of Banks of Panama and is licensed to operate the Brokerage Firm business by Resolution No. CNV-027-01 of February 13, 2001, issued by the Superintendency of the Securities Market of Panama; therefore the Bank is subject to the regulations of both Superintendence's.

In compliance with Article 22 of Agreement No. 4-2011, modified by the Agreement No. 8-2013 of the Superintendency of the Stock Market, "by which rules are issued on adequate capital, solvency ratio, capital funds, liquidity ratio and credit risk concentrations, which must be attended by the Securities Houses regulated by the Superintendency of the Stock Market", the following are the minimum and maximums maintained during the three-month period ending on December 31, 2019, during the year ending on December 31, 2019 and at the closing of December 31, 2019.

	Three-month period ending 31 December 2019				
	Maximum	**Date**	**Minimum**	**Date**	**December 31, 2019**
Solvency ratio	100%	01-oct-19	100%	01-oct-19	100%
Capital Funds	4,071,420	27-dic-19	4,027,393	01-oct-19	4,064,141

	Twelve-month period ended December 31, 2019				
	Maximum	**Date**	**Minimum**	**Date**	**December 31, 2019**
Solvency ratio	100%	02-jan-19	100%	02-jan-19	100%
Capital Funds	4,120,183	28-mar-19	3,790,923	04-jan-19	4,064,141

According to the provisions of the Superintendency of the Securities Market, in Agreement 4-2011, in its Article 13, for the brokerage houses that have a Bank License it will be understood that the liquidity coefficient will be calculated based under rule issued by its primary regulator, in this case the Superintendency of Banks of Panama. The following is the result of the estimation of the legal liquidity ratio as of the date of the Bank's statement of financial position, during the three-month period ended December 31, 2019 and during the year ended December 31, 2019:

Three-month period ending 31 December 2019

As of December 31, 2019,	71.34%
Maximum for the period - November 30, 2019	73.79%
Minimum for the period - November 22, 2019	64.54%

Year ended December 31, 2019

Maximum for the period - January 18, 2019	76.18%
Minimum for the period - March 22, 2019	64.16%

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Schedule 1 - Supplementary Information from the Brokerage House

December 31, 2019

(**Expressed in Balboas**)

Concentration of Credit Risk: Article No. 14 of Agreement No. 4-2011, establishes that a situation of concentration of credit risk shall be considered when the accumulated value of both lending and investment activities exceeds ten percent (10%) of the total value of its capital resources. In any case, the value of all risks that a securities firm contracts and maintains with the same issuer, client or group of issuers or clients related to each other, may not exceed thirty percent (30%) of the total value of its capital funds.

During the year ended on December 31st , 2019, no concentration situations occurred according with the segmented balances characteristic of the activity of the Brokerage House.

In compliance with Agreement No. 4-2011, Sole Text issued by the Superintendency of the Securities Market which contains amendments made by Agreement No. 3-2015, Article Two, which adds provisions to Article 22-A in relation to the obligation to disclose the amounts managed of client accounts and supplements to financial information by activity, for those securities firms that hold more than one license; the following is the supplementary information as described above:

(1) Managed Amount of Client accounts
As of December 31, 2019, the Bank holds the following investments in securities:

	2019		
	Banking	**Brokerage House**	**Total**
Own position	2,916,912,368	5,183,511	2,922,095,879
Third party position	0	5,168,999,705	5,168,999,705

	2018		
	Banking	**Brokerage House**	**Total**
Own position	2,615,308,132	5,179,113	2,620,487,245
Third party position	0	3,941,288,735	3,941,288,735

The third-party position portfolio corresponds to investments in securities of managed customer accounts. This portfolio is controlled in off balance sheet accounts that are not part of the Bank's statement of financial position. The Bank does not hold a portfolio under discretionary management of third-party accounts nor does it hold bank accounts in the name of third parties through its securities firm license.

(1) Managed Amount of Client Accounts, continued

As of December 31, 2019, the Bank has consigned as guarantee public debt securities for the amount of B/.1,096,512 in favor of Central Latinoamericana de Valores (Latinclear), in compliance with the provisions of Agreement No.11-2003 of the Superintendency of the Securities Market and Latinclear's Internal Operations Regulations, which stipulate that all participants in Latinclear must provide a performance bond in favor of this entity, in order to guarantee compliance with all its monetary obligations for the stock exchange and over-the-counter transactions it carries out (2018: B/.1,095,582).

(2) Financial Information by Type of License

The following table shows the assets, liabilities and equity of the Bank as of December 31, 2019 by activity, according to the licenses granted:

	2019		
	Banking	Brokerage House	Total
Total assets	10,817,684,953	5,699,197	10,823,384,150
Total liabilities	9,921,872,538	57,710	9,921,930,248
Total equity	895,812,415	5,641,487	901,453,902

	2018		
	Banking	Brokerage House	Total
Total assets	9,135,085,088	5,324,171	9,140,409,259
Total liabilities	8,330,536,834	49,260	8,330,586,094
Total equity	804,548,254	5,274,911	809,823,165

The following presents the Bank's income and expenses for the year ended December 31, 2019 by activity, according to the licenses granted:

	2019		
	Banking	Brokerage House	Total
Net interest and commission income after provisions	281,856,508	1,420,706	283,277,214
Other income	30,414,926	0	30,414,926
Other expenses	(398,593)	0	(398,593)
General and administrative expenses	144,758,266	779,219	145,537,485
Net income	167,911,761	641,487	168,553,248

(2) Financial Information by Type of License, continued

	2018		
	Banking	Brokerage Firm	Total
Net interest and commission income after provisions	275,884,010	937,143	276,821,153
Other income	47,126,349	0	47,126,349
Other expenses	896,861	0	896,861
General and administrative expenses	138,483,221	662,232	139,145,453
Net income	183,630,277	274,911	183,905,188

As of December 31, 2019, the brokerage house under the license held by the Bank generated commissions for brokerage services and custody fees in the amount of B/.1,256,021; this income is presented as net interest and commission income after provisions, while in the Bank it is presented in other income (2018: B/.904,597).

(3) Valuation Basis

The basis of valuation for own investments is presented in accordance with the significant accounting policies detailed in note 3 to the Bank's financial statements. All amounts managed in client accounts are presented at face value.

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Financial Statements

As of December 31, 2018

(With Independent Auditors' Report)

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Banco Nacional de Panama

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banco Nacional de Panamá (hereinafter, the "Bank"), which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss, other comprehensive income, changes in capital funds 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 Bank as at December 31, 2018, and of its financial performance and its 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 Financial Statements* section of our report. We are independent of the Bank in accordance with the 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. This matter was addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on this matter.

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Implementation of IFRS 9 Financial Instruments
See notes 3(e) and 4 to the financial statements

Key Audit Matters

As described in the notes to the financial statements, the classification and measurement of financial assets and liabilities and impairment losses have been determined in accordance with IFRS 9 Financial Instruments.

This was considered a key audit matter, as IFRS 9 is a new accounting standard that involves significant judgment in determining the appropriate classification and measurement and impairment reserves for financial instruments, and which in turn impacts the processes and controls related to the calculation of such reserves. The following are some of the areas of judgment involved:

- The interpretation of the guidelines established in IFRS 9 for the determination of impairment and significant increases in credit risk of financial instruments, reflected in the Bank's expected credit loss ("ECL") model.

- The identification of financial instruments with significant exposures and impairment of their credit quality.

- It involves careful evaluation to determine the assumptions used in the ECL methodologies such as the financial condition of the counterparty, expected future cash flows and prospective analysis, including other factors such as the growth of the country's economic activity.

How the matter was dealt with in the Audit

Our audit procedures with respect to transitional adjustments to the classification and measurement of financial assets and liabilities, considering the use of specialists, included:

- We assessed the Bank's adopted IFRS 9 classification and measurement policies for compliance with the requirements of this standard.

- We obtained an understanding and assessed the reasonableness of the assumptions/judgments used by management on the classification and measurement of financial instruments, including the business model applied by the Bank.

- We evaluated the contractual terms of the various financial instruments in order to determine the reasonableness of cash flows that are solely payments of principal and interest ("SPPI").

- We review that the accounting entries for the adoption of IFRS 9 have been properly recorded.

Our audit procedures with respect to the transition adjustments and to the impairment testing methodologies, considering the use of specialists, included:

- We assessed that the modeling techniques and methodology used by the Bank to calculate its impairment reserves were in compliance with the requirements of IFRS 9.

- We evaluated the process design and tested the operational effectiveness of relevant controls associated with:

Implementation of IFRS 9 Financial Instruments (continued)
See notes 3(e) and 4 to the financial statements

Key Audit Matters	How the matter was dealt with in the Audit
• The need to apply additional assumptions to reflect current or future external factors that may not be adequately incorporated into the ECL model.	– The technological environments of the information systems involved in the calculation of the estimate according to the ECL model, including the inputs used in the model on the financial instruments at the date of adoption, the transactional data captured at the time of loan granting, continuous internal assessments of the credit quality of the financial instruments, and the storage of key data. – The ECL model, including the development and approval of each methodology, continuous monitoring/validation and its mathematical accuracy. • We evaluate and test the significant assumptions of the ECL model of the various financial instruments. • We evaluated the mathematical accuracy and fair presentation of the disclosures in the financial statements by adopting this new standard.

Reserve for losses on financial assets
See notes 3(e) and 4 to the financial statements

Key Audit Matters	How the matter was dealt with in the Audit
The allowance for losses on financial assets at amortized cost is considered one of the most significant issues since it requires the application of judgments and the use of assumptions by management in the construction of the expected credit loss ("ECL") model. Assets at amortized cost subject to the allowance for expected losses represent 95% of the Bank's total assets.	Our audit procedures, considering the use of specialists, included: • Evaluation of key controls on delinquency calculations, internal customer risk ratings, external risk ratings of banks and investment instruments, review of accuracy of customer information and of the model and methodologies used. • Assessment tests of whether contractual cash flows from financial assets at amortized cost represent SPPI.

Reserve for losses on financial assets (continued)
See notes 3(e) and 4 to the financial statements

Key Audit Matters	How the matter was dealt with in the Audit
The allowance for losses on financial assets at amortized cost comprises the ECL as a result of the loan rating model, the external ratings assigned to interbank placements and investment instruments, and the mechanism for determining the probability of default of the financial asset according to the stage of impairment at which it is assigned. The model to estimate the ECL is determined according to the grouping of financial assets at amortized cost with similar credit risk characteristics. The methodology applied by the model is composed of estimates of the probability of default, loss given default, prospective analysis and exposure to default. The evaluation of whether or not there has been a significant increase in the credit risk of financial assets entails the application of important judgments in said methodology. This is a challenge from an audit perspective because of the complexity in estimating the components used to make these calculations and applying management's judgment	• For a sample of financial assets, classified by type of activity or industry, and debtors with changes in risk classification based on quantitative and qualitative factors, the respective credit files were inspected, including the financial information of the debtors, the values of the guarantees that support the credit operations determined by expert appraisers, the investment prospects and other publicly available information, and other factors that could represent a loss event, to determine the reasonableness of the assigned credit risk rating. • The methodologies applied by the Bank in the ECL estimation model were evaluated in accordance with IFRS 9, through the inspection of documented policies, manuals and methodologies. • An independent assessment of the inputs used was conducted based on the methodology used by the Bank and recalculation was performed according to the ECL estimation model. • We evaluated management's judgments on assumptions regarding current economic conditions and prospective analysis considerations that may change the level of ECL, based on our experience and knowledge of the industry.

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

Management 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 due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank´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 are free of 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis on these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment 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 understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, we conclude on whether or not there are material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that material uncertainty exist, we are required to draw attention in our auditors' report to the related disclosure 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, subject to decisions by the Panamanian government, may cause the Bank to cease to be 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 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 provided to those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear or our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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.

The partner in charge of the audit who has prepared this independent auditors' report is Kuldip Singh K.

KPMG

Panama, Republic of Panama
February 4, 2019

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Financial Position

As of December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Assets			
Cash and cash equivalents		236,150,367	311,017,486
Deposits in banks:			
Demand deposits- foreign		64,737,831	88,351,485
Time deposits - local		87,000,000	225,000,000
Time deposits - foreign		1,630,300,000	2,172,900,000
Accrued interest receivable		1,126,068	4,658,702
Less: Reserve for losses on deposits with banks		47,724	0
Total bank deposits, net		1,783,116,175	2,490,910,187
Total cash, cash equivalents and bank deposits	6	2,019,266,542	2,801,927,673
Securities purchased under resale agreements	7	100,276,265	72,309,600
Accrued interest receivable		717,148	173,275
Investments in securities	8	2,620,487,245	3,068,580,067
Accrued interest receivable		21,087,626	28,290,549
Less: Reserve for investment losses		4,386,163	0
Investments in securities, net		2,637,188,708	3,096,870,616
Private sector loans		3,788,102,451	3,421,103,174
Government loans		464,327,629	219,742,778
Accrued interest receivable		28,231,790	24,630,680
Less: Allowance for loan losses		53,607,992	34,675,449
Interest and unearned commissions		26,910,713	26,166,407
Loans, net	9	4,200,143,165	3,604,634,776
Properties and equipment, net	10	80,071,356	74,086,575
Other assets:			
Borrowers' foreclosed assets, net	13	8,659,284	9,473,110
Intangible assets - licenses and software	11	14,473,048	16,673,745
Tax credits on preferential interest	12	60,629,982	49,692,349
Miscellaneous	13	18,983,761	14,639,086
Total other assets		102,746,075	90,478,290
Total assets		9,140,409,259	9,740,480,805

The statement of financial position should be read in conjunction with the notes that form an integral part of the financial statements.

	Note	2018	2017
Liabilities and Capital Funds			
Liabilities:			
Deposits:			
Demand deposits:			
Local - private		760,064,166	800,731,912
Local - public		2,363,986,666	2,211,550,149
Foreign		25,551,927	21,222,664
Savings:			
Local - private		689,627,303	662,414,790
Foreign		3,052,792	5,100,930
Time deposits:			
Local - private		404,513,979	600,422,522
Local - public		3,737,059,359	4,223,623,141
Foreign		16,126,653	17,598,743
Restricted - inactive accounts	14	14,030,612	19,287,734
Restricted - escrow funds	14	50,288,981	42,547,758
Accrued interests payable		3,405,613	3,600,071
Total deposits		8,067,708,051	8,608,100,414
Obligations:			
Foreign borrowings received	15	35,000,000	0
Accrued interests payable		198,829	0
Other liabilities:			
Guarantee certificates for legal proceedings		113,608,270	135,389,758
Accrued interests payable		2,113,001	4,328,213
Miscellaneous creditors	16	59,339,740	47,942,170
Management checks and certificates		27,204,991	51,246,993
Miscellaneous	16	25,413,212	26,120,273
Total other liabilities		227,679,214	265,027,407
Total liabilities		8,330,586,094	8,873,127,821
Capital funds:			
Paid-in capital by Government of Panama	4	650,000,000	570,000,000
Regulatory reserve for foreclosed assets		3,828,444	3,649,121
Valuation of investments in securities	3	5,215,618	86,074,116
Actuarial valuation	16	891,043	0
Dynamic regulatory provision	25	56,598,706	56,598,706
Retained earnings		93,289,354	151,031,041
Total capital funds		809,823,165	867,352,984
Commitments and contingencies	17		
Total liabilities and capital funds		9,140,409,259	9,740,480,805

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Profit or Loss

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Interest and commission income:			
Interest on:			
Loans		214,801,518	194,431,952
Deposits with banks		34,417,685	35,873,395
Securities		102,820,649	96,060,817
Loan commissions		8,639,918	7,714,334
Total interest and commission income		360,679,770	334,080,498
Interest expenses:			
Deposits		77,998,470	65,892,600
Borrowings		1,434,513	233,314
Total interest expenses		79,432,983	66,125,914
Net interest and commission income		281,246,787	267,954,584
Reversal of provision for losses in deposits with banks	4	(838,836)	0
Provision for investment securities losses	4	1,226,298	0
Provision for loan losses	9	4,599,885	9,466,368
Provision (reversal) for valuation of foreclosed assets	12	342,884	(66,632)
Net interest and commission income, after provisions		275,916,556	258,554,848
Other income:			
Fees for banking services	18	17,054,680	17,530,856
Dividends	8	913,424	1,305,541
Net gain on sale of securities	8	13,039,225	949,746
Other income	19	17,023,617	18,869,834
Total other income		48,030,946	38,655,977
Other expenses:			
Provision for tax credits, net		413,127	376,227
Commissions		483,734	221,358
Total other expenses		896,861	597,585
Total other income, net		47,134,085	38,058,392
General and administrative expenses:			
Salaries and other staff costs	20	82,425,298	85,740,951
Rentals		2,040,759	1,868,669
Repairs and maintenance		11,057,621	10,733,872
Depreciation and amortization	10 y 11	16,607,721	13,165,642
Electricity		3,118,070	2,911,992
Advertising and promotion		3,180,069	3,376,027
Communications		5,221,563	4,819,354
Insurance		529,287	634,294
Stationery and office supplies		1,665,019	1,898,720
Fees and professional services		3,604,997	3,222,114
Mobilization of personnel		1,316,070	997,407
Transportation of valuables		1,800,557	1,738,762
Electronic cashiers		1,541,716	996,784
Others	20	5,036,706	4,078,344
Total general and administrative expenses:		139,145,453	136,182,932
Net income		183,905,188	160,430,308

The statement of profit or loss should be read in conjunction with the notes that are an integral part of the financial statements

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Other Comprehensive Income

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Net income		183,905,188	160,430,308
Other comprehensive income (loss):			
Items that are or may be reclassified to earnings of the operations:			
Reserve for valuation of investments in securities:			
Net change in valuation of available-for-sale securities		0	35,732,312
Transfer to income from the sale of securities		0	(949,746)
		0	34,782,566
Items that may not be reclassified to profit and loss of the operations:			
Net change in valuation of investments at fair value with changes in other comprehensive income (FVOCI)	8	(1,054,952)	0
Net change in actuarial valuation	16	891,043	0
Other comprehensive income (loss) for the year		(163,909)	34,782,566
Total comprehensive income for the year		183,741,279	195,212,874

The statement of other comprehensive income should be read in conjunction with the notes that are an integral part of the financial statements

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Changes in Capital Funds

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	Paid-in Capital by the Government of Panama	Regulatory reserve for foreclosed assets	Valuation of investments in securities	Acturial valuation
Balance as of December 31, 2016		570,000,000	2,968,002	51,291,550	0
Net income, 2017		0	0	0	0
Other comprehensive income (loss):					
Net change in valuation of available-for-sale securities		0	0	35,732,312	0
Transfer to income from the sale of securities		0	0	(949,746)	0
Total other comprehensive income for the year		0	0	34,782,566	0
Total comprehensive income for the year		0	0	34,782,566	0
Other capital fund movements:					
Regulatory reserve for foreclosed assets		0	681,119	0	0
Transactions recorded directly in capital funds:					
Distribution of profits to the Panamanian State		0	0	0	0
Balance as of December 31, 2017		570,000,000	3,649,121	86,074,116	0
Impact on initial appliciation of IFRS 9 on January 1, 2018	3	0	0	(79,803,546)	0
Balance as of January 1, 2018		570,000,000	3,649,121	6,270,570	0
Net income, 2018		0	0	0	0
Other comprehensive income (loss):					
Net change in valuation of investments to FVOCI	8	0	0	(1,054,952)	0
Net change in actuarial valuation	16	0	0	0	891,043
Total other comprehensive income (loss) for the year		0	0	(1,054,952)	891,043
Total comprehensive income (loss) for the year		0	0	(1,054,952)	891,043
Other capital fund movements:					
Regulatory reserve for foreclosed assets		0	179,323	0	0
Transactions recorded directly in capital funds:					
Capitalization of profits		80,000,000	0	0	0
Earnings distributed to the Government of Panama		0	0	0	0
Total transactions recorded directly in capital funds		80,000,000	0	0	0
Balance as of December 31, 2018		650,000,000	3,828,444	5,215,618	891,043

The statement of changes in capital funds must be read in conjunction with the notes that are an integral part of the financial statements

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Statement of Cash Flows

For the year ended December 31, 2018

(Expressed in Balboas)

	Note	2018	2017
Operational activities:			
Net income		183,905,188	160,430,308
Adjustments to reconcile net income and cash of operational activities:			
Depreciation		12,865,037	10,217,077
Amortization of intangible assets - licenses and programs		3,742,684	2,948,565
Reversal of provision for losses on bank deposits		(838,836)	0
Provision for investment losses		1,226,298	0
Provision for loan losses		4,599,885	9,466,368
Provision (reversal) for valuation of foreclosed assets		342,884	(66,632)
Provision for fiscal credits, net		413,127	376,227
Gain on sale of foreclosed assets		(1,575,033)	(850,721)
Gain on sale of furniture and equipment		(250,581)	(53,381)
Dividends		(913,424)	(1,305,541)
Net gain on sale of securities		(13,039,225)	(949,746)
Net interest and commission income		(281,246,787)	(267,954,584)
Changes in operating assets and liabilities:			
Time deposits in banks with maturities originals older than 3 months		875,000,000	976,750,000
Securities purchased under resale agreements, net		(27,966,665)	(59,166,600)
Loans		(613,928,291)	(60,254,865)
Other assets		(17,374,621)	(4,258,764)
Sight deposits received		116,098,034	(1,997,844,843)
Savings deposits received		25,164,375	57,271,704
Time deposits received		(681,460,314)	1,133,513,462
Warranty certificates for legal proceedings		(21,781,488)	2,995,183
Management checks and certificates		(24,042,002)	25,321,940
Sundry creditors		11,397,570	(3,558,893)
Other liabilities		183,982	4,819,580
Cash with operations:			
Interest and commissions received		370,349,541	344,971,877
Interest paid		(81,643,824)	(67,337,364)
Dividends received		913,424	1,305,541
Cash flows from operating activities		(159,859,062)	266,785,898
Investment activities:			
Acquisitions of investments in securities at amortized cost		(752,415,862)	(789,634,482)
Redemptions of investments in securities at amortized cost		833,978,221	461,002,491
Proceeds from the sale of investments in securities at amortized cost		295,605,200	20,933,944
Acquisition of furniture and equipment		(18,859,642)	(10,946,325)
Proceeds from the sale and disposal of furniture and equipment		260,405	292,818
Acquisition of intangible assets - licenses and software		(1,541,987)	(681,332)
Proceeds from the sale of foreclosed assets of borrowers		3,751,954	1,595,504
Cash flows from investing activities		360,778,289	(317,437,382)
Financing activity:			
Funding received		35,000,000	0
Distribution of profits to the Panamanian State		(140,000,000)	(85,000,000)
Cash flows from financing activities		(105,000,000)	(85,000,000)
Net increase (decrease) in cash and cash equivalents		95,919,227	(135,651,484)
Cash and cash equivalents at the beginning of the year		1,822,268,971	1,957,920,455
Cash and cash equivalents at the end of the year	6	1,918,188,198	1,822,268,971

The cash flow statement should be read in conjunction with the notes that are an integral part of the financial statements

BANCO NACIONAL DE PANAMA
(Panama, Republic of Panama)

Financial Statements

December 31, 2018

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(1) Incorporation and Operations

Banco Nacional de Panama (the "Bank") was created by Laws No.74 of 1904, 6 of January of 1911, 11 of 1956, reorganized by Law 20 of 1975, subrogated by Decree-Law 4 of 2006, as amended by Law 24 of 2017; is a public entity with its proper legal status, own capital funds, autonomous and independent in its regulations, budget and internal management, subject to the supervision of the Executive Body and the corresponding supervisory bodies, under the terms established by the Law. As the Nation's primary financial institution, the Bank is responsible, in addition to the objectives described in the above mentioned law, for performing banking activities within the official sector, and obtaining the necessary funds to develop the national economy.

Banco Nacional de Panama is exempt from the payment of any national, municipal or any other tax, rate, lien or contribution, with the exception of employer's contributions to Social Security, Educational Insurance Tax, Professional Risk, Public Services Tax and other exceptions provided for in Decree Law No. 4 of January 18, 2006, as amended by Law No. 24 of May 16, 2017. In addition, the Bank enjoys all the privileges granted to the State by procedural laws, in any judicial or administrative proceedings to which it is a party; and has coercive jurisdiction for the collection of overdue obligations incurred in its favor.

The Bank is responsible for directing and managing the clearing operations for the entire national banking system.

The main office is located at Torre Banco Nacional, Via España and 55th Street, Panama City, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

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

These financial statements were reviewed by the Audit Steering Committee on January 31, 2019 and approved by the Board of Directors for issuance on January 31, 2019.

(b) Basis of Measurement

These financial statements have been prepared on a historical cost and amortized cost basis, except for certain investments in equity securities which are presented at fair value through other comprehensive income; and foreclosed assets of borrowers, which are measured at the lower of carrying value or fair value less costs to sell.

(2) Basis of Preparation, continued

The Bank recognizes financial assets and financial liabilities at the settlement date.

(c) Functional and Presentation Currency

These financial statements are presented in balboas (B/.). The balboa is the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the Dollar of the United States of America (US$). The Republic of Panama does not issue its own paper currency, and in lieu, the Dollar (US$) of the United States of America is used as legal tender and is considered the functional currency of the Bank.

(3) Summary of Significant Accounting Policies

Except as described in policy (e), the accounting policies applied in these financial statements are the same as those applied in the financial statements for the year ended December 31, 2017.

(a) Fair Value Measurement

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

Where applicable, the Bank measures the fair value of an instrument using a price quoted in an active market for that instrument. A market is considered active if transactions in these assets or liabilities occur with enough frequency and volume to provide information for pricing on an ongoing basis.

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

The fair value of a demand deposit is not less than the amount payable when it becomes due, discounted from the first date on which payment may be required.

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

(b) Foreign Currency Transactions

Assets and liabilities held in foreign currencies are translated into balboas at the exchange rate prevailing at the date of the statement of financial position.

Transactions in foreign currencies are translated at the exchange rates prevailing on the dates of the transactions. Gains or losses on foreign currency translation are reflected in the accounts of other income or other expenses in the statement of profit or loss.

(3) Summary of Significant Accounting Policies, continued

(c) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include deposits with banks with original maturities of three months or less.

(d) Securities Purchased under Resale Agreements

Resale agreements represent secured financing transactions and are measured at the amount at which the securities are acquired, plus accrued financial returns. Generally, the Bank takes possession of securities purchased under resale agreements. The related income or expense is recognized in the statement of profit or loss.

(e) Financial Assets

Policy applicable from January 1, 2018

As from January 1, 2018, the Bank has adopted IFRS 9 *Financial Instruments*. This standard supersedes IAS 39 Financial Instruments: *Recognition and Measurement*.

Changes in accounting policies resulting from the adoption of IFRS 9 were made using the standard's exemption from restatement of comparative information for prior periods. The differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 were recognized in retained earnings on January 1, 2018.

The following table analyses the impact on reserves and retained earnings of the opening balances at January 1, 2018 from the transition to IFRS 9. The impact relates to the reclassification of assets and the recognition of expected losses. There is no impact on other components of equity.

	Note	Impact of adopting IFRS 9 at January 1, 2018
Valuation of investments in securities		
Closing balance under IAS 39 at December 31, 2017		86,074,116
Adjustment for change in classification of debt securities from available-for-sale to amortized cost	(e.1)	(79,803,546)
Opening balance under IFRS 9 at January 1, 2018		6,270,570

	Note	Impact of adopting IFRS 9 at January 1, 2018
Retained earnings		
Closing balance under IAS 39 at 31 December 2017		151,031,041
Recognition of expected losses under IFRS 9 (including loans, investments in securities at Amortized cost and deposits with banks)	(e.2)	(21,467,552)
Opening balance under IFRS 9 at January 1, 2018		129,563,489

(3) Summary of Significant Accounting Policies, continued

The significant new accounting policies and the nature and impact of the changes from the policies previously held at December 31, 2017, are detailed below.

(e.1) Classification and measurement of financial instruments under IFRS 9
IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale investments securities.

The adoption of IFRS 9 has not had a significant effect on the Bank's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is detailed below.

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Bank classifies financial assets under the adopted business model as: measured at amortized cost (AC) and at fair value through changes in other comprehensive income (FVOCI).

Business model assessment
The Bank makes an assessment of the business model for each group of financial instruments, in order to reflect the best way the business is managed and information is provided to management. The information includes:

- The policies and objectives identified for each group of financial instruments and the compliance with those guidelines in practice. These include whether management's strategy focuses on earning contractual interest revenue, or the sale of assets, achieving expected returns according to the business model;
- The measurement and risks management that affect the compliance with the business model and the performance of financial instruments;
- how managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, value and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Assessment of whether contractual cash flows are solely payments of principal and interests *(SPPI)*
For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding at a particular period of time and for other basic risks of a basic loan agreement and other associated costs (e.g. liquidity risk and administrative costs), as well as the profit margin.

(3) Summary of Significant Accounting Policies, continued

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

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

Classification and Measurement
The Bank classifies a financial asset at AC and not at fair value through profit or loss (FVTPL) if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to obtain contractual cash flows; and
- The contractual terms of the financial asset meets the SPPI criteria.

A financial asset is classified as 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 whose objective is achieved by collecting contractual cash flows and selling these financial assets; and
- The contractual terms of the financial asset meet SPPI criteria.

The Bank classifies a financial asset as FVTPL if the contractual cash flows do not meet SPPI criteria.

On initial recognition of an equity investment that is not held for trading, the Bank irrevocably elected to designate such investments as measure through FVOCI, and therefore they are measured at fair value and changes in fair value are recognized directly in the statement of comprehensive income.

Financial assets are not reclassified after initial recognition, except if the Bank changes its business model for managing the financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is measured initially at fair value plus transaction-related costs directly attributable to its acquisition; except for investments accounted for at FVTPL.

(3) Summary of Significant Accounting Policies, continued

The following accounting policies are applied to the subsequent measurement of financial assets.

Financial assets measured at AC	These assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income and impairment losses are recognized in the statement of profit or loss, as well as any gains or losses.
Investments in equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in the statement of profit or loss. Other net gains and losses are recognized in the statement of comprehensive income and will never be recognized in the statement of profit or loss.
Investments in FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the statement of profit or loss.

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction, in which it has transferred substantially all the risks and rewards of ownership of the financial asset, or when it transfers, it does not retain substantially all the risks and rewards of ownership and does not retain control over the transferred assets.

(3) Summary of Significant Accounting Policies, continued

Impact on the Classification of Financial Instruments on the Initial Application Date of IFRS 9

The application of the above policies resulted in reclassifications and remeasurements to financial assets. The following table and accompanying notes show the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities at January 1, 2018. The following table does not include allowance losses balances, which are presented in note (3.e.2).

	Original classification under IAS 39	New classification under IFRS 9	Notes	December 31, 2017 Original amount under IAS 39	January 1, 2018 New amount under IFRS 9
Financial Assets					
Cash, cash equivalents and deposits with banks	Loans	Amortized Cost		2,801,927,673	2,801,041,113
Loans to customers	Loans	Amortized Cost		3,604,634,776	3,587,213,649
Debt investments	Available for sale	Amortized Cost	(a)	3,089,456,819	3,006,493,408
Equity investments	Available for sale	FVOCI	(b)	7,413,797	7,413,797
Total Financial Assets				9,503,433,065	9,402,161,967
Financial Liabilities					
Deposits from customers	Amortized Cost	Amortized Cost		8,608,100,414	8,608,100,414
Total Financial Liabilities				8,608,100,414	8,608,100,414

(a) Management considers that these investments are held within a business model whose objective is to hold the investments in order to obtain contractual cash flows; therefore, in the adoption of IFRS 9 these investments were classified at amortized cost. These investments may be sold, but management does not expect these sales to be frequent.

(b) The Bank has designated investments in equity instruments (shares) of corporate and financial local and foreign entities to FVOCI. These equity investments are not held for trading, but rather for strategic purposes and because of this, Bank's management has irrevocably elected to designate these investments in this category, as it is considered that recognizing fluctuations in fair value in the statement of profit or loss in the short term would not be consistent with the Bank's strategy.

(3) Summary of Significant Accounting Policies, continued

The following table reconciles the carrying amounts under IAS 39 with the carrying amounts under IFRS 9 on transition to IFRS 9 at January 1, 2018:

	Carrying value at December 31, 2017 under IAS 39	Reclassification	Remeasurement	Carrying value at January 1, 2018 under IFRS 9
Financial assets at amortized cost:				
Cash, cash equivalents and deposits with banks				
Opening balance	2,801,927,673			
Recognition of expected loss			(886,560)	
Final balance				2,801,041,113
Loans:				
Opening balance	3,604,634,776			
Recognition of expected loss			(17,421,127)	
Final balance				3,587,213,649
Investments in securities at AC:				
Opening balance	0			
From available for sale		3,089,456,819		
Fair Value Remediation to AC			(79,803,546)	
Recognition of expected loss			(3,159,865)	
Final balance				3,006,493,408
Investments available for sale:				
Opening balance	3,096,870,616			
To FVOCI (Shares)		(7,413,797)		
To amortized cost		(3,089,456,819)		
Final balance				0
Investments at FVOCI:				
Opening balance	0			
From available for sale		7,413,797		
Final balance				7,413,797

The effect of the change in the classification of investments in securities classified as available for sale under IAS 39 and classified at amortized cost under IFRS 9 is shown below:

Fair value of investments at amortized cost at December 31, 2018	2,640,750,625
Gains that would have been recognized at fair value at December 31, 2018 in OCI if the financial assets had not been reclassified	5,507,806

(3) Summary of Significant Accounting Policies, continued

(e.2) Impairment of financial assets

The Bank replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model under IFRS 9. This requires that considerable judgment be applied with respect to how changes in economic factors affect ECL, which will be determined on a weighted average basis.

The new impairment model is applicable to the following financial assets that are not measured at FVTPL:

- Deposits with banks
- Debt instruments
- Loans
- Irrevocable loan commitments

No impairment losses are recognized on equity investments.

Under IFRS 9, the ECL is measured on the following basis:

- 12-month ECL: is the portion of the ECL resulting from default events on a financial instrument that are possible within 12 months after the reporting date.
- Lifetime asset ECL: are the losses that result from all possible default events over the life of a financial instrument.

Allowance for losses are recognized at an amount equal to the lifetime ECL, except in the following cases in which the recognized amount is equivalent to 12-month ECL:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments (other than leases receivable) for which the credit risk has not increased significantly since initial recognition.

Significant increase in credit risk

The assessment of whether there has been a significant increase in the credit risk of a financial asset is one of the critical judgements implemented in the impairment model of IFRS 9.

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

(3) Summary of Significant Accounting Policies, continued

Definition of Default

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- Qualitative (e.g. breach of contract covenants).
- Quantitative (e.g. default status and non-payment of another obligation of the same borrower to the Bank); and
- Based on internally developed data (for loans and local investments securities) and data obtained from external sources, such as risk ratings by rating agencies (for cases of placements and foreign investments securities) and Panama's sovereign risk.

Inputs in ECL measurement

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

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The Bank obtains these parameters from internal statistical models and other historical data, which are adjusted to reflect forward-looking information as described above.

PD estimates are made at a certain date, at which time the Bank uses one-year regulatory transition matrices with a 60-month observation horizon, in accordance with the Bank's defined portfolio segmentation. These statistical models are based on internally compiled data composed of both qualitative and quantitative factors. Similarly, market information for prospective analysis, when available, is used to adjust the loan portfolio's PD. The statistical analyses performed determined that the monthly economic activity index (IMAE, for its initials in Spanish) is the macroeconomic variable that shows the highest correlation with the levels of non-performing loans by segments of the Bank's economic activity.

To determine the PD for the portfolios of interbank deposits and investments in sovereigns and financial institutions, market information from external rating agencies is used. The Bank established that it is not necessary to incorporate the impact of the context of macroeconomic variables for prospective analysis, since the external ratings produced by the rating firms capture such impacts.

(3) Summary of Significant Accounting Policies, continued

The LGD is the magnitude of the loss given a default event. The Bank estimates the parameters of the LGD based on a historical recovery rate of claims against defaulting counterparts (doubtful and unrecoverable). LGD models consider the structure, collateral, counterparty portfolio segment and recovery costs of any comprehensive guarantees for the financial asset. It should be calculated on a discounted cash flow basis using the effective interest rate of the loans as a discount factor.

The EAD represents the expected exposure in the event of default. The Bank determines the EAD of the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including any amortization. For loan commitments, financial guarantees and unused credit line balances, the EAD considers the expected amount, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and projections.

The Bank evaluates at each reporting date, the ECL of financial assets held at amortized cost. The amount of losses determined during the period is recognized as a provision expense in profit or loss and increases an allowance account for losses on loans, deposits in banks or investments in securities at amortized cost. The reserve is presented as a deduction from the financial assets that generated it, in the statement of financial position.

When a loan is determined to be uncollectible, the unrecoverable amount is decreased from the referred reserve account. Subsequent recoveries of loans previously written off as uncollectible increase the reserve account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by decreasing the allowance account for losses on loans, investments in securities at amortized cost or deposits in banks, as applicable. The amount of any reversal is recognized in the statement of profit or loss.

The Bank has approved policies for determining the write-off of loans that are uncollectible. This decision is made after an analysis of the days of arrears of the loan, the financial conditions and payment capacity of the borrowerr(s) and the evaluation of the risk mitigating guarantees that support the loan. For loans of smaller amounts, write-offs are generally based on the length of past due of the loan.

(3) Summary of Significant Accounting Policies, continued

Loan Impairment

The Bank determines the expected loss on loans using two basis for the assessment:

- *Individually Assessed Loans*
  Impairment losses on individually assessed loans are determined based on an assessment of each particular exposure. If there is not objective evidence of impairment for a significant individual loan, this is included in a group of loans with similar characteristics and impairment is collectively assessed. Impairment loss is calculated comparing the present value of expected future cash flows, discounted at the original effective interest rate of the loan, versus its current carrying value and the amount of any loss is recognized as an allowance for loan losses in the consolidated statement of profit or loss.

- *Collectively Assessed loan*
  For purposes of a collective assessment for impairment, the Bank principally uses statistical methods with a formula approach based on historical loss rate experience, the opportunity of recoveries and the actual loss incurred and make an adjustment if current economic and credit conditions are such that it is likely that the actual losses are higher or lower than those suggested by historical trends. Roll rates, loss rates and the expected future recoveries terms are regularly benchmarked against actual loss experience, in order to assure that they are still appropriate.

Credit Risk Rating

The Bank assigns each exposure the regulatory classification of the Superintendency of Banks of Panama (SBP). These risk classifications are defined using qualitative and quantitative factors that are indicative of risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Since the Bank uses regulatory classifications as input for the calculation of the PD, it considers the standard classification (1) as the classification of all loans at initial recognition. Exposures will be subject to ongoing monitoring, which may result in the movement of an exposure to a different credit risk classification.

Generating the term structure of PD

Regulatory credit risk classifications are the main input to determine the PD term structure for the different loan portfolios. The Bank obtains performance and loss information on credit risk exposures analyzed by jurisdiction or region, by the type of product and borrower, as well as by credit risk rating. For some portfolios, information from external credit reference agencies may also be used.

(3) Summary of Significant Accounting Policies, continued

Significant increase in credit risk in the loan portfolio
The Bank considers a loan with a significant increase in risk by business segments of the loan portfolio when: it is in substandard classification (3) for all business segments, with the exception of the retirees segment, for which the special mention classification (2) is used.

Definition of default in the loan portfolio
The Bank considers a loan with a significant increase in risk by business segment of the loan portfolio when: it is in classification 3 for all business segments, except for the retired segment, for which classification 2 has been determined.

The following table shows the stages of impairment by business segment established for the loan portfolio:

	SBP regulatory classification categories		
Segment	**Low Risk**	**Significant Risk**	**Default**
Agriculture	1 and 2	3	4 and 5
Livestock	1 and 2	3	4 and 5
Commercial	1 and 2	3	4 and 5
Consumer	1 and 2	3	4 and 5
Consumer - Retirees	1	2	3, 4 and 5
Mortgage - Preferential	1 and 2	3	4 and 5
Mortgage - Non-preferential	1 and 2	3	4 and 5

Impairment of deposits in banks and investments at AC
For interbank deposits and investment securities, allocations to the impairment stages for the calculation of losses are based on external ratings, which are shown below:

- Low risk: International low risk financial instruments, that is, those with an investment grade higher or equal to BBB- at the time of the evaluation; and for local financial instruments rated as BB+, BB and BB- that maintained the same rating from their acquisition to the evaluation date.
- Significant risk: financial instruments with risk ratings lower to BB but higher than CCC.
- Default: financial instruments with risk ratings lower than or equal to CCC.

In certain instances, using its expert judgment and, to the extent possible, relevant historical experience, the Bank may determine that an exposure has significantly increased its credit risk based on particular qualitative indicators that it believes are indicative of this and whose effect would not otherwise be fully reflected through timely quantitative analysis.

(3) Summary of Significant Accounting Policies, continued

The Bank intends to monitor the effectiveness of the criteria used to identify significant increases in credit risk through regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default.

Impact on the Measurement of Impairment of Financial Instruments at the Date of Initial Application of IFRS 9

As a result of the application of the new impairment models described above, which were adopted as from January 1, 2018 with the adoption of IFRS 9, the Bank has allocated new impairment reserves and has increased the allowance for losses already held, as summarized below:

	At December 31, 2017 (under IAS 39)	Remeasurement	As of January 1, 2018 (under IFRS 9)
Reserve for losses on bank deposits	0	886,560	886,560
Reserve for losses on investments at AC	0	3,159,865	3,159,865
Reserve for loan losses	34,675,449	17,421,127	52,096,576
Total	34,675,449	21,467,552	56,143,001

Policy applicable before 1 January 2018

Investments Securities

Securities are classified at the initial date, considering management's ability and intent to sell or hold them until maturity. The classification used by the Bank is as follows:

- Securities Available for Sale
  This category includes investments acquired with the intention of holding them for an indefinite term, which can be sold in response to liquidity needs, changes in interest rates, currency exchange rates or market prices of shares. These investments are measured at fair value and changes in fair value are recognized directly in other comprehensive income using a valuation allowance account until they are sold or redeemed (i.e., derecognized) or it is determined that an investment is impaired in value, in which case the cumulative gain or loss previously recognized in other comprehensive income is included in earnings in the statement of profit or loss.

- Impairment of Securities Available for Sale
  The Bank assesses at each reporting date whether there is objective evidence of impairment in investment securities. A significant and prolonged decline in fair value below cost is considered in determining whether the assets are impaired.

(3) Summary of Significant Accounting Policies, continued

If there is any objective evidence of impairment for the available-for-sale financial assets, the cumulative loss is written down from equity and recognized in the statement of profit or loss.

If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase is objectively related to an event occurring after the impairment loss recognized in profit or loss, the impairment loss is reversed through the statement of profit or loss.

Loans

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and generally originate by providing funds to a borrower as a loan. Loans are stated at their principal amount outstanding, less allowance for loan losses and unearned interest and commissions. Unearned interest and fees are recognized as income over the life of the loans using the effective interest rate method.

Allowance for Loan Losses

The Bank assesses at each reporting date whether there is any objective evidence of impairment of a loan or loan portfolio. The amount of loan losses determined during the period is recognized as a provision expense in the statement of profit or loss and increases an account for allowance loan losses. The allowance is presented as a deduction from loans receivable in the statement of financial position. When a loan is determined to be non-collectible, the non-collectible amount is decreased from the allowance account. Subsequent recoveries of loans previously written off as non-collectible increase the allowance account.

Impairment losses are determined using two methodologies which indicate whether objective evidence of impairment exists, i.e. individually for loans that are individually significant and collectively for loans that are not individually significant.

- Individually Evaluated Loans
  Impairment losses on individually assessed loans are determined based on a case-by-case assessment of the exposures. If it is determined that there is no objective evidence of impairment for an individually significant loan, the loan is included in a group of loans with similar characteristics and is assessed collectively for impairment. Impairment losses are calculated by comparing the present value of expected future cash flows, discounted at the loan's current rate or the fair value of the loan collateral less costs to sell, to its current carrying value, and the amount of any loss is recognized as a provision for losses in the profit or loss statement. The carrying value of impaired loans is written down through the use of the allowance for loan losses.

(3) Summary of Significant Accounting Policies, continued

- Collectively Evaluated Loans
  For the purposes of a collective impairment assessment, the Bank primarily uses statistical models of historical trends in the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates, and expected timing of future recoveries are regularly compared against actual results to ensure that they remain appropriate.

Impairment reversal
If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by decreasing the allowance for loan losses. The amount of any reversal is recognized in the statement of profit or loss.

Restructured Loans
Restructured loans are those to which the Bank considers granting some change in the credit parameters due to impairments in the debtor's financial condition. These loans, once restructured, remain in the assigned category, regardless of whether the debtor shows any improvement in condition, subsequent to the restructuring.

(f) Dynamic Provision
The dynamic provision is an equity item that will be increased or decreased through transfers from and to retained earnings and is constituted by requirement of Agreement No. 004-2013 of the Superintendency of Banks of Panama.

(g) Property and Equipment
Properties include land, and buildings used by the Bank's offices and branches. Property and equipment are recorded at historical cost, and are shown net of accumulated depreciation and amortization.

Subsequent major improvements are included in the carrying value of the assets or are recognized as a separate asset, as appropriate. Other repairs and improvements that do not significantly extend the life of the asset are recognized as expenses in the statement of profit or loss as incurred.

(3) Summary of Significant Accounting Policies, continued

Depreciation and amortization expenses are recognized in current operations, using the straight-line method, over the estimated useful life of the related assets up to their residual value, except for land which is not depreciated. The estimated useful life of the assets is summarized as follows:

Buildings	40 years
Improvements	5 to 20 years
Furniture and equipment	5 to 20 years
Transportation equipment	4 to 11.7 years

In 2018, management conducted a review of the useful life of certain properties and equipment, specifically in the areas of furniture and equipment and transportation equipment. This change in the estimated useful life was applied prospectively and did not have a significant effect on the depreciation expense recognized in the statement of profit or loss.

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of an asset is immediately reduced to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the cost to sell and its value in use.

(h) Intangible Assets - Licenses and Programs

Licenses and software purchased separately are shown at historical cost. Licenses and software have a defined useful life, which is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licenses and programs over their estimated useful lives of 5 to 10 years. Software licenses acquired are capitalized on the basis of the costs incurred to acquire and use the specific technology program.

In 2018, management conducted a review of the useful life of certain intangible assets. This change in the estimated useful life was applied prospectively and did not have a significant effect on the amortization expense recognized in the statement of profit or loss.

(i) Foreclosed Borrowers' Assets

Foreclosed borrower´s assets are recognized at the lowest value of the carrying value of the unpaid loans and the fair value of the asset less the cost of sale. The difference between these values is maintained as an impairment allowance, in order to maintain control over the original value of the foreclosed assets recognized. The provision for impairment is recognized in the statement of profit or loss.

(j) Customer Deposits and Obligations

Customer deposits are initially measured at fair value. Subsequently, they are measured at amortized cost, using the effective interest rate method.

(3) Summary of Significant Accounting Policies, continued

(k) Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements are short-term financing transactions collaterized by securities, in which there is an obligation to repurchase the securities sold at a future date and at a specified price. The difference between the sale price and the future purchase value is recognized as interest expense under the effective interest rate method.

(l) Certificates of Warranties for Legal Proceedings

The funds that support guarantee certificates and/or judicial deposit certificates are deposited under the provisions of article 570 of the Judicial Code, as amended by article 9 of Law 67 of October 30, 2009, to guarantee the results of judicial proceedings or as bail to ensure the personal freedom of a person subject to criminal proceedings. These funds are measured at amortized cost and generate interest at the rate established by the Bank and are received in custody, by provision of said Law and the funds are consigned to the orders of the respective Judge subject to compliance with a judicial process.

(m) Seniority bonus provision

The Bank grants a seniority bonus to the Bank's employees when the following two conditions are met: they have accumulated fifteen or more years of service and terminate their employment relationship due to old age pension or absolute disability.

The cost of providing this benefit is determined annually by an actuary using the projected unit credit method. Actuarial gains and losses are recognized in full in the period they occur in the statement of comprehensive income. The liability comprises the present value of the defined benefit obligation. The Bank determines the net interest cost on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year, taking into account any changes in the benefit liability during the period as a result of the benefit payments.

(n) Interest Income and Expense

The Bank has adopted IFRS 15 Revenue from Ordinary Activities under Customer Contracts from January 1, 2018, the effective date of IFRS. Based on the Bank's assessment, this standard has had no impact on the accounting policies for revenue recognition.

Interest income and expense are recognized in the statement of profit or loss using the effective interest rate method.

(3) Summary of Significant Accounting Policies, continued

The effective interest rate method is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant term. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (e.g., prepayment options). The calculation includes all fees and commissions paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts. Transaction costs are costs incurred that are directly attributable to the acquisition, issuance or disposal of an asset.

(o) Commission and Other Income

Generally, commissions on short-term loans, letters of credit and other banking services are recognized as income under the cash method due to their short-term maturity. Income recognized under the cash method is not significantly different from income that would be recognized under the accrual method. Commissions on medium- and long-term transactions are deferred and amortized as income using the effective interest rate method over the life of the instrument. Fees related to the granting of loans are deferred and recognized in income over the term of the loan contracts as an adjustment to performance. Fees for other banking services are included in other income as banking service fees. The Bank recognizes revenue when it transfers control over a service to a customer and the performance obligation is met. Dividend income is recognized as received.

(p) Uniformity in the Presentation of the Financial Statements

The accounting policies described above have been applied consistently in the periods presented in the financial statements.

Certain amounts in the 2017 financial statements have been reclassified to adapt its presentation to the one used in 2018, specifically in the statement of financial position and the segment information note.

(q) New IFRSs and Unadopted Interpretations

As of the date of the financial statements, the following issued standard has not yet been applied in its preparation:

IFRS 16 Leases

IFRS 16 Leases is effective from January 1, 2019, replacing current IAS 17 Leases; IFRIC 4 Determining whether an Arrangement contains a Lease; SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Essence of Transactions Involving the Legal Form of a Lease.

IFRS 16 changes the way a lease is accounted for by lessees, using a unique model for accounting for such transactions. This unique model determines that a lessee must recognize a right-of-use asset, which represents its right to use the underlying asset, and a lease liability, which represents its obligation to make future lease payments.

(3) Summary of Significant Accounting Policies, continued

The standard includes exemptions for its application to short-term leases and leases where the underlying asset is of low value.

The lessor's accounting remains similar to that set out in IAS 17, i.e. lessors continue to classify leases as either finance or operating leases.

The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements as described below:

Leases where the Bank is a lessee
As of the reporting date, the Bank has the following types of operating leases for the operation of: branches, administrative offices, ATMs, warehouses (deposits), among others. The nature of the expenses related to these leases will change from January 1, 2019, as the Bank will recognize a depreciation expense, for the right-of-use assets, and additionally interest expense, for the lease liabilities. Previously, the Bank recognized operating lease expense on a straight-line basis over the term of the lease.

The Bank does not maintain leases recorded as finance leases in accordance with IAS 17; similarly, the Bank does not maintain leases in which it is the lessor.

Transition
The Bank will apply IFRS 16 from January 1, 2019, applying the effect of the adoption of the standard on the date of initial application, i.e. the information presented for 2018 will not be restated. That is, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, without presenting comparative information.

The Bank plans to apply the standard's exemption for existing leases to continue the definition of a lease at the transition date. This means that it will apply IFRS 16 to all leases entered into prior to January 1, 2019 and identified as leases in accordance with IAS 17.

The Bank is in the process of assessing the impact of applying IFRS 16 on its financial statements.

(4) Financial Risks Management

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. The Bank's activities relate primarily to the use of financial instruments and, as such, the statement of financial position consists primarily of financial instruments.

(4) Financial Risks Management, continued

The Bank's Board of Directors has the responsibility for establishing and monitoring financial instruments risk management. For this purpose, it has appointed certain committees to manage and periodically monitor the risks to which the Bank is exposed. These committees are: Risk and Policy Steering Committee, Credit Steering Committee, Audit Steering Committee and the Money Laundering Prevention Steering Committee.

Additionally, the Bank is subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of Securities Market of Panama, r related to concentration, liquidity and capitalization risks, among others.

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

(a) Credit Risk

This is the risk that the debtor, issuer or counterparty of a financial asset owned by the Bank will not comply, fully and on time, with any payment due to the Bank in accordance with the terms and conditions agreed at the time the Bank acquired or originated the respective financial asset. To assume this risk, the Bank has a management framework whose main elements include:

- The risk analysis or pre-approval is carried out independently of the business, whose objectives, in addition to identifying, evaluating and quantifying the risk of the proposals, are to determine the impact they will have on the Bank's credit portfolio.
- A control area is responsible for validating that the proposals are within the Bank's policies and limits, obtain the required approval according to the level of risk assumed, and comply with the conditions agreed upon in the approval, at the time the transaction is settled.
- The approval process is carried out through various instances within the Bank in accordance with the established approval limit policy.
- A portfolio management process focused on monitoring risk trends at the Bank level with the objective of anticipating any signs of portfolio deterioration.
- Compliance with collateral policies, including required coverage on loan amounts established by the Credit Steering Committee and reviewed periodically.

The respective management committees assigned by the Board of Directors periodically monitor the financial condition of the respective debtors and issuers that involve a credit risk for the Bank.

The Bank manages credit risk through:

- Credit and investment policies, which are periodically reviewed and amended.
- Authorization limits, which are periodically reviewed and amended.
- Exposure and concentration limits for the investment portfolios, placements and loans.

(4) Financial Risk Management, continued

- Development and maintenance of credit risk assessment, through permanent review of the credit portfolio; frequent monitoring of credit classification and special attention to the portfolio with higher risk levels.
- Review of compliance with procedures and policies, through specialized administrative units.

To limit credit risk, the Bank has established policies that ensure diversification and allow for an adequate evaluation for each loan.

The key procedures and practices in credit risk management are detailed as follows:

- Limitations on concentration risk (large credit extensions, loans to related parties, refinancing).
- Loan risk monitoring and rating matrix.
- Allowance for loan losses policy.
- Compliance with credit policies and credit management procedures.
- Identification and monitoring of initial and changing credit risks observed in customers and in the economic activity carried out by those customers.
- Collection procedure on irregulars and classified loans

Credit Quality Analysis
The Bank uses for the evaluation of loans the same credit risk classification system that the Superintendency of Banks of Panama has established for the determination of regulatory reserves. This classification system considers the evaluation of quantitative and qualitative factors of the debtor's financial condition and the market in which it operates to determine its credit risk classification, including the evaluation of the debtor's delinquency. Nevertheless, the consumer portfolio, given its nature, is mainly evaluated based on its delinquency to determine its credit risk classification.

(4) Financial Risk Management, continued

The following table analyzes the credit quality of financial assets at amortized cost, credit commitments and allowances per ECL for these assets held by the Bank as of December 31, 2018:

	2018			
	Low risk	Significant Risk	Default Risk	Total
Loans				
Standard	3,975,505,309	0	0	3,975,505,309
Special-mention	227,465,999	526,896	0	227,992,895
Sub-standard	0	20,234,912	101,442	20,336,354
Doubtful	0	0	12,221,080	12,221,080
Loss	0	0	16,374,442	16,374,442
Gross Balance	4,202,971,308	20,761,808	28,696,964	4,252,430,080
Loss allowance	27,591,677	5,225,522	20,790,793	53,607,992
Net balance	4,175,379,631	15,536,286	7,906,171	4,198,822,088
Consumer Loans				
0 to 30 days	2,198,162,367	1,159,562	2,521,721	2,201,843,650
31 to 60 days	16,824,530	304,398	363,891	17,492,819
More than 61 days	5,031,778	3,839,764	8,947,258	17,818,800
Balance	2,220,018,675	5,303,724	11,832,870	2,237,155,269
Individually assessed loans	14,358,308	0	0	14,358,308
Loss allowance:				
Individual	528,232	0	0	528,232
Collective	27,063,445	5,225,522	20,790,793	53,079,760
Total loss reserve	27,591,677	5,225,522	20,790,793	53,607,992
Credit commitments				
Standard	418,902,426	0	0	418,902,426
Balance	418,902,426	0	0	418,902,426
Loss allowance	332,502	0	0	332,502
Net balance	418,569,924	0	0	418,569,924
Bank deposits				
Standard	1,782,037,831	0	0	1,782,037,831
Gross balance	1,782,037,831	0	0	1,782,037,831
Loss allowance	47,724	0	0	47,724
Net balance	1,781,990,107	0	0	1,781,990,107
Investments in securities at AC				
Standard	2,614,155,193	0	0	2,614,155,193
Gross balance	2,614,155,193	0	0	2,614,155,193
Loss allowance	4,386,163	0	0	4,386,163
Net balance	2,609,769,030	0	0	2,609,769,030

(4) Financial Risk Management, continued

The following table analyzes the credit quality of the financial assets at amortized cost, credit commitments and loss reserves incurred for these assets held by the Bank as of December 31, 2017:

	2017		
	Loans	Investment Securities	Loan commitments and collaterals
Maximum exposure			
Balance	3,640,845,952	3,140,889,667	389,646,687
At amortized cost			
Standard	3,366,795,719	72,309,600	389,646,687
Special-mention	230,789,229	0	0
Sub-standard	20,214,319	0	0
Doubtful	7,525,277	0	0
Loss	15,521,408	0	0
Gross Balance	3,640,845,952	72,309,600	389,646,687
Impairment Loss Allowance	(34,675,449)	0	0
Interest and unearned commissions	(26,166,407)	0	0
Net balance	3,580,004,096	72,309,600	389,646,687
Available for sale			
Standard	0	3,061,166,270	0
Total	0	3,061,166,270	0
Non delinquent non impaired			
Standard	3,356,129,388	0	389,646,687
Special-mention	216,731,530	0	0
Total	3,572,860,918	0	389,646,687
Delinquent Non-impaired			
31 to 60 days	14,953,510	0	0
61 to 90 days	5,916,706	0	0
More than 90 days	3,853,814	0	0
Total	24,724,030	0	0
Individually impaired			
Sub-standard	20,214,319	0	0
Doubtful	7,525,277	0	0
Loss	15,521,408	0	0
Total	43,261,004	0	0
Loss allowance			
Individual	1,950,205	0	0
Collective	32,725,244	0	0
Total	34,675,449	0	0

(4) Financial Risk Management, continued

The Bank maintains deposits in banks for B/.1,782,037,831 as of December 31, 2018 (2017: B/.2,486,251,485). Deposits placed are held with recognized financial institutions applying the limits established in the counterparty risk policy. These placements of the Bank's liquid resources are made under safe, liquid and profitable conditions, adjusting to risk and term diversification criteria, in financially solvent and risk rated banks. As of December 31, 2018, an expected loss reserve was established for interbank placements of B/.47,724.

The following table presents the deposits placed in banks according to their short-term credit risk rating, granted by international rating agencies:

	2018	2017
Deposits in banks		
A1, P1, F1	703,022,671	1,261,329,510
A2, P2, F2	947,932,770	1,009,611,324
A3	5,000,000	15,000,000
B	25,000,000	0
Unrated	101,082,390	200,310,651
Gross subtotal	1,782,037,831	2,486,251,485
Loss reserve	(47,724)	0
Net reserve balance	1,781,990,107	2,486,251,485

The deposits placed presented in the "Unrated" category correspond to resources placed in an international financial institution that only accepts deposits from central banks and, therefore, does not have a credit rating.

The following table presents investments in debt securities according with their local or international long-term credit risk classification, granted by risk rating agencies.

	2018	2017
Investments in securities		
AAA	117,161,231	104,559,020
AA+ to A	762,230,483	862,222,268
A-	115,629,409	68,462,508
BBB+ to BBB-	1,320,533,211	1,723,793,975
BB+	129,917,143	69,525,485
BB to B-	91,000,000	94,463,273
Unrated	77,683,716	138,139,741
Gross subtotal	2,614,155,193	3,061,166,270
Loss reserve	(4,386,163)	0
Net reserve balance	2,609,769,030	3,061,166,270

(4) Financial Risk Management, continued

Guarantees and their Financial Effect

The Bank maintains guarantees and other credit enhancement to reduce credit risk, to ensure collection of its financial assets exposed to credit risk. The table below presents the main types of guarantees taken with respect to different types of financial assets.

	% of exposure that is subject to warranty requirements		Type of collateral
	2018	2017	
Securities under resale agreements	100%	100%	Debt securities
Loans	54%	57%	Cash, property and equipment

Residential Mortgage Loans

The following table presents the range of loan to value (LTV) ratios of the mortgage portfolio. LTV is a mathematical equation that measures the relationship between what is borrowed and the value of the property that will be the subject (and collateral) of the loan. Gross amounts do not include any provision for impairment. The valuation of the collateral does not include all adjustments for obtaining and selling the collateral. The value of collateral for consumer mortgage loans is based on the value of the collateral at the date of disbursement and is generally not updated, unless the loan is updated based on changes in the price indexes of the collateral.

Consumer mortgage loans:

% LTV	2018	2017
Less than 50%	134,375,321	123,616,473
51-70%	252,503,854	240,743,410
71-90%	458,156,490	366,550,660
91-100%	279,446,800	236,556,045
Gross total	1,124,482,465	967,466,588

Assets Received under Guarantee

The Bank has taken possession of financial and non-financial assets that were constituted as collateral to ensure the collection of impaired loans. As of December 31, 2018, the Bank holds properties that have been awarded to the Bank for a value of B/.17,979,083 (2017: B/.18,478,690).

(4) Financial Risk Management, continued

The Bank's policy is to realize or execute the sale of these assets, to cover the balances due, in case of their adjudication. It is not generally the Bank's policy to use non-financial assets for its own operations, but in the event of foreclosure the intention is to dispose of these assets in the short term.

Credit Risk Concentration

The Bank monitors credit risk concentration by sector and geographic location. The analysis of credit risk concentration at the date of the financial statements is as follows:

	Loans		Investments in securities and securities purchased under resale agreements		Deposits in banks		Loan commitments and guarantees granted	
	2018	2017	2018	2017	2018	2017	2018	2017
Gross book value	4,252,430,080	3,640,845,952	2,714,431,458	3,133,475,870	1,782,037,831	2,486,251,485	418,902,426	389,646,687
Concentration by sector:								
Corporate	1,333,355,765	1,254,915,673	1,110,490,003	1,270,528,260	0	0	39,861,400	42,878,909
Consumer	2,237,155,270	2,028,639,264	0	0	0	0	370,152,150	346,767,778
Financial institutions	217,591,416	137,548,237	458,015,992	363,707,569	1,782,037,831	2,436,251,485	162,950	0
Public sector	464,327,629	219,742,778	1,145,925,463	1,499,240,041	0	50,000,000	8,725,926	0
	4,252,430,080	3,640,845,952	2,714,431,458	3,133,475,870	1,782,037,831	2,486,251,485	418,902,426	389,646,687
Geographic concentration:								
Panama	4,252,430,080	3,640,845,952	1,659,117,421	2,051,735,195	87,000,000	225,000,000	418,902,426	389,646,687
USA and Canada	0	0	850,349,339	933,662,458	1,210,877,216	1,780,842,799	0	0
Europe	0	0	25,097,087	25,251,156	126,160,597	290,407,446	0	0
Others	0	0	179,867,611	122,827,061	358,000,018	190,001,240	0	0
	4,252,430,080	3,640,845,952	2,714,431,458	3,133,475,870	1,782,037,831	2,486,251,485	418,902,426	389,646,687

Concentrations by sector are based on the economic activity of the issuer or borrower. The public sector includes government and supranational entities. Geographic concentrations of loans and deposits in banks are based on the location of the debtor and correspondent bank, respectively. The geographic concentration for investments is determined based on the location of the issuer of the investment. All other assets and liabilities are located in the Republic of Panama.

The Bank also monitors and follows up on operations outside the statement of financial position, which are those operations that although not reflected within that statement, are reviewed in detail because they may expose the Bank to financial obligations depending on future events or actions by other parties. These transactions are subject to the concentration limits (loans to a single person and to related parties) to which the loan portfolio recorded in the statement of financial position is subject to.

(4) Financial Risk Management, continued

Expected credit losses

The following table provides a reconciliation between the opening and closing balance of the reserves for losses on financial assets at amortized cost:

	2018			
	Low risk	Significant risk	Default risk	Total
Deposits at amortized cost				
Balance as of January 1, 2018	886,560	0	0	886,560
Net remeasurement of loss allowance	(772,352)	0	0	(772,352)
Allocation of reserve to new originated financial assets	2,632	0	0	2,632
Reversal of reserve due to derecognized assets	(69,116)	0	0	(69,116)
Balance as of December 31, 2018	47,724	0	0	47,724
Investments in securities at amortized cost				
Balance as of January 1, 2018	3,159,865	0	0	3,159,865
Net remeasurement of loss allowance	174,221	0	0	174,221
Allocation of reserve to new purchased financial assets	1,819,551	0	0	1,819,551
Reversal of reserve due to derecognized assets	(767,474)	0	0	(767,474)
Balance as of December 31, 2018	4,386,163	0	0	4,386,163
Loans at amortized cost				
Corporate Loans				
Balance as of January 1, 2018	17,231,388	4,614,837	8,371,392	30,217,617
Transfers to 12-month ECL (low risk)	922,619	(689,252)	(233,367)	0
Transfers to ECL lifetime (significant risk)	(16,977)	224,786	(207,809)	0
Transfers to ECL lifetime (default)	(105,966)	(448,631)	554,597	0
Net remeasurement of loss allowance	(3,558,231)	610,329	6,939,796	3,991,894
Allocation of reserve to new originated financial assets	2,140,618	549,319	2,109,670	4,799,607
Reversal of reserve due to derecognized assets	(1,248,793)	(472,441)	(4,519,988)	(6,241,222)
Loans written off	0	0	(1,010,331)	(1,010,331)
Recoveries	0	0	515,064	515,064
Balance as of December 31, 2018	15,364,658	4,388,947	12,519,024	32,272,629
Consumer Loans				
Balance as of January 1, 2018	10,224,761	2,696,641	8,391,758	21,313,160
Transfers to 12-month ECL (low risk)	3,385,086	(1,636,467)	(1,748,619)	0
Transfers to ECL lifetime (significant risk)	(44,407)	348,761	(304,354)	0
Transfers to ECL lifetime (default)	(101,979)	(620,528)	722,507	0
Net remeasurement of loss allowance	(3,685,459)	148,729	4,426,033	889,303
Allocation of reserve to new originated financial assets	1,699,033	33,698	159,606	1,892,337
Reversal of reserve due to derecognized assets	(617,527)	(134,258)	(781,962)	(1,533,747)
Loans written off	0	0	(3,765,477)	(3,765,477)
Recoveries	0	0	1,172,275	1,172,275
Balance as of December 31, 2018	10,859,508	836,576	8,271,767	19,967,851
Financial institution loans				
Balance as of January 1, 2018	236,185	0	0	236,185
Net remeasurement of loss allowance	122,021	0	0	122,021
Allocation of reserve to new originated financial assets	81,579	0	0	81,579
Balance as of December 31, 2018	439,785	0	0	439,785
Public Sector Loans				
Balance as of January 1, 2018	329,614	0	0	329,614
Net remeasurement of loss allowance	(5,306)	0	0	(5,306)
Allocation of reserve to new originated financial assets	605,393	0	0	605,393
Reversal of reserve due to derecognized assets	(1,974)	0	0	(1,974)
Balance as of December 31, 2018	927,727	0	0	927,727

(4) Financial Risk Management, continued

Loans written off during 2018 in the amount of B/.4,775,808 (2017: B/.736,727) are still subject to collection activities.

The following table shows the estimated impact on the allowance for loan losses caused by assumed increases or decreases of 2% and 3% in the IMAE:

	200bp of increase	200 bp of decrease	300 bp of increase	300 bp of decrease
As of December 31, 2018	(2,019)	6,878	(4,244)	9,102

The movement in the allowance for loan losses under IAS 39 is detailed as follows:

	2017
Balance at the beginning of the year	24,216,081
Provision (reversal) charged to expenses	9,466,368
Loans written off	(736,727)
Recoveries	1,729,727
Balance at the end of the year	34,675,449

(b) Liquidity risk

Liquidity risk is defined as the inability of the Bank to meet all its obligations due to, among other things, unexpected withdrawal of funds by creditors or customers, deterioration in the quality of the loan portfolio, reduction in the value of investments, excessive concentration of liabilities in a particular source, mismatch between assets and liabilities, lack of liquidity of assets, or funding of long-term assets with short-term liabilities. The Bank manages its liquid resources to meet its liabilities as they mature under normal conditions.

Risk Management of Liquidity Risk

The Superintendency of Banks of Panama requires that banks with a general license always should maintain a liquidity of no less than 30%, defined based on the parameters established in Agreement No. 004-2008. However, the liquidity risk management policies establish the estimation of alternative liquidity indicators, which contemplate high liquidity assets.

Monitoring of the liquidity position includes daily reviews and monthly deposit volatility analysis. Stress tests are developed in different scenarios considering that they cover normal or more severe conditions. All policies and procedures are subject to review and approval by the Asset-Liability Steering Committee (ALCO) and the Risk and Policy Steering Committee.

(4) Financial Risk Management, continued

The Board of Directors has established minimum liquidity levels on the proportion of funds available to meet these requirements and on the minimum level of inter-bank and other lending facilities that must exist to cover withdrawals at unexpected levels of demand. The Bank maintains a portfolio of short-term assets, comprised largely of liquid investments and inter-bank placements, to ensure that it maintains enough liquidity.

Liquidity Risk Exposure

The Bank uses the legal liquidity ratio as the basis for liquidity risk management. It is the ratio of net liquid assets to deposits received from customers. Net liquid assets are cash and cash equivalents and debt securities for which there is an active and liquid market, deposits with maturities of less than 186 days and bond payments with maturities of no more than 186 days.

The result of the estimation of the legal liquidity index as of the date of the statement of financial position is detailed below:

	2018	2017
As of December 31	74.4%	95.3%
Average of the year	75.5%	87.0%
Maximum of the year	91.6%	95.3%
Minimum of the year	65.8%	80.9%

The following table details the undiscounted cash flows from financial assets and liabilities, and loan commitments not recognized, in contractual maturity groupings for the remaining period from the date of the statement of financial position:

2018	Book Value	Gross nominal amount (outflows)/inflows	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years
Financial liabilities						
Customer deposits	8,067,708,051	(8,152,205,398)	(3,683,378,167)	(1,157,573,673)	(65,759,643)	(3,245,493,915)
Borrowings	35,198,829	(35,099,458)	(35,099,458)	0	0	0
Loan commitments	0	(410,907,527)	(151,357,815)	(259,549,712)	0	0
Financial guarantees/endorsements	0	(7,994,899)	(7,836,085)	(158,814)	0	0
	8,102,906,880	(8,606,207,282)	(3,877,671,525)	(1,417,282,199)	(65,759,643)	(3,245,493,915)
Financial assets						
Cash, cash equivalents and bank deposits	2,019,266,542	2,022,772,419	2,022,772,419	0	0	0
Investments in securities and securities purchased under resale agreements	2,738,182,121	2,831,581,260	486,030,063	962,400,490	540,394,921	842,755,786
Loans, net	4,200,143,165	5,011,280,224	433,239,942	769,818,385	146,006,395	3,662,215,502
	8,957,591,828	9,865,633,903	2,942,042,424	1,732,218,875	686,401,316	4,504,971,288

2017	Book Value	Gross nominal amount (outflows)/inflows	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years
Financial liabilities						
Customer deposits	8,608,100,414	(8,758,612,543)	(4,444,289,503)	(1,152,148,791)	(26,085,404)	(3,136,088,845)
Loan commitments	0	(381,577,674)	(146,732,760)	(234,844,914)	0	0
Financial guarantees/endorsements	0	(8,069,013)	(7,422,813)	(646,200)	0	0
	8,608,100,414	(9,148,259,230)	(4,598,445,076)	(1,387,639,905)	(26,085,404)	(3,136,088,845)
Financial assets						
Cash, cash equivalents and bank deposits	2,801,927,673	2,803,866,670	2,803,866,670	0	0	0
Investments in securities and securities purchased under resale agreements	3,169,353,491	3,507,850,817	657,955,112	811,118,857	891,568,552	1,147,208,296
Loans, net	3,604,634,776	4,342,557,648	385,136,752	278,503,043	324,698,610	3,354,219,243
	9,575,915,940	10,654,275,135	3,846,958,534	1,089,621,900	1,216,267,162	4,501,427,539

(4) Financial Risk Management, continued

For non-derivative financial assets and liabilities, the gross nominal amount is measured based on undiscounted cash flows and includes estimated interest payable and receivable, which is why it differs from the amounts presented in the statement of financial position.

The following table shows the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled after twelve months after the balance sheet date:

	2018	2017
Assets:		
Investments in securities	2,195,719,042	2,389,933,053
Loans	3,746,480,024	3,136,318,320
Total assets	5,942,199,066	5,526,251,373
Liabilities:		
Time deposits	1,623,279,668	1,582,968,288

(c) Market Risk

It is the risk that the value of a Bank's financial asset will be reduced due to changes in interest rates, monetary exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events. The objective of market risk management is to manage and monitor risk exposures, and to keep them within acceptable parameters.

Risk management policies provide for compliance with limits by financial instrument, concentration limits, instrument rating limits, limits with respect to the maximum amount of loss from which the closing of the positions that caused such loss is required; and the requirement that, except for Board of Directors' approval, substantially all assets and liabilities are denominated in US dollars or in balboas.

Market Risk Management

The Bank does not currently maintain a trading portfolio; therefore, the risk inherent in this activity is substantially reduced.

The Bank maintains investments in securities that are presented in the Bank's statement of financial position at either amortized cost or fair value. Changes in the fair value of investments measured at FVOCI are recorded directly and recognized in a valuation account in the capital funds until the securities are sold or redeemed; in these cases, the cumulative gains or losses previously recognized in the capital funds are transferred to retained earnings.

(4) Financial Risk Management, continued

The Bank manages the market risk of its financial instruments through periodic reports to the Asset-Liability Steering Committee (ALCO) and the Risk and Policy Steering Committee, in which price changes in each instrument are analyzed and Value at Risk (VaR) is estimated daily to monitor and make decisions about its portfolio, based on the VaR limit that has been established.

Value at Risk is an estimate of probable loss over a given time horizon, which allows the Bank to set limits or caps on exposures in its investment portfolio.

The VaR model used by the Bank is based on the correlation method and considers a 99% confidence level over a one (1) day portfolio holding period.

The Bank has established maximum realized and unrealized loss limits for both individual instruments and the total investment portfolio. The market value of the securities investment portfolio is compared daily against these limits. If there is an excess in some limits, the Bank may liquidate the position or maintain it in the portfolio until its maturity or until its prices allow the sale of the securities without incurring losses, since it considers that these are usually market effects and not an impairment in the payment capacity of the issuer.

Although the VaR model is one of the most widely used tools for measuring market risks, its main limitation is that the result obtained depends closely on the information used to calibrate the models and the historical data used. VaR is considered a good measure for estimating the risk of loss under normal market conditions, but practice has shown that it fails significantly in crisis conditions. Stress analyses seek to cover these deficiencies.

An impairment loss is recognized when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the security (a loss) and that loss has an impact on future estimates of the security's cash flows, which can be reasonably estimated.

The Bank's Board of Directors has determined that all market risk issues are managed and monitored directly by the Assets and Liabilities Steering Committee (ALCO) and the Risk and Policy Steering Committee; these committees are responsible for the development of market risk management policies, as well as reviewing and approving the implementation of those policies.

(4) Financial Risk Management, continued

The Bank manages its exposure to market risk from the following perspectives:

- Monitoring the price of the different securities on a daily basis, in order to verify if they are within the limits established by the Board of Directors, with respect to the global losses of its investment portfolio and on the losses of individual instruments.
- Determining the effect on the Bank's profits and on the value of financial assets and liabilities.

The composition and analysis of each type of market risk is presented in detail below:

- *Exchange rate risk:*
  It is the risk that the value of a financial instrument fluctuates as a consequence of variations in the exchange rates of foreign currencies, and other financial variables, as well as the reaction of market participants to political and economic events. For the purposes of accounting standards, this risk does not arise from financial instruments that are not monetary items, nor from financial instruments denominated in the functional currency.

  Generally, the Bank conducts its transactions in United States dollars; however, it maintains some deposits in euros and yen.

  Considering current market conditions and the amount these balances represent, the Bank currently assumes the exchange rate risk.

  The following table shows the operations of monetary financial instruments in the statement of financial position, agreed upon in foreign currencies, which are presented in their equivalent in balboas, as follows:

	2018			2017		
	Euro	Yen	Total	Euro	Yen	Total
Deposits in bank	78,207	19	78,226	96,795	1,239	98,034
Total assets	78,207	19	78,226	96,795	1,239	98,034

- *Cash flow interest rate risk:*
  These are the risks that the future cash flows and value of a financial instrument will fluctuate due to changes in market interest rates. The Assets and Liabilities Steering Committee (ALCO) and the Risks and Policies Steering Committee follow up on rate sensitivity reports.

  The Bank's management, in order to evaluate interest rate risks and their impact on the fair value of financial assets and liabilities, performs simulations to determine the sensitivity of financial assets and liabilities.

(4) Financial Risk Management, continued

In order to mitigate this risk, the Bank periodically performs a sensitivity analysis of the financial and equity margin by measuring the impact of interest rate changes on rate-sensitive financial assets and liabilities, using the following tools:

– Financial margin sensitivity
  The variation in the sensitivity of the financial margin is estimated by determining the changes in the financial margin before decreases or increases of 100 and 200 basic points (bp) of the market interest rate.

– Sensitivity of the equity margin
  Measures the impact of changes of 100 and 200 basis points (bp) on the value of financial assets and liabilities.

The base analysis that management performs consists of determining the impact on financial assets and liabilities caused by increases or decreases of 100 and 200 basis points (bp) in interest rates. The impact is summarized below:

Sensitivity in the projected net interest income

2018	**100 bp of increase**	**100 bp of decrease**	**200 bp of increase**	**200 bp of decrease**
As of December 31	8,907,111	(9,583,964)	17,814,222	(22,389,333)
Average of the year	9,173,336	(10,990,732)	18,346,671	(27,269,521)
Maximum of the year	9,763,553	(12,954,625)	19,527,105	(30,924,383)
Minimum of the year	7,743,718	(8,534,173)	15,487,437	(22,389,333)
2017				
As of December 31	10,331,449	(14,396,870)	20,662,898	(27,304,140)
Average of the year	10,641,460	(13,925,257)	21,282,920	(27,546,686)
Maximum of the year	11,574,696	(15,769,612)	23,149,393	(30,510,115)
Minimum of the year	8,810,902	(11,880,750)	17,621,806	(25,582,779)

Sensitivity in equity to rate changes in financial assets and liabilities

2018	**100 bp of increase**	**100 bp of decrease**	**200 bp of increase**	**200 bp of decrease**
As of December 31	(393,713,005)	451,771,014	(861,827,206)	1,028,308,746
Average of the year	(394,203,035)	453,037,292	(863,641,241)	1,056,483,860
Maximum of the year	(406,311,238)	464,854,950	(883,934,850)	1,119,790,333
Minimum of the year	(387,567,239)	444,922,751	(849,020,737)	1,013,075,634
2017				
As of December 31	(420,847,494)	481,974,390	(868,049,647)	1,011,511,698
Average of the year	(388,083,220)	445,244,451	(813,869,261)	935,718,646
Maximum of the year	(434,067,835)	496,915,124	(880,318,793)	1,048,478,786
Minimum of the year	(99,933,289)	114,821,668	(242,568,441)	115,514,911

(4) Financial Risk Management, continued

The table below summarizes the Bank's exposure to interest rate risk. The Bank's assets and liabilities are included in the table at their carrying values, classified by category by the earlier of contractual rate reset or maturity dates. Financial assets and liabilities that do not have a contractual fixed rate are excluded.

	2018				
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Total
Assets:					
Time deposits in banks	1,717,300,000	0	0	0	1,717,300,000
Securities purchased under resale agreements	100,276,265	0	0	0	100,276,265
Investments in securities	418,436,150	925,741,141	649,988,086	619,989,815	2,614,155,192
Loans, gross balance	612,218,613	643,719,048	130,277,324	2,866,215,095	4,252,430,080
Total	2,848,231,028	1,569,460,189	780,265,410	3,486,204,910	8,684,161,537
Liabilities:					
Savings deposits	692,680,094	0	0	0	692,680,094
Time and restricted deposits	2,598,739,915	1,096,300,154	56,730,059	470,249,455	4,222,019,583
Borrowing received	35,000,000	0	0	0	35,000,000
Total	3,326,420,009	1,096,300,154	56,730,059	470,249,455	4,949,699,677
Net interest sensitivity margin	(478,188,981)	473,160,035	723,535,351	3,015,955,455	3,734,461,860

	2017				
	Up to 1 year	More than 1 to 3 years	More than 3 to 5 years	More than 5 years	Total
Assets:					
Time deposits in banks	2,397,900,000	0	0	0	2,397,900,000
Securities purchased under resale agreements	72,309,600	0	0	0	72,309,600
Securities available for sale	671,233,218	781,794,942	769,549,326	838,588,784	3,061,166,270
Loans, gross balance	609,691,055	132,211,388	247,912,616	2,651,030,893	3,640,845,952
Total	3,751,133,873	914,006,330	1,017,461,942	3,489,619,677	9,172,221,822
Liabilities:					
Savings deposits	667,515,720	0	0	0	667,515,720
Time and restricted deposits	3,320,511,609	1,111,346,251	18,790,297	452,831,741	4,903,479,898
Total	3,988,027,329	1,111,346,251	18,790,297	452,831,741	5,570,995,618
Net interest sensitivity margin	(236,893,456)	(197,339,921)	998,671,645	3,036,787,936	3,601,226,204

The interest rate risk position is managed directly by the Bank's Treasury, which uses instruments such as investments in securities, deposits in banks and deposits from banks to manage the general position of the Bank's activities.

- *Price risk:*
  The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to the particular instrument or its issuer, or by factors affecting all securities traded in the market.

  The Bank is exposed to price risk on equity instruments classified as available for sale. To manage the price risk arising from investments in equity investments, the Bank diversifies its portfolio according to the limits set by the Bank.

(4) Financial Risk Management, continued

(d) Operational Risk

Operational risk is the risk of potential losses, direct or indirect, related to the Bank's processes, people, technology and infrastructure, external factors and legal aspects, which are not related to credit, market and liquidity risks, such as those arising from legal and regulatory requirements and from the performance of generally accepted corporate standards.

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

The main responsibility for the development and implementation of operational risk controls is assigned to senior management within each business area, the Operational Risk and Technology Risk Committee, the Risk and Policy Steering Committee, the Executive Compliance Management, the Executive Internal Control Management, the Executive Audit Management and the Executive Comprehensive Risk Management. This responsibility is supported by the development of standards for managing operational risk, contained in the Bank's Risk Manual.

These standards are related to the identification of the different operational risks faced by the Bank (risk map) and the collection of information related to the different operational risk events that have occurred, in order to identify the frequency and impact of each one of them.

(e) Capital Management

The Bank's policy is to maintain strong capital that can ensure the future development of the investment and credit business within the market, with adequate levels of return on shareholder capital and capital adequacy required by regulators. Decree Law No. 4 of 2006, as amended by Law No. 24 of May 16, 2017, establishes the Bank's capital at B/.500,000,000. This capital may be periodically increased by the Board of Directors, subject to a favorable opinion of the Executive Body through a Decree, in accordance with the provisions of banking legislation or best banking practices. As of December 31, 2018, the Bank maintains capital funds of B/.650,000,000 (2017: B/.570,000,000).

The Superintendency of Banks of Panama and the Superintendency of the Securities Market of Panama, as regulatory entities, require the Bank to maintain a total capital index measured based on risk weighted average assets. The Bank complies with the regulatory capital requirements to which it is subject.

(4) Financial Risk Management, continued

Article No. 81 of Law Decree No. 2 of 2008, which amends Article No. 45 of Decree-Law No. 9 of 1998, provides that banks with a general and international license must maintain capital funds equivalent to at least eight percent (8%) of their total assets and operations outside the state of financial position, weighted according to their risks. This article was regulated by Agreement No. 001-2015 of the Superintendency of Banks of Panama, which establishes the capital adequacy standards applicable to banks and came into force on January 1, 2016. Agreement No. 003-2016 of the Superintendency of Banks of Panama establishes the rules for the determination of credit risk weighted assets and counterparty risk, this began to be effective on July 1, 2016.

As of December 31, 2018, the Bank's capital adequacy ratio is determined as follows:

	2018	2017
Primary Capital		
Capital funds	650,000,000	570,000,000
Retained earnings	93,289,354	151,031,041
Other items in comprehensive income	6,106,661	86,074,116
Less: intangible assets	14,473,048	16,673,745
Primary Capital	734,922,967	790,431,412
Dynamic regulatory provision	56,598,706	56,598,706
Total Capital Funds	791,521,673	847,030,118
Total risk-weighted assets	4,758,976,792	5,021,365,961
Capital adequacy ratio	16.63%	16.87%

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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. Estimates and assumptions are evaluated periodically and are based on historical experience and other factors, including expectations of future events, believed to be reasonable under the circumstances. Any changes in assumptions or criteria may significantly affect the estimates.

(a) Impairment losses on loans

The Bank reviews its loan portfolio at each reporting date. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes decisions as to whether there is observable information indicating that there is a reduction in the value of the loan that can be measured in the estimated future cash flows of the loans.

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

This evidence includes observable information indicating that there has been an adverse change in the payment condition of borrowers or economic conditions that correlate with defaults on loans in the Bank. The methodology and assumptions used to estimate the amount and timing of future cash flows are regularly reviewed to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of investment instruments

The Bank determines that investments in securities are impaired when there has been a significant or prolonged decline in fair value below cost. This determination of what is a significant or prolonged decline requires judgment.

In addition, impairment may be considered when there is evidence of a deterioration in the financial health of the issuer, in the performance of the industry and sector, due to changes in technology and in its operating and financial cash flows.

(c) Fair value

For investment instruments listed on active markets, the fair value is determined by the instrument's reference price published on stock exchanges and stock exchange electronic systems. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data. These techniques include discounted future cash flow analyses and other valuation techniques commonly used by market participants. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

(d) Foreclosed assets of borrowers

Foreclosed properties that are impaired are reserved as such impairment occurs.

(6) Cash and Cash Equivalents

Cash and cash equivalents are detailed below for purposes of reconciliation with the cash flows statement:

	2018	2017
Cash and cash equivalents	236,150,367	311,017,486
Demand deposits	64,737,831	88,351,485
Time deposits	1,717,300,000	2,397,900,000
Total gross cash, cash equivalents and deposits with banks in the statement of financial position	2,018,188,198	2,797,268,971
Less: Time deposits in banks with original maturities over 90 days	100,000,000	975,000,000
Total cash and cash equivalents in the cash flow statement	1,918,188,198	1,822,268,971

(6) Cash and Cash Equivalents, continued

As of December 31, 2018, the Bank maintains an expected loss reserve for deposits in banks of B/.47,724. See note (3.e) change in accounting policy as a result of the adoption of IFRS 9.

(7) Securities Purchased under Resale Agreements

At December 31, 2018, the Bank holds securities purchased under resale agreements as follows:

Maturity Date	Interest Rate Libor	Interest Rate Margin	Collateral	2018	2017
01/25/18	1 months	1.50%	Local corporate bonds	0	6,329,100
01/25/18	1 months	1.50%	Local corporate bonds	0	9,484,400
01/25/18	1 months	1.50%	Local corporate bonds	0	6,026,500
01/25/18	1 months	1.50%	Local corporate bonds	0	8,160,000
03/12/18	3 months	2.00%	Local corporate bonds	0	1,909,600
03/12/18	3 months	2.00%	Local corporate bonds	0	1,600,000
03/20/18	3 months	2.00%	Notes from the Republic of Panama	0	400,000
03/20/18	3 months	2.00%	Notes from the Republic of Panama	0	400,000
03/20/18	3 months	2.00%	Notes from the Republic of Panama	0	800,000
03/20/18	3 months	2.00%	Letters from the Republic of Panama	0	400,000
03/27/18	3 months	2.00%	Letters from the Republic of Panama	0	4,500,000
03/27/18	3 months	2.00%	Letters from the Republic of Panama	0	450,000
03/27/18	3 months	2.00%	Letters from the Republic of Panama	0	900,000
06/18/18	6 months	2.00%	Notes from the Republic of Panama	0	5,950,000
06/18/18	6 months	2.00%	Republic of Panama Global Bond	0	6,200,000
06/18/18	6 months	2.00%	Notes from the Republic of Panama	0	4,950,000
06/18/18	6 months	2.00%	Notes from the Republic of Panama	0	1,350,000
06/18/18	6 months	2.00%	Local corporate bonds	0	6,100,000
06/18/18	6 months	2.00%	Local corporate bonds	0	6,400,000
01/04/19	2 months	1.35%	Local corporate bonds	12,000,000	0
01/04/19	2 months	1.35%	Supranational entity bonds	3,102,500	0
01/28/19	3 months	1.35%	Supranational entity bonds	1,997,500	0
01/28/19	3 months	1.35%	Republic of Panama Global Bond	18,000,000	0
03/21/19	3 months	1.35%	Local corporate bonds	5,956,800	0
03/21/19	3 months	1.35%	Local corporate bonds	9,416,400	0
03/21/19	3 months	1.35%	Local corporate bonds	5,672,000	0
04/24/19	9 months	1.50%	Local corporate bonds	6,607,380	0
05/27/19	12 months	1.50%	Notes from the Republic of Panama	5,950,000	0
06/17/19	6 months	1.50%	Republic of Panama Global Bond	6,196,050	0
06/17/19	6 months	1.50%	Local corporate bonds	3,528,000	0
06/17/19	6 months	1.50%	Local corporate bonds	960,000	0
06/17/19	6 months	1.50%	Notes from the Republic of Panama	4,942,575	0
06/17/19	6 months	1.50%	Notes from the Republic of Panama	1,350,000	0
06/17/19	6 months	1.50%	Local corporate bonds	6,400,000	0
06/28/19	12 months	1.50%	Supranational entity bonds	8,197,060	0
			Total	100,276,265	72,309,600

These securities purchased under resale agreements are held with local financial institutions with a credit risk rating between BBB- and AA+.

(8) Investments in Securities

The detail composition and classification of investments in securities is as follows:

	2018			2017
	FVOCI	AC	Total	Available for Sale
Public debt securities	0	1,145,925,463	1,145,925,463	1,478,903,841
Private debt securities	0	1,468,229,730	1,468,229,730	1,582,262,429
Private equity shares	6,332,052	0	6,332,052	7,413,797
Total	6,332,052	2,614,155,193	2,620,487,245	3,068,580,067

Equity instruments at fair value with changes in other comprehensive income as of December 31, 2018, recorded a net unrealized loss of B/.1,054,952 as a result of the net change in fair value. As of December 31, 2017, available-for-sale investments had a net unrealized gain of B/.35,732,312.

As of December 31, 2018, the Bank received dividends on private equity investments for B/.913,424 (2017: B/.1,305,541).

As of December 31, 2018, the Bank sold securities at amortized cost for a total of B/.295,605,200 (2017: securities available for sale for B/.20,933,944) obtaining net realized gains for B/.13,039,225 (2017: B/.949,746) included in the statement of profit or loss.

As of December 31, 2018, securities at amortized cost were redeemed for B/.833,978,221 (2017: B/.461,002,491).

As of December 31, 2018, the Bank maintains an expected loss reserve for investments in securities at amortized cost of B/.4,386,163. See on note (3.e) the change in the accounting policy due to the adoption of IFRS 9.

(9) Loans

The distribution by economic activity of the loan portfolio, net of the allowance for loan losses and unearned interest and commissions, is summarized below:

	2018	2017
Public sector, gross	464,327,629	219,742,778
Private sector, gross:		
Residential mortgages	1,124,482,465	967,466,588
Personal	1,112,655,003	1,061,147,676
Agriculture	585,728,440	550,114,394
Commercial	696,753,735	653,212,975
Financial institutions	217,591,416	137,548,237
Industrials	50,674,309	51,292,734
Overdrafts	217,083	320,570
Total gross private sector	3,788,102,451	3,421,103,174
Total gross loans	4,252,430,080	3,640,845,952
More (less):		
Accrued interest receivable	28,231,790	24,630,680
Reserve for loan losses	(53,607,992)	(34,675,449)
Interest and unearned commissions	(26,910,713)	(26,166,407)
Loans at amortized cost	4,200,143,165	3,604,634,776

(10) Properties and Equipment

The properties and equipment are summarized as follows:

2018	Land, Buildings and Improvements	Office Furniture and Equipment	Vehicles	Constructions in Progress	Total
Cost:					
At the beginning of the year	78,113,475	74,915,937	12,273,601	6,822,892	172,125,905
Purchases	0	9,040,812	3,108,825	6,710,005	18,859,642
Sales and disposals	(2,556,472)	(1,704,767)	(1,949,546)	0	(6,210,785)
Reclassifications	5,479,777	65,800	0	(5,545,577)	0
At the end of the year	81,036,780	82,317,782	13,432,880	7,987,320	184,774,762
Accumulated depreciation and amortization:					
At the beginning of the year	33,145,099	55,806,940	9,087,291	0	98,039,330
Expense of the year	2,629,026	9,108,772	1,127,239	0	12,865,037
Sales and disposals	(2,556,473)	(1,695,043)	(1,949,445)	0	(6,200,961)
At the end of the year	33,217,652	63,220,669	8,265,085	0	104,703,406
Net balance	47,819,128	19,097,113	5,167,795	7,987,320	80,071,356

(10) Property and Equipment, continued

2017	Land, Buildings and Improvements	Office Furniture and Equipment	Vehicles	Constructions in Progress	Total
Cost:					
At the beginning of the year	77,822,846	74,108,527	11,177,329	3,660,348	166,769,050
Purchases	0	4,919,307	1,376,534	4,650,484	10,946,325
Sales and disposals	(958,451)	(4,124,897)	(280,262)	(225,860)	(5,589,470)
Reclassifications	1,249,080	13,000	0	(1,262,080)	0
At the end of the year	78,113,475	74,915,937	12,273,601	6,822,892	172,125,905
Accumulated depreciation and amortization:					
At the beginning of the year	31,202,582	53,538,585	8,431,119	0	93,172,286
Expense of the year	2,900,968	6,379,697	936,412	0	10,217,077
Sales and disposals	(958,451)	(4,111,342)	(280,240)	0	(5,350,033)
At the end of the year	33,145,099	55,806,940	9,087,291	0	98,039,330
Net balance	44,968,376	19,108,997	3,186,310	6,822,892	74,086,575

The Bank maintains within the construction in progress category, its own properties under construction for B/.5,987,689 (2017: B/.6,073,870) and purchases in transit for B/.1,999,631 (2017: B/.749,022). Additionally, within the heading of office furniture and equipment, purchases in transit for B/.4,024,410 (2017: B/.2,960,194) are maintained.

(11) Intangible Assets - Licenses and Programs

The movement of intangible assets - licenses and technology programs is summarized below:

	2018	2017
Balance at the beginning of the year	16,673,745	18,940,978
Purchases	1,541,987	681,332
Amortization for the year	(3,742,684)	(2,948,565)
Balance at the end of the year	14,473,048	16,673,745

(12) Tax Credits on Preferred Interest

In accordance with tax regulations in force in Panama, financial entities that grant mortgage loans not exceeding B/.120,000 with preferential interest, receive the annual benefit of a tax credit. As of July 2010, according to Law No. 8 of March 15, 2010, which repeals article 6 of Law No. 3 of 1985, the benefit of a tax credit is increased from the first ten (10) years to the first (15) years for new loans, for the amount equivalent to the difference between the income that the financial entity would have received if it had collected the market reference interest rate, which was in effect during that year, and the income actually received as interest in relation to each of such preferential mortgage loans.

(12) Tax Credits on Preferred Interest, continued

The tax credit under Act No. 3 of 1985, as amended by Act No. 29 of 2008, can be used for the payment of national taxes, including income tax. The tax credit under Act No. 11 of 1990, Act No. 28 of 1994 and Act No. 50 of 1999 can only be used for the payment of income tax. If in any tax year a bank is not able to use effectively all tax credits to which it is entitled, then it may use the excess credit during the next three years at its discretion or transfer it, in whole or in part, to another taxpayer. Article 7 of Law 3 of 1985 was amended by Article 9 of Law No. 66 of 2017, which included a transitory paragraph, which stipulates that the tax credits established and regulated, which would have expired in 2017, based on the three-year statute of limitations, will regain their validity and will be subject to the five-year statute of limitations.

As of December 31, 2018, there were unrecognized tax credits from the General Revenue Authority (DGI, for its initials in Spanish) amounting to B/.57,963,376 (2017: B/.46,836,957) and current tax credits amounting to B/.2,734,981 (2017: B/.2,928,607). During the year 2018, the DGI recognized tax credits of the Bank for B/.6,796,765 (2017: B/.6,377,551), and sales were made for B/.6,990,392. The Bank's management has established a valuation allowance for the portion of the tax credits that it estimates will not be recovered through their sale. As of December 31, 2018, the Bank maintains a valuation allowance for tax credits in the amount of B/.68,375 (2017: B/.73,215). The movement of this reserve is presented below:

	2018	2017
Balance at the beginning of the year	73,215	242,213
Provision charged to profit or loss	413,127	376,227
Reserve used	(417,967)	(545,225)
Balance at the end of the year	68,375	73,215

(13) Other Assets

Borrowers' foreclosed assets

The foreclosed assets of borrowers correspond to real estate that guaranteed loans, and whose guarantee was foreclosed and granted to the Bank. Management expects to recover the written-off balance of principal and interest through the sale of these properties.

The foreclosed assets of borrowers are detailed as follows:

	2018	2017
Foreclosed assets of borrowers	17,979,083	18,478,690
Impairment reserve	(9,319,799)	(9,005,580)
Net balance	8,659,284	9,473,110

(13) Other Assets, continued

The movement of the impairment reserve of borrower's foreclosed assets is detailed below:

	2018	2017
Balance at the beginning of the year	9,005,580	9,417,254
Provision (reversal of) for valuation of foreclosed assets	342,884	(66,632)
Derecognized assets	(28,665)	(345,042)
Balance at end of year	9,319,799	9,005,580

As of December 31, 2018, the Bank sold foreclosed assets from borrowers for B/.3,751,954 (2017: B/.1,595,504).

Other miscellaneous assets

The other miscellaneous assets are detailed as follows:

	2018	2017
Numismatic and other currencies	2,532,067	2,383,052
Financing program ("Profinco")	667,346	717,135
Printing and supplies	3,210,964	1,917,952
Account receivable - FECI grant	3,785,951	1,864,538
Other remittances and transfers in transit	1,823,028	2,059,250
Prepaid expenses and insurance	894,631	470,857
Cultural property	256,738	357,014
Cash withdrawals to be compensated – Debit Card	411,117	523,057
Insurance receivable on loans	274,236	416,232
Balance of loans receivable through life insurance policies	1,502,215	858,532
Others	3,625,468	3,071,467
	18,983,761	14,639,086

(14) Restricted Deposits

As of December 31, 2018, restricted deposits amounted to B/.64,319,593 (2017: B/.61,835,492) and consisted of deposits received from banks operating in Panama with a general and international license and entities with a trust license in compliance with the Banking Law, and other restricted deposits from customers for various concepts.

(15) Foreign Borrowing Received

As of December 31, 2018, the Bank maintains a foreign borrowing received for B/.35,000,000 maturing on January 29, 2019 at an interest rate of 3.19%.

(16) Other Liabilities

Miscellaneous Creditors

As of December 31, 2018, in the sundry creditors category, items were recorded in suspense accounts for ATM transactions accumulated over the weekend and which are offset on the following business day by B/.39,339,985 (2017: B/.23,504,970).

Miscellaneous Liabilities

The detail of miscellaneous liabilities is summarized below:

	2018	2017
Labor liabilities	8,117,442	7,959,918
Seniority bonus provision	11,639,221	12,001,533
Other provisions	2,551,896	3,013,633
Others	3,104,653	3,145,189
	25,413,212	26,120,273

Seniority Bonus Provision

The seniority bonus is a defined post-employment benefit granted to Bank employees when the following two conditions are met: they have accumulated fifteen or more years of service and terminate the employment relationship due to retirement or absolute disability; these employees will be entitled to a seniority bonus at the rate of one week's salary for each working year, up to a maximum of ten months. This benefit is based on the Law of the Banco Nacional de Panama.

The table below shows a reconciliation between the opening and closing balances of the defined benefit liability:

	2018	2017
Balance as of January 1	12,001,533	4,132,388
Included in the year's result:		
Current cost of service	732,716	734,993
Interest cost (income)	443,869	310,160
Employer-paid contribution	0	7,842,397
Included in OCI:		
Actuarial Loss (Gain)	(891,043)	0
Others:		
Benefits paid	(647,854)	(1,018,405)
Balance as of December 31	11,639,221	12,001,533

According to the latest actuarial calculations as of December 31, 2018, the total accumulated seniority bonus obligation is B/.11,639,221 (2017: B/.12,001,533).

(16) Other Liabilities, continued

Below are the main actuarial assumptions as of December 31, 2018:

	2018	2017
Discount rate	4.35%	3.57%
Salary increase	1.93%	2.45%
Inflation rate	1.93%	2.45%

The discount rate to be used to discount the flows related to the defined long-term benefits was determined considering, as a first reference, the market yields at the date of the analysis of the high-quality corporate bonds or debentures. The currency and term of the high-quality corporate bonds must be consistent with the currency and estimated term of payment of the post-employment benefit obligations.

Mortality assumptions are based on statistics published by the World Health Organization (WHO), in Table 2016 for Panama, separately for men and women.

The population of Bank employees at the date of analysis was composed of 1,912 women (2017: 1,822) and 1,528 men (2017: 1,424) for a total of 3,440 employees (2017: 3,246), as follows:

	2018			2017		
	Women's	Men's	Total	Women's	Men's	Total
Employee population						
Employees (number)	1,912	1,528	3,440	1,822	1,424	3,246
Average age (years)	40	44	42	40	44	42
Average Seniority (years)	11	14	13	11	14	13
Population of employees with more than 15 years of seniority						
Employees (number)	517	530	1,047	495	511	1,006
Average age (years)	50	55	53	51	55	53
Average Seniority (years)	25	29	27	26	29	28

Sensitivity analysis

Post-employment defined benefit obligations were calculated using the projected unit credit method. The obligations and expenses may change in the future as a result of future changes in actuarial methods and assumed changes in the Bank's policy, or as a result of future gains and losses.

(16) Other Liabilities, continued

The effect that an increase or decrease in major actuarial inputs could have in the period is presented below.

	Discount rate		Rate of salary increase	
2018	**100 bp of increase**	**100 bp of decrease**	**200 bp of increase**	**200 bp of decrease**
Seniority bonus liability	(893,431)	1,058,898	1,074,785	(921,167)

	Discount rate		Rate of salary increase	
2017	**100 bp of increase**	**100 bp of decrease**	**200 bp of increase**	**200 bp of decrease**
Seniority bonus liability	(841,633)	997,018	998,270	(857,785)

(17) Commitments and Contingencies

In the normal course of its operations, the Bank maintains financial instruments with risks outside the statement of financial position to meet the financial needs of its clients. These financial instruments include letters of credit, guarantees issued and promises to pay and involve, to various degrees, elements of credit risk.

Commercial letters of credit, guarantees and endorsements issued on behalf of customers and promises of payment involve some element of risk of loss in the event of customer default, net of the tangible guarantees covering these transactions. The Bank's policies and procedures for granting these contingent credits are similar to those used for extending loans. Management does not anticipate that the Bank will incur material losses resulting from these contingent credits granted for the benefit of customers.

The financial instruments outside the statement of financial position, which are subject to credit risk, are presented below.

	2018	**2017**
Letters of credit	955,427	2,464,000
Guarantees and endorsements given	7,039,472	5,605,013
Payments pledges	403,265,222	374,504,852
Loan commitments	7,642,305	7,072,822
	418,902,426	389,646,687

(17) Commitments and Contingencies, continued

As of December 31, 2018, there were lawsuits filed against Banco Nacional de Panama for the amount of B/.1,274,796,126 (2017: B/.6,294,316). The Bank's management and attorneys believe that there is a high possibility that the Bank will not be sentenced to pay the total amount claimed. As of December 31, 2018, the Bank maintains a provision of B/.49,484 (2017: B/.49,484) in connection with court cases. In relation to the claim for B/.1,268,704,177, management, based on the opinion of the external lawyers in charge of the case, considers that there is a high probability of a judgment in favor of the Bank, and therefore it is not deemed necessary to make provisions in respect of this process.

As of December 31, 2018, the Bank has commitments with third parties arising from operating leases of real estate, which expire on various dates during the next few years. Future payments under these leases are as follows.

	2018	2017
Less than 1 year	1,173,922	915,151
Between 1 and 5 years	1,669,363	1,154,565
More than 5 years	342,626	570,734
	3,185,911	2,640,450

(18) Fees for Banking Services

The breakdown of the most significant banking service fee income is as follows:

	2018	2017
Letters of Credit	130,567	360,895
Transfers	717,034	700,377
Card Services	9,170,118	10,970,434
Fund management, custody and brokerage	2,103,424	893,340
Current accounts	747,360	667,952
Savings accounts	4,780	4,535
Government services	511,701	549,399
Guarantee certificates and cashier's checks	629,242	634,463
National stamps	16,187	18,792
Clearinghouse services	1,354,643	700,213
Others	1,669,624	2,030,456
	17,054,680	17,530,856

(19) Other Income

The other income included in the statement of profit or loss is summarized below:

	2018	2017
Miscellaneous banking services	858,232	1,167,377
Gain on sale of foreclosed assets	1,575,033	850,721
Cash management	1,076,638	1,036,923
Inspections and appraisals	92,195	52,467
Legal income	235,409	214,110
Employee resource management	159,369	140,773
Foreign exchange gain, net	707,599	585,078
Insurance management and collection management	7,513,704	9,864,266
Others	4,805,438	4,958,119
	17,023,617	18,869,834

(20) General and Administrative Expenses

The breakdown of salary and other personnel expenses and other general and administrative expenses is as follows:

	2018	2017
Salaries and other staff costs		
Salaries and other remunerations	60,888,351	56,887,024
Seniority bonus	1,176,585	8,887,550
Social Security	9,507,409	8,753,172
Employee Benefits	9,497,210	9,879,182
Training	1,053,015	906,178
Others	302,728	427,845
	82,425,298	85,740,951
Other expenses		
Banking regulation and supervision fees	168,590	167,811
Legal	134,618	36,907
Water service	112,905	82,937
Disposals and loss of assets	10,116	26,154
(Reversal of) provision and other expenses	(394,586)	660,253
Security service	966,613	1,108,421
Food	263,450	211,894
Others	3,775,000	1,783,967
	5,036,706	4,078,344

The seniority bonus expense is related to the restatement of the labor liability for the seniority bonus according to the update of the actuarial report as of December 31, 2018 (see note 16).

(21) Segment Information

Management has established the reportable segments according to the line of business to which the customers belong. These segments offer various products and services and are managed separately based on the Bank's organizational structure. Segment information is presented below.

	2018						
Detail	**Corporate and Commercial**	**Agriculture and Forestry**	**Consumer**	**Financial Institutions**	**Financial Institutions**	**Treasury**	**Total**
Interest and Fee Income	31,391,023	37,532,243	130,661,449	12,820,168	11,036,553	137,238,334	360,679,770
Interest expenses	(11,159,446)	(13,342,637)	(46,449,884)	(4,557,544)	(3,923,472)	0	(79,432,983)
Reversal of provision for losses on deposits with banks	0	0	0	0	0	838,836	838,836
Provision for investment securities losses	0	0	0	0	0	(1,226,298)	(1,226,298)
Provision for loan losses	(836,076)	(711,249)	(2,716,573)	(335,987)	0	0	(4,599,885)
Provision for valuation of foreclosed assets	(61,666)	(246,138)	(35,080)	0	0	0	(342,884)
Other income	6,747,811	8,067,926	28,086,970	2,755,822	2,372,417	0	48,030,946
General and administrative expenses	(19,433,429)	(23,235,311)	(80,889,366)	(7,936,658)	(6,832,465)	(1,715,085)	(140,042,314)
Net income	6,648,217	8,064,834	28,657,516	2,745,801	2,653,033	135,135,787	183,905,188
Segment assets	676,791,968	575,745,761	2,199,027,015	271,976,371	918,500,690	4,498,367,454	9,140,409,259
Segment liabilities	1,214,567,640	1,033,230,598	3,946,363,398	488,087,499	1,648,336,959	0	8,330,586,094

	2017						
Detail	**Corporate and Commercial**	**Agriculture and Forestry**	**Consumer**	**Financial Institutions**	**Financial Institutions**	**Treasury**	**Total**
Interest and Fee Income	27,814,226	34,423,229	115,859,158	8,613,755	15,435,918	131,934,212	334,080,498
Interest expenses	(9,098,565)	(11,260,496)	(37,899,745)	(2,817,724)	(5,049,384)	0	(66,125,914)
Provision for loan losses	(1,836,980)	(1,522,195)	(5,613,349)	(493,844)	0	0	(9,466,368)
Reversal of provision for investment losses	38,357	9,000	19,275	0	0	0	66,632
Other income	5,318,852	6,582,676	22,155,485	1,647,188	2,951,776	0	38,655,977
General and administrative expenses	(18,618,032)	(23,041,906)	(77,552,742)	(5,765,796)	(10,332,353)	(1,469,688)	(136,780,517)
Net income	3,617,858	5,190,308	16,968,082	1,183,579	3,005,957	130,464,524	160,430,308
Segment assets	654,278,973	542,161,536	1,999,311,765	175,892,920	741,694,459	5,627,141,152	9,740,480,805
Segment liabilities	1,411,383,802	1,169,528,659	4,312,833,449	379,429,003	1,599,952,908	0	8,873,127,821

As of 2018, the Treasury segment has been segregated in order to disclose the income and expenses related to this item, which corresponds to the total income and expenses related to deposits in banks and investments in securities.

(22) Balances and Transactions with Related Parties

The Bank has incurred in transactions in the ordinary course of business with certain related parties such as key management personnel and government entities, including autonomous and semi-autonomous entities. Given the Bank's state-owned nature and its role as a financial agent of the state and official depository of the nation's funds, significant concentrations of loans and deposits received from government entities are maintained. At December 31, 2018, the following were the aggregate balances in respect of transactions with related parties:

	Directors and Key Management Personnel		Government sector	
	2018	2017	2018	2017
Assets				
Investments in securities	0	0	985,488,156	1,376,412,981
Loans:				
Loans outstanding at beginning of year	2,070,102	1,304,174	219,742,778	406,138,253
Loans issued during the year	590,786	901,703	898,844,519	613,373,989
Loans cancelled during the year	(569,574)	(135,775)	(654,259,668)	(799,769,464)
Loans outstanding at year-end	2,091,314	2,070,102	464,327,629	219,742,778
Accrued interest receivable	286	41	12,267,879	20,612,231
Fiscal credit from preferential interest	0	0	60,629,982	49,692,349
Liabilities				
Deposits:				
Demand deposits	46,544	20,768	2,363,986,666	2,211,550,149
Savings deposits	327,677	304,450	0	0
Time deposits	0	0	3,737,059,359	4,223,623,141
Restricted deposits	0	0	3,414,152	8,359,890
Accrued interest payable	0	0	1,888,136	2,196,580
Commitments:				
Letters of credit	0	0	3,404,152	6,439,890
Profit and Loss				
Interest and commission income:				
Investments in securities	0	0	45,563,766	48,315,301
Loans	67,734	58,254	16,314,855	15,463,098
Interest expenses:				
Deposits	17,934	14,928	68,099,893	57,415,174
General and administrative expenses:				
Directors' allowances	265,000	192,250	0	0
Salaries	3,331,568	3,034,621	0	0
Employee Benefits	169,529	152,252	0	0

Directors and key management staff consists of 5 directors and 29 executive managers maintained by the Bank.

Loans to key management personnel are granted on the same terms and conditions that are available to other employees. As of December 31, 2018, loans granted to related parties have been classified as low risk and they maintain an allowance for expected credit losses of B/.935,203. As of December 31, 2017 no allowances for incurred losses were recognized related to these loans.

(23) Assets under administration and custody

As of December 31, 2018, the Bank held under administration trust agreements for the account and risk of third parties in the amount of B/.2,551,135,838 (2017: B/.2,458,546,854). Given the nature of these services, management considers that the Bank does not assume significant risks in the administration of these contracts.

The Bank currently has a trust agreement with Balboa Bank & Trust and Balboa Securities, Corp. as Trustee. This trust, hereinafter the Balboa-Pasivos Trust, consists of the custody of the assets in trust, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the assets in trust.

The Bank has a trust agreement with Felix B. Maduro, S. A. and Grupo Cima Panama, S. A. (the trustors), who transferred to the Bank (as Trustee) the ownership of the shares of certain companies. Notwithstanding the foregoing, the management and control of these companies is not under the administration of the Trustee, but of a Board of Directors. The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks associated with the administration of this contract.

The Bank has a trust agreement with Leemart Property, Ltd. (the Settlors), who transferred ownership of Westline Enterprises, Inc. shares to the Bank (as Trustee). (owner of the Soho Mall) to the Bank (as Trustee). The Trustee is mainly limited to the custody of the trust assets, as instructed in the trust agreement, subject to the legal obligations of reserve, accountability and accounting and equity separation of the trust assets. The Bank considers that it does not assume significant risks associated with the administration of this contract.

The Bank provides securities brokerage and custody services. This activity is carried out under a securities firm license, at the clients' risk. As of December 31, 2018, the carrying value of this portfolio amounted to approximately B/.3,941,288,735 (2017: B/.2,997,057,967) and is controlled in memorandum accounts that are not part of the Bank's statement of financial position. Given the nature of these services, management considers that there is no significant risk of loss to the Bank in the provision of such services.

As of December 31, 2018, the Bank obtained income from commissions earned on trust activities for B/.1,189,310 (2017: B/.579,444), brokerage and custody services for B/.421,234 (2017: B/.313,896) and securities services for B/.492,880. During the year 2018 the Bank incurred in financial services expenses for B/.767,404 (2017: B/.634,677).

Banco Nacional de Panama does not have a portfolio under discretionary management of third party accounts.

(24) 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's price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that are not frequently traded and for which there is little availability of pricing information, fair value is less objective, and its determination requires the use of varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

- Level 1: prices quoted (unadjusted) in active markets for identical assets or liabilities that are accessible to the Bank's management at the measurement date.

- Level 2: input data other than quoted prices included in Level 1 that are observable, either directly (i.e., prices) or indirectly (i.e., determined on the basis of prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques where significant input data are directly or indirectly observable in a market.

- Level 3: this category covers all instruments where valuation techniques include unobservable inputs and have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable assumptions or adjustments reflect the difference between the instruments.

Other valuation techniques include net present value, discounted cash flow models, comparisons with similar instruments for which there are observable market prices, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free reference rates, credit spreads and other assumptions used in estimating discount rates and share prices.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or transfer the liability between market participants would occur at the date of measurement under current market conditions.

(24) Fair Value for Financial Instruments, continued

The fair value and carrying amount of financial assets and liabilities are detailed as follows:

	2018	
	Carrying Value	Fair Value
Financial assets:		
Time deposits	1,718,378,353	1,718,426,068
Investments in securities at AC	2,630,856,656	2,640,750,625
Investments in securities at FVOCI	5,759,585	5,759,585
Loans	4,200,143,165	4,028,015,214
	8,555,137,759	8,392,951,492
Financial liabilities:		
Time deposits	4,161,105,604	4,071,466,300

	2017	
	Carrying Value	Fair Value
Financial assets:		
Time deposits	2,402,558,702	2,402,558,702
Securities available for sale	3,096,271,353	3,067,980,804
Loans	3,604,634,776	3,460,165,218
	9,103,464,831	8,930,704,724
Financial liabilities:		
Time deposits	4,845,244,477	4,745,965,061

The following table analyses financial instruments measured at fair value on a recurring basis. These instruments are classified at different levels of the fair value hierarchy based on the data input and valuation techniques used:

	Fair Value	
2018	Level 1	Total
Investments in securities at FVOCI:		
Equity shares	5,759,585	5,759,585
	5,759,585	5,759,585

	Fair Value			
2017	Level 1	Level 2	Level 3	Total
Securities available for sale:				
Public debt securities	0	1,478,903,841	0	1,478,903,841
Private debt securities	0	1,582,262,429	0	1,582,262,429
Equity Shares	6,814,534	0	0	6,814,534
	6,814,534	3,061,166,270	0	3,067,980,804

(24) Fair Value for Financial Instruments, continued

As of December 31, 2017, the Bank held equity shares for an amount of B/.599,263, which were held at acquisition cost because their fair value could not be reliably determined.

For investment instruments in securities that are quoted in active markets, the fair value is determined by the instrument's reference price published in stock exchanges, published in electronic stock information systems, or provided by price suppliers. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data.

The table below describes the valuation techniques and inputs used in recurring fair value measurements classified within Level 2 and 3:

Financial Instruments	Valuation Technique and Data Inputs Used
Investments in securities	The discounted future cash flow method is used. The valuation model used values fixed-income instruments based on the flows of the instruments, their remaining term at the valuation date, and discounts the flows by a rate composed of the sum of the following variables: - Market reference rates - More credit risk margin In addition, the model considers within its inputs the observable market prices for similar instruments.

The following table analyses the fair value of financial instruments that are not carried at fair value, classified by level, as follows:

Description	2018 Level 2	2018 Level 3	2017 Level 3
Assets:			
Time deposits	0	1,718,426,068	2,402,558,702
Investments in securities to AC	2,640,750,625	0	0
Loans	0	4,028,015,214	3,460,165,218
	2,640,750,625	5,746,441,282	5,862,723,920
Liabilities:			
Time deposits	0	4,071,466,300	4,745,965,061

(24) Fair Value for Financial Instruments, continued

The table below describes the valuation techniques and inputs used in the valuation of financial assets and liabilities not measured at fair value that are classified in the fair value hierarchy within Level 3:

Financial Instruments	Valuation Technique and Data Inputs Used
Investments in securities at amortized cost	Future cash flows discounted at current market rates for the term and type of instrument.
Loans	Future cash flows discounted at current market rates.
Time deposits placed with banks and received from customers	Discounted cash flows using current market rates for new deposits with similar remaining maturities.

For customer demand deposits, customer savings deposits, and demand deposits at banks, the carrying value approximates their fair value due to their short-term nature.

(25) Principal Applicable Laws and Regulations

General Laws and Regulations

(a) Banking Law

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of the Republic of Panama, pursuant to the regulations established in Executive Decree No.52 of April 30, 2008, which adopted the sole text of Decree Law 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, whereby establishing the banking system in Panama and creates the Superintendency of Banks and its regulations.

For purposes of compliance with the prudential norms issued by the Superintendency of Banks of Panama, the Bank will prepare an estimate of the regulatory credit reserve. If the regulatory calculation is greater than the corresponding estimate determined under IFRS, the excess reserve is recognized in a regulatory equity reserve.

(b) Securities Law

The securities market in the Republic of Panama is regulated by Law Decree No. 1 of July 8, 1999, which has been modified by Law 67 of September 1, 2011.

In the year 2013, the regulatory entity issued Agreement No. 008-2013, which modified rules that are within Agreement No. 004-2011 on capital adequacy, total minimum required capital, solvency ratio, liquidity ratio and credit concentrations that must be attended by brokerage firms in Panama and those financial institutions that have a brokerage firm license.

(25) Principal Applicable Laws and Regulations, continued

The following is a description of the modified rules in the Agreement No. 008-2013 of the Superintendency of Securities Market and the indexes on each of these provisions:

- Total Minimum Required Capital: Banks with a brokerage firm license must constitute and maintain free of encumbrances, at all times, a total minimum required capital, which shall be the sum of the amounts of capital required for each license. The Superintendency of Banks of Panama requires a minimum capital of B/.10,000,000, and the Superintendency of the Securities Market requires a minimum capital of B/.350,000. The capital maintained by the Bank according to these criteria exceeds that total minimum required capital.

- Additional Capital Requirement: Article 4-A of Agreement No. 008-2013, establishes that all securities firms that offer the service of managing custody accounts in physical form or through third parties, must comply with the additional capital requirement. As of December 31, 2018, the Bank had an additional capital requirement of B/.2,311,120 (2017: B/.3,912,630).

  As of December 31, 2018, the capital contributed by the State for B/.650,000,000 covers the total minimum required capital and the additional capital requirement, as required by the Superintendency of Banks of Panama and the Superintendency of the Securities Market.

- Solvency Ratio: Securities firms must maintain at all times a minimum solvency ratio of eight percent (8%) of their total assets and off-balance sheet operations, weighted according to their risks; customer or third party accounts which must be duly separated from the equity of the securities firm or financial institution are not included in the calculation of the solvency ratio.

- Liquidity Ratio: Securities firms shall maintain at all times a volume of investments in low risk and high liquidity assets that shall be at least thirty per cent (30%) of the total liabilities due with a residual term of less than one (1) year.

- Credit Risk Concentrations: The risks maintained by the securities firm with respect to an issuer, individual client or a group of issuers or clients related to each other, shall be considered as a concentration situation when the accumulated value of these risks exceeds ten per cent (10%) of the total value of its capital funds.

  Due to the nature of the operations and services provided by the Bank, management considers that no credit risk concentration risks are present.

(25) Principal Applicable Laws and Regulations, continued

(c) Trust Law

The exercise of the Trust business in the Republic of Panama is regulated by the Superintendency of Banks of Panama in accordance with the regulations established by Law No. 1 of January 5, 1984, as amended by Law No. 21 of May 10, 2017, which establishes the rules for the regulation and supervision of the trustee business and the trust business and dictates other provisions.

The objective of said law is to promote an appropriate and flexible legal platform to boost the trust market and maintain adequate levels of trust and transparency; the strengthening of management by the Superintendency in terms of the application of standards for comprehensive risk-based regulation and supervision, in accordance with the particular characteristics of the trust business.

The following is a summary of the most important aspects introduced by Law 21 of May 10, 2017:

- Composition of capital: Article 25 establishes that companies that are authorized to act as trustees shall issue shares representing their capital stock exclusively in nominative form.

- Minimum paid-in or assigned capital: Article 26 establishes that the minimum paid-in or assigned capital to apply for and maintain a trust license shall be one hundred and fifty thousand balboas (B/.150,000).

(d) Public Sector Employees Seniority Premium

Law 23 of May 12, 2017 includes a new right for public employees, by establishing that the permanent, transitory or contingent public employee, whatever the cause of termination of functions, will be entitled to receive a seniority bonus, at the rate of one week's salary for each year worked in the institution, from the beginning of the permanent relationship.

In addition, it is established that the right to the seniority premium will become effective upon the appointment of three judges to the Civil Service Administrative Tribunal.

As at the date of the financial statements, only one of the three judges of the Civil Service Administrative Tribunal has been appointed, so the seniority premium requirement has not yet become effective and the corresponding liability has not been recorded. The liability to be recorded by the Bank to recognize the seniority premium for public servants will be approximately B/.14 million, according to evaluations and calculations made by management.

(25) Principal Applicable Laws and Regulations, continued
Specific regulations of the Superintendency of Banks of Panama

(a) Acquired Foreclosed Assets
For regulatory purposes the Superintendency of Banks of Panama sets at term of (5) years, from the date of registration in the Public Register, the deadline to alienate property acquired in settlement of unpaid loans. If after that term the Bank has not sold the acquired property, it shall conduct an independent appraisal of the property to determine if its value has decreased, by applying in such case the provisions of IFRS.

Additionally, the Bank must create a reserve in an equity account, through the appropriation in the following order: a) its undistributed profits; and b) profits of 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 be maintained until the effective transfer of the acquired property and such reserve shall not be considered as a regulatory reserve for the purpose of calculating the equity index.

(b) Loans and off-balance sheet operations
Agreement No. 004-2013 issued by the Superintendency of Banks of Panama establishes provisions on the management and administration of credit risk inherent to the loan portfolio and off-balance sheet operations, including general criteria for the classification of credit facilities for the purpose of determining specific provisions and dynamics for the coverage of the Bank's credit risk. In addition, this Agreement establishes certain minimum required disclosures, in line with IFRS disclosure requirements, on the management and administration of credit risk.

Specific provisions
The Agreement No.004-2013 establishes 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 referred as: special-mention, substandard, doubtful or loss, both for individual or collective credit facilities.

(25) Principal Applicable Laws and Regulations, continued

Banks must at all times calculate and maintain the amount of specific provisions determined through the methodology specified in this Agreement, which takes into consideration the balance due of each credit facility classified in one of the categories subject to provisioning, mentioned in the previous paragraph; the present value of each guarantee available as a risk mitigation, as established by type of guarantee in this Agreement; and a weighting table that is applied to the net balance exposed to loss of such credit facilities.

In case of a surplus in the specific provisions, calculated according to this Agreement, on the provision calculated under IFRS, this surplus shall be accounted for as a regulatory reserve in equity, increasing or decreasing allocations to or from retained earnings. The balance of the regulatory reserves will not be considered as capital funds for purposes of calculating certain prudential indices or ratios mentioned in the Agreement.

The following table summarizes the classification of the Bank's loan portfolio based on Agreement No. 004-2013:

	2018		2017	
	Loans	Allowance	Loans	Allowance
Standard	3,975,505,309	0	3,366,795,719	0
Special mention	227,992,895	2,195,162	230,789,229	2,641,440
Sub-standard	20,336,354	1,085,777	20,214,319	1,127,046
Doubtful	12,221,080	2,066,048	7,525,277	1,437,171
Loss	16,374,442	6,670,178	15,521,408	6,913,233
	4,252,430,080	12,017,165	3,640,845,952	12,118,890

The Bank has made the classification of irrevocable off-balance sheet operations and has estimated the reserves based on Agreement No.004-2013 issued by the Superintendency of Banks of Panama, which is shown below:

2018	Letters of credit	Allowance	Guarantees and endorsements granted	Allowance
Standard	955,427	0	7,039,472	0

2017	Letters of credit	Allowance	Guarantees and endorsements granted	Allowance
Standard	2,464,000	0	5,605,013	0

In addition, based on Agreement No. 008-2014, the recognition of interest income is suspended based on the days of delay in the payment of principal and/or interest and the type of credit operation according to the following:

a) For consumer and commercial loans, if it is overdue in more than 90 days; and
b) For residential mortgage loans, if it is overdue in more than 120 days.

(25) Principal Applicable Laws and Regulations, continued

As of December 31, 2018, the Bank maintains loans for B/.15,936,891 (2017: B/.15,855,991) in nonaccrual status and the interest not received amounts to B/.1,043,646 (2017: B/.1,617,609).

Agreement No. 004-2013 defines as delinquent any credit facility that presents any unpaid amount, in terms of principal, interest or expenses contractually agreed, with an antiquity of more than 30 days and up to 90 days, as of the date established for compliance with the payments.

Agreement No. 004-2013 defines as delinquent any credit facility whose failure to pay contractually agreed amounts is more than 90 days old. This term will be calculated from the date established for the fulfillment of payments. The operations with a single payment at maturity and overdrafts, shall be considered expired when the antiquity of the lack of payment exceeds 30 days, from the date in which the payment obligation is established.

The balances of delinquent and overdue loans based on Agreement No. 004-2013 are detailed as follows:

2018			2017		
Past due	**Overdue**	**Total**	**Past due**	**Overdue**	**Total**
27,410,908	30,198,433	57,609,341	21,497,968	26,454,111	47,952,079

During the period ended December 31, 2018, loans for B/.13,212,828 (2017: B/.17,580,233) were renegotiated.

Dynamic provision

Agreement No. 004-2013 sets forth that a dynamic provision is a reserve established to meet future requirements of specific provisions, which is ruled by prudential criteria inherent to the banking regulation. The dynamic provision is constituted on a quarterly basis on credit facilities without specific provision assigned, that is, on credit facilities classified as normal.

This Agreement regulates the methodology to calculate the amount of the dynamic provision, which considers a maximum and minimum percentage restriction applicable to the amount of provision determined on credit facilities classified as normal.

The dynamic provision is an equity item that increases or decreases through allocations from or to retained earnings. The credit balance of this dynamic provision forms part of the regulatory capital but does not replace nor offset capital adequacy requirements established by the Superintendency.

As of December 31, 2018 the Bank's dynamic provision is B/.56,598,706 (2017: B/.56,598,706).

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