

FONDO DE AHORRO DE PANAMA
(Panama, Republic of Panama)

Financial Statements

December 31, 2019

(With Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

FONDO DE AHORRO DE PANAMA
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Fondo de Ahorro de Panama

Opinion

We have audited the financial statements of Fondo de Ahorro de Panama (hereinafter, the "FAP"), which comprise the statement of financial position as of December 31, 2019, the statements of income, changes in Trustee's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of FAP as of December 31, 2019, and 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 the 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 FAP in accordance with International Ethics Standards Board of 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 all other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Supplementary Information

The information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not required as part of the financial statements or to present the financial position and financial performance of FAP. This information has been subject to the auditing procedures applied in the audit of the financial statements and, in our opinion, is presented fairly in all material respects, in relation to the financial statements taken as a whole.

Other Information

Management is responsible for the other information. The other information comprises the Annual report but does not include the financial statements and our independent auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing FAP'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 eventually modify the Law 38 of June 5, 2012, which establishes the creation of FAP.

Those charged with governance are responsible for overseeing the FAP financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional 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 an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FAP'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, whether a material uncertainty exists related to events or conditions that may cast significant doubt on FAP's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions, subject to decisions of the Panamanian State, may cause FAP to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

KPMG (SIGNED)

Panama, Republic of Panama
April 3, 2020

FONDO DE AHORRO DE PANAMA
(Panama, Republic of Panama)

Statement of Financial Position

as of December 31,2019

(Stated in Balboas)

| <u>Assets</u> | <u>Nota</u> | <u>2019</u> | <u>2018</u> |
|---|-----------------------|----------------------|----------------------|
| Demand deposits in investment managers | 6, 8, 10, 16 | 59,646,358 | 55,745,062 |
| Demand deposits in local banks | 6, 8, 9, 16 | 1,184,118 | 1,506,975 |
| Securities at fair value through profit or loss | 6, 10, 16, 18 | 1,336,540,001 | 1,206,393,933 |
| Accounts receivable from sale of investments | 10, 11, 16 | 56,714,061 | 81,954,539 |
| Accrued interest receivable and other assets | 6, 10, 11, 12, 16, 18 | 6,358,620 | 6,786,633 |
| Total assets | | 1,460,443,158 | 1,352,387,142 |
| <u>Liabilities</u> | | | |
| Accounts payable from purchase of investments | 6, 11, 16 | 60,518,588 | 72,427,360 |
| Other liabilities | 6, 13, 16 | 6,852,104 | 5,055,531 |
| Total liabilities | | 67,370,692 | 77,482,891 |
| <u>Trustee Equity</u> | | | |
| Founding capital | 14 | 1,233,608,775 | 1,233,608,775 |
| Accumulated surplus of income over expenses | 15 | 159,463,691 | 41,295,476 |
| Total Trustee equity | | 1,393,072,466 | 1,274,904,251 |
| Total liabilities and Trustee equity | | 1,460,443,158 | 1,352,387,142 |

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

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Statement of Income

For the year ended December 31, 2019

(Stated in Balboas)

| | <u>Nota</u> | <u>2019</u> | <u>2018</u> |
|--|-------------|--------------------|--------------------|
| Net gain (loss) on securities at fair value: | | | |
| Interest on investments in securities | | 25,989,903 | 21,776,328 |
| Dividends earned on shares | 10 | 4,558,350 | 5,334,711 |
| Net realized gain on securities | 10 | 23,174,136 | 28,672,733 |
| Gain (loss) net unrealized on securities and derivative instruments | 10 | 68,193,668 | (56,122,068) |
| Net gain (loss) on securities at fair value | | <u>121,916,057</u> | <u>(338,296)</u> |
| Other income, net | | <u>59,979</u> | <u>152,002</u> |
| Expenses: | | | |
| Asset management | | 2,223,418 | 1,939,934 |
| Asset custody | | 350,120 | 411,090 |
| Professional service fees | | 605,523 | 552,161 |
| Other expenses | | 628,760 | 704,150 |
| Total expenses | | <u>3,807,821</u> | <u>3,607,335</u> |
| Excess (deficit) of income over expenses | | <u>118,168,215</u> | <u>(3,793,629)</u> |

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

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Statement of Changes in Trustee Equity

For the year ended December 31, 2019

(Stated in Balboas)

| | <u>Note</u> | <u>Founding Capital</u> | <u>Accumulated surplus of income over expenses</u> | <u>Total trustee equity</u> |
|---|-------------|-----------------------------|--|---------------------------------|
| Balance as of December 31, 2017 | | <u>1,233,608,775</u> | <u>76,551,902</u> | <u>1,310,160,677</u> |
| Income deficit over expenses - 2018 | | | (3,793,629) | (3,793,629) |
| Transactions recorded directly in equity | | | | |
| Distribution of accumulated surplus from previous periods | 15 | <u>0</u> | <u>(31,462,796)</u> | <u>(31,462,796)</u> |
| Total transactions recorded directly in equity | | <u>0</u> | <u>(35,256,425)</u> | <u>(35,256,425)</u> |
| Balance as of December 31, 2018 | | <u>1,233,608,775</u> | <u>41,295,476</u> | <u>1,274,904,251</u> |
| Surplus income over expenses - 2019 | 15 | 0 | 118,168,215 | 118,168,215 |
| Total transactions recorded directly in equity | | <u>0</u> | <u>118,168,215</u> | <u>118,168,215</u> |
| Balance as of December 31, 2019 | | <u>1,233,608,775</u> | <u>159,463,691</u> | <u>1,393,072,466</u> |

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

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Statement of Cash Flows

For the year ended December 31, 2019

(Stated in Balboas)

| | <u>Note</u> | <u>2019</u> | <u>2018</u> |
|--|-------------|--------------------------|--------------------------|
| Operating activities: | | | |
| Excess (deficit) of income over expenses | | 118,168,215 | (3,793,629) |
| Adjustments to reconcile the excess (loss) of income over expenses and cash from operating activities: | | | |
| Net realized gain on securities | | (23,174,136) | (28,672,733) |
| (Gain) loss net unrealized on securities and derivative instruments | | (68,193,668) | 56,122,068 |
| Interest income earned | | (25,989,903) | (21,776,328) |
| Dividends earned on shares | | (4,558,350) | (5,334,711) |
| Changes in operating assets and liabilities: | | | |
| Acquisition of securities | | (2,500,199,859) | (1,741,575,647) |
| Proceeds from the sale of securities | | 2,461,421,595 | 1,838,771,465 |
| (Increase) decrease in balances for purchase / sale of investments | | 13,331,706 | (51,164,619) |
| (Increase) decrease in other assets | | 1,115,428 | (39,438) |
| (Increase) decrease in other liabilities | | 1,796,573 | (1,819,501) |
| Cash generated from operations | | | |
| Interest received | | 25,302,488 | 23,472,920 |
| Dividends received | | 4,558,350 | 5,334,711 |
| Cash flows from operating activities | | <u>3,578,439</u> | <u>69,524,558</u> |
| Trustee equity activities of the Trust and financing activities: | | | |
| Distribution of accumulated surplus | | 0 | (31,462,796) |
| Cash flow from fiduciary equity activities of the Trust and financing | | <u>0</u> | <u>(31,462,796)</u> |
| Net increase in cash and cash equivalents | | 3,578,439 | 38,061,762 |
| Cash and cash equivalents at the beginning of the year | | 57,252,037 | 19,190,275 |
| Cash and cash equivalents at year end | 8 | <u><u>60,830,476</u></u> | <u><u>57,252,037</u></u> |

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

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Notes to the Financial Statements

as of December 31, 2019

(Stated in Balboas)

(1) Constitution and Administration of Fondo de Ahorro de Panama

Pursuant to Law 38 of June 5, 2012, Fondo de Ahorro de Panama was created (hereinafter, "FAP" or the "Fund"), with the objective of establishing a long-term savings mechanism for the Panamanian State and a stabilization mechanism for emergency cases and economic slowdown, as well as reducing the need for debt issuance.

Law 38 of June 5, 2012 repealed and replaced Law 20 of May 15, 1995, which created the Trust Fund for Development (hereinafter, "TFD"). Consequently, effective June 6, 2012, any legal provision, document or ongoing process that refers to TFD shall mean FAP in all legal respects.

Law 38 of June 5, 2012 was subsequently amended by Law 87 of December 4, 2012 and Law 48 of August 6, 2013. In addition, Executive Order No. 1068 of September 6, 2012 provides rules under Law 38 of June 5, 2012.

In accordance with the provisions of Law 38 of June 5, 2012, all assets of TFD were transferred to FAP for its administration through an irrevocable trust.

In accordance with Executive Order No.1068 of September 6, 2012, which provides the rules under Law 38 of June 5, 2012, FAP's assets will be managed by the FAP's Board of Directors.

In May 2013, the Supervisory Commission of the FAP was integrated in accordance with article 17 of Law 38 of June 6, 2012; This Commission is established as a representative body of civil society which shall meet once a year, no later than April 30 of each year, to assess the annual report of the Board of Directors of the FAP.

On June 4, 2013, the General Comptroller of the Republic of Panama endorsed the irrevocable Fondo de Ahorro de Panama Trust Contract No.0001 (hereinafter, "FAP Trust") between the Ministry of Economy and Finance, acting as Settlor (hereinafter, "Settlor" or "MEF") and the Banco Nacional de Panama in its condition as Trustee (hereinafter, "Trustee" or "Banconal") under Law 1 of January 5, 1984 by which the Trust is regulated. The beneficiary of the Trust is the Republic of Panama, represented by MEF.

The main objective of this Trust is to establish a fund independent and separate from its Settlor, Trustee, and Beneficiary, which allows the use of funds in accordance with the terms and conditions established in the FAP Trust and provisions of Law 38 of June 5, 2012, the Executive Order No. 1068 of September 6, 2012 and their subsequent amendments.

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Notes to the Financial Statements

(1) Constitution and Administration of Fondo de Ahorro de Panama, continued

The FAP is constituted with all the assets of the TFD that were transferred to the FAP's accounting records on June 4, 2013.

In addition, the following assets also form part of the FAP:

1. Any contribution of the Panama Canal Authority to the National Treasury, exceeding 3.5% of nominal Gross Domestic Product (GDP) of the current year, starting from the 2015 fiscal year.
2. The proceeds from the sale of the Government's equity participation in partially government-owned enterprises.
3. Heritage, legacies, and donations made to the Fund.
4. Resources allocated to FAP by law.

Law 48 of August 6, 2013 identifies specifically the enterprises that are partially government owned.

Article 5 of Law 38 of June 5, 2012, amended by Law 87 of December 4, 2012 and Law 48 of August 6, 2013, states that the resources of FAP, managed by the FAP, can only be used for transfers to the National Treasury under the conditions set forth in Article 11 of Law 34 of June 5, 2008 and its rulings and in that article. Consequently, withdrawals could only be associated with the following situations:

1. Covering the costs associated to a state of emergency declared by the Cabinet Council that exceed 0.5% of the Gross Domestic Product (GDP). This rule began to apply from 2015.
2. Economic slowdown.
3. Withdrawals up to 0.5% of the GDP annually, can be made with the sole purpose of prepaying and redeeming sovereign debt issued by the Republic through the Central Government, only if the assets of FAP are greater than 5% of nominal GDP of the prior year.

Withdrawals due to items 1 and 2 listed above are subject to the condition that the FAP's assets cannot be less than 2% of nominal GDP of prior year.

Article 32 of Law 38 of June 5, 2012 and article 24 of Executive Decree No. 1068 of September 6, 2012, provide that the FAP's Board of Directors shall approve the FAP's annual budget, prepared by its Technical Secretariat, and shall include at least the payment of expenses incurred by the Technical Secretariat, allowances and expenses of the Directors, as well as billings generated by the Trustee, investment managers, custodians, and the external auditor. The funding source for the FAP's Annual Budget must come from FAP's assets; the Board of Directors must submit the approved budget to the Settlor for its "no objection" statement no later than October 31 of the prior year.

The FAP's 2019 Annual Budget was approved by its Board of Directors on October 18, 2018; the Trustor duly communicated its "no objection" to the Board of Directors on February 20, 2019.

On September 6, 2018, the Board of Directors of the FAP approved the Annual Investment Plan and the strategic allocation of assets management for years 2018/2019.

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Notes to the Financial Statements

(1) Constitution and Administration of Fondo de Ahorro de Panama, continued

The National Assembly of Deputies approved Law 51 of October 10, 2018 that introduces changes to Law 38 of June 5, 2012, which creates the Fondo de Ahorro de Panama, with respect to its accumulation rule, among other changes. The main changes of the Law regarding the FAP are:

1. Strengthen the FAP with 50% of the contributions from the Panama Canal Authority ("ACP") under the following conditions: a) for the years 2018 and 2019, when all contributions of the ACP to the National Treasury exceed the 2.5% of the Gross Domestic Product ("GDP") Nominal, and b) for the year 2020 onwards, when all contribution of the ACP to the National Treasury exceeds 2.25% of GDP.
2. Allow the capitalization (re-investment) of the future returns of the FAP, until the equity of the same is higher than 5% of the nominal GDP of the previous year.

The State may withdraw the interest, dividends and realized capital gains generated by the assets of the Fund. For purposes of determining the returns to be withdrawn, the realized gains and losses must be considered.

As of November 2013, the FAP's financial information is formed by two sets of accounting records. The Board of Directors and its executive team keep records on transactions related to its annual operating budget (see Schedules 1 and 2). Furthermore, the Trustee is responsible for maintaining the accounting records of the Fondo de Ahorro de Panama.

(2) Basis of Preparation

(a) *Statement of Compliance*

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

These financial statements were authorized by the FAP's Management for issuance on April 3, 2020.

(b) *Basis for Measurement*

The financial statements have been prepared on the historical cost basis, except for the revaluation of the financial assets held for trading or classified at fair value through profit or loss, and derivative financial instruments. Other financial assets and liabilities and non-financial assets and liabilities are presented at amortized cost or historical cost.

(c) *Functional and Presentation Currency*

The Republic of Panama does not issue its own paper currency, and instead, the US dollar of the United States of America is used as legal tender, and it is considered as the Fund's functional currency. Therefore, the financial statements are presented in balboas (B/.), the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the United States of America dollar (US\$).

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. IFRS 16 adoption note:

(a) Fair Value Measurement

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

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

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

The best evidence of fair value is a quoted market price in an active market. If the market for a financial instrument is not active, a valuation technique is used. The decision of whether a market is active may include, but is not limited to, consideration of factors such as the volume and frequency of trading activity, the availability of prices and the volume of the deals and sales. In markets that are not active, the guaranty for the price of the transaction to provide evidence of fair value or to determine the adjustments to transaction prices that are needed to measure the fair value of the instrument, requires additional work during the valuation process.

(b) Investments in Securities

The Fund designates all debt and equity instruments at their fair value with changes at the date of initial recognition, which is in accordance with the Fund's business and investment strategy. The internal reports and the measurement of the performance of these securities are based on fair value.

- Securities at Fair Value through Profit or Loss (FVTPL)

This category includes those investment securities acquired mainly for the purpose of generating a profit from short-term fluctuations in the price of the instrument. These securities are measured at fair value and changes in fair value are recognized in profit or loss in the period in which they are generated.

The fair value of an investment security is generally based on its quoted market price at the reporting date. If the quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Purchases and sales of financial assets at fair value through profit or loss are recognized at the trade date – the date on which an entity commits to buy or sell an asset.

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Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(c) *Derivative Instruments*

The FAP uses derivative financial instruments, which are recorded in other assets or other liabilities in the statement of financial position, at their fair value. Changes in the valuation during the period of these derivative instruments are recognized in the results of operations.

Derivative instruments consist of forward contracts of foreign currencies other than the United States dollar. These contracts represent commitments that are agreed in the over the counter (OTC) markets and their terms are agreed to the extent required or according to needs for the parties to buy or sell foreign currencies at a specific price and an agreed future date.

(d) *Impairment of Financial Assets*

The book values of these assets are reviewed at the date of the statement of financial position to determine if there is objective evidence of impairment in the financial instruments, and the reserve method is used to provide about losses in the financial instruments.

Its main financial instruments were presented as investments and other financial assets at fair value through profit or loss (FVTPL).

(e) *Dividend Income*

Dividends are recognized in the statement of comprehensive income when the entity has rights to receive declared dividends.

(f) *Interest Income*

Interest income is recognized in the statement of comprehensive income for all financial instruments. Interest is calculated using the original contracted terms and conditions: interest rate multiplied by the principal balance.

(g) *Expenses*

Expenses that represent security custodian commissions, fees, and other expenses incurred by FAP, are recognized in profit or loss when incurred. Fees paid to asset managers and custodians are calculated based on established percentages on the average of financial resources under management and a fix monthly payment to Banconal as a Trustee.

In conformity with provisions of Law 38 of June 5, 2012, the Executive Decree No. 1068 of September 6, 2012 and the FAP Trust Contract, the aforementioned expenses shall be paid from FAP's annual budget and its funding source must come from FAP's assets.

(h) *Balances and Transactions in Foreign Currency*

Assets and liabilities maintained in foreign currency are translated into balboas (B/.) at the official exchange rate prevailing at the reporting date.

Income and expenses generated by transactions in foreign currencies are translated at the exchange rates that prevailed at transaction date. Foreign currency exchange differences are recorded as realized and unrealized securities gains and losses.

Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(i) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include demand and time deposits with original maturities of three months or less and deposits placed in investment managers.

(j) Uniformity in the Presentation of the Financial Statements

The accounting policies previously detailed have been applied consistently in the periods presented in the financial statements.

(k) New International Financial Reporting Standards (IFRS) and Interpretations not Adopted

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 Fund.

(4) Regulations and Policies Related to FAP Administration
Investment Guidelines for FAP Resources

Executive Decree No. 1068 of September 6, 2012, which regulates Law 38 of June 5, 2012, that creates the FAP and has amended Law 34 of June 5, 2008 on Fiscal Social Responsibility, establishes in its Chapter IV, Article 11 "Investment Guidelines", that MEF, acting in its capacity as Settlor and as representative of the Republic of Panama, owner of the FAP assets, will issue the investment guidelines through ministerial resolution to provide the framework within which the Board of Directors will define the investment policy for FAP resources.

On June 19, 2013, the MEF issued the Ministerial Resolution No. 002-DICRE, in which the Investment Guidelines for the FAP assets are defined, which represent the framework for the Board of Directors to establish the FAP's investment policy; the most important aspects of the Investment Guidelines are summarized below.

FAP's resources may be invested in five asset classes:

1. Liquid assets; the maximum limit to invest in this asset class is 100%.
2. Sovereign bonds; supranational / multilateral bonds and other related assets; the maximum limit to invest in this asset class is 70%.
3. Inflation-indexed sovereign bonds; the maximum limit to invest in this asset class is 70%.
4. Corporate bonds; the maximum limit to invest in this asset class is 30%.
5. Variable income; the maximum limit to invest in this asset class is 30%.

All issuers must be rated by at least one of the three international risk rating agencies: Fitch, Moody's or Standard & Poor's. If there is more than one rating, the lowest rating will be considered. In no case may an issuer's risk rating be BBB- or lower.

Through Agreement No. 7 of April 22, 2014, the FAP Board of Directors approved its first Investment Policies and Standards, which were modified through Agreement No. 13 of December 15, 2016, to incorporate the changes made by the MEF to the Investment Guidelines. Subsequently, through Agreement No. 17 of June 29, 2017, these policies were updated to incorporate, among other things, matters related to the implementation of the securities lending program with the current custodian.

Notes to the Financial Statements

(4) Regulations and Policies Related to FAP Administration, continued

On August 31, 2015, the FAP Board of Directors amended the FAP Bidding Regulations. Said Regulation establishes the guides, procedures, requirements and other contracting mechanisms that will govern the contracting of consultants, investment managers, custody and FAP external auditors.

On October 16, 2014, Ministerial Resolution No. 003-DICRE was issued, through which Ministerial Resolution No. 002-DICRE of June 19, 2013 is amended, which defines the Investment Guidelines to establish the Investment Guidelines of the FAP Assets. This amendment contemplates, among other things, the inclusion of Mortgage/Structured Securities as a class of assets eligible for investment, with a maximum limit of 15% for this class of assets and allows the use of benchmark comparators that incorporate (“hedged benchmarks”).

On August 30, 2016, Ministerial Resolution N0 002- DICRE of July 25, 2016 was approved in the Official Gazette, which modifies Ministerial Resolution No. 002- DICRE of June 19, 2013, which defines the investment guidelines to establish the Investment Policy of the assets of the Fondo de Ahorro de Panama. The main changes in the investment guidelines are mentioned below:

- It is considered that collectively the assets consisting of sovereign bonds, supranational/multilateral bonds, corporate bonds and mortgage backed securities/structured credit securities, are designated as "Global Fixed Income" framed by Barclay's Global Aggregate Index referential benchmark.
- Expands the risk rating spread of the counterparties for entering into forwards contracts to manage and minimize the currency risk in portfolios rated -AA to A in at least two of the internationally recognized rating agencies (Fitch, Moody's, Standard & Poor's).
- The resources of the FAP may be invested in a eighth class of assets, Alternative Investments (for example, hedge funds, private equity funds, infrastructure funds, real estate funds), from 2015, at which time the Board of Directors, through a reasoned resolution, will define the referential benchmark to be used for this class of asset and will inform MEF to obtain its “no objection” statement.

On September 6, 2018, the FAP Board of Directors approved the Annual Investment Plan and the strategic allocation of assets for the 2018/2019 management years.

Use of Trust Assets

The assets that make up the FAP's fiduciary assets may only be used for the following purposes:

- a. Transfers to the National Treasury under the conditions set forth in article 11 of Law 34 of June 5, 2008, as amended by article 5 of Law 38 of June 5, 2012, and its regulations, and Law 87 of December 4, 2012.
- b. Prepay and settle sovereign debt issued by the Republic through the Central Government, provided that the assets of the Trust are greater than five percent (5%) of prior year's nominal GDP. The amount that annually can be withdrawn under this situation will be up to zero-point five percent (0.5%) of GDP.

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Notes to the Financial Statements

(4) Regulations and Policies Related to FAP Administration, continued

- c. Invest in issuers and instruments outside of Panama. The only exception is the investment of up to 10% of the Trust assets in debt securities issued by the Republic of Panama through secondary domestic or international capital markets, of which only five percent (5%) may be made through the secondary domestic capital market (Treasury Notes).
- d. Pay for the approved Annual Budget.
- e. Any other expenses incurred by the FAP, upon prior approval of the Board of Directors.

The State may withdraw the interest, dividends and realized capital gains generated by the assets of the Fund. For purposes of determining the returns to be withdrawn, the realized gains and losses must be considered.

Restrictions on the Use of Trust Assets

FAP assets may not be used for any of the following purposes:

- a. Guarantee credit instruments of the Panamanian State.
- b. Buy credit instruments issued by third parties guaranteed by the Panamanian State.
- c. Buy credit instruments or capital instruments issued by national legal entities, registered in the Republic of Panama or in any other jurisdiction internationally.
- d. Buy credit instruments or capital instruments issued by foreign legal entities registered in the Republic of Panama or in any other jurisdiction at an international level, whose economic activities carried out in the Republic of Panama represent 5% or more of its total income.
- e. Constitute pledge or mortgage liens on the FAP assets.
- f. Make investments in companies in which the members of the FAP Board of Directors, the FAP Supervisory Commission, its executive team, the General Manager and the members of the Banconal Board of Directors, the President and Vice President of the Republic and the ministers of State and their relatives within the fourth degree of consanguinity or second of affinity, maintain a direct or indirect shareholding, greater than or equal to ten percent (10%) of the common shares in circulation.

(5) Fund Investment Portfolio Management Agreements

During 2001, the Settlor entered into TFD investment portfolio management agreements, currently the FAP, with Goldman Sachs Asset Management L. P., Morgan Stanley Investment Management Inc. and BlackRock Financial Management Inc. (“the administrators”).

On January 19, 2017, the contract between the Northern Trust Company and Banconal was signed, as custodian of the investments of the Fondo de Ahorro de Panama. As of February 1, 2017, Northern Trust Company is the custodian of FAP investments, maintaining Goldman Sachs Asset Management L. P., Morgan Stanley Investment Management Inc. and BlackRock Financial Management Inc. as investment managers.

The current investment management and custody agreements are regulated in accordance with the Investment and Custody Guidelines, respectively.

Notes to the Financial Statements

(5) Fund Investment Portfolio Management Agreements, continued

The most important characteristics of these agreements are detailed below:

- **Eligible Assets:**
Only instruments that are part of the corresponding benchmark will be eligible.
- **Risk Budget:**
Fixed income and equity portfolios will have a maximum tracking error budget of 70 basis points (ex-ante). While short duration portfolio will maintain a maximum duration of 6 months relative to the hedged benchmark.
- **Credit Risk:**
The risk rating of an issuer may not be lower than investment grade rating (Baa3/BBB-). As an inclusion rule, the average credit risk rating granted to long-term securities by internationally recognized risk rating agencies (Fitch, Moody's and Standard & Poor's) will be used. In case of having a rating in only two rating agencies, the smaller scale will be used.
- **Equity Investment:**
The investment in equities of the same company may not be greater than 5% of the capital of the equity portfolio.
- **Forward Contract Limits:**
Forwards may be contracted to manage/minimize the exchange risk in the managed portfolios. The foregoing will only be with counterparties that have long-term instrument risk ratings equal to or greater than the A equivalent in at least two of the internationally recognized risk rating agencies (Fitch Ratings Inc., Moody's and Standard & Poor's).

(6) Financial Instruments Risk Management

A financial instrument is any contract that in turn originates a financial asset in one of the parties and at the same time a financial liability or capital instrument in the counterparty. The FAP statement of financial position is largely composed of financial instruments.

The positions that the FAP maintains in the most important financial instruments (investments in securities and bank deposits) are governed by provisions of the laws and decrees and the Investment Guidelines that govern the FAP and the agreements with the administrators abroad.

These financial instruments expose the FAP to various types of risks. The Settlor monitors the risks that affect or may affect the FAP, particularly regarding investments managed by the three investment banks that are in custody of the Northern Trust Company and the deposits placed in banks.

Until June 3, 2013, the Settlor was responsible for establishing and monitoring risk management policies for FAP financial instruments. Currently, such role corresponds to FAP's Board of Directors, with the support of the Technical Secretariat, as managing body acting on behalf of the Settlor in the investment of FAP resources, subject to the regulations released by the Settlor and the guidelines established in Law 38 of June 5, 2012, amended by Law 87 of December 4, 2012 and Executive Decree No.1068 of September 6, 2012, as modified from time to time; such role implies being fully in charge of applying the investment policy and the Annual Investment Plan that are based on the investment guidelines outlined by MEF. Likewise, the Board of Directors must ensure compliance with the Annual Investment Plan.

Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

The main risks identified by management of FAP are credit, liquidity, market, and operational risks. To manage and handle the financial instrument risks that affect its operations, FAP Trust has established financial risk management policies and parameters, as well as their periodic oversight.

(a) Credit Risk

Credit risk is the risk that the debtor, issuer or counterparty of a financial asset owned by the FAP does not comply, fully and on time, with any payment that must be made to the FAP in accordance with the terms and conditions agreed upon at the time the FAP acquired or originated the respective financial asset.

The FAP has established some procedures to manage credit risk, which are summarized below:

- *Formulation of Credit Policies:*

The Trustee manages the assets of the FAP in accordance with the terms and conditions established in the FAP Contract, Law 38 of June 5, 2012, amended by Law 87 of December 4, 2012 and Decree No. 1068 of 6 September 2012 and its subsequent modifications.

The investment criteria "Investment Guidelines" and performance, indicated in the Law and Decrees that govern the FAP and the agreements with the managers, will constitute the terms of reference of the investment management, and will form an integral part of the administration of the FAP assets.

- *Concentration and Exposure Limits:*

The FAP Board of Directors, with the support of its executive team, is responsible for setting these limits in FAP's policies and Annual Investment Plan (see note 4).

FAP resources may be invested according to the maximum limits established in the investment guidelines issued by the Settlor.

- *Investment Criteria:*

Article 7 of Law 38 of June 5, 2012 establishes that only up to 10% of its assets may be invested in debt securities issued by the Republic of Panama, through the secondary international or national capital market, of the which only 5% may be through the secondary national capital market (Treasury Notes).

Investments of FAP resources should only be made under conditions of optimal performance, liquidity and security, in terms of recovery. These investments must meet criteria of maintenance, performance, risk diversification, as well as any other criteria provided in the laws and decrees that govern the FAP.

FONDO DE AHORRO DE PANAMA

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

The following table analyzes the FAP's financial instruments that are exposed to the credit risk and their corresponding assessment:

| | <u>Investment in securities</u> | | <u>Demand and time deposits</u> | |
|-------------------------------|---------------------------------|----------------------|---------------------------------|-------------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Neither past due nor impaired | | | | |
| Grade 1-3: Low risk | <u>1,121,586,593</u> | <u>1,036,380,664</u> | <u>60,830,476</u> | <u>57,252,037</u> |

Within the investment portfolio, the Fund holds variable income instruments which are not exposed to credit risk in the amount of B/.214,953,408 (December 2018: B/.170,013,269).

As detailed in the previous table, the risk exposure factors and information on the FAP assets, and the assumptions used for these disclosures are as follows:

- Investments in securities:

The portfolio of investment securities at fair value through profit or loss is measured at fair value and is placed within the watch list because it has a risk of exposure which increases its credit risk. For these investments no impairment has been determined; therefore, no related reserve has been required.

- Demand deposits:

Interbank deposits are placed in banks with the highest short-term credit rating that can be granted by a risk rating agency; Due to its high credit risk rating and short placement terms, the establishment of credit risk reserves is not expected.

The concentration of credit risks by sector and geographic location at the reporting date is as follows:

| | <u>Investment in securities</u> | | <u>Demand and time deposits</u> | |
|-----------------------------------|---------------------------------|----------------------|---------------------------------|-------------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Concentration by Sector: | | | | |
| Sovereign Bonds | 275,546,544 | 288,219,522 | 0 | 0 |
| Supranational Bonds/Multilateral | 49,516,500 | 59,534,896 | 0 | 0 |
| Sovereign inflation-indexed bonds | 95,303,152 | 73,469,590 | 0 | 0 |
| Corporate Bonds | 513,165,032 | 410,767,734 | 0 | 0 |
| Mortgage Securities | 122,967,038 | 88,074,333 | 0 | 0 |
| Treasury Notes | 40,741,238 | 59,507,844 | 0 | 0 |
| Liquid assets | 24,347,089 | 56,806,745 | 0 | 0 |
| Financial institutions | <u>0</u> | <u>0</u> | <u>60,830,476</u> | <u>57,252,037</u> |
| | <u>1,121,586,593</u> | <u>1,036,380,664</u> | <u>60,830,476</u> | <u>57,252,037</u> |

The geographical concentration of investments and deposits in banks is based on the location of the issuer of the financial instrument (see note 16).

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

The table below shows, only in percentages, the distribution of the fixed-income investment portfolio at fair value through profit or loss classified based on the credit quality exposure determined by an international rating agency:

| <u>Rating</u> | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---|--------------------------|--------------------------|
| | <u>%</u> | <u>%</u> |
| Government bonds | <u>35%</u> | <u>43%</u> |
| AAA | 11% | 17% |
| AA+/AA- | 7% | 6% |
| A+ / A- | 10% | 13% |
| BBB+ and others | 7% | 7% |
| Mortgage backed securities | <u>10%</u> | <u>8%</u> |
| AAA | 10% | 8% |
| Corporate bonds | <u>51%</u> | <u>44%</u> |
| AAA | 1% | 1% |
| AA+/AA- | 3% | 2% |
| A+ / A- | 12% | 10% |
| BBB+ and others | 35% | 31% |
| Supranational bonds | <u>4%</u> | <u>5%</u> |
| AAA | 3% | 3% |
| AA- | 1% | 2% |
| A+/A- | 0% | 0% |
| Total investments (fixed income) | <u>100%</u> | <u>100%</u> |

(b) *Liquidity Risk*

Liquidity risk is defined as the inability of the FAP to meet all its obligations due, among others, to an unexpected withdrawal of funds by the Settlor under the conditions established in the laws for withdrawals from the FAP, the reduction in the value of investments, excessive concentration of liabilities in a particular source, mismatch between assets and liabilities, and lack of liquidity of assets. The FAP manages its liquid resources to honor its liabilities as they fall due under normal conditions.

Liquidity Risk Management:

To date, the FAP is exposed to daily requirements regarding its available funds, in order to comply with article 5 of Chapter III, FAP Withdrawals of Law 38 of June 5, 2012, as amended by Law 87 of December 4, 2012 and Law 48 of August 6, 2013, which defines how FAP resources can be used (see note 1).

Exposure to Liquidity Risk:

The key measure used by the Trustee to manage the liquidity risk of the FAP is the net liquid assets ratio. Net liquid assets are cash and cash equivalents and investments in securities for which there is an active and liquid market, less commitments maturing within the following month.

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

As of December 31, 2019, all (100%) of FAP's net assets are considered liquid. Deposits in investment managers (including fixed income and variable income instruments), demand deposits in local and foreign banks, investments in securities, accounts receivable from sale of investments pending settlement and accrued interest receivable.

As of December 31, 2019, the Fund has within its investment portfolio a total of B/.19,554,927 (December 31, 2018: B/.18,997,359) corresponding to certain assets in Securities Lending operations, carried out in accordance with the investment policies of the Fund (see note 10).

The table below shows the undiscounted cash flows of FAP's financial liabilities, based on their closest possible maturity. The expected flows of these instruments can vary significantly as a result of these analyzes:

| <u>December 31, 2019</u> | <u>Carrying Amount</u> | <u>Gross Nominal Amount Inflows/(Outflows)</u> | <u>Up to 1 Year</u> |
|---|------------------------|--|---------------------|
| Accounts payable for investments purchase | 60,518,588 | (60,518,588) | (60,518,588) |
| Accounts payable and other liabilities | <u>6,852,104</u> | <u>(6,852,104)</u> | <u>(6,852,104)</u> |
| Total liabilities | <u>67,370,692</u> | <u>(67,370,692)</u> | <u>(67,370,692)</u> |

| <u>December 31, 2018</u> | <u>Carrying Amount</u> | <u>Gross Nominal Amount Inflows/(Outflows)</u> | <u>Up to 1 Year</u> |
|---|------------------------|--|---------------------|
| Accounts payable for investments purchase | 72,427,360 | (72,427,360) | (72,427,360) |
| Accounts payable and other liabilities | <u>5,055,531</u> | <u>(5,055,531)</u> | <u>(5,055,531)</u> |
| Total liabilities | <u>77,482,891</u> | <u>(77,482,891)</u> | <u>(77,482,891)</u> |

(c) Market Risk

Market risk is the risk that the value of a financial asset will decrease due to changes in interest rates, stock prices, foreign currency exchange rates, and credit spreads (not related to changes in the credit status of the debtor / issuer), which would affect the accumulated surpluses of the FAP and / or the value of its portfolio of financial instruments. The objective of market risk management is to manage and control exposures to market risk within acceptable parameters, while optimizing the return on risk.

The risk management policies indicated in the Law and the Decrees that govern the FAP and the agreements with the investment managers, establish compliance with limits by financial instrument; limits regarding the maximum amount of loss from which the closing of the positions that caused said loss is required; and the requirement that, except for the approval or recommendation of the Board of Directors, substantially all the assets and liabilities are denominated in United States dollars or in balboas.

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

Each of the types of market risk to which the FAP is exposed is described in detail below:

- *Exchange rate risk:* it is the risk that the value of a financial instrument fluctuates because 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 come from financial instruments that are not monetary items, nor from instruments denominated in the functional currency.

To control this risk that arises from future transactions, on recognized financial assets and liabilities, the FAP uses forward contracts of foreign currencies negotiated by the investment managers abroad and they are responsible for managing the net position in each foreign currency. Monthly, FAP's financial information on the management of foreign currency forward contracts is presented, which is monitored by the FAP administration, the Trustor and the Trustee.

The FAP, through its investment managers abroad, makes investments in various currencies. The parameters for these transactions and limits by type of foreign currency, have been established in the agreements entered between the investment managers and the Settlor.

To hedge the positions that the FAP maintains in currencies other than the United States dollar, the investment managers periodically acquire forward contracts to purchase those currencies (hereinafter "foreign currency"). These contracts partially cover the risk of fluctuation in the exchange rates of their positions in foreign currencies with respect to the US dollar.

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Notes to the Financial Statements**(6) Financial Instruments Risk Management, continued**

The net foreign currency positions that the FAP maintained exposed (in excess) by using foreign currency forward contracts at year end are summarized below:

| | 2019 | | |
|--------------------|------------------------------|--------------------------|----------------------|
| | Equivalent in Balboas | | |
| | Foreign Currencies | Forward Contracts | Net Position |
| Euro | 17,115,289 | (318,392,688) | (301,277,399) |
| Japanese yen | 15,222,448 | (216,072,831) | (200,850,383) |
| Pound sterling | 9,791,391 | (89,499,864) | (79,708,473) |
| Canadian dollar | 5,957,533 | (55,930,927) | (49,973,394) |
| Australian dollar | 4,323,057 | (24,580,424) | (20,257,367) |
| New mexican peso | 155,303 | (16,350,636) | (16,195,333) |
| Indonesian rupiah | 398,829 | (6,397,081) | (5,998,252) |
| Korean won | (36,689) | (3,648,418) | (3,685,107) |
| Thai baht | 103,187 | (3,551,436) | (3,448,249) |
| Danish crown | 1,491,887 | (4,425,337) | (2,933,450) |
| New zealand dollar | 251,630 | (2,909,093) | (2,657,463) |
| Singapore dollar | 1,045,253 | (2,465,562) | (1,420,309) |
| Polish zloty | 49,681 | (1,141,352) | (1,091,671) |
| Swiss franc | 5,501,426 | (6,502,367) | (1,000,941) |
| Czech crown | (2,235) | (595,851) | (598,086) |
| Hungarian forint | (14,383) | (536,398) | (550,781) |
| Norwegian crown | 442,049 | (737,356) | (295,307) |
| Malaysian ringgit | 20,016 | (265,829) | (245,813) |
| Russian ruble | 6,685 | (214,729) | (208,044) |
| South african rand | 468 | 0 | 468 |
| Israeli shekel | 322,316 | (318,355) | 3,961 |
| Swedish crown | 1,978,944 | (1,936,911) | 42,033 |
| Hong kong dollar | 2,067,364 | 0 | 2,067,364 |
| | | | <u>(690,281,996)</u> |

FONDO DE AHORRO DE PANAMA
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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

| | <u>2018</u> | | |
|---------------------------|------------------------------|---------------------|----------------------|
| | <u>Equivalent in Balboas</u> | | |
| <u>Foreign Currencies</u> | <u>Forward Contracts</u> | <u>Net Position</u> | |
| Euro | 209,295,991 | (339,146,476) | (129,850,485) |
| Japanese yen | 142,971,246 | (218,365,084) | (75,393,838) |
| Pound sterling | 55,552,140 | (82,626,561) | (27,074,421) |
| Canadian dollar | 24,566,564 | (49,711,285) | (25,144,721) |
| New mexican peso | 4,550,702 | (11,268,882) | (6,718,180) |
| Australian dollar | 12,443,323 | (17,753,011) | (5,309,688) |
| Danish crown | 3,266,141 | (5,653,626) | (2,387,485) |
| Korean won | 3,019,225 | (3,479,660) | (460,435) |
| Polish zloty | 1,260,896 | (1,442,141) | (181,245) |
| New zealand dollar | 1,950,776 | (2,131,359) | (180,583) |
| The norwegian crown | 742,334 | (766,275) | (23,941) |
| Malaysian ringgit | 265,010 | (266,247) | (1,237) |
| Thai Baht | 826,410 | (809,054) | 17,356 |
| Swiss franc | 6,063,182 | (6,025,108) | 38,074 |
| Singapore dollar | 2,023,225 | (1,948,465) | 74,760 |
| Israeli shekel | 566,389 | (306,461) | 259,928 |
| Indonesian rupiah | 2,367,718 | (1,792,954) | 574,764 |
| Swedish crown | 3,084,329 | (2,191,822) | 892,507 |
| Hong kong dollar | 1,819,364 | 0 | 1,819,364 |
| | | | <u>(269,049,506)</u> |

Investment managers had acquired forward contracts, which are summarized by type of foreign currency and position (see notes 12 and 13), as follows:

| | <u>2019</u> | | |
|--|---|---|------------------------------|
| <u>Foreign currency forward contracts (assets)</u> | <u>Notional Value in Foreign Currency</u> | <u>Notional Value Equivalent in Balboas</u> | <u>Fair Value in Balboas</u> |
| Pound sterling | 17,152,299 | 17,008,865 | 143,434 |
| Euro | 69,243,995 | 69,116,355 | 127,640 |
| Australian dollar | 7,160,268 | 7,037,501 | 122,767 |
| Canadian dollar | 11,281,777 | 11,190,230 | 91,547 |
| Japanese yen | 44,451,512 | 44,367,151 | 84,361 |
| New zealand dollar | 1,145,893 | 1,129,431 | 16,462 |
| Korean won | 519,627 | 505,354 | 14,273 |
| Indonesian rupiah | 750,352 | 737,360 | 12,992 |
| New mexican peso | 4,511,874 | 4,502,494 | 9,380 |
| Danish crown | 1,066,899 | 1,065,241 | 1,658 |
| Singapore dollar | 528,037 | 526,610 | 1,427 |
| Czech crown | 200,527 | 199,755 | 772 |
| Polish zloty | 340,617 | 340,050 | 567 |
| Norwegian crown | 196,879 | 196,798 | 81 |
| Total | | | <u>627,361</u> |

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

| <u>Foreign currency forward contracts (liabilities)</u> | <u>Notional Value in Foreign Currency</u> | <u>2019 Notional Value Equivalent in Balboas</u> | <u>Fair Value in Balboas</u> |
|---|---|--|------------------------------|
| Euro | (252,030,887) | (249,276,333) | (2,754,554) |
| Pound sterling | (73,730,282) | (72,490,999) | (1,239,283) |
| Canadian dollar | (45,509,922) | (44,740,698) | (769,224) |
| Australian dollar | (17,895,639) | (17,542,923) | (352,716) |
| Japanese yen | (65,736,989) | (171,705,680) | (311,149) |
| New mexican peso | (12,001,252) | (11,848,142) | (153,110) |
| Korean won | (3,243,671) | (3,143,065) | (100,606) |
| Indonesian rupiah | (5,759,931) | (5,659,721) | (100,210) |
| Swiss franc | (6,558,988) | (6,502,367) | (58,080) |
| Thai baht | (3,597,560) | (3,551,437) | (46,123) |
| New zealand dollar | (1,822,963) | (1,779,662) | (43,301) |
| Danish crown | (3,391,098) | (3,360,096) | (31,002) |
| Singapore dollar | (1,957,531) | (1,938,951) | (18,580) |
| Polish zloty | (815,569) | (801,302) | (14,266) |
| Norwegian crown | (554,171) | (540,558) | (13,613) |
| Swedish crown | (1,944,384) | (1,936,911) | (9,260) |
| Israeli shekel | (325,002) | (318,355) | (6,647) |
| Czech crown | (401,066) | (396,096) | (4,970) |
| Russian ruble | (218,388) | (214,728) | (3,660) |
| Malaysian ringgit | (269,243) | (265,829) | (3,414) |
| Hungarian forint | (538,283) | (536,398) | (1,885) |
| Total | | | <u>(6,035,651)</u> |

| <u>Foreign currency forward contracts (assets)</u> | <u>Notional Value in Foreign Currency</u> | <u>2018 Notional Value Equivalent in Balboas</u> | <u>Fair Value in Balboas</u> |
|--|---|--|------------------------------|
| Japanese yen | 4,872,081,550 | 44,413,562 | 302,218 |
| Canadian dollar | 49,519,912 | 36,279,435 | 787,550 |
| Euro | 85,018,447 | 97,480,757 | 248,666 |
| Pound sterling | 47,791,199 | 60,899,130 | 207,479 |
| Australian dollar | 18,598,333 | 13,101,030 | 147,677 |
| Danish crown | 27,245,263 | 4,182,774 | 5,846 |
| New zealand dollar | 2,914,755 | 1,957,010 | 5,119 |
| Israeli shekel | 1,144,639 | 306,461 | 4,391 |
| Swedish crown | 2,440,000 | 275,256 | 3,325 |
| Norwegian crown | 5,190,000 | 599,694 | 2,444 |
| Singapore dollar | 470,000 | 344,842 | 1,102 |
| Swiss franc | 1,983,000 | 2,011,985 | 1,028 |
| New mexican peso | 62,440,000 | 3,169,598 | 49 |
| Indonesian rupiah | 7,551,499,280 | 519,708 | 10 |
| Total | | | <u>1,716,904</u> |

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

| <u>Foreign currency forward contracts (liabilities)</u> | Notional Value in Foreign Currency | <u>2018</u> Notional Value Equivalent in Balboas | Fair Value in Balboas |
|--|---|---|------------------------------|
| Japanese yen | (19,051,889,937) | (173,951,522) | (3,199,976) |
| Euro | (210,993,806) | (241,665,719) | (297,352) |
| New mexican peso | (160,111,592) | (8,099,285) | (161,697) |
| Pound sterling | (16,989,104) | (21,727,431) | (149,138) |
| Canadian dollar | (18,342,900) | (13,431,850) | (92,063) |
| Indonesian rupiah | (18,405,114,112) | (1,273,246) | (84,592) |
| Australian dollar | (6,606,824) | (4,651,981) | (73,949) |
| Swedish crown | (16,930,091) | (1,916,566) | (32,389) |
| Korean won | (3,870,450,000) | (3,479,660) | (12,742) |
| Singapore dollar | (2,185,029) | (1,603,623) | (12,078) |
| Swiss franc | (3,950,000) | (4,013,123) | (11,898) |
| Malaysian ringgit | (1,100,000) | (266,247) | (3,762) |
| Thai baht | (26,288,305) | (809,053) | (3,405) |
| Polish zloty | (5,413,769) | (1,442,141) | (2,915) |
| Danish crown | (9,600,000) | (1,470,853) | (2,391) |
| Norwegian crown | (1,437,049) | (166,581) | (2,073) |
| New zealand dollar | (260,000) | (174,349) | (154) |
| Total | | | <u>(4,142,574)</u> |

The average maturity of these contracts is 3 months.

The effect from changes in fair value of these foreign currency forward contracts are recognized in profit or loss.

Market price risk:

Administrators plan their investment strategies based on the investment policies of the Fund, the conditions of the financial markets, and the risk budget.

During the process of preparing the Investment Plan, the Board of Directors has defined a level of risk tolerance for the average annual loss of 5% with long-term investment horizon.

The calculation of value-at-risk ("VaR") of the FAP is performed using the Monte Carlo method. This methodology involves the simulation of the random components involved in the evaluation of the prices of investments securities within a defined period of time and at a rate of 95% confidence.

Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

Market Risk Management:

The table below presents a summary of the VaR calculation for the Fund's portfolio as of the reporting date:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------|-------------|-------------|
| VaR of the Fund's portfolio | 71,239,762 | 62,306,222 |
| Year average | 69,446,250 | 57,692,340 |
| Maximum of the year | 72,800,720 | 62,306,222 |
| Minimum of the year | 66,715,011 | 43,864,593 |

- *Interest rate risk*

Fair value interest rate risk is the risk that future cash flows and the value of a financial instrument will fluctuate due to changes in market interest rates.

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

| <u>December 31, 2019</u> | <u>Up to 1 year</u> | <u>From 1 to 3 years</u> | <u>More than 3 years</u> | <u>Without maturity</u> | <u>Total</u> |
|---|-------------------------|------------------------------|------------------------------|-----------------------------|----------------------|
| Assets: | | | | | |
| Securities at fair value through profit or loss | <u>357,019,424</u> | <u>203,447,212</u> | <u>559,725,869</u> | <u>216,347,496</u> | <u>1,336,540,001</u> |
| Total | <u>357,019,424</u> | <u>203,447,212</u> | <u>559,725,869</u> | <u>216,347,496</u> | <u>1,336,540,001</u> |
| | | | | | |
| <u>December 31, 2018</u> | <u>Up to 1 year</u> | <u>From 1 to 3 years</u> | <u>More than 3 years</u> | <u>Without maturity</u> | <u>Total</u> |
| Assets: | | | | | |
| Securities at fair value through profit or loss | <u>291,842,502</u> | <u>173,829,598</u> | <u>573,341,903</u> | <u>167,379,930</u> | <u>1,206,393,933</u> |
| Total | <u>291,842,502</u> | <u>173,829,598</u> | <u>573,341,903</u> | <u>167,379,930</u> | <u>1,206,393,933</u> |

To mitigate the interest rate risk of fair value, FAP's management has established a range of limits for monitoring the sensitivity of financial assets.

In general, the measurement of interest rate risk for negotiable positions is managed by the investment managers, under the criteria established in each contract and in the Fund's Investment Policy. As of December 31, 2019, investments in securities are measured at fair value through profit or loss, under specific guidelines for the management of interest rate risk by each investment manager.

- *Price risk:* it is the risk that the value of a financial instrument fluctuates as a consequence of changes in market prices, regardless of whether they are caused by specific factors related to the particular instrument or its issuer, or by factors that affect all the securities traded in the market.

Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

(d) Operational Risk

Operational risk is the risk of potential losses, direct or indirect, related to the processes of the Trustee, the administration, the investment managers and the custodians, their personnel, technology and infrastructure, and external factors that are not related to credit, market and liquidity risks, such as those arising from legal and regulatory requirements and the behavior of generally accepted corporate standards. The objective of the Trustee, the investment managers and the custodians are to manage operational risk, seeking to avoid financial losses and damage to the reputation of the FAP, in compliance with the laws, regulations and agreements and contracts signed.

The primary responsibility for the development and implementation of controls over operational risk are assigned to the senior management of the Trustee, the investment managers and the custodians. This responsibility is supported by the development of standards in the Trustee to manage operational risk, in the following areas:

- Adequate segregation of duties, including independent authorization of transactions
- Requirements on adequate monitoring and reconciliation of transactions
- Compliance with legal and regulatory requirements
- Documentation of controls and processes
- Periodic assessments of the implementation of operational risk, and adequate controls and procedures on identified risks
- Reporting of operating losses
- Development of contingency plans
- Development of staff training
- Application of ethical standards within the Trustee
- Development of activities to mitigate risk, including safety policies.

(e) Capital Management

Law 38 of June 5, 2012 in its article 3 "Accumulation Rule", modified by Law 48 of August 6, 2013, establishes the constitution of the capital of the FAP. The capital management criteria that govern the FAP will be subject to change by the FAP Board of Directors. As of the date of this report, no changes have been made to those criteria.

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

The Fund makes estimates and assumptions that affect the reported amounts of assets within the following year. Estimates and assumptions are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances. The current economic environment has increased the inherent degree of uncertainty in these estimates and assumptions.

(a) Fair value

For the values at fair value through profit or loss, the fair value is determined by the reference price of the instrument published in stock exchanges and in electronic stock information systems. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data.

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Notes to the Financial Statements

(8) Cash Equivalents

The cash equivalents are detailed below for purposes of reconciliation with the statement of cash flows:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Demand deposits in investment managers | 59,646,358 | 55,745,062 |
| Demand deposit – Banco Nacional de Panama | <u>1,184,118</u> | <u>1,506,975</u> |
| Total cash and cash equivalents in the statement of cash flows | <u>60,830,476</u> | <u>57,252,037</u> |

(9) Balances and Transactions with Related Parties

The statement of financial position and the statement of comprehensive income include balances and transactions with related parties, as detailed below:

| | <u>2019</u> | <u>2018</u> |
|--|------------------|-------------------|
| Balances: | | |
| Demand deposit – Banco Nacional de Panama | <u>1,184,118</u> | <u>1,506,975</u> |
| Transactions: | | |
| Fee expenses, Banco Nacional de Panama | <u>180,000</u> | <u>180,000</u> |
| Fees, Technical Secretary and Board of Directors | <u>765,523</u> | <u>552,161</u> |
| Accumulated surplus distribution | <u>0</u> | <u>31,462,796</u> |

(10) Investment in Securities

Securities at Fair Value through Profit or Loss

The investment portfolio in securities at fair value through profit or loss is detailed below:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|----------------------|----------------------|
| Sovereign bonds | 275,546,544 | 288,219,522 |
| Supranational / Multilateral Bonds | 49,516,500 | 59,534,896 |
| Inflation-Indexed Sovereign Bonds | 95,303,152 | 73,469,590 |
| Corporate Bonds | 513,165,032 | 410,767,734 |
| Mortgage Securities | 122,967,038 | 88,074,333 |
| Treasury Notes | 40,741,238 | 59,507,844 |
| Liquid assets | 24,347,089 | 56,806,745 |
| Capital Shares | <u>214,953,408</u> | <u>170,013,269</u> |
| | <u>1,336,540,001</u> | <u>1,206,393,933</u> |

Accrued interest receivable from the investment portfolio abroad amounts to B/.5,564,909 (December 31, 2018: B/.4,947,979) (see note 18).

The fair value through profit or loss portfolio includes securities with various maturities, in compliance with the investment portfolio management agreements signed with the investment managers, and in accordance with the Investment Guidelines and Investment Policies of the FAP.

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(10) Investment in Securities, continued

During the period ended December 31, 2019, the FAP obtained a net realized profit of B/.23,174,136 (December 31, 2018: net realized profit of B/.28,672,733) from the sale of investments at fair value through profit or loss. In addition, during that period, the FAP obtained an unrealized net profit of B/.68,193,668 (December 31, 2018: unrealized net loss: B/.56,122,068) in relation to the investment portfolio at fair value through profit or loss, which originates from the periodic revaluation of these financial instruments.

Unrealized losses are mainly due to fixed income and/or variable income assets in the investment portfolio that have undergone changes in their valuation after their initial purchase, which have not been settled at the end of the period. These securities are not considered to have deteriorated due to a credit rating below the range established in the Investment Guidelines (investment grade rating). The investment managers, under their current management agreements, may make purchase/sale decisions, including investments classified as fair value through profit or loss, in accordance with the Investment Guidelines, the Policy and the Annual Investment Plan approved by the FAP Board of Directors.

As of December 31, 2019, the FAP received dividends on investments in equity shares for B/.4,558,350 (December 31, 2018: B/.5,334,711). No impairment was determined in that investment portfolio.

As of December 31, 2019, the Fund has within its investment portfolio a total of B/.19,554,927 (December 31, 2018: B/.18,997,359) corresponding to certain assets in Securities Lending operations, carried out in accordance with the investment policies of the Fund. An operation of Securities Lending consists in granting the custodian of the investments the faculty to lend short-term specific instruments in exchange for a fee. These operations are guaranteed by other fixed income securities, owned by the borrower, for an amount of B/.20,447,230 (December 31, 2018: B/.19,516,199). Because it is a smaller amount, these investments are not presented in a separate line of the statement of financial position.

The investment portfolio at fair value through profit or loss, by investment manager, is detailed below:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Goldman Sachs Asset Management L. P. | 591,295,266 | 512,002,197 |
| Morgan Stanley Investment Management Inc. | 460,872,032 | 434,844,523 |
| BlackRock Financial Management Inc. | <u>284,372,703</u> | <u>259,547,213</u> |
| | <u>1,336,540,001</u> | <u>1,206,393,933</u> |

The FAP invests primarily in government, corporate, and equity stocks. Fixed income securities are classified as investment grade by internationally recognized risk rating agencies. The investment managers evaluate the eligible securities in the respective referential buyers according to the metrics established in the Fund's Investment Guidelines and Policies, in addition to the issuer's own condition and financial performance. Most of these investments are considerably liquid and have an active market.

The fair value used to value the negotiable securities was obtained from various sources of stock market information.

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Notes to the Financial Statements**(10) Investment in Securities, continued**

The net position of total assets and liabilities managed abroad, including securities at fair value through profit or loss, by investment manager is detailed below:

| <u>Investment Manager</u> | <u>Net Assets Managed</u> | |
|---|---------------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| Goldman Sachs Asset Management L. P. | 594,130,438 | 518,647,396 |
| Morgan Stanley Investment Management Inc. | 506,116,926 | 487,113,212 |
| BlackRock Financial Management Inc. | <u>292,386,401</u> | <u>268,502,109</u> |
| | <u>1,392,633,765</u> | <u>1,274,262,717</u> |

The net position of assets and liabilities managed abroad, by type of financial instrument, is detailed below:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Demand deposits in investment managers | 59,646,358 | 55,745,062 |
| Investments in securities at fair value through profit or loss | 1,336,540,001 | 1,206,393,933 |
| Accounts receivable for sale of investments | 56,714,061 | 81,954,539 |
| Accrued interest receivable | 5,660,223 | 5,022,213 |
| Other assets - derivative instruments | 627,361 | 1,716,904 |
| Accounts payable for investments purchase | (60,518,588) | (72,427,360) |
| Other liabilities - derivative instruments | <u>(6,035,651)</u> | <u>(4,142,574)</u> |
| Net position of assets and liabilities managed abroad | <u>1,392,633,765</u> | <u>1,274,262,717</u> |

(11) Accounts Receivable and Payable for Sale/Purchase of Investments

The FAP, through its investment managers, maintains the following accounts receivable and payable for the sale and purchase of investments to third parties:

| | <u>Accounts Receivable</u> | <u>Accounts Payable</u> | <u>Accounts Receivable</u> | <u>Accounts Payable</u> |
|---|----------------------------|-------------------------|----------------------------|-------------------------|
| Goldman Sachs Asset Management L.P. | 41,163,726 | (51,496,306) | 43,961,547 | (38,879,801) |
| Morgan Stanley Investment Management Inc. | 408,290 | (339,707) | 654,987 | (262,845) |
| BlackRock Financial Management Inc. | <u>15,142,045</u> | <u>(8,682,575)</u> | <u>37,338,005</u> | <u>(33,284,714)</u> |
| | <u>56,714,061</u> | <u>(60,518,588)</u> | <u>81,954,539</u> | <u>(72,427,360)</u> |

The FAP is exposed to the risk of loss (due to credit, liquidity or operational risk) due to the eventual inability of the counterparty to pay for the purchase or redemption of investments in securities, and of the seller to deliver the financial instruments sold, in which case the FAP will have to buy or sell new financial instruments at prevailing market rates or prices. The credit risk is reduced by using duly organized and regulated stock exchanges or clearing houses and by the adequate credit situation of the custodian and the issuers.

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(12) Accumulated Interest Receivable and Other Assets

Accrued interest receivable and other assets are detailed below:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|------------------|------------------|
| Interest on investments abroad | 5,660,223 | 5,022,213 |
| Derivative instruments (see note 6) | 627,361 | 1,716,904 |
| Other assets | <u>71,036</u> | <u>47,516</u> |
| | <u>6,358,620</u> | <u>6,786,633</u> |

(13) Accounts Payable and Other Liabilities

Accounts payable and other liabilities are detailed below:

| | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|
| Investment managers, custodian and others | 816,453 | 912,957 |
| Derivative instruments (see note 6) | <u>6,035,651</u> | <u>4,142,574</u> |
| | <u>6,852,104</u> | <u>5,055,531</u> |

The FAP recognizes a liability corresponding to the expenses of commissions (service fees) of the investment managers and the custodians of those investments. These commissions are calculated based on the total assets and in custody, respectively, and are payable approximately on a quarterly basis.

(14) Equity

The FAP's fiduciary equity is constituted with all the assets and liabilities of the TFD, as established by Law 38 of June 5, 2012, which represented as of December 31, 2012, a total equity of B/.1,243,384,696.

In accordance with article 13 of Executive Decree No. 1068 of September 6, 2012, it is the fundamental objective of the FAP Board of Directors to preserve its founding Capital. Consequently, as of December 31, 2017, the account name was revised from "Contributed Capital" to "Founding Capital"; this last name is defined in article 13 of Executive Decree No. 1068. The founding capital is expressed through the fiduciary equity, which is representative of total assets less total liabilities and, therefore, is the liquidation value of the Fund in the financial and capital markets.

The founding capital of the Fund is determined as follows:

| | |
|---|-------------------------|
| Fund Assets as of December 31, 2012 | B/.1,243,384,696 |
| Less: TFD earnings for the fourth quarter of 2012 | <u>(9,775,921)</u> |
| Founding capital of the FAP | <u>B/.1,233,608,775</u> |

Through Agreement No. 18 of December 14, 2017, the FAP's Board of Directors, upon request of the MEF, approved in a regular meeting the founding capital of the Fund, for the sum of B/.1,233,608,775.

During the period ended December 31, 2019, the FAP did not receive contributions from the State, under any of the accumulation rules established in Law 38 of June 5, 2012 (see note 1).

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(15) Accumulated Surplus of Income over Expenses

During the period ended December 31, 2019, the FAP did not make distributions of the accumulated surplus of income over expenses. As of December 31, 2018, the FAP made distributions of the accumulated surplus of income over expenses in the amount of B/.31,462,795; these distributions were made at the request of the MEF, based on Article 4 of Executive Decree No. 1068 of September 6, 2012).

In December 2017, the Board of Directors decided to assign the surplus from previous years to the founding capital in the amount of B/.67,706,731.

(16) Geographic Concentration of the Most Important Assets and Liabilities

The geographical distribution of the most important assets and liabilities is summarized below:

| | <u>2019</u> | | <u>2018</u> | |
|---------|----------------------------|--------------------------|----------------------------|--------------------------|
| | <u>Investment managers</u> | <u>Deposits in Banks</u> | <u>Investment managers</u> | <u>Deposits in Banks</u> |
| America | 1,212,647,197 | 0 | 1,086,231,779 | 0 |
| Panama | 0 | 1,184,118 | 0 | 1,506,975 |
| Europe | 119,587,422 | 0 | 109,121,786 | 0 |
| Asia | 23,202,779 | 0 | 52,415,508 | 0 |
| Africa | 468 | 0 | 455 | 0 |
| Oceania | 37,195,899 | 0 | 26,493,189 | 0 |
| | <u>1,392,633,765</u> | <u>1,184,118</u> | <u>1,274,262,717</u> | <u>1,506,975</u> |

The previous net balance is composed of the following accounts:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Demand deposits in investment managers | 59,646,358 | 55,745,062 |
| Demand deposits at local banks | 1,184,118 | 1,506,975 |
| Securities at fair value through profit or loss | 1,336,540,001 | 1,206,393,933 |
| Accounts receivable for sale of investments | 56,714,061 | 81,954,539 |
| Accrued interest receivable | 5,660,223 | 5,022,213 |
| Accounts payable for investments purchase | (60,518,588) | (72,427,360) |
| Other assets - derivative instruments | 627,361 | 1,716,904 |
| Other liabilities - derivative instruments | <u>(6,035,651)</u> | <u>(4,142,574)</u> |
| | <u>1,393,817,883</u> | <u>1,275,769,692</u> |

(17) Income Tax

The income tax returns of companies incorporated in the Republic of Panama are subject to review by the tax authorities for the last three years, in accordance with tax regulations in force in Panama.

In accordance with the tax legislation in force in the Republic of Panama, income from foreign sources, interest earned on term deposits in local banks, interest earned on securities of the Panamanian State and investments or securities registered with the Superintendence of the Stock Market and listed on the Panama Stock Exchange are exempt from income tax payment.

FAP's income is entirely from foreign sources and from bank interest, which does not generate net taxable income.

Notes to the Financial Statements

(18) Fair Value of Financial Instruments

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

For financial instruments that are not frequently traded and that have little availability of price information, the fair value is less objective, and its determination requires the use of different degrees of judgment that depend on liquidity, concentration, uncertainty factors of the market, the assumptions in the determination of prices, and other risks that affect the specific instrument.

The FAP classifies fair value using the following hierarchy levels that reflect the importance of the input data used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund's management can access on the measurement date.
- Level 2: input data other than quoted prices included in Level 1, which are observable, either directly (i.e. prices) or indirectly (i.e. determined based on prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in non-active markets, or other valuation techniques where significant input data is directly or indirectly observable in a market.
- Level 3: This category covers all instruments in which valuation techniques include unobservable input data, which have a significant effect on the valuation of the instrument. This category includes instruments that are valued, based on quoted prices for similar instruments where non-observable assumptions or significant adjustments reflect the difference between the instruments.

Other valuation techniques include the net present value, discounted cash flow models, comparisons with similar instruments for which there are observable market prices, and other valuation models. The assumptions and input data used in the valuation techniques include risk-free benchmarks, credit spreads, and other assumptions used in estimating discount rates and bond and stock prices.

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(18) Fair Value of Financial Instruments, continued

The fair value of financial instruments measured at their fair book value, according to the level of hierarchy of fair value measurement, is detailed below:

| <u>Description</u> | <u>Fair Value</u> | <u>2019</u> | | |
|---|----------------------|--------------------|----------------------|------------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Securities at fair value through profit and loss: | | | | |
| Sovereign bonds | 276,713,945 | 1,131,086 | 275,351,076 | 231,783 |
| Supranational / Multilateral Bonds | 49,763,923 | 0 | 49,378,158 | 385,765 |
| Inflation-Indexed Sovereign Bonds | 95,460,205 | 32,634,102 | 62,826,103 | 0 |
| Corporate Bonds | 516,308,175 | 0 | 516,098,266 | 209,909 |
| Mortgage Securities | 123,326,844 | 0 | 120,801,702 | 2,525,142 |
| Treasury Notes | 40,948,972 | 38,391,168 | 2,557,804 | 0 |
| Liquid assets | 24,375,567 | 0 | 24,375,567 | 0 |
| Capital shares | 215,207,279 | 214,693,199 | 513,644 | 436 |
| Other assets: | | | | |
| Derivative instruments | 627,361 | 0 | 627,361 | 0 |
| Other liabilities: | | | | |
| Derivative instruments | <u>(6,035,651)</u> | <u>0</u> | <u>(6,035,651)</u> | <u>0</u> |
| | <u>1,336,696,620</u> | <u>286,849,555</u> | <u>1,046,494,030</u> | <u>3,353,035</u> |
| | | | | |
| <u>Description</u> | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Securities at fair value through profit and loss: | | | | |
| Sovereign bonds | 289,395,246 | 463,966 | 288,931,280 | 0 |
| Supranational / Multilateral Bonds | 59,877,347 | 0 | 59,877,347 | 0 |
| Inflation-Indexed Sovereign Bonds | 73,594,720 | 24,694,552 | 48,900,168 | 0 |
| Corporate Bonds | 413,158,079 | 0 | 413,158,079 | 0 |
| Mortgage Securities | 88,379,314 | 0 | 84,518,795 | 3,860,519 |
| Treasury Notes | 59,871,833 | 59,871,833 | 0 | 0 |
| Liquid assets | 56,833,080 | 48,395,656 | 8,437,424 | 0 |
| Capital shares | 170,232,293 | 169,916,851 | 315,022 | 420 |
| Other assets: | | | | |
| Derivative instruments | 1,716,904 | 0 | 1,716,904 | 0 |
| Other liabilities: | | | | |
| Derivative instruments | <u>(4,142,574)</u> | <u>0</u> | <u>(4,142,574)</u> | <u>0</u> |
| | <u>1,208,916,242</u> | <u>303,342,858</u> | <u>901,712,445</u> | <u>3,860,939</u> |

For investments in securities that are quoted in active markets, the fair value is determined by the reference price of the instrument published in the stock exchange, published in electronic stock information systems, or supplied by price providers. When independent prices are not available, fair values are determined using valuation techniques with reference to observable market data.

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(18) Fair Value of Financial Instruments, continued

The table below describes the valuation techniques and input data used in recurring fair value measurements classified within Level 2:

| Financial Instruments | Valuation Techniques and Input Data Used |
|---|--|
| Securities at fair value through profit or loss | They are based on average prices quoted in active markets for identical or similar instruments. |
| Derivative instruments – foreign currency forward contracts | The discounted future cash flow method is used. The fair value of derivative instruments is determined considering a curve in US dollars (US \$) based on instruments at the 3-month Libor rate, a foreign curve according to the corresponding currency, based on liquid market instruments, and a discount at present value using the Libor USD curve. |

No recurring measurements of financial or non-financial instruments have been required.

(19) FAP Profitability

In general, FAP returns are comprised of interest, dividends and realized and unrealized gains or losses on investments in securities during the period, which are produced by time deposits and investments in securities for the year ended the December 31, 2019.

Starting in 2017, in accordance with the provisions of the Investment Policies and Standards, the gross profitability of the FAP was determined according to the Time-Weighted Rate of Return (TWRR) methodology. TWRR is a measure of profitability that is obtained by calculating the geometric mean of daily returns without considering contributions and withdrawals (cash flows).

Previously, gross profitability is determined by dividing the income recognized as interest, dividends and realized and unrealized gains or losses recognized during the same period, by the average amount of monthly balances of financial assets (term deposits in banks and investments in securities).

The gross profitability of the FAP, for the year ended December 31, 2019 and 2018, is as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|--------------|---------------|
| FAP Gross Return (TWRR method) | <u>9.57%</u> | <u>-0.03%</u> |

In the calculation of gross profitability, the operating expenses of the FAP are not considered.

(20) Contingencies

Based on the best knowledge of management, the Fund does not have any litigation against it that could adversely affect its business, financial performance or financial situation.

The administration of the Fund has evaluated the impact of the application of IFRS 16 on its financial statements. Due to the nature of the financial operations that the Fund maintains, management concluded that the adoption of this standard did not cause changes in the financial statements, since the Fund only maintains a lease, which is short term.

Notes to the Financial Statements

(21) Subsequent Events

In December 2019, in the town of Wuhan in China, the appearance of a new strain of coronavirus (COVID-19) was reported, which spread as a pandemic among the world population during the first quarter of 2020. Cases have already been reported of Covid-19 in Panama and in March 2020 they have ordered the closure of most economic activities nationwide.

- State of Emergency Decreed in Panama

As a result of this situation, on March 13, 2020, the Cabinet Council of the Republic of Panama issued Cabinet Resolution No. 11, declaring a State of Emergency in the Republic of Panama and authorizing, among other things, request the temporary suspension of the financial limits that Law 34 of 2008 treats, as amended by Law 102 of 2019, if required.

In accordance with Law 38 of June 5, 2012, which creates the Fund in article 5, modified by Law 48 of August 6, 2013, establishes that FAP withdrawals may only be associated, among other situations, to "cover the costs associated with a state of emergency declared by the Cabinet Council that exceed 0.5% of GDP".

As of the date of issuance of this financial statement, the Fund has not been informed of the amount of the estimated withdrawal that the State would make.

- Law on emergency measures

On April 2, 2020, Law 139 "which adopts a General Law on emergency measures to face the health crisis caused by the COVID-19 pandemic," was published in Official Gazette No. 28994-B, in which it provides, among other measures, so that the Executive Branch can take the appropriate measures to face the pandemic and, with the prior approval of the National Assembly, the authorization of the use of FAP assets, in accordance with the provisions of the Law 87 of December 4, 2012, which modifies Law 38 of June 5, 2012, in a measured and controlled manner, as an urgent measure to mitigate the health emergency caused by the pandemic. It is established that the FAP resources that are used must be returned by the National Government, considering its budgetary and financial programming. For this, it will present, in a peremptory period, the due programming of said reimbursement to be made within a maximum period of five years.

In said Law, the National Government is authorized to request that the assets of the FAP grant it credit facilities in favor of the Banco Nacional de Panama, temporarily, to attend to the health emergency and it is established that the Ministry of Economy and Finance undertakes to present a repayment program, in a reasonable time, of those funds that were used.

- Cumulative results 2020

As of March 30, 2020, the FAP records a negative cumulative gross result (before costs) of 2.75%, mainly due to the negative market valuation presented by the Variable Income Portfolio as a result of the behavior of the benchmark comparator MSCI All-World Country Index and the short-term volatility experienced by financial markets in general, caused in part by the COVID-19 pandemic declared by the World Health Organization for Coronavirus.

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Notes to the Financial Statements

(21) Subsequent Events, continued

It is necessary for the Board of Directors and the FAP executive team to emphasize the investment horizon of the FAP portfolio, which is long-term, and is defined as lasting five (5) years. It is also recognized that in the short term, portfolio movements - mainly due to unrealized gains / losses - can be significant. Considering this, it must be considered that the FAP portfolio incorporates a conservative and significant allocation towards short-term and cash instruments that allows them to preserve its value during periods of stress in the financial markets or of high volatility such as those we are currently observing.

Finally, the strategic allocation of the FAP assets, prepared by the executive and technical team, and approved by the FAP Board of Directors, is made in strict adherence to its regulations, the Investment Guidelines issued by the Trustor and its Investment Policies and Standards.

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Schedule for Determining the Statement of Financial Position

December 31, 2019

(Stated in Balboas)

| Assets | Trust Contract * | Technical Secretariat | Sub Total | Eliminations | Total |
|---|-----------------------------|----------------------------------|----------------------|---------------------|----------------------|
| Demand deposits in investment managers | 59,646,358 | 0 | 59,646,358 | 0 | 59,646,358 |
| Demand deposits in local banks | 521,106 | 663,012 | 1,184,118 | 0 | 1,184,118 |
| Investment securities at fair value through profit and loss | 1,336,540,001 | 0 | 1,336,540,001 | 0 | 1,336,540,001 |
| Accounts receivable from the sale of investments | 56,714,061 | 0 | 56,714,061 | 0 | 56,714,061 |
| Accrued interest receivable and other assets | 6,430,951 | 912,429 | 7,343,380 | (984,760) | 6,358,620 |
| Total assets | 1,459,852,477 | 1,575,441 | 1,461,427,918 | (984,760) | 1,460,443,158 |
| Liabilities | | | | | |
| Accounts payable from the purchase of investments | 60,518,588 | 0 | 60,518,588 | 0 | 60,518,588 |
| Accounts payable, technical secretariat | 841,393 | 0 | 841,393 | (841,393) | 0 |
| Other liabilities | 6,035,651 | 959,820 | 6,995,471 | (143,367) | 6,852,104 |
| Total liabilities | 67,395,632 | 959,820 | 68,355,452 | (984,760) | 67,370,692 |
| Trustee Equity | | | | | |
| Founding capital | 1,233,608,775 | 0 | 1,233,608,775 | 0 | 1,233,608,775 |
| Accumulated surplus of income over expenses | 158,848,070 | 615,621 | 159,463,691 | 0 | 159,463,691 |
| Total Trustee equity | 1,392,456,845 | 615,621 | 1,393,072,466 | 0 | 1,393,072,466 |
| Total liabilities and Trustee equity | 1,459,852,477 | 1,575,441 | 1,461,427,918 | (984,760) | 1,460,443,158 |

See the accompanying independent auditors' report.

* The irrevocable Trust Agreement of the Fondo de Ahorro de Panama No. 0001 was signed between the Ministry of Economy and Finance, as Trustor and the Banco Nacional de Panama in its capacity as Trustee, under Law 1 of January 5, 1984 by which the trust in Panama is regulated.

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Schedule for Determining the Statement of Comprehensive Income

For the year ended December 31, 2019

(Stated in Balboas)

| | <u>Trust Contract*</u> | <u>Technical Secretariat</u> | <u>Sub Total</u> | <u>Eliminations</u> | <u>Total</u> |
|--|----------------------------|----------------------------------|--------------------|---------------------|--------------------|
| Net gain on securities at fair value: | | | | | |
| Interest on investments in securities | 25,989,903 | 0 | 25,989,903 | 0 | 25,989,903 |
| Budget recognition for the Technical Secretariat | 0 | 3,464,943 | 3,464,943 | 3,464,943 | 0 |
| Dividends earned on shares | 4,558,350 | 0 | 4,558,350 | 0 | 4,558,350 |
| Net realized gain on securities | 23,174,136 | 0 | 23,174,136 | 0 | 23,174,136 |
| Gain (loss) net unrealized on securities and derivative instruments | 68,193,668 | 0 | 68,193,668 | 0 | 68,193,668 |
| Net gain on securities at fair value | <u>121,916,057</u> | <u>3,464,943</u> | <u>125,381,000</u> | <u>3,464,943</u> | <u>121,916,057</u> |
| Other income | 59,979 | 0 | 59,979 | 0 | 59,979 |
| Expenses: | | | | | |
| Securities management | 0 | 2,223,418 | 2,223,418 | 0 | 2,223,418 |
| Custody of securities | 0 | 350,120 | 350,120 | 0 | 350,120 |
| Professional Service Fees | 0 | 605,523 | 605,523 | 0 | 605,523 |
| Budget allocation for the Technical Secretariat | 3,464,943 | 0 | 3,464,943 | (3,464,943) | 0 |
| Other expenses | 0 | 628,760 | 628,760 | 0 | 628,760 |
| Total expenditures | <u>3,464,943</u> | <u>3,807,821</u> | <u>7,272,764</u> | <u>(3,464,943)</u> | <u>3,807,821</u> |
| Surplus income over expenses | <u>118,511,093</u> | <u>(342,878)</u> | <u>118,168,215</u> | <u>6,929,886</u> | <u>118,168,215</u> |

See the accompanying independent auditors' report.

* The irrevocable Trust Agreement of the Fondo de Ahorro de Panama No. 0001 was signed between the Ministry of Economy and Finance, as Trustor and the Banco Nacional de Panama in its capacity as Trustee, under Law 1 of January 5, 1984 by which the