

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

Financial Statements

December 31, 2022

(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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Fondo de Ahorro de Panama (hereinafter, "FAP"), which comprise the statement of financial position as of December 31, 2022, 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, 2022, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Financial Reporting Standards (IFRS Standards).

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

The management is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our corresponding independent auditors' report. The annual report is expected to be available to us after the date of this audit 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 previously discovered when it becomes available and, in doing so, consider whether there is a material inconsistency between that information and the financial statements or our knowledge obtained in the audit, or if it somehow appears to contain a material error.

When we read the other information, if we conclude that there is a material misstatement in this information, we are required to report that fact to those charged with governance.

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.

Other legal information requirements

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

- That the direction, execution and supervision of this audit engagement has been physically performed in Panamanian territory.
- The audit partner that has prepared these independent auditors report is Jorge Castrellon.
- The engagement team that has participated in the audit to which report refers is formed by Karim Shaik, Director and Jorge Samudio, Manager.

KPMG (SIGNED)

JORGE CASTRELLON (SIGNED)

Panama, Republic of Panama
March 28, 2023

Jorge Castrellon
Partner
C.P.A. 5505

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Statement of Financial Position

As of December 31, 2022

(Stated in Balboas)

<u>Assets</u>	<u>Note</u>	<u>2022</u>	<u>2021</u>
Demand deposits in investment managers	6, 8, 10, 16	17,822,616	14,658,996
Demand deposits in local banks	6, 8, 9, 16	1,537,205	1,548,404
Securities at fair value through profit or loss	6, 10, 16, 18	1,335,299,690	1,439,457,832
Accounts receivable from sale of investments	10, 11, 16, 18	95,735,541	34,678,486
Accrued interest receivable and other assets	6, 9, 10, 12, 16, 18	4,917,818	6,180,254
Total assets		<u>1,455,312,870</u>	<u>1,496,523,972</u>
<u>Liabilities</u>			
Accounts payable from purchase of investments	6, 11, 16	149,442,744	70,741,008
Other liabilities	6, 13, 18	12,619,003	3,422,898
Total liabilities		<u>162,061,747</u>	<u>74,163,906</u>
<u>Trustee Equity</u>			
Founding capital	14*	1,233,608,775	1,233,608,775
Accumulated surplus of income over expenses	15	59,642,348	188,751,291
Total Trustee equity		<u>1,293,251,123</u>	<u>1,422,360,066</u>
Total liabilities and Trustee equity		<u>1,455,312,870</u>	<u>1,496,523,972</u>

* They do not include pending contributions to be received from the National Treasury, from contributions carried out by the Panama Canal Authority as indicated in Law 51 of October 10, 2018 (see note 1 and note 14).

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, 2022

(Stated in Balboas)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Net gain on securities at fair value:			
Interest on investments in securities		15,840,929	16,915,071
Dividends earned on shares	10	5,899,481	9,761,874
Net realized (loss) gain on securities	10	(1,099,886)	21,354,803
Net unrealized loss on securities and derivative instruments	10	(141,916,129)	(2,543,278)
Net (loss) gain on securities at fair value		<u>(121,275,605)</u>	<u>45,488,470</u>
Other income, net		<u>219,700</u>	<u>6,172</u>
Expenses:			
Asset management		5,512,819	1,665,707
Asset custody		725,906	690,312
Professional service fees	9	1,479,323	1,097,300
Other expenses		334,990	334,244
Total expenses		<u>8,053,038</u>	<u>3,787,563</u>
(Deficit) surplus of income over expenses		<u>(129,108,943)</u>	<u>41,707,079</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, 2022

(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, 2020	14	<u>1,233,608,775</u>	<u>147,044,212</u>	<u>1,380,652,987</u>
Surplus of income over expenses		0	41,707,079	41,707,079
Balance as of December 31, 2021	14	<u>1,233,608,775</u>	<u>188,751,291</u>	<u>1,422,360,066</u>
Deficit of income over expenses		0	(129,108,943)	(129,108,943)
Balance as of December 31, 2022	14	<u>1,233,608,775</u>	<u>59,642,348</u>	<u>1,293,251,123</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, 2022

(Stated in Balboas)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Operating activities:			
(Deficit) surplus of income over expenses		(129,108,943)	41,707,079
Adjustments to reconcile the (deficit) surplus of income over expenses and cash from operating activities:			
Net realized loss (gain) on securities	10	1,099,886	(21,354,803)
Net unrealized loss on securities and derivative instruments	10	141,916,129	2,543,278
Interest income earned		(15,840,929)	(16,915,071)
Dividends earned on shares	10	(5,899,481)	(9,761,874)
Changes in operating assets and liabilities:			
Acquisition of securities		(1,149,241,653)	(1,438,809,592)
Proceeds from the sale of securities		1,110,383,780	1,385,649,895
Net decrease in balances for purchase / sale of investments		(61,057,055)	(8,041,343)
Accounts payable from the purchase of investments		78,701,736	(1,641,436)
Decrease (increase) in other assets		307,302	(1,195,419)
Increase (decrease) in other liabilities		9,196,105	(8,410,024)
Cash generated from operations		16,936,568	17,430,889
Interest received		5,758,976	9,830,735
Cash flows from operating activities		<u>3,152,421</u>	<u>(48,967,686)</u>
Net increase (decrease) in cash and cash equivalents		3,152,421	(48,967,686)
Cash and cash equivalents at the beginning of the year		<u>16,207,400</u>	<u>65,175,086</u>
Cash and cash equivalents at year end	8	<u><u>19,359,821</u></u>	<u><u>16,207,400</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, 2022

(Stated in Balboas)

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

Pursuant to the 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"), and FAP replaced it as of its entry into force, which happened on June 6, 2012. Consequently, all 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.

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 FAP Trust and provisions of Law 38 of June 5, 2012, the Executive Order No. 1068 of September 6, 2012 and their subsequent amendments.

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

In addition, the following assets are also part of 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.

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Notes to the Financial Statements

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

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 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. This rule began to apply from 2015.
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 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 FAP's Board of Directors shall approve 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 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 current year.

FAP's 2022 Annual Budget was approved by its Board of Directors on October 21, 2021, through Resolution No. 90. The Trustor duly communicated its "no objection" to the Board of Directors on March 28, 2022.

On December 14, 2021, through Resolution No. 97, the Board of Directors of FAP approved the Allocation's Plan for the 2021/2022 management year, in accordance with the conditions and specifications made in document No. PA-12132021-007.

On February 23, 2022, the Board of Directors of FAP through resolution No. 99 approved the incorporation of the cost for catastrophic insurance within the Annual Budget of FAP. Therefore, the modification to the 2022 Annual Budget was approved. The Trustor duly communicated its "no objection" to the Board of Directors on March 28, 2022.

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Notes to the Financial Statements

(1) Constitution and Management 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 FAP are:

1. Strengthen 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 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.

3. 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.

(2) Basis of Preparation

(a) *Statement of Compliance*

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

These financial statements were authorized by FAP's Management for issuance on March 15, 2023.

(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:

(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 FAP has access at that date. The fair value of a liability reflects the effect of non-compliance risk.

When available, 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 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*

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) *Financing*

They are the result of the resources used for Private Equity, these are measured at fair value, net of transaction costs.

(f) *Compensation of Financial Assets and Liabilities*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when there is a legal right contract to offset the amounts and is intended to settle on a net or to realize the asset and settle the liability simultaneously.

(g) *Dividend Income*

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

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Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

(h) *Interest Income*

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

(i) *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 fixed 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 FAP Trust Contract, the aforementioned expenses shall be paid from FAP's annual budget and its funding source must come from FAP's assets.

(j) *Balances and Transactions in Foreign Currency*

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

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

(k) *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.

(l) *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.

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

As of the date of the financial statements, there are standards that have not been applied since they are not effective for this year. Their early application is allowed; however, FAP has not adopted them when presenting these financial statements.

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Notes to the Financial Statements

(3) Summary of Significant Accounting Policies, continued

The following new and amended standards are not expected to have a significant impact in the financial statements:

<u>Mejoras y Enmiendas</u>	<u>Aplicación obligatoria para períodos anuales iniciados a partir del:</u>
Amendments to IAS 1: <i>Classification of Liabilities as Current or Non-Current</i>	January 1, 2023
Amendments to IAS 1: <i>Disclosures of accounting policies January 1, 2023</i>	January 1, 2023
Amendments to IAS 8: <i>Definition of accounting estimates January 1, 2023</i>	January 1, 2023
Amendments to IAS 1: <i>Non-current liabilities with agreed conditions</i>	January 1, 2024
Amendments to IFRS 16: <i>Lease liability for sale with leaseback</i>	January 1, 2024

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

Executive Decree No. 1068 of September 6, 2012, which regulates Law 38 of June 5, 2012, that creates 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 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 FAP's assets are defined, which represent the framework for the Board of Directors to establish 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, FAP's 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 Management, continued

On August 31, 2015, FAP's Board of Directors amended FAP's 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 FAP's 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 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 June 18, 2020, through Resolution No. 72, the Board of Directors of FAP approved the Allocation's Plan for the 2020/2021 management year, in accordance with the conditions and specifications made in document No. PA-04152020-005.

On March 8, 2021, through Resolution No. 83, the Board of Directors of FAP approved Allocation's Plan for the 2020/2021 period, in accordance with the conditions and specifications presented by the executive team in document No. PA-03082021-006.

On December 14, 2021, through Resolution No. 97, the Board of Directors of FAP approved the Allocation's Plan for the 2021/2022 management year, in accordance with the conditions and specifications made in document No. PA-12132021-007.

FONDO DE AHORRO DE PANAMA

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Notes to the Financial Statements

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

The Board of Directors of FAP through resolution No. 103 of August 17, 2022, approved the increase from five percent (5%) to seven percent (7%) additional to the current exposure of the MBS that are maintained in the portfolio of global fixed income, through the incorporation of an exclusive portfolio (“Stand-Alone”).

The Board of Directors of Fondo de Ahorro de Panamá (“FAP” or “Fund”), in a regular meeting held on September 30, 2022, approved through Resolution No. 111 the Annual Investment Plan of FAP for the period 2022/2023, which establishes the Strategic asset allocation and defines the Fund's Strategic Portfolio. Compared to the previous term, the Strategic Portfolio reflects a reduction in its allocation to short-term assets, global fixed income, inflation-indexed bonds, and an increase in the allocation of alternative investments, stocks, and high-yield bonds. Also, it is in accordance with Ministerial Resolution No. 001- DICRE of December 21, 2022 that defines the new investment guidelines for FAP assets (see note 21).

Use of Trust Assets

- 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.
- 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 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.

FONDO DE AHORRO DE PANAMA

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Notes to the Financial Statements

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

- 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 FAP's assets.
- f. Make investments in companies in which the members of FAP's Board of Directors, 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 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.

On September 30, 2020, a contract was signed with Alpinvest Secondaries Fund (Offshore Feeder) VII, L.P (The Carlyle Group) as administrator of Private Equity.

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

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 the portfolio of liquid assets, the maximum duration may not exceed 6 months with respects to its 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.

Notes to the Financial Statements

(5) Fund Investment Portfolio Management Agreements, continued

- **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. FAP's statement of financial position is largely composed of financial instruments.

The positions that 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 FAP and the agreements with the administrators abroad.

These financial instruments expose FAP to various types of risks. The Settlor monitors the risks that affect or may affect 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's 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.

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 FAP does not comply, fully and on time, with any payment that must be made to FAP in accordance with the terms and conditions agreed upon at the time FAP acquired or originated the respective financial asset.

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

- **Formulation of Credit Policies:**
The Trustee manages the assets of FAP in accordance with the terms and conditions established in 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.

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

The investment criteria "Investment Guidelines" and performance, indicated in the Law and Decrees that govern 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 FAP's assets.

- *Concentration and Exposure Limits:*

FAP's 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 FAP.

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

	<u>Investments in securities</u>		<u>Demand deposits</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Neither past due nor Impaired:				
Grade 1-3: Low risk	<u>1,009,237,945</u>	<u>1,102,811,883</u>	<u>19,359,821</u>	<u>16,207,400</u>

Within the investment portfolio, the Fund holds variable income instruments which are not exposed to credit risk in the amount of B/.326,061,745 (2021: B/.336,645,949).

As detailed in the previous table, the risk exposure factors and information on FAP's 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.

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

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

	<u>Investment in securities</u>		<u>Demand deposits</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Concentration by Sector:				
Sovereign Bonds	416,002,493	336,641,274	0	0
Supranational Bonds/Multilateral	38,476,355	39,790,154	0	0
Sovereign inflation-indexed bonds	46,962,132	59,028,972	0	0
Corporate Bonds	357,550,016	498,421,642	0	0
Mortgage Securities	130,930,657	91,662,447	0	0
Treasury Notes	3,482,938	19,854,779	0	0
Liquid assets	15,833,354	57,412,615	0	0
Financial institutions	<u>0</u>	<u>0</u>	<u>19,359,821</u>	<u>16,207,400</u>
	<u>1,009,237,945</u>	<u>1,102,811,883</u>	<u>19,359,821</u>	<u>16,207,400</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).

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>2022</u> <u>%</u>	<u>2021</u> <u>%</u>
Government bonds	<u>25%</u>	<u>38%</u>
AAA	3%	16%
AA+ / AA-	5%	8%
A+ / A-	9%	6%
BBB+ and others	8%	8%
Mortgage backed securities	<u>7%</u>	<u>9%</u>
AAA	6%	8%
AA+/AA-	1%	1%
Corporate bonds	<u>64%</u>	<u>49%</u>
AAA	1%	1%
AA+ / AA-	2%	1%
A+ / A-	10%	12%
BBB+ and others	51%	35%
Supranational bonds	<u>4%</u>	<u>4%</u>
AAA	1%	2%
AA-	1%	1%
A+ / A-	1%	0%
BBB and others	1%	1%
Total investments (fixed income)	<u>100%</u>	<u>100%</u>

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

(b) Liquidity Risk

Liquidity risk is defined as the inability of 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 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. FAP manages its liquid resources to honor its liabilities as they fall due under normal conditions.

Liquidity Risk Management:

To date, 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 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, minus commitments maturing within the following month.

As of December 31, 2022, 99.70% (December 31, 2021: 98.84%) 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, 2022, the Fund has within its investment portfolio a total of B/.24,653,457 (December 31, 2021: B/.15,387,541) corresponding to certain assets in Securities Lending operations, carried out in accordance with the investment policies of the Fund (see note 10).

As of December 31, 2022, the Fund has within its investment portfolio a total of B/.27,509,920 (December 31, 2021: B/.17,362,479) corresponding to certain assets in operations of "Private Equity", 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>2022</u>	<u>Carrying Amount</u>	<u>Gross Nominal Amount Inflows/(Outflows)</u>	<u>Up to 1 Year</u>
Accounts payable for investments purchase	149,442,744	(149,442,744)	(149,442,744)
Other liabilities	12,619,003	(12,619,003)	(12,619,003)
Total liabilities	<u>162,061,747</u>	<u>(162,061,747)</u>	<u>(162,061,747)</u>

Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

<u>2021</u>	<u>Carrying Amount</u>	<u>Gross Nominal Amount Inflows/(Outflows)</u>	<u>Up to 1 Year</u>
Accounts payable for investments purchase	70,741,008	(70,741,008)	(70,741,008)
Other liabilities	3,422,898	(3,422,898)	(3,422,898)
Total liabilities	<u>74,163,906</u>	<u>(74,163,906)</u>	<u>(74,163,906)</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 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 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.

Each of the types of market risk to which 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, 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 FAP's management, the Settlor and the Trustee.

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 guidelines and investment policies and standards of FAP, and reflected in the agreements entered between the investment managers and the Trustee.

To hedge the positions that 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 following summarizes the net positions in foreign currencies that FAP held uncovered (in excess) through the use of forward contracts for the purchase of foreign currencies at the end of the period:

	2022		
	Equivalent in Balboas		
	Foreign Currencies	Forward Contracts	Net Position
Pound sterling	10,493,853	(95,248,716)	(84,754,863)
Euro	22,661,685	(101,646,536)	(78,984,851)
Hong Kong dollar	1,504,287	(64,765,324)	(63,261,037)
Canadian dollar	9,154,305	(29,204,045)	(20,049,740)
Australian dollar	5,974,841	(20,725,975)	(14,751,134)
New Mexican peso	5,718	(10,240,185)	(10,234,467)
Japanese yen	16,654,209	(22,903,420)	(6,249,211)
Indonesian rupiah	72,595	(3,244,398)	(3,171,803)
Korean won	(28,963)	(2,409,639)	(2,438,602)
Thai baht	(190,919)	(1,149,384)	(1,340,303)
Swedish krona	2,236,058	(3,413,416)	(1,177,358)
Singapore dollar	1,207,281	(2,355,600)	(1,148,319)
Malaysia ringgit	(85,764)	(974,894)	(1,060,658)
Polish zloty	(15,107)	(989,130)	(1,004,237)
New zealand dollar	175,866	(1,108,444)	(932,578)
Danish krone	2,220,094	(2,942,262)	(722,168)
Czech koruna	(33,381)	(192,191)	(225,572)
Colombian peso	(78,233)	(74,351)	(152,584)
Hungarian forint	(21,159)	(36,763)	(57,922)
South african rand	384	0	384
Russian ruble	67,916	0	67,916
Romanian leu	85,042	0	85,042
Norwegian krone	728,795	(559,891)	168,904
Israeli shekel	334,180	162,816	496,996
Swiss franc	7,294,571	(3,896,615)	3,397,956
			<u>(287,500,209)</u>

FONDO DE AHORRO DE PANAMA

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

	2021		
	Equivalent in Balboas		
	Foreign Currencies	Forward Contracts	Net Position
Pound sterling	10,876,407	(53,605,759)	(42,729,352)
Euro	25,712,885	(60,896,188)	(35,183,303)
Chinese yuan	2,063,828	(30,642,431)	(28,578,603)
New Mexican peso	16,740	(6,143,617)	(6,126,877)
Indonesian rupiah	111,184	(3,617,595)	(3,506,411)
Korean won	(171,005)	(3,144,742)	(3,315,747)
Thai baht	(177,120)	(1,400,547)	(1,577,667)
Malaysia ringgit	(59,003)	(1,045,601)	(1,104,604)
New Zealand dollar	169,163	(710,423)	(541,260)
Polish zloty	16,910	(450,631)	(433,721)
Singapore dollar	1,000,384	(1,366,508)	(366,124)
Czech koruna	(17,715)	(200,102)	(217,817)
Russian ruble	35,972	(224,297)	(188,325)
South african rand	410	0	410
Colombian peso	(93,376)	97,550	4,174
Hungarian forint	(17,340)	48,302	30,962
Romanian leu	97,136	0	97,136
Norwegian krone	660,123	(242,016)	418,107
Swedish krona	2,819,720	(2,073,692)	746,028
Israeli shekel	500,449	347,089	847,538
Danish krone	2,324,735	149,014	2,473,749
Australian dollar	5,325,456	(2,251,127)	3,074,329
Swiss franc	7,613,929	(2,905,973)	4,707,956
Canadian dollar	9,486,307	(3,681,525)	5,804,782
Japanese yen	17,752,985	70,845,222	<u>88,598,207</u>
			<u>(17,066,433)</u>

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

Investment managers had acquired forward contracts, which are summarized by type of foreign currency and position (see notes 12 and 14), as follows:

<u>Foreign currency forward contracts (assets)</u>	<u>Notional Value in Foreign Currency</u>	<u>2022 Notional Value Equivalent in Balboas</u>	<u>Fair Value in Balboas</u>
Japanese yen	31,202,295	31,074,910	264,235
Hong Kong dollar	20,891,549	20,676,830	214,718
Euro	67,675,922	67,524,093	151,829
Pound sterling	4,400,744	4,502,416	101,672
New Mexican peso	5,833,506	5,848,671	15,532
Swedish krona	1,146,889	1,150,037	6,962
Israeli shekel	159,220	162,816	3,596
Danish krone	1,019,047	1,015,651	3,396
Thai baht	394,912	397,832	2,920
Singapore dollar	529,386	528,266	1,120
Indonesian rupiah	45,244	44,863	381
Norwegian krone	175,624	175,287	337
Czech koruna	200,589	200,320	269
Total			<u>766,967</u>

<u>Foreign currency forward contracts (liabilities)</u>	<u>Notional Value in Foreign Currency</u>	<u>2022 Notional Value Equivalent in Balboas</u>	<u>Fair Value in Balboas</u>
Euro	(174,647,342)	(169,170,629)	(5,476,713)
Japanese yen	(56,315,537)	(53,978,330)	(2,337,207)
Pound sterling	(91,846,629)	(90,746,300)	(1,266,541)
Hong Kong dollar	(44,937,027)	(44,088,494)	(848,533)
Australian dollar	(21,063,417)	(20,725,975)	(338,117)
Danish krone	(4,076,003)	(3,957,913)	(118,414)
Korean won	(2,521,873)	(2,409,639)	(112,234)
Canadian dollar	(29,285,939)	(29,204,045)	(90,856)
Singapore dollar	(1,888,545)	(1,827,335)	(61,210)
New zealand dollar	(1,168,263)	(1,108,444)	(60,913)
Swiss franc	(3,944,356)	(3,896,616)	(55,029)
Swedish krona	(2,311,420)	(2,263,379)	(48,041)
Indonesian rupiah	(3,332,238)	(3,289,261)	(42,977)
Malaysian ringgit	(1,009,890)	(974,894)	(34,996)
New Mexican peso	(4,373,050)	(4,391,514)	(25,096)
Polish zloty	(1,011,502)	(989,130)	(22,959)
Czech koruna	(400,809)	(392,511)	(8,298)
Thai baht	(1,553,761)	(1,547,216)	(7,481)
Norwegian krone	(389,690)	(384,604)	(5,086)
Hungarian forint	(40,909)	(36,763)	(4,146)
Colombian peso	(78,233)	(74,351)	(3,882)
Total			<u>(10,968,729)</u>

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

<u>Foreign currency forward contracts (assets)</u>	Notional Value in Foreign Currency	2021 Notional Value Equivalent in Balboas	Fair Value in Balboas
Euro	50,557,265	50,532,942	112,207
Japanese yen	70,000,997	70,869,919	868,922
Pound sterling	8,468,447	8,569,119	114,898
Canadian dollar	9,065,938	9,149,099	83,265
Australian dollar	6,331,621	6,402,058	70,880
Swedish krona	1,073,141	1,118,182	45,051
Korean won	3,113,724	3,144,742	31,018
Danish krone	1,200,961	1,226,549	25,593
New Mexican peso	792,434	771,863	20,571
New zealand dollar	517,279	533,654	16,375
Russian ruble	219,686	224,297	4,611
Colombian peso	93,376	97,550	4,174
Israeli shekel	345,975	347,089	1,113
Norwegian krone	49,912	50,758	845
Hungarian forint	47,684	48,302	618
Total			<u>1,400,141</u>

<u>Foreign currency forward contracts (liabilities)</u>	Notional Value in Foreign Currency	2021 Notional Value Equivalent in Balboas	Fair Value in Balboas
Euro	(112,248,952)	(111,429,130)	(819,850)
Pound sterling	(45,556,081)	(45,036,639)	(519,442)
New Mexican peso	(5,647,647)	(5,371,754)	(275,893)
Chinese yuan	(30,869,234)	(30,642,431)	(228,545)
Australian dollar	(8,817,690)	(8,653,185)	(164,505)
Canadian dollar	(12,956,148)	(12,830,624)	(125,524)
Indonesian rupiah	(3,661,254)	(3,617,595)	(43,659)
Swiss franc	(2,936,841)	(2,905,973)	(30,867)
Polish zloty	(461,556)	(450,631)	(10,925)
Malaysian ringgit	(1,056,243)	(1,045,601)	(10,642)
Singapore dollar	(1,375,926)	(1,366,508)	(9,418)
Thai baht	(1,409,324)	(1,400,547)	(8,778)
Danish krone	(1,085,608)	(1,077,535)	(8,073)
Czech koruna	(207,743)	(200,102)	(7,641)
Norwegian krone	(196,179)	(191,258)	(4,921)
Swedish krona	(957,611)	(955,510)	(2,101)
New zealand dollar	(178,007)	(176,769)	(1,238)
Japanese yen	(24,356)	(24,697)	(341)
Total			<u>(2,272,363)</u>

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

The maturities of these contracts range from 1 to 100 days.

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 the value in risk ("VaR") of the FAP as of December 31, 2022 and 2021 is made using the Historical Simulation Method. Using this methodology, the estimation of VaR is performed through simulations of scenarios of risk factors and re-evaluating in each test all the positions of the entire portfolio. The historical simulation method generates risk factors based on the historical probability distributions.

Market Risk Management:

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

	<u>2022</u>	<u>2021</u>
VaR of the Fund's portfolio	79,461,113	74,786,998
Year average	76,688,182	118,289,455
Maximum of the year	79,461,113	144,571,943
Minimum of the year	74,907,221	74,786,998

- *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 FAP's exposure to interest rate risks. FAP's 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>2022</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>494,804,931</u>	<u>124,813,873</u>	<u>349,210,252</u>	<u>366,470,634</u>	<u>1,335,299,690</u>
Total	<u>494,804,931</u>	<u>124,813,873</u>	<u>349,210,252</u>	<u>366,470,634</u>	<u>1,335,299,690</u>

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(6) Financial Instruments Risk Management, continued

<u>2021</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>530,412,894</u>	<u>123,197,476</u>	<u>442,535,838</u>	<u>343,311,624</u>	<u>1,439,457,832</u>
Total	<u>530,412,894</u>	<u>123,197,476</u>	<u>442,535,838</u>	<u>343,311,624</u>	<u>1,439,457,832</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, 2022, 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.

(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 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.

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Notes to the Financial Statements

(6) Financial Instruments Risk Management, continued

(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 FAP. The capital management criteria that govern FAP will be subject to changes by FAP's 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.

(8) Cash Equivalents

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

	<u>2022</u>	<u>2021</u>
Demand deposits in investment managers	17,822,616	14,658,996
Demand deposit – Banco Nacional de Panama	<u>1,537,205</u>	<u>1,548,404</u>
Total cash and cash equivalents in the statement of cash flows	<u>19,359,821</u>	<u>16,207,400</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>2022</u>	<u>2021</u>
Balances:		
Demand deposit – Banco Nacional de Panama	<u>1,537,205</u>	<u>1,548,404</u>
Transactions:		
Fee expenses, Banco Nacional de Panama	<u>180,000</u>	<u>180,000</u>
Fees, Technical Secretariat and Board of Directors	<u>387,581</u>	<u>379,968</u>

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Notes to the Financial Statements

(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>2022</u>	<u>2021</u>
Sovereign bonds	416,002,493	336,641,274
Supranational / Multilateral Bonds	38,476,355	39,790,154
Inflation-Indexed Sovereign Bonds	46,962,132	59,028,972
Corporate Bonds	357,550,016	498,421,642
Mortgage Securities	130,930,657	91,662,447
Treasury Notes	3,482,938	19,854,779
Liquid assets	15,833,354	57,412,615
Capital Shares	298,551,825	319,283,470
Private Equity Shares	<u>27,509,920</u>	<u>17,362,479</u>
	<u>1,335,299,690</u>	<u>1,439,457,832</u>

Accumulated interest receivable from the investment portfolio amounts to B/.3,470,094 (2021: B/.4,345,873) (see note 18); during this period, dividends were recorded as accounts receivable for B/.293,403 (2021: B/.158,681).

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 FAP.

During the period ended December 31, 2022, FAP recognized a net realized loss of B/.1,099,886 (2021: net realized income of B/.21,354,803) from the sale of investments at fair value through profit or loss. In addition, during that period, FAP obtained an unrealized net loss of B/.(141,916,129) (2021: B/.2,543,278) 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). As of December 31, 2022, FAP's Board of Directors does not intend to settle investments classified as securities at fair value through profit or loss. 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 FAP's Board of Directors.

As of December 31, 2022, FAP received dividends on investments in equity shares for B/.5,899,481 (December 31, 2021: B/.9,761,874). No impairment was determined in that investment portfolio.

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Notes to the Financial Statements

(10) Investment in Securities, continued

As of December 31, 2022, the Fund has within its investment portfolio a total of B/.24,653,458 (December 31, 2021: B/.15,387,541) 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/.26,135,846 (December 31, 2021: B/.15,756,059). 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>Asset manager</u>	<u>2022</u>	<u>2021</u>
Goldman Sachs Asset Management L. P.	396,944,534	462,675,467
Morgan Stanley Investment Management Inc.	650,143,640	638,490,623
BlackRock Financial Management Inc.	260,701,596	320,929,263
Alpinvest Partners (The Carlyle Group)	27,173,068	17,362,479
Varsity Healthcare	336,852	0
	<u>1,335,299,690</u>	<u>1,439,457,832</u>

FAP invests primarily in government bonds, 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.

For private equity funds which have investments in secondary projects, there is a bonus to which the general partner or management company of the private equity fund is entitled, once it has achieved the required rate of return (hurdle rate) in favor of the investor, in accordance with the terms established in subscription contracts called carried interest. The accrued carried interest is only collected by the general partner once the investors have repaid their original investment in the capital fund, plus the hurdle rate.

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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>2022</u>	<u>2021</u>
Goldman Sachs Asset Management L. P.	401,070,490	459,217,933
Morgan Stanley Investment Management Inc.	613,846,308	636,025,238
BlackRock Financial Management Inc.	250,737,827	309,156,694
Alpinvest Partners (The Carlyle Group)	27,173,068	17,362,479
Varsity Healthcare	336,852	0
	<u>1,293,164,545</u>	<u>1,421,762,344</u>

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

	<u>2022</u>	<u>2021</u>
Demand deposits in investment managers	17,822,616	14,658,996
Investments in securities at fair value through profit or loss	1,135,299,690	1,439,457,832
Accounts receivable for sale of investments	95,735,541	34,678,486
Accrued interest receivable and others	3,951,204	4,580,260
Other assets - derivative instruments	766,967	1,400,141
Accounts payable for investments purchase	(149,442,744)	(70,741,008)
Other liabilities - derivative instruments	<u>(10,968,729)</u>	<u>(2,272,363)</u>
Net position of assets and liabilities managed abroad	<u>1,293,164,545</u>	<u>1,421,762,344</u>

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

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

	<u>2022</u>		<u>2021</u>	
	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>
Goldman Sachs Asset Management L.P.	14,737,058	(11,618,478)	3,472,104	(8,477,501)
Morgan Stanley Investment Management Inc.	69,515,363	(115,333,778)	9,917,117	(14,716,059)
BlackRock Financial Management Inc.	<u>11,483,120</u>	<u>(22,490,488)</u>	<u>21,289,265</u>	<u>(47,547,448)</u>
	<u>95,735,541</u>	<u>(149,442,744)</u>	<u>34,678,486</u>	<u>(70,741,008)</u>

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 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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Notes to the Financial Statements

(12) Accumulated Interest Receivable and Other Assets

Accrued interest receivable and other assets are detailed below:

	<u>2022</u>	<u>2021</u>
Accumulated interest receivable on investments	3,951,204	4,580,260
Derivative instruments (see note 6)	766,967	1,400,141
Other assets	<u>199,647</u>	<u>199,853</u>
	<u>4,917,818</u>	<u>6,180,254</u>

(13) Other Liabilities

Other liabilities are detailed below:

	<u>2022</u>	<u>2021</u>
Investment managers, custodian and others	1,650,274	1,150,535
Derivative instruments (see note 6)	<u>10,968,729</u>	<u>2,272,363</u>
	<u>12,619,003</u>	<u>3,422,898</u>

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

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 FAP's 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 minus 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
Minus: TFD earnings for the fourth quarter of 2012	<u>(9,775,921)</u>
Founding capital of FAP	<u>B/.1,233,608,775</u>

Through Agreement No. 18 of December 14, 2017, 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, 2022, 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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(14) Equity, continued

As indicated in Note 1, the amendment to Law 51 of October 10, 2018, indicates that for the years 2018 and 2019, 50% of the contributions made by the ACP to the National Treasury that exceed 2.5% of the Product Nominal Gross Domestic Product ("Nominal GDP"), will be contributed to FAP to strengthen its patrimony, figures that must be validated by FAP and the MEF when issued by the Comptroller General of the Republic. The management has maintained communications with MEF and the Comptroller's Office to coordinate between the parties the process that allows these funds to be contributed to the Fund. As of December 31, 2022, these amounts have not been received by FAP.

According to calculations by the FAP administration, these amounts have been estimated at:

<u>Year</u>	<u>Estimated value</u> <u>(In millions)</u>
2018	B/. 10.2
2019	B/. 21.7
2020	B/.269.8
2021	B/.282.0
2022	<u>B/.386.5</u>
Total	<u>B/.970.2</u>

The figures of the Estimated Amount were updated at the end of the year 2022 to the new calculation basis of the Gross Domestic Product (GDP) reported by the General Comptroller of the Republic at purchasing prices of the year 2018.

(15) Accumulated Surplus of Income over Expenses

As of December 31, 2022, the Settlor did not make distributions of the accumulated excess of income over expenses. As of December 31, 2021, the Settlor did not make distributions of the accumulated excess of income over expenses.

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

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

	<u>2022</u>		<u>2021</u>	
	<u>Investment</u> <u>managers</u>	<u>Deposits</u> <u>in Banks</u>	<u>Investment</u> <u>managers</u>	<u>Deposits</u> <u>in Banks</u>
America	1,094,004,219	0	1,140,702,894	0
Panama	0	1,537,205	0	1,548,404
Europe	95,810,942	0	125,059,741	0
Asia	54,584,753	0	90,357,703	0
Africa	455,483	0	1,978,971	0
Oceania	<u>48,309,148</u>	<u>0</u>	<u>63,663,035</u>	<u>0</u>
	<u>1,293,164,545</u>	<u>1,537,205</u>	<u>1,421,762,344</u>	<u>1,548,404</u>

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Notes to the Financial Statements

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

The previous net balance is composed of the following accounts:

	<u>2022</u>	<u>2021</u>
Demand deposits in investment managers	17,822,616	14,658,996
Demand deposits at local banks	1,537,205	1,548,404
Securities at fair value through profit or loss	1,335,299,690	1,439,457,832
Accounts receivable for sale of investments	95,735,541	34,678,486
Accrued interest receivable and others	3,951,204	4,580,260
Other assets - derivative instruments	(149,442,744)	1,400,141
Accounts payable for investments purchase	766,967	(70,741,008)
Other liabilities - derivative instruments	<u>(10,968,729)</u>	<u>(2,272,363)</u>
	<u>1,294,701,750</u>	<u>1,423,310,748</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.

(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, 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.

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.

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Notes to the Financial Statements

(18) Fair Value of Financial Instruments, continued

- 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.

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>2022</u> <u>Description</u>	<u>Fair</u> <u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Securities at fair value through profit and loss:				
Sovereign bonds	416,837,538	247,107,794	169,729,744	0
Supranational / Multilateral Bonds	38,746,645	0	38,676,065	70,580
Inflation-Indexed Sovereign Bonds	47,046,217	21,018,430	26,027,787	0
Corporate Bonds	379,475,872	0	379,475,872	0
Mortgage Securities	131,171,647	0	125,328,048	5,843,599
Treasury Notes	3,496,472	3,496,472	0	0
Liquid assets	15,933,648	0	15,933,648	0
Capital shares	298,551,825	298,205,695	346,130	0
Private equity shares	27,509,920	0	0	27,509,920
Other assets:				
Derivative instruments	766,967	0	766,967	0
	0	0	0	0
Other liabilities:				
Derivative instruments	(10,968,729)	0	(10,968,729)	0
	<u>1,328,568,022</u>	<u>569,828,391</u>	<u>725,315,532</u>	<u>33,424,099</u>

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(18) Fair Value of Financial Instruments, continued

<u>2021</u> <u>Description</u>	<u>Fair</u> <u>Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Securities at fair value through profit and loss:				
Sovereign bonds	337,589,847	105,781,476	231,808,371	0
Supranational / Multilateral Bonds	40,027,189	0	39,936,748	90,441
Inflation-Indexed Sovereign Bonds	59,124,182	22,389,936	36,734,246	0
Corporate Bonds	501,245,741	0	501,245,741	0
Mortgage Securities	91,820,276	0	82,278,260	9,542,016
Treasury Notes	19,937,190	19,937,190	0	0
Liquid assets	57,413,331	0	57,413,331	0
Capital shares	319,283,470	318,785,254	445,051	53,165
Private equity shares	17,362,479	0	0	17,362,479
Other assets:				
Derivative instruments	1,400,141	0	1,400,141	0
Other liabilities:				
Derivative instruments	<u>(2,272,363)</u>	<u>0</u>	<u>(2,272,363)</u>	<u>0</u>
	<u>1,442,931,483</u>	<u>466,893,856</u>	<u>948,989,526</u>	<u>27,048,101</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.

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

<u>Financial Instruments</u>	<u>Valuation Techniques and Input Data Used</u>
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.

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Notes to the Financial Statements

(18) Fair Value of Financial Instruments, continued

The table below describes the valuation techniques and inputs used in recurring fair value measurements classified within Level 3:

<u>Financial Instruments</u>	<u>Valuation Techniques</u>	<u>Input Data Used</u>
Fixed Income – Mortgage Securities	Discounted flows	Prices TBA (ICE / IHS Markit) Collateral Structure Prepaid speed (PSA model) Constant prepayment rate (CPR) Weighted Average Life (WAL) Interest and benchmark rate curve
Private Equity Stock	Net Value of Assets Multiples of Earnings Discounted Cash Flows	Net Asset Value of the Secondary Fund

Private equity investments are classified within Level 3 of the fair value hierarchy. The fair value is provided by the different managers at the balance sheet date. The valuation is based on the fair value of the underlying net assets that make up the private equity fund and is determined using a variety of methods, including valuation models based on multiples of earnings or discounted cash flows.

The Fund considers appropriate the methodologies used to evaluate level 3 investments. For these purposes and on a support basis, FAP relies on the valuations carried out by the custodian in accordance with its own valuation guidelines to determine the fair value of these asset classes.

(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, 2022.

Starting in 2017, in accordance with the provisions of the Investment Policies and Standards, the gross profitability of 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 FAP, for the year ended December 31, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
FAP Gross Return (TWRR method)	<u>-8.64%</u>	<u>2.91%</u>

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

FONDO DE AHORRO DE PANAMA

(Panama, Republic de Panama)

Notes to the Financial Statements

(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.

(21) Subsequent Events

As of December 31, 2022, the FAP presented a net loss in securities at fair value in the amount of B/.121,275,605, mainly driven by net unrealized losses in securities, due to the downward movement that international markets presented during the year 2022, mainly due to the effect of the United States Federal Reserve rate hike and other financial and geopolitical factors that occurred in the period.

As part of long-term management, the FAP Board of Directors annually reviews its Annual Plan in order to strengthen diversification and prudence in asset management. At the request of the Board of Directors of the FAP, the Settlor modified various parts of the Investment Guidelines, which were published in the last quarter of 2022, for which the Board of Directors has begun the incorporation of said modifications in the management and strategic asset allocation. The preliminary figures as of March 24, 2023 show that the FAP Portfolio presents an unrealized net gain of approximately B/.33.2 million, relative to the closing of the 2022 term, due to the behavior of the assigned benchmark.

FONDO DE AHORRO DE PANAMA

(Panama, Republic of Panama)

Schedule for Determining the Statement of Financial Position

As of December 31, 2022

(Stated in Balboas)

<u>Assets</u>	<u>Trust Contract *</u>	<u>Technical Secretariat</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Total</u>
Demand deposits in investment managers	17,822,616	0	17,822,616	0	17,822,616
Demand deposits in local banks	151,185	1,386,020	1,537,205	0	1,537,205
Securities at fair value through profit or loss	1,335,299,690	0	1,335,299,690	0	1,335,299,690
Accounts receivable from sale of investments	95,735,541	0	95,735,541	0	95,735,541
Accrued interest receivable and other assets	8,303,871	4,966,302	13,270,173	(8,352,355)	4,917,818
Total assets	1,457,312,903	6,352,322	1,463,665,225	(8,352,355)	1,455,312,870
 <u>Liabilities</u>					
Accounts payable from the purchase of investments	149,442,744	0	149,442,744	0	149,442,744
Accounts payable, Technical Secretariat	4,766,655	0	4,766,655	(4,766,655)	0
Other liabilities	10,968,729	5,235,974	16,204,703	(3,585,700)	12,619,003
Total liabilities	165,178,128	5,235,974	170,414,102	(8,352,355)	162,061,747
 <u>Trustee Equity</u>					
Founding capital	1,233,608,775	0	1,233,608,775	0	1,233,608,775
Accumulated surplus of income over expenses	58,526,000	1,116,348	59,642,348	0	59,642,348
Total Trustee equity	1,292,134,775	1,116,348	1,293,251,123	0	1,293,251,123
Total liabilities and Trustee equity	1,457,312,903	6,352,322	1,463,665,225	(8,352,355)	1,455,312,870

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 Determination of the Statement of Income

For the year ended December 31, 2022

(Stated in Balboas)

	<u>Trust Contract*</u>	<u>Technical Secretariat</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Total</u>
Net gain on securities at fair value:					
Interest on investments in securities	15,840,929	0	15,840,929	0	15,840,929
Budget recognition for the Technical Secretariat	0	7,729,334	7,729,334	7,729,334	0
Dividends earned on shares	5,899,481	0	5,899,481	0	5,899,481
Net realized loss on securities	(1,099,886)	0	(1,099,886)	0	(1,099,886)
Net unrealized loss on securities and derivative instruments	(141,916,129)	0	(141,916,129)	0	(141,916,129)
Net loss on securities at fair value	<u>(121,275,605)</u>	<u>7,729,334</u>	<u>(113,546,271)</u>	<u>7,729,334</u>	<u>(121,275,605)</u>
Other income, net	<u>219,700</u>	<u>0</u>	<u>219,700</u>	<u>0</u>	<u>219,700</u>
Expenses:					
Asset management	0	5,512,819	5,512,819	0	5,512,819
Asset custody	0	725,906	725,906	0	725,906
Professional service fees	0	1,479,323	1,479,323	0	1,479,323
Budget allocation for the Technical Secretariat	7,729,334	0	7,729,334	(7,729,334)	0
Other expenses	2,934	332,056	334,990	0	334,990
Total expenses	<u>7,732,268</u>	<u>8,050,104</u>	<u>15,782,372</u>	<u>(7,729,334)</u>	<u>8,053,038</u>
Deficit income over expenses	<u>(128,788,173)</u>	<u>(320,770)</u>	<u>(129,108,943)</u>	<u>0</u>	<u>(129,108,943)</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 trust in Panama is regulated.