



GOBIERNO DE
EL SALVADOR

BANCO HIPOTECARIO

Labor Report
2020-2021

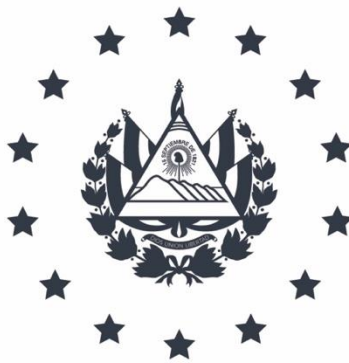




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01

RELEVANT FIGURES AND INDICATORS

Total Assets	US\$ 1,361.7 million	Loan Portfolio	US\$ 884.0 million
SMEs Loan Portfolio	US\$ 497.2 million	COVID-19 Loan Portfolio	US\$ 438.9 million
Loan Disbursements	US\$ 460.4 million	COVID-19 Loan Disbursements	US\$ 32.4 million
Deposits	US\$ 1,056.9 million	Net Profit	US\$ 5.6 million
	Equity		US\$ 131.5 million

4.6%	14.6%	34.2%
Equity performance	Equity Solvency	Net Liquidity Coefficient
85 years	180,677	AA- Stable
History	Clients	Pacific Credit Rating Risk Classification

National Presence

828	29	4	7	69
Employees	Branches	Mini Branche	Counters	ATMs



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CORPORATE STRATEGY

As part of the government management of the country under President Nayib Bukele, the modernization of the State and the public interest institutions is carried out, which constitutes one of the pillars of the Cuscatlán Plan. Said modernization process acquires greater dynamism in Banco Hipotecario de El Salvador at the beginning of 2020, giving way to the reformulation of the BH corporate strategy and the redesign of the organizational philosophy under the rethinking of its vision, mission, and institutional objectives.

Vision

Promote the economic development of El Salvador

It is the needs of the Salvadoran population and the reality it faces that requires us to improve and strengthen the provision of our financial services not only to SMEs, but also to the rest of the economic and social actors; firmly believing that it is possible to create the conditions that lead us to be a more productive country, where opportunities are for everyone and where the efforts of each Salvadoran bear fruit, thus achieving a sustainable transformation.

Mission

Make a difference to watch you grow

It is the construction of this better El Salvador from our role as a financial institution, which reorients our actions and intensifies our daily efforts seeking to make it clear that we are not just another Bank and that our main objective is to support the sustainable growth of the country.

Institutional values

During the last three decades, the governmental management of the country and of the institutions related to the State has been marked by circumstances and practices such as corruption and arbitrariness, exclusion of social and economic sectors, technological obsolescence, and regulatory hypertrophy; therefore, it is essential to adopt transversal institutional values in Banco Hipotecario's work that safeguards the achievement of a modern, efficient and transparent organization as established by the lines of action referred to the modernization pillar of the State within the Cuscatlán Plan of the current Government of the Republic.

Trust: what unites us is more valuable than what separates us and operating from trust is what will allow us to be sure that everything we do makes a positive difference in the future of our country.

Inclusion: The new times force us to think differently and look for solutions that positively impact all the people that the bank has left aside, generating opportunities where no one else reaches.

Commitment: With the country, with the communities, and with the Salvadorans, wherever they are because they deserve everything from us.

Innovation: A new country needs a new bank, more modern, more present and the first to evolve will be us, to show everyone that we can be the example to follow in the Salvadoran financial system.

Within the framework of the reformulation of Banco Hipotecario's corporate strategy for the 2020-2024 period, three main pillars are designed and instituted, made up of six strategic objectives. Each of these pillars and strategic objectives includes a statement that broadens the understanding, its connotation and meaning, so that the way in

which the activities carried out by the Bank will be aligned with the reformulation of the institutional philosophy is clearly established.

Focus pillar: The focus of our institution directs us to grow exponentially by focusing on the experience of our clients.

- **Growth:** To become a Bank that grows at a rate higher than the rest of the financial system of El Salvador in both deposit gathering and loan portfolios, serving new sectors and market segments.
- **Client:** Improve the experience of our clients through a service with human warmth that turns their needs into our needs, including Salvadorans who have traditionally been excluded from the financial system.

Pillar renewal: We recognize the arrival of new challenges, requiring a palpable renewal that improves our positioning before stakeholders, without forgetting what makes us different.

- **Image:** Renew our image by obtaining better risk ratings and a change in the perception of the population, being a more trustworthy and transparent institution.
- **Identity:** Manifest our commitment to our country through support for strategic sectors and State initiatives, and with the objectives of Sustainable Development within the framework of the principles of Responsible Banking.

Efficiency pillar: As a financial institution that participates in the market under the conditions of private banking, we must strive to perform being efficient in the use of resources and effective in achieving our mission.

- **Profitability:** Reach the maximization of the profits generated with the resources we manage, being self-sustaining over time.
- **Culture:** To develop our workday by day with a high-performance culture, hand in hand with committed collaborators, and identified with what we seek to achieve.



03

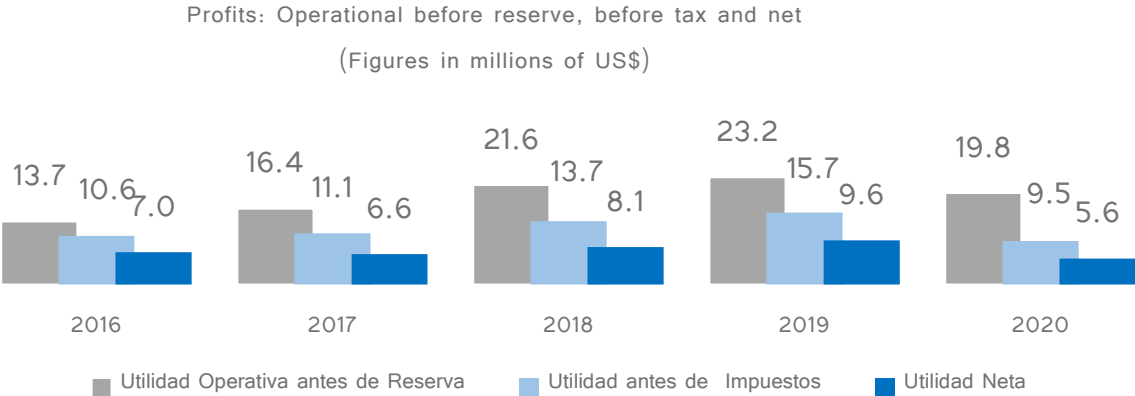
FINANCIAL MANAGEMENT

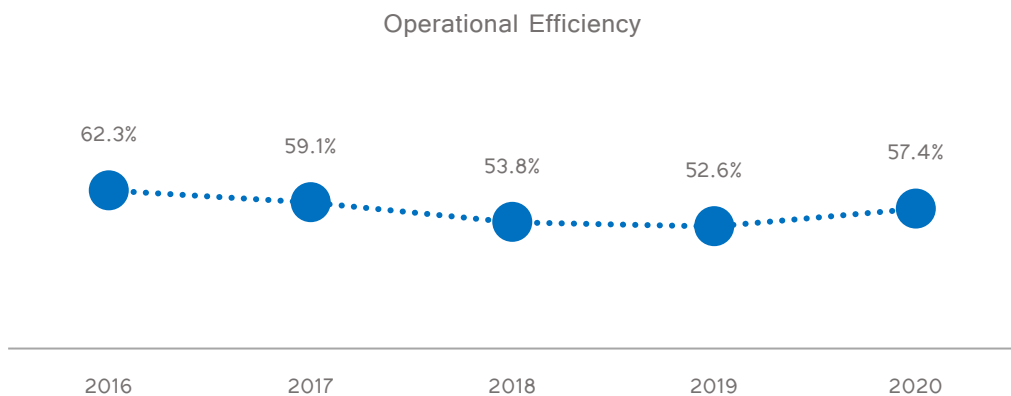
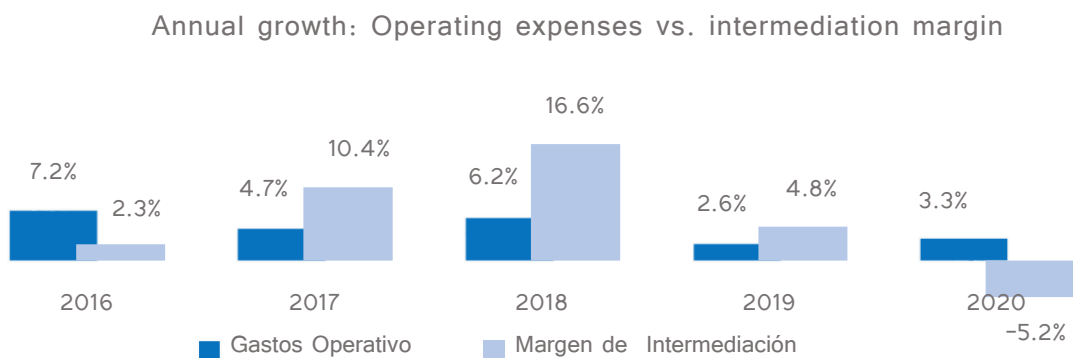
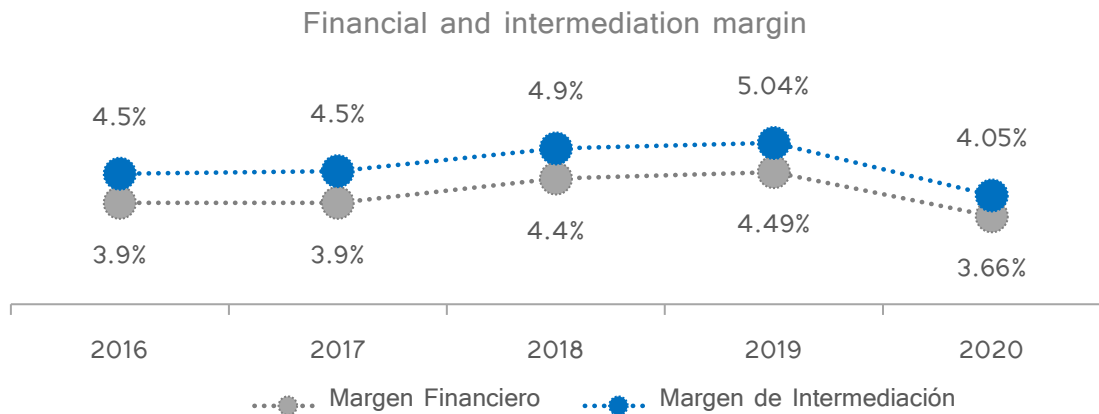
Financial Results

Given the events that occurred during 2020, the Bank's financial results have been negatively impacted, recording a net profit of \$5.6 million, exceeding by \$2.0 million the projections established within the financial rescheduling of July 2020 and \$4.0 million below the figure reflected at the end of 2019, equivalent to an annual decrease of 41.3%.

It is worth mentioning that equity profitability sustained strong pressure from lower growth in loan portfolio income, deterioration in returns on treasury assets, increases in financial costs of deposits and operating expenses, together with a higher constitution of loan write-off reserves and the decrease in net income generated by the sale of extraordinary assets. Which were offset by the decrease in the financial costs of passive loans, the increase in the collection of other commissions, and by the decrease in tax taxes due to a lower tax base.

As of December 31, 2020, the return on equity closed at 4.6%, being higher than projected but lower than 8.5% in 2019. The intermediation margin showed a decline from the effects of the pandemic (COVID-19) and the growth of liabilities with respect to intermediation assets, generating income of \$80.7 million, an additional \$0.3 million higher than in 2019, with an annual growth of 0.5%. This is derived from the decrease of \$0.5 million in the yields originated by financial investments and the liquidity reserve, and to a lesser extent by the interests generated from the loan portfolio, with a growth of \$1.5 million; also due to the decrease of \$0.6 million in commissions for processing and services to third parties. Additionally, referring to intermediation costs, it is noted that at the end of 2020 they reached the figure of \$34.2 million, higher than the year 2019 by \$2.9 million, which translates into an annual increase of 9.3%.



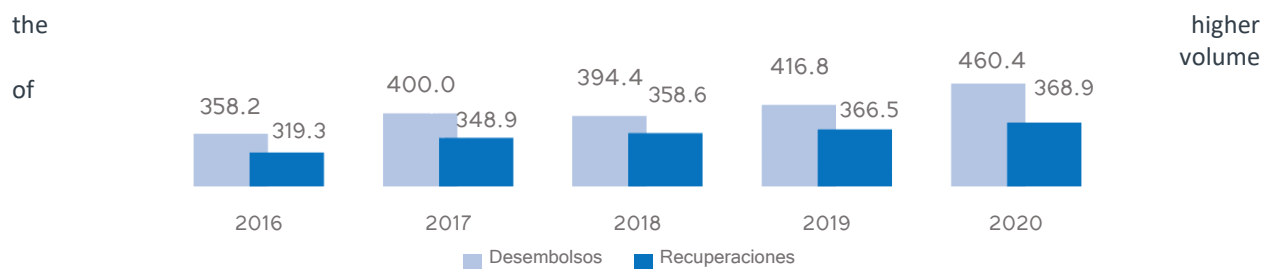


For the reported fiscal year, operating expenses amounted to \$26.7 million, with an increase of \$860.7 thousand equivalent to 3.3% compared to the previous year; however, a budgetary saving of \$315.7 thousand was obtained, achieving optimization in the use of resources, despite having been a year affected by the pandemic (COVID-19); however, in percentage terms, net intermediation income decreased with respect to the growth of operating expenses, implying a decline in the operating efficiency indicator (57.4% at the end of the year), as well as in the Bank's positioning compared to the registered average by the financial system.

Primarily, the annual increase in operating expenses is concentrated in the item of general expenses, with an increase of \$1,152.9 thousand that corresponds mainly to tax and supervision obligations in \$229.5 thousand due to

Total Disbursements and Recoveries

(Figures in millions of US\$)



placement and deposits during the year, expenses in advertising of products and services for \$58.1 thousand, technology expenses for innovation in different areas for \$520.3 thousand, infrastructure improvements for \$186.4 thousand (the latter as part of the digital transformation and institutional image change), and in services for the consumption of stationery and cleaning materials for protection against the threat of COVID-19 for a value of \$158.5 thousand.

Additionally, the expense in the category of civil servants and employees is contracted by \$190.3 thousand as a result of the benefits to the personnel in the concept of additional benefits to those of the Law that the Bank provides, which decreased by \$476.7 thousand, being these: salaries, Christmas bonus, vacation, medical insurance, training, travel expenses, bonuses among other benefits; and finally, due to the increase in the provision for labor liabilities of \$286.4 thousand with respect to the previous year, resulting from the actuarial study carried out by a company specialized in said work.

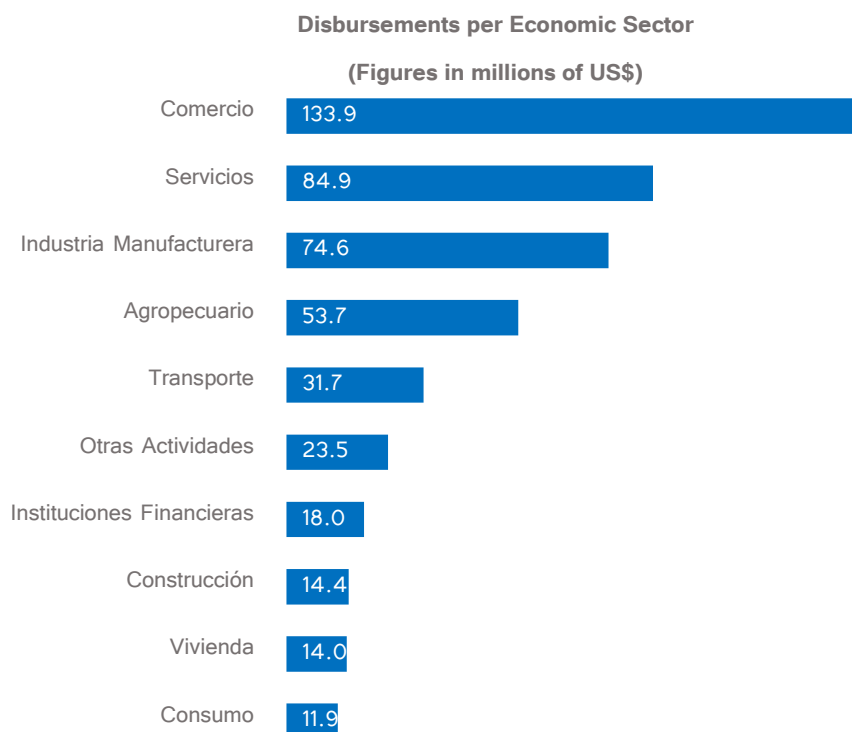
The contribution to State taxes, both in the provision of income tax and in the special contribution for citizen security during 2020, represented a decrease of \$1,985.7 thousand and \$250.8 thousand, respectively. Additionally, there was an increase in the cost of loan repayment reserves, from \$8.8 million in 2019 to \$9.5 million at the end of 2020, representing a growth of 8.2%; this value includes the constitution of voluntary loan repayment reserves, created as a prudential measure to mitigate the possible impact of the deterioration of the portfolio due to loans affected by the pandemic for a value of \$3,350.0 thousand and to a lesser extent to anticipate possible losses due to exposure credit of the portfolio belonging to the coffee sector, with a cost of \$1,181.4 thousand. Loan provisioning reserves attributable to the FICAFE managed portfolio was \$271.5 thousand, experiencing an increase of \$7.2 thousand compared to the previous year.

On the other hand, net non-operating income had a significant impact on profits, although its variation was lower than the previous year, it is mainly due to the increase in the recognition of deferred tax income of \$87.5 thousand, the increase in \$155.0 thousand compared to the previous year due to the release of loan reserves and other income \$ 81.4 thousand that includes the sale of fixed assets.

Finally, regarding the management of the sale of extraordinary assets, their commercialization resulted in lower net income that reached an amount of \$2,078.2 thousand, as a consequence of a lower release of reserves and the increase in the provision of written-off assets; totaling at the end of the year a value of \$1.6 million in sales, representing \$3.2 million less than the previous year.

Loan placement

As part of the commitment made by the Bank to support the country's productive sectors, the client loan portfolio showed growth above the average of the financial system, diversified in all economic sectors and driven by the placement of \$460.4 million in loans disbursed, growing by \$43.7 million which is equivalent to 10.5% per year; however, credit recoveries were \$368.9 million, higher by \$2.4 million and equivalent to 0.7% compared to the previous year, the latter largely derived from the effect of the COVID-19 pandemic.



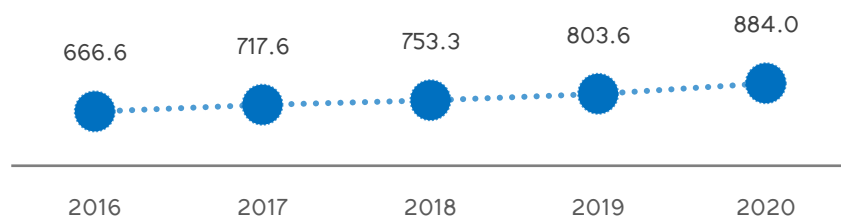
Of the total loans disbursed, \$239.4 million were allocated to SMEs (52.0%), \$145.4 million to large companies (31.6%), \$18.1 million to mayors and other State institutions (3.9%), \$38.4 million to microenterprises (8.3%) and \$19.2 million to individuals (4.2%). In the same way, the financial support for specific sectors is ratified, such as coffee cultivation with \$56.3 million disbursed; collective passenger transportation with a value of \$24.5 million; and the sugar sector disbursing a total of \$27.7 million. Regarding the distribution of disbursements by economic sectors, the concentration in productive activities corresponds to 94.9% for the year 2020.

In accordance with the above, the Bank approved a Temporary Credit Policy, whose objectives were to establish guidelines to regularize the credit situation of clients affected by the crisis generated by COVID-19 and to support both current and new clients requesting financing to continue operating during the crisis, with loans of up to 1-year term and with a grace period of up to 6 months, focusing on the following destinations: payment of payroll and/or labor benefits, payment of basic services, merchandise transportation and/or customs expenses, financing of accounts receivable/payable or any expense related to the operation of the company. As of December 31, 2020, a total of \$32.4 million had been disbursed in credit lines such as Front Line COVID-19 Personnel Line (\$1.8 million), COVID-19 Emergency Credit Line (\$29.1 million), and COVID -19 Food Security (\$1.4 million), benefiting a total of 680 clients.

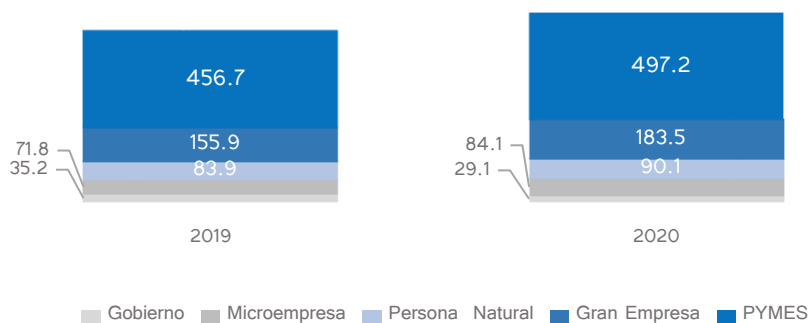
The aforementioned led to significant growth in the Bank's loan portfolio that intensified at the end of the last quarter, closing at December 31, 2020, with a balance of \$ 884.0 million, which represents an increase of \$ 80.4

million equivalent to 10.0% compared to 2019; favoring the expansion of the client base of the loan portfolio (8,202 clients at the end of 2020), and the increase in the number of loans granted from 10,949 to 11,827.

Gross Loan Portfolio
(Figures in millions of US\$)



Loan Portfolio per Client Type
(Figures in millions of US\$)



Regarding the balances of the loan portfolio marked as COVID-19 and based on the temporary regulation issued by the Central Reserve Bank, support was provided to the productive sectors in order to maintain the operation of the businesses during the periods of confinement established, in such a way that as of December 31, 2020, the trading book portfolio influenced by arrangements or COVID-19 grants amounts to \$438.9 million, representing 49.6% of the total portfolio.

Description	Clients	Capital Balance	(%)
Covid-19 Loans granted	389	27.6	6.3%
Covid-19 Renegotiated loans	1,629	265.8	60.6%
Rest of the Covid-19 portfolio	2,061	145.4	33.2%
Total	4,079	438.9	100.0%

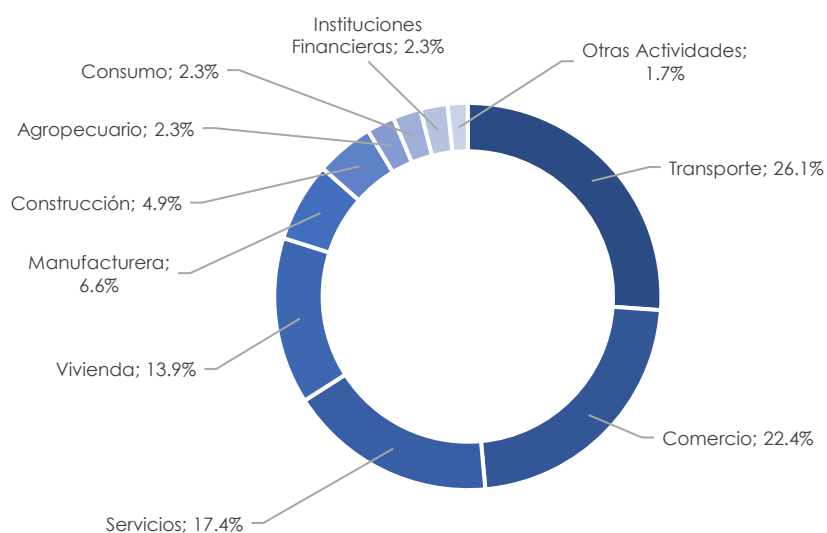
Banco Hipotecario improved its position in the financial system from seventh to fifth by size of loan portfolio and is the fourth with the largest business loans at the end of 2020, reaffirming the approach of granting productive loans to small medium-sized enterprises (SMEs), where a growth of \$40.4 million was obtained, equivalent to 8.8% over the previous year and which represents 56.2% of the total loan portfolio.

With the management of loan placement, it was possible to maintain the diversification of the loan portfolio in all economic sectors, reaching amounts of \$113.6 million in the portfolio for the public passenger transportation sector

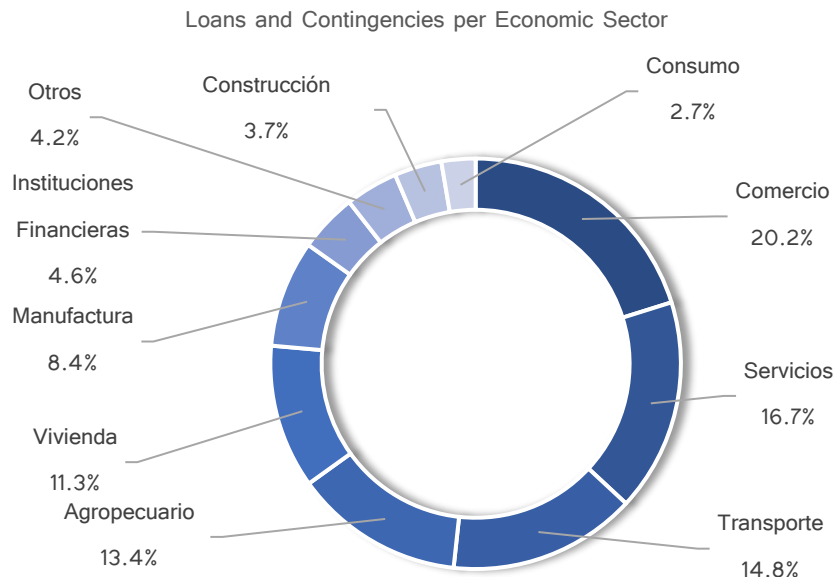
and \$79.6 million in the portfolio for coffee growth, representing 47.9% and 62.7% of the financial system's total, respectively, positioning the Bank as a leader in financing these two economic sectors.

Loan portfolio comparison by economic sector
(Figures in millions of US\$)

Covid-19 portfolio per Economic Sector

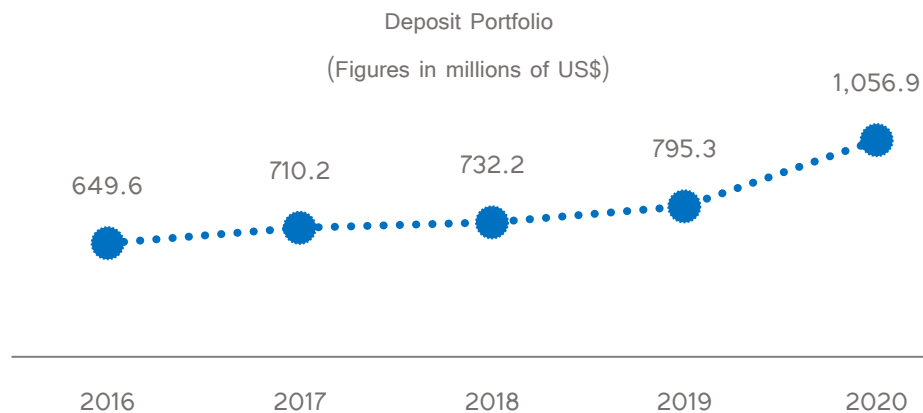


Sector	Dec-19	Dec-20	Var (\$)	Var (%)
Commerce	145.8	179.9	34.1	23.4%
Services	134.1	149.4	15.3	11.4%
Manufacturing	60.1	75.1	15.1	25.1%
Other	22.7	37.0	14.3	62.9%
Transport	126.0	132.0	6.0	4.8%
Consumption	20.2	23.9	3.7	18.2%
Construction	30.4	33.3	2.8	9.3 %
Housing	98.8	101.1	2.3	2.3%
Financial Institutions	45.5	41.1	(4.4)	-9.7%
Agricultural	119.9	111.2	(8.7)	-7.2%
Total	803.6	884.0	80.4	10.0%



Gathering deposits

For the Bank, deposits are its main source of financing to sustain the growth of the loan portfolio and other risk assets, with 90.1% of its leverage structure coming from fund-raising from the general public. Throughout the year, efforts were made to achieve growth in the deposit portfolio and improve the deposit structure while maximizing the financial margin; culminating on December 31, 2020, with a deposit portfolio balance of \$1,056.9 million, which translates into an unusual growth of \$261.6 million compared to the previous year equivalent to 32.9%. As a result of the strategies implemented, demand deposits reached a balance of \$524.0 million, growing by \$127.6 million, equivalent to 32.2% over the previous year; while term deposits had an annual growth of \$134.0 million, equivalent to 33.6%.



The extraordinary growth in public fundraising expanded the customer base of the deposit portfolio, from 168,720 to 180,298 customers; in addition, the balances of public sector deposits increased by \$142.0 million, natural persons or retail clients by \$41.7 million, followed by small and medium-sized companies with an increase of \$48.6 million, and with a slight growth of \$29.4 million in the micro-enterprise grouping together with the large enterprise. In the reported year, the weighted average cost of deposits improved year-on-year from 2.82% to 2.68% at the end of 2020, despite the high competition in interest rates from the financial system.

Deposit Balances by Product
(Figures in millions of US\$)

Deposit	Clients	2019	Structure	Clients	2020	Structure
Savings	158,315	201.6	25.3%	169,490	249.9	23.6%
Current	13,817	194.8	24.5%	14,124	274.0	25.9%
Term	8,270	399.0	50.2%	8,385	533.0	50.4%
Total		795.3	100.0%		1,056.9	100.0%

Treasury

Treasury management focused on the strategy of improving liquidity risk, materializing in a net liquidity ratio at the end of 2020 of 34.2%, much higher than the 26.7% obtained at the end of 2019 and above the required minimum of 17.0% by the regulatory body of the system.

The balance of liquid assets increased annually by \$157.6 million, caused by the growth of deposit balances by \$261.6 million already mentioned; available funds grew \$58.0 million year-on-year; deposits in the Central Reserve Bank that make up the mandatory liquidity reserve had an increase of \$51.4 million; deposits and documents in charge of other banks grew by \$3.6 million. The maturity match was strengthened as a result of the effort made to achieve a more stable deposit base in the context of economic recession and uncertainty generated by the global economic crisis and the COVID-19 pandemic. The Bank's internal policies require a voluntary liquidity reserve that allows it to strengthen its position in the financial system and comfortably honor its obligations to its creditors, guaranteeing the necessary availability to attend to the financial operations of its clients; so that, throughout 2020, 100% of the regulatory and voluntary liquidity requirements were met.

Gross income generated by liquid assets decreased annually by \$0.5 million, determined by the deterioration in the yield of liquidity reserves in the Central Bank by \$2.6 million, income from securities reached a growth of 68.8%, equivalent to \$2.2 million. The accumulated yield in the year of the securities portfolio, including local repurchase agreements in the securities market, went from 3.68% in 2019 to 4.67% in 2020, as a result of implementing an investment strategy that made profitable the increase in local interest rates and the optimal balance between liquidity and return on assets.

It is important to mention that the available liquidity reserves increased due to the downward modification of the liquidity reserve requirement for each type of deposit, releasing funds for immediate availability of around \$100.0 million; being a transitory measure extended by the Central Reserve Bank until the second quarter of 2021. Additionally, the repeal of the regulation on the additional liquidity requirement of 3% of liquid assets, which was calculated based on average monthly deposits, released a volume of \$26.0 million of liquidity reserves.

Regarding the quality of the investment portfolio, more than 90% of the securities have the best possible risk rating of AAA, the locally issued securities have a minimum rating of AA-. The modified duration of the investment portfolio experienced an improvement adjusting by 0.9% at the end of 2019 until reaching a value of 0.5% as of December 2020.

Providers of funds

In 2020, the confinement measures established by the Central Government to preserve people's health led a large part of the country's productive sector to reduce/close operations, for this reason, very close interaction with the providers of funds was necessary to timely solve any need for an extension of payments if it becomes necessary and to take advantage of the opportunity to support with special financing lines that transfer some benefit to the Bank's clients.

Due to the solvency and steps taken to generate the necessary liquidity throughout the year, the Bank was able to timely honor payments with all fund providers, consolidating itself as a strategic ally in the acquisition and launch of special credit lines with a focus on companies directly affected by the economic repercussions of the COVID-19 pandemic.

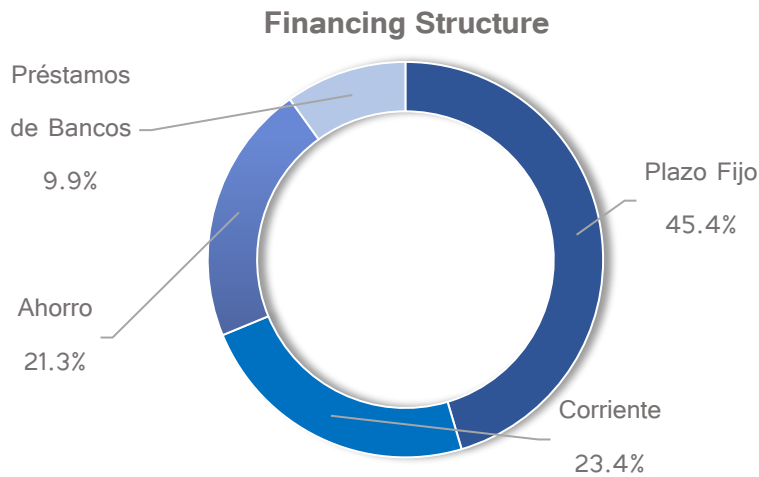
At the end of the year, a quota of \$221.0 million was reached and a balance of \$116.7 million, renewing important credit lines with the OPEC Fund for International Development for a value of \$12.0 million destined to finance foreign trade activities, pre-export, post-import and working capital and renewal of a revolving credit line with BICSA for \$9.0 million to finance the SME portfolio.

In addition, \$20.0 million were acquired with the Central American Bank for Economic Integration, CABI, under the Financial Sector Support Facility for financing MSMEs affected by COVID-19 Special Window of El Salvador; in addition to the acquisition of \$7.3 million under the liquidity and expansion of the financial system program and \$1.1 million for the Energy Efficiency program, becoming an important ally for our operations.

Despite what happened during the year, the role played by the Bank during the crisis and its approach have made it possible to strengthen relations with its providers of funds since the leadership shown during the most difficult moments of the pandemic was essential to access to new resources for the benefit of the productive sector of El Salvador and to become recognized at the regional level for the support provided to small and medium-sized enterprises.

Loan balances with fund providers
(Figures in millions of US\$)

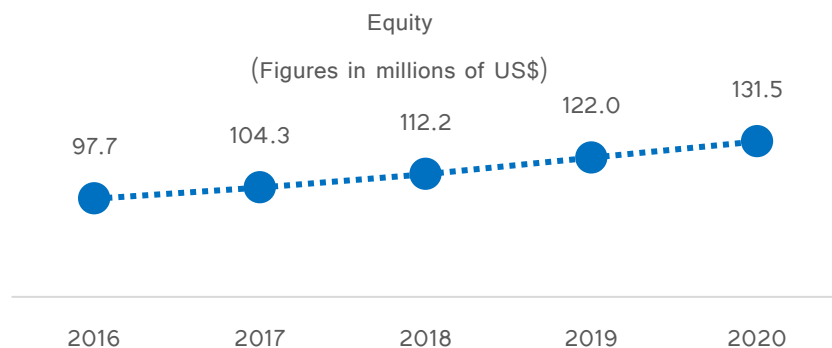
Loans	2016	2017	2018	2019	2020
Local Entities	62.8	57.7	55.8	53.9	37.8
Foreign Entities	85.0	103.4	63.3	72.1	78.9
Total	147.8	161.1	119.0	125.9	116.7



Equity and solvency

During the course of 2020, the Bank has boosted its equity strengthening, reaching a balance at the end of 2020 of \$131.5 million, which represented an annual increase in its equity by \$9.6 million, equivalent to 7.8% growth, mainly generated by the accumulation of profits for the year of \$5.6 million and the capital increase of \$28.4 million, of which \$2.0 million was made in cash, being authorized on December 29, 2020, by the Financial System Superintendency. At the close of the fiscal year, equity is made up of a total of 12,239,049 shares, with earnings per share of \$0.46 lower than the previous year, which was \$1.30.

In compliance with local regulations, Banks must maintain an equity fund ratio on risk-weighted assets with a minimum of 12.0% and with respect to their liabilities and contingencies a minimum ratio of 7.0%; in this sense, the evolution of the equity indicators shows satisfactory performance, exposing the financial solidity that characterizes the Bank's management. The equity solvency indicator on risk assets at the end of the fiscal year was 14.6%, allowing a growth capacity in risk assets of \$195.6 million, which will serve to meet growth expectations and fulfillment of goals for next year.



Equity indicators

Indicators	2016	2017	2018	2019	2020
Solvency over assets	14.1%	13.9%	14.6%	14.9%	14.6%
Solvency on liabilities	11.5%	11.2%	12.4%	12.1%	10.5%
Equity on assets	10.7%	10.4%	11.4%	11.0%	9.7%

At the Ordinary General Shareholders' Meeting held on February 21, 2020, it was agreed to pay dividends of the preferred shares, from the profits of the year 2019, for a value of \$88.9 thousand, equivalent to 6.0% of their nominal value; likewise, the transfer of Results to be Applied for the fiscal year 2019, equivalent to \$7.7 million to Voluntary Capital Reserves was approved.



04

INTEGRAL RISK MANAGEMENT

Adequate comprehensive risk management is an essential and strategic part of Banco Hipotecario. This function includes its identification, measurement, mitigation, monitoring, and communication of the inherent risks associated with the Bank's activities. Management for 2020 presents the following results:

Market risk

Market risk is the potential loss derived from adverse movements in market variables such as prices, interest rates, and exchange rates; that affect the products and markets in which the Bank operates. The decisions to manage these risks are made through the Risk and Assets and Liabilities Committees, in order to provide stability to the return on the Bank's equity, maintaining adequate levels of liquidity and solvency. The structure of assets and liabilities sensitive to market risk is detailed below:

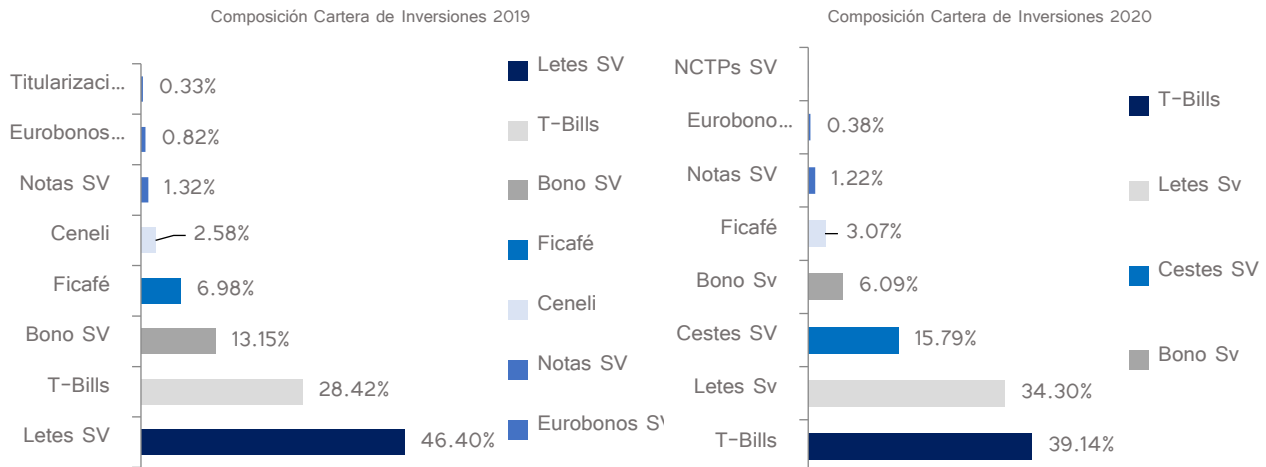
List of types of market risk with operations executed by BH 2020 (millions of \$)

	Balance in Balance Sheet	Main Market Risk
Assets subject to market risk	1,330.7	
Liquid Assets	266.8	Exchange rate
Investments	173.0	Price, Interest rate
Active repurchase agreements	0.00	Price, Interest rate
Loan portfolio	883.0	Interest rate
Other assets	7.8	Prices
Liabilities subject to market risk	1,224.3	
Deposits	1,043.4	Interest rate
Passive repurchase agreements	-	Price, Interest rate
Financing	117.4	Interest rate
Issuance of titles	-	Price, Interest rate
Other Liabilities	63.5	Price

Market risk estimation

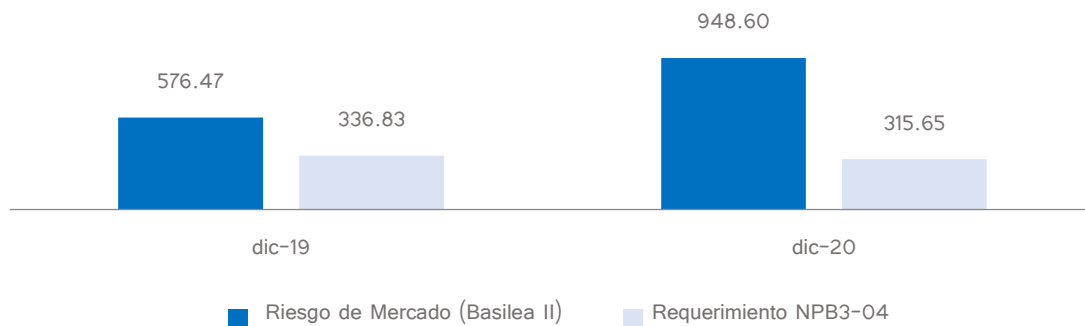
The investment portfolio is made up entirely of fixed income securities issued both by sovereign governments and by national and international institutions. The growth of the United States Treasury Bills (T-Bills) stands out, gaining more than 10.0% of participation, which together with the El Salvador Bills (Treasury bills, Letes SV in Spanish) concentrate almost 3 out of every 4 dollars of highly liquid instruments.

The composition of the investment portfolio for the end of December 2019 and 2020 is presented below, in percentage terms and by type of financial investment.



The market risk profile in the investment portfolio is reflected in the estimates of the capital requirement, under the Basilea II procedures; whose measurement for 2020 is \$948.6 thousand dollars, increasing by \$372.1 thousand dollars, in a period of twelve months, and representing 0.74% of the Institution's equity fund, at the end of the same year.

Requirement due to Market risks (Figures in thousands of US\$)



Likewise, the Bank measures the sensitivity of the Institution's financial margin to movements in the asset and liability rates of the market, for the next twelve months and to a certain level of confidence (95.0% and 99.0%), as well as to movements of 100, 200 and 300 basis points. At the end of 2020, the risk over the one-year financial margin, measured as its sensitivity to parallel variations between 100 and 300 basis points in the main market interest rates, has remained stable with respect to 2019.

Liquidity risk

Liquidity risk is defined as the possibility of incurring losses due to not having sufficient resources to comply with the obligations assumed, incurring excessive costs and not being able to develop the business under the expected conditions.

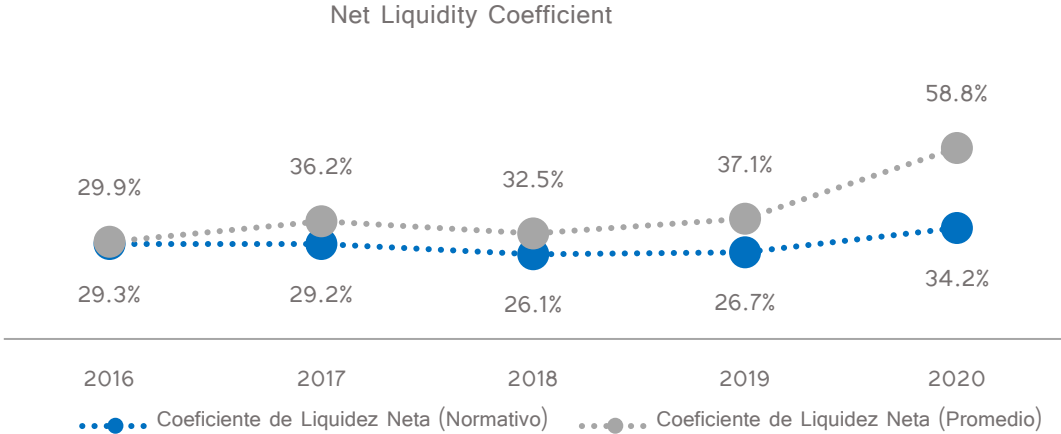
The objective of liquidity and market risk management is to identify, monitor, and manage the different liquidity risks to which the Bank is exposed, in order to ensure the continuity of commercial operations and avoid the high risks that could materialize in case of not having sufficient resources to meet the obligations to which the institution is subject.

Financing and liquidity decision making is based on a comprehensive analysis of the Bank and its environment, including strategy, balance sheet, and business dynamics; which allows managing liquidity in the short, medium, and long term, to ensure access, stability, and diversification of financing sources, guaranteeing optimal levels of liquidity to cover contractual and non-contractual cash outflows in the short and long term with stable sources of financing, mitigating the impact of its cost on the income statement.

To achieve compliance with the objectives defined above, liquidity risk is measured through the application of the following tools as term matching, Liquidity Risk Index (LRI), Value at Risk (VaR), concentration, and renewal of the deposit portfolio.

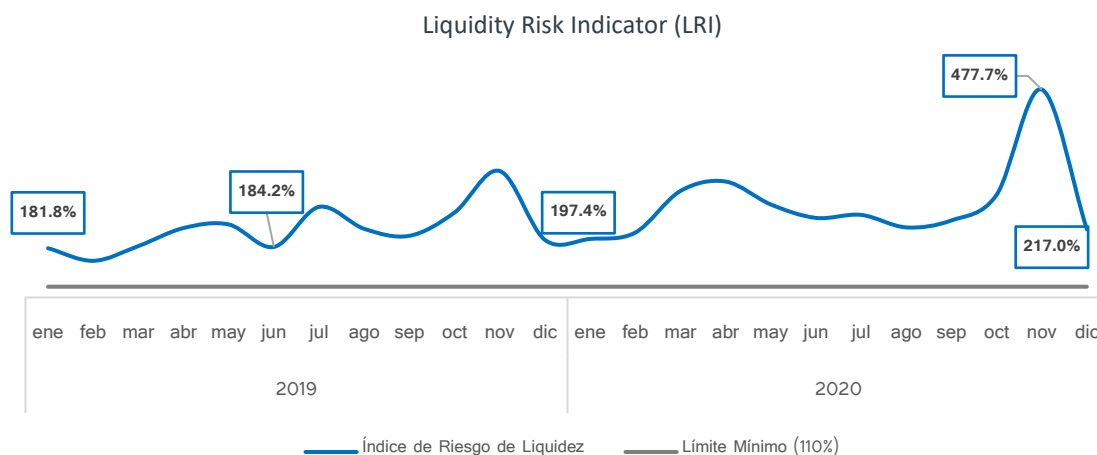
A. Term Matching

The term match provides information on both contractual and estimated cash inflows and outflows of assets and liabilities through assumptions for a given period. In this sense, the Bank has maintained a reasonable liquidity situation in recent years, obtaining as of December 31, 2020, a net liquidity ratio of 34.6%, being the highest in the last seven years analyzed, being a year highlighted by maintaining an unprecedented surplus liquidity situation in the context of the health crisis caused by COVID-19; on the other hand, there is an accumulated gap in the 60-day band of \$102.5 million. Based on the foregoing, the regulatory liquidity requirements demanded by the Superintendency regulated in NRP-05 "Regulations for liquidity risk management" have been complied with.



B. Liquidity Risk Indicator (LRI)

The Liquidity Risk Index (LRI) will be measured as the ratio between the Liquid Asset Fund (LAF) and the Net Liquidity Requirement (NLR) at 30 days. This ratio is calculated monthly, and the minimum internal limits defined for this indicator are between 110.0% - 140.0%, also the results are presented to the Risk Committee and Board of Directors. The following is the evolution of the Liquidity Risk Index (LRI) during 2020:



At the end of 2020, the Bank's liquid assets fund totaled \$352.9 million, of which 51.0% is made up of tranches I and II (for immediate use) of the Liquidity Reserve deposited in the Central Reserve Bank. Regarding the percentage of participation, the flow from the Treasury Bills (LETES SV), as well as the funds available, rank as the second and third most important component, respectively.

C. Concentration/renewals of the deposit portfolio

For the Bank, deposits are the main source of financing, with which the growth of the loan portfolio and other risk assets is promoted, representing 90.0% of its funding structure and coming from fund-raising from the general public. For 2020, the deposit portfolio presented growth within a context of the economic crisis of \$262.0 million in relation to the end of December 2019; this dynamic is strongly related to the precautionary behavior of clients and investors who have funds with the Bank, as well as the government's support for the banking sector with temporary liquidity regulations through the Central Reserve Bank.

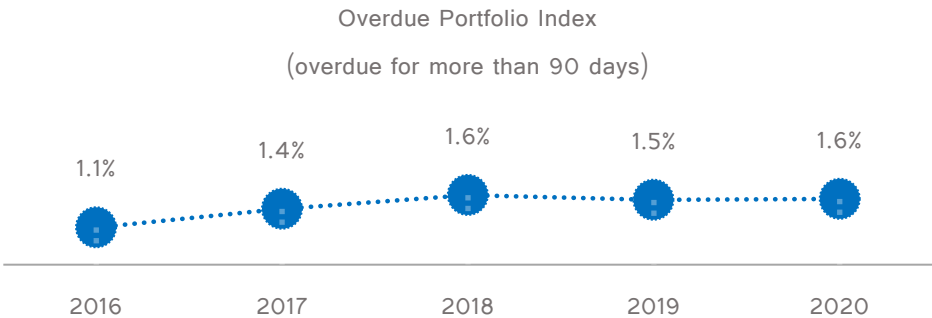
Likewise, the Bank estimates the renewals of deposits with maturities of thirty days by means of a renewal indicator which can be estimated under three classifications: Pure increased and decreased renewal. In recent years, the Bank has maintained an average term deposit renewal factor (maturity of 30 days) above 86.0%, which indicates that there are adequate negotiation strategies with clients who maintain their funds in this product. As a counterpart to renewals, there is a factor of cancellations of time deposits (30 days) which during the last year did not exceed an average of 10.0%, confirming once again the stability of this type of deposit, whose management is key to maintaining an adequate term matching.

Additionally, and as part of liquidity mitigation and monitoring, it has a liquidity contingency plan, and as part of risk management during 2020, it was activated preventively, to ensure adequate liquidity management during the health crisis of COVID-19. Likewise, the constitution of Voluntary Liquidity Reserves is maintained, which defines a discretionary requirement for the next 30 days to ensure the continuity of the Bank's commercial operations for said time horizon.

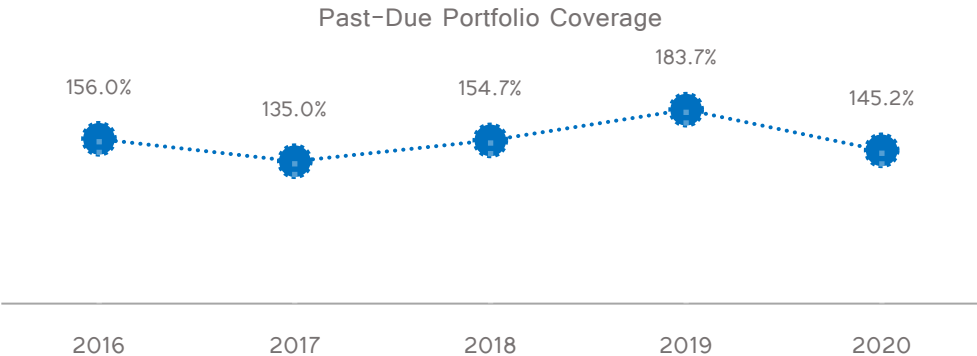
Credit risk

Proper credit risk management begins with the timely identification of endogenous and exogenous factors that can influence the possibility of payment compliance by clients. For this purpose, there are different methodologies to mitigate and control it, among which are expected loss, harvesting, among others.

The past-due portfolio index relates the portfolio in arrears of more than 90 days with the Bank's total portfolio, it is below the average of the financial system and shows a slight decrease compared to the previous year, going from 1.54% at the end of 2019 to 1.56% at the end of 2020. The portfolio with arrears of more than 90 days, which at the end of December 2020 reached a balance of \$13.8 million and is covered with mandatory provisioning reserves of \$12.6 million and \$7.4 million has been constituted in voluntary reserves, reaching a balance total loan reserves of \$20.0 million, that is, there is an excess, in case of default, of \$6.2 million.

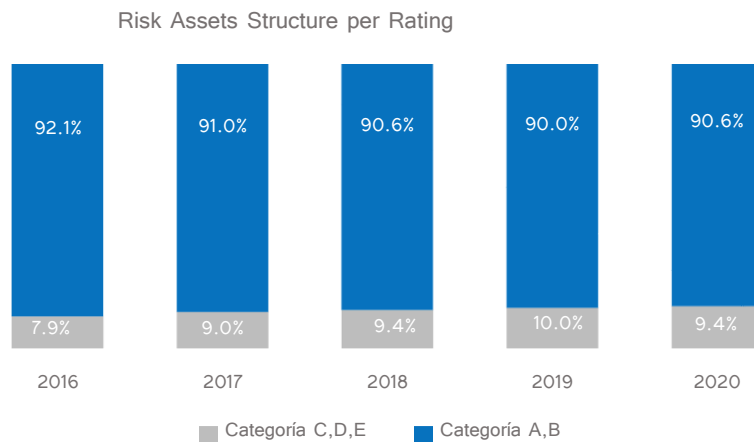


The overdue portfolio coverage ratio of 145.2% at the end of 2020 indicates that for every dollar of overdue loans there is \$1.45 in write-off reserves, demonstrating prudent management of this risk. The ratio of total reserves over assets and contingencies decreased from 2.85% to 2.24%, which indicates a decrease in provisions to cover possible losses in the loan portfolio, extraordinary assets, accounts receivable, and contingencies.

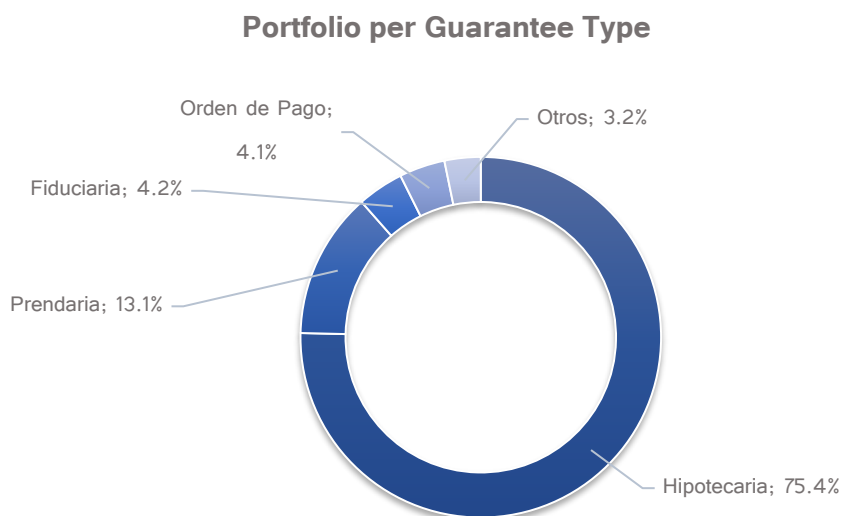


Risk asset quality

Loans, which mostly have A and B ratings, correspond to a percentage of 90.6% at the end of 2020, with a slight improvement over 2019 of 60 basis points.

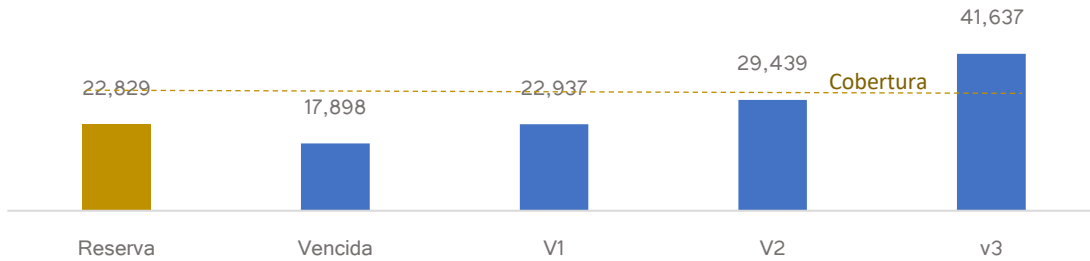


As of December 31, 2020, the balance of the mortgage-backed portfolio amounted to \$666.3 million, which presented an increase of \$31.2 million compared to 2019, followed by the pledged portfolio with a balance of \$116.1 million, with a growth of \$17.9 million, both represent 88.5% of the total loan portfolio, the rest of the portfolio corresponds to other types of guarantee, which only represent 11.5%.



The credit policies establish the measures to guarantee the realization of the clients' mortgages in case of non-payment, in that sense, as of December 31, 2020, the portfolio in judicial collection showed a balance of \$11.4 million, of which \$4.7 million were recovered through the award or allocation of extraordinary assets and cash payments during the year, which allowed the index that relates net extraordinary assets to equity to go from 4.3% as of December 2019 to 5.9% as of December 2020.

Stress Scenarios
 Figures in thousands of US\$



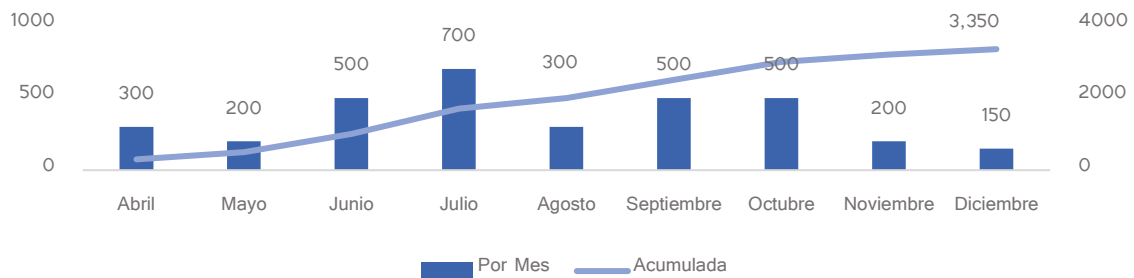
However, it is important to note that, since the beginning of 2020, Credit Risk management has faced an unprecedented challenge, which included an abrupt and prolonged interruption of the national and global economy as a necessary measure by the authorities to counteract the effects on the health crisis of COVID-19. This situation was accompanied by appropriate support regulations, but which meant a restructuring of the methodologies for estimating the real monitoring indicators.

Mitigation of the effect of the loan portfolio due to the impact of COVID-19 in vulnerable sectors.

For the first half of 2020, a loan portfolio evaluation model was carried out considering the impacts on the entire economy and not only on some sectors, but also the cascade effect that it would generate. For this, the scenarios that influence the probability of default (PD) were projected, based on the historical behavior of the portfolio; the scenarios simulate stressed conditions, at confidence levels of 90%, 95%, and 99% (v1, v2, v3 respectively).

It is important to mention that, during the emergency, the Bank had palliative measures in the event of non-payment such as policies and agreements to support our clients and the generation of provisions for reserves in the event of non-compliance, which covered the past due portfolio (PAR90) for more than 127.0% (May), and at the end of 2020 it rose to 142.0%.

Covid Voluntary Reserve
 In thousands of \$



The level of loan loss reserves is capable of covering even scenario 1 (v1), and more than half of the most pessimistic scenario.

Voluntary Reservation on COVID-19 fixes

The “portfolio with COVID-19 fixes” are the loans of clients that have been included as affected by the effects of the pandemic and that are covered under the NPBT-01, which include temporary extraordinary measures of fixes and treatments that are intended to help companies with payment difficulties for a greater probability of payment, once they re-establish their operations to the level of their previous conditions. In this sense, the Bank conducts a specialized evaluation of each client to provide the comprehensive solution that best suits their situation. However, as a preventive measure and in order to mitigate any impact of loss due to the non-recovery of the portfolio, voluntary provisions have been established which, at the end of 2020, amount to \$3.4 million, as detailed:

Operational risk

In accordance with the provisions of NPB4-50 "Standards for operational risk management in financial entities", operational risk is defined as the possibility of incurring losses due to failures in processes, people, systems of information, and because of external events; includes legal risk. Banco Hipotecario has established strategies that contribute to the improvement of the management of this risk in the different organizational units, through the development of the risk management culture and the operational risk management framework, with the stages of identification, measurement, control, mitigation, monitoring and control. The following are some of the activities implemented in the Bank:

Strengthening the operational risk culture

Activities are carried out to promote a proactive culture for operational risk management, such as training for all Bank personnel; participation in the induction program for new hires; sending newsletters through institutional email and internal YAMMER network, to provide information on the regulatory and conceptual framework for operational risk management.

Identification and evaluation of operational risks

The identification and evaluation of potential risks are carried out, identifying those threats generated by operational risk factors in the Bank's processes; likewise, the controls that contribute to mitigating risks are detailed. In the case of materialized operational risk events, there is an escalation process, through a network of operational risk managers in all the Bank's units, to carry out solution activities and action plans to mitigate the occurrence of these events.

Methodology for the evaluation of risks and controls

The Bank has a methodology for the evaluation of risks and controls, with which the identification process is carried out through the risk matrix, establishing the measurement scales of threats, according to the impact and probability of occurrence, allowing to establish the level of inherent and residual risk in the activities of the processes.

Establishment and monitoring of risk appetite

The operational risk regulations define the parameters for establishing the operational risk appetite for each current year, which allows monitoring of the limit adopted by the Bank, with monthly follow-up through the Risk Committee.

Support in the launch of new products, services, channels, and computer systems

An analysis of potential risks associated with the Bank's initiatives is carried out, in which the action and mitigating plans for adequate risk management in the new IT services, channels, and systems are contemplated, with the support of different Bank units.

Legal Risk

The main factors on which Banco Hipotecario's management focuses on legal risk are the following:

- Formalization of contracts, agreements, or licenses.
- Standards compliance.
- Litigation.
- Issuance of legal opinions prior to the launch of new products or services and support throughout the implementation process.
- Control of responses to official letters from Government Institutions by the Trades Attention Unit and FATCA.

In order to timely monitor and manage possible losses resulting from the failures of the aforementioned factors, the Bank has a litigation matrix, in which all new proceedings against the Bank and the steps taken as part of it are recorded, and the procedures that are carried out as part of the follow-up of those already enrolled in it until its completion. Likewise, it has a matrix of regulatory compliance obligations, which is also administered by the Directorate for Comprehensive Risk Management, which records the mandatory compliance that the Bank must meet, and whose source is provided by law. In addition to the registration in the matrix, periodic follow-up is given by reminders to those responsible for the handling. Likewise, constant monitoring and control of the responses that the Trades Attention Unit and FATCA, must make in time to the Government institutions that require information from clients and the respective products and operations that they carry out in the Bank are carried out.

The identification of risks in the execution of acts or contracts that must be formalized and signed by the Bank is carried out through the Legal Department, which analyzes the legal validity of the documents and seeks their adequate legal instrumentation.

For legal risk management, the Bank has developed a regulatory framework to efficiently manage these risks:

- Regulatory Compliance Policy
- The legal risk section of the Operational Risk Management Manual.
- Legal risk management policy.
- Instructions for the Registration and Control of Litigation.
- Service Agreement for the Preparation and Updating of Legal Acts and Contracts Executed by the Bank.

Likewise, as part of good practices, any creation or modification of the Policy related to Legal Risk Management is duly exposed and approved by the Board of Directors, as the highest authority in risk management within the Bank. Additionally, on a quarterly basis, the Risk Committee and the Board of Directors are informed of the status of the different lawsuits, as well as the degree of compliance with regulatory obligations by all areas of the Bank, reporting situations that could result in losses or penalties for the Bank. Likewise, in litigation in which the Bank has made a payment in cash or in-kind by virtue of a resolution against, settlement agreement or other means of early termination of the litigation, it is reported as an operating loss to the Risk Committee, in the month following the payment, in order to quantify its impact on the operational risk appetite, and it is important to mention that during 2020 there were no related economic impacts.

Business Continuity Management

Business continuity is defined as the ability of an entity to continue to offer its products or services at previously defined levels at an acceptable level after a disruption incident.

At Banco Hipotecario, the Business Continuity Management System has been created considering the provisions of NRP-24 "Technical standards for the business continuity management system", for which an adaptation plan has

been created that allows establishing a Business Continuity Management System and criteria for the adoption of policies, plans, methodologies, and procedures in accordance with the best international practices, within the deadlines established in the aforementioned standard, which will contribute to strengthening the Bank's operational risk management. During the year, various activities were carried out, including:

- Evaluation and update of the Internal Regulations for Business Continuity Management.
- Update of the Business Impact Analysis, where critical business procedures/activities were identified in different Bank units.
- Implementation of the Risk Assessment Analysis, which identifies and assesses the risks in the activities of the processes and their resources against a certain threat or group of threats.
- Activation of the Business Continuity Committee in case of a crisis, in the framework of the COVID-19 pandemic, in which the associated risks were evaluated, and the main activities and strategies of the Bank were established to prevent contagions in the facilities of the Bank, both for personnel, customers and users.
- Creation and updating of business continuity plans, Business Continuity Plan for POS Service and payment gateway; Business Continuity Plan for critical suppliers and Business Continuity Plan for health emergency by COVID-19.
- Business continuity plans were tested, including the execution of the call tree; Alternate Contingency Measurement Test due to failures in the Siss Web System; reports on tests of the Business Continuity Plan for the transfer of critical personnel to the alternate site of operation and the Business Continuity Plan for the coverage of personnel involved in the execution of critical procedures.
- The training was carried out both online and in-person for all Bank personnel and Business Continuity Managers, to strengthen the organizational culture on Business Continuity Management.

Fraud risk

Fraud Risk Management has been developed during the year through Transactional Monitoring of Debit Card and Electronic Banking Operations, Fraud Investigations, Various Monitoring and Qualitative Evaluation of Fraud Risk.

The strict quarantine period derived from the COVID-19 pandemic had the effect of shifting from face-to-face purchase operations to Internet purchases with a Debit Card; based on this trend, greater attention was paid to these operations in the Debit Card Transactional Monitoring, with an emphasis on customers who were abroad. Due to the implementation of the acquiring business line with its own POS terminals, additional transactional monitoring services are planned.

During the year, institutional investigations of External and Internal Fraud of different kinds were supported and documented, as well as various monitoring of Bank operations and criminal activity affecting financial institutions in the country; additionally, a Virtual Course on Fraud Risk Management was coordinated. The Bank's main Fraud Risk scenarios have been updated, with their respective Inherent Risk and Residual Risk assessments.

Information Security

Information Security Management has been carried out through different services such as administration of the Information Security Management System (ISMS), monitoring of automatic alerts generated by the different computer security tools available at the Bank, and issuance of technical opinions. Within the administration of the Information Security Management System, activities have been carried out in compliance with the guidelines contained in the Information Security Policy, including topics such as a virtual course on Information Security, review of access to the main applications, coordination of external analysis of vulnerabilities in the computer network, management of security updates and considerations of Information Security applied to Teleworking, which were necessary due to the intensification of the Home Office modality derived from the COVID-19 pandemic. In

coordination with the Information Technology Services area, automatic alerts generated by computer security tools are monitored, on which administrative monitoring of detected incidents is carried out. The main Bank projects regarding new products and services have had the participation of Information Security, including the issuance of technical opinions.

In regulatory matters, the Standards Committee of the Central Reserve Bank put into effect the Technical Standards for Information Security Management (NRP-23), requiring as an initial phase the issuance of an Adaptation Plan at the end of the year; the implementation has a maximum period of 2 years from the year 2021.

Environmental and social risk management

Management is divided into two main pillars: Credits and Suppliers.

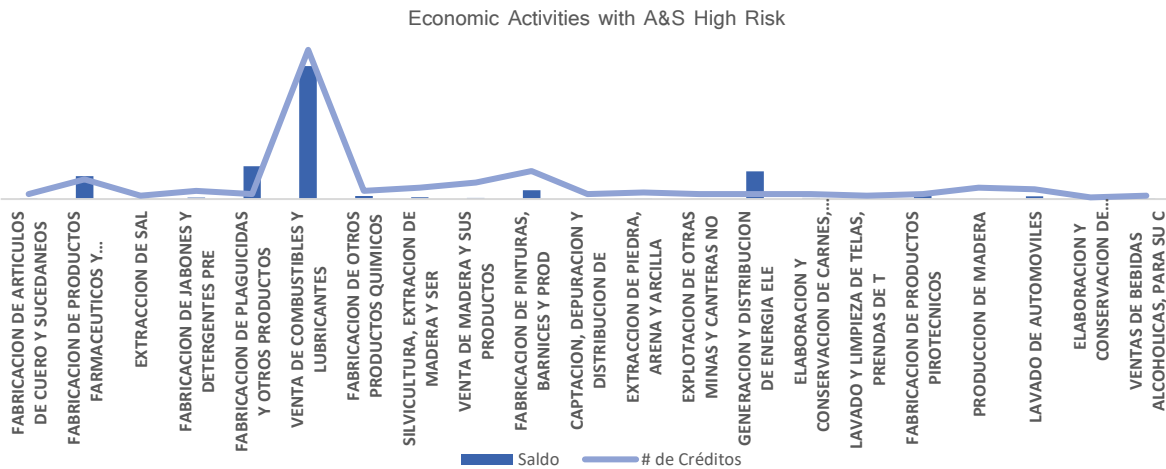
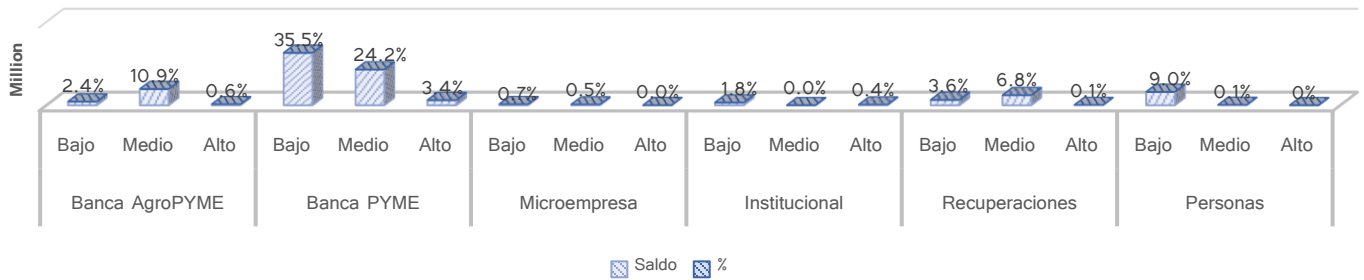
Credits

The objective of this Pillar is to reduce the indirect negative impact caused by the Bank's financing activities. This includes comparing the economic activities and investment projects of new and existing customers with the list of excluded activities (according to IFC's Exclusion List) in each financing request, carrying out an in-depth evaluation, analysis, and monitoring of environmental and social compliance of the activities and projects of the customers in which risks to health, social security, cultural heritage, vulnerable communities, among others are also considered; especially valuing the education and advice of our customers to improve their environmental performance and compliance with Salvadoran legislation, seeking not to finance activities or projects that generate an environmental deterioration in ecosystems and biodiversity, the violation of rights of the communities, their collaborators and the general public. During 2020, the performance of the total loan portfolio shows the following composition by category of environmental and social risk:

Total loan portfolio with balances as of December 31, 2020 (figures in millions of \$):

Risk	Clients	Balance	(%)
High	214	39.9	1.8%
Medium	3,814	375.4	32.3%
Low	7,798	467.8	65.9%
Total	11,826	\$ 883.1	100.0%

TOTAL PORTFOLIO PER BUSINESS SEGMENT



Concentration of financing in economic activities with high E&S risk:

The Bank's total loan portfolio is balanced, with 95% of the risks concentrated between light and low risks, which indicates that, through the application of our management methodology and basic advisory and follow-up measures, these risks are mitigable and mostly reversible. Likewise, it reflects at the end of 2020, a concentration index in financing with high environmental and social risk in a very acceptable percentage (<5%), which is in accordance with the goal set in the E&S risk management strategy for the current period, which becomes a management advantage for the Bank with respect to the size of the portfolio and the market niche it serves.

Suppliers

During the second half of 2020, the Bank officially included the concept of "Responsible Purchasing" in its policies for purchasing products and contracting services, which aims to define a methodological strategy that allows expanding the operational scope of the External Environmental and Social Risk Management, through the inclusion of new requirements when establishing a business relationship with all suppliers, regarding their expanded environmental and social responsibility in terms of environmental and social performance at all levels of their processes, the products they market and the services they provide.

This concept is materialized by the Bank, by requiring the signing of a declaration and commitment called the "Environmental and Social Risk Management Agreement (ESRMA). This is applicable in accordance with criteria previously defined within the Bank, which are three:

- Suppliers categorized by their economic activity with high environmental and social risk.
- Suppliers who sign a purchase agreement
- Frequent suppliers

Any breach of the ARAS agreement or the identification of the materialization of environmental and social risks by the supplier generates the performance of an expanded environmental and social risk assessment by the Bank, which

could conclude in the termination of any commercial relationship with the supplier. The management of environmental and social risk with suppliers during this year was a total of 10 ARAS agreements signed. To date, no environmental and social risk event has been identified and reported with the Bank's suppliers.

Risk classification

The Pacific Credit Classification Agency, in its periodic review, evaluates the main areas of the Bank's management with an emphasis on financial information, asset quality, corporate governance, credit risk, market risk, liquidity, operational risk, and capital adequacy.

As a result of said evaluation, it decided to ratify the classification of financial strength at AA- with a "Stable" outlook and level 2 for the shares in the report issued in September with figures as of June 2020 and ratified again in December 2020 with figures to September of the same year.

The classification is based on the growth of its loan portfolio and considers positive the restructuring of the loan portfolio in view of the entry into force of the Temporary Technical Standards for the granting of loans approved by the Central Reserve Bank, and also takes into consideration the adequate management of liquidity risk, which reflects a conservative risk profile. The classification also considers its adequate solvency levels and the support provided by the Government of the Republic of El Salvador.

The Bank's main strengths on which the classification is based are:

- It continues to grow in loan placements, focusing mainly on the corporate sector and continues to reflect an adequate level of liquidity, supported by growth in available funds and loans.
- It stands out with an optimal level of performance regarding its corporate governance practices and in relation to comprehensive risk management, compliance with acceptable policies and procedures.
- It continues to show adequate levels of solvency and legal indebtedness, placing it above the legal minimums established in accordance with the regulations.
- Likewise, it has the support of the Government of the Republic of El Salvador, which has been jointly and severally responsible for providing sufficient capital so that the Bank complies with all legal requirements.



05

COMPLIANCE MANAGEMENT AND PREVENTION AGAINST ML/FT

Money laundering prevention is a fundamental and ongoing activity within a financial institution. It is a commitment made by all Bank employees, with the aim of preventing the institution from being used to legalize resources of dubious origin, receive funds from illicit activities or finance acts of terrorism.

In this context, we are aware that CUSTOMER KNOWLEDGE is the cornerstone in prevention work; with this, the risk profile of the customer is determined, we understand their transactional behavior in accordance with the economic activity that they carry out and it helps us to project security and control measures that prevent money laundering in the institution. Therefore, during the year, the Compliance Office developed activities aimed at strengthening its risk management of money laundering and terrorist financing, among the main ones, we can mention the following:

- Updating of internal policies and procedures.
- Implementation of internal controls that allow mitigating the risks of money laundering and terrorist financing.
- Execution of extended due diligence processes for customers considered as high risk.
- Development of specialized training for business areas and others.
- Continuous monitoring of transactions made by customers.
- Specialized advice on the prevention of money laundering to business areas and others.



06

ADMINISTRATIVE MANAGEMENT AND TECHNOLOGICAL INNOVATION

Quality Management

Integrated Management System

Banco Hipotecario has an Integrated Management System, based on compliance with the requirements of International Standards: ISO 9001: 2015 Quality Management System and ISO 14001: 2015 Environmental Management System. The adoption of both standards aims to increase the satisfaction of our clients, through continuous improvement processes and promote efforts to protect and conserve the environment, complying with international quality standards in the provision of customer service and becoming a Green Bank. Some of the Initiatives developed this year that stand out are the following:

- Implementation of improvements in the Strategic Administrative - Processes, Business Processes, Information Technology and Communication.
- Update of Internal Regulations
- Improvements in the Organizational Structure.
- Measurement of Business Process Indicators.
- Simplification of Operational Formats.
- Improvements to the Trades Attention Requirements and FATCA.
- Scanning of Documents to formalize loans, such as online disbursements.
- Audits of the Integrated Management System through videoconference.

BH Digital Transformation

A change in culture has been promoted aimed at making our work effective, balanced, and innovative: effective insofar as it is aligned with the strategy, balanced because it is not only oriented towards results but also towards people within the Bank, and innovative, always looking for new ways of doing things. In order to give life to this new transition stage, various awareness programs have been carried out, with 37 on-site training sessions, training 444 employees in the introduction to the Digital transformation and 2 virtual training sessions with a participation of 724 employees. As part of continuous improvement, we seek to have collaborators who are flexible, adaptable to change, with the ability to create and respond to new customer demands and obtain benefits in a business environment, for which the Bank has started with training in Agile Methodologies for Change Managers, who will be the promoters and replicators of this methodology to all personnel.

Strategic Projects

During 2020, projects focused on achieving the Bank's mission and vision were implemented in order to provide innovative products and services to our clients. The strategic projects completed include Implementation of the APP, POS Services, Customization of Debit and Contactless Cards, Chatbots, Automation of Personal Banking Processes, and sending of International Transfers through Private Network. These projects seek to offer the Bank's customers competitive, innovative and technological products and services, attracting a digital culture. The initiatives that are developed are aimed at being more competitive and closer to our customers. A Bank with a culture focused on digital transformation.

Administrative management

Training and development management

Since the end of 2019, we actively participated in the generation of a new institutional strategy, for which, at the beginning of 2020 together with the Identity and Sustainability area led by the president, we gave life to a new philosophy, organizing an important activity that gave way to "Nuestro Rumbo 2020", giving first-hand knowledge of the vision, mission and values, in this activity almost all the personnel participated.

For the Bank, the personal and professional development of its collaborators is essential to provide a comprehensive quality service, in accordance with the mission and business objectives, implementing training for business personnel in branches, improving availability to meet the requirements of the customers. Likewise, the Bank carried out a total of 118 training events with almost 100% participation.

It is important to mention that, in spite of the pandemic, the Bank did not neglect important activities in the preparation of its personnel and to give impulse to our High-Performance Culture we developed workshops with the Commercial Management in which 100% of them learned and experienced the focus of our Customer Experience culture. In addition, the platform and content of the training programs have been innovated, this year it was migrated to a new training modality where virtual was strategically productive, using Moodle and various office 365 suite applications, such as Sway, Stream, Yammer, Teams, Forms and we acquired the Toonly license and to date, we are also incorporating the Powtoon tool. Likewise, the gamification technique applied in the context of learning, which allowed us to obtain greater results and achievement of objectives in each program. This training modality has included the entire induction process for new employees and training for teller positions, where they have the opportunity to have a virtual classroom, which prevents them from having to travel to the central offices to be trained in our systems. There is a Stream channel with the possibility of viewing the contents permanently, which means that they can self-manage their training, in the event that there are any points that were not passed. Always seeking digital innovation, the project for the digitization of employee files has been finalized, allowing processes to be streamlined today and further guaranteeing the safeguarding of information.

One of the main efforts is to be able to provide the Bank with a diagnosis of the feelings of all its collaborators; therefore, through the climate survey, we have identified that the Bank currently has a healthy climate where harmony and labor stability prevail, the result was 82.4% satisfaction, out of a sample of 96.0% of the population. Likewise, in order to foster the development and growth of our personnel, in 2020, 49 employees were promoted to positions of greater responsibility, 83 new hires were made to apply for the different positions, and currently, 61.0% are employees from different areas of the Central Office and the remaining 39.0% from the different branches. We closed the 2020 period with 828 employees, of which 46.0% are men and 54% women, for whom efforts have been made to maintain the well-being of all with benefits that help their physical and mental health.

Occupational Health and Safety Management

Banco Hipotecario committed to the protection policies for its workers and in the development of procedures and regulations, establishes an Occupational Risk Prevention Management Program, based on continuous improvement that includes: policy, organization, planning, evaluation, inspections, and improvement actions; with the aim of anticipating, recognizing, evaluating and controlling the risks that may affect health and safety in occupational spaces. Applying the Management System in its workers, ensuring compliance with the minimum standards established at the national level, carrying out two annual drills year after year, training its emergency brigades (fire, evacuation, and first aid), to acquire and strengthen knowledge, in order to reduce human damage caused by an emergency situation.

In the framework of the COVID-19 pandemic, a set of prevention measures was implemented to reduce the risks of contagion among Bank employees, suppliers, customers, and users in general, for this purpose, a biosafety protocol approved by the Ministry of Labor and Social Welfare was created and implemented.

Purchases and infrastructure

As a financial institution, the Bank channels its processes for purchasing goods, works, and services through a specific department, and among the main activities carried out are:

Emerging purchases: Given the emergency that was decreed by the COVID-19 pandemic in our country, the Administration took into consideration providing personnel with biosafety products to provide the service without interruption for users, among these products that have been acquired are: Masks, alcohol gel, contracting transportation services for employees, sanitation of spaces and Bank buildings, at an approximate investment of \$142.5 thousand with the support of 15 new suppliers dedicated to these items.

Expansion of the network of suppliers: The network of suppliers has been expanded to efficiently provide the requirements of the different units of the Bank, while complying with the regulations of the processes for procurement and contracting of services, including environmental standards. Currently, suppliers of biosafety supplies have been incorporated into the Supplier Base, increasing our base to 140. In order to modernize the processes, the acquisition of a Purchasing System was authorized, with the objective of digitizing institutional purchasing processes, with an investment of \$50.0 thousand.

Infrastructure: Remodeling for an amount of \$42.3 thousand was developed and executed as follows: Construction of space for an ATM in the Mayor's Office of Nejapa, ticket office in the Apopa Lotería Nacional de Beneficencia, Zacatecoluca Branch, adaptation to install Lotería Nacional de Beneficencia tickets offices and remodeling of the Santa Ana Centro Branch. The latter under the BH Café concept, becoming the second branch in the country under an innovative design that includes collaborative spaces, areas to comfortably use mobile devices such as cell phones and computers, Wi-Fi signal, gourmet cafeteria, tablet area for electronic operations, comfortable armchairs and meeting rooms. On the other hand, a general painting program was carried out in all the service points applying the new institutional colors in all the service points and in all the offices for a value of \$155.3 thousand. In maintenance and services, contracts for a value of \$479.6 thousand were administered for the maintenance of emergency plants, air conditioners, counting equipment, remote tellers, vehicles, and cleaning services.

All of the above generated excellent customer service and greater accessibility for users of the facilities. Part of the administrative actions carried out within the Bank to achieve a positive contribution to the Environment, were the following:

- Substitution of normal taps for push-type taps in the Senda Florida Building, to be more efficient in the use of drinking water.
- Installation of air conditioning equipment for a value of \$112.4 thousand, with category SEER 18 onwards and with inverter technology, which achieved greater energy efficiency, and which have ecological refrigerant.

- Delivery of various equipment and accessories out of use, to companies dedicated to recycling with environmental certification. The weight delivered for recycling was 6.3 tons.

Technological progress

Banco Hipotecario, within the framework of the axes of Technology, Operations and Customer Experience and in accordance with the strategic objectives of the institution, carries out various activities during the course of the year to achieve customer satisfaction, modernization in financial services, protection of the health of Salvadorans, continuous improvement of processes, digital transformation, innovation and financial inclusion. Detailed below, the most prominent by area of action:

Improve the Bank's user and customer experience.

- The operation of the managed services in the Bank's data centers was maintained without interruptions, thanks to the timely monitoring and management of the electrical infrastructure, air conditioners, fire systems, and central servers. Also, financial transaction closures were executed daily, keeping human errors to a minimum.
- Requested support was provided for the execution of the following initiatives of the Government of El Salvador during the COVID-19 pandemic:
 - a. Grant granted from March to April.
 - b. COVID-19 loans.
 - c. FIREMPRESA Grant.
 - d. Allowance to fishermen.
 - e. FIREMPRESA loans granted.
 - f. Support in the creation of payroll for Hospital El Salvador personnel.
- Internet connection was made available to Bank customers through the implementation of Wi-Fi networks in the branches.
- Wireless connectivity coverage through Wi-Fi was expanded for Bank employees in the Senda Florida, Autopista Sur and Centro buildings.
- The new financial report that is automatically updated daily, and which can be consulted through the Internet by duly authorized users, was published through the Power BI tool.
- The project "Strengthening the Data Warehouse 2.0" was completed with the production of new information cubes, which are used by key areas of the Bank for decision-making.
- An online site was set up to schedule in-person visits by customers to the Bank's branches and business areas, and designated personnel were trained for the maintenance and publication of these sites.
- Digital transformation of branches, enabling them as online service points. This was done through the implementation of websites for scheduling non-face meetings with customers, integrated with agendas and institutional communication tools. Branches and business personnel were trained in the design, maintenance, and publication of these sites.
- A corporate platform was implemented that allows the creation of online forms to collect information and opinions from customers, and the Bank's personnel designated for the design and publication of these forms were trained.
- The following ATM service points were made available to Bank customers: Hospital El Salvador, San Luis Talpa, and Nejapa Municipal Mayor's Office.

- Functionality tests were carried out on the new BH mobile banking application, which offers a personalized user interface and all E-Banking online banking services.
- A new system was created to make international transfers through the Ripple payment network, which is widely used by financial institutions around the world. Additionally, new transfer processes were created and communicated to interested users.
- New processes were developed to modify the functionality of our automated systems, which allowed the Bank to apply to the loans of our customers affected by the COVID-19 pandemic, the measures promoted by the Government of El Salvador regarding grace periods, non-application of interest, and refinancing.
- New processes were developed to integrate the Bank's automated systems with the insurance company, allowing all the procedures related to the insurance contracted by our clients to be carried out in real-time.

Continuous process improvement

- The map of process 11.00 Information and Communications Technologies was updated to incorporate the sub-processes for managing digital channels and technological innovation.
- Information on new financial products created during the year was included in the Bank's data warehouse and the creation of a process to make this integration more dynamic was started.
- The adoption and promotion of innovative thinking methodologies for the design of new products and services began, holding workshops called "Let's live innovation" and defining internal challenges as a strategy for their implementation.
- Cryptographic validation of chip cards and key generation were implemented for the Bank's ATM and POS devices through a hardware-based security device (HSM).
- A project was started with the supplier Bevertec to implement a debit card transaction processor, which allows the efficient management of issuance and acquisition operations.
- A tool was implemented to analyze the source code of the automated systems under development, allowing the timely detection of possible failures or major problems and improving the quality of the software created internally.

Financial inclusion, innovation and digital transformation

- An application programming interface (API) was enabled to integrate the BH payment gateway with the websites of affiliated merchants.
- The work modality called "BH Home Office" was enabled with the implementation of infrastructure that allows Bank employees to access systems and applications from their homes.
- The project for the implementation of POS service points was completed and 218 computers were installed from March to December.
- An online form was put into production that allows Bank customers to request the E-Banking online banking service, without having to visit the Bank's branches in person.
- A tool was implemented using React, a library of programs created and maintained by Facebook and a large community of programmers worldwide, which will allow the Bank to create new safe and reliable systems in less time.

Updating of the technological infrastructure

- New servers and storage equipment were installed and put into production to host the Core Banking systems and databases.
- Electrical network and structured cabling were installed, and computers were configured for the opening of BH Ticket Office located in Hospital El Salvador, Organizational Unit located in the Centro building, created to manage FIREMPRESA loans.

Products, services and channels

During the reported year, the development of innovative products, services, and channels has been promoted, working day by day and identifying opportunities for improvements to optimize the customer experience, where the inclusion of different sectors is allowed, identifying characteristics, benefits, and advantages of the different products, services, and channels which generate confidence in our clients. In this sense, the following can be mentioned:

- Subsidy payments to the beneficiaries of the direct transfer program began as a result of the measures decreed within the framework of the national state of emergency motivated by COVID-19, where a total of 123,167 beneficiaries were paid the amount of \$300.00 to each one, making a total amount paid of \$37.0 million.
- The granting of subsidies for the employees of the micro, small and medium-sized companies, called the FIREMPRESA Program (Trust for the Economic Recovery of Companies), benefited at the end of December a total of 1,557 customers with payment on account and 20,436 customers with check delivery, reaching a total of 21,993 beneficiaries with a delivered value of \$53.00 million.
- Payment was made to beneficiaries of the project entitled Attention to Emergencies caused by disasters to fishermen affected by Hurricane ETA, where 4,431 beneficiaries were paid, for a total amount of \$443.0 thousand.
- It began with the provision of banking services between the Administrative Institute of benefits and social benefits of military veterans of the armed forces and ex-combatants for the payment of pensions to beneficiaries of the special law to regulate benefits and social benefits, who participated in the armed conflict in El Salvador.
- A project was implemented to modernize the insurance marketing service at the service points, thus ensuring that mass insurance sales are made in real time between SISA and the Bank.
- Implementation of the BPM (Business Process Management) to modernize the Automatic Process Flow for Mortgage Credit and Consumption, which allows speeding up the response times of our customers' requests, improves the customer experience, enhances the quality of the processes, and guarantees greater competitiveness in the market.
- Transfer of the Vice Ministry of Transportation Ticket Office, to the SOHO Shopping Center, thus achieving a better experience for the customer and user who performs the processing of the different services provided by said Vice Ministry, where you can pay your payment order procedures without having to leave the facilities.
- LNB Apopa Ticket Office Transfer, strengthening the commercial relationship with said institution and in order to provide attention to our customers and users who visit the Lottery, it is located on Avenida Quirino Chavez in the municipality of Apopa.
- New service points were implemented to provide SERTRACEN services in AutoBanco in the Senda Florida, Autopista Sur and Santa Elena Branches, thus offering another option to be able to carry out the process of changing your circulation card and paying fines without the need to get out of your vehicle; as well as the provision of the service in an external window at the San Vicente Branch.
- The second phase of implementation of the Kiosco Toma Turno system was developed for the different service points, in order to facilitate customer service and improve their experience at the Bank.
- The placement of POS began, making available to our customers a tool for receiving payments with our own POS network, and processing payments with BH cards and those of other issuers, thus providing an opportunity to expand the services offered to the Bank's business customers.
- For the third quarter, BH Mobile Banking (Banca Móvil BH in Spanish) was launched with the aim of offering a digital channel, where the Bank's customers were provided with the ease of accessing financial services through mobile devices.
- The resources of the FIREMPRESA program were also channeled to both the formal and informal sectors, where at the end of December 2020 a total of 1,245 loans for an amount of \$7.7 million had been disbursed.

- In 2020, Banco Hipotecario committed to promoting and bringing financial services closer to the population that has been excluded from the financial services of traditional banking in the country for years; and granted \$751.6 thousand in the Women Entrepreneurs lines and \$3.0 million in the granting of Green loans.



07

IDENTITY AND SUSTAINABILITY MANAGEMENT

Strategic planning of campaigns and activities: Strategic support was provided for the development of internal and external projects and activities:

- BH mobile banking launch
- BH payment gateway launch
- Activities corresponding to Human Development management:
 - New image of the Bank adapted to the formal communication of the area
 - Coordination of the recognition event for years of service
 - Change in the Bank's culture (mission, vision, values)
- BH Ecological Loan launch
- First line loan
- BH online quotes

Audiovisuals developed - More than 15 videos were launched on different internal topics, such as the case of measures for the use of masks by COVID-19, thematic activities such as the Bank's anniversary, the international day of the fight against cancer, the development of the Principles of Responsible Banking, the launch of BH Mobile Banking.

Likewise, it is one of the internal communication resources most used by the Bank, releasing news, acknowledgments, and other formal information.

Graphic design support: More than 3,500 materials have been designed, corresponding to different requests from the Bank's internal and external customers, among which we can mention:

- Formal communication through BH Comunicaciones and Yammer
- Graphic line for digital products, such as BH Mobile Banking (User guide, graphic pieces for social media, advertising resources in branches, etc.)
- Printed resources such as banners, advertisements, diplomas, etc.
- Physical and digital communication on characteristic lines and products of the year
 - COVID-19 preventive measures
 - Funding for front-line heroes
 - Coordinated communication for the dissemination of the Firempresa loan
 - Financial education program
- Internal communication pieces (notices, announcements, etc.)
- Product tutorials

Social media:

Digital marketing was reinforced, posting over 900 publications of the different products, services and activities carried out by the Bank, obtaining a growth of 20,851 "Likes" on Facebook and 3,442 followers on Twitter; closing the month of December with 57,380 and 6,110 followers, respectively.

Growth comparison in social media (as of December 31):

Social media	2019	2020	Difference
Facebook	36,529	57,380	+ 20,851
Twitter	2,668	6,110	+ 3,442

Customer service:

Part of the strategy that Banco Hipotecario has undertaken for its five-year plan is to place clients at the center of the business, taking them as a key element in achieving the objectives and aligned with the mission, vision, and values that represent the Bank.

To achieve this, emphasis has been placed on enhancing customer experience in each of the attention and service points, internal processes, and channels that Banco Hipotecario makes available to both internal and external customers.

In this sense, initiatives that have been implemented in 2020 and others that will be implemented in the course of 2021 have been promoted, among which are:

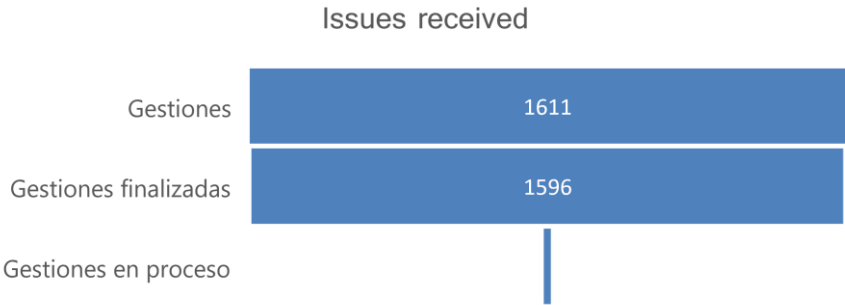
- Creation of the Customer Experience Committee:

The customer experience committee has been created, whose objective is to centralize the needs of our internal and external customers for the continuous improvement of processes, products, services, channels, and everything related to the perception of customers in their relationship with Banco Hipotecario.

- Punto Cliente

Punto Cliente is the comprehensive service center that Banco Hipotecario makes available to its customers, where they can carry out their customer service procedures and find relevant information for customers such as:

1. Complaints and claims statistic that can be viewed on the Bank's website
2. Information regarding fees and commissions
3. Information from digital and analog service channels



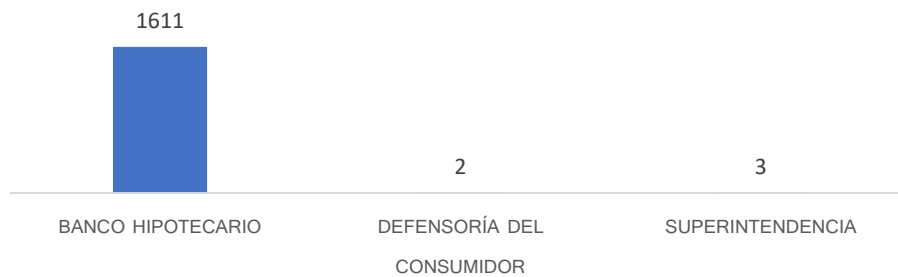
In 2020, a total of 1,611 transactions have been received, of which 99% have been completed and 1% have remained pending.

Receipt of transactions per channel



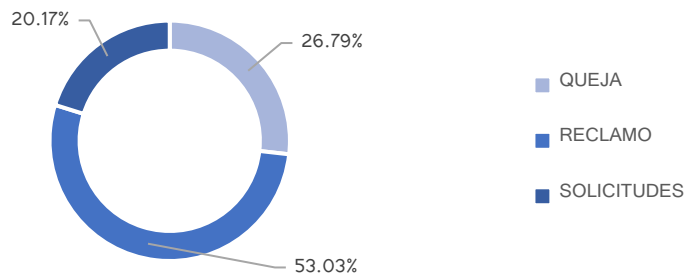
Per type of channel for receiving transactions, the ones with the highest representation are branches (55%) followed by Contact Center (43%) and digital channels (2%).

Receipt of transactions per institution



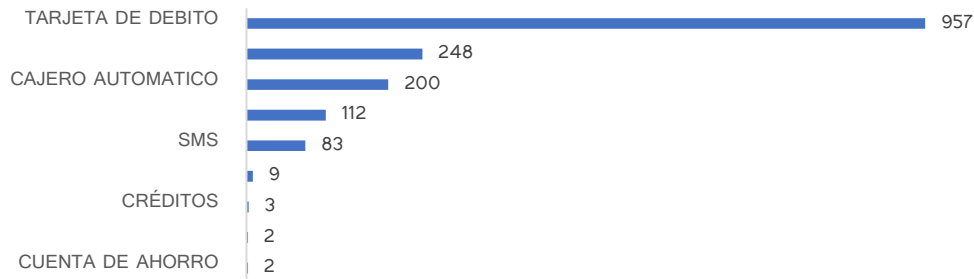
Similarly, only 5 requests have been received from external or regulatory institutions and they have been fully resolved.

Transaction Type



Per transaction type, more complaints have been received (854) followed by requests (435) and complaints (322).

Transactions per Product



The product that presents the most transactions or requests from our clients has been debit cards (59%) followed by requests for account statements (15%) and ATMs (12%).

Transactions per Typification



Similarly, per transaction classification, the one with the greatest representation are those procedures that involve unrecognized purchases (20%), of which 90% have been resolved and favorable to our clients (297). It should be noted that all the formalities or requests per classification have greater representation through the digital channels that Banco Hipotecario makes available, for which technical support and maintenance have been provided to them, as a result of the feedback from our clients through their transactions.

Data obtained from the GSAC Platform between January-December 2020. Those transactions that are resolved immediately by SAC executives, businesses, or specialized areas are not taken into account.

- New service channels

ChatBot has been enabled in digital service channels, with the aim of expediting the delivery of information to clients related to their inquiries by doing so in a timely manner.

Sustainability

In 2020, Banco Hipotecario reinforced its environmental and social management by promoting sustainable practices for our clients and collaborators, thus allowing an adequate development of our business, focused on sustainability for all the sectors that we influence.

To this end, activities focused on three pillars, which are:

- Internal Environmental Management
- Green Financing
- Corporate Social Responsibility and Gender.

These pillars have made it possible to achieve actions that contribute to the specific goals of 10 of the 17 Sustainable Development Goals (SDGs), which are:



Know the actions carried out in each pillar:

Internal Environmental Management:



We seek to generate the optimization of processes, through practices aimed at giving adequate management and rational and efficient use of the resources that the institution has; implementing practices to reduce the ecological footprint in the value chain.

Consumption of water, energy and paper:

Banco Hipotecario is committed to reducing the consumption of resources such as water and energy through eco-efficiency practices, both in our operations and with customers and suppliers.

For 2020, our consumption indicators were recorded:

Table 1
Water consumption compared to the previous year

2019	
Total consumption (m ³)	16,426
2020	
Total consumption (m ³)	13,856
Savings percent (%)	16%

Note: Water consumption of the offices, coming from the local sewage system where the offices are located

Table 2
Water consumption per employee

Annual consumption per employee	
Water m ³	37.55

Note: This data is not comparable with 2019, because this indicator was not previously handled. 2020 is taken as the baseline for the control of this metric.

Table 3
Power consumption compared to the previous year

2019	
Total consumption (kWh)	2,456,981
2020	
Total consumption (kWh)	2,139,312
Savings percent (%)	13%

As can be seen in Table 1 and 3, there was a reduction in the consumption of water and power in our service centers and administrative buildings supported for by the practices implemented in 2020 such as: teleworking as an initiative of the Bank and which was reinforced by the COVID-19 quarantine; efficiency measures in the Senda Florida administrative building, such as the change from fluorescent to LED lighting and the change from conventional taps to timer taps in the sanitary services areas of the building.

Regarding paper consumption, reduction initiatives were carried out such as: Reducing the number of documentation printouts for approval cases, achieving a reduction of 360 sheets at the end of 2020; on the other hand, working from home and the COVID-19 pandemic prompted the use of digital signatures for approvals that allowed reducing paper consumption in administrative buildings and service centers.

Solid Waste Management

In order to minimize the generation of solid waste and properly manage its final disposal, in 2020 an initial training was carried out for 54 employees in the cleaning and banking security areas of both branches and administrative buildings, who are in charge of internal collection, and through internal communication, an awareness program has been carried out on the use of the 5 Rs, reaching over 700 Bank employees, in order to keep a better way to properly manage waste in mind.

On the other hand, as part of proper waste management, a paper, cardboard, and electronic waste recycling process is carried out in 28 branches and 3 administrative buildings, which are managed with environmentally accredited companies for collection and final disposal.

In 2020, 682 pounds of cardboard and 3,845 pounds of paper were recycled; while regarding electronic waste, the following amounts were adequately destroyed for recycling.

Table 4
Recycled electronic equipment:

Equipment type	Amount (units)
CPU	49
SCANNER	2
PRINTER	19
LAPTOP	17
MONITORS	133
TABLET	3
PHONES	36
UPS	10

Strengthening culture:

The following activities were carried out to permeate an environmental culture in our collaborators and make them aware of the importance of natural resources and the environment:

- Celebration of Environment month

The “Green Festival Moves Home” activity was carried out, delivering 250 home garden kits that included vegetable seeds such as tomato, cucumber, coriander, radish, watermelon, melon; germination substrate, mesh for crop supervision and a germination tray for our collaborators, the Senda Florida Buildings (150 kits), Autopista Sur (50), Santa Elena Branch (10), Santa Tecla Branch (10), Merliot Branch (10), 25 Av. Norte Branch (10) and Paseo Branch (10), in addition to sharing, by internal email, how to make a garden, to permeate sustainable practices in their homes, promoting the production and cultivation of their own food and raising awareness of the importance of our environment for the production of sustainable crops.



- Commemorative Dynamics.

In June, a slogan dynamic was carried out that consisted of sharing what they would do for the environment through a phrase and a photography contest that consisted of sharing a photograph that represented the importance of the environment. The winners were announced on the internal Yammer network and the winning photos were used as institutional Wallpapers.



- Virtual campaign to raise awareness on saving resources.

The COVID-19 pandemic encouraged telework more, so through emails and the internal YAMMER network, topics on saving water, saving power, managing solid waste, and how to recycle from home were shared as an awareness measure and knowledge on environmental practices at home. 9 images were shared from April to June, the quarantine and greater telework period for the collaborators.

- Training sessions for 1,147 employees on the following topics:

- Training on Sustainability at BH for 65 new hires.
- Virtual training for 800 employees on Sustainability.
- Training for 86 employees in the business area and financial analysis in sustainability standards and certifications.
- Training for 98 employees in the business area and financial analysis on Environmental and Social Risk Management.
- 83 business executives from the Business and Commercial Directorate who are our engine to promote green products.
- Specialized training for 15 employees on the subject of Renewable Energies; 9 in Environmental and Social Risk Management; and 3 in Corporate Eco-efficiency.

Green Finance



The main objective of this pillar is to improve the Bank's external environmental performance by designing and offering financial loan services ("green" loans) for investments in energy efficiency (EE), renewable energy (RE), and Sustainable Production (PS). By financing these investments, the Bank contributes to promoting companies and households, reducing energy consumption, reducing costs, and protecting the environment, generating a real impact through the mitigation of negative impacts and the enhancement of positive ones. In October 2020, the Bank carried out a comprehensive transformation of the management of green financing, adopting a formal methodology that includes a process for defining types and measures of bankable investment, technical eligibility criteria, staff training, and key and strategic alliances. The results during the last quarter of 2020, of the loan portfolio under the "BH Crédito Ecológico" Program was as follows:

Crédito Ecológico (Ecological Loan)

The participation of the Ecological Loan in the total Loan Portfolio as of December 31, 2020: 0.06% of the total loan portfolio corresponds to green loans, equivalent to \$498.6 thousand, of which 33.0% represent ecological energy efficiency loans (\$169.2 thousand) and 67% correspond to sustainable production loans (\$329.4 thousand). The Bank proposes that this participation percentage in the loan portfolio gradually increases until it reaches at least 5% of the total portfolio in the next 4 years.

Environmental Impact (Placement from October to December 2020)

Energy Efficiency (EE)	Unit of measure: Tons of Co2 Eq.
Indicator: Emissions Reduction	166.5 ton of Co2 Eq.
Renewable Energies:	
Sustainable Production:	Unit of measure: # of Hectares
Indicator: Avoided Deforestation / Ecosystem Conservation	246.13 Ha

As can be seen in the table above, the importance of the identification and classification of financing with an environmental component, as well as in the application of a technical, measurable and verifiable criterion is of utmost relevance and of highly important impacts, since, as can be seen, only 0.06% of the Bank's total loan portfolio has contributed to the mitigation and non-generation of over 166 tons of carbon dioxide (Co2) and the conservation of strategic ecosystems such as coffee plantations, avoiding deforestation in 246 Ha.

Corporate Social Responsibility and Gender:



Banco Hipotecario continues to strengthen the Social Responsibility program focused on helping to improve the quality of life of our employees and their families, generating economic growth and promoting the sustainable development of the communities near our service points, through the support and management of social and environmental programs, during this year the English magazine The European, offered the recognition as "Best Bank for Financial Inclusion and CSR".

This award was the result of the focus of the actions carried out in the CSR program, in each of its pillars of action:

1. **Employment Practices Pillar**, maintaining and promoting the quality of working life by providing more than 50 additional benefits to those determined by law, thus contributing to the personal, professional, and family development of our employees.

Actions:

- Comprehensive occupational health and wellness program provided through the business clinic, conducting: periodic health fairs, the annual health circuit with general preventive medical check-ups, medical consultations and laboratory tests, recurrent metabolic control for employees suffering from hypertension, diabetes, obesity, specific preventive health for women performing cytology, family planning, prenatal control, among others.
- 1,866 total hours of training in 2020, to develop and strengthen skills and knowledge, through various external and internal trainings in our e-learning platform, the main topics being: Corporate governance, prevention and money laundering, leading with resilience, agile methodologies, social and environmental risk management, among others.
- 60 employees received recognition for being part of the BH family for 10, 15, 20, 25, and 35 years.
- Continuous training in professional development and prevention of occupational risks.
- Loans to BH employees with preferential rates.
- Birthday gift with half a day off
- Family support due to death, life and medical insurance
- Adaptation of facilities for access by employees with disabilities and complementary financial support to have a suitable wheelchair for their comprehensive well-being inside and outside the Bank's facilities.
- Permanent financial education campaign for our employees, called "Taking care of my finances... I want it, I can do it", sharing knowledge about the use and responsible administration of finances and financial products, providing tools that allow planning and control of expenses with a budget, discover the potential for savings, and the importance of maintaining a good credit record, which benefits personal financial health and that of their families.
- Participation of more than 100 volunteers, who provided support to communities throughout the country affected by the pandemic and tropical storm, as well as giving virtual financial education workshops to women and farmers in the country.

Gender equality, inclusion and equal opportunities actions for men and women started, with special emphasis on attracting, keeping, and developing the best professionals.

In this sense, BH has an important representation of women in senior management and head positions, which was an important step that allows us to develop, implement and promote specific actions to strengthen our gender equality and inclusion strategy, in line with the Bank's values: Trust, Inclusion, Commitment, and Innovation, both for our clients and collaborators.

As future actions for this subject and that contribute to being able to include gender equity practices in the institution, a training program on gender equality is being defined that goes hand in hand with knowing and taking practices from the Women's Empowerment Principles launched by UN Women who seek to help organizations and companies to address said issue.

Distribution	M	W	Total	% Women
Senior Management (Presidency and Board)	1	5	6	83%
Heads	58	55	113	49%
Collaborators	324	391	715	55%
TOTAL	382	446	828.	54%

Source: Human Development Management

Actions:

- An agreement was signed in March 2020 with El Salvador UN Women, which seeks to enhance the economic autonomy of women who are part of the various projects they develop, making our women in action program available to them, which groups products and inclusive financial services. The Bank had the opportunity to participate in the 2nd Forum “Towards an Analytical Approach to Financial Inclusion” organized by UN Women with Central American Banks. With our professional volunteering program, online financial education workshops were offered to 50 women, addressing the following topics:
 - My Home and My Money: How to Create a Personal and Family Budget
 - Savings and Financial Plan: Key actions to achieve a savings plan
 - The good use of loans: Identifying loan options available for decision-making
 - Living safe: Knowing what insurance is, its benefits and how it works.
 - Projects for the integral well-being of the collaborator were strengthened, reconciling personal and work life with “work at home and flexible hours”, started as a pilot plan in mid-2019. Its previous implementation was key to coping with the pandemic year, in this same line of action, it was key to ensure the emotional health of our collaborators, making available sessions with psychologists who are part of the Human Development team.
 - In the framework of benefits with a gender perspective, our employees enjoy marriage, maternity or paternity leave, with paid leave days, to help strengthen the bond in the start-up processes of their families.
 - Within the framework of the fight for the prevention of breast cancer, an awareness campaign called “Prevention and self-care is my priority” was launched, with the aim of promoting the well-being and integral health of women.
2. The **Community Pillar** seeks to support the sustainable development of the communities near our service points.

Actions:

- 93 BH volunteers provided 5,119 hours, to directly support different communities in the eastern, central, and western regions of the country, putting at their disposal:
 - 50,000 liters of water
 - 89 mattresses
 - 20 gallons of alcohol gel
 - 15 gallons of quaternary ammonium
 - 200 gloves
 - 400 face masks
 - 50 bags of personal hygiene products, disposable baby diapers, toilet paper, and baby wipes.
 - 100 soups packages
 - 300 pounds of staple grains
 - 205 grocery bags
 - 10 computers
- 6 product fairs called "Mercadito para todos" (Small Market for All), carried out by branches in the San Salvador area, bringing marketing points closer to entrepreneurs who are part of FOSOFAMILIA, CONAMYPE, Chocoleche, and products made by inmates in prison.

3. **Clients Pillar**, to facilitate quality inclusive financial products and services, as well as accompaniment with workshops to strengthen the growth of their businesses and get financial education.

Actions:

- Different webinars carried out in conjunction with the Ministry of Economy, Ministry of Culture, and Ministry of Education, with the participation of 160 companies, students, artisans of the creative industry, and the general public, on:
 - "Electronic commerce and digital payments", and advice on the different options of our credit lines, as part of the actions carried out during the pandemic to activate the productive apparatus and economic take-off in El Salvador.
 - Over 800 BH clients and collaborators participated in the different talks given during the 2020 sustainability and CSR week carried out by Fundemas, which allows raising awareness about the different actions carried out by the Bank as part of the 4 pillars of the sustainability strategy: Internal Management, Social and Environmental Risk, Green Finance, CSR, and Gender.
 - Financial education workshop "The good use of my finances" held for 35 people linked to the Ministry of Culture.
 - Financial education workshop for 15 small farmers in the San Pedro Masahuat area, who are part of the CDAIS "Capacity Building for Agricultural Innovation" program, executed by the FAO.

- As part of the microenterprise program, permanent advice is provided, making available to more than 500 microentrepreneurs, a notebook such as "Internal Control Guide for the Formalization of Microentrepreneurs."
- Over 50 clients participated in various national conferences on topics such as "Innovating the Business Model" and "Women and Leadership", which the Bank made available to them.

Voluntary Agreements and Commitments:

Principles of Responsible Banking (PRB)

Banco Hipotecario is a signatory member of the Principles of Responsible Banking of the Financial Initiative of the United Nations Environment Program (**UNEP FI**). There were six principles launched in September 2019 that provide an action map for the financial sector, embedding sustainability in its business strategies and contributing to economic and social development, protecting the environment.

In 2020, work was done on knowing the principles and evaluating their implementation, among the activities carried out for each principle are:

Alignment:

We have aligned our activities with international agreements such as the SDGs, defining our impact in 9 out of 17 of the objectives through activities that are carried out according to the three pillars of environmental and social policy and the Corporate Social Responsibility program.

For each of the SDGs identified, we work under the goals of the SDGs, which are:

- 5.5: Ensure the full and effective participation of women and equal leadership opportunities at all decision-making levels in political, economic, and public life.
- 5.b: Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women.
- 6.6: Protect and restore water-related ecosystems, including forests, mountains, wetlands, rivers, aquifers, and lakes.
- 7: Ensuring access to affordable, reliable, sustainable, and modern energy for everyone.
- 8.8: Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.
- 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all.
- 9.3: Increase access of small industries and other businesses, particularly in developing countries, to financial services, including affordable loans, and their integration into value chains and markets.
- 12.5: By 2030, significantly reduce waste generation through prevention, reduction, recycling, and reuse activities.
- 13.2: Integrate climate change measures into national policies, strategies, and planning.
- 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.
- 17.6: Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology, and financial resources, to support the achievement of the Sustainable Development Goals in all countries, particularly developing countries.

In addition, inclusive products and renewal of credit lines have been developed with a gender focus, such as credit lines for women in municipal markets, study credits for women, home purchase, and credit for women inclusion; allowing to distribute the business strategy in differentiated sectors.

Definition of objectives and impacts:

As a first action, the Bank adheres to IFC's sustainability standards and adopts an exclusion list that is the first filter for not serving certain economic sectors such as activities that expose or force child labor, production or trade of illegal products, production and trade of weapons, gambling, trade of animals or products of endangered species of flora and fauna, production or trade of substances that damage the ozone layer, commercial logging operations or purchase of wooden equipment for use in tropical forests wet, trawling with a net in marine environments, transportation of oil or other dangerous substances in tanker ships that do not meet international maritime organization requirements, production or activities that affect indigenous peoples, activities in areas protected by the country's laws or international conventions, activities that may adversely affect sites of archaeological cultural importance, cross-border trade of waste or waste products prohibited by international law, except non-hazardous waste for recycling.

On the other hand, our BH ecological loan program was launched as an initiative to comply with responsible banking principles, this program seeks to increase our participation in energy efficiency, renewable energy, and sustainable production sectors.

In addition to the foregoing, an impact analysis was carried out using the Impact Tool provided by UNEP-FI, which is a tool that allows financial institutions to identify their most significant impact areas based on the nature, content, and geographic reach of their portfolios, and assess their current level of performance relative to these impact areas. The consumer and business portfolio was analyzed, the first being 10% of our national participation and the second, 90%, according to our portfolio and the areas of impact of the country, as well as defining objectives that contribute to increasing positive impacts in the environment and society and reduce negatives ones.

The analysis was carried out based on our consumer and business portfolio, which showed the following positive and negative impact areas:

Positive Impacts	Negative Impacts
Economic Convergence	Climate
Mobility	Waste
Food	Biodiversity and Ecosystems
Inclusive and Healthy Economies	Availability-Water
Education	Integrity and Safety of People

Of these impact areas related to our loan portfolio, it has been defined to work in priority areas such as climate, waste, and biodiversity, and ecosystems areas since, at a national level, biodiversity and climate issues are priorities and contribute to the national agenda. As first steps, we are providing credit lines in the renewable energy, energy efficiency, and sustainable production sectors with the objective of increasing our credit portfolio and reducing negative impacts present in our portfolio, in general.

The sectors where we have the greatest impact are the transport and agriculture sectors, since we have a strong concentration of clients in them, we have proposed measures to mitigate the negative impacts identified.

As first steps, we have evaluated working together with our stakeholders to define a first objective that would be to support and promote through the Green Protocol of El Salvador the initiative to reduce the pollution percentage of fossil fuels, specifically Diesel, in conjunction with MARN and MINEC, going from containing 5000 ppm to 500 ppm of sulfur in a period of four years and also working specifically in our transportation portfolio to migrate 25% (26 million) of the total portfolio of loans to finance low CO2 emissions transportation, in a period of four years. We consider these two objectives, as one complements the other, in order to achieve acceptance by our customers of new fleet options that would allow them to have a positive impact both for the environment, but also for them based on the durability of the equipment and its use.

In 2021, we will continue to work with the defined objectives and specify the other ones, in addition to working with our clients who are in the sectors of the negative impact areas that have been identified in order to begin an approach to understand the transitions and activity changes that make it possible to reduce current impacts.

Clients:

Promote and strengthen the offer of social and environmental products through our collaborators, constantly training them. In addition, part of the strengthening carried out in the loan process is the continuity of the Environmental and Social Risks System as part of the loan-granting process. In 2020, the BH Ecological Loan Program was launched, focused on investments in energy efficiency (EE), renewable energy (RE), and Sustainable Production (SP).

Stakeholders:

As part of a system, it is necessary to have the interested parties on whom there is influence clearly identified, and work together, which is why in 2020 a materiality analysis and mapping of interest groups was carried out in conjunction with the Business Foundation for Social Action (FUNDEMÁS) identifying eight interest groups:

- Board of Directors
- External Funding Sources
- Regulatory Bodies
- Collaborators
- Central Government
- Service Providers
- Clients
- Auditing Companies

In addition to the stakeholder mapping, an analysis of material issues to be considered within the sustainability approach under its three dimensions was also carried out. As a result, these identified material issues arise from the analysis carried out as a result of the work sessions carried out with our stakeholders, specifically with our collaborators, service providers, and senior management of the institution. The result obtained is the input for the new sustainability strategy that the Bank will work on in 2021.

Dimension	Material Topic
Economic	Corporate Governance and Ethics
	Compliance and Anti-Fraud
	Risk and Crisis Management
	Digitization-Digital Banking
	Financial Inclusion
	Financial Education
	Brand and Reputation Management
	Innovation
	Development of MSMEs

Dimension	Material Topic
Social	Employment Practices
	Internal Culture
	Attracting and Retaining Talent
	Occupational Health and Safety
	Relationship with governmental and non-governmental entities
	Transparency for consumers
	Customer Satisfaction
	Community Investment
	Cybersecurity and Data Protection

Dimension	Material Topic
Environment	Solid Waste Management
	Eco-efficiency and Carbon Emissions
	Green Purchases
	Climate Change Adaptation Strategy
	Environmental Investment

On the other hand, strategic alliances were also worked on, such as the formation and operation of the Financial System Green Protocol committee, made up of the state banking (Banco de Fomento Agropecuario, Banco de Desarrollo de El Salvador, and Banco Hipotecario) and the Central Government through the Ministry of Environment and Natural Resources (MARN). The Green Protocol committee allows the generation of synergies among the members and to know goals and national plans in detail through the Ministry of Environment so that the member banks can align and define working mechanisms to support their compliance.

Governance and Culture:

In 2020, the Identity and Sustainability Department was created, allowing an area that is in charge of executing the Bank's sustainability strategy and permeating all the information in the different areas; as well as a person in charge of implementing the responsible banking principles, of carrying out the impact analysis to propose the objectives and metrics that will be carried out in 2021 for compliance, and to be able to work in the impact areas mentioned in principle two, in addition to informing the Board of Directors about the agreements and progress made by the sustainability committee and the progress in the indicators set forth for both the sustainability strategy and the principles.

On the other hand, revisions were made in the creation of committees and modification of internal policies that allow reinforcing the issue and achieving compliance with activities. From these activities, the Sustainability Committee was formed, made up of:

- President
- Identity and Sustainability Manager
- Integral Risk Management Director
- Corporate Banking Director
- Commercial Banking Director

- Administration Manager
- Sustainability Coordinator

The functions of the committee include establishing action plans, executing, monitoring, and supervising all the decisions and proposals of the Bank's sustainability strategy, as well as supervising the implementation of the principles, the establishment of objectives, the measures applied to achieving them, and determining corrective measures when objectives are not on track or when measures are needed to deal with unforeseen negative impacts. As well as the review of the sustainability strategy performance indicators.

As part of the work for 2021, will be the review of KPIs for the performance of the fulfillment of the objectives stipulated in the impact analysis.

Just as the first changes have been made, in 2021 work will continue to review practices that allow us to make improvements in our business to be able to work on the impact areas identified in the impact analysis, which are education, food, climate, and waste.

Transparency:

We communicate progress through our internal and external channels. Quarterly bulletins are handled for both our internal and external audiences and informative pieces so that collaborators know and get involved in the subject.

By 2021, we will begin to work on a new sustainability strategy that will help us expand the issues in all areas of the Bank and that strongly includes the implementation of the principles. As part of the principles and progress of the collectives, we will begin to implement a methodology to measure our indirect emissions due to our portfolio.

Collective Commitment to Climate Action (CCCA)

Banco Hipotecario is a member of the Collective Commitment in conjunction with other 37 banks worldwide that seek to align with the Paris Agreement of limiting global warming to a level well below 2°C, trying to reach 1.5°C above pre-industrial levels by 2100. Among the steps taken to make the transition and application to the memorandum, was to have an exclusion list within the environmental and social risk management system, to categorize the portfolio and identify the sectors with negative activity in the environment or the society that said portfolio may be generating. Using a defined exclusion list allows aligning with international standards, such as the IFC's Performance Standards. When implementing it, positive results can be seen since it has been agreed not to finance any activity with high exposure to different legal or reputational credit risks. Having an exclusion list allows limiting the access of new high-impact clients. The next steps in 2021 will help aligning our portfolios with the objectives of the Paris Climate Agreement. Working together with the business and risk areas to understand what it takes to align the high-impact sectors within our portfolio with the objectives of the Paris Climate Agreement.

Self-assessment of the Principles for Responsible Banking of the Financial Initiative of the United Nations Environment Program (UNEP-FI)

Requirements	Information Summary	Reference(s) / Link(s)
<p>Principle 1: Alignment We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</p>		
<p>1.1 Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services..</p>	<p>Banco Hipotecario is a state bank in El Salvador. We offer products and services in the retail, business, and corporate banking business areas, including mortgages, car loans, commercial (service sectors), transportation, agriculture, retail service, SMEs, and government loans. All of our operations are national. Retail loans make up 10% of the loan book, while our business loans make up 90%.</p>	<p>See section "Financial Management" p. 14</p>
<p>1.2 Describe how your Bank has aligned and/or is planning to align its strategy to be consistent and contribute to society's goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.</p>	<p>Banco Hipotecario has been working under its three pillars in its environmental and social strategy. We are working to align our business strategy with the most relevant goals of the SDGs, the Paris Agreement, and relevant national frameworks that help us determine that financial inclusion and gender inequalities are social priority issues in our operation. By 2021, we will establish our Sustainability Strategy that sets out the areas in which we believe we can create long-term and sustainable value for our stakeholders, aligning with the Sustainable Development Goals and the Paris Agreement and relevant national frameworks.</p>	<p>See section "Identity Management" p. 52</p>
<p>Principle 2: Impact and Target Setting We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</p>		

<p>2.1 Impact Analysis:</p> <p>Show that your Bank has identified the areas in which it has its most significant (potential) impact through an impact analysis that meets the following elements:</p> <p>a) <u>Scope</u>: The main business areas, products, and services of the bank in the main areas in which the bank operates have been described in the framework of section 1.1., they have been considered in the scope of the analysis.</p> <p>b) <u>Exposure scale</u>: In identifying its areas of greatest significant impact, the bank has considered where its main activities lie in terms of industries, technologies, and geographies.</p> <p>c) <u>Context and relevance</u>: Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates.</p> <p>d) <u>Impact scale and intensity/salinity</u>: In identifying its areas of greatest significant impact, the bank has considered the scale and intensity/salinity of the (potential) social, economic and environmental impacts resulting from the bank's activities and the provision of products and services.</p> <p>(Your bank should have engaged with relevant stakeholders to help inform your analysis under items c) and d))</p> <p>Show that, based on this analysis, the bank has:</p> <ul style="list-style-type: none"> • Identified and disclosed its most significant (potential) areas of positive and negative impact 	<p>The impact analysis tool provided by UNEP-FI was used. Where it was possible to analyze the products, services, and activities of the bank's retail and corporate banking portfolios.</p> <p>The main sectors financed are transportation (which represents 12% of our business portfolio) (mainly urban and suburban land transportation), agriculture (10%), service activities (4%), financial activities (2%), and urban construction (2%).</p> <p>The retail portfolio is concentrated in loans for personal services (100%) (which includes consumer loans, mortgages, car loans, and student loans).</p> <p>Through the analysis, it was determined that these portfolios are related to areas of impact such as decent employment, food, climate, mobility, waste, biodiversity and ecosystems, strong institutions, peace and stability, people, integrity and security, inclusive and healthy economies.</p> <p>Regarding the challenges and priorities in El Salvador, areas such as the loss of biodiversity, climate change, single-use wastes are relevant according to the publications on social networks and government websites and the commitment to the interested parties (Ministry of Environment, and other state banks).</p> <p>The challenges and priorities recognized allowed us to define in which areas we have the most impacts according to our loan portfolio, which is strong in certain sectors that impact the most, being the areas of climate, waste, and biodiversity where these impacts are contributed.</p> <p>To determine the scale and intensity of the impact areas, the activities and factors that contribute to these impact areas were analyzed according to the activities that, based on experience and customer relationships, are known to influence the areas of impact.</p> <p>Activities in the transportation and agriculture sectors were found to generate GHG emissions that affect the climate.</p> <p>In addition, the agricultural sector also has an impact on the change of land use, the use of agrochemicals, burning for the sugar cane harvest, the financing of agro-industrial projects (beneficiaries, large-scale infrastructure) are factors that have an impact on the loss of</p>	<p>See section "Identity Management" p. 61-62 and our website https://www.bancohipotecario.com.sv/nuestras-iniciativas/</p>
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<ul style="list-style-type: none"> Identified strategic business opportunities in relation to the increase of positive impacts/reduction of negative impacts 	<p>biodiversity and the generation of different types of waste.</p> <p>Therefore, it was concluded that climate, biodiversity, and waste generation are areas of greatest impact for the bank.</p> <p>Based on the areas of impact, we will work with our clients in the most relevant sectors to identify transition opportunities and changes in practices to transform their businesses.</p>	
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Please provide your bank statement/conclusion if you have met the impact analysis requirements.

We have conducted the impact analysis and have identified the most significant impacts that are associated with our retail and business banking portfolio. The next steps are to work with the sector identified with significant impact areas.

<p>2.2 Destination settings</p> <p><i>Show</i> that the bank has set and published a minimum of two objectives (SMART), which address at least two of the identified "areas of greatest significant impact" resulting from the bank's activities and the provision of products and services.</p> <p><i>Demonstrate</i> that these goals are linked and foster alignment and further contribution to the appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national, or regional frameworks. The bank should have identified a baseline (assessed against a given year) and set targets based upon this baseline.</p> <p><i>Demonstrate</i> that the bank has analyzed and recognized significant (potential) negative</p>	<p>Following our impact analysis, we have set a goal of mobilizing 25% (26 million) of the total transportation loan portfolio to finance low-carbon transportation by 2024.</p> <p>We started financing loans for carriers whose fleet we are looking to have Euro III certifications and now with our BH Ecological Loan program, we seek to finance equipment with greater energy efficiency, with a specific objective for this sector where we grant loans.</p> <p>The goal will push the integration of our portfolios with SDG 9 (Build resilient infrastructure, promote sustainable industrialization, and foster innovation) and SDG 13 (Take urgent action to combat climate change and its impacts).</p> <p>Our second objective is to work with our stakeholders to support and promote through El Salvador's Green Protocol the initiative to reduce the percentage of pollution produced by fossil fuels, specifically diesel, together with the Ministry of Environment and the Ministry of Economy, from containing 5000 ppm to 500 ppm of sulfur in a period of four years.</p> <p>This is related to the former because if diesel is not so polluted in the country, it will benefit vehicle engines and the new fleets that we finance will last longer and our clients will see the benefits of</p>	<p>Check our website https://www.bancohipotecario.com.sv/nuestras-iniciativas/</p>
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<p>impacts of the targets set in other dimensions of the SDG/Climate change/Society targets and that it has established relevant actions to mitigate those that are most feasible to maximize positive impact net of established objectives.</p>	<p>acquiring a certified fleet compared to a conventional one.</p> <p>To achieve those goals, we will work closely with our clients in these high-impact sectors to support their transition, whenever possible, and to promote benefits in our products or services for their transition.</p> <p>In the 2021-2022 period, our portfolios will be aligned with the objectives of the Paris Climate Agreement and we will work together with the business and risk areas to understand what is needed to align with the collective commitment to climate action within our portfolio and abide by the Paris Agreement.</p>	
<p>Provide your bank statement/conclusion if you have met the requirements for goal setting.</p>		
<p>We define two objectives for climate, as it is one of our most significant areas of impact, in accordance with the requirement of the Principles. We continue to work to align our portfolio with collective communication for climate action.</p>		
<p>2.3 Plans for the implementation and monitoring of objectives</p> <p>Show that your bank has defined actions and milestones to meet the established objectives.</p> <p>Show that your bank has established the means to measure and monitor progress against the stated objectives. Definitions of key performance indicators, any changes to these definitions, and any baseline exceedances must be transparent.</p>	<p>The measures we are planning to put in place: Engage with companies in key sectors, identify different approaches and appropriate transition pathways for our transportation clients, and also show the benefits of transition pathways and financing to support our clients.</p> <p>The defined key performance indicators include: At the end of the four years, to have a performance bonus for the diesel being imported, which is ≤ 500 ppm, and also the annual percentage of the portfolio with quantity and number of clients that are in the transition process to certified equipment and the reduction of CO₂ emissions as a result of the change of fleet.</p>	<p>Check our website https://www.bancohipotecario.com.sv/nu-estras-iniciativas/</p>
<p>Provide your bank's statement/conclusion if you have met the requirements regarding the Implementation and Objective Monitoring Plans.</p>		
<p>We have established the KPIs and the first measures. The measures may be adjusted on the course of the year, depending on the work with clients and the support of the sector in the initiatives.</p>		
<p>2.4 Advances in the application of objectives</p> <p><u>For each objective separately:</u></p> <p>Show that your bank has implemented the actions you</p>	<p>They were defined last year and, in 2021, we will be working on the progress and monitoring of the action plan.</p>	

<p>previously defined to meet the stated objective.</p> <p><i>Or explain why the actions could not be implemented/needed to be changed and how your bank is adapting its plan to meet its stated goal.</i></p> <p><i>Report on your bank's progress in the last 12 months (up to 18 months on your first report after becoming a signatory) towards achieving each of the stated goals and the impact your progress produced (where feasible and appropriate, banks should include quantitative disclosures).</i></p>		
<p>Provide your bank's conclusion/statement if you have met the requirements for Progress in Goal Implementation</p>		
<p>We have recently set the objectives and are in the early planning stages of the measure work and meeting with different stakeholders to propose the work that we could accomplish.</p>		
<p>Principle 3: Clients and Customers We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</p>		
<p>3.1 <i>Provide an overview of the policies and practices your bank has in place and/or is planning to implement to promote responsible relationships with your clients. This should include high-level information on the programs and actions implemented (and/or planned), their scale and, where possible, the results thereof.</i></p>	<p>Banco Hipotecario has its own environmental and social management system that allows, in the credit process, to guarantee that clients subject to credit comply with current local legislation and regulations regarding environmental protection, health, and safety; granting loans for activities whose financing does not pose a reputational or ethical dilemma for the bank.</p> <p>With the environmental and social management system, it has an exclusion list in which it can be aligned with international standards such as the IFC's Performance Standards. By implementing it, we can see positive results since we have defined not to finance any activity with high exposure to different legal or reputational credit risks, which allows us to have only suitable sectors and without negative impacts on the environment or the society where we operate.</p> <p>Therefore, we currently have an ongoing staff training program to ensure that staff is adequately trained in the environmental and social risk program.</p>	<p>See more in sections "Identity Management" and "Risk Management" p. 55-56 and 34</p>

<p>3.2 <i>Describe</i> how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. This should include information on actions planned/implemented, products and services developed, and, where possible, the impacts achieved.</p>	<p>In 2020, we build capacity among all our employees with courses on environmental and social issues so that they can learn about that and have more tools to negotiate with customers and offer products and services according to their needs and increasing our portfolio in those sectors that have positive impacts.</p> <p>Banco Hipotecario has launched the "Ecological Loan Program" which focuses on loans for investments in energy efficiency (EE), renewable energy (RE), and sustainable production (SP). By financing these investments, the Bank contributes to the promotion of companies and households, reducing energy consumption, costs and protecting the environment, generating a real impact through the mitigation of negative impacts and the improvement of the positive ones.</p>	<p>See more in "Identity Management" p. 55-56</p>
<p>Principle 4: Stakeholders We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.</p>		
<p>4.1 <i>Describe</i> which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/results achieved.</p>	<p>As part of the process, we worked with "Fundación Empresarial para la Acción Social (FUNDEMÁS)" which helped us carry out a stakeholder mapping exercise and a materiality analysis to identify relevant issues in sustainability for financial institutions for the work to be carried out in 2021.</p> <p>Also as part of the agreement made at the end of 2019, which is the Green Protocol of El Salvador, in 2020 the commission was formed and the first steps were taken to review the national plans and projects managed by the central government through the Ministry of Environment and Natural Resources.</p>	<p>See more in "Identity Management" p. 63 and 64</p>
<p>Principle 5: Governance & Culture We will implement our commitment to these Principles through effective governance and a culture of responsible banking</p>		
<p>5.1 <i>Describe</i> the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support effective implementation of the Principles.</p>	<p>The governance of the sustainability structure is reinforced by the sustainability committee that is responsible for overseeing the application of the Principles. Committee members are from different areas of the bank such as risk, business, finance, administrative, and sustainability.</p> <p>The application of the Principles and the periodic presentation of reports on them is the responsibility of the Identity and Sustainability Management. Management is responsible for overseeing the bank's impact analysis and making strategic decisions on how to manage the bank's most significant impacts, including setting goals, and introducing bank-wide mechanisms and measures to manage these impacts and</p>	<p>See "Identity Management" p. 63-64</p>

	<p>implement objectives. Management is obliged to obtain the signature of the Sustainability Committee on its plans to manage the most significant impacts of the bank.</p> <p>By 2021, the bank will have a new sustainability strategy and a policy that will allow it to work in the impact areas defined through the impact analysis.</p>	
<p>5.2 Describe the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees. This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.</p>	<p>Our approach to responsible and sustainable banking is led by our President, who is committed to actions and the implementation of the Principles. We have online training for employees on sustainability, including the Principles for Responsible Banking. It is currently being implemented throughout the bank and has been completed by all our employees from the different areas and we have quarterly sustainability bulletins where we can show the progress and activities carried out in the reported quarter. Additionally, sustainability training is provided for new staff as part of an induction program that includes the Principles and the bank's work.</p>	<p>See "Identity management" p. 55, 64</p>
<p>5.1 Governance Structure for implementation of the Principles</p> <p>Show that your bank has a governance structure in place for the implementation of the PRB, including:</p> <p>a) target-setting and actions to achieve targets set</p> <p>b) remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.</p>	<p>The Identity and Sustainability Management is responsible for monitoring progress towards its achievement and identifying any unexpected negative impacts. The Sustainability Committee has oversight over the setting of objectives, the measures put in place to achieve the objectives and the determination of actions in which the objectives are not on the right track or when it is necessary to establish measures to deal with unforeseen negative impacts. Progress will be reported quarterly to our committee. The Identity and Sustainability Management will report to the board on the progress made with the achievement of our objectives, and any corrective action taken to ensure the achievement of objectives and/or how negative impacts were addressed.</p>	<p>See "Identity management" p. 62, 64</p>
<p>Please provide your bank statement/conclusion if you have met the governance structure requirements for the implementation of the Principles.</p>		
<p>The Bank has established a governance structure to ensure that the Principles are effectively applied. We have defined an Identity and Sustainability Management that is in charge of the daily application of the Principles and expanded the functions and responsibilities of our Sustainability Committee, which is in charge of supervising the implementation, and the management, reporting quarterly to the Board of Directors on the progress made in achieving the objectives and the general application of the Principles.</p>		
<p>Principle 6: Transparency & Accountability</p> <p>We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.</p>		

<p>6.1 Progress on Implementing the Principles for Responsible Banking</p> <p><i>Show that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1-2.4).</i></p> <p><i>Show that your bank has considered existing and emerging international/regional good practices relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice.</i></p> <p><i>Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles.</i></p>	<p>For 2021 we will begin working on a new sustainability strategy that will help us expand the problems in all areas of the bank and also strongly includes the implementation of the Principles. As part of the Principles and progress of the groups, we are going to lead the implementation of a methodology to measure our indirect issuance due to our portfolio.</p> <p>The bank has signed an agreement with UN Women in El Salvador that seeks to improve the economic autonomy of the women who are part of the different projects they develop, making our Women in Action program available to them, which brings together inclusive financial products and services. In addition to providing financial literacy training support.</p> <p>As future actions for the subject and that contribute to include gender equality practices in the institution, we are defining a training program on gender equality that seeks to know and practice the Women's Empowerment Principles launched by UN Women to help women organizations and companies address the issue.</p>	<p>See "Identity management" p. 58, 64</p>
<p>Provide your bank's statement/conclusion if you have met the requirements for Progress in Implementing the Principles for Responsible Banking</p>		
<p>The Bank has made progress during the first 18 months of applying the Principles. Over the next few months, we will continue working to implement a methodology to measure our indirect emissions due to our portfolio. We started working on gender equality issues with our employees and clients. We will work on a training program that will adopt the practices of Women's Empowerment Principles.</p>		



08

BRANCHES, MINI BRANCHES AND ATMs

Branches, mini branches, and ATMs

Branches	Address	Phone No.
Santa Ana	2 C Pte. Y 2a Av. Nte. Santa Ana.	2447-3188
San Miguel	2ª Calle Poniente N°192, San Miguel.	2661-7420
Zacatecoluca	1ª Calle Poniente y Avenida José Matías Delgado, Zacatecoluca	2132-7931
Usulután	2ª Calle Oriente y 2ª Avenida Norte, Usulután.	2662-0120
Chalchuapa	2ª Calle Oriente y 2ª Avenida 2 de Abril Norte, Chalchuapa.	2299-6334
San Vicente	Barrio El Centro, 1ª Calle Oriente N°2, San Vicente.	2525-1243
Sonsonate	Barrio El Centro, 1ª Calle Poniente y 1ª Avenida Norte, Sonsonate.	2450-2316
Senda Florida	Alameda Manuel Enrique Araujo y Pje. Senda Florida Sur, Colonia Escalón.	2299-6352
Airport	Centro Comercial Aerocentro, Local 4, San Luis Talpa, La Paz.	2339-9908
Autopista Sur	Boulevard Los Proceres y Blvd. La Sultana, Col. La Sultana, Antigua Cuscatlán.	2299-6355
Centro	Avenida Cuscatlan entre 4ª y 6ª Calle Oriente, San Salvador	2441-2313
Ahuachapán	Avenida Francisco Menéndez y Calle Gerardo Barrios N°3-0, Ahuachapán	2443-0232
Mini Branch Ciudad Barrios	Barrio El Centro, Entre 1ª Calle Poniente y 3ª Avenida Norte Número 9, Ciudad Barrios, San Miguel	2665-8135
Nueva Concepción Branch	Barrio El Centro, 4ª Calle Poniente N°386, Nueva Concepción, Chalatenango	2299-6341
El Coyolito Mini Branch	Plaza Don Yon, Km. 48 1/2, Carretera Troncal del Norte, Tejutla, Chalatenango.	2231-4660
Unicentro Soyapango Mini Branch	Centro Comercial Unicentro, locales 55 C y 56 C, Soyapango.	22996326

San Miguel Roosevelt	Barrio San Felipe, Avenida Roosevelt y 6ª Calle Poniente, San Miguel.	2525-1267
25 Av. Norte Mini Branch	25ª Avenida Norte Y 27ª Calle Poniente N°1429	25251260
Santa Ana Los Héroeos	Parque Comercial Los Heroes, Lote 7-B, Polígono 1, Cantón Loma Alta, Santa Ana	2525-1275
Metapán Branch	Barrio El Calvario, Avenida Isidro Menendez y 3ª Calle Oriente N°14, Metapán, Santa Ana	2231-4691
Santa Rosa De Lima	Barrio La Esperanza, 1ª Avenida Sur, Santa Rosa de Lima, La Unión	26413985
Merliot Branch	Condominio Centro Comercial Chiltiupán, 17 Av. Nte. Calle Chiltiupán, Sta. Tecla La Libertad	25251293
Paseo Branch	Colonia Escalon 79 Y 81 Av. Norte, Paseo General Escalón N°4122 San Salvador	2299-6364
Santa Elena Branch	Urbanización Bosques de Santa Elena # 9 Y 10, Block "B", Antiguo Cuscatlán, La Libertad.	2299-6373
Lourdes Mini Branch	Centro Comercial Unicentro Lourdes Local 9-I	2525-1287
Puerto De La Libertad Branch	2º. Calle Poniente, Local 4, Barrio El Centro, Centro Comercial Miramar Plaza, La Libertad	2346-0614
Zacamil Branch	Comercial Zacamil Ii, Local Número 6 En La Esquina Sur Oeste De La 29 Avenida Norte Y Calle Zacamil, Mejicanos, San Salvador	2525-1237
Cara Sucia Branch	Barrio San Rafael, Centro De Cara Sucia N°14, San Francisco Menéndez, Ahuachapán	2299-6305
Santa Tecla Branch	Centro Comercial Santa Tecla, 2ª Calle Poniente y 5ª Avenida Sur, Local 2, Santa Tecla, La Libertad.	2132-7962
Berlín Branch	1ª Calle Poniente y Av. José Simeon Cañas Frente al Parque de Berlín Usulután	2132-7974
San Fco. Gotera Branch	4ª Calle Poniente, Entre 1ª y 3ª Avenida Sur, San Francisco Gotera, Morazán	2525-1204
CNR	1ª Calle Poniente Y 43 Av. Norte # 2310, San Salvador	2299-6301
Candelaria de la Frontera Counter	Barrio San Antonio Av. José Domingo Peñate Sur y 3ª Calle Poniente, Candelaria de la Frontera, Santa Ana	2132-7967
Tonacatepeque Counter	4ª Av. Sur Y 1ª Calle Poniente Costado Norte del Mercado Municipal Frente Al Parque Central de Tonacatepeque	2132-7968
Santa Elena Usulután Counter	2ª Calle Pte. Y 5ª Av. Sur, Bº El Calvario Santa Elena, Usulután	2132-7969

San Ignacio - Chalatenango	Lotf. Katmandu, Caserio Las Tunas Canton El Carmen Juridiccion De San Ignacio. Depto. de Chalatenango	2250-7000
LNB Santa Ana Counter	Entre Av. Independencia y 2ª Av. Sur; La 3ª y 5ª Calle Poniente Condominio Comercial Tomás Regalado, locales B1 Y B3 Santa Ana Oficinas de LNB	2250-7000
MOP Counter	Ministerio de Obras Públicas, Transporte, Vivienda y Desarrollo Urbano, Plantel La Lechuza, Carretera a Santa Tecla Km. 5 1/2, S.S.	2525-1221
VMT Counter	Km. 9 1/2, Carretera al Puerto de La Libertad frente a Tecun, Santa Tecla, La Libertad,	2525-1222
LNB Apopa Counter	Avenida Quirino Chavez, Barrio San Sebastián, Local N° 32, Apopa, San Salvador	2525-1232

ATMs

Location of ATMs

31- BH Branches	26	Zacamil Branch
1 Ahuachapán Branch	27	Santa Tecla Branch
2 Autopista Sur Branch - Box Office in Drive-up	28	Santa Ana Los Héroes Branch
3 Chalchuapa Branch	29	Gotera Branch
4 San Miguel – Centro Branch	30	Berlín Branch
5 San Miguel – Roosevelt Branch	31	Candelaria de la Frontera Counter
6 San Vicente Branch	18 - Shopping Malls	
7 Santa Ana Branch	32	Galerías Escalón (Banking Area)
8 Senda Florida Branch	33	Centro Comercial Las Cascadas
9 Sonsonate Branch - Box Office in Drive-up	34	Metrocentro San Salvador (Cinemark 9a Etapa)
10 Usulután Branch	35	Metrocentro San Miguel
11 Zacatecoluca Branch	36	Metrocentro Santa Ana (Food Court)
12 Nueva Concepción Branch	37	Metrocentro Sonsonate
13 Airport Branch	38	Multiplaza - Cafeteria Area 1st Floor
14 25 Av. Norte Branch	39	Plaza Merliot (Food Court 2nd Floor)
15 Unicentro Soyapango Branch	40	Plaza Mundo Soyapango (Banking Area)
16 Metapán Branch	41	Metrocentro Lourdes
17 Santa Rosa de Lima Branch	42	Unicentro Metrópolis
18 Merliot Branch	43	Unicentro-AltaVista

- | | | | |
|----|------------------------------|----|--|
| 19 | Ciudad Barrios Mini Branch | 44 | Plaza San Jacinto Shopping Mall |
| 20 | Paseo Gral. Escalón Branch | 45 | La Gran Vía Shopping Mall |
| 21 | Coyolito Mini Branch | 46 | Centro Comercial La Joya, in front of Dollar City |
| 22 | Santa Elena Branch | 47 | Torre Futura |
| 23 | Centro Branch | 48 | Santa Elena Shopping Mall, next to Kreef |
| 24 | Puerto de La Libertad Branch | 49 | Santa Rosa Shopping Mall, in front of Condado Santa Rosa |
| 25 | Cara Sucia Branch | | |

4- Gas Stations

- 50 Texaco Ateos
- 51 Texaco Navarra
- 52 Texaco Constitución
- 53 Texaco Panamericana (Ilopango)

16- Other Locations

- 54 Hotel Roca Sunzal, La Libertad
- 55 Ministry of Public Works (MOP, by its Spanish acronym)
- 56 Salvadorean Institute of Municipal Employees (ISDEM, by its Spanish acronym)
- 57 Mirador Planes de Renderos
- 58 TUDO Bus Terminal, Santa Ana
- 59 Mayor's Office of Nahuizalco
- 60 Mayor's Office of Nejapa
- 61 Mayor's Office of San Marcos
- 62 Súper Selectos San Luis
- 63 Súper Selectos San Bartolo
- 64 Mayor's Office of Chirilagua
- 65 Mayor's Office of Guazapa
- 66 Ex CAPRES (San Jacinto)
- 67 Súper Talpa
- 68 Juayúa
- 69 La Geo

Banco Hipotecario de El Salvador, S.A.

Financial Statements

December 31 of 2020, and 2019

(With the Independent Auditors' Report)

Banco Hipotecario de El Salvador, S.A.

Financial statements

As of December 31, 2020

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B

Informe de los Auditores Independientes

A la Asamblea General de Accionistas de Banco Hipotecario de El Salvador, S.A.

Opinión

Hemos auditado los estados financieros del Banco Hipotecario de El Salvador, S.A., los cuales comprenden el balance general al 31 de diciembre de 2020, el estado de resultados, el estado de cambios en el patrimonio y de flujos de efectivo por el año terminado en esa fecha, así como las notas a los estados financieros, incluyendo un resumen de las principales políticas contables.

En nuestra opinión, los estados financieros adjuntos del Banco Hipotecario de El Salvador, S.A. (el Banco), han sido preparados en todos los aspectos materiales, de conformidad con el marco normativo contable, emitido por la Superintendencia del Sistema Financiero de El Salvador para Bancos, como se describe en la nota 2 a los estados financieros.

Bases para la opinión

Efectuamos nuestra auditoría de conformidad con las Normas Internacionales de Auditoría (“NIAs”). Nuestras responsabilidades bajo dichas normas se encuentran descritas en la sección de Responsabilidades del auditor con relación a la auditoría de los estados financieros de nuestro informe. Somos independientes del Banco, de conformidad con el Código de Ética para Profesionales de la Contabilidad del Consejo de Normas Internacionales de Ética para Contadores (“IESBA”, por sus siglas en inglés), junto con los requerimientos de ética que son relevantes para nuestra auditoría de los estados financieros en El Salvador y hemos cumplido con nuestras otras responsabilidades éticas de acuerdo con esos requerimientos y con el Código de Ética del IESBA. Consideramos que la evidencia de auditoría que hemos obtenido es suficiente y apropiada para proporcionar una base para nuestra opinión de auditoría.

Párrafo de énfasis - Base de contabilidad

Sin calificar nuestra opinión, llamamos la atención a la nota 2 a los estados financieros que describe la base de contabilización, las cuales tienen su origen en las Normas Contables para Bancos vigentes en El Salvador, de acuerdo a las disposiciones emitidas por el Comité de Normas del Banco Central de Reserva de El Salvador que le son aplicables y las Normas Internacionales de Información Financiera, prevaleciendo la normativa aprobada por el Comité de Normas del Banco Central, cuando haya conflicto con las Normas Internacionales de Información Financiera, vigentes a octubre de 2003. Los estados financieros han sido preparados para cumplir con los requerimientos legales y de la Superintendencia del Sistema Financiero de El Salvador. En consecuencia, los estados financieros pueden no ser adecuados para otro propósito.

Otra información incluida en la memoria de labores de la administración

La otra información consiste en información incluida en la memoria de labores de la administración distinta a los estados financieros y de nuestro informe de auditoría sobre ellos. La administración es responsable por la otra información.

Se espera que la memoria de labores del Banco esté disponible para nosotros después de la fecha de este informe de auditoría. Nuestra opinión sobre los estados financieros no cubre la otra información y no expresaremos una opinión o ninguna otra forma de conclusión de aseguramiento al respecto.

En relación con nuestra auditoría de los estados financieros, nuestra responsabilidad es leer ésta otra información en cuanto esté disponible, y al hacerlo, considerar si hay una desviación material entre esa otra información y los estados financieros, o con nuestro conocimiento obtenido durante el curso de la auditoría, o si por algún motivo, parece contener una desviación material.

A la Asamblea General de Accionistas de
Banco Hipotecario de El Salvador, S.A.

Página 2

Responsabilidades de la Administración y de aquellos encargados del gobierno sobre los estados financieros

La Administración es responsable por la preparación y presentación razonable de estos estados financieros de conformidad con las Normas Contables para Bancos vigentes en El Salvador emitidas por la Superintendencia del Sistema Financiero de El Salvador, como se describe en la nota 2 a los estados financieros, así como por el control interno que la Administración determine que es necesario para permitir la preparación de estados financieros que estén libres de errores significativos, debido ya sea a fraude o error.

En la preparación de los estados financieros, la Administración también es responsable de la evaluación de la capacidad del Banco para continuar como empresa en marcha, revelando, según corresponda, los asuntos relacionados con el negocio en marcha y utilizando el principio contable de empresa en marcha, excepto si la Administración tiene la intención de liquidar el Banco o de terminar sus operaciones, o bien no exista otra alternativa realista sino hacerlo.

Los encargados de la Administración del Banco, son responsables de la supervisión del proceso de información financiera del Banco.

Responsabilidades del auditor con relación a la auditoría de los estados financieros

Nuestros objetivos son obtener una seguridad razonable acerca de si los estados financieros considerados en su conjunto están libres de representaciones erróneas significativas, debido a fraude o error, y emitir un informe de auditoría que incluye nuestra opinión. La seguridad razonable es un nivel alto de seguridad, pero no es una garantía de que una auditoría efectuada de acuerdo con las NIAs siempre detectará un error significativo cuando exista. Los errores pueden deberse a fraude o error y son considerados significativos cuando, individualmente o en su conjunto, pudiera esperarse razonablemente que influyan las decisiones económicas que tomen los usuarios basándose en estos estados financieros.

Como parte de una auditoría de conformidad con las NIAs, nosotros ejercemos el juicio profesional y mantenemos escepticismo profesional durante la auditoría.

Asimismo, nosotros como auditores, también:

- ☒ Identificamos y evaluamos los riesgos de error material en los estados financieros, debido a fraude o error, diseñamos y aplicamos procedimientos de auditoría para responder a dichos riesgos, y obtenemos evidencia de auditoría suficiente y adecuada para proporcionar una base para nuestra opinión. El riesgo de no detectar un error material debido a fraude es más alto que en el caso de un error material debido a error, ya que el fraude puede implicar colusión, falsificación, omisiones intencionales, manifestaciones intencionalmente erróneas, o la elusión del control interno.
- ☒ Obtenemos un entendimiento del control interno relevante para la auditoría con el propósito de diseñar procedimientos de auditoría que sean adecuados en función de las circunstancias, pero no con el propósito de expresar una opinión sobre la efectividad del control interno del Banco.

A la Asamblea General de Accionistas de
Banco Hipotecario de El Salvador, S.A.

Página 3

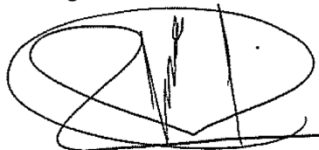
- ☒ Concluimos sobre el uso adecuado por parte de la Administración del principio contable de empresa en marcha y, basándonos en la evidencia de auditoría obtenida, concluimos sobre si existe una incertidumbre material relacionada con hechos o condiciones que pueden generar dudas significativas sobre la capacidad del Banco para continuar como empresa en marcha. Si concluimos que existe una incertidumbre material, se requiere que llamemos la atención en nuestro informe de auditoría sobre las revelaciones correspondientes en los estados financieros o, si dichas revelaciones son no son adecuadas, que expresemos una opinión modificada. Nuestras conclusiones están basadas en la evidencia de auditoría obtenida hasta la fecha de nuestro informe de auditoría. No obstante, hechos o condiciones futuros pueden causar que el Banco no continúe como una empresa en marcha.

- ☒ Evaluamos que las políticas contables utilizadas sean adecuadas y la razonabilidad de las estimaciones contables y las revelaciones efectuadas por la administración.

Nos comunicamos con los encargados de la Administración del Banco en relación, entre otros asuntos, al alcance y oportunidad de nuestra auditoría y los hallazgos significativos incluyendo cualquier deficiencia significativa en el control interno que hayamos identificado durante nuestra auditoría.

También proporcionamos a los encargados de la Administración del Banco una declaración de que hemos cumplido con los requerimientos éticos aplicables con relación a la independencia y comunicado con ellos acerca de todas las relaciones y otras cuestiones de las que se puede esperar razonablemente que puedan afectar a nuestra independencia, y en su caso, las correspondientes salvaguardas.

Ernst & Young El Salvador, S.A. de C.V.
Registro No. 3412



René Alberto Arce Barahona
Socio
Registro No. 1350

15 de febrero de 2021
Torre Futura World Trade Center 11-05
San Salvador, El Salvador



A-021-2021

Banco Hipotecario de El Salvador, S.A.

Balance sheets

As of December 31, 2020, and 2019

(Expressed in thousands of dollars of the United States of America)

	2020	2019
ASSETS		
Trading assets		
Cash and banks (Note 3)	US\$ 266,874.3	208,977.3
Repos and other net stock exchange operations (Note 4)	6,216.4	1,476.8
Financial investments, net (Note 5)	173,026.0	77,948.5
Loan portfolio, net (Notes 6, 7 and 8)	882,915.2	790,729.8
	1,329,031.9	1,079,132.4
Other assets		
Assets received in payment, net (Note 9)	7,822.1	5,217.2
Equity investments (Note 10)	114.3	114.3
Sundry, net	7,704.0	5,874.7
	15,640.4	11,206.2
Fixed assets		
Personal property, real estate, and others - net (Note 11)	16,997.6	16,613.8
	16,997.6	16,613.8
Total assets	US\$ 1,361,669.9	1,106,952.4
LIABILITIES AND EQUITY		
Intermediary liabilities		
Customer deposits (Note 8)	US\$ 1,059,104.8	796,996.9
Loans from Banco de Desarrollo de El Salvador (Notes 8 and 14)	38,033.7	54,228.9
Loans from other banks (Note 15)	79,372.0	72,778.7
Repos and other securities obligations (Note 16)	-	13,511.4
Sundry	35,856.9	29,031.4
	1,212,367.4	966,547.3
Other liabilities		
Account Payables	6,822.7	8,359.7
Provisions	3,829.0	3,852.6
Sundry	7,132.4	6,239.4
	17,784.1	18,451.7
Total liabilities	1,230,151.5	984,999.0
Equity		
Paid share capital	73,434.3	45,029.5
Capital reserve, accumulated results, and unearned equity	58,084.1	76,923.9
	131,518.4	121,953.4
Total equity	131,518.4	121,953.4
Total liabilities plus equity	US\$ 1,361,669.9	1,106,952.4

The accompanying notes are an integral part of the financial statements.

Signed by:

Celina María Padilla de O'Byrne
Chairman

José Raúl Cienfuegos Morales
Operations and Finance Director

Nathanael Antonio Siciliano
General Accountant

Omar Chavez Portal
Vice Chairman

Sandra Yanira Peña Amaya
Executive-Secretary

Banco Hipotecario de El Salvador, S.A.**Income statements****For the fiscal years ended on December 31, 2020, and 2019***(Expressed in thousands of dollars of the United States of America)*

	2020	2019
Operating income		
Loan interests	US\$ 66,358.4	64,833.4
Fees and other loan income	4,496.9	5,087.7
Investment interests	5,326.4	3,155.0
Profit on sale of securities	3.9	1.2
Reports and other stock exchange transactions	114.8	210.6
Interest on deposits	1,297.9	3,923.4
Operations in foreign currency	700.7	581.7
Other services and contingencies	2,381.4	2,529.1
	80,680.4	80,322.1
Operating expenses		
Interest and other deposit costs	25,321.1	21,797.5
Interest on loans	5,764.3	6,645.1
Loss on sale of securities	27.3	64.3
Operations in foreign currency	6.2	4.5
Other services and contingencies	3,054.5	2,761.7
	34,173.4	31,273.1
Sanitation reserves (Note 7)	9,803.8	9,115.1
	36,703.2	39,933.9
Earnings before other expenses		
Operating expenses (Note 26)		
Of officers and employees	15,210.6	15,400.9
Particulars	9,871.0	8,718.2
Depreciation and amortization	1,602.7	1,704.5
	26,684.3	25,823.6
Operating profit	10,018.9	14,110.3
Other (expenses) and net income	(560.5)	1,540.7
Earnings before taxes	9,458.4	15,651.0
Direct taxes		
Income tax (Note 25)	(3,403.7)	(5,389.3)
Contributions		
Citizen Security Plan for Large Taxpayers	(427.9)	(678.7)
Net income	US\$ 5,626.8	9,583.0

The accompanying notes are an integral part of the financial statements

Signed by:

Celina María Padilla de O'Byrne
ChairmanJosé Raúl Cienfuegos Morales
Operations and Finance DirectorNathanael Antonio Siciliano
General AccountantOmar Chavez Portal
Vice ChairmanSandra Yanira Peña Amaya
Executive-Secretary

Banco Hipotecario de El Salvador, S.A.
Statements of changes in equity
For the fiscal years ended on December 31, 2020, and 2019
(Expressed in thousands of dollars of the United States of America)

	Balances as of 31 December 2018	Increase	Decreases	Balances as of December 31 2019	Increase	Decreases	Balances as of December 31, 2020
Equity							
Paid share capital (1)	US\$ 45,029.5	-	-	45,029.5	28,404.8	-	73,434.3
Legal reserve (Note 23)	11,257.4	-	-	11,257.4	903.0	-	12,160.4
Voluntary reserves (Note 44)	32,342.4	6,421.0	-	38,763.4	7,701.4	26,400.0	20,064.8
Distributable earnings (Note 24)	6,509.8	9,583.0	8,302.5	7,790.3	5,626.8	13,417.1	0.0
Results from previous fiscal years	25.0	-	-	25.0	7,790.3	7,790.3	25.0
	<u>US\$ 95,164.1</u>	<u>16,004.0</u>	<u>8,302.5</u>	<u>102,865.6</u>	<u>50,426.3</u>	<u>47,607.4</u>	<u>105,684.5</u>
Restricted equity							
Non-distributable income (Note 24)	11,931.0	13,723.6	11,931.0	13,723.6	4,723.8	-	18,447.4
Fixed asset revaluation	4,962.3	-	-	4,962.3	-	-	4,962.3
Recovery of written-off assets (Note 20)	136.0	334.2	68.3	401.9	2,087.1	64.8	2,424.2
	<u>US\$ 17,029.3</u>	<u>14,057.8</u>	<u>11,999.3</u>	<u>19,087.8</u>	<u>6,810.9</u>	<u>64.8</u>	<u>25,833.9</u>
	<u>US\$ 112,193.4</u>	<u>30,061.8</u>	<u>20,301.8</u>	<u>121,953.4</u>	<u>57,237.2</u>	<u>47,672.2</u>	<u>131,518.4</u>
Total equity							
Book value of shares (figures expressed in dollars of the United States of America)	US\$ 14.95			16.25			10.75

(1) In 2020, the Bank's capital stock is represented by 11,992,232 common shares and 246,817 preferred shares (7,258,092 common shares and 246,817 preferred shares in 2019 and 2018), all registered with an absolute value of six dollars each, which are fully subscribed and paid .

The accompanying notes are an integral part of the financial statements

Signed by:

Celina María Padilla de O'Byrne
Chairman

José Raúl Cienfuegos Morales
Operations and Finance Director

Nathanael Antonio Siciliano
General Accountant

Omar Chavez Portal
Vice Chairman

Sandra Yanira Peña Amaya
Executive-Secretary

Banco Hipotecario de El Salvador, S.A.
Cash flow Statement
For the fiscal years ended on December 31, 2020, and 2019
(Expressed in thousands of dollars of the United States of America)

	2020	2019
Operational activities:		
Net income	US\$ 5,626.8	9,583.0
Adjustments to reconcile net income to net cash provided by (used in) operating activities.		
Allowance for loan and product receivables write-offs	9,161.8	8,820.2
Other reserves	(276.0)	(27.6)
Extraordinary asset reserve	1,420.2	808.4
Profit on sales of extraordinary assets and fixed assets	(416.8)	(1,708.8)
Recovered assets (Note 20)	2,022.3	265.9
Depreciation and amortization	1,602.7	1,704.5
Interest and fees receivable	(8,986.9)	(2,017.6)
Increase (decrease) of interest and commissions payable	125.3	(36.5)
Increase in loan portfolio	(96,884.6)	(59,173.1)
(Increase) decrease in other assets	(1,829.3)	558.4
Increase in deposits from the public	261,643.7	63,049.4
Increase in other liabilities	6,433.9	25,392.7
Net cash from operating activities	<u>179,643.1</u>	<u>47,218.9</u>
Investment activities:		
Acquisition of Investments in financial instruments	(95,011.2)	(42,251.2)
Increase in repos agreements and stock exchange operations	(4,739.6)	(1,476.8)
Acquisition of fixed assets (Note 11)	(1,986.5)	(1,502.8)
Cash received from the sale of fixed assets	25.1	3.8
Cash received from the sale of extraordinary assets	824.6	3,370.5
Net cash used in investing activities	<u>(100,887.6)</u>	<u>(41,856.5)</u>
Financing activities:		
Increase in share capital	2,004.8	-
Payment of dividends	(88.9)	(88.9)
Loans (paid) obtained	(9,263.0)	6,904.8
(Decrease) increase in repos agreements and stock exchange operations	(13,511.4)	13,511.4
Net cash (used in) from financing activities	<u>(20,858.5)</u>	<u>20,327.3</u>
Net Increase in cash	57,897.0	25,689.7
Cash at the beginning of the year	208,977.3	183,287.6
Cash at the end of the year (Note 3)	<u>US\$ 266,874.3</u>	<u>208,977.3</u>

The accompanying notes are an integral part of the financial statements

Signed by:

Celina María Padilla de O'Byrne
Chairman

José Raúl Cienfuegos Morales
Operations and Finance Director

Nathanael Antonio Siciliano
General Accountant

Omar Chavez Portal
Vice Chairman

Sandra Yanira Peña Amaya
Executive-Secretary

Banco Hipotecario de El Salvador, S.A.

Notes to the financial statements

As of December 31, 2020, and 2019

(Expressed in thousands of dollars of the United States of America)

1. Operations

The Bank was founded on January 29, 1935, in accordance with the Laws of the Republic of El Salvador, whose purpose is to engage habitually in the commercial banking activity, making calls to the public to obtain funds through demand, savings, and time deposits, the issuance, and placement of securities or any other passive credit operation, the Bank is obliged to cover the principal, interest and other accessories of such funds, for placement to the public in active credit operations.

The Bank is regulated by Legislative Decree No. 80. Special Provisions Regarding Banco Hipotecario de El Salvador, Sociedad Anónima approved on August 16, 2012, the Banking Law, Organic Law of the Central Reserve Bank of El Salvador and the Law of Supervision and Regulation of the Financial System Decree 537 approved on December 8 of 2004 (In force until May 13, 2020), Law of the Financial System for Development Promotion and other laws of general application, including those related to the agreements and instructions issued by the Central Reserve Bank of El Salvador and the Financial System Superintendency.

The financial statements are expressed in thousands of dollars of the United States of America.

The Bank is domiciled in the city of San Salvador, El Salvador, but agencies or offices may be established, transferred, and closed anywhere in the Republic of El Salvador.

2. Main accounting policies

The Accounting Standards for Banks used for the preparation of the Bank's financial statements were issued by the previous Financial System Superintendency prior to the entry into force of Legislative Decree No. 592 of January 14, 2011, published in Official Gazette No. 23 Volume 390 of February 2, 2011, which contains the Law of Regulation and Supervision of the Financial System; In said Law a new Financial System Superintendency is created, and the powers to approve, modify and repeal the technical regulations issued by the previous Financial System Superintendency were transferred to the Central Reserve Bank of El Salvador, keeping the accounting regulations issued by the previous Superintendency.

2.1. Technical standards and accounting principles

The financial statements have been prepared by the Administration of Banco Hipotecario de El Salvador, S.A., in accordance with the Accounting Standards for Banks (NCB by its Spanish acronym) that are applicable, issued by the previous Financial System Superintendency and the International Accounting Standards IAS - today incorporated into the International Financial Reporting Standards - IFRS, the Regulation prevailing by the Superintendency when there is a conflict with IFRS. In addition, the Financial System Superintendency required that when the IFRS present different options to account for the

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same event, the most conservative one should be adopted. Note (39) presents the main differences between the accounting standards used and the IFRS.

The presentation of financial statements, their notes, and their content are established in NCB-017 Standards for the Preparation of Financial Statements of Banks, issued by the Financial System Superintendency of El Salvador. The publication of the financial statements is based on NCB-018 Standards for the Publication of Financial Statements of Banks, issued by the Financial System Superintendency of El Salvador.

2.2.Financial investments

The investment portfolio is valued at market value in the case of instruments traded regularly in the Salvadoran stock market, securities issued by entities located in the country without a listing in the Salvadoran stock market, based on the risk category assigned by a risk rating agency registered with the Financial System Superintendency, and securities without a listing in the Salvadoran stock market and without a risk rating are valued at present value.

The securities issued or guaranteed by the Central Reserve Bank of El Salvador and by other State entities, payable with funds from the National Budget, are presented at their acquisition value.

2.3.Provision of interest and suspension of the provision

Interest receivable is recorded in equity accounts on an accrual basis. The provision of interest on loans is suspended when they are overdue for more than ninety days.

2.4. Fixed asset

Real estate is registered at a value determined by independent appraisals made in 1992 and 1995. Subsequent additions are valued at acquisition cost. The appraisals have been approved by the Financial System Superintendency, the resulting differences between the book value of real estate and those determined in the independent appraisals are recorded with a charge or credit to the surplus account for revaluation of fixed assets in restricted equity, which is not capitalizable according to the Banking Law if they have not been carried out.

Depreciation is calculated using the straight-line method based on the estimated useful life of the assets. The revaluation value of depreciable fixed assets is depreciated over the estimated remaining useful lives of the assets. Profits or losses resulting from retirements or sales, as well as maintenance and repair expenses, which do not significantly extend the useful life of the asset, are expensed in the year in which they are incurred.

The useful life of the assets owned by the Bank is summarized below:

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Type of asset	Useful life
Buildings	20 years
Facilities	5 years
Office furniture and equipment	3 to 5 years
Vehicles	4 years
Redeemable	5 years

2.5. Severance payments and voluntary retirement

According to the Labor Code of El Salvador, employees dismissed without just cause must receive compensation equivalent to a basic salary of 30 days (up to a maximum of four times the legal minimum daily wage in force for each year of employment, and the proportional part if applicable).

The internal labor regulations approved in July 1998, by the Bank's Administration, establishes that for those workers who quit their job and who meet the minimum times established in the same regulations, they have the right to a voluntary retirement benefit; this policy has remained unchanged in the internal regulations, whose modifications were approved in September 2015.

In addition, during 2014, the Legislative Assembly approved Decree No. 592, which contains the Law Regulating the Economic Benefit for Voluntary Resignation, which entered into force on January 1, 2015, establishing an economic benefit for resignation after two years, equivalent to fifteen days of basic salary for each year of service. Such salary may not exceed twice the legal minimum daily wage in force corresponding to the sector of the employer's economic activity.

The defined benefit plan that covers the economic benefit for voluntary retirement established in the internal regulations and the law, uses the Actuarial Projected Unit Credit Cost Method, considering a discount rate: 3.33% (4.21%, in 2019) per year and Salary increase rate: 1.04% (1.04%, in 2019) per year.

Considering the benefits established in the Internal Labor Regulations and the Regulatory Law of the Economic Benefit for Voluntary Resignation, mentioned above, the current actuarial studies, required by the International Accounting Standard IAS -19, have estimated that the labor liability required for to settle the obligations in favor of the employees as of December 31, 2020, and 2019, is US\$2,763.4 and US\$2,372.4, respectively.

The labor liability originated accumulates in favor of the employees according to the time of service, in accordance with the previous provisions, and is canceled in the event of dismissal without just cause or by voluntary retirement.

The Bank's policy is to record a provision to cover expenses of this nature, which is established on a fixed monthly basis based on the amounts estimated in the current actuarial study. Expenditures of this nature are charged to the provision and any surplus, if any, is recognized as an expense in the year in which it is incurred.

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The values related to labor liabilities during the reported years are as follows:

	2020	2019
Policy-related labor liability:		
Provision as of December 31 to settle debt due to voluntary retirement.	US\$ 2,763.4	2,372.4
Other data on labor liabilities in general		
Payments for compensation and voluntary withdrawal.	US\$ 351.3	263.0

2.6. Sanitation reserves

The loan write-off reserves, interest receivable, and other risk assets have been established in accordance with the instructions issued by the Financial System Superintendency, in which it is possible to evaluate the risks of each debtor of the institution, based on the following criteria: business and payment capacity, responsibility, financial situation, and collateral coverage.

Increases in these provisions or reserves may be due to an increase in the risk of each debtor in particular; decreases may be caused by a decrease in risk, by withdrawals from assets of balances due from debtors up to the provisioned value; when the value withdrawn from assets exceeds the corresponding provision, the difference is applied to expenses.

Generic reserves are established when there are information deficiencies that, in the opinion of the Superintendency, affect the financial statements.

The allowance for loan loss provisions is established in compliance with the requirement of the Superintendency based on article 206 of the Banking Law, which regulates presumptively related loans. The amount of these provisions corresponds to the excess of related loans determined by the Superintendency, which will be reduced with credit to income as the corresponding excess is eliminated.

Reserves for debtor rating risk are established when, as a result of a verification carried out by the Superintendency, it is determined that it is necessary to reclassify a number of debtors exceeding fifteen percent of the sample examined to higher risk categories.

The amount of these reserves is increased based on the results of the evaluations performed by the Superintendency and is decreased with the authorization of the Superintendency when, in its opinion, the Bank has improved its debtor rating procedures.

Write-off reserves in excess of the minimum requirements established by the Superintendency, which appear under the denomination of voluntary reserves, are created by order of the Bank's Administration when it is deemed necessary to create such reserves.

The write-off reserves for potential losses due to bad debts are determined based on the Bank's empirical data and are established by the Bank's administration.

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2.7. Overdue loans and interest

Past due loans are considered to be the total principal balances of those loans with principal or interest installments in arrears for more than ninety (90) days or when the Bank has decided to collect them through the judicial process, even if the aforementioned arrears do not exist. The criteria for the transfer of loans and interest from current to past due is in accordance with the rules established by the Financial System Superintendency.

2.8. Stock investments

Investments in shares of subsidiaries and joint investment companies are recorded using the cost method.

When the value of the acquisition is greater than the book value of the issuing entity, the Bank transfers the value of the excess to a deferred charge account, which is amortized annually over a period of up to three years from the date of acquisition of the investment.

2.9. Extraordinary assets

Assets received as payment of loans granted are recorded at cost or market value, the lower of the two. For these purposes, the market value of non-monetary assets is considered to be the expert appraisal of the assets performed by an expert registered with the Financial System Superintendency.

The extraordinary assets acquired must be liquidated within a period of five years from the date of their acquisition, in compliance with the NCB-013 standard "Standards for Accounting for Extraordinary Assets of Banks", a provision for 100% of the registered value within 4 years.

Profit from the sale of extraordinary assets with financing is recognized until received.

2.10. Foreign currency transactions

The value of active and passive transactions in foreign currency are presented in dollars of the United States of America valued at the prevailing exchange rate.

Adjustments for exchange rate fluctuations are applied to expense or income accounts, as appropriate.

2.11. Charges for general banking risks

Banco Hipotecario de El Salvador, S.A., during the reported periods has not made any charge for future losses, as there are no contingencies that require such recognition.

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2.12. Interest payable

Interest on deposits, securities issued, loans, and other obligations is recognized on an accrual basis.

2.13. Revenue recognition

Accrued income is recognized on an accrual basis. When a loan is overdue for more than ninety days, the provision of interest is suspended, and it is recognized as income until it is paid in cash. Interest not provided for over 90 days past due is recorded in memorandum accounts.

Commissions derived from loan or contingent operations with a term of up to 30 days are recognized as income on the date they are collected or provisioned. Commissions derived from loans or contingent operations with terms of more than 30 days are recorded in deferred income, net of direct costs for granting such loans or contingent operations. The recognition of deferred income is carried out periodically, according to the form of payment originally established under the effective interest method, using the internal rate of return.

Amortization of commissions for contingent operations and services are made monthly on a pro rata basis over the term stipulated for the granting of guarantees, surety bonds, sureties, and other services, net of direct costs for granting them. The recognition of deferred income is suspended when loans or contingent transactions are reclassified to nonperforming loans and are recognized until such balances are recovered.

The interests that become part of the asset as a result of granting a refinancing are recorded as deferred liabilities and are recognized as income until they are received.

2.14. Provision for country risk

The Bank establishes provisions for country risk for the activities of placing resources abroad. This risk is attributable to the country of domicile of the debtor or obligor and from which the return of the invested resources must be obtained, unless the parent company acts as joint and several debtor and/or when the guarantor is domiciled in a country with an investment grade rating.

Institutions that place or commit their resources in other countries use to determine the degree of country risk, the sovereign risk ratings of the countries, issued by internationally recognized risk rating agencies, for long-term obligations.

Increases in provisions will cause a debit in the income statement to be applied - earnings from previous years and credit in the restricted equity account - earnings from previous years. Decreases in provisions will cause a reversal of the accounting application of constitution.

I. Recognition of losses on loans and accounts receivable

The Bank recognizes as losses of the loan portfolio the following cases:

- a) Balances secured by collateral that have not reported capital recoveries for more than twenty-four months, provided that they are not in judicial foreclosure proceedings;

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- b) Balances without collateral that have more than twelve months without reporting capital recoveries, provided that they are not in the process of judicial execution;
- c) Balances without an executory document to initiate judicial recovery;
- d) Balances that after twenty-four months from the initiation of the legal action, have not been possible to seize;
- e) Cases in which a first instance judgment has been issued in favor of the debtor;
- f) When there is no evidence that the debtor has acknowledged his debt in the last five years; and
- g) When, in the Bank's judgment, there is no possibility of recovery.

2.3 Use of accounting estimates in the preparation of the financial statements

The preparation of the financial statements requires the Bank's Administration to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of income and expenses for the reported periods. Assets and liabilities are recognized in the financial statements when it is probable that future economic benefits will flow to or from the entity and the various items have a cost or value that can be measured reliably. If in the future these estimates and assumptions, which are based on the administration's best judgment at the date of the financial statements, are changed from current circumstances, the original estimates and assumptions will be appropriately modified in the year in which such changes occur.

3. Cash and banks

This item is made up of cash in both local and foreign currency and amounts to US\$266,874.3 (US\$208,977.3 in 2019), of which US\$266,400.3 (US\$207,788.3 in 2019), corresponds to deposits in local currency and US\$474.0 (US\$1,189.0 in 2019) corresponds to deposits in Euros valued at US\$1.23 (US \$1.12 in 2019). Of the deposits in the Central Reserve Bank of El Salvador and foreign banks, US\$230,406.5 (US\$179,046.4 in 2019) accrue interest. A summary of the integration of this account is presented below:

		2020	2019
Cash	US\$	21,885.6	21,067.3
Deposits in Central Reserve Bank of El Salvador		230,089.3	178,665.7
Documents charged to other banks		10,862.4	7,273.2
Deposits in local banks		179.0	152.5
Deposits in foreign banks		3,858.0	1,818.6
TOTAL	US\$	266,874.3	208,977.3

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As of December 31, 2020, and 2019, the liquidity reserve requirement on deposits is US\$100,065.0 and US\$170,096.0, respectively, of which, in both years, 100% is deposited in an account with the Central Reserve Bank of El Salvador; there is no restricted foreign currency balance.

4. Reports and stock exchange operations

As of December 31, the balance of repos and other stock transactions amounts to US\$6,216.4 (US\$1,476.8, in 2019).

5. Financial investments and their provisions

This item represents securities and other investments in monetary instruments, acquired for prudential or speculative purposes or by order of the monetary authorities. Financial investments and their provisions as of December 31, 2020, and 2019 present a balance of US\$173,026.0 and US \$77,948.5, respectively, which are detailed below:

	2020	2019
Negotiable securities		
Issued by the Central Reserve Bank	US\$ 9,954.2	11,845.2
Issued by the State	83,215.4	35,885.9
Issued by others	66,771.7	24,799.0
	<u>159,941.3</u>	<u>72,530.1</u>
Securities held to maturity	2,141.7	2,141.7
Available-for-sale securities	8,000.0	400.0
	<u>170,083.0</u>	<u>75,071.8</u>
Accrued interest	2,943.0	2,876.7
Gross Portfolio	<u>US\$ 173,026.0</u>	<u>77,948.5</u>

As of December 31, 2020, and 2019, the Bank does not maintain an allowance for valuation of investments, due to the quality of its investments.

As of December 31, 2020, and 2019, an amount of US\$620.0 is partially guaranteeing loans with the Central American Bank for Economic Integration (CABEI) (See note 15).

The average annual rate of return is 4.30% (4.17% in 2019).

The average rate of return is the percentage that results from dividing the income (including interest and commissions) of the investment portfolio by the average balance of the gross investment portfolio for the reported period.

6. Loan portfolio - net

The Bank's loan portfolio is diversified in the following sectors of the economy:

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		2020	2019
Active loans:			
Private companies	US\$	587,035.4	498,720.1
Residence acquisition		96,214.0	98,445.5
Consumption		28,734.0	26,171.0
Other entities of the Financial System		41,108.1	45,825.4
State entities		26,335.5	31,610.4
		<u>779,427.0</u>	<u>700,772.4</u>
Refinanced or rescheduled loans:			
Private companies		81,717.3	84,626.7
Consumption		9,116.7	5,766.1
		<u>90,834.0</u>	<u>90,392.8</u>
Overdue loans			
Private companies		11,864.2	10,941.2
Residence acquisition		872.7	435.2
Consumption		1,029.7	1,037.5
		<u>13,766.6</u>	<u>12,413.9</u>
Interest on loans		18,875.9	9,955.3
Sanitation Reserves		(19,988.3)	(22,804.6)
Net Portfolio	US\$	<u>882,915.2</u>	<u>790,729.8</u>

Average rate of return: 8.50% (9.22% in 2019).

The average rate of return is the percentage that results from dividing the loan portfolio income (including interest and fees) by the average balance of the gross loan portfolio for the reporting period.

Adjustable interest rate loans represent 100.0% (99.90% in 2019) and the fixed rate loan portfolio represents 0.00% (0.10% in 2019).

Interest accrued on the loan portfolio and not recognized as results in the reported period amounts to US\$1,795.7 (US\$1,158.0 in 2019).

7. Sanitation reserves

As of December 31, 2020, and 2019, the Bank maintains provisioning reserves to cover eventual losses for a total of US\$25,856.4 and US\$28,396.7, respectively.

The movement of provisions in the reported period is as follows:

a. Reserves for debtors of loans to private companies:

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	Loans		Contingencies		Total	
Balance as of December 31, 2019	US\$	13,862.5	US\$	5,592.1	US\$	19,454.6
Plus: Creation of reserves		4,464.0		279.2		4,743.2
Volunteer transfers		1,990.9		-		1,990.9
Reclassification of Extraord. act.		123.8		-		123.8
Less: Release of reserves		(98.9)		(3.2)		(102.1)
Transfers		(1,219.0)		-		(1,219.0)
Loan write-off		(7,511.5)		-		(7,511.5)
As of December 31, 2020	US\$	11,611.8	US\$	5,868.1	US\$	17,479.9
Balance as of December 31, 2018	US\$	12,483.9	US\$	5,564.4	US\$	18,048.3
Plus: Creation of reserves		5,787.7		192.2		5,979.9
Volunteer transfers		-		-		-
Less: Release of reserves		(3.7)		-		(3.7)
Transfers		(1,708.0)		-		(1,708.0)
Loan write-off		(2,697.4)		(164.5)		(2,861.9)
Balance as of December 31, 2019	US\$	13,862.5	US\$	5,592.1	US\$	19,454.6

Coverage rate: 2.40% (3.15% in 2019).

b. Reserves for debtors of loans for housing:

	2020		2019	
Initial Balance	US\$	815.8		930.9
More: Constitution of reserves		171.8		92.6
Less: Releases		(41.7)		-
Loan write-off		(4.9)		(2.2)
Transfers		-		(205.5)
Final Balance	US\$	941.0		815.8

Coverage rate: 0.97% (0.83% in 2019).

c. Reserves for consumer credit debtors:

	2020		2019	
Initial Balance	US\$	293.8		264.5
Plus: Creation of reserves		-		86.7
Less: Loan write-off		(26.2)		(52.1)
Releases		(164.7)		-
Transfers		(19.1)		(5.3)
Final Balance	US\$	83.8		293.8

Coverage rate: 0.21% (0.88% in 2019).

d. Reserves for excess of related loans:

As of the reference date of the financial statements, the Bank has no excess in related loans, therefore there is no reserve established for this purpose.

e. Voluntary reserves:

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		2020	2019
Initial Balance	US\$	7,832.5	5,079.4
More: Constitution of reserves		4,831.3	2,812.1
Transfer of mandatory		-	44.8
Less: Sanitation		(3,298.3)	(103.8)
Transfers to mandatory		(2,013.8)	-
Final Balance	US\$	7,351.7	7,832.5

The coverage rates determined for each type of reserve is the quotient expressed as a percentage that results from dividing the amount of the provisions by the amount of the asset.

The provisioning reserves for contingencies are presented under the heading of miscellaneous liabilities.

As of December 31, 2020, and 2019, the costs of sanitation reserves of US\$9,803.8 and US \$9,115.1, respectively, include the constitution of indicated reserves in the amount of US\$9,746.3 and US\$8,971.3. Additionally, it includes direct write-offs against results and reserves of accounts receivable.

8. Pledged portfolio

The Bank has obtained secured resources from the loan portfolio as described below:

- Loans received from the Development Bank of El Salvador for US\$57,653.1 (US\$78,390.3 in 2019). As of December 31, the principal balance plus interest is US\$38,033.7 (US \$54,228.9, in 2019), which is guaranteed with the balance of the active BANDESAL loan portfolio for US\$44,173.6 (US\$59,426.1 in 2019). In addition, an additional guarantee has been granted in the amount of US\$22,941.9 (US\$22,954.2 in 2019), integrated with category "A1", "A2" and "B" loans, which corresponds to 30% of the amount of the line approved in May 2015, amounting to US\$76,500.0.
- Loans received from the Central American Bank for Economic Integration (CABEI) for US\$57,109.7 (US\$47,851.2 in 2019). As of December 31, the principal balance plus interest is US\$36,121.5 (US \$19,115.0, in 2019), and the guarantee is US\$50,356.3 (US\$26,622.8 in 2019), which is made up of category "A1" and "A2" loans.
- Loan received from Banco Internacional de Costa Rica, S.A., (BICSA) in the amount of US\$9,000.0 (US\$9,000.0 in 2019), on December 31, the principal balance plus interest is US\$9,019.6 (US\$9,007.7 in 2019), and the total guarantee is US\$11,260.8 (US\$11,251.7 in 2019), which is constituted by category "A1" and "A2" loans.
- ECO BUSINESS FUND loan in the amount of US\$30,000.0 (US\$30,000.0 in 2019), as of December 31, the principal balance plus interest is US\$16,185.3 (US\$26,250.0, in 2019) and the total guarantee is US\$20,183.5 (US\$26,250.0, in 2019), which is constituted by loans category "A1" and "A2".
- BLUE ORCHARD MICROFINANCE FUND loan in the amount of US\$15,000.0 (US\$15,000.0 in 2019), as of December 31, the principal balance plus interest is

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- f. US\$3,832.0 (US\$7,647.2, in 2019) and the total guarantee is US\$4,772.5 (US\$9,375.8, in 2019), which is constituted by category "A1" and "A2" loans.
- g. MICROFINANCE ENHANCEMENT FACILITY loan in the amount of US\$5,000.0 (US\$5,000.0, in 2019), as of December 31, the principal balance plus interest is US\$1,250.7 (US\$2,511.0, in 2019) and the total guarantee is US\$1,582.9 (US\$3,193.6, in 2019), which is constituted by "A1" and "A2" category loans.

The referred loans consist of records that allow their full identification, in order to respond to the creditors for the legal responsibilities derived from the respective contracts.

9. Goods received in payment (extraordinary assets)

As of December 31, 2020, and 2019, the Bank maintains extraordinary asset balances for a net value of US\$7,822.1 and US\$5,217.2, respectively.

Changes in extraordinary assets, recorded during the reported periods, are summarized below:

	Value of assets	Value of reserves	Net value of reserves
Balances as of December 31 2019	US\$ 9,555.6	4,338.4	5,217.2
More: Acquisitions and constitutions	5,816.7	1,420.2	4,396.5
Reservation transfers	-	1,286.8	(1,286.8)
Less: Withdrawals	(1,597.2)	(1,092.4)	(504.8)
Balances as of December 31, 2020	US\$ 13,775.1	5,953.0	7,822.1
Balances as of 31 December 2018	US\$ 7,447.1	3,896.1	3,551.0
More: Acquisitions and constitutions	6,938.9	808.4	6,130.5
Reservation transfers	-	1,911.9	(1,911.9)
Less: Withdrawals	(4,830.4)	(2,278.0)	(2,552.4)
Balances as of December 31 2019	US\$ 9,555.6	4,338.4	5,217.2

As of December 31, 2020, and 2019, the Bank had assets in its records with more than five years of holding, as described below:

Location	2020	2019
Canton Matalapa and Las Flores, Jayaque, La Libertad	US\$ 0.0	171.5
Canton Miraflores, San Miguel	37.7	37.7
La Joya, Coatepeque, Santa Ana.	0.0	3.8
Canton San Antonio, El Porvenir, Santa Ana	0.0	83.9
Canton El Mojón, Tepecoyo, La Libertad	269.1	0.0
Canton Santa Anita, Mercedes Umaña, Usulután	89.1	0.0
Cantón Santa Barbara, Lots 1, 3 and 4, Guazapa, San Salvador.	97.1	0.0
Canton Cutumay, Santa Ana.	60.7	60.7
TOTAL	US\$ 553.7	357.6

As of December 31, 2020, and 2019, extraordinary assets were written off for sales, as described below:

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Periods	Sale price	Acquisition cost	Provision constituted	Net earnings
2020	US\$ 1,049.9	1,597.2	(1,092.4)	545.1
2019	US\$ 4,603.0	4,830.4	(2,278.1)	2,050.7

As of December 31, 2020, an asset withdrawal applied against the sanitation reserve was made, a property located in La Joya, Coatepeque, Santa Ana. As of December 31, 2019, an asset withdrawal was applied against a sanitation reserve, the first consisting of goods consisting of household appliances and the second consisting of inventory of accounts receivable.

As of December 31, 2020, and 2019, no extraordinary assets were transferred to the Bank's fixed assets. As of December 31, 2020, and 2019, no asset donations were made.

In the reported period, no assets were written off due to destruction or donations.

10. Stock investments

The Bank's equity investments in joint investment companies are summarized below:

Company Description	Line of Business	% of Share		Initial investment		Investment according to books		Results for the year	
		2020	2019	Date	Amount	2020	2019	2020	2019
Guarantees and Services, SGR, S. A. De C. V.	Granting of financial guarantees	2.36	2.35	February 17, 2004	US\$114.3	US\$114.3	US\$114.3	US\$76.7	US\$76.3

The investment is recorded at acquisition cost.

11. Fixed assets (Movable and Real Estate property)

the movable and real estate property are detailed below:

	2020	2019
Cost		
Buildings	US\$ 10,316.1	10,316.1
Furniture and equipment	11,722.5	10,856.5
Less: Accumulated Depreciation	(14,646.5)	(14,017.4)
	<u>7,392.1</u>	<u>7,155.2</u>
Plus:		
Land	4,874.0	4,874.0
Redeemable	1,135.3	988.4
Construction in progress	1.4	1.4
	<u>13,402.8</u>	<u>13,019.0</u>
Revaluations		
Buildings	1,367.5	1,367.5
Accumulated depreciation revaluations	(1,367.5)	(1,367.5)
Land	3,594.8	3,594.8
	<u>3,594.8</u>	<u>3,594.8</u>
Total	US\$ 16,997.6	16,613.8

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During the periods reported as of December 31, 2020, and 2019, no asset revaluation was carried out.

Changes in property, plant and equipment during the reported periods are detailed below:

		2020	2019
Initial Balance	US\$	16,613.8	16,817.9
More - Acquisitions		1,986.5	1,502.8
Less - Depreciation and amortization		(1,602.7)	(1,704.5)
Withdrawals		(0.0)	(2.4)
Final Balance	US\$	16,997.6	16,613.8

12. Customer deposits

The Bank's deposit portfolio is distributed as follows:

		2020	2019
Deposits from the public	US\$	676,642.9	560,723.1
State Institutions deposits		366,752.1	223,170.5
Restricted and inactive deposits		15,709.8	13,103.3
Total	US\$	1,059,104.8	796,996.9

The different classes of Bank deposits are as follows:

		2020	2019
Current account deposits	US\$	274,040.9	194,767.3
Savings account deposits		249,919.5	201,561.9
Term Deposits		535,144.4	400,667.7
Total	US\$	1,059,104.8	796,996.9

Average cost rate is 2.62% (2.82% in 2019).

The average cost rate of the deposit portfolio is the percentage that results from dividing the Cost of Deposit Capture item by the average balance of the deposit portfolio.

13. Loans from the Central Reserve Bank

During the fiscal year that ended on December 31, 2020, and 2019, the Bank did not use loans to cover liquidity impairments, regulated in article 49-A of the Organic Law of the Central Reserve Bank.

14. Loans from Development Bank of El Salvador (BANDESAL)

As of December 31, the Bank maintains loans granted by BANDESAL of US\$57,653.1 (US\$78,390.3, in 2019), with an outstanding balance of US\$38,033.7 (US\$54,228.9, in 2019).

The detail of the loans with BANDESAL is as follows:

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Loan with principal balance of US\$3,095.2 (US\$5,372.6, in 2019), destined to investment loans, accumulated interest of US\$10.2 (US\$18.3, in 2019), at 6.1% (6.1% in 2019) annual interest, guaranteed with portfolio loan, which matures on May 9, 2039.

Loan with a principal balance of US\$166.7 (US\$265.0, in 2019), destined to a credit fund for the environment, accrued interest of US\$1.1 (US\$1.8, in 2019), at 2.0% (2.0% in 2019) interest annual, guaranteed with a loan portfolio, which matures on August 30, 2025.

Loan with a principal balance of US\$5,381.6 (US\$8,232.7, in 2019), destined to various lines, accumulated interest of US\$73.8 (US\$114.3, in 2019), at 3.0% (3.0% in 2019) of annual interest, guaranteed with a portfolio of loans, which expire on November 12, 2029.

Loan with a principal balance of US\$21,332.4 (US\$28,806.1, in 2019), destined to special lines of credit in the housing and study sector, accumulated interest of US \$ 102.3 (US\$166.1, in 2019), to 3.7% (3.9%, in 2019) of Annual interest, guaranteed with a loan portfolio, which matures on December 6, 2042.

Loan with a principal balance of US\$116.0 (US\$13.8, in 2019), for energy efficiency and renewable program lines, accrued interest of US\$2.9 (US\$ 0.0, in 2019), at 6.0% (5.5%, in 2019) annual interest , guaranteed with a loan portfolio, which expires on January 9, 2025.

Loan with a principal balance of US\$7,364.4 (US\$10,658.8 in 2019), destined to a line of credit to finance the productive development of MSMEs-IDB Funds, accumulated interest of US\$20.9 (US\$32.2, in 2019), at 5.5% (5.4 %, in 2019) of annual interest, guaranteed with a loan portfolio, which expires on February 13, 2034.

Loan with a principal balance of US\$365.1 (US\$545.6 in 2019), intended for a line of credit for women entrepreneurs, accrued interest of US\$1.1 (US\$1.6, in 2019), at 6.0% (5.9% in 2019)annual interest, guaranteed with loan portfolio, which matures on November 17, 2025

15. Loans from other banks

As of December 31, 2020, and 2019, the Bank's financial statements present loan obligations with foreign banks amounting to US\$79,372.0 and US\$72,778.7, respectively, which amount includes principal plus interest.

The detail of loans with foreign banks is as follows:

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As of December 31, 2020:

Bank	Destination		Global amount of line	Balance	Average rate	Due Date	Guarantee
The Export-Import Bank of the Republic of China	Foreign trade	US\$	5,000.0	213.9	3.24%	06.12.2022	No collateral
BNDES	Brazilian Exports		14,000.0	764.5	2.62%	02.05.2025	No collateral
Central American Bank for Economic Integration (CABEI)	PROMUNI and CAMBio		57,109.7	36,121.5	4.98%	Jul 23, 2028	Salvadoran State Bonds and Loans Portfolio
Banco de Costa Rica, SA (BICSA)	Working Capital		9,000.0	9,019.6	4.90%	October 29, 2021	Loan portfolio
Eco Business Fund	Working Capital		30,000.0	16,185.3	4.07%	Sep 24, 2024	Loan portfolio
Blue Orchard Microfinance Fund	Working Capital		15,000.0	3,832.0	6.35%	July 28, 2021	Loan portfolio
Microfinance Enhancement Facility	Working Capital		5,000.0	1,250.7	4.40%	October 20, 2021	Loan portfolio
OFID for International Development	Working capital		12,000.0	11,984.5	2.98%	June 24, 2021	No collateral
TOTAL		US\$	147,109.7	79,372.0			

As of December 31, 2019:

Bank	Destination		Global amount of line	Balance	Average rate	Due Date	Guarantee
The Export-Import Bank of the Republic of China	Foreign trade	US\$	5,000.0	319.9	3.24%	Annually renewable	No collateral
BNDES	Brazilian Exports		14,000.0	1,051.3	2.71%	September 4, 2020	No collateral
Central American Bank for Economic Integration (CABEI)	PROMUNI and CAMBio		47,951.2	19,115.0	5.60%	Jul 23, 2028	Salvadoran State Bonds and Loans Portfolio
Banco de Costa Rica, SA (BICSA)	Working Capital		9,000.0	9,007.7	5.20%	October 29, 2020	Loan portfolio
Eco Business Fund	Working Capital		30,000.0	21,153.2	5.90%	Sep 15, 2024	Loan portfolio
Blue Orchard Microfinance Fund	Working Capital		15,000.0	7,647.2	6.35%	July 28, 2021	Loan portfolio
Microfinance Enhancement Facility	Working Capital		5,000.0	2,511.0	6.78%	July 28, 2021	Loan portfolio
OFID for International Development	Working capital		12,000.0	11,973.4	5.80%	June 28, 2020	No collateral
TOTAL		US\$	137,951.2	72,778.7			

16. Repos and other stock exchange transactions

As of December 31, 2020, there are no balances in repos and stock exchange operations. As of December 31, 2019, the balance in repos and stock exchange operations amounts to \$13,511.4.

17. Own-issue securities.

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As of December 31, 2020, and 2019, the Bank had no negotiable obligations, issued in accordance with article 53 of the Banking Law.

18. Interest on Convertible Bonds.

As of December 31, 2020, and 2019, there are no bonds convertible into shares in accordance with article 43 of the Banking Law.

19. Convertible loans into shares

As of December 31, 2020, and 2019, the Bank does not have loans convertible into shares in accordance with article 78 of the Banking Law.

20. Recoveries of Written-off Assets

As of December 31, 2020, recoveries in kind of assets that were written off in prior years amounted to US\$2,087.1, corresponding to a real estate property for US\$1,923.6, in the name of Mario Oscar Menendez Rivas and two personal properties, the first for US\$12.6, in the name of Ramón José Manuel Castillo Funes and the second for US\$150.9 in the name of Jubis, S.A. de C.V. As of December 31, 2019, recoveries in kind of credit risk assets that were written off in previous years amounted to US\$334.2, corresponding to four properties, the first one in the name of Soc. Moldes Industriales, S.A. for \$71.8, the second from José Estanislao Menjivar Montano, for \$70.1, the third from Karen Elizabeth Guzmán Franco, for \$22.5 and the fourth from Los Dos Potrillos, S.A. de C.V. for \$169.8.

21. Maturity of active and passive operations

The maturities agreed upon in asset and liability transactions for the next 5 years and subsequent years are detailed below:

Concept		2021	2022	2023	2024	2025	More than 5 years	Total
Assets								
Financial investments	US\$	156,618.2	6,068.4	656.9	-	8,672.5	1,010.0	173,026.0
Repos		6,216.4	-	-	-	-	-	6,216.4
Loans (*)		166,397.4	44,461.6	54,758.1	78,884.6	55,256.3	483,157.2	882,915.2
Total assets		329,232.0	50,530.0	55,415.0	78,884.6	63,928.8	484,167.2	1,062,157.6
Liabilities								
Deposits		1,042,059.9	17,044.9	-	-	-	-	1,059,104.8
Loans		26,086.8	213.9	-	16,185.3	1,417.4	73,502.3	117,405.7
Repos		-	-	-	-	-	-	-
Total liabilities		1,068,146.7	17,258.8	-	16,185.3	1,417.4	73,502.3	1,176,510.5
Net Amount	US\$	(738,914.7)	33,271.2	55,415.0	62,699.3	62,511.4	410,664.9	(114,352.9)

(*) Net reserve presented.

For purposes of this disclosure, savings deposits and checking accounts of US\$535,960.5 that do not have a defined maturity are included as part of the first-year maturities, and cash on hand and in banks with a balance of US\$266,874.3 is not included.

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22. Earnings per share

Earnings per share expressed in absolute values in U.S. dollars for the reported periods are detailed below:

		2020	2019
Earnings per share	US\$	0.75	1.28

The above value has been calculated considering the net income shown in the income statement and an average number of shares outstanding of 7,530,850 (7,504,909 in 2019).

23. Legal reserve

Based on Article 39 of the Banking Law, the Bank must set aside ten percent (10%) of its annual profits until it reaches an amount equal to twenty-five percent (25%) of its paid-in capital stock. As of December 31, 2020, the amount destined to constitute the required legal reserve amounts to US\$903.0. As of December 31, 2019, no legal reserve was established, since the balance in such period represents 25.0% of capital stock, which is the minimum required by the aforementioned legislation.

24. Distributable and non-distributable income

Pursuant to the first paragraph of Article 40 of the Banking Law, banks must retain from their profits, after deducting the legal reserve, an amount equal to the proceeds (income) pending collection, therefore, these amounts are determined as follows:

		2020	2019
Profit for the year	US\$	5,626.8	9,583.0
Legal Reserves		(903.0)	(0.0)
Non-distributable profit from previous years		<u>13,723.6</u>	<u>11,930.9</u>
Total profit available		18,447.4	21,513.9
Restricted utilities			
Interest, commissions, and surcharges receivable		(21,881.2)	(13,723.6)
Deposits in foreign banks	(8.6)		(9.2)
On investments	(2,943.0)		(2,876.7)
On loans	18,211.9		(9,060.0)
Interest on accounts receivable	(717.7)		(1,777.7)
Distributable profit at the end of the period	(US\$	<u>3,433.8</u>	<u>7,790.3</u>

The General Board of Shareholders will be asked to approve a transfer of US\$3,433.8 from voluntary capital reserves to restricted equity to complete the 2020 requirement.

25. Income tax

Entities incorporated in El Salvador pay income tax on income obtained in the country, according to the Income Tax Law, contained in Legislative Decree No. 134 dated December 18, 1991, in force since January 1, 1992. No. 134 dated December 18, 1991, in

force since January 1, 1992; however, reforms were made according to the Legislative Decree dated **Banco Hipotecario de El Salvador, S.A.**

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December 14, 2011, published in the Official Gazette No 235 Volume 393 dated December 15, 2011 and Legislative Decree No. 762 dated July 31, 2014, which consist in increasing the tax rate from 25% to 30%, except for taxpayers with taxable income under US\$150.0, which apply 25%.

As of December 31, 2020, and 2019, the Income Tax computed in accordance with the provisions of the decrees is detailed below:

	2020	2019
Taxable income for the year	US\$ 77,099.2	80,531.3
Less: Costs and expenses for the year	<u>(73,967.0)</u>	<u>(68,160.1)</u>
Subtotal	3,132.2	12,371.2
Plus: Non-deductible costs and expenses	<u>8,213.3</u>	<u>5,593.3</u>
Taxable income	11,345.5	17,964.5
Determined income tax	US\$ <u>3,403.7</u>	<u>5,389.3</u>

As of December 31, 2020, and 2019, the Bank has a deferred income tax related to the labor reserve, a balance of US\$934.4 and US\$790.6, respectively.

The tax authorities may review the income tax returns filed by the Bank for the years 2020, 2019 and 2018.

The liquid tax payable using the rights related to the provision amounts to US\$1,798.5(US\$3,485.7, in 2019).

26. Operating expenses

Operating expenses as of March 31, 2020, and 2019 are detailed below:

	2020	2019
Officers and Employees Expenses		
Salaries	US\$ 10,073.3	9,790.2
personnel benefits	4,003.6	4,501.8
Compensation paid to personnel	800.6	513.1
Board expenses	96.5	132.8
Other personnel expenses	<u>236.6</u>	<u>463.0</u>
	15,210.6	15,400.9
General Expenses	9,871.0	8,718.2
Depreciation and amortization	<u>1,602.7</u>	<u>1,704.5</u>
Total	US\$ <u>26,684.3</u>	<u>25,823.6</u>

27. Trusts

On November 20, 2020, the Bank was appointed as trustee in a Trust constitution contract. It is expected that it will start operations as of next year, once the corresponding registration procedures are completed. As of December 31, 2019, the Bank did not control trusts.

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28. Indicators related to the burden of human resources

As of December 31, 2020, and 2019, the Bank has maintained an average of 811 and 799 employees, respectively. Of that number 68.3% (69.3%, in 2019) are engaged in the Bank's business and 31.7% (30.7%, in 2019) are support personnel.

29. Contingent operations

As of December 31, 2020, and 2019, the values recorded in these accounts are those rights that will potentially be converted into assets or liabilities upon the closing of the transaction cycle or upon the occurrence of the uncertain future event. The balances of these accounts are as follows:

	2020	2019
Opening of letters of credit	US\$ 12,815.9	1,084.3
Surety bonds and guarantees	16,942.1	13,713.1
Less: provision for risk	(5,868.1)	(5,592.0)
Total	US\$ 23,889.9	9,205.4

30. Pending litigation

As of December 31, 2020, and 2019, there is a contentious administrative appeal in process, promoted by Banco Hipotecario de El Salvador, S.A., against the Municipality of Santa Ana, in response to the ex officio tax assessment of taxes for the placement of Loan Portfolio within the municipality, in the years 2014, 2015 and 2016 for the amount of US\$327.9 thousand, such appeal has been admitted, and the claimed act has been suspended as a precautionary measure, not being carried out collection proceedings on the related amount. The process is currently awaiting resolution after the evaluation of the evidence presented.

As of July 31, 2020, the Bank was notified by the Seventh Court of Instruction of the Attorney General's Office of the Republic about its involvement in the proceeding against former officers of the institution, known as Public Plundering, as a possible Special Subsidiary Civil Liability, which the Bank has rejected by means of a response to the summons. The process is currently in the investigation stage, awaiting the setting of the date for holding the Hearing.

31. Related parties and relevant shareholders

Pursuant to the Banking Law, a related party is a holder of three percent or more of the Bank's shares. To determine this percentage, the shares of the spouse and relatives of first degree of kinship shall be considered their own, as well as the percentage corresponding to those who hold shares in companies that are Bank shareholders. Among the relatives, there is a group which the Banking Law calls relevant shareholders since they hold at least ten percent of the Bank's shares. The directors and managers of the Bank are also related parties.

The Financial Strengthening and Restructuring Fund (FOSAFFI, by its Spanish acronym) owns 96.72% of the Bank's shares but is not considered a related party based on the third

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paragraph of article 205 of the Banking Law, since it is a state institution of an autonomous nature.

32. Related loans

Pursuant to Articles 203, 204, 205 and 206 of the Banking Law, banks and their subsidiaries are prohibited from granting loans, loans, guarantees, and endorsements to individuals or legal entities directly or indirectly related to the ownership or directly to the Administration of the institution, or from acquiring securities issued by them in an aggregate amount exceeding 5% of the paid-in capital and capital reserves of the institution.

The Bank's capital stock and capital reserves as of December 31 is US\$105,659.5 (US\$95,050.2, in 2019) and total related receivables are US\$1,490.5 (US\$1,005.6, in 2019), representing 1.4% (1.1%, in 2019) of the Bank's capital stock and capital reserves; such amount is distributed among 26 (19 in 2019) debtors.

During the reported period, the Bank complied with the provisions on related loans referred to above.

33. Loans to foreign subsidiaries

In accordance with Article No. 23 of the Banking Law, the maximum limit of loans that banks can grant to their subsidiaries incorporated abroad cannot exceed fifty percent (50%) of the equity fund or ten percent (10%) of the loan portfolio, whichever is less, both parameters of the grantor.

As of December 31, 2020, and 2019, the Bank does not have foreign subsidiaries.

34. Loans to national subsidiaries.

In accordance with Article No. 2 of the Banking Law, the maximum limit of loans that banks can grant to their subsidiaries incorporated in El Salvador cannot exceed fifty percent (50%) of the equity fund or ten percent (10%) of the loan portfolio, whichever is less, both parameters of the grantor.

As of December 31, 2020, and 2019, the Bank does not have national subsidiaries.

35. Limits on the granting of loans

Article 197 of the Banking Act requires that banks and their subsidiaries may not grant loans or hold shares in the shareholder equity of a total amount exceeding twenty-five percent (25%) of their own equity to the same person or group of persons with economic connections. It also establishes that the surplus of fifteen percent (15%) in loans, regarding its own equity fund, must be covered by adequate collateral or guarantees from local banks or top foreign banks.

However, the provisions of the Banking Law, in order to safeguard the Bank's assets,

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Legislative Decree No. 537, effective as of December 22, 2004, establishes, in Article 2, that the Bank shall not It may grant loans or assume risks for more than 5% of its patrimonial fund, in relation to the same natural or legal person, including autonomous state institutions and companies. In order to calculate this limit, the direct and contingent liabilities of a person or group of persons shall be accumulated as provided in Article 197 of the Banking Law and with the powers conferred by the same provision on the Financial System Superintendency.

Decree 537, referred to in the previous paragraph, was repealed by Legislative Decree No. 638 dated April 30, 2020, published in the Official Gazette on May 6, 2020, effective as of May 14, 2020; with said repeal, the limit on the granting of Bank loans will be established in article 197 of the Banking Law.

As of December 31, 2020, the Bank complied with the provisions of article No. 197 of the Banking Law. As of December 31, 2019, the Bank complied with the provisions of article 197 of the Banking Law and the provisions of Legislative Decree No. 537.

36. Contracts with related parties

Pursuant to Article 208 of the Banking Law, the Superintendency may oppose the conclusion of agreements between a bank and persons related to it. Related parties are understood to be those who are directly or indirectly related to the bank's shareholding or directly related its Administration.

As of December 31, 2020, and 2019, the Bank has not signed contracts with related parties.

37. Relationship between capital assets and liabilities in foreign currency

Pursuant to Article 62 of the Banking Law, the Financial System Superintendency shall determine the regulations regarding relations between asset and liability operations of banks, to ensure that exchange risk remains within reasonable ranges. To comply with such purpose, the Financial System Superintendency has established that the total difference between foreign currency assets and liabilities may not exceed 10% of the equity fund.

As of December 31, 2020, and 2019, the Bank complied with the aforementioned provision by maintaining a ratio of 0.5% (1.1%, in 2019).

38. Requirement of equity or net worth

In accordance with Article No. 41 of the Banking Law, to constantly maintain their solvency, banks must at all times submit the following minimum ratios:

- a) 12.0% or more between its equity fund and the sum of its weighted assets, as established by the aforementioned law.
- b) 7.0% or more between its equity fund and its total obligations or liabilities to third parties, including contingencies.

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- c) 100% or more between the equity capital and the paid-in capital referred to in Article 36 of the Banking Law.

As of December 31, 2020, and 2019, the ratios that show the Bank's situation are the following:

	2020	2019
Equity fund ratio on pondered assets	<u>14.6%</u>	<u>14.9%</u>
Relations between the equity fund on liabilities and contingencies	<u>10.4%</u>	<u>12.1%</u>
Relations between equity fund and paid-in capital	<u>179.0%</u>	<u>267.0%</u>

39. Summary of important differences between international financial reporting regulations and accounting regulations issued by the Financial System Superintendency.

The Bank's Administration has initially established the following major differences between international financial reporting standards (IFRS) and accounting standards issued by the Financial System Superintendency:

1. Investments are not recorded and valued according to the classification established by IFRS, which are as follows: financial instruments at fair value through profit or loss, loans and receivables originated by the company, available-for-sale investments, and held-to-maturity investments; IFRS require that investments be classified to determine the corresponding valuation method.
2. IFRS establishes that the interim financial information must include as minimum information, in addition to the balance sheet and income statement, the statement of cash flows, and statement of changes in equity. Likewise, the balance sheet is presented in comparative form with the balance sheet of the immediately preceding annual accounting period.
3. In relation to liquidity risk, IFRSs requires that all assets and liabilities be disclosed according to significant term classifications based on the periods remaining between the balance sheet date and the contractual maturity date.
4. IFRSs require that the reasonable values of each class or group of its assets and liabilities of a financial nature must be disclosed.
5. Provisions for loan risk are stated to be established based on regulations issued by the Superintendence of the Financial System; in accordance with IFRS, when preparing the financial statements, the profile of the portfolio's loan risks must be considered, and variables such as the behavior of the economy, historical trends in arrears, geographical location, economic activity, etc., must be taken into account in order to establish adequate reserves for the recovery risks of these loans. IFRSs suggest that the analysis for the establishment of reserves must be made based on future cash flows, including the reasonable value of the guarantee.

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6. Releases of reserves constituted in previous years are recorded with credit to other non-operating income; IFRS requires that transactions of the same nature be reported net.
7. In accordance with IFRSs, the establishment of voluntary reserves does not constitute a part of the results, but rather an appropriation of withheld earnings.
8. The accounting policy for recognition of interest states that when a loan is more than ninety days past due, the provision for interest is suspended and recognized as income until paid in cash. IAS 39 Financial Instruments: Recognition and Measurement, requires the accounting recognition of interest on all financial assets. IFRS allow the deferral of expenses related to deferred commissions.
9. Revaluations of fixed assets are approved by the Financial System Superintendency upon request of the Bank and are not periodically updated; IFRS require that revaluations of fixed assets be periodically updated to reflect the reasonable market values of the revalued assets.
10. Extraordinary assets must be accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, under which an impairment loss must be recognized for any asset disposed initially or subsequently at reasonable value less costs to sell. Under IFRS, the reserves established by law for extraordinary assets are not part of the results for the year; these are appropriations of withheld earnings.
11. Current regulations state that the profit from the sale of extraordinary assets with financing is recognized as income until such profit has been received, which is not consistent with IFRS.
12. IFRSs require that estimates for asset impairment be recorded based on future cash flows related to the asset, discounted at an appropriate interest rate.

The impact of these differences on the Bank's financial statements has not been determined by the Administration.

40. Risk rating

Article No 235 of the Banking Law requires the Bank to publish the risk classification performed by a risk classification agency registered with the Financial System Superintendency. The Bank's classification is as follows:

	Classification	
	2020	2019
	Pacific Credit Rating, S.A. de C.V.	Pacific Credit Rating, S.A. de C.V.
Issuer /Long-term	AA-	AA-
Preferred shares	N-2	N-2
Perspective	Stable	Stable

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The risk classification is maintained regarding to the previous one. The reference date of the risk classification is September 30, 2020, and September 30, 2019. The amendments to the "Regulation on Obligations of Risk Classification Companies", effective as of August 1, 2011, establish that the reviews of the ratings will have a semiannual periodicity. The change in the rule also indicates that the revisions must be made with figures as of June and December of each year.

The description of the classifications is detailed below:

For the issuer:

AA.AA Corresponds to those institutions that have a very high capacity to pay their obligations in the terms and deadlines agreed, which would not be affected by possible changes in the institution, in the industry to which it pertains, or in the economy. The protection factors are high, the risk is moderate.

N-2N-2 Corresponds to those shares that present a particularly good combination of solvency and stability of profitability of the issuer, and volatility of their returns.

41. Treasury shares

The Banking Law requires banks to issue treasury shares for an amount equal to the equity fund or the required equity fund, as of December 31 of each year, whichever is greater. The certificate representing these shares is deposited in the Central Reserve Bank of El Salvador.

These shares must be used with the authorization of the Financial System Superintendency to offer them first to the Bank's shareholders and then to the public, in order to correct deficiencies in the Bank's equity fund.

Treasury shares that have not been subscribed and paid do not confer any equity or corporate rights.

As of December 31, the treasury shares amount to the sum of US\$120,217.7 (US\$109,987.2, in 2019). In the reported period, the Bank did not use treasury shares.

42. Information by segments

The Bank is basically focused on providing banking services in the national territory.

43. Comprehensive Risk Management and Corporate Governance

For Comprehensive Risk Management, the Bank's Board of Directors has defined an organizational structure duly segregated in its functions and hierarchical level of the

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operational support, business and control areas that participate in the institution's processes.

As part of the Support Committees, and in compliance with Corporate Governance regulations, the Bank's Board of Directors has created the Risk Committee, whose purpose is to oversee that the Bank's activities comply with the regulatory requirements of the Central Reserve Bank, the Financial System Superintendency and the manuals and policies that have been approved in risk management.

The Risk Committee is the highest risk control body in Banco Hipotecario, with authority over the operational areas to support the work of the Comprehensive Risk Management Department and is the link between the latter and the Board of Directors. The main function of this committee is to support the approval, monitoring, and control of strategies and policies for risk management, including setting the limits of action for the different areas. Additionally, it supports the Board of Directors and the Bank's Presidency in knowing and understanding the risks that the Bank assumes and, in the capital, required to bear them.

For the development of activities related to Integral Risk Management, the Bank's Board of Directors has assigned the Integral Risk Management Department, which has defined, among other activities, to verify compliance with risk exposure limits, tolerance levels, propose models and methodologies, parameters and scenarios that allow monitoring and controlling the risk that the institution is willing to assume.

In the search for better standards and principles that should govern the Bank's actions, Corporate Governance practices have been strengthened through training for the members of the Board of Directors and the Bank's Senior Administration. Training has also been carried out for all personnel, and the Bank's entire Corporate Governance scheme has been redesigned, creating committees, eliminating some and updating the agendas of all of them, with the objective of incorporating Good Corporate Governance practices at all levels, in order to meet the Bank's objectives.

Banco Hipotecario controls the market, liquidity, credit, legal, reputational, environmental, operational, fraud, and information security risks in accordance with the requirements of the Banking Prudential Regulations issued by the Superintendency of the Financial System and the Central Reserve Bank of El Salvador: NPB4-49, NPB4-50, NRP-05, NRP-17, NRP-20, NRP-23, and NRP-24.

On the other hand, the Corporate Governance Code includes the best good governance practices; the main aspects included in the Code deal with the following:

1. Structure under which Corporate Governance is developed.
2. A culture based on principles, ethical values, and transparency.
3. Ensure that the Bank respects the laws and regulations in its relations with its stakeholders, in addition to fulfilling its obligations and contracts in good faith.
4. Permanent process of review and update on the main recommendations for organization and operation.
5. Corporate social responsibility is one of the Bank's components of action.

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The Bank has developed a specific manual for each of the following risks: market, liquidity, credit, operational (including legal), technological and reputational.

The Bank's Board of Directors has adopted the Corporate Governance Code and the aforementioned Manuals.

Market Risk.

Banco Hipotecario defines market risk as the potential loss in the event of adverse and future movements in market variables (interest rate, prices, and exchange rates) that affect the prices of the products in which it operates.

To carry out a timely identification, the Bank has defined a matrix of factors, both internal and external, that are generators of market risk and that would have an impact on the operations and positions on the Institution's Balance Sheet. Additionally, the Directorate of Comprehensive Risk Management constantly monitors the national and international economy, in order to detect the emergence of any external factor that may materialize in market risk.

Banco Hipotecario measures its exposure to market risk through the methodologies described below:

1. **General and Specific Risk:** a methodology that allows generating an amount, attributable to the intrinsic market risk of the investment portfolio, when there are no significant movements in the secondary market, the specific case of local securities held by the Bank.
2. **One-Year Interest Rate Gap:** allows measuring the sensitivity of the institution's financial margin (for the next twelve months) to certain movements in local and international market interest rates.
3. **Value at Risk (VaR):** a methodology that is defined as the maximum expected loss in a certain period of time and confidence level. Banco Hipotecario applies this practice to securities that are listed on international markets and that, therefore, mark daily prices in secondary markets.

Measurements of the main market risk indicators, as well as deviations from the established limits, are a fundamental part of the Market Risk Exposure Report, which is communicated monthly to the Risk Committee and quarterly, to the Board of Directors of the Institution.

Liquidity Risk.

Banco Hipotecario defines liquidity risk as the probability of incurring losses due to not having sufficient liquid resources to meet the payment obligations committed in the determined time horizon, after considering the possibility that the entity will be able to liquidate its assets under reasonable conditions of time and price.

Banco Hipotecario measures its exposure to market risk through the methodologies described below:

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1. **Matching Terms:** a methodology that revolves around the establishment of liquidity gaps through the comparison of the maturity flows of assets and liabilities at different time bands. The Integral Risk Management Department, through the market and liquidity risk management area, constantly monitors the Bank's liquidity position, estimated through this model, performing daily, monthly, half-yearly, and projected monitoring (as required).
2. **Liquidity Indicators:** a method that involves measuring the institution's liquidity levels through the estimation of indicators such as net liquidity ratio, liquidity ratio at different time horizons, dependence on short-term liabilities, and liabilities with financial entities.
3. **Indicators of Concentration in Deposits:** Quantification of the liquidity risk that derives from the concentration in the raising of funds, by the Bank, in a certain economic group; natural or legal person; or group of depositors.
4. **Value at Risk (VaR) in demand deposits:** Liquidity risk measurement that consists of estimating the expected outflow in demand accounts through volatility, for a given time horizon and confidence level. This methodology makes it possible to calculate the intensity and probability that said type of deposits can be withdrawn based on the historical behavior that the latter has experienced in the Bank.
5. **Term Deposit Renewal Index:** Indicator that allows the liquidity risk to be quantified by calculating the percentage of the balances in time deposit accounts that remain with the Bank (renewal) after their expiration date.
6. **Stress Scenarios:** a methodology that involves simulating the behavior of liquidity risk in the event of adverse scenarios. Banco Hipotecario applies this method through the realization of a regulatory scenario (based on annex 2 of the NRP-05 standard) and its own scenario (based on internal premises and on the methodology of the Liquidity Risk Index or IRL).
7. **Liquidity Risk Ratio:** Measures the resilience of the Bank's pool of high-quality liquid assets to meet the liquidity needs arising from a stress scenario with a duration of thirty days.

In order to allow the Bank to perform financial intermediation operations within reasonable magnitudes of liquidity risk assumption, the internal regulations have defined limits under two main areas: general liquidity, which involves the daily cash inflows and outflows that the Bank experiences and that may have an impact on its liquidity position; and concentrations, which derive in a liquidity risk originated by the high dependence that the Bank may have on a certain source of funding.

The results of liquidity risk management are obtained through the generation of a series of liquidity risk reports that are communicated daily to the Bank's Senior Management; monthly, to the Risk Committee; and quarterly, to the Board of Directors.

Deviations from the established limits, which could generate an excessive exposure to Liquidity Risk, are mitigated according to two main tools:

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- 1. Liquidity Contingency Plan:** which defines the broad financial strategies to be used, as well as the roles and responsibilities to be played by the areas involved in liquidity management, in the event of different scenarios of liquidity stress or deficiency.
- 2. Voluntary Liquidity Reserves:** Additional measure to the regulatory liquidity requirements, which consists of estimating a requirement (backed by liquid assets) that will allow the Bank to cover its liquidity needs for the next thirty days, from the calculation date. This methodology, as well as the measurement tool, have been implemented since 2017; the latter being a point of strengthening for the management of the Institution's liquidity risk.

Patrimonial Adequacy.

Capital adequacy is the ability of an entity to have sufficient resources, even if other than cash, to support its obligations regardless of the term.

In order to ensure that the Bank has a minimum level of capital that allows it to cover the risks assumed in its operations at all times, the Integral Risk Management Department monitors the main solvency indicators on a daily basis, which are submitted to Senior Management and the Chairman's Office; these include the Adequacy Ratio (Equity Ratio), which must be higher than 12% at all times, the amount of the Equity Fund, the Risk-Weighted Assets, as well as the Surplus or Equity Deficiency.

Credit Risk.

Banco Hipotecario adopts a comprehensive approach with respect to credit risk, therefore, its policies, methodologies, and other relevant measures implemented are in accordance with local regulations, as well as the business segment served. Credit risk management begins with the correct identification of the factors that may cause default in the payments of our borrowers, so it is necessary to see them in advance, in order to manage them properly and in a timely manner.

The level of risk exposure is quantified, both individually, that is, for each of our clients, and globally in the loan portfolio and its segments. For this, different methodologies are available, ranging from the analysis of the financial situation for clients to determine the maximum limit of their payment capacity, in order not to compromise the good performance of their business. Additionally, there are estimates of expected loss, which quantify the amount of the possible loss. In addition, in order to have a graphic view of the rate of deterioration of each loan placement made, loan vintage analysis is performed, which allows us to observe changes over time and in specific segments.

As part of the Credit Risk management, the Bank performs impact measurements, through analysis of the aftereffects of events that directly or indirectly affect our loan portfolio, mainly in the agricultural area, which tends to be affected by weather conditions, in order to minimize possible losses for both the institution and its customers.

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Starting in 2019, emphasis has been placed on early default management, in order to minimize the impact of deterioration of the loan portfolio, considering the personalized attention factor that the bank offers to our customers, through the business area and the network of agencies nationwide, it is possible to know the financial situation firsthand and attend in a timely manner, offering the product, term and credit conditions that best fit the current situation of our customers.

The Bank has comprehensive recovery methodologies aimed at minimizing the impact for those clients, who are likely to default. As a last resort, the bank has a strong backing of reserves, in addition to those required by regulations, to deal with any factor that affects the payment capacity of our borrowers. The amount of these reserves responds to a statistical estimate of the expected loss of clients and specific sectors. The foregoing positions Banco Hipotecario as one of the institutions with the greatest coverage of reserves in the Financial System.

Operational Risk.

At Banco Hipotecario, strategies have been established to improve operational risk management in the different organizational units, in compliance with the provisions of NPB4-50 "Standards for operational risk management in financial entities".

In 2020, activities were carried out to strengthen the culture in the organization, through virtual training for personnel in the areas, induction of new employees, and by sending newsletters by institutional e-mail and internal network, so that employees are aware of the main concepts and management of operational risk.

The operational risk matrix was updated, in which the potential risks that may generate losses due to operational risk factors in the Bank's processes have been identified; also, the identification of the controls that contribute to the mitigation of risks. The risk event escalation process was carried out with the support of the network of operational risk managers in all areas of the Bank, with timely monitoring of risk appetite and monitoring by the Risk Committee and Board of Directors.

Support was provided to the project areas for the approval of new products, services, channels, and systems, in the process of identifying potential risks associated with projects and initiatives and establishing controls with the support of different Bank units.

As part of the Business Continuity Management System, activities were carried out to update Risk Analysis and Business Impact Analysis; review, creation, and functional tests of business continuity plans for different Bank processes; training for managers and personnel of the different units. In response to the Covid-19 pandemic, sessions were held with the Business Continuity Committee in the event of a crisis, to assess the associated risks and the Bank's activities and strategies were agreed to prevent contagion in the Bank's facilities, both for personnel, customers, and users; for this, the Business Continuity Plan was created in the event of a health emergency due to Covid-19.

Legal Risk.

Banco Hipotecario evaluates legal risk by managing the various legal events that may affect it. The objective of this risk is: to identify, measure, evaluate and control potential legal risks

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through the definition of policies, methodologies, and monitoring indicators that allow us to know the main sources of risk, implementing preventive control measures.

As part of the Bank's Legal Risk Management, tools adopted for the formalization of legal contracts are used, in which the rules for the coordination of actions and executions of the intervening parties are ruled for the review of legal aspects when entering into contracts or acts in which the Bank participates, taking into account the objective conditions of the Entity and the protection of its interests.

To comply with the above, the Legal Risk Management Policy allows managing this type of risk, considering its detection, measurement, and mitigation, based on best practices and minimization of its exposure.

Reputational Risk.

In relation to Reputational Risk, the Bank conducts daily business management in compliance with applicable laws and regulations to maintain its image with clients, shareholders, financial correspondents, and main suppliers.

Fraud Risk.

To strengthen Fraud Risk Management, the development of institutional investigations of Internal and External Fraud events has been coordinated with other areas of the bank, aimed at containing potential losses and managing the compensation of operating losses derived from those events, in addition to the individualization of responsibility for such events.

Transactional monitoring of operations constitutes one of the main services of Fraud Risk Management, for which this management is being strengthened with the use of new technological tools.

As additional relevant work, an update of the Fraud Risk Assessment Matrix and the development of a Virtual Fraud Risk Course aimed at all bank personnel have been carried out, which has complemented the participation in inductions to new personnel. entry on the subject of Fraud.

Information Security Management.

With the validity of the Technical Standards for Information Security (NRP-23) issued by the Central Reserve Bank and effective as of July 1, 2020, the adaptation of the bank's processes, policies, and procedures to the new regulation.

New monitors have been added to Information Security Management related to Office 365 and Database, which are in the process of maturing, in addition to the existing ones related to information outputs and malware management.

The Information Security Management has participated in the issuance of technical opinions in the projects of new products and services of the bank.

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Additionally, an Internal Vulnerability Analysis project was carried out with an external provider, the realization of the Virtual Information Security Course aimed at all personnel, and the Annual Declaration of Compliance with Controls requested by Swift as other relevant works.

44. Relevant and subsequent events

The most relevant events that occurred during the reported term are summarized as follows:

2020

1. The General Meeting of Shareholders held on 21 February 2020 resolved on the following points:
 - a. Approve the Annual Report, the Balance Sheet, the Profit and Loss Statement, the Statement of Changes in Equity, and other Financial Statements for the 2019 financial year.
 - b. Declare the payment of dividends to the preferred shares, proceeding from the profits of the fiscal year 2019, equivalent to 6% of their nominal value, which corresponds to the amount of US\$88.9, establishing the payment date as of March 17, 2020.
 - c. Approve the transfer of the Unappropriated Retained Earnings for fiscal year 2019 equivalent to US\$7,701.4 to Voluntary Capital Reserves.
 - d. Approve the recruitment of the Audit firm ERNST & YOUNG EL SALVADOR, S.A. DE C.V., as External Auditors of the Bank for the Financial Audit Service for the year 2020. The firm PÉREZ MEJÍA NAVAS, S.A. DE C.V. was also approved as Alternate External Auditors.
 - e. Approve the recruitment of the Audit firm ERNST & YOUNG EL SALVADOR, SA DE CV as External Auditors of the Bank, for the Fiscal Report and Report for the year 2020. The firm PÉREZ MEJÍA NAVAS, S.A. DE C.V. was also approved as Alternate External Auditors.
 - f. The appointment of the directors to hold the positions on the Board of Directors for the new two-year period as of the day of their election, being conformed and restructured as follows:

Position	Director
Chairman	Celina Maria Padilla de O'Byrne
Vice Chairman	Omar Chavez Portal
Executive-Secretary	Sandra Yanira Peña Amaya
First Alternate Director	Maria de los Angeles Palomo de Valiente
Second Alternate Director	Patricia Carolina Guevara Rodríguez
Third Alternate Director	Marcela Guadalupe Luna Uceda

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With the aforementioned appointment, the previous Board of Directors, which was in effect until June 19, 2020, and which was made up as follows, was terminated:

Position	Director
Chairman	Celina Maria Padilla de O'Byrne
Vice Chairman	Omar Chavez Portal
Executive-Secretary	Sandra Yanira Peña Amaya
First Alternate Director	Maria de los Angeles Palomo de Valiente

- g. Approve the equity capital increase, through the capitalization of Voluntary Capital Reserves equivalent to US\$ 26,400.0 distributed and represented by 4,400,000 common shares with a nominal value of US\$ 6.0 (six dollars) each.
 - h. Approve the capital stock increase, by means of a capital contribution in cash made by the shareholders of up to US\$2,100.0, or the amount effectively subscribed, divided and represented by 350,000 common shares with a par value of US\$6.0 (six dollars) each.
2. On March 1, 2020, the Legislative Assembly approved Legislative Decree No. 593, which established the "National State of Emergency due to the COVID-19 Pandemic", published in the Official Gazette No. 52, Volume No. 426, and in Article 9 states: "The legal terms and deadlines granted to individuals and public administration institutions in the administrative and judicial proceedings in which they are involved, regardless of their subject and the instance in which they are located, regarding the natural and legal persons concerned by the measures under this decree, shall be suspended for a period of thirty days from the date of validity of this decree. All those persons who are unable to comply with their obligations because they are directly affected by the measures applied in compliance with this decree will not incur breaches of contractual obligations or civil and commercial penalties.

As for the financial system, the norms committee of the Central Reserve Bank of El Salvador will issue the corresponding regulations". In accordance with the above, the Bank approved a Temporary Credit Policy, whose objectives were to establish guidelines to regularize the credit situation of clients affected by the crisis generated by COVID-19 and to support both current and new clients requesting financing to continue operating during the crisis, with loans of up to 1-year term and with a grace period of up to 6 months, focusing on the following destinations: payment of payroll and/or labor benefits, payment of basic services, merchandise transportation and/or customs expenses, financing of accounts receivable/payable or any expense related to the operation of the company.

In order to serve customers in the face of the national emergency due to COVID-19 and based on the internal policies approved and the temporary regulation issued by the Central Reserve Bank, the Bank provided support to the productive sectors, in order to maintain the operation of the businesses during the established confinement periods. At the end of December 31, the portfolio influenced by COVID-19 arrangements or grants amounted to US\$ 438,856.1 thousand, equivalent to 49.6% of the total portfolio, including

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the granting of emergency support loans for working capital of US\$ 35,041.6 thousand, which is benefiting 714 clients, granted with CABEL and CABEL resources.

Given the circumstances of the crisis and its uniqueness, the Bank has made estimates based on current conditions in the country, establishing levels of confidence, severity, and the probability of repayment. Likewise, a recovery scheme for the extended portfolio has been designed according to the phases of economic reactivation of the different sectors, and to give the adaptation period for the generation of cash flows for each of the clients. Consequently, and as a prudential measure, a model has been developed for the constitution of voluntary credit reserves, which mitigate the impact of the projected deterioration of the portfolio and that at the date of the report has accumulated US\$3,350.0 specifically for loans affected by the pandemic.

3. On March 18, 2020, the Central Reserve Bank of El Salvador approved the Temporary Technical Regulations to face non-compliances and contractual obligations, which will be effective for 180 days from the day following their approval. The objective of this Regulation is to encourage the pursuit of mechanisms to support the loan status of debtors that may have payment difficulties in their loans or those who have contractual obligations with financial institutions to which such obligations apply, as a result of the economic crisis caused by the impact of COVID-19, which was declared a pandemic by the World Health Organization.
4. On March 18, 2020, the Central Reserve Bank of El Salvador, approved the Temporary Technical Regulations to grant loans, which will be effective until September 15, 2020. The objective of this regulation is to address the emergency caused by COVID-19, so that entities have more resources available to grant productive loans, with incentives, for which temporary provisions are established in the calculation of the liquidity reserve requirement.
5. On March 24, 2020, the Central Reserve Bank of El Salvador, approved the Temporary Technical Regulations for the Calculation of the Liquidity Reserve on Deposits and other Obligations, which would become effective from March 27, 2020, until September 23, 2020. The objective of this regulation is to temporarily reduce the requirement for the Liquidity Reserve so that entities have greater financial resources to address the emergency caused by COVID-19.
6. On April 14, 2020, the Legislative Assembly approved Decree No. 638, which repeals articles 1 and 2 of Decree 537 dated December 8, 2004, and its amendments to article 2 of the latter, contained in Legislative Decrees 165 of November 30, 2006, and 529 dated December 2, 2010; in article 2 of Decree 537, it was established that the Bank may not grant loans or assume risks for more than 5% of its equity fund, in relation to the same natural or legal person, including autonomous state institutions and companies. As of May 14, 2020, the validity of this repeal, the Bank may grant loans and assume risks up to 25%, under the conditions established in article 197 of the Banking Law.
7. On September 10, 2020, the Central Reserve Bank of El Salvador, approves the Temporary Technical Standards for the Treatment of loans affected by Covid-19, which would enter into force from September 15, 2020, to March 13, 2021. The objective of

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8. this regulation is to enable mechanisms to support the credit situation of debtors who present or have presented payment difficulties on their loans with financial entities to which these Regulations apply, because of the economic crisis derived from the effects of the COVID-19 pandemic, which was declared by the World Health Organization.
9. On September 21, 2020, the Central Reserve Bank of El Salvador, approves the Temporary Technical Standards to Incentivize the granting of loans, which would come into effect from September 21, 2020, to March 16, 2021. The objective of this regulation is to address the emergency caused by COVID-19, so that entities have more resources available to grant productive loans, with incentives, for which temporary provisions are established in the calculation of the liquidity reserve requirement.
10. On September 21, 2020, the Central Reserve Bank of El Salvador, approves the Temporary Technical Standards for the calculation of the Liquidity Reserve, which would come into effect from September 21, 2020, to March 16, 2021. The purpose of these Technical Standards is to temporarily reduce the Liquidity Reserve requirement so that entities have greater financial resources to face the economic crisis derived from the effects of COVID-19, which was declared a pandemic by the Organization. World Health.
11. On December 8, 2020, Ms. María de los Angeles Palomo de Valiente resigned from her position as Alternate Director of the Bank's Board of Directors as of that date.
12. On December 28, 2020, an extraordinary asset called Elba del Carmen León de Dueñas was sold, from which the Bank obtained a net profit of US\$ 304.0, resulting from the release of reserves less accrued expenses.
13. On December 29, 2020, authorization was received from the Superintendency of the Financial System regarding the modification of the articles of incorporation by increasing capital by US\$28,404.8, consisting of US\$26,400.0 by the capitalization of voluntary capital reserves and US\$2,004.8 by increasing capital stock in cash represented by 4,734,140 new shares with a par value of US\$6.0 each: going from a capital stock of US\$45,029.5 to US\$73,434.3. This amendment was registered with the National Registration Center on the same date and posted on December 30, 2020.

2019

1. The Ordinary General Board of Shareholders held on February 21, 2019, agreed the following points:
 - a) Approve the Annual Report, the Balance Sheet, the Profit and Loss Statement, the Statement of Changes in Equity, and other Financial Statements for the 2019 financial year.
 - b) Decree the payment of dividends to the preferred shares, from the profits of the fiscal year 2018, equivalent to 6% of their nominal value, which corresponds to the

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- c) amount of US\$88.9 establishing the payment date as of March 8, 2019.
 - d) Approve the transfer of the Unappropriated Earnings of the year 2018 equivalent to US\$6,421.0 to Voluntary Capital Reserves.
 - e) Approve the hiring of the audit firm GRANT THORNTON PÉREZ MEJÍA, NAVAS, S.A. DE C.V. as the Bank's External Proprietary Auditors for the Financial Audit Service for 2019. AUDIT & TAXES SERVICES, S.A. DE C.V. was also approved as Alternate External Auditors.
 - f) Approve the hiring of the audit firm GRANT THORNTON PÉREZ MEJÍA, NAVAS, S.A. DE C.V. as Proprietary Fiscal Auditors of the Bank, for the Fiscal Report and Report for the year 2019. AUDIT & TAXES SERVICES, S.A. DE C.V. was also approved as Alternate Fiscal Auditors.
2. On April 1, 2019, a loan agreement was signed between Banco Hipotecario de El Salvador, S.A., and the OPEC Fund for International Development, for US\$12,000.0, whose disbursement was made on June 28, 2019 and will be destined especially to clients related to international trade services for pre-export and post-import activities, working capital and warehousing.
3. The Ordinary General Board of Shareholders held on June 26, 2019, agreed on the appointment of directors to occupy the positions on the Board of Directors as of that date, being conformed and restructured as follows:

Position	Director
Chairman	Celina Maria Padilla de O'Byrne
Vice Chairman	Marco David Platero Paniagua
Executive-Secretary	Sandra Yanira Peña Amaya
First Alternate Director	Omar Chavez Portal
Second Alternate Director	Martha Eugenia Aguilar Sanchez
Third Alternate Director	Maria de los Angeles Palomo de Valiente

With the aforementioned appointment, the previous Board of Directors, which was in effect until June 19, 2020, and which was made up as follows, was terminated:

Position	Director
Chairman	Oscar Armando Pérez Merino
Vice Chairman	Tobías de Jesús Castro Lovo
Executive-Secretary	José Rodrigo Aguilar González
First Proprietary Director	Nery Ramón Granados Santos
Second Proprietary Director	Enrique Alberto Portillo Peña
First Alternate Director	José Hugo Hernández Gutiérrez
Second Alternate Director	Jorge Humberto Martínez Quijano
Third Alternate Director	Ramón Antonio Manzano Morán
Fourth Alternate Director	Antonio Juan Javier Martínez Escobar
Fifth Alternate Director	Gladys Jeannette Melara de Jovel

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4. On June 28, 2019, the sale of the extraordinary asset named Ex -Jubis, S. A. de C.V. took place, from which the Bank obtained a net profit of US\$787.7, resulting from the release of reserves less accrued expenses.
5. On July 4, 2019, Martha Eugenia Aguilar, presented the resignation of her position as Second Alternate Director of the Bank's Board of Directors, naming in her replacement to Ms. Maria de los Ángeles Palomo de Valiente for the rest of the term.
6. On August 20, 2019, Marco David Platero Paniagua, resigned his position as Vice Chairman of the Bank's Board of Directors, naming in his replacement to Omar Chávez Portal for the rest of the term.
7. On September 24, 2019, a loan agreement was signed between Banco Hipotecario de El Salvador, S.A., and the Eco Business Fund, for US\$15,000.0, whose financing will be used especially for working capital and investment by producers and companies that meet environmental sustainability standards and for eligible investments that contribute to promoting biodiversity, mitigation, and adaptation to climate change.

45. Other events

The Bank may be affected in its operations and financial situation by the adverse effects of certain public health problems, such as epidemics, pandemics, and other contagious diseases. In December 2019, a new strain of coronavirus appeared, called COVID-19, which has spread around the world in the first quarter of 2020. Outbreaks have already been identified in El Salvador and in the country's, trading partners that are leading to a decrease in economic activity and negatively affecting the Bank's operating results. The extent to which the coronavirus will affect the results of the Banks will depend on future developments that are highly uncertain and cannot be predicted.

The Bank's management is not aware of any other subsequent event, which occurred between the date of the financial statements and the date of their issuance, that requires the modification of the figures presented in the authorized financial statements or disclosure in the notes.

46. Date of approval of the financial statements

The financial statements as of December 31, 2020, were approved for issuance by the Administration of Banco Hipotecario de El Salvador, S.A., on January 14, 2021.

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2020-2021 Labor Report