

# Management Financial Discussion and Analysis

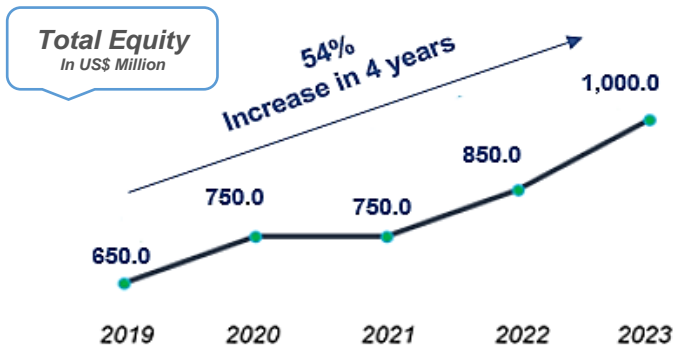
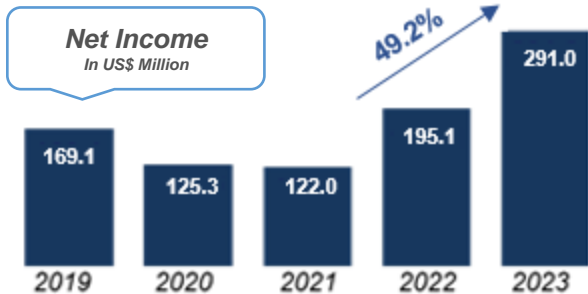
December 2023

2023



## 2023 Highlights

Banco Nacional de Panama posted record profits for 2023. Net income of US\$291.0 million, the highest in 119 years of history. An increase of 49.2%, compared to the previous record reported in 2022 of US\$195.1 million.



Capitalization of US\$150.0 million, from retained earnings, increasing the Bank's paid in capital to US\$ 1,000.0 million. During the past four years the Bank's paid in capital has increased by 54%. Banco Nacional de Panama ranks first within the Panamanian Banking System as the Bank with the highest paid in capital.

In US\$ Million

Total Assets	Loans, gross	Equity	Net Income	Capital Adequacy
<b>US\$15,300.5</b>	<b>US\$6,445.5</b>	<b>US\$1,310.2</b>	<b>US\$291.0</b>	<b>19.0%</b>
Financial Liquidity	PDL / Total Loans	Efficiency	ROAE	ROAA
<b>49.1%</b>	<b>1.3%</b>	<b>41.6%</b>	<b>23.0%</b>	<b>2.0%</b>

### E environmental

#### sustainable

- First issuance of green bonds in the Panamanian financial market. The bond proceeds of US\$200.0 million were destined to finance a wind energy project.
- In a step towards renewable mobility, the Bank acquired electric vehicles, promoting cleaner and more sustainable modes of transportation.

#### clients

### S social

- Leading Bank in Agricultural loans with 31.9% market share. The Bank encourages transfer of knowledge among the agricultural communities through town meetings.
- During 2023, US\$375.4 million were disbursed in residential mortgages, mainly to low-income households, promoting banking and enabling Panamanians to have their own homes.

#### recognition

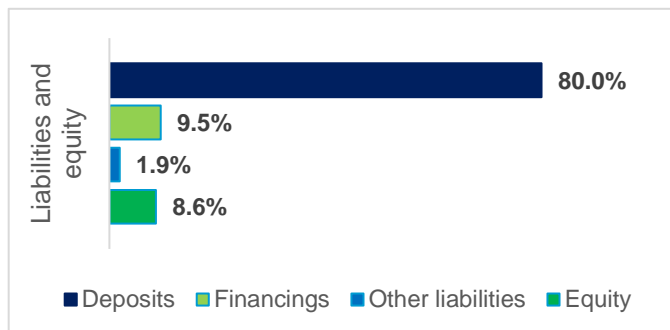
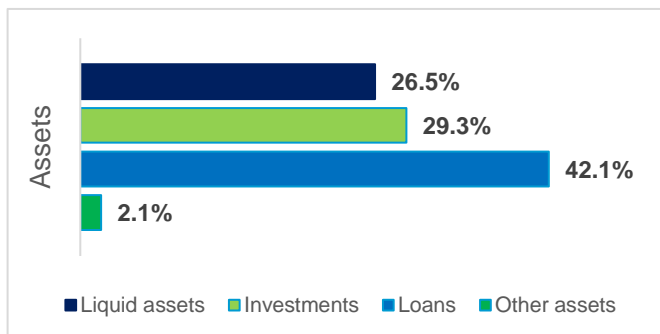
### G governance

- The Bank placed first in Summa Magazine's ranking of the 50 best employers in Panama and is listed among the best 20 companies with organizational climate.
- MERCOSUR's '23 Reputational Ranking, Banconal placed 4th among Panamanian corporates, 2nd position among banking peers and 8th in ESG Responsibility.

## Financial Analysis

As of December 31, 2023, The Bank's balance sheet increased by of 4.8% to US\$15,300.5 million when compared to December 31, 2022, numbers.

The composition of the Bank's balance sheet is 26.5% liquid assets, 29.3% investments in securities, loans represent 42.1% and other assets 2.1% of total assets. In terms of liabilities and equity: customer deposits represent 80.0%, financings 9.5%, and other liabilities 1.9%. Equity constitutes 8.6% of the total balance sheet.



### Assets

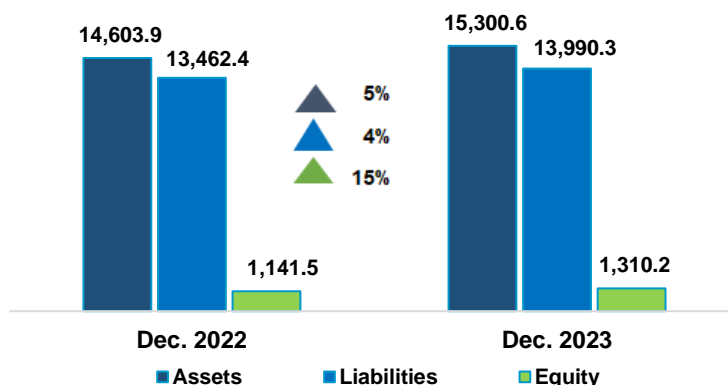
Assets totaled US\$15,300.5 million as of December 31, 2023, an increase of US\$ 696.7 million when compared with December 31, 2022. Assets grew primarily through the investment portfolio, 18% and the private sector loan portfolio, 10%. These portfolios have grown with adequate balance sheet risk management, generating higher returns.

### Liabilities

Liabilities totaled US\$13,990.3 million as of December 31, 2023, an increase of US\$528.0 million, compared to December 31, 2022, numbers. The increase is attributable to greater public sector deposits.

### Equity

At year-end 2023, the Bank's total equity stood at US\$1,310.2 million, and increase of US\$168.7 million compared to December 31, 2022. The increase reflects an increase of retained earnings.



## Risk Ratings

The Bank has investment grade risk ratings by the three main rating agencies:

- Standard and Poor's ("BBB", negative outlook – Nov.23)
- Moody's ("Baa3", stable outlook – Nov.23)
- Fitch Ratings ("BBB-", negative outlook – Oct.23)

## Liquidity and Sources of Funds

Liquid assets are comprised of cash, deposits in banks, securities purchased under resale agreements, and investments in securities. These assets totaled US\$8,578.2 million at December 31, 2023, an increase of 2.0%, from US\$8,412.0 million as of December 31, 2022, and represented 70% of total customer deposits and 56.1% of total assets. The financial liquidity ratio stood at 49.1%.

(In US\$ thousands)	As of December 31, 2023	As of December 31, 2022	Change	
			US\$	%
Cash and cash equivalents	321,617	408,473	(86,856)	-21.3%
Deposits in banks at amortized cost:				
Demand deposits - foreign	50,993	107,061	(56,068)	-52.4%
Time deposits - local	260,430	305,581	(45,151)	-14.8%
Time deposits - foreign	3,423,920	3,786,842	(362,922)	-9.6%
Less: Reserve for bank deposit losses	20	36	(16)	-44.4%
Total bank deposits at amortized cost	3,735,323	4,199,448	(464,125)	-11.1%
<b>Total cash, cash equivalents and bank deposits at amortized cost</b>	<b>4,056,940</b>	<b>4,607,921</b>	<b>(550,981)</b>	<b>-12.0%</b>
Securities purchased under resale agreements at amortized cost	211,333	195,406	15,927	8.2%
Less: Reserve for losses on securities purchased under resale agreements	271	233	38	16.3%
<b>Securities purchased under resale agreements at amortized cost</b>	<b>211,062</b>	<b>195,173</b>	<b>15,889</b>	<b>8.1%</b>
Investments in securities	4,316,210	3,614,227	701,983	19.4%
Less: Reserve for investment losses	6,063	5,338	725	13.6%
<b>Investments in securities, net</b>	<b>4,310,147</b>	<b>3,608,889</b>	<b>701,258</b>	<b>19.4%</b>
<b>Total Liquid Assets</b>	<b>8,578,149</b>	<b>8,411,983</b>	<b>166,166</b>	<b>2.0%</b>

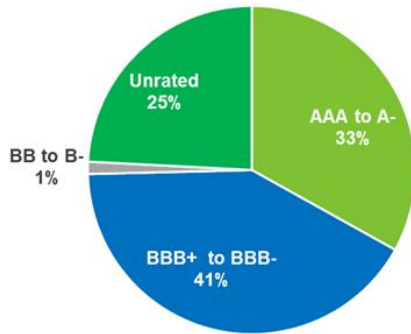
## Liquidity Ratio

The Bank maintains robust liquidity levels. As of December 31, 2023, the financial liquidity ratio was 49.1% and the legal or regulatory liquidity ratio closed at 75.5%, well above the 30% required by the Superintendencia of Banks of Panama.

## Funding Sources

The Bank's funding sources consist of deposits and financings. Total sources of funds amounted to US\$13,714.2 million as of December 31, 2023; of these, customer deposits totaled US\$12,249.9 million, representing 89.3% of the Bank's sources of funds.

(In US\$ thousands)	As of December 31, 2023	As of December 31, 2022	Change	
			US\$	%
Deposits				
Demand deposits	5,215,720	4,962,181	253,539	5.1%
Savings deposits	1,005,864	962,506	43,358	4.5%
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	6,028,328	5,753,460	274,868	4.8%
<b>Total Deposits</b>	<b>12,249,912</b>	<b>11,678,147</b>	<b>571,765</b>	<b>4.9%</b>
Other Sources of Funds				
Foreign borrowings received at amortized cost	247,864	309,892	(62,028)	-20.0%
Bond payable - local at amortized cost	206,267	206,267	0	0.0%
Bond payable - foreign at amortized cost	1,008,168	1,007,407	761	0.1%
Lease liabilities	2,025	2,689	(664)	-24.7%
<b>Total, Other Sources of Funds</b>	<b>1,464,324</b>	<b>1,526,255</b>	<b>(61,931)</b>	<b>-4.1%</b>
<b>Total, Sources of Funds</b>	<b>13,714,236</b>	<b>13,204,402</b>	<b>509,834</b>	<b>3.9%</b>



## Investment Portfolio

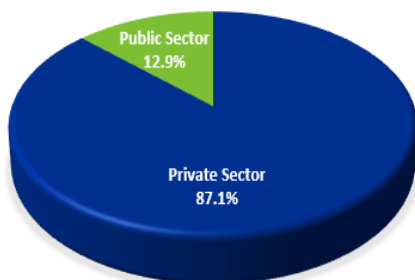
Banco Nacional's investment portfolio increased by US\$701.2 million or 19.4%, from US\$3,608.9 million as of December 31, 2022, to US\$4,310.1 million as of December 31, 2023.

The Bank's investment portfolio is made up of sovereign and corporate debt securities issued by Panamanian, US, Latin American and supranational institutions. The Bank has a conservative investment policy, investing primarily in liquid, investment grade fixed income securities.

<i>(In US\$ thousands)</i> <b>Investments in securities at amortized cost</b>	<b>Local Rating</b>	<b>International Rating (i)</b>	<b>Total</b>
AAA	0	29,372	29,372
AA+ to A	110,062	1,140,906	1,250,968
A-	15,010	76,909	91,919
BBB+ to BBB-	183,604	1,531,243	1,714,847
BB+	0	15,000	15,000
BB to B-	0	36,202	36,202
Unrated	3,433	1,020,617	1,024,049
<b>Gross subtotal</b>	<b>312,109</b>	<b>3,850,249</b>	<b>4,162,357</b>
Interest receivable	3,119	32,611	35,730
Loss reserve	(3,249)	(2,814)	(6,063)
<b>Balance at amortized cost</b>	<b>311,979</b>	<b>3,880,046</b>	<b>4,192,024</b>

<i>(In US\$ thousands)</i> <b>Investments in securities at VRCOUI</b>	<b>Local Rating</b>	<b>International Rating</b>	<b>Total</b>
AA+ to A	0	9,229	9,229
A-	0	19,399	19,399
BBB+ to BBB-	0	9,823	9,823
<b>Gross subtotal</b>	<b>0</b>	<b>38,451</b>	<b>38,451</b>
Interest receivable	0	316	316
<b>Balance at VRCOUI</b>	<b>0</b>	<b>38,767</b>	<b>38,767</b>

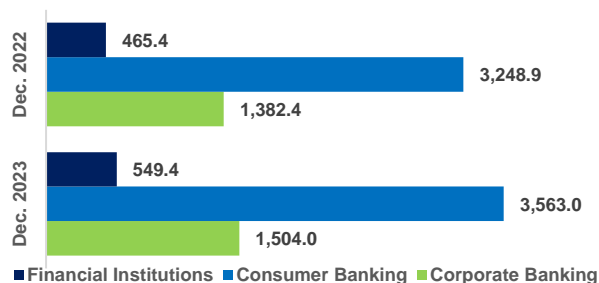
(i) The investments presented in the "Unrated" category correspond to highly liquid instruments of an international financial institution, to which only central banks have access and their risk is equivalent to an AAA sovereign risk rating.



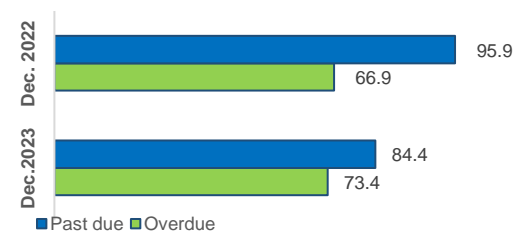
## Loan Portfolio

The Bank's gross loan portfolio totaled US\$6,445.5 million as of December 31, 2023; reflecting growth of 8.8% (US\$.520.5 million) compared to year end 2022 balances of US\$5,925.0 million.

Loans to the public sector represented 12.9% of the total portfolio or US\$829.1 million and loans to the private sector represent the bulk of the portfolio with US\$5,616.4 million or 87.1%. Most of the Bank's loans have fixed interest rates, which can be readjusted at the unilateral option of Banco Nacional, at any given time.



(In US\$ million)



(In US\$ million)

## Private Loan Portfolio

The performance of the private sector loan portfolio during 2023 was as follows:

The corporate banking portfolio increased by US\$121.6 million, loans to financial institutions by US\$84.0 million, while the consumer banking portfolios increased by US\$314.1 million, driven by residential mortgages.

## Asset Quality

As of December 31, 2023, total past due and overdue loans were 2.4% of the total loan portfolio (as of December 31, 2022: 2.7%). Asset quality indicators have remained stable during 2023, given the risk profile. Past due loans over 90 days have a reserve (loan loss reserves plus dynamic provision) coverage of 266.8%.

The reserve for loan losses closed at US\$144.8 million as of December 31, 2023, or 2.2%, of the total loan portfolio.

## Capitalization

As of December 31, 2023, the Bank's total equity stood at US\$1,310.2 million, an increase of US\$168.7 million compared to December 31, 2022. Total capital to total assets ratio reached 8.6% as of December 31, 2023.

The Bank's regulatory capital totaled US\$1,296.2 million and risk-weighted assets stood at US\$6,824.6 million; the risk weighted capital ratio was 19.0%, much higher than the minimum required by the Superintendence of Banks of Panama of 8.0%. Market risk-weighted assets and operational risk-weighted assets are included in accordance with the regulatory requirements.

(In US\$ thousands)	As of December 31, 2023	As of December 31, 2022
<b>Primary Capital</b>		
Paid-in capital by Government of Panama	1,000,000	850,000
Retained earnings	199,366	218,863
Other items in comprehensive income	28,459	12,440
Less: intangible assets	11,543	10,979
<b>Total Primary Capital</b>	<b>1,216,342</b>	<b>1,070,324</b>
Dynamic regulatory provision	79,811	56,929
<b>Total regulatory Capital</b>	<b>1,296,153</b>	<b>1,127,253</b>
<b>Total Risk-weighted assets</b>	<b>6,824,620</b>	<b>6,109,649</b>
<b>Capital adequacy ratios</b>	<b>19.0%</b>	<b>18.5%</b>

Banco Nacional de Panama increased paid-in capital to US\$1,000.0 million; complying with the provisions of its Organic Law, which determines that the capital will be increased periodically by the board of directors, after the Executive Branch issues a favorable concept, considering the provisions of banking legislation and best financial practices.

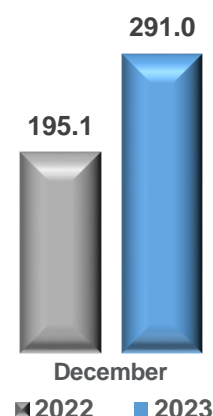
The bank has capitalized US\$350.0 million from retained earnings, in four years, equivalent to a 54% increase.

## 2023 Result of Operations

### Net Income

Net income at the end of December 2023, reached US\$291.0 million, a 49.2% increase when compared to US\$195.1 million in 2022. The increase in profits is mainly due to the rise in interest rates in international markets that resulted in increases in interest income on deposits in banks, loan and investment portfolio growth.

### Net Income (In US\$ million)



### Net Interest and Commission Income

At the end of the fourth quarter 2023, the Bank's net interest and fee income increased by 39.1% or \$127.1 million; compared to the same period in 2022. The increase is attributed to higher interest income reflected by higher levels of interest rates in the international market and higher volume of loans and investments.

(In US\$ million and percentages)

Interest and  
commission income

**US\$ 702.8**

49.5% ↑

Interest expense

**US\$ 231.8**

94.1% ↑

Net interest and  
commission income

**US\$ 452.2**

39.1% ↑

### Loss Provisions and Other Income

Provisions for losses decrease US\$6.7 million or 26.3%, compared with December 2022. The decrease occurs mainly in the provision for loan losses.

Other net income increased by 2.0%, from US\$45.3 million as of December 31, 2022, to US\$46.2 million as of December 31, 2023. The increase is due to greater dividends received from investments held in shares.

Provisions

**US\$ 18.8**

26.3% ↓

Other Income, net

**US\$ 46.2**

2.0% ↑

### General and Administrative Expenses

General and administrative expenses increased by 18.3% or US\$32.1 million when compared to the same period of 2022. The primary increases come from personnel expenses, repairs and maintenance of the bank's infrastructure and communications systems.

The efficiency ratio stands at 41.6% as of December 31, 2023.

General and Admin.  
Expenses

**US\$ 207.4**

18.3% ↑

Net Income

**US\$ 291.0**

49.2% ↑



## Income Statement

(US\$ thousands)

Income	As of December 31,		Change	
	2023	2022	US\$	%
Interest and fee income	702,796	469,990	232,805	49.5%
Interest expense	231,772	119,420	112,352	94.1%
<b>Net interest and commission income</b>	<b>471,024</b>	<b>350,571</b>	<b>120,453</b>	<b>34.4%</b>
Impairment Allowances, net <sup>(1)</sup>	18,845	25,489	(6,644)	-26.1%
<b>Net interest and commission income, after provisions</b>	<b>452,179</b>	<b>325,082</b>	<b>127,097</b>	<b>39.1%</b>
Fees for banking services	28,660	29,045	(385)	-1.3%
Other income <sup>(2)</sup>	19,461	18,449	1,012	5.5%
Other expenses	1,870	2,157	(287)	-13.3%
<b>Total other income, net</b>	<b>46,251</b>	<b>45,337</b>	<b>914</b>	<b>2.0%</b>
<b>Total general and administrative expenses</b>	<b>207,392</b>	<b>175,272</b>	<b>32,120</b>	<b>18.3%</b>
<b>Net income</b>	<b>291,038</b>	<b>195,147</b>	<b>95,891</b>	<b>49.2%</b>

<sup>(1)</sup> Includes reversal of provision for losses on deposits in banks, provision for losses on investments, provision for loan losses and provision for valuation of foreclosed assets.

<sup>(2)</sup> Includes net gain (loss) on investments in securities, dividends and others.

## Balance Sheet

(US\$ thousands)

Assets	As of December 30, 2023	As of December 31, 2022	Change	
			US\$	%
Cash and cash equivalents at amortized cost	4,056,940	4,607,921	(550,981)	(12%)
Securities purchased under resale agreements at amortized cost	211,062	195,173	15,889	8.1%
Investments in securities, net	4,310,147	3,608,889	701,258	19.4%
Private sector loans and interest receivable	5,648,292	5,134,756	513,536	10.0%
Public sector loans and interest receivable	837,260	833,280	3,980	0.5%
Allowance for loan losses	(144,820)	(140,283)	(4,537)	3.2%
Unearned interest and commissions	(28,430)	(27,859)	(571)	(2.0%)
Total loans at amortized cost	6,312,302	5,799,894	512,408	8.8%
Property, plant & equipment, net	95,924	82,517	13,407	16.2%
Other assets	314,189	309,475	4,714	1.5%
<b>Total assets</b>	<b>15,300,564</b>	<b>14,603,869</b>	<b>696,695</b>	<b>4.8%</b>
Liabilities & Shareholder Equity	As of December 30, 2023	As of December 31, 2022	Change	
			US\$	%
Deposits at amortized cost	12,249,912	11,678,147	571,765	4.9%
Foreign borrowings received at amortized cost	247,864	309,892	(62,028)	-20.0%
Bond payable - foreign at amortized cost	1,008,168	1,007,407	761	0.1%
Bond payable - local at amortized cost	206,267	206,268	(1)	0.0%
Other liabilities	278,109	260,643	17,466	6.7%
<b>Total liabilities</b>	<b>13,990,320</b>	<b>13,462,357</b>	<b>527,963</b>	<b>3.9%</b>
<b>Equity</b>	<b>1,310,244</b>	<b>1,141,512</b>	<b>168,732</b>	<b>14.8%</b>
<b>Total Liabilities &amp; Equity</b>	<b>15,300,564</b>	<b>14,603,869</b>	<b>696,695</b>	<b>4.8%</b>



## Financial Ratios

### Profitability

Net Interest Margin <sup>(1)</sup>		Return on Average Assets <sup>(2)</sup>		Return on Average Equity <sup>(3)</sup>	
<b>3.5%</b>	<b>2.3%</b>	<b>2.0%</b>	<b>1.3%</b>	<b>23.0%</b>	<b>17.8%</b>
Dec. 2023	Dec. 2022	Dec. 2023	Dec. 2022	Dec. 2023	Dec. 2022

### Liquidity & Efficiency

Financial Liquidity / Total Deposits <sup>(4)</sup>		Legal Liquidity <sup>(5)</sup>		Efficiency <sup>(6)</sup>	
<b>49.1%</b>	<b>51.1%</b>	<b>75.5%</b>	<b>74.8%</b>	<b>41.6%</b>	<b>47.3%</b>
Dec. 2023	Dec. 2022	Dec. 2023	Dec. 2022	Dec. 2023	Dec. 2022

### Capital

Capital Adequacy <sup>(7)</sup>		Equity / Assets <sup>(8)</sup>		Financial Leverage <sup>(9)</sup>	
<b>19.0%</b>	<b>18.5%</b>	<b>8.6%</b>	<b>7.8%</b>	<b>8.0%</b>	<b>7.4%</b>
Dec. 2023	Dec. 2022	Dec. 2023	Dec. 2022	Dec. 2023	Dec. 2022

### Asset Quality

Past Due Loans Over 91 Days / Total Loans <sup>(10)</sup>		Past Due Loans / Total Loans <sup>(11)</sup>		Non-Accrual Loans / Total Loans <sup>(12)</sup>	
<b>1.3%</b>	<b>1.6%</b>	<b>2.4%</b>	<b>2.7%</b>	<b>0.7%</b>	<b>1.0%</b>
Dec. 2023	Dec. 2022	Dec. 2023	Dec. 2022	Dec. 2023	Dec. 2022

Headcount	3,701	3,510	Branch Network	93	92
	Dec. 2023	Dec. 2022		Dec. 2023	Dec. 2022

<sup>(1)</sup> Calculated as net interest income divided by total average interest-earning assets.

<sup>(2)</sup> Calculated as net income divided by average total assets.

<sup>(3)</sup> Calculated as net income divided by average total equity.

<sup>(4)</sup> Calculated as total liquid assets, plus highly liquid investments (BIS-Treasury) over customer deposits

<sup>(5)</sup> Regulatory liquid assets are determined based on guidelines established by the Superintendence of Banks on total liquid liabilities.

<sup>(6)</sup> Calculated as total general & admin. Expenses to net interest and commission income after provisions plus total other net income.

<sup>(7)</sup> Calculated as total equity divided by total risk weighted assets by credit, market and operational risks.

<sup>(8)</sup> Equity divided by total assets

<sup>(9)</sup> Primary equity net of regulatory adjustments divided by total productive assets net of deductions and counterparty risk per contingencies.

<sup>(10)</sup> Calculated as past due loans over 91 days overdue divided by total loan portfolio.

<sup>(11)</sup> Calculated as total past due loans and overdue loans over 91 days divided by total loan portfolio.

<sup>(12)</sup> Calculated as non-accrual loans divided by total loans.

The analysis presented is based on the information contained in the audited financial statements as of December 31, 2023. Some figures (including percentages) in this document have been rounded. The audited financial statements for the period ended December 31, 2023, are available on the Bank's website [www.banconal.com.pa](http://www.banconal.com.pa).



 **BANCO  
NACIONAL**  
DE PANAMA