



Management Financial Discussion and Analysis

March 2023



Highlights

- Banco Nacional is the leading bank within Panama’s agricultural sector with 29% market share in agribusiness loans.
- Active participant in the country’s economic development initiatives, from competitiveness and food security plans to national infrastructure project financing.
- Opening of branch number 93, Ondgo branch in La Chorrera. BNP continues to expand the direct customer service network nationwide.

Financial Analysis

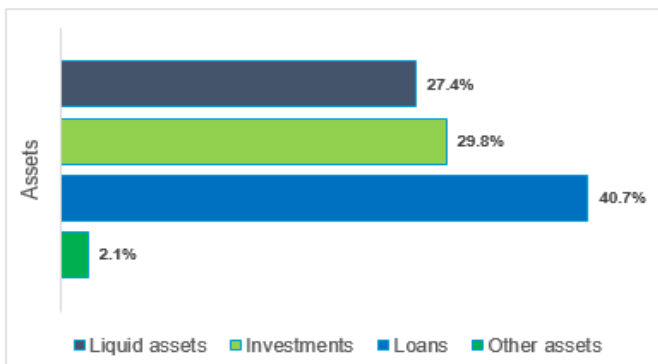
As of March 31, 2023, Banco Nacional’s balance sheet shows a slight increase in size of 0.2%, when compared to December numbers. Growth occurs in the private sector loan portfolio. The Bank’s balance sheet continues to have high levels of liquidity. Of total assets, liquid assets account for 27.4% and investments 29.8%. Loans represent 40.7% and other assets represent 2.1% of total assets. Deposits represent 80.1% of liabilities and equity, financings 10.1% and other liabilities 1.6%. Equity makes up 8.2% of the total balance sheet.

(In US\$ millions)

Total Assets	Loans, gross	Equity	Net Income
US\$ 14,636.0	US\$ 5,956.5	US\$ 1,195.3	US\$ 73.3
Legal Liquidity	Efficiency	ROAE	Capital Adequacy
74.1%	36.7%	25.5%	19.3%

Assets

Assets totaled US\$14,636.0 million as of March 31, 2023. When comparing March 2023 numbers with the balances at year end 2022, assets increased US\$32.1 million or 0.2%, mainly attributed to growth in the loan portfolio.

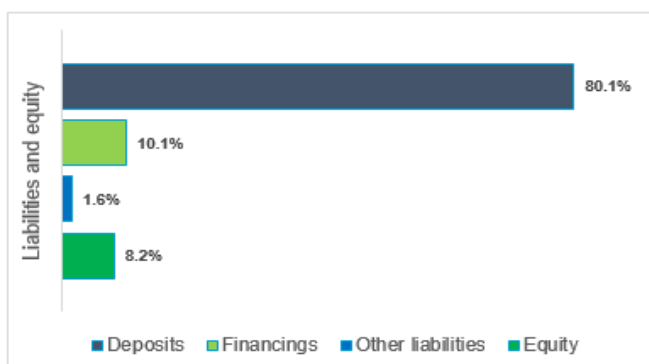


Liabilities

Liabilities totaled US\$ 13,440.7 million at March 31, 2023. A decrease of US\$ 21.7 million, compared to December 31, 2022. The decrease is due to principal payments made to financings received in the amount of US\$32.7 million.

Equity

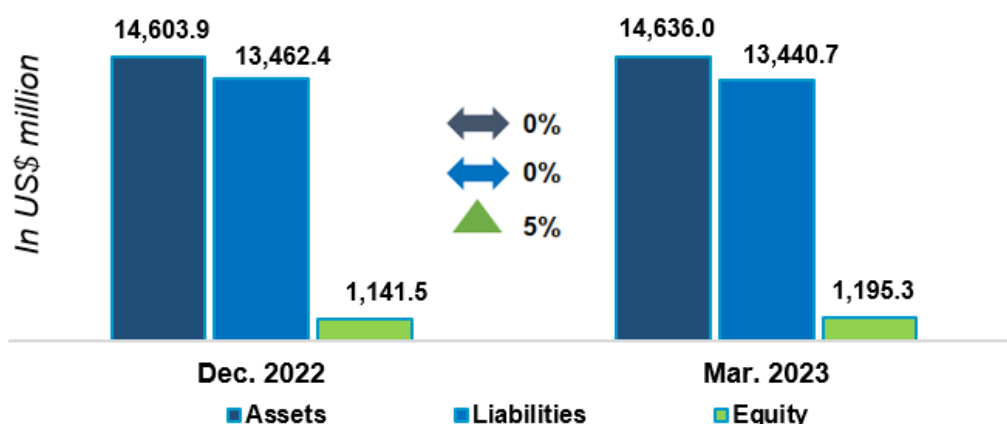
At the end of the first quarter of 2023, the Bank’s equity totaled US\$ 1,195.3 million, an increase of US\$ 53.8 million compared to December 31, 2022. The increase comes from the accumulation of profits for the period.



Risk Ratings

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

- Standard and Poor's ("BBB", with a negative Outlook – Aug.22)
- Moody's ("Baa2", with a negative Outlook – Nov.22)
- Fitch Ratings ("BBB-" with a stable outlook – May 23)



Liquidity and Sources of Funds

Liquid assets totaled US\$ 8,396.7 million (cash, deposits in banks, securities purchased under resale agreements, and investments in securities) as of March 31, 2023. Liquid assets decreased by 0.2%, from US\$ 8,412.0 million as of December 31, 2022. At the end of the first quarter of 2023, liquid assets represented 71.6% of total customer deposits and 57.4% of total assets. The financial liquidity ratio reached 34.2%, which is lower than the previous year, mainly due to movements from bank placements, towards investments in securities and securities purchased under resale agreements.

(In US\$ thousands)

	March 31, 2023	December 31, 2022	Change	
			US\$	%
Cash and cash equivalents	388,232	408,473	(20,241)	(5.0%)
Deposits in banks at amortized cost:				
Demand deposits- foreign	61,625	107,061	(45,436)	(42.4%)
Time deposits - local	275,481	305,581	(30,100)	(9.9%)
Time deposits - foreign	3,287,725	3,786,842	(499,117)	(13.2%)
Less: Reserve for bank deposit losses	48	36	12	33.3%
Total bank deposits at amortized cost	3,624,783	4,199,447	(574,665)	(13.7%)
Total cash, cash equivalents and bank deposits at amortized cost	4,013,015	4,607,920	(594,906)	(12.9%)
Securities purchased under resale agreements	192,806	195,406	(2,600)	(1.3%)
Less: Reserve for investment losses	160	233	(73)	(31.3%)
Securities purchased under resale agreements at amortized cost	192,646	195,174	(2,528)	(1.3%)
Investments in securities	4,198,038	3,614,227	583,811	16.2%
Less: Reserve for investment losses	7,046	5,338	1,708	32.0%
Investments in securities, net	4,190,992	3,608,889	582,103	16.1%
Total Liquid Assets	8,396,653	8,411,983	(15,330)	(0.2%)

Liquidity Ratio

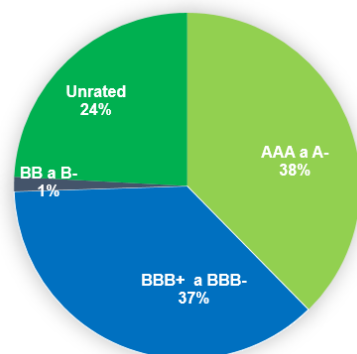
The Bank maintains ample liquidity levels. As of March 31, 2023, the financial liquidity ratio was 34.2% and the legal or regulatory liquidity ratio closed at 74.1%, well above the 30% required by the Superintendency of Banks of Panama.

Funding Sources

The Bank's funding sources consist of deposits and financings. Total sources of funds amounted to US\$ 13,215.4 million as of March 31, 2023; of these, customer deposits totaled US\$ 11,728.4 million, which represent 88.8% of the Bank's funding sources.

(In US\$ thousands)

	March 31, 2023	December 31, 2022	Change	
			US\$	%
Deposits				
Demand deposits	4,937,895	4,962,182	(24,287)	(0.5%)
Savings deposits	954,332	962,506	(8,174)	(0.8%)
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	5,836,171	5,753,460	82,711	1.4%
Total Deposits	11,728,398	11,678,148	50,250	0.4%
Obligations				
Foreign borrowing received at amortized cost	277,001	309,892	(32,891)	(10.6%)
Bond payable - local at amortized cost	206,268	206,268	0	0.0%
Bond payable - foreign at amortized cost	1,001,259	1,007,407	(6,148)	(0.6%)
Lease liabilities	2,464	2,688	(224)	(8.3%)
Total obligations	1,486,992	1,526,255	(39,263)	(2.6%)
Total Sources of funds	13,215,390	13,204,403	10,987	0.1%



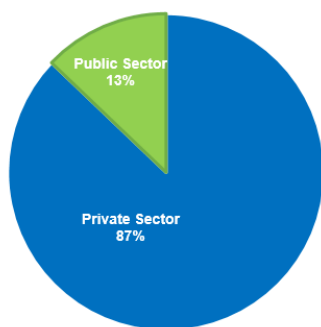
Investment Portfolio

Banco Nacional's investment portfolio increased by US\$ 582.1 million or 16.1%, from US\$ 3,608.9 million as of December 31, 2022, to US\$ 4,191.0 million as of March 31, 2023. The increase in the portfolio is due to new investment purchases to diversify the instruments used managing the Bank's liquidity.

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. Banco Nacional's investment portfolio is largely invested in investment grade securities.

(In US\$ thousands)	2023		
	Local Rating	International Rating (i)	Total
Investments in securities			
AAA	0	74,847	74,847
AA+ to A	86,837	1,258,594	1,345,430
A-	22,111	116,080	138,191
BBB+ to BBB-	134,478	1,374,397	1,508,876
BB+	0	15,000	15,000
BB to B-	0	40,892	40,892
Unrated	14,719	979,748	994,467
Gross subtotal	258,145	3,859,558	4,117,702
Interest receivable	1,391	22,418	23,809
Loss reserve	(2,782)	(4,264)	(7,046)
Balance at amortized cost	256,754	3,877,712	4,134,466

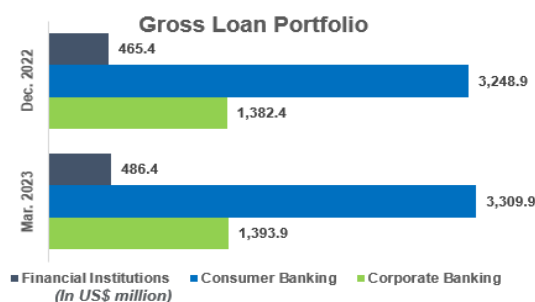
(i) The investments presented in the "Unrated" category correspond to liquid instruments of an international financial institution, to which only central banks have access and their risk is equivalent to a AAA sovereign risk rating.



Loan Portfolio

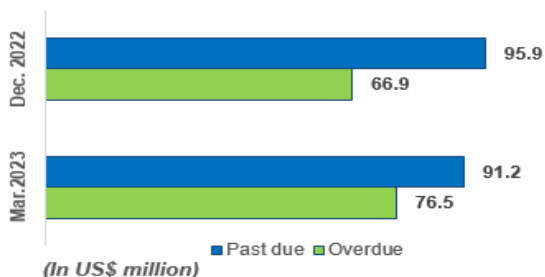
The Bank's gross loan portfolio totaled US\$ 5,956.5 million as of March 31, 2023, the portfolio grew US\$ 31.5 million compared to US\$ 5,925.0 million at year-end 2022, reflecting a 1.0% growth.

Loans to the public sector represented 12.9% of the total portfolio or US\$ 766.3 million and loans to the private sector represent most of the portfolio with US\$ 5,190.2 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.



Private Sector Loan Portfolio by Sector

The corporate banking portfolio and loans to financial institutions increased by US\$ 11.5 million and US\$ 21.0 million, respectively, while the consumer banking portfolio increased by US\$ 61.0 million, principally in residential mortgages.



Asset Quality

As of March 31, 2023, total past due and overdue loans were 2.8% of total loans (as of December 31, 2022: 2.7%). Asset quality indicators have remained stable during first quarter 2023, given the risk profile. Past due loans over 90 days have a reserve (loan loss reserves plus dynamic provision) coverage of 222.6%.

Loan Loss Reserves

Reserves for loan losses increased to US\$ 146.1 million as of March 31, 2023, or 2.5% of the total loan portfolio, from US\$140.3 million as of December 31, 2022.

(US\$ thousands)	March 31, 2023			December 31, 2022			Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
Low risk	5,434,247	33,448	0.6%	5,401,132	31,922	0.6%	33,115	1,526
Significant risk	399,423	44,899	11.2%	403,695	42,680	10.6%	(4,272)	2,219
Default risk	122,823	67,742	55.2%	120,174	65,681	54.7%	2,649	2,061
Total	5,956,493	146,089	2.5%	5,925,001	140,283	2.4%	31,492	5,806

Capitalization

As of March 31, 2023, the Bank's total equity stood at US\$ 1,195.3 million, an increase of US\$ 53.8 million compared to December 31, 2022. Total capital to total assets ratio reached 8.2% as of March 31, 2023.

At the end of the first quarter 2023, the Bank's regulatory capital totaled US\$ 1,145.0 million and the ratio of total capital to risk-weighted assets (US\$ 5,932.2 million) was 19.3%, much higher than the minimum required by the Superintendency of Banks of Panama of 8.0%. Market risk-weighted assets and operational risk-weighted assets are included in accordance with the regulatory requirements.

The table below sets forth regulatory capital as of March 31, 2023, and December 31, 2022:

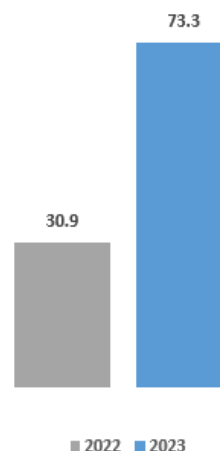
<i>(In US\$ thousands)</i>	March 31, 2023	December 31, 2022
Primary Capital		
Paid-in capital by Government of Panama	850,000	850,000
Retained earnings	235,445	218,863
Other items in comprehensive income	12,827	12,440
Less: intangible assets	10,217	10,979
Total Primary Capital	1,088,055	1,070,324
Dynamic regulatory provision	56,929	56,929
Total regulatory Capital	1,144,984	1,127,253
Total Risk-weighted assets	5,932,188	6,109,649
Capital adequacy ratios:	19.30%	18.45%

Q1 – 2023 Results of Operations

Net Income

Net income for the first three months of 2023 reached US\$ 73.3 million a US\$ 42.4 million growth over the same period 2022, reflecting a 137.6% increase; the increase in profits is due to higher interest rates in the international markets, which resulted in increases in interest income from bank deposits; and, loan portfolio growth, reflecting better yields in interest and commissions income.

Net income
(In US\$ million)



Interest and Commission Income

For the three-month period ended March 31, 2023, Banco Nacional's net interest and commission income increased 83.3% to US\$ 116.0 million from US\$ 63.3 million in the same period of 2022. The increase is credited to higher interest and commission income from deposits in banks due to higher interest rates in the international markets and loan portfolio growth.

(In US\$ millions)

Interest and commission income

US\$ 164.1

95.4% ↑

Interest expense

US\$ 48.1

132.4% ↑

Net interest and commission income

US\$ 116.0

83.3% ↑

Loss Provisions and Other Income

Provisions for credit losses increased 90.2%, from US\$5.9 million at March 31, 2022 to US\$11.1 million as of March 31, 2023. The increase of US\$ 5.2 million in provisions is provision for loan losses account.

Other net income decreased by 5.5%, from US\$ 11.5 million at March 31, 2022, to US\$ 10.9 million as of March 31, 2023. The decrease is due to lower commissions generated through banking services.

Provisions

US\$ 11.1

90.2% ↑

Other Income, net

US\$ 10.9

-5.5% ↓

General and Admin. Expenses

US\$ 42.4

11.5% ↑

Net Income

US\$ 73.3

137.6% ↑

General & Administrative Expenses

Operating expenses increased by 11.5%, when compared to the same period in 2022.

Below is the composition of general and administrative expenses:

<i>(In US\$ thousands)</i>	March 31,		Change	
	2023	2022	US\$	%
Salaries and other personnel expenses	28,129	24,178	3,951	16.3%
Rentals	140	281	(141)	(50.2%)
Repairs and maintenance	2,862	3,162	(300)	(9.5%)
Depreciation and amortization	3,316	3,258	58	1.8%
Electricity	822	816	6	0.7%
Advertising	755	500	255	51.0%
Communications	1,751	1,539	212	13.8%
Insurance	120	196	(76)	(38.8%)
Stationery and office supplies	326	310	16	5.2%
Fees and professional services	1,564	1,308	256	19.6%
Transportation of personnel	227	185	42	22.7%
Transportation of valuables	184	587	(403)	(68.7%)
ATMs	801	459	342	74.5%
Others	1,420	1,270	150	11.8%
Total general and administrative expenses	42,417	38,049	4,368	11.5%

Income Statement

(In US\$ thousands)

	March 31,		Change	
	2023	2022	US\$	%
Interest and fee income	164,093	83,962	80,131	95.4%
Interest expense	48,094	20,691	27,403	132.4%
Net interest and commission income	115,999	63,271	52,728	83.3%
Impairment Allowances, net ⁽¹⁾	11,128	5,851	5,277	90.2%
Net interest and commission income, after provisions	104,871	57,420	47,451	82.6%
Fees for banking services	6,693	7,214	(521)	(7.2%)
Other income ⁽²⁾	5,030	4,612	418	9.1%
Total other expenses	868	343	525	153.1%
Total other income, net	10,855	11,483	(628)	(5.5%)
Total general and administrative expenses	42,417	38,049	4,368	11.5%
Net income	73,309	30,854	42,455	137.6%

(1) Includes provision for losses on deposits in banks, provision for losses on investments, provision for loan losses and reversal of appraisal of foreclosed assets.

(2) Includes net gain on investments in securities and other.

Balance Sheet

(In US\$ thousands)

Assets	March 31,	December 31,	Change	
	2023	2022	US\$	%
Cash and cash equivalents	4,013,015	4,607,921	(594,906)	(12.9%)
Securities purchased under resale agreements	192,646	195,173	(2,527)	(1.3%)
Investments in securities, net	4,190,992	3,608,889	582,103	16.1%
Private sector loans and interest receivable	5,231,473	5,134,756	96,717	1.9%
Public sector loans and interest receivable	771,359	833,280	(61,921)	(7.4%)
Allowance for loan losses	(146,089)	(140,283)	(5,806)	(4.1%)
Unearned interest and commissions	(27,744)	(27,859)	115	(0.4%)
Total loans, net	5,828,999	5,799,894	29,105	0.5%
Property, plant & equipment	90,336	82,517	7,819	9.5%
Other assets	320,034	309,475	10,559	3.4%
Total assets	14,636,022	14,603,869	32,153	0.2%
<i>Liabilities & Shareholder Equity</i>				
Deposits	11,728,398	11,678,147	50,251	0.4%
Foreign borrowing received at amortized cost	277,001	309,892	(32,891)	(10.6%)
International bonds payable at amortized cost	1,001,259	1,007,407	(6,148)	(0.6%)
Local bonds payable at amortized cost	206,268	206,268	0	0.0%
Other liabilities	227,761	260,643	(32,882)	(12.6%)
Total liabilities	13,440,687	13,462,357	(21,670)	(0.2%)
Shareholder Equity	1,195,335	1,141,512	53,823	4.7%
Total Liabilities & Shareholder Equity	14,636,022	14,603,869	32,153	0.2%

Financial Ratios

Profitability

Net Interest Margin ⁽¹⁾		Return on Average Assets ⁽²⁾		Return on Average Equity ⁽³⁾	
3.5%	2.3%	2.1%	1.3%	25.5%	17.8%
Mar. 2023	Dec. 2022	Mar. 2023	Dec. 2022	Mar. 2023	Dec. 2022

Liquidity & Efficiency

Financial Liquidity / Total Deposits ⁽⁴⁾		Legal Liquidity ⁽⁵⁾		Efficiency ⁽⁶⁾	
34.2%	39.5%	74.1%	74.8%	36.7%	47.3%
Mar. 2023	Dec. 2022	Mar. 2023	Dec. 2022	Mar. 2023	Dec. 2022

Capital

Capital Adequacy ⁽⁷⁾		Equity / Assets ⁽⁸⁾		Financial Leverage ⁽⁹⁾	
19.3%	18.5%	8.2%	7.8%	7.5%	7.4%
Mar. 2023	Dec. 2022	Mar. 2023	Dec. 2022	Mar. 2023	Dec. 2022

Asset Quality

Past Due Loans Over 91 Days / Total Loans ⁽¹⁰⁾		Past Due Loans / Total Loans ⁽¹¹⁾		Non-Accrual Loans / Total Loans ⁽¹²⁾	
1.5%	1.6%	2.8%	2.7%	1.0%	1.0%
Mar. 2023	Dec. 2022	Mar. 2023	Dec. 2022	Mar. 2023	Dec. 2022

Headcount	3,533	3,510	Branch Network	93	92
	Mar. 2023	Dec. 2022		Mar. 2023	Dec. 2022

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

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

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

⁽⁴⁾ Calculated as total liquid assets to total deposits.

⁽⁵⁾ Regulatory liquid assets are determined based on guidelines established by the Superintendency of Banks.

⁽⁶⁾ Calculated as total general & admin. expenses to net interest and commission income after provisions plus total other net income.

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

⁽⁸⁾ Equity divided by total assets

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

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

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

⁽¹²⁾ Calculated as non-accrual loans divided by total loans.

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

