



Management Financial Discussion and Analysis

December 2022



Relevant Facts

- Net profit of US\$ 195.1 million, the highest recorded in the Bank's 118-year history.
- The Bank is recognized as one of the top employers according to the regional publication Summa, being No.3 in Panama.
- Leading bank in Panama's agricultural sector with 30% 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.

Financial Analysis

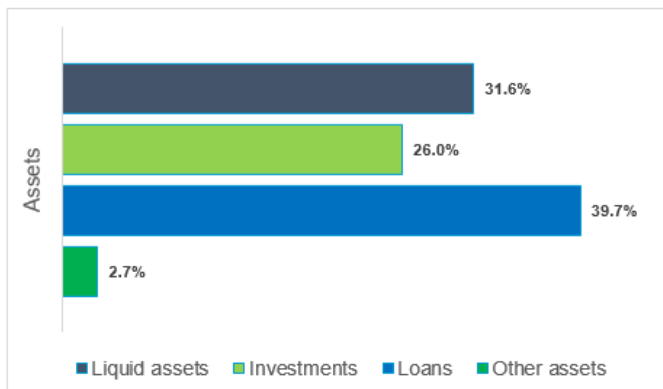
At year-end 2022, Banco Nacional's balance sheet decreased by 4.6%, mainly in the interbank placements portfolio. The Bank's balance sheet continues to demonstrate high levels of liquidity. Of total assets, liquid assets account for 31.6% and investments 26.0%. Loans represent 39.7% of total assets. Deposits represent 80.0% of liabilities and equity, financings 10.4% and other liabilities 1.8%. Equity makes up 7.8% of the total balance sheet.

(In US\$ millions)

Total Assets	Loans, gross	Equity	Net Income
US\$ 14,603.9	US\$ 5,925.0	US\$ 1,141.5	US\$ 195.1
Legal Liquidity	Efficiency	ROAE	Capital Adequacy
74.8%	47.3%	17.8%	18.5%

Assets

Assets totaled US\$ 14,603.9 million as of December 31, 2022. When comparing December 2022 numbers with the balances at year-end 2021, assets decreased by US\$ 702.5 million or 4.6%. The decrease is mainly attributed to the outflow of deposits in banks in the amount of US\$ 3,148.9 million, increases in the investment portfolio of US\$ 1,182.0 million and in the loan portfolio of US\$ 788.3 million.

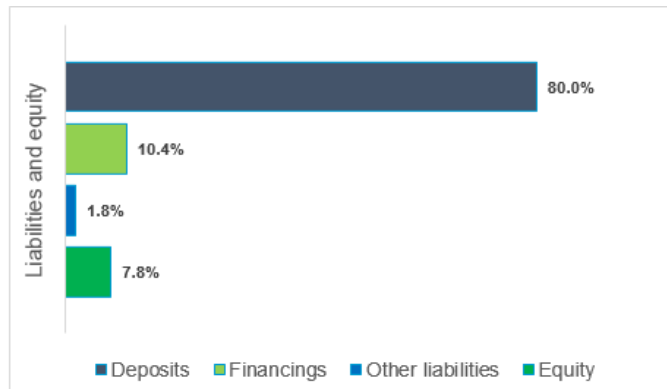


Liabilities

Liabilities totaled US\$ 13,462.4 million at December 31, 2022. A decrease of US\$ 818.8 million, compared to December 31, 2021. The decrease comes mainly from the public sector deposit portfolio, which were reduced by US\$ 1,289.8 million.

Equity

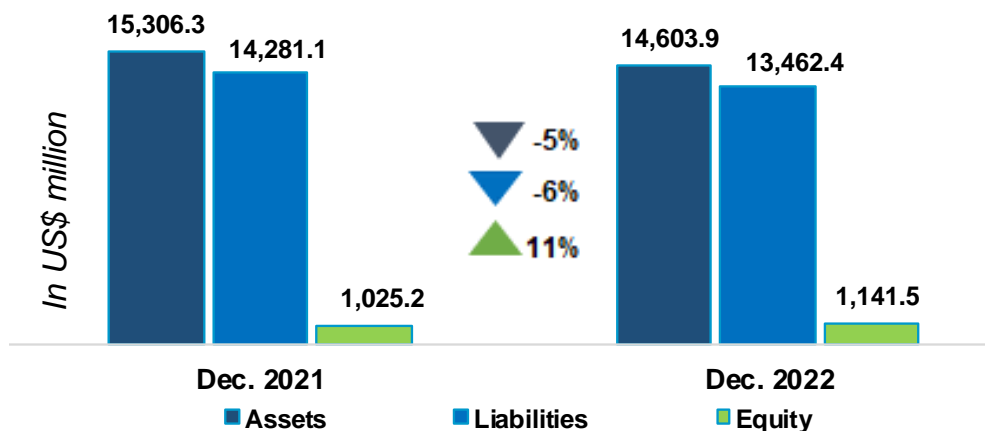
At the end of 2022, the Bank's equity totaled US\$ 1,141.5 million, an increase of US\$ 116.3 million compared to December 31, 2021. The increase comes from the accumulation of retained earnings for the period.



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 – Nov.22)



Liquidity and Sources of Funds

Liquid assets totaled US\$ 8,412.0 million (cash, deposits in banks, securities purchased under resale agreements, and investments in securities) at December 31, 2022. Liquid assets decreased by 16.0%, from US\$ 10,012.2 million as of December 31, 2021. At the end of the 2022, liquid assets represented 72.0% of total customer deposits and 57.6% of total assets. The financial liquidity ratio reached 39.5%, lower than the previous year, mainly due to the outflow of public funds.

(In US\$ thousands)	As of December 31,	As of December 31,	Change	
	2022	2021	US\$	%
Cash and cash equivalents	408,473	297,329	111,144	37.4%
Deposits in banks at amortized cost:				
Demand deposits- foreign	107,062	17,486	89,576	512.3%
Time deposits - local	305,581	305,095	486	0.2%
Time deposits - foreign	3,786,842	6,929,380	(3,142,538)	(45.4%)
Less: Reserve for bank deposit losses	37	202	(165)	(81.7%)
Total bank deposits at amortized cost	4,199,448	7,251,759	(3,052,311)	(42.1%)
Total cash, cash equivalents and bank deposits at amortized cost	4,607,921	7,549,088	(2,941,167)	(39.0%)
Securities purchased under resale agreements	195,406	41,384	154,022	372.2%
Less: Reserve for investment losses	234	66	168	254.5%
Securities purchased under resale agreements at amortized cost	195,173	41,318	153,854	372.4%
Investments in securities	3,614,227	2,424,957	1,189,270	49.0%
Less: Reserve for investment losses	5,338	3,151	2,187	69.4%
Investments in securities, net	3,608,889	2,421,806	1,187,083	49.0%
Total Liquid Assets	8,411,983	10,012,212	(1,600,230)	(16.0%)

Liquidity Ratio

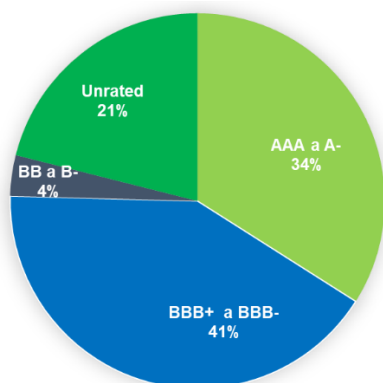
The Bank maintains robust liquidity levels. As of December 31, 2022, the financial liquidity ratio was 39.5% and the legal or regulatory liquidity ratio closed at 74.8%, well above the 30% required by the Superintendency of Banks of Panama.

Funding Sources

The Bank's funding sources consist of deposits and financings. Total sources of funds amounted to US\$ 13,204.4 million as of December 31, 2022; of these, customer deposits totaled US\$ 11,687.1 million, which represent 88.4% of the Bank's sources of funds. During 2022, the Bank prepaid a financing received in the amount of US\$ 150 million at a variable rate.

(In US\$ thousands)

	As of December 31, 2022	As of December 31, 2021	Change	
			US\$	%
Deposits				
Demand deposits	4,962,182	4,450,048	512,134	11.5%
Savings deposits	962,506	917,660	44,846	4.9%
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	5,753,460	6,996,049	(1,242,589)	(17.8%)
Total Deposits	11,678,148	12,363,757	(685,609)	(5.5%)
Obligations				
Foreign borrowings received at amortized cost	309,892	485,107	(175,215)	(36.1%)
Bonds payable - local at amortized cost	206,267	206,267	0	0.0%
Bonds payable - foreign at amortized cost	1,007,407	1,006,647	760	0.1%
Lease liabilities	2,688	3,964	(1,276)	(32.2%)
Total obligations	1,526,254	1,701,985	(175,731)	(10.3%)
Total Sources of funds	13,204,402	14,065,742	(861,340)	(6.1%)



Investment Portfolio

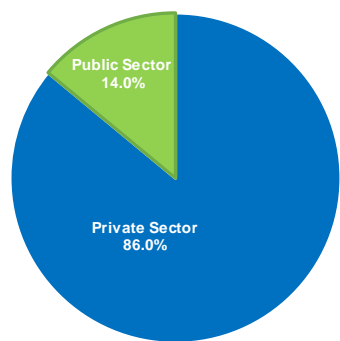
Banco Nacional's investment portfolio increased by US\$ 1,187.1 million or 49.0%, from US\$ 2,421.8 million as of December 31, 2021, to US\$ 3,608.9 million as of December 31, 2022. The increase in the portfolio is due to new investment purchases and the investment strategy of the Bank's liquidity to optimize profitability.

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)

	Local Rating	2022 International Rating (i)	Total
Investments in securities			
AAA	0	89,633	89,633
AA+ to A	78,489	923,171	1,001,660
A-	22,112	97,188	119,300
BBB+ to BBB-	164,753	1,311,795	1,476,548
BB+	0	65,000	65,000
BB to B-	0	41,957	41,957
Unrated	14,938	731,102	746,040
Gross subtotal	280,292	3,259,846	3,540,138
Interest receivable	1,717	19,754	21,471
Loss reserve	(1,887)	(3,451)	(5,338)
Balance at amortized cost	280,122	3,276,149	3,556,271

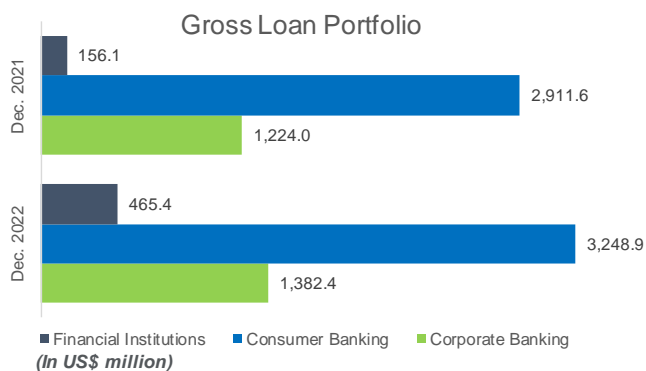
(i) The investments presented in the "Unrated" category correspond to liquid instruments of an international financial institution, to which only central banks have access and their risk is equivalent to a AAA sovereign risk rating.



Loan Portfolio

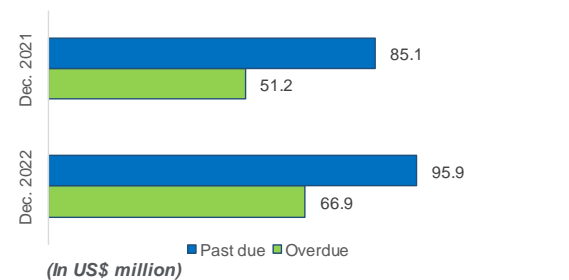
The Bank's gross loan portfolio totaled US\$ 5,925.0 million as of December 31, 2022, registering the highest portfolio volume in the Bank's 118 years of operations; the portfolio grew US\$ 788.3 million compared to US\$ 5,136.7 million at year-end 2021, reflecting a 15.0% growth.

Loans to the public sector represented 14.0% of the total portfolio or US\$ 828.3 million and loans to the private sector represent most of the portfolio with US\$ 5,096.7 million or 86.0%. 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\$ 158.4 million and US\$ 309.3 million, respectively, while the consumer banking portfolio increased by US\$ 337.3 million, principally in residential mortgages. The residential mortgage portfolio increased through the Bank's participation in real estate fairs that promote home sales, and through our extensive branch network.



Asset Quality

As of December 31, 2022, total past due and overdue loans were 2.7% of the total loan portfolio (as of December 31, 2021: 2.7%). Asset quality indicators have remained stable during 2022, given the risk profile. Past due loans over 90 days have a reserve (loan loss reserves plus dynamic provision) coverage of 205.6%.

Loan Loss Reserves

The reserve for loan losses increased to US\$ 140.3 million as of December 31, 2022, or 2.4% of the total loan portfolio, from US\$126.7 million as of December 31, 2021.

(US\$ thousands)	As of December 31, 2022			As of December 31, 2021			Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
Low risk	5,401,132	31,922	0.6%	4,810,453	33,678	0.7%	590,679	(1,756)
Significant risk	403,695	42,680	10.6%	195,358	21,455	11.0%	208,337	21,225
Default risk	120,174	65,681	54.7%	130,915	71,545	54.6%	(10,741)	(5,864)
Total	5,925,001	140,283	2.4%	5,136,726	126,678	2.5%	788,275	13,605

Modified Loans

In November 2022, the Superintendency of Banks of Panama issued Agreement No. 012-2022 eliminating the agreements and board of directors' resolutions related to modified loans (Agreement No. 002-2021 of June 11, 2021 and all its modifications, Agreement No. 006-2021 of December 22, 2021 and all its modifications, General Resolution of the Board of Directors No. SBP-GJD-0003-2021 of June 11, 2021 and the General Resolution of the Board of Directors No. SBPGJD-0004-2021 of June 21, 2021).

The Agreement establishes the general guidelines for the reestablishment of all modified loans back to Agreement No. 004-2013. The banks will migrate the portfolio of modified loans classified in the category "Special Mention Modified" to the risk categories of Agreement No. 004-2013, in accordance with the established parameters, for which they will initially use the number of days delinquent as a reference, as well as any other weakness that may affect the customer's ability to pay.

Capitalization

As of December 31, 2022, the Bank's total equity stood at US\$ 1,141.5 million, an increase of US\$ 116.3 million compared to December 31, 2021. Total capital to total assets ratio reached 7.8% as of December 31, 2022.

As of December 31, 2022, the Bank's regulatory capital totaled US\$ 1,127.3 million and the ratio of total capital to risk-weighted assets (US\$ 6,109.6 million) was 18.5%, 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 December 31, 2022 and 2021:

<i>(In US\$ thousands)</i>	2022	2021
Primary Capital		
Paid-in capital by Government of Panama	850,000	750,000
Retained earnings	218,863	208,804
Other items in comprehensive income	12,440	6,725
Less: intangible assets	10,979	9,834
Total Primary Capital	1,070,324	955,695
Dynamic regulatory provision	56,929	56,929
Total regulatory Capital	1,127,253	1,012,624
Total Risk-weighted assets	6,109,649	5,227,252
Capital adequacy ratios:	18.5%	19.4%

Equity

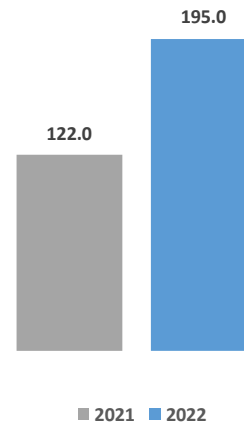
In line with the Bank's strategic plan to strengthen its financial position, Banco Nacional de Panama, by means of Executive Decree No. 17 of April 28, 2022, where the Presidency of the Republic of Panama approved an increase of the Bank's paid-in capital to US\$ 850.0 million, through the capitalization of US\$ 100.0 million from retained earnings.

Result of Operations

Net Income

Net income during the year 2022 reached US\$ 195.1 million, US\$ 73.1 million growth over 2021, which reflects a 59.9% increase; the rise in profits is mainly due to greater interest rates in international markets, which resulted in increases in interest income from bank deposits; and loan portfolio growth, reflecting better yields in interest and commissions generated.

Net income (In US\$ million)



Interest and Commission Income

For the period ended December 31, 2022, Banco Nacional's net interest and commission income increased by 40.6% to US\$ 350.6 million from US\$ 249.4 million in 2021. The increase is attributed to greater interest and commission income from deposits in banks due higher interest rates in the international markets to and greater loan portfolio volume.

(In US\$ millions)

Interest and commission income

US\$ 470.0

38.5% ↑

Interest expense

US\$ 119.4

32.6% ↑

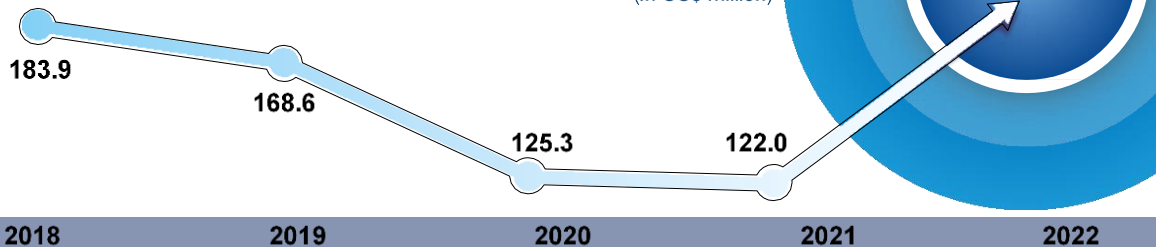
Net interest and commission income

US\$ 350.6

40.6% ↑

Banco Nacional de Panamá

achieved the highest profit recorded in its 118-year history.
(In US\$ million)



Loss Provisions and Other Income

Loss provision expense decreased by 6.9%, from US\$ 27.4 million provisioned at December 31, 2021 to US\$ 25.5 million at December 31, 2022. The reduction in provisions occurs mainly in the provision for loan losses.

Other income, net, decreased by 39.5%, from US\$ 75.0 million as of December 31, 2021, to US\$ 45.3 million as of December 31, 2022. The decrease is a result of lower commissions generated by the discount fees of the Vale Digital. As Panama's economy is reactivated, the Panama Solidario Program is being phased out, reducing the volume of the discount service to participating merchants. Additionally, during 2022 the Bank did not execute investment securities sales.

Provisions	Other Income, net
US\$ 25.5	US\$ 45.3
-6.9%↓	-39.5%↓

General and Admin. Expenses	Net Income
US\$ 175.3	US\$ 195.1
0.2%↓	59.9%↑

(In US\$ millions)

General & Administrative Expenses

General and administrative expenses decreased by 0.2 % compared to the same period in 2021. The decrease is reflected mainly in the salaries and other personnel expenses and fees and professional services categories.

Below is the composition of general and administrative expenses:

(In US\$ thousands)	As of December 31,		Change	
	2022	2021	US\$	%
Salaries and other personnel expenses	111,360	115,711	(4,351)	(3.8%)
Rentals	1,429	1,246	183	14.7%
Repairs and maintenance	15,310	14,918	392	2.6%
Depreciation and amortization	13,481	13,153	328	2.5%
Electricity	3,325	2,957	368	12.4%
Advertising	3,311	2,623	688	26.2%
Communications	6,521	7,277	(756)	(10.4%)
Insurance	833	832	1	0.1%
Stationery and office supplies	1,923	2,004	(81)	(4.0%)
Fees and professional services	3,839	4,423	(584)	(13.2%)
Transportation of personnel	804	633	171	27.0%
Transportation of valuables	3,457	2,120	1,337	63.1%
ATMs	2,181	1,643	538	32.7%
Others	7,498	5,393	2,105	39.0%
Total general and administrative expenses	175,272	174,933	339	0.2%

Income Statement

<i>(In US\$ thousands)</i>	As of December 31,		Change	
	2022	2021	US\$	%
Interest and fee income	469,990	339,390	130,600	38.5%
Interest expense	119,420	90,032	29,388	32.6%
Net interest and commission income	350,570	249,358	101,212	40.6%
Impairment Allowances, net ⁽¹⁾	25,489	27,375	(1,886)	-6.9%
Net interest and commission income, after provisions	325,081	221,983	103,098	46.4%
Fees for banking services	29,045	24,043	5,002	20.8%
Other income ⁽²⁾	18,449	52,293	(33,844)	(64.7%)
Total other expenses	2,156	1,376	780	56.7%
Total other income, net	45,338	74,960	(29,622)	(39.5%)
Total general and administrative expenses	175,272	174,933	339	0.2%
Net income	195,147	122,010	73,137	59.9%

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

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

Balance Sheet

<i>(US\$ in thousands)</i>	2022	2021	Change	
			US\$	%
<i>Assets</i>				
Cash and cash equivalents	4,607,921	7,549,088	(2,941,167)	(39.0%)
Securities purchased under resale agreements	195,173	41,318	153,855	372.4%
Investments in securities, net	3,608,889	2,421,806	1,187,083	49.0%
Private sector loans and interest receivable	5,134,756	4,336,669	798,087	18.4%
Public sector loans and interest receivable	833,280	851,365	(18,085)	(2.1%)
Allowance for loan losses	(140,283)	(126,678)	(13,605)	(10.7%)
Unearned interest and commissions	(27,859)	(26,781)	(1,078)	4.0%
Total loans, net	5,799,894	5,034,575	765,319	15.2%
Property, plant & equipment	82,517	83,320	(803)	(1.0%)
Other assets	309,475	176,265	133,210	75.6%
Total assets	14,603,869	15,306,372	(702,503)	(4.6%)
<i>Liabilities & Shareholder Equity</i>				
Deposits	11,678,147	12,363,757	(685,610)	(5.5%)
Obligations with financial institutions	309,892	485,107	(175,215)	(36.1%)
Bonds payable, at amortized cost	1,007,407	1,006,647	760	0.1%
Corporate bonds payable, at amortized cost	206,268	206,267	1	0.0%
Other liabilities	260,643	219,344	41,299	18.8%
Total liabilities	13,462,357	14,281,122	(818,765)	(5.7%)
Equity	1,141,512	1,025,250	116,262	11.3%
Total Liabilities & Equity	14,603,869	15,306,372	(702,503)	(4.6%)

Financial Ratios

Profitability

Net Interest Margin ⁽¹⁾		Return on Average Assets ⁽²⁾		Return on Average Equity ⁽³⁾	
2.3%	1.6%	1.3%	0.8%	17.8%	12.0%
2022	2021	2022	2021	2022	2021

Liquidity & Efficiency

Financial Liquidity / Total Deposits ⁽⁴⁾		Legal Liquidity ⁽⁵⁾		Efficiency ⁽⁶⁾	
39.5%	61.1%	74.8%	83.9%	47.3%	58.9%
2022	2021	2022	2021	2022	2021

Capital

Capital Adequacy ⁽⁷⁾		Equity / Assets ⁽⁸⁾		Financial Leverage ⁽⁹⁾	
18.5%	19.4%	7.8%	6.7%	7.4%	6.3%
2022	2021	2022	2021	2022	2021

Asset Quality

Past Due Loans Over 91 Days / Total Loans ⁽¹⁰⁾		Past Due Loans / Total Loans ⁽¹¹⁾		Non-Accrual Loans / Total Loans ⁽¹²⁾	
1.6%	1.7%	2.7%	2.7%	1.0%	1.1%
2022	2021	2022	2021	2022	2021

Headcount	3,510	3,606
	2022	2021

Branch Network	92	91
	2022	2021

⁽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 audited financial statements, as of December 31, 2022. Some figures (including percentages) in this document have been rounded. The audited financial statements as December 31, 2022, are available on the Bank's web site www.banconal.com.pa.

