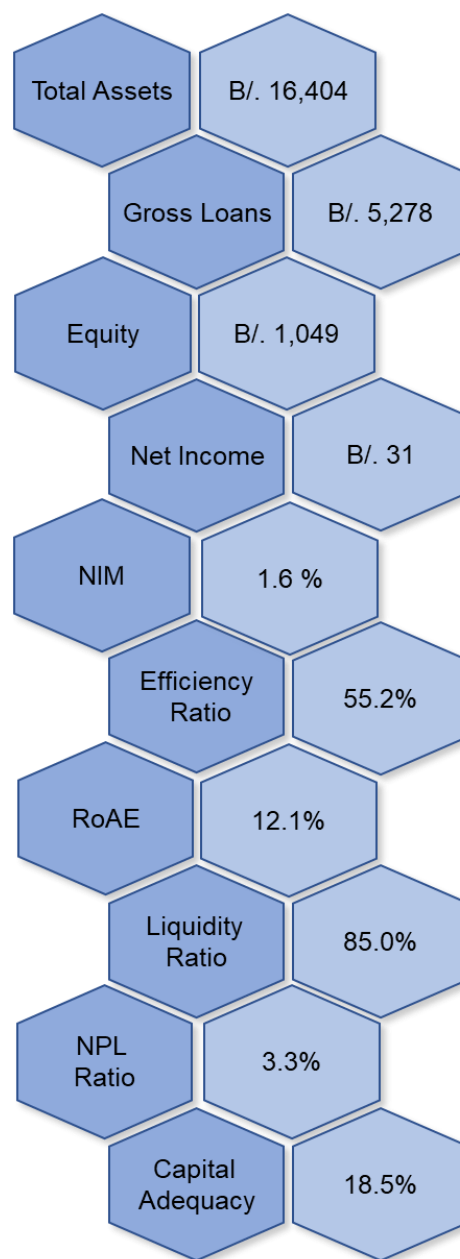


# Management Financial Discussion and Analysis

March 2022

## Banconal in numbers – 2022

- Banco Nacional’s balance sheet grew by 7.2% during the first three months of 2022. The growth is mainly due to increases in Government deposits in the Bank.
- Total assets increased by US\$ 1,097.7 million, closing at US\$ 16,404.0 million at March 31, 2022. The increase in assets is reflected in the increase in liquid assets, especially bank deposits and investment accounts.
- As of March 31, 2022 the Bank’s liquidity ratio stood at is 85%, over 2.5 times the minimum of 30% required by the regulator.
- Delinquent and past due loans correspond to 3.3% of the Bank's total loan portfolio. Reserves for possible loan losses amounted to US\$ 132.3 million. Past due loans over 90 days have a reserve (loan loss reserves plus dynamic provision) coverage of 212.5%.
- Total liabilities increased by 7.5% or US\$ 1,073.7 million, due to an increase in deposits of 8.6%. Of total deposits, private sector deposits fell US\$ 41.2 million due to bank deposit withdrawals; and public sector time deposits increased by US\$ 1,106.7 million because of higher government deposits in the Bank.
- Total capital funds closed at US\$ 1,049.2 million, an increase of 2.3% when compared to December 31, 2021, numbers of B/. 1,025.2 million. At the end of the first quarter of 2022, the capital adequacy ratio reached 18.5%. In February 2022, the Bank paid dividends to the Government in the amount of US\$ 6.9 million, corresponding to 50% of the profits for the months of November and December 2021.
- The Bank has investment grade risk ratings by the three main rating agencies:
  - Standard and Poor's (“BBB”, with a negative outlook)
  - Moody's (“Baa2”, with a stable outlook)
  - Fitch Ratings (“BBB-” with a negative outlook)



## Financial Analysis

At the end of the first quarter of 2022, Banconal's balance sheet grew 7.2%, mainly in liquid assets and investments as a reflection of higher deposits by the Government. The Bank's balance sheet shows high levels of liquidity; of total assets, liquid assets represent 47.9% and investments 19.1%. Loans represent 31.5% of assets. Deposits represent 81.9% of liabilities and equity, financings 10.3% and other liabilities 1.4%. Equity funds make up 6.4% of the total balance sheet.

### Assets

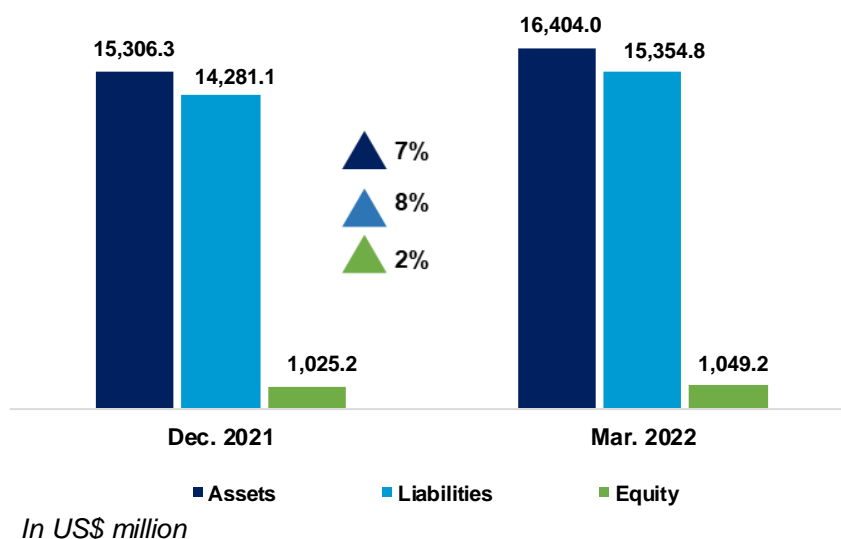
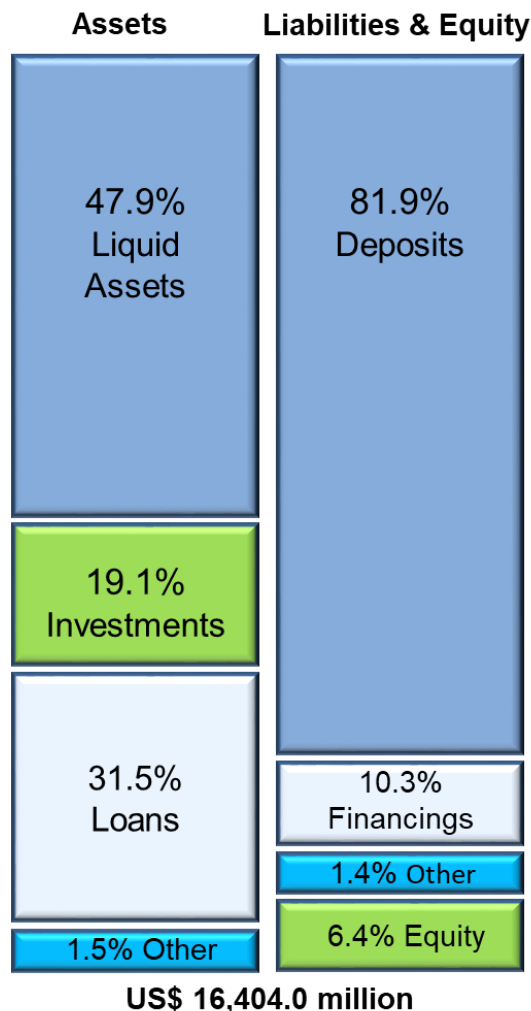
Assets totaled US\$ 16,404.0 million as of March 31, 2022. When making the comparison with the balance sheet at the end of 2021, assets grew by US\$ 1,097.7 million or 7.2%, attributed to an increase in deposits in banks of US\$ 297.6 million and US\$ 662.3 million in the investment portfolio.

### Liabilities

Liabilities totaled US\$ 15,354.8 million as of March 31, 2022. An increase of US\$ 1,073.7 million, compared to December 31, 2021 numbers. The increase comes mainly from the public sector deposit portfolio, which increases 8.6% or US\$ 1,065.6 million.

### Equity

At the end of first quarter 2022, the Bank's total equity totaled US\$ 1,049.2 million, an increase of US\$ 24.0 million compared to December 31, 2021. The increase is due to the accumulation of retained earnings for the period.

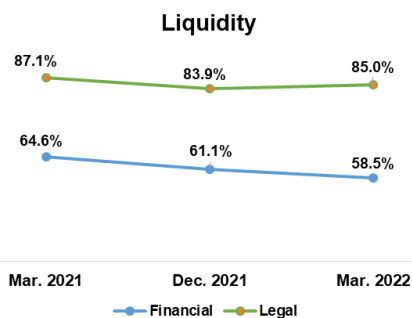


## Liquidity and Sources of Funds

Liquid assets totaled US\$ 10,982.1 million (cash, bank deposits, securities purchased under resale agreements, and investments in securities). The level of liquid assets increased by 9.7%, from US\$ 10,012.2 million as of December 31, 2021. At the end of the first quarter of 2022, liquid assets represented 81.8% of total customer deposits and 66.9% of total assets.

(In US\$ thousands)

	As of March 31, 2022	As of December 31, 2022	Change	
			US\$	%
Cash and cash equivalents	303,812	297,329	6,483	2.2%
Deposits in banks at amortized cost:				
Demand deposits- foreign	115,188	17,486	97,702	558.7%
Time deposits - local	325,097	305,095	20,002	6.6%
Time deposits - foreign	7,109,119	6,929,380	179,739	2.6%
Less: Reserve for bank deposit losses	53	202	-149	-73.8%
<b>Total bank deposits at amortized cost</b>	<b>7,549,351</b>	<b>7,251,759</b>	<b>297,592</b>	<b>4.1%</b>
<b>Total cash, cash equivalents and bank deposits at amortized cost</b>	<b>7,853,163</b>	<b>7,549,088</b>	<b>304,075</b>	<b>4.0%</b>
<b>Securities purchased under resale agreements</b>	<b>45,126</b>	<b>41,384</b>	<b>3,742</b>	<b>9.0%</b>
Less: Reserve for investment losses	286	66	220	333.3%
<b>Securities purchased under resale agreements at amortized cost</b>	<b>44,840</b>	<b>41,318</b>	<b>3,522</b>	<b>8.5%</b>
Investments in securities	3,086,652	2,424,957	661,695	27.3%
Less: Reserve for investment losses	2,537	3,151	-614	-19.5%
<b>Investments in securities, net</b>	<b>3,084,115</b>	<b>2,421,806</b>	<b>662,309</b>	<b>27.3%</b>
<b>Total Liquid Assets</b>	<b>10,982,118</b>	<b>10,012,212</b>	<b>969,906</b>	<b>9.7%</b>



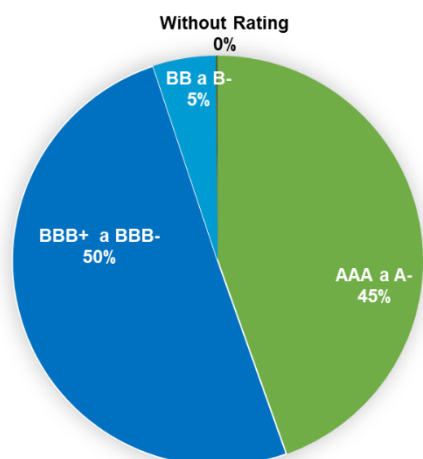
Banconal maintains robust liquidity levels. As of March 31, 2022, the financial liquidity ratio was 58.5% and the legal liquidity ratio closed at 85.0%, well above the 30% required by the Superintendency of Banks of Panama.

The Bank's funding sources consist of deposits and financings. Total sources of funds amounted to US\$ 15,124.4 million as of March 31, 2022; of these, deposits amounted to US\$ 13,429.4 million, which represent 88.8% of the Bank's sources of funds. Deposits include demand deposits, time deposits, savings accounts, and bank deposits.

(In US\$ thousands)

	As of March 31, 2022	As of December 31, 2022	Change	
			US\$	%
<b>Deposits</b>				
Demand deposits	4,283,779	4,450,048	-166,269	-3.7%
Savings deposits	910,026	917,660	-7,634	-0.8%
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	8,235,551	6,996,049	1,239,502	17.7%
<b>Total Deposits</b>	<b>13,429,356</b>	<b>12,363,757</b>	<b>1,065,599</b>	<b>8.6%</b>
<b>Obligations</b>				
Foreign borrowings received at amortized cost	484,608	485,107	-499	-0.1%
Bonds payable - local at amortized cost	206,267	206,267	0	0.0%
Bonds payable - foreign at amortized cost	1,000,498	1,006,647	-6,149	-0.6%
Lease liabilities	3,635	3,964	-329	-8.3%
<b>Total obligations</b>	<b>1,695,008</b>	<b>1,701,985</b>	<b>-6,977</b>	<b>-0.4%</b>
<b>Total Sources of funds</b>	<b>15,124,364</b>	<b>14,065,742</b>	<b>1,058,622</b>	<b>7.5%</b>

## Investment Portfolio



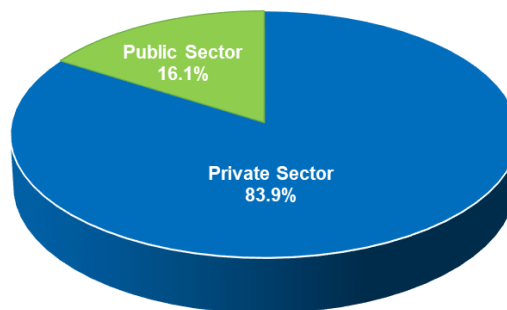
Banconal's investment portfolio increased by US\$ 662.3 million or 27.3%, from US\$ 2,421.8 million as of December 31, 2021 to US\$ 3,084.1 million as of March 31, 2022. The increase in the portfolio is due to incremental investments in securities during the period.

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.

## Loan Portfolio

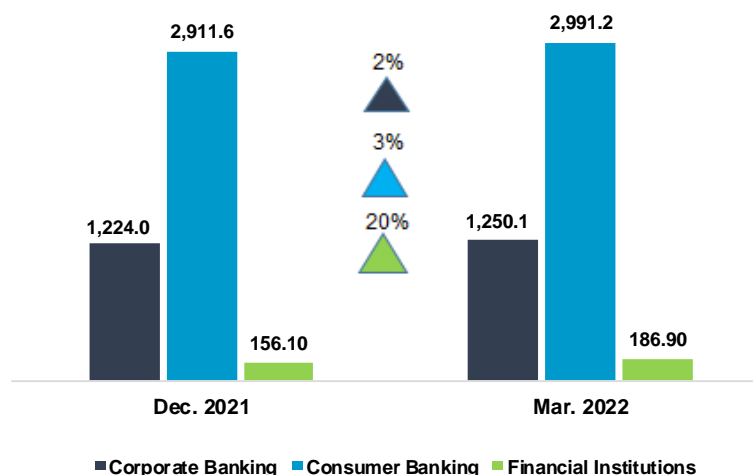
The Bank's gross loan portfolio totaled US\$ 5,277.9 million as of March 31, 2022; a US\$ 141.2 million increase when compared to year end 2021 total of US\$ 5,136.7million.

Loans to the public sector represented 16.1% of the total portfolio or US\$ 849.7 million and loans to the private sector represent the majority of the portfolio with US\$ 4,428.2 million or 83.9%.



The following graph presents the private sector loan portfolio by type of loan. Most of the Bank's loans have fixed interest rates, which can be readjusted at the unilateral option of Banconal, at any time.

The behavior of the private sector loan portfolio by sector is as follows:



*In US\$ million*

The corporate banking portfolio and loans to financial institutions increased by US\$ 26.1 million and US\$ 30.8 million, respectively, while the consumer banking portfolio increased by US\$ 79.6 million, principally in the residential mortgage loan portfolio. The residential mortgage portfolio increased through the Bank's participation in real estate fairs that promote home sales, the fairs have since been reactivated after the Pandemic.

## Asset Quality

As of March 31, 2022, total past due and overdue loans amounted to 3.3% of the total loan portfolio (as of December 31, 2021: 2.7%). The quality of the loan portfolio has been affected by COVID-19 Pandemic. In line with the increase in past-due and overdue loans, the Bank has increased its loan loss reserves to cover additional delinquent loans.



## Loan Loss Reserves

The reserve for loan losses increased to US\$ 132.3 million as of March 31, 2022, or 2.5% of the total loan portfolio, from US\$126.7 million as of December 31, 2021, or 2.5% of the portfolio. The accumulation of reserves is to face the weakening asset quality indicators of the loan portfolio due to the economic impact of COVID -19 on the Bank's clients.

(US\$ thousands)	As of March 31, 2022			As of December 31, 2021			Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
Low risk	4,888,267	28,754	0.6%	4,810,453	33,678	0.7%	77,814	-4,924
Significant risk	264,046	37,364	14.2%	195,358	21,455	11.0%	68,688	15,909
Default risk	125,579	66,143	52.7%	130,915	71,545	54.6%	-5,336	-5,402
<b>Total</b>	<b>5,277,892</b>	<b>132,261</b>	<b>2.5%</b>	<b>5,136,726</b>	<b>126,678</b>	<b>2.5%</b>	<b>141,166</b>	<b>5,583</b>

## Modified Loans

Due to the consequences presented by the COVID-19 Pandemic, the Superintendency of Banks established a temporary credit category, called "modified credits". The guidelines established by the Superintendency apply to both consumer loans and corporate loans. Modified loans are loans that have adhered to the moratoriums established to ease the burden of economic hardship caused by COVID-19.

As of March 31, 2022, the Bank has modified loans on its books for an aggregate amount of US\$ 375.5 million. Modified loans represent 7.1% of the Bank's loan portfolio. The modified loan portfolio has decreased by US\$ 166.7 million, from US\$ 542.2 million on December 31, 2021. A clear indication that the Bank's clients are restructuring their obligations am making timely payments in response to a recovering economy.

The provision for the modified special mention portfolio must be established to cover credit risk, ensuring compliance with IFRS and prudential standards. Banks will constitute a provision equivalent to the higher value between the provision according to IFRS of the modified special mention portfolio and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio, including accrued interest not collected and capitalized expenses.

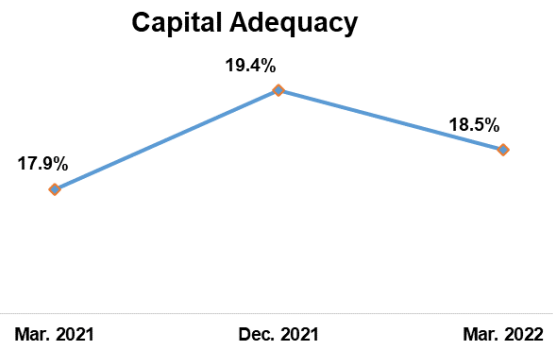
The following table details the modified special mention portfolio categories and their respective provisions and regulatory reserves as of March 31, 2022:

(In US\$ thousands)	<u>As of March 31, 2022</u>			<u>Total</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
Standard modified	74,223	39,412	0	113,635
Modified special mention	117,152	78,554	0	195,706
Modified sub-standard	0	37,951	4,035	41,986
Doubtful modified	0	0	9,105	9,105
Unrecoverable modified	0	0	15,038	15,038
<b>Gross balance</b>	<u>191,375</u>	<u>155,917</u>	<u>28,178</u>	<u>375,470</u>
Additions (less):				
Interest receivable	4,964	6,648	602	12,214
Unearned interest and commissions	-82	-436	-58	-576
<b>Total loans subject to provisions Agreement No. 006-2021</b>	<u>196,257</u>	<u>162,129</u>	<u>28,722</u>	<u>387,108</u>
<b>Provisions and reserves</b>				
IFRS 9 reserve requirement	7,193	26,591	17,582	51,366
<b>Total provisions and reserves</b>	<u>7,193</u>	<u>26,591</u>	<u>17,582</u>	<u>51,366</u>

### Capitalization

As of March 31, 2022, the Bank's total equity stood at US\$ 1,049.2 million, an increase of US\$ 24.0 million compared to December 31, 2021. Total capital over total assets reached 6.4% as of March 31, 2022.

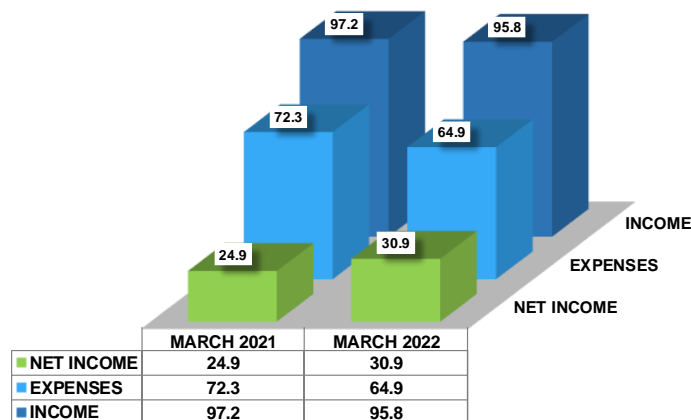
As of March 31, 2022, the Bank's regulatory capital totaled US\$ 1,021.8 million and the ratio of total capital to risk-weighted assets (US\$ 5,522.8 million) was 18.5%, much higher than the minimum regulatory capital of 8.0% required by the Superintendency of Banks of Panama. Market risk-weighted assets and operational risk-weighted assets are included in accordance with the regulatory requirements.



### Net Income for the year ended March 31, 2022

Net income for the first three months of 2022 was US\$ 30.9 million, an increase of 24.1% or US\$ 6.0 million, in comparison to net income registered for the first quarter of 2021. The increase in net income is due to a reduction in expenses.

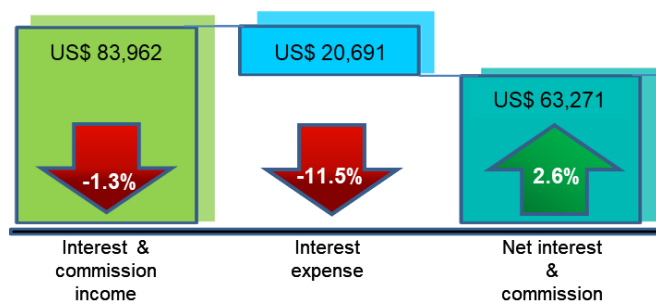
The following table illustrates the main components of the Bank's income statement for the period ended March 31, 2022 and 2021:



In US\$ million

- (1) Total income is made up of income from interest and commissions; Commissions for banking services and other income.  
 (2) Total expenses are made up of interest expenses; provisions, other expenses and general and administrative expenses.

## Interest and Commission Income



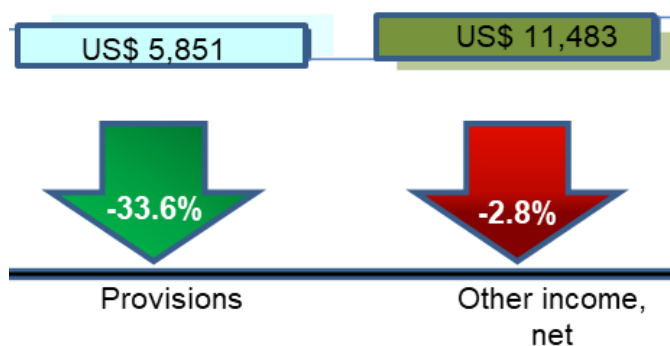
For the period ended March 31, 2022, Banconal's net interest and commission income increased by 2.6% to US\$ 63.3 million from US\$ 61.7 million in 2021. The increase is attributed to a decrease in interest expense on deposits.

<i>(In US\$ thousands)</i>	As of March 31,		Change	
	2022	2021	US\$	%
<b>Interest income and commission income</b>				
Loans	63,516	62,776	740	1.2%
Deposits in banks	3,092	3,341	-249	-7.5%
Securities	15,198	16,882	-1,684	-10.0%
Loan fees	2,156	2,026	130	6.4%
<b>Total interest, commission and fee income</b>	<b>83,962</b>	<b>85,025</b>	<b>-1,063</b>	<b>-1.3%</b>
<b>Interest expense</b>				
Deposits	9,904	12,769	-2,865	-22.4%
Borrowings	10,747	10,564	183	1.7%
Lease liabilities	40	42	-2	-4.8%
<b>Total interest expenses</b>	<b>20,691</b>	<b>23,375</b>	<b>-2,684</b>	<b>-11.5%</b>
<b>Net interest and commission income</b>	<b>63,271</b>	<b>61,650</b>	<b>1,621</b>	<b>2.6%</b>

## Loss Provisions and Other Income

Loss provision expense decreased by 33.6%, from US\$ 8.8 million provisioned at March 31, 2021 to US\$ 5.9 million at March 31, 2022. The reduction in provisions occurs mainly in the provision for losses on investments.

Other income, net, decreased by 2.8%, from US\$ 11.8 million as of March 31, 2021, to US\$ 5.9 million as of March 31, 2022. The decrease is a result of lower commissions generated by the discount service of the Digital Voucher in the Panama Solidario Program to participating merchants, as well as an increase in commissions for banking services.

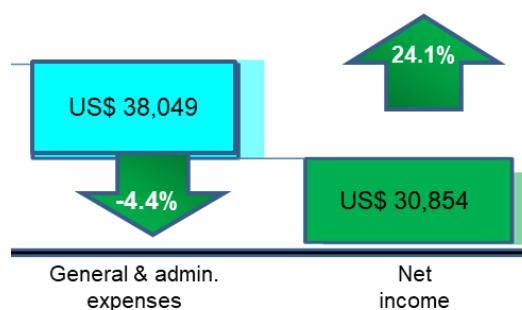




## General & Administrative Expenses

General and administrative expenses decreased by 4.4% compared to the same period in 2021. The decrease of US\$ 1.7 million comes from lower personnel expenses and professional services and fees.

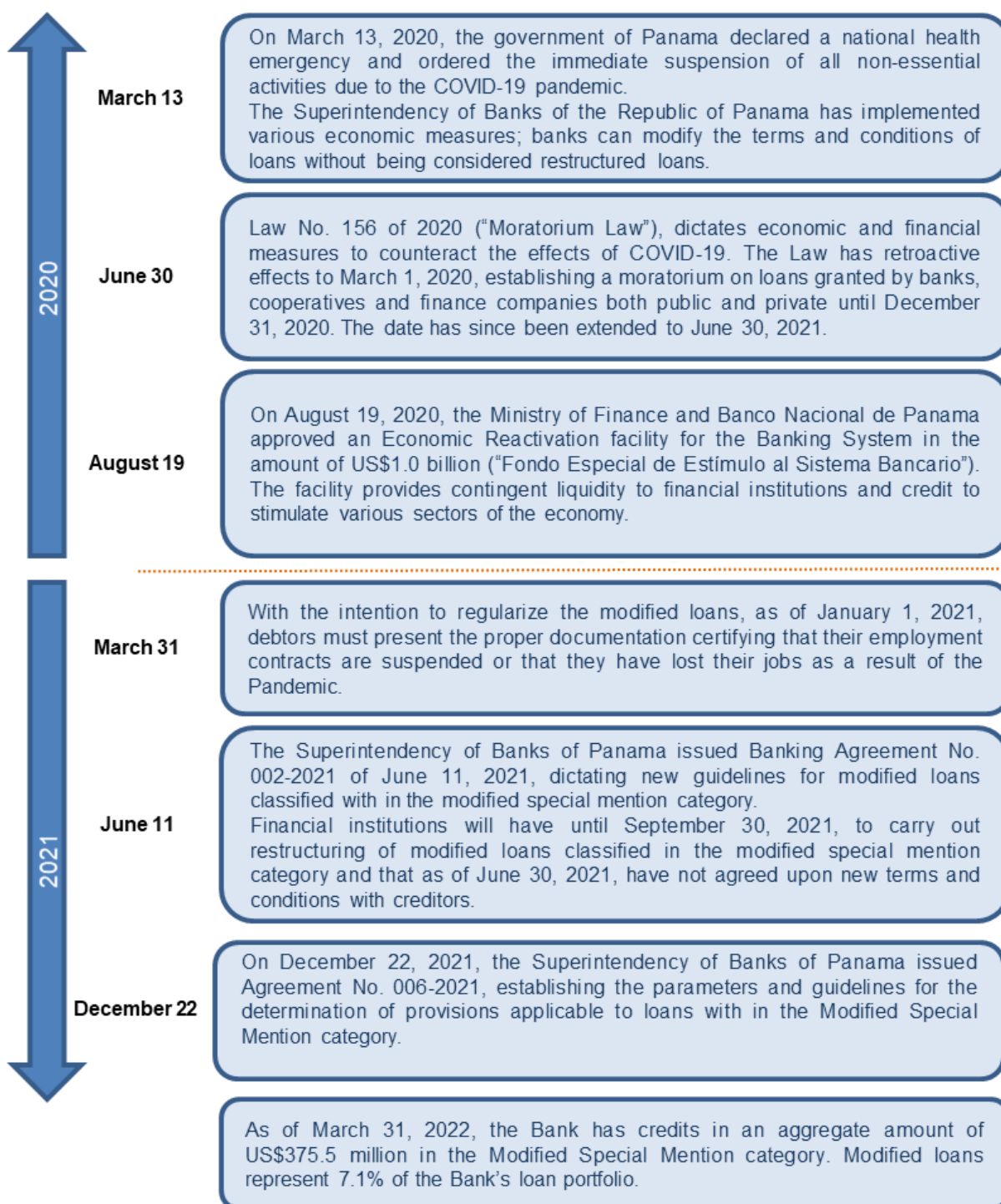
The Bank's efficiency ratio was 55.2% on March 31, 2022.



Composition of general and administrative expenses:

<i>(In US\$ thousands)</i>	As of March 31,		Change	
	2022	2021	US\$	%
Salaries and other personnel expenses	24,178	26,782	-2,604	-9.7%
Rentals	281	262	19	7.3%
Repairs and maintenance	3,162	2,995	167	5.6%
Depreciation and amortization	3,258	3,251	7	0.2%
Electricity	816	807	9	1.1%
Advertising	500	283	217	76.7%
Communications	1,539	1,358	181	13.3%
Insurance	196	113	83	73.5%
Stationery and office supplies	310	298	12	4.0%
Fees and professional services	1,308	1,349	-41	-3.0%
Transportation of personnel	185	168	17	10.1%
Transportation of valuables	587	588	-1	-0.2%
ATMs	459	427	32	7.5%
Others	1,270	1,114	156	14.0%
<b>Total general and administrative expenses</b>	<b>38,049</b>	<b>39,795</b>	<b>-1,746</b>	<b>-4.4%</b>

## COVID – 19 / Modified Loans



## Income Statement

<i>(In US\$ thousands)</i>	As of March 31,		Change	
	2022	2021	US\$	%
Interest and fee income	83,962	85,025	-1,063	-1.3%
Interest expense	20,691	23,375	-2,684	-11.5%
<b>Net interest and commission income</b>	<b>63,271</b>	<b>61,650</b>	<b>1,621</b>	<b>2.6%</b>
Impairment Allowances, net <sup>(1)</sup>	5,851	8,812	-2,961	-33.6%
<b>Net interest and commission income, after provisions</b>	<b>57,420</b>	<b>52,838</b>	<b>4,582</b>	<b>8.7%</b>
Fees for banking services	7,214	5,530	1,684	30.5%
Other income <sup>(2)</sup>	4,612	6,690	-2,078	-31.1%
Total other expenses	343	403	-60	-14.9%
<b>Total other income, net</b>	<b>11,483</b>	<b>11,817</b>	<b>-334</b>	<b>-2.8%</b>
Total general and administrative expenses	38,049	39,795	-1,746	-4.4%
<b>Net income</b>	<b>30,854</b>	<b>24,860</b>	<b>5,994</b>	<b>24.1%</b>

(1) Includes (reversal of) provision for losses on deposits in banks, (reversal of) 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>	March 31, 2022	December 31, 2021	Change	
			US\$	%
<b>Assets</b>				
Cash and cash equivalents	7,853,162	7,549,088	304,074	4.0%
Securities purchased under resale agreements	44,841	41,318	3,523	8.5%
Investments in securities, net	3,084,115	2,421,806	662,309	27.3%
Private sector loans and interest receivable	4,470,378	4,336,669	133,709	3.1%
Public sector loans and interest receivable	854,874	851,365	3,509	0.4%
Allowance for loan losses	-132,261	-126,678	-5,583	4.4%
Unearned interest and commissions	-26,992	-26,781	-211	0.8%
Total loans, net	5,165,999	5,034,575	131,424	2.6%
Property, plant & equipment	82,481	83,320	-839	-1.0%
Other assets	173,445	176,265	-2,820	-1.6%
<b>Total assets</b>	<b>16,404,043</b>	<b>15,306,372</b>	<b>1,097,671</b>	<b>7.2%</b>
<b>Liabilities &amp; Shareholder Equity</b>				
Deposits	13,429,356	12,363,757	1,065,599	8.6%
Obligations with financial institutions	484,608	485,107	-500	-0.1%
Bonds payable, at amortized cost	1,000,498	1,006,647	-6,149	-0.6%
Corporate bonds payable, at amortized cost	206,267	206,267	0	0.0%
Other liabilities	234,092	219,344	14,748	6.7%
Total liabilities	15,354,821	14,281,122	1,073,699	7.5%
Equity	1,049,222	1,025,250	23,972	2.3%
<b>Total Liabilities &amp; Equity</b>	<b>16,404,043</b>	<b>15,306,372</b>	<b>1,097,671</b>	<b>7.2%</b>

## Financial Ratios

	March 31, 2022	December 31, 2021
<b>Profitability and efficiency:</b>		
Net Interest Margin <sup>(1)</sup>	1.6%	1.6%
Return on average assets <sup>(2)</sup>	0.8%	0.8%
Return on average equity <sup>(3)</sup>	12.1%	12.0%
Efficiency <sup>(4)</sup>	55.2%	58.9%
<b>Liquidity:</b>		
Primary Liquidity	58.5%	61.1%
Legal Liquidity <sup>(6)</sup>	85.0%	83.9%
<b>Capital:</b>		
Total Capital ratio <sup>(7)</sup>	18.5%	19.4%
Equity/ assets <sup>(8)</sup>	6.4%	6.7%
<b>Asset quality:</b>		
Past due loans over 91 days overdue / total loans <sup>(9)</sup>	1.7%	1.7%
Past due loans/ total loans <sup>(10)</sup>	3.3%	2.7%
Non-accrual loans / total loans <sup>(11)</sup>	1.2%	1.1%
<b>Headcount</b>	3,596	3,606
<b>Branch network</b>	92	91

<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 general & admin. expenses to net interest and commission income after provisions plus total other net income.

<sup>(5)</sup> Calculated as total liquid assets to total deposits.

<sup>(6)</sup> Regulatory liquid assets are determined based on guidelines established by the Superintendency of Banks.

<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> Calculated as past due loans over 91 days overdue divided by total loan portfolio.

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

<sup>(11)</sup> Calculated as non-accrual loans divided by total loans.

*The analysis is based on the information contained in the interim, unaudited financial statements, as of March 31, 2022. Some figures (including percentages) in this document have been rounded. The interim unaudited financial statements as of March 31, 2022, are available on the Bank's web site [www.banconal.com.pa](http://www.banconal.com.pa)*

