

# Management Financial Discussion and Analysis

December 2020

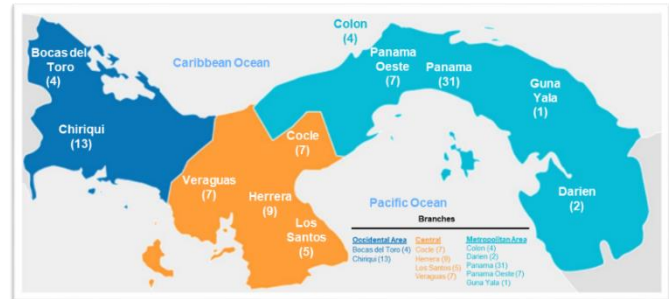
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## General Information

Banco Nacional de Panama (the “Bank” or “Banconal”) was established in 1904 in the Republic of Panama. Banconal is an independent, state owned bank, with a general banking license offering universal banking services to the public and private sector. The Bank serves a systemically important role, serving as the financial arm of the Panamanian government and all public entities. Additionally the Bank offers services to companies and individuals with the most extensive geographical distributed branch network across Panama, fostering long term economic development of the country.

The Bank serves its customers through a nationwide network of 90 branches, 311 ATM's, 3 mobile banks and 3,412 employees.



During 2020, the Bank reinforced its strategic plan for digital transformation, enhancing customer service channels, through the introduction of innovative technological services such as the electronic wallet, the transportation debit card, and “ARIEL”.

The electronic wallet allows customers to use cell phones as a virtual wallet where deposits can be made, re-charge cell phone calling cards and transportation cards, cash withdrawals at ATMs, payments, among others, in an agile and secure way. The Clave Transport Card provides the traditional services of a Clave card (debit card affiliated with the Clave national network) plus payment services in the Metro and Metrobus public transport network.



The customer service tool "ARIEL" Online Interactive Response Assistant, allows you to interact with our artificial intelligence platform through the WhatsApp application, on topics such as: the Financial Relief Program, Opportunity Banking, Banconal's products and services, online banking and mobile banking support. The technological initiatives launched during 2020 have been key in maintaining uninterrupted banking services to more than 500 thousand Panamanians during the COVID-19 Pandemic

Banco Nacional de Panama is an active player in the Government Plan, Banca de Oportunidades. It seeks to grant financing and guidance to new or innovating micro-entrepreneurs. The program plays a key role in the reactivation of the economy to counteract the effects of the COVID-19 Pandemic. The Bank's financial capacity allows it to provide the public with superior financing conditions, flexible terms, low interest rates, that translate into an added value that provides confidence and security to the thousands of clients served by the Bank throughout Panama.

During 2020, the National Bank of Panama was invited to participate in the World Economic Forum. The Bank is the only member from the Central American and Caribbean Region to participate. The Bank's participation is will be focused on the topics of building a more efficient, resilient and equitable international financial system for the global community. Participation in the Forum is aligned with the Government's strategy to build a digital hub in the areas of cybersecurity and fin tech. The central theme of the 2021 forum will be the Great Reset, an initiative that fosters the simultaneous management of cooperation between countries, organizations and regions to solve the consequences derived by the COVID-19 crisis.

## COVID-19 Pandemic

On March 13, 2020, the government of Panama declared a national health emergency and ordered the immediate suspension of all non-essential activities due to the COVID-19 pandemic, resulting in a significant impact on Panama's economy. The ongoing situation is monitored constantly in order to implement measures that mitigate the negative impact of the COVID-19 pandemic on the Panamanian people and its economy.

During March 2020, in line with new guidelines set out by the Superintendency of Banks of the Republic of Panama, the Bank granted consumer banking customers affected by the COVID-19 outbreak (personal, credit card and mortgage loans) a grace period for loan payments of up to ninety (90) days, without charges, fees or penalties. The moratorium does not constitute a principal and/or interest exemption or restructuring of the amounts owed.

In order to allow the debtor to adequately attend to his obligations in the face of potential or actual deterioration of payments, banks can modify the originally agreed conditions of credits without being considered restructured credits, as set forth by the Superintendency of Banks. These modifications may be made at the request of the debtor or at the bank's initiative.

On 30 June 2020, the government of Panama established Law No. 156 of 2020 ("Moratorium Law"), that dictates economic and financial measures to counteract the effects of COVID-19. The Law of public order and social interest has retroactive effects to March 1, 2020, establishing a moratorium on loans granted by banks, cooperatives and finance companies both public and private until December 31, 2020. The date has since been extended to June 30, 2021.

Banking entities may not increase interest rates, apply surcharges or any other interest on account of non-payment, or late payment on the modified credits established by this Law. The Superintendency of Banks of Panama will be obliged to ensure its strict compliance and will apply established sanctions. Once the duration of the moratorium has expired, the banks, in agreement with the debtor, must establish the necessary mechanisms to bring their commitments up to date.

As of December 31, 2020 the Bank modified 13,627 credits in the aggregate amount of US\$627.5 million, of which US\$615.6 million are classified in the modified special mention category. The remaining US\$12.0 million are classified in categories of higher credit risk. Modified loans represent 12.6% of the Bank's loan portfolio and 2.6% all modified loans with in the National Banking System.

On August 19, 2020, the Ministry of Finance and Banco Nacional de Panama approved an Economic Reactivation facility for the Banking System in the amount of US\$1.0 billion ("Fondo Especial de Estímulo al Sistema Bancario"). The facility provides contingent liquidity to financial institutions and credit to stimulate various sectors of the economy.

## 2020 Highlights

- Banconal's balance sheet grew over 50% during 2020. The increase is directly linked to strategies implemented to mitigate additional liquidity demands due to the COVID – 19 Pandemic.
- Total assets grew 55.9% at December 2020 over December 2019. The increase in assets of US\$6,049.6 million is mostly held in cash and cash equivalents. Banconal's liquidity ratio at December 31, 2020 was 88.8%, well above the regulatory requirement of 30.0%.
- The Bank's liabilities increased by 60.4% or US\$5,988.8 million, driven by an increase in customer deposits of 48.1%, principally in public sector deposits which accounted for 75.4% of the increase, private sector deposits represented 24.6% of the total increase.
- The Bank increased its paid in capital by US\$100 million from retained earnings, taking total paid in capital by Government of Panama up to US\$750 million.
- On July 23, 2020, Banconal entered into two credit facilities for an aggregate amount of US\$510 million guaranteed by the Multilateral Investment Guarantee Agency, an agency of the World Bank ("MIGA"). The facility has a seven year tenor.
- On August 19, 2020, the Bank along with the Ministry of Finance, approved an Economic Reactivation facility for the Banking System in the amount of US\$1.0 billion ("Fondo Especial de Estímulo al Sistema Bancario"). The facility provides contingent liquidity to financial institutions and credit to stimulate various sectors of the economy. As of December 31, 2020 no drawdowns have been made.
- Successful bond placement of US\$1.0 billion in the international capital markets under Rule 144A / Regulation S. The bond issuance matures August 2030 and features 2.5% interest rate, the lowest coupon obtained by a Panamanian bank. It is Banconal's first international bond issuance in the international capital markets and the largest securities issuance of any Panamanian financial institution. The proceeds aim to diversify the Bank's overall funding sources and to improve the ability to obtain long-term resources in the midst of the COVID-19 Pandemic.
- As of December 31, 2020, the Bank reported net income of US\$125.3 million, 25.7% or US\$43.3 million below December 31, 2019's bottom line. The decline is due to lower interest and commission income in the amount of US\$30.0 million and a net increase in provision for loan losses of US\$36.2 million. The decline in net income and commission income net of provision for loan losses, was offset by other income, specifically income generated by the sale of investments in the amount of US\$17.3 million. General and administrative expenses increased marginally, US\$3.5 million, for the twelve months ended December 31, 2020.
- Credit ratings by Moody's, S&P and Fitch Ratings Baa1 (negative) / BBB (stable) / BBB- (negative).

<b>Gross Loans</b>	\$ 4,979
<b>Total Assets</b>	\$16,873
<b>Equity</b>	\$ 962
<b>Net Income</b>	\$ 125
<b>NIM</b>	2.1%
<b>Efficiency Ratio</b>	54.3%
<b>RoAE</b>	13.4%
<b>Loan to Deposit Ratio</b>	35.9%
<b>Liquidity Ratio</b>	88.8%
<b>NPL Ratio</b>	2.7%
<b>CET1 Ratio</b>	17.5%



## Year-end 2020 Financial Review

### Assets

As of December 31, 2020, assets totaled US\$16,872.9 million. When compared to year end 2019 financials, assets grew by US\$6,049.6 million or 55.9%, attributed to increases in: liquid assets by US\$5,248.8 million, investments by US\$199.5 million, net loans by US\$491.1 million, and other assets by US\$148.7 million. The increase in assets, particularly in liquid assets is a direct result of the Bank's and the Panamanian Government's increase in liquidity to face possible challenges imposed by the COVID-19 Pandemic.

### Total Liabilities

Liabilities totaled US\$15,910.7 million at December 31, 2020, reflecting an increase of US\$5,988.8 million, in comparison to December 31, 2019 numbers. Total customer deposits increased 48.1% or US\$4,542.1 million, principally in public sector deposits which accounted for 75.4% of the increase, private sector deposits represented 24.6% of the total increase.

Financial obligations increased by US\$1,441.3 million during 2020. The increase is the result of a US\$1 billion bond offering in the international 144A / REGS market, maturing on August 11, 2030, with a 2.5% coupon; a US\$510.0 million term loan facility, maturing in 2027, guaranteed by MIGA (*Multilateral Investment Guarantee Agency*). The financings are aimed to diversity the Bank's sources of funds with longer tenors and attain funds to counteract the effects of the COVID-19 Pandemic.

### Equity

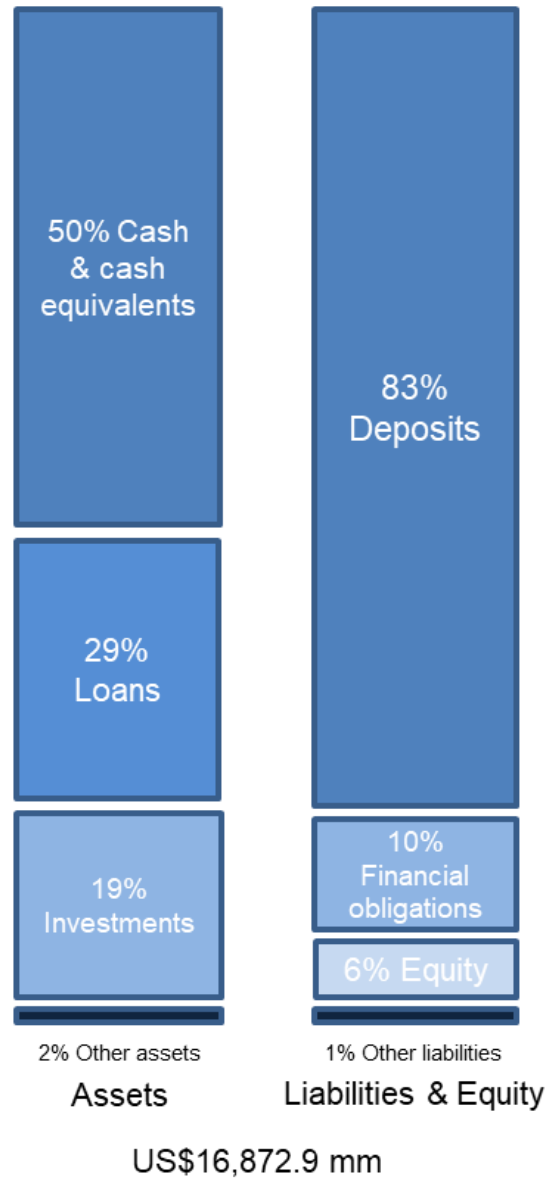
As of December 31, 2020, the Bank's total equity was US\$962.2 million, an increase of US\$60.8 million over December 31<sup>st</sup>, 2019.

By Executive Decree No. 396 of August 18, 2020, Banco Nacional was authorized by the Government of Panama to capitalize US\$100.0 million from retained earnings, increasing the Bank's paid in capital by the Government of Panama to US\$750.0 million.

### Liquidity and Sources of Funds

The Bank's assets and liabilities steering committee monitors the availability of liquid funds to ensure that appropriate liquidity levels are available to honor deposit withdrawals, make timely payments of financings and other liabilities, and to meet working capital needs. Banconal's treasury department is responsible for managing the Bank's liquidity and funding positions.

## Balance Sheet Structure



As of December 31, 2020 the Bank's liquidity ratio was 60.9%, liquid assets totaled US\$11,659.1 million (comprised of cash, bank deposits and fixed income investments). Liquid assets increased 87.7%, from US\$6,211.2 million as of December 31, 2019. At December 31, 2020, liquid assets represented 83.4% of total deposits, and 69.1% of total assets.

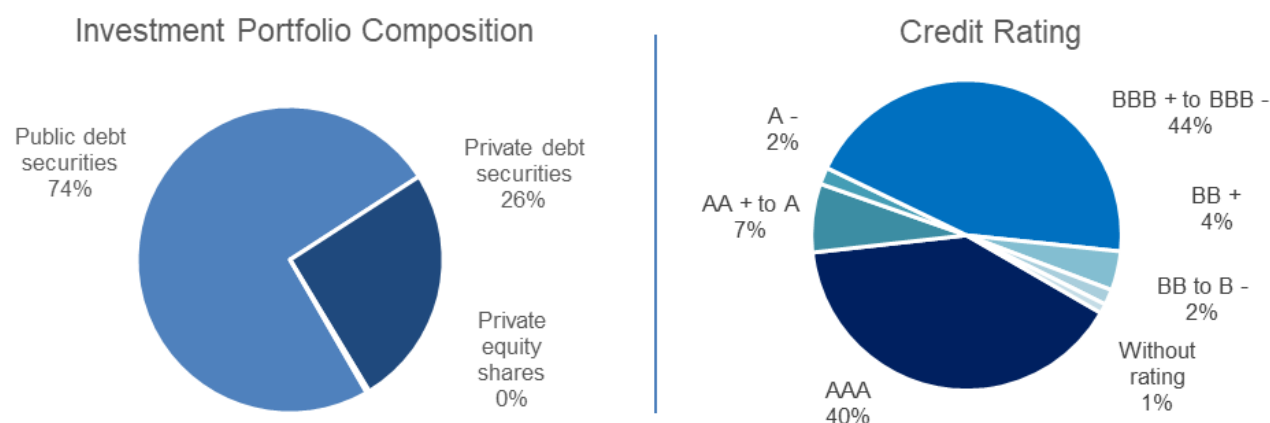
<i>(In US\$ thousands)</i>	As of December 31,		Change	
	2020	2019	US\$	%
Cash and cash equivalents	299,687	219,898	79,789	36.3%
Deposits in banks at amortized cost:				
Demand deposits- foreign	90,825	75,972	14,853	19.6%
Time deposits - local	340,143	137,072	203,071	148.1%
Time deposits - foreign	7,787,473	2,836,751	4,950,722	174.5%
Less: Reserve for bank deposit losses	121	139	-18	-12.9%
<b>Total bank deposits at amortized cost</b>	<b>8,218,320</b>	<b>3,049,656</b>	<b>5,168,664</b>	<b>169.5%</b>
<b>Total cash, cash equivalents and bank deposits at amortized cost</b>	<b>8,518,007</b>	<b>3,269,554</b>	<b>5,248,453</b>	<b>160.5%</b>
Investments in securities	3,145,743	2,944,795	200,949	6.8%
Less: Reserve for investment losses	4,638	3,159	1,479	46.8%
<b>Investments in securities, net</b>	<b>3,141,105</b>	<b>2,941,635</b>	<b>199,469</b>	<b>6.8%</b>
<b>Total Liquid Assets</b>	<b>11,659,112</b>	<b>6,211,190</b>	<b>5,447,922</b>	<b>87.7%</b>

The Bank maintained a regulatory liquidity ratio of 88.8% as of December 31, 2020, well above the 30% liquidity ratio (liquid assets over net deposits from customers or banks) target established by Superintendency of Banks of Panama. The increase in the Bank's liquidity is due to contingency measures in view of the COVID -19 Pandemic.

Banconal's net investment portfolio increased by US\$199.5 million or 6.8%, from US\$2,941.6 million at December 31, 2019 to US\$3,141.1 million at December 31, 2020. The increase is due to the investment of excess liquidity in investment grade highly liquid securities.

<i>(In US\$ thousands)</i>	As of December 31,		Change	
	2020	2019	US\$	%
Investments in securities	3,145,743	2,944,795	200,948	6.8%
Less: Reserve for investment losses	4,638	3,159	1,479	46.8%
<b>Investments in securities, net</b>	<b>3,141,105</b>	<b>2,941,636</b>	<b>199,469</b>	<b>6.8%</b>

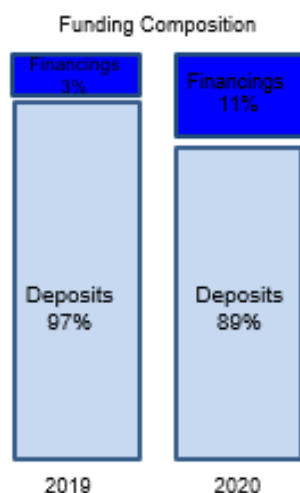
The Bank's investment portfolio is composed of sovereign and corporate debt securities issued by Panamanian, American, Latin American, and Supranational institutions. The Bank has a conservative investment policy, investing primarily in investment grade, liquid, fixed income securities. Over 90% of Banco Nacional's investment portfolio is invested in investment grade securities.



Banconal's sources of funds consist of deposits and financings. Total sources of funds came to US\$15,690.0 million as of December 31, 2020; of these, deposits amounted to US\$13,989.0 million representing 89.2% of the Bank's sources of funds. Deposits include demand deposits, time deposits, savings accounts, and bank deposits.

The following table sets forth Banconal's sources of funds as of December 31, 2020 and 2019:

(In US\$ thousands)	December 31,		Change	
	2020	2019	US\$	%
<b>Deposits</b>				
Demand deposits	4,478,148	3,403,627	1,074,521	31.6%
Savings deposits	906,163	709,753	196,410	27.7%
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	8,604,679	5,333,534	3,271,145	61.3%
<b>Total Deposits</b>	<b>13,988,990</b>	<b>9,446,914</b>	<b>4,542,076</b>	<b>48.1%</b>
<b>Obligations</b>				
Foreign borrowings received at amortized cost	485,415	50,004	435,411	870.8%
Bonds payable - local at amortized cost	206,216	206,216	0	0.0%
Bonds payable - foreign at amortized cost	1,005,955	0	1,005,955	100.0%
Lease liabilities	3,397	3,939	-542	-13.8%
<b>Total obligations</b>	<b>1,700,983</b>	<b>260,159</b>	<b>1,440,824</b>	<b>553.8%</b>
<b>Total Sources of funds</b>	<b>15,689,973</b>	<b>9,707,073</b>	<b>5,982,900</b>	<b>61.6%</b>



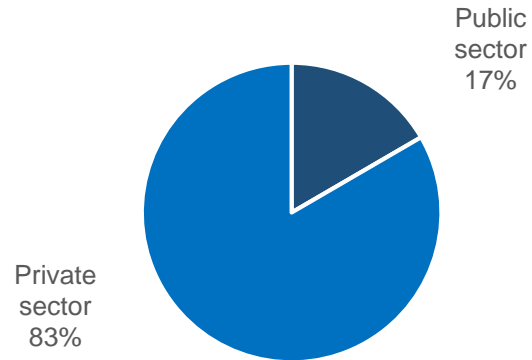
During 2020, the Bank shifted its historical composition of funding sources. The shift is a direct result of medium and long term obligations received from the bond issuance in the international 144A / REGS market for US\$1.0 billion maturing on August 11, 2030, with a 2.5% coupon and a term loan facility, maturing in 2027, guaranteed by MIGA (*Multilateral Investment Guarantee Agency*) for US\$510.0 million. Financings as a percentage of total funding has increased to 11% from 3%, year on year.

## Loan Portfolio

The Bank's total gross loan portfolio came to US\$4,979.4 million as of December 31, 2020; an increase of US\$520.0 million or 11.7% from US\$4,459.4 million in comparison to year end 2019.

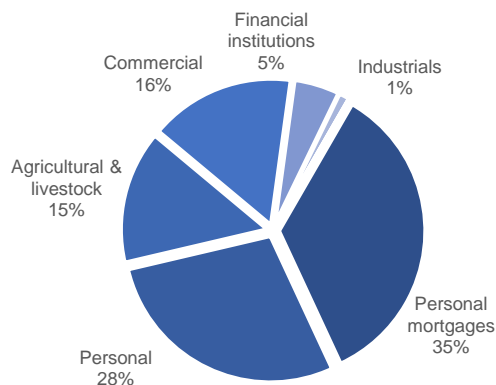
Loans to the public sector accounted for 16.6% of the total portfolio or US\$827.2 million and loans to the private sector account for the majority of the portfolio with US\$4,152.1 million or 83.4%.

The following table presents the gross loan portfolio by type of loan as of December 31, 2020 and 2019. The majority of the Bank's loans have fixed interest rates, which can be reset at Banconal's unilateral option, at any given time.



<i>(In US\$ thousands)</i>	<b>As of December 31,</b>		<b>Change</b>	
	<b>2020</b>	<b>2019</b>	<b>US\$</b>	<b>%</b>
Public sector, gross	827,248	310,637	516,611	166.3%
Private sector, gross:				
Personal mortgages	1,442,583	1,307,683	134,900	10.3%
Personal	1,173,297	1,155,535	17,762	1.5%
Agricultural & livestock	611,711	621,618	-9,907	-1.6%
Commercial	668,507	809,093	-140,586	-17.4%
Financial institutions	207,945	203,946	3,999	2.0%
Industrials	47,744	50,355	-2,611	-5.2%
Overdrafts	360	523	-163	-31.2%
<b>Total gross private sector</b>	<b>4,152,147</b>	<b>4,148,753</b>	<b>3,394</b>	<b>0.1%</b>
<b>Total gross loans</b>	<b>4,979,395</b>	<b>4,459,390</b>	<b>520,005</b>	<b>11.7%</b>
More (Less):				
Accrued interest receivable	44,764	29,488	15,276	51.8%
Interest and unearned commissions	-25,847	-26,954	1,107	-4.1%
Allowance for loan losses	-108,251	-62,918	-45,333	72.1%
<b>Loans at amortized cost</b>	<b>4,890,061</b>	<b>4,399,006</b>	<b>491,055</b>	<b>11.2%</b>

At December 31, 2020, the private sector portfolio by economic sector was the following:





## Asset quality

As of December 31, 2020, total past due and overdue loans come to 2.7% of total loans, an increase from 1.7% at yearend 2019. The weakening of the quality of the loan portfolio is attributed to the COVID – 19 Pandemic. In line with the increase in past due loans, the Bank has increased its loan loss reserves to cover the additional delinquent loans.

Increase in provisions was driven by macroeconomic variables due to the COVID - 19 Pandemic. The following table shows the repayment status our loan portfolio as of December 31, 2020 and 2019:

(In US\$ thousands)

	December 31,		Change	
	2020	2019	US\$	%
Current	4,845,112	4,381,829	463,283	10.6%
Past due	49,640	36,575	13,065	35.7%
Overdue 31 days to 90 days	2,404	1,391	1,013	72.8%
Overdue 91 days or more	82,239	39,595	42,644	107.7%
<b>Total past due and overdue loans</b>	<b>134,283</b>	<b>77,561</b>	<b>56,722</b>	<b>73.1%</b>
<b>Total gross loans</b>	<b>4,979,395</b>	<b>4,459,390</b>	<b>520,005</b>	<b>11.7%</b>
<b>Past due loans to total loans</b>	<b>2.7%</b>	<b>1.7%</b>		
<b>Past due loans over 91 days to total loans</b>	<b>1.7%</b>	<b>0.9%</b>		
<b>Past due loans</b>				
Loans	132,574	77,409	55,165	71.3%
Refinanced loans	1,709	152	1,557	1,024.3%
<b>Total past due portfolio</b>	<b>134,283</b>	<b>77,561</b>	<b>56,722</b>	<b>73.1%</b>
<b>Loss allowance:</b>				
Collective	34,084	21,741	12,343	56.8%
<b>Total allowance for possible impairment</b>	<b>34,084</b>	<b>21,741</b>	<b>12,343</b>	<b>56.8%</b>
<b>Total past due portfolio, net of allowance</b>	<b>100,199</b>	<b>55,820</b>	<b>44,379</b>	<b>79.5%</b>

## Allowance for Loan Losses

The allowance for loan losses increased to US\$108.3 million at December 31, 2020, or to 2.2% of the total loan portfolio, from US\$62.9 million as of December 31, 2019, or 1.4% of the total loan portfolio. The buildup in reserves is to face the weakening asset quality of the loan portfolio because of the COVID -19 economic impact on the Bank's clients.

	December 31,						Change	
	2020			2019			Loans	Allowances
(US\$ thousands)	Loans	Allowances	%	Loans	Allowances	%		
Low risk	4,861,413	54,129	1.1%	4,321,986	27,078	0.6%	12.5%	99.9%
Significant risk	32,984	8,588	26.0%	100,191	10,678	10.7%	-67.1%	-19.6%
Default risk	84,998	45,534	53.6%	37,213	25,162	67.6%	128.4%	81.0%
	<b>4,979,395</b>	<b>108,251</b>	<b>2.2%</b>	<b>4,459,390</b>	<b>62,918</b>	<b>1.4%</b>	<b>11.7%</b>	<b>72.1%</b>

## Allocation of Allowance for Loan Losses

The following table shows the allocation of the allowance for loan losses to consumer, public sector, financial

institutions and corporate loans as of December 31, 2020 and 2019:

(US\$ thousands)	December 31,				Change	
	2020		2019		US\$	%
Consumer	22,524	20.8%	12,555	20.0%	9,969	79.4%
Commercial	12,227	11.3%	16,660	26.5%	-4,433	-26.6%
Agricultural	4,934	4.6%	4,671	7.4%	263	5.6%
Hotels, bars and restaurants	7,515	6.9%	0	0.0%	7,515	100.0%
Secured by pledge <sup>(1)</sup>	0	0.0%	0	0.0%	-	0.0%
Overdraft	33	0.0%	11	0.0%	22	204.6%
Mortgages	33,052	30.5%	6,973	11.1%	26,079	374.0%
Livestock	19,989	18.5%	16,527	26.3%	3,462	20.9%
Retirees	5,012	4.6%	3,928	6.2%	1,084	27.6%
Credit cards	1,463	1.4%	375	0.6%	1,089	291.1%
Financial Institutions	559	0.5%	342	0.5%	217	63.5%
Public Sector	927	0.9%	348	0.6%	579	166.3%
Unallocated <sup>(2)</sup>	16	0.0%	528	0.8%	-512	-97.0%
<b>Total loans</b>	<b>108,251</b>	<b>100.0%</b>	<b>62,918</b>	<b>100%</b>	<b>45,333</b>	<b>72.1%</b>

(1) The Bank does not make any provisions for loans secured by pledge, as their guaranty is rapidly enforceable upon the debtor's failure to comply with the applicable payment schedule.  
(2) Refers to provisions made in accordance with Panamanian regulations on regulatory capital and our internal policies to mitigate the risk of loan delinquency.

## Modified Loans

In view of the current situation presented by the COVID-19 Pandemic, the Superintendency of Banks of Panama established a temporary credit category, called modified loans. The provisions established by the Superintendency apply to both consumer loans and corporate loans. Modified loans are credits that have adhered to the moratoriums established to ease the burden of the economic hardships caused by COVID-19.

At December 31, 2020 the Bank modified 13,627 credits in the aggregate amount of US\$627.5 million, of which \$615.6 million are classified in the modified special mention category. The remaining US\$12.0 million are classified in categories of higher credit risk. Modified loans represent 12.6% of the Bank's loan portfolio and 2.6% all modified loans with in the National Banking System.

The following table sets forth the classification of the Bank's loan portfolio based on the temporary provisions for special mention modified loans established by the Superintendency of Banks of Panama by Agreement 04-2013, modified by Agreement 09-2020:

(In US\$ thousands)	2020	2019
	<u>Gross Loans</u>	<u>Gross Loans</u>
Standard	4,162,183	4,142,069
Special mention	84,696	179,917
Special mention modified	615,555	0
Sub-standard	32,710	100,191
Doubtful	22,253	15,626
Loss	61,998	21,587
<b>Gross amount</b>	<b><u>4,979,395</u></b>	<b><u>4,459,390</u></b>

The provision for the modified special mention portfolio must be established to hedge credit risk, ensuring compliance with IFRS. 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 uncollected interest and capitalized expenses.

The following is the breakdown of the modified special mention category portfolio and their respective provisions and regulatory reserves as of December 31, 2020:

<i>(In US\$ thousands)</i>	<b>2020</b>			<b>Total</b>
	<b>Low risk</b>	<b>Significant risk</b>	<b>Default risk</b>	
<b>Loans within the modified special mention category</b>				
<b>Modified loans:</b>				
Residential mortgages	347,359	0	0	347,359
Personal loans	49,740	220	0	49,960
Agricultural	20,768	0	0	20,768
Commercial	196,251	0	0	196,251
Financial institutions	1,217	0	0	1,217
<b>Gross balance</b>	<b>615,335</b>	<b>220</b>	<b>0</b>	<b>615,555</b>
<b>Additions (less):</b>				
Interest receivable	14,035	8	0	14,043
Unearned interest and commissions	-982	-2	0	-984
<b>Total loans subject to provisions</b>	<b>628,388</b>	<b>226</b>		<b>628,614</b>
<b>Comparison: IFRS 9 reserve and generic provision</b>				
IFRS 9 reserve requirement	36,474	72	0	36,546
Generic provision calculation 3%	18,851	7	0	18,858
Total IFRS 9 registered reserve	36,474	72	0	36,546
Generic provision (to complete 1.5%)	0	0	0	0
Regulatory reserve (to complete 3%)	0	0	0	0
<b>Total provisions and reserves</b>	<b>36,474</b>	<b>72</b>	<b>0</b>	<b>36,546</b>

The modified restructured loans that were in the sub-standard, doubtful or loss category will maintain the credit classification they had at the time of their modification with their respective provision.

## Capitalization

As of December 31, 2020, the Bank's total equity was US\$962.2 million, an increase of US\$60.8 million over December 31<sup>st</sup>, 2019. By Executive Decree No. 396 of August 18, 2020, Banco Nacional de Panamá was authorized by the Government of Panama to capitalize US\$100.0 million from retained earnings, increasing the Bank's paid in capital by the Government of Panama to US\$750.0 million. Total equity to total assets reached 5.7% as of December 2020.

At December 31, 2020, the Bank's total regulatory capital amounted to US\$947.9 million, and the ratio of total capital to risk-weighted assets (US\$5,405.7 million) was 17.5%, which is above the minimum 8.0% regulatory capital ratio required by the Banking Superintendency of Panama. Market risk-weighted assets and operational risk-weighted assets are included in accordance with regulatory requirement.

The table below sets forth regulatory capital as of December 31, 2020 and 2019:

<i>(In US\$ thousands)</i>	<b>As of December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Primary Capital (Tier 1)</b>		
Paid-in capital by Government of Panama	750,000	650,000
Retained earnings	146,405	182,230
Other items in comprehensive income	6,227	8,425
Less: intangible assets	11,684	12,649
<b>Total Primary Capital</b>	<b>890,948</b>	<b>828,005</b>
Dynamic regulatory provision	56,929	56,929
<b>Total regulatory Capital</b>	<b>947,877</b>	<b>884,934</b>
<b>Total Risk-weighted assets</b>	<b>5,405,686</b>	<b>5,514,462</b>
<b>Capital adequacy ratios:</b>		
<b>Total regulatory capital</b>	<b>17.5%</b>	<b>16.1%</b>
<b>Tier 1</b>	<b>16.5%</b>	<b>15.0%</b>

## Results of Operations for the year ended December 31, 2020

The following table displays the principal components of the Bank's net income for the year ended December 31, 2020 and 2019:

<i>(In US\$ thousands)</i>	December 31,		Change	
	2020	2019	US\$	%
Interest and fee income	361,079	391,040	-29,961	-7.7%
Interest expense	94,021	99,272	-5,251	-5.3%
<b>Net interest and commission income</b>	<b>267,058</b>	<b>291,768</b>	<b>-24,710</b>	<b>-8.5%</b>
Impairment Allowances, net <sup>(1)</sup>	50,207	9,747	40,460	415.1%
<b>Net interest and commission income, after provisions</b>	<b>216,851</b>	<b>282,021</b>	<b>-65,170</b>	<b>-23.1%</b>
Fees for banking services	21,975	17,079	4,896	28.7%
Other income <sup>(2)</sup>	36,409	14,592	21,817	149.5%
Total other expenses	900	-399	1,299	325.6%
<b>Total other income, net</b>	<b>57,484</b>	<b>32,070</b>	<b>25,414</b>	<b>79.2%</b>
Total general and administrative expenses	149,081	145,538	3,543	2.4%
<b>Net income</b>	<b>125,254</b>	<b>168,553</b>	<b>-43,299</b>	<b>-25.7%</b>

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

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

Net income for the period decreased by US\$43.3 million, or 25.7%, from the twelve months ended December 31, 2019.

### Net interest and commission income

The following table sets forth the principal components of the Bank's net interest income and commission income for the year ended December 31, 2020 and 2019.

<i>(In US\$ thousands)</i>	December 31,		Change	
	2020	2019	US\$	%
<b>Interest income and commission income</b>				
Loans	239,640	235,574	4,067	1.7%
Deposits in banks	22,095	46,376	-24,281	-52.4%
Securities	90,918	99,447	-8,529	-8.6%
Loan fees	8,426	9,643	-1,217	-12.6%
<b>Total interest, commission and fee income</b>	<b>361,079</b>	<b>391,040</b>	<b>-29,961</b>	<b>-7.7%</b>
<b>Interest expense</b>				
Deposits	68,939	96,285	-27,346	-28.4%
Borrowings	24,898	2,810	22,087	786.0%
Lease liabilities	184	177	7	4.0%
<b>Total interest expenses</b>	<b>94,021</b>	<b>99,272</b>	<b>-5,251</b>	<b>-5.3%</b>
<b>Net interest and commission income</b>	<b>267,058</b>	<b>291,768</b>	<b>-24,710</b>	<b>-8.5%</b>

For the year ended December 31, 2020, Banconal's net interest income and commission income decreased 8.5% to US\$267.1 million from US\$291.8 million in 2019. The decrease is attributed to lower interest income on deposits, due to lower interest rate environment; lower loan generation; and, increase in funding costs related to the bond issuance.

## Fees for Banking Services

The following table shows the principal components of Banconal's fees for banking services for the twelve months ended December 31, 2020 and 2019.

<i>(In US\$ thousands)</i>	December 31,		Change	
	2020	2019	US\$	%
Letters of Credit	102	87	15	17.2%
Transfers	462	617	-155	-25.1%
Card Services	9,745	9,062	683	7.5%
Fund management, custody and brokerage	5,591	2,271	3,320	146.2%
Current accounts	401	1,025	-624	-60.9%
Savings accounts	3	4	-1	-25.0%
Government services	314	474	-160	-33.8%
Guarantee certificates and cashier's checks	367	647	-280	-43.2%
National stamps	16	19	-3	-15.8%
Clearinghouse services	3,086	1,300	1,786	137.4%
Others	1,888	1,573	315	20.0%
<b>Total Fees for banking services</b>	<b>21,975</b>	<b>17,079</b>	<b>4,896</b>	<b>28.7%</b>

For the year ended December 31, 2020, banking services fees increased 28.7% to US\$22.0 million from US\$17.1 million for the year 2019. This increase was primarily due to fees on fund management, custody and brokerage and clearinghouse services as a result of the early redemption of investment securities and current accounts.

## Allowance for loan losses

The following table sets forth the movements in the Bank's provision for impairment allowance for the year ended December 31, 2020 and 2019.

<i>(US\$ thousands)</i>	December 31,		Change	
	2020	2019	US\$	%
Balance at the beginning of the year	62,918	53,608	9,310	17.4%
Reserve charged to expenses	46,426	10,180	36,246	356.1%
Recoveries	1,195	2,506	-1,311	-52.3%
Write-off loans	-2,288	-3,376	1,088	-32.2%
<b>Balance at the end of the year</b>	<b>108,251</b>	<b>62,918</b>	<b>45,333</b>	<b>72.1%</b>

Allowance for loan losses increased 72.1% to US\$108.3 million during 2020, from US\$62.9 million at yearend 2019. During the period, total additions to allowance for loan losses were US\$45.3 million.

## Other Income

The following illustrates the principal components of other income for the years ended December 31, 2020 and 2019:

<i>(In US\$ thousands)</i>	December 31,		Change	
	2020	2019	US\$	%
Dividends	1,505	1,001	504	50.3%
Net gain on investments in securities	17,263	0	17,263	100.0%
Others	17,641	13,591	4,050	29.8%
<b>Total other income</b>	<b>36,409</b>	<b>14,592</b>	<b>21,817</b>	<b>149.5%</b>

Other income increased 149.5%, from US\$14.6 million at December 31, 2019 to US\$36.4 million at December 31, 2020. The increase is due the sale of US\$403.0 million in investments in securities which generated US\$17.3



million in income and fees generated by discounting transactions of Digital Voucher with participating affiliated merchants. The Digital Voucher is a payment method made available to the public during the COVID -19 Pandemic through government aid programs.

### General and Administrative Expenses

The following table presents the composition of the Bank's general and administrative expenses for the twelve months ended December 31, 2020 and 2019:

<i>(In US\$ thousands)</i>	December 31,		Change	
	2020	2019	US\$	%
Salaries and other personnel expenses	95,534	88,200	7,334	8.3%
Rentals	1,439	1,137	302	26.6%
Repairs and maintenance	12,643	12,076	567	4.7%
Depreciation and amortization	12,799	13,393	-594	-4.4%
Electricity	2,683	3,250	-567	-17.4%
Advertising	2,430	3,373	-943	-28.0%
Communications	7,367	6,049	1,318	21.8%
Insurance	661	614	47	7.7%
Stationery and office supplies	1,518	3,059	-1,541	-50.4%
Fees and professional services	3,056	4,394	-1,338	-30.5%
Transportation of personnel	627	1,153	-526	-45.6%
Transportation of valuables	2,326	1,973	353	17.9%
ATMs	1,713	1,040	673	64.7%
Others	4,285	5,827	-1,542	-26.5%
<b>Total general and administrative expenses</b>	<b>149,081</b>	<b>145,538</b>	<b>3,543</b>	<b>2.4%</b>

General and administrative expenses had a slight increase of 2.4% during 2020 when compared to 2019. The overall increase is US\$3.5 million. The increase is primarily attributed to personnel expenses, communications expenses and ATM's due to a retirement program for employees with age and service time and greater use of electronic banking methods.

## Consolidated Statement of Profit or Loss

(US\$ in thousands)	At December 31,		Change	
	2020	2019	US\$	%
Interest and fee income	361,079	391,040	-29,961	-7.7%
Interest expense	94,021	99,272	-5,251	-5.3%
<b>Net interest and commission income</b>	<b>267,058</b>	<b>291,768</b>	<b>-24,710</b>	<b>-8.5%</b>
Impairment allowance	50,207	9,747	40,460	415.1%
<b>Net interest and commission income, net of provisions</b>	<b>216,851</b>	<b>282,021</b>	<b>-65,170</b>	<b>-23.1%</b>
Total other income, net	58,384	31,671	26,713	84.3%
Other expenses	900	-399	1,299	325.6%
Salaries and other personnel expenses	95,534	88,200	7,334	8.3%
Rentals	1,439	1,137	302	26.6%
Repairs and maintenance	12,643	12,076	567	4.7%
Depreciation and amortization	12,799	13,393	-594	-4.4%
Electricity	2,683	3,250	-567	-17.4%
Advertising	2,430	3,373	-943	-28.0%
Communications	7,367	6,049	1,318	21.8%
Insurance	661	614	47	7.7%
Stationary and office supplies	1,518	3,059	-1,541	-50.4%
Fees and professional services	3,056	4,394	-1,338	-30.5%
Transportation of personnel	627	1,153	-526	-45.6%
Transportation of valuables	2,326	1,973	353	17.9%
ATM's	1,713	1,040	673	64.7%
Other	4,285	5,827	-1,542	-26.5%
<b>Total general and administrative expenses</b>	<b>149,081</b>	<b>145,538</b>	<b>3,543</b>	<b>2.4%</b>
<b>Net income</b>	<b>125,254</b>	<b>168,553</b>	<b>-43,299</b>	<b>-25.7%</b>

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

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

## Consolidated Statement of Financial Position

<i>(US\$ in thousands)</i>	December 31,		Change	
	2020	2019	US\$	%
<b>Assets</b>				
Cash and cash equivalents	8,518,007	3,269,554	5,248,453	160.5%
Securities purchased under resale agreements	33,314	68,563	-35,249	-51.4%
Investments in securities, net	3,141,105	2,941,635	199,470	6.8%
Gross loans private sector	4,194,258	4,176,986	17,272	0.4%
Gross loans public sector	829,900	311,892	518,008	166.1%
Allowance for loan losses	-108,251	-62,918	-45,333	72.1%
Unearned interest and commissions	-25,847	-26,954	1,107	-4.1%
<b>Total loans, net</b>	<b>4,890,060</b>	<b>4,399,006</b>	<b>491,054</b>	<b>11.2%</b>
Property, plant & equipment	80,750	84,016	-3,266	-3.9%
Other assets	209,701	60,610	149,091	246.0%
<b>Total assets</b>	<b>16,872,937</b>	<b>10,823,384</b>	<b>6,049,553</b>	<b>55.9%</b>
<b>Liabilities &amp; Shareholder Equity</b>				
Deposits	13,988,989	9,446,913	4,542,076	48.1%
Obligations with financial institutions	485,415	50,004	435,411	870.8%
Bonds payable, at amortized cost	1,005,955	0	1,005,955	100.0%
Corporate bonds payable, at amortized cost	206,216	206,216	0	0.0%
Other liabilities	224,145	218,797	5,348	2.4%
<b>Total liabilities</b>	<b>15,910,720</b>	<b>9,921,930</b>	<b>5,988,790</b>	<b>60.4%</b>
Equity	962,217	901,454	60,763	6.7%
<b>Total Liabilities &amp; Equity</b>	<b>16,872,937</b>	<b>10,823,384</b>	<b>6,049,553</b>	<b>55.9%</b>

## Selected Financial Ratios

	December 31,	
	2020	2019
<b>Profitability and efficiency:</b>		
Net Interest Margin <sup>(1)</sup>	2.1%	3.2%
Return on average assets <sup>(2)</sup>	0.9%	1.7%
Return on average equity <sup>(3)</sup>	12.9%	18.9%
Efficiency <sup>(4)</sup>	54.3%	46.3%
<b>Liquidity:</b>		
Primary Liquidity / total deposits and obligations <sup>(5)</sup>	60.9%	31.8%
Regulatory Liquidity / total deposits <sup>(6)</sup>	88.8%	71.3%
<b>Capital:</b>		
Total Capital ratio <sup>(7)</sup>	17.5%	16.1%
Equity/ assets <sup>(8)</sup>	5.7%	8.3%
<b>Asset quality:</b>		
Past due loans over 91 days overdue / total loans <sup>(9)</sup>	1.7%	0.9%
Total past due loans and overdue loans / total loans <sup>(10)</sup>	2.7%	1.7%
Non-accrual loans / total loans <sup>(11)</sup>	1.2%	0.5%
<b>Headcount</b>	3,412	3,491
<b>Branch network</b>	90	89

<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 of total assets.

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

<sup>(4)</sup> Calculated as total general and administrative expenses to net interest and commission income after provisions plus total other income net.

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

<sup>(6)</sup> Regulatory liquid assets are determined based on guidelines established by the Superintendency of Banks. Regulatory liquid assets include cash, demand deposits, time deposits with remaining maturities of less than 186 days, notes issued by the Panamanian Government with maturities of more than one year, payment of loans and interest at 186 days and investment-grade foreign debt securities.

<sup>(7)</sup> Calculated as total capital funds divided by total assets.

<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 audited financial statements, as of December 31, 2020. Some figures (including percentages) in this document have been rounded. The audited yearend 2020 financial statements are available on the Bank's web site [www.banconal.com.pa](http://www.banconal.com.pa)*



*Grande* como tú.

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