

Management Financial Discussion and Analysis Third Quarter 2021

September 2021



Banconal in numbers

Q3 - 2021

- The Bank's balance sheet contracted by 11.2% during the first nine months of 2021. The contraction is a direct result of reductions in deposits from the public sector. The decrease in public deposits is in line with the Government's uses of its liquidity to cover operating expenses.
- Total assets decreased by US\$ 1,883.5 million, closing at US\$ 14,989.4 million at September 30, 2021. The reduction in assets is reflected in a decrease in liquid assets, particularly in deposits in banks and in the investment portfolio.
- The liquidity ratio at September 30, 2021 is 85.8%, short of three times the minimum of 30% required by the regulator.
- Delinquent and past due loans correspond to 3.6% of the Bank's total loan portfolio. The reserve for possible loan losses amounted to US\$ 119.2 million. Past due loans over 90 days have a reserve (loan loss reserves plus dynamic provision) coverage for possible losses of 214.5% as of September 30, 2021.
- Total liabilities decreased by 12.4% or US\$ 1,980.4 million, due to a 14.4% reduction in deposits. Of total deposits, private deposits fell US\$ 623.2 million due to bank deposit withdrawals, and public time deposits decreased by US\$ 1,392.3 million as a result of Government withdrawals to cover operating expenses.
- Total equity reached US\$ 1,059.1 million, an increase of 10.1% compared to total equity as of December 31, 2020 (US\$ 962.2 million). At the end of the third quarter of 2021, capital adequacy ratio reached 19.1%.
- 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 negative outlook)

Gross Loans	\$ 5,037
Total Assets	\$14,989
Equity	\$ 1,059
Net Income	\$ 102
NIM	1.6%
Efficiency Ratio	55.5%
RoAE	13.5%
Liquidity Ratio	85.8%
NPL Ratio	3.6%
Capital Adequacy	19.1%

Financial Analysis

At September 30, 2021, Banco Nacional's balance sheet shows a contraction of 11.2%. The contraction, primarily in liquid assets, is a reflection of the reduction of client deposits, both from the public sector. The composition of the Bank's balance sheet continues to show high levels of liquidity; liquid assets and investments represent 48.6% of total assets. Loans are 32.9% of assets. Customer deposits account for 79.9% of liabilities, financings 11.3% and other liabilities 1.7%. Equity funds constitute 7.1% of the total balance sheet.

Assets

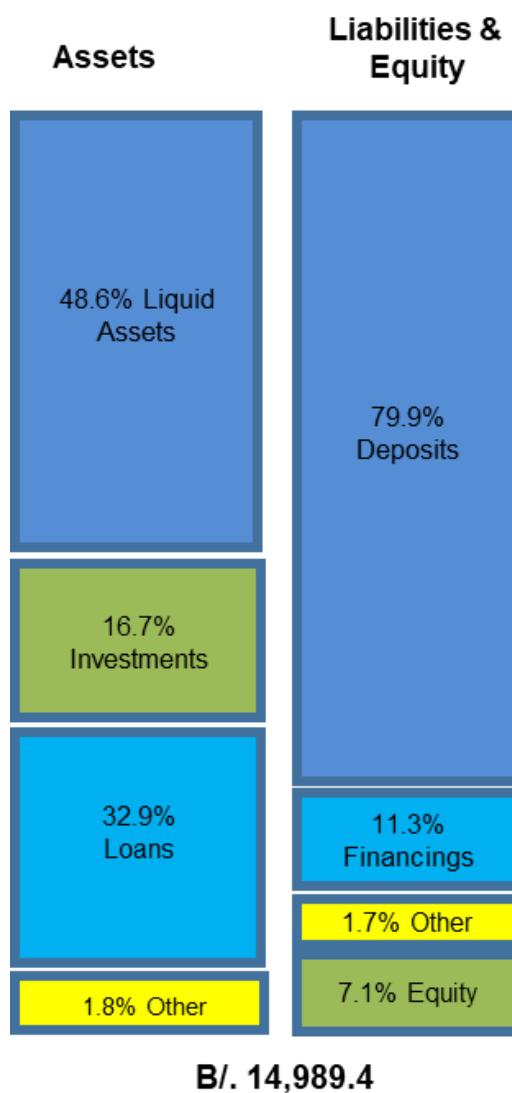
Assets totaled US\$ 14,989.4 million. In comparison with year-end 2020 balance sheet numbers, assets decreased by US\$ 1,883.5 million or 11.2%, as a result, a reduction in cash and due from banks in the amount of US\$ 1,234.3 million and in investments in securities of US\$ 681.6 million. The contraction in total assets is a result in the utilization of funds by the Government of Panama deposited in the Bank to fund operating expenditures.

Liabilities

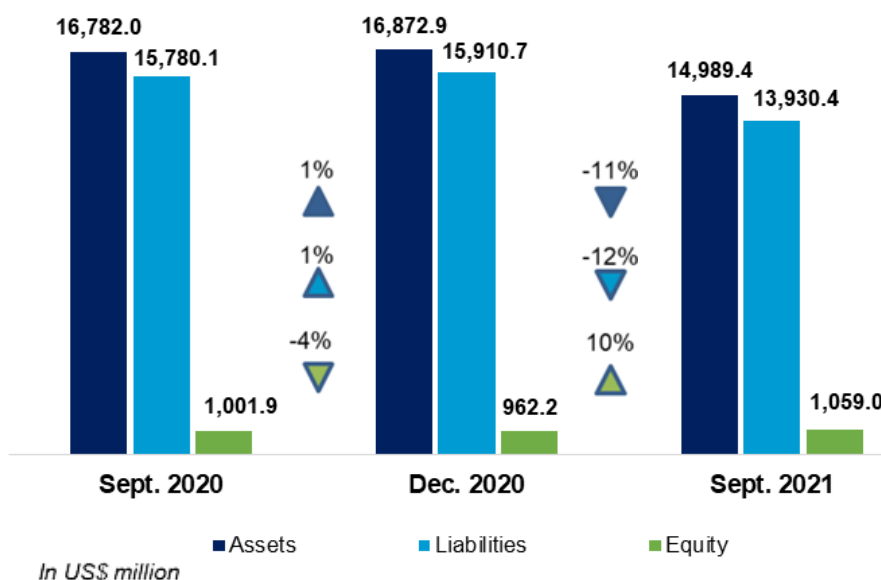
Liabilities totaled US\$ 13,930.3 million as of September 30, 2021, decreasing by US\$ 1,980.4 million, compared to December 31, 2020 figures. The contraction is reflected in a decrease US\$ 2,010.6 million in customer deposits or 14.4%, mainly in public sector deposits. The drop in public sector deposits is due to the use of resources by the Government to cover operating expenses.

Equity

At the end of third quarter 2021, the Bank's total equity closed at US\$ 1,059.1 million, an increase of US\$ 96.9 million compared to December 31, 2020. The increase is due to the accumulation of retained earnings for the period.



Financial Analysis



Sources of Funds

The Bank's funding sources consist of deposits and financings. Total sources of funds amounted to US\$ 13,663.7 million as of September 30, 2021; of these, deposits amounted to US\$ 11,971.0 million, which represents 87.6% of the Bank's sources of funds. Deposits include demand deposits, time deposits, savings accounts, and bank deposits.

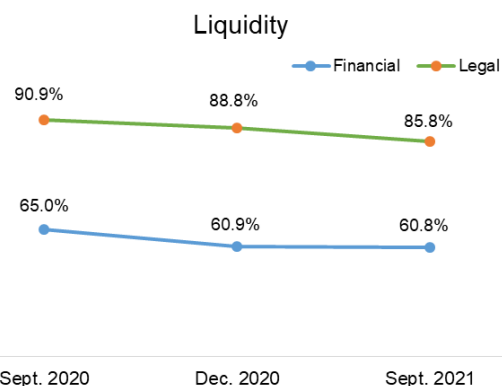
(In US\$ thousands)

	As of September 30, 2021	As of December 31, 2020	Change	
			US\$	%
Cash and cash equivalents	380,701	299,687	81,014	27.0%
Deposits in banks at amortized cost:				
Demand deposits- foreign	28,000	90,825	-62,825	-69.2%
Time deposits - local	300,592	340,143	-39,551	-11.6%
Time deposits - foreign	6,574,674	7,787,473	-1,212,799	-15.6%
Less: Reserve for bank deposit losses	239	121	118	97.7%
Total bank deposits at amortized cost	6,903,027	8,218,320	-1,315,293	-16.0%
Total cash, cash equivalents and bank deposits at amortized cost	7,283,728	8,518,007	-1,234,279	-14.5%
Securities purchased under resale agreements	41,336	33,314	8,022	24.1%
Less: Reserve for investment losses	19	62	-43	-69.7%
Securities purchased under resale agreements at amortized cost	41,317	33,252	8,065	24.3%
Investments in securities	2,466,918	3,145,743	-678,825	-21.6%
Less: Reserve for investment losses	7,329	4,577	2,752	60.1%
Investments in securities, net	2,459,589	3,141,166	-681,577	-21.7%
Total Liquid Assets	9,784,634	11,692,425	-1,907,792	-16.3%

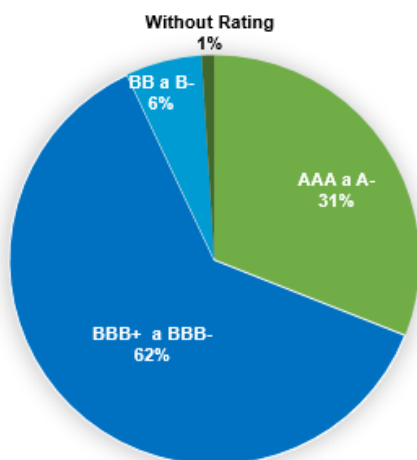
Liquidity

Banconal maintains robust liquidity levels. As of September 30, 2021, the financial liquidity ratio was 60.8% and the legal liquidity ratio closed at 85.8%, well above the 30% required by the Superintendency of Banks of Panama.

Liquid assets totaled US\$ 9,784.6 million (cash, bank deposits, securities purchased under resale agreements, and investments in securities). The level of liquid assets fell by 16.3%, from US\$ 11,692.4 million at December 31, 2020. As of September 30, 2021, liquid assets represented 81.7% of total customer deposits and 65.3% of total of assets.



Investment Portfolio



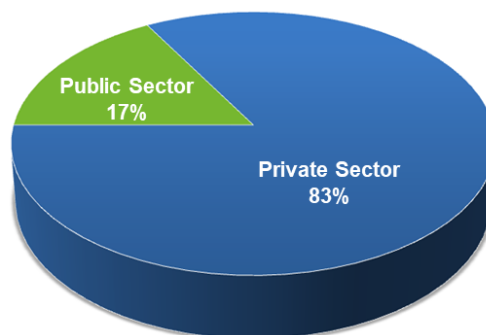
Banconal's investment portfolio contracted by US\$ 681.6 million or 21.7%, from US\$ 3,141.1 million as of December 31, 2020 to US\$ 2,459.6 million as of September 30, 2021. The reduction in the portfolio is due to the redemption of investments that have not been reinvested.

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.

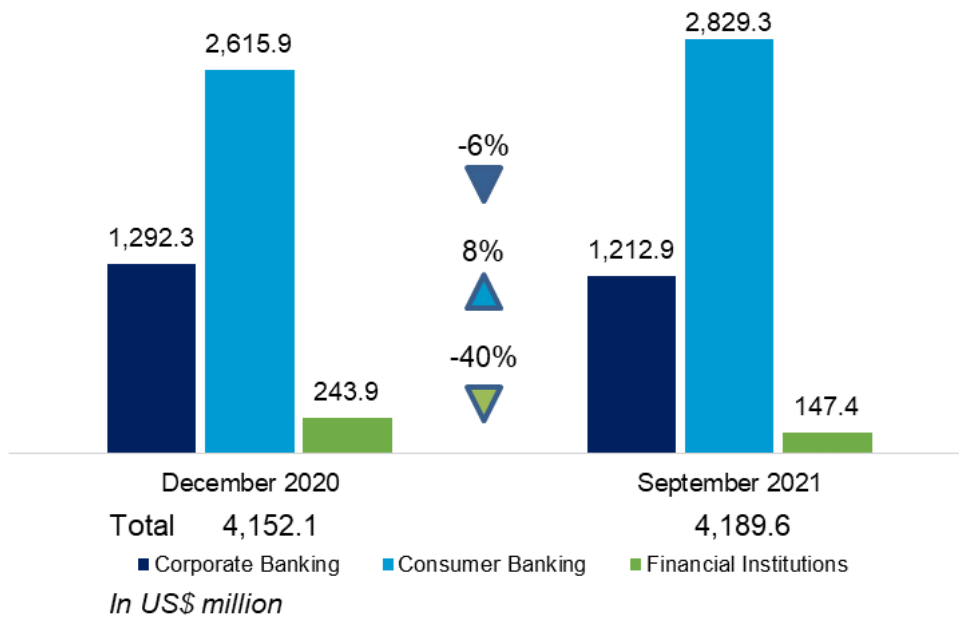
Loan Portfolio

The Bank's gross loan portfolio totaled US\$ 5,037.2 million as of September 30, 2021; a US\$ 57.7 million increase when compared to year end 2020 total of US\$ 4,979.4 million.

Loans to the public sector represented 16.8% of the total portfolio or US\$ 847.6 million and loans to the private sector represent the majority of the portfolio with US\$ 4,189.6 million or 83.2%.



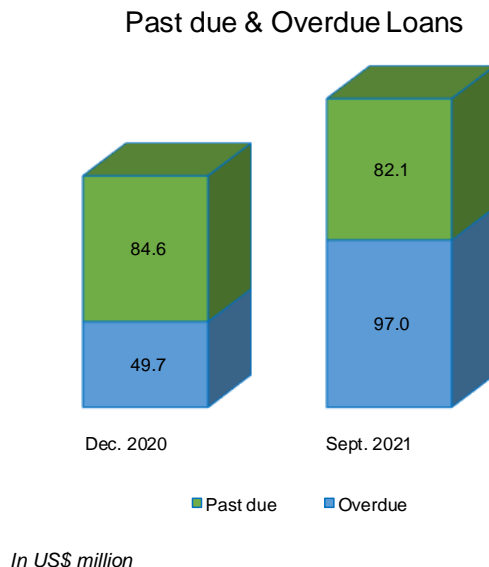
The following graph presents the private sector loan portfolio by type of loan. Most of the Bank's loans have fixed interest rates, which can be readjusted at the unilateral option of Banconal, at any time.



The corporate banking loan portfolio and loans to financial institutions fell by US\$ 79.4 million and US\$ 96.5 million respectively, while consumer banking saw an increase in their portfolios of US\$ 213.4 million, driven by the residential mortgage loan portfolio.

Asset Quality

As of September 30, 2021, total past due and overdue loans amounted to 3.6% of the total loan portfolio (as of December 31, 2020: 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\$ 119.2 million as of September 30, 2021, or 2.4% of the total loan portfolio, from US\$108.3 million as of December 31, 2020, or 2.2% 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 September 30, 2021			As of December 31, 2020			Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
Low risk	4,768,003	42,348	0.9%	4,861,413	54,129	1.1%	-93,410	-11,780
Significant risk	169,055	22,153	13.1%	32,984	8,588	26.0%	136,071	13,565
Default risk	100,077	54,683	54.6%	84,998	45,534	53.6%	15,079	9,149
Total	5,037,135	119,184	2.4%	4,979,395	108,251	2.2%	57,740	10,933

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 September 30, 2021, the Bank has modified loans on its books for an aggregate amount of US\$ 602.7 million. Modified loans represent 12.0% of the Bank's loan portfolio.

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.

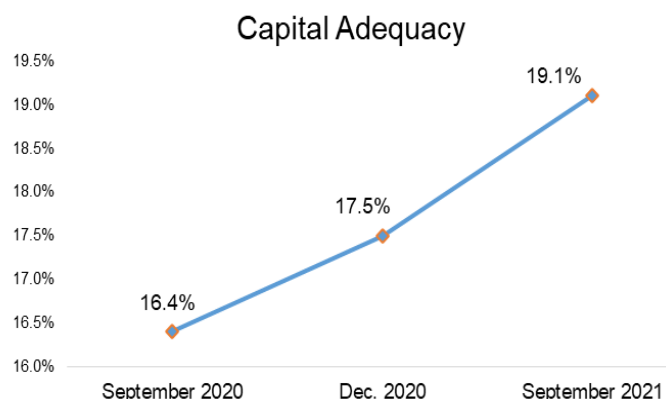
The following table details the modified special mention portfolio categories and their respective provisions and regulatory reserves as of September 30, 2021:

(In US\$ thousands)	As of September 30, 2021			
	Low risk	Significant risk	Default risk	Total
Loans within the modified special mention category				
Modified loans:				
Residential mortgages	342,116	11,693	0	353,809
Personal loans	0	48,015	2,429	50,444
Agricultural	16,638	0	698	17,336
Commercial	112,259	67,139	843	180,241
Financial institutions	843	0	0	843
Gross balance	471,856	126,847	3,970	602,673
Additions (less):				
Interest receivable	14,185	6,528	110	20,823
Unearned interest and commissions	-363	-441	-39	-843
Total loans subject to provisions Agreement No. 009-2020	485,678	132,934	4,041	622,653
Comparison: IFRS 9 reserve and generic provision				
IFRS 9 reserve requirement	24,600	12,421	2,093	39,114
Generic provision calculation 3%	14,592	4,014	119	18,730
Total IFRS 9 registered reserve	24,600	12,421	2,093	39,114
Generic provision (to complete 1.5%)	0	0	0	0
Regulatory reserve (to complete 3%)	0	0	0	0
Total provisions and reserves	24,600	12,421	2,093	39,114

Capitalization

As of September 30, 2021, the Bank's total equity was US\$ 1,059.0 million, an increase of US\$ 96.9 million compared to December 31, 2020. The increase is due to retained earnings accumulated during the period. Total equity to total assets reached 7.1% as of September 30 of 2021.

As of September 30, 2021, the Bank's regulatory capital totaled US\$ 996.2 million and the ratio of total capital to risk-weighted assets (US\$ 5,220.2 million) was 19.1%, 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 Period ended September 30, 2021

Net income at the end of the third quarter of 2021 was US\$101.5 million, US\$ 4.9 million or 4.7% below net income for the same period 2020.

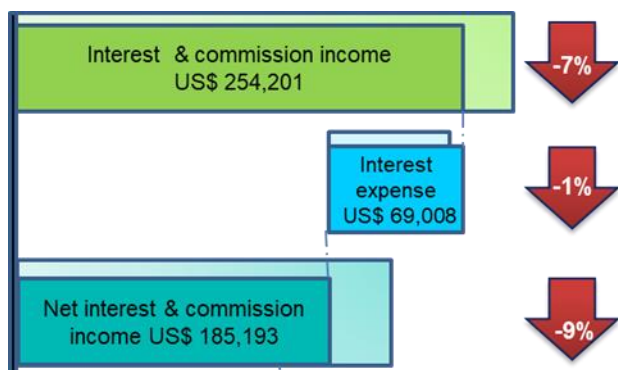
The following table illustrates the main components of the Bank's income statement for the period ended September 30, 2021 and 2020:

	As of September 30,		Change	
	2021	2020	US\$	%
<i>(In US\$ thousands)</i>				
Interest and fee income	254,201	273,232	-19,031	-7.0%
Interest expense	69,008	69,567	-558	-0.8%
Net interest and commission income	185,193	203,665	-18,472	-9.1%
Impairment Allowances, net ⁽¹⁾	18,753	33,618	-14,865	-44.2%
Net interest and commission income, after provisions	166,440	170,047	-3,607	-2.1%
Fees for banking services	16,550	15,365	1,185	7.7%
Other income ⁽²⁾	45,968	28,847	17,121	59.3%
Total other expenses	1,029	595	434	73.1%
Total other income, net	61,489	43,617	17,872	41.0%
Total general and administrative expenses	126,383	107,164	19,219	17.9%
Net income	101,546	106,500	-4,955	-4.7%

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

⁽²⁾ Includes dividends, net gain on investments in securities and others.

Interest and Commission Income



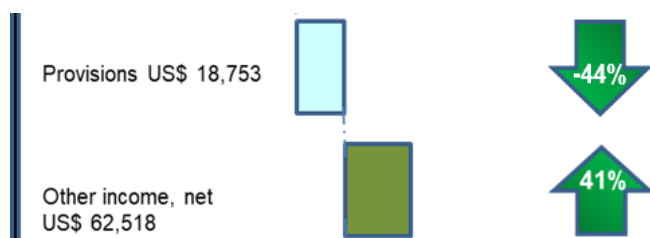
For the period ended September 30, 2021, Banconal's net interest and commission income decreased by 9.1% to US\$ 185.2 million from US\$ 203.7 million in 2020. The decrease is attributed to lower income from interest on deposits, due to a low interest rate environment; lower loan generation; and an increase in financing costs related to the issuance of bonds and other financing contracted during third quarter 2020.

(In US\$ thousands)

	As of September 30,		Change	
	2021	2020	US\$	%
Interest income and commission income				
Loans	190,263	177,956	12,307	6.9%
Deposits in banks	7,848	18,660	-10,812	-57.9%
Securities	49,153	70,302	-21,149	-30.1%
Loan fees	6,937	6,313	624	9.9%
Total interest, commission and fee income	254,201	273,231	-19,030	-7.0%
Interest expense				
Deposits	36,583	54,907	-18,324	-33.4%
Borrowings	32,289	14,518	17,771	122.4%
Lease liabilities	136	141	-5	-3.3%
Total interest expenses	69,008	69,566	-558	-0.8%
Net interest and commission income	185,193	203,665	-18,472	-9.1%

Loss Provisions and Other Income

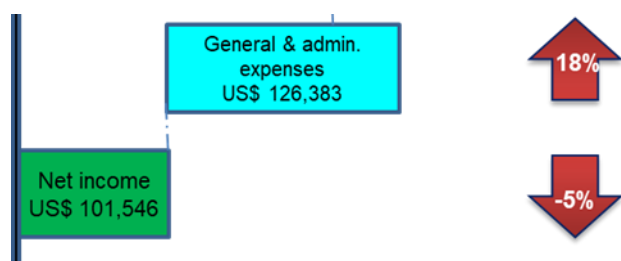
Loss provision expense decreased by 44.2%, from US\$ 33.6 million provisioned at September 30, 2020 to US\$ 18.7 million at September 30, 2021. The decrease in provisions expense is because of lower levels of provisions taken for losses on the loan portfolio.



Other income increased 41.4%, from US\$ 44.2 million at September 30, 2020 to US\$ 62.5 million at September 30, 2021. The increase is due to commissions generated by discount of the Digital Voucher in the Panama Solidario Program to participating merchants, the sale of US\$ 151.7

million in securities, generating US\$ 10.1 million in income, and the early redemption on securities in the amount of \$103.2 million generating US\$15.7 million in income.

General & Administrative Expenses



General and administrative expenses increased by 17.9% during the first nine months of 2021 compared to the same period of 2020. The increase of US\$ 19.2 million, mainly attributed to personnel expenses, repair and maintenance expenses, and professional services fees.

The Bank's efficiency ratio was 55.5% at September 30, 2021.

<i>(In US\$ thousands)</i>	As of September 30,		Change	
	2021	2020	US\$	%
Salaries and other personnel expenses	82,208	66,818	15,390	23.0%
Rentals	878	944	-66	-7.0%
Repairs and maintenance	11,487	8,997	2,490	27.7%
Depreciation and amortization	9,883	9,575	308	3.2%
Electricity	2,278	2,122	156	7.4%
Advertising	2,043	2,252	-209	-9.3%
Communications	5,700	5,733	-33	-0.6%
Insurance	469	330	139	42.4%
Stationery and office supplies	1,361	1,042	319	30.7%
Fees and professional services	3,366	2,650	716	27.0%
Transportation of personnel	495	475	19	4.1%
Transportation of valuables	1,565	1,785	-220	-12.3%
ATMs	1,183	1,504	-321	-21.3%
Others	3,467	2,937	530	18.0%
Total general and administrative expenses	126,383	107,164	19,219	17.9%

COVID – 19 / Modified Loans



2020

13 March

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. The Superintendency of Banks of the Republic of Panama has implemented various economic measures; banks can modify the terms and conditions of loans without being considered restructured loans.

30 June

Law No. 156 of 2020 ("Moratorium Law"), dictates economic and financial measures to counteract the effects of COVID-19. The Law 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.

19 August

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.



2021

31 March

With the intention to regularize the modified loans, as of January 1, 2021, debtors must present the proper documentation certifying that their employment contracts are suspended or that they have lost their jobs as a result of the Pandemic. As of June 30, 2021 the Bank modified credits in an aggregate amount of US\$628.9 million. Modified loans represent 12.6% of the Bank's loan portfolio.

11 June

The Superintendency of Banks of Panama issued Banking Agreement No. 002-2021 of June 11, 2021, dictating new guidelines for modified loans classified with in the modified special mention category. Financial institutions will have until September 30, 2021, to carry out restructuring of modified loans classified in the modified special mention category and that as of June 30, 2021, have not agreed upon new terms and conditions with creditors.

Income Statement

<i>(In US\$ thousands)</i>	As of September 30,		Change	
	2021	2020	US\$	%
Interest and fee income	254,201	273,232	-19,031	-6.97%
Interest expense	69,008	69,567	-559	-0.80%
Net interest and commission income	185,193	203,665	-18,472	-9.07%
Impairment Allowances, net ⁽¹⁾	18,753	33,618	-14,865	-44.22%
Net interest and commission income, after provisions	166,440	170,047	-3,607	-2.12%
Fees for banking services	16,550	15,365	1,185	7.71%
Other income ⁽²⁾	45,968	28,847	17,121	59.35%
Total other expenses	1,029	595	434	73.06%
Total other income, net	61,489	43,617	17,872	40.97%
Total general and administrative expenses	126,383	107,164	19,219	17.93%
Net income	101,546	106,500	-4,954	-4.65%

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

⁽²⁾ Includes dividends, net gain on investments in securities and others.

Balance Sheet

<i>(US\$ in thousands)</i>	September 30,	December 31,	Change	
	2021	2020	US\$	%
Assets				
Cash and cash equivalents	7,283,728	8,518,007	-1,234,279	-14.5%
Securities purchased under resale agreements, at amortized cost	41,317	33,252	8,065	24.3%
Investments in securities, net	2,459,589	3,141,166	-681,577	-21.7%
Private sector loans and interest receivable	4,232,793	4,194,258	38,535	0.9%
Public sector loans and interest receivable	854,067	829,900	24,167	2.9%
Allowance for loan losses	-119,184	-108,251	-10,933	10.1%
Unearned interest and commissions	-26,885	-25,846	-1,039	4.0%
Total loans, at amortized cost	4,940,791	4,890,061	50,730	1.0%
Property, plant & equipment	79,749	80,750	-1,001	-1.2%
Other assets	184,260	209,701	-25,441	-12.1%
Total assets	14,989,434	16,872,937	-1,883,503	-11.2%
Liabilities & Shareholder Equity				
Deposits	11,978,372	13,988,989	-2,010,617	-14.4%
Obligations with financial institutions, at amortized cost	482,273	485,415	-3,142	-0.6%
Bonds payable, at amortized cost	1,000,154	1,005,956	-5,802	-0.6%
Corporate bonds payable, at amortized cost	206,250	206,216	34	0.0%
Other liabilities	263,298	224,144	39,154	17.5%
Total liabilities	13,930,347	15,910,720	-1,980,373	-12.4%
Equity	1,059,087	962,217	96,870	10.1%
Total Liabilities & Equity	14,989,434	16,872,937	-1,883,503	-11.2%

Financial Ratios

	September 30, 2021	December 31, 2020
Profitability and efficiency:		
Net Interest Margin ⁽¹⁾	1.6%	2.1%
Return on average assets ⁽²⁾	0.9%	0.9%
Return on average equity ⁽³⁾	13.5%	12.9%
Efficiency ⁽⁴⁾	55.5%	54.3%
Liquidity:		
Primary Liquidity	60.8%	60.9%
Legal Liquidity ⁽⁶⁾	85.8%	88.8%
Capital:		
Total Capital ratio ⁽⁷⁾	19.1%	17.5%
Equity/ assets ⁽⁸⁾	7.1%	5.7%
Asset quality:		
Past due loans over 91 days overdue / total loans ⁽⁹⁾	1.6%	1.7%
Past due loans/ total loans ⁽¹⁰⁾	3.6%	2.7%
Non-accrual loans / total loans ⁽¹¹⁾	1.6%	1.2%
Headcount	3,593	3,412
Branch network	90	90

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

⁽⁵⁾ Calculated as total liquid assets to total deposits.

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

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

⁽⁸⁾ Equity divided by total assets

⁽⁹⁾ Calculated as past due loans over 91 days overdue divided by total loan portfolio.

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

⁽¹¹⁾ 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 September 30, 2021. Some figures (including percentages) in this document have been rounded. The interim unaudited financial statements as of September 30, 2021 are available on the Bank's web site www.banconal.com.pa