

Management Financial Discussion and Analysis

December 2021



Banconal in numbers - 2021

- The Bank's balance sheet contracted by 9.3% during the year ended December 31, 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\$ 1,566.6 million, closing at US\$ 15,306.3 million at December 31, 2021. The reduction in assets is reflected in a decrease in liquid assets, particularly deposits in banks and the investment portfolio.
- The liquidity ratio at December 31, 2021 is 83.9%, short of three times the minimum of 30% required by the regulator.
- Delinquent and past due loans correspond to 2.7% of the Bank's total loan portfolio. The reserve for possible loan losses amounted to US\$ 126.7 million. Past due loans over 90 days have a reserve (loan loss reserves plus dynamic provision) coverage of 215.8%.
- Total liabilities decreased by 10.2% or US\$ 1,629.6 million, due to an 11.6% reduction in deposits. Of total deposits, private sector deposits fell US\$ 559.3 million due to bank deposit withdrawals, and public sector time deposits decreased by US\$ 1,074.9 million as a result of Government withdrawals to cover operating expenses.
- Total equity reached US\$ 1,025.2 million, an increase of 6.6% compared to total equity as of December 31, 2020 (US\$ 962.2 million). As of December 31, 2021 the capital adequacy ratio reached 19.4%.
- The Bank has investment grade risk ratings by the three main rating agencies:
 - o Standard and Poor's ("BBB", with a negative outlook)
 - o Moody's ("Baa2", with a stable outlook)
 - o Fitch Ratings ("BBB-" with stable outlook; February 2021)

Gross Loans	\$5,137
Total Assets	\$15,306
Equity	\$1,025
Net Income	\$122
NIM	1.6%
Efficiency Ratio	58.9%
RoAE	12.0%
Liquidity Ratio	83.9%
NPL Ratio	2.7%
Capital Adequacy	19.4%

Financial Analysis

As of December 31, 2021, Banco Nacional's balance sheet shows a contraction of 9.3%. The contraction, primarily in liquid assets, is a reflection of the reduction of deposits, both from the public and private sector. The composition of the Bank's balance sheet continues to show high levels of liquidity; liquid assets and investments represent 49.3% of total assets. Loans are 32.9% of assets. Deposits account for 80.8% of liabilities, financings 11.1% and other liabilities 1.4%. Equity funds constitute 6.7% of the total balance sheet.

Assets

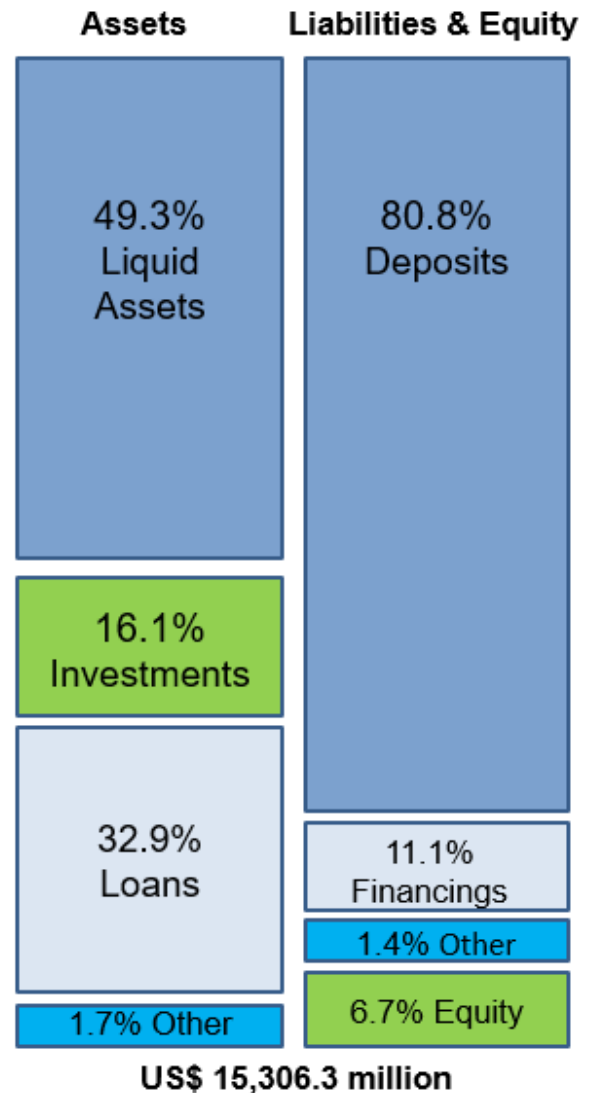
Assets totaled US\$ 15,306.3 million. In comparison with year-end 2020 balance sheet numbers, assets decreased by US\$ 1,566.6 million or 9.3%, as a result, a reduction in cash and due from banks in the amount of US\$ 968.9 million and in investments in securities of US\$ 719.4 million. The contraction in total assets is a result in the utilization of funds by the Government of Panama deposited in the Bank to fund operating expenditures.

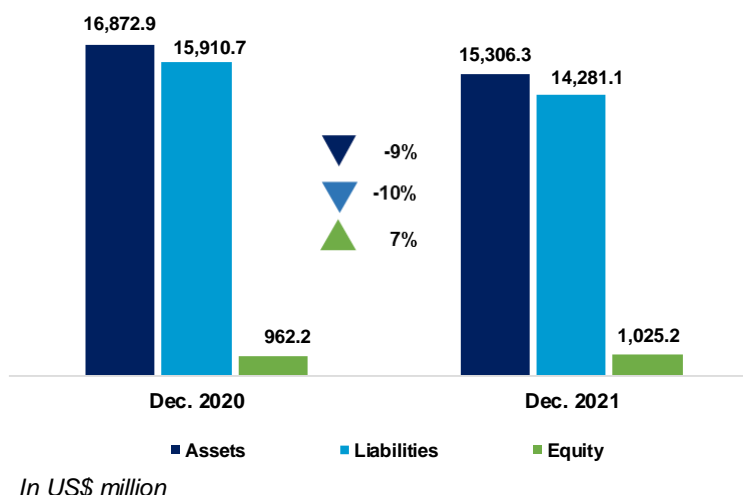
Liabilities

Liabilities totaled US\$ 14,281.1 million as of December 31, 2021, decreasing by US\$ 1,629.6 million, compared to December 31, 2020 figures. The contraction is reflected in a decrease US\$ 1,625.2 million in deposits or 11.6%, 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

As of December 31, 2020, the Bank's total equity closed at US\$ 1,025.2 million, an increase of US\$ 63.0 million compared to December 31, 2020. The increase is due to the accumulation of retained earnings for the period.



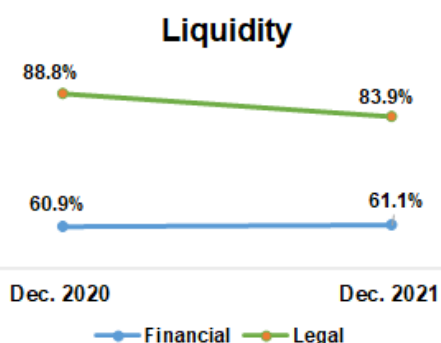


Liquidity and Sources of Funds

Liquid assets totaled US\$ 10,012.2 million (cash, bank deposits, securities purchased under resale agreements, and investments in securities). The level of liquid assets fell by 14.4%, from US\$ 11,692.4 million at December 31, 2020. As of December 31, 2021, liquid assets represented 81.0% of total customer deposits and 65.4% of total of assets.

(In US\$ thousands)

	2021	2020	Change	
			US\$	%
Cash and cash equivalents	297,329	299,687	-2,358	-0.8%
Deposits in banks at amortized cost:				
Demand deposits- foreign	17,486	90,825	-73,339	-80.7%
Time deposits - local	305,095	340,143	-35,048	-10.3%
Time deposits - foreign	6,929,380	7,787,473	-858,093	-11.0%
Less: Reserve for bank deposit losses	202	121	81	66.9%
Total bank deposits at amortized cost	7,251,759	8,218,320	-966,561	-11.8%
Total cash, cash equivalents and bank deposits at amortized cost	7,549,088	8,518,007	-968,919	-11.4%
Securities purchased under resale agreements	41,384	33,314	8,070	24.2%
Less: Reserve for investment losses	66	62	4	6.5%
Securities purchased under resale agreements at amortized cost	41,318	33,252	8,066	24.3%
Investments in securities	2,424,957	3,145,743	-720,786	-22.9%
Less: Reserve for investment losses	3,151	4,577	-1,426	-31.2%
Investments in securities, net	2,421,806	3,141,166	-719,360	-22.9%
Total liquid assets	10,012,212	11,692,425	-1,680,213	-14.4%

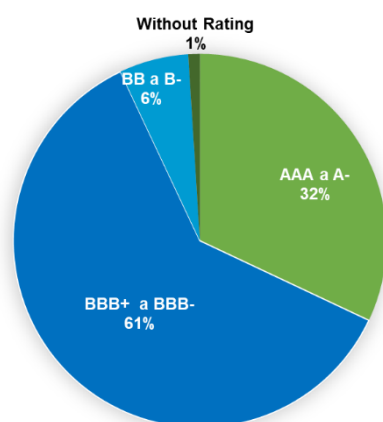


Banconal maintains robust liquidity levels. As of December 31, 2021, the financial liquidity ratio was 61.1% and the legal liquidity ratio closed at 83.9%, well above the 30% required by the Superintendency of Banks of Panama.

The Bank's funding sources consist of deposits and financings. Total sources of funds amounted to US\$ 14,065.7 million as of December 31, 2021; of these, deposits amounted to US\$ 12,363.8 million, which represents 87.9% of the Bank's sources of funds. Deposits include demand deposits, time deposits, savings accounts, and bank deposits.

(In US\$ thousands)	2021	2020	Change	
			US\$	%
Deposits				
Demand deposits	4,450,048	4,478,148	-28,100	-0.6%
Savings deposits	917,660	906,163	11,497	1.3%
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	6,996,049	8,604,679	-1,608,630	-18.7%
Total deposits	12,363,757	13,988,990	-1,625,233	-11.6%
Obligations				
Foreign borrowings received at amortized cost	485,107	485,415	-308	-0.1%
Bonds payable - local at amortized cost	206,267	206,216	51	0.0%
Bonds payable - foreign at amortized cost	1,006,647	1,005,955	692	0.1%
Lease liabilities	3,964	3,397	567	16.7%
Total obligations	1,701,985	1,700,983	1,002	0.1%
Total sources of funds	14,065,742	15,689,973	-1,624,231	-10.4%

Investment Portfolio



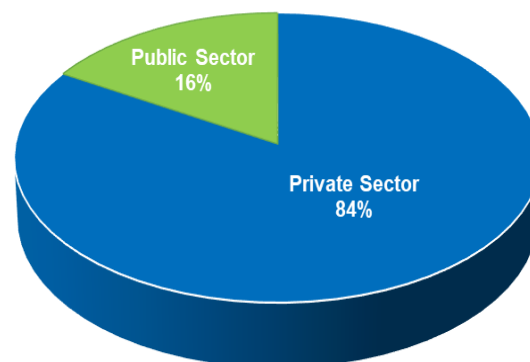
Banconal's investment portfolio contracted by US\$ 719.4 million or 22.9%, from US\$ 3,141.2 million as of December 31, 2020 to US\$ 2,421.8 million as of December 31, 2021. The reduction in the portfolio is due to the redemption of investments that have not been reinvested.

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.

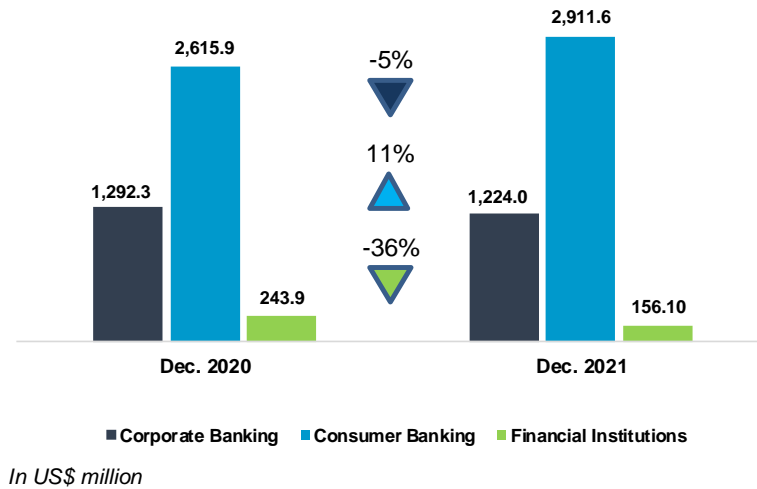
Loan Portfolio

The Bank's gross loan portfolio totaled US\$ 5,136.7 million as of December 31, 2021; a US\$ 157.3 million increase when compared to year end 2020 total of US\$ 4,979.4 million.

Loans to the public sector represented 16.4% of the total portfolio or US\$ 845.0 million and loans to the private sector represent the majority of the portfolio with US\$ 4,291.7 million or 83.6%.



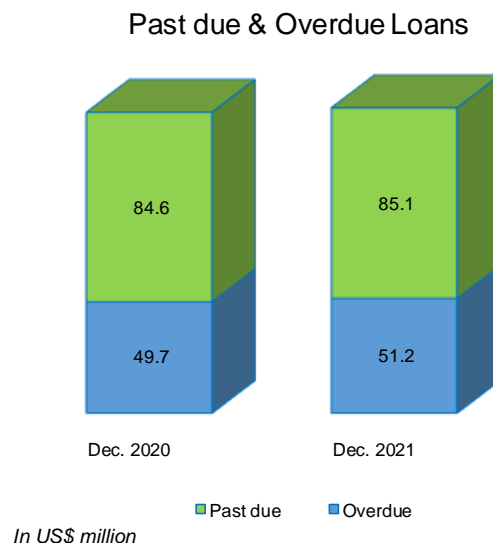
The following graph presents the private sector loan portfolio by type of loan. Most of the Bank's loans have fixed interest rates, which can be readjusted at the unilateral option of Banconal, at any time.



The corporate banking loan portfolio and loans to financial institutions fell by US\$ 68.3 million and US\$ 87.8 million respectively, while consumer banking saw an increase in their portfolios of US\$ 295.7 million, driven by the residential mortgage loan portfolio.

Asset Quality

As of December 31, 2021, total past due and overdue loans amounted to 2.7% 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\$ 126.7 million as of December 31, 2021, or 2.5% 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)	2021			2020			Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
Low risk	4,810,453	33,678	0.7%	4,861,413	54,129	1.1%	-50,960	-20,451
Significant risk	195,358	21,455	11.0%	32,984	8,588	26.0%	162,374	12,867
Default risk	130,915	71,545	54.6%	84,998	45,534	53.6%	45,917	26,011
Total	5,136,726	126,678	2.5%	4,979,395	108,251	2.2%	157,331	18,427

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 December 31, 2021, the Bank has modified loans on its books for an aggregate amount of US\$ 542.2 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 December 31, 2021:

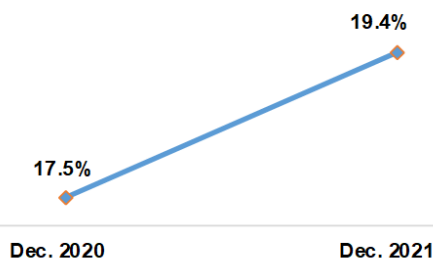
(In US\$ thousands)	2021			Total
	Stage 1	Stage 2	Stage 3	
Standard modified	93,241	14,705	0	107,946
Modified special mention	176,968	88,080	2,815	267,863
Modified sub-Standard	84,585	48,911	3,747	137,243
Doubtful Modified	0	0	12,767	12,767
Unrecoverable Modified	0	0	16,394	16,394
Gross balance	354,794	151,696	35,723	542,213
Additions (less):				
Interest receivable	11,653	7,408	1,113	20,174
Unearned interest and commissions	-227	-439	-80	-746
Total loans subject to provisions Agreement No. 006-2021	366,220	158,665	36,756	561,641
Provisions and reserves				
IFRS 9 reserve requirement	15,465	12,528	21,930	49,923
Total provisions and reserves	15,465	12,528	21,930	49,923

Capitalization

As of December 31, 2021, the Bank's total equity was US\$ 1,025.2 million, an increase of US\$ 63.0 million compared to December 31, 2020. The increase is due to retained earnings accumulated during the period. Total equity to total assets reached 6.7% as of December 31 of 2021.

As of December 31, 2021, the Bank's regulatory capital totaled US\$ 1,012.6 million and the ratio of total capital to risk-weighted assets (US\$ 5,227.3 million) was 19.4%, 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.

Capital Adequacy



Net Income for the year ended December 31, 2021

Net income for the period was US\$122.0 million, US\$ 3.2 million or 2.6% below net income for the same period 2020.

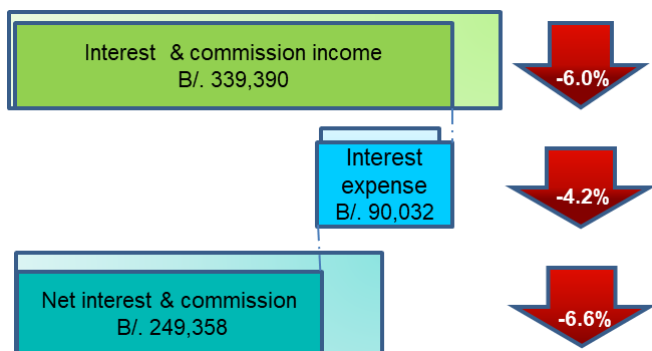
The following table illustrates the main components of the Bank's income statement for the period ended December 31, 2021 and 2020:

	2021	2020	Change	
			US\$	%
<i>(In US\$ thousands)</i>				
Interest and fee income	339,390	361,079	-21,689	-6.0%
Interest expense	90,032	94,021	-3,989	-4.2%
Net interest and commission income	249,358	267,058	-17,700	-6.6%
Impairment Allowances, net ⁽¹⁾	27,375	50,207	-22,832	-45.5%
Net interest and commission income, after provisions	221,983	216,851	5,132	2.4%
Fees for banking services	24,043	21,975	2,068	9.4%
Other income ⁽²⁾	52,293	36,410	15,883	43.6%
Total other expenses	1,376	900	476	52.9%
Total other income, net	74,960	57,485	17,475	30.4%
Total general and administrative expenses	174,933	149,082	25,851	17.3%
Net income	122,010	125,254	-3,244	-2.6%

⁽¹⁾ Includes provision (reversal of) for losses in deposits with banks, provision 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

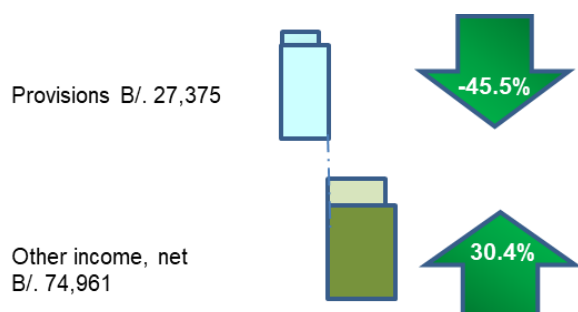


For the year ended December 31, 2021, Banconal's net interest and commission income decreased by 6.6% to US\$ 249.4 million from US\$ 267.1 million in 2020. The decrease is attributed to lower income from interest on deposits, due to a low interest rate environment and an increase in financing costs.

(In US\$ thousands)	2021	2020	Change	
			US\$	%
Interest income and commission income				
Loans	255,750	239,640	16,110	6.7%
Deposits in banks	9,951	22,095	-12,144	-55.0%
Securities	63,181	90,918	-27,737	-30.5%
Loan fees	10,508	8,426	2,082	24.7%
Total interest, commission and fee income	339,390	361,079	-21,689	-6.0%
Interest expense				
Deposits	46,657	68,939	-22,282	-32.3%
Borrowings	43,194	24,898	18,296	73.5%
Lease liabilities	181	184	-3	-1.6%
Total interest expenses	90,032	94,021	-3,989	-4.2%
Net interest and commission income	249,358	267,058	-17,700	-6.6%

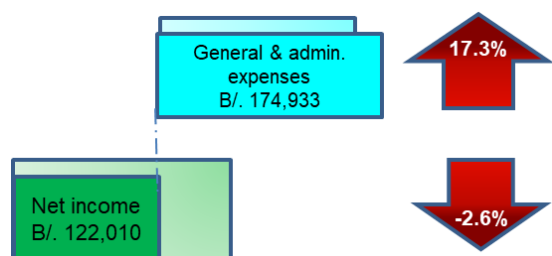
Loss Provisions and Other Income

Loss provision expense decreased by 45.5%, from US\$ 50.2 million provisioned at December 31, 2020 to US\$ 27.4 million at December 31, 2021. The decrease in provisions expense is because of lower levels of provisions taken for losses on the loan portfolio.



Other income, net increased net 30.4%, from US\$ 57.5 million at December 31, 2020 to US\$ 75.0 million at December 31, 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

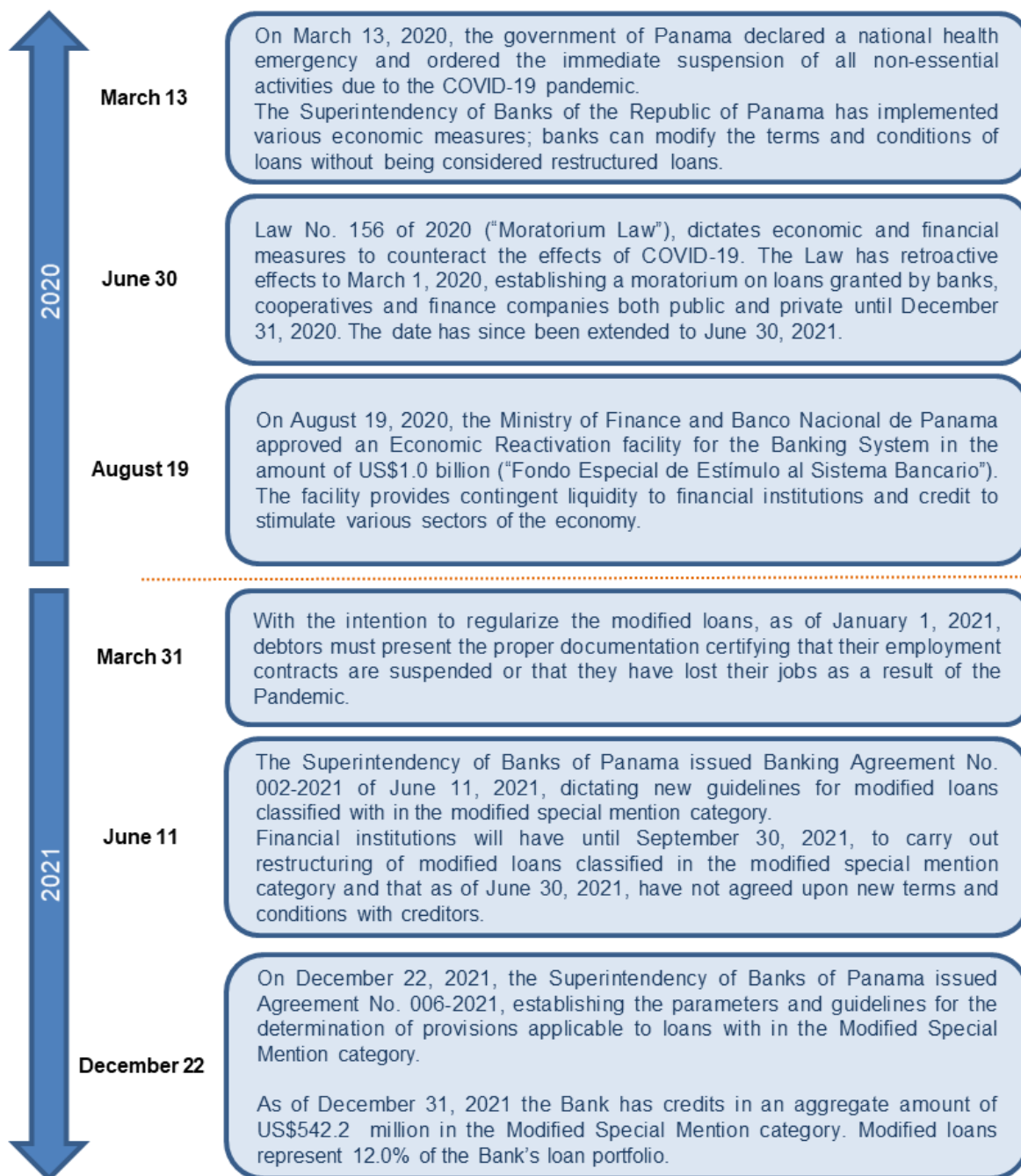


General and administrative expenses increased by 17.3% during the first nine months of 2021 compared to the same period of 2020. The increase of US\$ 25.9 million, mainly attributed to personnel expenses, repair and maintenance expenses, and professional services fees.

The Bank's efficiency ratio was 58.9% at December 31 2021.

<i>(In US\$ thousands)</i>	2021	2020	Change	
			US\$	%
Salaries and other personnel expenses	115,711	95,534	20,177	21.1%
Rentals	1,246	1,439	-193	13.4%
Repairs and maintenance	14,918	12,643	2,275	18.0%
Depreciation and amortization	13,153	12,799	354	2.8%
Electricity	2,957	2,683	274	10.2%
Advertising	2,623	2,430	193	7.9%
Communications	7,277	7,367	-90	-1.2%
Insurance	832	662	170	25.7%
Stationery and office supplies	2,004	1,518	486	32.0%
Fees and professional services	4,423	3,056	1,367	44.7%
Transportation of personnel	633	627	6	1.0%
Transportation of valuables	2,120	2,326	-206	-8.9%
ATMs	1,643	1,713	-70	-4.1%
Others	5,393	4,285	1,108	25.9%
Total general and administrative expenses	174,933	149,082	25,851	17.3%

COVID – 19 / Modified Loans



Income Statement

<i>(In US\$ thousands)</i>	2021	2020	Change	
			US\$	%
Interest and fee income	339,390	361,079	-21,689	-6.0%
Interest expense	90,032	94,021	-3,989	-4.2%
Net interest and commission income	249,358	267,058	-17,700	-6.6%
Impairment Allowances, net ⁽¹⁾	27,375	50,207	-22,832	-45.5%
Net interest and commission income, after provisions	221,983	216,851	5,132	2.4%
Fees for banking services	24,043	21,975	2,068	9.4%
Other income ⁽²⁾	52,293	36,410	15,883	43.6%
Total other expenses	1,376	900	476	52.9%
Total other income, net	74,960	57,485	17,475	30.4%
Total general and administrative expenses	174,933	149,082	25,851	17.3%
Net income	122,010	125,254	-3,244	-2.6%

⁽¹⁾ Includes provision (reversal of) for losses in deposits with banks, provision 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>	2021	2020	Change	
			US\$	%
Assets				
Cash and cash equivalents	7,549,088	8,518,007	-968,919	-11.4%
Securities purchased under resale agreements, at amortized cost	41,318	33,252	8,066	24.3%
Investments in securities, net	2,421,806	3,141,166	-719,360	-22.9%
Private sector loans and interest receivable	4,336,669	4,194,258	142,411	3.4%
Public sector loans and interest receivable	851,365	829,900	21,465	2.6%
Allowance for loan losses	-126,678	-108,251	-18,427	17.0%
Unearned interest and commissions	-26,781	-25,846	-935	3.6%
Total loans, at amortized cost	5,034,575	4,890,061	144,514	3.0%
Property, plant & equipment	83,320	80,750	2,570	3.2%
Other assets	176,265	209,701	-33,436	-15.9%
Total assets	15,306,372	16,872,937	-1,566,565	-9.3%
Liabilities & Shareholder Equity				
Deposits	12,363,757	13,988,989	-1,625,232	-11.6%
Obligations with financial institutions, at amortized cost	485,107	485,415	-308	-0.1%
Bonds payable, at amortized cost	1,006,647	1,005,955	692	0.0%
Corporate bonds payable, at amortized cost	206,267	206,216	51	0.0%
Other liabilities	219,344	224,145	-4,801	-2.1%
Total liabilities	14,281,122	15,910,720	-1,629,598	-10.2%
Equity	1,025,250	962,217	63,033	6.6%
Total liabilities & equity	15,306,372	16,872,937	-1,566,565	-9.3%

Financial Ratios

	<u>2021</u>	<u>2020</u>
Profitability and efficiency:		
Net Interest Margin ⁽¹⁾	1.6%	2.1%
Return on average assets ⁽²⁾	0.8%	0.9%
Return on average equity ⁽³⁾	12.0%	12.9%
Efficiency ⁽⁴⁾	58.9%	54.3%
Liquidity:		
Primary Liquidity	61.1%	60.9%
Legal Liquidity ⁽⁶⁾	83.9%	88.8%
Capital:		
Total Capital ratio ⁽⁷⁾	19.4%	17.5%
Equity/ assets ⁽⁸⁾	6.7%	5.7%
Asset quality:		
Past due loans over 91 days overdue / total loans ⁽⁹⁾	1.7%	1.7%
Past due loans/ total loans ⁽¹⁰⁾	2.7%	2.7%
Non-accrual loans / total loans ⁽¹¹⁾	1.1%	1.2%
Headcount	3,606	3,412
Branch network	91	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 audited financial statements, as of December 31, 2021. Some figures (including percentages) in this document have been rounded. The audited yearend 2021 financial statements are available on the Bank's web site www.banconal.com.pa



BANCO NACIONAL

BANCO NACIONAL DE PANAMA