Management Financial Discussion and Analysis Second Quarter 2021

June 2021

BANCO NACIONAL DE PANAMA

Banconal in numbers
Q2 - 2021

- The Bank's balance sheet contracted by 5.6% during the first six months of 2021. The contraction is the result of reductions in deposits, both from the public and private sectors. The decrease in private deposits is due to a reduction in deposits from banks. Reductions in public deposits is in line with the Government's uses of its liquidity to cover operating expenses.

- Total assets decreased by US$ 941.9 million, closing at US$ 15,931.0 million at June 30, 2021. The reduction in assets is reflected in a decrease in liquid assets, particularly in the investment portfolio.

- The liquidity ratio at June 30, 2021 is 87.8%, short of three times the minimum of 30% required by the regulator.

- Delinquent and past due loans correspond to 3.5% of the Bank's total loan portfolio. The reserve for possible loan losses amounted to US$ 115.6 million. Past due loans over 90 days have a reserve (loan loss reserves plus dynamic provision) coverage for possible losses of 151.4% as of June 30, 2021.

- Total liabilities decreased by 6.3% or US$ 999.7 million, due to a 7.2% reduction in deposits. Of total deposits, private time deposits fell US$ 392.3 million due to bank deposit withdrawals, and public time deposits decreased by US$ 1,027.6 million as a result of Government withdrawals to cover operating expenses.

Gross Loans	$ 5,006
Total Assets	$15,931
Equity	$ 1,020
Net Income	$ 63
NIM	1.6%
Efficiency Ratio	56.4%
RoAE	12.8%
Liquidity Ratio	87.8%
NPL Ratio	3.5%
CET1 Ratio	18.0%

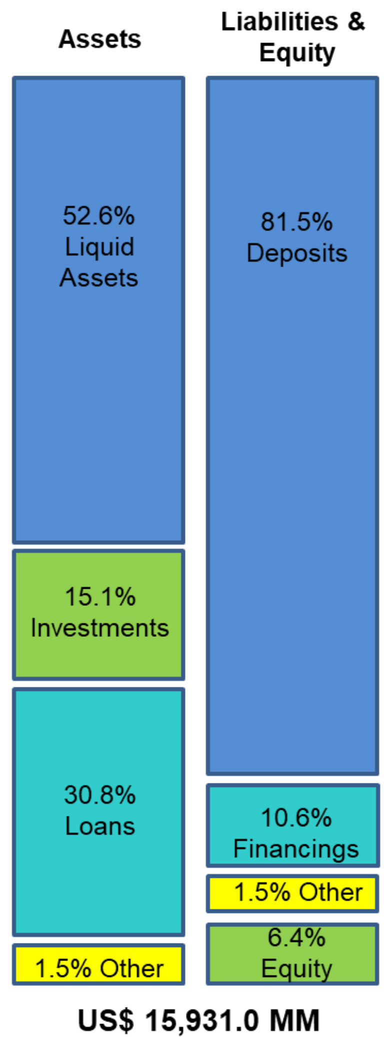
- Total equity reached US$ 1,020.0 million, an increase of 6.0% compared to total equity as of December 31, 2020 (US$ 962.2 million). At the end of the second quarter of 2021, capital adequacy ratio reached 18.0%.

- The Bank has investment grade risk ratings by the three main rating agencies:
    - Standard and Poor's ("BBB", with a stable outlook)
    - Moody's ("Baa2", with a stable outlook)
    - Fitch Ratings ("BBB-" with negative outlook)

BANCO NACIONAL DE PANAMA

Financial Analysis

At the end of second quarter 2021, Banco Nacional's balance sheet shows a contraction of 5.6%. The contraction, primarily in liquid assets, is a reflection of the reduction of client deposits, both from the private and public sectors. The composition of the Bank's balance sheet continues to show high levels of liquidity; liquid assets and investments represent 67.7% of total assets. Loans are 30.8% of assets. Customer deposits account for 81.5% of liabilities, financings 10.6% and other liabilities 1.5%. Equity funds constitute 6.4% of the total balance sheet.



Assets

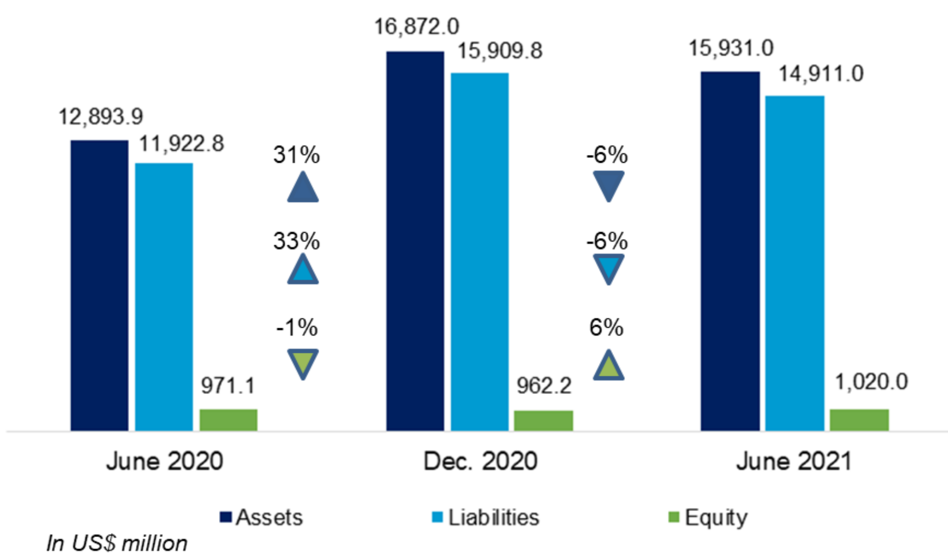
Assets totaled US$ 15,931.0 million. In comparison with year-end 2020 balance sheet numbers, assets decreased by US$ 941.9 million or 5.6%, as a result of a reduction in bank deposits in the amount of US$ 121.9 million and in investments in securities of US$ 770.2 million. The contraction in total assets 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$ 14,911.0 million as of June 30, 2021, decreasing by US$ 999.7 million, compared to December 31, 2020 figures. The contraction is reflected in a decrease US$ 1,011.0 million in customer deposits or 7.2%, mainly in public sector deposits and bank deposits. The drop in public sector deposits is due to the use of resources by the Government to cover operating expenses.

Equity

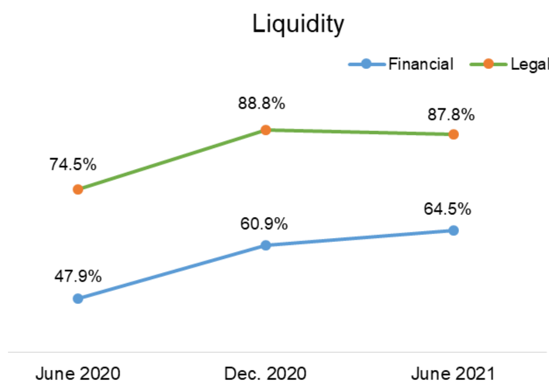
At the end of second quarter 2021, the Bank's total equity closed at US$ 1,020.0 million, an increase of US$ 57.8 million compared to December 31, 2020. The increase is due to the accumulation of retained earnings for the period.



Liquidity and Sources of Funds

Banconal maintains robust liquidity levels. As of June 30, 2021, the financial liquidity ratio was 64.5% and the legal liquidity ratio closed at 87.8%, well above the 30% required by the Superintendency of Banks of Panama.

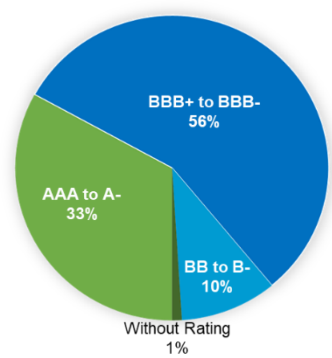
Liquid assets totaled US$ 10,780.6 million (cash, bank deposits, securities purchased under resale agreements, and investments in securities). The level of liquid assets fell by 7.8%, from US$ 11,692.4 million at December 31, 2020. As of June 30, 2021, liquid assets represented 83.1% of total customer deposits and 67.7% of total of assets.



(In US$ thousands)	**As of June 30, 2021**	**As of December 31, 2020**	**Change US$**	**Change %**
Cash and cash equivalents	279,900	299,687	-19,787	-6.6%
Deposits in banks at amortized cost:				
Demand deposits- foreign	77,620	90,825	-13,205	-14.5%
Time deposits - local	295,109	340,143	-45,034	-13.2%
Time deposits - foreign	7,723,976	7,787,473	-63,497	-0.8%
Less: Reserve for bank deposit losses	257	121	136	112.4%
Total bank deposits at amortized cost	8,096,448	8,218,320	-121,872	-1.5%
Total cash, cash equivalents and bank deposits at amortized cost	**8,376,348**	**8,518,007**	**-141,659**	**-1.7%**
Securities purchased under resale agreements	12,087	33,314	-21,227	-63.7%
Less: Reserve for investment losses	68	62	6	9.7%
Securities purchased under resale agreements at amortized cost	**12,019**	**33,252**	**-21,233**	**-63.9%**
Investments in securities	2,399,972	3,145,743	-745,771	-23.7%
Less: Reserve for investment losses	7,724	4,577	3,147	68.8%
Investments in securities, net	**2,392,248**	**3,141,166**	**-748,918**	**-23.8%**
Total Liquid Assets	**10,780,615**	**11,692,425**	**-911,810**	**-7.8%**

Banconal's investment portfolio contracted by US$ 748.9 million or 23.8%, from US$ 3,141.1 million as of December 31, 2020 to US$ 2,392.2 million as of June 30, 2021. The reduction in the portfolio is due to the redemption of investments that have not been reinvested.

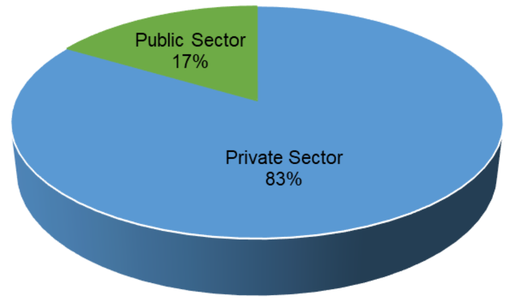
The Bank's investment portfolio is made up of sovereign and corporate debt securities issued by Panamanian, US, Latin American and supranational institutions. The Bank has a conservative investment policy, investing primarily in liquid investment grade fixed income securities. Banco Nacional's investment portfolio is largely invested in investment grade securities.



The Bank's funding sources consist of deposits and financings. Total sources of funds amounted to US$ 14,677.0 million as of June 30, 2021; of these, deposits amounted to US$ 12,977.9 million, which represents 88.4% of the Bank's sources of funds. Deposits include demand deposits, time deposits, savings accounts, and bank deposits.

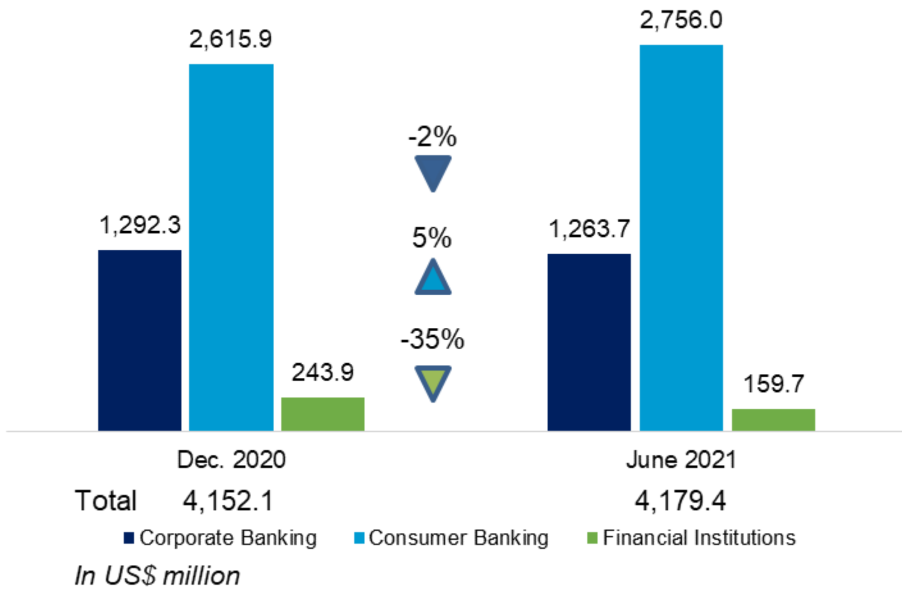
Loan Portfolio

The Bank's gross loan portfolio totaled US$ 5,005.9 million as of June 30, 2021; a US$ 26.5 million increase when compared to year end 2020 total of US$ 4,979.4 million.



Loans to the public sector represented 16.5% of the total portfolio or US$ 826.6 million and loans to the private sector represent the majority of the portfolio with US$ 4,179.4 million or 83.5%.

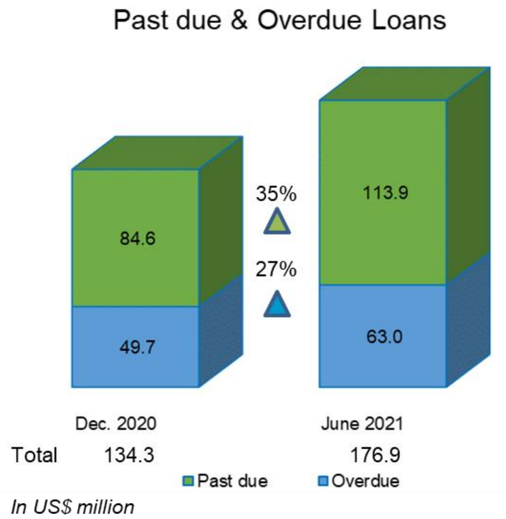
The following graph presents the private sector loan portfolio by type of loan. Most of the Bank's loans have fixed interest rates, which can be readjusted at the unilateral option of Banconal, at any time.



The corporate banking loan portfolio and loans to financial institutions fell by US$ 28.6 million and US$ 84.2 million respectively, while consumer banking saw an increase in their portfolios of US$ 140.1 million, driven by the residential mortgage loan portfolio.

Asset Quality

As of June 30, 2021, total past due and overdue loans amounted to 3.5% 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$ 115.6 million as of June 30, 2021, or 2.3% 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.

	As of June 30 2021			As of December 31 2020			Change	
(US$ thousands)	**Loans**	**Allowances**	**%**	**Loans**	**Allowances**	**%**	**Loans**	**Allowances**
Low risk	4,799,180	51,205	1.1%	4,861,413	54,129	1.1%	-1.3%	-5.4%
Significant risk	99,272	9,371	9.4%	32,984	8,588	26.0%	201.0%	9.1%
Default risk	107,499	54,978	51.1%	84,998	45,534	53.6%	26.5%	20.7%
Total	**5,005,951**	**115,554**	**2.3%**	**4,979,395**	**108,251**	**2.2%**	**0.5%**	**6.7%**

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 June 30, 2021, the Bank has modified loans on its books for an aggregate amount of US$ 628.9 million. Modified loans represent 12.6% 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.

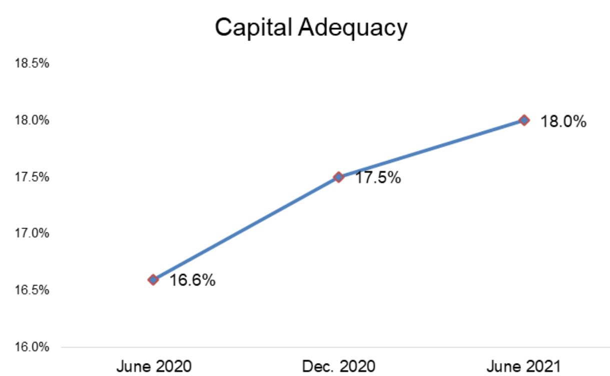
The following table details the modified special mention portfolio categories and their respective provisions and regulatory reserves as of June 30, 2021:

(In US$ thousands)	As of June 30, 2021 Low risk	Significant risk	Default risk	Total
Loans within the modified special mention category				
Modified loans:				
Residential mortgages	361,368	0	0	361,368
Personal loans	45,850	316	5,565	51,731
Agricultural	16,995	0	1,053	18,048
Commercial	132,312	63,559	775	196,646
Financial institutions	1,061	0	0	1,061
Gross balance	557,586	63875	7393	628,854
Additions (less):				
Interest receivable	16,267	3930	150	20,347
Unearned interest and commissions	-839	-4	-70	-913
Total loans subject to provisions Agreement No. 009-2020	**573,014**	**67,801**	**7473**	**648,288**
Comparison: IFRS 9 reserve and generic provision				
IFRS 9 reserve requirement	33,306	431	4,753	38,490
Generic provision calculation 3%	17,190	2,034	224	19,448
Total IFRS 9 registered reserve	33,306	431	4,753	38,490
Generic provision (to complete 1.5%)	0	0	0	0
Regulatory reserve (to complete 3%)	0	0	0	0
Total provisions and reserves	**33,306**	**431**	**4,753**	**38,490**

Capitalization

As of June 30, 2021, the Bank's total equity was US$ 1,020.0 million, an increase of US$ 57.8 million compared to December 31, 2020. The increase is due to retained earnings accumulated during the period. Total equity to total assets reached 6.4% as of June 30 of 2021.

As of June 30, 2021, the Bank's regulatory capital totaled US$ 975.5 million and the ratio of total capital to risk-weighted assets (US$ 5,432.9 million) was 18.0%, 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.

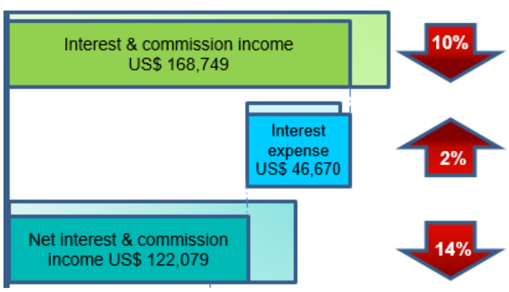


Net Income for the Period ended June 30, 2021

Net income for the first half of 2021 was US$62.6 million, US$ 13.4 million or 17.6% below net income for the same period 2020.

	As of June 30,		Change	
	2021	2020	US$	%
(In US$ thousands)				
Interest and fee income	168,749	187,958	-19,209	-10.2%
Interest expense	46,670	45,636	1,034	2.3%
Net interest and commission income	**122,079**	**142,322**	**-20,243**	**-14.2%**
Impairment Allowances, net (1)	11,933	17,052	-5,119	-30.0%
Net interest and commission income, after provisions	**110,146**	**125,270**	**-15,124**	**-12.1%**
Fees for banking services	10,825	8,836	1,989	22.5%
Other income(2)	23,240	10,555	12,685	120.2%
Total other expenses	712	541	171	31.6%
Total other income, net	**33,353**	**18,850**	**14,503**	**76.9%**
Total general and administrative expenses	80,895	68,110	12,785	18.8%
Net income	**62,604**	**76,010**	**-13,406**	**-17.6%**

(1) Includes provision (reversal of) for losses in deposits with banks, provision (reversal of) for investment securities losses, provision for loan losses and (reversal of) provision for valuation of foreclosed assets.
(2) Includes dividends, net gain on investments in securities and others.

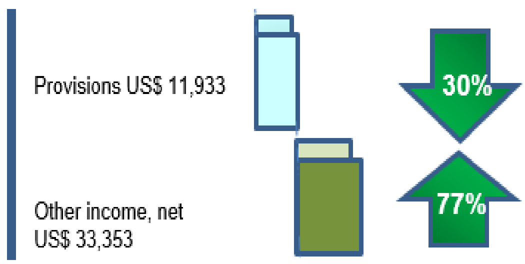


Interest and Commission Income

For the period ended June 30, 2021, Banconal's net interest and commission income decreased by 14.2% to US$ 122.1 million from US$ 142.3 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 second quarter 2020.

(In US$ thousands)	As of June 30,		Change	
	2021	2020	US$	%
Interest income and commission income				
Loans	125,678	118,123	7,555	6.4%
Deposits in banks	5,977	15,803	-9,826	-62.2%
Securities	32,925	49,963	-17,038	-34.1%
Loan fees	4,169	4,069	100	2.5%
Total interest, commission and fee income	**168,749**	**187,958**	**-19,209**	**-10.2%**
Interest expense				
Deposits	25,202	39,871	-14,669	-36.8%
Borrowings	21,379	5,669	15,710	277.1%
Lease liabilities	89	96	-7	-7.3%
Total interest expenses	**46,670**	**45,636**	1,034	2.3%
Net interest and commission income	**122,079**	**142,322**	**-20,243**	**-14.2%**

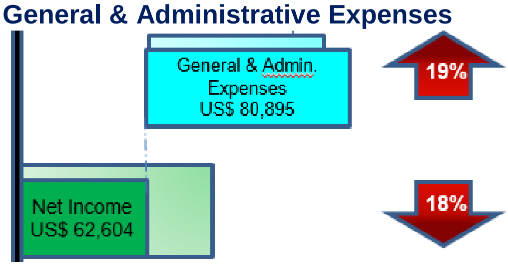
Loss Provisions and Other Income



Loss provision expense decreased by 30.0%, from US$ 17.1 million provisioned at June 30, 2020 to US$ 11.9 million at June 30, 2021. The decrease in provisions expense is because of lower levels of provisions taken for losses on the loan portfolio.

Other income increased 76.9%, from US$ 18.9 million at June 30, 2020 to US$ 33.4 million at June 30, 2021. The increase is due to commissions generated by discount of the Digital Voucher in the Panama Solidario Program to participating merchants and the sale of US$ 151.7 million in securities, generating US$ 10.1 million in income.

General & Administrative Expenses



General and administrative expenses increased by 18.8% during the first half of 2021 compared to the same period of 2020. The increase of US$ 12.8 million, mainly attributed to personnel expenses, repair and maintenance expenses, and professional services fees.

The Bank's efficiency ratio was 56.4% at June 30, 2021.

	As of June 30,		Change	
(In US$ thousands)	**2021**	**2020**	**US$**	**%**
Salaries and other personnel expenses	53,703	43,284	10,419	24.1%
Rentals	591	489	102	20.9%
Repairs and maintenance	6,601	4,880	1,721	35.3%
Depreciation and amortization	6,584	6,380	204	3.2%
Electricity	1,472	1,473	-1	-0.1%
Advertising	1,362	1,440	-78	-5.4%
Communications	3,012	3,558	-546	-15.3%
Insurance	296	53	243	458.5%
Stationery and office supplies	749	651	98	15.1%
Fees and professional services	2,247	1,423	824	57.9%
Transportation of personnel	340	362	-22	-6.1%
Transportation of valuables	1,071	1,207	-136	-11.3%
ATMs	815	923	-108	-11.7%
Others	2,052	1,987	65	3.3%
Total general and administrative expenses	**80,895**	**68,110**	**12,785**	**18.8%**

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

(In US$ thousands)	As of June 30, 2021	2020	Change US$	%
Interest and fee income	168,749	187,958	-19,209	-10.22%
Interest expense	46,670	45,636	1,034	2.27%
Net interest and commission income	**122,079**	**142,322**	**-20,243**	**-14.22%**
Impairment Allowances, net (1)	11,933	17,052	-5,119	-30.02%
Net interest and commission income, after provisions	**110,146**	**125,270**	**-15,124**	**-12.07%**
Fees for banking services	10,825	8,836	1,989	22.51%
Other income(2)	23,240	10,555	12,685	120.18%
Total other expenses	712	541	171	31.61%
Total other income, net	33,353	18,850	14,503	76.94%
Total general and administrative expenses	80,895	68,110	12,785	18.77%
Net income	**62,604**	**76,010**	**-13,406**	**-17.64%**

(1) Includes provision (reversal of) for losses in deposits with banks, provision (reversal of) for investment securities losses, provision for loan losses and (reversal of) provision for valuation of foreclosed assets.
(2) Includes dividends, net gain on investments in securities and others.

Balance Sheet

(US$ in thousands)	June 30, 2021	December 31, 2020	Change US$	%
Assets				
Cash and cash equivalents	8,376,349	8,518,007	-141,658	-1.7%
Securities purchased under resale agreements	12,019	33,252	-21,233	-63.9%
Investments in securities, net	2,392,248	3,141,166	-748,918	-23.8%
Gross loans private sector	4,225,270	4,194,258	31,012	0.7%
Gross loans public sector	833,888	829,900	3,988	0.5%
Allowance for loan losses	-115,554	-108,251	-7,303	6.7%
Unearned interest and commissions	-26,729	-25,846	-883	3.4%
Total loans, net	4,916,875	4,890,061	26,814	0.5%
Property, plant & equipment	78,414	80,750	-2,336	-2.9%
Other assets	155,139	209,701	-54,562	-26.0%
Total assets	**15,931,044**	**16,872,937**	**-941,893**	**-5.6%**
Liabilities & Shareholder Equity				
Deposits	12,977,988	13,988,989	-1,011,001	-7.2%
Obligations with financial institutions	482,739	485,415	-2,676	-0.6%
Bonds payable, at amortized cost	1,006,160	1,005,956	204	0.0%
Corporate bonds payable, at amortized cost	206,216	206,216	0	0.0%
Other liabilities	237,917	224,144	13,773	6.1%
Total liabilities	14,911,020	15,910,720	-999,700	-6.3%
Equity	1,020,024	962,217	57,807	6.0%
Total Liabilities & Equity	**15,931,044**	**16,872,937**	**-941,893**	**-5.6%**

BANCO NACIONAL DE PANAMA

Financial Ratios

	June 30, 2021	December 31, 2020
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)	12.8%	12.9%
Efficiency (4)	56.4%	54.3%
Liquidity:		
Primary Liquidity	64.5%	60.9%
Legal Liquidity (6)	87.8%	88.8%
Capital:		
Total Capital ratio (7)	18.0%	17.5%
Equity/ assets (8)	6.4%	5.7%
Asset quality:		
Past due loans over 91 days overdue / total loans (9)	2.3%	1.7%
Past due loans/ total loans (10)	3.5%	2.7%
Non-accrual loans / total loans (11)	1.4%	1.2%
Headcount	3,542	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 & administrative 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 June 30, 2021. Some figures (including percentages) in this document have been rounded. The interim unaudited financial statements as of June 30, 2021 are available on the Bank's web site www.banconal.com.pa

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