



Management Financial Discussion and Analysis

June 2023



Highlights

- Following the Bank’s strategic plan to strengthen its financial position, Banco Nacional de Panama, through Executive Decree No. 8, the Presidency of the Republic issued a favorable concept to increase the paid-in capital to US\$ 1 billion, through the capitalization of US\$ 150 million, from retained earnings.
- Maintaining complete commitment to the agricultural sector, the Bank launched the VISA Agricultural credit card in Panama. The card is for the exclusive use of the agricultural sector.
- Banconal presented Banca Seguro to its clients, a service that expands and diversifies the product portfolio offering, with the support of Internacional de Seguros.
- The Bank, obtained third place in the Infrastructure Transparency Index (ITI), carried out by the CoST Panama International Organization. This denotes the healthy governance established by the institution.

Financial Analysis

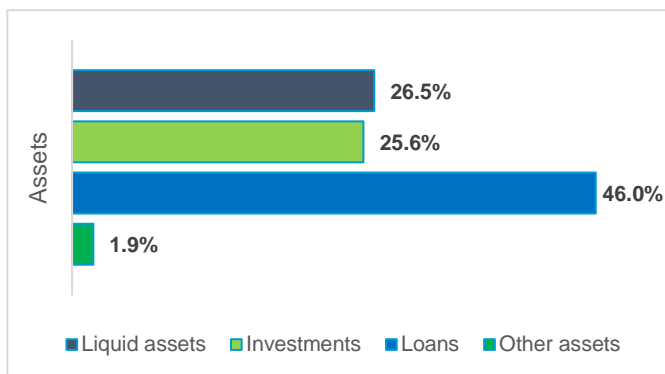
As of June 30, 2023, Banco Nacional's balance sheet contracted 3.1% when compared to December 2022 numbers.

The Bank's balance sheet exhibits high levels of liquidity; liquid assets represent 26.5%, investments 25.6%, loans represent 46.0% and other assets represent 1.9% of total assets. On the liabilities and capital side, customer deposits represent 78.1%, financings 10.5% and other liabilities 2.4%. Equity constitutes 9.0% of the total balance sheet.

Total Assets	Loans, gross	Equity	Net Income	In US\$ Millions
US\$ 14,144.0	US\$ 6,502.4	US\$ 1,272.7	US\$ 149.7	
Legal Liquidity	Efficiency	ROAE	Capital Adequacy	
73.5%	37.8%	25.2%	19.5%	

Assets

Assets totaled US\$ 14,144.0 million as of June 30, 2023. When comparing the balances as of June 2023 with the balances at December 2022, assets show a contraction of US\$459.9 million or 3.1%.

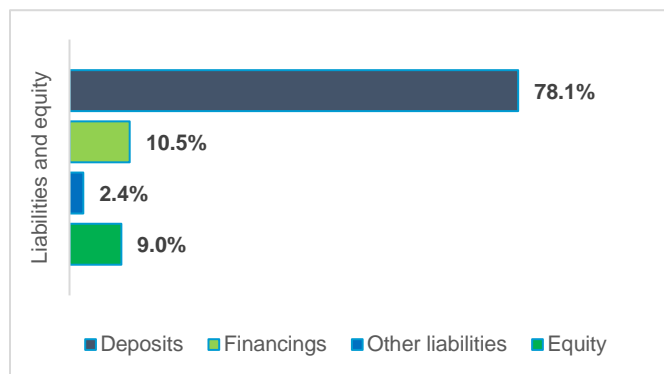


Liabilities

Liabilities totaled US\$ 12,871.3 million as of June 30, 2023, which reflects a decrease of US\$ 591.1 million, compared to December 31, 2022.

Equity

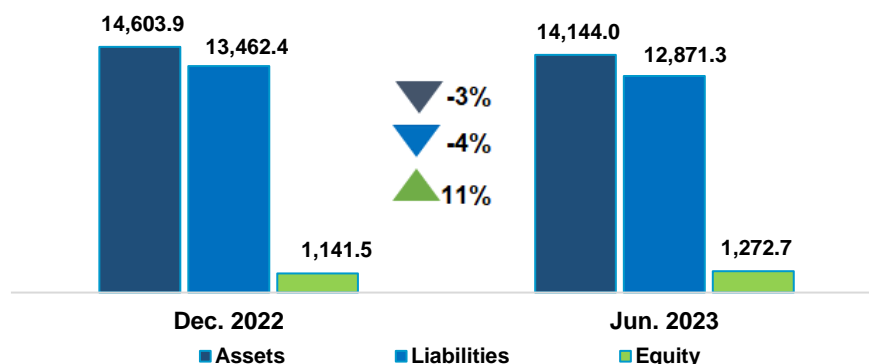
At the end of the first semester of 2023, the Bank's equity totaled US\$ 1,272.7 million, an increase of US\$ 131.2 million compared to December 31, 2022. The increase comes from the accumulation of earnings for the period.



Risk Ratings

The Bank has investment grade risk ratings by the three main rating agencies:

- Standard and Poor's ("BBB", with a stable Outlook – August 23)
- Moody's ("Baa2", with a negative Outlook – November 22)
- Fitch Ratings ("BBB-" with a stable outlook – May 23)



Liquidity and Sources of Funds

Liquid assets totaled US\$ 7,394.8 million (cash, deposits in banks, securities purchased under resale agreements, and investments in securities) at June 30, 2023. Liquid assets decreased by 12.1%, from US\$ 8,412.0 million as of December 31, 2022. At the end of the second quarter of 2023, liquid assets represented 66.9% of total customer deposits and 52.3% of total assets. The financial liquidity ratio reached is 46.7%.

Liquid Assets (In US\$ Thousands)	As of June 30, 2023	As of December 31, 2022	Change	
			US\$	%
Cash and cash equivalents	333,245	408,473	(75,228)	-18.4%
Deposits in banks at amortized cost:				
Demand deposits- foreign	67,451	107,061	(39,610)	-37.0%
Time deposits - local	190,689	305,581	(114,892)	-37.6%
Time deposits - foreign	3,161,259	3,786,842	(625,583)	-16.5%
Less: Reserve for bank deposit losses	20	36	(16)	-42.6%
Total bank deposits at amortized cost	3,419,379	4,199,448	(780,069)	-18.6%
Total cash, cash equivalents and bank deposits at amortized cost	3,752,624	4,607,921	(855,297)	-18.6%
Securities purchased under resale agreements	157,899	195,406	(37,507)	-19.2%
Less: Reserve for investment losses	415	233	182	77.7%
Securities purchased under resale agreements at amortized cost	157,484	195,173	(37,689)	-19.3%
Investments in securities	3,489,995	3,614,227	(124,232)	-3.4%
Less: Reserve for investment losses	5,284	5,338	(54)	-1.0%
Investments in securities, net	3,484,711	3,608,889	(124,178)	-3.4%
Total Liquid Assets	7,394,819	8,411,983	(1,017,164)	-12.1%

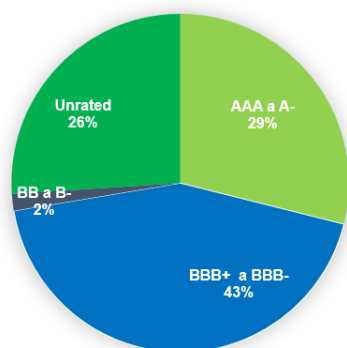
Liquidity Ratio

The Bank maintains ample liquidity levels. As of June 30, 2023, the financial liquidity ratio was 46.7% and the legal or regulatory liquidity ratio closed at 73.5%, well above the 30% required by the Superintendency of Banks of Panama.

Funding Sources

The Bank's funding sources consist of deposits and financings. total sources of funds amounted to US\$ 12,545.2 million as of June 30, 2023; of these, customer deposits totaled US\$ 11,049.9 million, which represent 88.1% of the Bank's sources of funds.

Sources of Funds (In US\$ Thousands)	As of June 30, 2023	As of December 31, 2022	Change	
			US\$	%
Deposits				
Demand deposits	4,614,320	4,962,181	(347,861)	-7.0%
Savings deposits	952,782	962,506	(9,724)	-1.0%
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	5,482,830	5,753,460	(270,630)	-4.7%
Total Deposits	11,049,932	11,678,147	(628,215)	-5.4%
Obligations				
Foreign borrowings received at amortized cost	278,848	309,892	(31,044)	-10.0%
Bond payable - local at amortized cost	206,250	206,267	(17)	0.0%
Bond payable - foreign at amortized cost	1,007,683	1,007,407	276	0.0%
Lease liabilities	2,459	2,688	(229)	-8.5%
Total obligations	1,495,240	1,526,254	(31,014)	-2.0%
Total Sources of funds	12,545,172	13,204,401	(659,229)	-5.0%



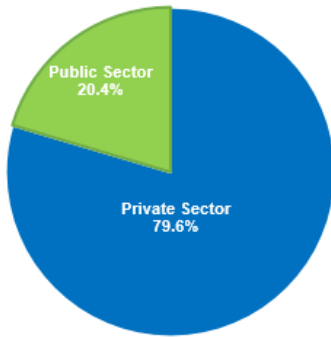
Investment Portfolio

Banco Nacional's investment portfolio decreased by US\$ 124.2 million or 3.4%, from US\$ 3,608.9 million as of December 31, 2022, to US\$ 3,484.7 million as of June 30, 2023.

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.

Investments in Securities (In US\$ thousands)	Local Rating	International Rating (i)	Total
AAA	0	34,978	34,978
AA+ to A	97,476	752,630	850,106
A-	15,011	91,617	106,628
BBB+ to BBB-	168,203	1,313,966	1,482,169
BB+	0	15,000	15,000
BB to B-	0	39,375	39,375
Unrated	3,581	870,969	874,550
Gross subtotal	284,271	3,118,535	3,402,806
Interest receivable	1,617	25,147	26,764
Loss reserve	(2,347)	(2,937)	(5,284)
Investments in securities at amortized cost	283,541	3,140,745	3,424,286

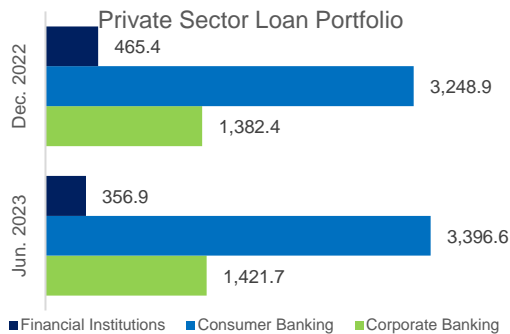
(i) The investments presented in the "Unrated" category correspond to liquid instruments of an international financial institution, to which only central banks have access and their risk is equivalent to an AAA sovereign risk rating.



Loan Portfolio

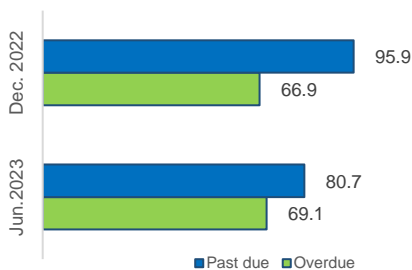
The Bank's gross loan portfolio totaled US\$ 6,502.4 million as of June 30, 2023, reflecting a 9% growth from year-end 2022 balances of US\$ 5,925.0 million.

Loans to the public sector represented 20.4% of the total portfolio or US\$ 1,327.2 million and loans to the private sector represent the majority of the portfolio with US\$ 5,175.2 million or 79.6%. Most of the Bank's loans have fixed interest rates, which can be readjusted at the unilateral option of Banco Nacional, at any given time.



Private Sector Loan Portfolio

The corporate banking portfolio increased by US\$ 39.3 million, loans to financial institutions decreased by US\$108.5 million, while the consumer banking portfolio increased by US\$ 147.7 million, driven by the residential mortgage loan portfolio.



Asset Quality

As of June 30, 2023, total past due and overdue loans accounted for 2.3% of the total loan portfolio (as of December 31, 2022: 2.7%). Asset quality indicators have remained stable during 2023, given the risk profile. Past due loans over 90 days have a reserve (loan loss reserves plus dynamic provision) coverage of 261.5%.

Loan Loss Reserves

The reserve for losses in losses closed at US\$ 149.9 million as of June 30, 2023 or 2.3%, of the total loan portfolio. As of December 31, 2022, the reserve was found at US\$ 140.3 million or 2.4% of the total loan portfolio.

Capitalization

As of June 30, 2023, the Bank's total equity stood at US\$ 1,272.7 million, an increase of US\$ 131.2 million compared to December 31, 2022. Total capital to total assets ratio reached 9.0% as of June 30, 2023.

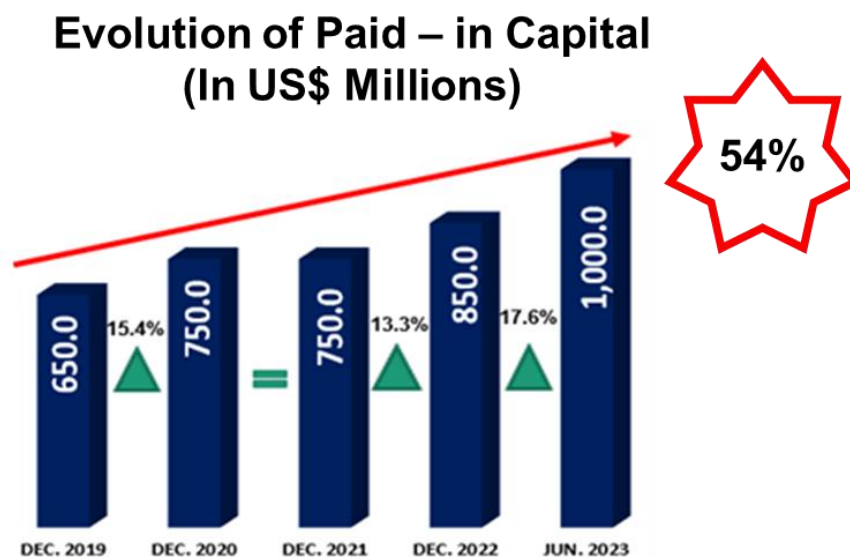
At the end of the first half of 2023, the Bank's regulatory capital totaled US\$ 1,183.4 million and the ratio of total capital to risk-weighted assets (US\$ 6,066.7 million) was 19.5%. Market risk-weighted assets and operational risk-weighted assets are included in accordance with the regulatory requirements.

The table below sets forth regulatory capital as of June 30, 2023 and December 31, 2022:

Capital Adequacy (In US\$ thousands)	As of June 30, 2023	As of December 31, 2022
Primary Capital		
Paid-in capital by Government of Panama	1,000,000	850,000
Retained earnings	119,625	218,863
Other items in comprehensive income	13,839	12,440
Less: intangible assets	11,137	10,979
Total Primary Capital	1,122,327	1,070,324
Dynamic regulatory provision	61,098	56,929
Total regulatory Capital	1,183,425	1,127,253
Total Risk-weighted assets	6,066,726	6,109,649
Capital adequacy ratios	19.5%	18.5%

Banco Nacional increased its paid-in capital to US\$ 1 billion, complying with the Bank's Organic Law, which determines that the capital will be increased periodically by the board of directors, after the Executive Branch issues a favorable concept, considering the provisions made by the banking legislation and best practices.

Banco Nacional has capitalized US\$ 350.0 million from retained earnings in four years, an increase of 54%.

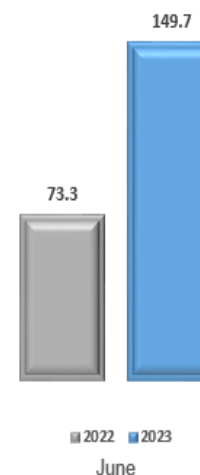


Q2 – 2023 Result of Operations

Net Income

Net income for the second quarter of 2023 reached US\$ 149.7 million, reflecting an increase of 104.3% or US\$ 76.4 million, when compared to the same period of 2022, the increase in revenue is due to higher interest rates in the international markets, which resulted in increases in interest income from deposits in banks and the growth in the loan portfolio generating better yields in interest and commissions income.

Net income
(In US\$ million)



Interest and Commission Income

As of the first semester of 2023, the Banco Nacional's net interest and commission income increased 65.2%, to US\$ 234.3 million from US\$ 141.8 million in the same period of 2022. The increase is credited to higher interests and commissions income, reflected by higher interest rates in the international market.

In US\$ Millions

Interest and commission income

US\$ 338.0

82.3% ↑

Interest expense

US\$ 103.7

137.8% ↑

Net interest and commission income

US\$ 234.3

65.2% ↑

Loss Provisions and Other Income

Provisions for credit losses increase by 46.9%, from US\$ 11.4 million as of June 30, 2022 to US\$ 16.7 million as of June 30, 2023. The increase in provisions occurs mainly in the provision for loan losses.

Other net income increased by 5.5% or US\$ 1.2 million, from US\$ 21.8 million as of June 30, 2022, to US\$ 23.0 million as of June 30, 2023. The increase is due to commissions generated in banking services.

General and Administrative Expenses

General and administrative expenses increased 15.1% or US\$ 11.9 million compared to June 2022. Expenses increased with in following item headings personnel, repairs and maintenance of the Banks premises and communications.

Provisions

US\$ 16.7

46.9% ↑

Other Income, net

US\$ 23.0

5.5% ↑

General and Admin. Expenses

US\$ 91.0

15.1% ↑

Net Income

US\$ 149.7

104.3% ↑

Income Statement

(US\$ Thousands)

Income Statement	June 30,		Change	
	2023	2022	US\$	%
Interest and fee income	337,997	185,415	152,582	82.3%
Interest expense	103,732	43,621	60,111	137.8%
Net interest and commission income	234,265	141,794	92,471	65.2%
Impairment Allowances, net ⁽¹⁾	16,655	11,341	5,314	46.8%
Net interest and commission income, after provisions	217,610	130,453	87,157	66.8%
Fees for banking services	13,391	12,708	683	5.4%
Other income ⁽²⁾	10,672	9,818	854	8.7%
Other expenses	1,010	683	327	47.9%
Total other income, net	23,053	21,843	1,210	5.5%
Total general and administrative expenses	90,967	79,025	11,942	15.1%
Net income	149,696	73,271	76,425	104.3%

⁽¹⁾ Includes reversal of losses on deposits in banks, provision for losses on investments, provision for loan losses and provision for valuation of foreclosed assets.

⁽²⁾ Includes net gain on investments in securities and other.

Balance Sheet

(US\$ Thousands)

Assets	June 30, 2023	December 31, 2022	Change	
			US\$	%
Cash and cash equivalents	3,752,624	4,607,921	(855,297)	(18.6%)
Securities purchased under resale agreements	157,484	195,173	(37,689)	(19.3%)
Investments in securities, net	3,484,711	3,608,889	(124,178)	(3.4%)
Private sector loans and interest receivable	5,214,154	5,134,756	79,398	1.5%
Public sector loans and interest receivable	1,334,091	833,280	500,811	60.1%
Allowance for loan losses	(149,929)	(140,283)	(9,646)	6.9%
Unearned interest and commissions	(28,148)	(27,859)	(289)	(1.0%)
Total loans, net	6,370,168	5,799,894	570,274	9.8%
Property, plant & equipment	89,567	82,517	7,050	8.5%
Other assets	289,474	309,475	(20,001)	(6.5%)
Total assets	14,144,028	14,603,869	(459,841)	(3.1%)
Liabilities & Shareholder's Equity	June 30, 2023	December 31, 2022	Change	
			US\$	%
Deposits	11,049,932	11,678,147	(628,215)	(5.4%)
Obligations with financial institutions	278,848	309,892	(31,044)	(10.0%)
Bonds payable, at amortized cost	1,007,682	1,007,407	275	0.0%
Corporate bonds payable, at amortized cost	206,250	206,268	(18)	0.0%
Other liabilities	328,583	260,643	67,940	26.1%
Total liabilities	12,871,295	13,462,357	(591,062)	(4.4%)
Equity	1,272,733	1,141,512	131,221	11.5%
Total Liabilities & Equity	14,144,028	14,603,869	(459,841)	(3.1%)

Financial Ratios

Profitability

Net Interest Margin ⁽¹⁾		Return on Average Assets ⁽²⁾		Return on Average Equity ⁽³⁾	
3.5%	2.3%	2.1%	1.3%	25.2%	17.8%
Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022

Liquidity & Efficiency

Financial Liquidity / Total Deposits ⁽⁴⁾		Legal Liquidity ⁽⁵⁾		Efficiency ⁽⁶⁾	
46.7%	51.1%	73.5%	74.8%	37.8%	47.3%
Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022

Capital

Capital Adequacy ⁽⁷⁾		Equity / Assets ⁽⁸⁾		Financial Leverage ⁽⁹⁾	
19.5%	18.5%	9.0%	7.8%	8.0%	7.4%
Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022

Asset Quality

Past Due Loans Over 91 Days / Total Loans ⁽¹⁰⁾		Past Due Loans / Total Loans ⁽¹¹⁾		Non-Accrual Loans / Total Loans ⁽¹²⁾	
1.2%	1.6%	2.3%	2.7%	0.8%	1.0%
Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022

Headcount	3,591	3,510	Branch Network	93	92
	Jun. 2023	Dec. 2022		Jun. 2023	Dec. 2022

⁽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 liquid assets, plus highly liquid investments (BIS-Treasury) over customer deposits

⁽⁵⁾ Regulatory liquid assets are determined based on guidelines established by the Superintendency of Banks.

⁽⁶⁾ Calculated as total general & admin. Expenses to net interest and commission income after provisions plus total other net income.

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

⁽⁸⁾ Equity divided by total assets

⁽⁹⁾ Primary equity net of regulatory adjustments divided by total productive assets net of deductions and counterparty risk per contingencies.

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

⁽¹¹⁾ Calculated as total past due loans and overdue loans over 91 days divided by total loan portfolio.

⁽¹²⁾ Calculated as non-accrual loans divided by total loans.

The analysis presented here is based on the information contained in the unaudited financial statements as of June 30, 2023. Some figures (including percentages) in this document have been rounded. The unaudited financial statements for the period ended June 30, 2023 are available on the Bank's website www.banconal.com.pa.

