

Management Financial Discussion and Analysis

September 2022



Financial Analysis

At the end of the third quarter of 2022, Banco Nacional's balance sheet decreased by 6.7%, mainly in the deposits in banks portfolio. The Bank's balance sheet continues to show high levels of liquidity; of total assets, liquid assets represent 33.5% and investments 21.9%. Loans represent 42.1% of total assets. Deposits represent 79.4% of liabilities and equity, financings 10.6% and other liabilities 1.9%. Equity makes up 8.1% of the total balance sheet.

(In US\$ millions)

Total Assets	Loans, gross	Equity	Net Income
US\$ 14,283.6	US\$ 6,131.4	US\$ 1,152.6	US\$ 135.6
Legal Liquidity	Efficiency	Return on Average Equity	Total Capital Ratio
78.5%	47.5%	16.9%	18.3%

Assets

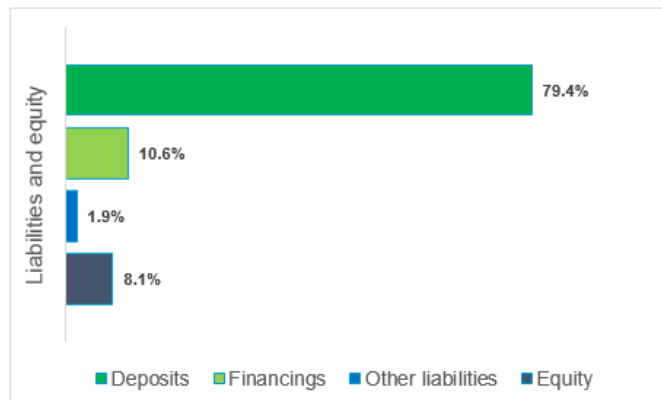
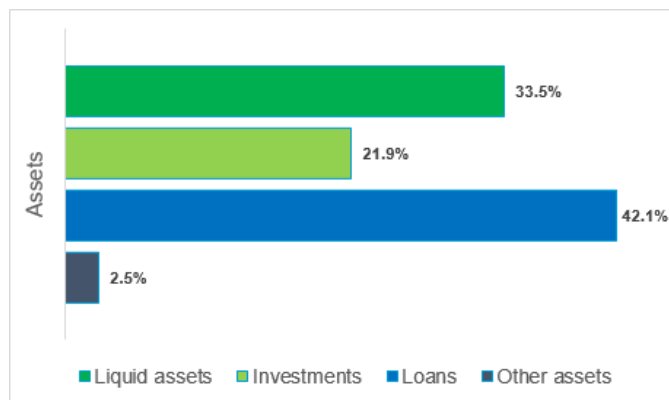
Assets totaled US\$ 14,283.6 million as of September 30, 2022. When comparing September 2022 numbers with year-end 2021, assets decrease by US\$ 1,022.8 million or 6.7%, attributed to a decrease in time deposits in banks by US\$2,880.9. Counteracted with an increase in the investment portfolio of US\$ 573.1 million and loans of US\$ 994.6 million.

Liabilities

Liabilities totaled US\$ 13,131.0 million at September 30, 2022. A decrease of US\$ 1,150.1 million, compared to December 31, 2021. The decrease comes mainly from the public sector deposit portfolio, which decreased 15% or US\$ 947.9 million.

Equity

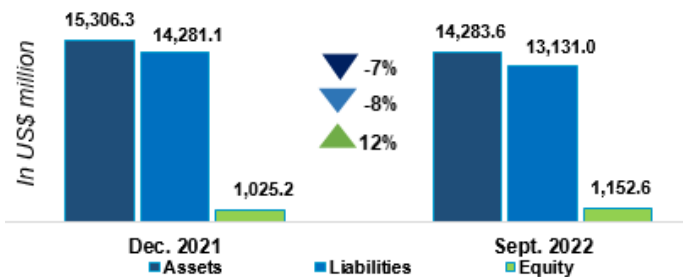
At the end of the third quarter of 2022, the Bank's total equity was US\$ 1,152.6 million, an increase of US\$ 127.3 million compared to December 31, 2021. The increase comes from the accumulation of retained earnings for the period.



Risk Ratings

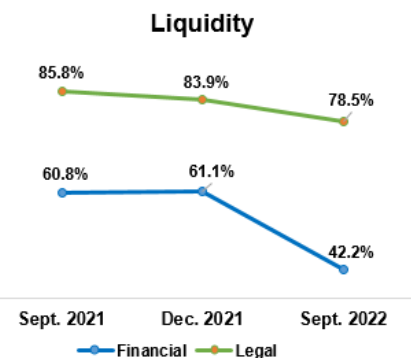
The Bank has investment grade risk ratings by the three main rating agencies:

- Standard and Poor's ("BBB", with a negative Outlook – Aug.22)
- Moody's ("Baa2", with a negative Outlook – Nov.22)
- Fitch Ratings ("BBB-" with a stable outlook – Nov.22)



Liquidity and Sources of Funds

Liquid assets totaled US\$ 7,912.1 million (cash, deposits in banks, securities purchased under resale agreements, and investments in securities) at September 30, 2022. The level of liquid assets decreased by 21.0%, from US\$ 10,012.2 million as of December 31, 2021. At the end of the third quarter of 2022, liquid assets represented 69.7% of total customer deposits and 55.4% of total assets. The decrease in liquid assets is a result of substituting deposits in banks by loans. The Bank's financial liquidity ratio stood at 42.2%, below year end levels, as the loan portfolio increased generating higher returns.



(In US\$ thousands)

	As of September 30, 2022	As of December 31, 2021	Change	
			US\$	%
Cash and cash equivalents	375,239	297,329	77,910	26.2%
Deposits in banks at amortized cost:				
Demand deposits- foreign	63,668	17,486	46,182	264.1%
Time deposits - local	300,441	305,095	(4,654)	-1.5%
Time deposits - foreign	4,050,460	6,929,380	(2,878,920)	-41.5%
Less: Reserve for bank deposit losses	39	202	(163)	-80.7%
Total bank deposits at amortized cost	4,414,530	7,251,759	(2,837,229)	-39.1%
Total cash, cash equivalents and bank deposits at amortized cost	4,789,769	7,549,088	(2,759,319)	-36.6%
Securities purchased under resale agreements	128,179	41,384	86,795	209.7%
Less: Reserve for investment losses	840	66	774	1172.7%
Securities purchased under resale agreements at amortized cost	127,339	41,318	86,021	208.2%
Investments in securities	2,999,601	2,424,957	574,644	23.7%
Less: Reserve for investment losses	4,643	3,151	1,492	47.4%
Investments in securities, net	2,994,958	2,421,806	573,152	23.7%
Total Liquid Assets	7,912,066	10,012,212	(2,100,146)	-21.0%

Liquidity Ratio

The Bank maintains robust liquidity levels. As of September 30, 2022, the financial liquidity ratio was 42.2% and the legal liquidity ratio closed at 78.5%, 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\$ 12,863.2 million as of September 30, 2022; of these, deposits accounted for US\$ 11,345.2 million, which represent 88.2% of the Bank's sources of funds. Deposits include demand deposits, time deposits, savings accounts, and bank deposits.

(In US\$ thousands)

Deposits

Demand deposits
Savings deposits
Time deposits, Restricted - inactive accounts and Restricted - escrow funds

Total Deposits

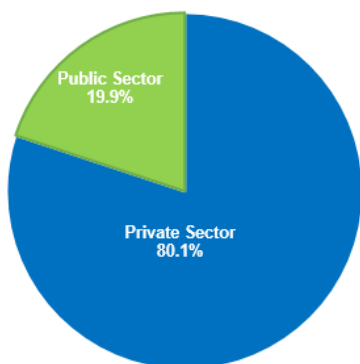
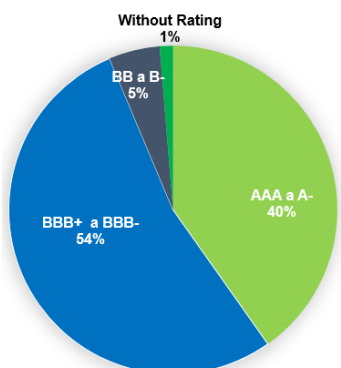
Obligations

Foreign borrowings received at amortized cost
Bonds payable - local at amortized cost
Bonds payable - foreign at amortized cost
Lease liabilities

Total obligations

Total Sources of funds

	As of September 30, 2022	As of December 31, 2021	Change	
			US\$	%
Deposits				
Demand deposits	4,196,155	4,450,048	(253,893)	-5.7%
Savings deposits	943,996	917,660	26,336	2.9%
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	6,205,035	6,996,049	(791,014)	-11.3%
Total Deposits	11,345,186	12,363,757	(1,018,571)	-8.2%
Obligations				
Foreign borrowings received at amortized cost	307,921	485,107	(177,186)	-36.5%
Bonds payable - local at amortized cost	206,250	206,267	(17)	0.0%
Bonds payable - foreign at amortized cost	1,000,914	1,006,647	(5,733)	-0.6%
Lease liabilities	2,939	3,964	(1,025)	-25.9%
Total obligations	1,518,024	1,701,985	(183,961)	-10.8%
Total Sources of funds	12,863,210	14,065,742	(1,202,532)	-8.5%



Investment Portfolio

Banco Nacional's investment portfolio increased by US\$ 573.2 million or 23.7%, from US\$ 2,421.8 million as of December 31, 2021, to US\$ 2,995.0 million as of September 30, 2022. The increase in the portfolio is due to incremental investments in securities during the period.

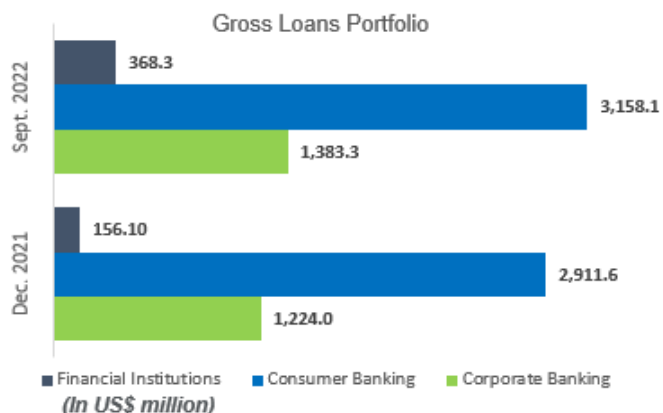
The Bank's investment portfolio is made up of sovereign and corporate debt securities issued by Panamanian, US, Latin American and supranational institutions. The Bank has a conservative investment policy, investing primarily in liquid investment grade fixed income securities. Banco Nacional's investment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

Loan Portfolio

The Bank's gross loan portfolio totaled US\$ 6,131.4 million as of September 30, 2022; a US\$ 994.6 million increase when compared to the year end 2021 total of US\$ 5,136.7million.

Loans to the public sector represented 19.9% of the total portfolio or US\$ 1,221.7 million and loans to the private sector represent the majority of the portfolio with US\$ 4,909.7 million or 80.1%.

Most of the Bank's loans have fixed interest rates, which can be readjusted at the unilateral option of Banco Nacional, at any time.



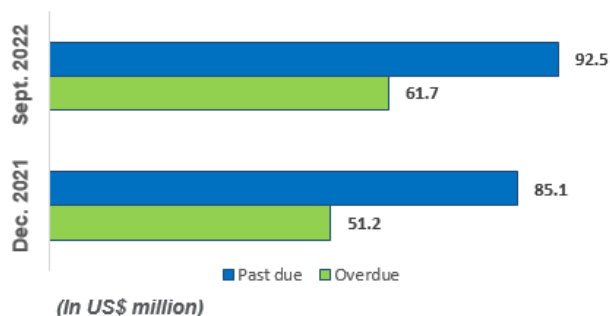
Private Sector Loan Portfolio by Sector:

The corporate banking portfolio and loans to financial institutions increased by US\$ 159.3 million and US\$ 212.2 million, respectively, while the consumer banking portfolio increased by US\$ 246.5 million, principally in residential mortgages. The residential mortgage portfolio increased through the Bank's participation in real estate fairs that promote home sales, and through our extensive branch network.



Assets Quality

As of September 30, 2022, total past due and overdue loans were 2.6% of the total loan portfolio (as of December 31, 2021: 2.7%). The quality of the loan portfolio had been affected by COVID-19 pandemic. During the first nine months of 2022, the asset quality indicators have shown improvements, signaled by the reactivation of the Panamanian economy.



Loan Loss Reserves

The reserve for loan losses increased to US\$ 139.4 million as of September 30, 2022, or 2.3% of the total loan portfolio, from US\$126.7 million as of December 31, 2021, or 2.5% of the portfolio.

(US\$ thousands)	As of September 30, 2022			As of December 31, 2021			Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
Low risk	5,751,746	29,699	0.5%	4,810,453	33,678	0.7%	941,293	(3,979)
Significant risk	197,312	51,260	26.0%	195,358	21,455	11.0%	1,954	29,805
Default risk	58,765	58,417	99.4%	130,915	71,545	54.6%	(72,150)	(13,128)
Total	6,007,823	139,376	2.3%	5,136,726	126,678	2.5%	141,166	12,698

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, 2022, the Bank has modified loans on its books for an aggregate amount of US\$ 339.4 million. Modified loans represent 5.7% of the Bank's loan portfolio. The modified loan portfolio has decreased by US\$ 202.8 million, from US\$ 542.2 million on December 31, 2021. The Bank's modified loan portfolio has decreased significantly from December 2020, when it represented 12.6% of total loans. A clear indication that the Bank's clients are restructuring their obligations and making timely payments in response to a recovering economy.

Modified loans (In US\$ millions)	September 2022	December 2021	Decreased
	339.4	542.2	-37.4%

Provision for the Modified Special Mention 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, 2022:

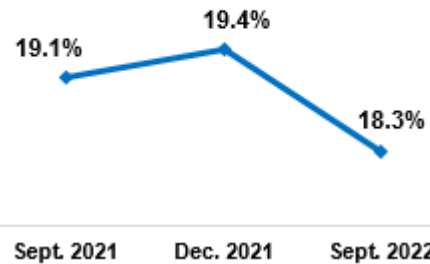
<i>(In US\$ thousands)</i>	As of September 30, 2022			Total
	Stage 1	Stage 2	Stage 3	
Standard modified	34,093	4,689	0	38,782
Modified special mention	79,010	20,550	0	99,560
Modified sub-standard	0	186,620	8,676	195,296
Doubtful modified	0	0	2,003	2,003
Unrecoverable modified	0	0	3,807	3,807
Gross balance	113,103	211,859	14,486	339,448
Additions (less):				
Interest receivable	3,335	2,899	187	6,421
Unearned interest and commissions	(43)	(371)	(44)	(458)
Total loans subject to provisions Agreement No. 006-2021	116,395	214,387	14,629	345,411
Provisions and reserves				
IFRS 9 reserve requirement	5,232	44,767	9,067	59,066
Total provisions and reserves	5,232	44,767	9,067	59,066

Capitalization

As of September 30, 2022, the Bank's total equity stood at US\$ 1,152.6 million, an increase of US\$ 127.3 million compared to December 31, 2021. Total capital over total assets reached 8.1% as of September 30, 2022.

As of September 30, 2022, the Bank's regulatory capital totaled US\$ 1,073.1 million and the ratio of total capital to risk-weighted assets (US\$ 5,829.3 million) was 18.3%, 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



Equity Increase

In line with the Bank's strategic plan to strengthen its financial position, Banco Nacional de Panama, by means of Executive Decree No. 17 of April 28, 2022, where the Presidency of the Republic of Panama approved the increase of the Bank's paid-in capital to US\$ 850 million, through the capitalization of US\$ 100 million from retained earnings.

Result of Operations as of September 30, 2022

Net Income

Net income for the first nine months of 2022 reached US\$ 135.6 million, an increase of 33.5% or US\$ 34.0 million, in comparison to net income registered during the same period of 2021. The increase in net income is mainly due to higher interest rates in international markets, generating greater interest income from deposits in banks; and the increase volume of the loan portfolio, reflecting higher yields in interest and commissions earned.

Interest and Commission Income

For the nine month period ended September 30, 2022, Banco Nacional’s net interest and commission income increased by 30.2% to US\$ 241.2 million from US\$ 185.2 million in 2021. The increase is attributed to greater interest and commission income from deposits in banks due higher interest rates in the international markets to and greater loan portfolio volume.

(In US\$ millions)

Interest and Commission Income

US\$ 314.4

23.7% ↑

Interest Expense

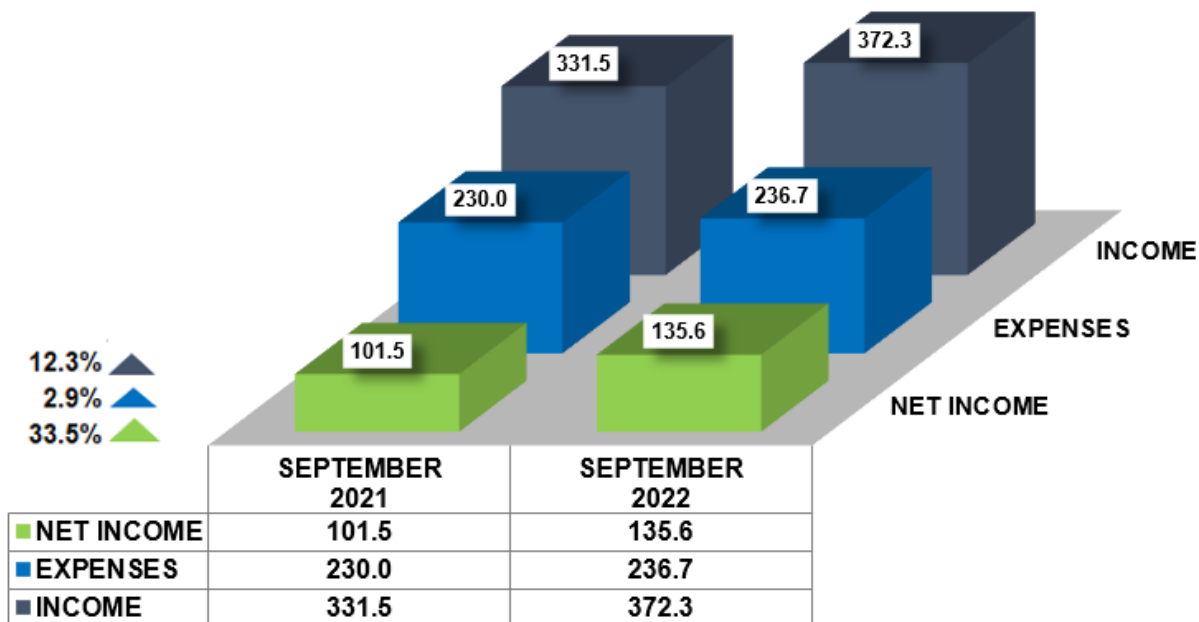
US\$ 73.2

6.1% ↑

Net interest and commission income

US\$ 241.2

30.2% ↑



In US\$ million

Loss Provisions and Other Income

Loss provision expense decreased by 11.2%, from US\$ 18.8 million provisioned at September 30, 2021 to US\$ 16.7 million at September 30, 2022. The reduction in provisions occurs mainly in the provision for loan losses.

Other income, net, decreased by 44.7%, from US\$ 61.5 million as of September 30, 2021, to US\$ 34.0 million as of September 30, 2022. The decrease is a result of lower commissions generated by the discount fees of the Vale Digital. As Panama's economy is reactivated, the Panama Solidario Program is being phased out, reducing the volume of the discount service to participating merchants. Additionally, the Bank has not registered income on the sale of securities.

Provisions	Other Income, net
US\$ 16.7	US\$ 34.0
-11.2%↓	-44.7%↓

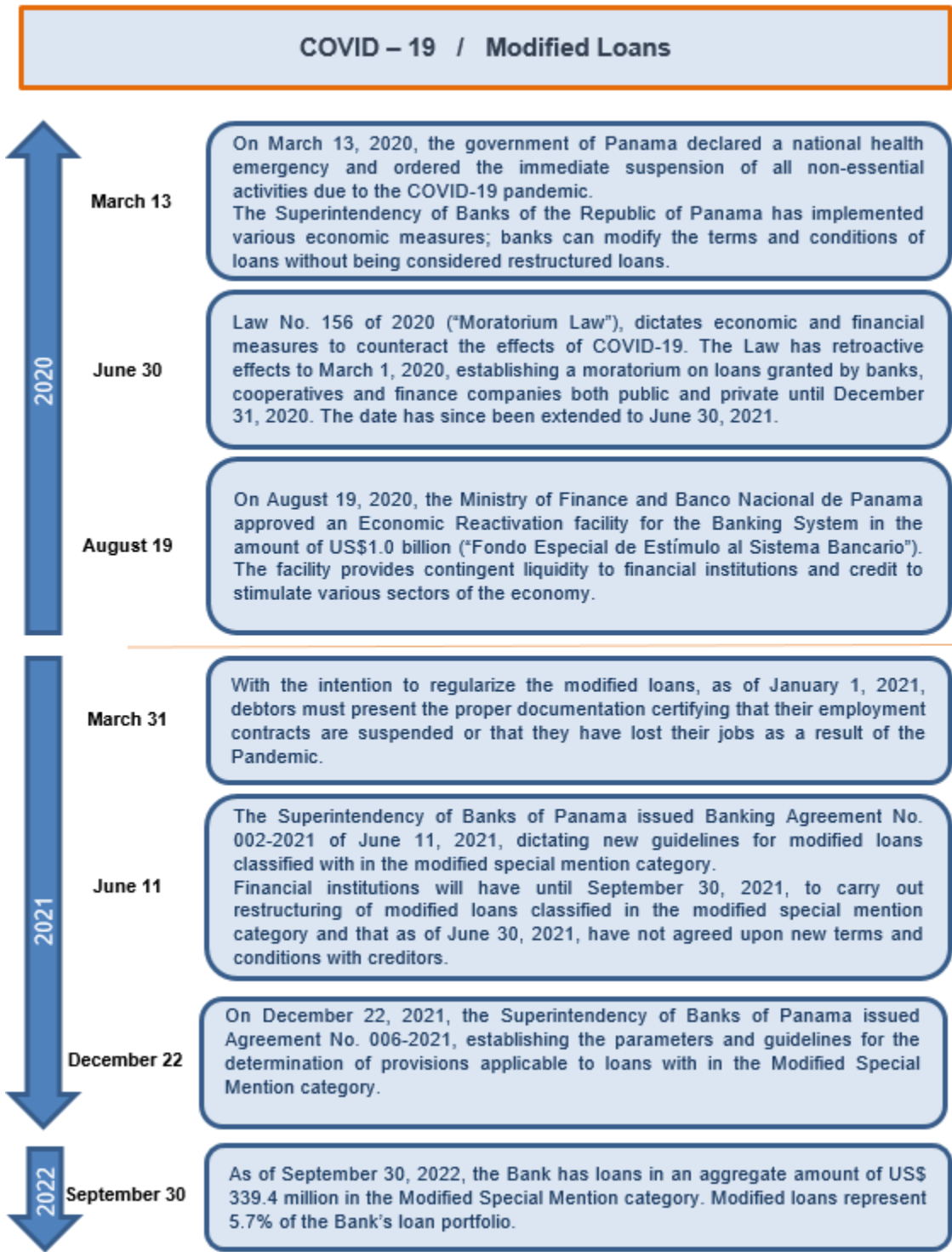
General and Admin. Expenses	Net Income
US\$ 122.9	US\$ 135.6
-2.7%↓	33.5%↑

(In US\$ millions)

General & Administrative Expenses

General and administrative expenses decreased by 2.7% compared to the same period in 2021. The decrease of US\$ 3.5 million comes from lower personnel expenses and professional services and fees.

(In US\$ thousands)	As of September, 30		Change	
	2022	2021	US\$	%
Salaries and other personnel expenses	77,865	82,208	(4,343)	-5.3%
Rentals	1,122	878	244	27.8%
Repairs and maintenance	10,895	11,487	(592)	-5.2%
Depreciation and amortization	10,056	9,883	173	1.8%
Electricity	2,582	2,278	304	13.3%
Advertising	2,889	2,043	846	41.4%
Communications	4,466	5,700	(1,234)	-21.6%
Insurance	651	469	182	38.8%
Stationery and office supplies	1,207	1,361	(154)	-11.3%
Fees and professional services	2,966	3,366	(400)	-11.9%
Transportation of personnel	565	495	70	14.1%
Transportation of valuables	2,426	1,565	861	55.0%
ATMs	1,384	1,183	201	17.0%
Others	3,842	3,467	375	10.8%
Total general and administrative expenses	122,916	126,383	(3,467)	-2.7%



Income Statement

(In US\$ thousands)

	As of September 30,		Change	
	2022	2021	US\$	%
Interest and fee income	314,386	254,201	60,185	23.7%
Interest expense	73,194	69,008	4,186	6.1%
Net interest and commission income	241,192	185,193	55,999	30.2%
Impairment Allowances, net ⁽¹⁾	16,656	18,752	(2,096)	-11.2%
Net interest and commission income, after provisions	224,536	166,441	58,095	34.9%
Fees for banking services	21,045	16,550	4,495	27.2%
Other income ⁽²⁾	14,162	45,968	(31,806)	-69.2%
Total other expenses	1,233	1,030	203	19.7%
Total other income, net	33,974	61,488	(27,514)	-44.7%
Total general and administrative expenses	122,916	126,383	(3,467)	-2.7%
Net income	135,594	101,546	34,048	33.5%

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

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

Balance Sheet

(In US\$ thousands)

	As of September 30,		Change	
	2022	As of December 31, 2021	US\$	%
Assets				
Cash and cash equivalents	4,789,771	7,549,088	(2,759,317)	-36.6%
Securities purchased under resale agreements	127,339	41,318	86,021	208.2%
Investments in securities, net	2,994,957	2,421,806	573,151	23.7%
Private sector loans and interest receivable	4,948,980	4,336,669	612,311	14.1%
Public sector loans and interest receivable	1,226,011	851,365	374,646	44.0%
Allowance for loan losses	(139,376)	(126,678)	(12,698)	-10.0%
Unearned interest and commissions	(27,793)	(26,781)	(1,012)	3.8%
Total loans, net	6,007,822	5,034,575	973,247	19.3%
Property, plant & equipment	82,371	83,320	(949)	-1.1%
Other assets	281,355	176,265	105,090	59.6%
Total assets	14,283,615	15,306,372	(1,022,757)	-6.7%
Liabilities & Shareholder Equity				
Deposits	11,345,186	12,363,757	(1,018,571)	-8.2%
Obligations with financial institutions	307,921	485,107	(177,186)	-36.5%
Bonds payable, at amortized cost	1,000,914	1,006,647	(5,733)	-0.6%
Corporate bonds payable, at amortized cost	206,250	206,267	(17)	0.0%
Other liabilities	270,773	219,344	51,429	23.4%
Total liabilities	13,131,044	14,281,122	(1,150,078)	-8.1%
Equity	1,152,571	1,025,250	127,321	12.4%
Total Liabilities & Equity	14,283,615	15,306,372	(1,022,757)	-6.7%

Financial Ratios

Profitability

Net Interest Margin ⁽¹⁾		Return on Average Assets ⁽²⁾		Return on Average Equity ⁽³⁾	
2.1%	1.6%	1.1%	0.8%	16.9%	12.0%
2022	2021	2022	2021	2022	2021

Liquidity y Efficiency

Financial Liquidity ⁽⁴⁾		Legal Liquidity ⁽⁵⁾		Efficiency ⁽⁶⁾	
42.2%	61.1%	78.5%	83.9%	47.5%	58.9%
2022	2021	2022	2021	2022	2021

Capital

Total Capital Ratio ⁽⁷⁾		Equity / Assets ⁽⁸⁾		Financial Leverage ⁽⁹⁾	
18.3%	19.4%	8.1%	6.7%	8.1%	6.7%
2022	2021	2022	2021	2022	2021

Assets Quality

Past due loans over 91 days overdue / total loans ⁽¹⁰⁾		Past due loans/ total loans ⁽¹¹⁾		Non-accrual loans / total loans ⁽¹²⁾	
1.5%	1.7%	2.5%	2.7%	1.0%	1.1%
2022	2021	2022	2021	2022	2021

Headcount	3,575	3,606	Branch Network	92	91
	2022	2021		2022	2021

⁽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 to total 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 is based on the information contained in the interim, unaudited financial statements, as of September 30, 2022. Some figures (including percentages) in this document have been rounded. The interim unaudited financial statements as of September 30, 2022, are available on the Bank's web site www.banconal.com.pa.

