



# Management Financial Discussion and Analysis

September 2023



## Highlights

- Banco Nacional de Panamá structured its first issuance of green bonds in the local market; joining the global trend of offering investors the opportunity to participate in projects with a double impact, financial and environmental. The bonds are certified by the Climate Bonds Initiative and Pacific Corporate Sustainability. The proceeds will finance a wind energy project in Panama, which will support the country's energy transition and reduce greenhouse gas emissions.
- Banco Nacional de Panama was recognized as a 2022 Market Champion by the Bolsa Latinoamericana de Valores, for the Largest Volume Trader. The award was presented during the 2023 Foro de Inversionistas, organized by Latinex.
- The regional magazine Summa released the annual list of top 20 companies with the best organizational climate, where Banco Nacional de Panama placed first within Panamanian companies.

## Financial Analysis

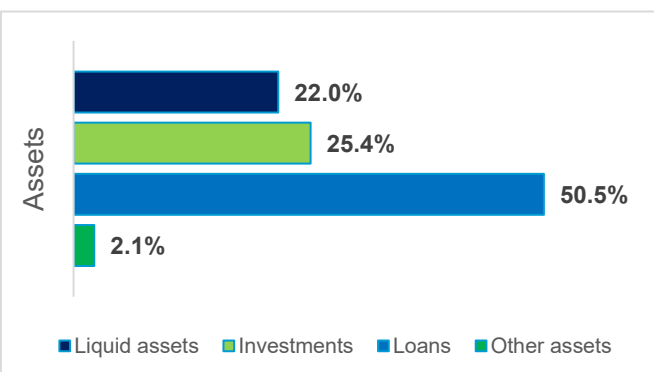
As of September 30, 2023, The Bank's balance sheet decreased in size by of 9.7% when compared to December 2022.

The Bank's balance sheet composition is 22.0% liquid assets, 25.4% investments in securities, loans represent 50.5% and other assets 2.1% of total assets. In terms of liabilities and equity funds: customer deposits represent 75.8%, financings 11.0%, and other liabilities 2.9%. Equity funds constitute 10.3% of the total balance sheet.

<b>Total Assets</b>	<b>Loans, gross</b>	<b>Equity</b>	<b>Net Income</b>	<i>In US\$ Million</i>
<b>US\$ 13,190.0</b>	<b>US\$ 6,656.6</b>	<b>US\$ 1,352.8</b>	<b>US\$ 218.1</b>	
<b>Legal Liquidity</b>	<b>Efficiency</b>	<b>ROAE</b>	<b>Capital Adequacy</b>	
<b>69.4%</b>	<b>40.1%</b>	<b>23.6%</b>	<b>19.7%</b>	

### Assets

Assets totaled US\$13,190.0 million as of September 30, 2023. When comparing the balances with year-end 2022 numbers, assets decreased by US\$1,413.9 million or 9.7%.

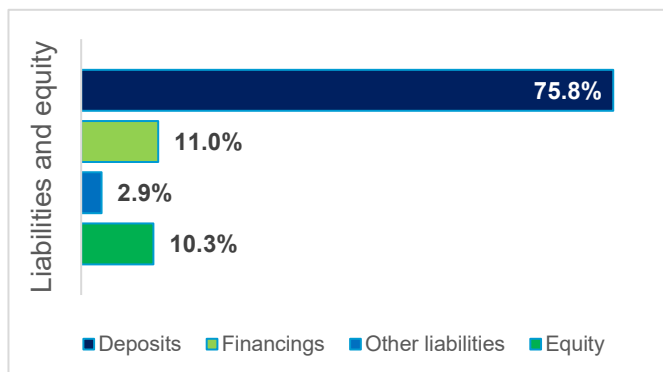


### Liabilities

Liabilities totaled US\$ 11,837.2 million as of September 30, 2023, which reflects reduction of US\$ 1,652.2 million, compared to December 31, 2022, numbers.

### Equity

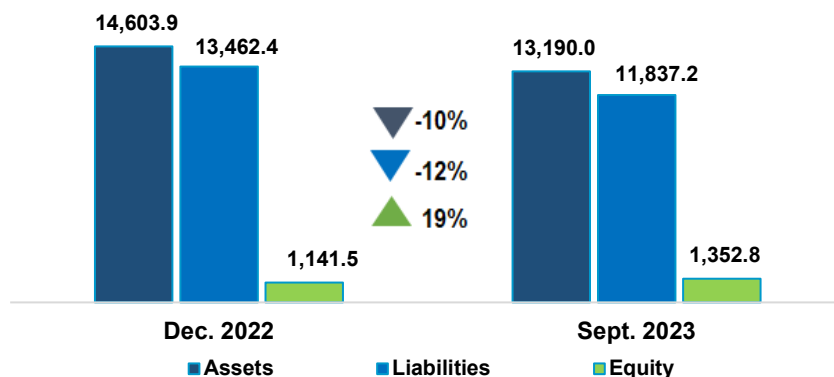
At the end of the third quarter of 2023, the Bank's total equity stood at US\$ 1,352.8 million, an increase of US\$ 221.3 million compared to December 31, 2022. The increase is the accumulation of retained earnings of the first nine months of the year.



## Risk Ratings

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

- Standard and Poor's ("BBB", with a negative Outlook – Nov.23)
- Moody's ("Baa2", with a negative Outlook – Nov.23)
- Fitch Ratings ("BBB-" with a negative outlook – Oct.23)



## Liquidity and Sources of Funds

Liquid assets totaled US\$ 6,279.5 million at September 30, 2023. The liquid assets category is comprised of cash, deposits in banks, securities purchased under resale agreements, and investments in securities. Liquid assets decreased by 25.4%, from US\$ 8,412.0 million as of December 31, 2022. At the end of third quarter 2023, liquid assets represented 62.7% of total customer deposits and 47.6% of total assets. The financial liquidity ratio reached is 39.1%.

(In US\$ thousands)	As of September 30, 2023	As of December 31, 2022	Change	
			US\$	%
Cash and cash equivalents	302,198	408,473	(106,275)	(26.0%)
Deposits in banks at amortized cost:				
Demand deposits- foreign	153,246	107,061	46,185	43.1%
Time deposits - local	155,384	305,581	(150,197)	(49.2%)
Time deposits - foreign	2,287,264	3,786,842	(1,499,578)	(39.6%)
Less: Reserve for bank deposit losses	14	36	(22)	(59.1%)
Total bank deposits at amortized cost	2,595,880	4,199,448	(1,603,568)	(38.2%)
<b>Total cash, cash equivalents and bank deposits at amortized cost</b>	<b>2,898,078</b>	<b>4,607,921</b>	<b>(1,709,843)</b>	<b>(37.1%)</b>
Securities purchased under resale agreements	163,065	195,406	(32,341)	(16.6%)
Less: Reserve for investment losses	366	233	133	56.7%
<b>Securities purchased under resale agreements at amortized cost</b>	<b>162,699</b>	<b>195,173</b>	<b>(32,474)</b>	<b>(16.6%)</b>
Investments in securities	3,224,745	3,614,227	(389,482)	(10.8%)
Less: Reserve for investment losses	5,978	5,338	640	12.0%
<b>Investments in securities, net</b>	<b>3,218,767</b>	<b>3,608,889</b>	<b>(390,122)</b>	<b>(10.8%)</b>
<b>Total Liquid Assets</b>	<b>6,279,544</b>	<b>8,411,983</b>	<b>(2,132,439)</b>	<b>(25.4%)</b>

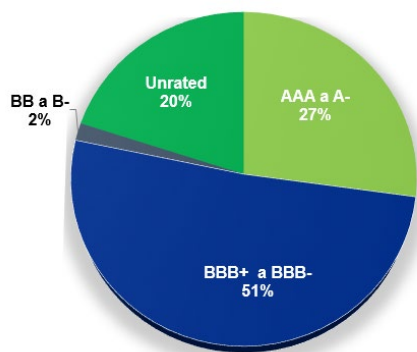
## Liquidity Ratio

The Bank maintains robust liquidity levels. As of September 30, 2023, the financial liquidity ratio was 39.1% and the legal or regulatory liquidity ratio closed at 69.4%, 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\$ 11,465.2 million as of September 30, 2023; of these, customer deposits totaled US\$ 10,008.9 million, which represent 87.3% of the Bank's sources of funds.

(In US\$ thousands)	As of September 30, 2023	As of December 31, 2022	Change	
			US\$	%
Deposits				
Demand deposits	4,574,131	4,962,181	(388,050)	(7.8%)
Savings deposits	965,844	962,506	3,338	0.3%
Time deposits, Restricted - inactive accounts and Restricted - escrow funds	4,468,909	5,753,460	(1,284,551)	(22.3%)
<b>Total Deposits</b>	<b>10,008,884</b>	<b>11,678,147</b>	<b>(1,669,263)</b>	<b>(14.3%)</b>
Other Sources of Funds				
Foreign borrowings received at amortized cost	246,100	309,892	(63,792)	(20.6%)
Bond payable - local at amortized cost	206,250	206,267	(17)	0.0%
Bond payable - foreign at amortized cost	1,001,676	1,007,407	(5,731)	(0.6%)
Lease liabilities	2,321	2,688	(367)	(13.7%)
<b>Total, Other Sources of funds</b>	<b>1,456,347</b>	<b>1,526,254</b>	<b>(69,907)</b>	<b>(4.6%)</b>
<b>Total, Sources of funds</b>	<b>11,465,231</b>	<b>13,204,401</b>	<b>(1,739,170)</b>	<b>(13.2%)</b>



## Investment Portfolio

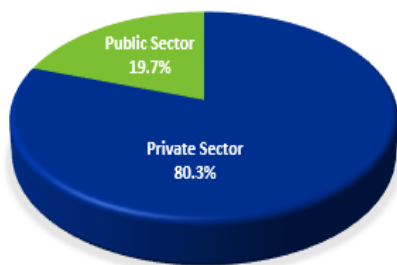
Banco Nacional's investment portfolio decreased by US\$ 390.1 million or 10.8%, from US\$ 3,608.9 million as of December 31, 2022, to US\$ 3,218.8 million as of September 30, 2023.

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.

Investments in securities (In US\$ thousands)	Local Rating	International Rating	Total
AAA	0	44,269	44,269
AA+ to A	117,746	599,370	717,116
A-	15,010	76,756	91,766
BBB+ to BBB-	167,904	1,422,319	1,590,223
BB+	0	15,000	15,000
BB to B-	0	37,742	37,742
Unrated (i)	3,507	619,612	623,119
<b>Gross subtotal</b>	<b>304,167</b>	<b>2,815,069</b>	<b>3,119,235</b>
Interest receivable	2,763	28,743	31,506
Loss reserve	(3,129)	(2,848)	(5,977)
<b>Balance at amortized cost</b>	<b>303,801</b>	<b>2,840,963</b>	<b>3,144,764</b>

As of  
September  
30, 2023

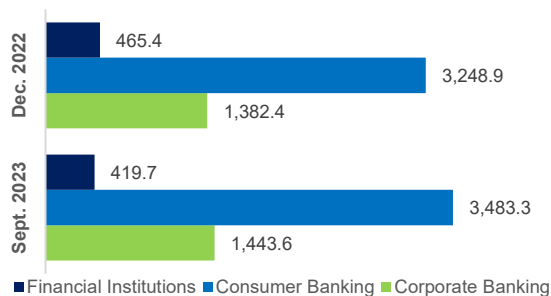
(i) The investments presented in the "Unrated" category correspond to highly liquid instruments of an international financial institution, to which only central banks have access and their risk is equivalent to an AAA sovereign risk rating.



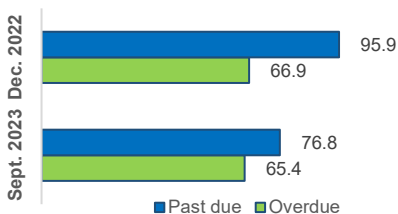
## Loan Portfolio

The Bank's gross loan portfolio totaled US\$ 6,656.6 million as of September 30, 2023; reflecting growth of 12.3% (US\$.731.6 million) compared to year end 2022 balances of US\$ 5,925.0 million.

Loans to the public sector represented 19.7% of the total portfolio or US\$ 1,310.0 million and loans to the private sector represent most of the portfolio with US\$ 5,346.6 million or 80.3%. 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.



(In US\$. million)



(In US\$. million)

## Private Loan Portfolio

The private sector loan portfolio has performed as follows:

The corporate banking portfolio increased by US\$ 61.2 million, loans to financial institutions decreased by US\$ 45.7 million, while consumer banking portfolios increased by US\$ 234.4 million, driven by residential mortgages.

## Asset Quality

As of September 30, 2023, total past due and overdue loans were 2.1% 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 291.8%.

## Allowance for loan losses

The reserve for loan losses closed at US\$ 152.4 million as of September 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.

(US\$ thousands)	As of September 30, 2023			As of December 31, 2022			Change	
	Loans	Allowances	%	Loans	Allowances	%	Loans	Allowances
Low risk	6,310,066	42,030	0.7%	5,401,132	31,922	0.6%	908,934	10,108
Significant risk	226,023	33,076	14.6%	403,695	42,680	10.6%	(177,672)	(9,604)
Default risk	120,503	77,322	64.2%	120,174	65,681	54.7%	329	11,641
<b>Total</b>	<b>6,656,592</b>	<b>152,428</b>	<b>2.3%</b>	<b>5,925,001</b>	<b>140,283</b>	<b>2.4%</b>	<b>731,591</b>	<b>12,145</b>

## Capitalization

As of September 30, 2023, the Bank's total equity stood at US\$ 1,352.8 million, an increase of US\$ 211.3 million compared to December 31, 2022. Total capital to total assets ratio reached 10.3% as of September 30, 2023.

At the end of the third quarter 2023, the Bank's regulatory capital totaled US\$ 1,229.6 million and risk-weighted assets stood at US\$ 6,252.4 million; the risk weighted capital ratio was 19.7%, much higher than the minimum required by the Superintendency of Banks of Panama of 8.0%. 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 September 30, 2023, and December 31, 2022:

(In US\$ thousands)	As of September 30, 2023	As of December 31, 2022
<b>Primary Capital</b>		
Paid-in capital by Government of Panama	1,000,000	850,000
Retained earnings	146,542	218,863
Other items in comprehensive income	25,559	12,440
Less: intangible assets	10,942	10,979
<b>Total Primary Capital</b>	<b>1,161,159</b>	<b>1,070,324</b>
Dynamic regulatory provision	68,451	56,929
<b>Total regulatory Capital</b>	<b>1,229,610</b>	<b>1,127,253</b>
<b>Total Risk-weighted assets</b>	<b>6,252,440</b>	<b>6,109,649</b>
<b>Capital adequacy ratios</b>	<b>19.7%</b>	<b>18.5%</b>

Banco Nacional de Panama increased its paid-in capital to US\$1,000.0 million; complying with the provisions of its Organic Law (article 4 of the sole text of the 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 of banking legislation and best financial practices.

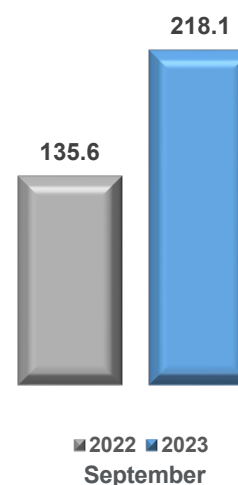
Banco Nacional de Panama has capitalized US\$350.0 million from retained earnings, in four years, which is equivalent to an increase of 54%.

## Q3 – 2023 Result of Operations

### Net Income

Net income as of the end of September 2023 reached US\$ 218.1 million, which reflects an increase of 60.8% when comparing it with US\$ 135.6 million as of the same period in 2022. The increase in income is mainly due to the rise in interest rates in international markets, which resulted in increases in interest income on deposits in banks and an increase in loan portfolio balances, reflecting higher returns.

Net income  
(In US\$ million)



### Net Interest and Commission Income

For the nine-month period ended September 30, 2023, Banco Nacional's net interest and commission income increased 45.6%, or US\$ 110.0 million compared to the same period in 2022. The increase is credited to higher interests and commissions income, reflected by higher interest rates in the international market.

(In US\$ million and percentages)

Interest and commission income

**US\$ 512.8**

63.1% ↑

Interest expense

**US\$ 161.6**

120.8% ↑

Net interest and commission income

**US\$ 329.0**

46.5% ↑

### Loss Provisions and Other Income

Provisions for credit losses increase by 33.2%, from US\$ 16.7 million as of September 30, 2022, to US\$ 22.2 million as of September 30, 2023. The increase in provisions occurs mainly in loan loss provisions.

Other net income increased by 2.7%, from US\$ 34.0 million as of September 30, 2022, to US\$ 34.9 million as of September 30, 2023. The increase comes from commissions generated in banking services, an increase in provisions for loan commitments and subsidies granted by the Government.

### General and Administrative Expenses

General and administrative expenses increased by 18.6% or US\$ 22.9 million when compared to the same period of 2022. The primary increases come from personnel expenses, repairs and maintenance of the bank's infrastructure and communications.

The efficiency ratio stands at 40.1% as of September 30, 2023.

Provisions

**US\$ 22.2**

33.2% ↑

Other Income, net

**US\$ 34.9**

2.7% ↑

General and Admin. Expenses

**US\$ 145.8**

18.6% ↑

Net Income

**US\$ 218.1**

60.8% ↑

(In US\$ million and percentages)

## Income Statement

(US\$ thousands)

Income	As of September 30,		Change	
	2023	2022	US\$	%
Interest and fee income	512,849	314,386	198,463	63.1%
Interest expense	161,624	73,194	88,430	120.8%
<b>Net interest and commission income</b>	<b>351,225</b>	<b>241,192</b>	<b>110,033</b>	<b>45.6%</b>
Impairment Allowances, net <sup>(1)</sup>	22,189	16,656	5,533	33.2%
<b>Net interest and commission income, after provisions</b>	<b>329,036</b>	<b>224,536</b>	<b>104,500</b>	<b>46.5%</b>
Fees for banking services	21,261	21,045	216	1.0%
Other income <sup>(2)</sup>	15,143	14,162	981	6.9%
Total other expenses	1,528	1,233	295	23.9%
<b>Total other income, net</b>	<b>34,876</b>	<b>33,974</b>	<b>902</b>	<b>2.7%</b>
<b>Total general and administrative expenses</b>	<b>145,831</b>	<b>122,916</b>	<b>22,915</b>	<b>18.6%</b>
<b>Net income</b>	<b>218,081</b>	<b>135,594</b>	<b>82,487</b>	<b>60.8%</b>

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

<sup>(2)</sup> Includes net gain on investments in securities and other.

## Balance Sheet

(US\$ thousands)

Assets	As of September 30, 2023	As of December 31, 2022	Change	
			US\$	%
Cash and cash equivalents at amortized cost	2,898,078	4,607,921	(1,709,843)	(37.1%)
Securities purchased under resale agreements at amortized cost	162,699	195,173	(32,474)	(16.6%)
Investments in securities, net	3,218,767	3,608,889	(390,122)	(10.8%)
Private sector loans and interest receivable	5,374,404	5,134,756	239,648	4.7%
Public sector loans and interest receivable	1,317,750	833,280	484,470	58.1%
Allowance for loan losses	(152,428)	(140,283)	(12,145)	8.7%
Unearned interest and commissions	(28,419)	(27,859)	(560)	(2.0%)
Total loans at amortized cost	6,511,307	5,799,894	711,413	12.3%
Property, plant & equipment, net	89,453	82,517	6,936	8.4%
Other assets	309,706	309,475	231	0.0%
<b>Total assets</b>	<b>13,190,010</b>	<b>14,603,869</b>	<b>(1,413,859)</b>	<b>(9.7%)</b>
Liabilities & Shareholder Equity	As of September 30, 2023	As of December 31, 2022	Change	
			US\$	%
Deposits at amortized cost	10,008,884	11,678,147	(1,669,263)	(14.3%)
Foreign borrowings received at amortized cost	246,100	309,892	(63,792)	(20.6%)
Bond payable - foreign at amortized cost	1,001,675	1,007,407	(5,732)	(0.6%)
Bond payable - local at amortized cost	206,250	206,267	(17)	(0.0%)
Lease liabilities	2,321	2,689	(368)	(13.7%)
Other liabilities	371,941	257,955	113,619	44.2%
<b>Total liabilities</b>	<b>11,837,171</b>	<b>13,462,357</b>	<b>(1,625,186)</b>	<b>(12.1%)</b>
<b>Equity</b>	<b>1,352,839</b>	<b>1,141,512</b>	<b>211,327</b>	<b>18.5%</b>
<b>Total Liabilities &amp; Equity</b>	<b>13,190,010</b>	<b>14,603,869</b>	<b>(1,413,859)</b>	<b>(9.7%)</b>



## Financial Ratios

### Profitability

Net Interest Margin <sup>(1)</sup>		Return on Average Assets <sup>(2)</sup>		Return on Average Equity <sup>(3)</sup>	
<b>3.5%</b>	<b>2.3%</b>	<b>2.1%</b>	<b>1.3%</b>	<b>23.6%</b>	<b>17.8%</b>
Sept. 2023	Dec. 2022	Sept. 2023	Dec. 2022	Sept. 2023	Dec. 2022

### Liquidity & Efficiency

Financial Liquidity / Total Deposits <sup>(4)</sup>		Legal Liquidity <sup>(5)</sup>		Efficiency <sup>(6)</sup>	
<b>39.1%</b>	<b>51.1%</b>	<b>69.4%</b>	<b>74.8%</b>	<b>40.1%</b>	<b>47.3%</b>
Sept. 2023	Dec. 2022	Sept. 2023	Dec. 2022	Sept. 2023	Dec. 2022

### Capital

Capital Adequacy <sup>(7)</sup>		Equity / Assets <sup>(8)</sup>		Financial Leverage <sup>(9)</sup>	
<b>19.7%</b>	<b>18.5%</b>	<b>10.3%</b>	<b>7.8%</b>	<b>8.9%</b>	<b>7.4%</b>
Sept. 2023	Dec. 2022	Sept. 2023	Dec. 2022	Sept. 2023	Dec. 2022

### Asset Quality

Past Due Loans Over 91 Days / Total Loans <sup>(10)</sup>		Past Due Loans / Total Loans <sup>(11)</sup>		Non-Accrual Loans / Total Loans <sup>(12)</sup>	
<b>1.2%</b>	<b>1.6%</b>	<b>2.1%</b>	<b>2.7%</b>	<b>0.8%</b>	<b>1.0%</b>
Sept. 2023	Dec. 2022	Sept. 2023	Dec. 2022	Sept. 2023	Dec. 2022

Headcount	<b>3,654</b>	<b>3,510</b>	Branch Network	<b>93</b>	<b>92</b>
	Sept. 2023	Dec. 2022		Sept. 2023	Dec. 2022

<sup>(1)</sup> Calculated as net interest income divided by total average interest-earning assets.

<sup>(2)</sup> Calculated as net income divided by average total assets.

<sup>(3)</sup> Calculated as net income divided by average total equity.

<sup>(4)</sup> Calculated as total liquid assets, plus highly liquid investments (BIS-Treasury) over customer deposits

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

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

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

<sup>(8)</sup> Equity divided by total assets

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

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

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

<sup>(12)</sup> 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 September 30, 2023. Some figures (including percentages) in this document have been rounded. The unaudited financial statements for the period ended September 30, 2023, are available on the Bank's website [www.banconal.com.pa](http://www.banconal.com.pa).

