Banking Activity Report

July 2023

Table of Contents

Executive Summary

As of the end of July 2023, the operations of the International Banking Center (CBI) continued to demonstrate adequate financial soundness and performance indicators. The latest solvency and legal liquidity indicators recorded 15.55% and 58.2%, respectively. Similarly, the performance of the main portfolio aggregates showed that the credit offerings remained positive (5.2% annually), with the greatest contribution coming from the corporate and consumer portfolios. The default indicator (4.1%) remained at levels like those of the previous months.

The assets of the CBI totaled USD 143.37 billion, representing an increase of USD 6.82 billion compared to July 2022, or a year-on-year growth of 5%. The banks' assets accelerated their expansion rate due to a growing net credit portfolio (6.3%) and the securities account (4.7%). Liquid assets shrank by 1.3% year-on-year. Notably, the latter now presents a negative figure, but it has improved throughout the year, partly due to enhancements in deposits, which are a key element of the funding structure.

As of July 2023, the National Banking System (SBN) recorded growth in the gross net domestic portfolio, which amounted to USD 59.79 billion, representing a 5.2% increase compared to the data reported at the end of July 2022, or a year-on-year growth of USD 2.94 billion. This increase was observed in most of the portfolios, even in the current environment of higher lending interest rates, partly due to the improved performance of the real sector activities. This growth was attributed to the annual increase in consumer credit (3.0%), mortgage credit (5.2%), and financial services activities (8.8%). Residential mortgage credit recorded a 6.7% growth, supported by the robust performance of preferential interest rate loans, which saw a growth rate of 12.0% in July.

The portfolio quality of CBI as of July 2023 shows a default ratio of 4.1%, with 1.6% representing loans with arrears of 30+ days and loans with arrears of 90+ days recording 2.5%. This performance indicates a higher percentage of defaults when compared to pre-pandemic periods. Although the credit portfolio delinquency ratio has seen few changes throughout the year, some segments have experienced increases. Provisions for delinquent or past-due loans, although strengthened during the pandemic, have recently been decreasing. Accounting provisions for impaired loans stood at 107.6% (below the 125.7% recorded a year earlier), resulting in a stage 3 provision lower than that of the previous year. While current provisioning and collateral mitigate loan impairment risks, the SBP will closely monitor their evolution.

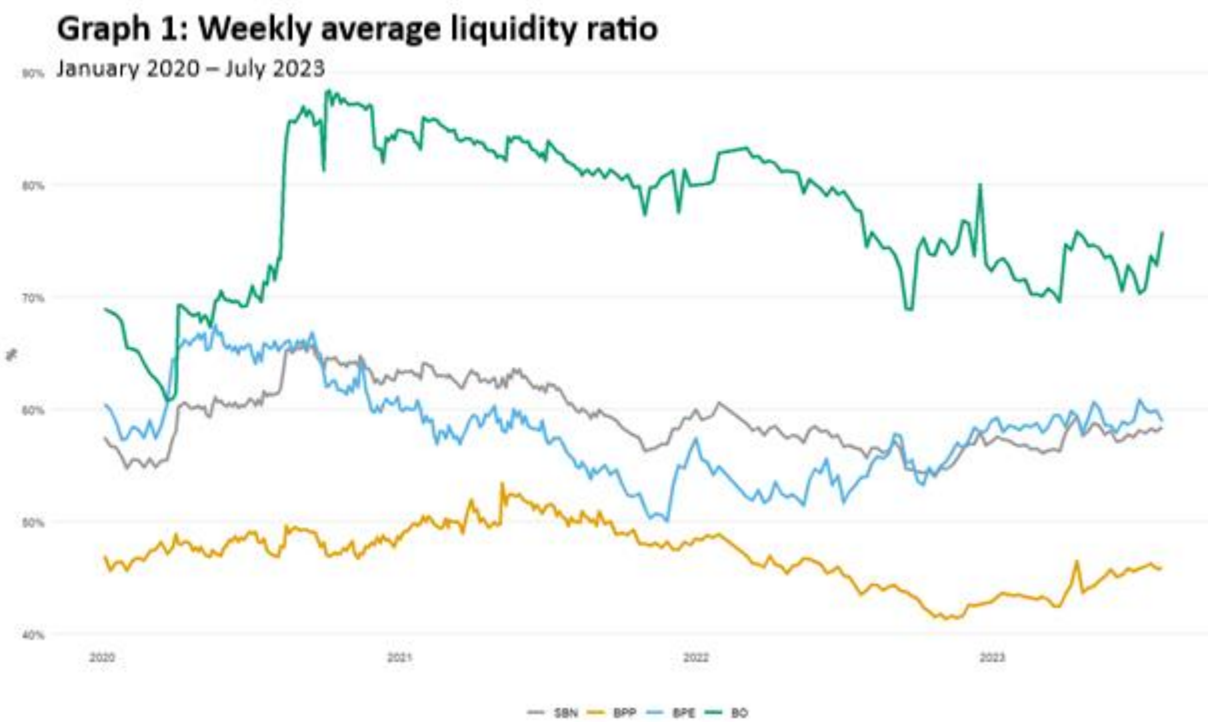
By July, the cumulative profits of CBI banks totaled USD 1.68 billion. This figure represents a 52.7% increase in earnings compared to the same period 12 months ago. The profitability of assets responded significantly to the increase in net interest income (29.1%) and the decrease in provisions (-19.7%). By segments, interest income increased by 47% compared to the same period a year ago. On the other hand, operating expenses grew by 65.2% on a year-on-year basis. Particularly, loan interest income increased by 33.7% (a total difference of USD 863.3 million), while interest paid primarily for term deposits rose by 69.6% (a difference of 945.8). The foregoing suggests that deposit interest rates could be more sensitive to changes, potentially exerting greater pressure on interest margin. The accounts that impacted the growth of net income responded to changes in deposit income (357.8%), treasury, and securities (52.5%), among others.

As of July 2023, the balance of CBI bank deposits amounted to USD 101.65 billion, indicating a USD 4.35 billion increase (4.5%). Domestic deposits experienced a 1.2% increase, while external deposits grew by 10.1% annually. In contrast to what has been observed in customer deposits since 2020, demand and savings deposits – immediately available funds – did not contribute to the performance of liabilities this year. The growth of private deposits was supported solely by the performance of term deposits. Term deposits have accelerated their expansion, propelled by higher interest rates, which, in turn, have increased the appeal of this type of savings instrument. Within customer deposits, the performance of term deposits has played a pivotal role in driving deposit expansion, resulting in a year-on-year increase of 3.8% for domestic deposits and 20.2% for external deposits.

In conclusion, the Panamanian financial system has consistently demonstrated resilience and a solid overall position. Nonetheless, considering the external macro-financial environment and the stringent financial conditions resulting from tightening of monetary policy frameworks, the SBP will continue to closely monitor the impact of these events on market liquidity and solvency. This ongoing vigilance aims to ensure the stability of the financial system considering the present circumstances.

A. Liquidity

At the end of July 2023, the liquidity of the Banking System reached 58.2%, with the increase in deposits contributing to improve its liquidity position. Presently, local banks are in a robust regulatory position, which empowers them to navigate market volatility. Banks within the National Banking System have consistently maintained strong liquidity buffers and dependable access to structural and wholesale deposits, constituting a critical part of their funding. It is important to note that all banks operating within the Panamanian CBI are required to adhere to Basel III requirements as stipulated by regulatory provisions. The Liquidity Coverage Ratio (LCR) gauges the ability to secure emergency or survival funding over a 30-day period. The latest figures indicate that the ratio of deposits and expectations compared to high-quality liquid assets comfortably surpasses the regulatory minimum, and its term structure is appropriate.



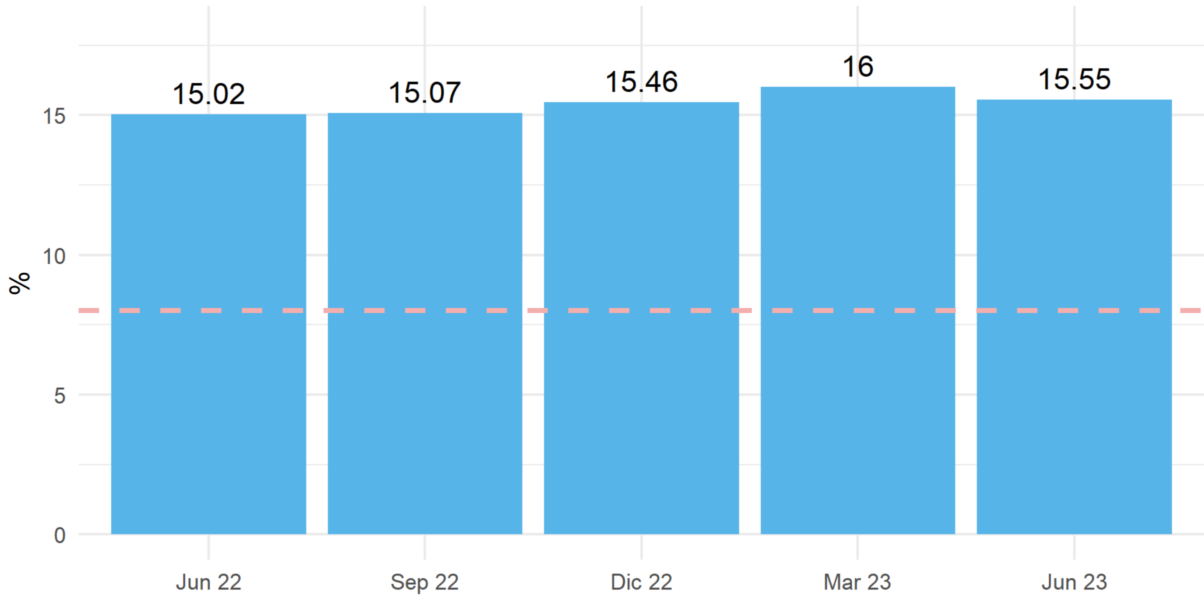
Source: General License Banks

B. Solvency

The latest Capital Adequacy Ratio (CAR) indicates that the combined solvency ratios of CBI have remained in a robust position. The CAR on risk-weighted assets (RWA) stood at 15.55% (see **Graph 2**), surpassing the regulatory minimum of 8%. There were no significant changes in the capital of the group of banks compared to the previous quarter.

Profitability is anticipated to remain steady. This, combined with a more cautious growth in RWAs, will bolster capital adequacy metrics across most CBI banks. Presently, all banks operating within the CBI are in satisfactory compliance with the new bank capital regulatory standards.

Graph 2: Capital Adequacy Ratio
June 2022 – June 2023



Source: General and International License Banks

C. Income Statement

As of July 2023, the cumulative profit for the first quarter for CBI banks totaled USD 1.67 billion. This figure represents a 52.7% increase in profit compared to the same period 12 months ago. This growth is attributed to the development of the financial margin and commissions, stemming from the continuous expansion of the credit portfolio, effective asset management, expense control, and a reduction in provisions in response to a preventive assessment of credit risk. Additionally, profitability was enhanced by profits generated by other entities within the banking group.

The profitability of assets responded significantly to the rise in net interest income (29.1%). By segments, interest income increased by 47% compared to a year earlier, while operating expenses grew by 65.2% annually. Particularly, loan interest income rose by 33.7% (a total difference of USD 863.3 million). Meanwhile, term deposit interest paid increased by 69.9% (a difference of USD 945.8 million). The foregoing suggests that deposit interest rates could be more sensitive to changes, potentially exerting greater pressure on interest margins. The segments that contributed to the increase in net income responded to changes in deposit income (357.8%), treasury, and securities (52.2%), among others.

General expenses totaled USD 1.78 billion, representing a 4.9% increase (or USD 83 million).

Provisioning expenses decreased from USD 369 million in 2022 to USD 296 million in 2023, marking a 19.7% decrease. However, this performance is rooted in the coverage levels of provisions established during the pandemic, which, combined with specific regulatory requirements, served as an effective buffer during challenging periods at that time. As of early 2023, identified and monitored risks continue to persist both domestically and externally. Therefore, from a prudential perspective, it would be wise to take actions to bolstered potential provisions and mitigate potential events arising from an anticipated slower growth environment and a more complex international landscape.

In summary, the Income Statement reflects a robust performance for the CBI based on the data as of July 2023. It is anticipated that profitability will further benefit from the expansion of the credit portfolio in an environment of elevated interest rates, consistent commission income, and the operational efficiency achieved through the digitalization processes implemented by banks.

Table 1: International Banking Center
Accumulated Income Statement
(In millions of USD)

International Banking Center	Jan.-July 2022	Jan.-July 2023	Difference %	Difference USD
Net interest income	1,542	1,990	29.1%	448
Other income	1,621	1,757	8.4%	136
Operating income	*3,164*	*3,748*	*18.5%*	*584*
General expenses	*1,695*	*1,778*	*4.9%*	*83*
Profit before provisions	1,469	1,970	34.1%	501
Provisioning expenses	369	296	-19.7%	-73
Profit for the period	**1,099**	**1,673**	**52.2%**	**574**

Source: General and International License banks.

The National Banking System recorded accumulated net profits of USD 1.32 billion as of July 2023, signifying a 50.4% increase compared to July 2022. Like the CBI, increased credit activity and reduced provisioning positively influenced the sector’s profits. It is anticipated that SBN banks will continue to implement strategies for cost control and operational efficiency. Presently, the efficiency level of the CBI is approximately 47%.

Table 2: National Banking System
Accumulated Income Statement
(In millions of USD)

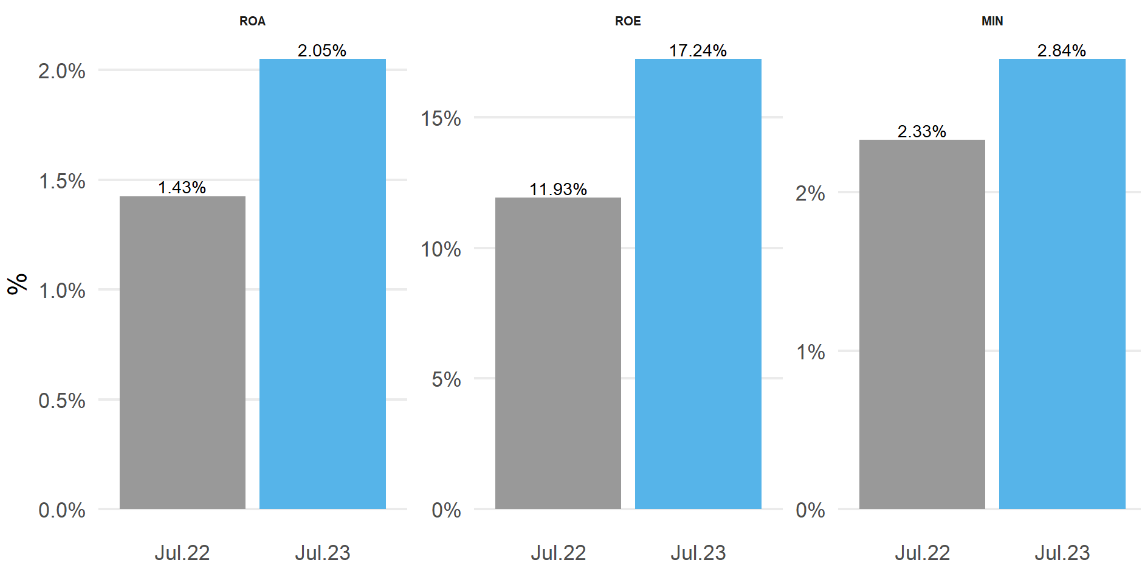
National Banking System	Jan.-July 2022	Jan.-July 2023	Difference %	Difference USD
Net interest income	1,432	1,763	23.2%	332
Other income	1,343	1,478	10.0%	135
Operating income	*2,774*	*3,241*	*16.8%*	*467*
General expenses	*1,543*	*1,633*	*5.9%*	*91*
Profit before provisions	1,232	1,608	30.5%	376
Provisioning expenses	357	292	-18.1%	(65)
Profit for the period	**875**	**1,315**	**50.4%**	**441**

Source: General License banks.

D. Profitability indicators

The indicators suggest that banks in the market are currently experiencing a positive cycle, attributed to the expansion of post-pandemic placements. As a result, interest margins and profitability metrics have strengthened. The Return on Equity (ROE) stood at 17.24%, signifying an increase of 531 basis points compared to the performance in the first half of 2022, which was at 11.9%. The Return on Assets (ROA) reached 2.05% by the end of July, reflecting a sixty-two (62) basis points increase from the previous year. These increases occurred in the context of improvements in credit placements and a reduction in provisions for asset impairment. Meanwhile, the Net Interest Margin (NIM) has shown growth during its annual evaluation. Recently, it had experienced compression due to greater liability compensation. It is important to note that, while these results are positive, they do vary among different credit entities.

Graph 3: Profitability Indicators - CBI
July 2022 – July 2023



Source: General and International License banks

E. Balance Sheet

The assets of the CBI totaled USD 143.37 billion, representing an increase of USD 6.82 billion compared to July 2022, or a year-on-year growth of 5%. The banks' assets accelerated their expansion rate due to a growing net credit portfolio (6.3%) and the securities account (4.7%). Liquid assets shrank by 1.3% year-on-year. Notably, the latter now presents a negative figure, but it has improved throughout the year, partly due to enhancements in deposits, which are a key element of the funding structure.

It is important to note that most CBI assets consist of the credit portfolio, which reported a balance of USD 85.67 billion according to the financial statements submitted by banks to the SBP. Regarding the performance of the net credit portfolio's external component, it increased by 7.4%. This suggests that corporate banking lending to the private sector continues to experience positive expansion, despite recent interest rate hikes primarily targeting the commercial segment.

On the deposits side, they constitute a substantial portion of the CBI's funding and support its credit operations, resulting in a reduced dependence on wholesale funding through market debt issuances, which can typically be more volatile. CBI deposits as of July 2023 totaled USD 101.65 billion. These data demonstrate the banks' ability to maintain depositors' confidence. Notably, a sizable portion of these new deposits arises from the growth of term deposits, primarily held by individuals (which exhibit high renewal rates), thereby enhancing the banks' funding and liquidity profiles.

In terms of customer liabilities by maturity, term deposits continue to be the most prominent savings instrument and were the primary driver for traditional bank deposits in July 2023. This positive performance is linked to the ongoing interest rate hike cycle, which has heightened the relative attractiveness of this type of savings instrument.

Obligations increased by 2.7% and other liabilities rose by 9.9% compared to July 2022. Concerning bonds, these instruments also encompass the financing component through issuances. Despite the increase in borrowing costs, current market conditions could stimulate an interest in such strategies to mitigate future liquidity risks and reduce uncertainty regarding potentially higher rates that might affect new investment decisions. This situation represents an opportunity to capitalize on the flattening yield curve between short- and medium-term rates.

Table 3: International Banking Center
Balance Sheet
(In millions of USD)

Breakdown	2022	2023	Jul. 23/Jul. 22 Difference	
	July	July	Total	%
Liquid assets	19,369	19,124	-245	-1.3%
Net credit portfolio	80,625	85,670	5,045	6.3%
Domestic	*54,552*	*57,659*	*3,108*	*5.7%*
External	*26,073*	*28,010*	*1,937*	*7.4%*
Securities	29,411	30,800	1,389	4.7%
Other assets	7,142	7,772	630	8.8%
Total Assets	**136,546**	**143,365**	**6,819**	**5.0%**
Deposits	97,302	101,649	4,347	4.5%
Domestic	*61,850*	*62,621*	*771*	*1.2%*
External	*35,453*	*39,028*	*3,576*	*10.1%*
Obligations	19,480	20,013	533	2.7%
Other liabilities	3,903	4,290	387	9.9%
Capital	15,861	17,413	1,552	9.8%

Source: General and International License banks

As for the assets of the National Banking System, they amounted to USD 126.55 billion, indicating an increase of USD 6.93 billion or 5.8%, compared to July 2022. The SBN's net credit portfolio showed a USD 5.64 billion (7.73%) increase, reaching USD 78.53 billion. Net external credits grew by 13.8%, while the net domestic portfolio performed at 5.7%. On the other hand, the total deposits held within the SBN amounted to USD 88.99 billion, representing a 5.1% rise.

Table 4: National Banking System
Balance Sheet
(In millions of USD)

Breakdown	2022 July	2023 July	Jul. 23/Jul. 22 Difference Total	Jul. 23/Jul. 22 Difference July
Liquid assets	15,581	14,657	-924	-5.9%
Net credit portfolio	72,891	78,523	5,632	7.7%
Domestic	*54,554*	*57,659*	*3,105*	*5.7%*
External	*18,336*	*20,864*	*2,527*	*13.8%*
Securities	24,367	25,928	1,561	6.4%
Other assets	6,781	7,433	652	9.6%
Total Assets	**119,620**	**126,541**	**6,921**	**5.8%**
Deposits	84,647	88,992	4,345	5.1%
Domestic	*61,639*	*62,397*	*758*	*1.2%*
External	*23,008*	*26,595*	*3,587*	*15.6%*
Obligations	19,000	19,896	895	4.7%
Other liabilities	3,719	4,098	380	10.2%
Capital	12,254	13,555	1,301	10.6%

Source: General License banks

F. Credit

As of July 2023, the National Banking System recorded growth in the gross net domestic portfolio, which amounted to USD 59.79 billion, representing a 5.2% increase compared to the data reported at the end of July 2022, or a year-on-year growth of USD 2.94 billion. This growth was attributed to the annual increase in credits to companies and entrepreneurs (3.0%), consumer credit (3.0%), mortgage credit (5.2%), and financial services activities (8.8%).

The performance of loans to companies and legal persons is primarily explained by the dynamics of loans to the industrial sector (11.1%) and the commercial sector (2.7%). Most of the portfolios recorded growth, even in the current environment of higher lending interest rates. This growth could be partly attributed to the improved performance of activities in the real sector.

Regarding the balance of household loans, consumption continued to exhibit growth (5.7%). The latest data continued to demonstrate resilience during the second half of the year despite announcements of interest rate hikes. As of the end of July 2023, personal loans grew by 3.4%, car loans by 4.3%, and credit cards by 0.11%. It should be noted that credit card operations saw a 1.27 growth compared to June 2023, suggesting a potential acceleration in the use of this credit facility.

Residential mortgage loans grew by 6.7% in July 2023 compared to the figures recorded in July 2022, maintaining the performance observed in recent months. This credit facility was bolstered by the year-on-year increase in preferential interest mortgages, whose growth rate reached 12.0% in July. The robust performance of employment and consumer confidence will continue to be determining factors in driving household credit.

Table 5: National Banking System
Balance of domestic credit portfolio by economic sectors
(In millions of USD)

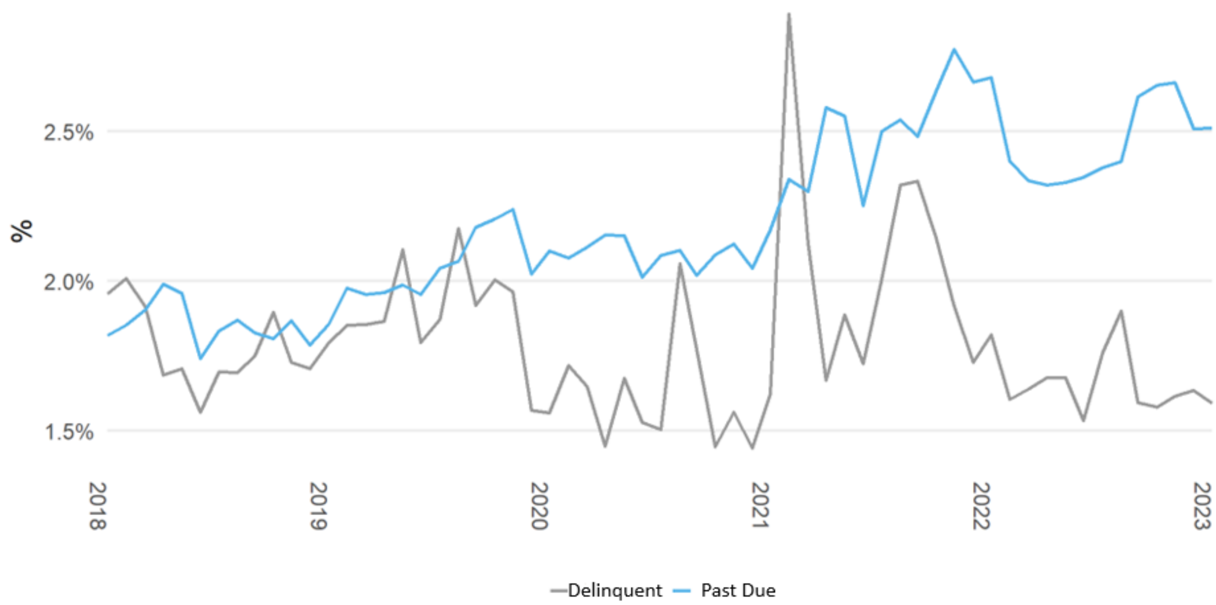
Sector	July 2022	July 2023	Jul. 23/Jul. 22 Difference	
			Total	%
TOTAL	**56,848.9**	**59,783.8**	**2,934.9**	**5.2%**
Public sector	**1,335.7**	**2,096.6**	**760.9**	**57.0%**
Private sector	**55,513.2**	**57,687.3**	**2,174.1**	**3.9%**
Financial & insurance activities	1,488.0	1,619.7	131.7	8.8%
Agriculture	463.3	489.6	26.3	5.7%
Livestock	1,302.4	1,319.8	17.4	1.3%
Fishing	112.6	115.8	3.2	2.8%
Mining & Quarrying	51.3	58.5	7.2	14.1%
Commerce	11,545.3	11,855.7	310.4	2.7%
Industry	3,278.7	3,535.3	256.4	7.8%
Mortgages	19,286.9	20,285.2	998.3	5.2%
Construction	5,013.2	5,051.3	38.0	0.8%
Personal consumption	12,971.3	13,356.5	385.1	3.0%

Source: General License banks

The portfolio quality of CBI as of July 2023 shows a default ratio of 4.1%, with 1.6% representing loans with arrears of 30+ days and loans with arrears of 90+ days recording 2.5%. This performance indicates a higher percentage of defaults when compared to pre-pandemic periods. Although the credit portfolio delinquency ratio has seen few changes throughout the year, some segments have experienced increases.

Regarding provisions for delinquent or past-due loans, although strengthened during the pandemic, have recently been decreasing. Accounting provisions for impaired loans stood at 107.6% (below the 125.7% recorded a year earlier), resulting in a stage 3 provision lower than that of the previous year. While current provisioning and collateral mitigate loan impairment risks, the SBP will closely monitor their evolution

Graph 4: Portfolio Quality: Delinquent and Past Due
July 2018 – July 2023



Source: General and International License Banks

G. Deposits

CBI bank deposits, as of July 2023, amounted to USD 101.65 billion, indicating a USD 4.35 billion increase (4.5%). Domestic deposits experienced an increase during the surveyed period of USD 771 million, representing a 1.2% growth compared to June 2022.

On the other hand, domestic deposits exhibited a 10.1% year-on-year increase (USD 3.58 billion), reaching a total of USD 39.028 billion. Domestic deposits account for 38% of the International Banking Center. These deposits have continued to infuse dynamism into CBI deposits, a trend that has been amplified since late 2021.

Table 6: International Banking Center
Total Deposits
(In millions of USD)

Accounts	2022 July	2023 July	Jul. 23/Jul. 22 Difference	
			Total	%
Deposits	97,302	101,649	4,347	4.5%
Domestic	61,850	62,621	771	1.2%
Government	11,252	12,300	1,048	9.3%
Customer	47,414	47,059	-355	-0.7%
Banks	3,183	3,262	79	2.5%
External	35,453	39,028	3,576	10.1%
Government	367	242	-125	-34.1%
Customer	27,609	30,275	2,665	9.7%
Banks	7,477	8,512	1,035	13.8%

Source: General and International License banks.

In the case of the SBN banks, there is a trend like that of the CBI, with a total balance of USD 88.99 billion, representing a 5.1% increase compared to July 2022, even though external deposits have shown stronger performance (see **Table 7**).

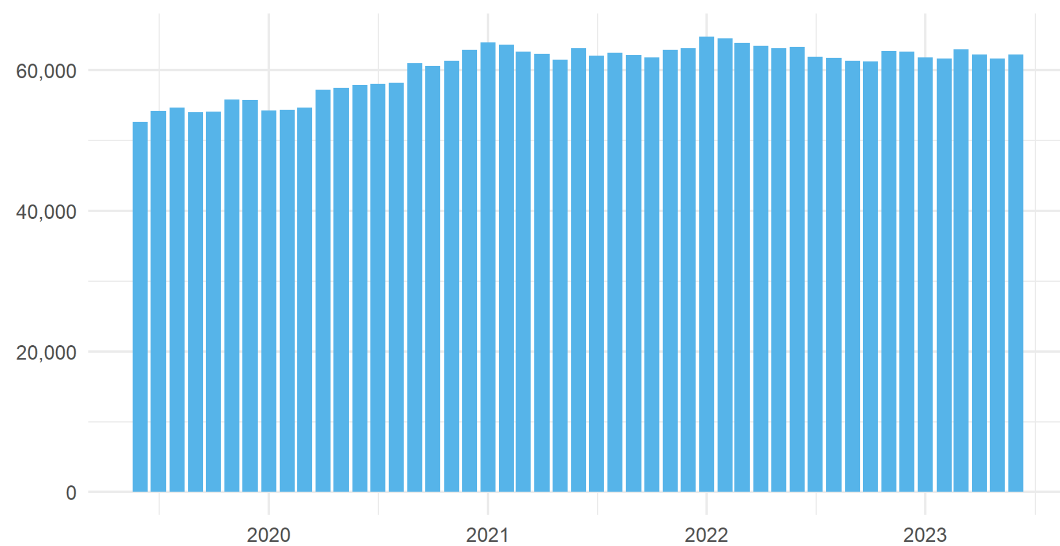
Table 7: National Banking System
Total Deposits
(In millions of USD)

Accounts	2022 July	2023 July	Jul. 23/Jul. 22 Difference Total	%
Deposits	84,647	88,992	4,345	5.1%
Domestic	61,639	62,397	758	1.2%
Government	11,252	12,300	1,048	9.3%
Customer	47,414	47,059	-355	-0.7%
Banks	2,973	3,038	65	2.2%
External	23,008	26,595	3,587	15.6%
Government	357	184	-173	-48.5%
Customer	15,645	18,516	2,871	18.4%
Banks	7,006	7,895	889	12.7%

Source: General License banks.

It is important to note that domestic deposits account for 70.1% of the total SBN deposits, with 75.4% of these being customer deposits. While domestic deposits decreased, they are still higher than pre-pandemic levels. **Graph 5** illustrates the evolution of the domestic deposit balance.

Graph 5: Total Domestic Deposits
July 2019 – July 2023
In millions of USD



Source: General license banks.

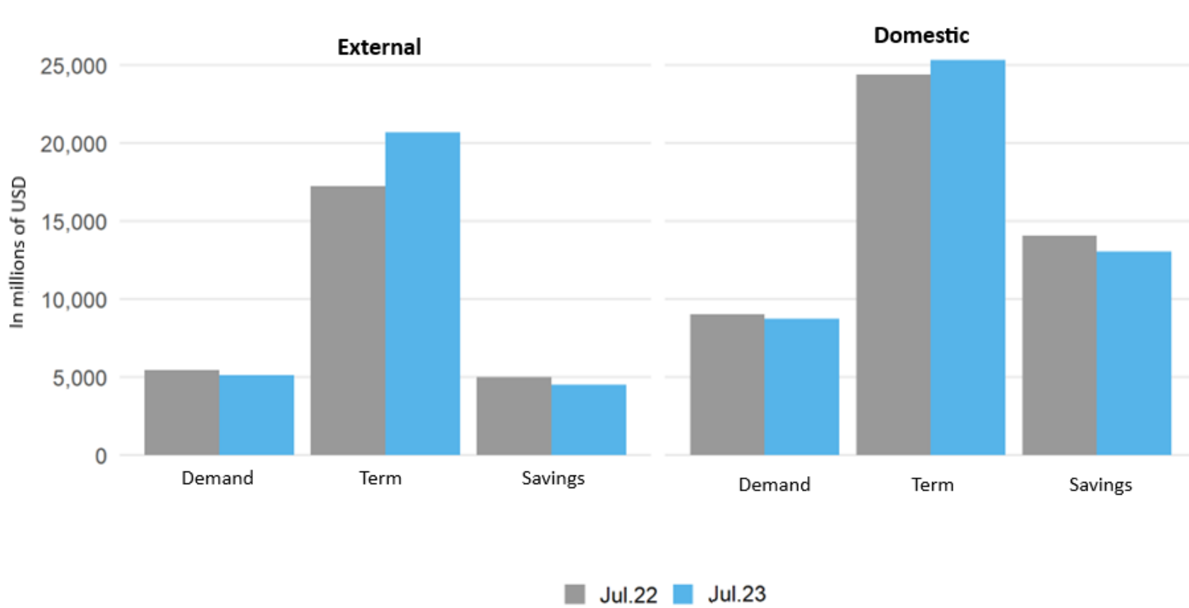
In contrast to what has been observed in customer deposits since 2020, demand and savings deposits – immediately available funds – did not contribute to the performance of liabilities this year (see **Graph 6**).

In fact, regarding the structure of customer liabilities by maturity, term deposits continue to be the most prominent savings instrument. As of the end of July 2023, customer domestic term deposits totaled USD 25.30 billion; followed by savings deposits at USD 13.04 billion, and demand deposits at USD 8.73 billion.

At the beginning of the second half of the year, term deposits have accelerated their expansion, driven by higher interest rates, which, in turn, have increased the appeal of this type of savings instrument, reaching a real growth rate of 10.6%. Domestic customer deposits increased by 3.8% and external deposits grew by 20.2%.

Going forward, in an environment of higher interest rates, we expect a continued consolidation of the recovery in the balance of this source of resources.

Graph 6: Customer Deposits
July 2022 – July 2023



Source: General and International license banks.

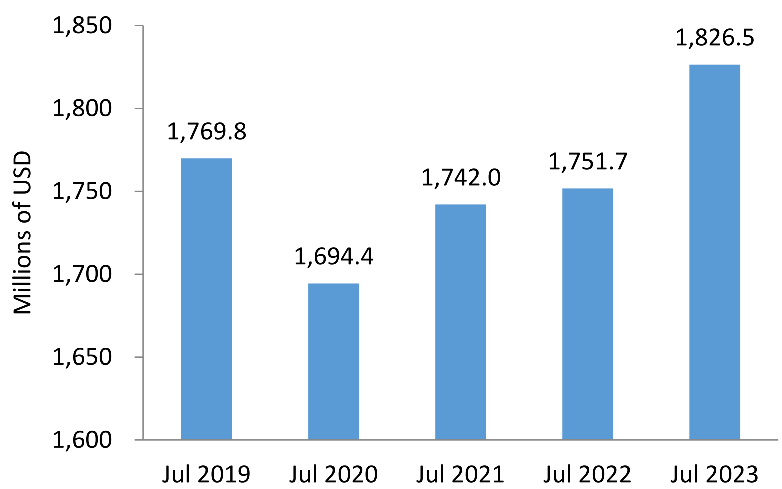
H. Box: Car Loans

- **Credit Portfolio Balance**

Despite pricing and interest rate hikes, car portfolio financing continued to exhibit robust performance. As of the end of July 2023, the total balance of car loans in the National Banking System reached USD 1.83 billion, marking a 4.3% year-on-year increase. The average of new car loans totaled USD 21,250 (sic). This balance exceeds pre-pandemic levels (2019) when the car portfolio totaled USD 1.77 billion, illustrating the sector's recovery (see **Graph R.1**). This data recovery may partly reflect the positive state of recorded sales.

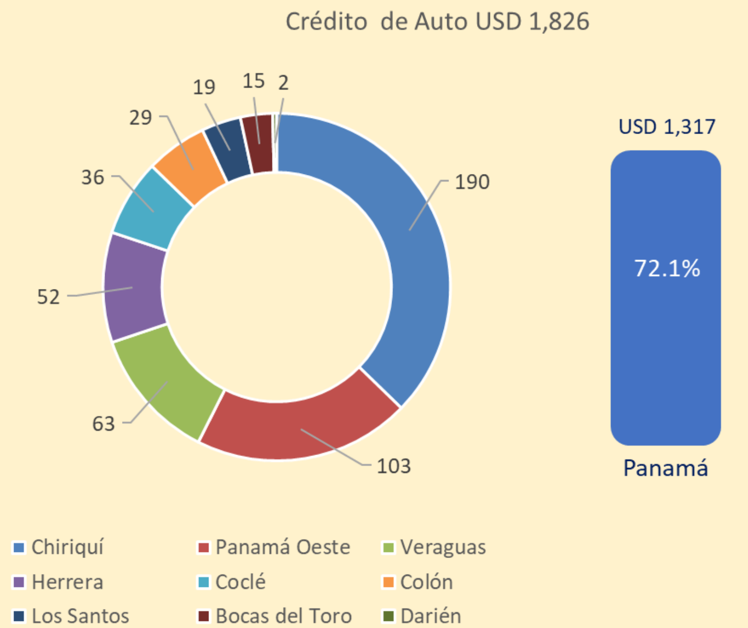
According to the National Institute of Statistics and Census (INEC, for its acronym in Spanish) of the Comptroller General's Office, from January to May 2023 (the latest available data), 20,585 new cars were registered in the country, marking a 23.7% increase compared to the same period a year ago when 16,641 new cars were registered. This indicates that the funding capacity of the banks in the market and customers is meeting loan requirements, resulting in 2,511 new car loans granted in May 2023. These loans are part of the consumer portfolio, separate from those granted under the corporate portfolio, and they represent approximately 51% of the number of new cars registered so far this month.

Graph R.1: Car Loan Portfolio Balance
July 2019 - July 2023



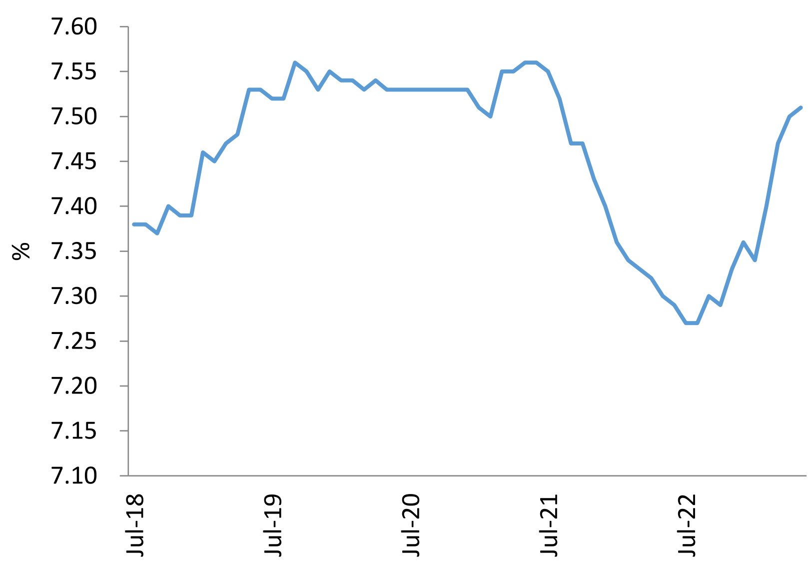
Source: SBP

By province, there is a total balance of USD 1.32 billion in the province of Panama, representing 72.1% of the total car loan portfolio. It is followed by the province of Chiriquí with USD 190 million, accounting for 10.4% of the portfolio. The provinces of Colón and Veraguas come next. The remaining provinces, including Coclé, Los Santos, Bocas del Toro, and Darién, collectively account for 17.5% of the portfolio. **Graph 8** displays the total balance of car loans by province, illustrating the significant concentration of car loans in the province of Panama, which is related to the high concentration of cars in this province.



Analyzing the car loan portfolio in detail, the interest rate increased by twenty-eight (28) basis points between August 2022 and July 2023, reaching 7.5%. The current rate matches the average recorded at the onset of the pandemic (see Graph), which is why, to this date, this component should not be affecting the sales in the sector. Although there is an expectation in the medium-term that interest rates will continue their upward trend, leading to more expensive financing, it should not pose a risk to the industry's sales estimates or the eventual performance of the loan portfolio in 2023.

Graph R.3: Car Interest Rates
July 2018 - July 2023



Source: SBP

- **Portfolio Quality**

In July 2023, the car loan portfolio recorded 95.5% validity rate. On the other hand, loans with 30 days in arrears ended at 3.4%, which is lower than the 4.0% recorded in July 2022. The overdue balance of 90+ days stood at 1.1%, also lower than the 1.7% recorded in 2022. The table below displays the car loan portfolio by category.

Table R.1 Car Loan Portfolio Quality
July 2022/2023

Car Loans	July 2022	July 2023
Valid	94.3%	95.5%
Delinquent	4.0%	3.4%
Past due	1.7%	1.1%
D + PD	5.7%	4.5%

Source: SBP

SBP

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