Superintendencia de Bancos de Panamá

# Banking Activity Report

## July 2024

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## Executive Summary

At the end of July 2024, the operations of the International Banking Center (CBI) demonstrated strong financial health and prudent lending practices, with banks in the market maintaining levels that exceed the minimums established by the regulatory provisions issued by the banking regulator. The most recent solvency and legal liquidity indicators reached levels of 15.65% and 55.08%, respectively. These indicators not only show levels of flexibility with respect to regulatory requirements but also reinforce the system's ability to absorb financial shocks and maintain operational stability in the face of potential adverse scenarios. It is worth noting that with the start of the new administration, a higher level of confidence has been perceived in both international and the local environment. This effect may extend to the financial and banking sector, where financial and lending conditions have remained stable. Thus, regarding the main portfolio aggregates, local credit performance shows a moderate and sustainable growth rate of 5.1%, driven mainly by the commercial, industrial and consumer portfolios, despite observing sectoral variations that reflect uneven growth dynamics. As of the first seven months of the year, the International Banking Center (CBI) continues to maintain a positive performance pace.

At the end of July 2024, the total assets of the International Banking Center of Panama (CBI) reached USD 147,8 billion, representing a year-on-year increase of USD 4,4 billion or 3.1%. This growth is mainly attributed to a strategy of optimizing returns on productive assets, alongside active and strategic management of available resources. This approach has strengthened the CBI's capital and liability structure, contributing to both profitability and the mitigation of potential risks throughout 2024. The expansion in the CBI's balance sheet reflects an acceleration in the growth of productive assets, largely driven by a 7.5% increase in the net loan portfolio, which has reached USD 92 billion, and a 5.64% increase in investments in securities. In contrast, liquid assets decreased by 17.4%, indicating a reallocation strategy towards higher-yielding assets.

The CBI's credit portfolio, the main asset on the balance sheet, grew by 7.5%, with an increase of 11.54% in the external segment and 5.1% in the local component. At the end of July 2024, the local credit portfolio of the National Banking System registered a balance of USD 62,8 billion, reflecting a 5.12% increase compared to the same period of the previous year, which translates into a growth of USD 3,0 billion. This positive performance indicates sustained demand for credit despite a less dynamic economic environment, suggesting resilience in local economic activity and the bank’s ability to capture financing opportunities. The largest increases were observed in trade (USD 979 million), mortgages (USD 703 million), personal consumption (USD 592 million), financial activities (USD 542 million) and industry (USD 515 million). The household loan portfolio grew by 3.47% in mortgages (USD 20,9 billion) and 4.43% in personal consumption (USD 13,9 billion). The total amount of loans disbursed so far this year amounts to USD 124,5 billion, which means an increase in flows of 13.4%.

The portfolio's health showed a slight materialization of issues, though it remained at levels similar to those observed a year ago. Overall, the non-performing and overdue portfolio together represents 3.99% of the total portfolio balance. The indicator of total overdue portfolio in relation to the portfolio balance registered 2.33% in July 2024. Notably, both indicators reflect a higher percentage of arrears compared to pre-pandemic periods. Nevertheless, the coverage of the overdue portfolio through provisions remains above 100%. Given these indicators and the anticipated lower economic performance for this year, which could limit credit expansion and sustain high levels of non-performing assets, proactive risk management is crucial. Therefore, it is important for banks to uphold strict provisioning policies and continue enhancing their credit recovery and restructuring strategies to mitigate prospective risks. Additionally, heightened monitoring of asset quality and potential adjustments to lending policies will be essential to preserve the financial stability of the IBC.

By July 2024, banks within the International Banking Center (IBC) reported a 10.9% increase in accumulated profits compared to the previous year, reaching a total of USD 1,8 billion. This growth was driven by a 3% rise in net interest income, a 15.1% increase in other operating income, and efficient management of general expenses, which grew by only 7.2%, thereby enhancing banking efficiency.

In July 2024, the International Banking Center (CBI) experienced a 3.5% year-on-year growth in the balance of bank deposits, reaching a total of USD 105,2 billion. This growth was driven by two main factors: a 3.9% increase in domestic deposits, amounting to USD 65 billion, and a 3.0% increase in deposits from external sources, totaling USD 40,1 billion. These figures indicate that commercial banking deposits continue to be significantly influenced by depositors' preference for safe investments and predictable returns, underlining the confidence in the stability and solvency of the CBI banking system. This reinforces the IBC´s essential role in asset management both locally and in regional countries that use these banks. Deposits continue to grow sustainably, both locally and internationally, with a notable shift towards term deposits as clients move funds from demand deposits or current savings, driven by the ongoing rise in interest rates. Considering potential changes in international interest rates, it is important to maintain proactive monitoring to manage any temporary imbalance in the anchoring structure. Continuous monitoring is suggested to identify the need for timely adjustments in the financing strategies and risk management, aiming to mitigate adverse impacts and ensure financial stability.

Based on the joint analysis of several indicators, it is concluded that the financial system remains stable and resilient, with robust liquidity and solvency ratios, despite the lower performance of the economy during the year and the challenges of the external sector. The ability of banks to maintain these indicators, in line with regulatory requirements and international best practices, will be essential to mitigate risks and maintain the confidence of investors and depositors. Continuous monitoring of exposure to credit, market, and operational risks will be essential, ensuring that mitigation measures are effective and timely. The SBP will continue to exercise the necessary supervision process to preserve the financial stability of the system.

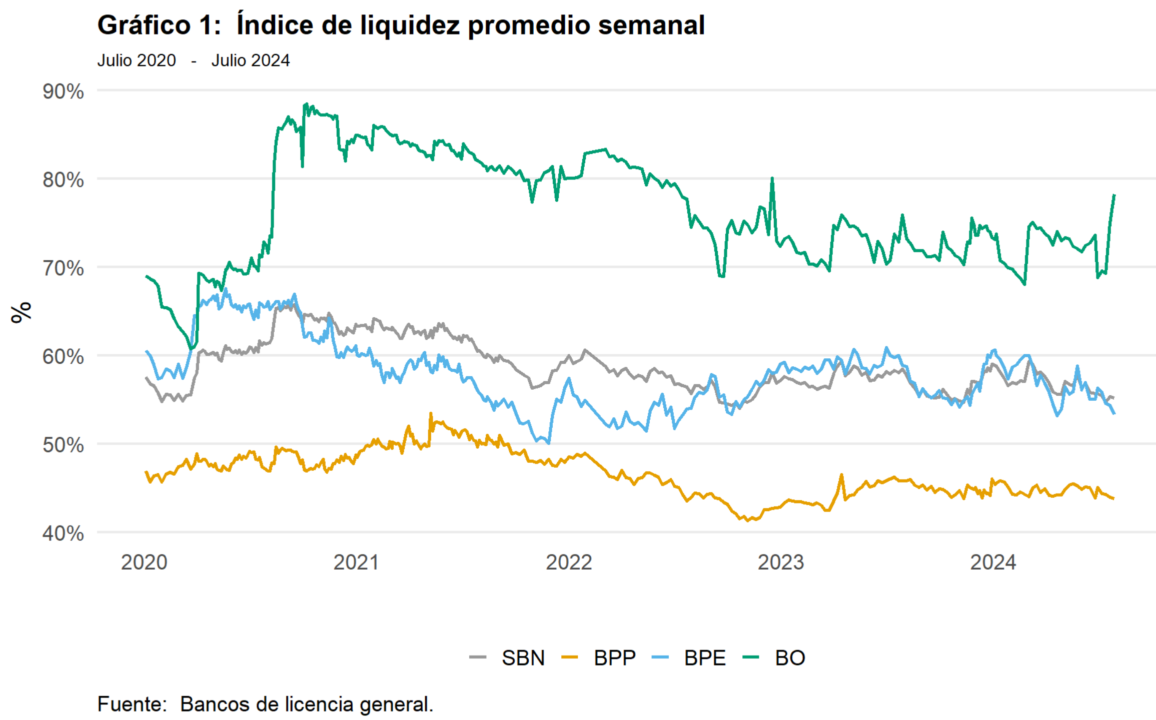
## A. Liquidity

At the end of July 2024, Panama's banking sector demonstrated a sound operational position, showed in an average liquidity ratio of 55.08%. This liquidity level, exceeding regulatory standards, is primarily attributable to an increase in deposit volumes, indicating active and efficient balance sheet management. This robust liquidity not only enhances the sector's ability to respond to financial stress scenarios but also implies depositor confidence and the effectiveness of the treasury management strategies implemented by banks.

As for the System's banks, they have historically maintained robust liquidity buffers and constant access to structural and wholesale deposits, which constitute a fundamental part of their anchoring. The presence of wholesale deposits can offer advantages in terms of anchoring costs but can also present volatility risks in times of economic uncertainty, which underscores the importance of diversified and proactive balance sheet management. It is worth noting that regulatory provisions require all banks operating in the Panamanian CBI to comply with Basel III standards. The Liquidity Risk Indicator is intended to measure the capacity for emergency or survival anchoring over a 30-day period. The Liquidity Risk Indicator shows that the country is above the minimum requirements, thanks to prudent assets and liabilities management, in terms of maturity, diversified anchoring structure and high asset quality.

Currently, banks comply with the provisions of the LCR, showing an average indicator higher than the regulatory requirement. This level of compliance suggests that the Panamanian banking sector is well positioned to face possible market tensions, although it will be essential for entities to continue adapting their liquidity management strategies as macroeconomic and financial conditions evolve, both locally and externally. The resilience of the system to possible external shocks will depend on the ability of banks to maintain these liquidity buffers at optimal levels, ensuring their response capacity and operational sustainability in the medium and long term.

**Graph 1: Weekly Average Liquidity Ratio**
**July 2020 – July 2024**




**Source:** General license banks.

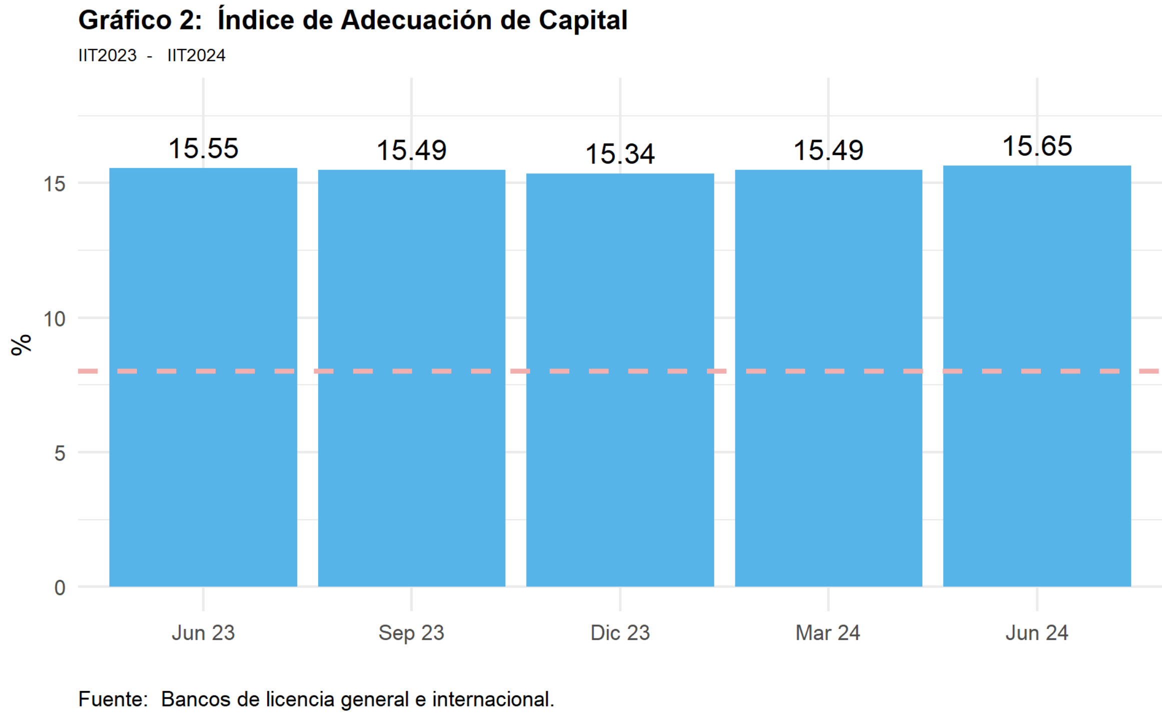
## B. Solvency

The Capital Adequacy Ratio (CAR) of banks in the International Banking Center (IBC) has maintained adequate solvency indicators, consistently standing above the required 8%. As of June 2024, the CAR, adjusted for the risk-weighted assets, was 15.65% (see Chart 2), significantly exceeding the regulatory threshold of 8% and showing strong financial resilience against possible adverse scenarios. This level of capitalization provides a substantial buffer, enhancing bank´s ability to absorb unexpected losses. The stability observed compared to the previous quarter suggests that institutions have managed to maintain prudent capital management despite a challenging economic environment.

To date, banks within the CBI comply with regulatory standards for bank capital, underscoring the effectiveness of their risk and capital management strategies guided by regulatory parameters. However, potential changes in RWAs could pressure capital ratios in the future, especially if accompanied by increases in credit or market risk. This highlights the importance of active RWA management and maintaining a robust capital strategy that balances growth and risk control.

It is crucial for CBI banks continue strengthen their capitalization policies, particularly in an environment where external factors, such as changes in global and local macroeconomic conditions, could impact capital stability. Given the current circumstances, it is essential to closely monitoring external and local real sector factors that could affect capital strength and to take proactive measures to mitigate potential risks. The ability of banks to adjust their capital levels promptly and efficiently in response to potential variations in RWAs will be a key factor in sustaining their solvency.

**Graph 2: Capital Adequacy Ratio**
**IIT 2023 – IIT 2024**




**Source:** General and international license banks.

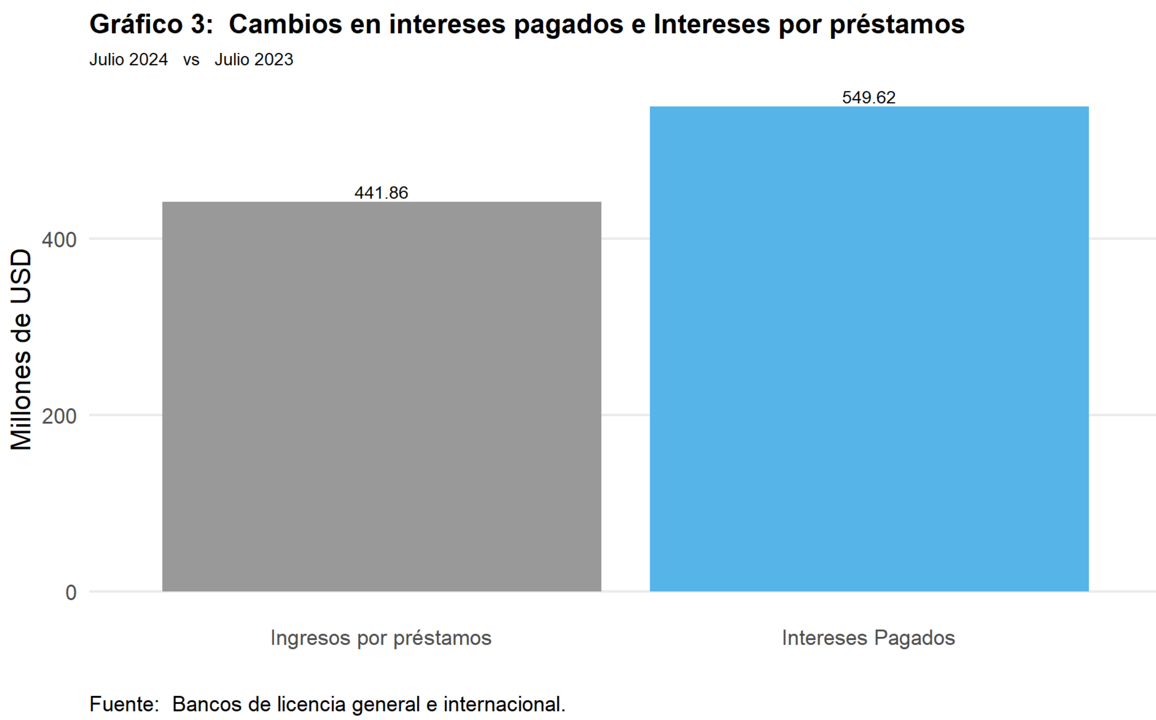
## C. Income Statement

As of July 2024, banks within the International Banking Center (CBI) reported a 10.9% increase in accumulated profits compared to the previous year, totaling USD 1,8 billion. This growth is attributed to outstanding performance in several areas, including improvements in the financial margin, a 15.1% increase in operational incomes, and efficient management of general expenses, which grew by only 7.2%, significantly enhancing banking efficiency.

However, despite the overall positive results at the CBI level, performance varies among different financial institutions. Therefore, special attention must be given to areas such as operational optimization, strategic decisions on costs, efficiency, and customer retention. The improvement in asset profitability is primarily driven by a 3.0% increase in net interest income, which reached USD 2 billion as of June 2024. While the stability in the interest margin is a positive factor, it remains essential to monitor the evolution of interest rates and their impact on costs anchoring. Other important components show that operating income grew by 8.7% growth, while general operating expenses increased by 7.2% compared to the same period of the previous year.

Loan interest income increased by 12.9%, representing an absolute variation of USD 441.9 million. Conversely, interest paid, mainly on term deposits, increased by 23.9% (USD 549.6 million). This variation suggests that deposit interest rates could be more sensitivity to market changes, potentially impacting the interest margin.

**Graph 3: Changes in Interest Paid and Interest Lent**
**July 2024 vs. July 2023**




**Source:** General and international license banks.

This positive performance is the result of the good practice of process optimization and cost reduction. The implementation of new digital technologies has enabled the execution of more efficient processes and allow cost reduction over a medium term. It is important to highlight that the adoption of modern technologies, have led to improvements in the operational efficiency and it contributes to the sustainable growth by leveraging automation and continuous improvement in service delivery. General expenses amounted to USD 1,9 billion, which shows efficient management of operating costs in a growth environment.

Concerning provisions, it increased from USD 296 million in July 2023 to USD 311 million in July 2024, marking a 5.0% rise. This increase highlights the need for prudent credit risk management, especially in an environment of slower economic growth and potential increases in delinquency levels. Maintaining adequate provision levels is essential to sustaining the credit quality of the banking system.

Prospectively, it is anticipated that CBI institutions will continue to implement strategies aimed at efficient management of administrative expenses in pursuit of greater operational efficiency. As of July 2024, the CBI's operational efficiency ratio shows a slight improvement, reflecting the positive impact of investments in technology and digitalization. However, maintaining this trend will be key to enhancing competitiveness and ensuring a controlled risk profile. It is crucial that future CapEx investments focus on digital transformation projects and improvements in cybersecurity, aligning with a strategy of sustainable growth and operational resilience. In conclusion, although the CBI's performance shows positive signs of growth and efficiency, continuous management of financial and operational risks will be necessary. The CBI's ability to adapt to changes in the economic environment and fluctuations in interest rate markets will remain a key factor in assessing its risk profile.

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

| International Banking Center | Jan.-Jul | Jan.-Jul | Difference | |
|---|---|---|---|---|
| | 2023 | 2024 | % | USD |
| C. Net interest income | 1,990 | 2,050 | 3.01% | 59.9 |
| D. Other income | 1,758 | 2,024 | 15.13% | 266.0 |
| *E. Operating income* | 3,749 | 4,074 | 8.70% | 326.0 |
| *F. General expenses* | 1,777 | 1,904 | 7.20% | 127.9 |
| G. Profit before provisions | 1,972 | 2,170 | 10.04% | 198.0 |
| H. Bad debt | 296 | 311 | 4.99% | 14.8 |
| **I. Profit for the period** | 1,676 | 1,859 | 10.94% | 183.2 |

**Source:** General and International License banks.

At the National Banking System (SBN) level, as of July 2024, accumulated net profits were approximately USD 1,5 billion, showing a 14.2% increase compared to the same month in 2023. The growth in profits mirrors the performance reported by the International Banking Center (CBI), highlighting a trend of cost optimization in the banking sector, reflected in a 9.4% increase in general expenses. However, looking ahead, it may be prudent to increase provisions, which grew by 5.4%, to mitigate potential contingencies, thereby ensuring long-term financial stability and resilience.

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

| National Banking System | Jan-Jul | Jan-Jul | Difference | |
|---|---|---|---|---|
| | 2023 | 2024 | % | USD |
| C. Net interest income | 1,763 | 1,828 | 3.68% | 64.9 |
| D. Other income | 1,478 | 1,770 | 19.75% | 292.0 |
| *E. Operating income* | 3,242 | 3,599 | 11.01% | 356.9 |
| *F. General expenses* | 1,632 | 1,786 | 9.43% | 153.9 |
| G. Profit before provisions | 1,610 | 1,813 | 12.61% | 203.0 |
| H. Bad debts | 292 | 308 | 5.35% | 15.6 |
| **I. Profit for the period** | 1,318 | 1,505 | 14.22% | 187.4 |

**Source:** General License banks.

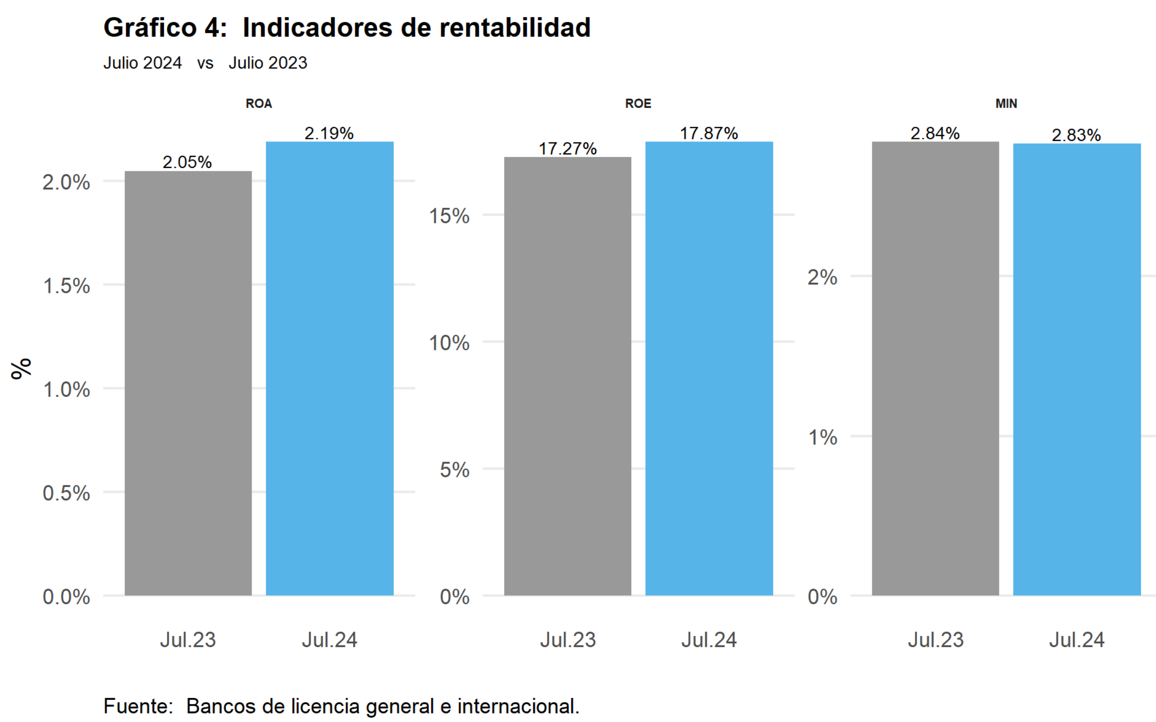
## D. Profitability indicators

In terms of profitability indicators, they remain on a favorable trend, with indicators as of July 2024 demonstrating adequate management by banks on an aggregate level. The Return on Equity (ROE) reached 17.87%, showing an increase compared to the previous year, while the Return on Assets (ROA) stood at 2.19%. The rise in ROE reflects improved efficiency in the use of capital and the ability of institutions to generate higher returns. This trend underscores an optimization in resource management and a continued focus on enhancing the profitability of equity.

It is important to note that, although most profitability metrics continue to improve, the Net Interest Margin (NIM) experienced a slight decrease, standing at 2.83% in July 2024, compared to 2.84% the previous year. The slight reduction in the NIM suggests margin pressure that could be related to competition in interest rates and the anchoring cost structure. Although this decrease is moderate, it is essential for institutions to seek opportunities to optimize the margin through product diversification and improved operational efficiency, where there is still room for improvement.

While the improvement in ROE is a positive indicator of the banking system's profitability, the slight decrease in the NIM highlights the importance of maintaining a focus on operational efficiency and managing anchoring costs. The CBI must continue to adapt to changing market conditions to sustain these profitability levels and mitigate the risks associated with interest margins in the face of potential changes in international interest rates.

**Graph 4: Profitability Indicators**
**July 2024 vs. July 2023**




**Source:** General and international license banks.

## E. Balance Sheet

As of the end of July 2024, Panama's International Banking Center (CBI) showed positive performance in its total assets, reaching USD 147,8 billion, representing a year-over-year increase of USD 4,4 billion or 3.1%. This growth is primarily driven by a strategy of optimizing returns on productive assets, as well as active and strategic management of available resources. This approach has strengthened the CBI's capital and liability structure, contributing to both profitability and the mitigation of potential risks throughout 2024. Despite these advances, from a supervisory standpoint, additional forward-looking planning will be required given the challenges of a projected less dynamic economic environment for this year. This less dynamic environment could limit credit expansion and keep non-performing assets elevated, which could eventually increase the risk of deterioration in the loan portfolio, an aspect that financial institutions will need to closely monitor.

The expansion in the CBI's balance sheet reflects an acceleration in the growth of productive assets, largely driven by a 7.5% increase in the net loan portfolio, which has reached USD 92 billion, and a 5.64% increase in investments in securities. In contrast, liquid assets have decreased by 17.4%, indicating a strategy of reallocating towards higher-yielding assets, suggesting active and efficient resource management that aims to balance risk and return.

The loan portfolio is the most significant asset in the CBI's asset structure. The external segment of the net loan portfolio has shown an 11.54% growth, suggesting potential geographical diversification in the CBI's lending operations. However, this geographical expansion could also increase exposure to regulatory and market risks in less stable jurisdictions. On the other hand, the local component of the portfolio increased by 5.1%.

Regarding liabilities, deposits continue to be a relevant component in the CBI's anchoring model, reducing dependence on wholesale anchoring and market debt issuances, which are more volatile. As of the end of July 2024, deposits amounted to USD 105,2 billion, with a year-over-year growth of 3.55%. The continued expansion of deposits and the strategic preference for term deposits underline the strength and prudence in the CBI's anchoring structure. In this regard, it is important to note that the competitiveness of interest rates offered on term deposits could be a key factor in attracting and retaining deposits, but it must be evaluated in the context of potential changes in the remuneration structure in response to variations in international interest rates.

In an environment of rising capital costs, the CBI has carried out optimized liability management, reflected in a reduction in financial obligations. Although the increase in borrowing costs presents a challenge, there is renewed interest in financing strategies designed to mitigate future liquidity risks and capitalize on opportunities arising from the current interest rate structure. This structure, characterized by a flattening between short- and medium-term rates, suggests new avenues to optimize the balance sheet and strengthen the long-term financial position.

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

| Description | 2023 July | 2024 July | Difference July 24 / July 23 Total | % |
|---|---|---|---|---|
| Liquid assets | 19,124 | 15,797 | -3,327 | -17.40% |
| Net credit portfolio | 85,670 | 92,095 | 6,426 | 7.50% |
| *Domestic* | 59,784 | 62,846 | 3,062 | 5.12% |
| *Foreign* | 28,264 | 31,525 | 3,261 | 11.54% |
| Securities | 30,800 | 32,538 | 1,737 | 5.64% |
| Other assets | 7,772 | 7,422 | -350 | -4.50% |
| **Total Assets** | **143,365** | **147,851** | **4,486** | **3.13%** |
| Deposits | 101,649 | 105,255 | 3,605 | 3.55% |
| *Domestic* | 62,621 | 65,061 | 2,440 | 3.90% |
| *Foreign* | 39,028 | 40,194 | 1,165 | 2.99% |
| Obligations | 20,013 | 20,005 | -8 | -0.04% |
| Other liabilities | 4,290 | 4,351 | 61 | 1.41% |
| Capital | 17,413 | 18,241 | 828 | 4.75% |
| **Liabilities and Capital** | **143,365** | **147,851** | **4,486** | **3.13%** |

**Source:** General and International License banks

In the case of the National Banking System (general license banks), total assets amounted to USD 131.8 billion, an increase of USD 5.3 billion, or 4.21% more compared to the previous year. The net loan portfolio of the NBS showed an increase of USD 6 billion (7.68%), reaching a balance of USD 84,5 billion. Net external loans grew by 13.62%, while the net local portfolio had a performance of 5.12%. Additionally, NBS deposits also showed an increase, reaching USD 93 billion, representing a growth of 4.41%. This increase in deposits is positive, as it reflects public confidence and the strength of the system's anchoring base, crucial elements for the sector's future stability and expansion. At the same time, net equity increased by 10.16%, evidence of a strengthening financial structure and a more robust capital base.

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

| Breakdown | 2023 July | 2024 July | Difference July 24 / July 23 Total | % |
|---|---|---|---|---|
| Liquid assets | 14,657 | 12,792 | -1,864 | -12.72% |
| Net credit portfolio | 78,523 | 84,553 | 6,030 | 7.68% |
| *Domestic* | 59,784 | 62,846 | 3,062 | 5.12% |
| *Foreign* | 21,068 | 23,938 | 2,869 | 13.62% |
| Securities | 25,928 | 27,425 | 1,497 | 5.77% |
| Other assets | 7,433 | 7,093 | -340 | -4.58% |
| **Total Assets** | **126,541** | **131,864** | **5,323** | **4.21%** |
| Deposits | 88,992 | 92,917 | 3,925 | 4.41% |
| *Domestic* | 62,397 | 64,938 | 2,542 | 4.07% |
| *Foreign* | 26,595 | 27,979 | 1,384 | 5.20% |
| Obligations | 19,896 | 19,863 | -33 | -0.16% |
| Other liabilities | 4,098 | 4,150 | 52 | 1.27% |
| Capital | 13,555 | 14,933 | 1,378 | 10.16% |
| **Liabilities and Capital** | **126,541** | **131,864** | **5,323** | **4.21%** |

**Source:** General License banks

## F. Credit

At the end of July 2024, the domestic loan portfolio of the National Banking System recorded a balance of USD 62,8 billion. This amount shows a 5.12% increase compared to the same period of the previous year, which translates into a growth of USD 3 billion. While several portfolios comprising this local aggregate showed annual growth rates, some performed negatively. During the accumulated period from January to July 2024, the National Banking System granted new loans totaling USD 14,5 billion, representing an increase of 13.4% compared to the same period last year.

**Table 5:** National Banking System
Balance of Domestic Credit Portfolio by Economic Sectors
(In millions of USD)

| Sector | July-23 | July-24 | Difference July 23/July 24 | |
|---|---|---|---|---|
| | | | Total | % |
| **TOTAL** | 59,784 | 62,846 | 3,062 | 5.12% |
| **Public sector** | 2,097 | 1,953 | -143 | -6.83% |
| **Private sector** | 57,687 | 60,892 | 3,205 | 5.56% |
| Financial and insurance act. | 1,620 | 2,161 | 542 | 33.44% |
| Agriculture | 490 | 542 | 52 | 10.72% |
| Livestock | 1,320 | 1,302 | -18 | -1.35% |
| Fishing | 116 | 94 | -22 | -18.87% |
| Mining and Quarrying | 59 | 40 | -18 | -31.11% |
| Commerce | 11,856 | 12,834 | 979 | 8.25% |
| Industry | 3,535 | 4,051 | 515 | 14.58% |
| Mortgages | 20,285 | 20,988 | 703 | 3.47% |
| Construction | 5,051 | 4,931 | -120 | -2.38% |
| Personal consumption | 13,356 | 13,948 | 592 | 4.43% |

**Source:** General License banks

In general terms, the credit portfolio analysis shows a positive trend, especially in activities such as: agriculture (USD 52 million), financial and insurance (USD 542 million), industry (USD 515 million), and personal consumption (USD 592 million), commerce (USD 979 million) and mortgages (USD 703 million) indicating an economic environment that, although less dynamic, still reflects levels of expansion. However, sectors such as construction, the public sector, mining and quarrying, and fishing are experiencing reductions in their credit portfolios, which could reflect specific challenges within these sectors that need to be addressed to foster its growth.

In the corporate segment, the figures reveal that the growth dynamics of sectoral credit have been predominantly led by the commercial and industrial portfolios. Specifically, the industry and commerce sectors have shown robust increases in their loans, with annual growth rates of 14.58% and 8.25%, respectively. These sectors have benefited from better-than-expected demand, allowing their expansion and development. In contrast, other areas have experienced significant decreases. The mining and quarrying portfolios experienced a pronounced reduction of 31.11%, while the fishing sector recorded an 18.87% decrease, reflecting specific challenges mentioned in previous reports. Among the sectors that also recorded setbacks are construction and livestock, which, although facing slight setbacks of 2.38% and 1.35%, respectively, still play a relevant role in the banking credit portfolio.

Over the last 12 months, the household credit portfolio (USD 20,9 billion in residential mortgages and USD 13,94 billion in personal consumption) showed sustained growth of 3.47% and 4.43% respectively (see Table 8). Specifically, financing for housing recorded annual growth of 3.47% at the end of the month. This positive trend may be influenced by household´s expectations of potential increases in property prices and interest rates. On the other hand, the consumption segment showed a 4.43% growth compared to the previous year, showing positive rates in all segments.

**Table 6:** National Banking System
Balance of local household credit portfolio
(in millions of USD)

| | July -23 | July -24 | Difference | |
|---|---|---|---|---|
| | | | USD | % |
| **Household credit** | **32,244** | **33,603** | **1,359** | **4.22%** |
| **TOTAL Consumption** | 13,356 | 13,948 | 592 | **4.43%** |
| Card | 2,193 | 2,446 | 253 | 11.54% |
| Personal loan | 9,337 | 9,550 | 213 | 2.28% |
| Car loan | 1,826 | 1,952 | 126 | 6.89% |
| **Housing mortgage** | **18,888** | **19,655** | **767** | **4.06%** |

**Source:** General License banks

Subsequently, it is crucial for banks to continue diversifying their credit portfolios among different economic sectors to reduce exposure to sectoral volatility and ensure greater financial stability. Diversification also allows banks to support a broader range of economic activities, thus driving more balanced and robust national development.

Regarding credit risk, during the analyzed period, there was some materialization, albeit smaller, still at levels similar to last year. Overall, the past due and overdue portfolio represents 3.99% of the portfolio balance. The total overdue portfolio indicator relative to the portfolio balance was 2.33% in July 2024. However, the coverage of the overdue portfolio through provisions remains above 100%.

It is noteworthy that both indicators show a higher percentage of arrears compared to pre-pandemic periods. The financial burden for households remains stable, while savings levels, especially term deposits, show recovery. Given these indicators and the lower economic performance expected for this year, proactive risk management is relevant. Therefore, it is important that banks maintain a strict provisioning policy and continue to strengthen their credit recovery and restructuring strategies to mitigate these risks. Additionally, constant monitoring of asset quality and adjustments in credit granting policies will be essential to preserve financial stability.

### G. Deposits

In July 2024, the International Banking Center (IBC) experienced a year-on-year growth of 3.5% in the balance of bank deposits, reaching a total volume of USD 105.2 billion. This progress was supported by two main pillars: a 3.9% increase in domestic deposits, reaching USD 65 billion, and a 3.0% increase in foreign deposits, totaling USD 40 billion.

Domestic deposits increased by USD 2.4 billion during the period surveyed compared to the previous year. This growth was driven by a 4.4% increase in domestic government deposits, totaling USD 12,8 billion, and a 4.8% growth in internal individual deposits, reaching USD 49,3 billion. However, deposits from internal banks decreased by 10.6%, standing at USD 2,9 billion, reflecting variation within this sub-segment, although it does not affect the overall growth of internal deposits.

On the other hand, foreign deposits grew overall, with foreign individual deposits increasing by 1.4%, reaching USD 30,7 billion, and foreign bank deposits growing by 8.4%, totaling USD 9,2 billion. Although not the main item of the foreign part, foreign official deposits experienced an 8.8% increase, standing at USD 263 million.

The sustained growth in foreign bank deposits suggests that international financial institutions still view Panama as a safe and attractive destination for their assets. In addition, this positive behavior in foreign deposits highlights the CBI’s competitiveness compared to other financial centers in the region, consolidating Panama as a trusted banking center for international capital in the LATAM region.

These data validate that commercial bank deposits continue to be significantly driven by depositors' preference for safe investments and predictable returns, underlining confidence in the stability and solvency of the CBI banking system, consolidating its fundamental role in local asset management. Given the possibility of interest rate variations at the international level, it is crucial to maintain proactive monitoring to manage any temporary mismatch in the anchoring structure. Constant monitoring of these movements is recommended to identify the need for timely adjustments in financing strategy and risk management to mitigate adverse impacts and ensure financial stability.

**Table 7:** International Banking Center
Total Deposits
(In millions of USD)

| Accounts | 2023 | 2024 | Difference July 24 / July 23 | |
|---|---|---|---|---|
| | July | June | Total | % |
| Deposits | 101,649 | 105,255 | 3,605 | 3.5% |
| Domestic | 62,621 | 65,061 | 2,440 | 3.9% |
| Government | 12,300 | 12,838 | 538 | 4.4% |
| Customer | 47,059 | 49,307 | 2,248 | 4.8% |
| Banks | 3,262 | 2,916 | (346) | -10.6% |
| Foreign | 39,028 | 40,194 | 1,165 | 3.0% |
| Government | 242 | 263 | 21 | 8.8% |
| Customer | 30,275 | 30,700 | 425 | 1.4% |
| Banks | 8,512 | 9,231 | 719 | 8.4% |

**Source:** General and International License banks.

In the domestic financial context, the National Banking System (SBN) demonstrated positive development, in line with trends observed in the International Banking Center (CBI). By July 2024, the SBN reached a total volume of deposits of USD 92.,91 billion, showing an annual increase of 4.4%. This growth underscores continued confidence in the local banking system. Domestic deposits experienced a growth of 4.1%, rising to USD 64,93 billion. This increase was mainly driven by a 4.4% increase in official deposits and a 4.8% growth in individual deposits. However, deposits from internal banks decreased by 8.0%, standing at USD 2,7 billion.

On the other hand, foreign deposits showed an increase of 5.2%, totaling USD 27,97 billion. This increase was driven by a 10.7% growth in foreign bank deposits and an 8.2% increase in foreign official deposits, highlighting the continued interest in the international financial opportunities offered by the SBN. This positive behavior in foreign deposits highlights the strength and competitiveness of the SBN compared to other financial centers in the region, consolidating Panama as a trusted banking center for international capital. Furthermore, the expansion of deposits, especially those of foreign origin, suggests an eagerness from investors and international entities that could be influenced by changes in market conditions, including variations in global interest rates.

These results highlight the strength and expansion of the SBN on both fronts, consolidating a solid and resilient anchoring structure (See Table 8).

**Table 8:** National Banking System
Total Deposits
(In millions of USD)

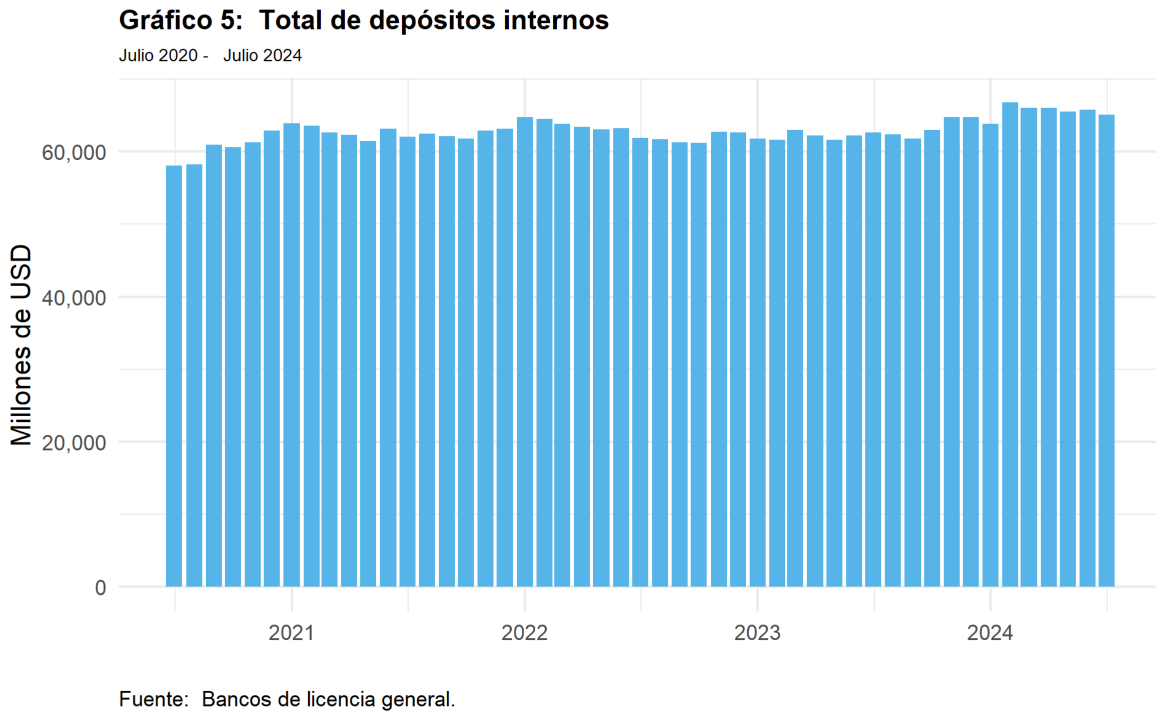
| Accounts | 2023 | 2024 | Difference July 24 / July 23 | |
|---|---|---|---|---|
| | July | July | Total | % |
| Deposits | 88,992 | 92,917 | 3,925 | 4.4% |
| Domestic | 62,397 | 64,938 | 2,542 | 4.1% |
| Government | 12,300 | 12,838 | 538 | 4.4% |
| Customer | 47,059 | 49,307 | 2,248 | 4.8% |
| Banks | 3,038 | 2,794 | -244 | -8.0% |
| Foreign | 26,595 | 27,979 | 1,384 | 5.2% |
| Government | 184 | 199 | 15 | 8.2% |
| Customer | 18,516 | 19,041 | 525 | 2.8% |
| Banks | 7,895 | 8,739 | 844 | 10.7% |

**Source:** General License banks.

**Graph 5** shows the evolution of the balance of internal deposits over time, showing key trends and depositors' behavior patterns. The individual deposit base not only underscores confidence in the National Banking System (NBS) but also plays a crucial role in the system's liquidity. A broad and stable deposit base allows banks to more efficiently manage their short-term obligations and facilitate long-term investments.

With greater stability in deposits, financial institutions can better plan their growth and expansion strategies, as well as offer more attractive and diversified financial products to their clients. It is crucia to highlight that local deposits represent around 70% of the total in the National Banking System (SBN). This high proportion of internal deposits underscores the confidence of residents in the national banking system and their willingness to keep their savings and financial resources in the country. This confidence is a positive indicator of public perception about the soundness and stability of the SBN.

**Graph 5: Total Domestic Deposits**
**July 2020 – July 2024**




**Source:** General license banks.

The composition of liabilities from individuals by maturity, shown in Chart 6, reveals that fixed-term deposits continue to be the main savings vehicle. As of July 2024, these local segment deposits from individuals reached USD 27,6 billion, underscoring a sustained preference for investment instruments that offer potentially higher returns in exchange for lower liquidity. The declines in internal savings and demand deposits suggest a possible reorientation of savings and liquidity strategies by depositors.

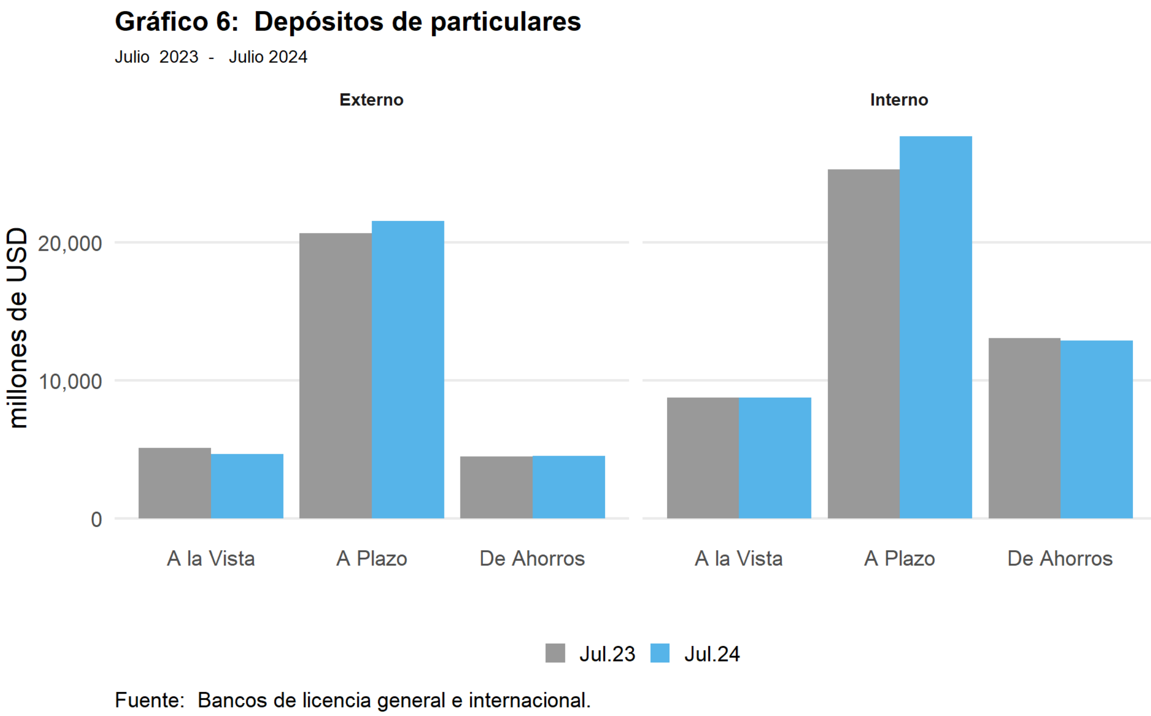
The structure of liabilities from individuals, broken down by maturity, shows a clear preference for fixed-term deposits as the primary savings mechanism. This performance suggests a consistent preference for investment instruments with a potentially higher return profile, even though they may have a lower level of liquidity. In contrast, there was a reduction in high-liquidity instruments. Demand deposits slightly decreased, from USD 8,7 billion in July 2023 to USD 8,7 billion in July 2024, while savings deposits also declined, from USD 13 billion to USD 12,9 billion over the same period.

The environment of higher passive interest rates has enhanced the attractiveness of fixed-term savings instruments, driving their growth. However, this trend could increase the banking system's exposure to refinancing risks and sensitivity to changes in market conditions, especially if interest rates decrease faster than anticipated. This could challenge the institutions' ability to retain term deposits, affecting the stability of their anchoring.

It is crucial for financial institutions to monitor these trends and adjust their product offerings to continue meeting the needs of their customers, maintaining a balance between liquidity and returns. Additionally, institutions should strengthen their liquidity management and plan anchoring diversification strategies to reduce reliance on fixed-term deposits and mitigate risks associated with maturity concentration.

In summary, the configuration of individual liabilities reflects a preference for fixed-term deposits, driven by an environment of high-interest rates and the pursuit of higher returns. However, the downward trend in high-liquidity deposits suggests the need for more proactive strategies to attract different depositor profiles, balancing the liability structure and ensuring the flexibility needed to facing changing conditions in financial markets.

**Graph 6: Customer Deposits**
**July 2023 – July 2024**




**Source:** General and International license banks.

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