Banking Activity Report

September 2023

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Executive Summary

As of the end of September 2023, the International Banking Center (CBI) continues to demonstrate appropriate financial soundness indicators. Prudential solvency and liquidity indicators, which, as of the end of the period, recorded 15.5% and 55.5%, respectively, have remained above the minimum regulatory requirements. With that, the banking industry maintains an appropriate performance that allows it to conduct medium- and long-term intermediation activities. Similarly, the main portfolio indicators, such as growth and quality, show that the domestic credit portfolio continued to grow (4.2%). Despite a higher interest rate environment, the level of financial intermediation by all banks has increased, resulting in improved profitability.

As of the end of the third quarter of 2023, the total assets of the CBI amounted to USD 141.87 billion, representing a USD 5.09 billion increase compared to September 2022. This translates into a year-on-year growth of 3.7%. This increase in banking assets is primarily due to the expansion of the net credit portfolio, which grew by 4.1%, and the securities account, which recorded a 4.7% increase. On the other hand, there was a 2.8% year-on-year decline in liquid assets.

The corporate banking credit portfolio grew by 4.2% in its year-on-year comparison, reaching USD 60.58 billion. Data suggests widespread growth in several economic sectors, with particular emphasis on the corporate and household portfolios. By segment, the credit granted to companies and businesspeople grew by 3.5%; consumer credit by 3.5%; mortgage credit by 4.6%; financial services-related activities by 4.7%; and public sector-related activities by 13.1%. while the current performance of the corporate portfolio is positive, in the future, the landscape could be affected by factors such as a deceleration in economic activities with implications for formal employment and persistent inflationary increases, which could moderate the current credit expansion. However, the fundamental financial metrics should remain aligned with the credit risk profiles of most banks.

The portfolio quality of CBI as of September shows a default ratio of 4.0%, with 1.5% representing loans with arrears of 30+ days, and loans with arrears of 90+ days recording 2.5%. Accounting provisions for impaired loans stood at 107.6%, showing a 129.6% decrease compared to a year earlier, resulting in a stage 3 provision lower than that of the previous year. In the face of favorable profitability performance and in a context of higher risk, it is essential that banks adopt a cautious strategy in provision planning and capital management. This measure will serve as the basis to address potential losses in case the risks identified by the Superintendency of Banks in the Financial Stability assessments materialize. It will allow banks to be better prepared to mitigate the effects resulting from potential underperformance and a negative foreign scenario. It is essential to consider that, although current provisions and collateral provide some degree of risk mitigation for loan impairments, their evolution requires oversight and, from a prudential perspective, demands close monitoring by the SBP.

By September, the cumulative profits of CBI banks totaled USD 2.088 billion. This figure represents a 54.9% increase in earnings compared to the same period 12 months ago. This outcome was driven by the evolution of the financial margin and commissions, resulting from the continuous growth of the credit portfolio, asset quality management, and expense control, as well as a decrease in provisions to the preventive estimation of credit risks. Profitability was also boosted by profits from other entities within the banking groups.

As of September 2023, the balance of CBI bank deposits amounted to USD 100.52 billion, indicating a USD 3.64 billion increase (3.8%). Domestic deposits experienced a USD 492.6 million increase, or 0.8%, compared to the same period a year ago. It is worth noting that Panama's CBI has seen growth in its foreign deposits balance from September 2022 to September 2023, with a year-on-year increase of 8.8%. Notably, as of the end of September, term deposits have accelerated their expansion, driven by higher interest rates, which, in turn, have increased the appeal of this type of savings instrument. In an environment marked by a positive economic context, high inflation in some key products and rising rates, savers have begun shifting their resources from liquid instruments to higher-yield instruments, such as term deposits. This trend is reinforced by increased consumer spending and better interest rates on term deposits, reducing the attractiveness of demand deposits. Additionally, precautionary savings, which grew during the pandemic, have continued to decrease as consumers return to their usual spending habits.

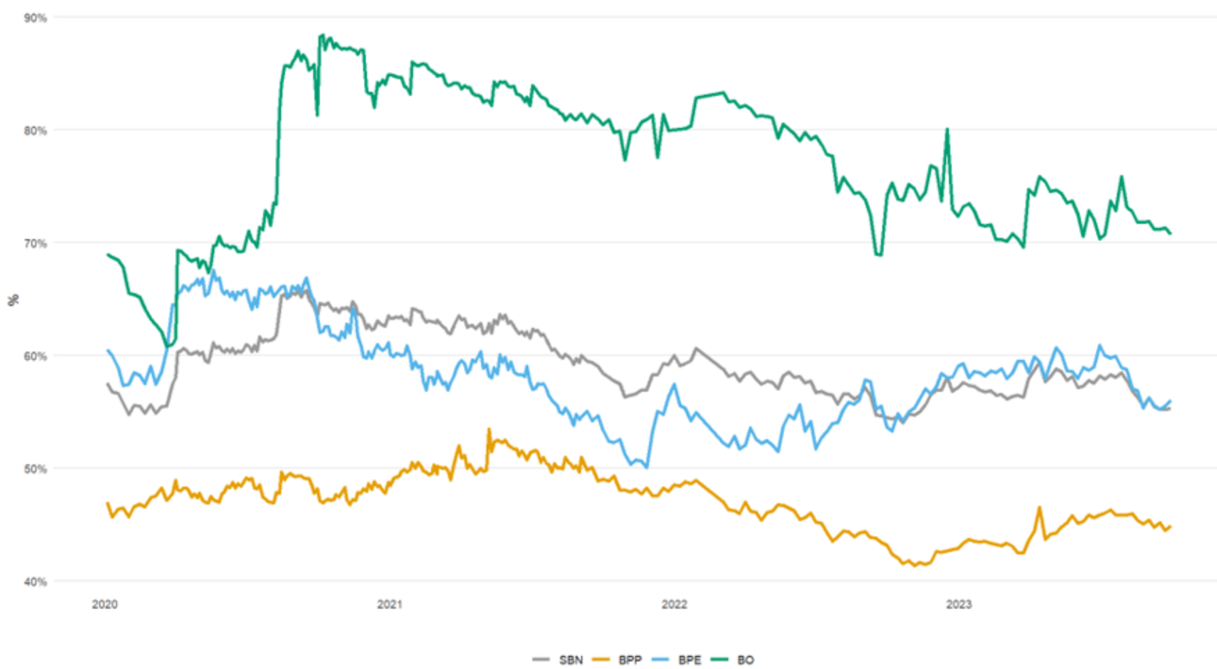
In a positive development for the Panamanian economy, the Financial Action Task Force (FAT) removed Panama from the gray list, recognizing the country's efforts in combatting money laundering and terrorist financing. This achievement was announced during the plenary meeting held by the organization, highlighting that the country has strengthened its prevention system and has implemented meaningful regulations and actions in favor of international transparency. Panama addressed 15 actions pending since 2019, largely complying with them. These actions included updating regulations, implementing guidelines and standards, and enacting laws. As a result, this exclusion will enhance the country's international image, attract foreign investment, facilitate credit lines, and strengthen international banking relationships, among other economic and financial benefits.

In conclusion, operating banks comply with regulatory requirements, and at the aggregate level, they have sufficient capital and liquidity to withstand stress scenarios. While the CBI's vulnerabilities are limited, some risks persist that if they materialize, could be harmful. It is foreseeable that a complex and uncertain environment could imply prospective risks of deteriorating credit quality. Therefore, the SBP will continue to closely monitor the impact of these events on market liquidity and solvency to ensure the stability of the financial system, considering the present circumstances.

A. Liquidity

At the end of September 2023, the liquidity of the Banking System reached 55.5%, with the increase in deposits contributing to the improvement of its liquidity position. Presently, local banks are in a robust regulatory position with respect to regulatory requirements, empowering 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, which constitute 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) measures the ability to secure emergency or survival funding over a 30-day period. The latest figures indicate that the ratio of deposits and liabilities compared to high-quality liquid assets comfortably surpasses the minimum regulatory requirement, and its term structure is appropriate.

Graph 1: Weekly average liquidity ratio
September 2020 – September 2023



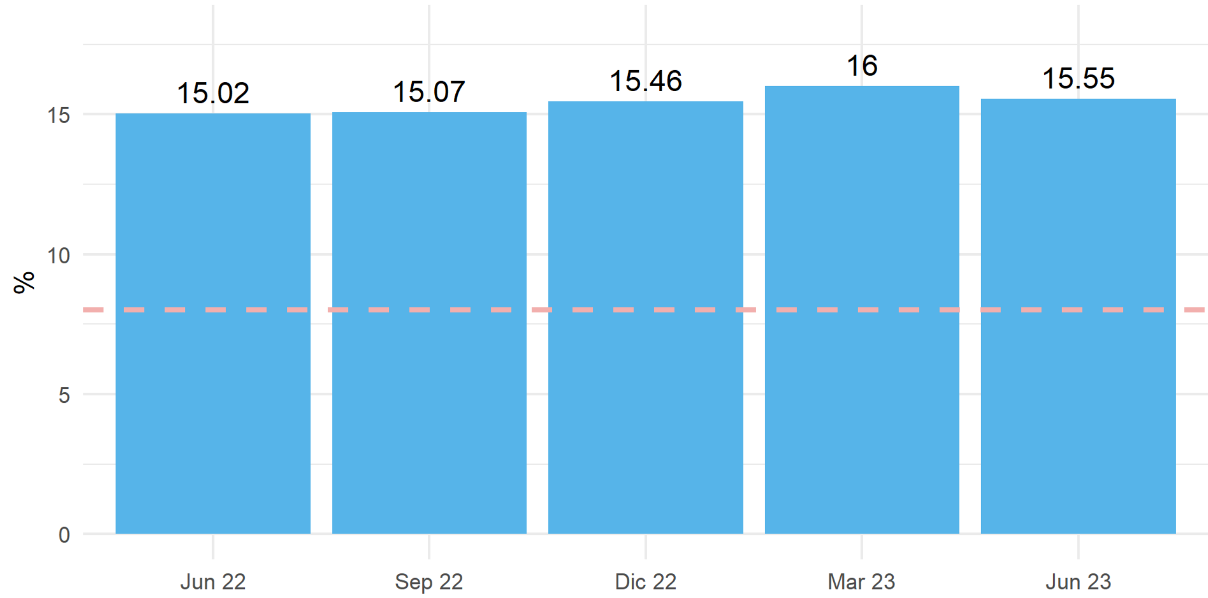
Source: General License Banks.

B. Solvency

Latest Capital Adequacy Ratio (CAR) indicates that the combined solvency ratios of CBI remain 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 approach to 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 September 2023, the cumulative profit for CBI banks totaled USD 2.09 billion. This figure represents a 54.9% 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 groups.

The profitability of assets responded significantly to the rise in net interest income (25.2%). By segments, interest income increased by 44.1% compared to a year earlier, while operating expenses grew by 63.1% annually.

Particularly, loan interest income rose by 32.2% (a total difference of USD 1.09 billion). Meanwhile, term deposits interest paid increased by 67.5% (a difference of USD 1.22 billion). The foregoing suggests that deposit interest rates could be more sensitive to changes, potentially exerting greater pressure on interest margins.

General expenses totaled USD 2.30 billion, representing a 6.7% increase (or USD 145.2 million), with increases in operating expenses, such as salaries and labor liabilities, being highlighted.

Provisioning expenses decreased from USD 526.1 million in 2022 to USD 388.4 million in 2023, marking a 26.2% 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. In 2023, identified and monitored risks continue to persist both domestically and externally. In the face of a favorable profitability performance and in a context of higher risk, it is essential that banks adopt a cautious strategy in provision planning and capital management. This measure will serve as the basis to face eventual losses, in case that the risks identified by the Superintendency of Banks in the Financial Stability assessments materialize. This will allow banks to be better prepared to mitigate effects derived from the eventual underperformance and a negative foreign scenario.

In summary, the Income Statement reflects a robust performance for the CBI based on the data as of September 2023. It is anticipated that profitability will further benefit from the expansion of the credit portfolio, commission income, and operational efficiency achieved through the digitization processes implemented by banks.

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

International Banking Center	Jan.-Sept. 2022	Jan.-Sept. 2023	Difference %	Difference USD
Net interest income	2,042.8	2,557.5	25.2%	514.6
Other income	1,987.6	2,220.4	11.7%	232.8
Operating income	*4,030.4*	*4,777.9*	*18.5%*	*747.4*
General expenses	*2,156.1*	*2,301.3*	*6.7%*	*145.2*
Profit before provisions	1,874.3	2,476.5	32.1%	602.2
Provisioning expenses	526.1	388.4	-26.2%	-137.7
Profit for the period	**1,348.3**	**2,088.2**	**54.9%**	**739.9**

Source: General and International License banks.

The National Banking System recorded accumulated net profits of USD 1.67 billion as of September 2023, signifying a 54.1% increase compared to September 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 48%.

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

National Banking System	Jan.-Sept. 2022	Jan.-Sept. 2023	Difference %	Difference USD
Net interest income	1,886.6	2,263.3	20.0%	376.7
Other income	1,672.2	1,913.6	14.4%	241.5
Operating income	3,558.7	4,176.9	*17.4%*	*618.2*
General expenses	1,957.6	2,121.0	*8.3%*	*163.4*

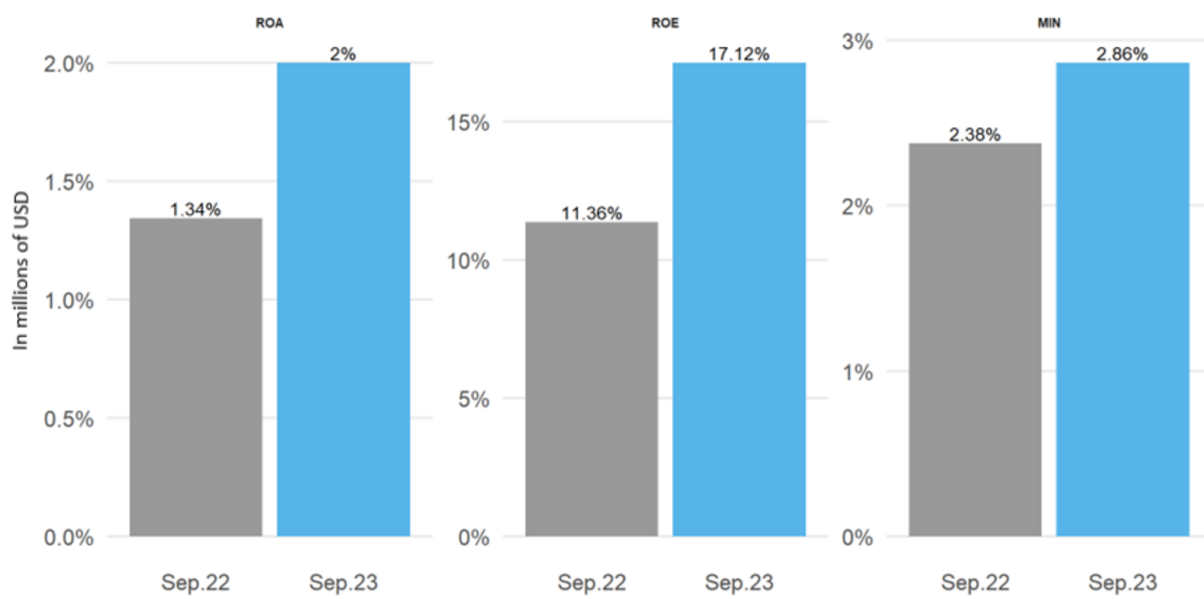
National Banking System	Jan.-Sept. 2022	Jan.-Sept. 2023	Difference %	Difference USD
Profit before provisions	1,601.2	2,055.9	28.4%	454.8
Provisioning expenses	518.7	388.1	-25.2%	-130.5
Profit for the period	**1,082.5**	**1,667.8**	**54.1%**	**585.3**

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 loans. As a result, interest margins and profitability metrics have strengthened. The Return on Equity (ROE) stood at 17.12%, signifying an increase of 576 basis points compared to the performance until September 2022 when it was 11.36%. The Return on Assets (ROA) reached 2% by the end of August, reflecting a sixty-six (66) 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. Although these results are positive, they do vary among different credit entities.

Graph 3: Changes in Interest Paid and Interest on Loans
September 2023 vs. September 2022



Source: General and International License banks.

E. Balance Sheet

As of the end of the third quarter of 2023, the total assets of the CBI amounted to USD 141.84 billion, demonstrating a USD 5.09 billion increase, compared to September 2022, which translates into a year-on-year growth of 3.7%. This growth in banking assets is mainly due to the expansion of the net credit portfolio, which grew by 4.1% and to the securities account, which recorded a 4.7% increase. On the other hand, a 2.8% year-on-year decline in liquid assets was observed.

It is important to note that CBI assets consist of the credit portfolio, which reported a balance of USD 86.26 billion according to the financial statements submitted by banks to the SBP. Regarding the performance of the net credit portfolio's external segment, it increased by 2.8%.

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, deposits constitute a substantial portion of the CBI's funding and support its credit operations, resulting in reduced dependence on wholesale funding through market debt issuances, which can typically be more volatile. CBI deposits, as of September 2023, totaled USD 100.51 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 September 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 2.1% and other liabilities rose by 18.1% compared to September 2022. Concerning bonds, these instruments also encompass the financing segment 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	Sept. 23/Sept. 22 Difference	
	September	**September**	**Total**	**%**
Liquid assets	17,586.0	17,096.1	-489.9	-2.8%
Net credit portfolio	82,868.2	86,257.1	3,388.9	4.1%
Domestic	*55,809.3*	*58,453.6*	*2,644.2*	*4.7%*
Foreign	*27,058.9*	*27,803.5*	*744.6*	*2.8%*
Securities	29,084.0	30,437.9	1,353.9	4.7%
Other assets	7,205.8	8,044.8	839.0	11.6%
Total Assets	**136,744.1**	**141,836.0**	**5,091.9**	**3.7%**
Deposits	96,879.5	100,516.9	3,637.4	3.8%
Domestic	*61,299.5*	*61,792.1*	*492.6*	*0.8%*
Foreign	*35,580.0*	*38,724.8*	*3,144.8*	*8.8%*
Obligations	20,405.8	19,979.1	-426.6	-2.1%

Breakdown	2022	2023	Sept. 23/Sept. 22 Difference	
	September	September	Total	%
Other liabilities	3,795.8	4,483.7	687.8	18.1%
Capital	15,662.9	16,856.3	1,193.3	7.6%

Source: General and International License banks

As for the assets of the National Banking System, they amounted to USD 125.83 billion, indicating an increase of USD 5.58 billion or 4.6% compared to September 2022. The SBN's net credit portfolio showed a USD 4.096 billion (5.4%) increase, reaching USD 70.29 billion. Net foreign credits grew by 7.4%, while the net domestic portfolio performed at 4.2%. On the other hand, the total deposits held within the SBN amounted to USD 87.97 billion, representing a 4.1% rise.

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

Breakdown	2022	2023	Sept. 23/Sept. 22 Difference	
	September	September	Total	%
Liquid assets	13,899.00	13,107.90	-791.1	-5.70%
Net credit portfolio	75,199.50	79,295.60	4,096.10	5.40%
Domestic	*55,811.90*	*58,453.60*	*2,438.00*	*4.20%*
Foreign	*19,387.60*	*20,842.00*	*1,459.30*	*7.40%*
Securities	24,283.00	25,686.30	1,403.30	5.80%
Other assets	6,872.20	7,744.80	872.6	12.70%
Total Assets	**120,253.60**	**125,834.50**	**5,580.80**	**4.60%**
Deposits	84,519.60	87,970.00	3,450.30	4.10%
Domestic	*61,089.80*	*61,706.40*	*616.6*	*1.00%*
Foreign	*23,429.90*	*26,263.60*	*2,833.70*	*12.10%*
Obligations	20,003.10	19,895.00	-108.1	-0.50%
Other liabilities	3,663.10	4,295.90	632.8	17.30%
Capital	12,067.80	13,673.70	1,605.90	13.30%

Source: General License banks

F. Credit

As of the end of the third quarter, the corporate banking credit portfolio grew by 4.2% on a year-on-year basis, reaching USD 60.57 billion (see **Graph 5**). Although all portfolios comprising this local aggregate show annual increases, it is evident that the growth is asymmetrical among them.

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

Sector	September 2022	September 2023	Sept. 23/Sept. 22 Difference	
			Total	%
TOTAL	58,135	60,573	2,438.0	4.2%
Public sector	1,860	2,102	243.0	13.1%
Private sector	56,275	58,470	2,195.0	3.9%
Financial & insurance activities	1,590	1,665	74.8	4.7%
Agriculture	479	493	14.8	3.1%
Livestock	1,318	1,325	7.3	0.6%
Fishing	114	127	12.9	11.4%
Mining & Quarrying	51	59	8.4	16.5%
Commerce	11,901	12,331	430.5	3.6%
Industry	3,318	3,516	198.0	6.0%
Mortgages	19,506	20,398	891.8	4.6%
Construction	4,976	5,073	97.1	2.0%
Personal consumption	13,023	13,482	459.3	3.5%

Source: General License banks

Data suggests widespread growth in several economic sectors, with the corporate and household portfolios showing significant increases. By segment, the credit granted to companies and businesspeople increased by 3.5%; consumer credit by 3.5%; mortgage credit by 4.6%; financial services-related activities by 4.7%; and public sector-related activities by 13.1%.

In the corporate segment, the main source of sectoral credit growth came from the credit granted to the commercial and industrial portfolio. Of the total 3.5 percentage points recorded as of the end of September 2023, commercial credit contributed 2.0 percentage points, representing 56% of the overall growth. On the other hand, industrial credit provided 0.9 percentage points, corresponding to a 25.8% increase in the corporate portfolio. Although the remaining sectors contribute positively to this growth, their contribution is lower. However, specifically in the consumption segment, granular data indicates that credit demand is tilted towards financing short-term household needs. While this growth has been supported by the improvement in the performance of the labor market, a possible slowdown in this sector could have an adverse impact on the performance of these portfolios, suggesting a need for greater monitoring to anticipate and mitigate potential risks in credit management.

The credit granted to households has demonstrated a positive trend, showing portfolio's resilience despite potential interest rate hikes. Over the last 12 months, the household credit portfolio (USD 31.33 billion) grew by USD 1.53 billion, equivalent to a year-on-year increase of 5.1%. Specifically, mortgage credits (USD 17.85 billion) recorded an annual increase of 6.4% as of the end of that month, surpassing the 5.8% of the previous year. This performance could be influenced by the household expectations regarding potential property and interest rates hikes, along with the growing approval of preferential interest rate mortgages. On the other hand, consumption (USD 13.49 billion) showed a year-on-year increase of 3.5%.

Although the current performance is positive, in the future, the landscape could be affected by factors such as a deceleration in economic activities with effects on formal employment, due to the inability to resolve the conflict caused by the mining contract in the medium term, and/or a persistent inflationary increase, which could moderate the current credit boost. However, the fundamental financial metrics should remain aligned with the credit risk profiles of most banks.

The portfolio quality of CBI as of September 2023 shows a default ratio of 4.0%, with 1.5% representing loans with arrears of 30+ days and loans with arrears of 90+ days recording 2.5%.

Accounting provisions for impaired loans stood at 107.6%, showing a 129.6% decrease compared to a year earlier, resulting in a stage 3 provision lower than that of the previous year. It is essential to consider that although current provisions and collaterals provide some degree of mitigation for risks related to loan impairment, their evolution requires oversight and, from a prudential point of view, it demands close monitoring by the SBP.

G. Deposits

As of September 2023, the balance of CBI bank deposits amounted to USD 100.52 billion, indicating a USD 3.64 billion increase (3.8%). Domestic deposits experienced a USD 492.6 million or a 0.8% increase compared to the same period a year ago. Panama's CBI has experienced growth in the foreign deposit balance for the period between September 2022 and September 2023, with a year-on-year increase of 8.8%, rising from USD 35.58 billion to USD 38.73 billion. In fact, Panama's International Banking Center has witnessed growth in foreign deposits over the last year, with significant differences among countries. The increase in foreign liabilities shows the confidence of the citizens of these countries in the domestic market, and at the same time, it reflects the changing dynamics in the global and regional economy. Colombia was the leader in percentages, with 22.2% of total foreign deposits in Panama's CBI. The Cayman Islands, Peru, and the United States represented 4.4%, 5.0%, and 5.0%, respectively. The People's Republic of China, although experiencing impressive growth (+58.2%), represented 3.9% of the total, the same as Guatemala (+34.6%).

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

Accounts	2022 September	2023 September	Sept. 23/Sept. 22 Difference	
			Total	%
Deposits	**96,879.5**	**100,516.9**	**3,637.4**	**3.8%**
Domestic	**61,299.5**	**61,792.1**	**492.6**	**0.8%**
Government	10,960.6	11,591.6	631.0	5.8%
Customer	47,171.1	47,108.7	-62.4	-0.1%

Superintendencia de Bancos de Panamá

Accounts	2022 September	2023 September	Sept. 23/Sept. 22 Difference Total	%
Banks	3,167.9	3,091.8	-76.1	-2.4%
Foreign	**35,580.0**	**38,724.8**	**3,144.8**	**8.8%**
Government	315.2	268.6	-46.6	-14.8%
Customer	27,245.3	30,072.4	2,827.1	10.4%
Banks	8,019.5	8,383.9	364.4	4.5%

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 87.97 billion, representing a 4.1% increase compared to September 2022. This increase is reflected both in domestic and foreign segments (1.0% and 12.1%, respectively) (see **Table 7**).

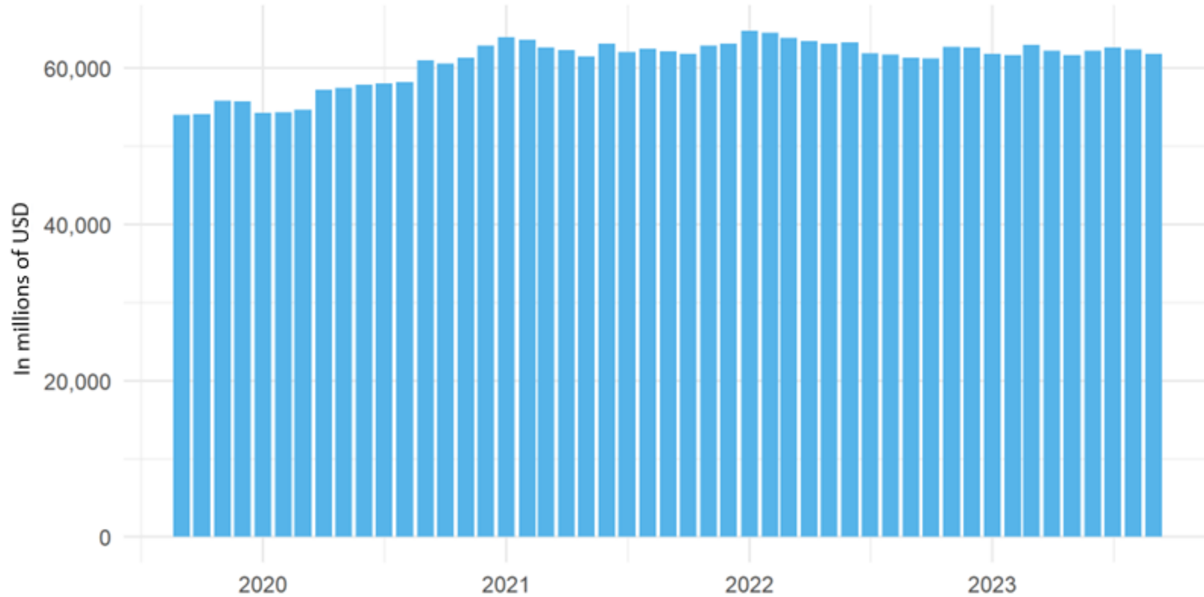
Table 7: National Banking System
Total Deposits
(In millions of USD)

Accounts	2022 September	2023 September	Sept. 23/Sept. 22 Difference Total	%
Deposits	**84,519.6**	**87,970.0**	**3,450.3**	**4.1%**
Domestic	**61,089.8**	**61,706.4**	**616.6**	**1.0%**
Government	10,960.6	11,591.6	631.0	5.8%
Customer	47,171.1	47,108.7	-62.4	-0.1%
Banks	2,958.1	3,006.1	48.0	1.6%
Foreign	**23,429.9**	**26,263.6**	**2,833.7**	**12.1%**
Government	306.3	208.9	-97.4	-31.8%
Customer	15,599.2	18,278.1	2,678.9	17.2%
Banks	7,524.4	7,776.6	252.2	3.4%

Source: General License banks.

It is important to note that domestic deposits account for 70.1% of the total SBN deposits, with 76.3% of these being customer deposits. While domestic deposits decreased, they are still higher than pre-pandemic levels. **Graph 5** (sic) illustrates the evolution of the domestic deposit balance.

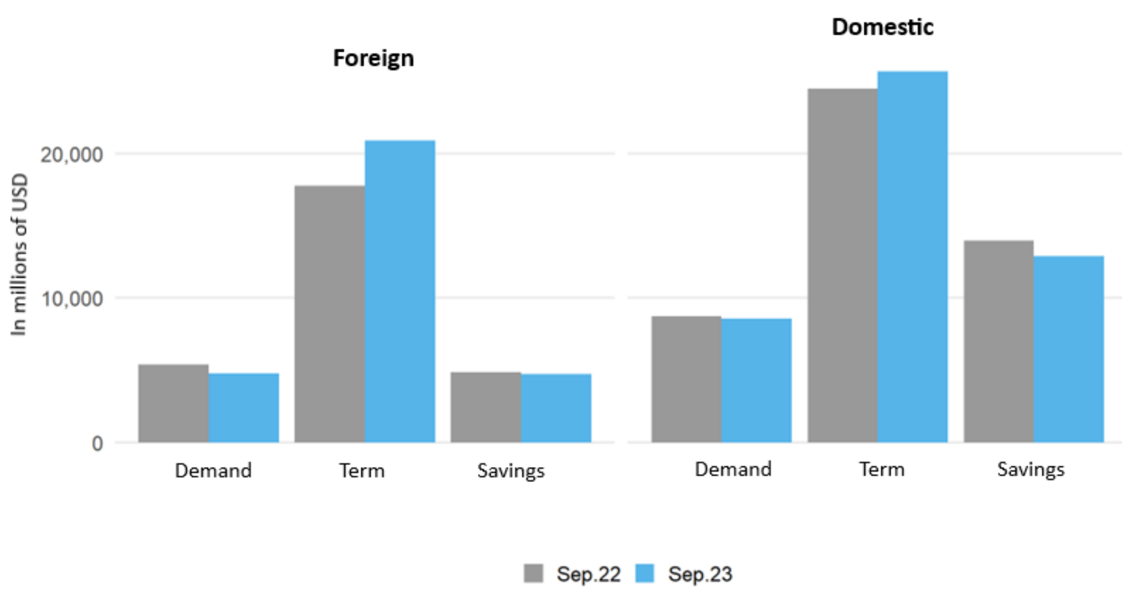
Graph 4: Total Domestic Deposits
September 2019 – September 2023



Source: General license banks.

Regarding the structure of customer liabilities by maturity, term deposits continue to be the most prominent savings instrument. As of the end of September 2023, customer domestic term deposits totaled USD 25.66 billion; followed by savings deposits at USD 12.88 billion, and demand deposits at USD 8.58 billion.

Graph 5: Customer Deposits
September 2022 – September 2023



Source: General and International license banks.

Notably, as of the end of September, term deposits have accelerated their expansion, propelled by higher interest rates, which, in turn, have increased the appeal of this type of savings instrument. In an environment marked by a positive economic context, high inflation in some key products, and rising interest rates, savers have started to migrate their resources from liquid instruments to higher-yield instruments, such as term deposits. This trend is reinforced by more dynamic consumption and better interest rates in term deposits, reducing the interest of having demand deposits. Additionally, precautionary savings, which grew the pandemic, have continued decreasing as consumers return to their usual expenditure habits.

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