Banking Activity Report

October 2023

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Executive Summary

As of the end of October 2023, the International Banking Center (CBI) continues to exhibit financial soundness indicators that are considered adequate. The prudential and solvency indicators remain at 15.49% and 15.5%, respectively. These values are above regulatory minimums. Key indicators related to the credit portfolio, such as growth and asset quality, indicate that the domestic credit market is maintaining a growth trend.

The total assets of the CBI amounted to USD 142.56 billion, reflecting a USD 5.13 billion increase compared to October 2022. This translates into a year-on-year growth of 3.7%. The rise in banking assets is primarily attributed to the expansion of the net credit portfolio, which grew by 4.3%, and the securities component, which recorded a 7.8% increase. On the other hand, there was a 7.5% year-on-year decline in liquid assets.

The domestic corporate banking credit portfolio showed a year-on-year growth of 3.2%, reaching a balance of USD 60.57 billion. Although the year-on-year comparison shows an increase in credit issuance, the latest data indicate a trend towards deceleration in the portfolio's performance. This phenomenon is evidenced by a sequential reduction in credit expansion, suggesting a possible moderation of credit demand. In October 2023, new loans recorded disbursements of USD 1.98 billion, representing a decrease of 4.9% compared to the same period a year ago. The events that occurred at the end of October could have had a significant influence on this performance, particularly affecting the placement of new loans due to mobility restrictions that led to reduced access to banking services. In this context, it is expected that financial institutions will intensify their credit risk management and monitoring approaches to safeguard the quality of their credit portfolios.

The portfolio quality of CBI as of October shows a default ratio of 4.2%, with 1.7% representing loans with arrears of 30+ days, and loans with arrears of 90+ days recording 2.5%. This performance indicates a higher percentage of arrears compared to pre-pandemic periods. In the face of favorable profitability performance and in the 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. This will allow banks to be better prepared to mitigate the effects resulting from a potential slowdown in growth and an adverse international scenario. The current environment underscores the importance of adopting a dynamic and initiative-driven risk management approach to adapt to unforeseen events, such as those presented by the current situation. These strategies will help mitigate potential negative impacts, which are fundamental to preserving financial stability and the long-term sustainability of financial institutions.

In October, the cumulative profits of CBI banks totaled USD 2.25 billion. This figure represents a 50.8% 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 for the preventive estimation of credit risks. Profitability was also boosted by profits from other entities within the banking groups.

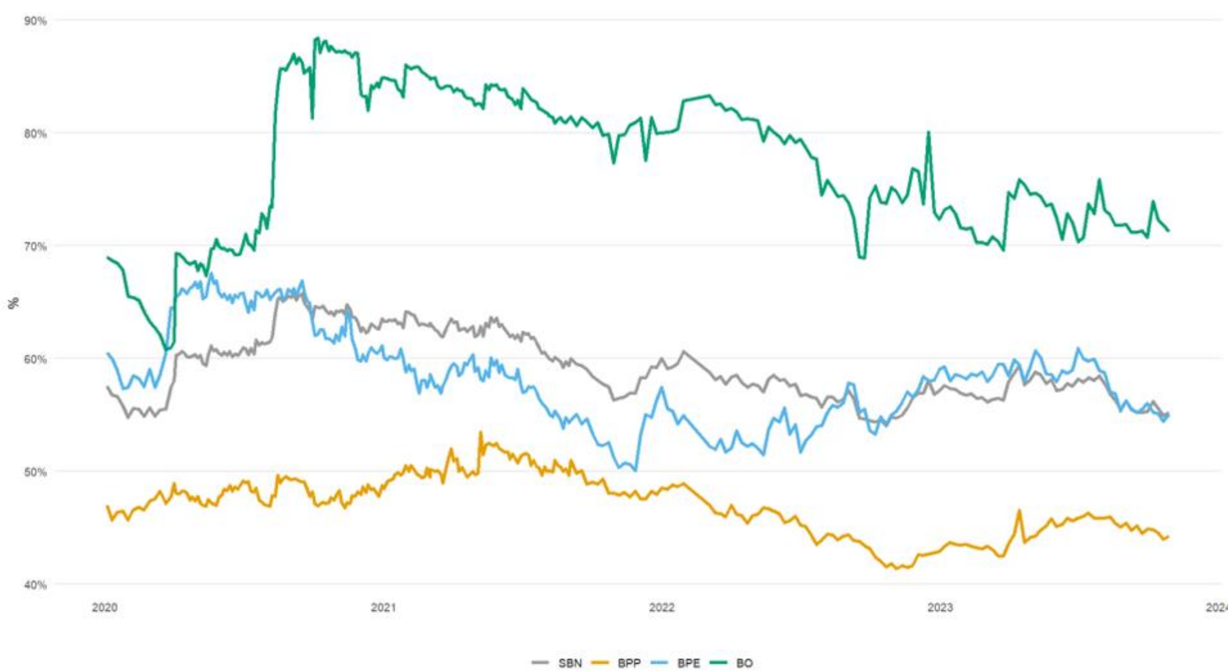
The balance of CBI bank deposits amounted to USD 101.46 billion, indicating a USD 4.54 billion increase (4.7%). It is worth noting that, in the context of October 2023, there was positive performance in bank deposits, despite the logistical and operational disruptions caused by protesters blocking traffic in various parts of the country. Contrary to what might be expected, these events did not have a significant adverse impact on the overall growth of total bank deposits. In addition, preliminary data received for November 2023 also show increases. However, it is important to mention that the increase is concentrated in the term deposit component, a trend that, as has been indicated in previous reports, is associated with the rise in deposit interest rates. Although several factors may be contributing to this positive trend, from the perspective of the Superintendency of Banks of Panama (SBP), confidence in the Panamanian International Banking Center (CBI) plays a significant role. While confidence responds to the solid stability of banks and other financial institutions in the country, we anticipate that it will be strengthened even further in the future, in part, due to the recent delisting of Panama from the Financial Action Task Force's (FATF) gray list. The phenomenon of the increase in foreign deposits, in the current context, highlights the critical importance of preserving confidence in the financial system as a fundamental intangible asset. This confidence not only influences the decisions of domestic and foreign depositors but also has a significant impact on the overall performance of the banking sector in Panama and the financial landscape.

In conclusion, operating banks comply with regulatory requirements, and at the aggregate level, they have sufficient capital and liquidity to withstand stress scenarios. However, the Superintendency of Banks of Panama recognizes the need for a more cautious supervisory process. Therefore, the SBP will continue to closely monitor the specific risks and challenges the current context poses. This approach is aimed at mitigating potential negative effects and effectively managing the financial stability and soundness of the banking system in the country. With these actions, the SBP seeks to manage and encourage the resilience of the banking system not only in the face of current challenges but in potential future scenarios.

A. Liquidity

At the end of October 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 (SBN) 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. For example, state-owned banking maintains an indicator that surpasses 300%, and private banking stands above 225%.

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



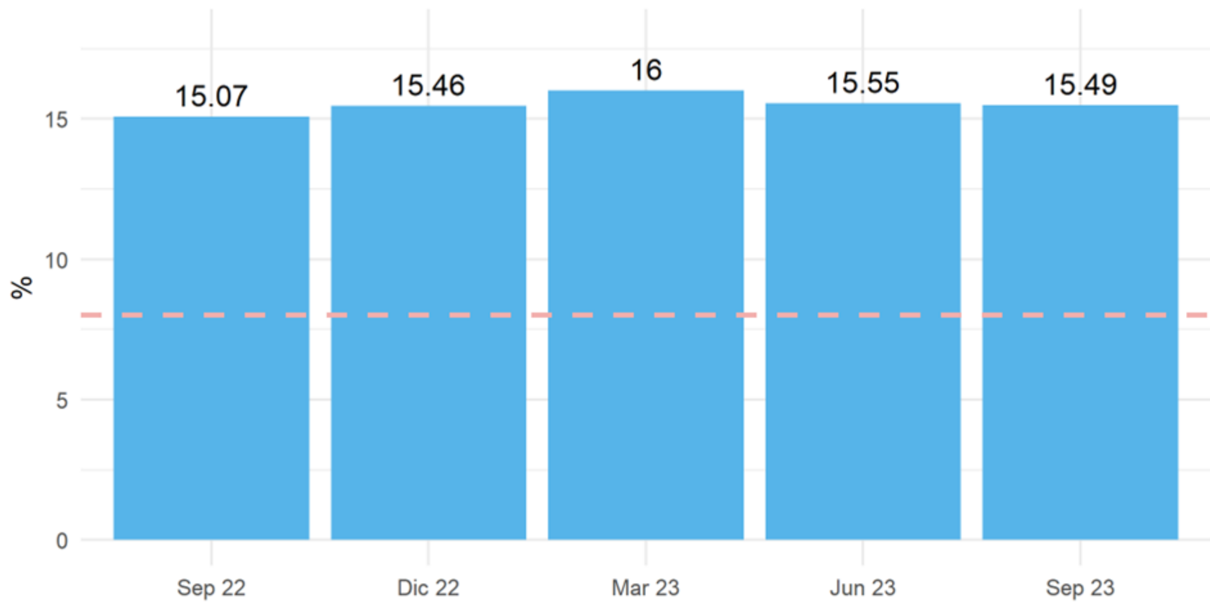
Source: General License Banks.

B. Solvency

The 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 15.45% (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 the 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
September 2022 - September 2023



Source: General and International License Banks.

C. Income Statement

As of October 2023, the cumulative profit for CBI banks totaled USD 2.25 billion. This figure represents a 50.8% 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 (22.9%). This increase is attributable to the expansion of the volume of the loan portfolio and the strategic recalibration of interest margins, resulting in a 30.9% increase in loan portfolio interest income. This performance reflects initiative-driven credit management, as well as the restructuring of the pricing strategy for income-generating assets to optimize the interest spread. There was an increase of 61.3% in operating expenses. With this, interest paid also rose by 65.4%, primarily reflecting an increase in deposit interest rates.

General expenses totaled USD 2.59 billion, representing an 8.5% increase (or USD 203.3 million), with increases in operating expenses, such as salaries and labor liabilities, being highlighted. It is worth noting that a 15.6% decrease in depreciation expenses is observed, which could imply a decline in the acquisition of depreciable assets.

Provisioning expenses decreased from USD 593.7 million in 2022 to USD 449.2 million in 2023, marking a 24.3% 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. At the beginning of 2023, identified and monitored risks continue to persist both domestically and internationally. 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 the risks identified by the Superintendency of Banks in the Financial Stability assessments materialize. This will allow banks to be better prepared to mitigate the effects resulting from a potential slowdown in growth and an adverse foreign scenario.

It is foreseeable that the banks that make up the CBI will continue to implement processes that seek expenditure management and continuous improvement in operational efficiency. Currently, the CBI's operational efficiency stands at 48%, indicating the proportion of net income absorbed by operational expenses. This measure suggests that there is a margin for improvement in process optimization and cost control will continue in the future.

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

International Banking Center	Jan.-Oct. 2022	Jan.-Oct. 2023	Difference %	Difference USD
Net interest income	2,312.2	2,841.6	22.9%	529.5
Other income	2,161.8	2,448.9	13.3%	287.1
Operating income	4,474.0	5,290.6	*18.3%*	816.6
General expenses	2,388.6	2,591.9	*8.5%*	203.3
Profit before provisions	2,085.3	2,698.7	29.4%	613.4
Provisioning expenses	593.7	449.2	-24.3%	-144.5
Profit for the period	**1,491.7**	**2,249.5**	**50.8%**	**757.9**

Source: General and International License banks.

The National Banking System recorded accumulated net profits of USD 1.81 billion as of October 2023, signifying a 49.5% increase compared to October 2022. Like the CBI, increased credit activity and reduced provisioning positively influenced the sector's profits.

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

National Banking System	Jan.-Oct. 2022	Jan.-Oct. 2023	Difference %	Difference USD
Net interest income	2,129.5	2,515.3	18.1%	385.7
Other income	1,832.1	2,125.9	16.0%	293.8
Operating income	3,961.6	4,641.2	*17.2%*	679.6
General expenses	2,170.9	2,391.1	*10.1%*	220.2

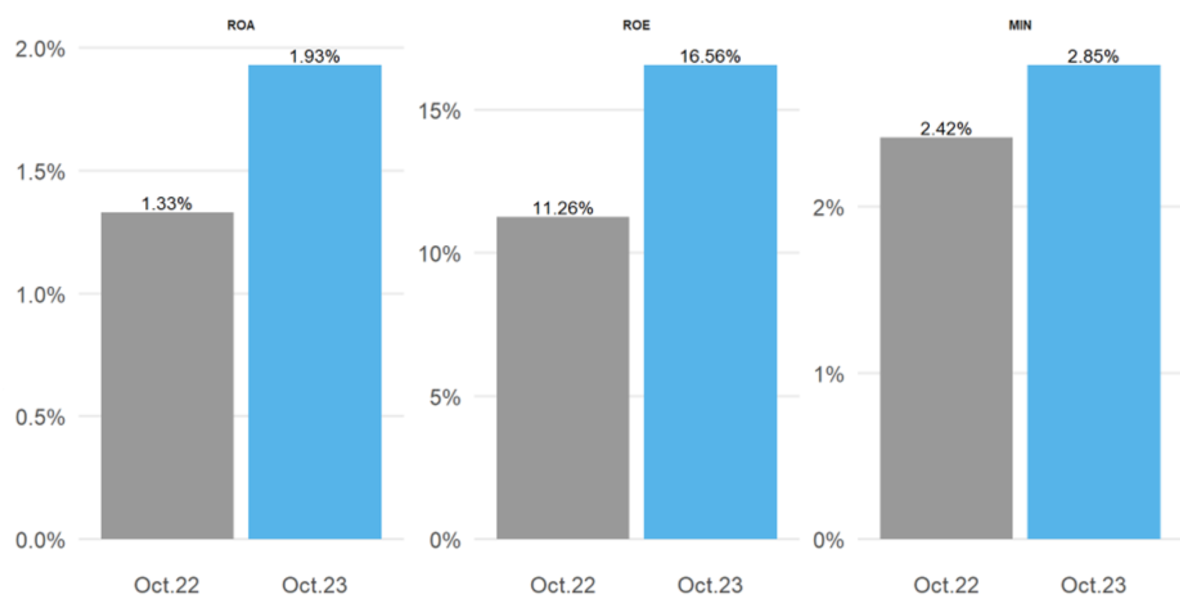
National Banking System	Jan.-Oct. 2022	Jan.-Oct. 2023	Difference %	Difference USD
Profit before provisions	1,790.7	2,250.0	25.7%	459.3
Provisioning expenses	583.7	445.9	-23.6%	-137.8
Profit for the period	**1,207.0**	**1,804.1**	**49.5%**	**597.1**

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 16.56%, signifying an increase of 530 basis points compared to the performance until October 2022 when it was 11.26%. The Return on Assets (ROA) reached 1.93% by the end of October, reflecting a 60 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. It is pertinent to note that, despite the overall positive trend, the magnitude of these increases in profitability indicators exhibits variability among the different financial institutions. The heterogeneity in these results underscores the importance of a fitted banking strategy and tailored risk management.

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



Source: General and International License banks.

E. Balance Sheet

As of the end of October 2023, the total assets of the CBI amounted to USD 142.56 billion, reflecting a USD 5.13 billion increase compared to October 2022. This translates into a year-on-year growth of 3.7%. The growth in banking assets is mainly attributed to the expansion of the net credit portfolio, which grew by 4.3%, and to the securities account, which recorded a 4.8% increase. On the other hand, a 7.5% 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 87.1 billion according to the financial statements submitted by banks to the SBP. Regarding the performance of the net credit portfolio's foreign segment, it increased by 5.7%, reflecting the geographical diversification of the lending business. This trend shows that banking continues to expand lending despite interest rate hikes. It is important to highlight the heterogeneity in this growth, with notable differences between the domestic and foreign components of the credit portfolio.

On the liabilities 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 October 2023, totaled USD 101.46 billion. These data demonstrate the banks' ability to maintain depositors' confidence. Foreign deposits grew by 7.6%, showing increasing confidence of international investors that complements foreign market expansion. 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 October 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 4.8%, and other liabilities rose by 14.1% compared to October 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	Oct. 23/Oct. 22 Difference	
	October	October	Total	%
Liquid assets	18,147	16,780	-1,367	-7.5%
Net credit portfolio	83,494	87,096	3,602	4.3%
Domestic	*56,386*	*58,454*	*2,067*	*3.7%*
Foreign	*27,108*	*28,643*	*1,535*	*5.7%*

Breakdown	2022 October	2023 October	Oct. 23/Oct. 22 Difference Total	%
Securities	28,389	30,606	2,217	7.8%
Other assets	7,392	8,069	677	9.2%
Total Assets	**137,422**	**142,551**	**5,129**	**3.7%**
Deposits	96,916	101,451	4,534	4.7%
Domestic	*61,194*	*63,004*	*1,810*	*3.0%*
Foreign	*35,723*	*38,447*	*2,724*	*7.6%*
Obligations	20,896	19,886	-1,010	-4.8%
Other liabilities	3,843	4,385	542	14.1%
Capital	15,766	16,829	1,063	6.7%

Source: General and International License banks

As for the assets of the National Banking System, they amounted to USD 126.59 billion, indicating an increase of USD 5.76 billion or 4.8% compared to October 2022. The SBN's net credit portfolio showed a USD 4.088 billion (5.4%) increase, reaching USD 79.99 billion. Net foreign credits grew by 10.4%, while the net domestic portfolio performed at 3.7%. On the other hand, the total deposits held within the SBN amounted to USD 88.97 billion, representing a 5.3% rise.

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

Breakdown	2022 October	2023 October	Oct. 23/Oct. 22 Difference Total	October
Liquid assets	14,292	12,882	-1,410	-9.9%
Net credit portfolio	75,906	79,995	4,088	5.4%
Domestic	*56,389*	*58,454*	*2,065*	*3.7%*
Foreign	*19,517*	*21,541*	*2,024*	*10.4%*
Securities	23,584	25,937	2,354	10.0%
Other assets	7,048	7,774	727	10.3%
Total Assets	**120,829**	**126,588**	**5,759**	**4.8%**
Deposits	84,461	88,966	4,504	5.3%
Domestic	*60,983*	*62,918*	*1,935*	*3.2%*
Foreign	*23,478*	*26,048*	*2,570*	*10.9%*
Obligations	20,506	19,797	-708	-3.5%
Other liabilities	3,700	4,197	497	13.4%
Capital	34,791	36,651	1,861	12.0%

Source: General License banks

F. Credit

As of the end of October, the domestic corporate banking credit portfolio grew by 3.2% on a year-on-year basis, reaching USD 60.57 billion (see **Table 5**). Although the year-on-year comparison shows an increase in loan granting, the latest data show a trend towards a slowdown in the portfolio's performance. This phenomenon is evidenced by a sequential reduction in credit expansion, suggesting a possible moderation of loan demand. In October 2023, new loans amounted to USD 1.98 billion, representing a 4.9% decline compared to the same period a year ago. This slight difference may be influenced by events at the end of October, particularly affecting the placement of new loans due to mobility restrictions.

Data suggests widespread growth in several economic sectors, with the corporate and household portfolios showing significant increases. The credit granted by corporate banking to households stood out as the segment with higher growth in absolute terms, driving the portfolio's total growth. In fact, personal consumption experienced a 3.5% increase, while residential mortgages grew by 6.1% year-on-year. Although this growth until today has been backed by an improvement in the labor market and economic activity, a potential deceleration would have an adverse impact on these portfolios, which calls for greater monitoring, aiming to foresee and mitigate potential credit risk management.

On the corporate segment, there is a less dynamic increase than that of the consumer portfolio. In this segment, the industrial and commercial sectors stand out, particularly with 2.9% and 2.7% increases, respectively. These figures are significant in absolute terms, highly contributing to the overall performance of the credit portfolio. The relevance of these sectors could be attributed to both the size in the corporate portfolio and the key role in the broader economy. Livestock and financial and insurance activities had negative results.

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

Sector	October 2022	October 2023	Oct. 23/Oct. 22 Difference	
			Total	%
TOTAL	58,710.9	60,570.3	1,859.3	3.2%
Public sector	1,936.0	2,063.3	127.3	6.6%
Private sector	56,775.0	58,507.0	1,732.0	3.1%
Financial & insurance activities	1,757.9	1,698.2	-59.7	-3.4%
Agriculture	476.2	493.7	17.5	3.7%
Livestock	1,322.4	1,317.5	-4.9	-0.4%
Fishing	118.8	133.5	14.6	12.3%
Mining & Quarrying	48.4	58.5	10.2	21.0%
Commerce	11,938.6	12,266.8	328.2	2.7%
Industry	3,392.4	3,491.6	99.1	2.9%
Mortgages	19,647.0	20,453.0	805.9	4.1%
Construction	4,994.8	5,060.8	66.0	1.3%
Personal consumption	13,078.4	13,533.4	455.0	3.5%

Source: General License 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%. This performance indicates a higher percentage of arrears compared to pre-pandemic periods.

The coverage of reserves for non-performing and overdue loans, although strengthened during the pandemic, has recently been decreasing. Accounting provisions for impaired loans stood at 108%, showing a 130% 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, demands forward-looking monitoring. The current environment underscores the importance of adopting a dynamic and initiative-driven risk management approach to adapt to unforeseen events, such as those presented by the current situation. These strategies will help mitigate potential negative impacts, which are fundamental to preserving financial stability and the long-term sustainability of financial institutions.

G. Deposits

The balance of CBI bank deposits amounted to USD 101.46 billion, indicating a USD 4.54 billion increase (4.7%). It is worth noting that, in October 2023, there was positive performance in bank deposits, despite the logistical and operational disruptions caused by protesters blocking traffic in various parts of the country. Contrary to what might be expected, these events did not have a significant adverse impact on the overall growth of total bank deposits. In addition, preliminary data received for November 2023 also show increases. However, it is important to mention that the increase is concentrated in the term deposit component, a trend that, as has been indicated in previous reports, is associated with the increase in deposit interest rates.

During the surveyed period, domestic deposits experienced a USD 1.81 billion or 3% growth compared to the same period a year ago.

As for foreign deposits, they recorded a year-on-year increase of 7.6% (USD 2.73 billion) amounting to USD 38.45 billion. These deposits represent 37.9% of the total International Banking Center's deposits. Colombia stands out as the main deposit market, accounting for 22% of the total. Other countries that stand out are Costa Rica (6%), Venezuela (5.9%), Dominican Republic (5.6%), and Ecuador (5.1%), all of which had positive performances. Although several factors may be contributing to this positive trend, from the perspective of the SBP, confidence in the Panamanian International Banking Center (CBI) plays a significant role. While confidence responds to the solid stability of banks and other financial institutions in the country, we anticipate that it be will strengthened even further in the future, in part, due to the recent delisting of Panama from the Financial Action Task Force's (FATF) gray list. The phenomenon of the increase in foreign deposits, in the current context, highlights the critical importance of preserving confidence in the financial system as a fundamental intangible asset. This confidence not only influences the decisions of domestic and foreign depositors but also has a significant impact on the overall performance of the banking sector in Panama and the financial landscape.

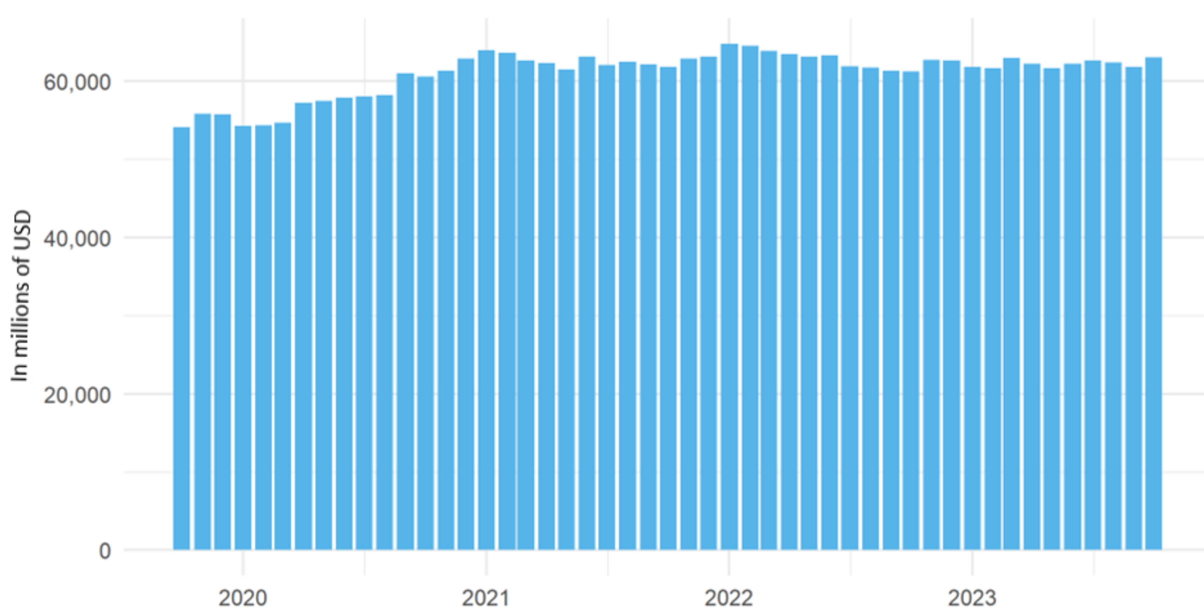
Table 6: International Banking Center
Total Deposits
(In millions of USD)

Accounts	2022 October	2023 October	Oct. 23/Oct. 22 Difference Total	%
Deposits	**96,916**	**101,451**	**4,534**	**4.7%**
Domestic	**61,194**	**63,004**	**1,810**	**3.0%**
Government	10,481	12,580	2,098	20.0%
Customer	47,365	47,336	-29	-0.1%
Banks	3,347	3,088	-259	-7.7%
Foreign	**35,723**	**38,447**	**2,724**	**7.6%**
Government	298	301	3	1.0%
Customer	27,366	29,867	2,502	9.1%
Banks	8,059	8,279	220	2.7%

Source: General and International License banks.

It is important to note that domestic deposits account for 70.1% of the total SBN deposits, with 75.2% of which are customer deposits. Although an increase in domestic deposits has been recorded in general, it is interesting to note that this trend is primarily driven by term deposits, while demand deposits and savings deposits are experiencing decreases. The evolution of the balance of domestic deposits is presented in **Graph 6**.

Graph 4: Total Domestic Deposits
October 2019 – October 2023

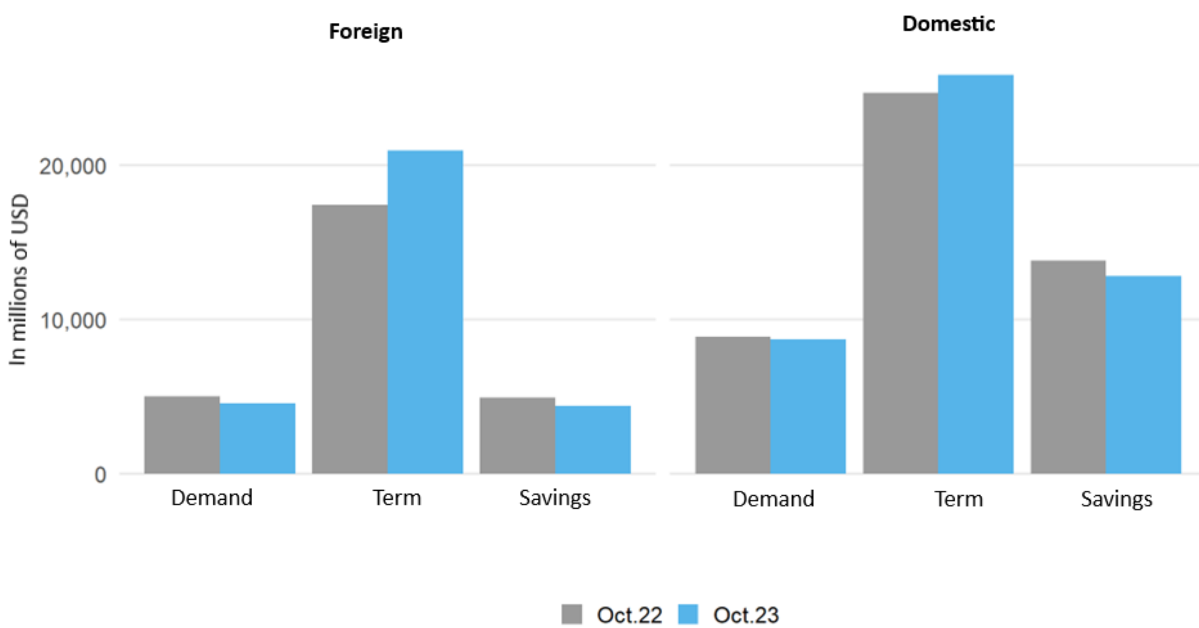


Source: General license banks.

Regarding the structure of customer liabilities by maturity (see **Graph 7**), term deposits continue to be the most prominent savings instrument. As of the end of October 2023, customer domestic term deposits totaled USD 25.84 billion, followed by savings deposits at USD 12.80 billion, and demand deposits at USD 8.69 billion.

Recent deposit growth, especially driven by term deposits, suggests an improvement in the International Banking Center's stability. However, the Superintendency of Banks of Panama recognizes the need for a more cautious supervisory process. Therefore, the SBP will continue to closely monitor the specific risks and challenges the current context poses. This approach is aimed at mitigating potential negative effects and effectively managing the financial stability and soundness of the banking system in the country. With these actions, the SBP seeks to manage and encourage the resilience of the banking system not only in the face of current challenges but also in potential future scenarios.

Graph 5: Customer Deposits
October 2022 – October 2023



Source: General and International license banks.

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