Banking Activity Report

November 2023

Table of Contents

Executive Summary

As of the end of November 2023, the International Banking Center (CBI) maintains a robust and resilient position due to a solid solvency ratio, notably a remarkably high level of tier-one capital. This demonstrates that the banking sector is well-prepared to mitigate credit risk events arising from a complex global economic landscape. A growing perception of macro risks is evident, stemming from the prolonged inflationary pressures that may result in a slowdown in the growth of key macroeconomic variables globally. Coupled with the recent geopolitical tensions in the Middle East, these factors could potentially trigger volatility events in financial markets.

From a macroeconomic perspective, a slower pace is expected in key economic performance indicators at the domestic level in the future. This downward trend is a response to the recently implemented containment measures. Impacts have been observed in several key economic sectors, including but not limited to, agriculture, construction, and tourism. These negative effects manifest in a deterioration of loan quality due to a decrease in activity levels, disruptions in supply chains and production cycles, and a reduction in demand for goods and services from these sectors. These effects are being monitored, as they have the potential to alter growth projections and investment strategies in the short- and medium-term, which could significantly impact portfolio performance and loan quality.

The balance sheet of the International Banking Center grew by 4.2% due to the increase in total loan balances amounting to USD 3.79 billion or 4.5%. This growth is primarily based on the credit mass granted in previous periods, as the performance of new loans has significantly slowed down, decreasing from a growth rate of around 38% in 2022 to an accumulated growth of 5%. This new loan credit performance indicates that, by the end of the year, levels of new lending are not expected to reach the levels seen in 2019, when a cumulative disbursement amount of USD 24.88 billion was recorded, with USD 20.55 billion for the period from January to November.

Regarding the quality of the loan portfolio, if the increase in arrears is closely monitored, it is worth noting that there was already a rise in arrears before the pandemic, with the index of loans over 30 days remaining at 3.6%. Subsequently, after more than a year of loan portfolio normalization and in the context of a post-pandemic economic recovery – which has led to an improvement in the fulfillment of credit obligations through payment arrangements – there is still room for optimizing credit risk levels. Currently, the delinquency rate of the National Banking System (SBN) remains around 6%. This data suggests that, although there are signs of recovery, it is still necessary to stabilize and reduce risk levels to a more sustainable threshold that aligns with pre-pandemic expectations.

The level of funding from savings remains stable, with a deposit growth of 5.24%, attributed not only to the increase in foreign deposits (up by 8%) but also to an improvement in the level of domestic deposits, which rose by 3% or USD 1.94 billion. The movement in domestic deposits again reflects a shift in the type of product, with fixed-term deposits experiencing the most significant growth at 8%, compared to savings deposits decreasing by 6.7%. This performance is attributed to the rise in interest rates, providing clients with better returns due to these increases.

The profit statement of the International Banking Center demonstrated the highest level of profits (January to November) as of the end of November 2023, recording a USD 838 million or 50% growth. This performance is largely supported by the recovery of income-generating assets, mainly the returns obtained from the loan portfolio, which experienced a 30% expansion.

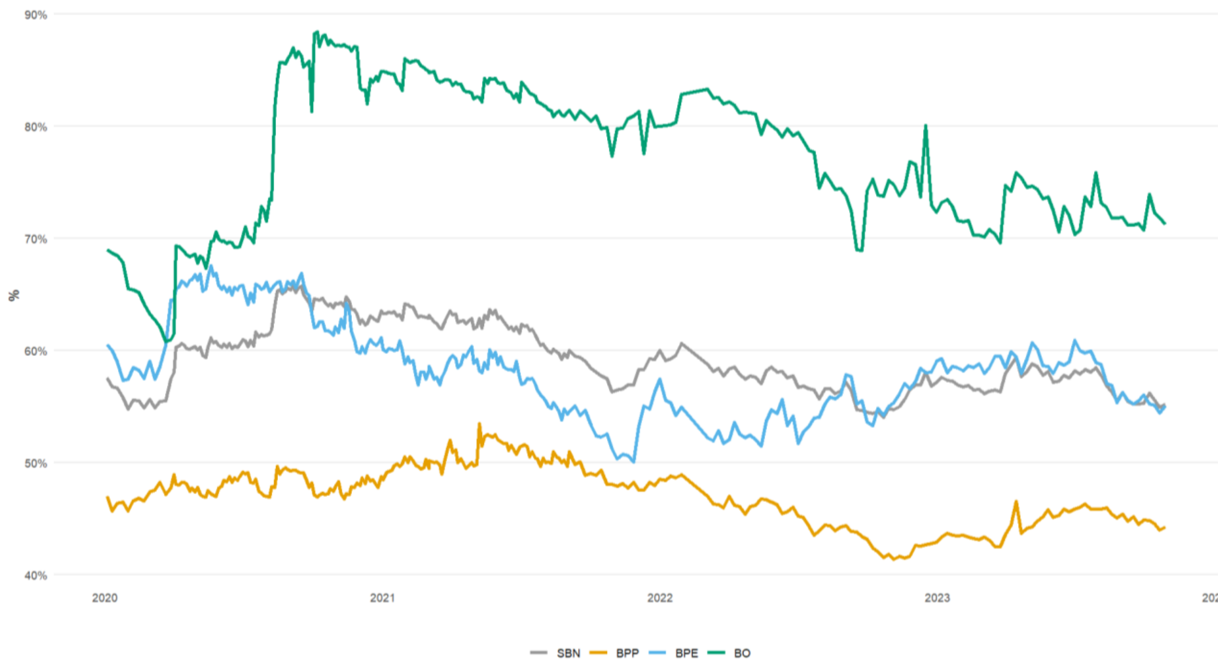
The profitability of the International Banking Center is reliant on the yields obtained in the private sector, from which 98% of the total generated by loans is derived. This figure highlights the significant dependence of the CBI on the yields of the private sector, underscoring the importance of this sector in the overall income structure of the CBI. In turn, 9% of yields are obtained from the total interest for credit income through financial operations, such as interbank loans, to finance companies, insurance companies, cooperatives, among others. The segments that contribute most to the profits are the corporate sector, representing 54% of the profits, and finally, the yields of retail banking, from which 37% of the total CBI yields are derived.

It is concluded that the operational banks are in compliance with the applicable regulations, maintaining an adequate position in terms of capitalization and liquidity. However, in view of recent circumstances, the Superintendency of Banks of Panama (SBP) emphasizes the importance of adopting a preventive approach by the entities and a more rigorous and prospective supervisory approach. This approach aims to mitigate possible negative effects and effectively manage the financial stability and soundness of the banking system in the country. With these measures, the SBP seeks to manage and promote the resilience of the banking system, not only in the face of current challenges but also in anticipation of potential future scenarios.

A. Liquidity

At the end of November 2023, the liquidity of the Banking System reached 57.6%, with the increase in deposits contributing to the improvement of its liquidity position. Currently, local banks are in a robust position with respect to regulatory requirements, enabling 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 fundamental part of their funding. It is important to note that regulatory provisions require all banks operating within the Panamanian CBI to comply with Basel III standards. The Liquidity Coverage Ratio (LCR) measures the ability to secure emergency 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 their maturity structure is appropriate.

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



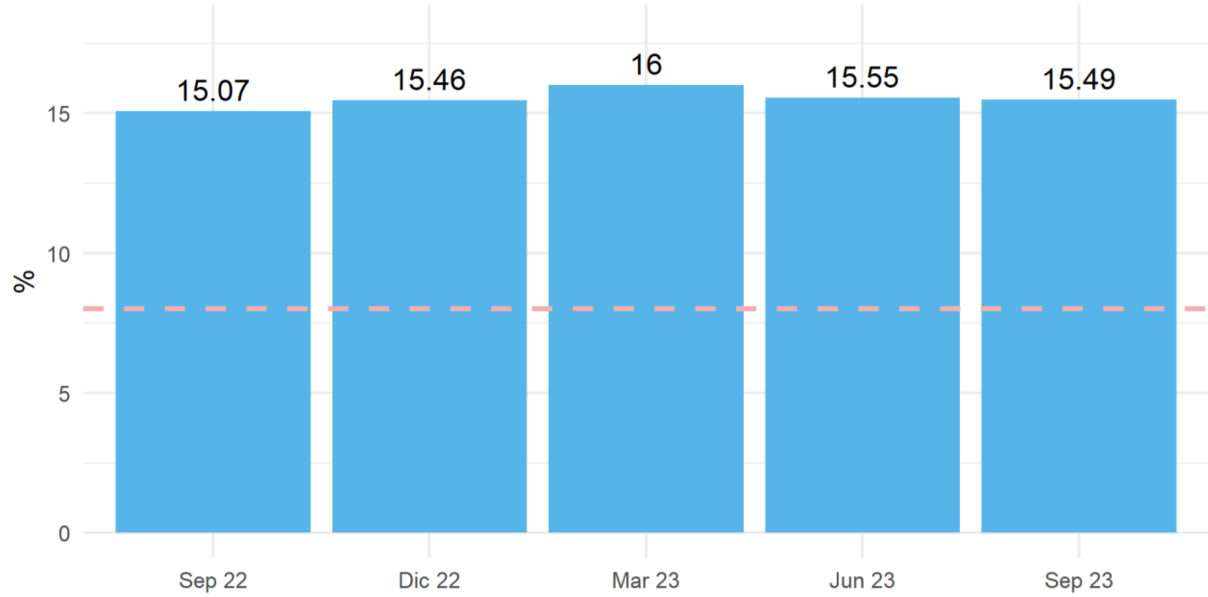
Source: General License Banks.

B. Solvency

The latest Capital Adequacy Ratio (CAR) (Sept. 2023) indicates that the combined solvency ratios of CBI remained in a robust position. The CAR on risk-weighted assets (RWA) stood at 15.49% (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. Currently, 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 the end of November 2023, the accumulated profits of CBI banks totaled USD 2.50 billion. This figure represents a 50.7% increase in profits 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 loan portfolio, asset quality management, expense control, and a reduction in provisions in response to a preventive assessment of credit risk. Additionally, profitability was enhanced by profits from other entities within the banking groups.

The return on assets responded significantly to the increase in net interest income (21.0%). This increase is largely attributable to the expansion in the volume of the loan portfolio and the strategic recalibration of interest margins. The 'General Expenses' item recorded USD 2.67 billion, reflecting an 8.6% increase (USD 229.1 million).

Provisioning expenses decreased from USD 648 million in 2023 to USD 440 million in the same period, marking a reduction of 32.1%. 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 in both the domestic and foreign components.

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 49.7%, indicating the proportion of net income absorbed by operational expenses. This metric suggests that there is room 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.-Nov.	Jan.-Nov.	Difference	
	2022	2023	%	USD
Net interest income	2,579	3,120	21.0%	541.4
Other income	2,395	2,714	13.3%	318.3
Operating income	4,974	5,834	17.3%	859.6
General expenses	2,670	2,900	8.6%	229.1
Profit before provisions	2,304	2,934	27.4%	630.6
Provisioning expenses	648	440	-32.1%	-208.0
Profit for the period	**1,655**	**2,494**	**50.7%**	**838.6**

Source: General and International License banks.

The profitability of the International Banking Center is reliant on the yields obtained in the private sector, from which 98% of the total generated by loans is derived.

In turn, 9% of yields are obtained from the total interest for credit income through financial operations, such as interbank loans, to finance companies, insurance companies, cooperatives, among others. The segments that contribute most to the profits are the corporate sector, representing 54% of the profits, and finally, the yields of retail banking, from which 37% of the total CBI yields are derived.

Table 2: International Banking Center
Interests Earned by Sectors (in millions)

Total	Private Sector	Public Sector
USD 5,516	98%	2%

Table 3: International Banking Center
Private Sector Yield (USD 5,452 MM)

Corporate	Retail	Financial
54%	37%	9%

The National Banking System recorded accumulated net profits of USD 2.01 billion as of November 2023, signifying a 49.1% increase compared to November 2022. Like the CBI, increased credit activity and reduced provisioning positively influenced the sector's profits.

Table 4: National Banking System
Accumulated Income Statement
(In millions of USD)

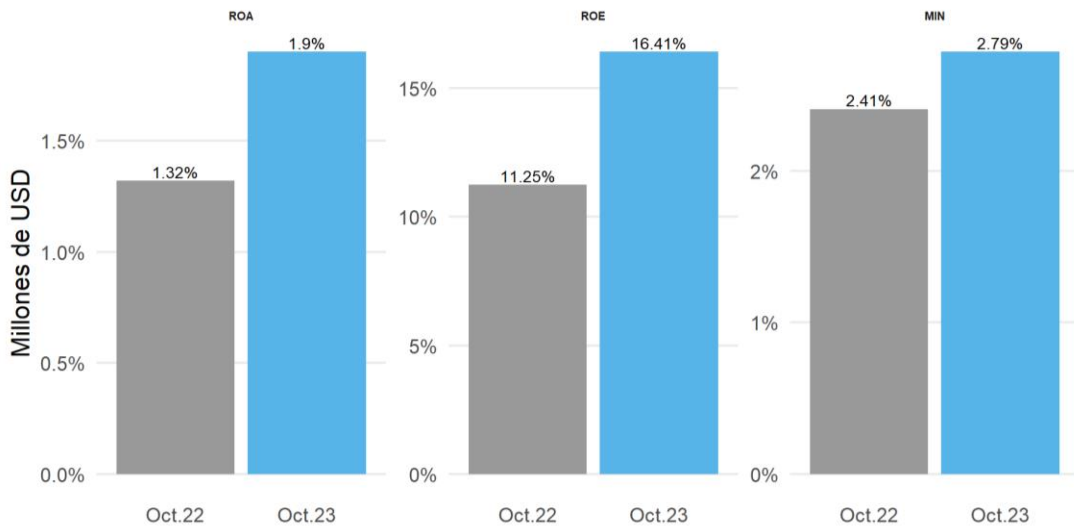
National Banking System	Jan.-Nov.	Jan.-Nov.	Difference	
	2022	2023	%	USD
Net interest income	2,370	2,762	16.6%	392.4
Other income	2,048	2,372	15.8%	324.1
Operating income	4,418	5,134	16.2%	716.6
General expenses	2,435	2,680	10.1%	245.7
Profit before provisions	1,983	2,454	23.7%	470.9
Provisioning expenses	635	444	-30.1%	-191.2
Profit for the period	**1,348**	**2,010**	**49.1%**	**662.1**

Source: General License banks.

D. Profitability indicators

On the other hand, profitability indicators show a significant improvement compared to 2022 data. The Return on Equity (ROE) stood at 16.41%, and the Return on Assets (ROA) reached 1.93% by the end of November 2023. These increases occurred in the context of improvements in loan placements and a reduction in provisions for asset impairment. The net interest margin in November 2023 stood at 2.79%.

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



Source: General and International License banks.

E. Balance Sheet

As of the end of November 2023, the total assets of the CBI amounted to USD 146.15 billion, reflecting a USD 5.93 billion increase compared to November 2022. This translates into a year-on-year growth of 4.2%. The growth in banking assets is mainly attributed to the expansion of the net loan portfolio, which grew by 4.5%, and to the securities account, which recorded a 7.7% increase. On the other hand, a 2.7% year-on-year decline in liquid assets was observed.

It is important to note that CBI assets consist of the loan portfolio, which reported a balance of USD 87.49 billion according to the financial statements submitted by banks to the SBP. Regarding the performance of the foreign segment of the net loan portfolio, it increased by 5.8%, reflecting the geographical diversification of the lending business.

On the liabilities side, deposits constitute a substantial portion of the CBI's funding and support its lending operations, resulting in reduced dependence on wholesale funding through market debt issuances, which can typically be more volatile. CBI deposits, as of November 2023, totaled USD 104.21 billion. Foreign deposits grew by 9.0%, indicating increasing confidence of international investors that complements the expansion into foreign markets.

Obligations decreased by 3.7%. These instruments also include the financing component through issuances. Despite the increase in borrowing costs, current market conditions could stimulate 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 5: International Banking Center
Balance Sheet
(In millions of USD)

Breakdown	2022 November	2023 November	Nov. 23/Nov. 22 Difference Total	%
Liquid assets	19,789	19,260	-529	-2.7%
Net credit portfolio	83,699	87,486	3,787	4.5%
Domestic	58,959	60,945	1,987	3.4%
Foreign	27,293	28,879	1,586	5.8%
Securities	28,992	31,220	2,228	7.7%
Other assets	7,736	8,175	440	5.7%
Total Assets	**140,215**	**146,141**	**5,926**	**4.2%**
Deposits	99,016	104,203	5,187	5.2%
Domestic	62,829	64,764	1,935	3.1%
Foreign	36,187	39,439	3,252	9.0%
Obligations	21,007	20,225	-782	-3.7%
Other liabilities	4,176	4,579	403	9.6%
Capital	16,016	17,135	1,119	7.0%

Source: General and International License banks

As for the assets of the National Banking System, they amounted to USD 126.76 billion, indicating an increase of USD 5.82 billion or 4.7% compared to November 2022. The SBN's net loan portfolio showed a USD 4.26 billion (5.6%) increase, reaching USD 80.43 billion. Net foreign loans grew by 10.6%, while the net domestic portfolio grew by 3.4%. On the other hand, the total deposits held within the SBN amounted to USD 91.39 billion, representing a 5.3% rise.

Table 6: National Banking System
Balance Sheet
(In millions of USD)

Breakdown	2022 November	2023 November	Nov. 23/Nov. 22 Difference Total	%
Liquid assets	16,104	14,947	-1,157	-7.2%
Net credit portfolio	76,166	80,425	4,259	5.6%
Domestic	58,959	60,945	1,987	3.4%
Foreign	19,698	21,777	2,079	10.6%
Securities	24,247	26,537	2,290	9.4%
Other assets	7,363	7,841	478	6.5%
Total Assets	**123,880**	**129,751**	**5,871**	**4.7%**
Deposits	86,782	91,389	4,607	5.3%

Breakdown	2022 November	2023 November	Nov. 23/Nov. 22 Difference Total	%
Domestic	62,618	64,677	2,060	3.3%
Foreign	24,164	26,711	2,547	10.5%
Obligations	20,618	20,120	-497	-2.4%
Other liabilities	3,985	4,370	384	9.6%
Capital	12,495	13,873	1,378	11.0%

Source: General License banks

F. Credit

As of the end of November, the domestic corporate banking loan portfolio grew by 3.4% compared to November 2022, reaching USD 60.95 billion (see **Table 7**). The data suggest a generalized growth in several economic sectors, especially the corporate and household components. Household lending by corporate banking stood out as the segment with the most dynamism in absolute terms, driving the growth of the total portfolio. In fact, the personal consumption loan portfolio experienced an increase of 4.2%, while residential mortgage lending grew by 3.8%, both measured on a year-on-year basis. While this growth to date has been supported by the improvement in the performance of the labor market and the economy, a possible slowdown would have an adverse effect on the performance of these portfolios, suggesting closer monitoring to anticipate and mitigate possible risks in credit management.

In 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 6.3% and 4.3% 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, financial, and insurance activities had negative results.

Table 7: National Banking System
Balance of domestic credit portfolio by economic sectors
(In millions of USD)

Sector	November 2022	November 2023	Nov. 23/Nov. 22 Difference Total	%
TOTAL	**58,959**	**60,945**	**1,987**	**3.4%**
Public sector	1,931	2,044	113	5.8%
Private sector	57,028	58,902	1,874	3.3%
Financial & insurance activities	1,943	1,723	-220	-11.3%
Agriculture	484	493	9	1.9%
Livestock	1,328	1,311	-17	-1.3%
Fishing	120	132	12	10.4%
Mining & Quarrying	50	57	8	15.6%
Commerce	11,886	12,396	510	4.3%
Industry	3,434	3,652	218	6.3%

Sector	November 2022	November 2023	Nov. 23/Nov. 22 Difference	
			Total	%
Mortgages	19,737	20,483	746	3.8%
Construction	4,970	5,024	54	1.1%
Personal consumption	13,077	13,631	553	4.2%

Source: General License banks

As for the portfolio quality of CBI as of November 2023, it shows a default ratio of 4.5%, with 1.9% representing loans with arrears of 30+ days and 2.6% for loans with arrears of 90+ days. This performance indicates a higher percentage of arrears compared to pre-pandemic periods.

There has been a recent decrease in the coverage of reserves for non-performing and overdue loans. Accounting provisions for impaired loans stood at 105%, indicating a 140% decrease compared to a year earlier. It is important to note that although current provisions and collaterals provide some degree of mitigation for risks related to loan impairment, their evolution requires 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

As of November 2023, the total of CBI deposits amounted to USD 104.21 billion, indicating a USD 5.19 billion growth (5.2%). Domestic deposits increased by USD 1.94 billion during the surveyed period, representing a 3.1% rise compared to the same period in 2022.

As for foreign deposits, there was a year-on-year increase of 9.0% (USD 3.26 billion), totaling USD 39.44 billion. These deposits represent 37.5% of the total International Banking Center's deposits. Colombia stands out as the main deposit market, accounting for 21.4% of the total. Other countries that stand out are Venezuela (5.9%), Costa Rica (5.9%), the Dominican Republic (5.4%), and Peru (5.2%), making up the top 5 in the CBI ranking.

Table 8: International Banking Center
Total Deposits
(In millions of USD)

Accounts	2022 November	2023 November	Nov. 23/Nov. 22 Difference	
			Total	%
Deposits	99,016	104,203	5,187	5.2%
Domestic	62,829	64,764	1,935	3.1%
Government	12,505	13,961	1,456	11.6%
Customer	46,564	47,662	1,098	2.4%
Banks	3,760	3,141	-619	-16.5%

Accounts	2022 November	2023 November	Nov. 23/Nov. 22 Difference	
			Total	%
Foreign	36,187	39,439	3,252	9.0%
Government	238	354	115	48.4%
Customer	28,004	30,680	2,675	9.6%
Banks	7,944	8,406	461	5.8%

Source: General and International License banks.

Within the scope of local banks, the National Banking System shows a similar trend to that of the International Banking Center. In the latest record, a total of USD 91.39 billion is observed, representing a notable increase of 5.3% compared to November 2022. This increase is reflected in both the domestic segments (3.3%) and the foreign segments (10.5%). (See **Table 9**).

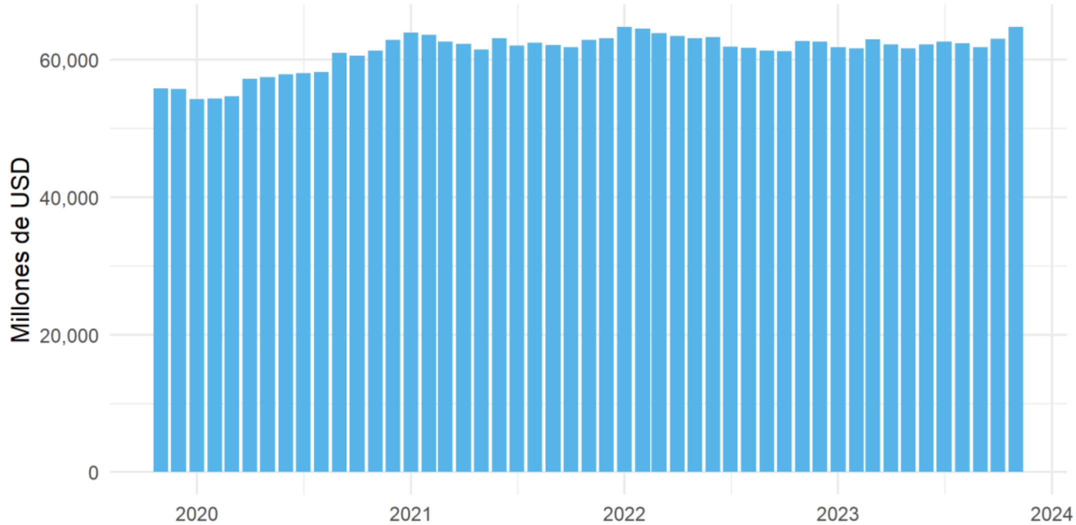
Table 9: National Banking System
Total Deposits
(In millions of USD)

Accounts	2022 November	2023 November	Nov. 23/Nov. 22 Difference	
			Total	%
Deposits	86,782	91,389	4,607	5.3%
Domestic	62,618	64,677	2,060	3.3%
Government	12,505	13,961	1,456	11.6%
Customer	46,564	47,662	1,098	2.4%
Banks	3,549	3,055	-494	-13.9%
Foreign	24,164	26,711	2,547	10.5%
Government	180	293	113	62.8%
Customer	16,556	18,701	2,146	13.0%
Banks	7,428	7,717	289	3.9%

Source: General and International License banks.

It is worth noting that domestic deposits represent 70.7% of the total SBN deposits, of which 70.8% correspond to customer deposits. Although an overall increase in domestic deposits has been recorded, it is interesting to note that this trend is primarily driven by fixed-term deposits, while demand deposits and savings deposits are experiencing decreases. The evolution of the balance of domestic deposits is presented in **Graph 4**.

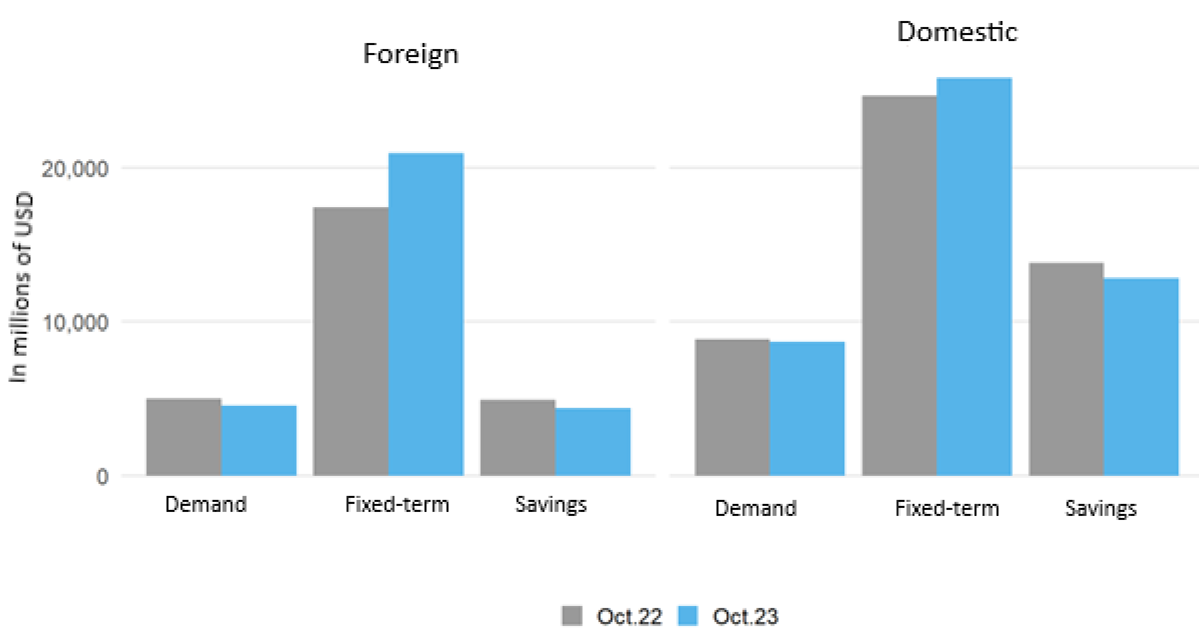
Graph 4: Total Domestic Deposits
November 2019 – November 2023



Source: General license banks.

Regarding the structure of customer liabilities by maturity (see **Graph 5**), fixed-term deposits continue to be the most prominent savings instrument. As of the end of November 2023, customer domestic fixed-term deposits totaled USD 25.73 billion, followed by savings deposits at USD 12.94 billion, and demand deposits at USD 8.99 billion.

Graph 5: Customer Deposits
October 2022 – October 2023



Source: General and International license banks.

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