Banking Activity Report

December 2023

Table of Contents

Executive Summary

At the end of 2023, the operations of the entire International Banking Center (CBI) maintained positive performance. The profitability of credit institutions showed signs of continuous improvement, along with liquidity and solvency ratios, all of which are comfortably positioned above their regulatory limits. The prudential solvency and liquidity ratios, based on the latest available data, recorded 15.3% and 62.2%, respectively, which have remained above the required regulatory minimums. As a result, the banking sector maintains a performance that has translated into capital capacity and strengthening, enabling this sector to continue conducting intermediation activities in the medium and long term.

From a macroeconomic perspective, a slower pace is expected in key economic performance indicators at the domestic level in the future. This downward trend would respond to the containment measures implemented in October and November 2023. 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 quality.

At the end of December 2023, the International Banking Center of Panama reported total assets of USD 174.53 billion, representing a year-on-year growth of USD 7.49 billion or 5.3%. This increase is the result of a strategy focused on maximizing the return on productive assets. This expansion in the asset side of the balance sheet reflects an acceleration in the growth dynamics of productive assets, driven primarily by a 4.6% increase in the net loan portfolio, which closed with a balance of USD 87.20 billion, and a remarkable 9.2% rise in the securities component. At the same time, the capital and liability structure has been strengthened, which, beyond optimizing profitability, could also mitigate potential risks foreseen in 2024.

The domestic loan portfolio amounted to USD 60.61 billion, representing a 3.4% increase compared to the end of 2022, equivalent to an increase of USD 2.01 billion. Despite the context of interest rate hikes, credit expansion was observed in most portfolios, driven largely by the robust performance of the real economy sectors during the first three quarters of the year. However, a slowdown has been perceived since October, a trend that could continue if economic activity slows down in 2024, which, together with current interest rates, and the burden on corporations and households, could limit the demand for financing.

Regarding the CBI’s portfolio quality as of December 2023, a non-performing loan (NPL) ratio of 4% is reported, of which 1.6% is represented by loans with 30 days or more past due, while loans with 90 days or more past due account for 2.4%. Currently, the domestic NPL ratio stands at 5.64%. 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 align with pre-pandemic expectations.

In terms of deposits, in 2023, the International Banking Center consolidated its position as a regional financial center, recording a year-on-year increase of 6.8%, totaling USD 105.12 billion. This performance was driven by a 3.5% rise in domestic deposits and a 12.8% growth in foreign deposits, reflecting the confidence of both domestic and international clients in the strength and stability of the Panamanian banking center. By region, domestic deposits increased by USD 2.17 billion during the period covered by this report compared to the same period in 2022. As for foreign deposits, a year-on-year increase of USD 4.58 billion was observed, reaching USD 40.32 billion. These deposits represent 38.4% of the total in the International Banking Center. Colombia has stood out as the main country of origin for these deposits, followed by Venezuela, Costa Rica, the Dominican Republic, and Ecuador. The diversity in the geographical distribution of these deposits reflects the differences in the economic performance and financial policies of each country, but more importantly, it evidences the trust placed by international clients in the banks established in the local market. The flow of domestic deposits again shows a shift in the type of product, with fixed-term deposits being the most benefited, experiencing an 8.5% growth compared to savings deposits, which decreased by 5.8%. This performance is the result of interest rate hikes, where clients obtain better yields because of these increases.

As of December 2023, the accumulated profits of CBI banks totaled USD 2.71 billion. This figure represents a 42.6% 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 preventive assessment for credit risk. Additionally, profitability was enhanced by profits from other entities within the banking groups.

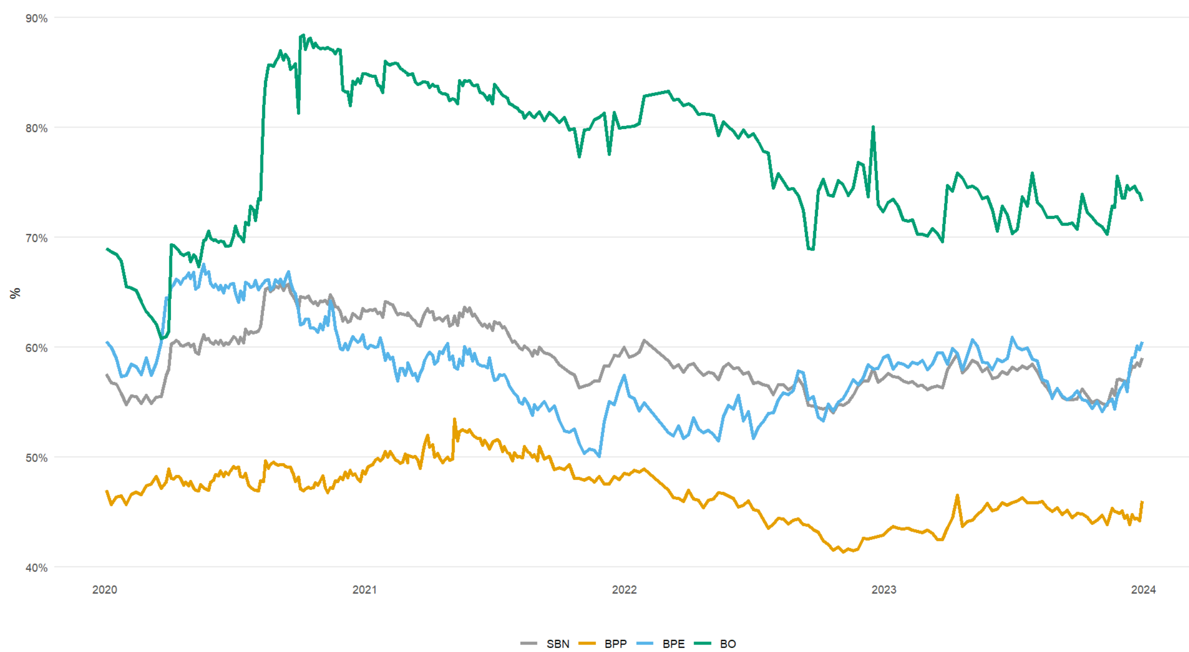
In conclusion, operating banks are in compliance with the current applicable regulations, maintaining an adequate position in terms of capitalization and liquidity, which allows them to strengthen their response capacity to face potential risks. However, because of the events that occurred at the end of the year, persistent risk factors have been identified, especially related to loan portfolio quality. This situation has led to the intensification of banking supervision activities and follow-up exercises, focusing on the banks' risk management and their financial strength to respond to various economic and financial scenarios. It is vital that banks continue enhancing their risk management practices and strengthen their capital reserves to ensure an effective response to portfolio quality fluctuations and other emerging challenges in 2024. The banking supervision conducted by the Superintendency of Banks of Panama will remain vigilant, promoting a stable and resilient financial environment.

A. Liquidity

At the end of the 2023 fiscal year, the Panamanian banking sector showed a positive operating condition, reflected in an average liquidity ratio of 57.8%. This liquidity level, notably higher than historical standards, was mainly attributable to an increase in deposit volumes, demonstrating active and efficient bank balance management. Historically, banks within the National Banking System (SBN) have consistently maintained strong liquidity buffers and dependable access to structural and wholesale deposits, which constitute an essential part of their funding. This underscores the strength of banks, enabling compliance with regulatory requirements while also being prepared to face market fluctuations. It is worth noting 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. This ratio is well above the required minimums, thanks to prudent asset and liability management in terms of maturity dates, diversified funding structure, and high-quality assets. Currently, banks comply with LCR provisions, reflecting an average ratio above the regulatory requirement. This level of comfort shows, overall, prudent and strategic asset and liability management, focusing on optimizing the maturity structure, diversifying funding sources, and maintaining a portfolio of highly liquid and credit quality assets.

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



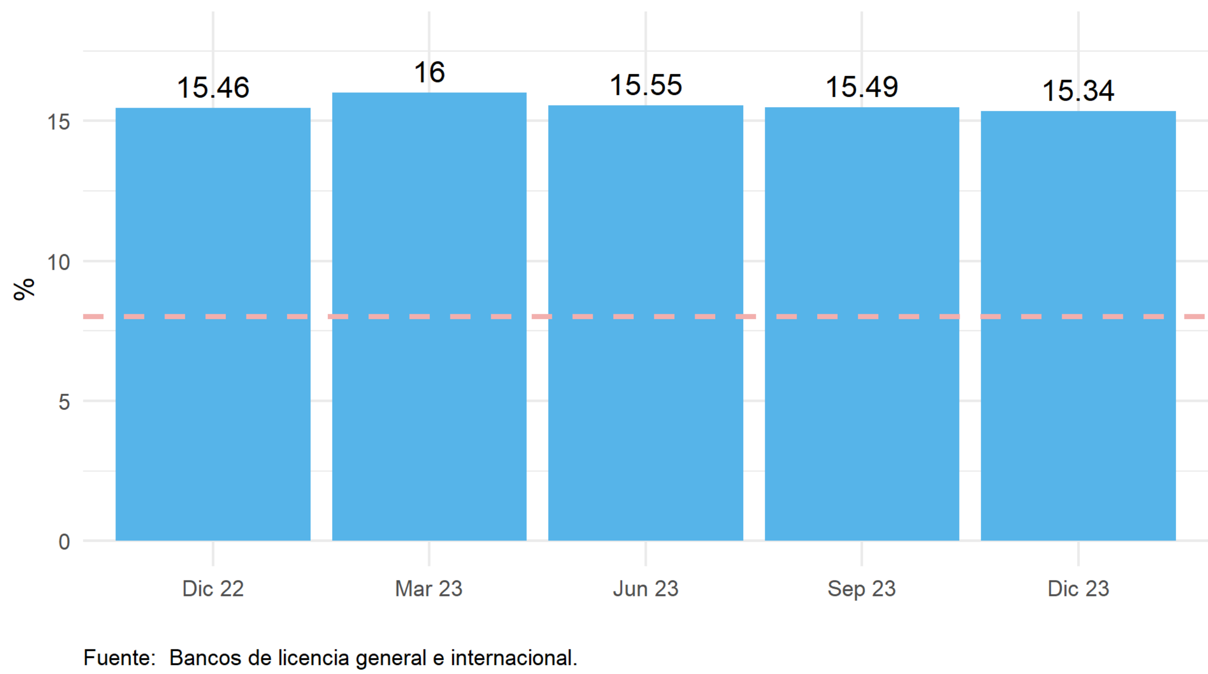
Source: General license banks.

B. Solvency

The latest Capital Adequacy Ratio (CAR), corresponding to December 2023, indicates that the banks within the International Banking Center have maintained adequate solvency indicators, placing the CBI in a favorable position. Specifically, the CAR on risk-weighted assets (RWA) stood at 15.34% (see **Graph 2**) surpassing not only the regulatory minimum of 8% but also reflecting positive financial resilience against adverse scenarios. This performance remains constant compared to the previous quarter, indicating stability in the capital of banks within the CBI.

It is anticipated that the profitability of these banks will continue to be supported by a prudent approach to RWA growth. It is important to highlight that, to date, all banks operating within the CBI are in satisfactory compliance with the bank capital regulatory standards, which underlines the effectiveness of risk and capital management strategies guided by regulatory parameters. While it is possible to manage future growth opportunities, these should maintain a balanced focus between expansion and risk management. Given the current juncture, it is essential to continue closely monitoring external and real-sector factors that could influence profitability and capital strength, adopting initiative-taking measures to mitigate potential risks.

Graph 2: Capital Adequacy Ratio
December 2022 - December 2023



Source: General and international license banks.

C. Income Statement

As of December 2023, the accumulated profits of CBI banks totaled USD 2.71 billion. This figure represents a 42.6% 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 preventive assessment for 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 (18.7%). 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 3.22 billion, reflecting a 9.3% increase.

Provisioning expenses decreased from USD 698 million in 2022 to USD 520 million, marking a 25.6% reduction. 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. 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 49.9%, 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.-Dec. 2022	Jan.-Dec. 2023	Difference %	Difference USD
Net interest income	2,867.5	3,403.4	18.7%	536.0
Other income	2,676.1	3,044.7	13.8%	368.6
Operating income	5,543.7	6,448.1	16.3%	904.4
General expenses	2,944.9	3,221.3	9.4%	276.4
Profit before provisions	2,598.8	3,226.9	24.2%	628.1
Provisioning expenses	698.8	520.3	-25.5%	-178.5
Profit for the period	**1,900.0**	**2,706.6**	**42.6%**	**806.6**

Source: General and International License banks.

As of the end of December 2023, the National Banking System reported accumulated net profits of approximately USD 2.19 billion, representing a 40.5% increase compared to the same period in 2022. This remarkable growth in profits mirrors the performance observed in the International Banking Center, attributed mainly to an increase in lending activity and a decrease in the need to create provisions for impaired assets.

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

National Banking System	Jan.-Dec. 2022	Jan.-Dec. 2023	Difference %	Difference USD
Net interest income	2,627.6	3,014.9	14.74%	387.3
Other income	2,307.6	2,686.2	16.41%	378.6
Operating income	4,935.2	5,701.1	15.52%	765.9

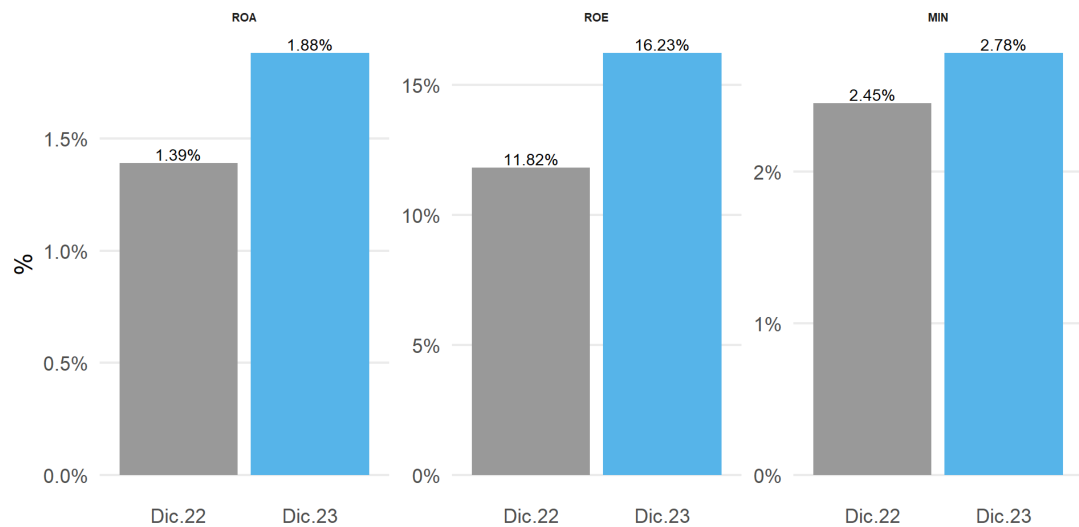
National Banking System	Jan.-Dec. 2022	Jan.-Dec. 2023	Difference %	Difference USD
General expenses	2,684.9	2,980.4	11.01%	295.5
Profit before provisions	2,250.3	2,720.7	20.90%	470.3
Provisioning expenses	687.2	524.3	-23.70%	-162.9
Profit for the period	**1,563.1**	**2,196.3**	**40.51%**	**633.2**

Source: General License banks.

D. Profitability indicators

A more detailed analysis of financial performance shows a substantial improvement in profitability indicators during the 2023 period, compared to the results of 2022. The Return on Equity (ROE) stood at 16.23%, and the Return on Assets (ROA) reached 1.88%. These increases occurred in a context of improved lending and reduced provisions for asset impairment. The net interest margin was 2.78%, reflecting optimization in the management spread between lending and deposit interest rates, which improved profitability without compromising the financial health of the portfolio.

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



Source: General and international license banks.

E. Balance Sheet

At the end of December 2023, the International Banking Center of Panama reported total assets of USD 174.53 billion, representing a year-on-year growth of USD 7.49 billion or 5.3%, compared to the same period a year earlier. This increase is the result of a strategy focused on maximizing the return on productive assets and active resource management. Additionally, the capital and liability structure has been strengthened, which, beyond optimizing profitability, could also mitigate potential risks foreseen in 2024.

This expansion in the asset side of the balance sheet reflects a notable acceleration in the growth dynamics of productive assets, driven primarily by a 4.6% increase in the net loan portfolio, which closed with a balance of USD 87.20 billion, and a remarkable 9.2% rise in the securities component. Additionally, during the same period, there was a 2.8% increase in liquid assets, reflecting a strategic reallocation towards higher-yielding assets, indicating active and efficient resource management. This should ensure an adequate balance between risk and return.

It is important to highlight the importance of the loan portfolio within the CBI's asset structure, as it constitutes most of these assets. Additionally, the performance of the external segment of the net loan portfolio showed an acceleration, with a 6.3% growth, suggesting possible geographical diversification in the CBI's lending operations. This expansion reflects not only a growth strategy but also an effort to mitigate risks through diversification.

From the perspective of liabilities and capital, 2023 witnessed remarkably positive financial performance. From the liabilities side, deposits play a crucial role in the CBI's funding model, allowing for less reliance on wholesale funding and debt market issuances, which tend to be more volatile. As of December 2023, deposits reached USD 105.12 billion, reflecting a 6.85% year-on-year growth, with a 12.8% increase in foreign deposits. This growth not only reflects increased confidence from international investors but also an effective expansion into foreign markets.

In line with a higher cost of capital, effective liability management strategies were evident, with a reduction in financial obligations of around 3.1%. Despite an increase in the cost of borrowing, current market conditions suggest a renewed interest in financing strategies that can mitigate future liquidity risks and take advantage of the opportunities presented by the current interest rate structure, particularly the flattening observed between short- and medium-term rates.

Table 5: International Banking Center
Balance Sheet
(In millions of USD)

Breakdown	**2022**	**2023**	**Dec. 23/Dec. 22 Difference**	
	December	**December**	**Total**	**%**
Liquid assets	19,919	20,470	550	2.8%
Net credit portfolio	83,341	87,202	3,861	4.6%
Domestic	56,395	58,561	2,166	3.8%
Foreign	26,945	28,640	1,695	6.3%
Securities	29,257	31,959	2,702	9.2%
Other assets	7,521	7,895	374	5.0%
Total Assets	**140,039**	**147,526**	**7,487**	**5.3%**
Deposits	98,380	105,117	6,738	6.8%
Domestic	62,635	64,798	2,163	3.5%
Foreign	35,745	40,320	4,575	12.8%
Obligations	21,507	20,837	-670	-3.1%
Other liabilities	3,934	4,399	465	11.8%
Capital	16,218	17,172	953	5.9%

Source: General and International License banks

As for the assets of the National Banking System, they amounted to USD 131.06 billion, indicating an increase of USD 7.13 billion or 5.8% compared to December 2022. The SBN's net loan portfolio showed a USD 4.32 billion (5.7%) increase, reaching USD 80.34 billion. Net foreign loans grew by 10.9%, while the net domestic portfolio grew by 3.8%.

The SBN's deposit base also showed an increase, reaching USD 92.25 billion, representing a 6.9% increase. This growth in deposits is positive, as it reflects public confidence and the soundness of the system's funding base, crucial elements for the stability and future expansion of the sector. At the same time, there was a 9.5% increase in net equity, evidence of strengthened financial structure and a more robust capital base. These measures not only improve the system's solvency, but also support the potential for future growth and the ability to manage financial risks.

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

Breakdown	2022	2023	Dec. 23/Dec. 22 Difference	
	December	December	Total	December
Liquid assets	16,234.50	15,956.39	-278.11	-1.7%
Net credit portfolio	76,026.47	80,339.35	4,312.87	5.7%
Domestic	56,395.25	58,561.22	2,165.97	3.8%
Foreign	19,631.23	21,778.13	2,146.90	10.9%
Securities	24,502.01	27,151.78	2,649.77	10.8%
Other assets	7,159.96	7,604.14	444.18	6.2%
Total Assets	**123,922.95**	**131,051.66**	**7,128.71**	**5.8%**
Deposits	86,291.54	92,248.95	5,957.40	6.9%
Domestic	62,423.39	64,712.38	2,289.00	3.7%
Foreign	23,868.16	27,536.56	3,668.40	15.4%
Obligations	21,189.90	20,727.30	-462.60	-2.2%
Other liabilities	3,785.60	4,221.47	435.87	11.5%
Capital	12,655.91	13,853.94	1,198.04	9.5%

Source: General License banks

F. Credit

As of December 2023, the domestic loan portfolio amounted to USD 60.61 billion, representing a 3.4% increase compared to the end of 2022, equivalent to an increase of USD 2.01 billion. Despite the context of interest rate hikes, credit expansion was observed in most portfolios, driven largely by the robust performance of the real economy sectors during the first three quarters of the year. However, a slowdown has been perceived since October, a trend that could continue if economic activity slows down in 2024, which, together with current interest rates, and the burden on corporations and households, could limit the demand for financing.

The household loans segment stood out as the most dynamic, contributing substantially to the overall increase in the portfolio. Within this segment, personal consumption credit rose by 4.5%, and mortgage credit showed an increase of 3.8% year-on-year. These developments are supported by the improvement in the labor market and overall economic activity. However, it is crucial to recognize that a potential economic slowdown could negatively impact these sectors, suggesting closer monitoring to anticipate and mitigate possible risks in credit management.

In the corporate segment, growth, although less pronounced than in the consumer segment, was significant in specific areas such as industry and commerce, with respective increases of 8.0% and 4.6%. These increases are relevant not only for their direct contribution to the loan portfolio but also for the fundamental role these sectors play in the broader economy. The relevance of the industrial and commercial sector lies both in their proportion with the corporate portfolio and in their capacity to improve overall economic performance.

On the other hand, sectors such as livestock, construction, and financial and insurance showed negative performance, which require a detailed assessment to understand the underlying causes and adjust loan strategies as needed.

This analysis suggests that, while domestic corporate banking continues to support economic growth through credit expansion, it is imperative to maintain prudent risk management and continuous monitoring of macroeconomic and sectoral conditions. Such an approach will not only optimize the performance of the credit portfolio, but also ensure the resilience and sustainability of the banking system in the face of potential economic adversities.

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

Sector	December 2022	December 2023	Dec. 23/Dec. 22 Difference	
			Total	%
TOTAL	**58,586**	**60,604**	**2,017.6**	**3.4%**
Public sector	**1,492**	**1,529**	**37.2**	**2.5%**
Private sector	**57,094**	**59,074**	**1,980.4**	**3.5%**
Financial & insurance activities	1,982	1,830	-151.9	-7.7%
Agriculture	488	494	5.8	1.2%
Livestock	1,320	1,316	-3.3	-0.3%
Fishing	122	132	10.3	8.5%
Mining & Quarrying	46	57	10.8	23.1%
Commerce	11,672	12,210	538.9	4.6%
Industry	3,517	3,799	281.1	8.0%
Mortgages	19,797	20,563	765.6	3.9%
Construction	5,080	5,015	-64.8	-1.3%
Personal consumption	13,069	13,657	588.0	4.5%

Source: General License banks

The new loan portfolio totaled USD 22.77 billion, with a 7% growth, which was positive, but shows the impact of recent national events, as the previous two years reflected double-digit growth, and the volume is still below the closing of 2019. The sectors with the highest share in new loans were the commercial sector (including services), with 43%, followed by consumption with 12%, and industrial with 11%.

While this performance has been positive, the outlook could be affected by factors such as an economic slowdown, with effects on formal employment, and an increase in inflation, which could moderate the current credit momentum. Therefore, it is crucial that consumers and corporations assume credit obligations responsibly, where financial sustainability and prudent risk management prevail to avoid greater financial burdens in the future.

Regarding the CBI's portfolio quality as of December 2023, a non-performing loan (NPL) ratio of 4% is reported, of which 1.6% is represented by loans with 30 days or more past due, while loans with 90 days or more past due account for 2.4%. This performance reflects a higher percentage of arrears compared to pre-pandemic periods. Initiative-taking risk management and the ability to adapt to a constantly changing economic environment will be key to preserving the CBI's stability and promoting its sustainability in the face of future challenges.

A recent decrease has been observed in the coverage of reserves for non-performing and overdue loans. The coverage of accounting provisions for overdue loans decreased to around 107% compared to the 140% recorded a year earlier. It is important to note that although current provisions and collateral 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 dynamic and initiative-taking risk management to adapt to unforeseen events, such as those presented by the current situation. These strategies help mitigate potential negative impacts which are fundamental to preserving financial stability and the long-term sustainability of financial institutions.

G. Deposits

In terms of deposits, in 2023, the International Banking Center consolidated its position as a regional financial center, recording a year-on-year increase of 6.8%, totaling USD 105.12 billion. This performance was driven by a 3.5% rise in domestic deposits and a 12.8% growth in foreign deposits, reflecting the confidence of both domestic and international clients in the strength and stability of the Panamanian banking center.

By region, domestic deposits increased by USD 2.17 billion during the period covered by this report compared to the same period in 2022. As for foreign deposits, a year-on-year increase of USD 4.58 billion was observed, reaching USD 40.32 billion. These deposits represent 38.4% of the total in the International Banking Center. Colombia has stood out as the main country of origin of these deposits, followed by Costa Rica, Venezuela, the Dominican Republic, and the United States of America. The diversity in the geographical distribution of these deposits reflects the differences in the economic performance and financial policies of each country, but most importantly, it evidences the trust placed by international clients in the banks established in the local market.

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

Accounts	December 2022	December 2023	Dec. 23/Dec. 22 Difference	
			Total	%
Deposits	98,380	105,117	6,738	6.85%
Domestic	62,635	64,798	2,163	3.45%
Government	12,100	13,239	1,139	9.41%
Customer	46,913	48,202	1,290	2.75%
Banks	3,623	3,357	-266	-7.34%
Foreign	35,745	40,320	4,575	12.80%
Government	245	318	73	29.82%
Customer	28,055	31,248	3,193	11.38%
Banks	7,445	8,754	1,309	17.58%

Source: General and International License banks.

Within the domestic financial landscape, the National Banking System shows a similar growth trend to that of the International Banking Center. At the end of December 2023, the SBN recorded total deposits of USD 92.25 billion, marking a significant increase of 6.9% compared to December 2022. This growth is distributed differently between the deposit segments, with an expansion of 3.7% in domestic deposits, and a remarkable increase of 15.5% in foreign deposits (See **Table 9**). The growth rate of foreign deposits, higher than that of domestic deposits, underscores the competitiveness of the national banking system in the global arena, reflecting effective management and a diversification strategy of funding sources that strengthen the liquidity and financial soundness of the system.

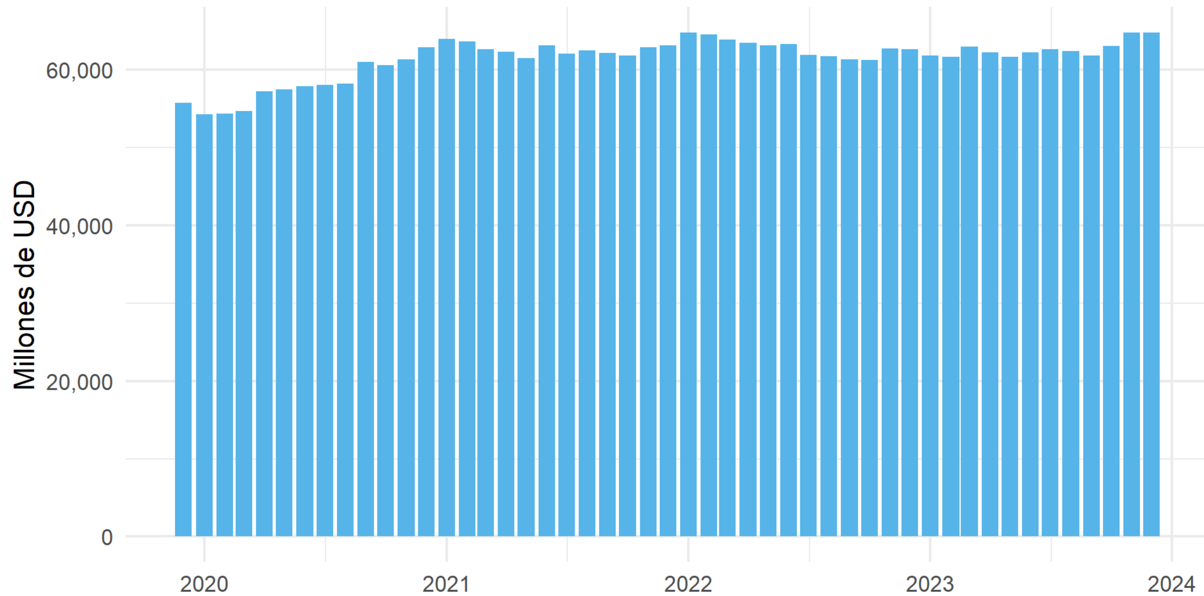
Table 9: National Banking System
Total Deposits
(In millions of USD)

Accounts	December 2022	December 2023	Dec. 23/Dec. 22 Difference	
			Total	%
Deposits	86,292	92,249	5,957	6.90%
Domestic	62,423	64,712	2,289	3.67%
Government	12,100	13,239	1,139	9.41%
Customer	46,912	48,202	1,290	2.75%
Banks	3,411	3,272	-140	-4.10%
Foreign	23,868	27,537	3,668	15.37%
Government	181	250	69	37.93%
Customer	16,721	19,083	2,361	14.12%
Banks	6,966	8,204	1,239	17.78%

Source: General License banks.

It is worth noting that domestic deposits represent 70.7% of total SBN deposits, of which 70.8% correspond to customer deposits. This predominance of customer deposits underscores consumer confidence in the national banking system and reflects a diversified and robust deposit base, crucial for the system's financial stability. The evolution of the balance of domestic deposits is presented in **Graph 4**.

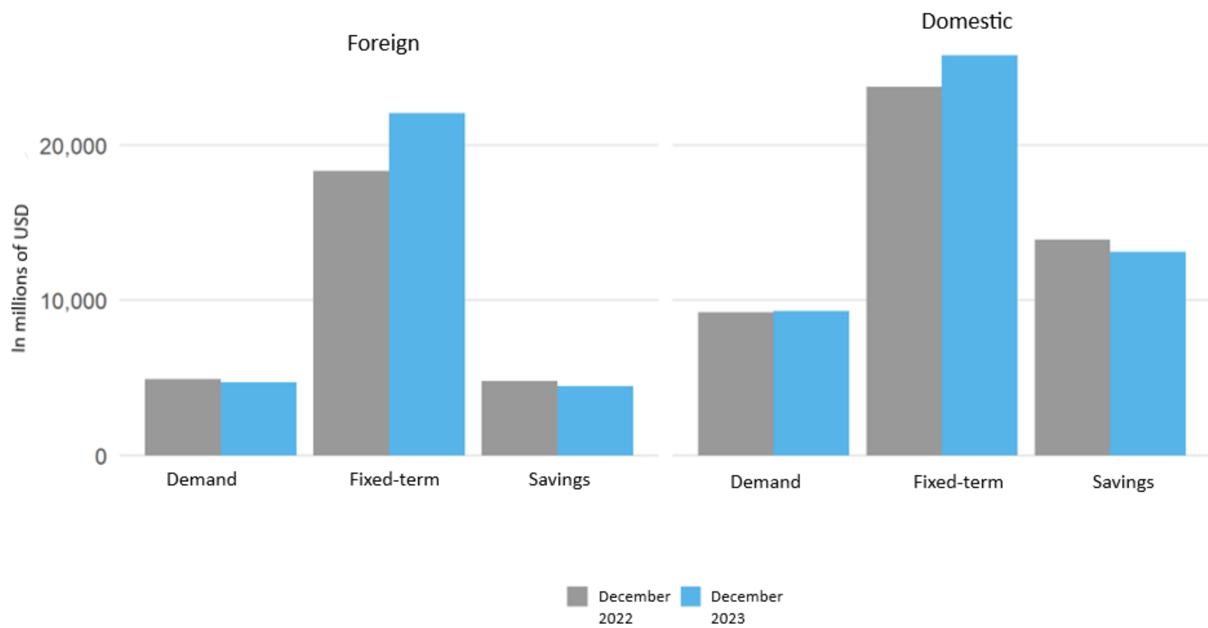
Graph 4: Total Domestic Deposits
December 2019 – December 2023



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. At the end of December 2023, customer domestic fixed-term deposits totaled USD 25.79 billion, evidencing a consistent preference for investment instruments with the potential to offer higher returns, albeit with less liquidity. In contrast, high-liquidity products were reduced. This liability structure not only reflects the savings and investment preferences of individuals, but also indicates a conscious strategy of risk diversification and seeking optimization of risk-adjusted returns.

Graph 5: Customer Deposits
December 2022 – December 2023



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