



Superintendencia
de Bancos de Panamá

Financial Studies Division

Banking Activity Report

December 2019

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I. Domestic Economic Environment

A. Gross Domestic Product

In 2019, the production of goods and services in the Panamanian economy, measured by GDP, showed a growth of 3.0% compared to the previous year. In nominal terms, it reached USD 66.80 billion, representing an annual increase of USD 1.67 billion.

Table 1. Components of GDP by the supply side 2018 – 2019

Sector	Difference (%)		Contributions to the GDP (pp)	
	2018	2019	2018	2019
Mining	3.1%	45.4%	0.1	0.7
Primary sector	3.3%	7.9%	0.1	0.1
Government	10.0%	7.0%	0.6	0.5
Transportation, storage, and communications	6.6%	6.8%	0.9	0.8
Basic services	2.5%	5.1%	0.1	0.2
Financial intermediation	3.2%	3.3%	0.2	0.2
Commerce	3.5%	2.4%	0.6	0.4
Real estate activities	2.1%	0.4%	0.3	0.2
Construction	3.2%	0.1%	0.5	0.0
Hotels and restaurants	-3.1%	-0.2%	-0.1	0.0
Other activities	3.1%	-0.4%	0.2	0.0
Industry	1.5%	-1.5%	0.1	-0.1
Other community activities	4.1%	-1.6%	0.1	0.0
GDP	3.7%	3.0%	3.7	3.0

Source: SBP with CGR data.

The 3.0% growth in 2019 was primarily driven by the Transportation, Storage, and Communications sector, the mining sector, and the general government. Together, these contributed 66.6% to the cumulative growth in 2019 (equivalent to 2.0 percentage points of GDP).

Regarding economic activities related to the external sector, notable performances included the Panama Canal, port activities, and air transport. In the agricultural sector, banana production sustained its growth momentum due to the reactivation of this crucial industry. Despite a decrease, activity in the Colón Free Trade Zone demonstrated a positive performance in the last quarter of the year.

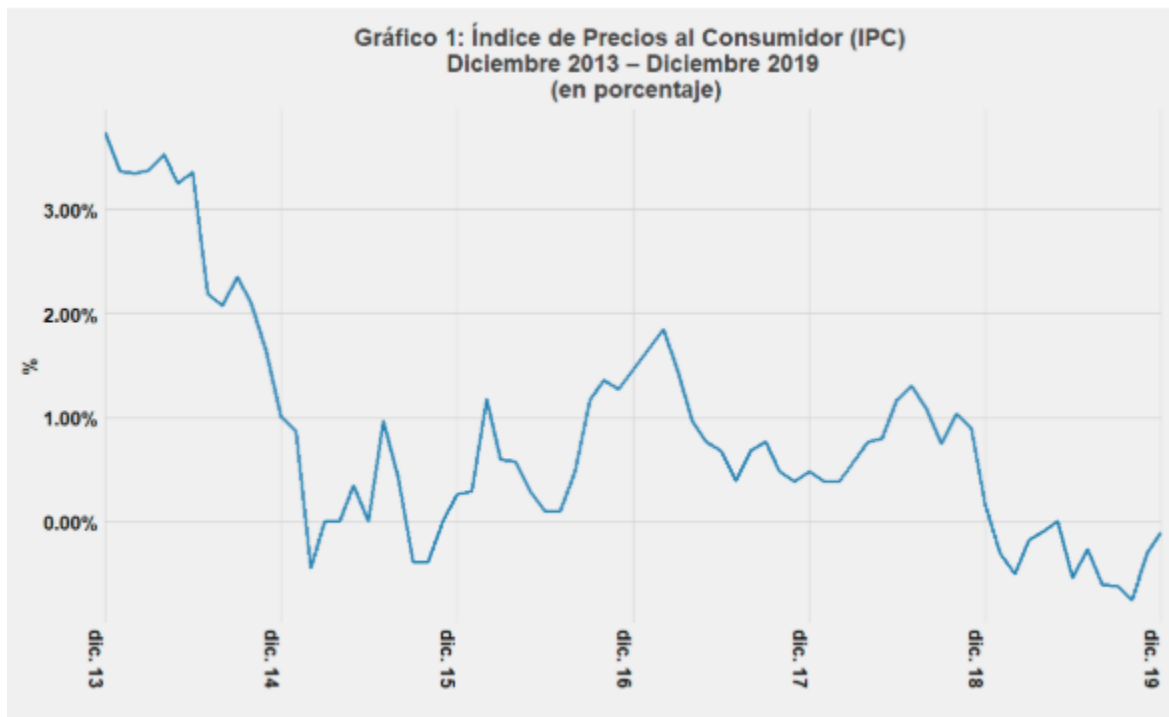
Among activities associated with the domestic economy, the following experienced growth: wholesale and retail trade, regular passenger transport, electricity and water, financial

services, government services, education, and private health. Within the agricultural sector, cattle slaughter stood out.

The growth rate in the fourth quarter of 2019 was 3.3% compared to the same period in the previous year.

B. Consumer Price Index (CPI)

From January to December 2019, the accumulated inflation in Panama decreased by 0.4% compared to that recorded in 2018, according to the most recent report from the National Institute of Statistics and Census (INEC) of the Republic of Panama. According to the report, the National Urban Consumer Price Index (CPI) reflected a year-on-year difference of -0.1%; while in the districts of Panama and San Miguelito and the rest of the urban areas, this year-on-year difference was 0.0%. The National Urban CPI is set at 104.6.



Source: SBP with INEC data.

Comparing the year-on-year difference of December 2019 with December 2018, the INEC report reflects the following decreases: Furniture, household goods, and articles for the ordinary maintenance of the household (-1.3%); Communications (-1.1%); Recreation and culture (-0.8%); Food and non-alcoholic beverages, clothing, and footwear (both -0.4%); Miscellaneous goods and services (-0.2%). On the other hand, the groups that increased that month were: Alcoholic beverages and tobacco (1.5%); Restaurants and hotels (1.3%); Health, transportation, and education (all 0.7%); Housing, water, electricity, and gas (0.2%).

The groups that showed decreases in the National Urban CPI in December compared to November 2019 were Transportation with -0.5%; Furniture, household goods, and articles for the ordinary maintenance of the household, and Recreation and culture, both with -0.4%; Alcoholic beverages and tobacco with -0.2%; Food and non-alcoholic beverages, and Miscellaneous goods and services, both with -0.1%.

II. International Banking Center

The performance of the Banking Center (including general and international license banks) continues to show a system with stable financial fundamentals. The growth of its assets maintains a moderate pace, because of a less favorable external financial environment and moderate local growth.

The net income of the Banking Center reflects an increase of 0.8% as of December 2019, while the efficiency indicators reflect an income capacity of 2.0 times to meet expenses.

On the other hand, the International Banking Center as of December 2019 maintains assets that reach a total of **USD 124.99 billion, which represents an increase of 2.9% or USD 3.49 billion more than what was reported at the end of December 2018. In the case of the SBN (general license banks only), a total of USD 107.94 billion in assets was recorded, which is equivalent to a growth of 3.2%.**

The total deposits presented a balance of USD 88.05 billion, reflecting an increase of 5.5%. The CBI's domestic deposits recorded an increase of 5.8%, or USD 3.07 billion more than that of December 2018. **For their part, foreign deposits increased by 4.3%. It should be noted that the growth of total deposits favored the liquidity conditions of the financial system.** The Banking Center's liquid assets, managed by the banks' treasuries, show an increase of 14.0%.

When analyzing the CBI's operations, it stands out that the investment portfolio increased by USD 1.53 billion, mainly due to the performance of its foreign component, particularly in securities from the United States and the Latin American market.

A. Balance Sheet and Profit Statement

Table 1: International Banking Center

Balance Sheet
(in millions of USD)

International Banking Center	2018	2019	Dec. 19/Dec. 18 Difference	
	December	December	Total	%
Liquid assets	17,840	20,335	2,495	14.0%
Loan portfolio	77,201	76,134	(1,067)	-1.4%
Securities investment	21,687	23,222	1,535	7.1%
Other assets	4,767	5,299	532	11.2%
Total Assets	121,495	124,990	3,496	2.9%
Deposits	83,466	88,057	4,591	5.5%
Obligations	19,970	17,176	(2,794)	-14.0%
Other liabilities	3,332	3,861	528	15.9%
Equity	14,726	15,896	1,170	7.9%

Source: General and international license banks.

We highlight, in the case of the CBI and the SBN, the increase in Equity, which grew by 7.9% and 6.8%, respectively. This improvement enhances the ability of equity to meet the bank's obligations.

The balance sheet of the National Banking System as of December 2019 shows total assets of USD 107.94 billion, reflecting an increase of 3.2%.

Total deposits recorded USD 76.49 billion, reflecting an increase of 4.3%. Liabilities, on the other hand, amounted to USD 15.08 billion, which is 7.4% less than in 2018. This decrease includes financing greater than 186 days and securities issuances. This trend contrasts with a greater growth in deposits, indicating that banks are returning to traditional funding methods.

Table 2: National Banking System
Balance Sheet
(in millions of USD)

International Banking Center	2018	2019	Dec. 19/Dec. 18 Difference	
	December	December	Total	%
Liquid assets	13,528	14,745	1,217	9.0%
Loan portfolio	67,761	68,323	562	0.8%
Securities investment	18,810	19,853	1,043	5.5%
Other assets	4,477	5,028	551	12.3%
Total Assets	104,576	107,949	3,374	3.2%
Deposits	73,340	76,498	3,158	4.3%
Obligations	16,294	15,085	(1,209)	-7.4%
Other liabilities	3,096	3,719	623	20.1%
Equity	11,846	12,647	802	6.8%

Source: General license banks.

The profit of the International Banking Center totaled USD 1.85 billion, representing a 0.8% growth.

Table 3: International Banking Center
Profit Statement
(in millions of USD)

International Banking Center	Dec. 18	Dec. 19	12-month % diff.	Total diff.
Net interest income	2,800	2,774	-0.9%	-26.0
Other income	2,257	2,265	0.4%	8.6
Operating income	5,057	5,039	-0.3%	-17.4
General expenses	2,614	2,546	-2.6%	-67.7
Profit before provisions	2,443	2,493	2.1%	50.2
Provisions for bad debt	608	643	5.8%	35.3
Income for the period	1,835	1,850	0.8%	15.0

Source: General and international license banks.

The Banking System, on the other hand, shows a decrease in its profits due to a contraction of the Other Income component and the creation of provisions within the framework of prudent management and adherence to regulations. Profits decreased by 5.5% compared to the 2018 period, without ceasing to be a profitable activity. It should be noted that the reduction in dividend income was due to private banking.

Table 4: National Banking System
Profit Statement
(in millions of USD)

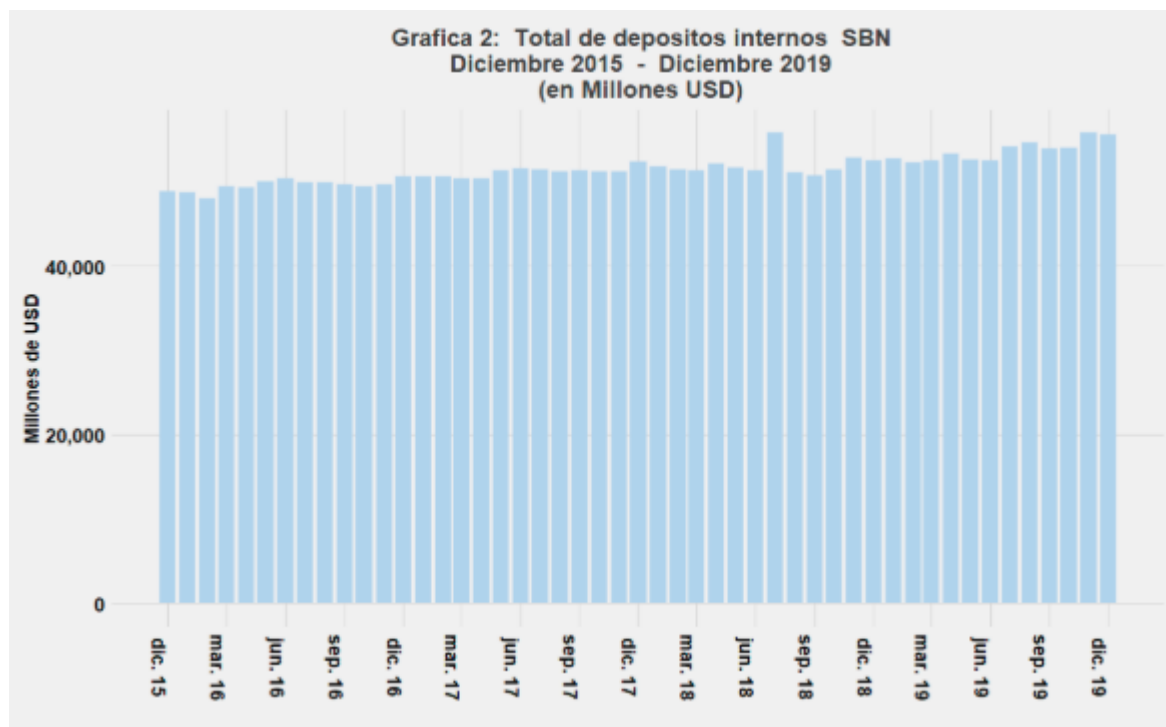
National Banking System	Dec. 18	Dec. 19	12-month % diff.	Total diff.
Net interest income	2,533	2,540	0.3%	6.5
Other income	1,919	1,891	-1.5%	-28.2
Operating income	4,452	4,430	-0.5%	-21.7
General expenses	2,359	2,369	0.5%	10.9
Profit before provisions	2,096	2,061	-1.6%	-32.7
Provisions for bad debt	589	639	8.6%	50.8
Income for the period	1,505	1,421	-5.5%	-83.5

Source: General license banks.

B. Deposits

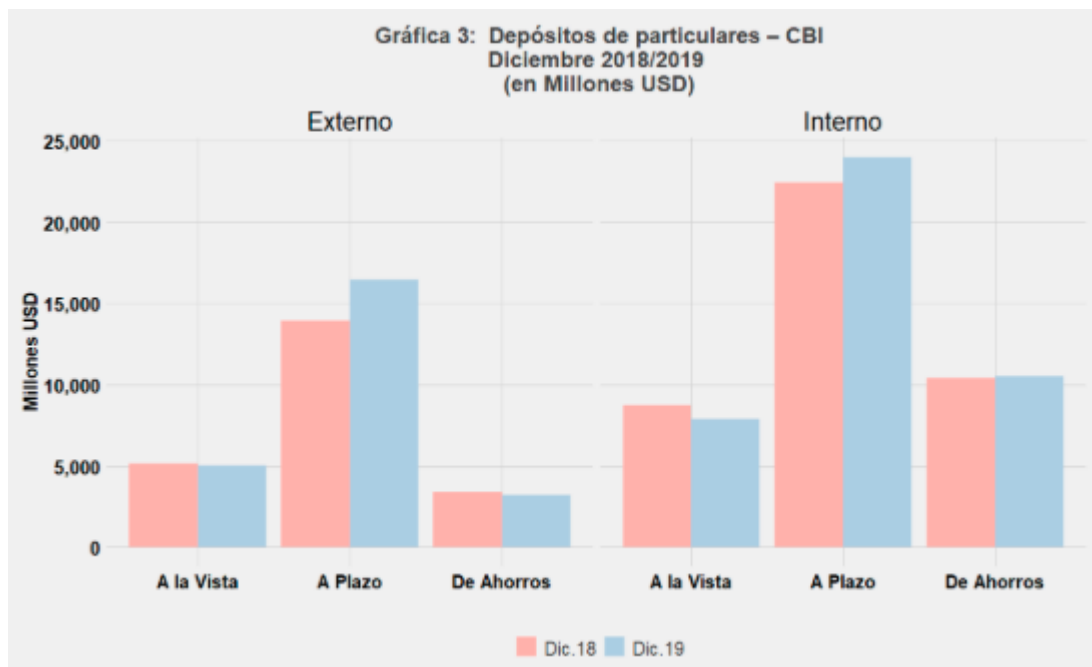
The International Banking Center's domestic deposits show an increase of 6.0%, which amounts to USD 3.18 billion more than that of December 2018.

The National Banking System's domestic deposits represent 72.9% of the total system deposits. Table 5 displays the year-on-year evolution of the balance of domestic deposits.



Source: General license banks.

As of December 2019, domestic customer deposits increased by 1.9%, driven by the performance of time deposits, which experienced a growth of 6.7%. Meanwhile, savings accounts increased by 1.1%, and demand deposits showed a decrease of 9.4%.



Source: General and international license banks.

Table 5: Summary of Domestic Deposits - CBI
December 2018 - 2019
(in millions of USD)

Accounts	2018	2019	Dec. 19/Dec. 18 Diff.	
	December	December	Total	%
Deposits	83,466	88,057	4,591	5.50%
Domestic	52,666	55,846	3,180	6.00%
Government	8,090	10,419	2,328	28.80%
Customers	41,599	42,399	800	1.90%
Demand	8,726	7,910	-816	-9.40%
Time	22,458	23,955	1,497	6.70%
Savings accounts	10,416	10,534	119	1.10%

Source: General license banks.

C. Loans

Domestic loans to the private sector show a growth of 2.2% compared to the same period of the previous year. The sectors that drive domestic loans in absolute terms are associated with retail banking products, especially in the mortgage (4.9%) and personal loan (4.7%) sectors.

Table 6: National Banking System
Domestic loan portfolio by sectors and activities
(in millions of USD)

Sector	2018	2019	Dec. 19/Dec. 18 Diff.	Dec. 19/Dec. 18 Diff.
	December	December	Total	%
TOTAL	54,119	55,212	1,092	2.0%
Public sector	575	463	(112)	-19.4%
Private sector	53,545	54,749	1,204	2.2%
Finance & insurance activities	1,484	1,677	193	13.0%
Agriculture	476	410	(66)	-13.9%
Livestock	1,305	1,326	20	1.6%
Fishing	89	86	(3)	-2.8%
Mining & quarrying	33	55	22	66.2%
Commerce	11,287	11,207	(79)	-0.7%
Industry	3,361	3,299	(63)	-1.9%
Mortgages	16,984	17,819	835	4.9%
Construction	6,506	6,288	(218)	-3.3%
Personal consumption	12,020	12,582	562	4.7%

Source: General license banks.

1. Residential Mortgage Loan Portfolio

The mortgage credit continues to show positive signs for the banking sector, recording a growth of 4.9% compared to December 2018. This is equivalent to an increase of USD 835 million and maintains it as one of the activities that contribute the most to growth within the local credit sector.

It is worth noting that preferential interest housing is the segment that has driven the performance of mortgage lending. For December 2019, this component had a balance of USD 6.03 billion, with a year-on-year growth of USD 958 million (15.5%).

Table 7: National Banking System
Residential Mortgage Loan
(in millions of USD)

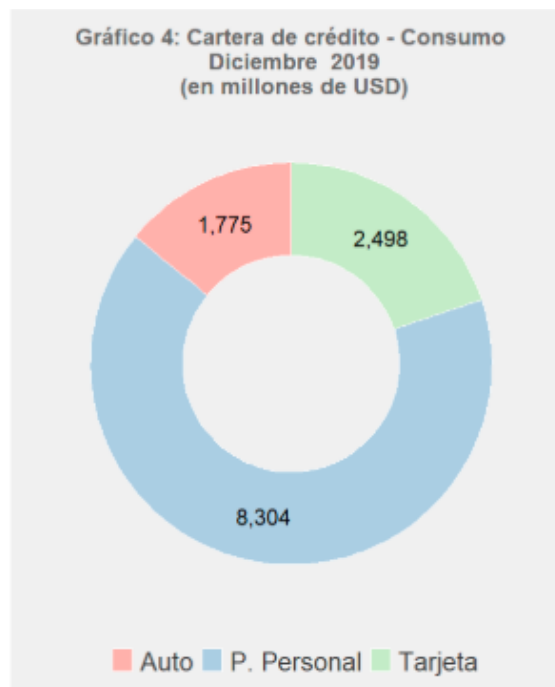
	Main Residence		Second home mortgages	Mortgage loans
	Preferential Law	Non-preferential Law	Non-preferential Law	
Dec. 15	3,943	6,868	593	11,404
Dec. 16	4,106	7,910	778	12,794
Dec. 17	4,710	8,491	882	14,083
Dec. 18	5,223	8,732	968	14,923
Dec. 19	6,030	8,785	1,064	15,880

Source: General license banks.

2. Personal Consumption Portfolio

The domestic consumption portfolio (including credit cards, personal loans, and car loans) represents 23% of the total domestic private portfolio, which is crucial for loan growth, amounting to 4.7% or USD 562 million in total values as of December 2019.

The Personal Consumption Portfolio mainly comprises personal loans, accounting for 85.9% of the total, which includes credit cards. Car loans represent the remaining 14.1%.



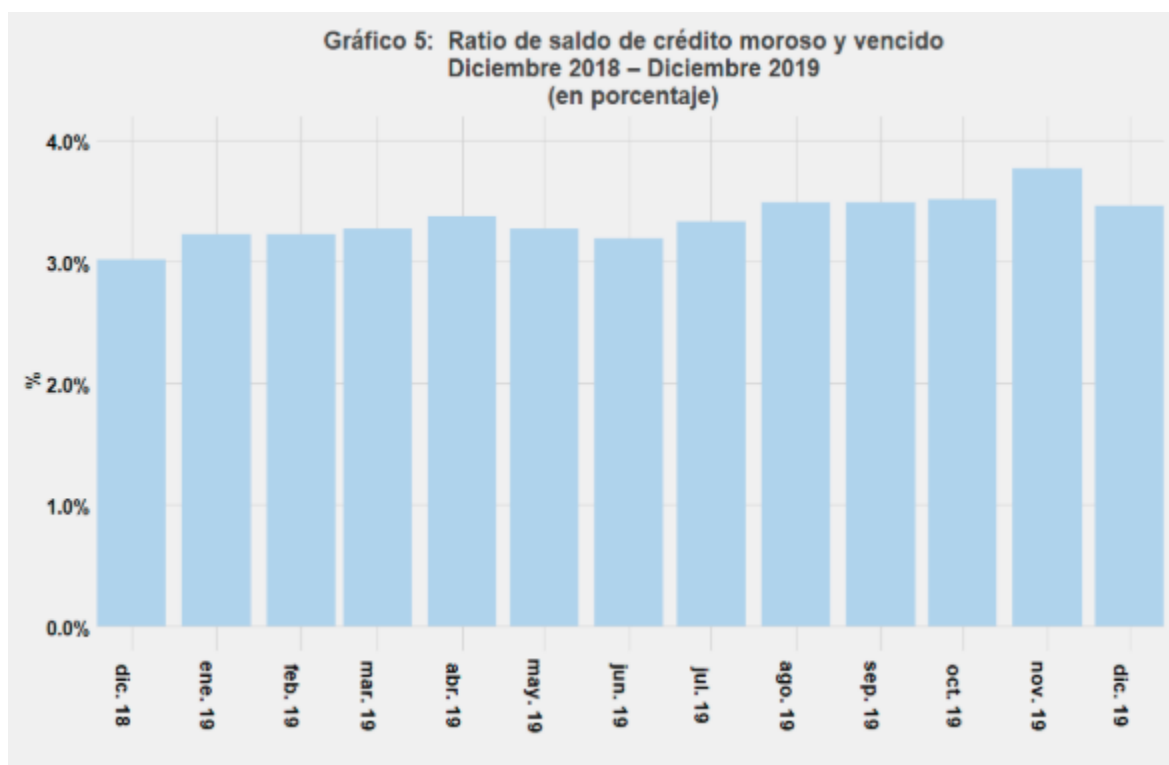
Source: General license banks.

3. Commercial Sector Portfolio

The commercial portfolio, specifically for the wholesale and retail sectors, shows a growth of 0.3%, equivalent to USD 14 million. On the other hand, credit for wholesale activities destined for the Colón Free Trade Zone shows a negative trend compared to the same period a year ago.

D. Portfolio quality

In terms of domestic portfolio quality indicators, non-performing loans with arrears of more than 90 days represent 2.2% of the domestic portfolio. On the other hand, loans with delinquent status between 30 and 90 days also represent 2.2% of the domestic portfolio. This performance still falls within the ranges considered low risk in the region."



Source: General license banks.

The regulatory framework requires banks to exhaustively analyze the cash flow capacity of debtors and to take prudential actions to create specific reserves showing the real value of loan performance. It is worth noting that a recent improvement in this indicator has been observed.

As is well known, banks require real collateral in their loan management process to mitigate potential impairments in loan exposure. Data as of December 2019 show increases in accounting provisioning to equaling provision levels of USD 1.44 billion, representing a USD

145 million or 11% growth compared to the same period in 2018. This demonstrates the banks' conservative management in covering loan exposure operations (IFRS 9).

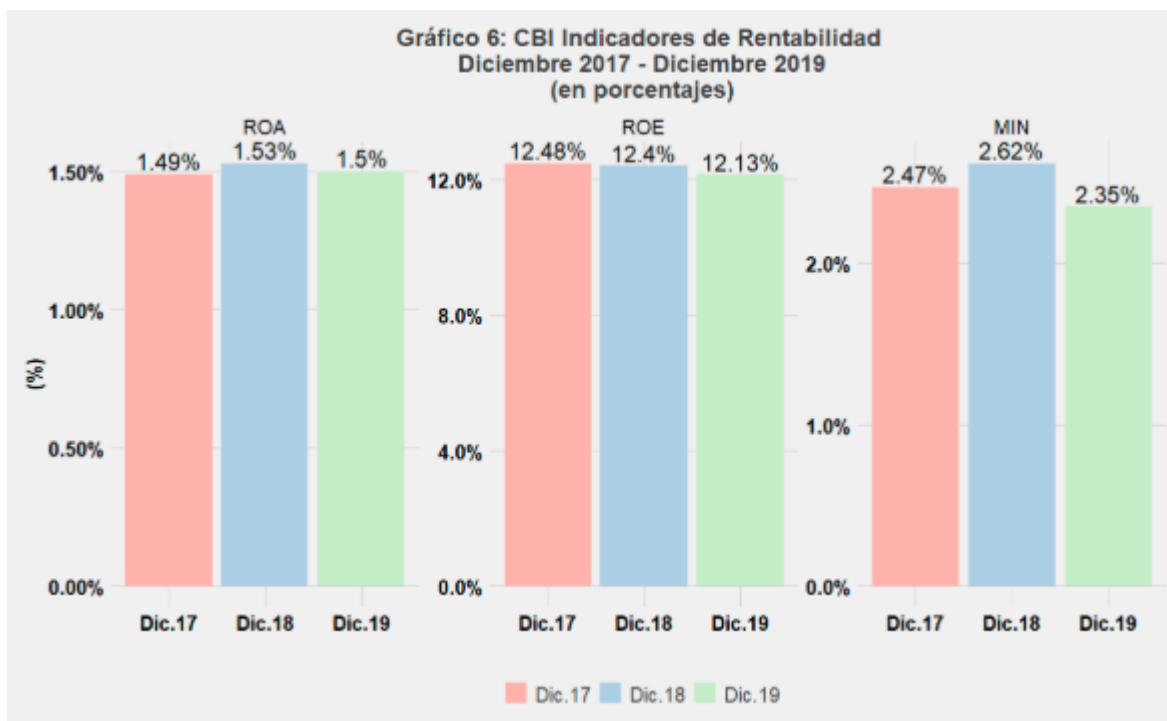
As of 2012, banks in the Banking Center are required to report financial statements using IFRS criteria. Therefore, in addition to calculating regulatory provisions under Rule 4-2013, they must also calculate provisions under IFRS. Any difference in favor of regulatory provisions must be shown as Equity Reserve.

IFRS 9, effective since January 2018, introduced a significant change in the calculation of provisions. Unlike IAS 39, which was based on incurred losses (objective evidence of deterioration), IFRS 9 mandates that provisions must be calculated based on expected losses that operations may present.

Additionally, dynamic provisions were created to cover the increase in all loans lacking assigned specific provisions, i.e., loans classified as normal.

E. Profitability indicators

The return on assets (ROA) for the International Banking Center registered 1.50% as of December 2019, while the same indicator for the National Banking System (general license banks only) registered 1.35%.



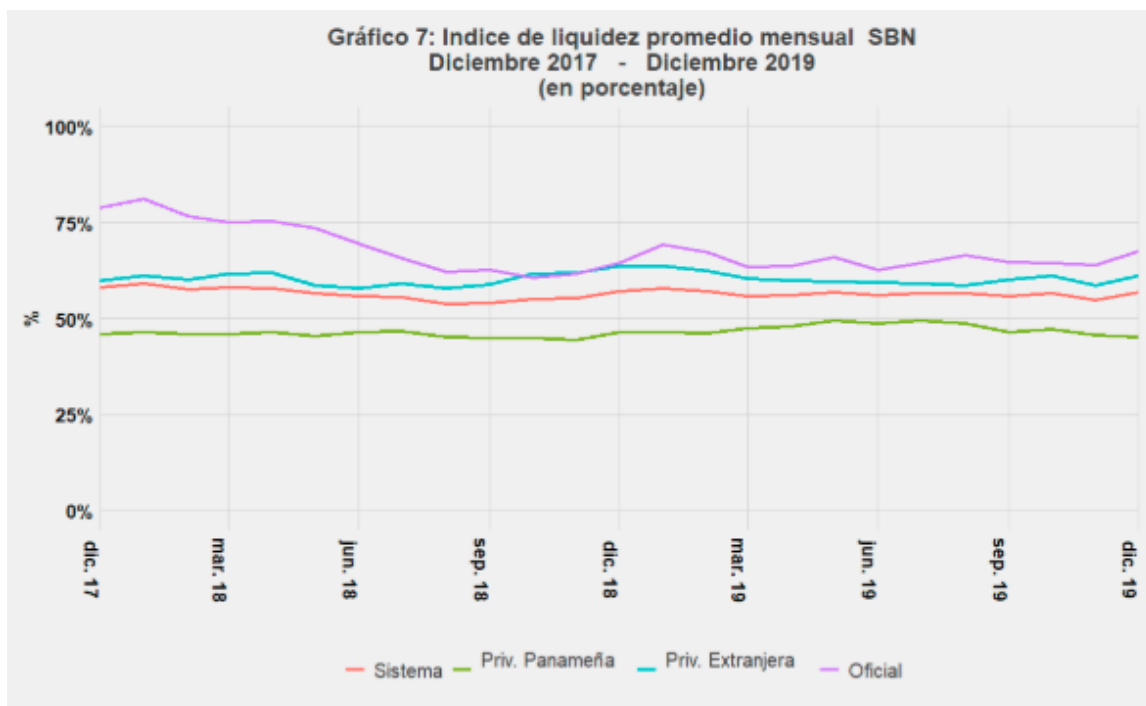
Source: General and international license banks.

Earnings have evolved hand in hand with profitability on equity (ROE) in the International Banking Center. The ROE, which measures the return to shareholders for each dollar invested, registered 12.13% for the CBI. It is worth noting that both indicators have consistently improved and demonstrate, in a complementary manner, positive earnings performance.

F. Liquidity

As of December 2019, the monthly average liquidity ratio for the CBI was 61.2%, almost double what is legally required. For the National Banking System (general license banks only), the liquidity ratio was 56.8%. By type of banking, the average was 67.6% for state-owned banks, 61.0% for foreign private banks, and 45.1% for Panamanian private banks. The strong liquidity position should permit banks to comfortably face short- and medium-term maturities.

The sensitivity analysis, conducted through liquidity stress-testing, suggests that the Panamanian Banking System currently holds rapidly convertible cash assets. This test resulted in banks maintaining liquidity levels higher than those required by regulation, even in restrictive scenarios. It is noteworthy that greater total deposit growth benefits the liquidity conditions of the financial system.



Source: General license banks.

Within the new liquidity provisions, the **Short-Term Liquidity Coverage Ratio (LCR)** was established. This ratio ensures that banks have an adequate fund of high-quality, liquid, and

unencumbered assets that can be easily and immediately converted into cash in the markets to cover their needs in a 30-day liquidity stress scenario.

Rule 2-2018 includes an implementation schedule that began in December 2018 and will be finalized in December 2022. This regulation specifies that the liquidity coverage ratio (LCR) will be applicable at either 100% or 50%, depending on the criteria set by the SBP for each bank.

As of now, **out of the total number of banks required to have 100% implementation (31 banks), 26 banks are already in full compliance**, while the remaining 5 banks have an average compliance rate of 80.94%. On the other hand, **out of the 14 banks required to meet a minimum of 50% implementation, all currently comply with the regulations**.

G. Solvency:

The Panamanian banking system has made significant progress, including elements such as the definitions of basic capital and additional capital (aligned with the definitions of Tier 1 and Tier 2) and the treatment of hybrid bonds. It has also established the minimum basic capital at 4.5%.

Currently, all banks in operation satisfactorily comply with the new regulatory standards on bank capital.

It is worth noting that the capital adequacy of banks has consistently increased alongside rises in equity, thereby enhancing the capacity of equity to meet the bank's obligations. Currently, the capital adequacy ratio of the Center nearly doubles the regulatory requirement of 8%. **The Capital Adequacy Ratio reaches 15.4% as of December 2019, indicating that the capital adequacy provisions include specific coverage for Credit Risk, Market Risk, and Operational Risk.**

III. New Banking Regulations

Below, we have included the most recent regulatory changes to date for the stability of the system, particularly in accounting, risk management, and AML/CFT/WMD.

These changes comprise a set of measures that form part of the agenda adopted by the Superintendency of Banks to enhance the quality of capital, assess the risks to which banks are exposed, align with International Financial Reporting Standards, and remove the Republic of Panama from discriminatory and non-cooperative jurisdiction lists. Currently, the SBP has approved regulations on market risk, operational risk, the short-term liquidity coverage ratio (LCR), and derivative instruments, among others, with some already undergoing implementation according to the schedule developed by the SBP.

Similarly, all information regarding current banking regulations in Panama is available on the SBP's website. The Superintendency of Banks' URL address is <http://www.superbancos.gob.pa>.

Table 1: Recent Regulations

Document	Topic
2017 -2019	
Rule 14 (2019)	Amends the percentage set in Article 20 of Rule 4-2008 on the legal liquidity index. Requires general license banks to maintain assets in Panama equal to sixty percent (60%) of their domestic deposits.
Rule 13 (2019)	Amends Article 3 of Rule 6-2018 updating the special services fees. Adds the collection of fees for requests to acquire or transfer trust shares.
Rule 12 (2019)	Prescribes new provisions on securities investment. Upgrades the regulatory framework for securities investment to international regulatory standards.
Rule 11 (2019)	Amends Article 27 of Rule 4-2013 on credit risk management and administration inherent in loan portfolio and off-balance sheet operations.
Rule 10 (2019)	Adds Article 8-A to Rule 6-2009 on the risk concentration limits to economic groups and related parties. Recognizes an exception in the application of Article 7 of Rule 6-2009 to bank holding companies of banks for which the Superintendency of Banks of Panama is home supervisor, in the case of loans granted on

	exposures of sovereign debt of the country in which the parent company is located.
Rule 9 (2019)	Amends Article 2 of Rule 6-2012 on accounting technical standards applied by Banks established in Panama. Allows bank holding companies to use the US Generally Accepted Accounting Principles (US-GAAP) for reporting financial statements, if the banking group's characteristics justify its use and [the entity] receives prior authorization from the Superintendency of Banks.
Rule 8 (2019)	Adds Article 11-A to Rule 5-2011 on Corporate Governance. Further develops the provisions of Law 56 of 2017 and Executive Decree 241-A dated 11 July 2018 by means of which banks are required to appoint women to a minimum of thirty percent (30%) of the positions on its board of directors.
Rule 7 (2019)	Amends Article 1 of Rule 5-2015 on the prevention of the misuse of services rendered by other reporting entities supervised by the Superintendency of Banks. Article 1 is amended to remove money service businesses and exchange bureaus from the scope [of this rule], as exclusive rules for these entities were issued providing guidelines on AML/CFT/WMD.
Rule 6 (2019)	Amends Rule 3-2018 establishing capital requirements for financial instruments registered in the trading book. Aspects related to the trading book and market risk management were amended. Additionally, it requires the Boards of Directors of banks without securities investments to submit a sworn statement certifying that the bank does not have any trading instruments to which the capital requirement calculation must be applied.
Rule 5 (2019)	Guidelines for Banks and trust companies providing services as alternate insurance marketing channels. Establishes the guidelines that must be met by banks and trust companies providing services as alternate marketing channels (of companies that are not part of their economic group) when providing and promoting the products of an insurance company, to avoid confusion with direct banking and trust activities.
Rule 4 (2019)	Amends Article 2 of Rule 6-2017 on shared banking.

	Amends Article 2 of Rule 6-2017 to exempt banks providing services as alternate marketing channels for insurance from the prohibition on the use of front office areas and staff.
Rule 3 (2019)	By means of which the Technical Appendix of Rule 11-2018 on new provisions on operating risk was amended.
Rule 2 (2019)	<p>Amends Rule 10-2015 on the prevention of the misuse of banking and trust services.</p> <p>By means of Articles 1 and 2 of Rule 2-2019, Articles 14 (Customer profile for individuals) and 15 (Customer profile for legal entities) are amended, specifically to strengthen due diligence to improve AML risk management by including the risk of tax evasion. For individuals, the customer's tax number for the country or countries of tax residence will be required. In addition, a sworn statement will be required certifying that the inflow and outflow of money complies with and will comply with the tax obligations of the country or countries of tax residence.</p> <p>For legal entities, the tax identification number will be required, along with a sworn declaration stating that the inflow and outflow of money complies with and will comply with the tax obligations of the country or countries of tax residence. Additionally, for those cases in which the country has entered into automatic exchange of information agreements, the final beneficiary's tax number for the country or countries of tax residence will be required.</p> <p>Similarly, the Rule provides that for Panamanian or foreign legal entities conducting foreign operations and holding accounts in banks in Panama, the bank must request a sworn statement certifying that the money deposited in these accounts has complied with and will comply with the relevant tax obligations.</p>
Rule 1 (2019)	Red flags catalog for the detection of operations related to the Financing of Terrorism.



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