



Banking Activity Report

January 2023

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Executive Summary

During the first month of 2023, the International Banking Center (CBI, for its acronym in Spanish) performed resiliently, continuing its post-pandemic recovery in a context of uncertainty and a more complex international scenario due to tighter financial conditions, characterized by widespread increases in global interest rates.

The latest data shows that banks maintain adequate capital and liquidity ratios and continue to exhibit a system with stable financial fundamentals. The Superintendency of Banks of Panama (SBP, for its acronym in Spanish) continues to intensively monitor banks' liquidity considering recent events in the U.S. and European financial markets. Currently, the Panamanian Banking System has sufficient liquidity to expand credit using its own resources if there are creditworthy borrowers. As of the end of January 2023, the liquidity of the National Banking System (SBN for its acronym in Spanish) reached 57.3%, which comfortably exceeds the regulatory minimums in this regard. The results of the recent update of the SBP's solvency stress tests demonstrate that the financial system continues to display signs of soundness and resilience at the face of negative macroeconomic shocks. The latest Capital Adequacy Ratio (CAR) shows that CBI's solvency ratios maintained a strong position. The CAR on Risk-Weighted Assets (RWA) stood at 15.34%, surpassing the regulatory minimum of 8%.

The assets of the CBI totaled USD 139.84 billion, representing an increase of USD 4.87 billion compared to January 2022, a year-on-year growth of 3.6%. The expansion rate of banks' assets accelerated due to the greater growth in the net credit portfolio (12.1%) and the securities portfolio (7.3%).

As of January 2023, the National Banking System recorded growth in the domestic credit gross portfolio, which reached a balance of USD 58.64 billion, reflecting a 6.0% increase compared to the data reported a year earlier, equivalent to a USD 3.33 billion growth over the course of one year. The recovery of lending to the private sector has been supported by an increased flow of loans to the corporate and household sectors. Going forward, the strong performance of the labor market and consumer confidence will remain crucial factors in driving credit portfolio expansion. However, to maintain its quality, it will be essential to uphold prudent lending practices that contribute to a sustainable growth in the portfolio.

In January 2023, the CBI reported a delinquency ratio of 4.1%, with 1.8% representing loans with arrears of 30+ days, and 2.3% loans with arrears of 90+ days. Given the context of rising interest rates and other external risks, some deterioration in the portfolio quality indicator is expected in 2023 due to a less favorable operating environment and the maturity of consumer loans. Provisioning for impaired loans reached 120%. Banks' capital buffers and provisioning have been strengthened through the regulatory framework established by the SBP in recent years, including higher capital and provisioning requirements and improved quality capital elements, aligning with international standards such as Basel III, which can be crucial in maintaining a sound credit portfolio quality.

As of January 2023, the profits of CBI banks totaled USD 166.8 million, indicating a 27.6% increase compared to the same period 12 months ago. The portfolio condition, along with lower provisioning expenses, primarily due to significant increases in provisions made in 2020 to anticipate pandemic-related losses, allowed banks to sustain profitability despite a reduction in non-recurring income. While there has been a slower growth rate in provisions, banks continue to maintain an adequate provisions buffer, although it has decreased compared to 2021 and 2022 as it has been utilized to recognize losses, primarily in loans that were restructured within the modified loss loans portfolio.

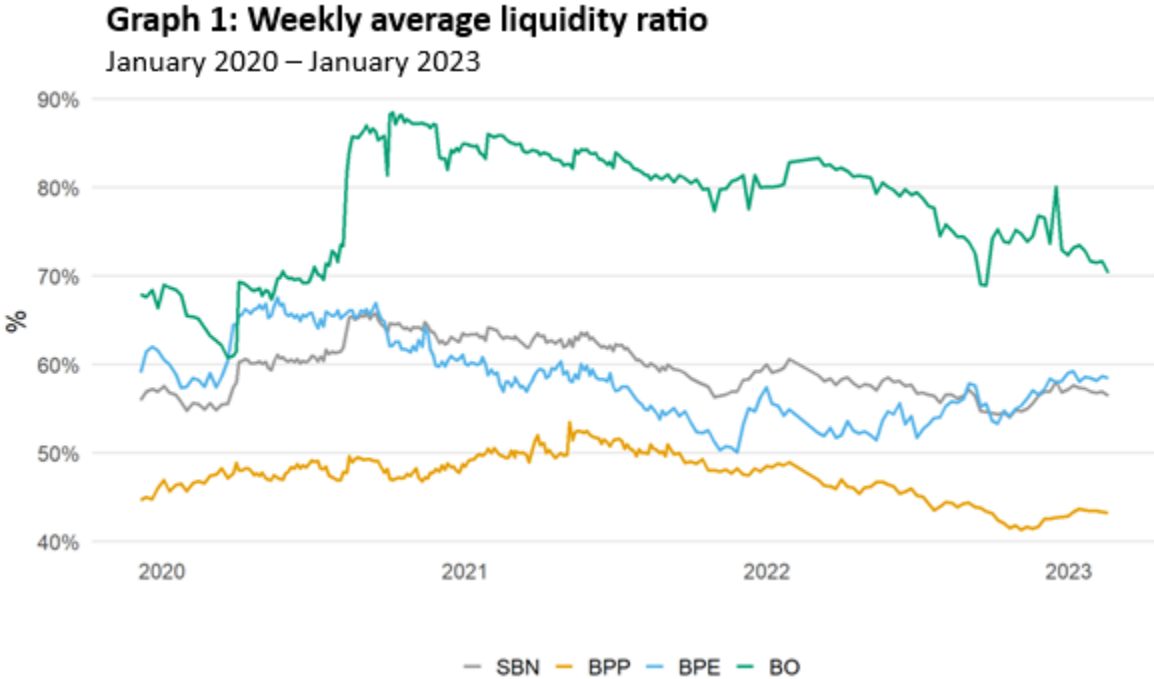
The balance of CBI bank deposits for January 2023 amounted to USD 98.38 billion, reflecting a reduction of USD 175.6 million (-0.2%) compared to January 2022, thus breaking the recovery trend observed at the end of December 2022 (when the annual real growth rate was 1.4%). Regarding deposit types, the balance of demand and savings deposits, those can be withdrawn at any time, has been slowing down, potentially due to increased household current spending and meeting commercial requirements. On the other hand, term deposits remain the most active deposit component, experiencing a 3.9% growth in the annual difference. During the surveyed period, term deposits exhibited an accelerated expansion rate, driven by the attractiveness of higher interest rates, which made saving through this type of instrument more appealing.

Regarding the rescue of Silicon Valley Bank (SVB) in the U.S., the SBP reports that, based on evaluations conducted, this entity does not have a significant direct impact on credit institutions. Credit institutions do not hold deposits or direct investments in SVB, and there are no operations in the portfolio involving SVB as counterparty. While correspondent agreements exist with UBS and Credit Suisse, the banks involved have other relationships that would allow them to continue their operations smoothly. It is important to note that this is an evolving situation, and therefore, prudent monitoring of market operations and positions, as done internationally, will be crucial in making appropriate decisions in the short- and medium-term. Considering that these events could lead to increasing risk aversion and devaluations, the SBP will enhance its supervision of banks and their banking groups, as deemed necessary.

In conclusion, as of the end of January 2023, banks demonstrate resilience despite facing challenges in a more complex economic environment and lending scenarios. Banks are capable of mitigating risks during the current circumstances.

A. Liquidity

At the end of January 2023, the liquidity of the Banking System reached 57.3%, exceeding the regulatory minimums in this regard. Currently, local banks are in a strong position in terms of regulatory requirements, which enables them to navigate market volatility. Banks within the National Banking System have consistently maintained robust liquidity buffers and reliable access to structural and wholesale deposits, which are crucial for their funding. It should be noted that all banks operating within the Panamanian CBI are required to comply with Basel III requirements, including regulatory provisions such as the Liquidity Coverage Ratio (LCR), which measures their capacity for emergency or survival funding over a 30-day period. The latest figures indicate that the ratio of deposits and expectations compared to high-quality liquid assets comfortably exceeds the regulatory minimum, and its term structure is appropriate. It is important to note that there has been a slight decrease in ratios compared to the levels reached in 2022, the financial system maintains adequate liquidity ratios with sufficient resources to meet short-term liquidity needs and facilitate ongoing credit growth. Previous reports have forecasted a reduction in banks' liquidity levels as economic performance recovers and the credit portfolio expands, but these levels are still considered healthy given the environmental risks. The recorded decreases can largely be attributed to increased credit issuance.



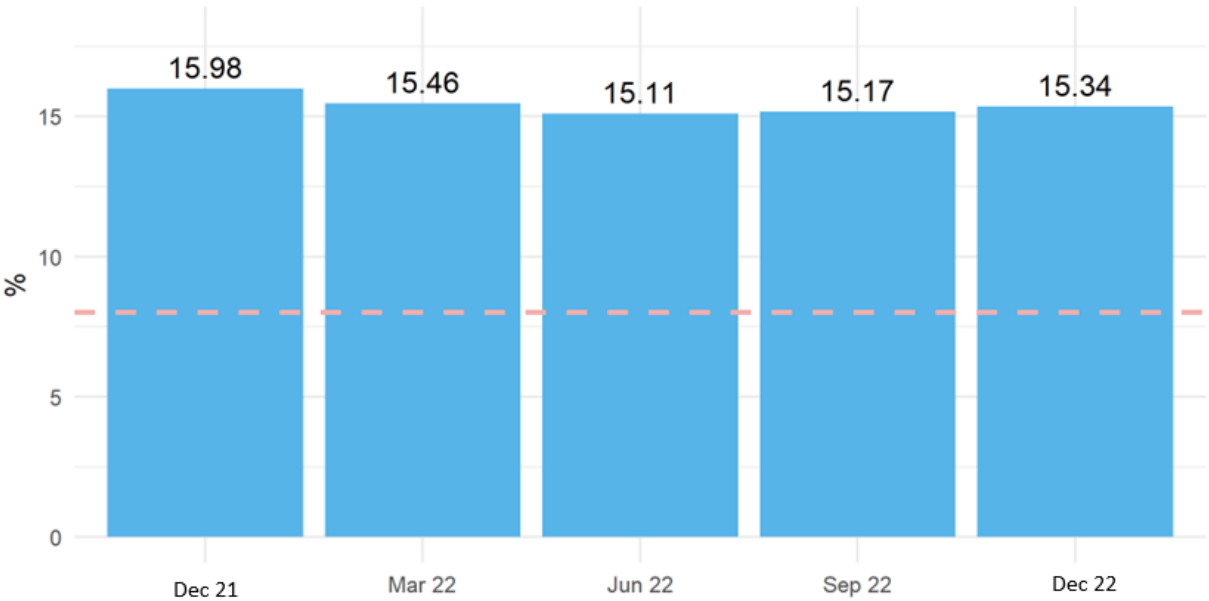
Source: General License Banks

B. Solvency

The latest Capital Adequacy Ratio (CAR) indicates that the aggregate solvency ratios of CBI remain in a strong position. The CAR on risk-weighted assets (RWA) stands at 15.34% (see **Graph 2**), surpassing the regulatory minimum of 8%. There have been no significant changes in the capital of the group of banks compared to the previous quarter.

The decrease that has been recorded in recent years is due to the increase in RWAs driven by the performance of loans to the private sector and a reduction in capital funds. This decrease in capital funds is the result of the use of the dynamic provision that has been allowed since the publication of Circular No. SBP-DR-0124-2020 dated 15 April 2020, and previously by the stipulations of Article 5 of Rule 2-2020 dated 16 March 2020. Currently, all banks operating within the CBI comply satisfactorily with the new bank capital regulatory standards.

Graph 2: Capital Adequacy Ratio
December 2021 – December 2022



Source: General and International License Banks

C. Income Statement

As of January 2023, the profits of CBI banks totaled USD 166.8 million, a figure that represents a 27.6% increase in profits compared to the same period 12 months ago.

The portfolio condition, coupled with lower provisioning expenses primarily due to significant increases in provisions made in 2020 to anticipate expected losses from the pandemic, enabled banks to maintain profitability despite a decrease in non-recurring income.

General expenses stood at USD 255.2 million, an increase of 34.3% year-on-year. This increase is partly a response to digitalization initiatives. Banks are well positioned to absorb short-term costs related to increased investment in financial technology, which could enhance efficiency, minimize cyber risks, and promote the development of new products and services. It is expected that banks will continue to allocate resources towards these goals in 2023, primarily focusing on strengthening the platforms and technological infrastructure of financial institutions, as well as investing in specialized support and cybersecurity services.

Net provisioning expenses totaled USD 49.7 million, 17.6% less than that of January 2022. Thus, banks continue to maintain a provision buffer, although it has shown a decrease

compared to 2021 and 2022 due to its utilization in recognizing losses, primarily within the loans restructured under the modified loss loans portfolio. These improvements in CBI bank profitability, coupled with a relatively more conservative risk appetite supported by cautious growth, will likely contribute to the maintenance of capital adequacy metrics in the foreseeable future.

It is expected that in the future, profitability indicators could experience pressure due to lower financial intermediation margins and increased provisioning expenses, considering the growth prospects of the portfolio in an economic context of underperformance. However, the impact of these factors should be limited if economic conditions moderately weaken.

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

International Banking Center	January	January	Difference	
	2022	2023	%	USD
Net interest income	204.4	288.4	41.1%	84.1
Other income	176.8	183.3	3.7%	6.5
<i>Operating income</i>	<i>381.2</i>	<i>471.7</i>	<i>23.8%</i>	<i>90.6</i>
<i>General expenses</i>	<i>190.1</i>	<i>255.2</i>	<i>34.3%</i>	<i>65.1</i>
Profit before provisions	191.1	216.5	13.3%	25.4
Provisioning expenses	60.3	49.7	-17.6%	-10.6
Profit for the period	130.7	166.8	27.6%	36.0

Source: General and International License banks.

The National Banking System recorded accumulated net profits of USD 141.4 million as of January 2023, representing a 17.3% increase compared to January 2022. Like the CBI, the higher level of credit activity and lower provisioning had a positive impact on the sector's profits.

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

National Banking System	January	January	Difference	
	2022	2023	%	USD
Net interest income	192.2	257.6	34.0%	65.4
Other income	161.8	165.7	2.4%	3.9
<i>Operating income</i>	<i>354.0</i>	<i>423.3</i>	<i>19.6%</i>	<i>69.3</i>
<i>General expenses</i>	<i>174.4</i>	<i>232.4</i>	<i>33.3%</i>	<i>58.0</i>
Profit before provisions	179.6	190.9	6.3%	11.3
Provisioning expenses	59.0	49.5	-16.1%	-9.5
Profit for the period	120.6	141.4	17.3%	20.8

Source: General License banks.

In nominal terms, both the CBI and the SBN record financial indicators slightly higher than pre-pandemic levels. It is expected that banks within the System will continue implementing expense control and operational efficiency strategies. Currently, the CBI has achieved an efficiency level of 54%.

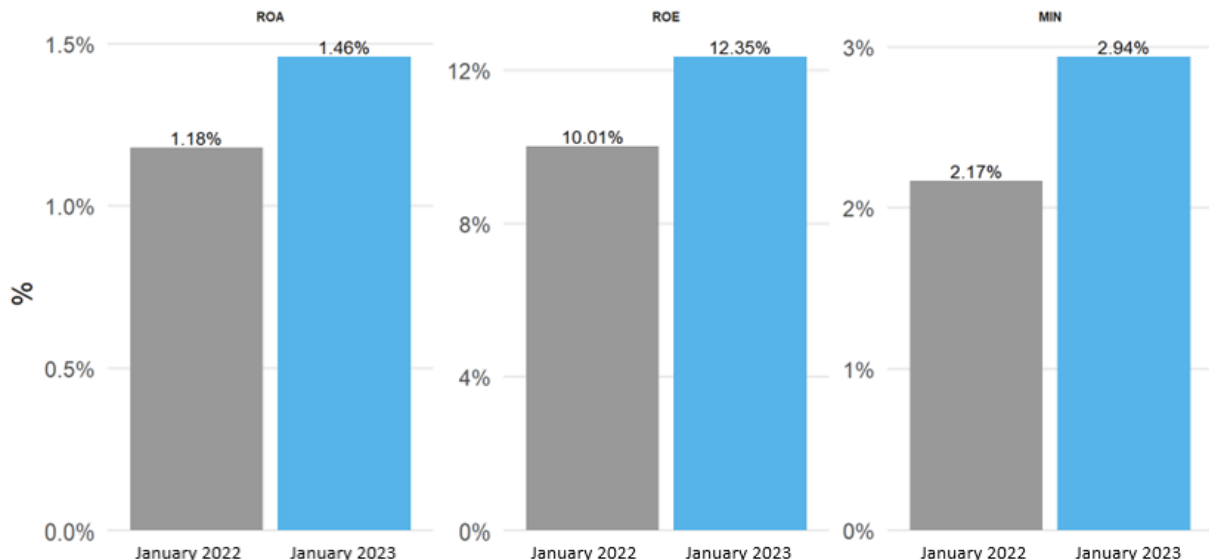
D. Profitability indicators

During the first month of 2023, the CBI displayed positive profitability indicators that were higher than those observed during the same period a year ago. As a result, the total CBI results reached 1.46% (ROA) and 12.35% (ROE), respectively (see **Graph 3**). This increase occurred in a context of improvements in credit placements and a decrease in provisions for asset impairment.

It is worth noting that, although these results are positive, they vary among credit entities.

Graph 3: Profitability Indicators - CBI

January 2022 - January 2023



Source: General and International License banks

E. Balance Sheet

CBI assets totaled USD 139.84 billion, reflecting a year-on-year increase of USD 4.87 billion or 3.6% compared to January 2022. The expansion rate of banks' assets accelerated due to growth in the net credit portfolio (12.1%) and the securities portfolio (7.3%). Although liquid assets underperformed (-27.1%), this contrasts with an increase in productive assets. The banks' liquidity position is currently stable and has strengthened with deposit growth over the last year, indicating adequate liquidity given the current situation.

It is worth noting that CBI assets primarily consists of the credit portfolio, which reported a balance of USD 83.37 billion according to the financial statements submitted by banks to the SBP. As for the performance of the external component of the credit portfolio, it increased by 26.3%.

On the deposits side, they constitute a significant portion of the CBI's funding and support its credit operations, resulting in a reduced reliance on wholesale funding through market debt issuances, which are typically more volatile. It is noteworthy that banks' funding strategy relies on funding their activities through term deposits, demand deposits (current and savings accounts), and later through bonds. CBI deposits as of January 2023 totaled USD 98.38 billion.

Obligations increased by 24.8% and other liabilities rose by 5.1% compared to January 2022. As for bonds, these instruments also encompass the financing component through issuances. Despite the rise in borrowing costs, current market conditions may generate an appetite for such strategies to mitigate future liquidity risks and reduce uncertainty regarding potentially higher rates that could impact new investment decisions. This presents an opportunity to leverage the flattening yield curve between the short- and medium-term rates.

Table 3: International Banking Center
Balance Sheet
(In millions of USD)

Breakdown	2022	2023	Jan. 23/Jan. 22 Difference	
	January	January	Total	%
Liquid assets	25,553.4	18,615.9	-6,937.5	-27.1%
Net credit portfolio	74,338.6	83,369.8	9,031.1	12.1%
<i>Domestic</i>	53,036.9	56,461.4	3,424.5	6.5%
<i>External</i>	21,301.7	26,908.4	5,606.7	26.3%
Securities	28,111.1	30,171.7	2,060.6	7.3%
Other assets	6,971.1	7,680.6	709.5	10.2%
Total Assets	134,974.2	139,838.0	4,863.7	3.6%
Deposits	98,554.1	98,379.0	-175.1	-0.2%
<i>Domestic</i>	64,773.2	61,771.8	-3,001.5	-4.6%
<i>External</i>	33,780.9	36,607.2	2,826.4	8.4%
Obligations	16,754.5	20,908.8	4,154.2	24.8%
Other liabilities	3,803.6	3,999.0	195.5	5.1%
Capital	15,862.1	16,551.2	689.1	4.3%

Source: General and International License banks

The assets of the National Banking System amounted to USD 123.31 billion, reflecting an increase of USD 4.13 billion or 3.5% compared to January 2022. The SBN net credit portfolio showed a USD 7.96 billion (11.7%) increase, reaching a total of USD 76.15 billion. Net external credits grew by 29.9%, while the net domestic portfolio had a growth of 6.0%. On the other hand, the total deposits placed in the SBN amounted to USD 85.87 billion, representing a 1.2% decrease.

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

Breakdown	2022	2023	Jan. 23/Jan. 22 Difference	
	January	January	Total	January
Liquid assets	21,293.9	14,742.5	-6,551.3	-30.8%
Net credit portfolio	68,188.3	76,140.6	7,952.3	11.7%
<i>Domestic</i>	53,040.1	56,461.4	3,421.3	6.5%
<i>External</i>	15,148.3	19,679.2	4,530.9	29.9%
Securities	23,064.5	25,155.5	2,090.9	9.1%
Other assets	6,632.5	7,268.1	635.5	9.6%
Total Assets	119,179.3	123,306.7	4,127.4	3.5%
Deposits	86,871.5	85,870.1	-1,001.3	-1.2%
<i>Domestic</i>	64,701.5	61,559.3	-3,142.2	-4.9%
<i>External</i>	22,170.0	24,310.8	2,140.9	9.7%
Obligations	16,530.5	20,663.0	4,132.5	25.0%
Other liabilities	3,567.5	3,799.0	231.6	6.5%
Capital	12,209.8	12,974.6	764.7	6.3%

Source: General License banks

F. Credit

As of January 2023, the National Banking System recorded growth in the domestic credit gross portfolio, which reached a balance of USD 58.64 billion, a 6.0% increase compared to the data reported a year ago, which is equivalent to a USD 3.33 billion growth in one year.

The recovery of financing to the private sector has been supported by the greater flow of lending to the private sector, which can be explained by the sustained growth of bank credit to different segments. The good performance of loans to companies and legal persons is explained by the performance of loans to commercial and industrial portfolios (6.4% and 14.1%, respectively). The only segment that recorded an underperformance was the construction portfolio (-3.3%).

Regarding the balance of the consumer portfolio, it continued to show growth (1.4%). Consumer credit growth has been supported by higher-than-expected growth in both real wages and formal employment, as well as in the economy's own private consumption. As of the end of January 2023, personal loans showed a growth rate of 3.0%, and car loans showed a growth rate of 1.9%. However, within this portfolio, credit cards have been in negative numbers, with a year-on-year difference of -5.4% in January 2023. Nevertheless, it has been improving and could potentially turn positive during the year, despite the announcements of interest rate hikes.

Mortgages recorded a 7.0% increase in January 2023 compared to January 2022, maintaining the momentum observed in recent months. This type of credit was favored by the year-on-year increase in preferential interest rate mortgages, which experienced a growth rate of 12.9% in January. It is noteworthy that this portfolio was the only one that did not decline in year-on-year differences, even during the most challenging period of the

pandemic. The strong performance of the labor market and consumer confidence will continue to be crucial factors in driving growth in the household credit portfolio. Additionally, maintaining prudent lending practices will be essential to sustain the portfolio's quality and contribute to healthy growth.

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

Sector	January 2022	January 2023	Jan. 23/Jan. 22 Difference	
			Total	%
TOTAL	55,313.2	58,639.7	3,326.5	6.0%
Public sector	1,469.5	1,578.7	109.2	7.4%
Private sector	53,843.7	57,061.0	3,217.4	6.0%
Financial & insurance activities	1,090.4	1,922.2	831.8	76.3%
Agriculture	436.6	490.7	54.1	12.4%
Livestock	1,341.3	1,415.3	74.0	5.5%
Fishing	87.3	122.4	35.1	40.2%
Mining & Quarrying	50.4	46.1	-4.3	-8.6%
Commerce	10,921.4	11,624.4	703.0	6.4%
Industry	2,942.0	3,357.7	415.7	14.1%
Mortgages	18,811.6	19,916.3	1,104.7	5.9%
Construction	5,246.4	5,070.8	-175.7	-3.3%
Personal consumption	12,916.2	13,095.2	179.1	1.4%

Source: General License banks

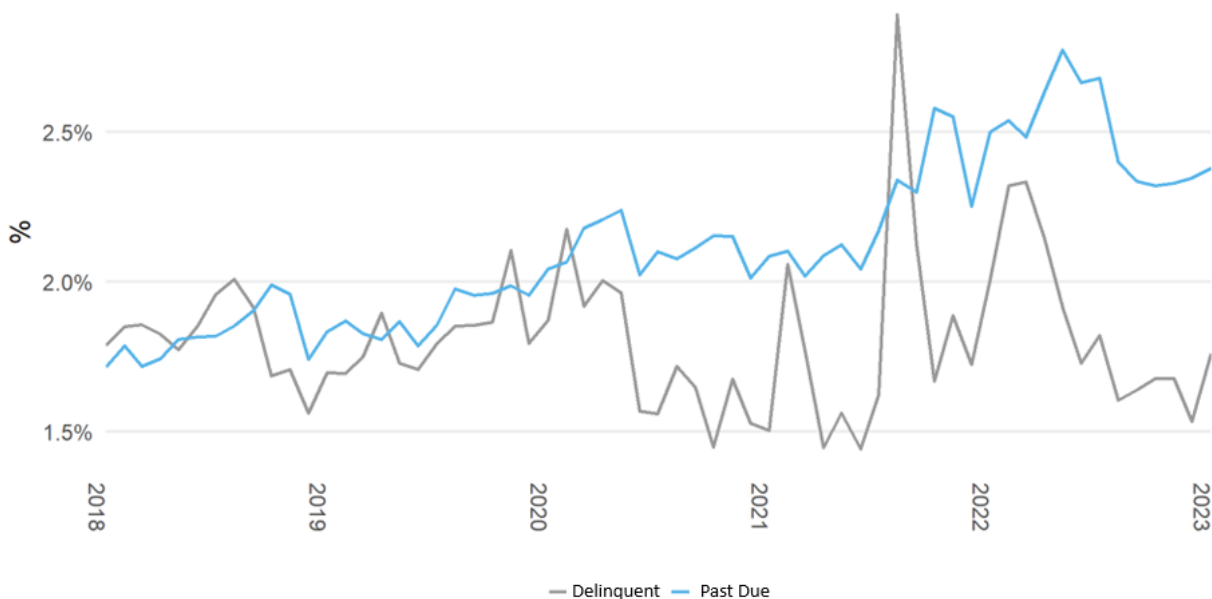
G. Credit Risk

The quality of bank assets has remained stable in recent months. Although bank asset quality came under pressure because of the COVID-19 pandemic, the regulatory measures applied and close surveillance of the most exposed sectors made it possible to control asset deterioration. The amount of loans deemed higher risk has diminished in recent months, especially doubtful loans, due to write-offs. In January 2023, the CBI shows a delinquency ratio of 4.1%, with 1.8% representing loans with arrears of 30+ days, and loans with arrears of 90+ days recording 2.3%.

As for provisions for delinquent or past-due loans, they were strengthened during the pandemic, increasing the banks' capacity to absorb losses due to future loan impairment. Therefore, for 2023, it is expected that asset quality will continue to be controlled, even if economic conditions are slightly weaker. Provisioning for impaired loans reached 120%. However, given the context of rising interest rates and other external risks, some deterioration in the portfolio quality indicator is expected in 2023 due to a less favorable operating environment and the maturity of consumer loans.

Graph 4: Portfolio Quality: Delinquent and Past Due

January 2018 – January 2023



Source: General License Banks

H. Deposits

The balance of CBI bank deposits for January 2023 recorded a total of USD 98.38 billion, a reduction of USD 175.6 million (-0.2%) compared to January 2022, interrupting the brief recovery that was recorded as of December 2022 (the previous month's annual real growth rate was 1.4%). As a result, domestic deposits decreased by USD 3.01 billion, representing a 4.6% decrease compared to January 2022. By deposit type, the balance of demand and savings deposits, those that can be withdrawn at any time, has been slowing down. This slowdown could be partially explained by the need to increase household current spending and meet commercial requirements. Term deposits continue to be the most dynamic component of deposits, growing 3.9% compared to the previous year. During the surveyed period, term deposits accelerated their expansion rate, favored by an environment of higher interest rates that made savings in this type of instrument more appealing. On the contrary, demand deposits accentuated their underperformance by recording a growth rate of -10.3% in January, significantly below the growth observed in January 2022. In this context of higher deposit rates, a lower preference for liquidity is expected, which will be reflected in a more moderate performance of demand deposits.

On the other hand, external deposits recorded an increase of USD 2.83 billion, totaling USD 36.61 billion, representing an 8.4% growth, where Colombia ranking as CBI's top user, holding a market share of 22.3% for external deposits.

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

Accounts	2022 January	2023 January	Jan. 23/Jan. 22 Difference	
			Total	%
Deposits	98,554.1	98,379.0	-175.1	-0.2%
Domestic	64,773.2	61,771.8	-3,001.5	-4.6%
<i>Government</i>	13,742.9	11,835.5	-1,907.4	-13.9%
<i>Customer</i>	47,816.2	46,638.8	-1,177.4	-2.5%
Banks	3,214.1	3,297.4	83.3	2.6%
External	33,780.9	36,607.2	2,826.4	8.4%
<i>Government</i>	335.7	298.0	-37.7	-11.2%
<i>Customer</i>	26,400.1	28,440.6	2,040.5	7.7%
Banks	7,045.1	7,868.7	823.6	11.7%

Source: General and International License banks.

In the case of the SBN banks, there is a trend like that of the CBI, with a total balance of USD 85.87 billion, representing a 1.2% decrease compared to January 2022. However, external deposits are showing better performance (see **Table 7**).

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

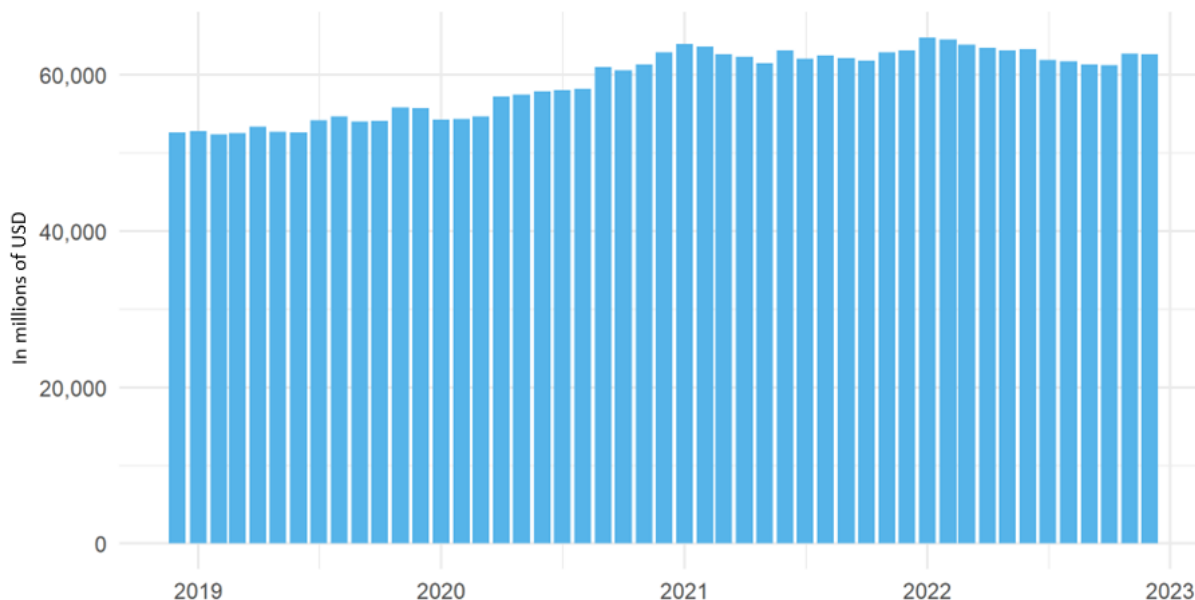
Accounts	2022 January	2023 January	Jan. 23/Jan. 22 Difference	
			Total	%
Deposits	86,871.5	85,870.1	-1,001.3	-1.2%
Domestic	64,701.5	61,559.3	-3,142.2	-4.9%
<i>Government</i>	13,742.9	11,835.5	-1,907.4	-13.9%
<i>Customer</i>	47,816.2	46,638.7	-1,177.5	-2.5%
Banks	3,142.4	3,085.0	-57.3	-1.8%
External	22,170.0	24,310.8	2,140.9	9.7%
<i>Government</i>	333.5	248.8	-84.7	-25.4%
<i>Customer</i>	15,271.7	16,705.9	1,434.1	9.4%
Banks	6,564.7	7,356.1	791.4	12.1%

Source: General License banks.

It is important to note that domestic deposits account for 62.8% of the total deposits, with 75.5% of these being customer deposits. Although domestic deposits decreased, they remain higher than pre-pandemic levels. **Graph 5** displays the evolution of the domestic deposit balance.

Graph 5: Total Domestic Deposits

December 2018 – December 2022

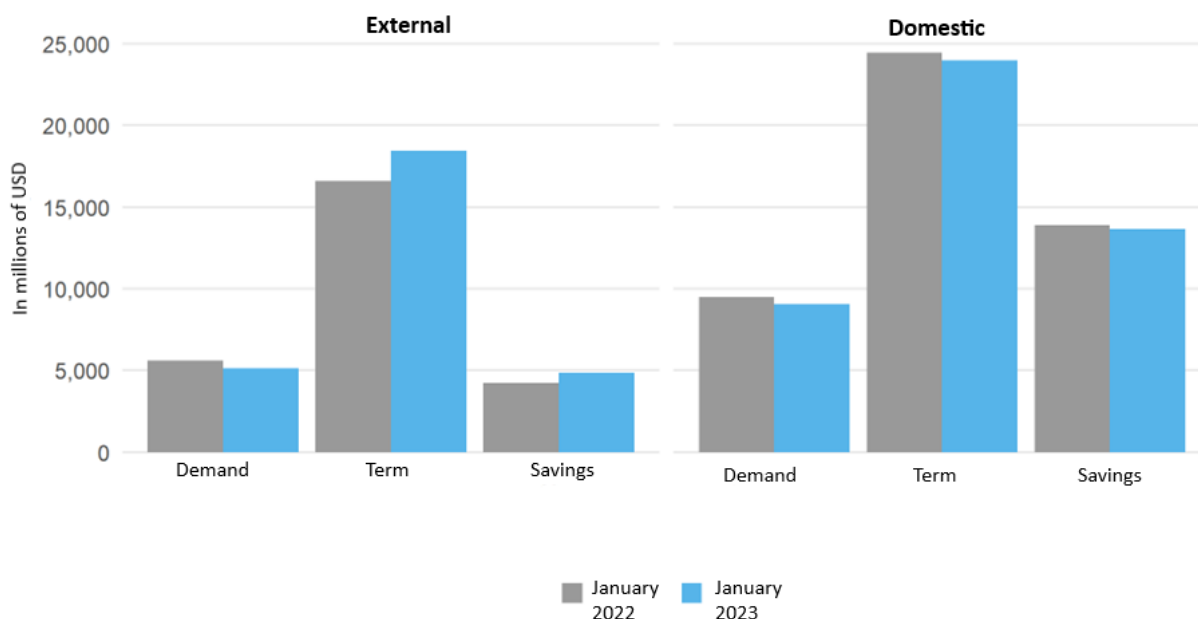


Source: General license banks.

Regarding the structure of customer liabilities by maturity, term deposits continue to be the most prominent savings instrument. As of January 2023, customer term deposits amounted to USD 23.97 billion, followed by savings deposits, USD 13.68 billion, and demand deposits at USD 9.04 billion.

Graph 6: Customer Deposits

January 2022 – January 2023



Source: General and International license banks.



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