



Banking Activity Report

February 2023

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Executive Summary

During the first two months of 2023, the International Banking Center (CBI, for its acronym in Spanish) had a resilient performance, where the banking sector maintains an acceptable behavior, which has translated into the positive execution of the patrimonial capacity, adequate liquidity positions, and good profitability that allows it to continue conducting the intermediation activity in the medium- and long-term.

Financial soundness indicators, particularly solvency and liquidity ratios, at the most recent cut-off date, recorded 56.7% and 15.5%, respectively, which have stood above the regulatory minimums. Likewise, the main portfolio indicators, such as growth and quality, display that CBI's net credit supply remains on a positive path (11.3%) and the good payment performance is shown in a percentage of the past due portfolio of 2.4%, which has remained relatively stable in recent months.

CBI assets totaled USD 139.27 billion, a USD 4.34 billion increase when compared to February 2022 or a year-on-year rise of 3.2%. Banks assets sped up their expansion rate because of growth in the net credit portfolio (11.3%) and the securities portfolio (6.8%). Liquid assets underperformed (-28.5%).

Despite the recent decline in liquid assets, banks liquidity position remains stable since this component's position was strengthened by deposit growth during the pandemic and it is in an adequate position. In general terms, banks have a stable funding profile, considering that the portfolio is heavily funded by term deposits and that they have high renewal rates. Currently, entities mitigate the terms mismatch of their assets and liabilities with lines of credit with both domestic banks and international correspondents, comfortable liquidity levels when assessed with respect to regulatory standards, and the possibility of participating in the bond issuance market.

As of February 2023, the National Banking System (general license banks only or SBN, for its acronym in Spanish) recorded growth in the gross domestic portfolio that amounted to USD 58.50 billion, a 5.6% increase when compared to 2022, or a USD 3.08 billion growth in one year. The different segments that make up this credit aggregate record annual increase, although recovery is still at a differentiated rate. The activities that have started 2023 with the greatest drive are the mortgage sector, USD 1.079 billion; the commercial sector, USD 659 million; and the industrial sector, USD 357 million.

As of February 2023, CBI shows a delinquency ratio of 4.3%, of which 1.9% represents loans with arrears of 30+ days and 2.4% for loans with arrears of 90+ days past due. Given the increase in interest rates and other external market risks, some deterioration in the portfolio is foreseeable in 2023 because of a less favorable operating environment and the maturity of consumer loans. Provisioning for impaired loans is 117%. Banks' capital buffers and provisions have been strengthened via the regulatory framework established by the SBP in recent years, through higher provisioning and capital requirements, and the requirement of higher quality capital elements, according to Basel III, which could be a relevant mitigator for a better-quality credit portfolio.

In February 2023, the accumulated profits of CBI banks totaled USD 515.6 million; this figure represents an increase in profits of 58.7% over the same period 12 months ago. This result was driven by the evolution of financial margins and commissions, derived from continuous increase in the credit portfolio (close to double digits), asset quality management, expense control, and a reduction in provisions in response to the preventive estimate for credit risks.

CBI deposits for February 2023 recorded a total of USD 98.23 billion, a USD 319 million drop (-0.3%). Domestic deposits recorded a decrease during the surveyed period of USD 2.83 billion, a 4.4% decline versus February 2022. On the other hand, external deposits recorded an increase of USD 2.51 billion, totaling USD 36.57 billion; external deposits represent 37% of the International Banking Center's [total deposits].

Since the beginning of Q4 2022, it has been observed that deposit rates, especially term deposits, have started to grow, which suggest that the cost of banks' funding is increasing. In this way, term deposit interest rates recorded rises above 100 bps in 1 to 6 months tranche. In the case of lending rates, the data as of February 2023 show that there have been some increases with respect to the corporate component and to a lesser extent in consumer credit, especially cars and personal loans. In the period covered by this report, interest rates on wholesale and retail corporate loans increased to 1.08% and 0.44%, respectively. Other rates to the productive sectors have grown an average of 0.4%. Regarding household credit rates, they remained at levels like those of February 2022, rising an average of 0.06%. It should be noted that preferential interest rate loans remained unchanged since 2019.

Although regulatory provisions indicate that it is up to banks to adjust the rate paid for deposits or those charged for credit, it is important to highlight that each bank must comply with the regulations on transparency of information and to make the proper notification so that customers can prepare or approach the bank to enter the relevant agreements and thus prevent their credit conditions from being affected.

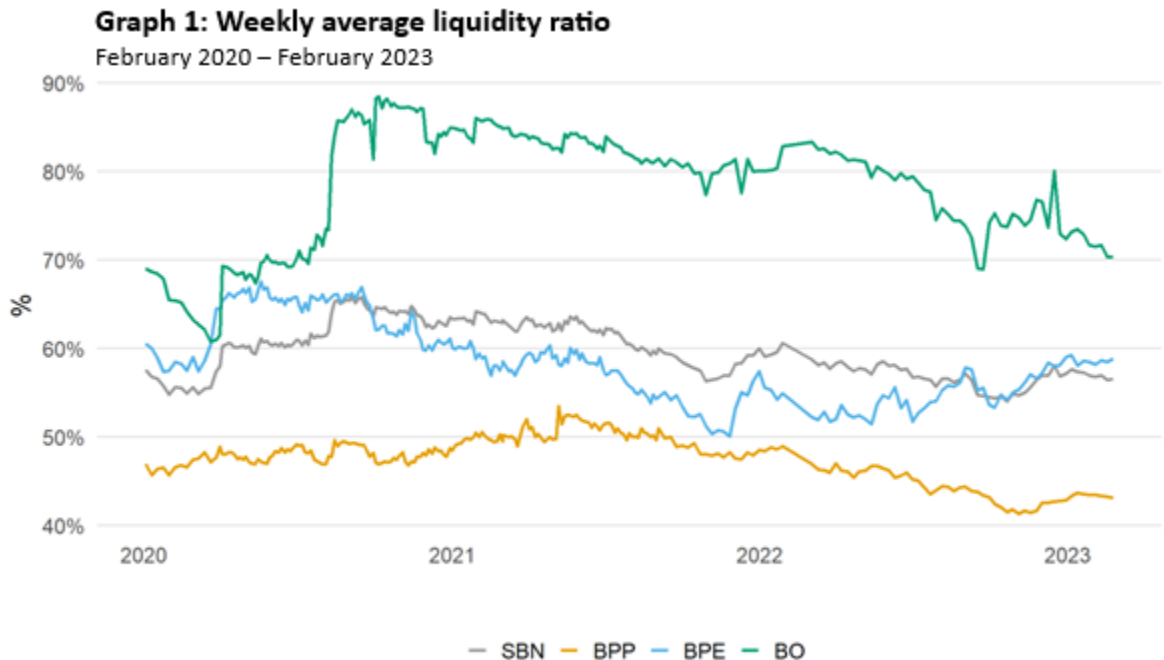
Despite the greater risk aversion at the international level, because of the incidents in some entities in the U.S. and European financial systems, Panama managed to issue bonds in March 2023, which had a positive reception at the international markets, since the demand for these bonds were above the amounts originally offered, regardless of the high uncertainty period the financial market is going through because of the current situation experienced by some banks in the United States and Europe and the possible interest rate hike by the US Federal Reserve (FED). This would demonstrate foreign investors' confidence in our country and would make it a benchmark in the emerging countries capital markets in times of uncertainty.

It is concluded that, at the end of February 2023, the banking sector is resilient, and although it faces economic challenges and more complex financing scenarios, it can mitigate the risks of the current juncture.

A. Liquidity

At the end of February 2023, the Banking System's liquidity reached 57.3%, which exceeds the regulatory minimums in the matter. Currently, local banks are in a well-heeled position with respect to regulatory requirements, which would allow them to face market volatility. In general terms, banks have a stable funding profile, considering that the portfolio is heavily funded by term deposits and that they have high renewal rates. Additionally, SBN banks have historically had robust liquidity buffers and constant access to structural and wholesale deposits. It should be noted that regulatory provisions require all banks running operations in the Panamanian CBI to comply with Basel III requirements, such as the Liquidity Coverage Ratio (LCR), which is intended to measure the capacity for emergency or survival funding on a 30-day horizon. The latest figures show that the ratio of deposits and expectations against high-quality liquid assets are well above the regulatory minimum and its term structure is adequate.

It is noteworthy that, although there has been a certain decrease in ratios versus the levels reached in 2022, the financial system maintained adequate liquidity ratios at the aggregate level, with sufficient resources to meet its short-term needs and which, in turn, will make it easier to continue with credit growth. According to the forecasts made in previous reports, it is expected that to the extent that the economic performance will recover, and therefore the credit portfolio will be energized, bank liquidity will be reduced but to levels that are still considered healthy compared to environmental risks. The decreases recorded are to a significant extent a reflection of greater lending. Liquidity ratios are at prudent levels and no significant changes are expected, given the center's growth prospects.



Source: General License Banks

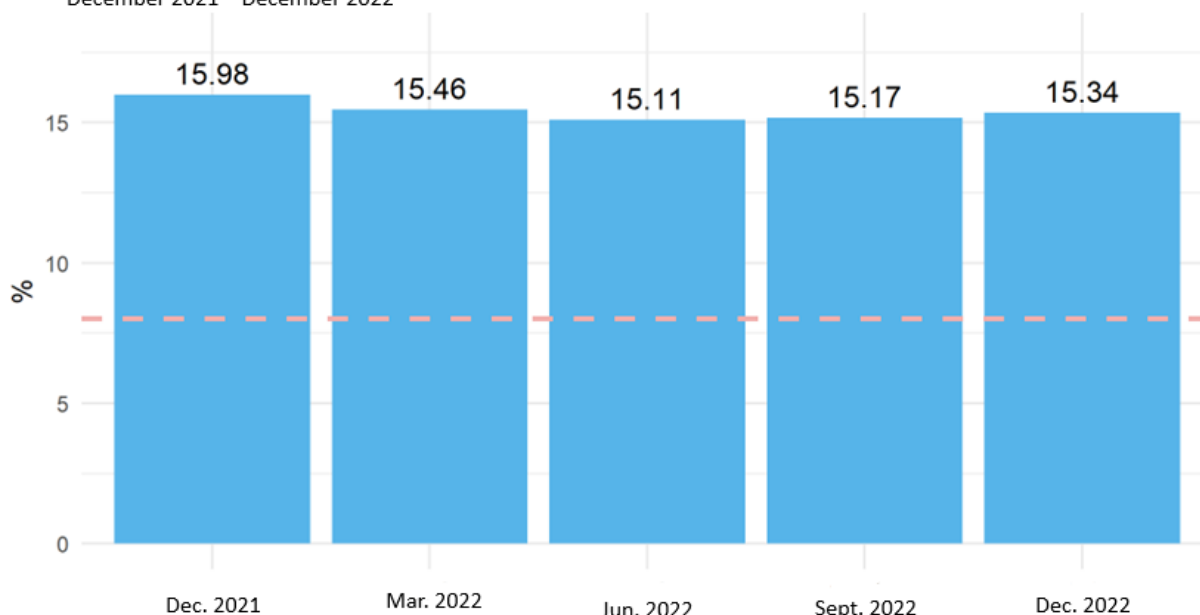
B. Solvency

The latest capital adequacy ratio (CAR) shows that the CBI aggregated solvency ratios remained in a well-heelled position. CAR on risk-weighted assets (RWA) was 15.34% (see **Graph 2**), exceeding the regulatory minimum of 8%. The capital of the group of banks did not record significant changes versus the previous quarter.

The decrease that has been recorded in recent years was because of the increase in RWAs driven by the performance of credits to the private sector and a decline in capital funds. This reduction in capital funds responds to the use of the dynamic provision allowed as of the publication of Circular No. SBP-DR-0124-2020 dated 15 April 2020 and previously established in Article 5 of Rule No. 2-2020 dated 16 March 2020. Currently, all banks running operations satisfactorily comply 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

The accumulated profits for the first two months of the year showed that CBI banks totaled USD 515.6 million; this figure represents an increase in profits of 58.7% over the same period 12 months ago.

This result was driven by the evolution of financial margins and commissions, derived from continuous increases in the credit portfolio (close to double digits), asset quality management, expense control, and a reduction in provisions in response to the preventive estimate for credit risks.

Asset profitability was also boosted by interest margin and by profits coming from other banking group entities. Considering the gross results, 52.4% corresponded to interest margins for loans; 13.3% to securities (valuation and sale); 6.6% to deposit income (mainly

interbank deposits), and the remaining to other financial services (including commissions and services).

General expenses management amounted to USD 489.7 million, a 21.1% year-on-year increase.

Net unmanageable debt provisions totaled USD 96.3 million, 27.5% less than that recorded in 2022. Although this performance is because of the coverage levels generated during the pandemic, along with some regulatory stipulations, proved to be an adequate buffer in stressful times. In early 2023, risk factors were identified and monitored in both the domestic and external portfolios. For this reason, from a prudential point of view, actions would be desirable to promote the strengthening of prospective provisions and mitigate possible events arising from an estimated lower growth environment and a more complex international juncture.

It is expected that in the future, the profitability indicators could record pressures because of lower financial intermediation margin and higher provisioning expenses given the portfolio growth expectations in a context of slower economic development.

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

International Banking Center	February	February	Difference	
	2022	2023	%	USD
Net interest income	391.8	552.2	40.9%	160.4
Other income	470.5	549.4	16.8%	78.9
<i>Operating income</i>	862.3	1,101.6	27.8%	239.3
<i>General expenses</i>	404.5	489.7	21.1%	85.2
Profit before provisions	457.8	611.9	33.7%	154.1
Provisioning expenses	132.8	96.3	-27.5%	(36.5)
Profit for the period	324.9	515.6	58.7%	190.6

Source: General and International License banks.

The National Banking System recorded accumulated net profits, as of February 2023, of USD 322.2 million, 95.3% more than that of February 2022. Like what happened in the CBI, the greater credit activity and the lesser 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	February	February	Difference	
	2022	2023	%	2022
Net interest income	368.1	492.5	33.8%	124.4
Other income	308.5	376.3	22.0%	67.7
<i>Operating income</i>	676.6	868.7	28.4%	192.1
<i>General expenses</i>	378.2	452.0	19.5%	73.8
Profit before provisions	298.4	416.7	39.7%	118.3
Provisioning expenses	133.4	94.5	-29.1%	(38.9)
Profit for the period	165.0	322.2	95.3%	157.2

Source: General License banks.

In nominal terms, both the CBI and the SBN record financial indicators higher than pre-pandemic ones. It is expected that System banks will continue with cost control and operational efficiency strategies. Currently, CBI efficiency indicators are around 54%.

D. Profitability indicators

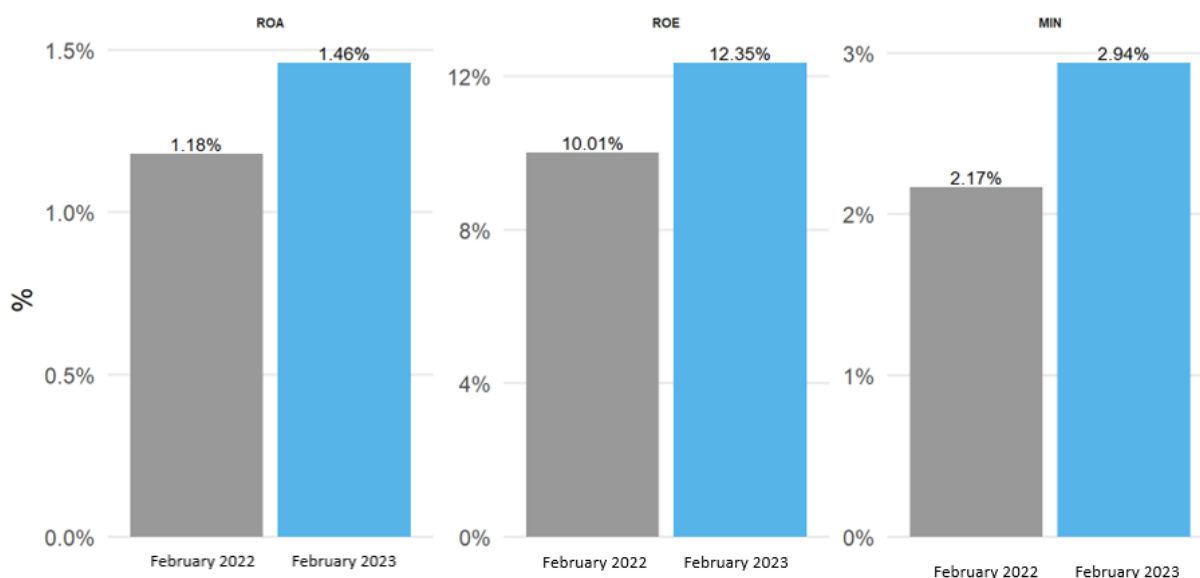
According to the previous result and in a more relative perspective, an improvement in the financial system's profitability is also observed. The Return on Equity (ROE) was 12.35%, representing an increase of 234 bps compared to the performance of first two months of 2022, which was 10.01%.

In terms of Return on Assets (ROA), it ended this two-month period with 1.46%, which in turn is 28 bps higher than last year.

These increases 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 are asymmetrical between credit entities.

Graph 3: Profitability Indicators - CBI

February 2022 – February 2023



Source: General and International License banks

E. Balance Sheet

CBI assets totaled USD 139.27 billion, which represented a USD 4.34 billion increase when compared to February 2022 or a year-on-year rise of 3.2%. Banks assets sped up their expansion rate because of growth in the net credit portfolio (11.3%) and the securities portfolio (6.8%) growth. Liquid assets, although they have an underperformance (-28.5%), it is a reflection, in contrast, of the increase in productive assets.

Currently, banks liquidity position remains stable, despite the recent decline in liquid assets, this component's position was strengthened by deposit growth during the pandemic. In general terms, banks have a stable funding profile, considering that the portfolio is heavily funded by term deposits and that they have high renewal rates. Presently, entities mitigate the terms mismatch of their assets and liabilities with lines of credit with both domestic banks and international correspondents, comfortable liquidity levels when assessed with respect to regulatory standards, and the possibility of participating in the bond issuance market.

It is worth noting that CBI assets are made up by the credit portfolio that reported a balance of USD 83.49 billion, according to the financial statements submitted by banks to the SBP. Regarding the performance of the net credit portfolio's external component, it increased by 24.1%.

Regarding bank financing sources, deposits are a high percentage of CBI funding and finance its credit operations, which results in a low dependence on wholesale funding through market debt issuances, which are usually more volatile. Remarkably, bank's funding strategy consists of financing their activities through term deposits, demand deposits (savings and checking accounts), and later through bond issuances. CBI deposits as of February 2023 totaled USD 98.23 billion.

Obligations presented increases of 21.1% and other liabilities rose to 5.6% compared to February 2022. As for bonds, these instruments also include the financing component via issuances. Although there are increases in the cost of borrowing, current market conditions could produce an appetite for this type of strategies to mitigate future liquidity risks to reduce the uncertainty of even higher rates that could compromise new investment decisions and take advantage of the flattening of the curve that exists between the short- and medium-term rates.

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

Breakdown	2022	2023	Feb. 23/Feb. 22 Difference	
	February	February	Total	%
Liquid assets	24,519.5	17,524.1	-6,995.4	-28.5%
Net credit portfolio	75,000.7	83,489.5	8,488.9	11.3%
<i>Domestic</i>	53,095.4	56,312.7	3,217.4	6.1%
<i>External</i>	21,905.3	27,176.8	5,271.5	24.1%
Securities	28,372.1	30,290.4	1,918.3	6.8%
Other assets	7,046.3	7,965.5	919.2	13.0%
Total Assets	134,938.6	139,269.7	4,331.0	3.2%
Deposits	98,545.1	98,225.7	-319.4	-0.3%
<i>Domestic</i>	64,481.4	61,656.2	-2,825.2	-4.4%
<i>External</i>	34,063.7	36,569.5	2,505.9	7.4%
Obligations	16,743.0	20,298.0	3,555.1	21.2%
Other liabilities	3,788.2	3,998.6	210.3	5.6%
Capital	15,862.4	16,747.3	885.0	5.6%

Source: General and International License banks

The National Banking System assets amounted to USD 122.65 billion, USD 3.94 billion or 3.3% more than that of February 2022. The SBN net credit portfolio showed an increase of USD 7.32 billion (10.6%) totaling USD 76.02 billion. Net external credits grew by 26.3%, while the net domestic portfolio had a performance of 6.1%. On the other hand, total deposits placed in the SBN totaled USD 85.82 billion or a 0.7% drop.

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

Breakdown	2022	2023	Feb. 23/Feb. 22 Difference	
	February	February	Total	February
Liquid assets	20,056.9	13,869.6	-6,187.3	-30.8%
Net credit portfolio	68,703.0	76,019.3	7,316.3	10.6%
<i>Domestic</i>	53,098.4	56,312.7	3,214.3	6.1%
<i>External</i>	15,604.5	19,706.5	4,102.0	26.3%
Securities	23,341.9	25,328.9	1,987.1	8.5%
Other assets	6,606.4	7,429.6	823.2	12.5%
Total Assets	118,708.1	122,647.4	3,939.3	3.3%
Deposits	86,430.8	85,812.3	-618.5	-0.7%
<i>Domestic</i>	64,404.5	61,422.6	-2,981.9	-4.6%
<i>External</i>	22,026.3	24,389.7	2,363.4	10.7%
Obligations	16,582.4	20,050.1	3,467.7	20.9%
Other liabilities	3,563.7	3,771.8	208.1	5.8%
Capital	12,131.3	13,013.2	881.9	7.3%

Source: General License banks

F. Credit Risk

Regarding the domestic credit portfolio, it should be noted that for February 2023 it remains at USD 58.50 billion, with a year-on-year difference of 5.6% above what was recorded in February 2022. On the other hand, the activities that have started 2023 with the greatest drive are the mortgage sector with USD 1.079 billion; the commercial sector, USD 659 million; and the industrial sector, USD 357 million.

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

Sector	February 2022	February 2023	Feb. 22/Feb. 23 Difference	
			Total	%
TOTAL	55,413	58,493	3,080	5.6%
Public sector	1,465	1,570	105	7.1%
Private sector	53,948	56,923	2,976	5.5%
Financial & insurance activities	1,083	1,799	717	66.2%
Agriculture	449	486	37	8.3%
Livestock	1,374	1,418	43	3.2%
Fishing	88	123	35	40.4%

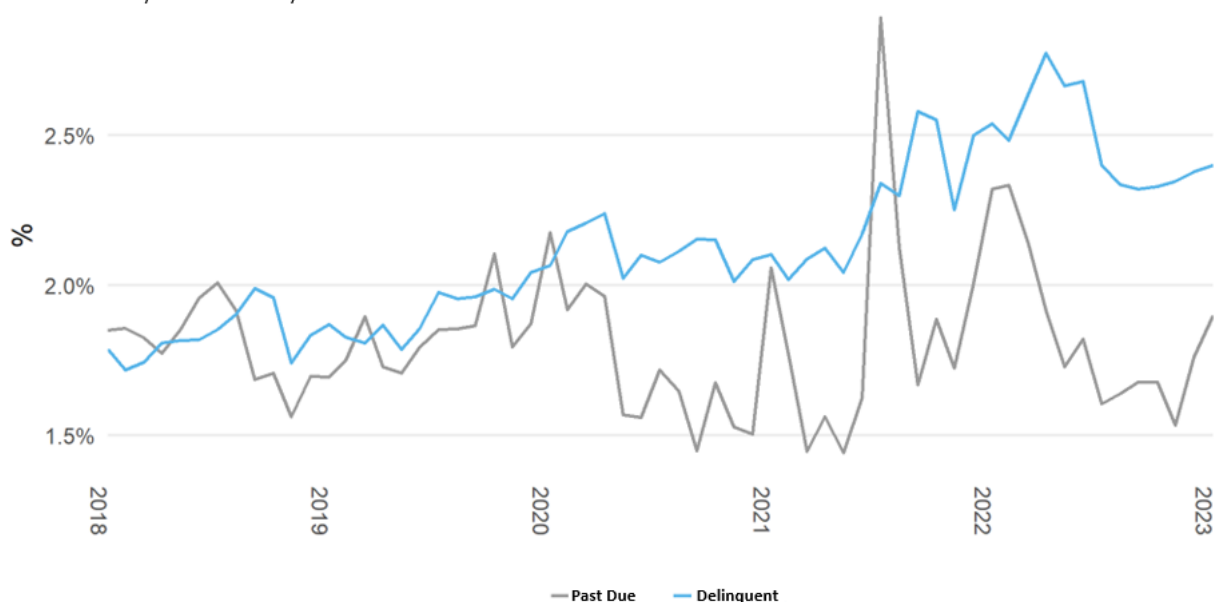
Sector	February 2022	February 2023	Feb. 22/Feb. 23 Difference	
			Total	%
Mining & Quarrying	49	48	-1	-2.6%
Commerce	10,925	11,584	659	6.0%
Industry	2,943	3,300	357	12.1%
Mortgages	18,888	19,967	1,079	5.7%
Construction	5,209	5,067	-142	-2.7%
Personal consumption	12,939	13,131	192	1.5%

Source: General License banks

Bank assets quality has remained stable in recent months, although it was under pressure because of the Coronavirus pandemic, the regulatory measures implemented, and close monitoring of the most exposed sectors made it possible to control asset deterioration. The amount of loans deemed high-risk has decreased in recent months, especially doubtful loans because of the write-offs made. As of February 2023, the CBI showed a delinquency ratio of 4.3%, of which 1.9% represents loans with arrears of 30+ days and 2.4% for loans that are over 90+ days past due.

Graph 4: Portfolio Quality: Past Due and Delinquent

February 2018 – February 2023



Source: General License and International License Banks

Provisioning for delinquent and overdue loans was strengthened during the pandemic, increasing the banks' ability to absorb losses due to future loan impairment. Therefore, it is expected that during 2023 asset quality will continue to be controlled, even if the economic conditions are moderately weaker. Provisioning for impaired loans reached 117%. However, given the environment of rising interest rates and other external risks, some deterioration in the portfolio quality indicator is foreseeable in 2023 because of a less favorable operating environment and the maturity of consumer loans.

G. Deposits

CBI deposits for February 2023 recorded a total of USD 98.23 billion, a USD 319 million drop (-0.3%). Domestic deposits recorded a decrease during the surveyed period of USD 2.83 billion, a 4.4% decline versus February 2022. On the other hand, external deposits recorded an increase of USD 2.51 billion, totaling USD 36.57 billion; external deposits represent 37% of the International Banking Center's [total deposits].

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

Accounts	February 2022	February 2023	Feb. 22/Feb. 23 Difference	
			Total	%
Deposits	98,545	98,226	-319	-0.3%
Domestic	64,481	61,656	-2,825	-4.4%
<i>Government</i>	13,353	11,423	-1,930	-14.5%
<i>Customer</i>	47,864	47,003	-861	-1.8%
Banks	3,264	3,231	-34	-1.0%
External	34,064	36,570	2,506	7.4%
<i>Government</i>	370	327	-43	-11.7%
<i>Customer</i>	26,899	28,330	1,431	5.3%
Banks	6,795	7,913	1,118	16.5%

Source: General and International License banks.

In the case of SBN banks, there is a trend like that of the CBI, recording a total balance of USD 85.82 billion, a 0.7% decrease versus February 2022, despite that external deposits are performing better (see **Table 7**).

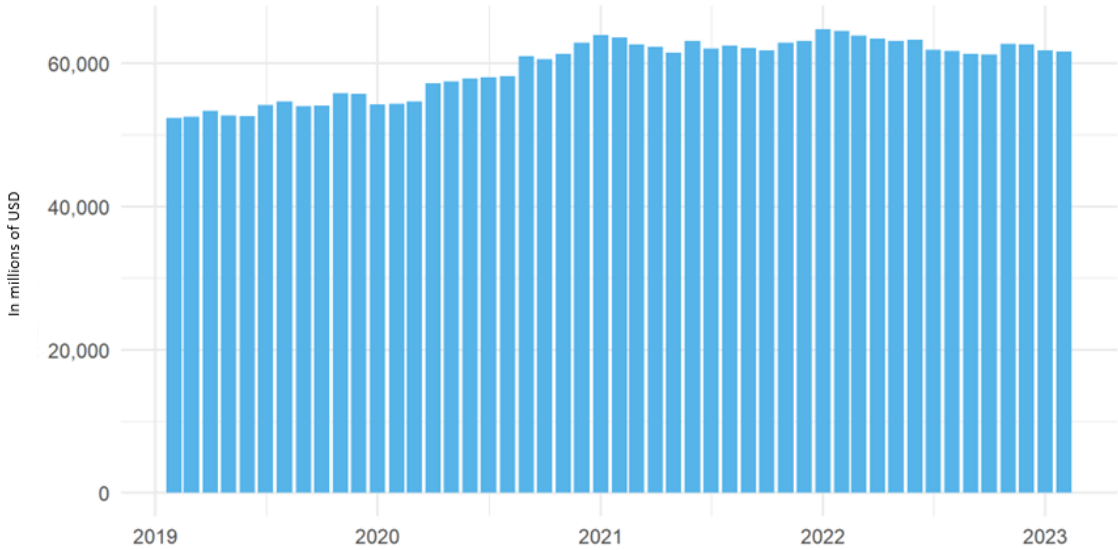
Table 7: National Banking System
Total Deposits
(In millions of USD)

Accounts	February 2022	February 2023	Feb. 22/Feb. 23 Difference	
			Total	%
Deposits	86,431	85,812	-619	-0.7%
Domestic	64,404	61,423	-2,982	-4.6%
<i>Government</i>	13,353	11,423	-1,930	-14.5%
<i>Customer</i>	47,864	47,003	-861	-1.8%
Banks	3,188	2,997	-191	-6.0%
External	22,026	24,390	2,363	10.7%
<i>Government</i>	368	272	-96	-26.1%
<i>Customer</i>	15,345	16,721	1,376	9.0%
Banks	6,313	7,397	1,083	17.2%

Source: General License banks.

It is noteworthy that domestic deposits represent 62.8% of total deposits. Of these, 76% are customer deposits. Although domestic deposits decreased, they maintained levels above pre-pandemic ones. **Graph 5** shows the evolution of domestic deposit balance.

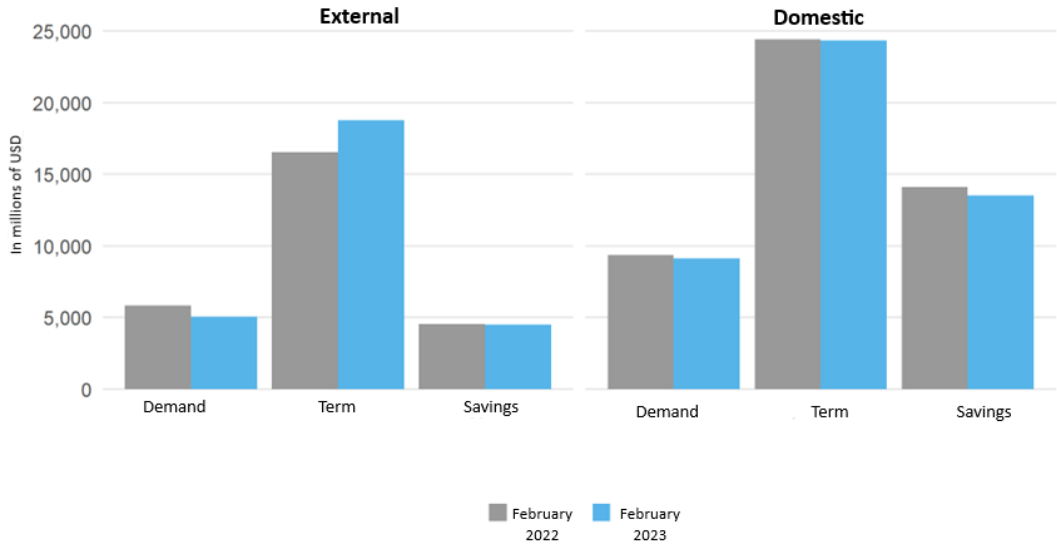
Graph 5: Total Domestic Deposits
February 2019 – February 2023



Source: General license banks.

Regarding the structure of customer liabilities by maturity, term deposits continue to be the most important savings instrument. As of February 2023, domestic customer deposits totaled USD 23.97 billion; followed by savings deposits, USD 13.64 billion; and demand deposits, USD 9.04 billion.

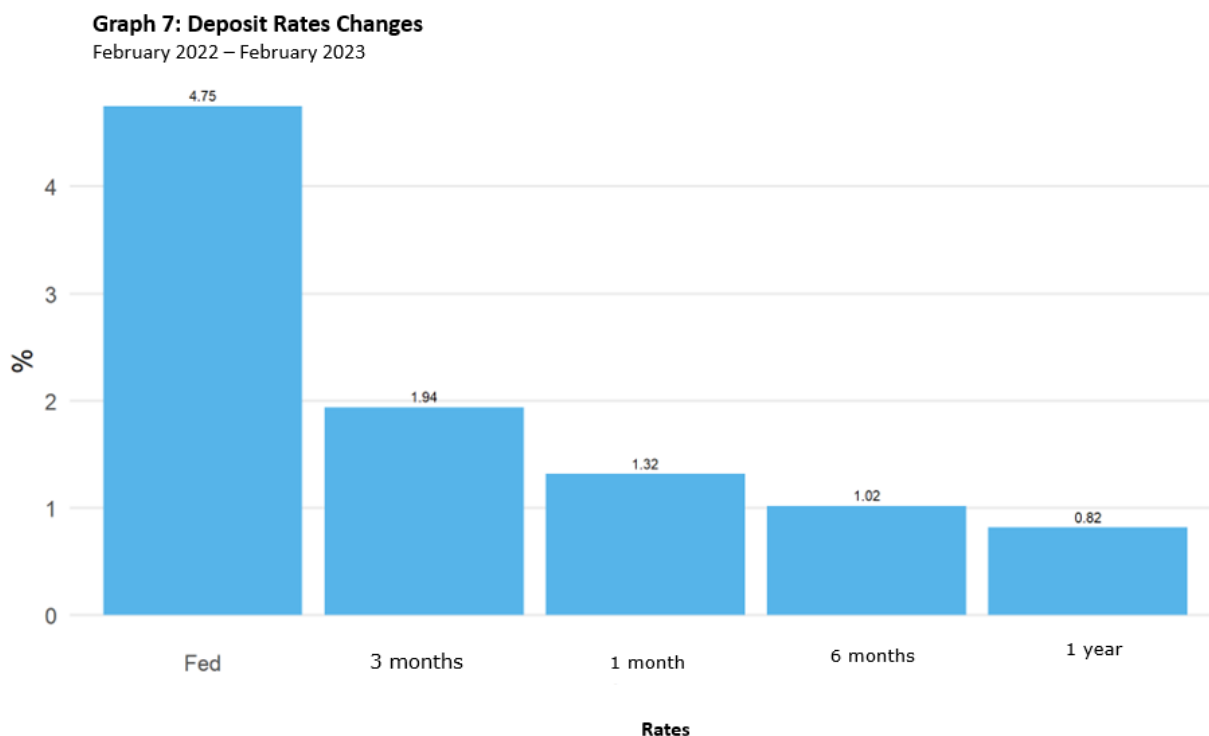
Graph 6: Customer Deposits
February 2022 – February 2023



Source: General and International license banks.

H. Interest Rate Changes

Since the beginning of Q4 2022, it has been observed that deposit rates, especially term deposits, have started to grow, which suggest that the cost of banks' funding is increasing¹. In this way, term deposit interest rates recorded rises above 100 bps in 1 to 6 months tranche and in the one-year tranche the growth was 82 bps.

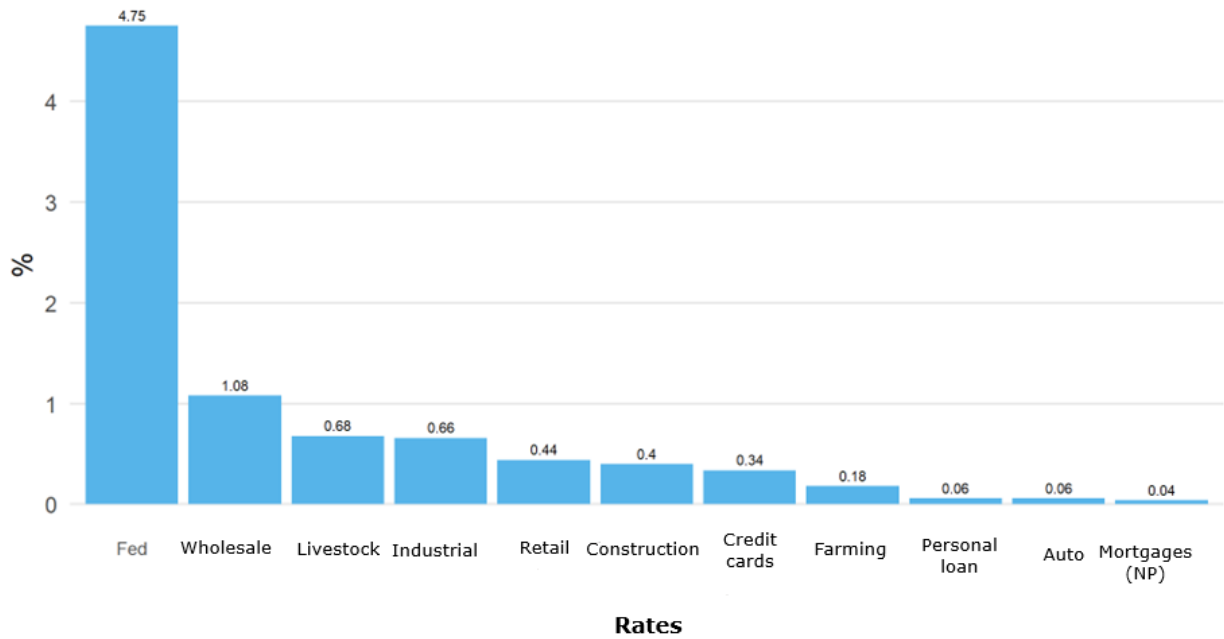


Source: General license banks.

In the case of lending rates, the data as of February 2023 show that there have been some increases with respect to the corporate component and to a lesser extent in consumer credit, especially cars and personal loans. In the period covered by this report, interest rates on wholesale and retail corporate loans increased to 1.08% and 0.44%, respectively. Other rates to the productive sectors have grown an average of 0.4%. Regarding household credit rates, they remained at levels like those of February 2022, rising an average of 0.06%. It should be noted that preferential interest rate loans remained unchanged since 2019. It should be highlighted that deposit rates increases (i.e., rates paid for deposits), in comparable terms, were higher than lending rates.

¹ Since February 2022, the US Federal Reserve has increased its intervention rate in 475 bps, with which February 2023 would be applying a rate that is in the range of 4.50%-4.75%.

Graph 7: Lending Rates Changes
February 2022 – February 2023



Source: General license banks.

Although regulatory provisions indicate that it is up to banks to adjust the rate paid for deposits or those charged for credit, it is important to highlight that each bank must comply with the regulations on transparency of information and to make the proper notification so that customers can prepare or approach the bank to enter the relevant agreements and thus prevent their credit conditions from being affected.



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