Banking Activity Report

April 2023

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Executive Summary

As of the end of April 2023, the International Banking Center (CBI, for its acronym in Spanish) continued to showcase adequate financial soundness indicators. The prudential solvency and liquidity ratios that, as of the cut-off date of April, recorded 15.5% and 58.5%, respectively, have remained well above the regulatory minimums and thus the banking system maintains its performance, which has resulted in the consolidation and patrimonial capacity that allow the banks to continue performing the intermediation activity in the medium- and long-term. Similarly, the main portfolio indicators, such as growth and quality, exhibit that the CBI's net credit portfolio supply remains on a positive path (8.1%), while the performance of the portfolio quality, although it has deteriorated slightly, is in prudent ranges given the current situation. Despite a context of higher interest rates, the intermediation levels of the aggregate group of entities increased, which has allowed an improvement in profitability.

CBI assets totaled USD 141.47 billion, a USD 5.45 billion or a year-on-year increase of 4.0% compared to that of April 2022. Banks assets sped up their expansion rate because of the net credit portfolio (8.1%) and the securities portfolio (3.9%) growth. Liquid assets, although have a lower year-on-year performance because of loan granting (-12.1%), increased when compared to March 2023 (a performance that can be observed since February) because of an improvement in the external deposits side thanks to the contributions made by foreign general license banks and a state-owned bank.

As of April 2023, the National Banking System (SBN, for its acronym in Spanish) recorded growth in the gross domestic credit portfolio that amounted to USD 58.64 billion, a 4.7% increase when compared to the data reported at the end of April 2022, which is equivalent to a USD 2.63 billion surge in one year. Although this outcome is positive, it has been showing a slight slowdown since November 2022. During this period, the private sector's current portfolio grew 4.7%, driven mainly by the household and commercial components. The banks with the largest market share reported, on average, an increase in demand in the large companies, non-banking financial intermediaries, cards, automotive, and personal segments. The latest data continue to show resilience in the first months of the year despite interest rate hikes announcements. Breaking down the household credit portfolio, mortgage loans presented an annual growth of 6.7%, amounting to USD 17.42 billion, and the personal consumption portfolio rose 1.9% compared to April 2022, totaling USD 13.20 billion. It should be noteworthy to mention that although non-preferential [interest rate] credit has historically been higher in terms of balance, the performance of the subsidized portfolio in recent years has been very positive, which is why it could temporarily reach levels like the balance of the unsubsidized portfolio. By type of credit, the preferential [interest rate] credit (12.3%) continued to show a positive performance, while the non-preferential [interest rate] credit (2.3%) keeps growing. The good performance of the labor market and consumer confidence will continue to be determining factors in boosting household credit.

As of April 2023, the CBI shows a delinquency ratio of 4.2%, of which 1.6% represents loans with arrears of 30+ days and 2.6% for loans with arrears of 90+ days past due. As for provisioning for delinquent or past due loans, it was strengthened during the pandemic, increasing the banks' ability to absorb losses due to future loan impairment. Therefore, it is expected that during 2023 assets quality will continue to be controlled, even if the economic conditions are moderately weaker. Provisioning for impaired loans reached 107.8%. However, given the context of rising interest rates and other external risks, some deterioration in the portfolio quality indicator is foreseeable in 2023 of external risk because of a less favorable operating environment and the maturity of consumer loans.

In April 2023, the accumulated profits for Q1 2023 for CBI banks totaled USD 937.8 million; this figure represents an increase in profits of 44.8% over the same period 12 months ago, which was driven by increases in the net interest income and other income. Banks' general expenses grew, but this was offset by a decrease in credit risks provisions.

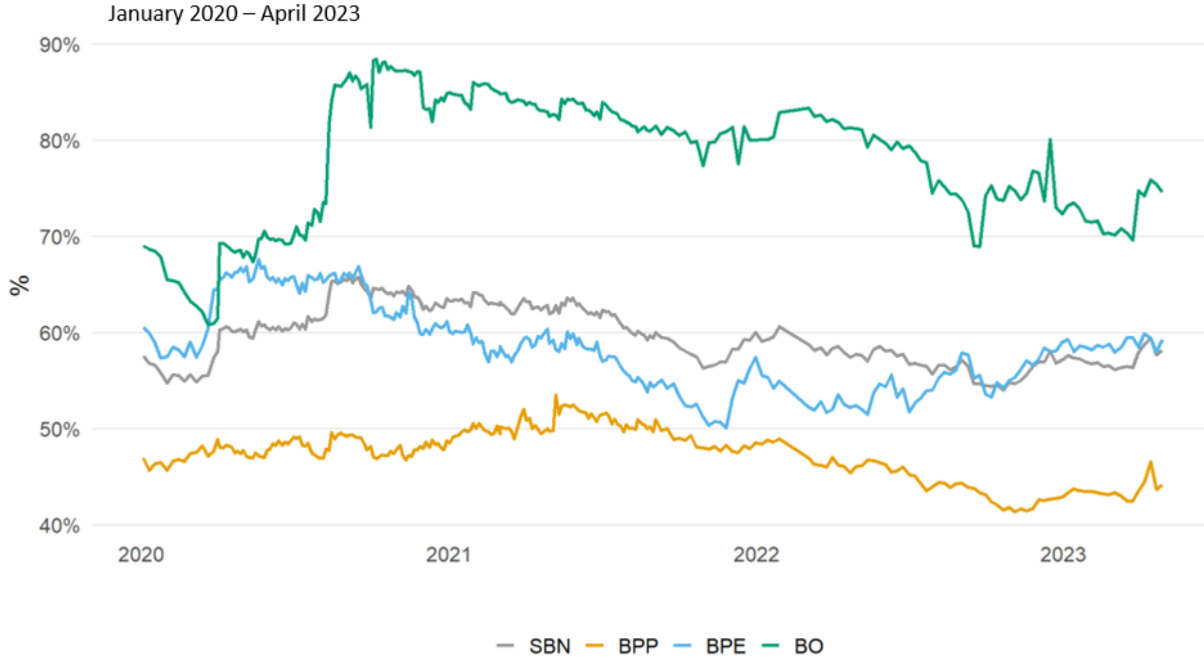
CBI bank deposits for April 2023 recorded a total of USD 99.85 billion, a USD 1.69 billion increase (+1.7%) over the same period in 2022. Domestic deposits recorded a decrease during this period of USD 1.21 billion, which represents a decline of 1.9% compared to April 2022 and responds to reductions in customers deposits (-1.9%) and government deposits (-2.7%). On the other hand, external deposits recorded an increase of USD 2.89 billion totaling USD 37.65 billion, having interbank deposits as the main component with an increase of 21.8% or USD 1.53 billion. In this regard, customer external deposits showed a 5.4% or USD 1.48 billion rise. In a context of greater profitability in term deposits through higher deposit interest rates, which would benefit the rearrangement of balances towards term deposits, the data recorded a performance as expected, with term deposits growing (both domestic and external) and demand deposits recording lower performances.

It is concluded that banks are resilient at the end of April 2023. However, the external macro financial juncture and given the more restrictive financial conditions resulting from the tightening of monetary policy frameworks, it is foreseeable that such events could involve prospective deterioration risks in credit quality. Therefore, the SBP will continue with the periodic monitoring of the main financial system indicators, along with the banking supervisor's active and preventive management.

A. Liquidity

At the end of April 2023, the Banking System's liquidity reached 58.5%, where the increase in deposits contributed to improving the liquidity of the banking system. In fact, a 1.7% year-on-year increase in this item had an impact on the banking system's liquidity ratio, which stood at 58.5% during the fourth month of the year, higher than the 56.7% of March 2023. Currently, local banks are in a well-heeled position with respect to regulatory requirements, which would allow them to face market volatility. SBN banks have historically had robust liquidity buffers and constant access to structural and wholesale deposits, which are a fundamental part of their funding. 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 liquidity needs and which, in turn, will make it easier to continue with credit growth.

Graph 1: Weekly average liquidity ratio
January 2020 – April 2023



Source: General License Banks

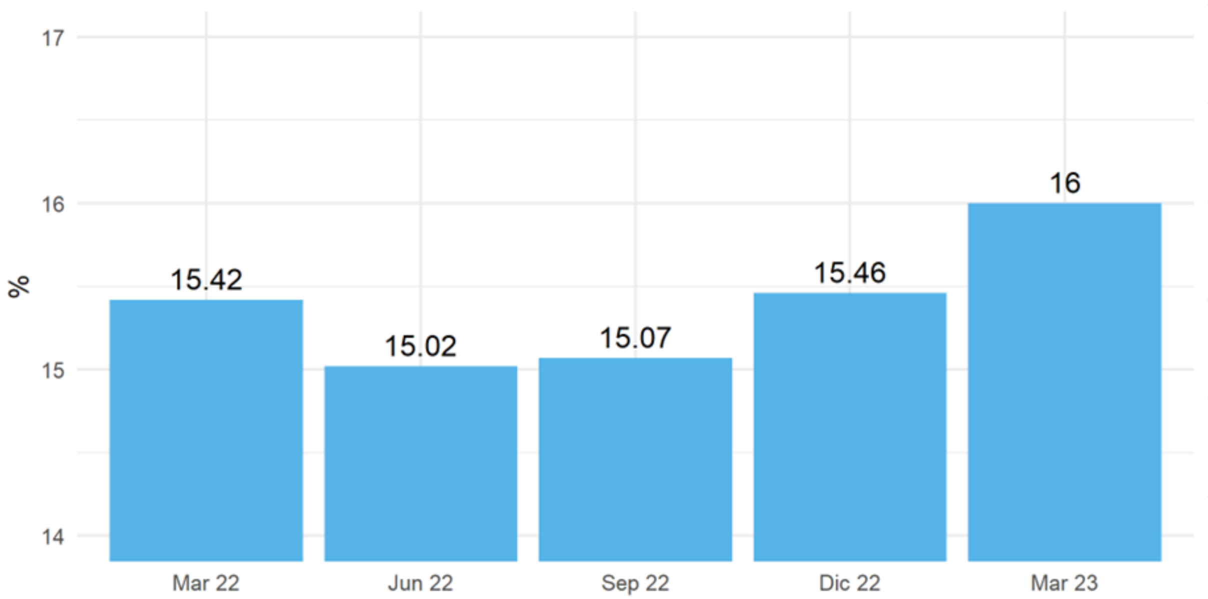
B. Solvency

The latest capital adequacy ratio (CAR) shows that the CBI aggregated solvency ratios remained in a well-heeled position. The CAR on risk-weighted assets (RWA) was 16% (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.

Profitability is expected to remain stable, which, with more cautious growth in the RWAs, will support capital adequacy metrics at most CBI banks. Currently, all banks running operations satisfactorily comply with the new bank capital regulatory standards.

Graph 2: Capital Adequacy Ratio
March 2022 – March 2023



Source: General and International License Banks

C. Income Statement

As of April 2023, the accumulated profits as of Q1 2023 of CBI banks totaled USD 937.8 million. This figure represents an increase in profits of 44.8% over the same period 12 months ago. This result was driven by the positive evolution of the financial margins and commissions, derived from credit portfolio growth; asset quality management, expense control; as well as a reduction in provisions in response to the preventive estimates for credit risk. Profitability was also boosted by receiving profits from other banking group entities.

Assets profitability responded significantly to the increase in net interest income (37.7%), in its portfolio interest income and securities component, and in other income account (5%). General expenses management amounted to USD 761.1 million, a 15.6% year-on-year increase.

General expenses also experienced a rise, going from USD 922.38 million (in 2022) to USD 999.31 million (in 2023), which represents a year-on-year growth of 8.3%.

Provisioning expenses decreased from USD 222.01 million (in 2022) to USD 181.59 million (in 2023), which represents an 18.2% decline. This drop in provisions show an improvement in assets quality and a more effective credit risk management, however there are asymmetrical outcomes between entities. Although this performance is based on the coverage levels of provisions generated during the pandemic, in conjunction with some regulatory provisions, proved to be an adequate buffer in stressed periods at that time, at the beginning of 2023, identified and monitored persistent risks in both the domestic and external component. 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.

To recapitulate, the Income Statement shows that the CBI had a strong performance in Q1 2023. Banks net income increased in aggregate by 44.8% year-over-year, driven by expansions in net interest income and other income. Banks general expenses increased but this was offset by a decrease in credit risk provisions.

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

International Banking Center	Jan.-Apr. 2022	Jan.-Apr. 2023	Difference %	Difference USD
Net interest income	819.58	1,125.58	37.3%	306.00
Other income	972.43	993.09	2.1%	20.66
Operating income	1,792.01	2,118.67	18.2%	326.66
General expenses	922.38	999.31	8.3%	76.93
Profit before provisions	869.63	1,119.37	28.7%	249.73
Provisioning expenses	222.01	181.59	-18.2%	-40.42
Profit for the period	**647.63**	**937.78**	**44.8%**	**290.15**

Source: General and International License banks.

The National Banking System recorded accumulated net profits, as of April 2023, of USD 679.8 million, 47.5% more than that of April 2022. Like what happened in the CBI, the greater credit activity and the lower provisioning had a positive impact on the sector's profits. It is expected that SBN banks will continue with cost control and operational efficiency strategies. Currently, CBI efficiency levels are around 54%.

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

National Banking System	Jan.-Apr. 2022	Jan.-Apr. 2023	Difference %	Difference USD
Net interest income	766.22	998.56	30.3%	232.33
Other income	761.92	772.35	1.4%	10.43
Operating income	1,528.14	1,770.90	15.9%	242.76
General expenses	848.03	912.45	7.6%	64.43
Profit before provisions	680.11	858.45	26.2%	178.34

National Banking System	Jan.-Apr. 2022	Jan.-Apr. 2023	Difference %	Difference USD
Provisioning expenses	219.32	178.66	-18.5%	-40.66
Profit for the period	**460.79**	**679.79**	**47.5%**	**218.99**

Source: General License banks.

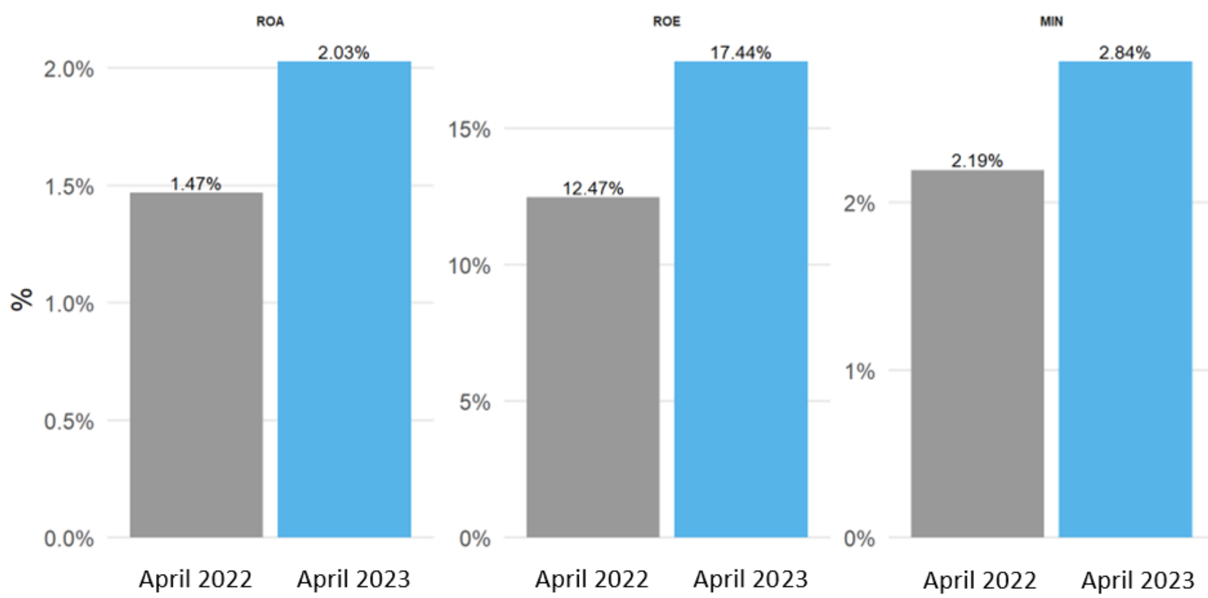
D. Profitability indicators

According to the previous result and in a more relative perspective, an improvement in the financial system's profitability is also observed, which would reflect enhancements in the financial margin and increases in service provision incomes. The Return on Equity (ROE) was 17.44%, representing an increase of 397 bps compared to the performance of Q1 2022 that reached 12.47%.

In terms of Return on Assets (ROA), it reached 2.03% at the end of the fourth month of the year, which in turn is 56 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
April 2022 – April 2023



Source: General and International License banks

E. Balance Sheet

CBI assets totaled USD 141.47 billion, a USD 5.45 billion or a year-on-year increase of 4.0% compared to that of April 2022. Banks assets sped up their expansion rate because of the net credit portfolio (8.1%) and the securities portfolio (3.9%) growth. Liquid assets, although have a lower year-on-year performance because of loan granting (-12.1%), increased when compared to March 2023 (a performance that can be observed since February) because of an improvement in the external deposits side thanks to the contributions made by foreign general license private banks and a state-owned bank.

It is worth noting that CBI assets are made up, mainly, by the credit portfolio that reported a balance of USD 84.27 billion, according to the financial statements submitted by the banks to the SBP. Regarding the performance of the net credit portfolio's external component, it increased by 14.7%.

On the liabilities side, deposits are a high percentage of the CBI's funding and finance its credit operations, which results in a low dependence on wholesale funding through market debt issuances, which are typically more volatile. Remarkably, banks' 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 April 2023 totaled USD 99.85 billion. These data show that banks in the market have maintained the depositors' confidence. It is noteworthy that a significant portion of these new deposits arises from the growth of term deposits concentrated in natural persons (which have high renewal rates) and, in turn, improve the banks' funding and liquidity profiles.

Obligations presented increases of 11.0% and other liabilities rose to 20.9% compared to April 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	Apr. 23/Apr. 22 Difference	
	April	April	Total	%
Liquid assets	22,400.5	19,683.3	-2,717.2	-12.1%
Net credit portfolio	77,946.5	84,261.7	6,315.3	8.1%
Domestic	*53,695.0*	*56,447.5*	*2,752.5*	*5.1%*
External	*24,251.5*	*27,814.2*	*3,562.8*	*14.7%*
Securities	28,640.3	29,756.9	1,116.5	3.9%
Other assets	7,028.0	7,759.1	731.1	10.4%
Total Assets	**136,015.3**	**141,461.0**	**5,445.7**	**4.0%**

Breakdown	2022	2023	Apr. 23/Apr. 22 Difference	
	April	April	Total	%
Deposits	98,164.1	99,844.4	1,680.3	1.7%
Domestic	*63,404.4*	*62,198.9*	*-1,205.4*	*-1.9%*
External	*34,759.7*	*37,645.5*	*2,885.8*	*8.3%*
Obligations	18,363.5	20,375.4	2,011.9	11.0%
Other liabilities	3,829.9	4,630.8	800.9	20.9%
Capital	15,657.8	16,610.4	952.6	6.1%

Source: General and International License banks

The National Banking System (general license banks only) assets amounted to USD 124.78 billion, USD 4.99 billion or 4.2% more than that of April 2022. The SBN net credit portfolio showed a USD 5.97 billion (8.4%) increase totaling USD 76.94 billion. Net external credits grew by 18.6%, while the net domestic portfolio had a performance of 5.1%. On the other hand, total deposits placed in the SBN amounted to USD 87.30 billion or a 1.7% rise.

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

Breakdown	2022	2023	Apr. 23/Apr. 22 Difference	
	April	April	Total	April
Liquid assets	18,385.5	15,519.2	-2,866.4	-15.6%
Net credit portfolio	70,964.8	76,933.8	5,969.0	8.4%
Domestic	*53,697.6*	*56,447.5*	*2,749.9*	*5.1%*
External	*17,267.2*	*20,486.3*	*3,219.0*	*18.6%*
Securities	23,725.3	24,986.2	1,260.8	5.3%
Other assets	6,711.0	7,339.2	628.2	9.4%
Total Assets	**119,786.7**	**124,778.3**	**4,991.6**	**4.2%**
Deposits	85,848.7	87,296.8	1,448.1	1.7%
Domestic	*63,339.0*	*61,979.2*	*-1,359.8*	*-2.1%*
External	*22,509.7*	*25,317.6*	*2,807.9*	*12.5%*
Obligations	18,272.2	20,239.3	1,967.1	10.8%
Other liabilities	3,639.1	4,109.7	470.7	12.9%
Capital	12,026.7	13,132.5	1,105.8	9.2%

Source: General License banks

F. Loans

As of April 2023, the National Banking System recorded growth in the domestic gross credit portfolio, which reached a total of USD 58.64 billion, a 4.7% increase when compared to the data reported at the end of April 2022, which is equivalent to a USD 2.63 billion growth in a year. Although this performance is positive, it has been showing a slight slowdown since November 2022 (see **Graph 4**).

In Q1 2023, banks' domestic credit kept growing. During this period, the pass portfolio to the private sector increased 4.7% mainly driven by the household and commercial components (see **Table 5**). The banks with the largest market share reported, on average, an increase in demand in the large companies, non-banking financial intermediaries, cards, automotive, and personal segments.

Graph 4: Credit Portfolio Growth
April 2016 – April 2023

Source: General License Banks

The performance of loans to corporations and legal persons is mainly explained by the performance of commercial (6.8%) and industrial (6.5%) loans. It should be noted that the largest of categories accelerated, including construction that is still in negative numbers, but the decline is less. Growth recorded a performance in most of the portfolios that make up this type of loans, even in the current juncture of higher interest rates for these loans, which could be partially explained by greater business confidence, as well as by the better performance of real sector activities.

As regards the balance of loans to households, consumption continued with positive outcomes, but it has starting to slow down. The latest data continue to show resilience in the first months of the year despite interest rate hikes announcements. Breaking down the household credit portfolio, the mortgage loans presented an annual growth of 6.7, amounting to USD 17.42 billion, and the personal consumption portfolio rose 1.9% compared to April 2022, totaling USD 13.20 billion.

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

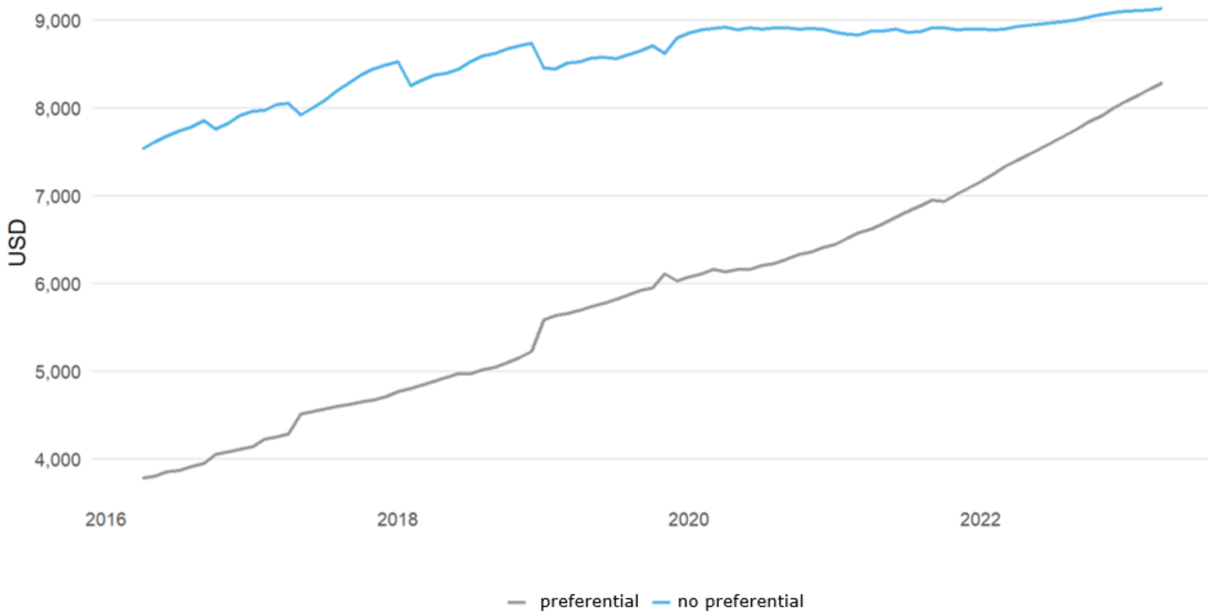
Sector	April 2022	April 2023	Apr. 22/Apr. 23 Difference	
			Total	%
TOTAL	**56,012.5**	**58,632.6**	**2,620.1**	**4.7%**
Public sector	1,476.1	1,553.0	76.9	5.2%
Private sector	54,498.3	57,079.6	2,581.3	4.7%
Financial & insurance activities	1,288.8	1,679.6	390.8	30.3%
Agriculture	452.7	496.1	43.4	9.6%
Livestock	1,387.0	1,426.8	39.8	2.9%
Fishing	87.7	121.6	33.9	38.7%
Mining & Quarrying	52.7	62.9	10.3	19.5%
Commerce	11,006.2	11,752.3	746.0	6.8%
Industry	3,084.3	3,285.9	201.5	6.5%
Mortgages	19,056.7	20,062.2	1,005.5	5.3%
Construction	5,161.3	4,992.4	-168.9	-3.3%
Personal consumption	12,959.1	13,199.9	240.8	1.9%

Source: General License banks

The mortgage loan recorded a 5.3% growth in April 2023, compared to that recorded a year ago, thus maintaining the intensity observed in recent months. This type of credit was favored by the year-on-year increase in mortgage housing loans, particularly the preferential [interest rate] loans.

Bank credit for home purchases continued with a pace like that of Q1, with a year-on-year growth of 6.7% in this way, the balance of that portfolio added USD 17.42 billion. Mortgage loans is the only segment that has not fallen even in the most complicated months because of the COVID-19 pandemic. It should be noted that although non-preferential interest rate loans have historically been higher in terms of balance, the performance of the subsidized portfolio in the last couple of years has been very positive, which is why it could temporarily reach levels like the balance of the other portfolio (see **Graph 5**). By type of loans, the preferential interest rate (12.3%) continued to show a positive performance, while non-preferential interest rate loans (2.3%) continued to grow. The good performance of the labor market and consumer confidence will continue to be determining factors in boosting household credit.

Graph 5: Household Credit
April 2016 – April 2023



Source: General License Banks

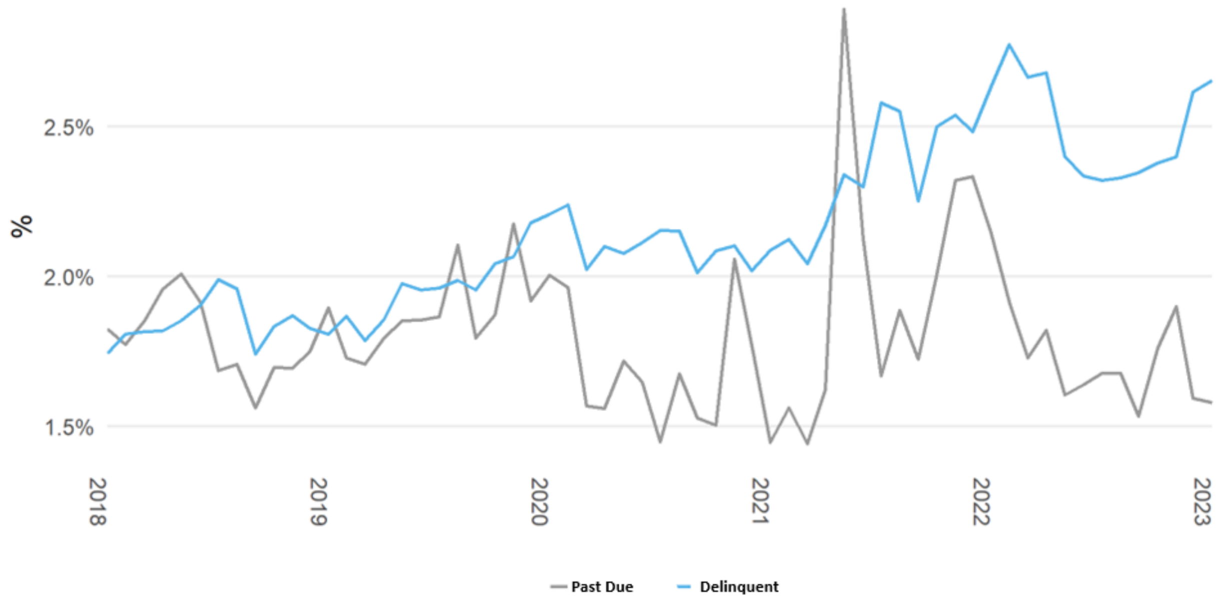
G. Credit Risk

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 April 2023, the CBI showed a delinquency ratio of 4.2%, of which 1.6% represents loans with arrears of 30+ days and 2.6% for loans that are over 90+ days past due.

Provisioning for delinquent and overdue loans was improved during the pandemic, increasing the banks' ability to absorb losses due to future loan impairment. Therefore, it is expected that during 2023 the asset quality will continue to be controlled, even if the economic conditions are moderately weaker. Provisioning for impaired loans reached 107.8%. However, given the increasing interest rate and other external risks, some deterioration in the portfolio quality indicator is foreseeable for 2023 because of a less favorable operating environment and the maturity of consumer loans.

In the specific case of delinquency, a downward trend can be observed despite the current inflationary environment, which would reflect better credit evaluation and approval conditions by banks, but also a better use of this type of financing from customers. CBI credit delinquency has decreased at the margin standing at 1.6% in April 2023 (vs. 2.0% in April 2022).

Graph 6: Portfolio Quality: Past Due and Delinquent
April 2018 – April 2023



Source: General License and International License Banks

H. Deposits

CBI deposits for April 2023 totaled USD 99.85 billion, USD 1.68 billion more (+1.7%) versus April 2022 (see **Table 8**). Domestic deposits recorded a decrease during the surveyed period of USD 1.21 million, which represents a decline of 1.9% compared to April 2022, which responds to a reduction in customer deposits (-1.9%) and government deposits (-2.7%). It is noteworthy that the balance of traditional bank deposits, i.e., demand deposits, savings that can be withdrawn at any time, have been slowing down, which could be partially explained by the need to increase household current spending and business requirements.

On the other hand, external deposits grew by USD 2.89 billion reaching USD 37.65 billion, having interbank deposits as the main component with a 21.8% or USD 1.53 billion increase. By the same token, external deposits showcased a rise of 5.4% or USD 1.48 billion.

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

Accounts	2022 April	2023 April	Apr. 23/Apr. 23 Difference Total	%
Deposits	98,164.1	99,844.4	1,680.3	1.7%
Domestic	63,404.4	62,198.9	-1,205.4	-1.9%
Government	12,335.3	12,003.6	-331.7	-2.7%
Customer	47,934.7	47,004.5	-930.2	-1.9%
Banks	3,134.4	3,190.9	56.5	1.8%

Accounts	2022 April	2023 April	Apr. 23/Apr. 23 Difference	
			Total	%
External	34,759.7	37,645.5	2,885.8	8.3%
Government	401.4	292.6	-108.8	-27.1%
Customer	27,387.9	28,860.6	1,472.7	5.4%
Banks	6,970.4	8,492.3	1,521.9	21.8%

Source: General and International License banks.

In the case of the SBN banks, there is a trend like that of the CBI, recording a total balance of USD 87.30 billion, a 1.7% increase versus April 2022, driven by external deposits since domestic deposits had an underperformance (see **Table 9**).

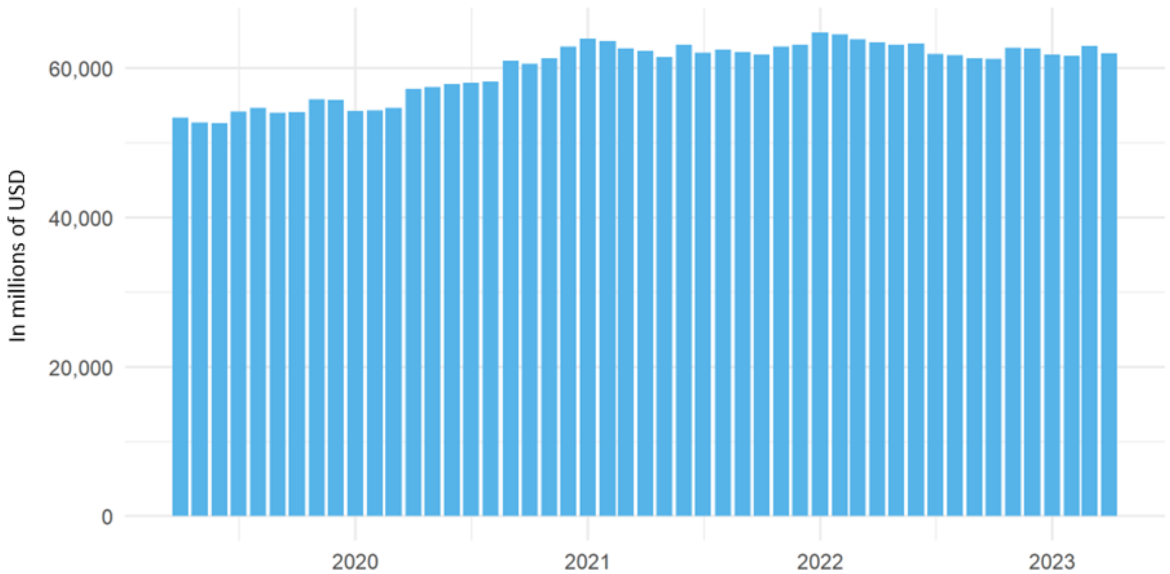
Table 9: National Banking System
Total Deposits
(In millions of USD)

Accounts	2022 April	2023 April	Apr. 23/Apr. 23 Difference	
			Total	%
Deposits	85,848.7	87,296.8	1,448.1	1.7%
Domestic	63,339.0	61,979.2	-1,359.8	-2.1%
Government	12,335.3	12,003.6	-331.7	-2.7%
Customer	47,934.7	47,004.4	-930.2	-1.9%
Banks	3,069.0	2,971.1	-97.9	-3.2%
External	22,509.7	25,317.6	2,807.9	12.5%
Government	399.2	240.9	-158.2	-39.6%
Customer	15,645.0	17,193.6	1,548.7	9.9%
Banks	6,465.6	7,883.0	1,417.5	21.9%

Source: General License banks.

The structure of CBI deposits is based mainly on taking the natural and legal persons deposits that account for 85% of total deposits. It should be noted that SBN domestic deposits represent 71.0% of total system deposits. **Graph 7** shows the evolution of domestic deposit balance.

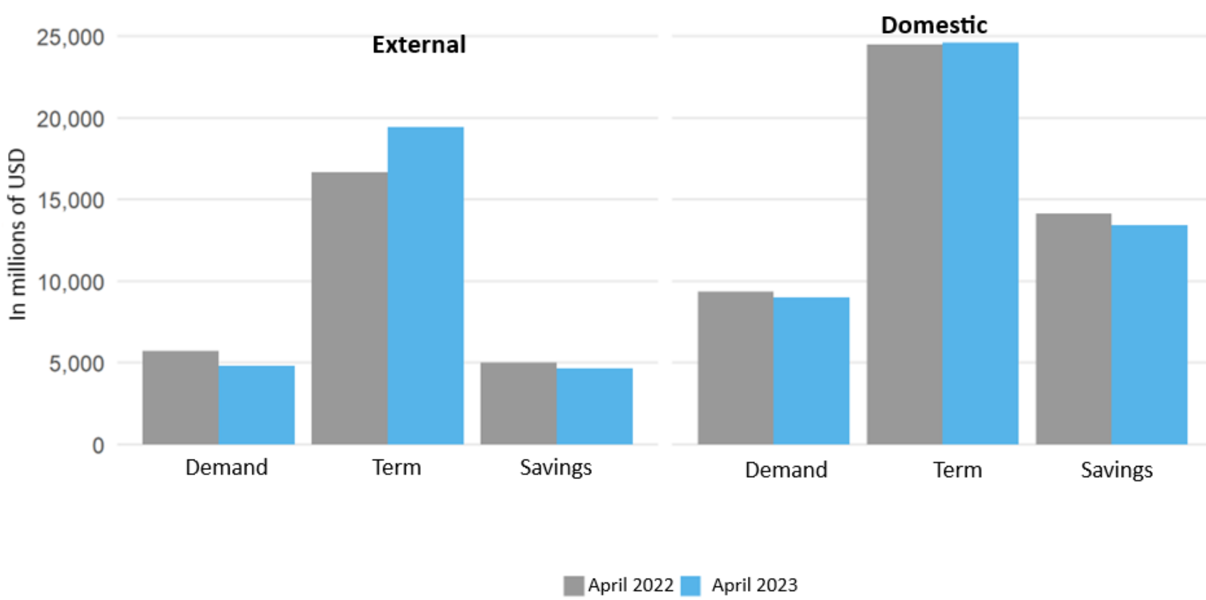
Graph 7: Total Domestic Deposits
April 2019 – April 2023



Source: General license banks.

Regarding the structure of customer liabilities by maturity, term deposits continue to be the most important savings instrument. The Banking Center, as of April 2022, held customers term deposits that amounted to USD 24.59 billion; followed by savings deposits, USD 13.43 billion; and demand deposits, USD 8.99 billion.

Graph 8: Customer Deposits
April 2022 – April 2023



Source: General and International license banks.

Although until a few months ago the reported balances grew, during April individual demand and savings deposits showed declines. Term deposits continue to be the most productive customer deposits component, growing 6.9% on a yearly basis. During the surveyed period, term deposits sped their expansion rate, favored by a context of higher interest rates that made savings in this type of instrument more attractive. In a situation of greater profitability in term deposits through higher deposit interest rates, which would benefit the rearrangement of balances towards term deposits, the data recorded a performance as expected, with term deposits growing (both domestic and external) and demand deposits recording lower performances.

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