Banking Activity Report

November 2022

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Executive Summary

As of November 2022, banks maintained adequate capital and adequacy ratios, demonstrating a system with stable financial fundamentals. At the end of the month, the continuous growth of the credit portfolio improved profitability, while a general reduction in the risky portfolio was observed, both in the portfolio under the credit risk stipulations of [Banking] Rule 4-2013 and in the special regulatory conditions called 'modified loans.' Banks also highlighted that funding levels are stable, and liquidity levels exceeded regulatory requirements.

The assets of the International Banking Center (CBI, for its acronym in Spanish) totaled USD 140.13 billion, representing an increase of USD 7.31 billion compared to November 2021, or a year-on-year rise of 5.5%. Banks' assets accelerated their expansion rate, driven by higher growth in the net credit portfolio (12.7%) and the securities portfolio (6.8%). As mentioned in previous reports, although liquid assets fell slightly (-18.1%), this is a corresponding reflection of productive assets.

The domestic gross credit portfolio of the National Banking System (SBN, for its acronym in Spanish) recorded a total growth of USD 58.93 billion, with a 12-month performance of 6.4% (USD 3.54 billion), attributed to increased demand for credit. New loan applications and approvals continued to show positive performance throughout the year. As of the end of November 2022, new loans reached a cumulative amount of USD 23.91 billion, reflecting a 60.6% increase compared to November 2021. However, when assessing November specifically, there was a negative output (-3.0% compared to November 2021) due to decreased activity in sectors, with a notable decline in lending to public entities. Additionally, a decay was observed during the month compared to previous months, influenced by a calendar effect (fewer business days due to national holidays compared to 2021) and lower lending in the corporate portfolio, which had reached record highs in the middle of the year due to end-of-year goods purchases.

The quality of bank assets has remained stable in recent months. The delinquency ratio stood at 4.0%, with 1.7% representing loans with arrears of 30+ days and 2.3% for loans with arrears of over 90+ days. The performance of nonperforming loans affects the delinquency ratio. As of the end of November 2022, nonperforming loans with arrears of 90+ days decreased to 2.3% due to write-offs and the expansion of the credit portfolio. Provisioning for impaired loans reached 135.9%. However, some deterioration in the portfolio quality indicator is expected for 2023 due to a less favorable operating environment and the maturity of consumer loans.

It is noteworthy that the share of the modified loan portfolio within the overall portfolio has decreased significantly to 2.7% in November 2022 from 47.6% in July 2020. This decrease indicates that asset quality pressures have been successfully mitigated. As of November 2022, the total value of the modified [loan] portfolio stood at USD 1.61 billion, representing the largest reduction compared to October 2022, with a month-on-month decrease of 38.8% (USD 1.02 billion). Within this portfolio, the riskiest components, namely the modified doubtful and modified loss categories, amounted to

USD 441 million. The latest regulations stipulate that banks have until 31 December to restore the modified loans to comply with Rule 4-2013 on credit risk.

In November, the profits of CBI banks reached USD 1.66 billion, reflecting a 36.6% increase compared to the same period in 2021. This growth was primarily driven by positive developments in the financial margin and commissions, resulting from the expansion of the loan portfolio, extraordinary income from a banking group, robust asset quality management, expense control, and a decrease in provisioning. With this performance, the net profit of the baking system is approaching pre-pandemic levels.

As of November 2022, IBC deposits amounted to USD 98.85 billion, experiencing a USD 1.72 billion (1.8%) increase. Additionally, external deposits grew by USD 1.84 billion, reaching USD 36.12 billion. The liquidity position of banks is currently stable and has been strengthened by the increase in deposits over the past year, ensuring adequate liquidity in the current circumstances. It is expected that bank liquidity will remain strong, given their dynamic participation in the deposit market and access to domestic and global capital and debt markets.

In conclusion, the Panamanian financial system has demonstrated ongoing resilience and a solid overall position. However, considering the weakened global economic outlook for 2023, it will be essential for banks to maintain sufficient provisioning and adopt prudent capital planning. The SBP will continue monitoring the effects of the international and domestic environment on market liquidity and solvency, maintaining close communication with financial authorities to ensure stability in the current situation.

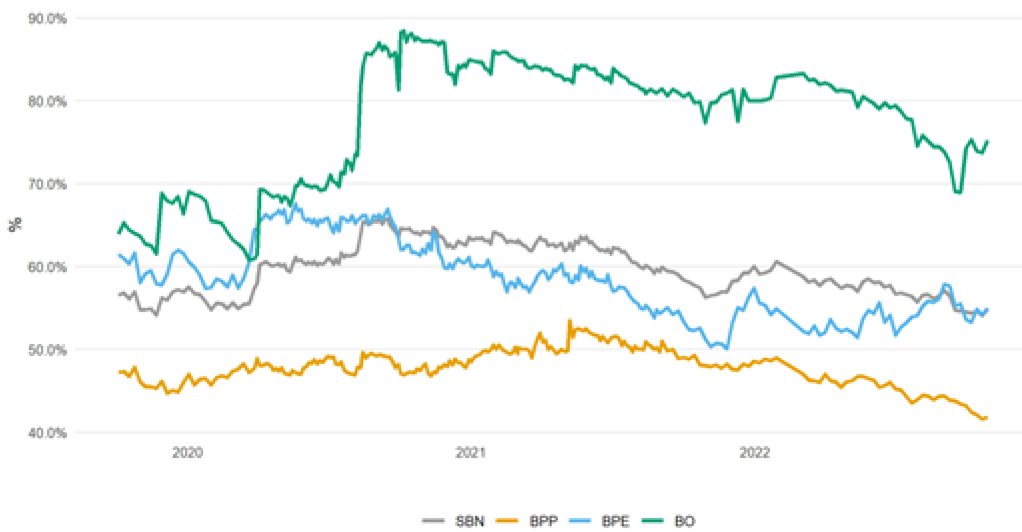
A. Liquidity

At the end of November 2022, the liquidity of the Banking System reached 55.46%, which exceeds the regulatory minimums on 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 large part due to their robust liquidity and reduced dependence on external financing. The system's banks have historically had robust liquidity buffers and constant access to structural deposits, which are a fundamental part of their funding.

In relation to liquidity to date, although there has been a certain decrease in ratios versus the levels reached in 2021, the financial system maintained adequate liquidity ratios at the aggregate level, with sufficient resources to meet its short-term financing needs. This will make it easier to resume credit growth. According to our predictions included in previous reports, it was expected that, as the economic performance recovers and the loan portfolio is invigorated, liquidity levels would be reduced but to levels that are still considered good against environmental risks. The decreases recorded reflect greater loan granting.

Graph 1: Weekly average liquidity ratio

November 2019 – November 2022



Source: General License Banks

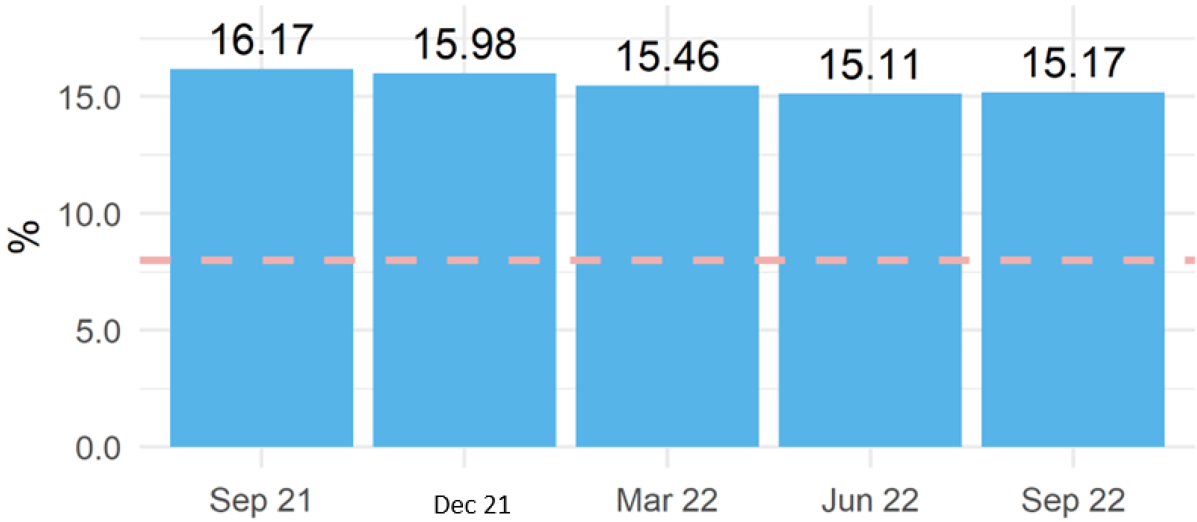
B. Solvency

At the end of the third quarter of 2022, corresponding to the latest capital adequacy ratio (CAR) available, the International Banking Center's aggregate solvency ratios remained high. The CAR on risk-weighted assets (RWA) was 15.17% at the end of September 2022 (see **Graph 2**), exceeding the regulatory minimum of 8%. Capital compliance of the banks that make up the CBI did not record significant changes compared to the previous quarter.

The decrease that has been recorded in recent years resulted from increases in RWAs, driven by strong private sector loans and a decline in capital funds. This decrease in capital funds responded to the use of the dynamic provision, in accordance with the stipulations of Circular No. SBP-DR-0124-2020 dated 15 April 2020 and as previously established in Article 5 of

[Banking] Rule 2-2020 dated 16 March 2022. Currently, all banks running operations satisfactorily comply with the new bank capital regulatory standards.

Graph 2: Capital Adequacy Ratio
September 2021 – September 2022



Source: General and International License Banks

C. Income Statement

As of November 2022, the profits of CBI banks totaled USD 1.66 billion, a figure that represents a 36.6% increase compared to the same period in 2021. This growth was primarily driven by the positive evolution of the financial margin and commissions, derived from the growth of the loan portfolio, extraordinary income from a banking group, robust asset quality management, expenses control, and a decrease in provisioning. With this result, the net profit of the banking system would be at levels closer to the pre-pandemic period.

In addition to receiving profits generated abroad by an International License bank, it is noteworthy that asset profitability remained positive. When considering gross results, 51.8% corresponded to net interest income, 13.2% to securities (valuation and sale), 18.2% to financial services (commissions and services), and the remaining to other components. It is noteworthy that, due to the cycle of interbank market interest rate hikes, deposit profits increased by 12.2%.

General expenses amounted to USD 2.67 billion, a year-on-year rise of 23.4%. This increase responded, in part, to digitalization initiatives. Banks are well-positioned to absorb short-term costs associated with increased investment in financial technology, which could lead to greater efficiency, reduced cyber risks, and the development of new products and services.

Net bad debt provision totaled USD 649.3 million, an amount 11.3% lower than that recorded in the same period in 2021. It is worth noting that these lower preventive provisions would have contributed to the growth in bank profits, as they occur in a context where there has been an economic recovery like 2019 and an improvement in the labor market, factors that would have mitigated the risks caused by the COVID-19 pandemic. These improvements in CBI banks' profitability and relatively more conservative risk appetite, backed by cautious growth, would support the capital adequacy metrics for the foreseeable future. However, although it is expected that the increase in loans and efficiency gains will support improvements in banks' financial margins in the short-term, moving forward, there are risks to financial stability arising from a more complex macro-financial context, tightening financing conditions, and increased uncertainty. Therefore, given the weakening of global economic prospects towards 2023, it will be necessary for banks to have adequate provisioning and to develop prudent capital planning that allows losses to be absorbed in the event of potential unexpected shocks.

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

International Banking Center	Jan.-Nov. 2021	Jan.-Nov. 2022	Difference %	Difference USD
Net interest income	2,149.5	2,577.9	19.9%	428.4
Other income	1,956.8	2,395.4	22.4%	438.6
Operating income	*4,106.2*	*4,973.2*	*21.1%*	*867.0*
General expenses	*2,163.5*	*2,669.6*	*23.4%*	*506.1*
Profit before provisions	1,942.7	2,303.6	18.6%	360.9
Provisioning expenses	731.8	649.3	-11.3%	(82.4)
Profit for the period	**1,210.9**	**1,654.3**	**36.6%**	**443.4**

Source: General and International License banks.

The National Banking System recorded accumulated net profits of USD 1.35 billion, as of November 2022, representing a 31.4% increase compared to November 2021. Like what happened in the CBI, increased 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	Jan.-Nov. 2021	Jan.-Nov. 2022	Difference %	Difference USD
Net interest income	2,032.2	2,368.9	16.6%	336.7
Other income	1,706.9	2,047.8	20.0%	340.9
Operating income	*3,739.1*	*4,416.7*	*18.1%*	*677.6*
General expenses	*1,987.2*	*2,433.7*	*22.5%*	*446.5*
Profit before provisions	1,751.9	1,983.0	13.2%	231.1
Provisioning expenses	726.5	636.0	-12.5%	-90.5
Profit for the period	**1,025.4**	**1,346.9**	**31.4%**	**321.5**

Source: General license banks.

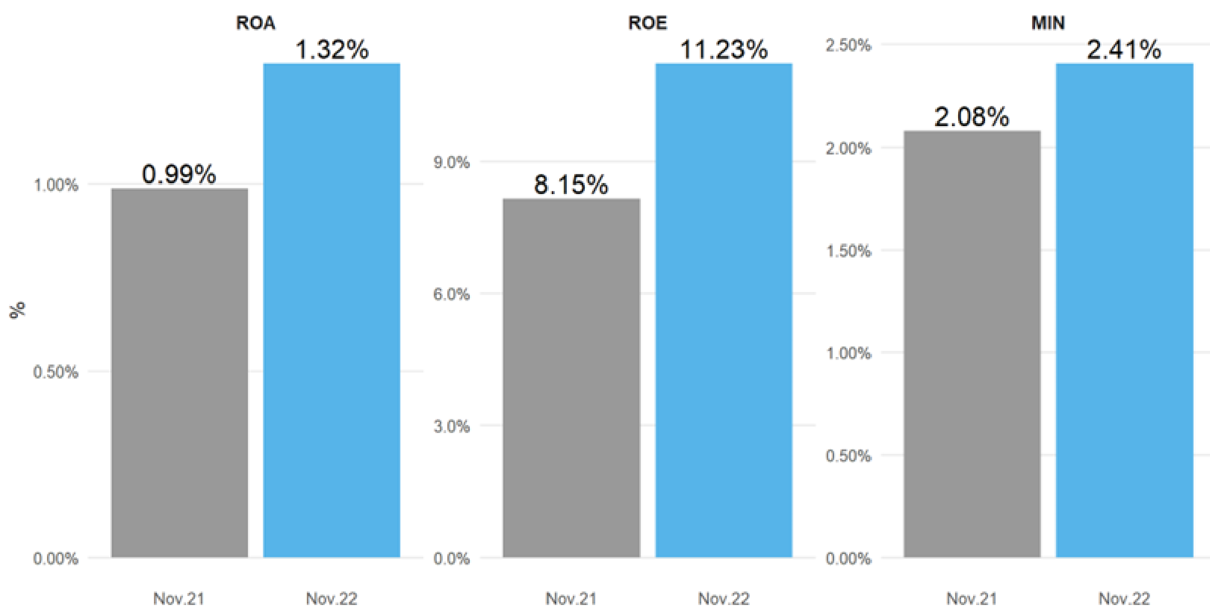
In nominal terms, both the CBI and the SBN recorded slightly higher financial margins than pre-pandemic levels. It is expected that system banks will continue with cost control and operational efficiency strategies. Currently, CBI efficiency levels are around 53%.

D. Profitability indicators

As of November 2022, the CBI presented positive profitability indicators higher than those observed a year earlier. Thus, the total CBI results reached 1.32% (ROA) and 11.23% (ROE); i.e., 33 percentage points and 307 percentage points higher, respectively, than those a year earlier (see **Graph 3**). This increase occurred in an environment of improved placements, a greater positive contribution of extraordinary outputs, and a decrease in provisions for asset impairment.

Although this result is positive, it is asymmetrical among credit entities, and there are still challenges ahead, including recognizing the impairment of modified loans, maintaining the capitalization of profits to continue having capital strength, and continuing with the process of phasing out temporary regulatory flexibilities included in the modified loan categories.

Graph 3: Profitability Indicators - CBI
November 2021 – November 2022



Source: General and International License banks

E. Balance Sheet

CBI assets totaled USD 140.13 billion, representing a USD 7.31 billion increase compared to November 2021, a year-on-year rise of 5.5%. Bank assets accelerated their expansion rate due to higher growth in the net loan portfolio (12.7%) and securities (6.8%). As mentioned in previous reports, on the liquid assets side, although they fell short (-18.1%), this is a reflection, in contrast, of the increase in productive assets. The banks' liquidity position is currently stable and has strengthened with the growth of deposits over the last year, reflecting adequate liquidity given the current situation. The deposits-loans ratio as of November 2022 stood at 84.7%. Bank liquidity is expected to remain strong as banks are active in the deposit market and have access to domestic and global debt markets. It is worth noting that CBI assets are primarily composed of the credit portfolio, which reported a balance of USD 83.39 billion as of the same date, according to the financial statements reported by local banks to the SBP. The CBI credit portfolio continues to evolve favorably, and expectations of new placements are in an expansion zone, but with less growth going forward due to the scenario of international monetary policy standardization and the lower growth outlook for the second half of the year. The external net credit portfolio increased by 28.2%.

Regarding bank financing sources, they represent a high percentage of the CBI's funding and finance its lending operations, resulting in low dependence on wholesale funding through market debt issuances, which are typically more volatile. It is worth noting that the 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 November 2022 totaled USD 98.85 billion and recorded a USD 1.72 billion (1.8%) increase.

Obligations showed an increase of 36.0%, while other liabilities declined by 0.2% compared to November 2021. As for obligations, it is worth noting that these instruments also include financing through issuances. Although there have been increases in the cost of borrowing, current market conditions could generate an appetite for this type of strategy to mitigate liquidity risks in the future, reduce uncertainty over even higher rates that could affect new investment decisions, and take advantage of the flattening of the yield curve between short-term and medium-term rates.

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

Breakdown	2021	2022	Nov. 22/Nov. 21 Difference	
	November	November	Total	%
Liquid assets	24,114.4	19,751.4	-4,363.1	-18.1%
Net loan portfolio	74,268.4	83,685.8	9,417.4	12.7%
Domestic	*53,189.3*	*56,665.1*	*3,475.8*	*6.5%*
External	*21,079.1*	*27,020.7*	*5,941.6*	*28.2%*
Securities	27,168.9	29,005.3	1,836.4	6.8%
Other assets	7,269.1	7,680.6	411.4	5.7%
Total Assets	**132,820.8**	**140,123.0**	**7,302.2**	**5.5%**
Deposits	97,134.9	98,848.8	1,713.8	1.8%
Domestic	*62,855.8*	*62,733.4*	*-122.5*	*-0.2%*
External	*34,279.1*	*36,115.4*	*1,836.3*	*5.4%*
Obligations	15,441.4	21,006.7	5,565.3	36.0%
Other liabilities	4,183.7	4,173.4	-10.2	-0.2%
Capital	16,060.8	16,094.1	33.3	0.2%

Source: General and International License banks

The assets of the National Banking System totaled USD 123.79 billion, which is USD 7.64 billion or 6.6% higher than that of November 2021. The net credit portfolio of the National Banking System showed a USD 7.80 billion (11.4%) increase, amounting to USD 76.16 billion. Net external credits grew by 28.5%, while the net domestic portfolio had a performance of 6.5%. On the other hand, total deposits placed in the SBN amounted to USD 86.62 billion, reflecting a 1.9% rise, which is the result of customer deposits.

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

Breakdown	2021	2022	Nov. 22/Nov. 21 Difference	
	November	November	Total	%
Liquid assets	18,949.0	16,066.8	(2,882.16)	-15.2%
Net loan portfolio	68,360.0	76,152.8	7,792.76	11.4%
Domestic	*53,189.3*	*56,665.1*	*3,475.79*	*6.5%*
External	*15,170.7*	*19,487.7*	*4,316.97*	*28.5%*
Securities	22,132.5	24,260.3	2,127.76	9.6%
Other assets	6,713.8	7,307.8	594.00	8.8%
Total Assets	**116,155.3**	**123,787.7**	**7,632.36**	**6.6%**
Deposits	84,968.6	86,614.7	1,646.11	1.9%
Domestic	*62,769.5*	*62,522.4*	*(247.14)*	*-0.4%*
External	*22,199.1*	*24,092.3*	*1,893.25*	*8.5%*
Obligations	15,096.9	20,617.6	5,520.67	36.6%
Other liabilities	3,696.9	3,982.2	285.39	7.7%
Capital	12,392.9	12,573.1	180.19	1.5%

Source: General License banks

F. Credit

As of November 2022, the National Banking System recorded growth in the gross credit portfolio, which totaled USD 58.93 billion, with a 6.4% increase or USD 3.54 billion compared to November 2021.

The private sector represents 97% of loan granting within the financial system. At the private sector level, activity has shown a 6.4% growth, while each sector has different financing needs. Regarding the corporate portfolio balance, in November 2022, all productive activities showed positive performance, except for Mining and quarrying (-4.0%) and Construction (-7%). On the consumer credit portfolio side, despite showing positive figures, there are signs of moderation in its growth trend. Mortgages showed an annual growth of 6%, amounting to USD 19.74 billion and personal consumption increased by 1.3% compared to the same period a year earlier, reaching USD 13.075 billion.

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

Sector	November 2021	November 2022	Nov. 22/Nov. 21 Difference	
			Total	%
TOTAL	55,393	58,924	3,531	6.4%
Public sector	1,657	1,931	274	16.5%
Private sector	53,736	56,992	3,256	6.1%
Financial & insurance activities	1,067	1,942	875	82.0%
Agriculture	430	482	52	12.1%
Livestock	1,368	1,422	54	3.9%
Fishing	84	120	36	42.9%
Mining & Quarrying	52	50	-2	-3.8%
Commerce	10,965	11,860	895	8.2%
Industry	2,835	3,340	505	17.8%
Mortgages	18,681	19,732	1,051	5.6%
Construction	5,351	4,970	-381	-7.1%
Personal consumption	12,904	13,075	171	1.3%

Source: General License banks

Regarding new loan applications and approvals so far this year, they remain positive. As of the end of November 2022, they reached an accumulated amount of USD 23.91 billion, a 60.6% increase compared to November 2021. However, when specifically assessing November, it presented negative results due to a decrease in sectors, particularly lending to public entities. Additionally, a decline was observed during the month compared to previous months, which can be attributed to a calendar effect (fewer business days due to national holidays compared to 2021) and lower lending in the corporate portfolio, which had reached record highs in the middle of the year due to end-of-year goods purchases.

Table 6: National Banking System
New domestic loans by sectors and activities
(In millions of USD)

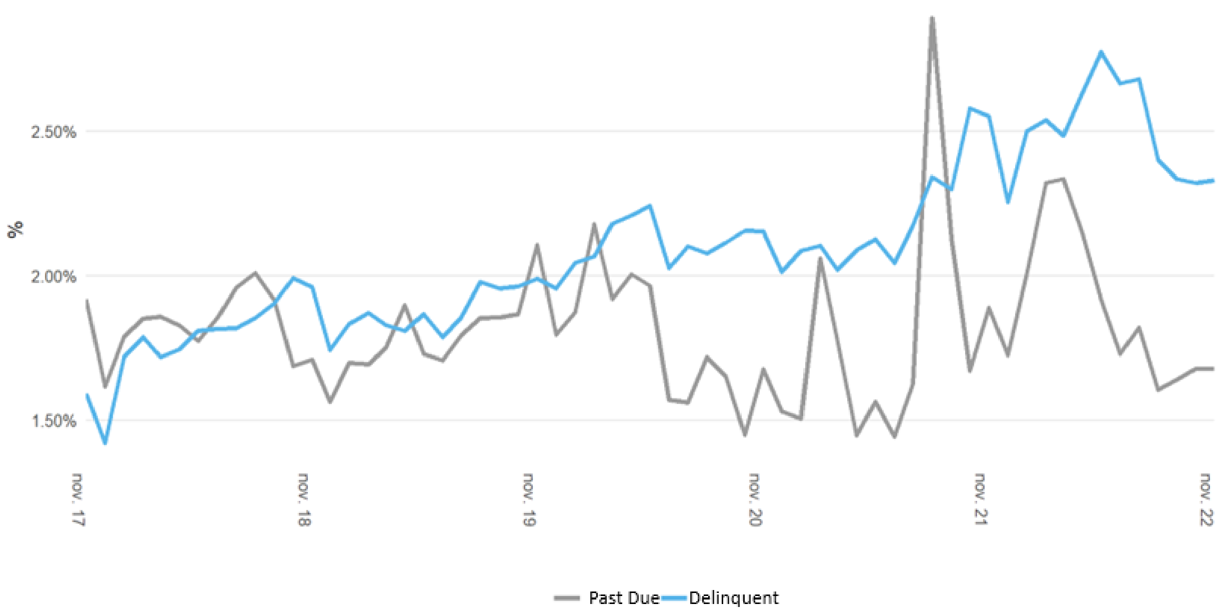
Sectors	Nov.	Nov.	Jan.-Nov.	Jan.-Nov.	Nov. 22/Nov. 21 Difference		Jan.-Nov. 22/21 Difference	
	2022	2022(P)	2021	2022	Total	%	Total	%
Public entity	505,022	54,345	741,550	2,023,624	(450,678)	-89.2%	1,282,074	172.9%
Financial companies	96,728	278,118	575,564	1,777,707	181,390	187.5%	1,202,143	208.9%
Agriculture	9,427	16,250	170,010	238,750	6,823	72.4%	68,740	40.4%
Livestock	27,667	34,539	454,994	696,172	6,872	24.8%	241,178	53.0%
Fishing	2,890	2,550	33,203	43,288	(341)	-11.8%	10,085	30.4%
Mining & Quarrying	319	455	10,206	12,758	136	42.6%	2,552	25.0%
Commerce (incl. Services)	572,474	708,894	6,448,134	11,016,786	136,420	23.8%	4,568,653	70.9%
Industry	177,834	136,669	2,048,599	2,253,953	(41,165)	-23.1%	205,354	10.0%
Mortgages	132,288	178,971	1,647,656	1,994,667	46,683	35.3%	347,011	21.1%
Construction	72,248	110,631	977,188	1,719,594	38,383	53.1%	742,406	76.0%
Personal consumption	148,783	171,275	1,773,258	2,123,784	22,493	15.1%	350,526	19.8%
TOTAL	**1,745,680**	1,692,698	**14,880,361**	**23,901,083**	**(52,983)**	**-3.0%**	**9,020,721**	60.6%

G. Credit Risk

The National Banking System, as of November 2022, recorded a delinquency ratio of 4.0%, of which 1.7% represents loans with arrears of 30+ days and 2.3% for loans with arrears of over 90+ days.

As for provisioning for delinquent or overdue loans, it was strengthened during the pandemic, increasing the banks' capacity to absorb losses from potential loan impairments.

Graph 4: Portfolio Quality: Past Due and Delinquent
November 2017 – November 2022



Source: General License Banks

H. SBN Modified [Loan] Portfolio Structure

As part of the efforts to mitigate the financial risks caused by the pandemic, the SBP developed several regulations to focus the efforts of the supervised entities on defining and implementing measures to mitigate the effects of the financial market conditions and the pandemic, which are now included in what is called a modified [loan] portfolio. As of November 2022, this portfolio totaled USD 1.61 billion.

On the other hand, in the framework of the classification established by the Board of Directors' General Resolution SBP-GJD-0003-2021, as of the end of November 2022, the portfolios that could entail the greatest risk would be the modified doubtful and modified loss categories, as they have not been able to make payment arrangements to date and together amount to USD 440 million.

On 1 November 2022, [Banking] Rule 12-2022 was published, which established the parameters and guidelines for reinstating the Modified Special Mention loans to comply with the stipulations of [Banking] Rule 4-2013. These stipulations will apply to banks that have loans classified as "Modified Special Mention" as of the rule's effective date.

The banks will migrate the loans classified under the "Modified Special Mention" category to the risk categories included in [Banking] Rule 4-2013, in accordance with the parameters established in that article. Initially, the days of arrears that each loan has will be used as a reference.

Table 7: Modified loans of the National Banking System by Economic Activity
(In millions of USD)

Sectors	2021 November	2022 November	Total Diff.	% Diff.
Mortgages	5,329	879	-4,450	-83.5%
Consumer	2,422	435	-1,987	-82.0%
Construction	1,664	52	-1,612	-96.9%
Services	1,504	172	-1,332	-88.6%
Commerce	645	44	-601	-93.2%
Industry	143	6	-137	-95.8%
Others	207	15	-10,311	-86.5%
Total	11,914	1,603	-4,450	-83.5%

I. Deposits

The deposits of the International Banking Center for November 2022 totaled USD 98.50 billion, showing an increase of USD 1.72 billion (+1.8%) compared to November 2021 (see **Table 8**). Domestic deposits decreased during the survey period by USD 122 million, representing a decline of 0.2% compared to November 2021. This decrease was primarily due to a reduction in customer deposits (-2.4%), while bank institutional deposits increased by 9.6% and government deposits by 6.0%. It is noteworthy that traditional bank deposits, namely demand deposits (savings that can be withdrawn at any moment) and term deposits, have been underperforming. This can be partially explained by the need to increase household current spending and meet business requirements.

On the other hand, external deposits grew by USD 1.84 billion, reaching USD 36.12 billion, with the main component being interbank deposits, increasing by 9.0% or USD 659 million. In addition to the foregoing, external customer deposits rose by 4.9%, while government deposits declined by 34.7%.

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

	2021	2022	Nov. 22/Nov. 21 Difference.	
	November	November	Total	%
Total Deposits	97,135	98,849	1,714	1.8%
Domestic	62,856	62,733	-122	-0.2%
Government	11,792	12,505	713	6.0%
Customer	47,633	46,468	-1,165	-2.4%

	2021	2022	Nov. 22/Nov. 21 Difference.	
	November	November	Total	%
Banks	3,430	3,760	330	9.6%
External	34,279	36,115	1,836	5.4%
Government	365	238	-127	-34.7%
Customer	26,628	27,933	1,304	4.9%
Banks	7,286	7,944	659	9.0%

Source: General and International License banks.

In the case of the National Banking System banks, there is a trend like that of the CBI, recording a balance of USD 86.62 billion, a 1.9% increase compared to November 2021(see **Table 9**). This growth is driven by external deposits, as domestic deposits are underperforming.

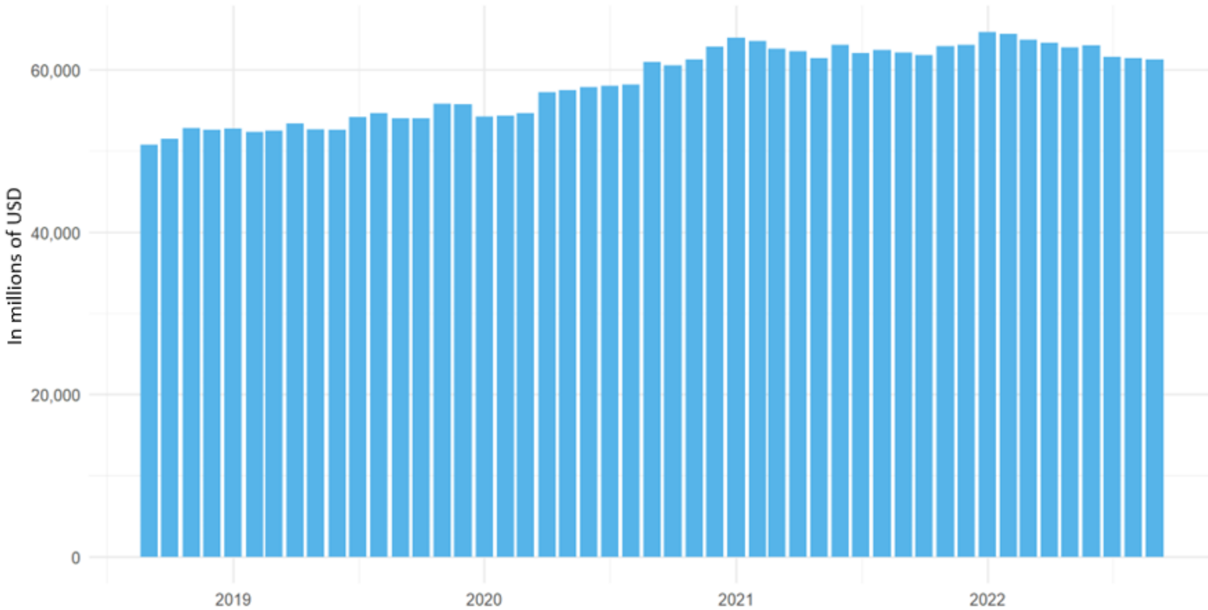
Table 9: National Banking System
Total Deposits
(In millions of USD)

Accounts	2021	2022	Nov. 22/Nov. 21 Difference.	
	November	November	Total	%
Total Deposits	84,969	86,615	1,646	1.9%
Domestic	62,770	62,522	-247	-0.4%
Government	11,792	12,505	713	6.0%
Customer	47,633	46,468	-1,165	-2.4%
Banks	3,344	3,549	205	6.1%
External	22,199	24,092	1,893	8.5%
Government	363	180	-183	-50.5%
Customer	15,095	16,484	1,390	9.2%
Banks	6,741	7,428	687	10.2%

Source: General License banks.

CBI deposits consists of customer and corporate deposits, which account for 85% of the total deposits, while the remaining 15% are interbank positions. It is worth noting that domestic deposits of the National Banking System account for 72% of total SBN deposits. **Graph 7** illustrates the evolution of the domestic deposit balance.

Graph 6: Total Domestic Deposits
September 2018 – September 2022



Source: General license banks.

As for the structure of customer liabilities by maturity, term deposits remain the most significant savings instrument. In the Banking Center, as of November 2022, domestic customer term deposits amounted to USD 23.65 billion, followed by savings reaching USD 13.86 billion, and demand deposits totaling USD 8.97 billion.

Domestic customer deposits have increased (+0.76%). However, term deposits have lost momentum, showing a decrease of 3.19% or USD 779 million.

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