# Banking Activity Report

# December 2022

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## Executive Summary

The banking sector evolved positively in line with the economic performance of 2022, overcoming challenging periods caused by the COVID-19 pandemic. Despite the difficult economic situation characterized by global supply chain issues, high inflation rates, and significant interest rate hikes by central banks in advanced and emerging economies, Panama concluded 2022 with positive results. The latest available data indicates that the Panamanian economy grew by 11% up until the third quarter, and forecasted data suggests that the economy maintained strong annual growth in the double digits.

At the end of 2022, the banking sector maintained adequate capital and liquidity ratios, demonstrating a system with stable financial fundamentals. Throughout the year, the continuous growth of the credit portfolio contributed to improved profitability, while a decrease in risky portfolio was observed. Similarly, funding levels remained stable, and liquidity levels easily met the regulatory stipulations. On 31 December, in accordance with [Banking] Rule 12-2022, the provisions regarding modified loans expired. This rule provided guidelines and parameters to permanently returning the "Modified Special Mention" loan portfolio to the conditions outlined in [Banking] Rule 4-2013.

The assets of the International Banking Center (CBI, for its acronym in Spanish) totaled USD 140.03 billion, representing a USD 6.68 billion increase compared to December 2021, or a year-on-year growth of 5.0%. Bank assets accelerated their expansion rate because of higher growth in productive assets, particularly the net credit portfolio (11.9%) and securities (5.4%).

As of December 2022, the National Banking System (SBN, for its acronym in Spanish) recorded growth in the gross domestic credit portfolio, which totaled USD 58.59 billion, reflecting a 6.3% increase compared to 2021, or a year-on-year rise of USD 3.46 billion. Regarding new loan applications and approvals throughout the year, they remained positive. By the end of December 2022, new loans reached an accumulated amount of USD 23.14 billion, marking a 32% increase compared to 2021. Although there was a significant surge in the second half of the year, the cumulative amount of these loans remained below that of 2019.

The quality of bank assets has remained stable in recent months, partly due to the portfolio cleanup conducted by several banks. As of December 2022, the CBI exhibited a delinquency ratio of 3.9%, with 1.5% representing loans with arrears of 30+ days and 2.4% for loans with arrears of 90+ days. Given the increasing interest rates and other external risks, some deterioration in the portfolio quality indicator is anticipated in 2023 due to a less favorable operating environment and the maturity of consumer loans. Provisioning for impaired loans reached 123%.

At the end of 2022, the profits of CBI banks totaled USD 1.91 billion, representing a 45.8% increase compared to 2021. With this result, banks' net profit would be higher than that of 2019. It is noteworthy that the improvement in profitability indicators occurred despite the narrowing of the average annual financial margin in intermediation operations throughout 2022. This narrowing can be attributed to term deposit rate

hikes; otherwise, there would have been significant increases in lending, leading to a reduction in the credit spread.

CBI deposits, as of December 2022, recorded a total of USD 98.38 billion, representing a USD 1.37 billion or 1.4% increase compared to 2021. On the other hand, external deposits experienced a USD 1.75 billion rise, reaching a total of USD 35.75 billion, indicating a 5.1% increase. Colombia had the largest share, accounting for 21% of foreign deposits. The excess liquid resources accumulated during the pandemic are expected to continue shrinking in the coming months, which could lead to a contraction in domestic deposits despite greater availability. Data from the end of the year showed a 0.6% reduction in domestic deposits. However, banks' liquidity is expected to remain strong as they actively participate in the deposit market and have access to domestic and global capital and debt markets.

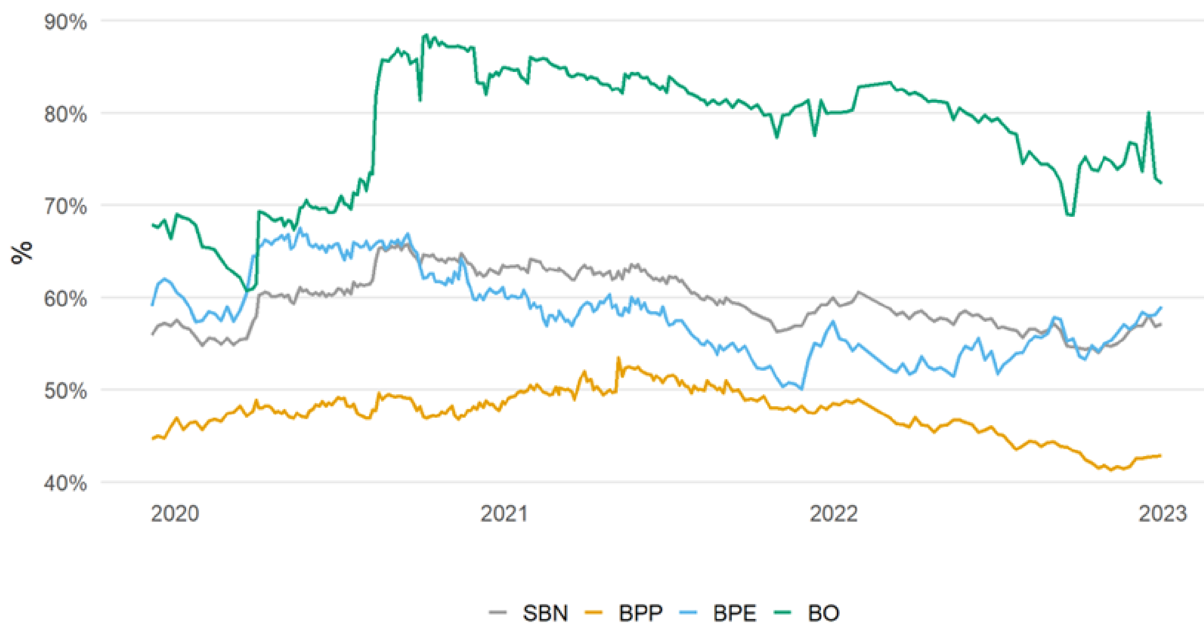
In conclusion, at the end of 2022, the banking sector is resilient. Although challenges lie ahead in a complex economic and financial environment, it can effectively manage the increase in asset risks. Going forward, it is crucial to continue addressing the remaining imbalances caused by the pandemic, focusing on provisions and initiatives that strengthen the financial system, particularly through capitalization levels. This will enable the CBI to continue contributing to economic development and the well-being of families by facilitating resource intermediation and helping the economy absorb external and domestic financial pressures in the current juncture.

## A. Liquidity

At the end of 2022, the liquidity of the Banking System reached 57.18%, which exceeded the regulatory minimums on the matter. Currently, local banks are in a well-heeled position with respect to regulatory requirements, which would enable them to face market volatility. The SBN banks have historically had robust liquidity buffers and constant access to structural and wholesale deposits, which are a fundamental part of their funding.

In relation to liquidity to date, although there has been a certain decrease in ratios compared to the levels reached in 2021, the financial system maintained adequate liquidity ratios at the aggregate level, with sufficient resources to meet short-term liquidity needs. This, in turn, will make it easier to resume credit growth. According to the predictions made in previous reports, it is expected that, as economic performance recovers and the loan portfolio is invigorated, banks' liquidity levels will reduce but remain at good levels. The decreases recorded reflect increased lending.

**Graph 1: Weekly average liquidity ratio**
December 2019 – December 2022



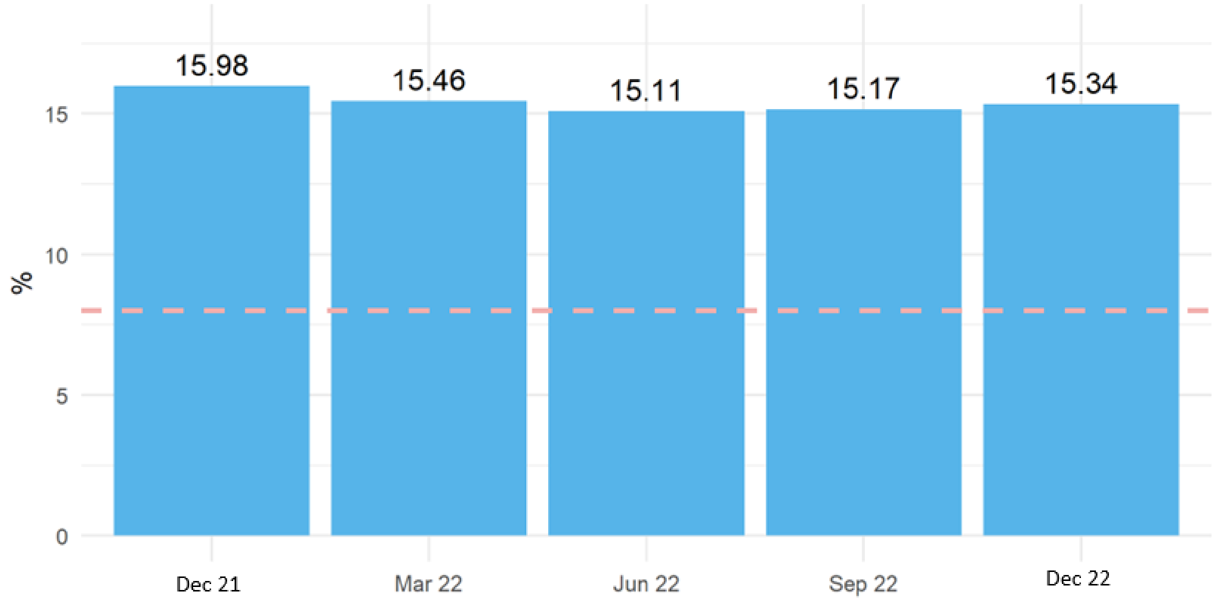

**Source:** General License Banks

## B. Solvency

In 2022, the capital adequacy ratio (CAR) showed that the CBI aggregated solvency ratios remained high. The CAR on risk-weighted assets (RWA) was 15.34% (see **Graph 2**), exceeding the regulatory minimum of 8%. Capital compliance of the banks that make up the CBI did not record significant changes versus the previous quarter.

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

As of December 2022, the profits of CBI banks totaled USD 1.91 billion, a figure that represented a 45.8% increase compared to the same period of 2021. This result was primarily driven by the positive evolution of the financial margins and commissions, derived from the growth in the credit portfolio; the extraordinary income from a banking group; cost control; as well as a reduction in provisions. With this result, the net profit of the banking sector would be at levels closer to the pre-pandemic period.

In addition to receiving profits made abroad by an International License bank, it is noteworthy that the profitability of assets continued to show positive performance.

General expenses amounted to USD 2.95 billion, a year-on-year increase of 21.6%. This increase was partly due to digitalization initiatives.

Banks are well-positioned to absorb the 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. It is expected that by 2023, banks will continue to invest resources for this purpose, primarily in strengthening the platforms and technological infrastructure of financial entities, as well as paying for specialized support and cybersecurity services.

Net provisions for bad debt totaled USD 697.3 million, an amount 21.5% lower than that recorded in the same period of 2021. It is worth noting that these lower provisions would have contributed to the growth in bank profits. This growth occurs in a context where there has been an economic recovery to its 2019 levels and an improvement in the labor market, facts that would have mitigated the risks triggered by the pandemic. These improvements in the profitability of CBI banks, coupled with a more conservative risk appetite and cautious growth, would support capital adequacy metrics for the foreseeable future.

It is expected that in the future, profitability indicators could face pressures due to lower net interest margin (NIM) and higher provisioning expenses, given the expectations of portfolio growth in an economically underdeveloped context. However, these pressures should be limited if the economic conditions are only moderately weaker.

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

| **International Banking Center** | **Jan.-Dec.** | **Jan.-Dec.** | **Difference** | |
|---|---|---|---|---|
| | **2021** | **2022** | **%** | **USD** |
| Net interest income | 2,361.4 | 2,869.6 | 21.5% | 508.2 |
| Other income | 2,252.3 | 2,673.5 | 18.7% | 421.2 |
| *Operating income* | *4,613.7* | *5,543.1* | *20.1%* | *929.4* |
| *General expenses* | *2,421.4* | *2,944.5* | *21.6%* | *523.1* |
| Profit before provisions | 2,192.3 | 2,598.6 | 18.5% | 406.3 |
| Provisioning expenses | 887.9 | 697.3 | -21.5% | -190.6 |
| **Profit for the period** | **1,304.4** | **1,901.3** | **45.8%** | **596.9** |

**Source:** General and International License banks.

The National Banking System recorded accumulated net profits of USD 1.57 billion as of December 2022, which represents a 30.3% increase compared to December 2021. Like what occurred in the CBI, greater 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.-Dec.** | **Jan.-Dec.** | **Difference** | |
|---|---|---|---|---|
| | **2021** | **2022** | **%** | **USD** |
| Net interest income | 2,228.6 | 2,629.7 | 18.0% | 401.2 |
| Other income | 1,982.4 | 2,304.9 | 16.3% | 322.4 |
| *Operating income* | *4,211.0* | *4,934.6* | *17.2%* | *723.6* |
| *General expenses* | *2,216.7* | *2,684.5* | *21.1%* | *467.7* |
| Profit before provisions | 1,994.3 | 2,250.1 | 12.8% | 255.8 |
| Provisioning expenses | 879.2 | 685.8 | -22.0% | -193.4 |
| **Profit for the period** | **1,115.1** | **1,564.4** | **40.3%** | **449.2** |

**Source:** General License banks.

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

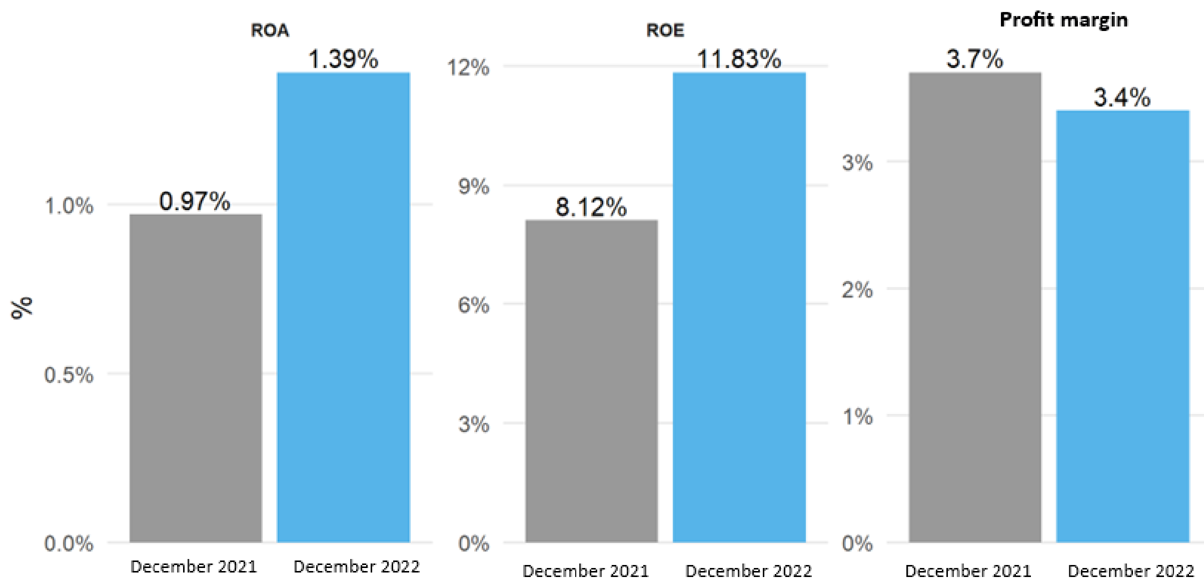
## D. Profitability indicators

As of December 2022, the CBI presented positive profitability indicators higher than those observed in previous months. The CBI's total results reached 1.39% (ROA) and 11.83% (ROE), respectively (see **Graph 3**). This increase occurred in a context of improvements in credit placement, a greater positive contribution from extraordinary results, 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. These challenges include completing the recognition of impairment for modified loans, maintaining profit capitalization to continue strengthening capital, and continuing the process of phasing out temporary regulatory flexibilities included in the modified loan categories.

It is noteworthy that the improvement in profitability indicators took place even though the average annual financial margin between lending and deposit operations fell by 0.32 percentage points during 2022. This can be attributed to increases in term deposit rates without significant lending growth, resulting in a reduction in the credit spread.

**Graph 3: Profitability Indicators - IBC**
December 2021 – December 2022




**Source:** General and International License banks

## E. Balance Sheet

The assets of the International Banking Center totaled USD 140.03 billion, representing a USD 6.68 billion increase compared to December 2021, or a year-on-year rise of 5.0%. Bank assets experienced an accelerated expansion rate due to higher growth in the net loan portfolio (11.9%) and the securities portfolio (5.4%). As mentioned in previous reports, although liquid assets fell short (-17.8%), this is the reflection 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, which reflects adequate liquidity given the current situation.

It is worth noting that CBI's assets primarily consist of the credit portfolio, which reported a balance of USD 83.35 billion, according to the financial statements reported by the domestic banks to the SBP. In terms of the performance of the external component of the net credit portfolio, it increased by 24.9%.

Regarding bank financing sources, deposits account for a significant percentage of the CBI's funding and support its credit operations, resulting in a low reliance on volatile wholesale funding through market debt issuances. Notably, the funding strategy of banks involves financing their activities through term deposits, demand deposits (savings and current accounts), and subsequently through bond issuances. CBI deposits as of December 2022 totaled USD 98.38 billion, representing an increase of USD 1.37 billion (1.4%).

Obligations increased by 27.7% and other liabilities rose by 9.9% compared to December 2021. Regarding obligations, it is worth noting that these instruments also include the financing component through issuances. Despite the increases in borrowing costs, current market conditions could generate an appetite for such strategies to mitigate liquidity risks in the future, reduce uncertainties related to potentially higher rates that could impact new investment decisions and take advantage of the flattening yield curve between short- and medium-term rates.

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

| **Breakdown** | **2021** | **2022** | **Dec. 22/Dec. 21 Difference** | |
|---|---|---|---|---|
| | **December** | **December** | **Total** | **%** |
| Liquid assets | 24,209.8 | 19,900.9 | -4,308.9 | -17.8% |
| Net loan portfolio | 74,454.8 | 83,341.2 | 8,886.4 | 11.9% |
| *Domestic* | *52,876.7* | *56,395.4* | *3,518.6* | *6.7%* |
| *External* | *21,578.1* | *26,945.9* | *5,367.8* | *24.9%* |
| Securities | 27,763.0 | 29,255.5 | 1,492.5 | 5.4% |
| Other assets | 6,922.7 | 7,526.9 | 604.2 | 8.7% |
| **Total Assets** | **133,350.4** | **140,024.5** | **6,674.1** | **5.0%** |
| Deposits | 97,014.9 | 98,379.6 | 1,364.8 | 1.4% |
| *Domestic* | *63,014.8* | *62,635.1* | *-379.7* | *-0.6%* |
| *External* | *34,000.1* | *35,744.5* | *1,744.4* | *5.1%* |
| Obligations | 16,843.3 | 21,507.0 | 4,663.8 | 27.7% |
| Other liabilities | 3,568.8 | 3,922.2 | 353.4 | 9.9% |
| Capital | 15,923.4 | 16,215.6 | 292.2 | 1.8% |

**Source:** General and International License banks

The assets of the National Banking System totaled USD 123.93 billion, which is USD 6.42 billion or 5.5% more than that of December 2021. The net credit portfolio of the SBN showed a USD 7.81 billion (11.4%) increase, amounting to USD 76.03 billion. Net external loans grew by 27.6%, while the net domestic portfolio had a growth rate of 6.3%. On the other hand, total deposits placed in the SBN amounted to USD 86.30 billion, representing a 1.1% rise, which is primarily attributed to customer deposits.

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

| Breakdown | 2021 | 2022 | Dec. 22/Dec. 21 Difference | |
|---|---|---|---|---|
| | December | December | Total | % |
| Liquid assets | 19,868.3 | 16,234.5 | -3,633.8 | -18.3% |
| Net loan portfolio | 68,224.8 | 76,027.0 | 7,802.2 | 11.4% |
| *Domestic* | *55,126.1* | *58,586.1* | *3,460.0* | *6.3%* |
| *External* | *15,544.5* | *19,842.2* | *4,297.7* | *27.6%* |
| Securities | 22,779.4 | 24,499.3 | 1,719.9 | 7.6% |
| Other assets | 6,641.4 | 7,166.1 | 524.7 | 7.9% |
| **Total Assets** | **117,513.9** | **123,926.9** | **6,413.0** | **5.5%** |
| Deposits | 85,363.5 | 86,291.5 | 928.0 | 1.1% |
| *Domestic* | *62,928.4* | *62,423.4* | *-505.0* | *-0.8%* |
| *External* | *22,435.1* | *23,868.2* | *1,433.0* | *6.4%* |
| Obligations | 16,547.1 | 21,189.9 | 4,642.8 | 28.1% |
| Other liabilities | 3,346.1 | 3,792.2 | 446.1 | 13.3% |
| Capital | 12,257.2 | 12,653.2 | 396.0 | 3.2% |

**Source:** General License banks

## F. Loans

As of December 2022, the National Banking System recorded growth in the domestic gross loan portfolio, which reached a total of USD 58.59 billion, reflecting a 6.3% increase compared to December 2021. This represents a USD 3.46 billion growth over the course of the year.

The recovery of private sector lending has been supported by increased financing flow to corporate loans, driven by sustained growth across different segment components. The only component that underperformed was the construction portfolio (-4.3%). On the household loan portfolio side, mortgages and consumer loans showed positive performances of 6.9% and 1.4%, respectively. The growth of consumer loans has been bolstered by higher-than-expected increases in real wages, formal employment, and private consumption within the economy.

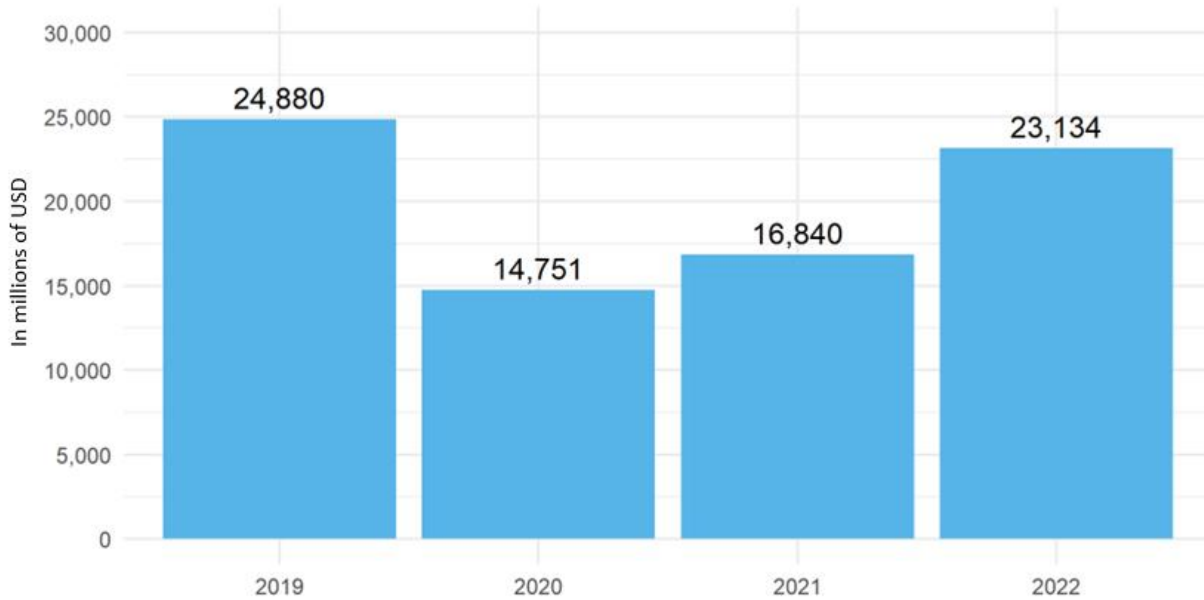
**Table 5:** National Banking System
Balance of domestic loan portfolio by economic sectors
(In millions of USD)

| Sector | December 2021 | December 2022 | Dec. 22/Dec. 21 Difference | |
|---|---|---|---|---|
| | | | Total | % |
| **TOTAL** | 55,126.1 | 58,586.1 | 3,460.0 | 6.3% |
| Public sector | 1,476.2 | 1,492.2 | 16.0 | 1.1% |
| Private sector | 53,650.0 | 57,093.9 | 3,443.9 | 6.4% |
| Financial & insurance activities | 1,116.5 | 1,982.4 | 865.8 | 77.5% |
| *Agriculture* | 431.1 | 488.3 | 57.2 | 13.3% |
| Livestock | 1,356.6 | 1,409.6 | 52.9 | 3.9% |
| Fishing | 87.0 | 121.7 | 34.7 | 39.9% |
| Mining & Quarrying | 50.8 | 46.5 | -4.3 | -8.5% |
| Commerce | 10,822.5 | 11,671.6 | 849.1 | 7.8% |
| Industry | 2,834.7 | 3,427.5 | 592.8 | 20.9% |
| Mortgages | 18,749.1 | 19,797.2 | 1,048.1 | 5.6% |
| Construction | 5,309.1 | 5,079.9 | -229.2 | -4.3% |
| Personal consumption | 12,892.4 | 13,069.3 | 176.9 | 1.4% |

**Source:** General License banks

Regarding new loan applications and approvals, they have remained positive throughout the year. As of the end of December 2022, new loans reached a cumulative amount of USD 23.14 billion, marking a 32% increase compared to 2021. Although there was significant growth in the second half of the year, the total cumulative amount of these loans remained below that of 2019.

**Graph 4: New loans**
December 2019 – December 2022



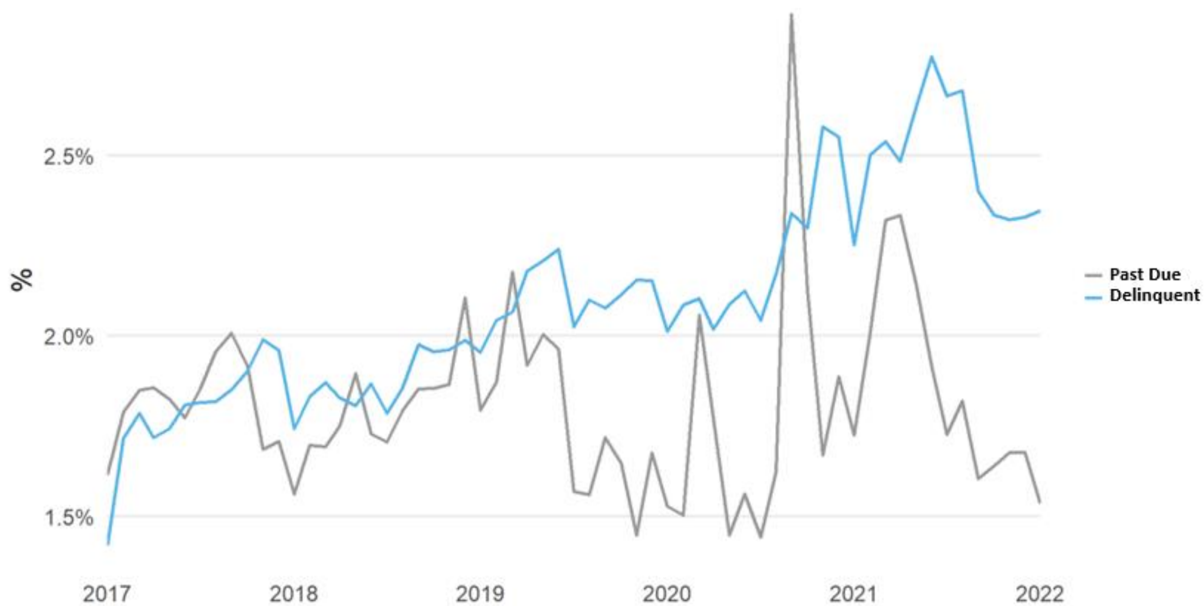

**Source:** General License and International License Banks

## G. Credit Risk

The quality of bank assets has remained stable in recent months. Although bank assets faced pressure due to the COVID-19 pandemic, regulatory measures implemented and close surveillance of the most exposed sectors helped control asset deterioration. The amount of high-risk loans has decreased in recent months, especially through write-offs. As of December 2022, the CBI reported a delinquency ratio of 3.9%, with 1.5% representing loans with arrears of 30+ days and 2.4% for loans that are over 90+ days past due.

Provisioning for delinquent and overdue loans improved during the pandemic, enhancing banks' ability to absorb losses from future loan impairments. Therefore, it is expected that in 2023, asset quality will continue to be controlled, even if economic conditions moderately weaken. Provisioning for impaired loans reached 123%. However, considering increasing interest rates and other external risks, some deterioration in the portfolio quality indicator is expected for 2023 due to a less favorable operating environment and the maturity of consumer loans.

**Graph 5: Portfolio Quality: Past Due and Delinquent**
December 2017 – December 2022




**Source:** General License and International License Banks

## H. Deposits

CBI deposits for December 2022 totaled USD 98.38 billion, an increase of USD 1.37 billion (+1.4%) compared to December 2021 (see **Table 6**). Domestic deposits recorded a decrease during the surveyed period of USD 379.7 million, representing a decline of 0.6% compared to December 2021. It is noteworthy that the balance of traditional bank deposits, including demand deposits (savings that can be withdrawn at any time) and term deposits, has slowed down. This slowdown could be partially explained by the need to increase household current spending and meet business requirements.

On the other hand, external deposits grew by USD 1.75 billion, reaching USD 35.75 billion, indicating a 5.1% increase. Colombia remains the largest user of the CBI, accounting for 21% of foreign deposits.

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

| Accounts | December 2021 | December 2022 | Dec. 22/Dec. 21 Difference | |
|---|---|---|---|---|
| | | | Total | % |
| **Deposits** | **97,014.9** | **98,379.6** | **1,364.8** | **1.4%** |
| **Domestic** | **63,014.8** | **62,635.1** | **-379.7** | **-0.6%** |
| *Government* | 11,612.6 | 12,099.6 | 487.0 | 4.2% |
| *Customer* | 47,988.9 | 46,912.5 | -1,076.3 | -2.2% |
| Banks | 3,413.3 | 3,622.9 | 209.6 | 6.1% |

| Accounts | December 2021 | December 2022 | Dec. 22/Dec. 21 Difference | |
|---|---|---|---|---|
| | | | Total | % |
| **External** | **34,000.1** | **35,744.5** | **1,744.4** | **5.1%** |
| *Government* | 349.9 | 244.8 | -105.1 | -30.0% |
| *Customer* | 26,241.0 | 28,054.8 | 1,813.8 | 6.9% |
| Banks | 7,409.2 | 7,444.9 | 35.8 | 0.5% |

**Source:** General and International License banks.

In the case of the SBN banks, a similar trend is observed compared to the CBI. The total balance of SBN deposits reached USD 86.30 billion, reflecting a 1.1% increase versus December 2021, primarily driven by external deposits, while domestic deposits underperformed (see **Table 7**).

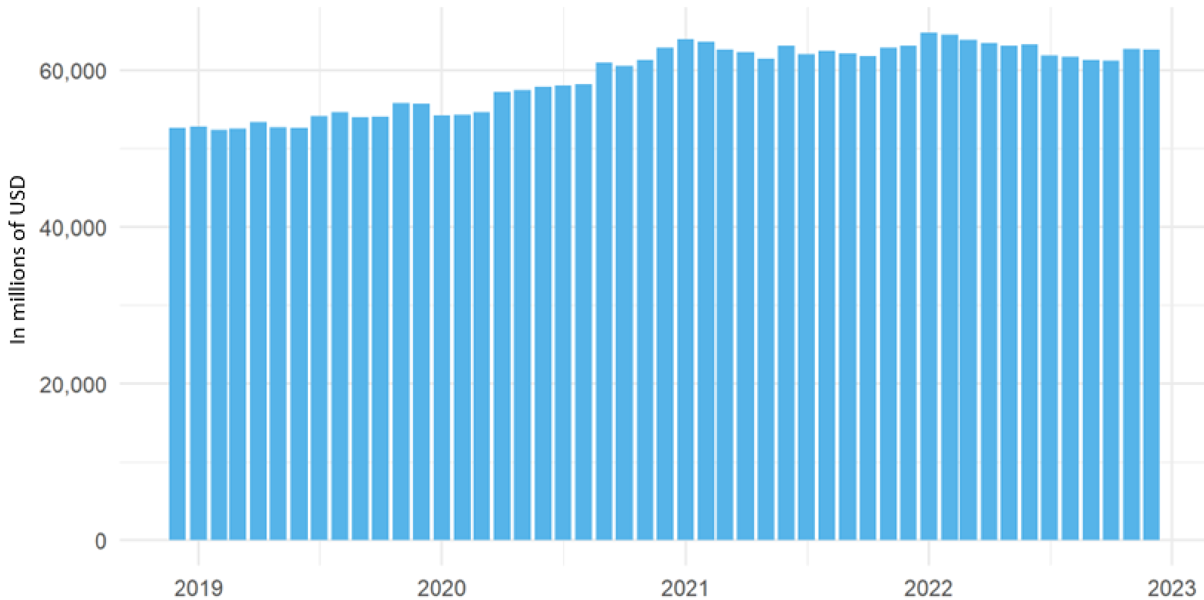
**Table 7:** National Banking System
Total Deposits
(In millions of USD)

| Accounts | December 2021 | December 2022 | Dec. 22/Dec. 21 Difference | |
|---|---|---|---|---|
| | | | Total | % |
| **Deposits** | **85,363.50** | **86,291.50** | **928** | **1.10%** |
| **Domestic** | **62,928.40** | **62,423.40** | **-505** | **-0.80%** |
| *Government* | 11,612.60 | 12,099.60 | 487 | 4.20% |
| *Customer* | 47,988.90 | 46,912.50 | -1,076.40 | -2.20% |
| Banks | 3,326.90 | 3,411.30 | 84.4 | 2.50% |
| **External** | **22,435.10** | **23,868.20** | **1,433.00** | **6.40%** |
| *Government* | 347.8 | 181 | -166.8 | -48.00% |
| *Customer* | 15,143.70 | 16,721.50 | 1,577.80 | 10.40% |
| Banks | 6,943.60 | 6,965.70 | 22 | 0.30% |

**Source:** General License banks.

It should be noted that domestic deposits account for 64% of total deposits. Among these, 75% are customer deposits, with corporate deposits comprising nearly 60% and term deposits representing 50% of total deposits. Although domestic deposits fell short, they remained above pre-pandemic levels. **Graph 6** illustrates the evolution of the domestic deposit balance.

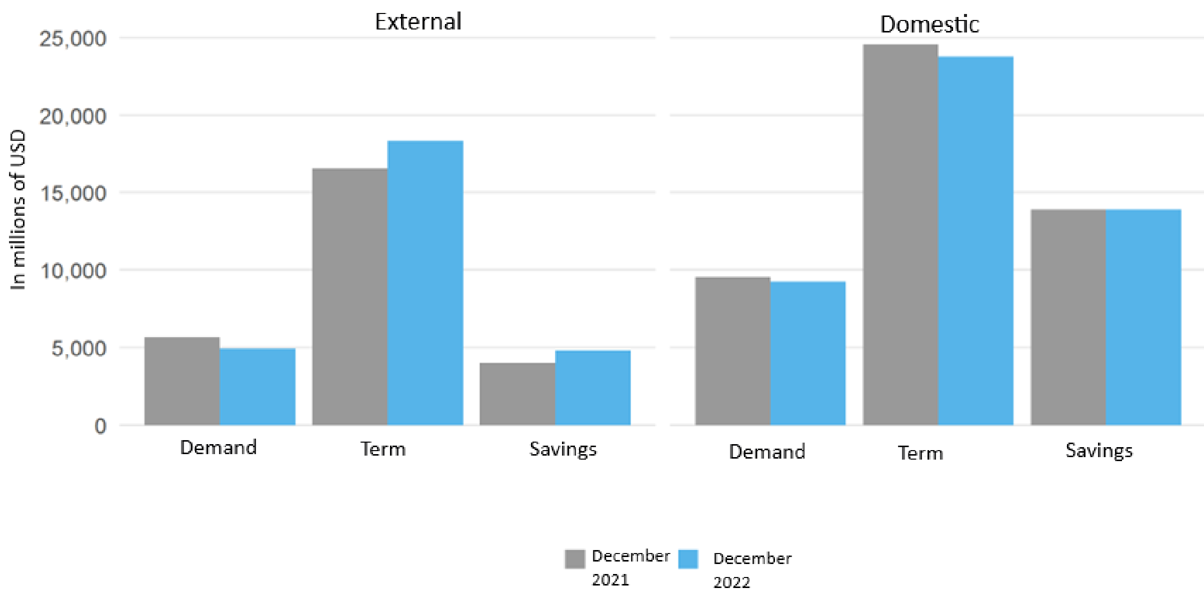
**Graph 6: Total Domestic Deposits**
December 2018 – December 2022




**Source:** General License banks.

Regarding the structure of customer liabilities by maturity, term deposits continue to be the most significant savings instrument. As of the end of December 2022, domestic customer term deposits amounted to USD 23.76 billion, followed by savings reaching USD 13.92 billion, and demand deposits totaling USD 9.25 billion.

**Graph 7: Customer Deposits**
December 2021 – December 2022




**Source:** General and International License banks.

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