Superintendencia de Bancos de Panamá

Financial Studies Division

Report on the Situation of the Industrial Sector

2014

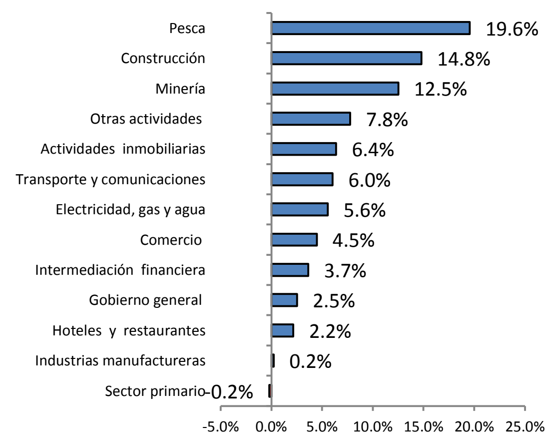
I. General Situation of Economic Activity

1. Gross Domestic Product

During 2014, the Panamanian economy grew 6.2%, reaching US$35.65 billion in real terms. It is worth noting that even though the data for the activity indicates a moderating perspective for growth in line with its potential, data provided to date and employment indicators suggest that growth will remain above 6% during 2015.

During this year, fishing (19.6%), construction (14.9%) and mining (12.5%) have been the sectors that have grown the most. It is worth noting that construction and mining performance contribute to the expansion of installed economic capacity and are important components of investment. This will favor an increase in potential GDP and prevent inflationary pressures coming from the demand side.

Chart 1: GDP Variation
Year: 2014
(in percentages)



Source: SBP with NISC data

This increase is primarily supported by the performance of the economic activities related to the foreign sector. Among these are ports, air transportation, financial activities, tourism, Panama Canal Services, and banana, watermelon and melon exports. At the same time, pineapple exports and Colon Free Zone trade decreased.

For the domestic sector, the following activities increased: cattle and poultry breeding; mining and quarrying; construction; utilities (electricity and water); wholesaling and retailing; restaurants and hotels; real estate; regular passenger, cargo and coastal transportation; telecommunications; education; private healthcare; other community, social and personal services; as well as domestic services.

It was noted that loans to the industrial sector in particular have increased in line with GDP growth. It is noteworthy that these loans have maintained growth levels supporting adequate financial performance. Similarly, given the favorable macroeconomic scenario for the country, it is expected that portfolio quality indicators will remain stable for 2015, allowing for good momentum in the loan portfolio over the entire year.

However, it is expected that loans related to foreign activities will see a decrease in their placement rate.

2. The Industrial Sector

Industry is the set of processes and activities aimed at massively transforming raw materials into manufactured goods. It is important to clarify the above statement, due to the fact that there are some differences in the classification of activities that could be included in this sector depending on differing methodologies. At the SBP, these activities are grouped as manufacturing industries and electricity generation and distribution, among others that will be described below.

Similarly, we have included herein mining and quarrying that, although it is a different extractive activity, has important perspectives related to the sector to be analyzed in the future.

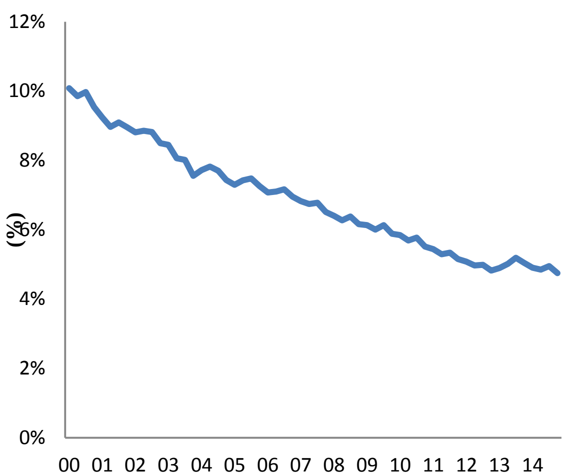
a) Manufacturing Industry

During 2014, the manufacturing industry in Panama represented 4.8% of domestic GDP. Its main activities are food and beverages, paper and paper products, publishing and printing paper, (nonmetallic) mineral products, fabricated metal products (not for repair work), other type of transportation equipment and furniture.

Despite the potential of the manufacturing industry in the country, it was noted that the sector grew less rapidly than the rest of the economy, its relative share of GDP decreasing[1].

This is because other economic sectors such as transportation, telecommunications, tourism, etc. have gained ground in contributions to the domestic economy, growing faster than manufacturing companies[2].

Chart 2: Manufacturing Company Share of GDP 2000 - 2014



Source: SBP with NISC data

This category of activities shows a 0.2% growth, mainly based on the production, preparation and preservation of beef and fish, which grew 8.3% thanks to fish processing and preservation and poultry production growing 14.7% and 8.7%, respectively.

Other activities with increases are: the manufacture of processed animal feed, the manufacture of milled products, the preparation of malt liquors and malt. The weak growth was due to activities that had shown very positive growth in previous periods, such as cement and pre-mixed concrete production, the demand for which decreased in 2014. Other activities with negative rates included the manufacture of chemical products and substances and other manufacturing industries, among others. For the fourth quarter, the added value for manufacturing decreased 3.2%

b) Mining and Quarrying

This activity registered a 12.5% increase due to raw materials use, mainly quarrying rock and sand for the construction industry. For the fourth quarter, the category showed an 11.6% growth.

Although a few years ago the activity was concentrated in extracting non-ferrous minerals, this activity has diversified and added value by also producing gold, primarily for export. Mining could reach 10% of GDP in the years to come, considering the possible introduction of new ferrous mining projects, especially those related to copper.

However, it is noteworthy that this is the fourth year that metal prices have continued dropping since they reached their historic peak in 2011. Gone are the days when, for example, gold prices approached US$1,900/oz. Today, it is listed near US$1,050/oz.

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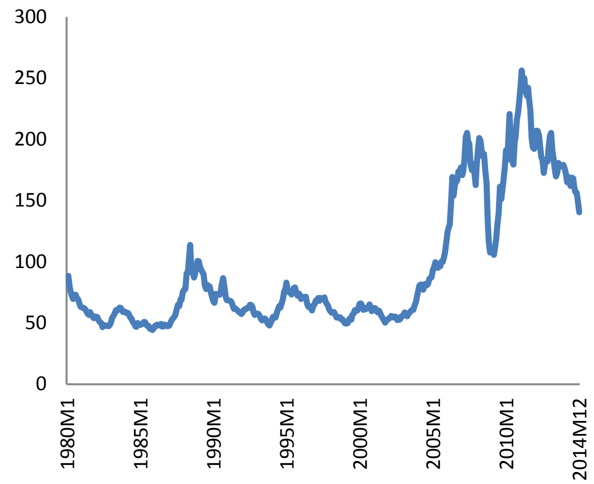
[1] Although industrialization rate (Industrial GDP/Total GDP) is an incomplete measure of the industrial development of a country, it has been decreasing consistently over the last decade.

[2] It is worth noting that the sector had received benefits from various programs. The set of benefits or incentives come from the following policies:

- Law on Special Economic Area Panamá Pacifico (Law 41 dated 20 July 2004)
- Law on Industrial Development (law 76 dated 23 November 2009)
- Law on Export Development (Law 82 dated 31 December 2009)
- Law on Free Zones (Law 32 dated 5 April 2011)

Chart 3: Price Index for Metallic Raw Materials
Period: Jan. 1980 – Dec. 2014



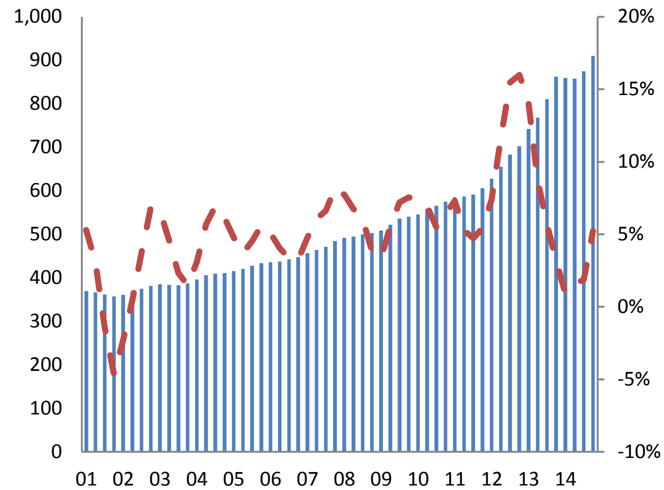
Source: SBP with NISC data

In the current scenario, several mining companies have implemented drastic measures domestically and internationally to adapt themselves to the new price situation, from restructuring and splitting up to changes in strategy. Consequently, it will be necessary to keep an eye on the sector's price evolution to have a clearer idea of its current and future performance.

c) Utilities (electricity, gas and water)

The sector's added value grew 5.6%, given a 6.4% increase in hydroelectric power generation and new hydroelectric and other generators in the market, while thermal energy, including PCA generation, decreased 0.1%. Water billing, for its part, increased 4.1%. For the fourth quarter, this category registered a 15.6% growth.

Chart 4: GDP of Electricity, Water and Gas Supply



Source: SBP with NISC data

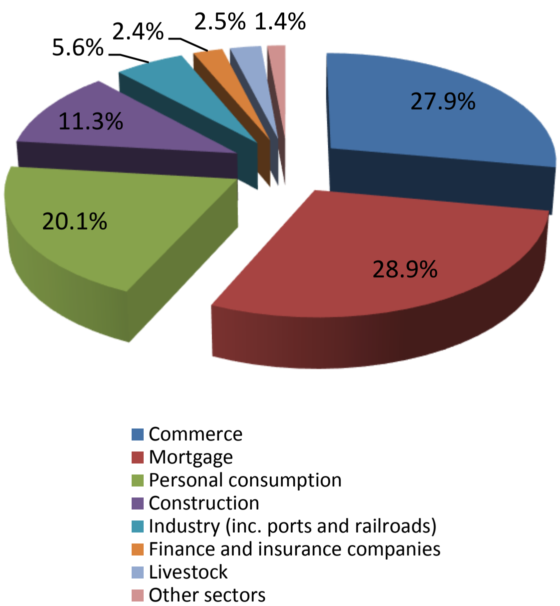
II. Performance of Banking for the Industrial Sector

1. Performance of the Domestic Credit Portfolio

The credit portfolio of the National Banking System (NBS) has maintained constant growth in recent years. This growth has been the result of several factors that have contributed to the performance of the sector. The free flow of capital and high level of deposits in the banks of the market have allowed banks to obtain important funding sources. At the same time, they have offered the domestic market the funding requested by various sectors of the country.

At the end of December 2014, the NBS had a credit portfolio totaling US$55.93 billion, US$40.36 billion of which belonged to the domestic credit portfolio. This portfolio showed an 8.9% increase over December 2013. Its growth was influenced by increases in the commercial (6.3%) and mortgage (13.3%) sectors.

Chart 5: National Banking System
Participation by Sector in Domestic Private Credit:
December 2014
(in percentages)



Source: General license banks

The commercial and mortgage sectors are, in fact, precisely the two sectors with the largest participation in the domestic private credit balance as of December 2014, with 27.8% and 28.9%, respectively, followed by personal consumption at 20.1%, construction with 11.3%, industry at 5.6% and other sectors with 6.3%.

Sector participation in domestic credit did not show significant changes over the same period in 2013, with the commercial, mortgage and personal consumption sectors totaling over 75% of NBS domestic credit.

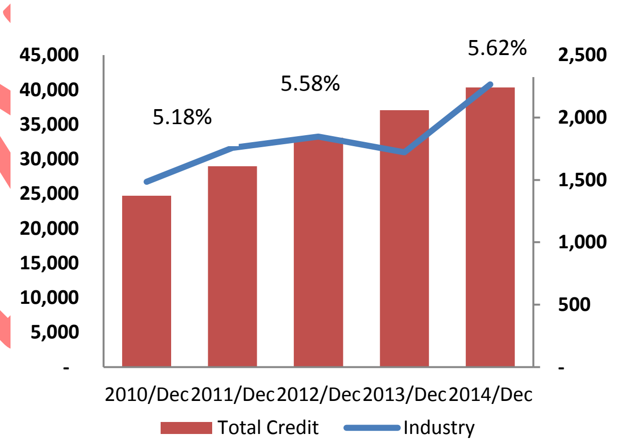
2. Performance of Credit to the Industrial Sector

Domestic credit represents one of the factors that have mobilized the domestic economy by being able to fund various sectors.

As of December 2014, the industrial sector held 5.6% of total domestic credit.

To analyze this sector, it is important to note the subsectors composing it: food, beverage and tobacco; clothing and footwear; steel and construction materials; oil and its derivatives; electric power production and generation; other industries; mining, quarrying and salterns; and last but not least, ports and railroads.

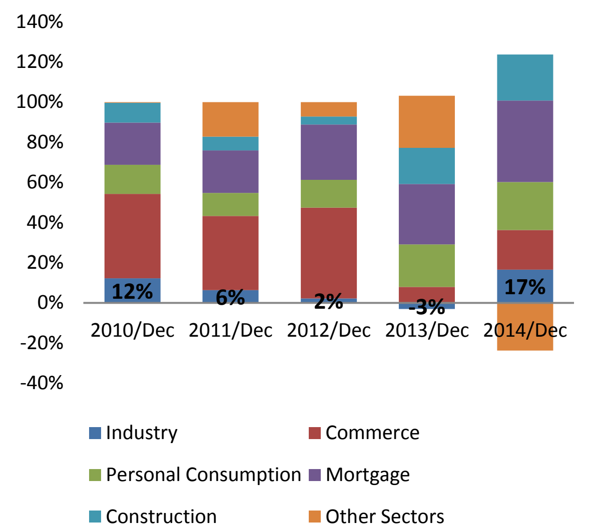
Chart 6: National Banking System
Total Domestic Credit and Participation of the Industrial Sector: December 2009 – 2014
(in millions of US$ and percentages)



Source: General License Banks

The industrial sector contributed 1% to the growth registered by the domestic credit portfolio, which was 8.9% as of December 2014.

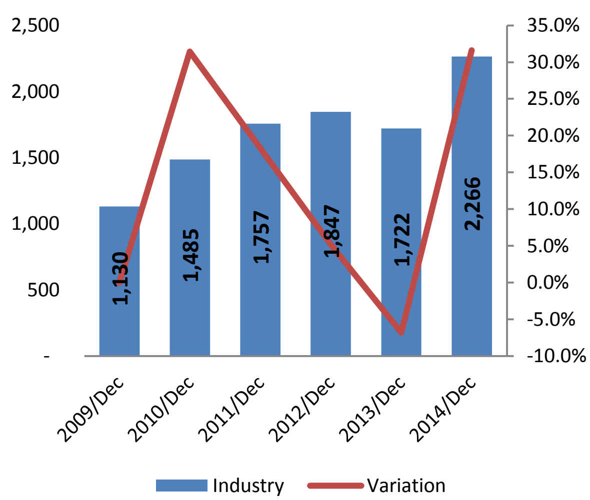
Chart 7: National Banking System
Industrial Sector Contribution to the Growth of the Domestic Credit Portfolio: December 2010 – 2014
(in percentages)



Source: General License banks

At the end of December 2014, credit to the industrial sector was US$2.27 billion, a 31.6% increase.

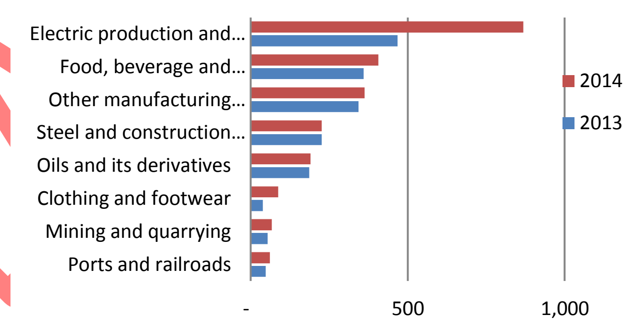
Chart 8: National Banking System
Credit to the Industrial Sector and its Annual Variation:
December 2009 – 2014
(in millions of US$ and percentages)



Source: General license banks

Electric power production and generation is the most important activity in the industrial sector. Through December 2014, it registered US$867.7 million, followed by food, beverage and tobacco, US$406.3 million; other manufacturing industries, US$362.1 million; steel and construction materials, US$225.7 million; oil and its derivatives, US$190.2 million; clothing and footwear, US$86.9 million; mining and quarrying, US$66.5 million; and ports and railroads, US$60.3 million.

Chart 9: National Banking System
Credit to Industrial Subsectors:
December 2013 - 2014
(in millions of US$)

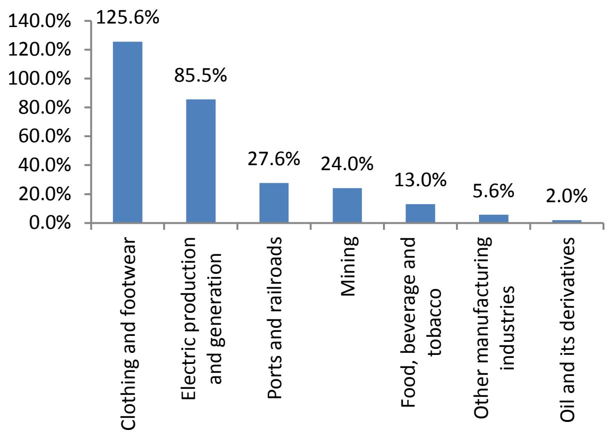


Source: General license banks

All subsectors of the industrial activity showed increases in their credit portfolio balances for December 2014 in comparison to the same period in 2013.

The subsector that grew the most was clothing and footwear at 125.6% (due to the new reclassification of loans to "Colon Free Zone activity" which has been categorized as a "region" since December 2014). It is followed by electric power production and generation (85.5%); ports and railroads (27.6%); mining and quarrying (23.9%); food, beverage and tobacco (13%); petroleum and its derivatives (2%).

Chart 10: National Banking System
Growth of Credit to Industrial Subsectors:
December 2014
(in percentages)



Source: General license banks

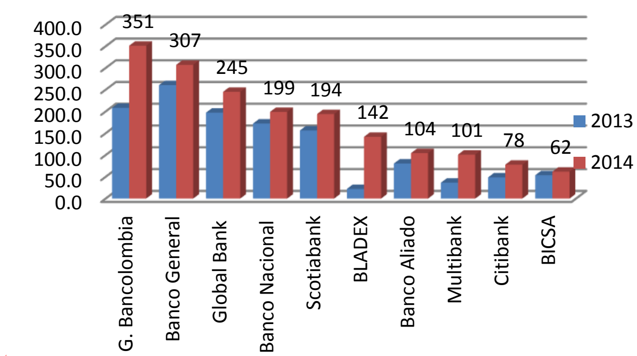
The Mining and Quarrying category now includes the sectors with lower participation, including mining, quarrying and salterns, which reported a total of US$65.6 million as of December 2014. We do highlight the growth of mining (24%), quarrying (23.2%) and salterns (22.6%).

3. Industrial Credit Ranking

Seventy-nine percent (79%) of the financing for the industrial sector is distributed as follows: Bancolombia, US$351.4 million; followed by Banco General, US$307.3 million; Global Bank, US$245.1 million; Banco Nacional de Panamá, US$199.1 million; and The Bank of Nova Scotia (Scotiabank), US$193.9 million. These five are the main lenders to the sector.

The top three have the same ranking they had in 2013.

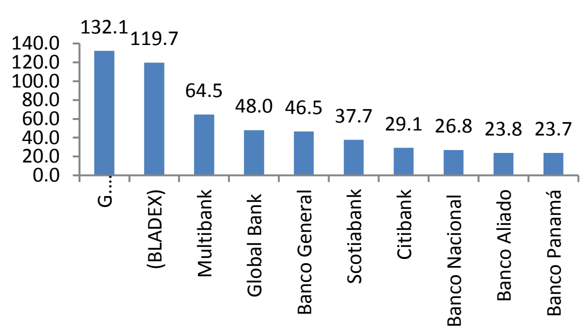
Chart 11: National Banking System
Banks ranked by Credit to the Industrial Sector:
December 2013 – December 2014
(in millions of US$)



Source: General license banks

With regard to the total change from December 2014, over the same period of 2013, Grupo Bancolombia also ranks first, totaling US$132.1 million, followed by BLADEX, US$117.9 million; Multibank, US$64.5 million; Global Bank, US$48 million; and Banco General, US$46.5 million.

Chart 12: National Banking System
Growth of Credit to the Industrial Sector by Bank: December 2014
(in millions of US$)

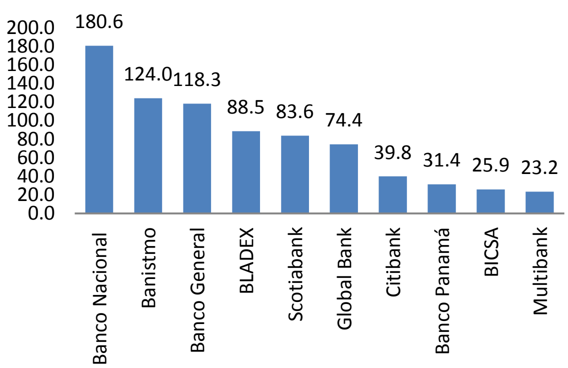


Source: General license banks

It is worth noting that not all banks that had the greatest increase in December 2014 over December 2013 were among the top ten. This indicates that some banks have introduced a strategy of making loans to the industrial sector to increase their portfolios.

Total credit to the production and generation of electricity has a 91% concentration in the top ten banks providing loans to this activity. The bank with the highest balance of credit to this subsector is Banco Nacional de Panamá with US$180.6 million, followed by Grupo Bancolombia at US$124 million, Banco General with US$118.3 million, BLADEX with US$88.5 million and The Bank of Nova Scotia (Scotiabank) with US$83.6 million.

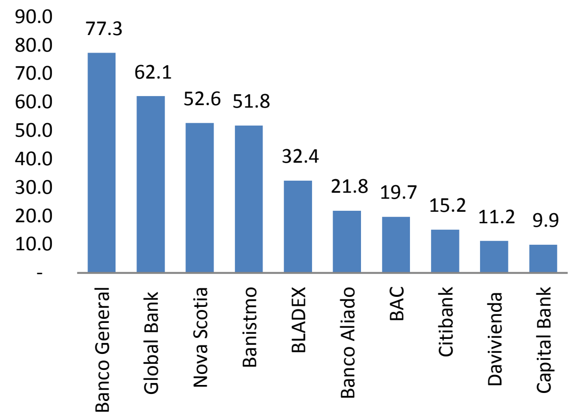
Chart 13: National Banking System
Main balances of industrial Loans for the Production and Generation of Electricity by Bank: December 2014
(in millions of US$)



Source: General license banks

Eighty-seven point two percent of the credits for loans destined for "food, beverage and tobacco" are with the following banks: Banco General with US$77.3 million, followed by Global Bank at US$62.1 million, The Bank of Nova Scotia (Scotiabank) at US$52.6 million, Grupo Bancolombia with US$51.8 million and BLADEX at US$32.4 million.

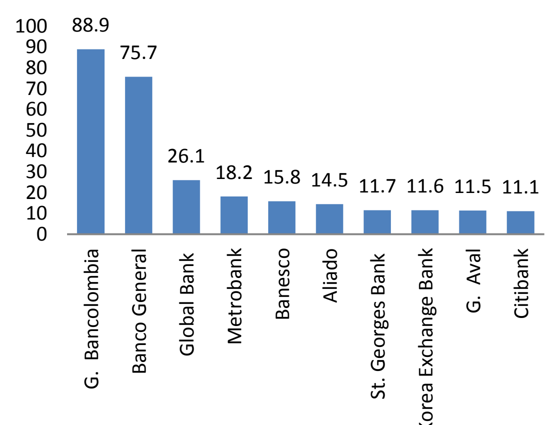
Chart 14: National Banking System
Main balances of Industrial Loans to Food, Beverage and Tobacco by Bank: December 2014
(in millions of US$)



Source: General license banks

Seventy-eight point seven percent (78.7%) of loans to "other manufacturing industries" is concentrated in the following banks: Grupo Bancolombia with US$88.9 million, followed by Banco General at US$75.7 million, Global Bank at US$26.1 million, Metrobank with US$18.2 million and Banesco at US$15.8 million.

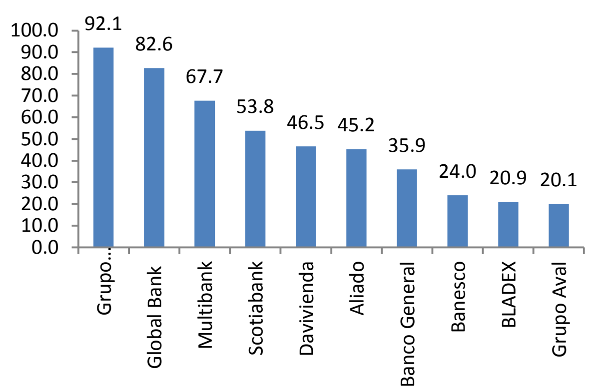
Chart 14: National Banking System
Main balances of Industrial Loans to Other Manufacturing Industries by Bank: December 2014
(in millions of US$)



Source: General License Banks

Seventy-seven point six percent (77.6%) of the balance of loans are focused on other sub-activities, among which are steel and construction materials, petroleum and its derivatives, clothing and footwear, mining and quarrying and, last but not least, ports and railroads. The bank with the highest balances of loans to these industrial sub-activities is Grupo Bancolombia with US$92.1 million, followed by Multibank at US$82.6 million, The Bank of Nova Scotia (Scotiabank) with US$67.7 million, Davivienda at US$53.8 million and Banco Aliado with US$46.5 million. These are the top five of the sector.

Chart 15: National Banking System
Main balances of Loans to Other Industrial Sub-Activities by Bank: December 2014
(in millions of US$)

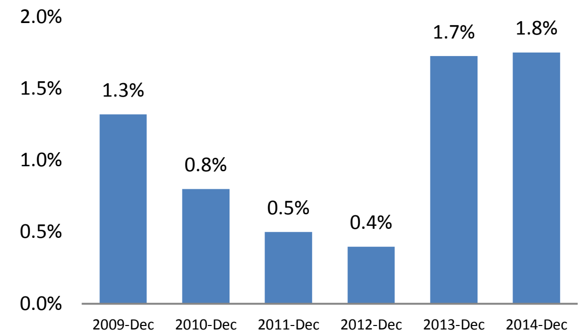


Source: General License Banks

4. Portfolio Quality

The industrial sector's portfolio quality showed an upside-down trend. In December 2009, the past due portfolio stood at 1.3% vs. December 2014, where the result was 1.8%, which clearly indicates there is a deterioration of the portfolio.

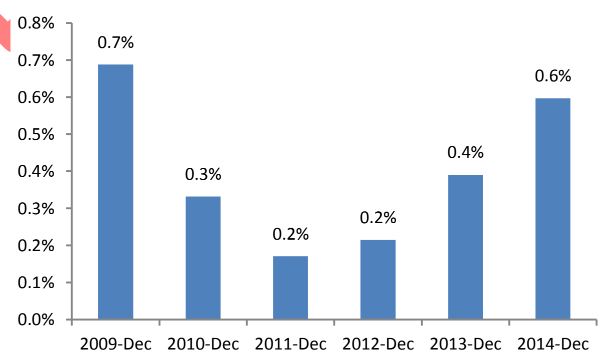
Chart 16: National Banking System
Past Due Balances of Loans to the Industrial Sector: December 2009 - December 2014
(in percentages)



Source: General License Banks

The indicator for the delinquent loans for the industrial portfolio in December 2009 was 0.7% vs. December 2014, when the result was 0.6%, which clearly indicates a slight improvement of this activity's credit portfolio.

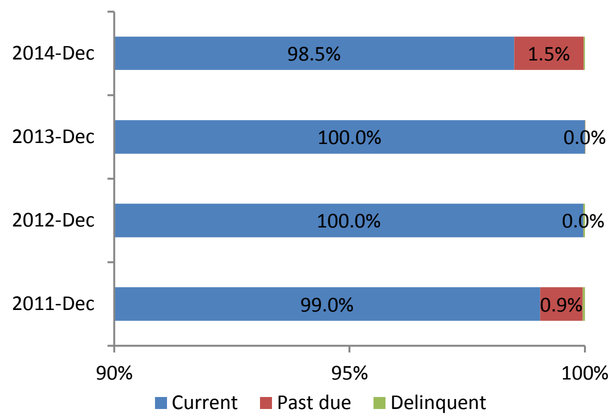
Chart 17: National Banking System
Delinquent balances of Loans to the Industrial Sector: March 2012 – December 2014
(in percentages)



Source: General License Banks

Analyzing the main subsectors in the industrial credit portfolio, it was noticed that portfolios improved over the previous years. At the end of December 2014, the balance of the portfolio destined to production and generation of electricity ended with 98.5% of loans current, 0.4% past due and 0.5% delinquent. These indicators have remained at low-risk levels compared to previous years.

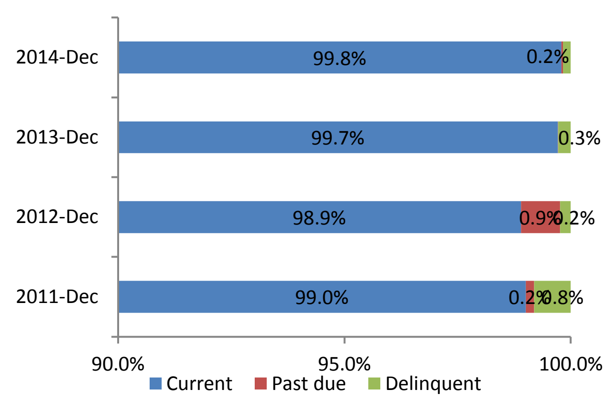
Chart 17: National Banking System
Quality of the Production and Generation of Electricity Activity: December 2011 – 2014
(in percentages)



Source: General License Banks

As of December 2014, 98.9% of the loans in the sub-activity food, beverage and tobacco were current vs. the 99.7% registered in December 2013.

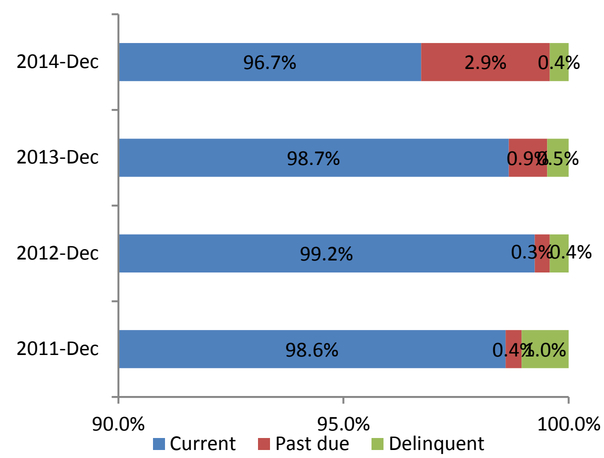
Chart 18: National Banking System
Quality of the Food, Beverage and Tobacco Portfolio: December 2011 - 2014
(in percentages)



Source: General License Banks

As of December 2014, 96.7% of the loans to other manufacturing industries were current, 2.9% past due and 0.4% delinquent.

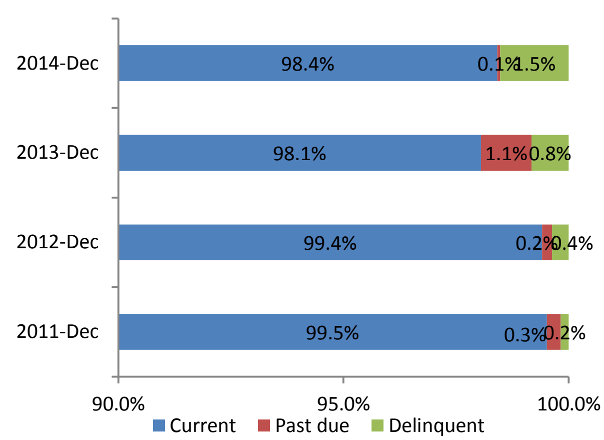
Chart 19: National Banking System
Quality of the Other Manufacturing Industry Portfolio: December 2011 - 2014
(in percentages)



Source: General License Banks

With regard to the portfolio of the following industrial sub-activities: steel and construction materials, petroleum and its derivatives, clothing and footwear, mining and quarrying and ports and railroads, 98.4% of loans were reported as current, 0.1% past due and 1.5% delinquent as of December 2014.

Chart 20: National Banking System
Quality of the Other Industrial Sub-activities Portfolio: December 2011 - 2014
(in percentages)

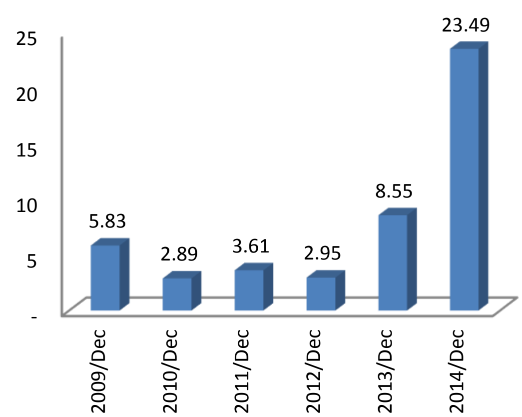


Source: General License Banks

The level of provisions in the industrial portfolio at the end of December 2014 reached US$23.5 million and for December 2013 this figure was US$8.5 million, which is equivalent to a considerable increase to support this sector.

It is worth mentioning that as of December 2014, mining, salterns and quarrying reported provisions of US$5.2 million and in December 2013, US$1.06 million, a US$4.14 million increase. This increase was the result of the behavior of the market for mining and quarrying.

Chart 21: National Banking System
Provisions for the Domestic Industrial Portfolio:
December 2009 – 2014
(in millions of US$)



Source: General License Banks