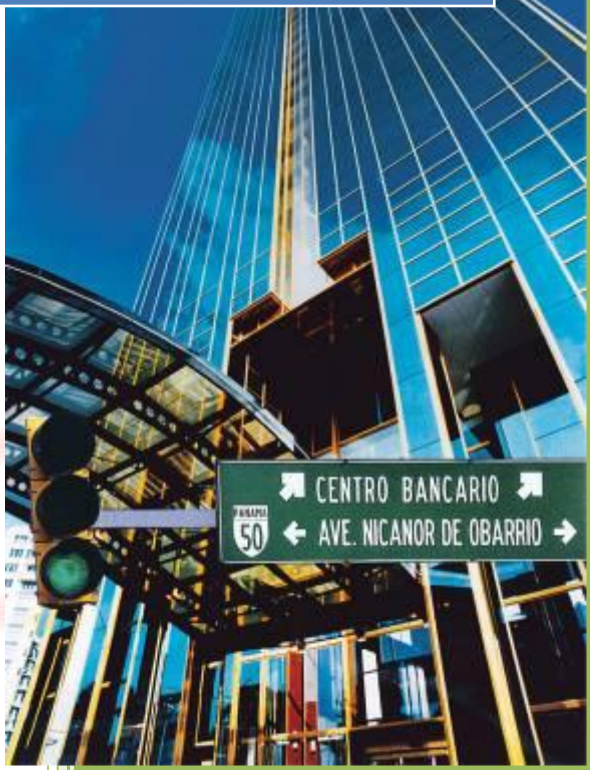
Superintendencia de Bancos de Panamá

Financial Studies Division



Banking Activity Report

Fourth Quarter

2013

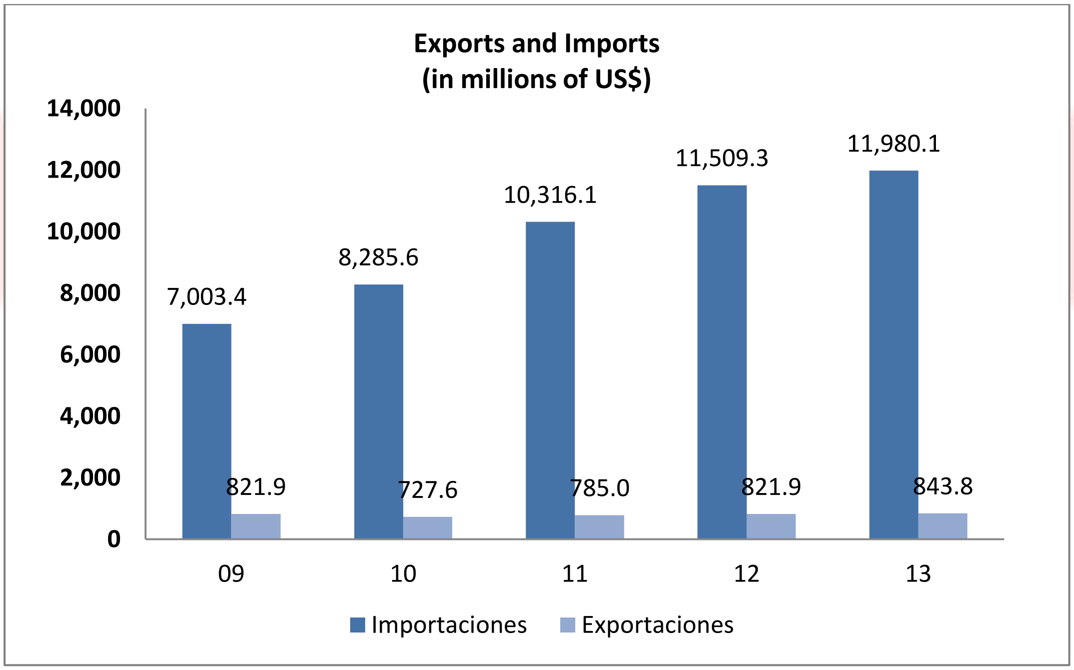
I. Economic Environment

Foreign Sector

In 2013, the current account registered a deficit of US$4.81 billion, equivalent to 11.7% of GDP, compared to a 10.6% deficit registered in 2012. The result is explained mainly by increases in the deficits in the Goods and Income portfolios of 3.2% and 21.6%, respectively, compared to 2012.

The FOB value of national exports reached US$843.8 million in 2013, a 2.7% increase over 2012, favored primarily by the sale of nonagricultural products and increases in international market prices. At the same time, imports totaled US$11.98 billion in 2013, a 4.1% increase over 2012.

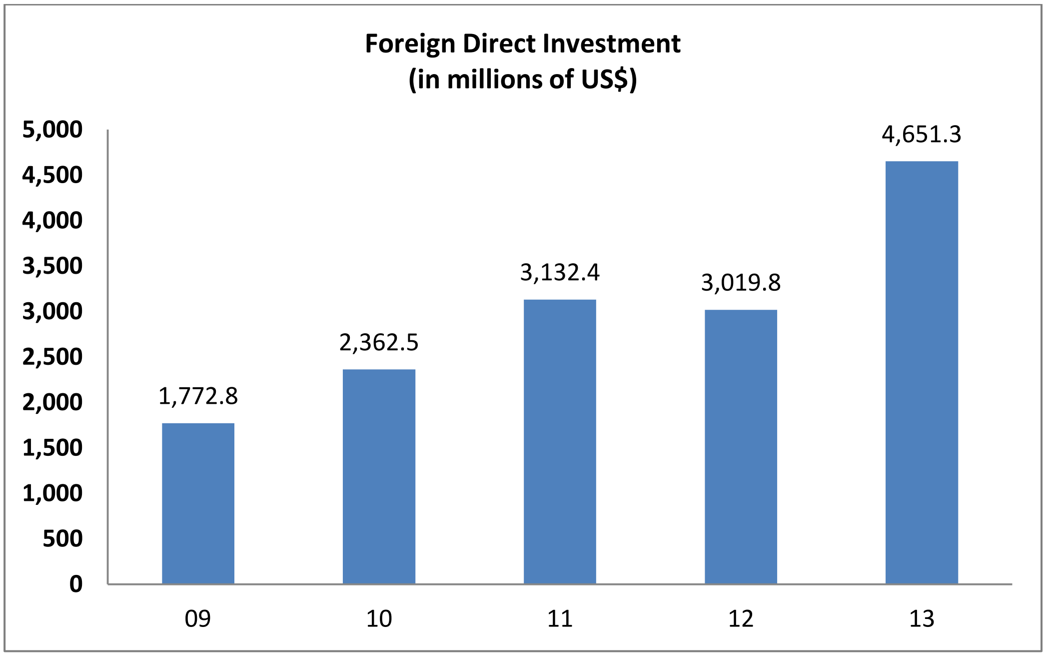
Chart 1



Source: Comptroller General of the Republic.

Meanwhile, the Services portfolio showed a surplus of US$5.06 billion that was 2.2% less than last year's. At the same time, there was a significant decrease of US$119.4 million in net current transfers that resulted in a negative variation of 127%.

Chart 2



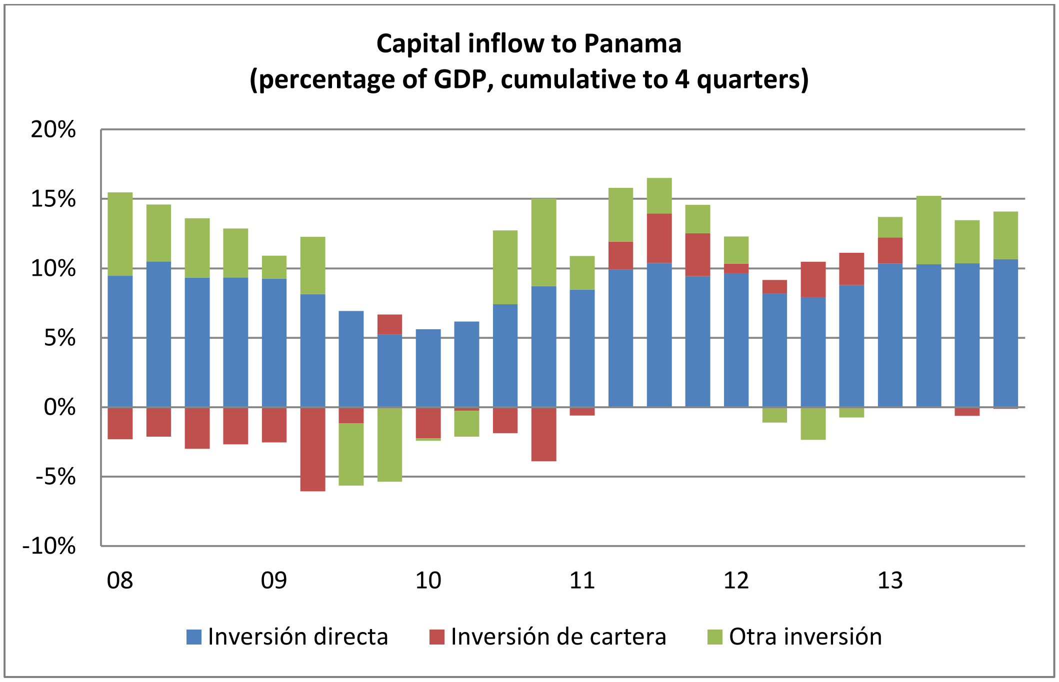
Source: Comptroller General of the Republic.

Capital inflow to Panama reflected in the Equity and Funding Account are still registering a surplus that reached US$5.13 billion (12.5% of GDP), an amount that is higher than US$1.43 billion obtained in 2012. This positive performance occurred thanks to the ongoing execution of foreign investment projects in activities such as mining, power generation and hotel and port construction, as well as the strong performance of the banking sector.

It is worth noting that in contrast to the fairly widespread capital outflow observed in emerging economies since May 2012, in Panama the capital inflow in the funding account has remained at relatively high levels: slightly below 14% of GDP.

In this way, as in previous periods, capital inflow remains dominated by foreign direct investment (FDI, over 80% of foreign liabilities). Foreign Direct Investment in the economy reached US$4.66 billion in 2013, higher by US$1.77 billion (61.1%) than in 2012. It is worth mentioning that most of the FDI consists of retained earnings, which demonstrates investor confidence in the good performance of the Panamanian economy.

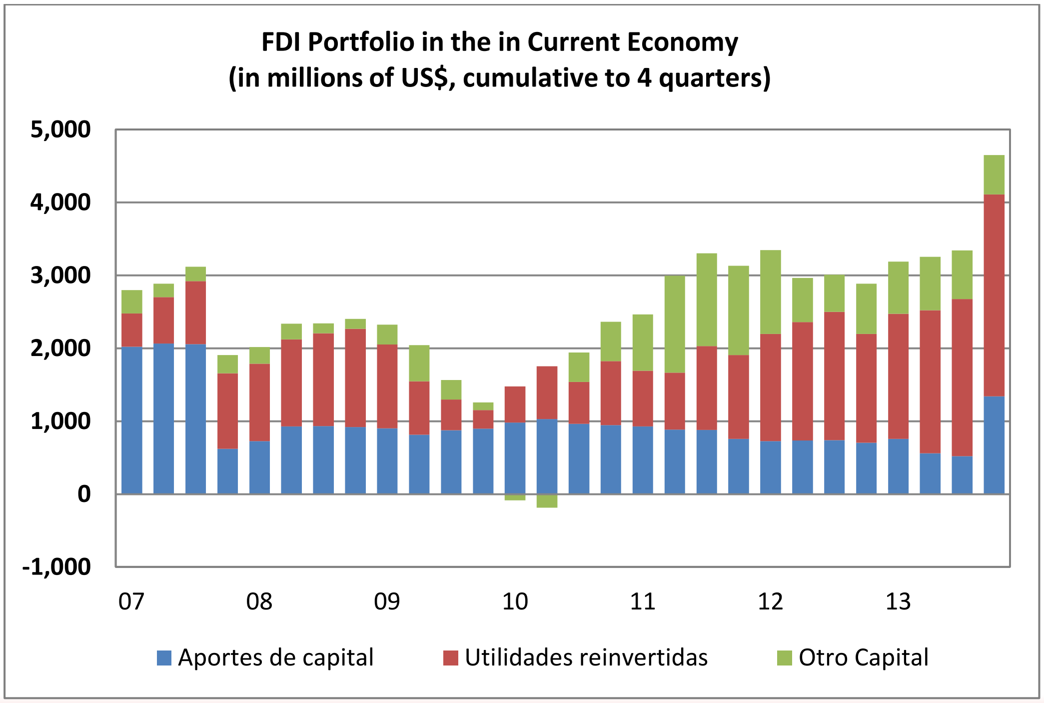
Chart 3



Source: SBP with data from the CGR.

From the point of view of financial stability, the current portfolio of capital inflow is favorable, given the high share represented by FDI. This investment has usually proven to be more stable, less susceptible to abrupt reversals and less dependent on global financial variables. This is relevant because the high fraction of FDI in the stock of foreign liabilities gives greater strength to the Panamanian economy in the face of volatility in foreign funding markets. Similarly, we believe that FDI in the country will remain the main source of funding for the Current Account deficit.

Chart 4



Source: SBP with data from the CGR.

II. Banking Performance

Assets

The International Banking Center (IBC) wrapped up 2013 with US$97.93 billion in assets, a 9.1% increase over 2012. Asset growth was influenced by increases in the credit portfolio (8.2%), liquid assets (10%) and securities investment (9.6%). IBC total deposits registered US$70.15 billion, a 9.5% increase over December 2012. Liabilities stood at US$14.98 billion as of the end of 2013, an 11.7% increase.

Table 1
Balance Sheet
International Banking Center (IBC)
(in millions of US$)

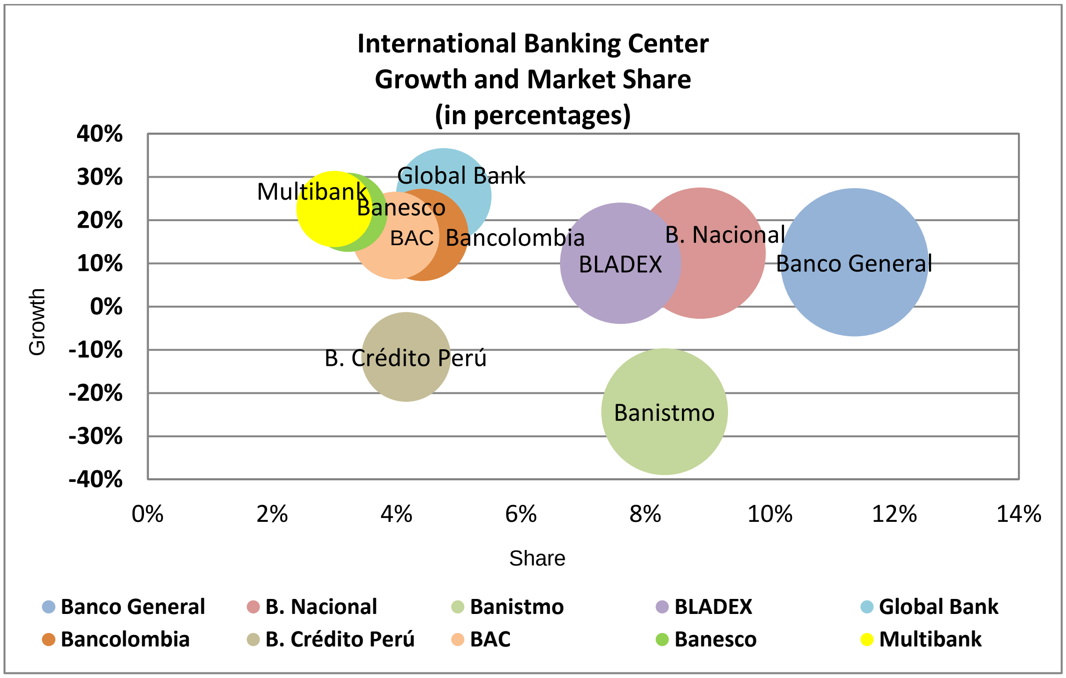
IBC	2012	2013	Abs. Var.	% Var.
Liquid assets	15,787	17,366	1,579	10%
Credit portfolio	56,009	60,614	4,606	8.2%
Securities investment	14,764	16,174	1,410	9.6%
Total Assets	**89,726**	**97,928**	**8,202**	**9.1%**
Deposits	64,070	70,149	6,079	9.5%
Liabilities	13,408	14,978	1,570	11.7%
Equity	9,558	9,958	400	4.2%

Source: General and international license banks.

The National Banking System (NBS), which includes only the general license banks, ended 2013 with US$80.23 billion in assets, a 10.1% increase over the same period in 2012. The increases in the loan portfolio (7.5%), liquid assets (15.5%) and securities investment (11.3%) are highlighted. On the liabilities side, deposits registered a balance of US$59.53 billion, a 9.1% increase, while liabilities registered US$10.1 billion, a 25% increase.

The chart below shows the growth of banks and their market share. It can be seen that the bank with the greatest share is Banco General at 11.4%, with an asset growth of 10.2%. Meanwhile, Banco Nacional de Panamá has an 8.9% share and its assets grew 12.4%. Banks with the greatest growth in 2013 were Global Bank (25.6%), Multibank (22.6%) and Banesco (21.8%).

Chart 5



Source: General and international license banks.

The International Banking Center registered a profit of US$1.46 billion in 2013. When compared to 2012 profits, this is a decrease of US$13 million. The 2013 results have remained stable thanks to net interest income, which grew 8% over 2012.

The National Banking System had profits of US$1.09 billion, a decrease of US$99 million compared to 2012. This decrease is related to a 13.5% increase in general expenses.

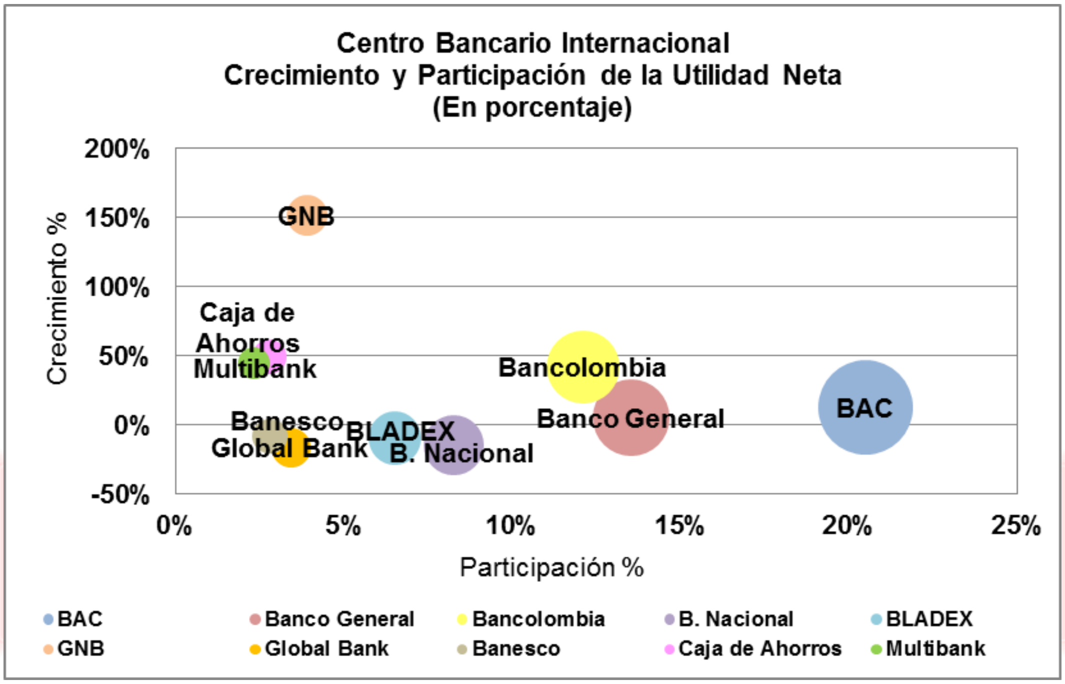
Table 2
Income Statement
International Banking Center
(in millions of US$)

IBC	2012	2013	Abs. Var.	% Var.
Net interest income	1,836	1,982	146	8.0%
Other income	1,863	1,907	44	2.4%
Operating income	3,699	3,889	190	5.1%
General expenses	2,005	2,182	177	8.8%
Profit before bad debts	1,694	1,707	13	0.8%
Provision expenses	226	252	26	11.5%
Profit for the period	**1,468**	**1,455**	**-13**	**-0.9%**

Source: General and international license banks.

The chart below shows the profit growth for the top ten banks and their share of profits. It is noticeable that BAC is the bank with the greatest share (20.5%) and 12.6% growth, followed by Banco General, 5.3% growth and 13.5% profit share; and Bancolombia, 12.1% profit share and 42.1% profit growth.

Chart 6



Source: General and international license banks.

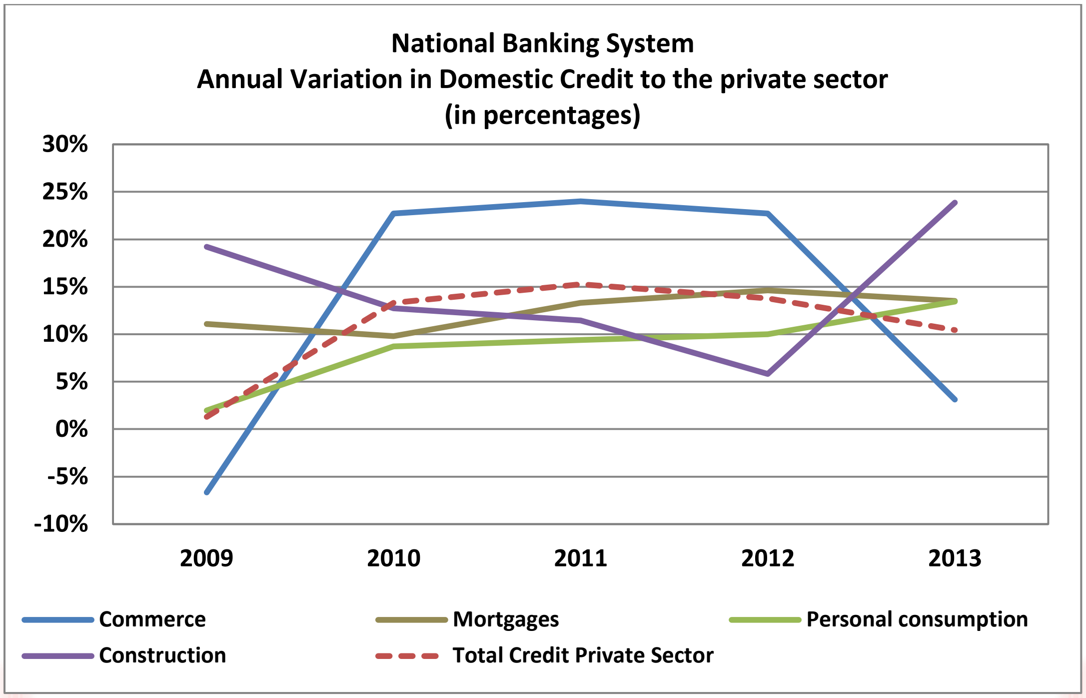
Total domestic credit to the private sector ended at US$35.24 billion, a 10.4% increase over the same period in 2012. The commercial sector has the greatest share of the total balance, followed by the mortgage and personal consumption sectors.

Table 3
NBS: Total domestic credit to the Private Sector
(in millions of US$)

Sectors	2012	2013	Abs. Var.	% Var.
Total	**31,911**	**35,240**	**3,329**	**10.4%**
Commerce	10,000	10,313	313	3.1%
Mortgages	8,839	10,033	1,194	13.5%
Personal consumption	6,267	7,110	843	13.5%
Construction	2,983	3,697	714	23.9%
Other sectors	3,822	4,087	265	6.9%

Source: General license banks.

Chart 7

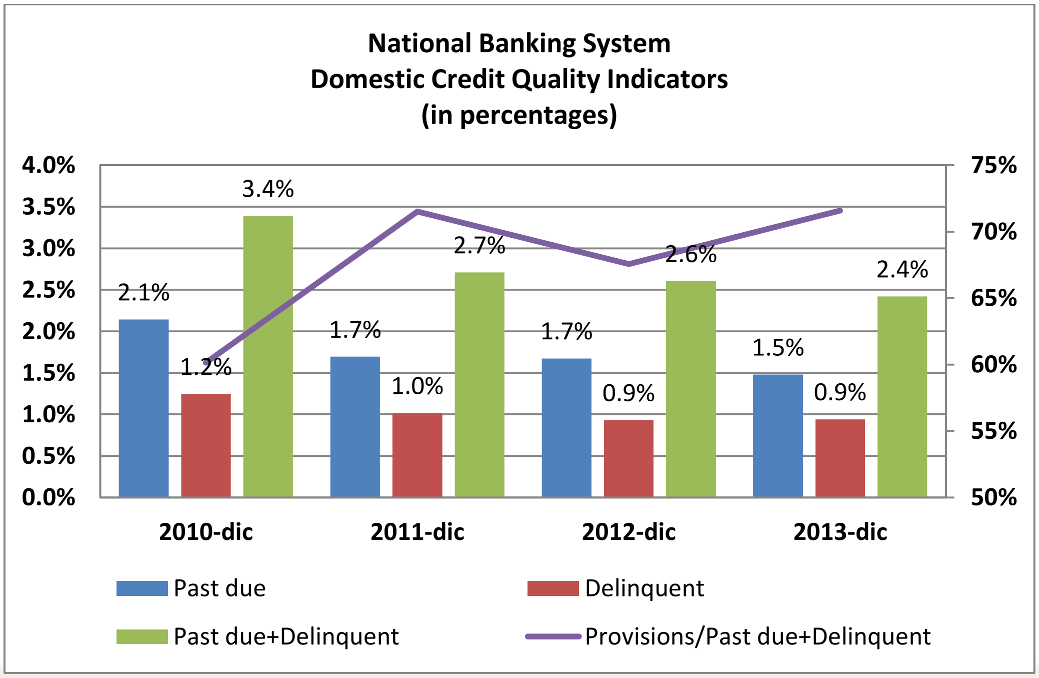


Source: General license banks.

The sector with the highest percentage growth in 2013 was mortgages with US$ 1.20 billion, maintaining a stable growth rate. The personal consumption sector was also stable, growing 13.5%. As can be seen from the chart, there is a slowdown in the commercial sector, which grew 3.1% in 2013 while in 2012 it reached 22.7%. This slowdown was influenced by credit to the Colon Free Zone and retail sales.

In recent years, portfolio quality has been improving. Past due balances plus delinquent balances registered 3.4% of the total domestic Banking System portfolio as of December 2010, while the same indicator was at 2.4% as of December 2013. Provisions on past due plus delinquent balances registered 71.6% as of December 2013, maintaining the same level of coverage.

Chart 8



Source: General license banks.

Analyzing the portfolio quality by sectors using the past due plus delinquent loans over the total portfolio indicator reveals that the sector with the highest delinquency rate was mortgages with 3.9% through December 2013. For its part, personal consumption registered 3.5%, commercial 1.1%, and other sectors 1.5%. Similarly, all sectors have shown an improvement in their indicators in recent years. Provisions reached 1.3% of the domestic portfolio as of December 2013, while they were 1.5% of the portfolio in December 2012. This is an indication that the provisions are not growing at the same rate as credit.

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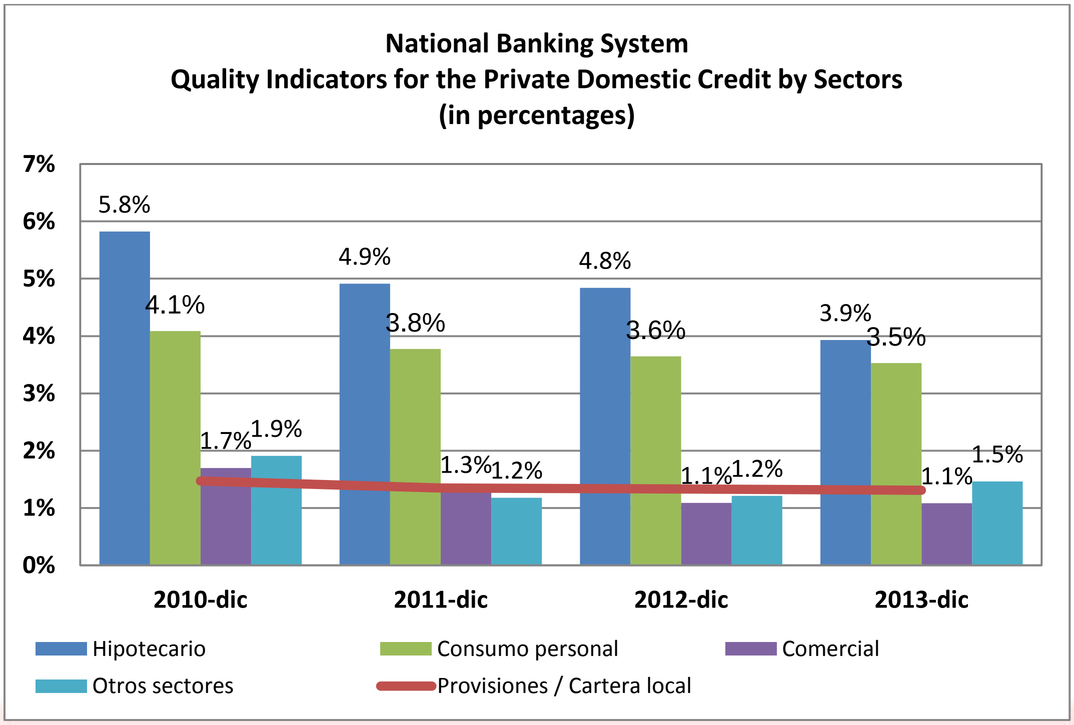
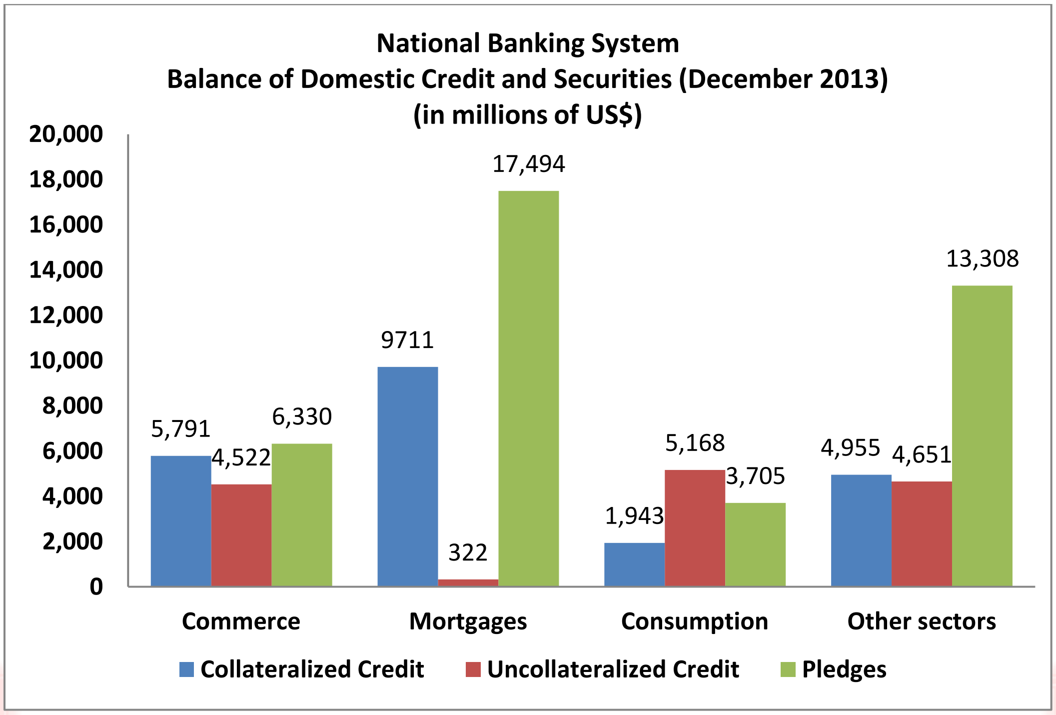
Chart 9



Source: General license banks.

Determining collateral by domestic credit sectors indicates that the balance of collateralized credit for the commercial sector was US$5.80 billion as of December 2013 and uncollateralized credit stood at US$4.53 billion, while commerce had collateral equal to US$6.33 billion. Mortgages had a collateralized credit balance of US$9.72 billion, uncollateralized credit of US$322 million and tangible securities of US$17.50 billion. Personal consumption had a credit balance of US$1.95 billion, uncollateralized credit of US$5.17 billion and tangible securities reaching US$3.71 billion. The rest of the sectors had a collateralized credit balance of US$4.96 billion, uncollateralized credit of US$4.66 billion and tangible securities of US$13.31 billion.

Chart 10

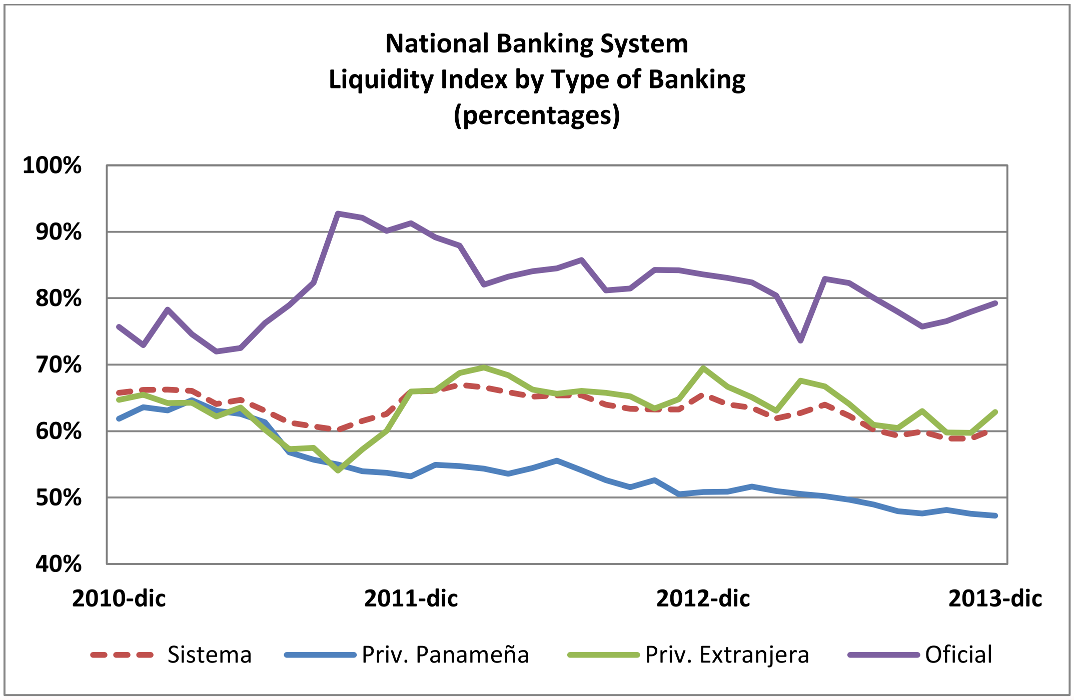


Source: General license banks.

Indicators

Average monthly liquidity in the National Banking System registered 60.4% as of December 2013, while for state-owned banking the indicator was 79.2%, foreign private banking 62.9% and Panamanian private banking 47.3%. It is notable that all are working with liquidity above the legally required 30%. With regard to the composition of this liquidity as of December 2013, cash and bank deposits represent 66.2%, securities investment 15.3% and fees and assessments 15.5%.

Chart 11



Source: General license banks.

As of December, equity represented 14.8% of risk-weighted assets. This percentage is below those of previous years, indicating that capital has not been growing at the same rate as risk-weighted assets, although it remains above the 8% legally required.

The table below shows the main profitability indicators. A decrease can be seen in the indicators for net interest income over general expenses and operating expenses over general expenses. The same can be seen in return on average assets and return on average equity, but both remain at appropriate levels. For its part, net interest margin remains closer to the figures for previous years.

Table 4
National Banking System
Profitability Indicators
(in percentages)

Indicators:	2010	2011	2012	2013
Net Int. income / General expenses	1.00	0.96	0.96	0.92
Operating Inc. / General expenses	1.82	1.81	1.81	1.67
ROAA	1.71%	1.76%	1.81%	1.47%
ROEA	13.65%	14.10%	15.56%	13.80%
Financial Margin:				
Profitability / Productive assets	4.86%	4.77%	4.65%	4.57%
Funds cost / Productive assets	2.23%	2.01%	1.95%	1.92%
NIM	2.63%	2.77%	2.70%	2.66%

Source: General license banks.