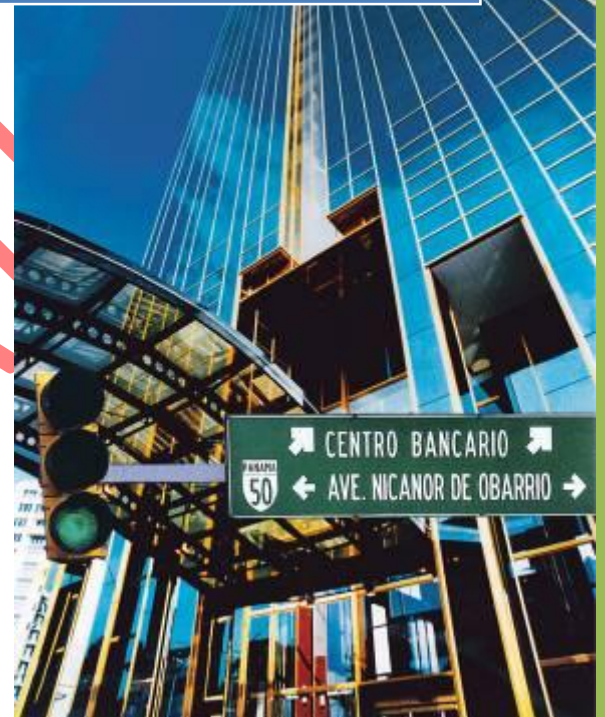




Superintendencia
de Bancos de Panamá

Financial Studies Division

Banking Activity Report



December 2014

I. Economic Environment

Gross Domestic Product

During 2014, the production of goods and services in the Panamanian economy, measured by the Gross Domestic Product (GDP), increased 6.2% over the previous year. The GDP at 2007 prices amounted to US\$35.65 billion, an annual increase of US\$2.07 billion.

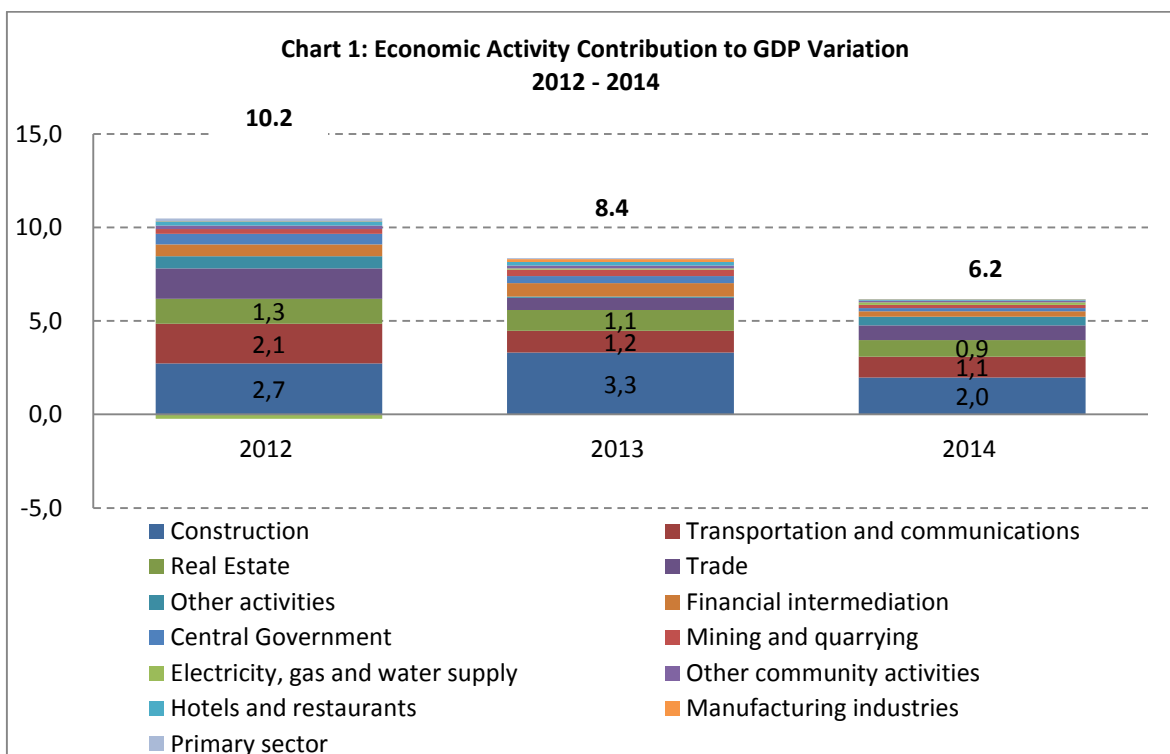
Table 1. GDP Supply Components

Description	Percentage Variation		Percentage Contribution	
	(%)		(BP)	
GDP	8.4%	6.2%	8.4	6.2
Construction	29.8%	14.8%	3.3	2.0
Transportation and communications	6.1%	6.0%	1.2	1.1
Real estate	8.1%	6.4%	1.1	0.9
Commerce	3.5%	4.5%	0.6	0.8
Other activities	5.7%	7.8%	0.1	0.5
Financial intermediation	9.6%	3.7%	0.7	0.3
Central Government	5.1%	2.5%	0.4	0.2
Mining and Quarrying	31.4%	12.5%	0.3	0.2
Electricity, gas and water supply	3.1%	5.6%	0.1	0.1
Other community activities	6.4%	2.1%	0.1	0.1
Hotels and restaurants	6.1%	2.2%	0.2	0.1
Manufacturing industries	2.7%	0.2%	0.1	0.0
Primary sector	1.8%	-0.2%	0.1	0.0

Source: SBP with CGR data.

The nominal GDP reached US\$46.22 billion, an 8.4% increase over the previous year, an annual increase of US\$3.57 billion.

It is worth noting that, as in previous years, the construction sector contributed greatly to the total increase in GDP. In 2014, it contributed 2.0 bps (31.9% of total growth), which made it the greatest contributor for the period. Furthermore, the construction sector and real estate activities may have contributed 46.2% to 2014 growth, a reason for these sectors to be observed closely.



Source: SBP with CGR data.

Standing out among the activities related to the external sector are ports, air transportation, financial activities, tourism, Panama Canal services, and banana, cantaloupe and watermelon exports. At the same time, there was a decrease in pineapple exports and a reduction of Colon Free Zone trade.

In the domestic sector, the following activities increased: cattle and poultry breeding; mining and quarrying; construction; electricity and water; wholesaling and retailing; restaurants and hotels; real estate; passenger transportation; freight transport; coastal shipping; telecommunications; education; private healthcare; other community, social and personal services; as well as domestic services.

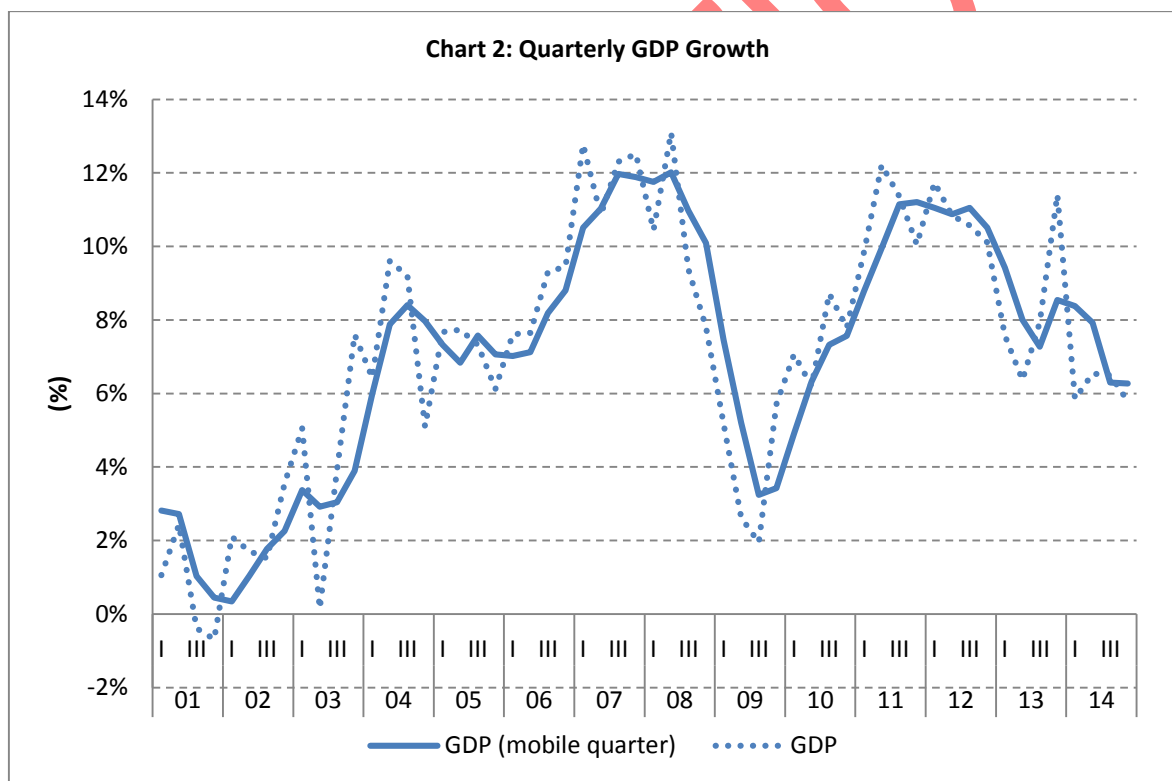
The expansion of transportation, storage and telecommunications was led by telecommunications, which grew 6.1% due primarily to increases in mobile telephony and the provision of Internet, cable TV, data and instant messaging services. At the same time, Panama Canal operations increased 5.1% on toll increases (2.4%) and ancillary services provided to vessels using this route (3.1%). Altogether, the sector grew 6.0% for the quarter and accrued 6.5% for the whole year.

As for construction's annual added value, sector growth reached 14.8%, with construction projects growing 14.9% and home repairs increasing 13.5%. The sector's behavior is based on the execution of public and private investments, mainly nationwide residential and non-residential construction projects and the expansion and rehabilitation of roads by the government in various regions of the country. The most important indicators associated with the activity were: construction permits grew 6.9%, ready-mix concrete production decreased 36.9% and cement production shrank 7.5%. For the fourth quarter, the construction sector increased 11.7%

Commercial activity increased 4.5%. Domestic wholesaling grew 8.8% and retailing, 5.9%. The Colon Free Zone's added value reported a decrease of 0.2% due to the situation of re-exports to Latin American markets.

Financial intermediation showed a 3.7% increase due to a 4.1% increase in banking and increases in financial services, primarily abroad. At the same time, domestic loans to the private sector improved portfolio balances in sectors such as residential mortgages, personal consumption, commerce and construction, among others. Insurance company activity decreased 0.6% due to a 2.9% reduction in net premiums, and a 13.5% increase in accidents. Ancillary financial intermediation services grew 3.3% driven by increases in the generation of gross insurance premiums. This category showed a 2.2% increase for the fourth quarter of 2014.

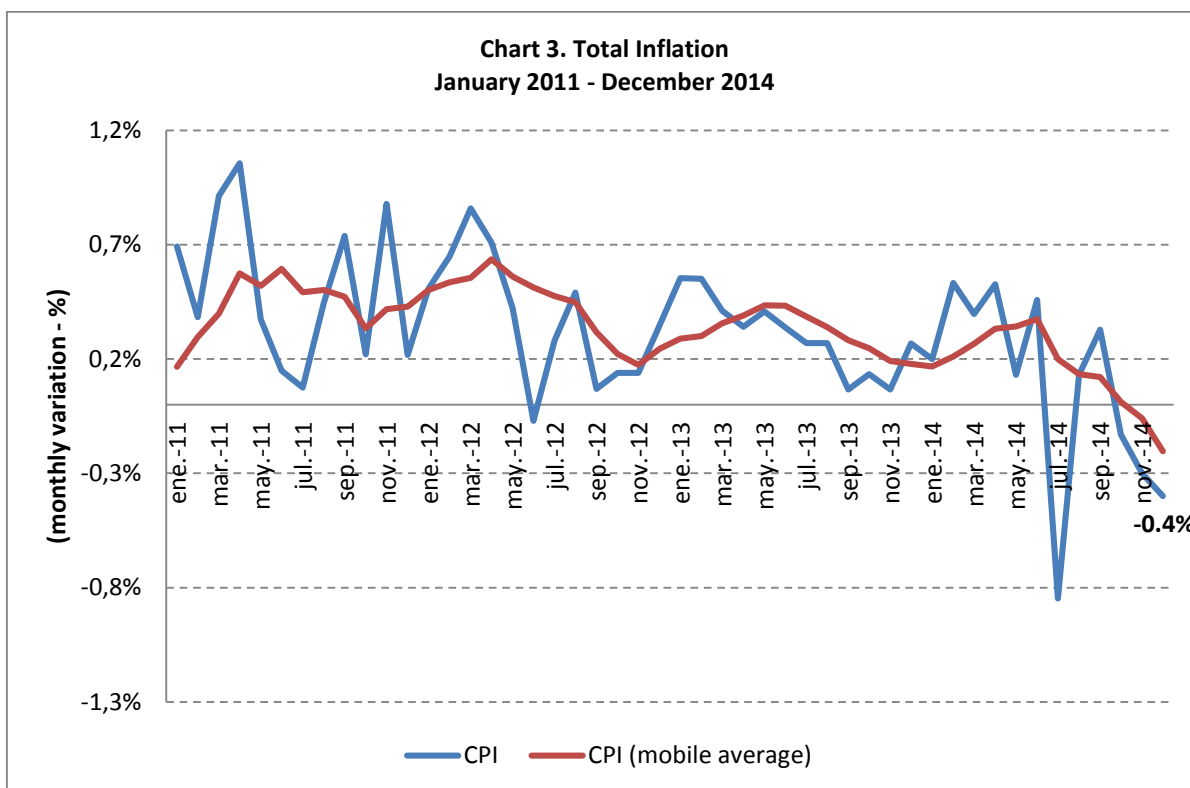
Last, but not least, it is important to emphasize that despite the good growth, preliminary estimates would indicate that product gap (the difference between real and potential GDP) may have entered into a negative phase. This would imply that the level of idle capacity allowed GDP to expand at healthy rates without demand generating inflation.



Source: SBP with CGR data.

Consumer Price Index (CPI)

Compared to November 2014, the National Urban and the Panama and San Miguelito District Consumer Price Indexes (CPI) decreased 0.4%, while the CPI for the remaining urban areas decreased 0.5%.



Source: SBP with CGR data.

The segment with the greatest decrease in CPI was Transportation (2.9%), due to a decrease in fuel prices; Recreation and culture (0.5%), due to decreases in the prices of television sets, and Clothing and footwear (0.4%), due to decreases in women's jeans. The segments showing increases were: Communications (3.3%), Restaurants and hotels (0.3%) and miscellaneous goods and services and Furniture, household appliances and maintenance, both at 0.1%. Food and non-alcoholic beverages and Education remained the same.

Comparing 2014 annual indexes with those of 2013, National Urban CPI increased 2.6%, 2.7% for the Panama and San Miguelito districts, and 2.6% for the Remaining Urban areas.

CHART 2: MAIN ECONOMIC INDICATORS IN PANAMA

	2010	2011	2012	2013	2014
GROSS DOMESTIC PRODUCT (GDP)					
GDP (real annual var., in %) *	5.9	10.8	10.2	8.4	6.2
GDP (in millions of US\$ - 2007) *	25,372.8	28,105.5	30,985.5	33,573.5	35,642.2
GDP (in millions of US\$) *	28,814.1	33,270.5	37,956.2	42,648.1	46,212.6
INFLATION AND EMPLOYMENT (variation and rates in %)					
CPI (% variation, 2014) *	3.5	5.9	5.7	4.0	2.6
WPI (% variation) *	0.9	11.9	4.7	-1.1	-1.6
Unemployment rate (August) *	6.5	4.5	4.0	4.1	4.8
FOREIGN SECTOR					
FOB goods exports (in millions of US\$) *	727.6	785.0	821.6	843.9	818.2
CIF goods imports (in millions of US\$) *	9,136.5	11,339.7	12,494.3	13,035.4	13,714.5
Colon Free Zone re-exports (in millions of US\$) *	11,388.7	15,111.3	15,944.8	14,735.5	12,962.1
CIF Colon Free Zone imports (in millions of US\$) *	10,220.5	14,041.0	14,585.2	12,685.5	11,060.3
Foreign Direct Investment (in millions of US\$) *	2,362.5	3,132.4	2,979.6	4,653.5	4,718.9
PUBLIC FINANCES					
NFPS income (in millions of US\$) *	6,873.6	7,761.7	9,013.2	9,949.7	10,062.9
Foreign debt (in millions of US\$)**	10,438.5	10,910.4	10,782.4	12,231.2	14,352.2
Domestic debt (in millions of US\$)**	1,191.0	1,903.8	3,482.8	3,452.5	3,878.7
Total debt (in millions of US\$)**	11,629.5	12,814.2	14,265.2	15,683.6	18,230.9
NFPS Deficit (in %)***	-1.9	-2.2	-2.1	-2.4	-4.0

* Comptroller General of the Republic data

** Data from the MEF's Directorate of Public Credit Debt Report.

*** Ministry of Economy and Finance

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II. Performance of the International Banking Center

The International Banking Center ended December 2014 with total assets of US\$108.67 billion, an 11.0% increase over December 2013. It is worth noting that for this period, assets recording the greatest growth were liquid assets at 23.2% followed by credit with 9.0% and securities investment with 8.3%. For liabilities, deposits ended at US\$78.17 billion, an 11.5% increase over the same period of 2013. It is important to note that obligations grew 9.2% through December 2014, equivalent to US\$1.39 billion.

Table 3
International Banking Center
Balance Sheet
(in millions of US\$)

Accounts	2013	2014	Var. December 14/13	
	December	December (p)	Total	%
Liquid assets	17,322	21,346	4,024	23.2%
Loan portfolio	60,612	66,040	5,428	9.0%
Securities investment	16,245	17,594	1,349	8.3%
Other assets	3,743	3,681	-62	-1.7%
Total assets	97,922	108,661	10,739	11.0%
Deposits	70,110	78,163	8,053	11.5%
Obligations	14,978	16,361	1,383	9.2%
Other liabilities	2,827	2,766	-61	-2.2%
Equity	10,007	11,371	1,364	13.6%

Source: General and international license banks.

Analyzing the balance sheet of the National Banking System (general license banks only), total assets for November 2014 reached US\$90.20 billion, a 12.5% increase over December 2013. Asset growth was mainly attributable to liquid assets (23.7%) and the credit portfolio (11.3%), which has been driven by domestic credit. Securities investment increased 9.0%. For liabilities, total deposits ended at US\$67.06 billion, a 12.7% growth. As of December 2014, obligations increased 15.0% over December 2013, equivalent to US\$1.53 billion.

Table 4
National Banking System
Balance Sheet
(in millions of US\$)

Banking System	2013	2014	Var. December 14/13	
	December	December (p)	Total	%
Liquid assets	14,193	17,560	3,367	23.7%
Loan portfolio	49,798	55,453	5,655	11.3%
Securities investment	12,820	13,975	1,155	9.0%
Other assets	3,362	3,208	-154	-4.5%
Total Assets	80,173	90,196	10,023	12.5%
Deposits	59,487	67,052	7,565	12.7%
Obligations	10,100	11,621	1,521	15.0%
Other liabilities	2,616	2,449	-167	-6.3%
Equity	7,970	9,074	1,104	13.8%

Source: General and international license banks.

Accrued profits for the International Banking Center were US\$1.55 billion through December 2014. Compared to the same period in 2013, profits increased 9.1%.

Table 5
International Banking Center
Balance Sheet
(in millions of US\$)

	2013	2014	Var. December 14/13	
	Jan-Dec	Jan-Dec	Total	%
Net interest income	1,982	2,147	165	8.3%
Other income	1,876	1,889	13	0.7%
Operating income	3,858	4,036	178	4.6%
General expenses	2,182	2,219	37	1.7%
Income before bad provisions	1,676	1,817	141	8.5%
Provisions expenses	255	268	13	5.2%
Income for the period	1,421	1,549	128	9.1%

Source: General and international license banks.

Accrued profits for the National Banking System (general license banks only) were US\$1.28 billion through December 2014, a 17.5% increase over December 2013.

Table 6
National Banking System
Profit Statement
(in millions of US\$)

	2013	2014	Var. December 14/13	
	Jan-Dec	Jan-Dec	Total	Jan-Dec
Net interest income	1,811	1,965	154	8.5%
Other income	1,466	1,485	19	1.3%
Operating income	3,277	3,450	173	5.3%
General expenses	1,964	1,927	-37	-1.9%
Income before bad provisions	1,313	1,523	210	16.0%
Provisions expenses	226	246	20	9.1%
Income for the period	1,087	1,277	190	17.5%

Source: General and international license banks.

Credit

The National Banking System credit portfolio grew 10.9%, but the increase was only 8.9% if the domestic portfolio alone was considered. As of December 2014, credit to the private sector grew by 11.7% compared to December 2013.

Table 7
National Banking System
Domestic Credit Portfolio by Sector and Activity
(in millions of US\$)

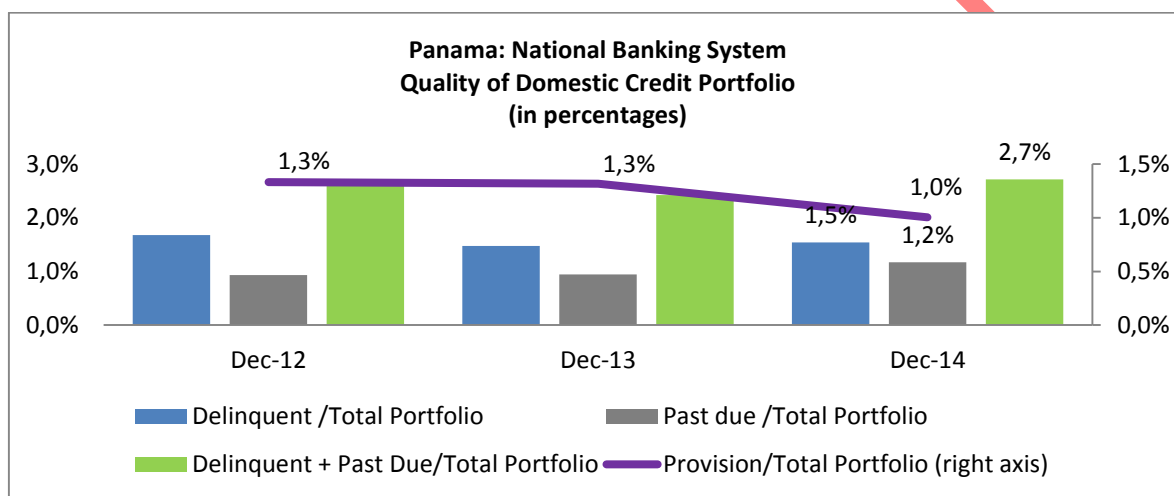
Sectors and Activities	Dec. 13	Dec. 14	Var. 14/13	
			Total	%
TOTAL	37,061	40,352	3,291	8.9%
Public sector	1,822	998	-824	-45.2%
Private sector	35,239	39,354	4,115	11.7%
Finance and insurance companies	1,015	935	-80	-7.9%
Agriculture	413	414	1	-0.2%
Livestock	870	978	108	12.4%
Fishing	68	87	19	27.9%
Mining and quarrying	54	66	12	22.2%
Commerce	10,313	10,959	646	6.3%
Industry	1,668	2,199	531	31.8%
Mortgage	10,033	11,371	1,338	13.3%
Construction	3,697	4,450	753	20.4%
Micro credit	0	0	0	0.0%
Personal consumption	7,110	7,894	784	11.0%

Source: General and international license banks.

As of December 2014 and compared to December 2014, the activities with the greatest total growth were mortgages at US\$1.34 billion followed by personal consumption with US\$784 million and construction with US\$753 million.

As for the quality of the domestic credit portfolio, the past due portfolio was 1.5% of the total domestic portfolio while delinquent balances represented 1.2% of total domestic credit. The sum of past due and delinquent balances represented 2.7% of the portfolio as of December 2014, higher than the figures for December 2013 and December 2012.

Chart 4



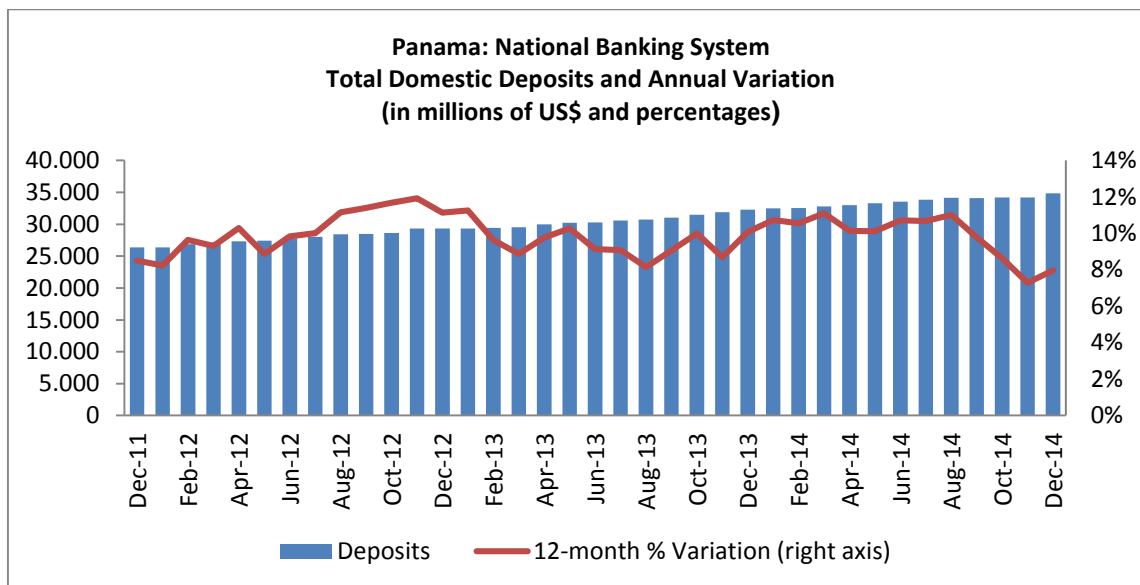
Source: General and international license banks.

Deposits

For the last three years, the growth of domestic deposits has been above 8%. At the same time, domestic deposits represent 68.9% of total deposits in the National Banking System as of December 2014. The chart below shows the domestic deposits progression and its annual variation.

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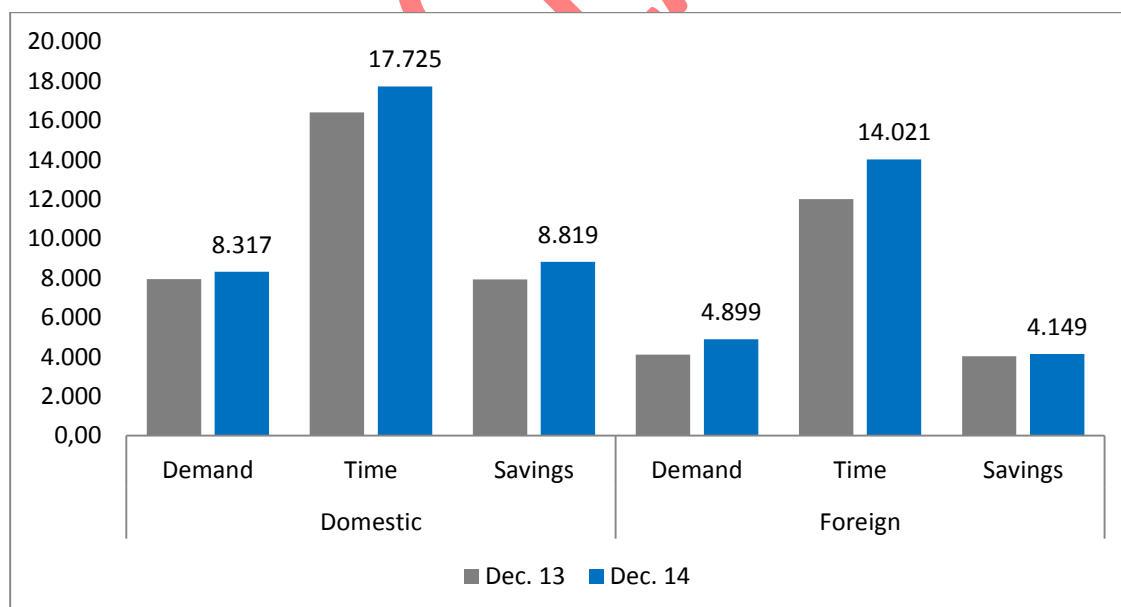
Chart 5



Source: General and international license banks.

For December 2014, domestic private deposits consisted of US\$8.32 billion in demand deposits, US\$17.73 billion in time deposits and US\$8.82 billion in savings deposits.

Chart 6

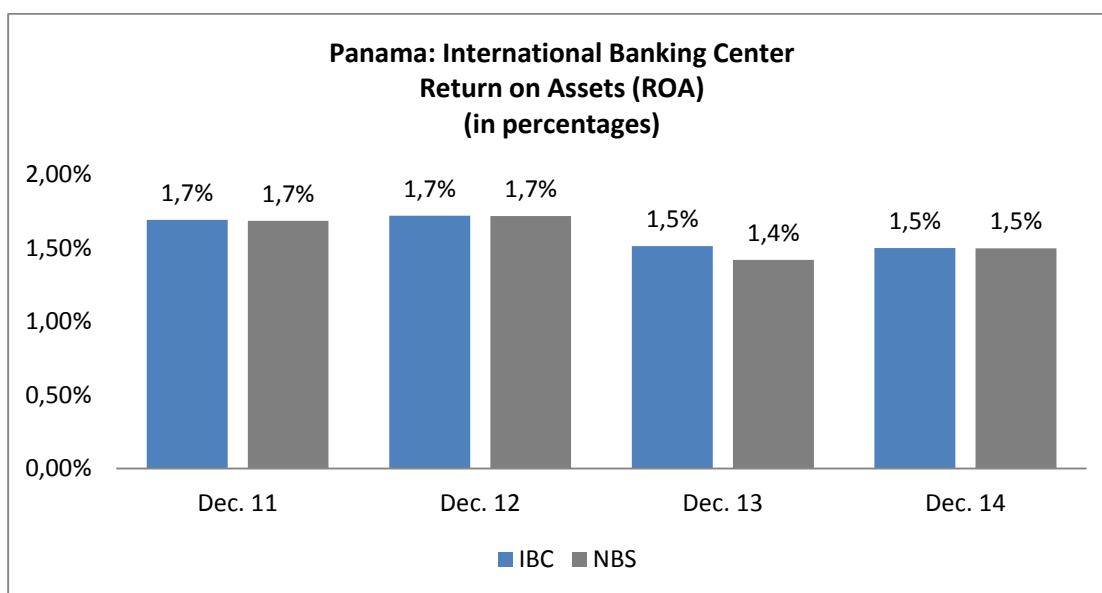


Source: General and international license banks.

Indicators

The Return on Assets (ROA) for the International Banking Center registered 1.50% as of December 2014, and the same indicator for the National Banking System (general license banks only) also registered 1.50%.

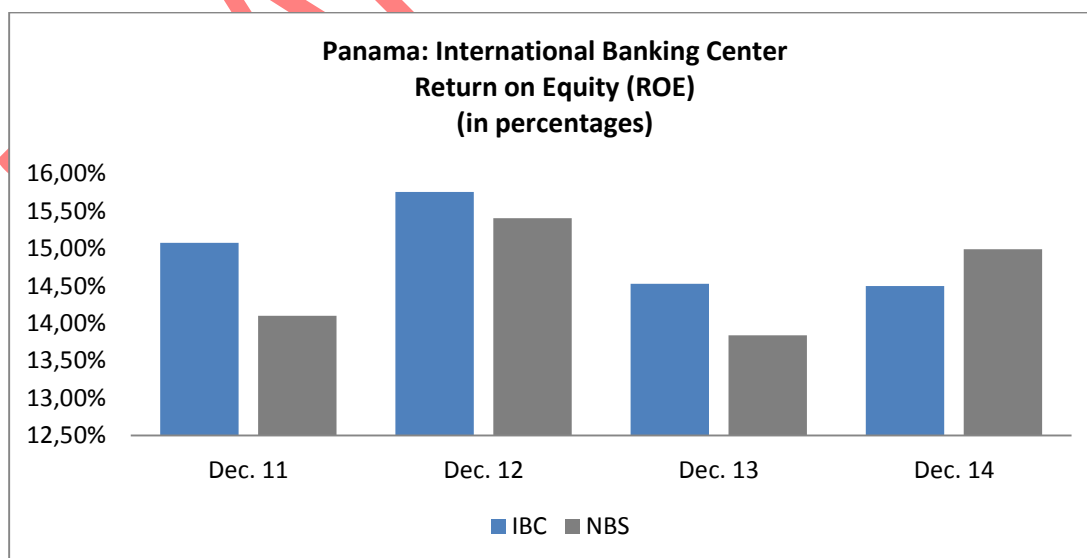
Chart 7



Source: General and international license banks.

The Return on Equity (ROE) of the International Banking Center registered 14.5% as of December 2014, while the indicator registered 15.0% for the National Banking System.

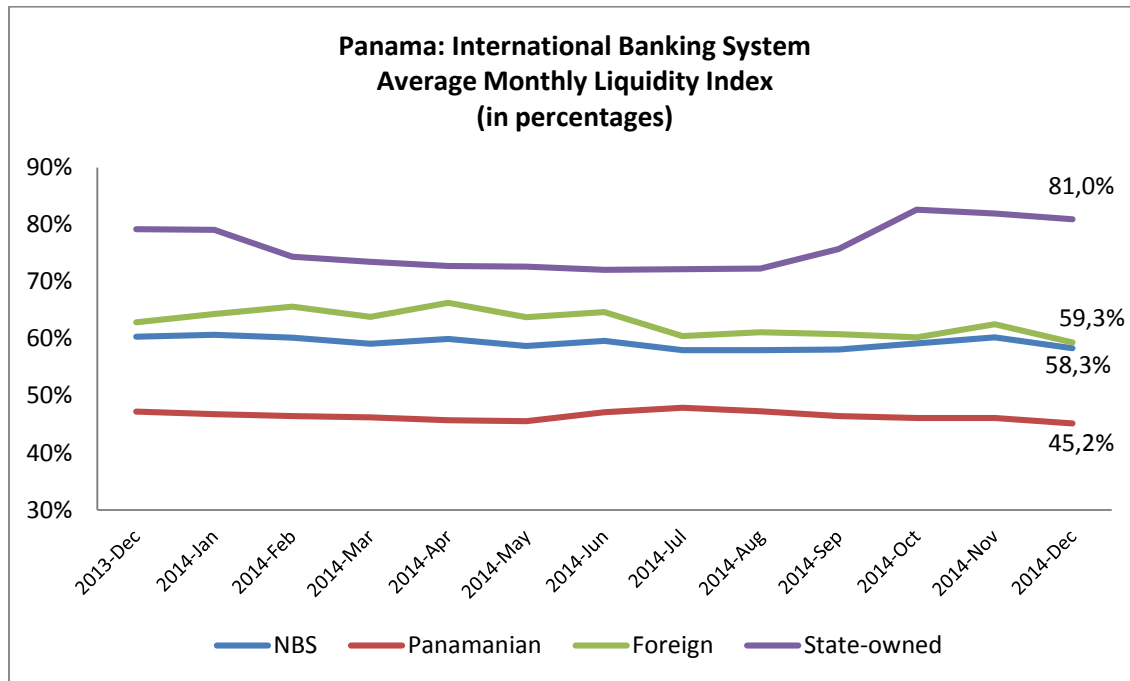
Chart 8



Source: General and international license banks.

Monthly average liquidity registered 58.3% in December 2014 for the National Banking System. By type of banking, average liquidity registered 81.0% for state-owned banking; 59.3% for foreign banking; and 45.2% for Panamanian banking.

Chart 9



Source: General and international license banks.

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