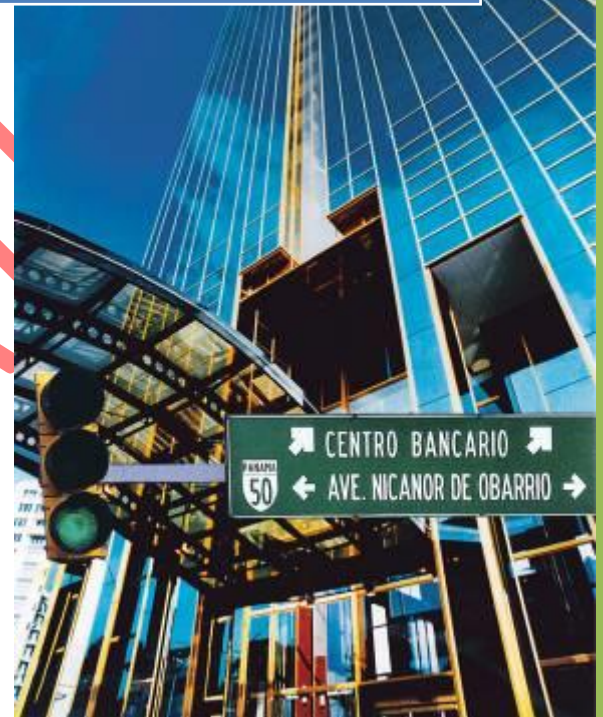




Superintendencia
de Bancos de Panamá

Financial Studies Division

Banking Activity Report



December 2015

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TRANSLATION

I. Economic Environment

A. Gross Domestic Product

During 2015, the production of goods and services in the Panamanian economy, measured by Gross Domestic Product (GDP), increased by 5.85 over the previous year. The GDP at 2007 prices amounted to US\$35.74 billion, a US\$1.96 billion increase, according to the National Institute of Statistics and Census (INEC, for its acronym in Spanish).

Table 1. GDP Supply Components

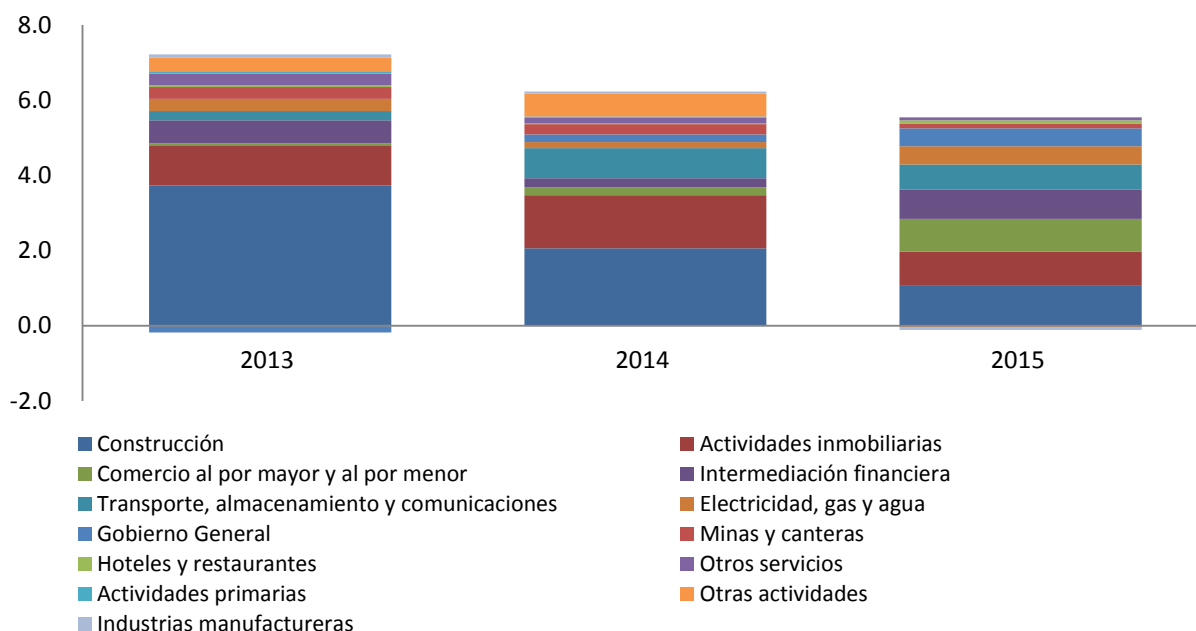
| Description | Percentage Variation | | Percentage Contribution | |
|--|----------------------|-------------|-------------------------|------------|
| | (%) | | (BP) | |
| | 2014 | 2015 | 2014 | 2015 |
| GDP | 6.1% | 5.8% | 6.1 | 5.8 |
| Utilities (electricity, gas and water) | 4.7% | 13.6% | 0.2 | 0.5 |
| Leasing | 3.1% | 10.4% | 0.2 | 0.8 |
| Central Government | 3.1% | 7.5% | 0.2 | 0.5 |
| Construction | 14.0% | 6.8% | 2.1 | 1.1 |
| Other activities | 8.0% | 6.4% | 0.7 | 0.5 |
| Real estate activities | 10.0% | 6.1% | 1.4 | 0.9 |
| Commerce | 1.1% | 4.9% | 0.2 | 0.9 |
| Transportation and communications | 5.5% | 4.7% | 0.8 | 0.7 |
| Hotels and restaurants | 0.4% | 3.1% | 0.0 | 0.1 |
| Primary sector | 1.2% | 0.4% | 0.0 | 0.0 |
| Manufacturing industries | 0.9% | -1.3% | 0.1 | (0.1) |
| Fishing | 40.6% | -4.3% | 0.2 | (0.0) |

Source: SBP with CGR data.

The nominal GDP reached US\$52.14 billion, a 6.0% increase over the previous year, equivalent to an annual increase of US\$2.97 billion.

It is worth noting that, as in previous years, the construction sector contributed greatly to the total increase of the GDP. In 2015, it contributed with 1.1 bps (18.7% of total growth) which made it the greatest contributor for the period. Furthermore, the construction sector and real estate activities may have contributed 34.2% to 2015 growth, a reason for these sectors to be observed closely.

**Chart 1: Economic Activity Contribution to GDP Variation
2013 - 2015**



Source: SBP with CGR data.

Standing out among the activities related to the external sector are ports, financial activities, tourism and Panama Canal services. At the same time, there was a decrease in Colon Free Zone business. In agriculture, banana and cantaloupe exports increased, but there was a decrease in watermelon and pineapple exports.

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

The expansion of transportation, storage and telecommunications, led by telecommunications, which grew 4.7%, was due primarily to increases in telecommunications, port services, regular inland passenger transportation and the Panama Canal. At the same time, Panama Canal operations increased 7.5% due to ancillary services provided to vessels using this route (8.9%) and tolls (3.5%); the port system increased by 6.1% due to increases in TEU movement (1.8%) and bulk cargo (26.3%). At the same time, general cargo decreased by 25.1%.

As for construction's annual added value, sector growth reached 6.8%. The sector's behavior is based on the execution of public and private investments, mainly nationwide residential and non-

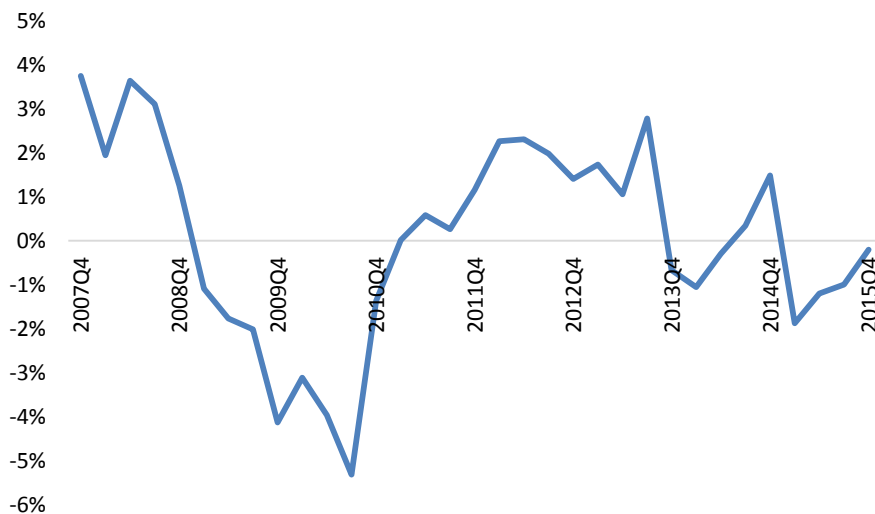
residential construction projects and the infrastructure development by the government in various regions of the country. Construction permits grew 7.5%.

Commercial activity increased 4.9%. Wholesaling grew thanks to increases in clothing and footwear sales volume, spare parts and accessories for motor vehicles, construction materials and food, beverage and tobacco, among others. Retailing increased as a result of new cars sales, retail food and maintenance and repair of motor vehicles. Wholesaling activities of the Colon Free Zone reported a decrease due to the situation in its main markets.

Leasing's added value showed a 10.4% increase due to the good performance of the International Banking Center's financial services. At the same time, domestic loans to the private sector improved portfolio balances in sectors such as personal consumption, commerce and construction. Insurance companies showed a 6.6% increase from net premiums growth (8.2%), although accidents increased as well. Ancillary leasing grew 10.3%.

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 a negative phase. This would imply that the level of idle capacity allowed GDP to expand at healthy rates without demand generating inflation.

Chart 2: Quarterly GDP Growth

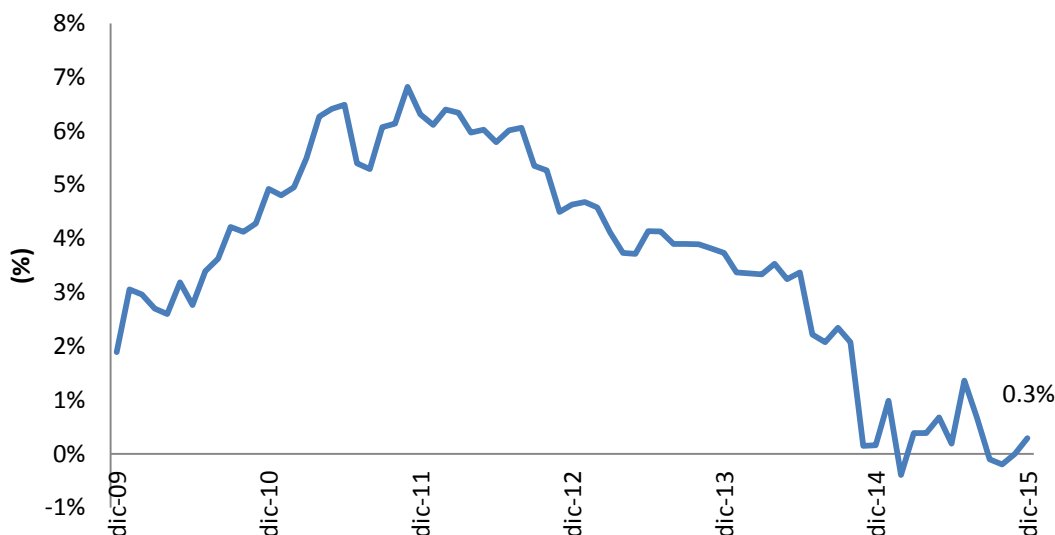


Source: SBP with CGR data.

B. Consumer Price Index (CPI)

As for December 2015, Panama's Consumer Price Index (CPI) decreased 0.3%, which is lower than expected. CPI components linked to domestic demand behavior continue showing stability. The inflation on meals outside the household and non-tradable goods increased slightly, suggesting there is no excess demand in the economy.

Chart 3. Total Inflation
January 2009 - December 2015



Source: SBP with CGR data.

As of December, four of the twelve groups in the CPI portfolio showed decreases, five registered increases and three groups remained unchanged. The groups registering major decreases were: Transportation, 0.6%; Clothing and footwear, 0.2%; and Miscellaneous goods and services, 0.1%.

Within the Transportation group, the “Fuels and lubricants for personal transportation” registered a 3.8% decrease due to car fuel price decreases.

Compared to December 2014, the National Urban CPI showed the following decreases: Clothing and footwear, 5.4%; Miscellaneous goods and services, 3.9%; Healthcare, 3.8%; Furniture, household appliances and household maintenance, 3.7%; Housing and utilities (water, electricity and gas), 3.4%; and Fun and culture, 1.4%.

CHART 2: MAIN ECONOMIC INDICATORS IN PANAMA

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|----------|----------|----------|----------|----------|
| GROSS DOMESTIC PRODUCT (GDP) | | | | | |
| GDP (real annual var., in %) * | 11.8 | 9.2 | 6.6 | 6.1 | 5.8 |
| GDP (in millions of US\$ - 2007) * | 27,348.8 | 29,873.0 | 31,851.9 | 33,780.0 | 35,731.6 |
| GDP (in millions of US\$) * | 34,373.8 | 39,954.8 | 44,856.2 | 49,165.8 | 52,132.3 |
| INFLATION AND EMPLOYMENT (variation and rates in %) | | | | | |
| CPI (% variation, 2014) * | 5.9 | 5.7 | 4 | 2.6 | 0.3 |
| WPI (% variation) * | 11.9 | 4.7 | -1.1 | -1.6 | -4 |
| Unemployment rate (August) * | 4.5 | 4 | 4.1 | 4.8 | 5.1 |
| FOREIGN SECTOR | | | | | |
| FOB goods exports (in millions of US\$) * | 785.0 | 821.6 | 843.7 | 817.2 | 695.7 |
| CIF goods imports (in millions of US\$) * | 11,339.7 | 12,494.3 | 13,030.8 | 13,707.2 | 12,136.1 |
| Colon Free Zone re-exports (in millions of US\$) * | 15,111.3 | 15,944.8 | 14,732.1 | 12,962.1 | 11,365.5 |
| CIF Colon Free Zone imports (in millions of US\$) * | 14,041.0 | 14,585.2 | 12,684.9 | 11,060.3 | 10,373.5 |
| Foreign Direct Investment (in millions of US\$) * | 3,132.0 | 2,887.0 | 3,943.0 | 4,309.0 | 5,038.0 |
| PUBLIC FINANCES | | | | | |
| NFPS income (in millions of US\$) * | 7,761.7 | 9,013.2 | 9,949.7 | 10,225.0 | 10,620.0 |
| Foreign debt (in millions of US\$)** | 10,910.4 | 10,782.4 | 12,231.2 | 14,352.2 | 15,648.3 |
| Domestic debt (in millions of US\$)** | 1,903.8 | 3,482.8 | 3,452.5 | 3,878.7 | 4,573.4 |
| Total debt (in millions of US\$)** | 12,814.2 | 14,265.2 | 15,683.6 | 18,230.9 | 20,221.7 |
| NFPS Deficit (in %)*** | -2.2 | -2.1 | -2.4 | -3.4 | -2 |

* Comptroller General of the Republic data

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

*** Ministry of Economy and Finance

II. Performance of the International Banking Center

A. Balance Sheet and Profit Statement

The International Banking Center ended December 2015 with total assets of US\$118.48 billion, a 9.3% increase over December 2014. It is worth noting that for this period, assets recording the greatest increase were other assets at 37.2%. For liabilities, deposits ended at US\$83.83 billion, a 7.5% increase over the same period in 2014. It is important to note that obligations grew 13.3% through December 2015, equivalent to US\$2.18 billion.

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

| Banking Center | 2014 | 2015 | Total Dec. 15 / 14 | |
|-----------------------|----------------|----------------|--------------------|-------------|
| | December | December | Variation | % |
| Liquid assets | 21,360 | 21,493 | 133 | 0.6% |
| Loan portfolio | 66,044 | 72,563 | 6,519 | 9.9% |
| Securities investment | 17,553 | 19,669 | 2,116 | 12.1% |
| Other assets | 3,463 | 4,753 | 1,290 | 37.2% |
| Total assets | 108,420 | 118,478 | 10,058 | 9.3% |
| Deposits | 77,973 | 83,821 | 5,848 | 7.5% |
| Obligations | 16,368 | 18,539 | 2,171 | 13.3% |
| Other liabilities | 2,768 | 3,811 | 1,043 | 37.7% |
| Equity | 11,311 | 12,307 | 996 | 8.8% |

Source: General and international license banks.

Analyzing the balance sheet of the National Banking System (general license banks only), total assets for December 2015 reached US\$98.53 billion, a 9.5% increase over December 2014. Asset growth was mainly attributable to other assets at 44.0%; the total loan portfolio increased US\$6.17 billion (11.9%), driven by domestic credit. Securities investment grew 14.6%. For liabilities, total deposits ended at US\$71.33 billion, a 6.7% growth. As of December 2015, obligations increased US\$2.11 billion over December 2014.

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

| Banking System | 2014 | 2015 | Total Dec. 15 / 14 | |
|-----------------------|---------------|---------------|--------------------|-------------|
| | December | December | Variation | % |
| Liquid assets | 17,559 | 16,569 | -990 | -5.6% |
| Loan portfolio | 55,454 | 61,621 | 6,167 | 11.1% |
| Securities investment | 13,981 | 16,027 | 2,046 | 14.6% |
| Other assets | 2,990 | 4,306 | 1,316 | 44.0% |
| Total assets | 89,984 | 98,523 | 8,539 | 9.5% |
| Deposits | 66,846 | 71,324 | 4,478 | 6.7% |
| Obligations | 11,628 | 13,736 | 2,108 | 18.1% |
| Other liabilities | 2,452 | 3,592 | 1,140 | 46.5% |
| Equity | 9,058 | 9,871 | 813 | 9.0% |

Source: General and international license banks.

Accrued profits for the International Banking Center were US\$1.59 billion through December 2015. Compared to the same period in 2014, profits increased 3.7%.

Table 5
International Banking Center
Profit Statement
(in millions of US\$)

| Banking Center | 2014 | 2015 | Total 14/15 | |
|------------------------------|--------------|--------------|-------------|-------------|
| | Jan. – Dec. | Jan. – Dec. | Variation | |
| Net interest income | 2,149 | 2,344 | 195 | 9.1% |
| Other income | 1,858 | 2,030 | 172 | 9.2% |
| Operating income | 4,007 | 4,374 | 367 | 9.1% |
| General expenses | 2,217 | 2,504 | 287 | 13.0% |
| Income before provisions | 1,790 | 1,870 | 80 | 4.4% |
| Provisions expenses | 263 | 286 | 23 | 8.7% |
| Income for the period | 1,527 | 1,584 | 57 | 3.7% |

Source: General and international license banks.

Accrued profits for the National Banking System (general license banks only) were US\$1.34 billion through December 2015, a 5.6% increase over December 2014.

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

| Banking System | 2014 | 2015 | Total 14/15 | |
|------------------------------|--------------|--------------|-------------|--------------|
| | Jan. – Dec. | Jan. – Dec. | Variation | |
| Net interest income | 1,966 | 2,141 | 175 | 8.9% |
| Other income | 1,478 | 1,689 | 211 | 14.3% |
| Operating income | 3,444 | 3,830 | 386 | 11.2% |
| General expenses | 1,924 | 2,240 | 316 | 16.4% |
| Income before provisions | 1,520 | 1,590 | 70 | 4.6% |
| Provisions expenses | 253 | 251 | -2 | -0.6% |
| Income for the period | 1,267 | 1,339 | 72 | 5.6% |

Source: General and international license banks.

B. Loans

The National Banking System loan portfolio grew 11.1%, but the increase was only 11.9% if only the domestic loan portfolio was considered. As of December 2015, loans to the private sector grew by 11.6% compared to December 2014.

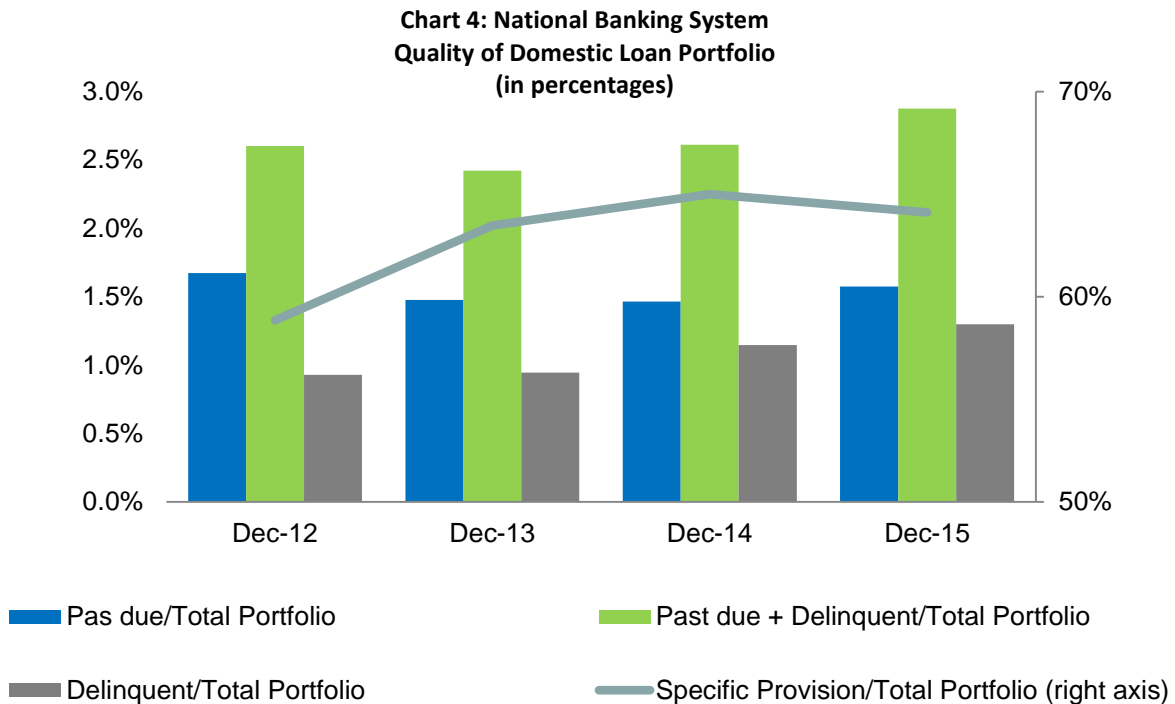
Table 7
National Banking System
Domestic Loan Portfolio by Sector and Activity
(in millions of US\$)

| Sectors and Activities | 2014 | 2015 | Total Var. 15/14 | % Var. |
|---------------------------------|----------|----------|------------------|--------|
| | December | December | | |
| TOTAL | 40,352 | 45,136 | 4,785 | 11.9% |
| Public sector | 998 | 1,224 | 227 | 22.7% |
| Private sector | 39,354 | 43,912 | 4,558 | 11.6% |
| Finance and insurance companies | 935 | 1,246 | 311 | 33.3% |
| Agriculture | 414 | 395 | -19 | -4.7% |
| Livestock | 978 | 1,087 | 109 | 11.2% |
| Fishing | 87 | 108 | 21 | 24.6% |
| Mining and quarrying | 66 | 49 | -18 | -27.0% |
| Commerce | 10,957 | 11,473 | 516 | 4.7% |
| Industry | 2,199 | 2,096 | -103 | -4.7% |
| Mortgage | 11,371 | 13,162 | 1,791 | 15.8% |
| Construction | 4,450 | 5,286 | 836 | 18.8% |
| Personal consumption | 7,896 | 9,009 | 1,114 | 14.1% |

Source: General and international license banks.

As of December 2015 and compared to December 2014, the activities with the greatest total growth were mortgages at US\$1.80 billion, followed by personal consumption with US\$1.12 billion and construction at US\$836 million.

As for the quality of the domestic loan portfolio, the past due portfolio was 1.6% of the total domestic portfolio while delinquent balances represented 1.3%. The sum of the past due and delinquent balances represented 2.9% of the domestic portfolio as of December 2015.

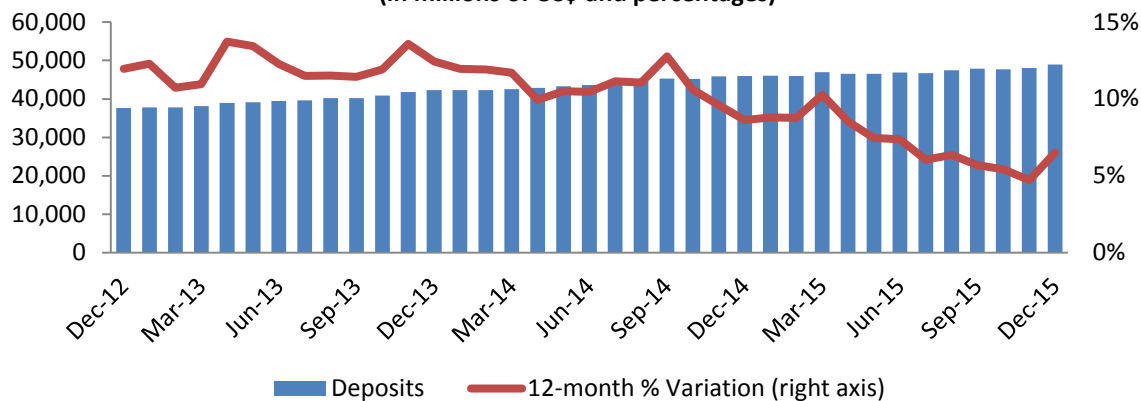


Source: General and international license banks.

C. Deposits

The growth of domestic deposits in the National Banking System has been remained steady for the last three years. At the same time, domestic deposits represent 68.6% of total deposits in the National Banking System as of December 2015. The chart below shows the domestic deposits progression and its annual variation.

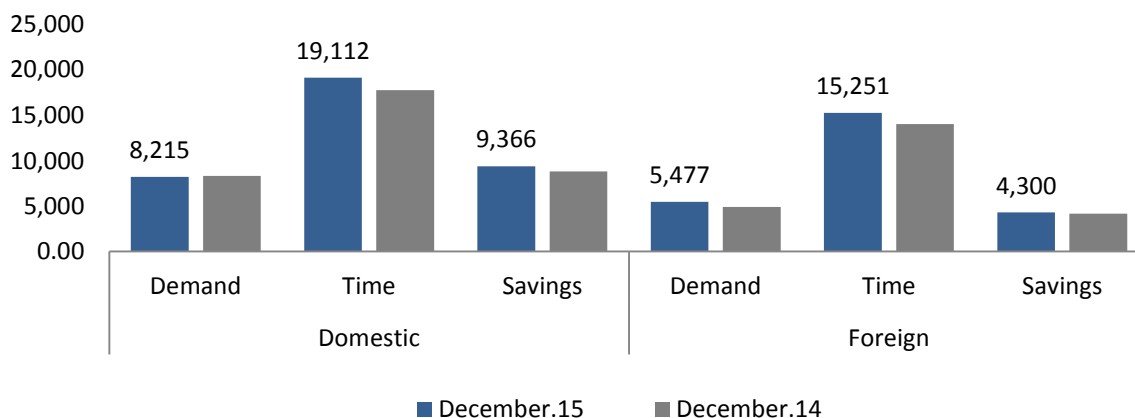
**Chart 5: National Banking System
Total Domestic Deposits and Annual Variation
(in millions of US\$ and percentages)**



Source: General license banks.

For December 2015, domestic private deposits consisted of US\$8.22 billion in demand deposits, US\$19.12 billion in time deposits and US\$9.37 billion in savings deposits.

**Chart 6: International Banking Center
Private Deposits
(in millions of US\$)**

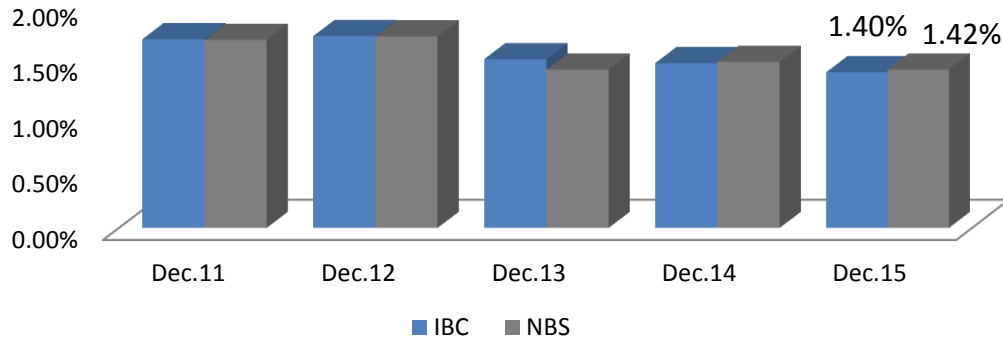


Source: General and international license banks.

D. Indicators

The Return on Assets (ROA) for the International Banking Center registered 1.40% as of December 2015, and the same indicator for the National Banking System (general license banks only) registered 1.42%

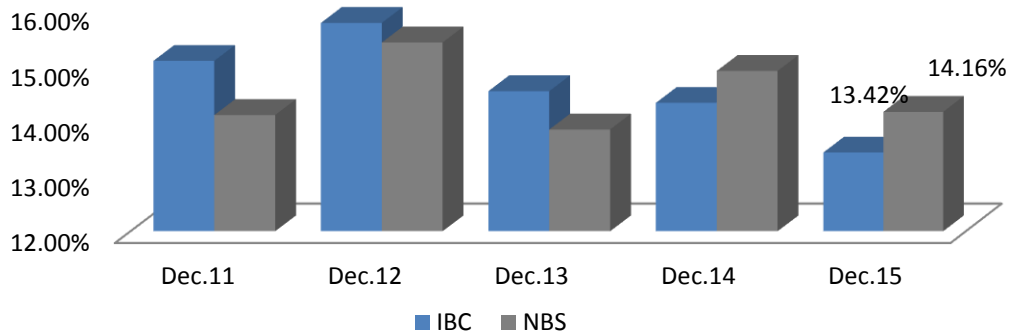
**Chart 7: International Banking Center
Return on Assets (ROA)
(in percentages)**



Source: General and international license banks.

The Return on Equity (ROE) of the International Banking Center registered 13.4% as of December 2015, while the indicator registered 14.1% for the National Banking System.

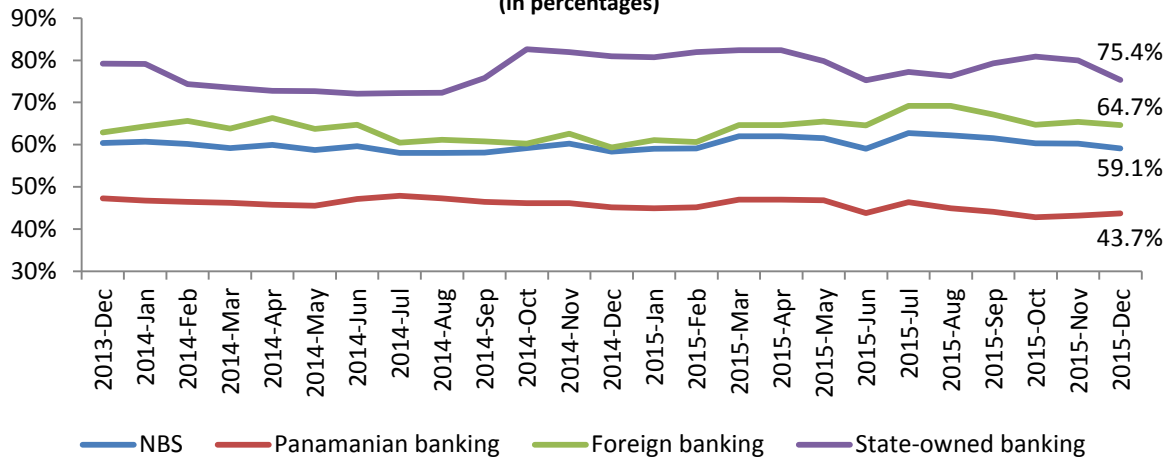
**Chart 8: International Banking Center
Return on Equity (ROE)
(in percentages)**



Source: General and international license banks.

Monthly average liquidity registered 59.1% in December 2015 for the National Banking System. By type of banking, average liquidity registered 75.4% for state-owned banking, 64.7% for foreign banking and 43.7% for Panamanian banking.

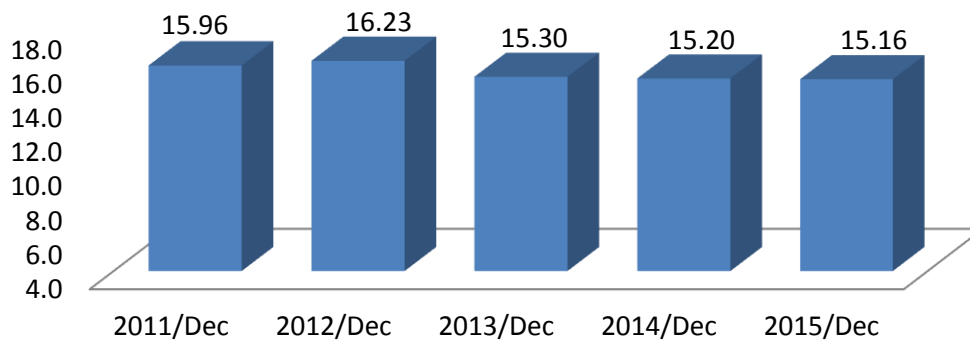
**Chart 9: International Banking Center
Average Monthly Liquidity Index
(in percentages)**



Source: General and international license banks.

E. Capital Adequacy

**Chart 10: International Banking Center
Capital Adequacy Index
in percentages**



The capital adequacy index of the International Banking Center as of the fourth quarter of 2015 was 15.16%, with a slight decrease of 0.4% over the same period in 2014. However, it is above the legally required capital adequacy of 8%.

III. New Banking Regulations

Below we have included the most relevant regulatory changes to date for the system's stability, especially on accounting, risks, and AML/CFT. These changes are part of the Regulatory agenda and a set of measures adopted by the Superintendency of Banks of Panama to improve the quality of capital, measure the risk to which the banks are exposed, update the International Financial Reporting Standards and remove Panama from discriminatory or non-cooperative jurisdictions lists.

Similarly, all the information on the current regulations for banking operations in Panama is available in the SBP's website. The Superintendency of Banks' website is <http://www.superbancos.gob.pa/>

Table 8: Latest Regulations

| Instrument | Topics |
|-----------------------|--|
| 2015 | |
| Rule 12 (2015) | Establishes the punitive administrative proceedings to be conducted by the Superintendency of Banks for those processes without a special administrative proceeding |
| Rule 11 (2015) | Article 3 of Rule 2-2012 is amended to expand the services banks may offer through nonbanking correspondents. |
| Rule 10 (2015) | To update measures to prevent the misuse of banking and trust services in order to include the new guidelines established by Law 23 of 2015, which adopts measures to prevent money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction. |
| Rule 9 (2015) | Establishes the punitive administrative proceedings for potential violations of the provisions for the Prevention of Money Laundering, the Financing of Terrorism and Financing the Proliferation of Weapons of Mass Destruction applicable to regulated entities. |
| Rule 7 (2015) | Provides a Warning Signs Catalog for the detection of suspicious transactions related to Money Laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction. |
| Rule 6 (2015) | Whereby Article 17 of Rule 4-2008 on compliance with the Legal Liquidity Index is amended in order to provide timely information to monitor liquidity risk. |

| | |
|--|--|
| Rule 5 (2015) | Establishes the measures other regulated entities under the supervision of the Superintendency of Banks must take to prevent the misuse of the services they provide within Panama. |
| Rule 4 (2015) | Whereby the procedure for registering domestic and foreign custodians of bearer shares is established. |
| Rule 3 (2015) | Whereby Articles 9 and 14 of Rule 4-2010 on External Auditing are amended in order to update the special reports external auditors must submit to comply with the International Financial Reporting Standards (IFRS) and the period for the rotation of the external auditing team. |
| Rule 1 (2015) | Whereby rules for capital adequacy applicable to Banks and banking groups are established in order to update the regulatory framework governing the capital requirements to international standards to keep strengthening the solvency of the banking system, limit leveraging, and encourage Banks to have sustainable growth strategies that will improve the financial stability of the banking center. |
| | |
| Resolution SBP-GJD-0003-2015 | Whereby the technology guidelines and requirements for inspections of regulated financial entities supervised by the Superintendency on the prevention of money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction are established. |
| General Resolution SBP-RG-0001-2015 | Resolution updating the contents, form, frequency, accuracy and quality of information banks are required to provide and the sanctions for non-compliance. |

TRAINING