



2015 Performance of the International Banking Center

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Agenda

- I. International and National Economic Environment
- II. 2015 Performance of the International Banking Center
- III. Short- and Medium-term strategic issues
- IV. Institutional challenges and achievements

Key Messages

**Sound and safe banking
system**

**Positive domestic economic
environment, but restrictive
international trade
environment**

**Reflection on the
comprehensive review and
competitiveness of the
financial system**

**Strengthen the standard for
supervision of risks and
regulation
Independence and autonomy**

International and National Economic Environment

International Economic Environment

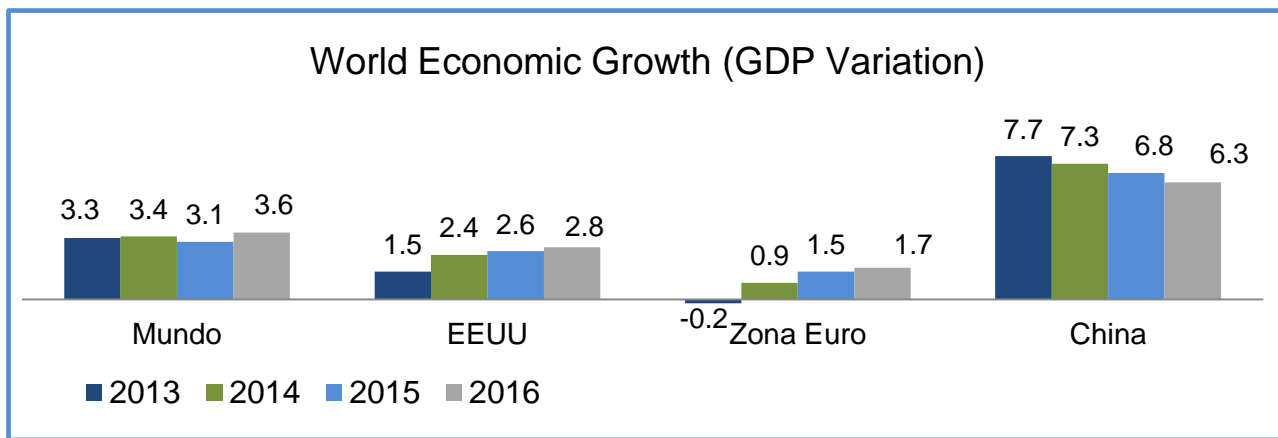
- International economic environment with mixed signals.

- United States: Economic recovery; slight interest rate increase.

- Euro Zone: moderate and slight recovery.

- China: deceleration

- ✓ United States economic recovery. Withdrawal of monetary stimulus to discourage inflation. First interest rate increase in a decade; growth and inflation balance is positive, but indicative of a possible pause in short-term rate increases
- ✓ Job creation (Unemployment dropped to 5.1%) and available income growth (3%) stimulate private consumption expenditure, the main growth engine.
- ✓ Exports and investments are less dynamic. US dollar strength and lower external demand (Euro Zone and China) reduce competitiveness.
- ✓ Euro Zone growth is more moderate (1.5%) due to the unfavorable impact of restrictive fiscal policy.
- ✓ Lower growth in China has weakened demand for raw materials.



International Economic Environment (Latin America)

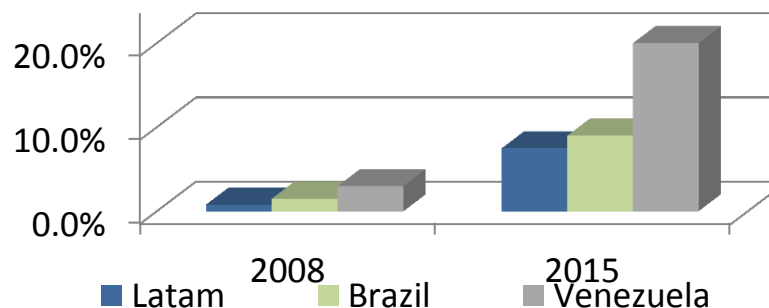
- Restrictive economic environment in Latin America.
- USA is still the main trade partner (35-40% export average). China is representative in Brazil, Chile and Peru.
- Floating economic policy; most currencies have devalued but net benefit vs. reduction of raw material prices has been neutral in the Balance of Payments.
- Monetary policy: Little room for management. Real inflation is at top of inflationary margin goals (except for Mexico).

Key factors in Latin America:

- ✓ Fiscal policy restriction
- ✓ Downward trend in raw material prices
- ✓ Monetary policy limitation
- ✓ Moderate capital flows

Country	Inflationary margin goals	Real inflation	Interest rate
Brazil	4 - 6%	5.5%	15.0%
Chile	2 - 4%	3.0%	3.5%
Colombia	2 - 4%	4.0%	4.0%
Peru	1 - 3%	3.0%	2.5%
Uruguay	4 - 6%	8.0%	8.0%

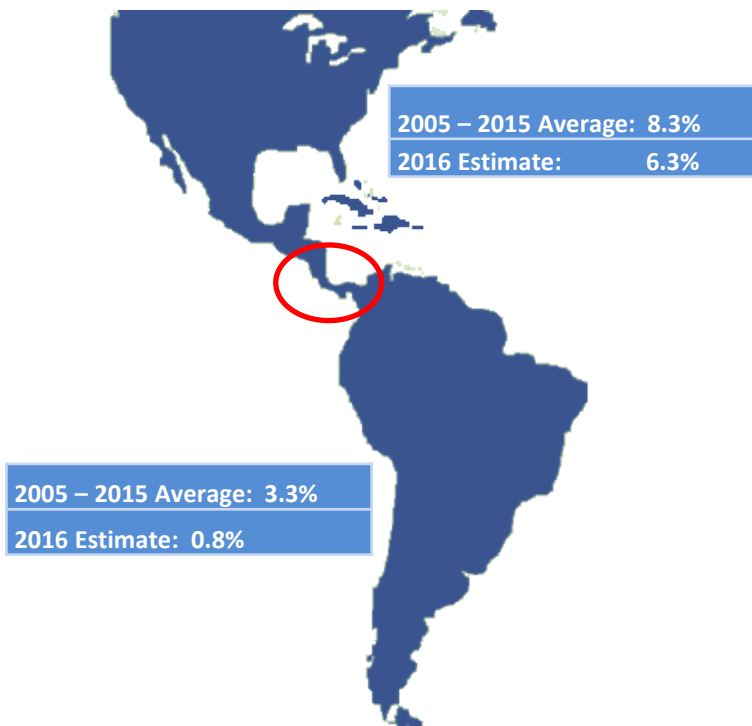
Latin America: Fiscal Deficit / GDP Perspective



Panama: Macroeconomic Environment and 2016 Outlook

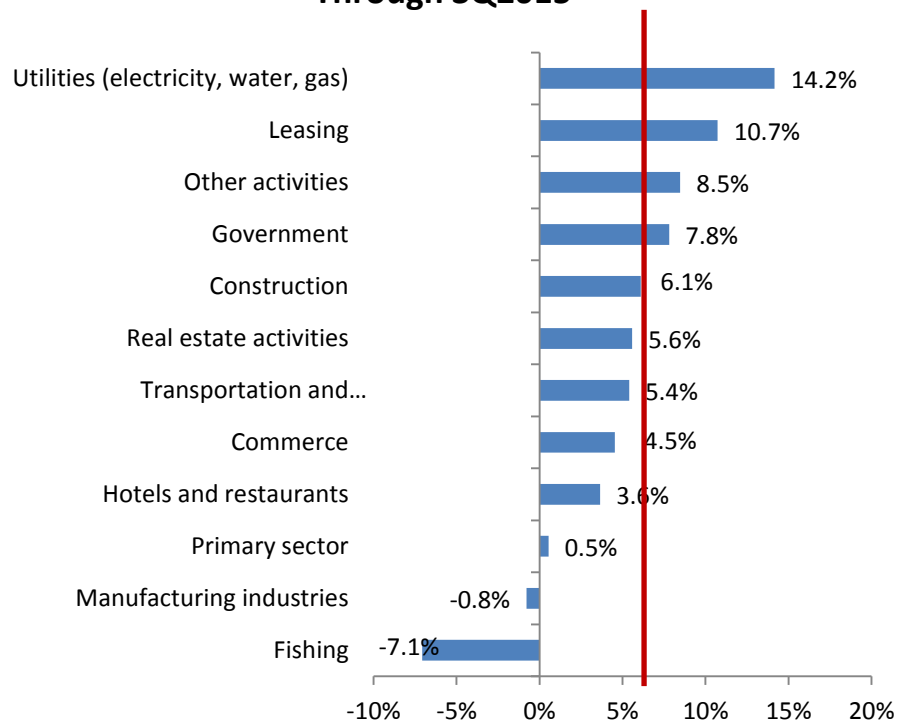
The Panamanian economy maintains stable fundamentals, a diversified economy and few sectors growing below the average, except for the CFZ. No sector represents a market share greater than 20% of total GDP.

Panamanian Growth vs. Latin American Growth



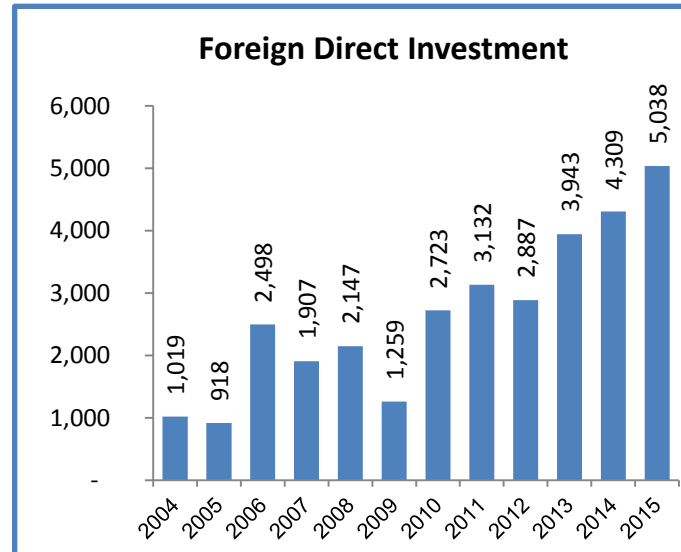
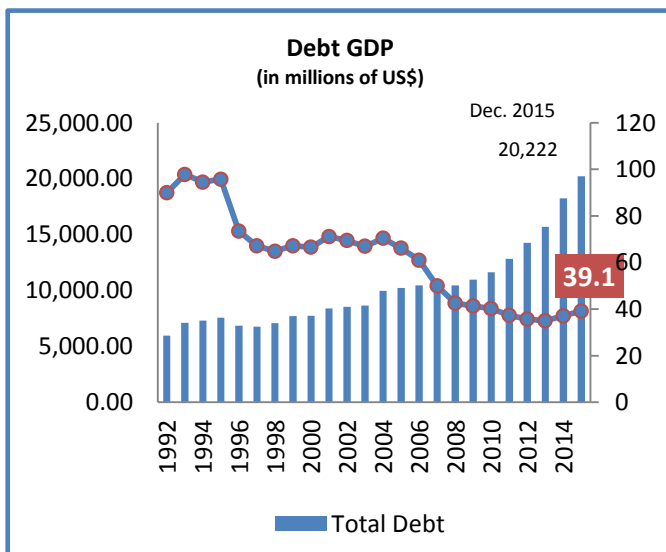
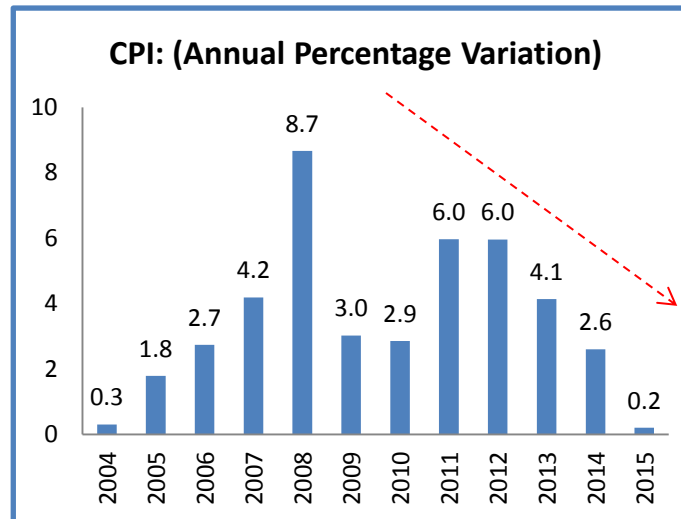
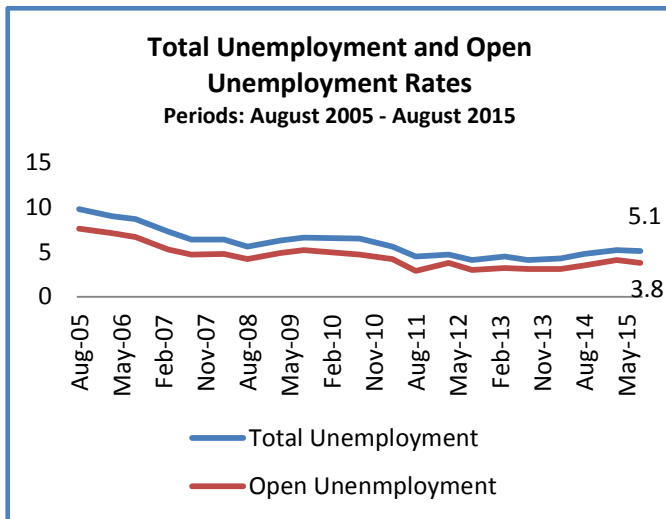
Source of Regional growth: International Monetary Fund. World Economic Outlook January 2016

Accrued GDP Growth by Sectors Through 3Q2015



— GDP 5.8% Growth
Source: SBP with CGR data.

Panama: Financial Indicators



Panama: Economic Policy Challenges

Recent economic factors:

- ✓ Expansionary fiscal policy accelerated economic growth at a rate not sustainable in the medium and long term.
- ✓ Sound Foreign Direct Investment flow during the last decade.
- ✓ Low, stable interest rates facilitating credit flow to the economy.

Economic Policy Challenges:

- ✓ Consolidation of neutral fiscal policy.
- ✓ Infrastructure investment to improve competitiveness.
- ✓ Educational reform to increase productivity.

Countries	GDP (MM USD)	GDP per capita \$PP	2005-14 GDP Growth	2005-14 Savings / GDP	2005-14 Inflation	Unemployment 2014	Poverty rate	Risk Rating
Mexico	1,291.1	17,950	2.5	21.4	4.1	4.8	11.4	BBB+
Argentina	543.1	22,302	5.1	20.1	11.2	7.3	5.0	SD
Brazil	2,346.6	16,155	5.0	18.3	5.4	4.8	9.4	BBB-
Chile	258.0	23,057	4.3	22.8	3.6	6.4	2.0	AA-
Colombia	377.9	13,480	4.8	20.2	4.0	9.1	15.2	BBB
Peru	202.6	11,860	6.1	22.3	2.9	6.0	10.0	BBB+
Uruguay	57.5	21,055	5.4	17.8	7.5	6.6	2.3	BBB
Venezuela	206.3	17,759	3.7	31.1	30.9	7.0	11.5	CCC
Panama	43.8	19,546	8.5	16.6	4.1	4.8	9.9	BBB

2015 Performance of the Banking Center

Summary of the 2015 Performance of the Banking Center

Capital

Sound ability for generating capital

- Capital adequacy index of risk-weighted assets of 15.2%

Liquidity

Stable funding basis.

- Growth of domestic private funds placement is stable at 5.3%.
- Impact of interest rate increase and reduction of sovereign debt on Latin American bonds weighs adversely on portfolio liquidity

Profitability

Sound ability for generating profit

- Income vs. operating expenses efficiency ratio is 1.7

Loans to Private Sector

Positive and appropriate to the economic cycle

- Loans to private sector grew by 11.6%

Delinquency

Domestic portfolio with healthy indicators and collateral

- Total delinquency (+30d) is 2.9% of domestic portfolio
- Non-accrual interest loans (+90d) are at 1.3%

Panama: International Banking Center and Banking System Profit Statement (in millions of USD)

Banking Center	2014	2015	Total 15/14	
	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	9.2%
General expenses	2,217	2,504	287	13.0%
Profits before bad debt provisions	1,790	1,870	80	4.4%
Bad debt provisions	263	286	23	8.7%
Profit for the period	1,527	1,584	57	3.7%
Banking System	2014	2015	Total 15/14	
	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%
Profit before bad debt provisions	1,520	1,590	70	4.6%
Bad debt provisions	253	251	-2	-0.6%
Profit for the period	1,267	1,339	72	5.6%

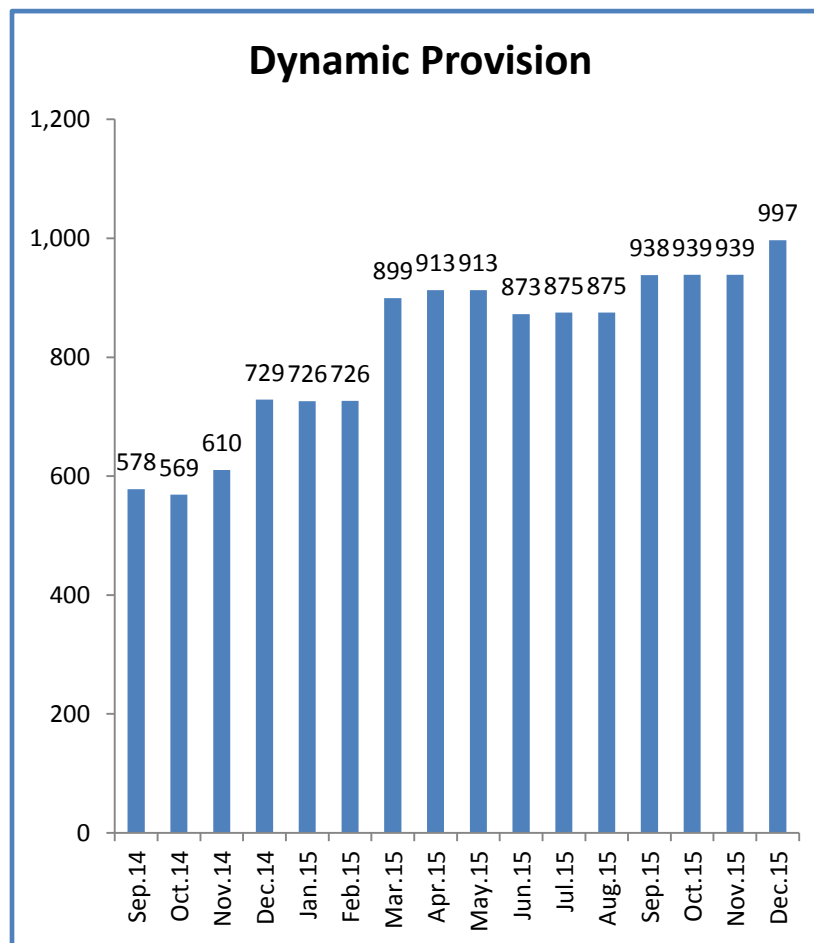
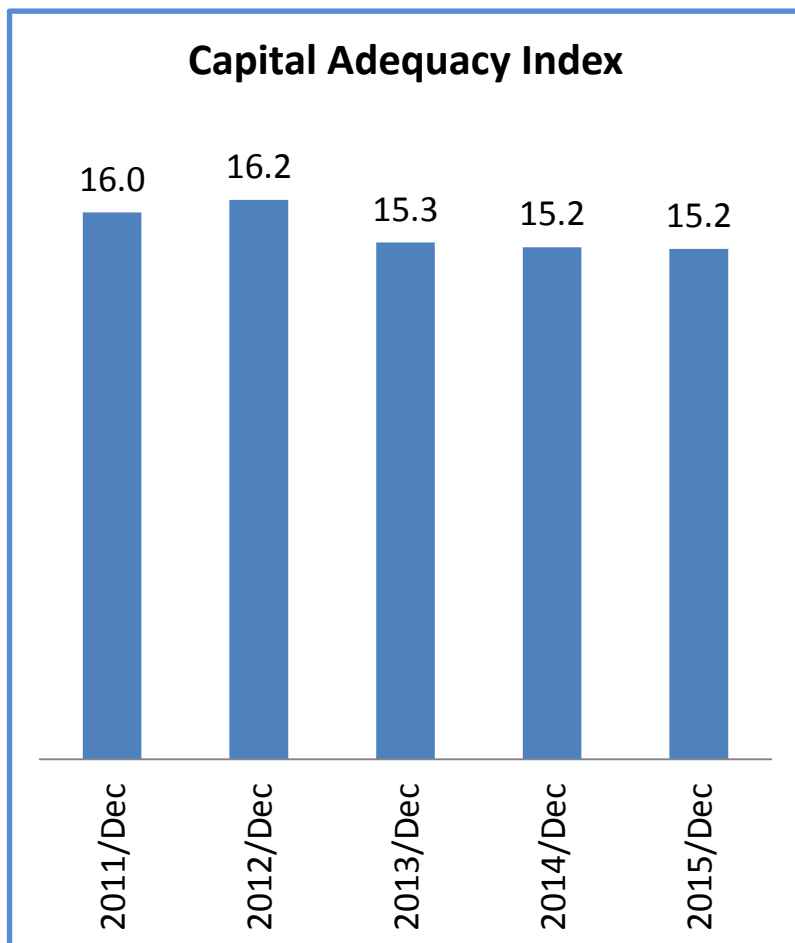
Panama: International Banking Center and Banking System Balance Sheet (in millions of USD)

Banking Center	2014	2015	% Dec. 15 / Dec. 14	Average Balances		% Var. 2015 /2014
	December	December	Var.	2014	2015	
Liquid assets	21,360	21,493	0.6%	18,793	21,274	13.2%
Credit portfolio	66,044	72,563	9.9%	63,305	69,484	9.8%
Securities investment	17,553	19,669	12.1%	17,069	18,869	10.5%
Other assets	3,463	4,753	37.2%	3,484	4,134	18.7%
Total assets	108,420	118,478	9.3%	102,651	113,760	10.8%
Deposits	77,973	83,821	7.5%	73,988	81,362	10.0%
Obligations	16,368	18,539	13.3%	15,045	16,883	12.2%
Other liabilities	2,768	3,811	37.7%	2,844	3,499	23.0%
Equity	11,311	12,307	8.8%	10,774	12,016	11.5%
Banking System	2014	2015	% Dec. 15 / Dec. 14	Average Balances		% Var. 2015 /2014
	December	December	Var.	2014	2015	
Liquid assets	17,559	16,569	-5.6%	15,138	16,947	11.9%
Credit portfolio	55,454	61,621	11.1%	52,553	58,795	11.9%
Securities investment	13,981	16,027	14.6%	13,584	15,268	12.4%
Other assets	2,990	4,306	44.0%	3,027	3,683	21.7%
Total assets	89,984	98,523	9.5%	84,302	94,692	12.3%
Deposits	66,846	71,324	6.7%	62,964	69,605	10.5%
Obligations	11,628	13,736	18.1%	10,148	12,215	20.4%
Other liabilities	2,451	3,592	46.5%	2,604	3,250	24.8%
Equity	9,058	9,871	9.0%	8,586	9,622	12.1%

Panama: Domestic Banking System Loans to Economic Sectors (in millions of USD)

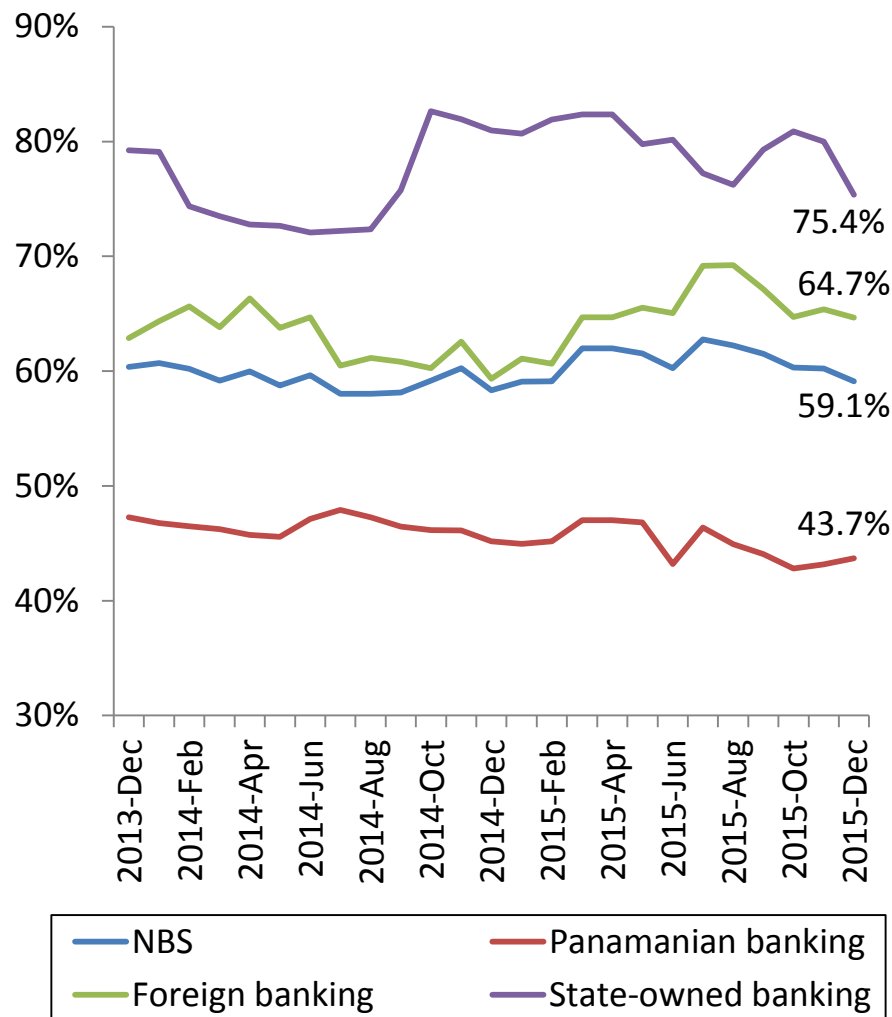
Description	Dec. 14	Dec. 15	Total Dec. 15 / Dec.14	
			Variation	%
TOTAL	40,352	45,136	4,784	11.9%
Public sector	998	1,224	226	22.6%
Private sector	39,354	43,912	4,558	11.6%
Commerce	10,957	11,473	516	4.7%
Colon Free Zone	2,046	2,191	145	7.1%
Wholesale	2,050	1,729	-321	-15.7%
Retail	2,228	2,397	169	7.6%
Services	4,633	5,156	523	11.3%
Household mortgages	9,957	11,404	1,447	14.5%
Preferential	3,572	3,943	371	10.4%
From 0 to 40,000	1,176	1,135	-41	-3.5%
From 40,000.01 to 80,000	1,910	2,257	347	18.2%
From 80,000.01 to 120,000	486	551	65	13.4%
Non-preferential	6,385	7,461	1,076	16.9%
Commercial mortgages	1,414	1,758	344	24.3%
Construction	4,450	5,286	836	18.8%
Personal consumption	7,896	9,010	1,114	14.1%
Personal loans	5,330	5,902	572	10.7%
Car loans	1,166	1,415	249	21.4%
Credit cards	1,400	1,693	293	20.9%
Agriculture	1,479	1,590	111	7.5%
Others	3,201	3,391	190	5.9%

International Banking Center Capital Adequacy – Dynamic Provision



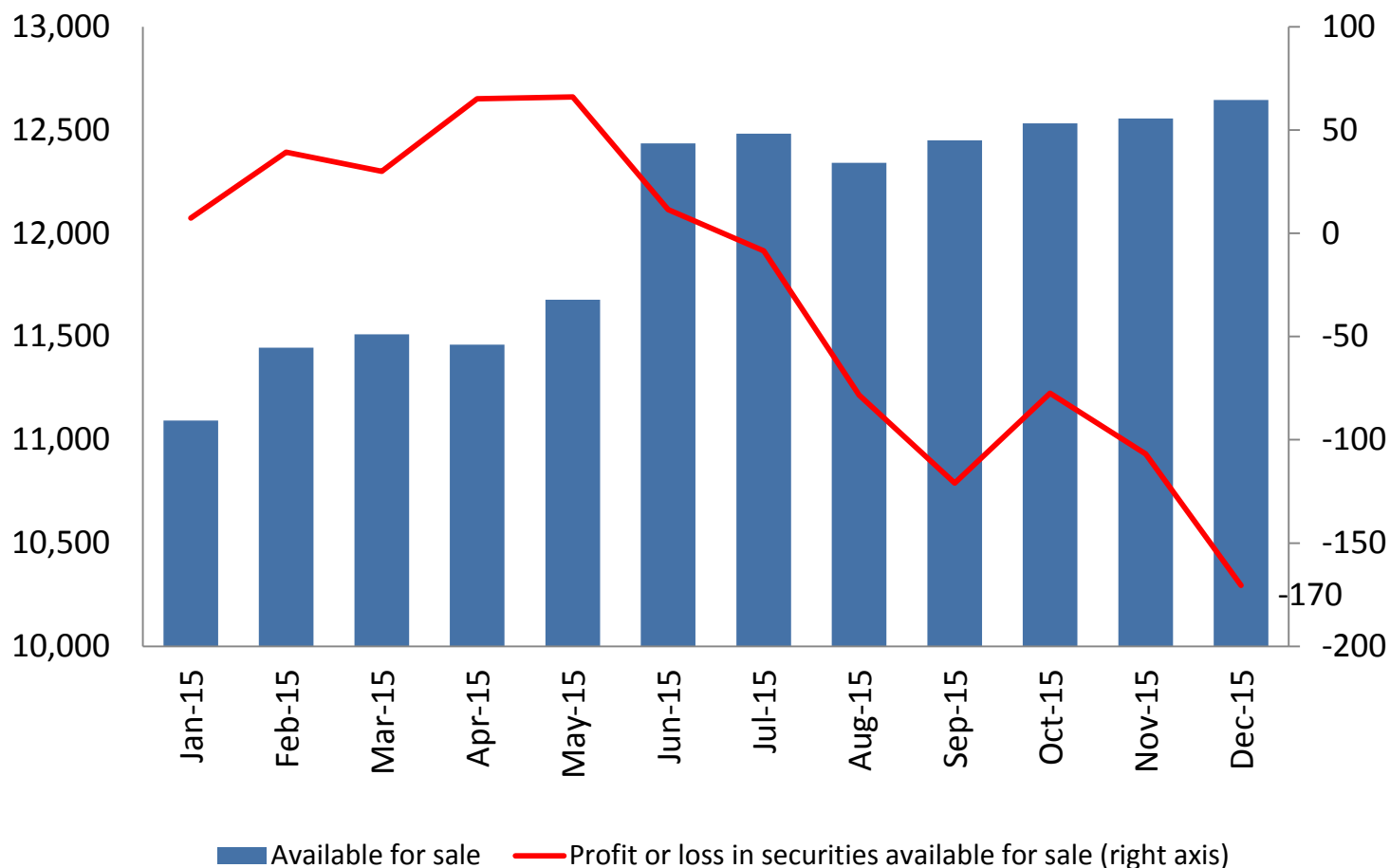
Panama: National Banking System

Average Liquidity Index: 2013 - 2015



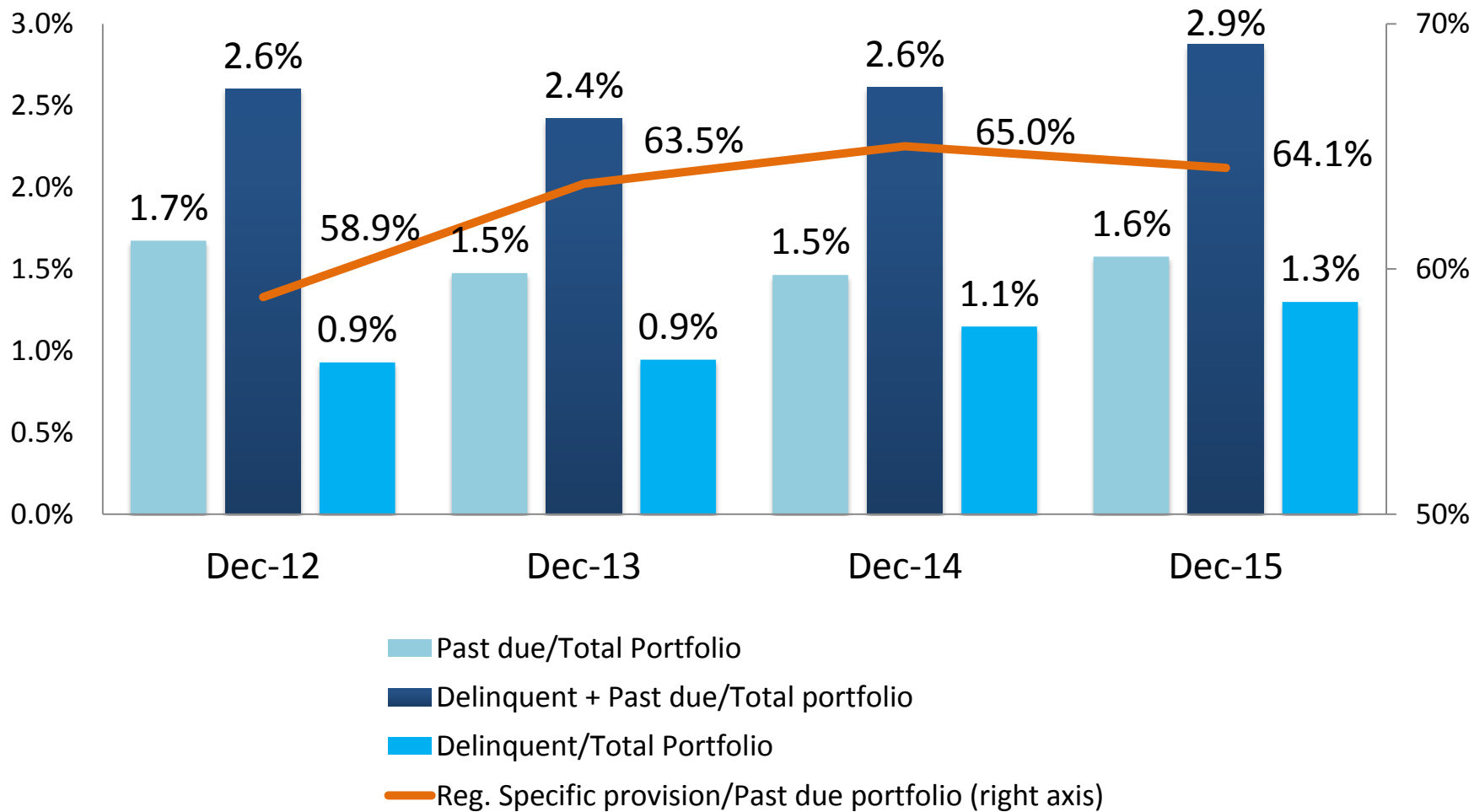
- The legal liquidity index shows an average margin close to 60%, higher than 30% required by Law.
- Panamanian private banks work in a lower margin (40-45%), which is a reflection of their cost and profitability structure.
- Work for Basel III liquidity risk measurement will employ a 30-day forward fund inflow and outflow methodology.
- Assets will also have a more rigorous quality. This measurement will complement liquidity risk measurement.

Panama: International Banking Center Profit or Losses in Securities available for Sale (in millions of USD)



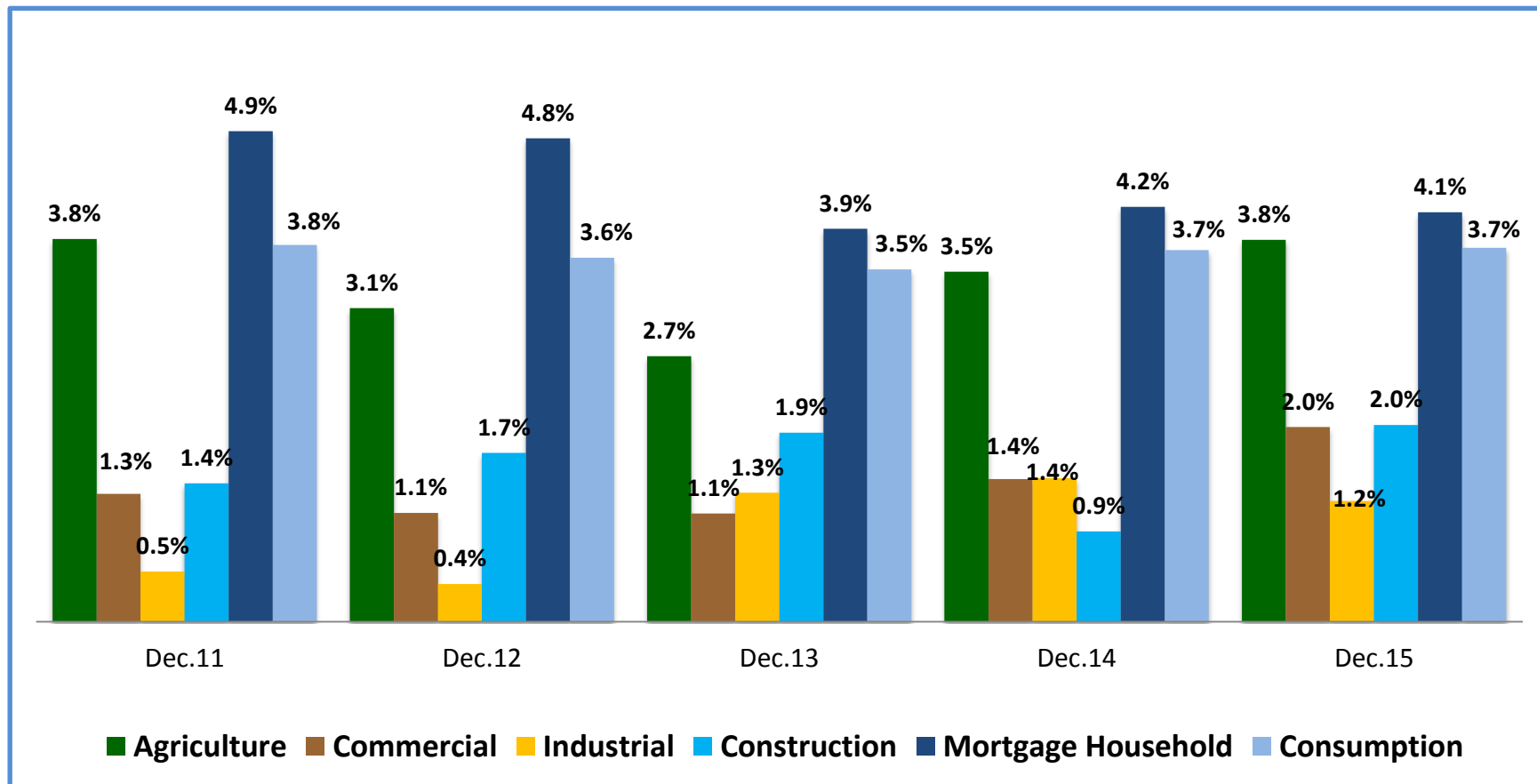
Panama: Banking System Quality of the Domestic Portfolio

The domestic portfolio quality indicator is healthy (+90d: 1.3%); slight decrease in non-interest accrual portfolio.

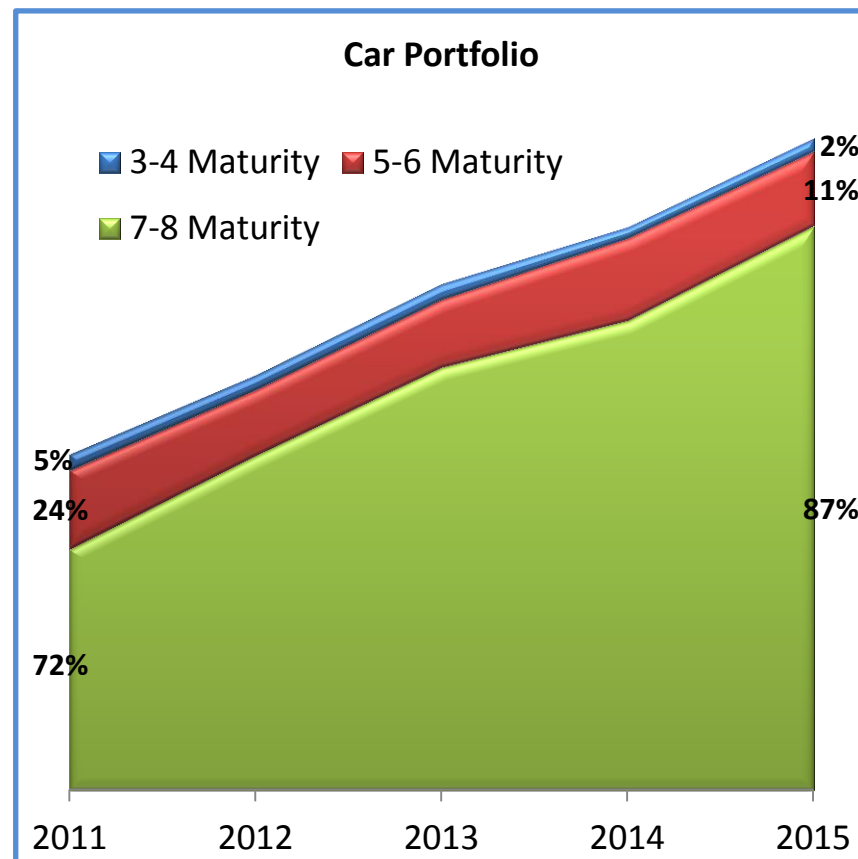
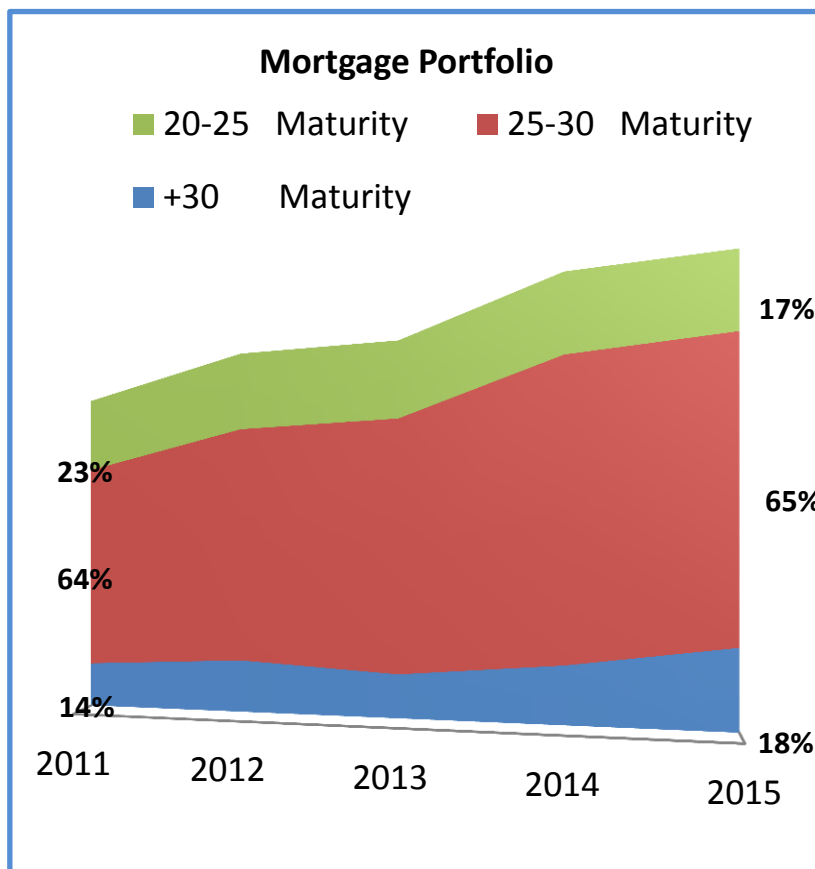


National Banking System Delinquency of Economic Sectors

Main increases are noted in Commercial and Interim Construction portfolios. The Retail Banking portfolio is stable.



Panama: National Banking System Mortgage and Car Portfolios by Maturity



Strategic Issues

Short- and Medium-Term Strategic Issues

Market growth and positioning

- A greater market share demands more capital and funds usage for anti-cyclical provisions within a very concentrated market

Strengthening AML/CFT framework

- AML/CFT framework requires Human Resources training, profile improvement, cutting-edge technology monitoring systems
- Appropriate balance between Business and Compliance objectives. Reputational risk is hard to mitigate.

Strategic Review of the Financial Sector

- FATF delisting; OECD Phase II Review; IOSCO
- Strengthening international financial services / Automatic exchange of information
- Furthering the development of secondary capital markets

Short- and Medium-Term Strategic Issues

Strengthening Banking Correspondents and attracting banks that will Add Value to the System

- Increasing number of Banking Correspondents
- Important market banks in the region with international positioning image
- Banks permitting synergies for regional international trade; equity management

Strengthening regulatory framework

- Trend for Regulations will be implementing Basel III international standards
- New equity demands will be gradual but will include more banking risks (market, operating)

Roadmap to Basel III



Other Rules/ Regulations	Securities Investment classification (IFRS update)
	Banking settlement: ACH and RTGS (real-time gross settlement system)
	Regulation on Compliance Officers
	Update on Licensing
	Regulation on Independent Assessments
	Regulation on Wire transfers
	Interoperability of Mobile Payments

Institutional Challenges and Achievements

Institutional Challenges and Achievements

■ Challenges

- Colon Free Zone
- El Niño-Southern Oscillation (ENSO)
- Competitiveness / Longer terms

■ Achievements

- Draft of a new regulatory and supervisory framework for the trust business
- Same-day ACH settlement
- Sale of Banco Universal
- FATF delisting
- 13 new rules (Capital, T+1 Settlement, Prevention, Bearer Shares Custodians)

Panama: FAFT Gray List Delisting

January 2016: Onsite Assessment

Review Group's Assessment on the degree of implementation of the Action Plan.

February 2016: FATF Plenary Meeting, Paris France

Delisting from the Watch list of Cooperating Jurisdictions (Gray List)

2017: Mutual Onsite Assessment

New methodology
Degree of implementation and effectiveness of the prevention and repression of AML/CFT plan compared with FATF's 40 Recommendations.

Thank you!



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