



2016 Performance International Banking Center

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Superintendencia
de Bancos de Panamá

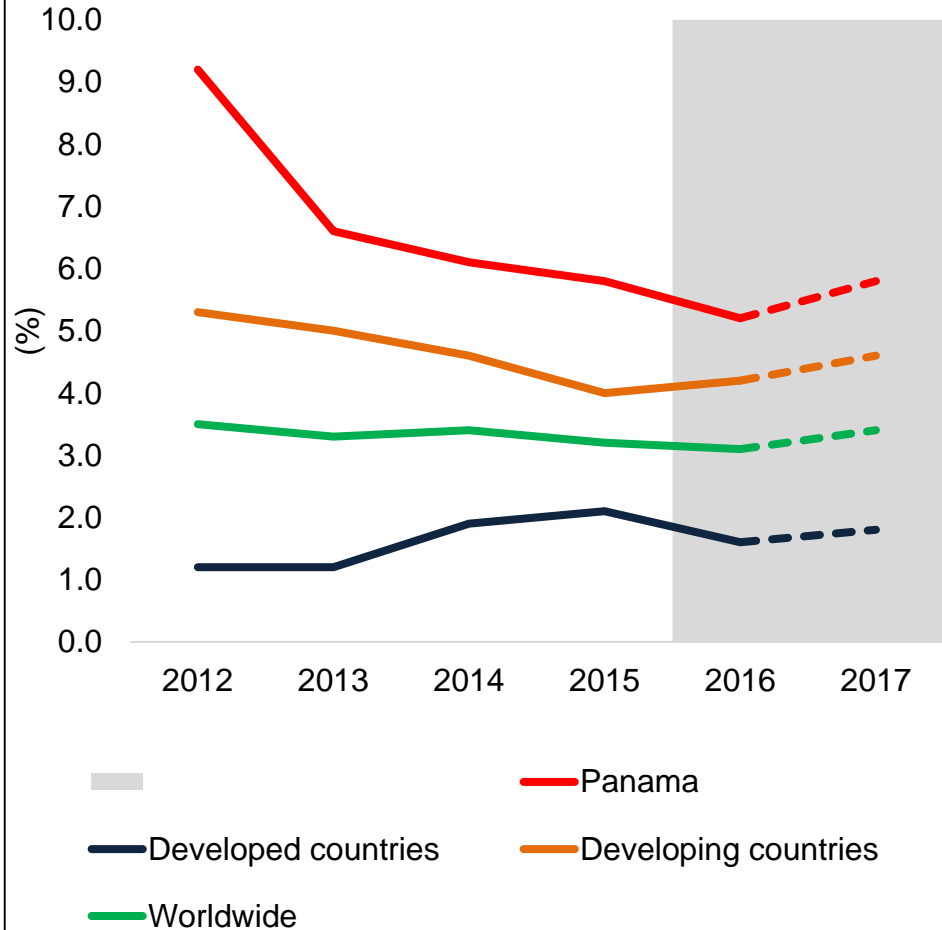


Outline

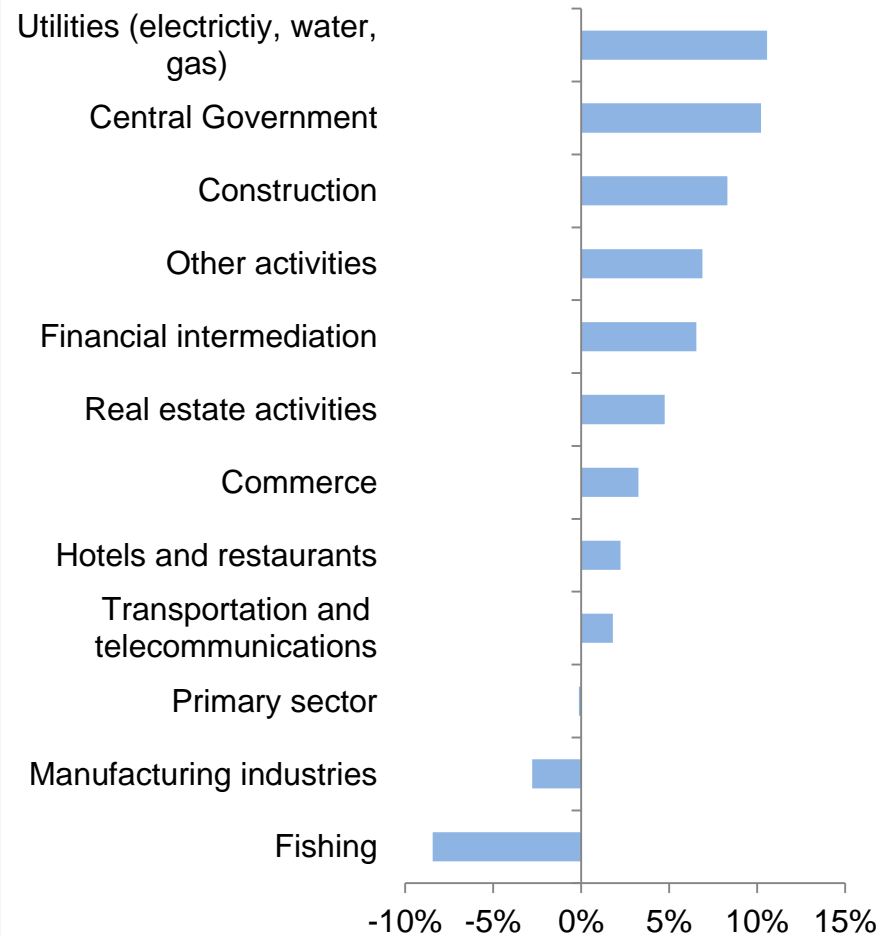
- Economic and Banking Environment
- Regulatory Framework towards Basel III
- Financial Challenges of the System
- Strengthening the AML/CFT Supervisory Process
- Market Transparency and Discipline
- Challenges for mitigating Reputational Risk and improving Banking System Competitiveness

Panama: 2016 Economic Growth

Percentage Change in GDP for Panama and Selected Region

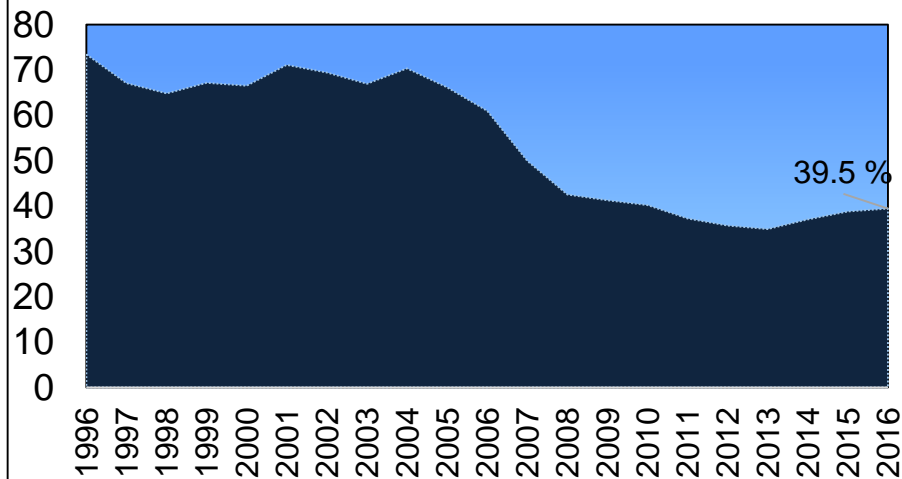


Percentage Change in GDP 2016

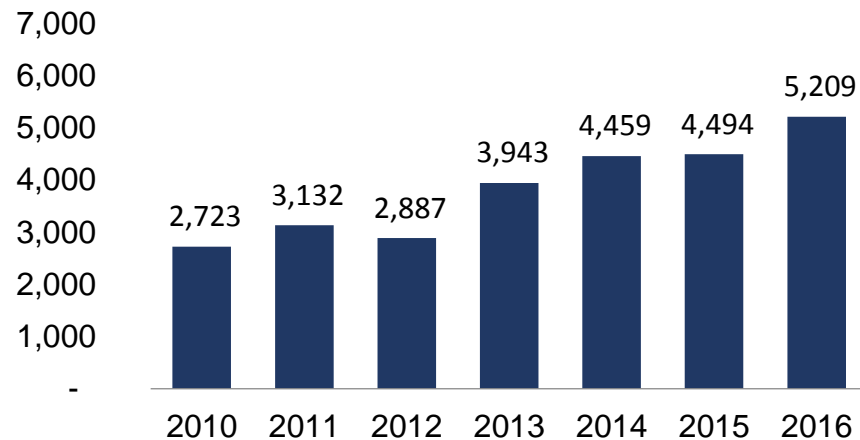


Panama: Selected Macroeconomic Data

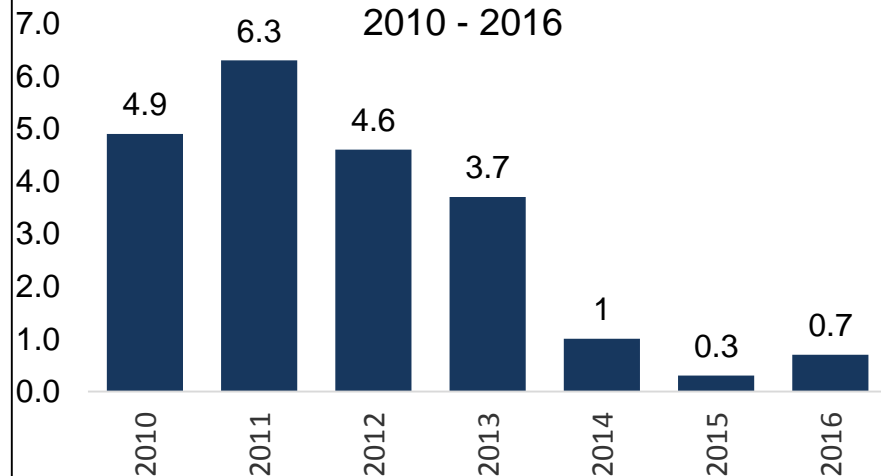
Public Debt / GDP



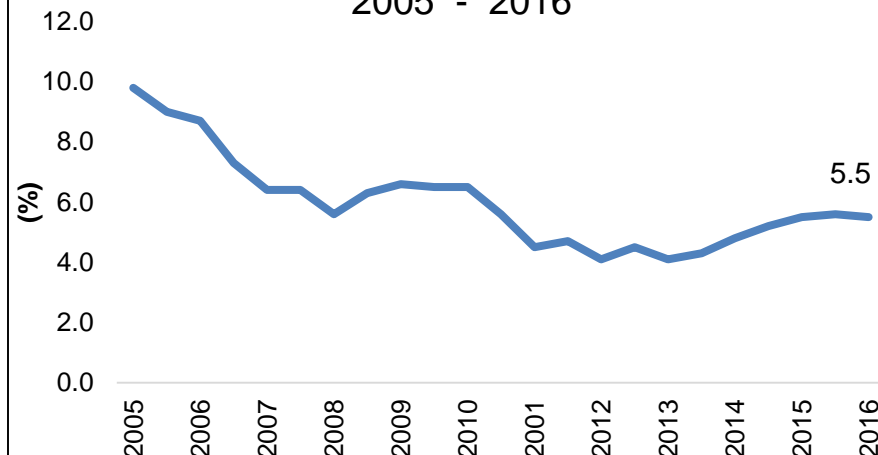
Foreign Direct Investment
2004 - 2016



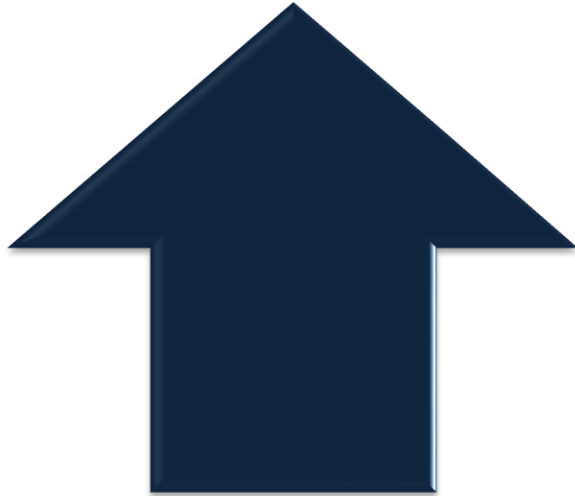
Inflation (CPI)
2010 - 2016



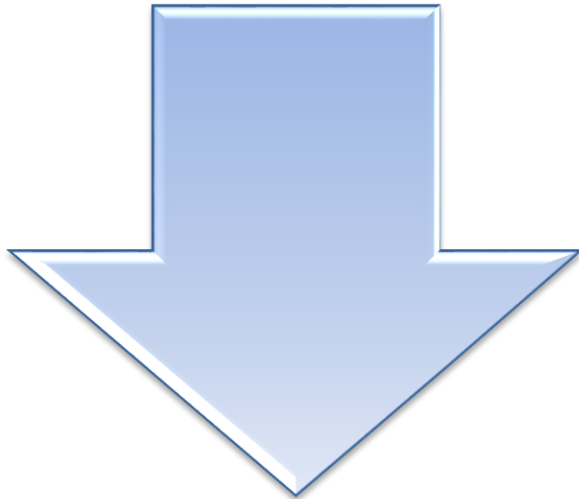
Unemployment Rate
2005 - 2016



Panama: Dynamic Elements and Risk Factors



Multiplier effects of Panama Canal expansion
Public investment macro projects
Foreign Direct Investment
Stable fuel prices



Less favorable foreign regional environment
Expectations of protectionist policies
Strengthening of the Dollar
Reputational risks

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

Banking Center	2015	2016	% Difference Dec. 16 / 15
Liquid assets	21,494	22,540	4.9%
Loan portfolio	72,547	74,910	3.3%
Securities investment	19,631	19,949	1.6%
Other assets	3,516	3,676	4.6%
Total Assets	117,188	121,075	3.3%
Deposits	83,821	85,991	2.6%
Obligations	18,539	18,626	0.5%
Other liabilities	2,651	2,948	11.2%
Equity	12,177	13,510	10.9%

Banking System	2015	2016	% Difference Dec. 16 / 15
Liquid assets	16,570	16,936	2.2%
Loan portfolio	61,605	64,525	4.7%
Securities investment	16,030	16,391	2.3%
Other assets	3,068	3,300	7.6%
Total Assets	97,273	101,152	4.0%
Deposits	71,324	73,919	3.6%
Obligations	13,736	13,908	1.3%
Other liabilities	2,352	2,649	12.6%
Equity	9,861	10,677	8.3%



Panama: Main Financial Indicators of the Banking System

2015

- ❑ Capital adequacy: 15.2%
- ❑ Legal liquidity: 59.1%
- ❑ Efficiency: 1.7
- ❑ ROAA: 1.4%
- ❑ ROEA: 13.4%
- ❑ Nonperforming loans: 0.9%
- ❑ Specific prov. / Nonperformance:
79.6%

2016

- ❑ Capital adequacy: 15.1%
- ❑ Legal liquidity: 63.4%
- ❑ Efficiency: 1.8
- ❑ ROAA: 1.3%
- ❑ ROEA: 12.0%
- ❑ Nonperforming loans: 1.2%
- ❑ Specific prov. / Nonperformance:
83.5%



Banking System: Balance of Domestic Loans (in millions of USD)

Loans to the private sector maintain a favorable trend in the retail and corporate banking segments, especially in construction bridge loans. Commercial loans present a lower growth rate due to a reduction in Colon Free Zone activity.

	Dec. 15	Dec. 16	Abs. Diff.	% Diff.
Domestic Loans	45,136	48,629	3,493	8%
Retail	22,172	24,987	2,815	13%
Consumption	9,009	10,197	1,188	13%
Mortgages	13,162	14,789	1,627	12%
Corporate	20,504	21,396	892	4%
Agriculture	1,631	1,715	85	5%
Industry	2,057	2,432	375	18%
Construction	5,286	6,236	950	18%
Commerce	6,318	5,766	(552)	-9%
Services	5,213	5,247	22	0%
Others	2,461	2,247	(214)	-9%
Banking	1,236	1,315	78	6%
Government	1,224	932	(292)	-24%



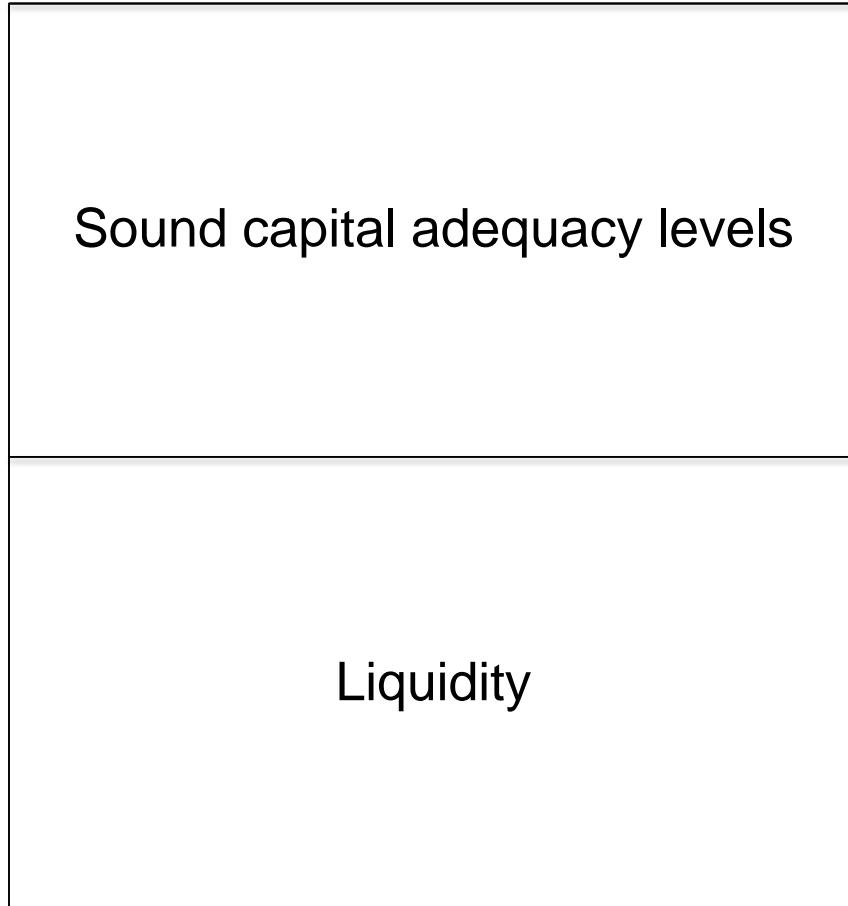
Panama: Banking Center and System Profit Statement (in millions of USD)

Banking Center	2015	2016	Difference 2016 / 2015	
			Absolute	%
Net interest income	2,321	2,528	207	8.9%
Other income	2,056	2,153	96	4.7%
Operating income	4,377	4,681	303	6.9%
General expenses	2,515	2,651	135	5.4%
Profit before provisions	1,862	2,030	168	9.0%
Provision expenses	287	502	215	75.3%
Profit for the period	1,575	1,528	-47	-3.0%

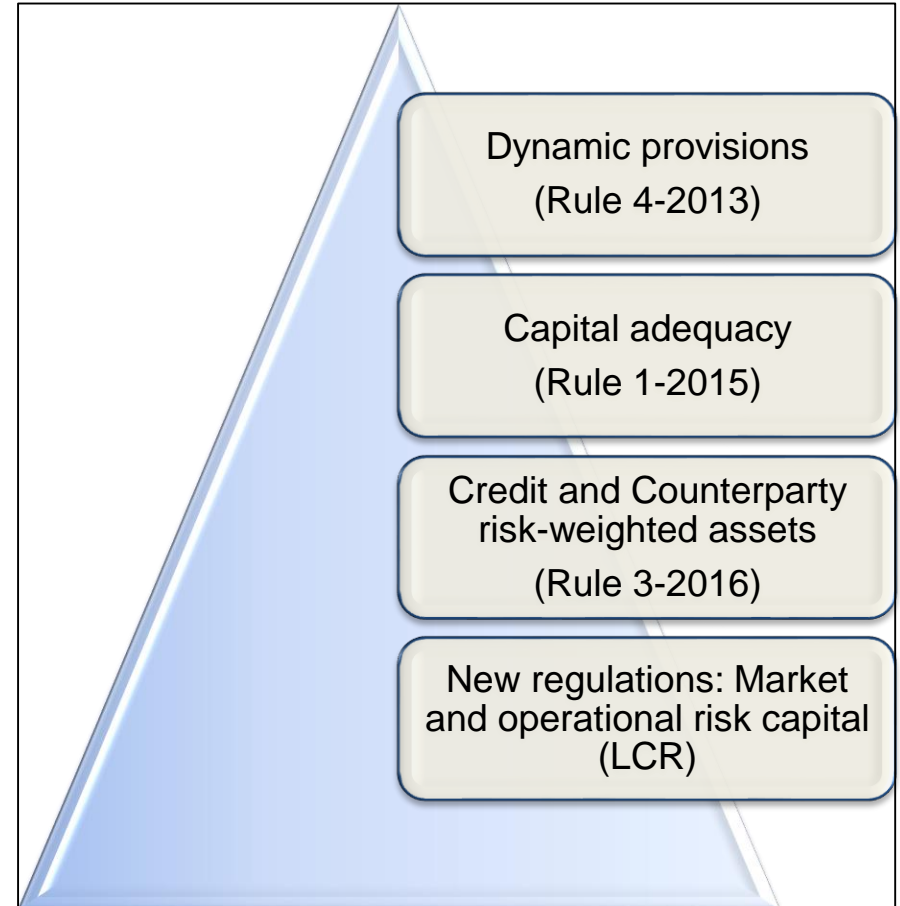
Banking System	2015	2016	Difference 2016 / 2015	
			Absolute	%
Net interest income	2,118	2,288	171	8.1%
Other income	1,711	1,849	138	8.0%
Operating income	3,829	4,137	309	8.1%
General expenses	2,240	2,425	185	8.3%
Profit before provisions	1,589	1,712	123	7.8%
Provision expenses	253	472	219	86.4%
Profit for the period	1,336	1,240	-96	-7.2%

Regulatory Framework towards Basel III

Macro prudential policy tools



Adoption of Basel III



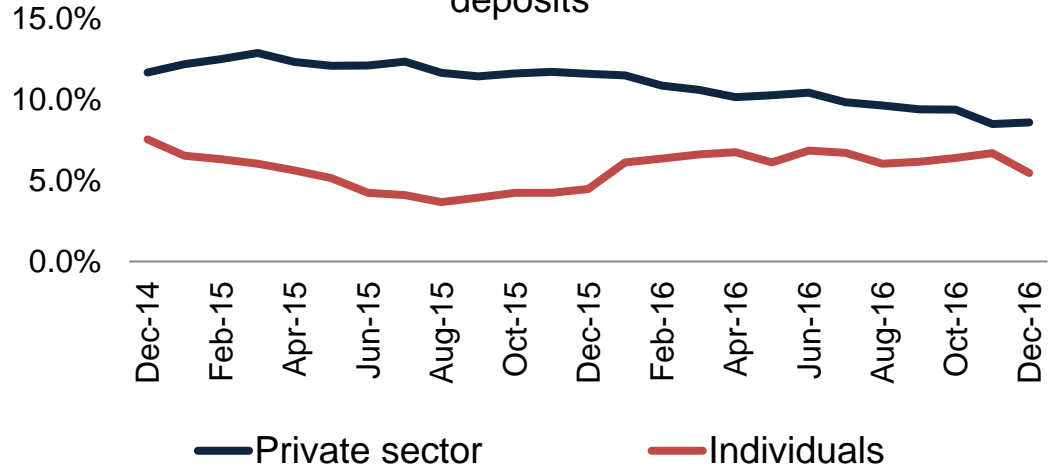


Financial Challenges for the System

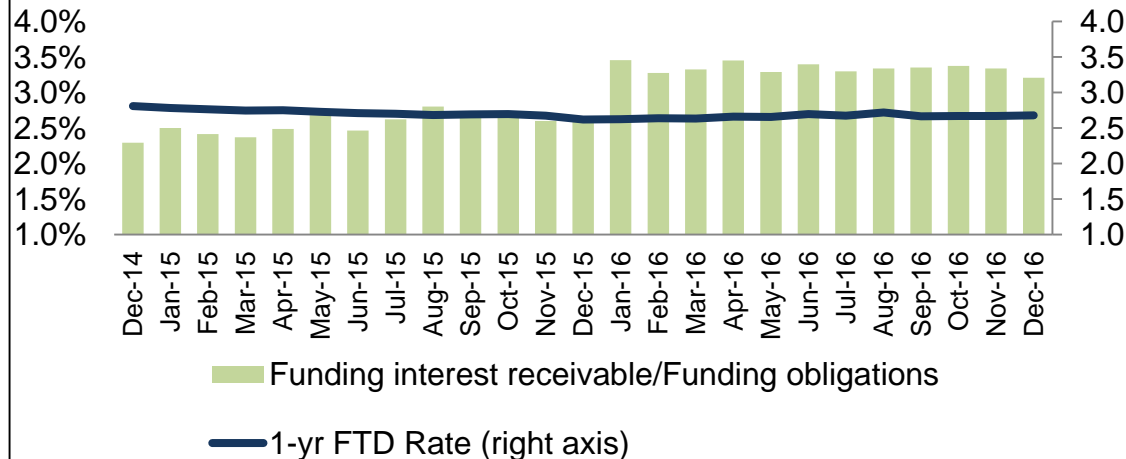
Challenges to be addressed

- Growth differential between allocations and portfolio increases has diminished slightly in 2016.
- Long-term allocation costs for new depositors and retention of customers have increased in the last two years.
- Cost of Repo and issuance financing has increased compared to traditional banking source allocation (FTD).
- Impact of funding cost increases on the System's financial margins.

Annual growth of Individual and Private Sector deposits

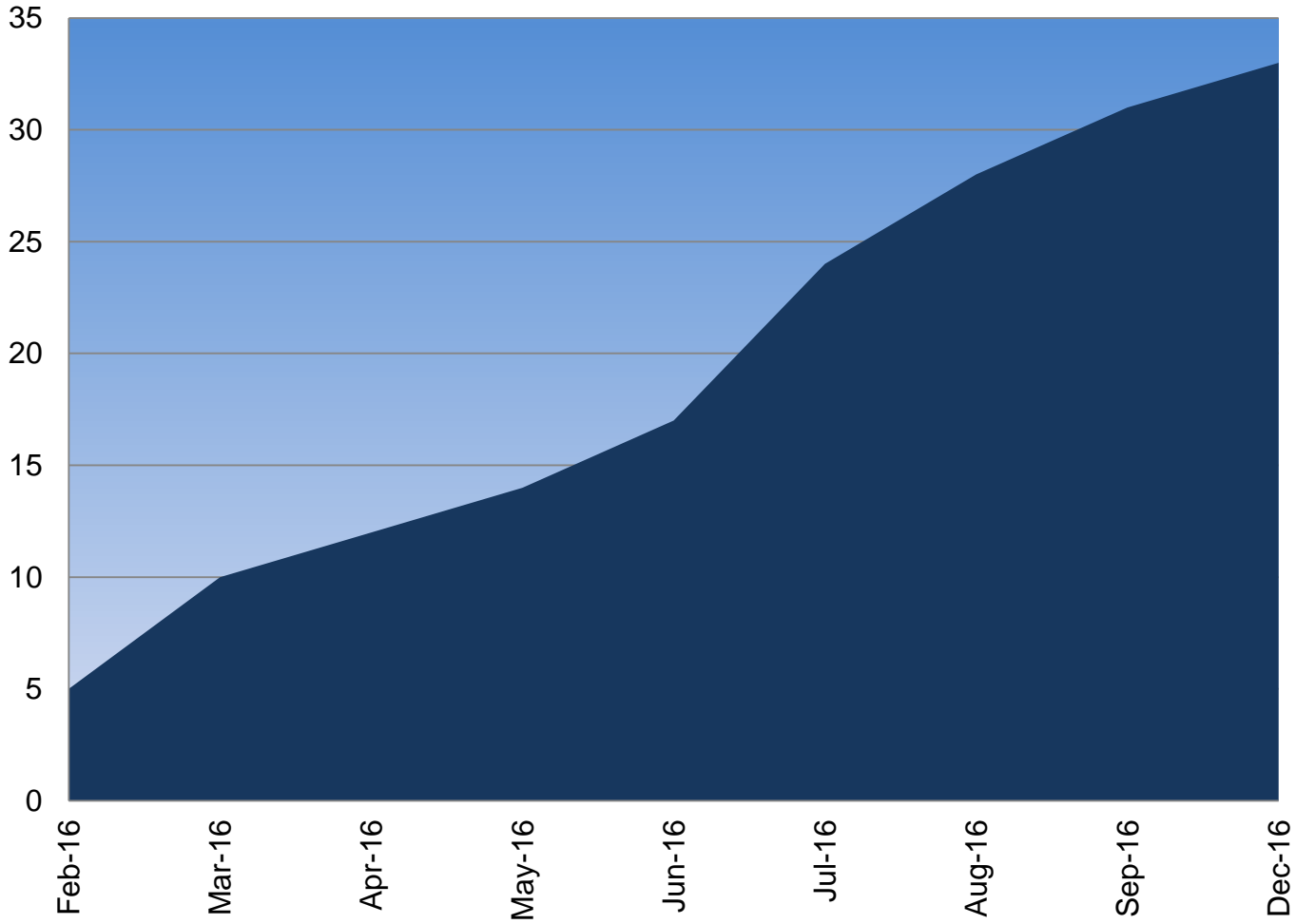


Progression of Financing Cost vs. FTD



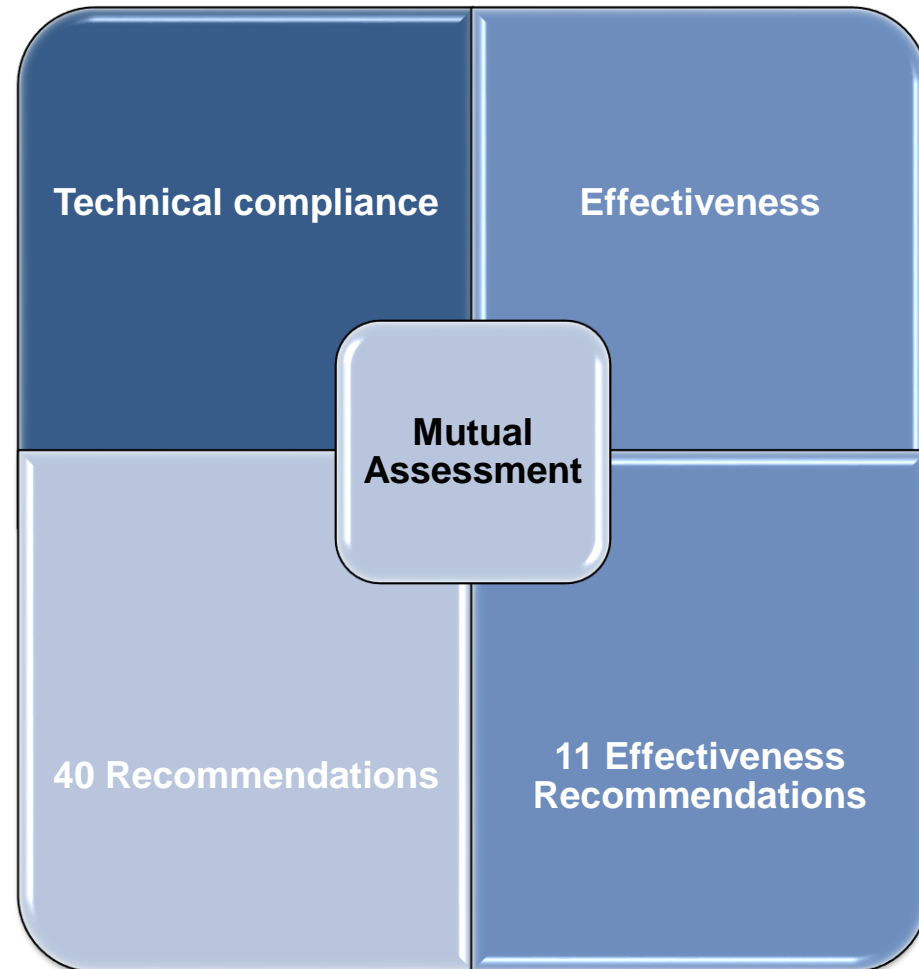
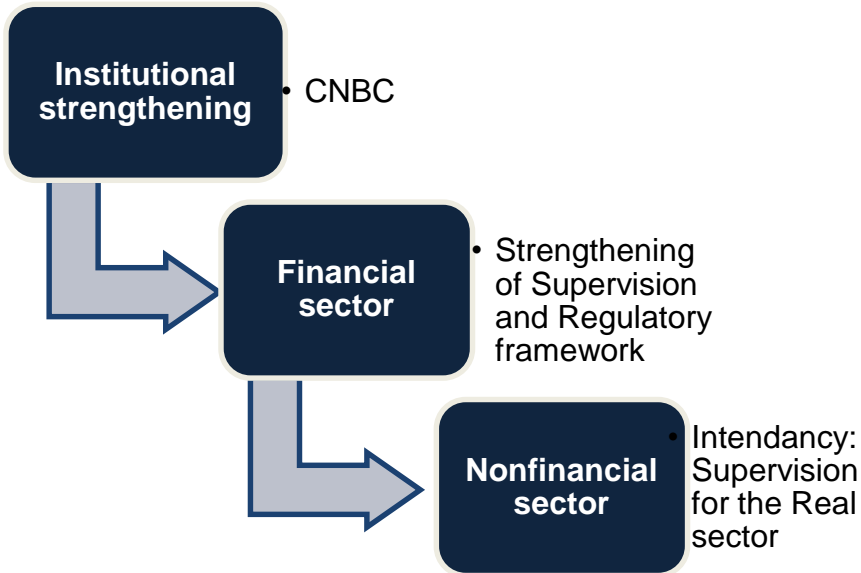
Financial Challenges for the System

2016 New Banking Correspondent Relationships



Strengthening the AML/CFT Supervisory Process

- ✓ Material improvements in the legal and regulatory frameworks since delisting.
- ✓ Increases in financial and nonfinancial sector supervisory capacity.
- ✓ Approval of the National Risk Assessment and preparation of the National Risk Strategy.



Strengthening the AML/CFT Supervisory Process



Strengthening Corporate Governance



Technology tools



STR Quality



Enhanced due diligence for PEPs



Risk profiles and classification of customers by risk

Supervision

- Products and services
- Distribution channels
- Customers
- Geographic area

Challenges for mitigating Reputational Risk and improving Banking System Competitiveness

- ✓ Mossack Fonseca investigation, Waked Group listing in SDN, Odebrecht national and international impact, all affect reputational risk.
- ✓ There are no negative macroeconomic impacts, nor are there negative impacts on the Banking System's stability.
- ✓ Transparency and international cooperation in the exchange of information – including fiscal information - were increased.
- ✓ The recommendations of the Expert Committee provide a first step in the right direction.
- ✓ Commitment to transparency and AML/CFT.
- ✓ Strategy to foster international trade and to draft a roadmap with the main milestones for new added value products and services; to foster and regulate the use of new tools, such as blockchain, which can help Panama become the Fintech hub for Latin America.

Thank you!



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