

*2017 Financial Performance and
Medium-Term Perspectives for the
Banking Sector*

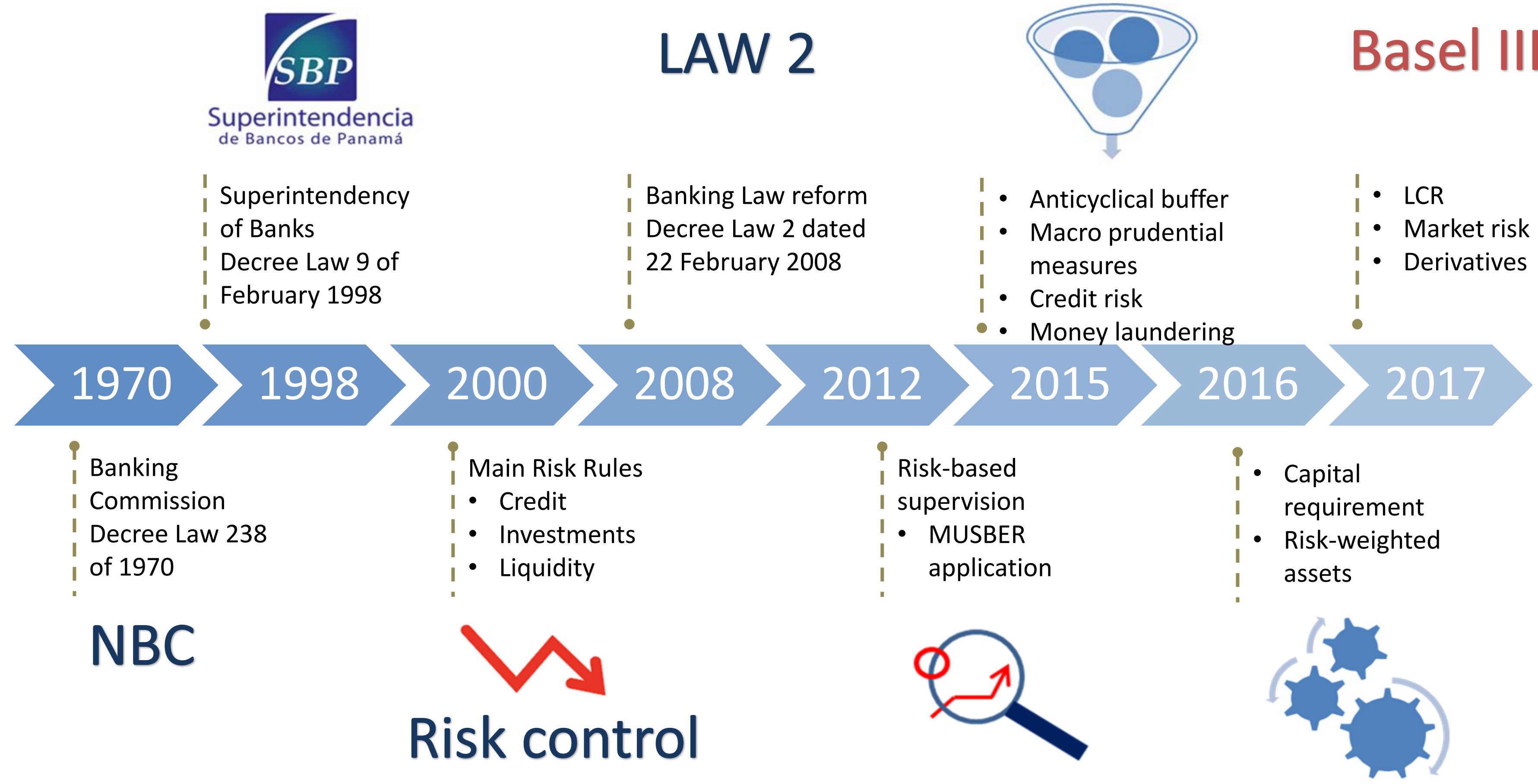
Ricardo G. Fernández D.
Superintendent of Banks
March 20, 2018



Outline

1. Context of the Panamanian economy
2. Financial performance of the Banking Center
3. Roadmap towards Basel III
4. Framework for the prevention of money laundering and the financing of terrorism
5. Institutional aspects of the financial sector

Background on Banking Supervision in Panama



Panama: Main Economic Indicators

	Current				IMF Outlook				
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP growth	8.0	5.6	5.0	5.4	5.6	6.1	6.1	6.1	6.1
Inflation	4.4	0.2	0.7	0.9	1.8	2.5	2.9	3.1	3.3
Unemployment rate	5.3	5.1	5.5	6.1	5.6	5.3	5.3	5.3	5.3
Gross nominal public debt (GDP %)	39.2	37.2	37.4	35.7	35.7	35.2	34.8	34.3	34.7

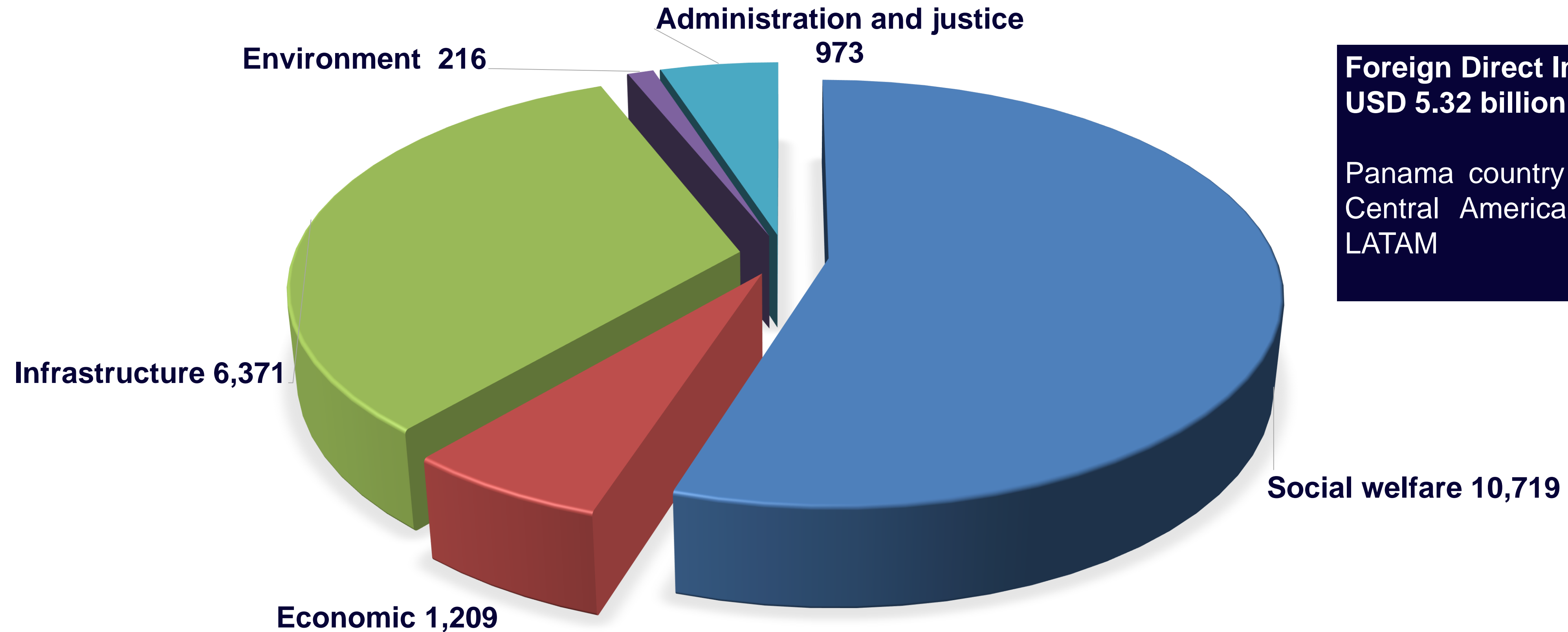
Data as of March 6, 2018

EMBI 108

Risk rating	Foreign	Domestic
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB

Indicative Five-year Investment Plan 2015-2019

(in millions of USD)



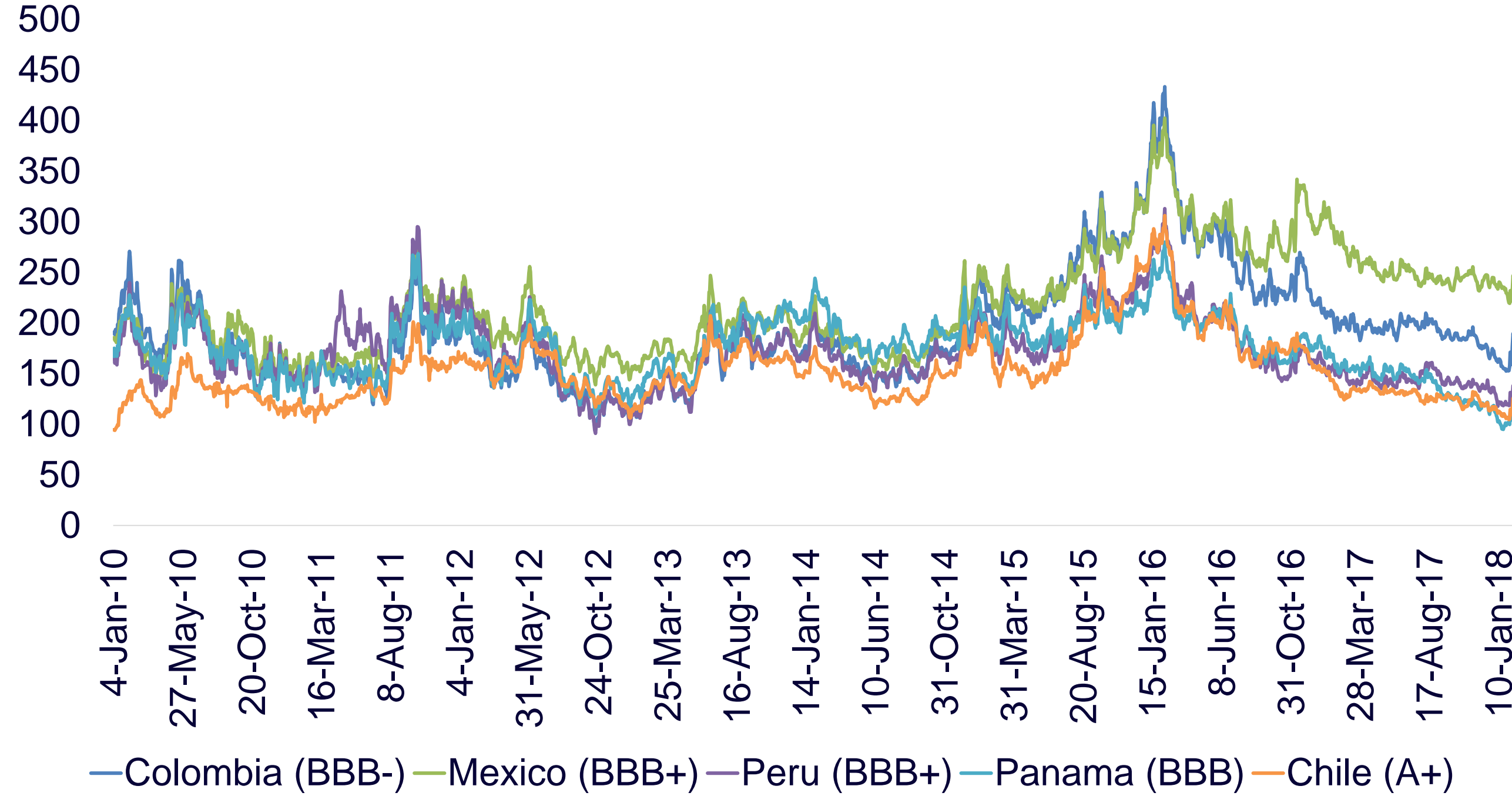
Foreign Direct Investment (FDI)
USD 5.32 billion

Panama country with highest FDI in Central America and per capita in LATAM

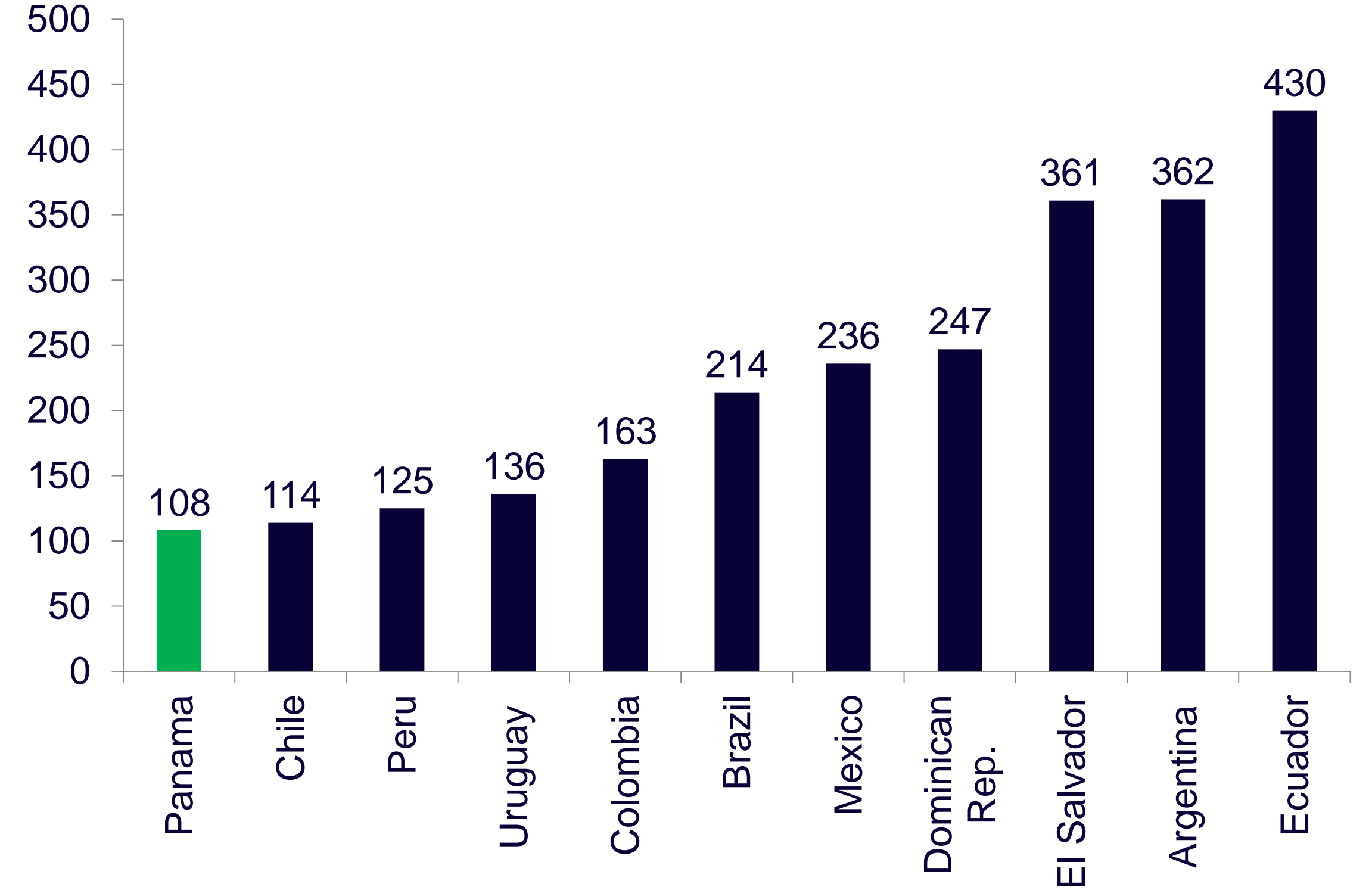
Total Investment USD 19.49 billion

Panama is the market with the lowest country risk premium (measured by the EMBI) in Latin America.
 This demonstrates the confidence of investors in the country.

EMBI (Emerging Markets Bonds Index)



EMBI (Emerging Markets Bonds Index)



Source: JP Morgan. The EMBI is the difference (SPREAD) between interest rates on USD-denominated bonds issued by emerging countries and United States Treasury Bonds (considered "risk-free").

IBC: Profit Statement

(in millions of USD)

□ IBC profit grew 17.9% at the end of 2017, supported by decreases in expenses and increases in financial operating income.

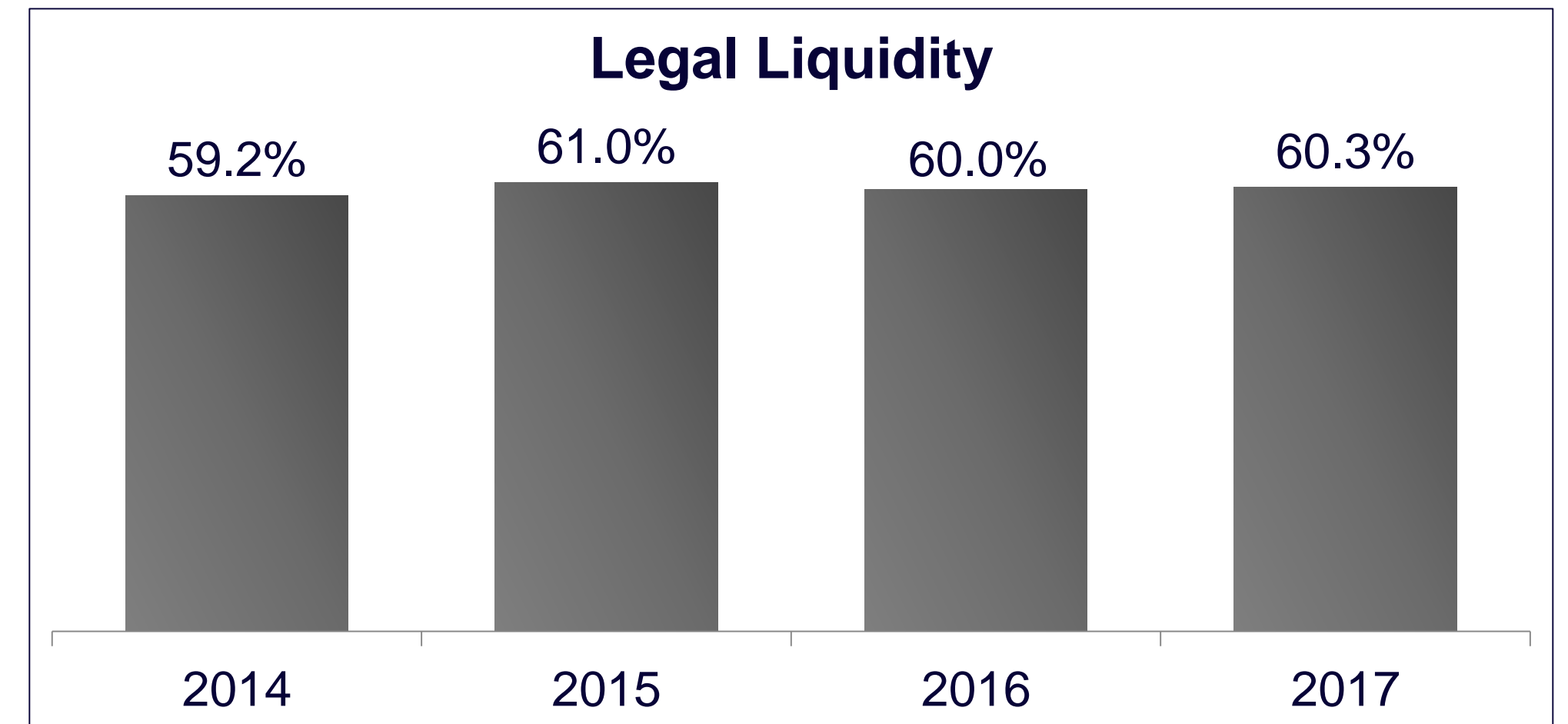
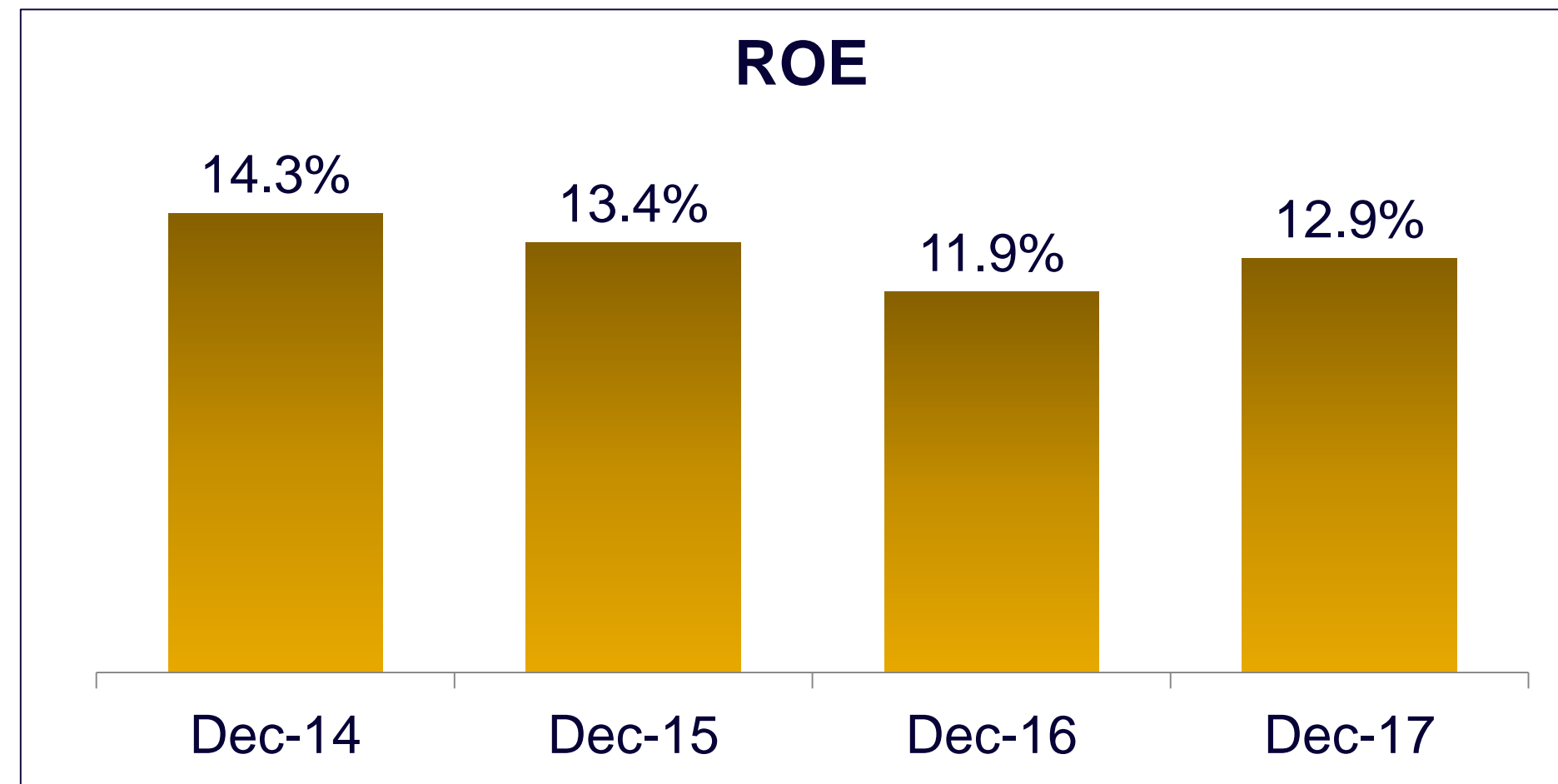
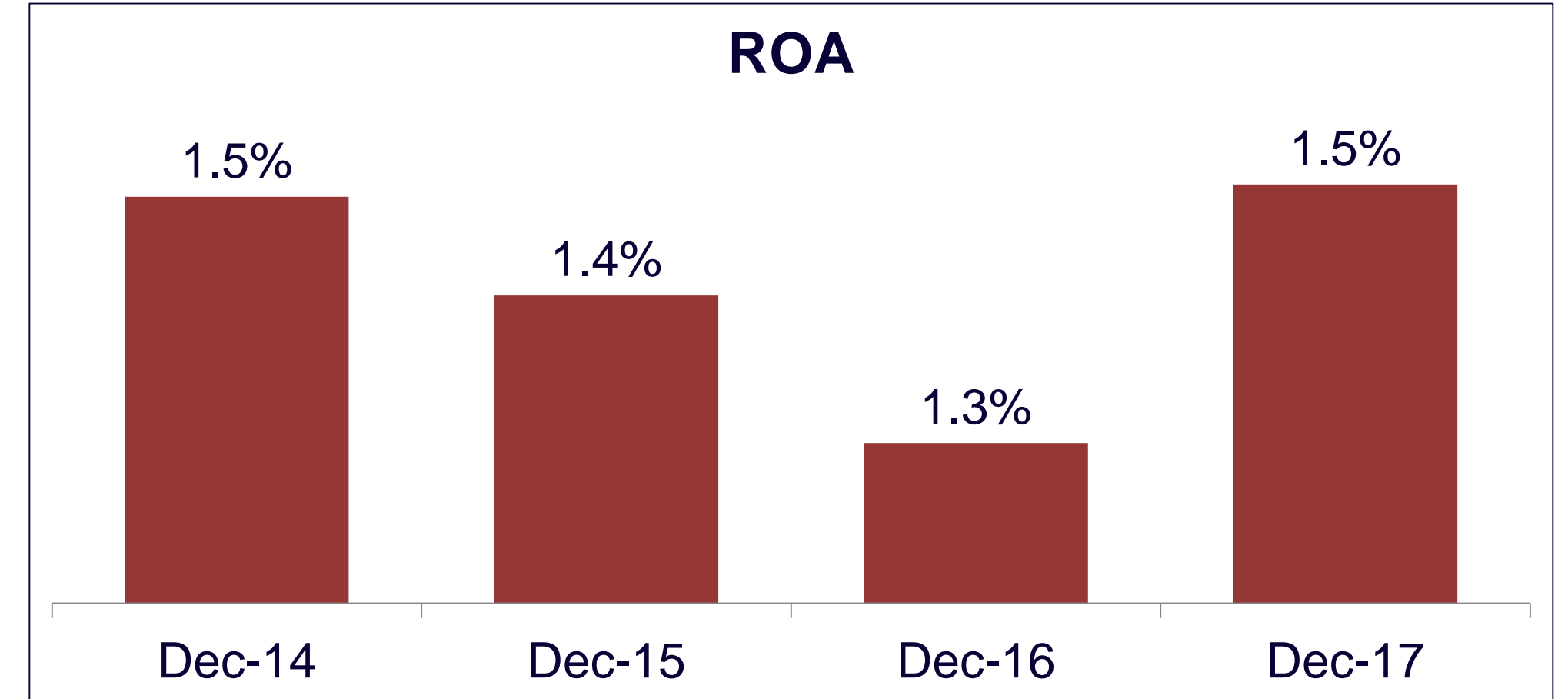
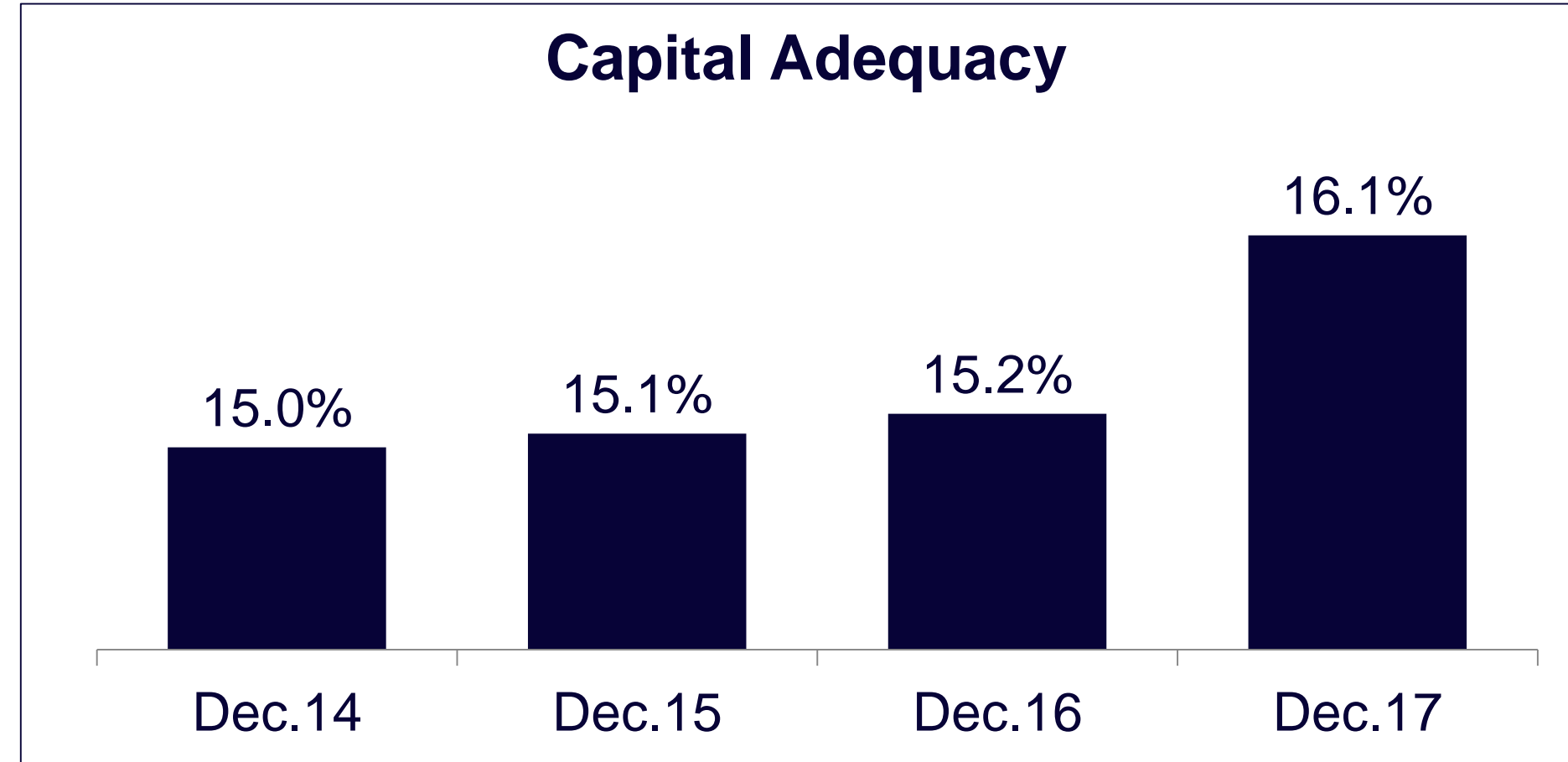
□ Profit-generating sustained growth trend measured by net interest income (5.6%).

Banking Center	2016	2017	Total 2017 / 2016	
			Difference	%
Net interest income	2,506	2,646	140	5.6%
Other income	2,186	2,234	48	2.2%
Operating income	4,692	4,870	187	4.0%
General expenses	2,652	2,592	-60	-2.3%
Profit before provisions	2,040	2,288	247	12.1%
Provisions for bad debt	516	491	-25	-4.9%
Profit for the period	1,524	1,797	273	17.9%

Sound fundamentals:

- ☐ Sound Solvency Ratio measured by Basel III's Credit Risk.
- ☐ Sufficient capital to cover new market and operating risk requirements.
- ☐ Positive profitability indicators
- ☐ Sound and stable legal liquidity, double the required legal liquidity index

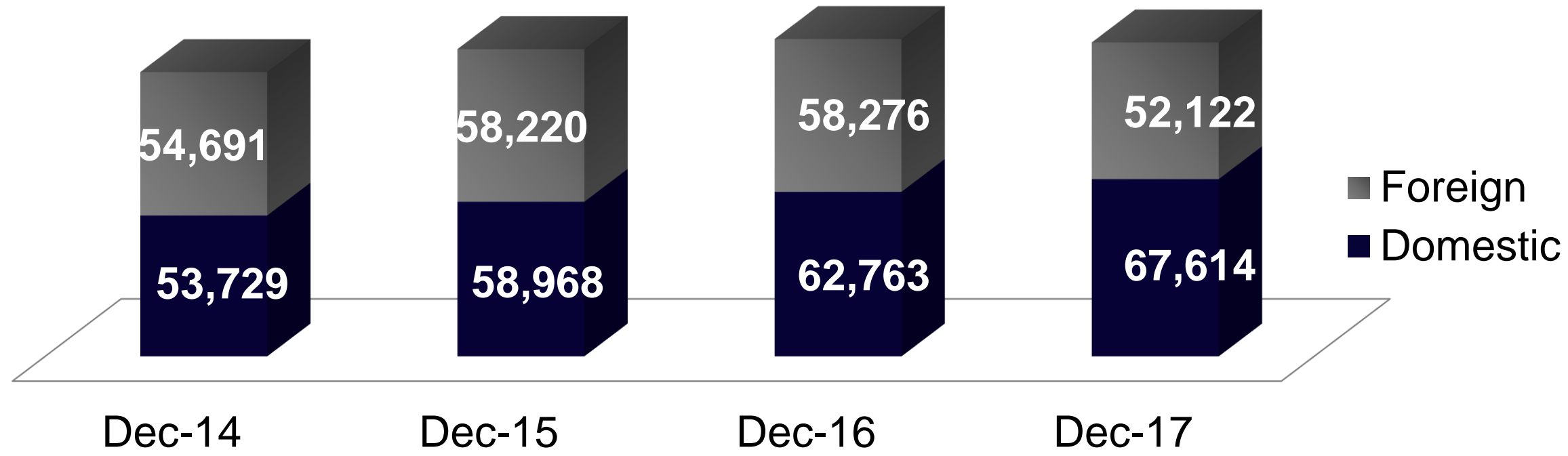
Panama: IBC's Main Financial Indicators



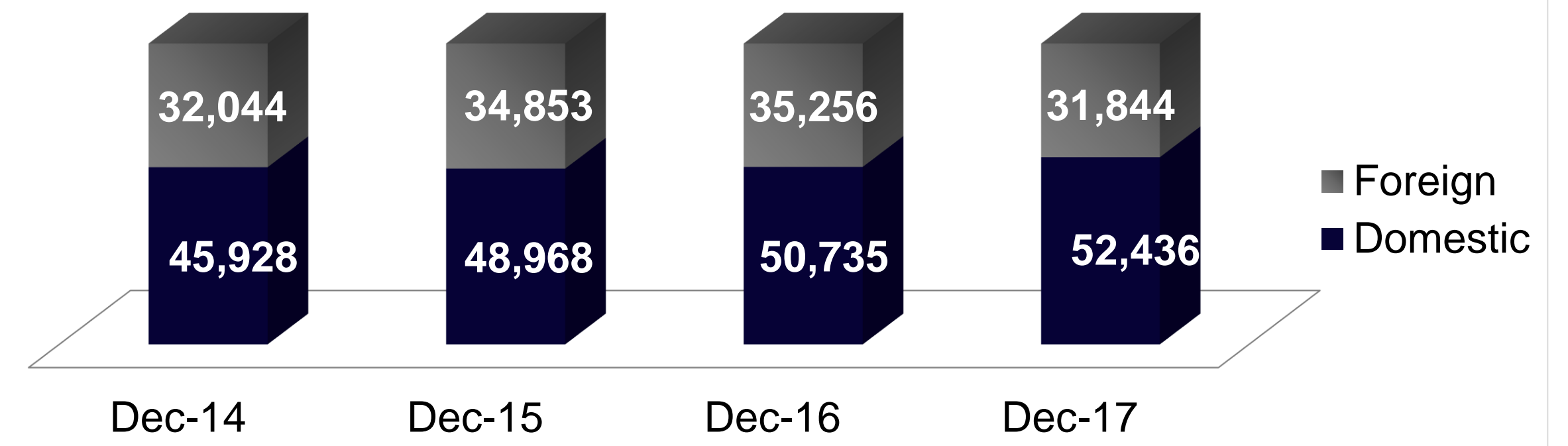
IBC: Balance Sheet

(in millions of USD)

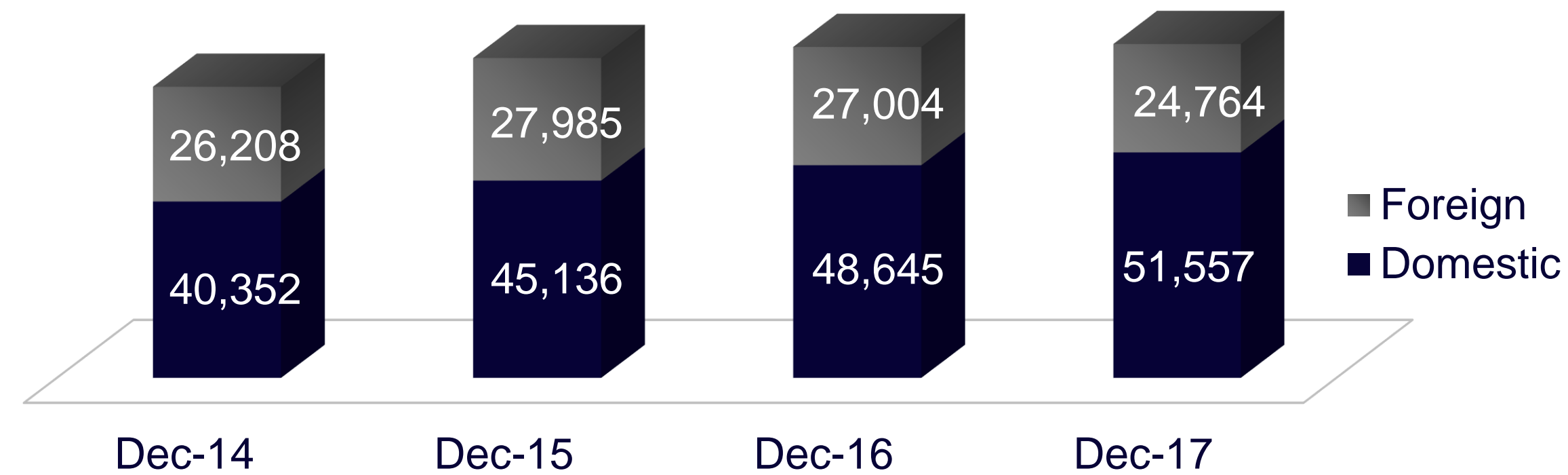
Assets



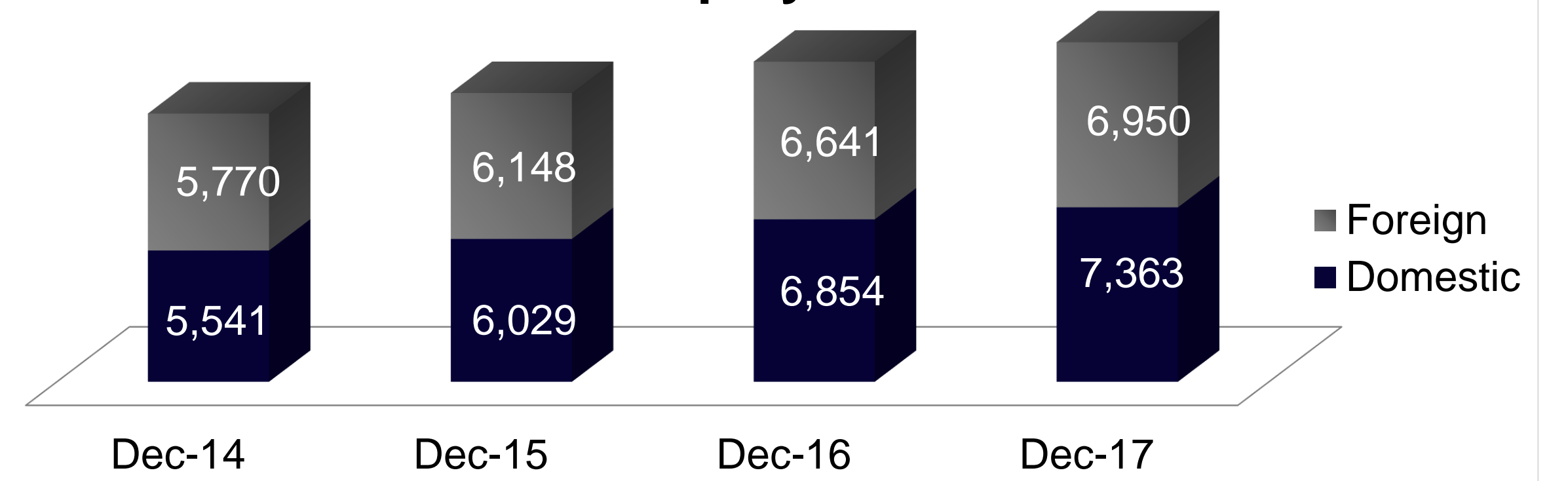
Deposits



Loan Portfolio



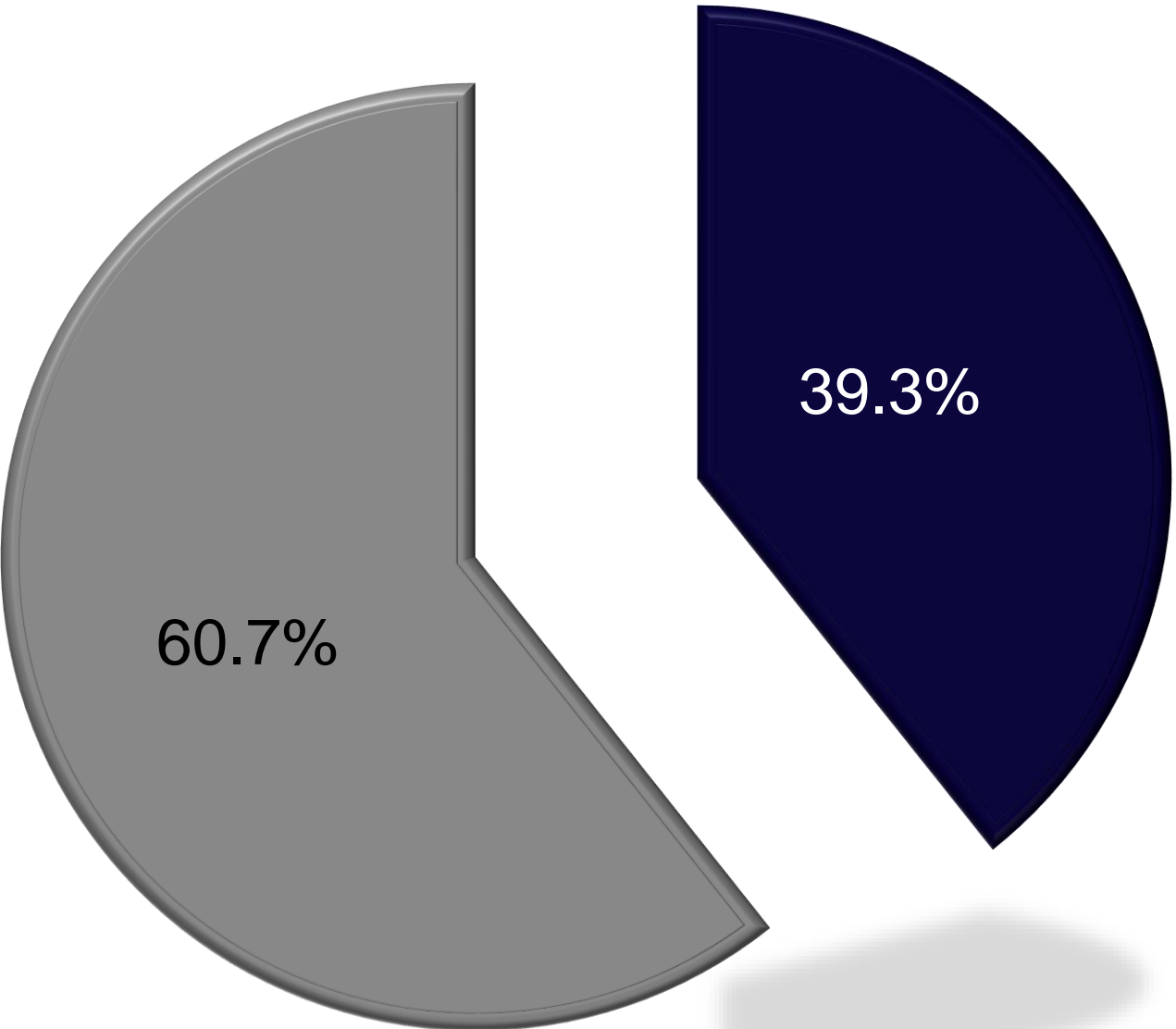
Equity



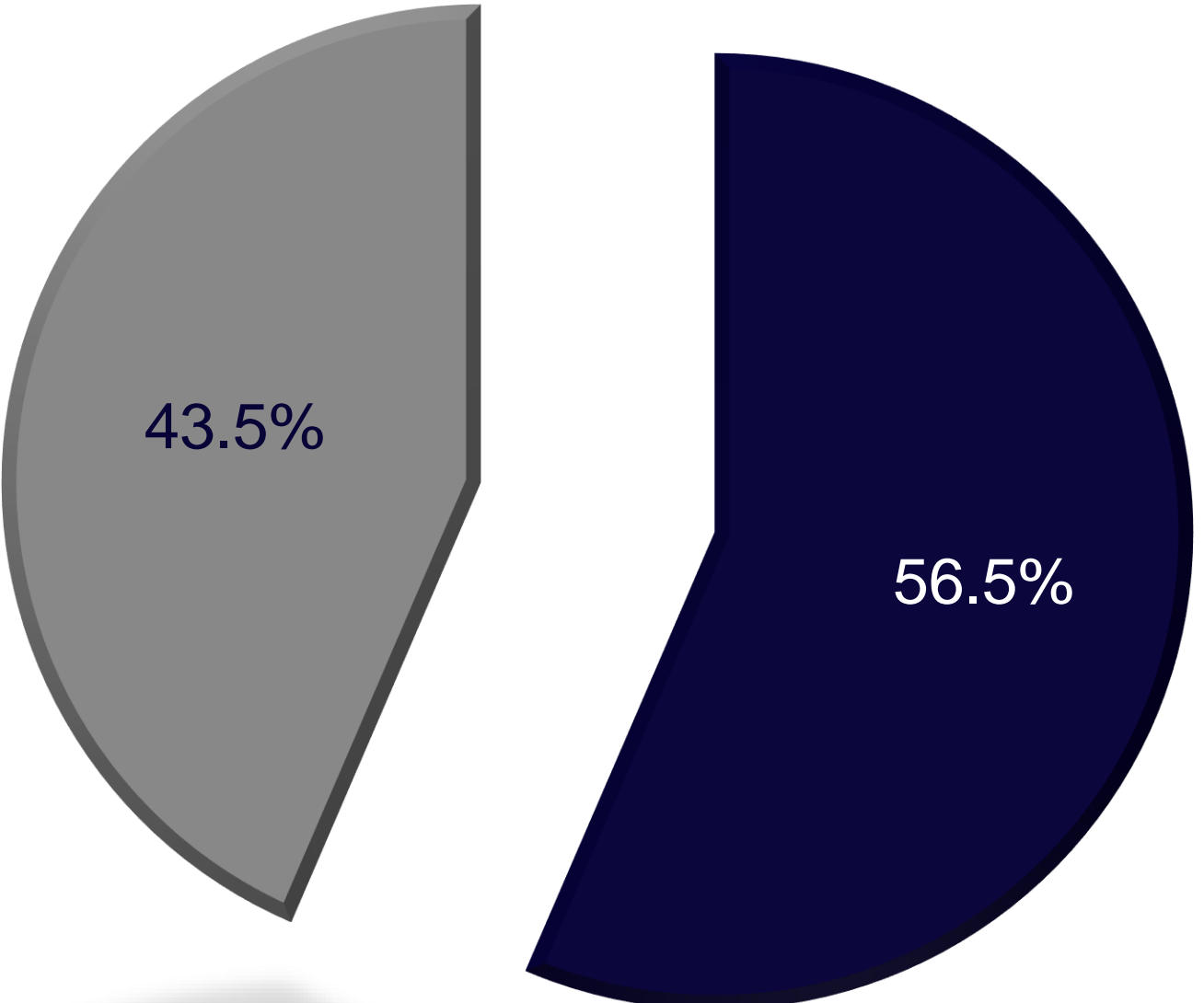
Panama: Foreign and Domestic Structure of the Banking Center

Foreign

Domestic



Assets 1998

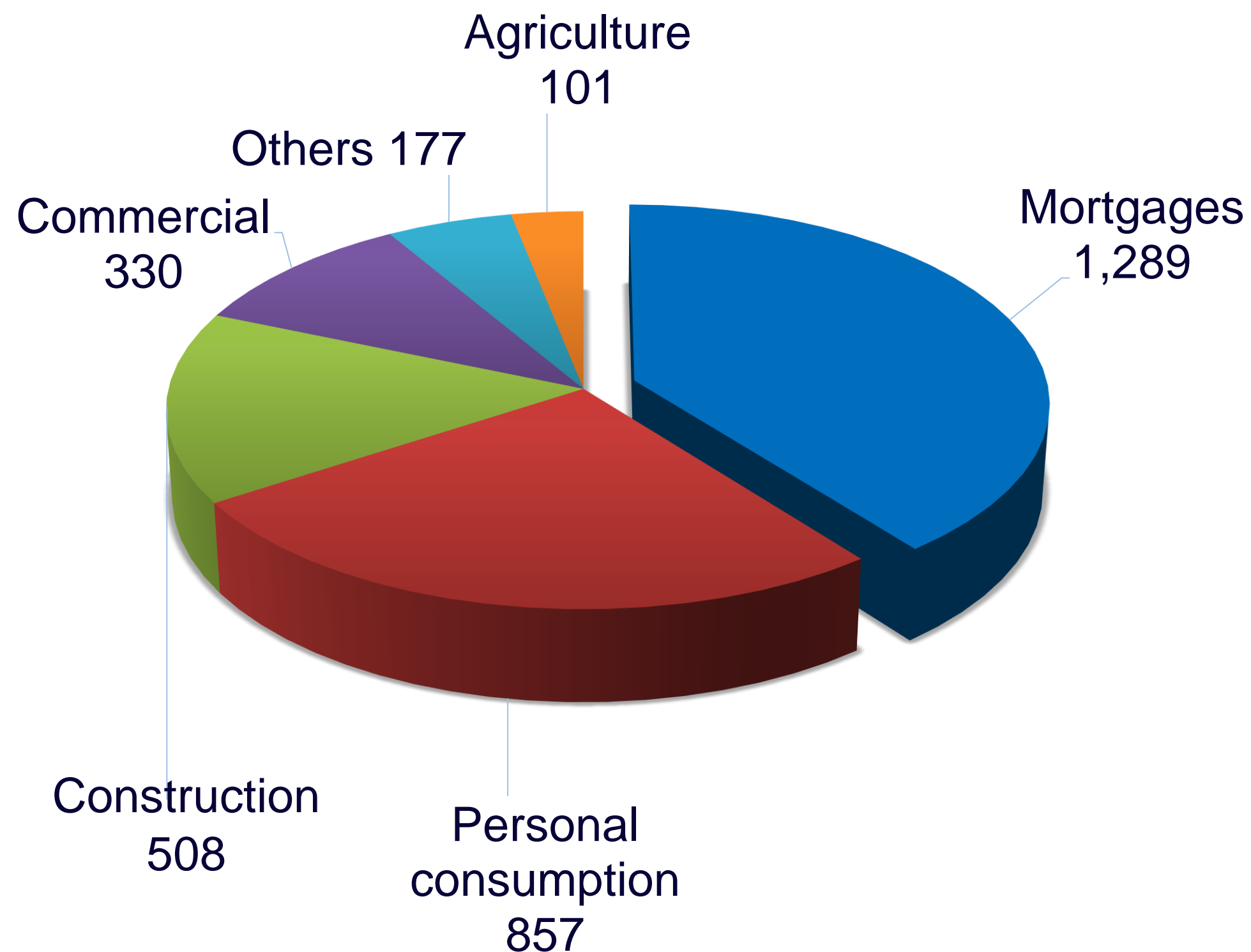


Assets 2017

NBS: Domestic Loans by Sectors

(in millions of USD)

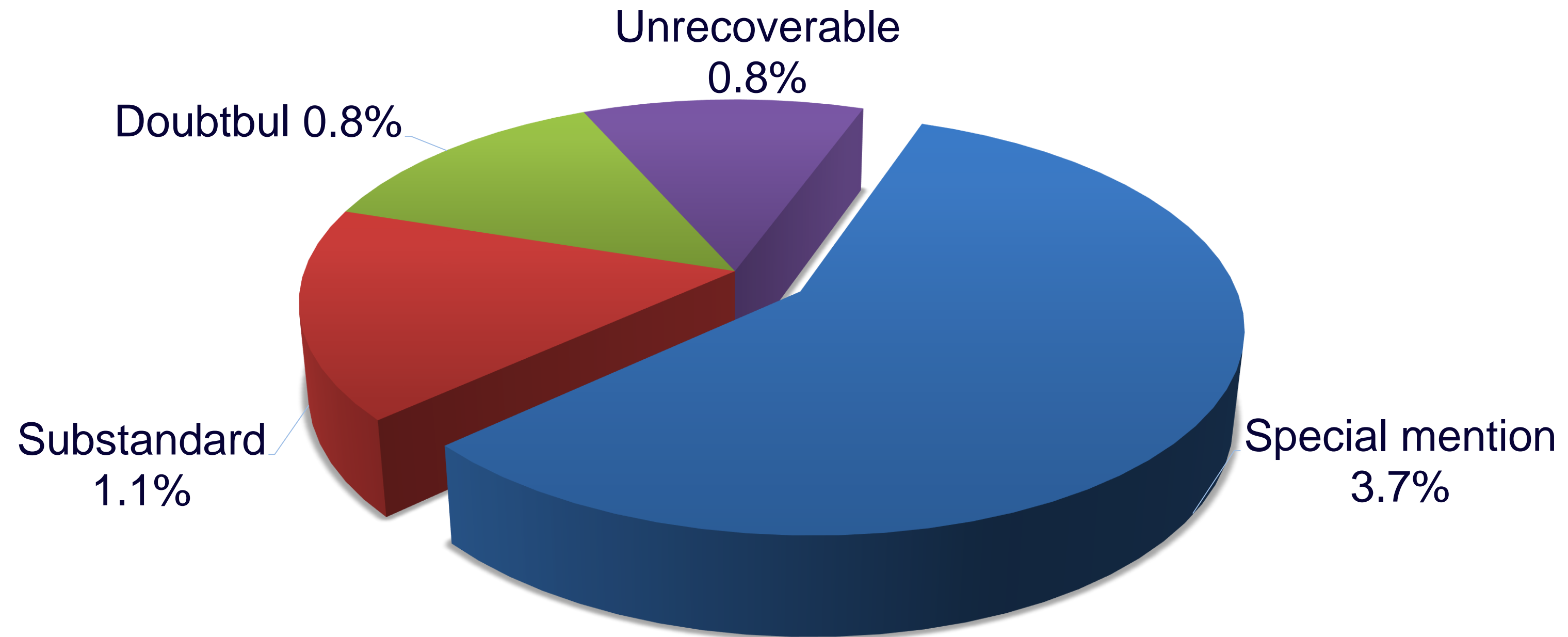
Growth of Main Sectors



Sectors	2016	2017	Total 17/16	
			Difference	%
TOTAL	48,645	51,557	2,912	6.0%
Public sector	932	538	-394	-42.3%
Private sector	47,713	51,018	3,305	6.9%
Residential Mortgages	12,794	14,083	1,289	10.1%
Non-preferential law	8,688	9,373	685	7.9%
Preferential law	4,106	4,710	604	14.7%
Commercial	10,962	11,292	330	3.0%
Services	5,197	5,365	168	3.2%
Retailing	2,165	2,396	231	10.7%
Wholesaling	1,749	2,181	432	24.7%
Colon Free Zone	1,851	1,350	-501	-27.1%
Personal Consumption	10,198	11,055	857	8.4%
Personal loans	6,540	7,053	513	7.8%
Credit cards	2,011	2,262	251	12.5%
Car loans	1,647	1,740	93	5.6%
Construction	6,236	6,744	508	8.1%
Commercial locale Mortgages	1,995	2,039	44	2.2%
Agriculture	1,683	1,784	101	6.0%
Others	3,845	4,022	177	4.6%

NBS: Loan Classification

(in percentages)



NBS: Quality of Domestic Portfolio

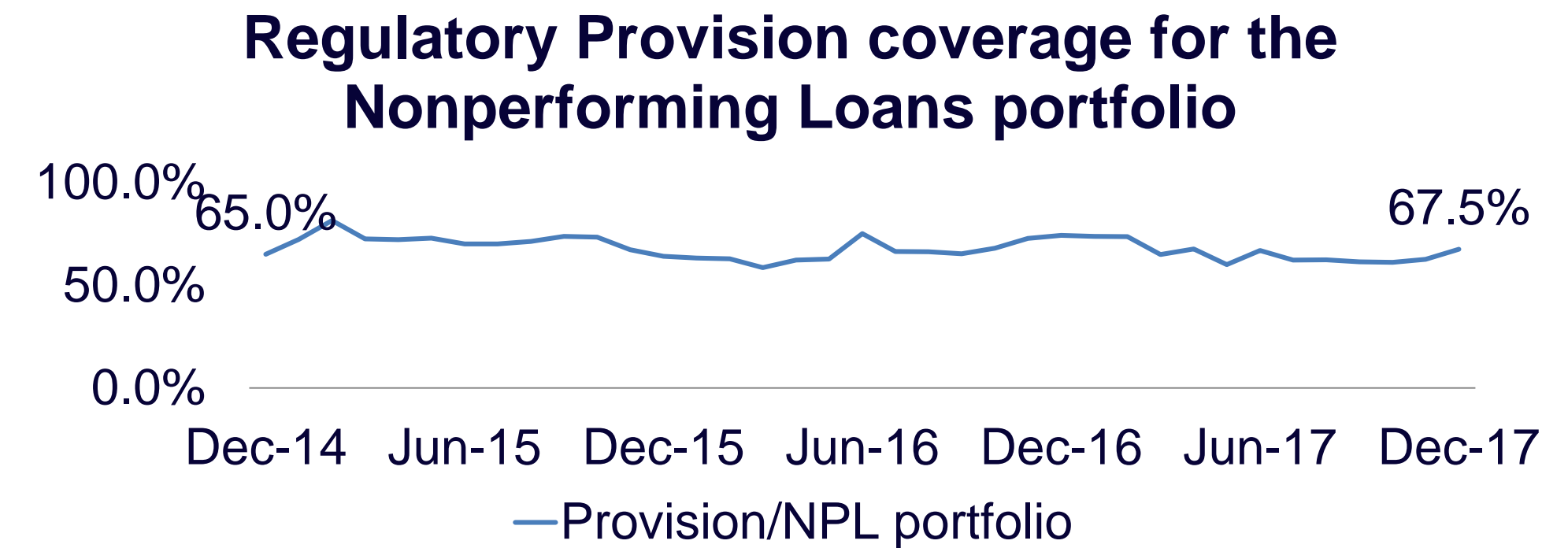
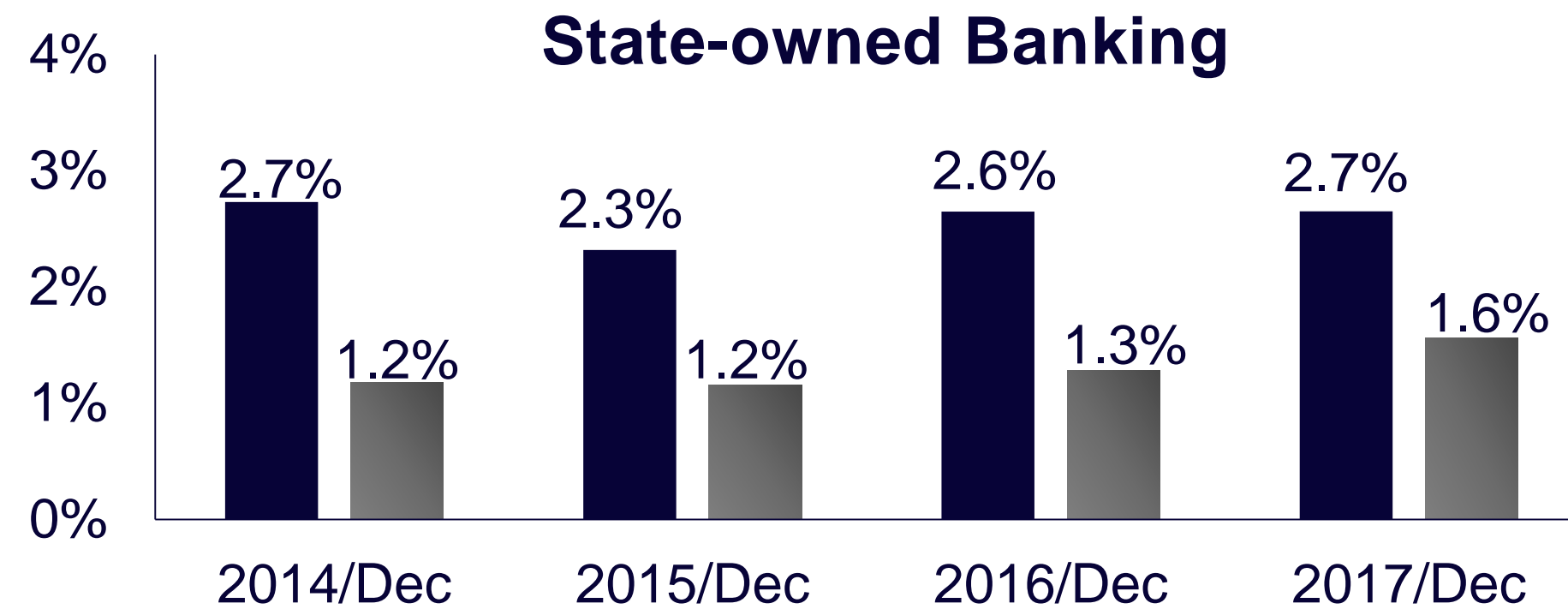
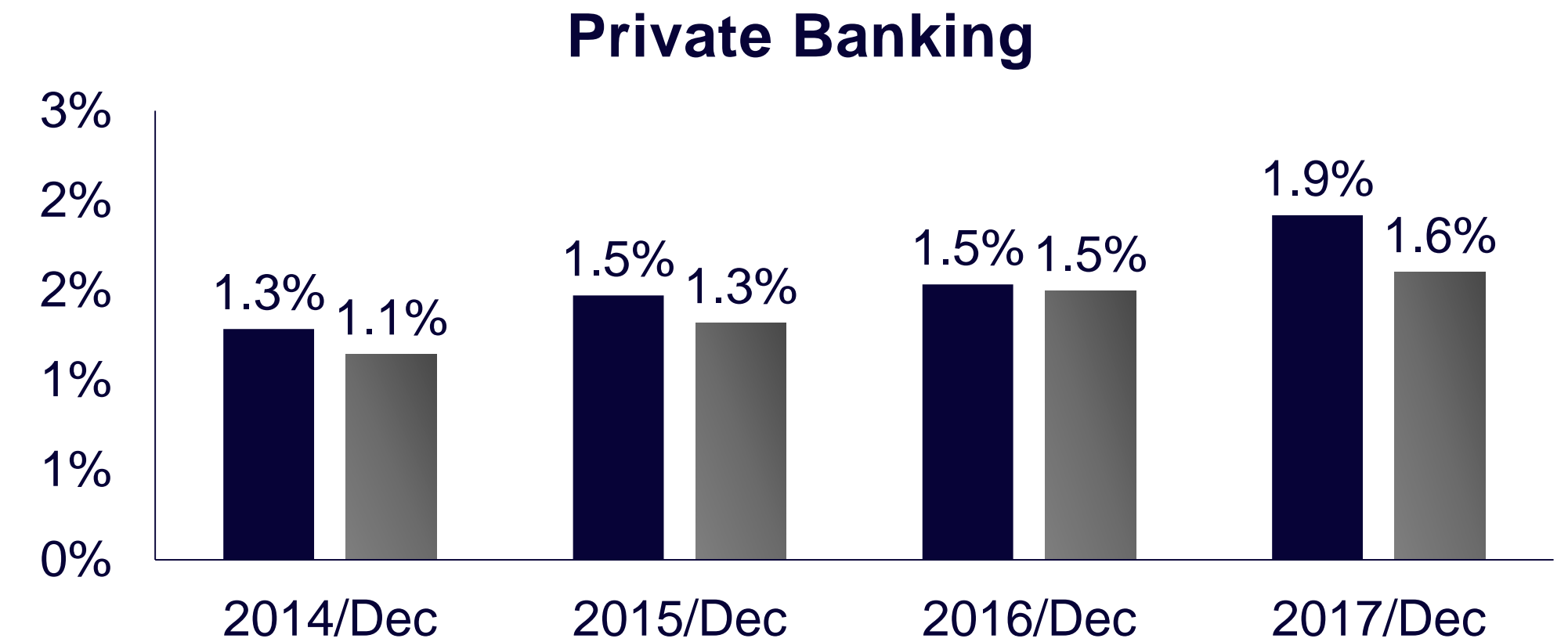
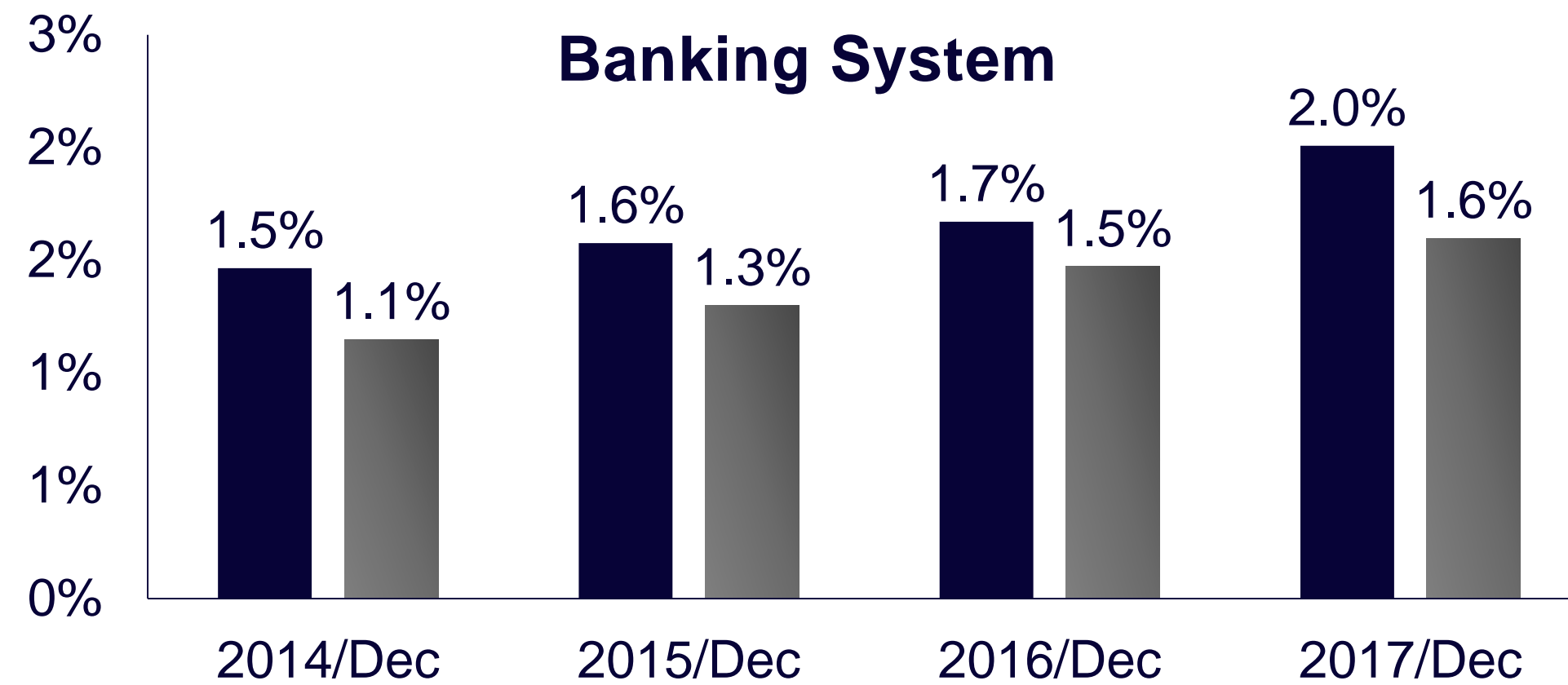
(in percentages)

■ Delinquent (30-90d) ■ NPL (+90d)

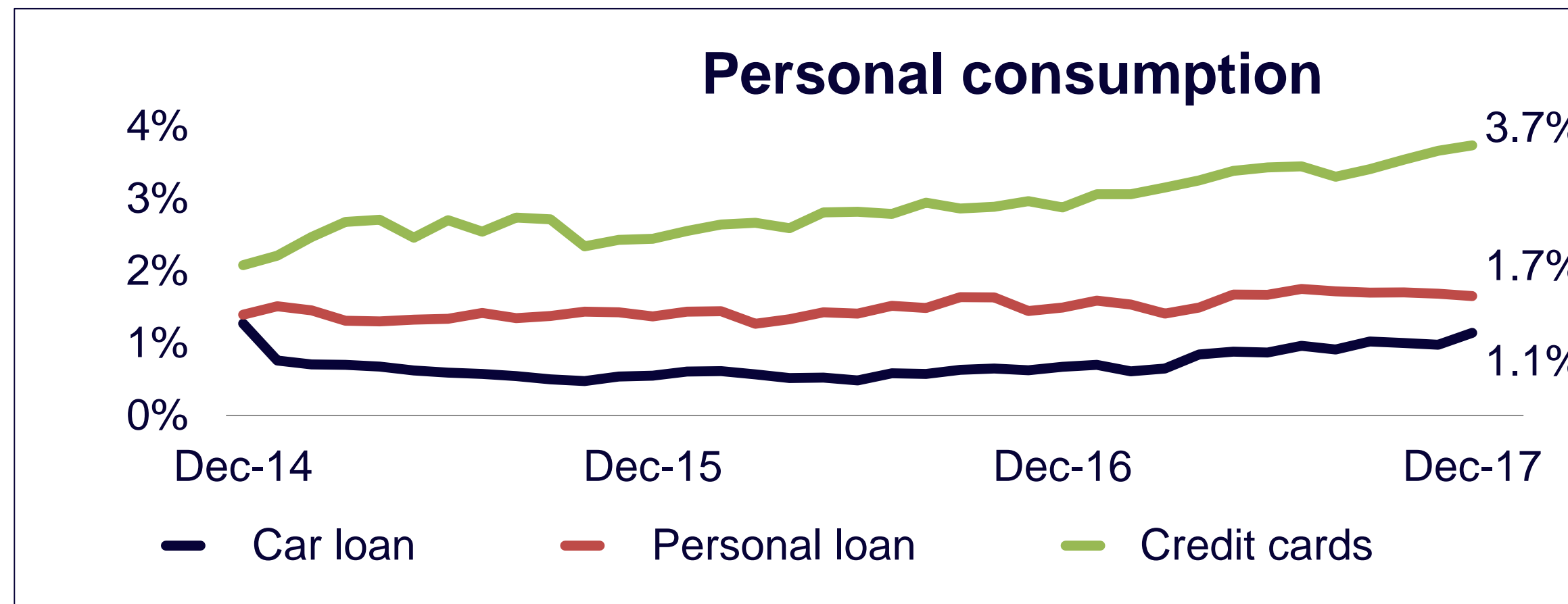
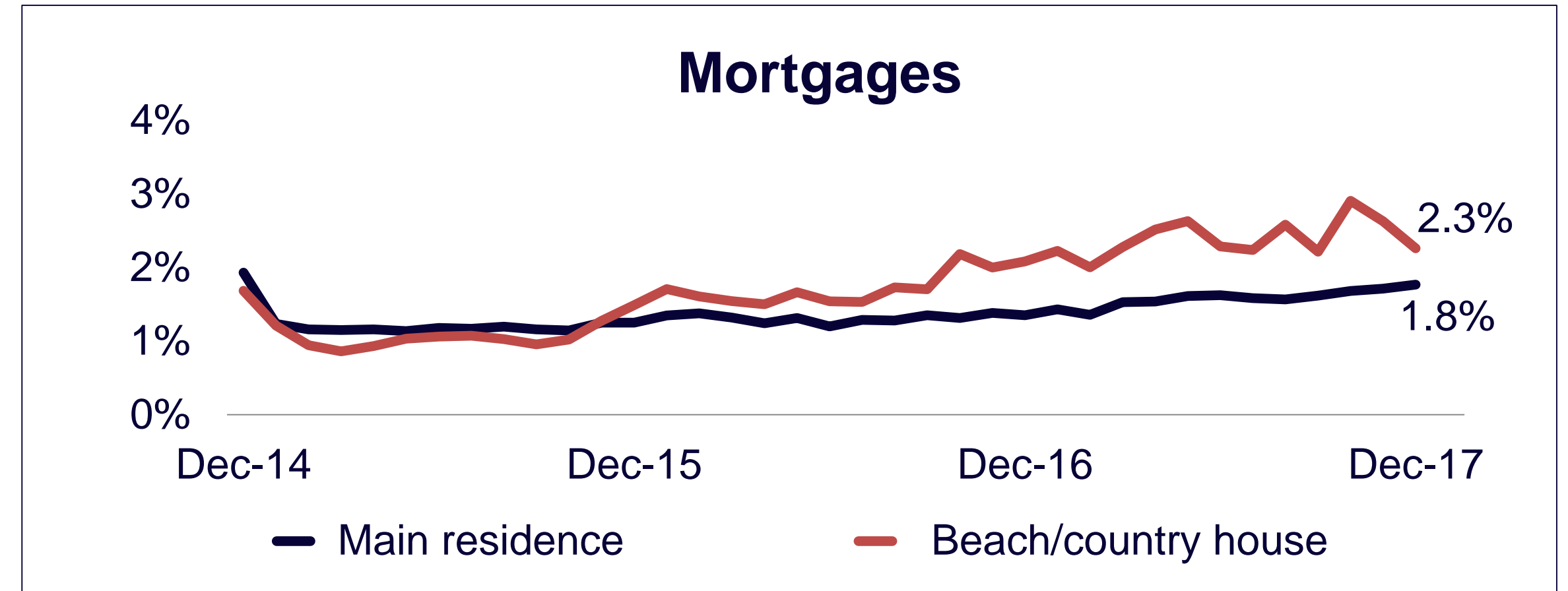
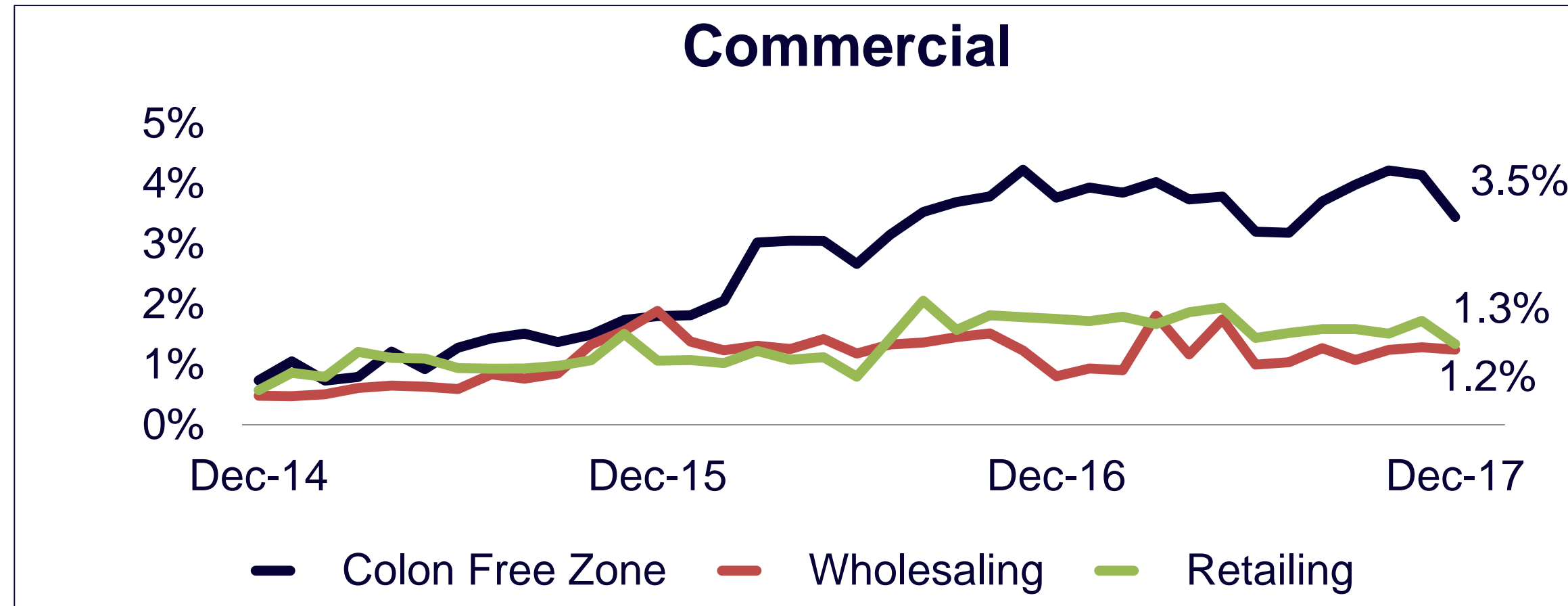
□ Nonperforming loans (+90 d) 1.6% of the domestic portfolio

□ Nonperforming loans (+90d) provisions is at 67.5%

□ Healthy maturity collection policies between 30-90d



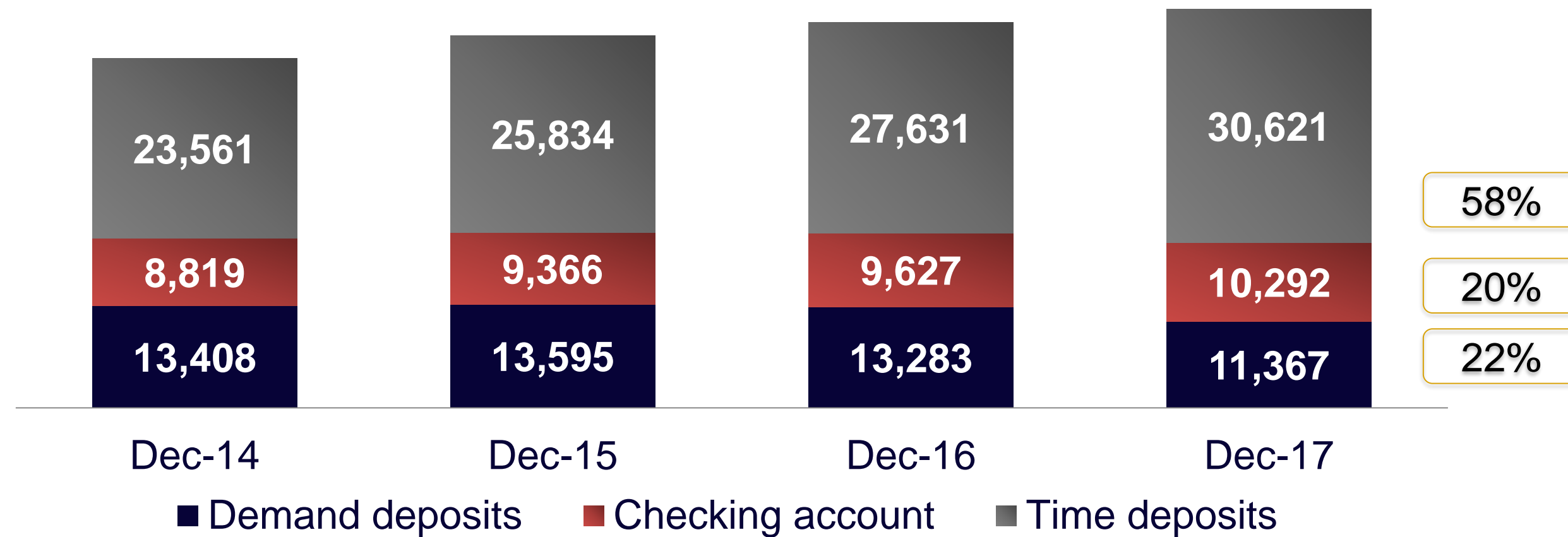
Domestic NBS: Nonperforming Loans (+90d) – Main Sectors



- ✓ CFZ delinquency is starting to return to historical levels.
- ✓ Stable trend in main residence mortgages delinquency.
- ✓ Retail segments show different trends. Credit cards with a slight increase of 3.7% and car loans remaining stable.

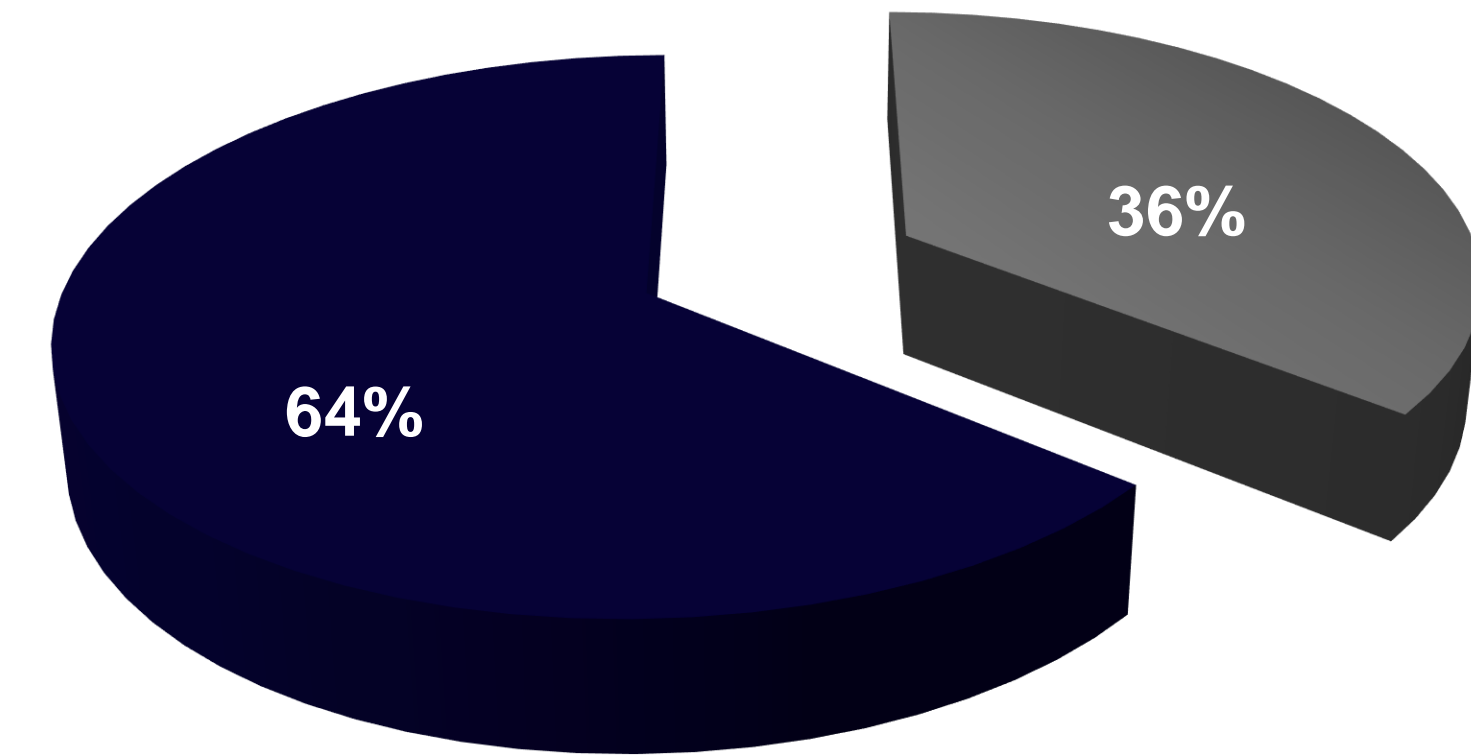
Panama: IBC Domestic Loans Structure

Domestic Deposits

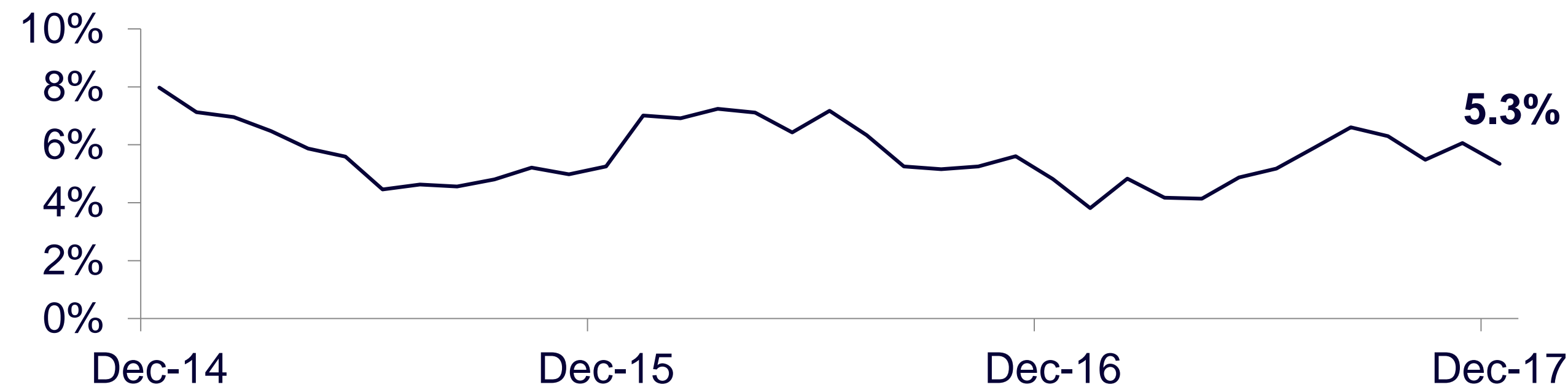


Time Deposits

■ Legal entities ■ Individuals



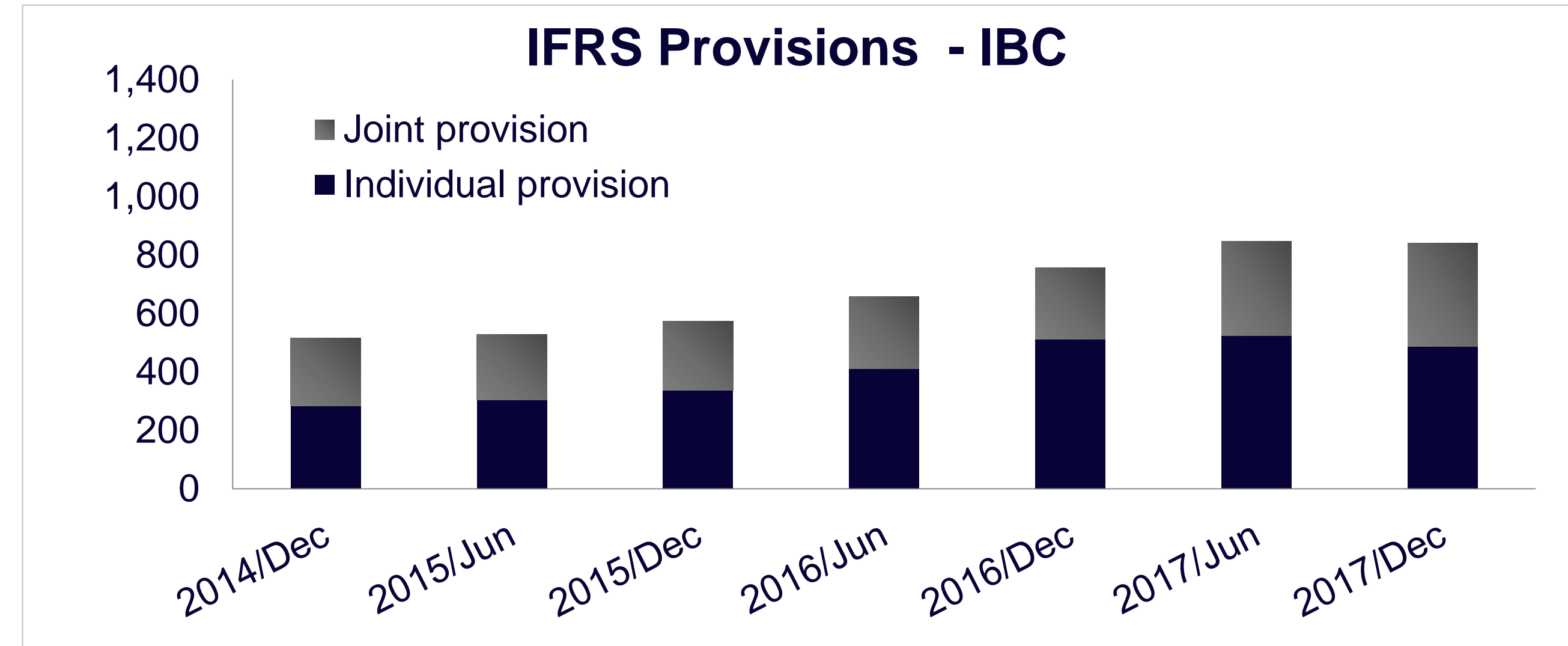
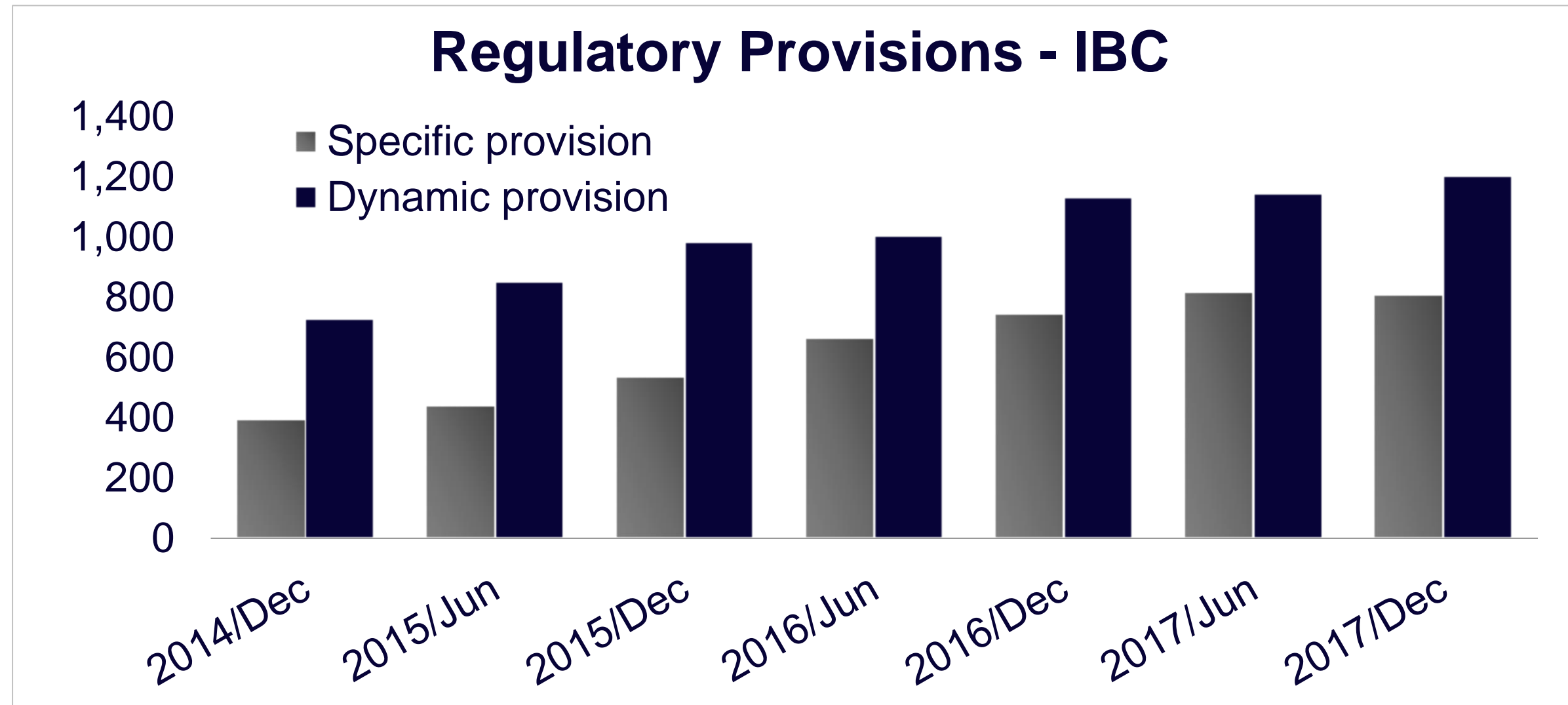
Domestic Deposits: Annual Variation



- ✓ Domestic deposits grew by 5.3%
 - ✓ Fund portfolio composition is stable based on the FTD source (58%)
 - ✓ FTD are allocated mainly by legal entities (64%)
- Checking account should be Savings accounts

Regulatory and IFRS Provisions

(in millions of USD)



- ✓ The dynamic provision is a capital reserve that could absorb unexpected losses due to systemic shocks.
- ✓ IFRS 9, its calculation methodology for deteriorations that are inevitable given that banks grant credits and respond to normal and expected losses. When responding to different reasons and from a prudential point of view, they should not offset each other.

Macro prudential policy for Financial Stability, Integrity and Transparency

Macro prudential policy

Resource solvency

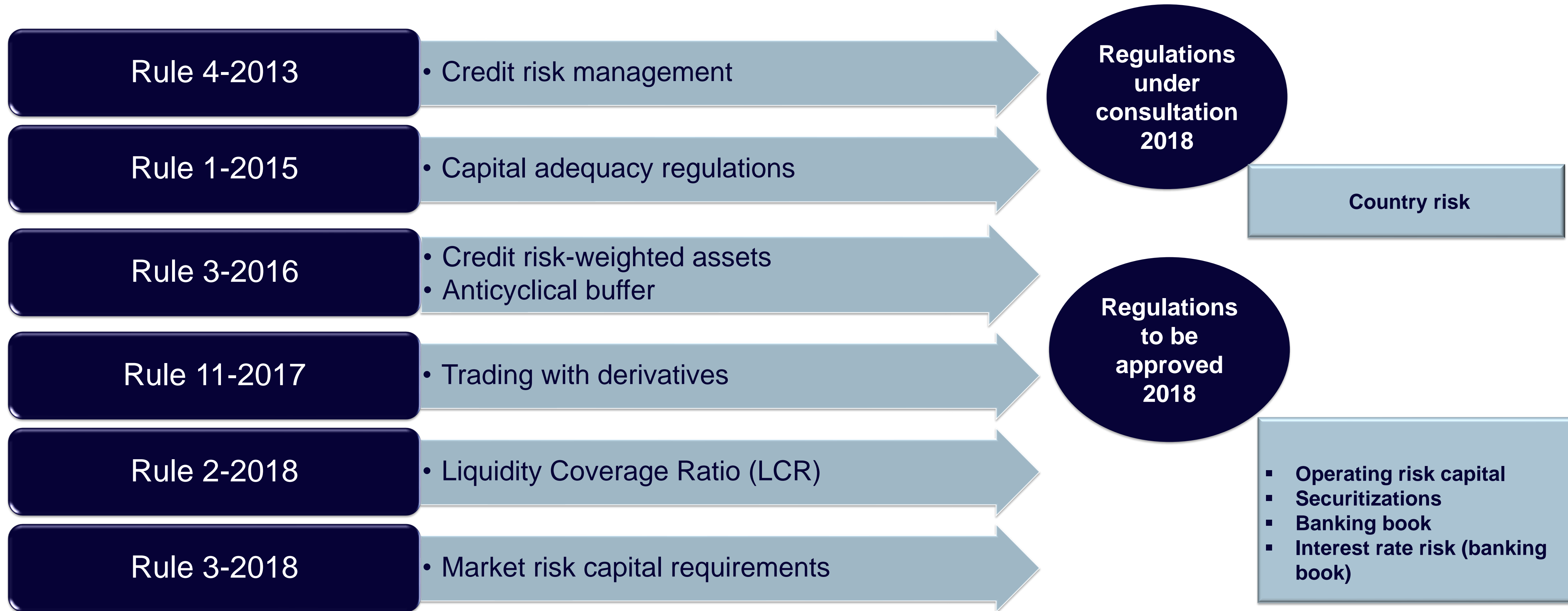
AML/CFT

Qualitative: Basel III

**Quantitative: Greater IAC
Level systemic groups**

**Better regulatory and risk-
based supervision process**

Panama: Roadmap towards Basel III



New Legal Framework for AML/FT

Law 10 of 2015

- Modification of penalties in the Criminal Code for legal entities committing ML/FT crimes

Law 11 of 2015

- Mutual international legal assistance for investigations and legal processes related to ML/FT

Law 23 of 2015

- New legal framework on AML/FT

Law 47 of 2013/Law 18 of 2015

- Bearer Shares

Executive Decree 363 of 2015

- Regulations covering the Law on AML/FT

Executive Decree 587 of 2015

- Regulations on preventive freezing of assets

Law 21 of 2017

- New law on Trust business

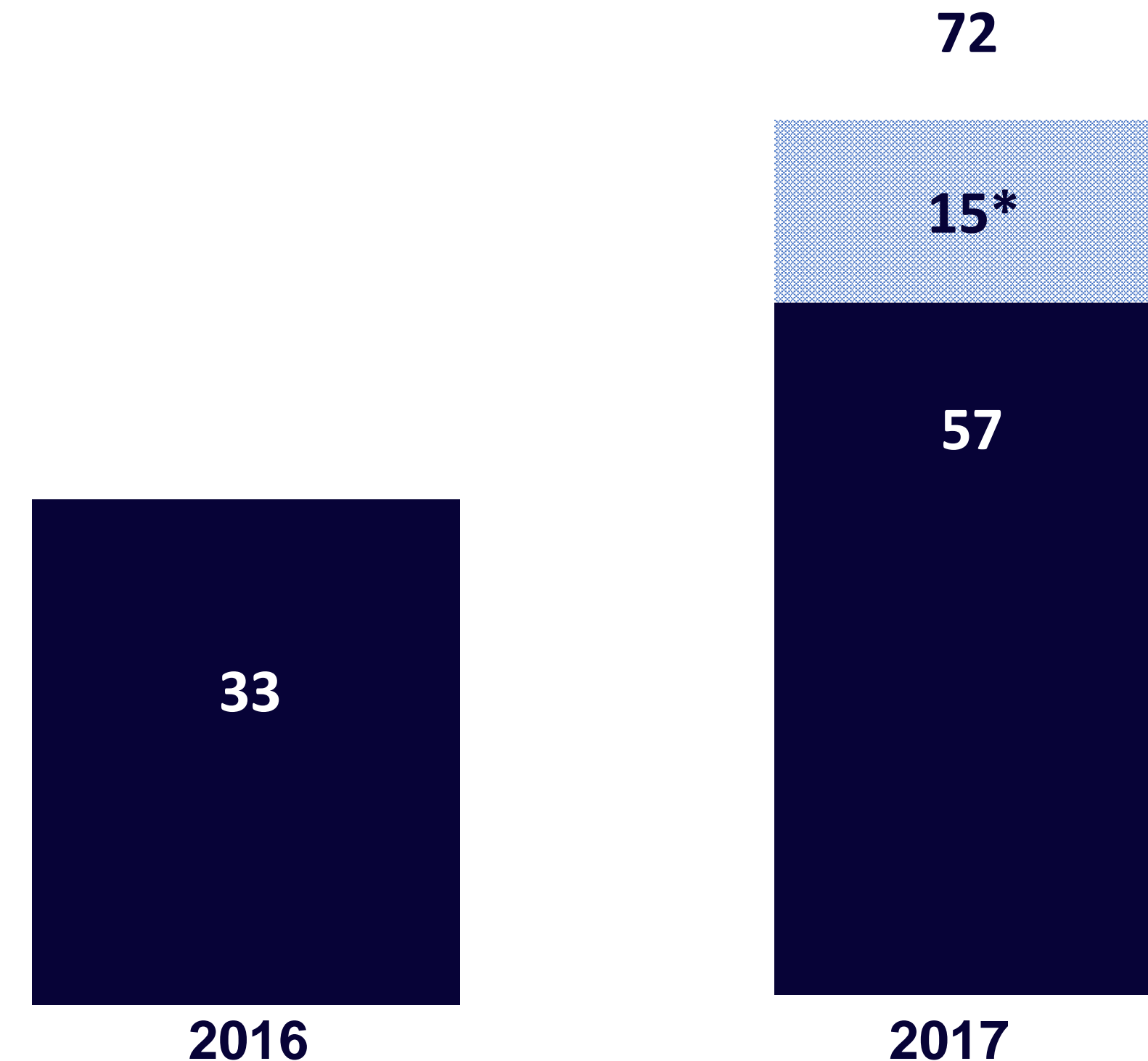
SBP Rules

- 11 rules approved by the SBP, following FATF's recommendations
- Draft rule on money remittance business in progress

Banking Correspondents

72 New banking correspondent relationships after the removal from the FATF Gray list

- The system has a stable number of banking correspondent relationships of approximately 458
- A clear improvement in the number of correspondent banks and services provided was noted
- Correspondent banks have advised they will broaden loan availability and relationships with other banks
- To date all banks have correspondent banks



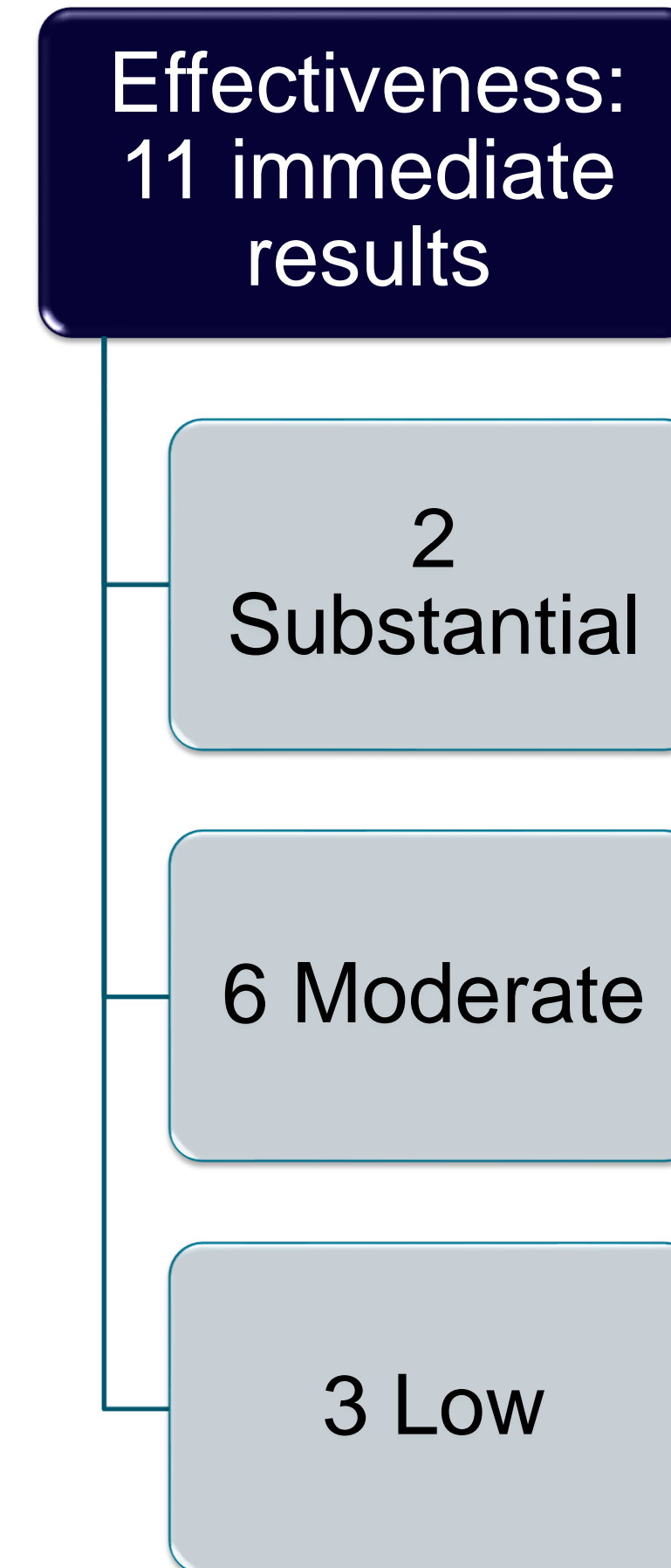
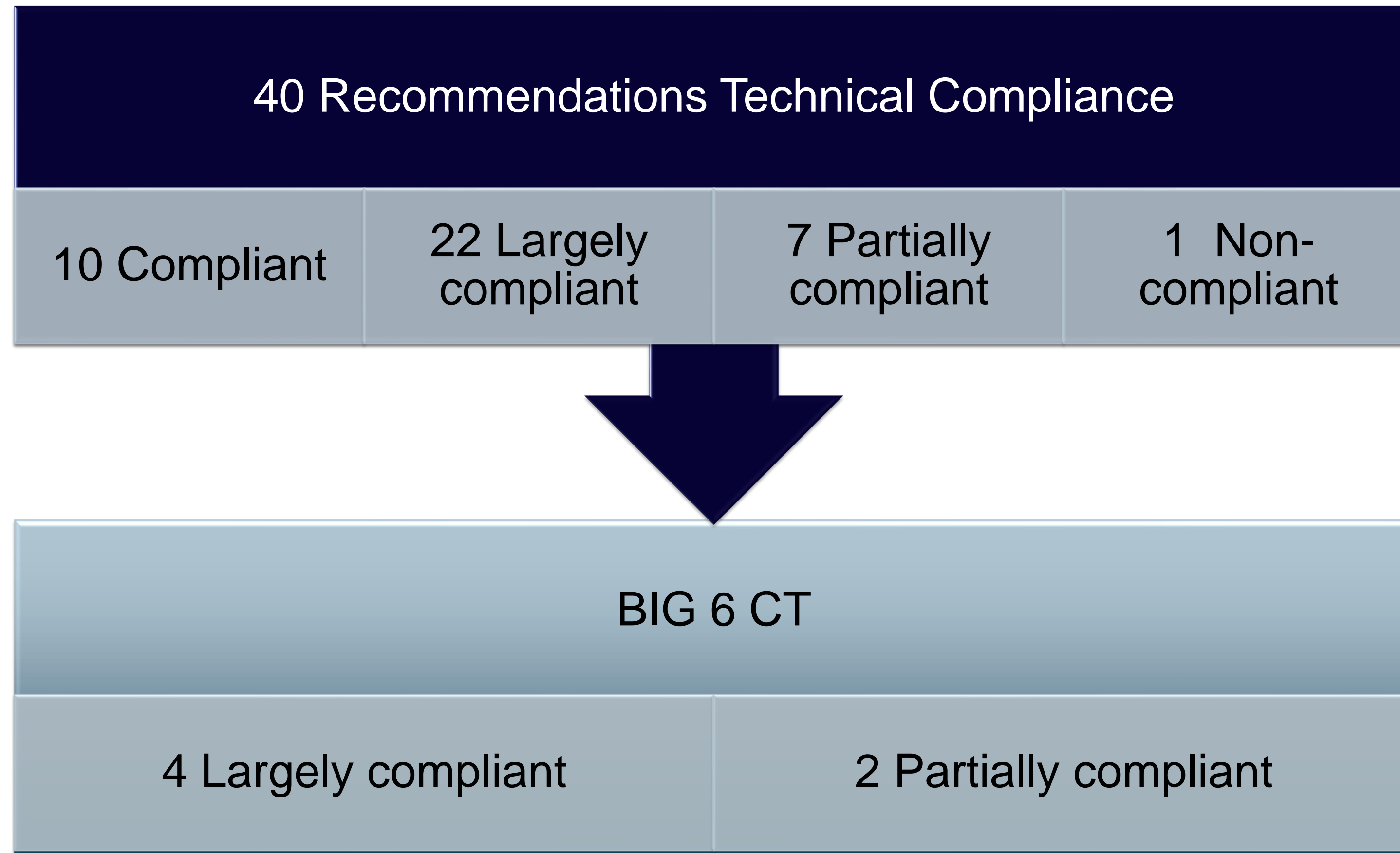
(*) Correspondent banking services in process

SBP Institutional Measures

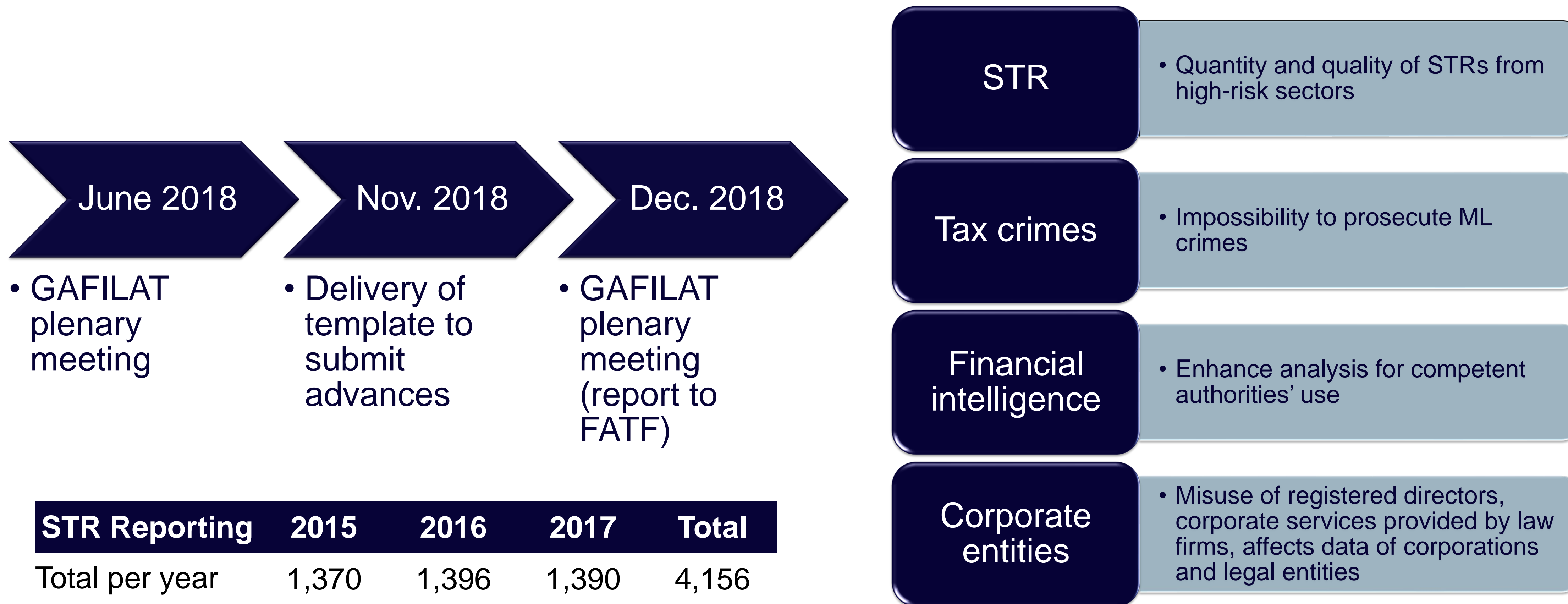
National and international training on AML/FT 2015/2017	Number of training sessions	Employees
Regulated entities	27	3,211
SBP increased its number of employees (170% more)	103	90
Online learning module on Corporate Governance Target audience: Boards of directors of banks		Over 2,072 members of BD and Top Management
Online learning module on AML/FT Target audience: Top management/Boards of directors/Bank employees		Over 22,305 participants

Examinations	2015	2016	2017	Penalties	2015-2017
Banks (comprehensive and cross-border)	60	66	86	Amount of penalties	USD 5.7 MM
Trust companies	13	24	31	Punitive and disciplinary proceedings	42
Finance entities, leasing and factoring companies	6	18	16	Concluded penalties and procedures	24
				Appeals / reconsiderations	5
Total	79	108	133	Penalties in process	13

Panama: Mutual Assessment with GAFILAT



Panama: Timeline of Measures and Challenges on Effectiveness



Panama: Main challenges on effectiveness for the financial sector

Financing of terrorism

- Broader understanding of FT methodologies and vulnerability of the Financial System

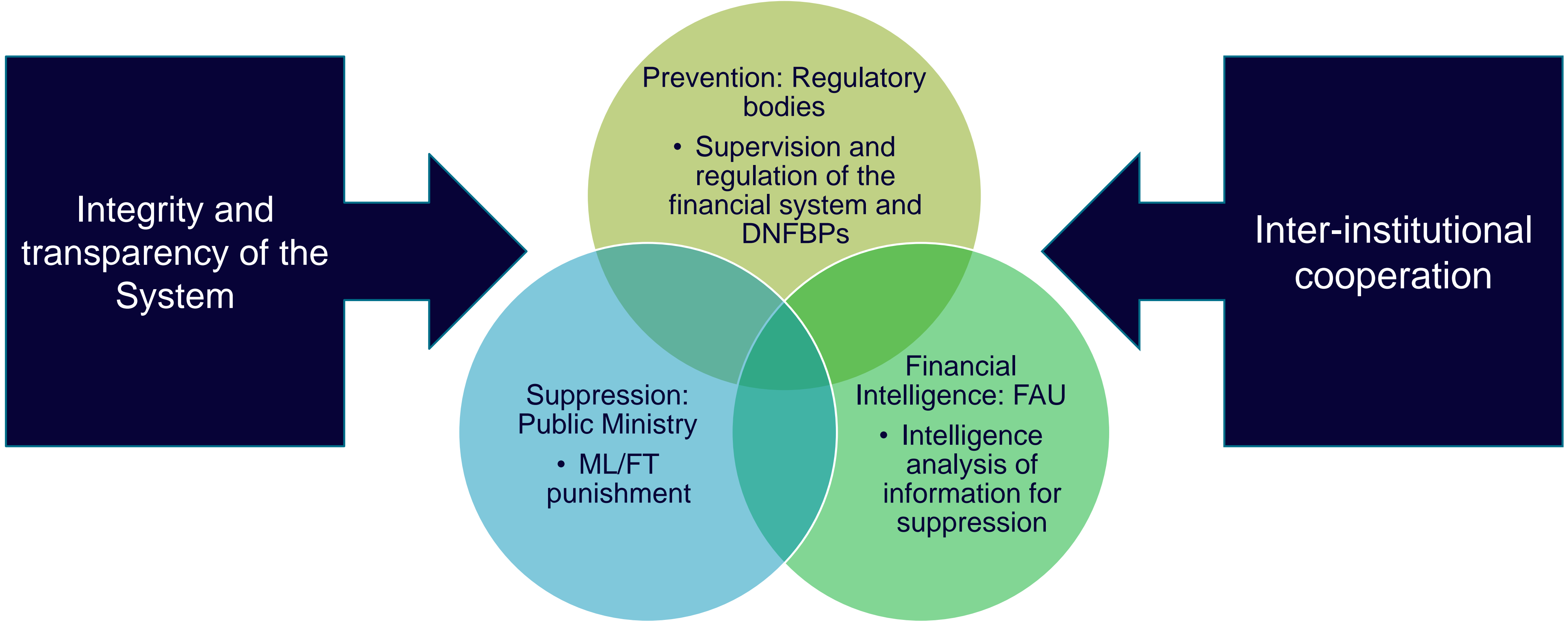
Enhanced due diligence for high-risk sectors

- CFZ
- Corporate entities
- Construction companies
- Real estate

HHRR training

- Strengthening the process for understanding ML/FT risks

Panama: Outline for the Prevention of money laundering, financing of terrorism and financing the proliferation of weapons of mass destruction



Institutional Aspects and Technology Innovation – Challenges and Opportunities

Bank resolution

- Creation of bridge bank
- Differentiated treatment for systemic banks
- Sale of assets

Liquidity fund

- Need for short-term liquidity
- It is not a line of working capital nor a solvency fund
- Panama sovereign debt collateral
- Strengthening financial security network

Draft of the legal framework for the Modernization of the Financial Sector

- Technology innovation activities that could be provided in the financial sector

Opportunities



Artificial
Intelligence



Crowdfunding
Crowdlending



Blockchain



Big Data
Regtech

FINTECH



Cloud
Computing



Cryptocurrencies

Entities under the Supervision of the Superintendency of Banks of Panama

Regulated entities	Number	In millions of USD			
		Assets	Liabilities	Capital	Profits
State-owned banks	2	13,604	12,384	1,220	202
Panamanian banks	17	41,910	38,120	3,790	621
Foreign banks	30	45,896	39,296	6,600	683
National Banking System	49	101,410	89,800	11,610	1,506
International license banks	26	18,327	15,624	2,703	290
Representation licenses	13	-	-	-	-
International Banking Center	88	119,737	105,424	14,313	1,796
Collateral		12,472	-	-	-
Management		2,193	-	-	-
Pension and severance funds		1,208	-	-	-
Investment		3,069	-	-	-
Others		2,366	-	-	-
Trust companies	75	21,308	-	-	-
Finance entities	149	1,769	-	-	-
Leasing	40	545	-	-	-
Factoring	36	473	-	-	-
New reporting entities	225	2,787	-	-	-

Conclusions

Financial performance

Robust credit risk capital adequacy (Basel III) of 16.1%

Sound efficiency: income 1.9 times expenses

Increases in domestic credit to private sector of 6.9% and domestic deposits allocations of 5.3%

Sound liquidity ratio of 60.3%, double the percentage legally required

Tolerable increase of NPL (+ 90 d) at 1.6%

Short- and medium-term perspectives

Implement roadmap towards Basel III: Market risk, operating risk, LCR, interest rate risk, and securitizations

Create liquidity fund/Implement LBTR

Inter-institutional focus group to get a satisfactory rating on GAFILAT enhanced assessment

Adjust SBP's institutional organization to the project on the modernization of the financial system

Successful achievement of the five-year plan to contribute to the sustainable growth of the economy and the banking sector



Thank you!

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