Superintendencia de Bancos de Panamá

Banking Activity Report

September 2024

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Executive Summary

At the end of the third quarter of 2024, the International Banking Center (CBI for its acronym in Spanish) of Panama reflected an adequate liquidity and capital position. The liquidity ratio of 54.95% shows that banks have sufficient resources to cover short-term obligations, which reinforces their ability to respond to possible market fluctuations or massive deposits withdrawals. On the other hand, the capital adequacy, at 15.65%, exceeds minimum regulatory standards, which reflects a robust capital structure. This level of capitalization and liquidity is a sign of the resilience and financial strength of the country's banking entities, which has allowed maintaining the confidence of depositors and investors in the Panamanian banking system.

The operations of the International Banking Center (CBI) continue to reflect sustained growth, with a year-on-year increase of 6.9% in total assets, reaching USD 151.642 billion at the end of the period. This performance shows the operational resilience of the system, supported by an expansion in productive assets. As for deposits, these also indicate solid growth, with an increase of 6.8% in the analyzed period. This increase in deposits and productive assets underlines the confidence of depositors and investors in the Panamanian financial system, as well as its ability to adapt to market conditions and continue attracting capital.

The growth observed in the CBI during 2024 is mainly driven by a strategy focused on optimizing returns on productive assets, as well as active and strategic management of available resources. This has been achieved by strengthening the capital and liability structure, allowing the CBI to maintain a solid profitability profile with controlled risk exposure. It is worth noting that this has not only improved operational performance but also built a resilient foundation for facing potential market challenges. The increase in the CBI's balance sheet demonstrates accelerated growth in productive assets, largely driven by an increase in the net loan portfolio, now reaching USD 94.141 billion. Liquid assets also grew by 1.1%, indicating a strategic shift toward higher-yielding assets.

The CBI's credit portfolio, the primary asset on the balance sheet, grew by 9.1%, broken down into 16.1% in the external segment and 5.4% in the local component. The local credit portfolio of the National Banking System recorded a balance of USD 63.8 billion, reflecting a 5.4% increase compared to the same period last year, equivalent to a growth of USD 3.264 billion. This positive performance signals a sustained revival in credit demand, despite slower macroeconomic growth, underscoring the Panamanian financial system's ability to adapt to a recovering economic environment. In terms of new disbursements, banks reached USD 18.875 billion in September 2024, indicating an annual increase of 13.3%. The growth in credit volume points to an expanded financing capacity within the banking sector, supported by favorable credit conditions and renewed optimism in economic perspectives.

The household loan portfolio recorded a balance of USD 18.524 billion in mortgage loans and USD 14.041 billion in personal consumption credit as of the close of September 2024. These figures represent an annual growth of 3.8% in mortgage loans and 4.1% in personal consumption credit.

Moving forward, the household component will require a strategy that closely evaluates clients' risk profiles, along with prudent provisioning policies and continuous monitoring mechanisms. This approach will be essential to mitigate potential impacts from events that could affect households' payment capacity.

Regarding portfolio’s health, a materialization was evident, albeit lower, at similar levels to last year. In total, the delinquent and overdue portfolio represent 3.88% of the portfolio. The indicator of total overdue loans in relation to the loan balance stood at 2.27% in September 2024. This performance suggests that loan payments may be stabilizing, as this ratio was 1.61% the previous month. Proactive risk management is crucial given these indicators and the lower economic performance forecast for this year, which could limit credit expansion and keep non-productive assets high. Therefore, banks need to maintain a strict provisioning policy and continue strengthening their recovery and credit restructuring strategies to mitigate prospective risks. Additionally, intensified monitoring of asset quality and possible adjustments in credit granting policies will be crucial to preserving the CBI’s financial stability.

On the results side, at the close of the third quarter, the CBI showed total profits of USD 2.283 billion, with an annual growth of 9.2%. Of these, 45% was generated by general license foreign banks, 25% by private Panamanian banks, 13% by state banks, and 17% by international license banks. This combined growth for the CBI is sustained by performance in the financial margin, a 14.5% increase in other operating income, and efficient management of general expenses, which grew only 7.5%, significantly boosting banking efficiency. The improvement in asset profitability is mainly due to a 14.5% increase in other operating income, reaching USD 2.541 billion by September 2024. This stability in the interest margin is a positive factor, though monitoring interest rate trends and their impact on funding costs will be significant. Other important components indicate that operating income experienced growth of 8.1%.

In September 2024, the International Banking Center (CBI) experienced a year-on-year increase of 6.8% in the balance of bank deposits, reaching a total volume of USD 107.352 billion. This growth was supported by two main pillars: a 6.2% increase in domestic deposits, reaching USD 65.624 billion, and a 7.8% increase in foreign deposits, totaling USD 41.728 billion. Countries such as Colombia, Ecuador, and Venezuela account for a significant portion of these deposits, with 19%, 7%, and 6%, respectively. This steady flow of international deposits demonstrates that Panama maintains its reputation as a stable and reliable regional financial hub, particularly for clients from Latin America and the Caribbean seeking to safeguard their assets in a secure financial environment.

It is noteworthy that, positively, Fitch Ratings in its latest review of the Panamanian market highlighted an improvement in the operating environment of the Panamanian banking system, changing its perspective from "Negative" to "Stable" and reaffirming its rating at “BB+”. The rating agency recognized that challenges faced by the sector have gradually subsided, with positive performance in credit growth metrics, asset quality, and better-than-expected profitability, which supports the stability of Panama’s financial system.

The comprehensive analysis of key financial indicators for banks shows that the CBI remains resilient, with adequate levels of liquidity and capitalization, despite slower economic activity throughout the year and persistent challenges in the external environment. Solvency ratios remain comfortably above minimum regulatory requirements, demonstrating sound capital management and a strong position to withstand potential systemic shocks. The ability of banks to keep these key indicators aligned with local regulations and international Basel III standards will be relevant for mitigating potential risks associated with an uncertain economic environment and preserving investor and depositor confidence. Additionally, ongoing vigilance over credit, market, and operational risk exposures is prudent to ensure that mitigation strategies are both timely and effective, especially in more vulnerable segments of the credit portfolio and due to the growth of certain revolving credit instruments, which may pose risks in a high-interest-rate environment. The Superintendency of Banks of Panama (SBP) will continue to play a fundamental role through an exhaustive prudential supervision process to safeguard the system's financial stability and anticipate potential misalignments that could compromise its structural soundness.

A. Liquidity

At the end of September 2024, the Panamanian banking sector has shown a sound operational position, demonstrated an average liquidity ratio of 54.95% exceeding regulatory standards. This liquidity level is primarily attributable to an increase in deposit volumes, indicating active and efficient balance sheet management. This robust liquidity not only enhances the sector's ability to respond to financial stress scenarios but also implies depositor confidence and the effectiveness of the treasury management strategies implemented by financing entities.

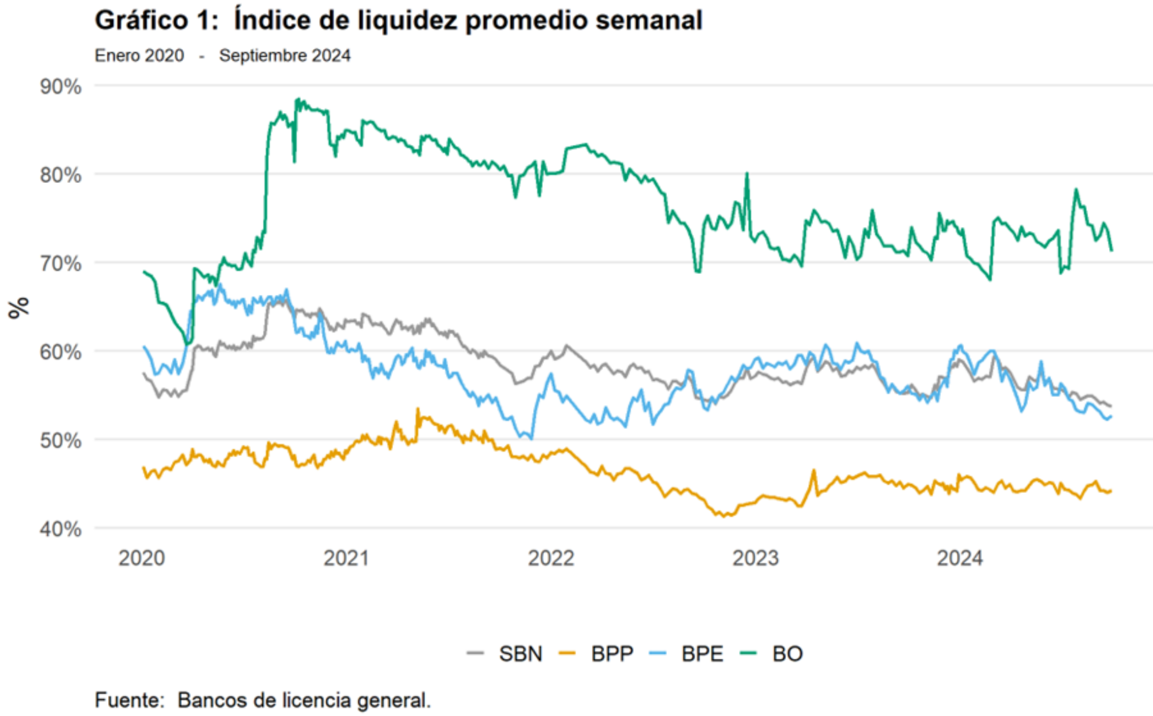
As for the System's banks, they have historically maintained robust liquidity buffers and constant access to structural and wholesale deposits, which constitute a fundamental part of their financing structure. The presence of wholesale deposits can offer advantages in terms of costs but can also present volatility risks in times of economic uncertainty, which underscores the importance of diversified and proactive liability management. The strength of retail deposits reduces exposure to the volatility typical of wholesale deposits but requires banks to maintain a solid relationship with their client portfolio and careful management.

Entities operating within the International Banking Center (CBI) are subject to regulatory provisions aligned with Basel III standards. Specifically, the Liquidity Risk Indicator, designed to assess funding capacity in emergency scenarios over a 30-day horizon, shows that Panamanian banks maintain levels above the minimum requirements. This is due to prudent management of asset and liability maturities, a diversified financing structure, and high-quality assets. Moreover, compliance with Basel III requirements provides the banking system with a robust capital structure, enabling not only effective short-term liquidity management but also the mitigation of structural imbalance risks in a globally volatile environment.

Currently, banks comply with the provisions of the Liquidity Coverage Ratio (LCR), with an average indicator higher than the regulatory requirement. This level of compliance strengthens the sector's ability to withstand potential tensions in financial markets. Even though interest rates have begun to decline, alleviating some of the funding cost pressures, it will be crucial for banks to adjust their strategies to capitalize on this monetary easing environment in developed countries, while maintaining prudent management that allows them to secure healthy financial margins and adequate liquidity.

The system's resilience to potential external shocks will depend on its ability to maintain these liquidity buffers at optimal levels, ensuring its operational sustainability and responsiveness in the medium and long term.

Graph 1: Weekly Average Liquidity Ratio
January 2020 – September 2024



Source: General license banks.

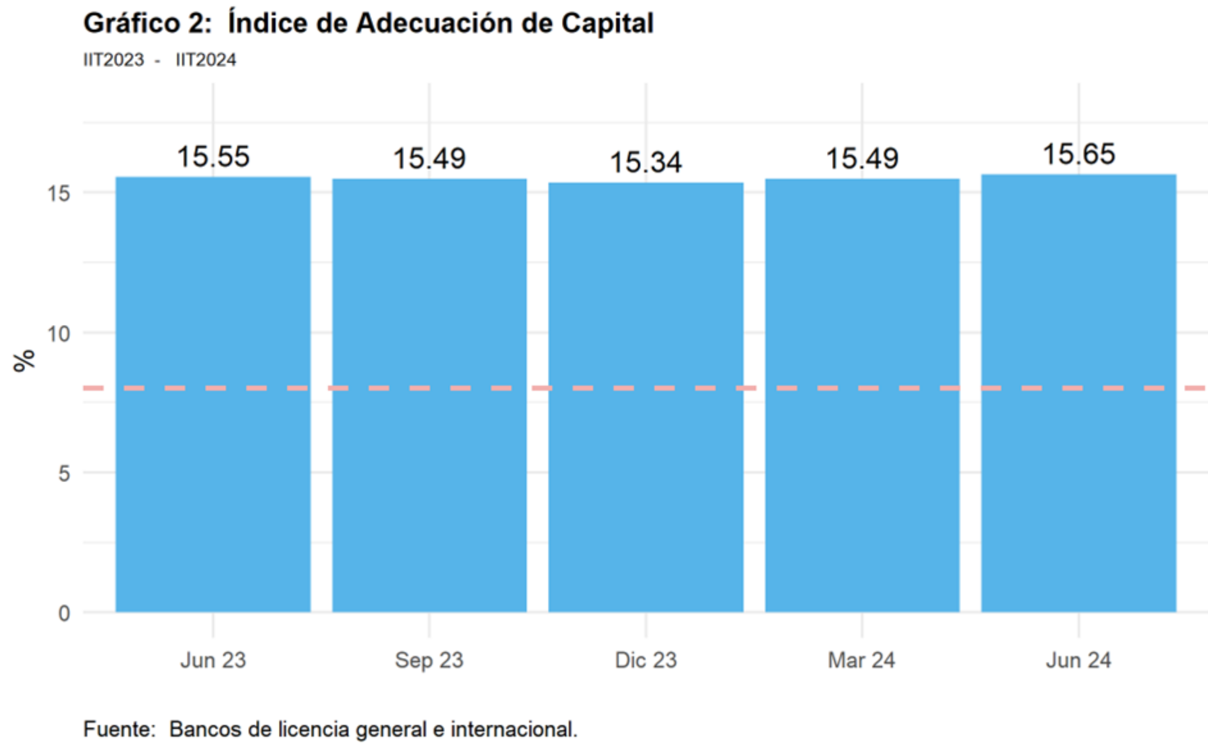
B. Solvency

The Capital Adequacy Ratio (CAR) of banks in the International Banking Center (CBI) has maintained adequate solvency indicators, consistently standing above the required 8%. As of June 2024, the CAR adjusted for the risk-weighted assets was 15.65% (last data updated) (see Chart 2), exceeding the regulatory minimum of 8% and showing strong financial resilience against possible adverse scenarios. This level of capitalization provides a substantial buffer, enhancing bank´s ability to absorb unexpected losses. The stability observed compared to the previous quarter suggests that institutions have managed to maintain prudent capital management despite a challenging economic environment.

To date, banks within the CBI comply with regulatory standards for bank capital, underscoring the effectiveness of their risk and capital management strategies guided by regulatory parameters. However, potential changes in RWAs (risk-weighted asset for its acronym in English) could pressure capital ratios in the future, especially if accompanied by increases in credit or market risk. This highlights the importance of active RWA management and maintaining a robust capital strategy that balances growth and risk control.

It is crucial for CBI banks to continue strengthening their capitalization policies, particularly in an environment where external factors, such as changes in global and local macroeconomic conditions, could impact capital stability. Given the current circumstances, it is essential to closely monitor external and local real sector factors that could affect capital strength and to take proactive measures to mitigate potential risks. The ability of banks to adjust their capital levels promptly and efficiently in response to potential variations in RWAs will be a key factor in sustaining their solvency.

Graph 2: Capital Adequacy Ratio
IIQTR. 2023 – IIQTR. 2024



Source: General and international license banks.

C. Income Statement

Regarding income statement, at the close of the third quarter, the CBI reported total earnings of approximately USD 2.283 billion, or an annual growth of 9.2%. Of this, 45% comes from foreign banks with general licenses, 25% from private Panamanian banks, 13% from official banks, and 17% from international license banks.

Unlike the concentration levels seen in total assets, loans, and deposits—where the top ten banks hold less than 80%—the generation of earnings in the CBI shows a more significant level of concentration, with the top ten banks generating 84% of total profits.

Earnings are largely sustained by total yields generated from productive assets, primarily through interest earned on the credit portfolio.

The main source of income via financing comes from the productive sector, which represents 50% of total loan-generated income, followed by the household sector with a 38% share, financial sector operations with 10%, and 2% generated from transactions with the State.

For the CBI, growth is sustained through performance in the financial margin, a 14.5% increase in other operating income, and careful management of general expenses, which grew by only 7.5%, significantly boosting banking efficiency.

The improvement in return on assets is primarily due to the 14.5% increase in other operating income, reaching USD 2.541 billion through September 2024. This stability in the interest margin is a positive factor, although monitoring the evolution of interest rates and their impact on funding costs remains essential. Other key factors include an 8.1% growth in operating income.

Positive performance is also a result of best practices in optimizing processes and reducing expenses. Implementing new digital technologies has allowed for more efficient processes and cost reductions in the medium term. It is worth noting that, with the adoption of new technologies, operational efficiency has improved, contributing to sustainable growth by maximizing the benefits of automation and continuous improvement in service delivery. General expenses were USD 2.471 billion (7.5%), evidencing efficient cost management in a growth environment.

Regarding provisions, the increase from USD 388.4 million in September 2023 to USD 410.3 million in September 2024, representing a 5.6% rise, echoes a forward-looking assessment of credit risk. It is essential that provisions are sufficient to cover the inherent level of risk in the loan portfolio, ensuring the bank is prepared for potential deterioration in the quality of financial assets.

Looking ahead, CBI institutions are expected to continue implementing strategies aimed at efficient management of administrative expenses, in pursuit of greater operational efficiency. By September 2024, the CBI's operational efficiency index showed a slight improvement, demonstrating the positive impact of investments in technology and digitalization. However, maintaining this trend will be key to enhancing competitiveness and ensuring a controlled risk profile. Future CapEx investments must be directed toward digital transformation projects and improvements in cybersecurity, aligning with a sustainable growth strategy and operational resilience. In conclusion, while the CBI's performance shows positive signs of growth and efficiency, it is imperative to strengthen financial and operational risk management. The CBI's ability to adapt to changes in the economic environment and fluctuations in the interest rate market while maintaining solid asset quality indicators will continue to be a key factor in assessing its risk profile.

Table 1: International Banking Center
Accumulated Income Statement
(In millions of USD)

International Banking Center	Jan.-Sept.	Jan.-Sept.	Variance	
	2023	2024	%	USD
C. Net interest income	2,557.5	2,623.8	2.6%	66.4
D. Other income	2,220.4	2,541.3	14.5%	321.0
E. Operating income	4,777.8	5,165.2	8.1%	387.3
F. General expenses	2,299.3	2,471.7	7.5%	172.5
G. Profit before provisions	2,478.6	2,693.4	8.7%	214.9
H. Bad debt	388.4	410.3	5.6%	21.9
I. Profit for the period	2,090.2	2,283.1	9.2%	192.9

Source: General and International License banks.

At the National Banking System (SBN for its acronym in Spanish) level, as of September 2024, accumulated net profits of approximately USD 1.505 billion were recorded, showing a 14.22% increase compared to the same period in 2023. The increase in profits and earning mirrors the performance reported by the International Banking Center (CBI), highlighting a trend of cost optimization in the banking sector, showed in a 9.43% increase in general expenses and in provisions, which grew by 5.35%, to mitigate possible contingencies.

Table 2: National Banking System
Accumulated Income Statement
(In millions of USD)

National Banking System	Jan-Sept. 2023	Jan-Sept. 2024	Variance %	Variance USD
C. Net interest income	1,763	1,828	3.7%	64.9
D. Other income	1,478	1,770	19.8%	292
E. Operating income	3,242	3,599	11.0%	356.9
F. General expenses	1,632	1,786	9.4%	153.9
G. Profit before provisions	1,610	1,813	12.6%	203
H. Bad debts	292	308	5.4%	15.6
I. Profit for the period	1,318	1,505	14.2%	187.4

Source: General License banks.

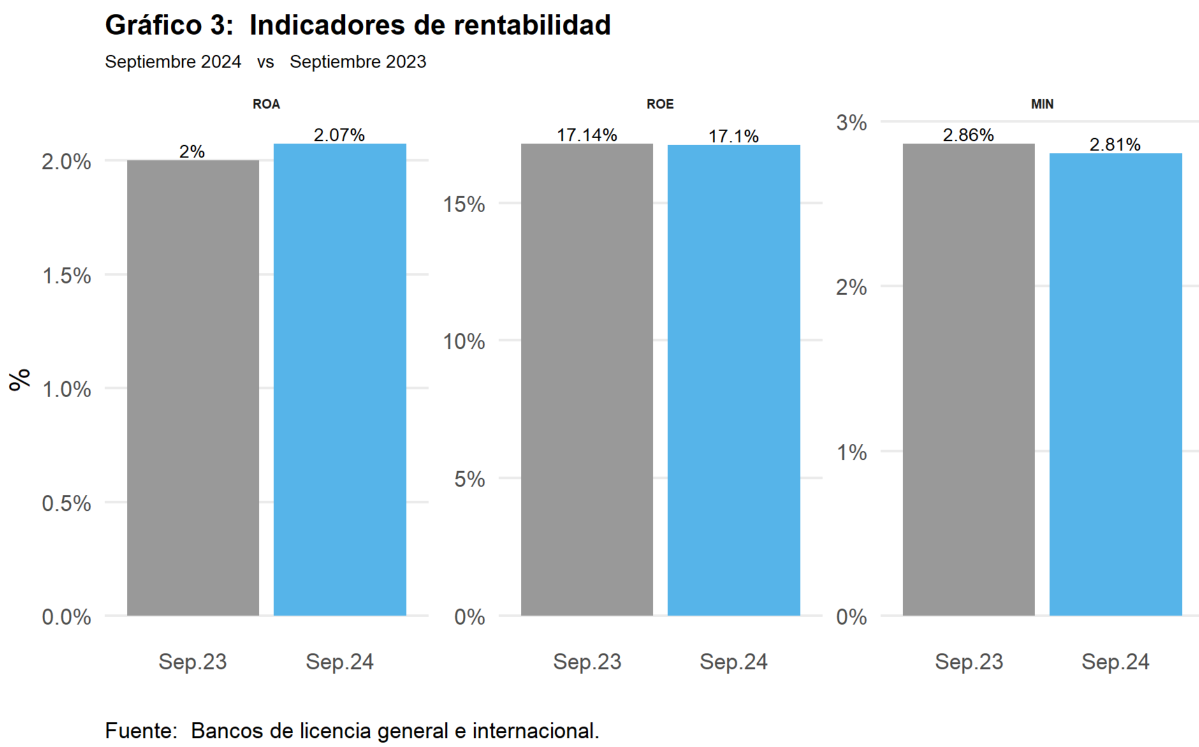
D. Profitability indicators

In terms of profitability indicators, they remain on a favorable trend, with indicators as of September 2024 demonstrating adequate management by banks on an aggregate level. The Return on Equity (ROE) reached 17.1%, showing a slight decrease compared to the previous year. The Return on Assets (ROA) stood at 2.07%, showing an improvement in the efficiency of capital use and the ability of institutions to generate higher returns. This trend underlines an improvement in resource management and a continued focus on optimizing the profitability of equity.

It is important to mention that, although most profitability metrics continue to improve, the net intermediation margin (NIM) experienced a slight decrease, standing at 2.81% for the month of September 2024, compared to 2.86% in the previous year. The slight reduction in the NIM suggests pressure on margins that could be related to competition in interest rates and the funding cost structure. This compression in margins highlights the need for financial institutions to implement more effective asset and liability management strategies.

While the ROE level is a positive indicator of the profitability of the banking system, the slight decrease in the NIM highlights the importance of maintaining a focus on operational efficiency and anchoring cost management. The CBI will need to continue to adapt to changing market conditions to sustain these levels of profitability and mitigate the risks associated with intermediation margins in the event of a change in international interest rates.

Graph 3: Profitability Indicators
September 2024 vs. September 2023



Source: General and international license banks.

E. Balance Sheet

As of the end of September 2024, Panama's International Banking Center (CBI) showed positive performance in its total assets, reaching USD 151,642 billion, representing a year-over-year increase of USD 9,806 billion or 6.9%. This growth not only indicates an expansion of income-generating assets, but also a qualitative improvement in the asset structure, which suggests prudent risk management. This growth is mainly attributed to a strategy of optimizing productive assets, especially in the net loan portfolio, as well as to a proactive management of available resources, which has strengthened both the capital and liability structure of CBI. This approach has allowed it to mitigate potential risks, increase the portfolio and maintain profitability throughout 2024.

Although CBI has faced several challenges, these have been gradually mitigated, which is shown in positive indicators of credit growth, controlled asset quality and positive profitability. Nevertheless, it remains essential to maintain solid forward planning. In line with best practices, this forecasting and planning is relevant to face the challenges of a local economic environment that is projected to be less dynamic in the remainder of the year and for next year. This would provide banks with the necessary margin to adapt and respond effectively to possible contingencies.

The growth of CBI assets reveals an acceleration in the growth of productive assets, driven by a 9.1% increase in the net credit portfolio, which has reached USD 92.141 billion in September 2024. In addition, investments in securities increased by 7.4%, reaching USD 32,676 billion. The increase in these investments, with an emphasis on fixed income, suggests that banks are seeking long-term growth opportunities, minimizing exposure to volatile assets and reinforcing their conservative risk profile. Liquid assets registered a slight increase of 1.1%, suggesting that the CBI continues to reallocate resources towards higher-yielding assets, in line with an active balance sheet management strategy, which seeks an optimal balance between risk and return. Thus, it is relevant that banks maintain adequate liquidity conditions to absorb potential shocks and ensure solid coverage against variations in the interest rate curve and volatility in short-term financing markets.

The credit portfolio remains the key component of the CBI's assets. The external segment of this portfolio grew by a remarkable 16.1%, suggesting a greater geographical diversification in the banking system's lending operations. However, this international expansion implies greater exposure to regulatory and market risks in more volatile jurisdictions. It is important for banks to implement rigorous risk control frameworks in their international operations to mitigate the impact of macroeconomic fluctuations and regulatory differences between jurisdictions in which they operate. On the other hand, the local component shows a healthy growth of 5.8%, underlining the strength of the domestic market.

Regarding liabilities, deposits continue to be a relevant component in the CBI's, reducing dependence on wholesale financing and market debt issuances, which are more volatile. As of September 2024, deposits amounted to USD 107,352 billion, with a year-over-year growth of 6.8%. This solid growth in deposits indicates the confidence of domestic and international investors in the stability of Panama's banking system. However, it is essential that the CBI maintains an adequate maturity structure to avoid mismatches in the terms between assets and liabilities that could compromise its long-term liquidity. The preference for term deposits reinforces the solidity of the Panamanian banking system's funding structure, although competitiveness in interest rates on these products will be crucial to attract and retain capital in context of potential declines in international interest rates.

In an environment of increasing capital costs, the CBI has demonstrated optimized liability management, with a moderate growth in financial obligations of 4.1%. Although the increase in borrowing costs, efforts are being made to implement financing strategies that mitigate future liquidity risks and take advantage of the opportunities offered by the current rate structure.

This structure, with a flattening of rates in the short and medium term, suggests possible ways to continue optimizing the CBI balance sheet and strengthen its financial position in the long term.

Table 3: International Banking Center
Balance Sheet
(In millions of USD)

Description	2023 September	2024 September	Variance Sept. 24 / Sept. 23 Total	%
Liquid assets	17,097	17,278	181	1.1%
Net credit portfolio	86,257	94,141	7,885	9.1%
Domestic	58,453	61,852	3,399	5.8%
Foreign	27,803	32,289	4,486	16.1%
Securities	30,438	32,676	2,238	7.4%
Other assets	8,045	7,546	-499	-6.2%
Total Assets	**141,836**	**151,642**	**9,806**	**6.9%**
Deposits	100,517	107,352	6,835	6.8%
Domestic	61,792	65,624	3,832	6.2%
Foreign	38,725	41,728	3,003	7.8%
Obligations	19,979	20,807	828	4.1%
Other liabilities	4,484	4,745	261	5.8%
Capital	16,856	18,738	1,882	11.2%
Liabilities and Capital	**141,836**	**151,642**	**9,806**	**6.9%**

Source: General and International License banks

As of September 2024, the National Banking System (SBN) reported total assets of USD 135.607 billion, echoing an increase of USD 9.773 billion or 7.8% year-over-year. This growth was primarily driven by an expansion in the net credit portfolio, which reached USD 86.460 billion, marking a USD 7.165 billion increase or 9.0% annual growth. Within this portfolio, external credit showed notable growth of 18.1%, while internal credit rose by 5.8%. Deposits within the SBN also saw a significant rise, reaching USD 95.075 billion, an increase of USD 7.105 billion or 8.1% over the same period last year. This increase highlights the strength of the system's financial foundation, with external deposits growing by 12.6% and internal deposits by 6.2%, a positive indicator of confidence in the banking system both domestically and internationally. Besides, the system's equity rose by 12.4%, reaching USD 15.366 billion, further reinforcing the SBN's capital structure and providing a more robust foundation to absorb potential financial shocks. This strengthening of the capital base is crucial to maintaining stability and addressing future economic challenges.

Table 4: National Banking System
Balance Sheet
(In millions of USD)

Breakdown	2023 September	2024 September	Variance Sept. 24 / Sept. 23 Total	%
Liquid assets	13,108	14,312	1,204	9.2%
Net credit portfolio	79,295	86,460	7,165	9.0%
Domestic	58,453	61,853	3,400	5.8%
Foreign	20,842	24,607	3,765	18.1%
Securities	25,686	27,579	1,892	7.4%
Other assets	7,745	7,256	-488	-6.3%
Total Assets	**125,835**	**135,607**	**9,773**	**7.8%**
Deposits	87,970	95,075	7,105	8.1%
Domestic	61,706	65,502	3,796	6.2%
Foreign	26,264	29,573	3,309	12.6%
Obligations	19,895	20,642	747	3.8%
Other liabilities	4,296	4,524	229	5.3%
Capital	13,674	15,366	1,692	12.4%
Liabilities and Capital	**125,835**	**135,607**	**9,773**	**7.8%**

Source: General License banks

F. Credit

At the end of September 2024, the domestic loan portfolio of the National Banking System recorded a balance of USD 63,836 billion. This amount reflects a 5.4% increase compared to the same period of the previous year, which translates into a growth of USD 3,264 billion. This positive performance shows a sustained recovery in credit demand, despite weaker macroeconomic performance, underscoring the Panamanian financial system's ability to adapt to an economic recovery environment. In terms of new disbursements, banking institutions reached USD 18.875 billion in September 2024, representing an annual increase of 13.3%. Growth in credit volume suggests an expansion in the banking sector's lending capacity, supported by favorable credit conditions and renewed optimism in economic outlooks.

Table 5: National Banking System
Balance of Domestic Credit Portfolio by Economic Sectors
(In millions of USD)

Sector	September-23	September-24	Variance Sept. 23/Sept. 24	
			Total	%
TOTAL	60,572	63,836	3,264	5.4%
Public sector	2,102	2,368	266	12.6%
Private sector	58,470	61,468	2,998	5.1%
Financial and insurance act.	1,665	2,102	436	26.2%
Agriculture	493	551	57	11.6%
Livestock	1,325	1,277	-48	-3.6%
Fishing	127	96	-31	-24.3%
Mining and Quarrying	59	41	-18	-30.9%
Commerce	12,331	13,341	1,010	8.2%
Industry	3,516	4,094	578	16.4%
Mortgages	20,398	20,904	506	2.5%
Construction	5,073	5,022	-52	-1.0%
Personal consumption	13,482	14,041	559	4.1%

Source: General License banks

The recovery in credit demand has been driven by sectors with a larger presence in the CBI, with financial and insurance activities leading growth at 26.2%, followed by industry, which saw an increase of 16.4%, and commerce, with a growth of 8.2%. These sectors have demonstrated a strong demand for financing, reflecting a rebound in productive investment and increased consumer activity. Additionally, agriculture (+11.6%) and personal consumption (+4.1%) show favorable performance, underscoring a diversified recovery within the financial system.

However, credit growth has not been uniform. Certain sectors face significant challenges such as: livestock (-3.6%), fishing (-24.3%), mining and quarrying (-30.9%), and construction (-1.0%) have seen shortenings in credit demand.

Looking forward, the upward trend in credit disbursements could signal an acceleration in economic growth over the coming quarters. However, the sustainability of this trend will largely depend on the banking system's ability to adapt to macroeconomic fluctuations, enhance internal lending processes based on robust risk assessments, and continue investing in digitalization and operational efficiency. As institutions align their strategies with new market dynamics, a rigorous evaluation of profitability by segment will be essential to maximize risk-adjusted returns.

In conclusion, while the expansion of credit suggests a recovering and resilient banking system, sectoral heterogeneity indicates that not all segments are progressing at the same pace. The system's ability to manage this disparity will be critical in building a solid financial foundation and optimizing operational efficiency—fundamental for maintaining market confidence and stability in the medium and long term.

Over the last 12 months, the household credit portfolio recorded a balance of USD 18,524.3 billion in mortgage loans and USD 14,041 billion in personal consumption at the end of September 2024. These amounts represent a year-on-year growth of 3.8% in mortgage loans and 4.1% in personal consumption. This dynamic of expansion in household credit may be driven by a stable demand for residential financing, together with a more accelerated growth in consumer products, particularly in credit cards, which experienced a significant increase of 10.6% in the same period.

While this growth in consumer products indicates an increased tendency among households to use short-term financing, it also carries inherent risks to over-leveraging, particularly in revolving credit products, such as credit cards, which typically carry higher interest rates. Looking ahead, the household component will require a focused approach that closely assesses client risk profiles. Together with prudent provisioning policies and continuous monitoring mechanisms, this approach will be essential in mitigating the potential impact of events that could affect households' payment capacities. The resilience of this portfolio will depend on institutions' ability to balance credit growth with effective risk management, maximizing profitability without compromising the stability of their balance sheets.

Table 6: National Banking System
Balance of local household credit portfolio
(in millions of USD)

	Sept. 23	Sept. 24	Variance	
			USD	%
Household credit	**32,511**	**33,753**	**1,242**	**3.8%**
TOTAL Consumption	13,482	14,041	559	4.1%
Card	2,247	2,485	238	10.6%
Personal loan	9,390	9,582	192	2.0%
Car loan	1,845	1,974	129	7.0%
Housing mortgage	17,842.0	18,524.3	682.3	3.8%

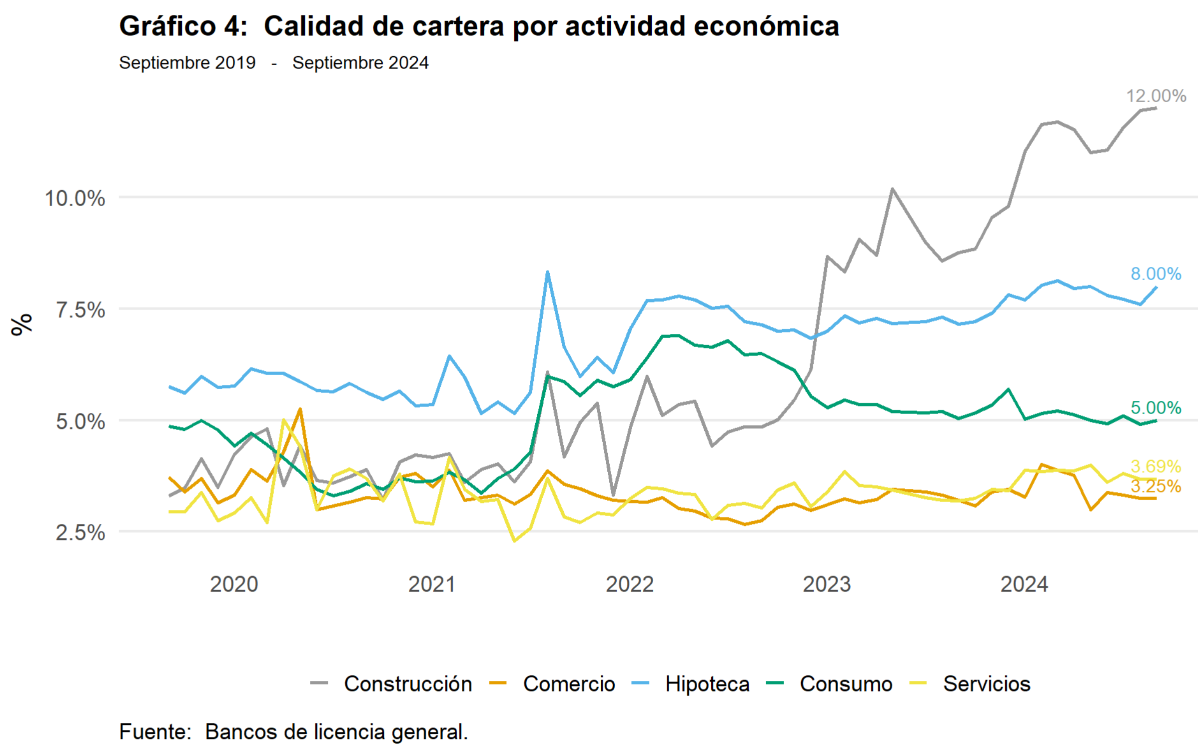
Source: General License banks

Moving forward, it is crucial for banks to continue diversifying their credit portfolios among different economic sectors to reduce exposure to sectoral volatility and ensure greater financial stability. Diversification also allows banks to support a broader range of economic activities, thus driving more balanced and robust national development.

Regarding the local credit risk of the National Banking System, a slight materialization of risk was observed during the analyzed period, remaining at levels similar to those of a year ago. The delinquent and overdue portfolio together represent 5.6% of the total credit portfolio, while the overdue loan ratio was 3.2% as of September 2024. The coverage of the overdue portfolio with provisions remains close to 100%, reflecting a prudent approach to credit risk management.

In terms of the delinquency rate by sector, the construction sector remains an area of special attention, maintaining a high delinquency rate of 12%. Although this level is due to specific exposures, financial institutions have implemented appropriate mitigation measures in line with regulatory requirements, including the establishment of provisions to cover these risks. Meanwhile, the mortgage sector reports a delinquency rate of 8%, a level that has remained stable since 2022, showing prudent risk management in this segment. For activities related to consumer credit, following the post-pandemic recovery, the delinquency indicator has shown gradual improvement, currently around 5%, suggesting a steady normalization in households' repayment capacity. In contrast, the trade and services sectors exhibit delinquency rates below 4%, indicating adequate credit quality in these areas. These sectors represent approximately 20% of private credit, meaning that their contained delinquency contributes significantly to the overall resilience of the financial system's credit portfolio.

Graph 5: Portfolio quality by economic activity
September 2019 vs. September 2024



Source: General and international license banks.

G. Deposits

In September 2024, the International Banking Center (CBI) experienced a year-on-year growth of 6.8% in bank deposits, reaching a total volume of USD 107.352 billion. This growth was supported by two main pillars: a 6.2% increase in domestic deposits, reaching USD 65,624 billion, and a 7.8% increase in foreign deposits, totaling USD 41,728 billion.

Locally, domestic deposits increased by USD 3.832 billion during the period analyzed compared to the previous year. This growth was driven by a 13.8% increase in domestic state deposits, totaling USD 13.186 billion, and a 5.0% rise in domestic individual deposits, reaching USD 49.445 billion. However, deposits from domestic banks decreased by 3.2%, standing at USD 2.993 billion, a variation that does not impact the overall growth of domestic deposits.

The inflow of foreign deposits into Panama's CBI, amounting to USD 41.728 billion as of September 2024, shows the trust of foreign investors and entities in Panama's banking system. Overall, foreign deposits increased, with individual foreign deposits growing by 6.0% to USD 31.881 billion, and foreign bank deposits rising by 13.7% to USD 9.534 billion. Although representing a smaller portion, foreign state deposits saw a significant 16.4% increase, reaching USD 313 million.

Countries like Colombia, Ecuador, and Venezuela account for a substantial share of these deposits, with 19%, 7%, and 6%, respectively. This steady flow of international deposits demonstrates Panama's sustained reputation as a stable and reliable financial hub, particularly appealing to Latin American and Caribbean clients seeking a secure environment for their assets.

The continued growth in deposits from foreign banks suggests that international financial institutions maintain their confidence in Panama as a secure and attractive destination for their assets. This positive trend in foreign deposits also reinforces the competitiveness of the CBI compared to other financial hubs in the region, solidifying Panama as a reliable banking center for international capital in the LATAM region.

The sustained growth in foreign bank deposits suggests that international financial institutions still view Panama as a safe and attractive destination for their assets. In addition, this positive behavior in foreign deposits highlights the CBI's competitiveness compared to other financial centers in the region, consolidating Panama as a trusted banking center for international capital in the LATAM region.

These data validate that the inflow of deposits in commercial banking continue to be significantly driven by depositors' preference for secure investments options and stable returns, underlining confidence in the stability and solvency of the CBI banking system. With the possibility of interest rate variations at the international level, it is crucial to maintain proactive monitoring to manage any temporary mismatch in the financing structure. Constant monitoring of these movements is recommended to identify the need for timely adjustments in financing strategy and risk management to mitigate adverse impacts and ensure financial stability.

Table 7: International Banking Center
Total Deposits
(In millions of USD)

Accounts	2023 September	2024 September	Variance Sept. 24 / Sept. 23 Total	%
Deposits	100,517	107,352	6,835	6.8%
Domestic	61,792	65,624	3,832	6.2%
Government	11,592	13,186	1,594	13.8%
Customer	47,109	49,445	2,336	5.0%
Banks	3,092	2,993	-98	-3.2%
Foreign	38,725	41,728	3,003	7.8%
Government	269	313	44	16.4%
Customer	30,072	31,881	1,809	6.0%
Banks	8,384	9,534	1,150	13.7%

Source: General and International License banks.

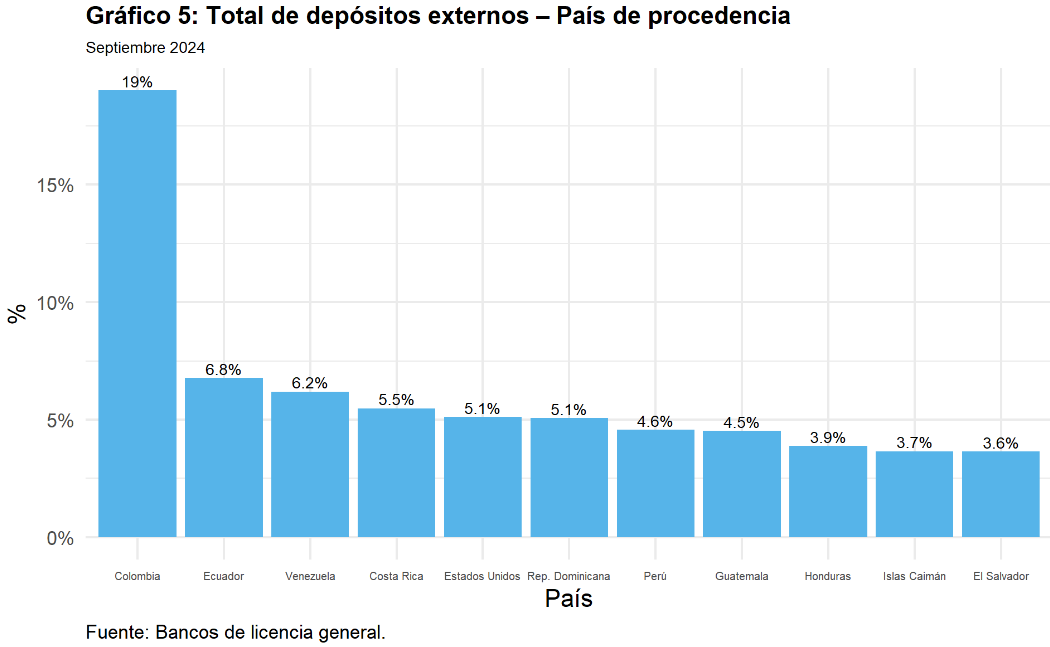
In the domestic financial context, the National Banking System (SBN) demonstrated positive growth, in line with trends observed in the International Banking Center (CBI). As of September 2024, the SBN reached a total volume of deposits of USD 95.075 billion, marking an 8.1% year-over-year increase. This growth highlights continued confidence in the banking system.

Domestic deposits experienced a 6.2% rise, reaching USD 65.502 billion. This increase was driven by a 13.8% rise in state deposits and a 5.0% increase in individual deposits. However, deposits from domestic banks fell by 4.5%.

Meanwhile, foreign deposits showed a 12.6% increase, totaling USD 29.573 billion. This growth was driven by a 16.2% rise in deposits from foreign banks and a 3.2% increase in foreign state deposits, underscoring ongoing interest in the international financial opportunities offered by the SBN.

This positive trend in foreign deposits emphasizes the strength and competitiveness of the SBN against other financial centers in the region, positioning Panama as a reliable banking hub for international capital. The expansion of deposits, especially those of foreign origin, suggests an eagerness from investors and international entities that could be influenced by market conditions, including variations in global interest rates. Panama's macroeconomic stability, robust regulatory framework, and the banking sector's expertise in managing international investments contribute to the country's appeal for foreign deposits. Additionally, the nation's banking oversight and financial infrastructure have built a perception of security and efficiency that attracts capital from various economies, including those in Central America and the Caribbean. This level of deposit inflows also suggests that, despite global challenges, Panamanian banks continue to be regarded as stable, reliable institutions capable of providing competitive services within the region.

Graph 5: Total Foreign Deposits – Origin country
September 2024



Source: General license banks.

These results highlight the strength and expansion of the SBN on both sides, consolidating a robust and resilient financing structure.

Table 8: National Banking System
Total Deposits
(In millions of USD)

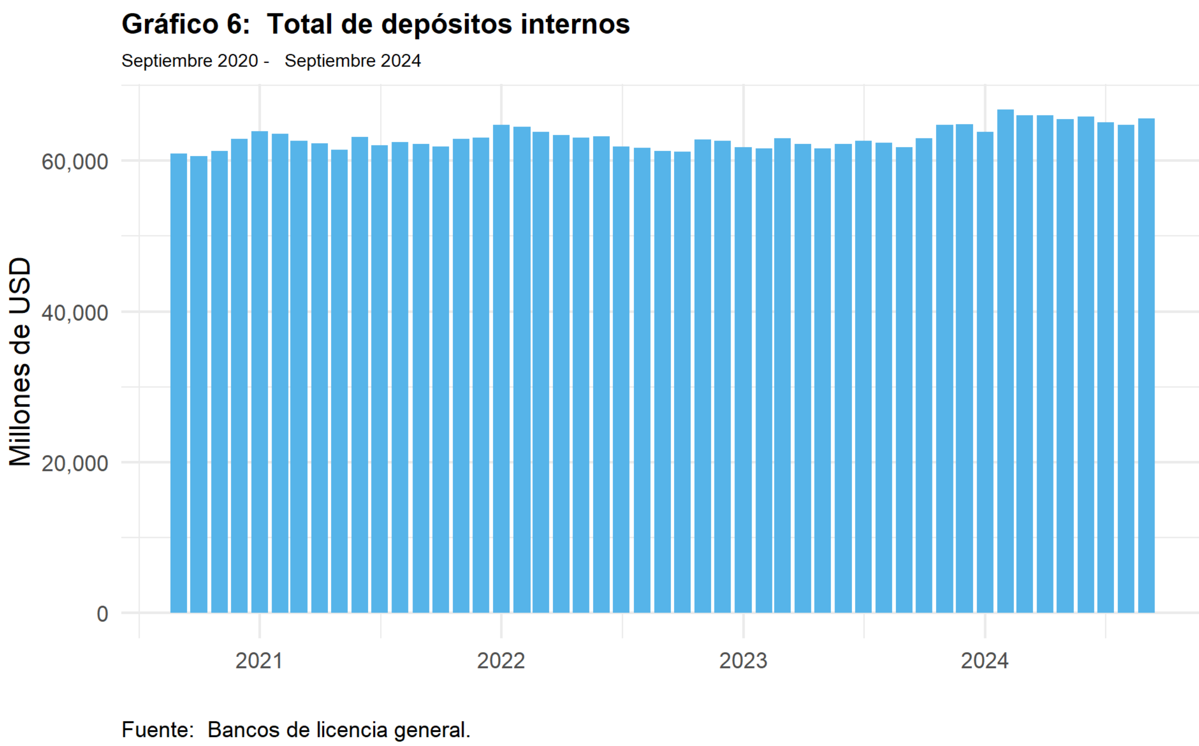
Accounts	2023 September	2024 September	Variance Sept. 24 / Sept. 23 Total	%
Deposits	87,970	95,075	7,105	8.1%
Domestic	61,706	65,502	3,796	6.2%
Government	11,592	13,186	1,594	13.8%
Customer	47,109	49,445	2,336	5.0%
Banks	3,006	2,872	(134)	-4.5%
Foreign	26,264	29,573	3,309	12.6%
Government	209	216	7	3.2%
Customer	18,278	20,317	2,039	11.2%
Banks	7,777	9,040	1,263	16.2%

Source: General License banks.

Graph 6 illustrates the evolution of domestic deposits balances over time, showing key trends and depositors' behavior patterns. The individual deposit base not only underscores confidence in the National Banking System (SBN) but also plays a crucial role in the system's liquidity. A broad and stable deposit base allows banks to manage their short-term obligations and facilitate long-term investments more efficiently.

With greater stability in deposits, financial institutions can better plan their growth and expansion strategies, as well as to offer more attractive and diversified financial products to their clients. It is important to highlight that domestic deposits represent around 70% of the total in the National Banking System (SBN). This high proportion of domestic deposits highlights the confidence of residents in the national banking system and their willingness to keep their savings and financial resources in the country. This confidence is a positive indicator of public perception about the soundness and stability of the SBN.

Graph 6: Total Domestic Deposits
September 2020 – September 2024



Source: General license banks.

Regarding deposits in the International Banking Center (CBI) by customer type, individual deposits account for 76% of domestic deposits, while bank deposits represent 4.7%. Among individual deposits, term deposits stand out with 57%, followed by savings accounts with 26% and demand deposits with 17%.

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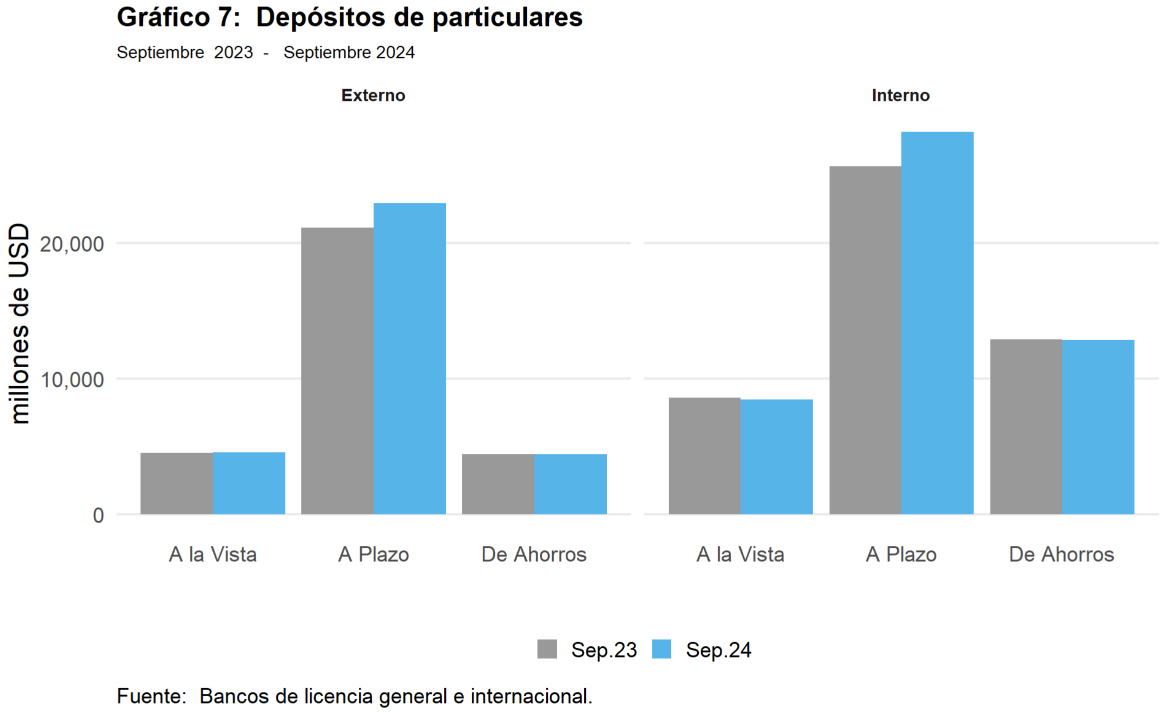
Graph 7: Customer Deposits
September 2023 – September 2024



Source: General and International license banks.

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