

# Panamanian Banks

## Macro Outlook and Regional Framework

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August 9, 2017

**Fitch**Ratings

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# 1

Panama : Slower but Still Robust Growth

# Stable Ratings With Some Downward Pressures

## Latin America Sovereign Ratings

Country	Rating	Outlook	Country	Rating	Outlook
Argentina	B	Stable	Guatemala	BB	Stable
Aruba	BBB-	Stable	Jamaica	B	Stable
Bolivia	BB-	Stable	Mexico	BBB+	Stable
Brazil	BB	Negative	Nicaragua	B+	Stable
Chile	A+	Negative	Panama	BBB	Stable
Colombia	BBB	Stable	Paraguay	BB	Stable
Costa Rica	BB	Stable	Peru	BBB+	Stable
Dom Rep.	BB-	Stable	Suriname	B-	Negative
Ecuador	B	Negative	Uruguay	BBB-	Stable
El Salvador	CCC	-	Venezuela	CCC	-

Source: Fitch

- Four Latin American sovereigns have Negative Outlooks and none has a Positive Outlook
- Fitch projects regional GDP growth to recover moderately to 1.3% in 2017 following two years of contraction
- Better external demand, a moderate rise in commodity prices, and improved performance in two large regional economies (Argentina and Brazil) should facilitate the region's economic recovery
- Mexico and Colombia, recently revised to Stable Outlook

### Downside Risks:

- Greater trade protectionism under the Trump administration, faster deceleration in China, a renewed slide in commodity prices, and tighter external financing conditions

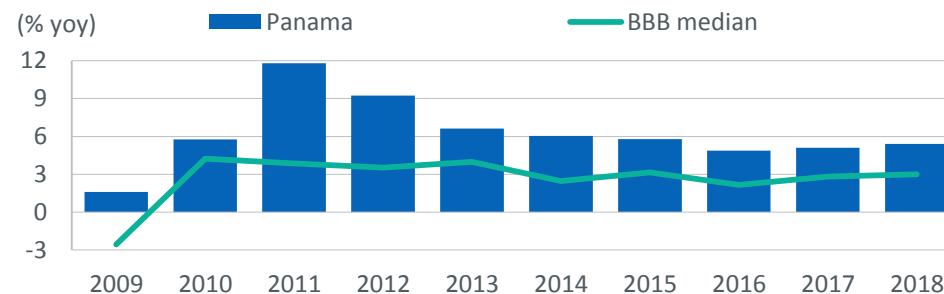
# Panama (BBB/Stable): Slower but Still Robust Growth

(%)

- Real GDP growth moderated to 4.9% in 2016 – the sixth consecutive year of slower growth, yet still among the highest rates in the ‘BBB’ category
- Fitch projects that growth will accelerate to 5%-6% in 2017-2018 on the back of recovering regional growth and trade as well as continued capital deepening through large infrastructure projects
- Fitch expects the expanded canal contributes to lower deficits in the coming years
- Narrowing deficits together with strong GDP growth should set debt/GDP ratios on a gradual downward trajectory thereafter

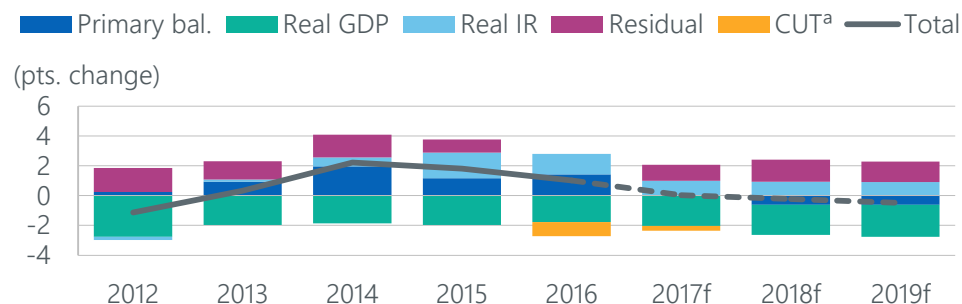
## Growth Outperformance

Real GDP growth



Source: Fitch

## Stable Debt Dynamics



<sup>a</sup> Drawdown from single treasury account

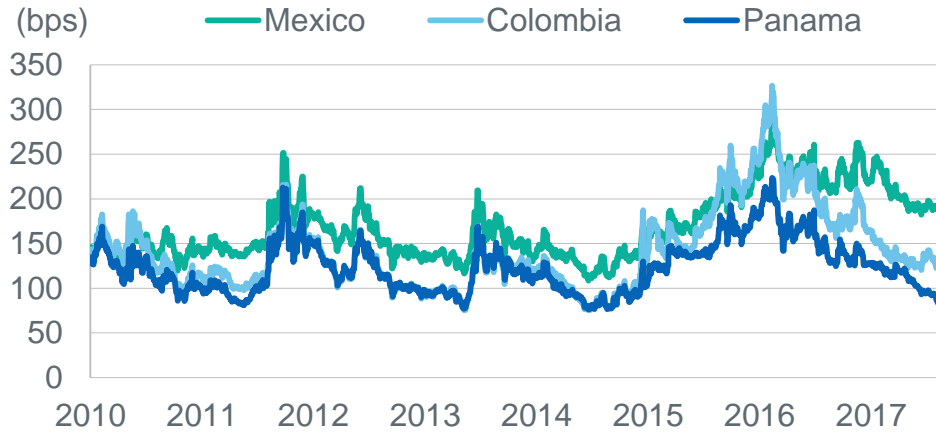
Source: Fitch

Indicator	2017f	2018f	2019f	Indicator	2017f	2018f	2019f
Real GDP growth (%)	5.3	5.6	5.8	Current account balance(% GDP)	(4.4)	(3.5)	(3.5)
Inflation (annual avg. %)	2.0	2.5	2.3	Int'l Reserves, incl. gold (USDbn)	6.1	6.7	7.1
General Government balance (% GDP)	(2.0)	(1.6)	(1.5)	Net external debt (% of CXR)	46.5	42.9	40.8
General Government debt (% GDP)	38.1	37.7	37.0				

Source: Fitch

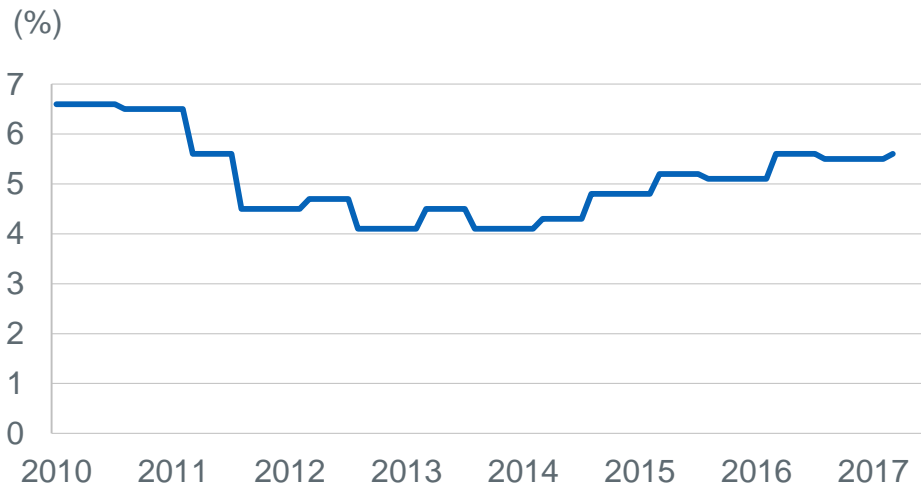
# Panama: Main Macroeconomic Trends

## 5-Year CDS



Source: Bloomberg

## Unemployment Rate



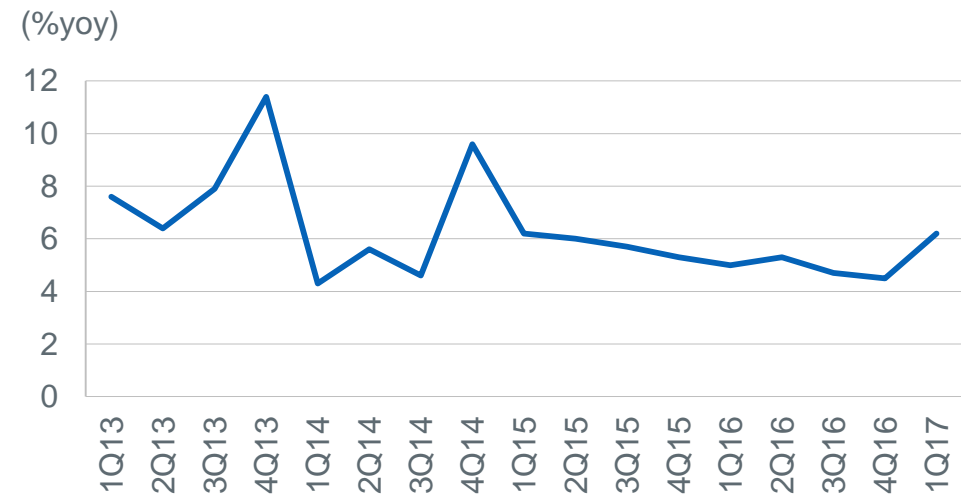
Source: Bloomberg

## Inflation



Source: Bloomberg

## Real GDP Growth



Source: Bloomberg

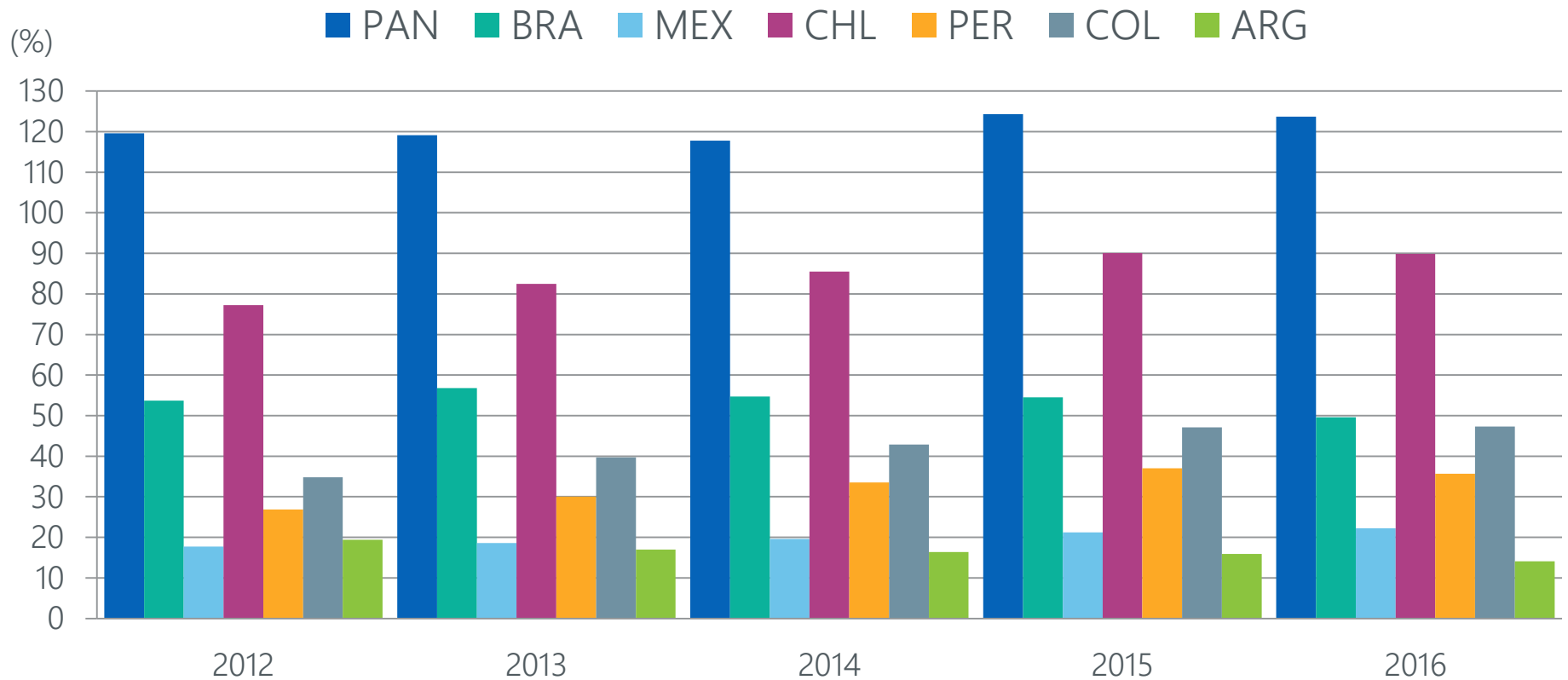


# 2

## Panamanian Banks vs Latin American Peers

# Panamanian Banks vs Latin American Peers

## Gross Loans/GDP

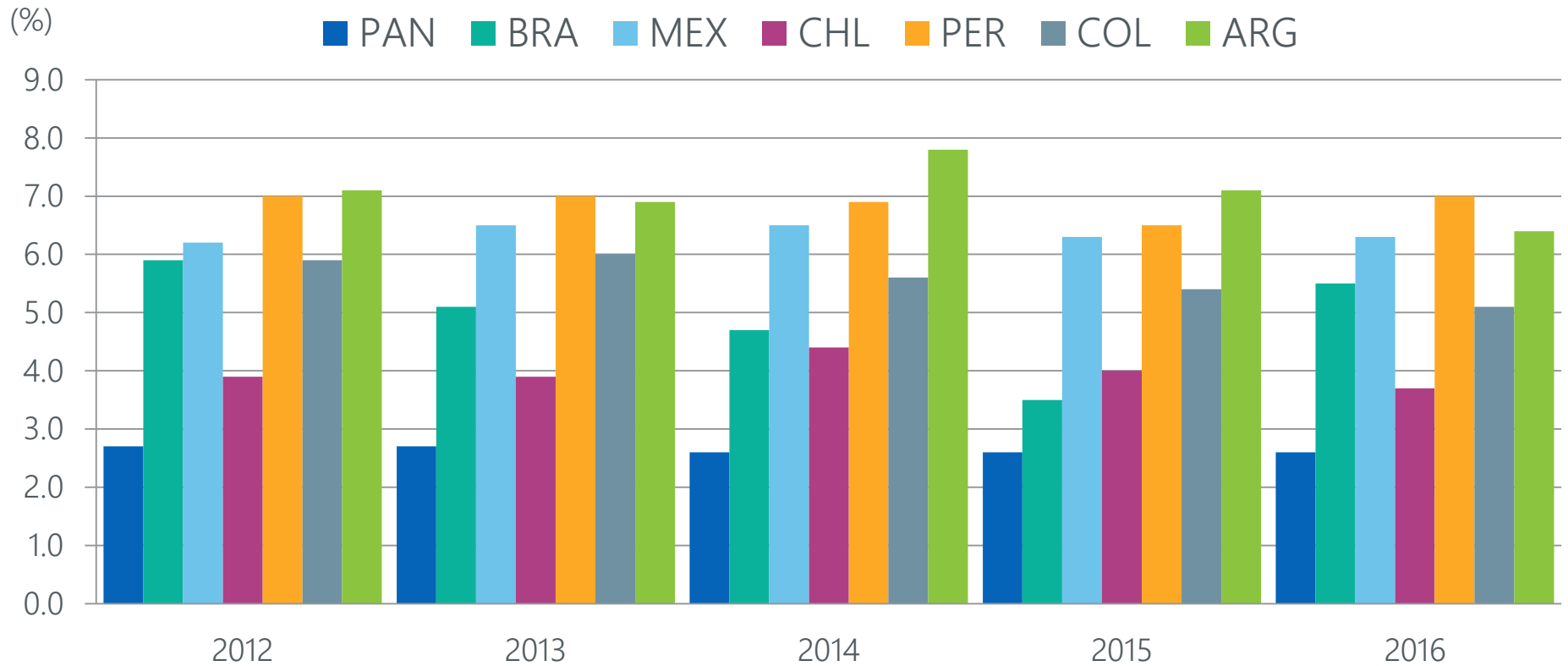


Source: Fitch



# Panamanian Banks vs Latin American Peers

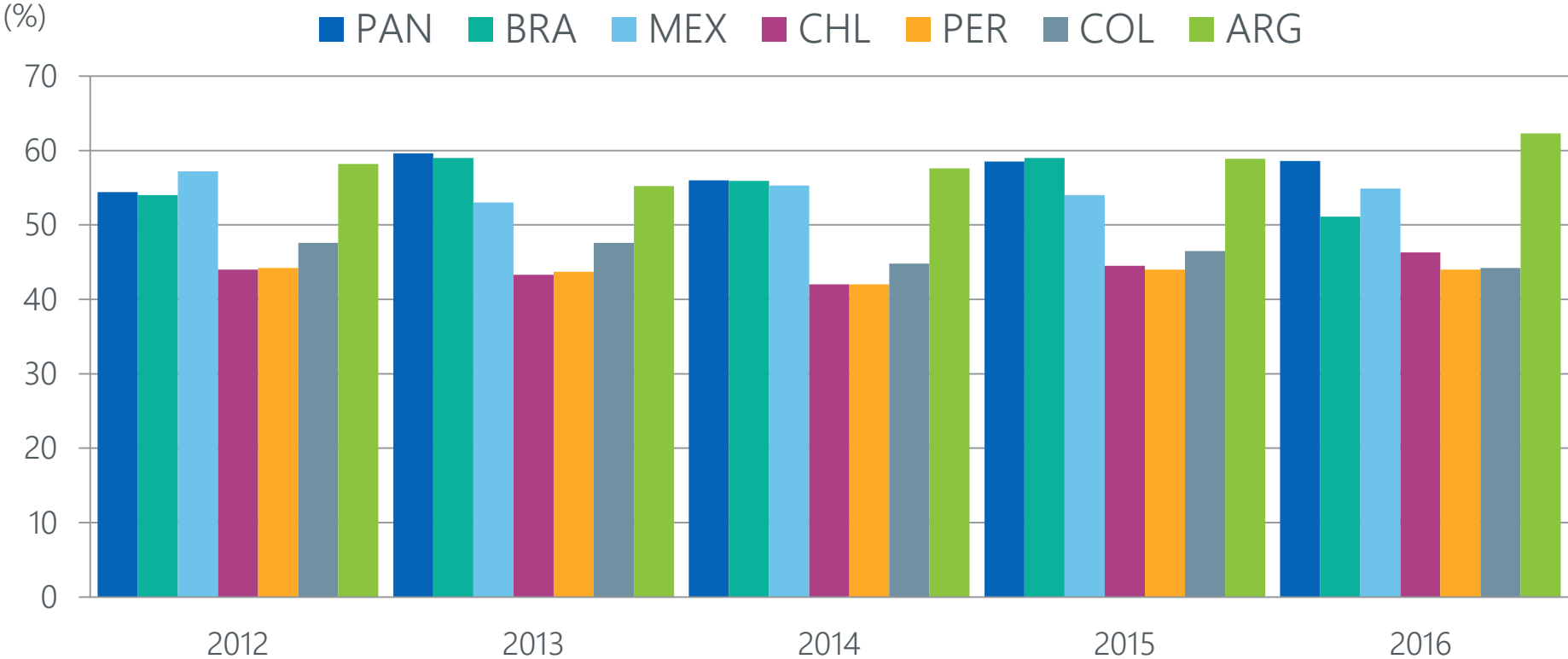
## Net interest Income / Average Assets



Source: Fitch

# Panamanian Banks vs Latin American Peers

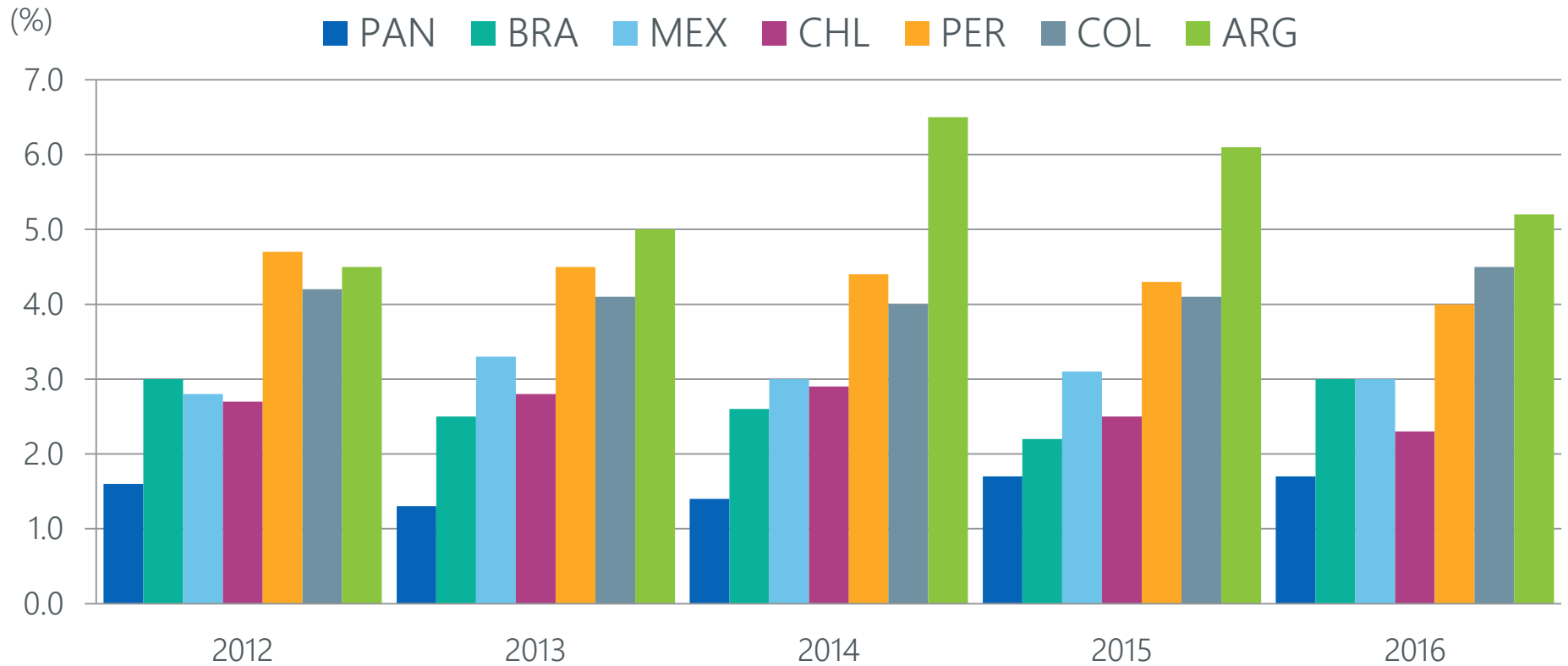
## Non-Interest Expenses / Gross Revenues



Source: Fitch

# Panamanian Banks vs Latin American Peers

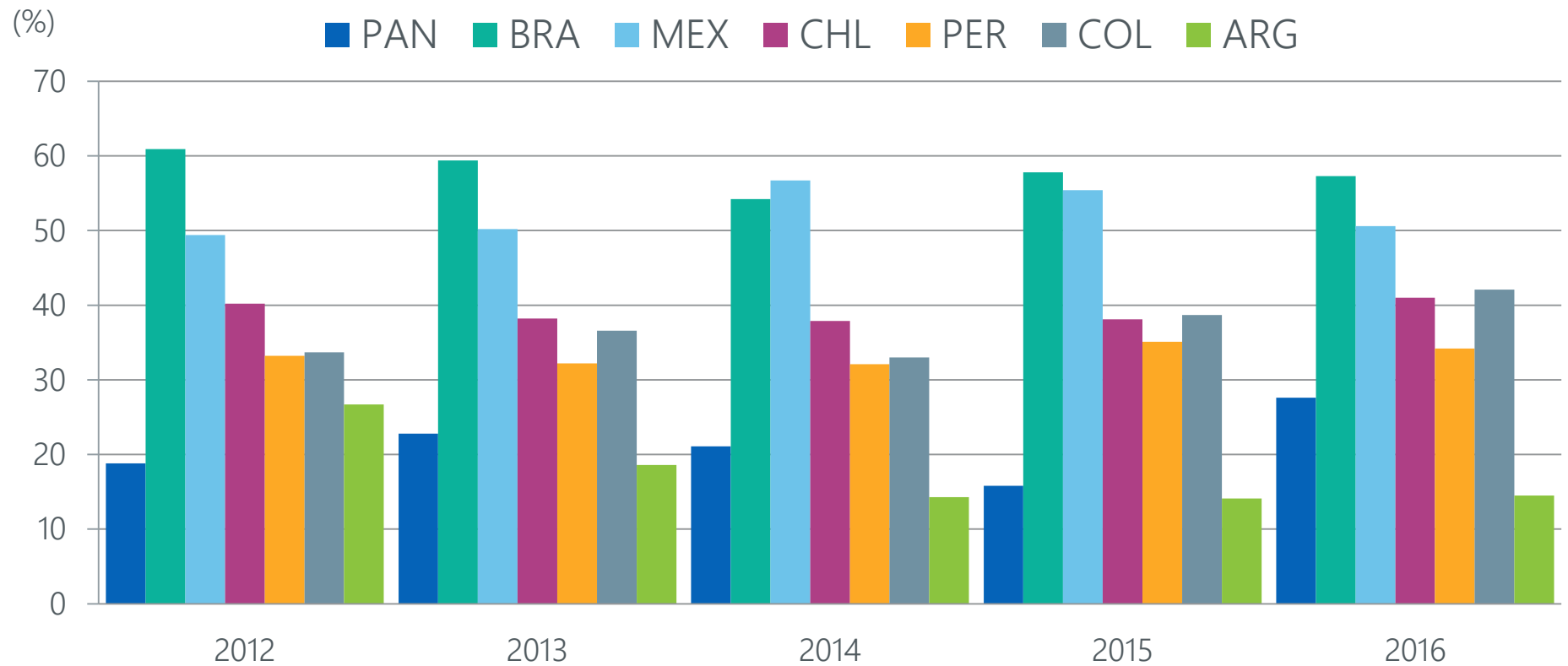
## Pre-Impairment Operating Profit / Average Assets



Source: Fitch

# Panamanian Banks vs Latin American Peers

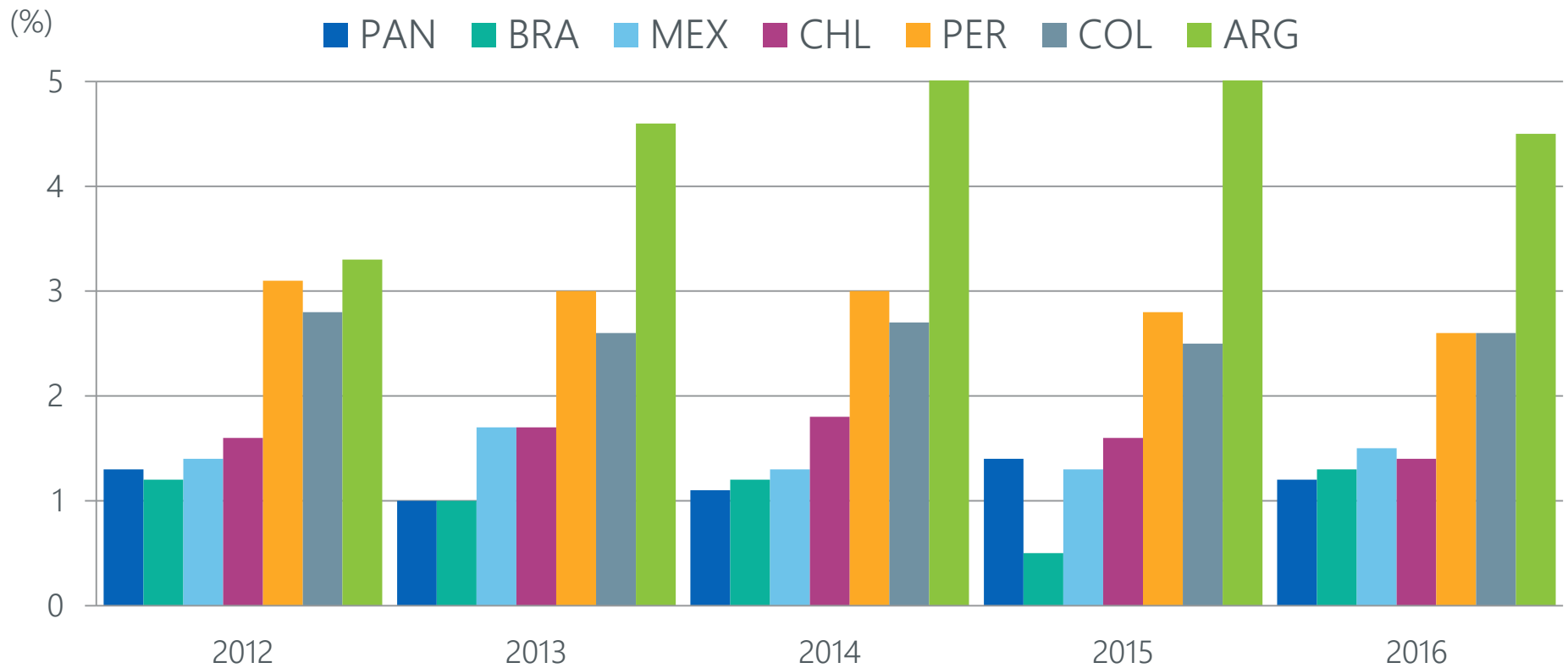
## Impairment Charges on Financial Assets / Pre-Impairment Operating Profit



Source: Fitch

# Panamanian Banks vs Latin American Peers

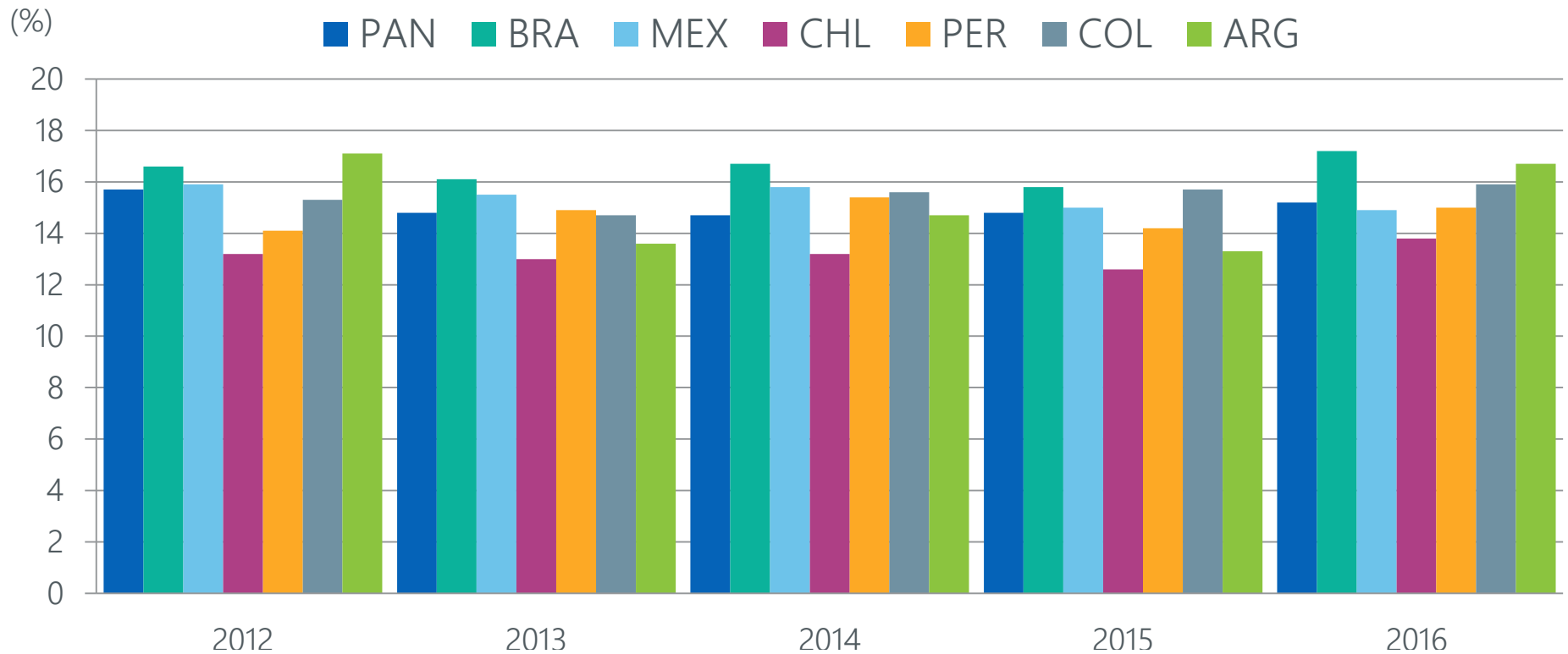
## Operating Profit / Average Assets



Source: Fitch

# Panamanian Banks vs Latin American Peers

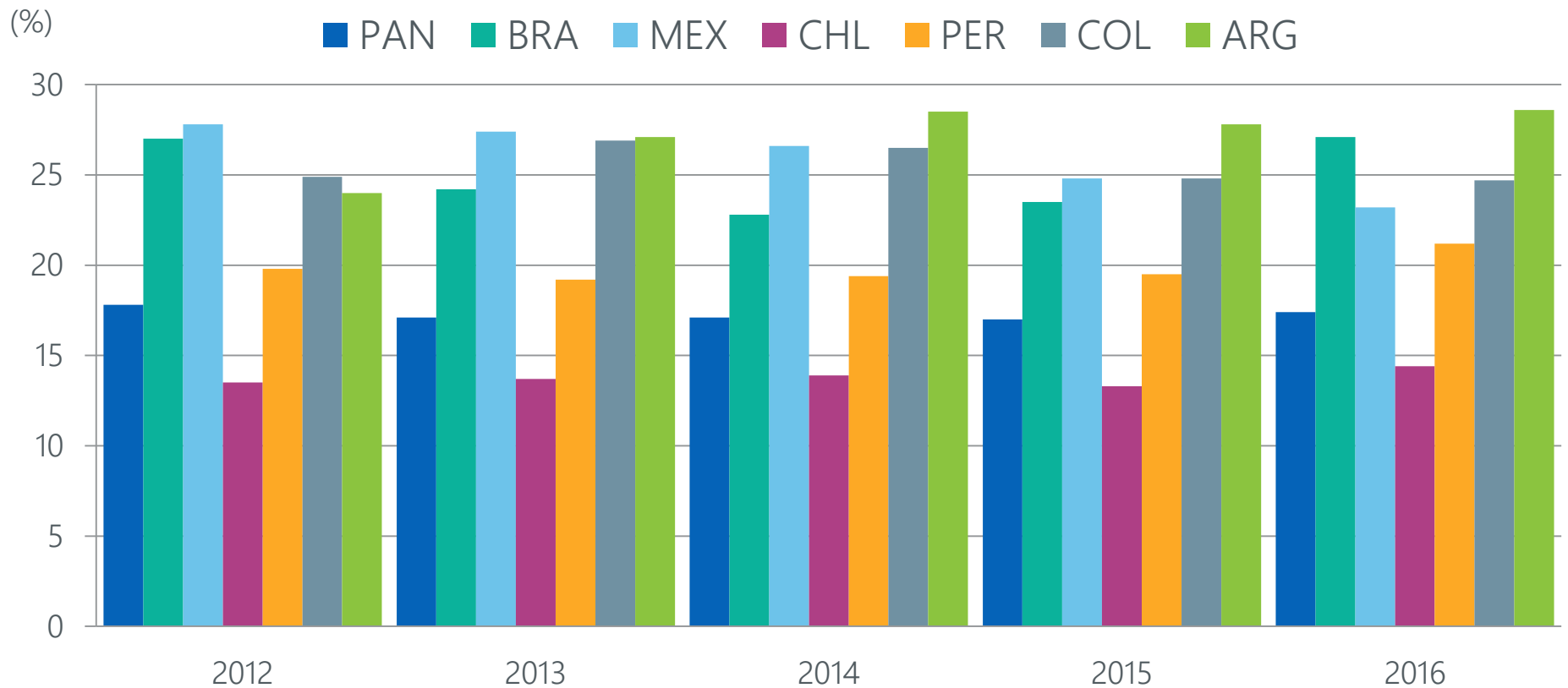
## Total Regulatory Capital / RWAs



Source: Fitch

# Panamanian Banks vs Latin American Peers

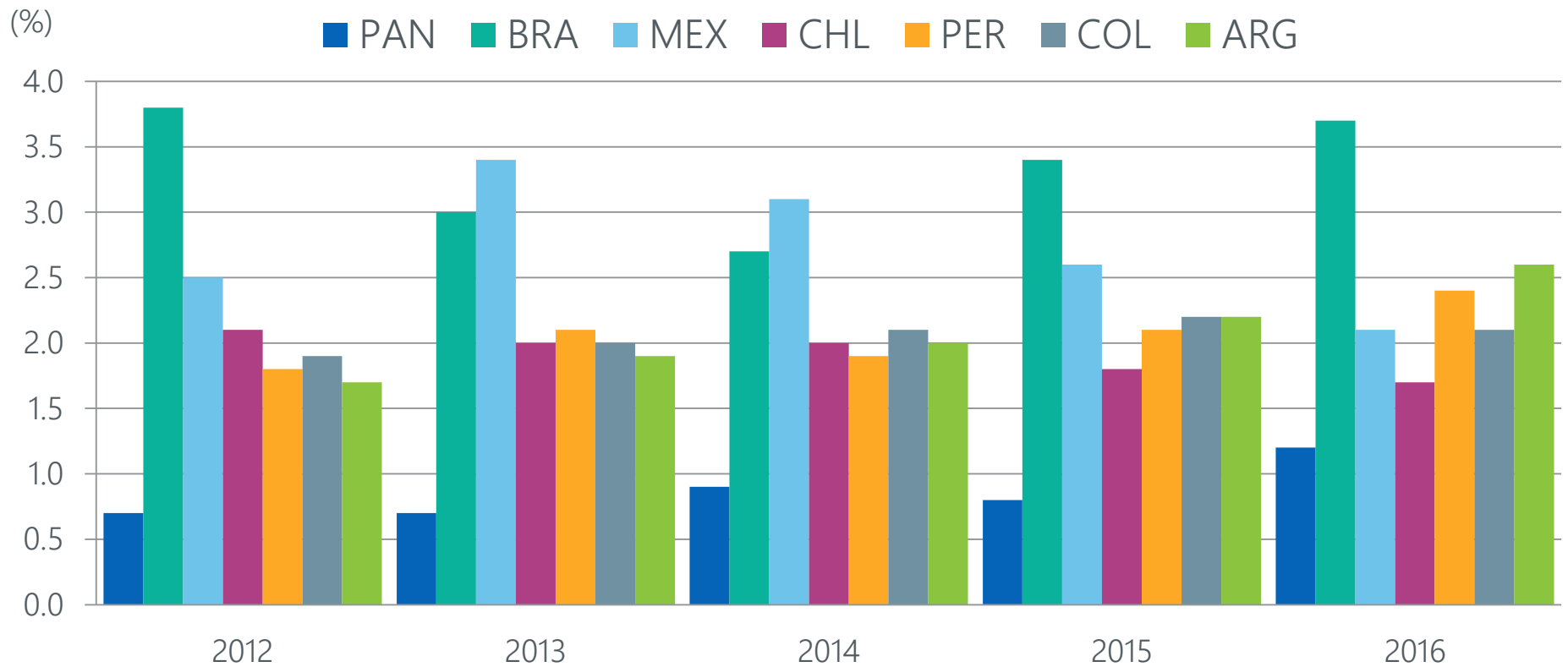
## Loan Reserves + Equity / Total Loans



Source: Fitch

# Panamanian Banks vs Latin American Peers

## NPLs / Gross Loans

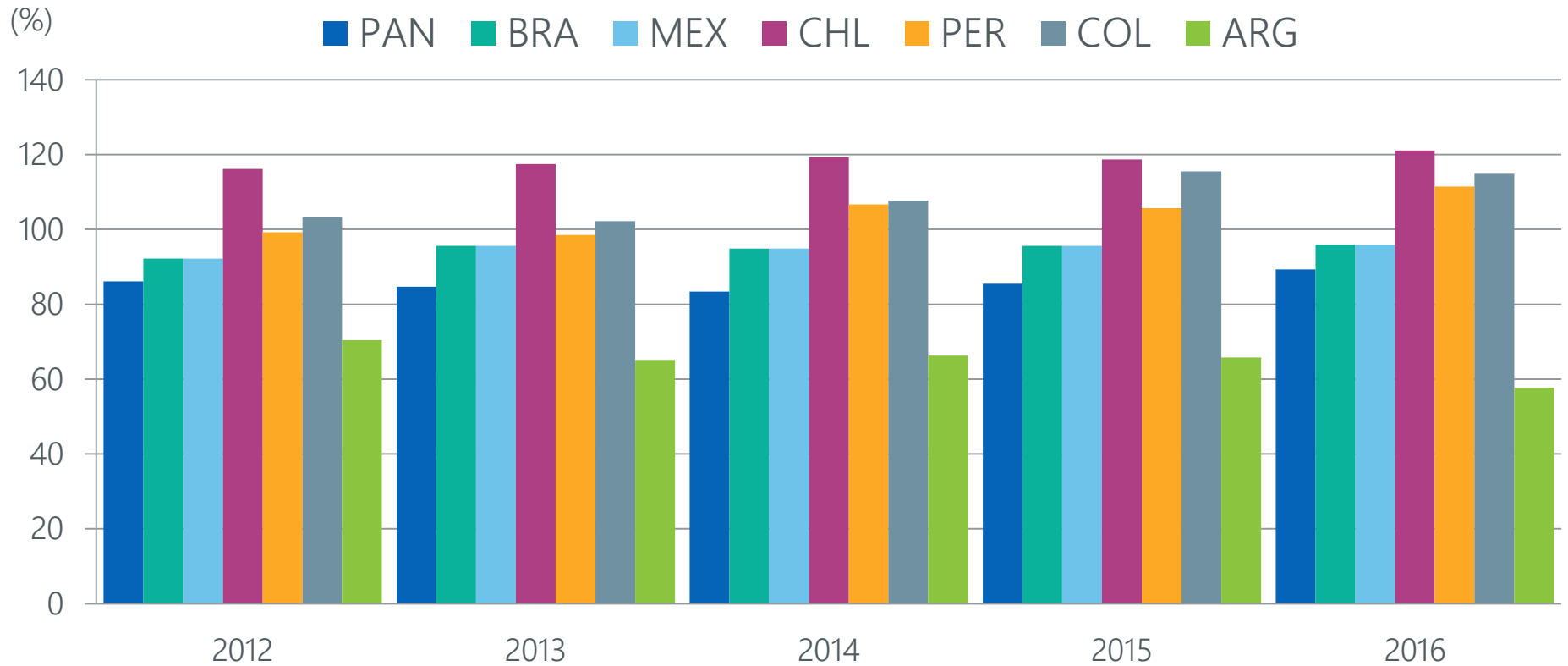


Source: Fitch



# Panamanian Banks vs Latin American Peers

## Gross Loans / Customer Funding



Source: Fitch

# 3

## Panamanian Banking System Evolution – Major Banks Review

# Panamanian Banking Sector Outlook

Since late 2015, Fitch maintains a negative sector outlook for the Panamanian banking system, driven by:

- Economic slowdown
- Limited profitability
- Downside risks on asset quality
- Relatively tight capital

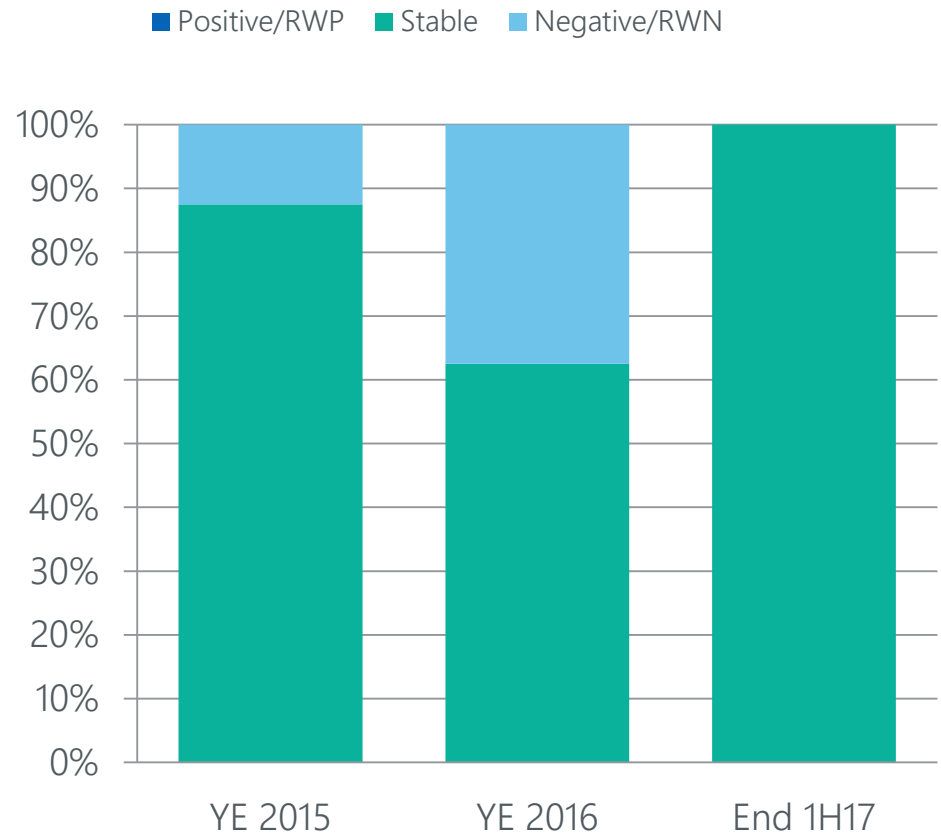
## Rating Outlooks

Stable outlooks on international ratings

Negative outlooks were heavily driven by the respective foreign parent

But upside potential is very limited

## International Rating Outlooks (2015- 1H17)

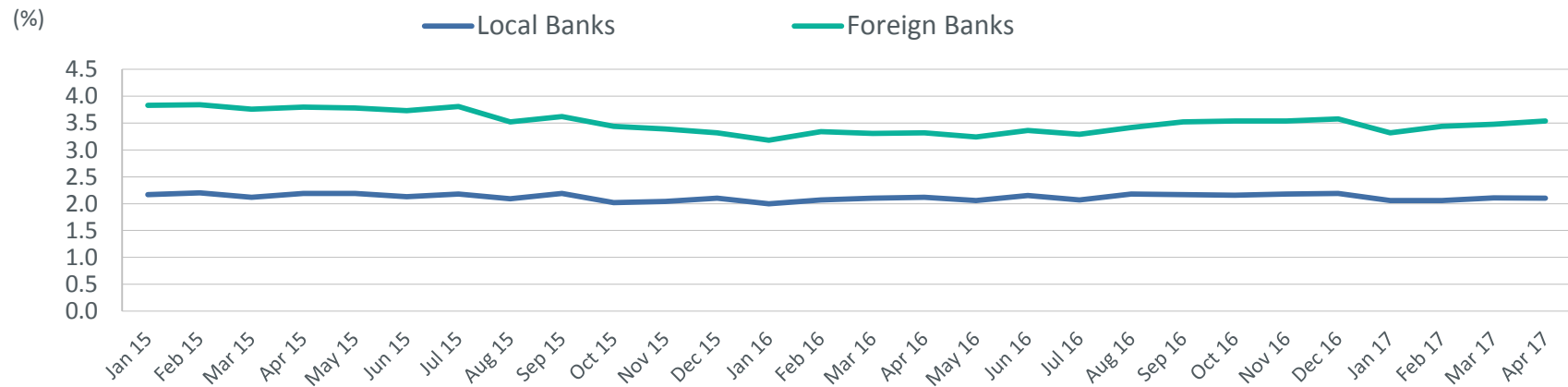


Source: Fitch

# Low interest rates, the main constrain of profitability

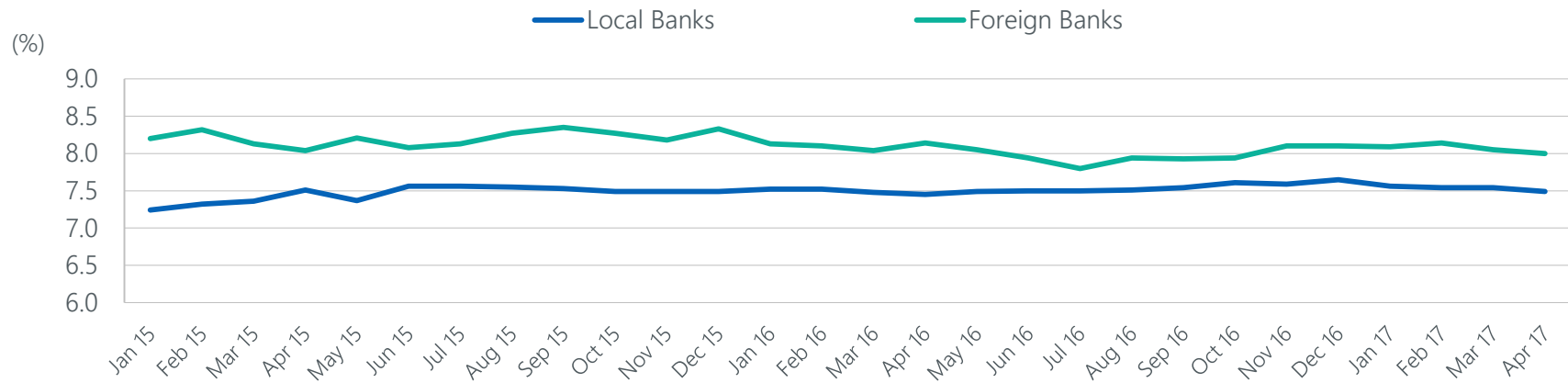
(%)

## 6-Month Funding Rate



Source: Superintendence of Banks of Panama

## 1-5 Year Lending Rates



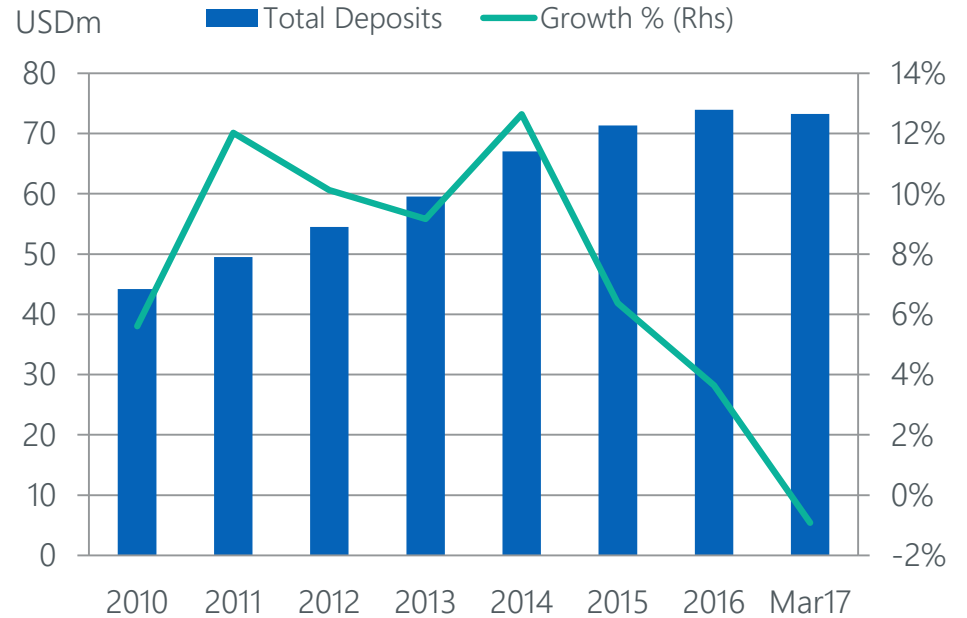
Source: Superintendence of Banks of Panama

# Slow Deposit Growth

Deposit growth has slowed down materially, especially in 2016 and YTD '17

Offsetting factors are the banks' ability to access funding sources different than deposits, while the loan to deposits ratio is not dramatically high, and in line with a 'bbb' score for this rating factor

## Evolution of Deposits (2010- 1Q17)



Source: Superintendence of Banks of Panama

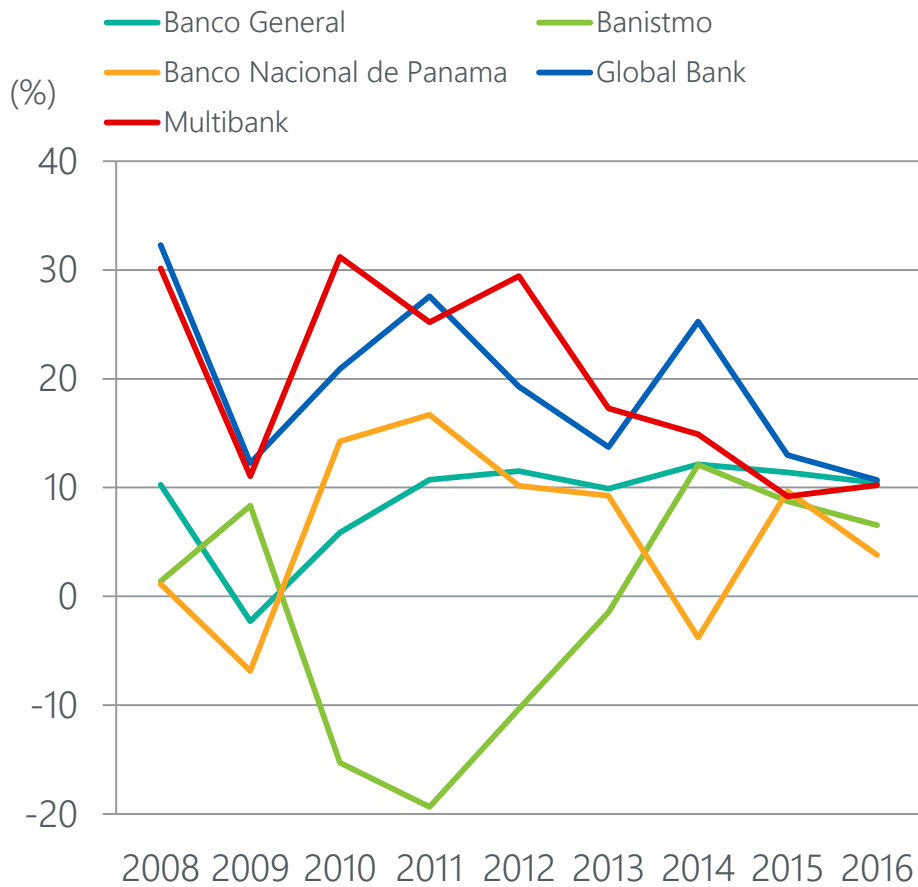
### Implied Funding & Liquidity Factor Score (%)

Implied factor score	aa	a	bbb	bb	b & below
<b>Operating environment</b>	<b>Loans/customer deposits</b>				
aa	≤75	≤125	≤190	≤250	>250
a	≤60	≤90	≤150	≤200	>200
bbb		≤55	≤125	≤170	>170
bb			≤50	≤140	>140
b & below				≤45	>45

Source: Fitch

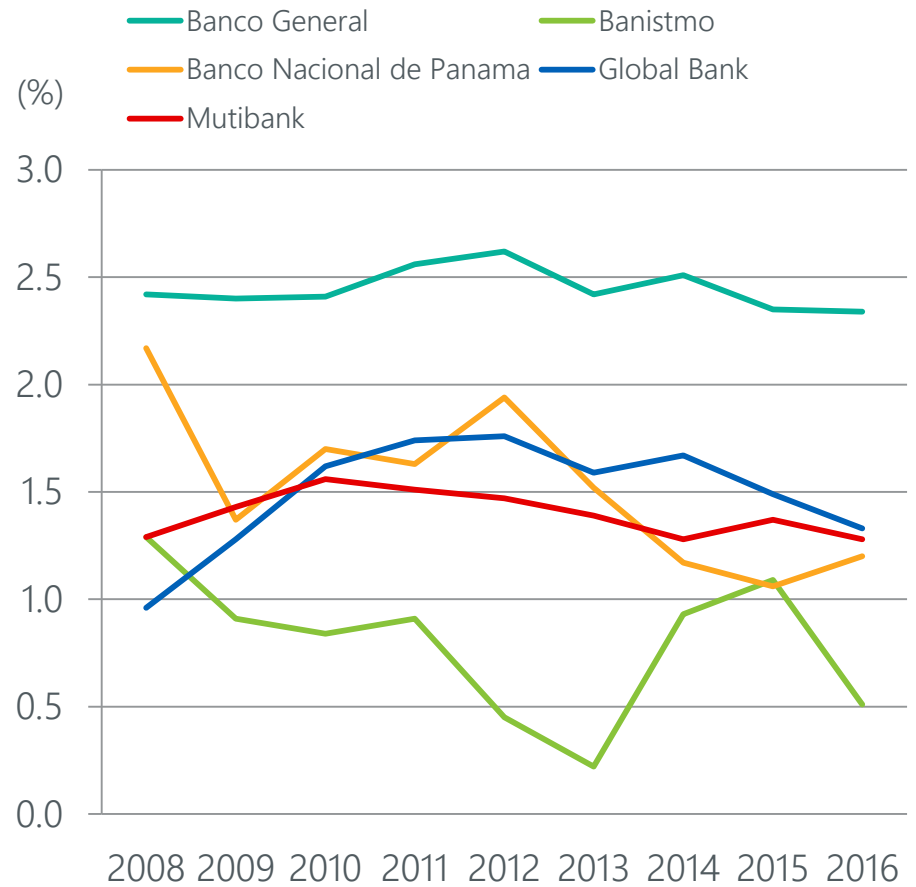
# Major Private Banks – Performance

## Annual Loan Growth (2008-2016)



Source: Fitch

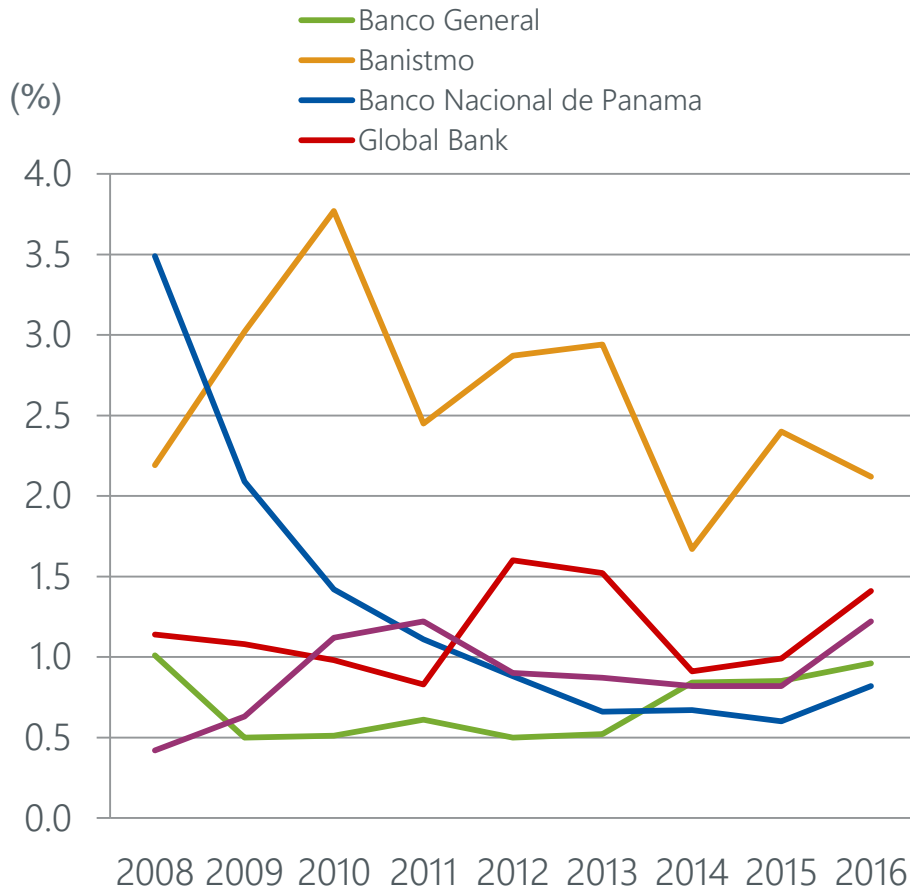
## Return on Average Assets (2008-2016)



Source: Fitch

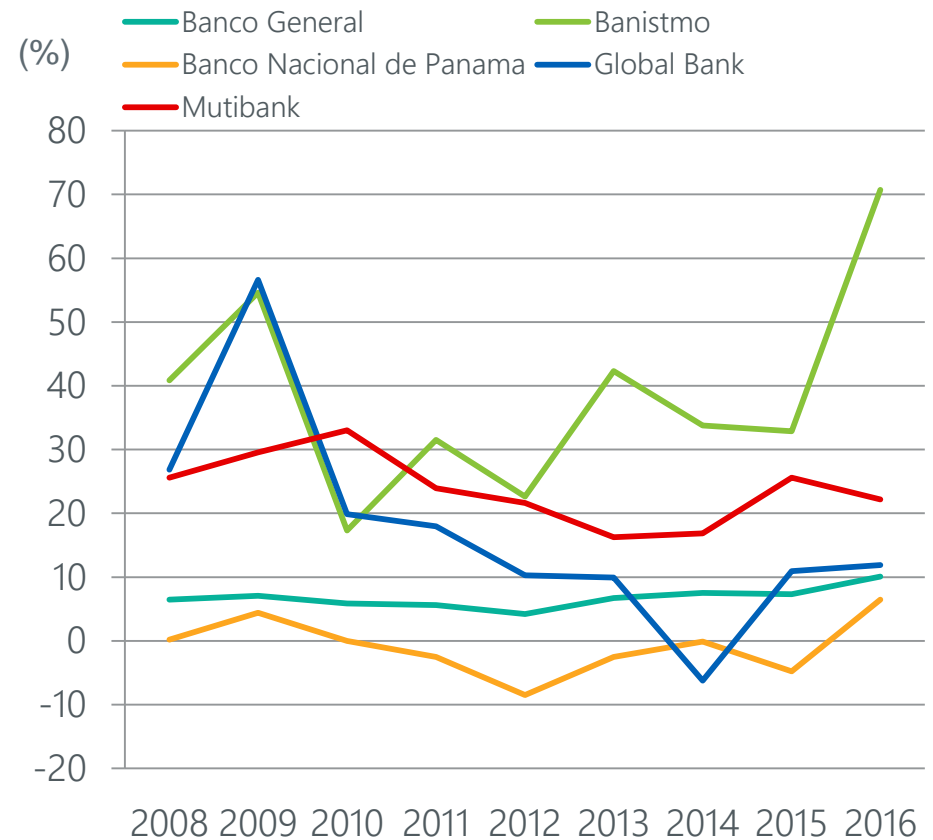
# Major Private Banks – Asset Quality

**NPLs/ Gross Loans**  
(2008-2016)



Source: Fitch

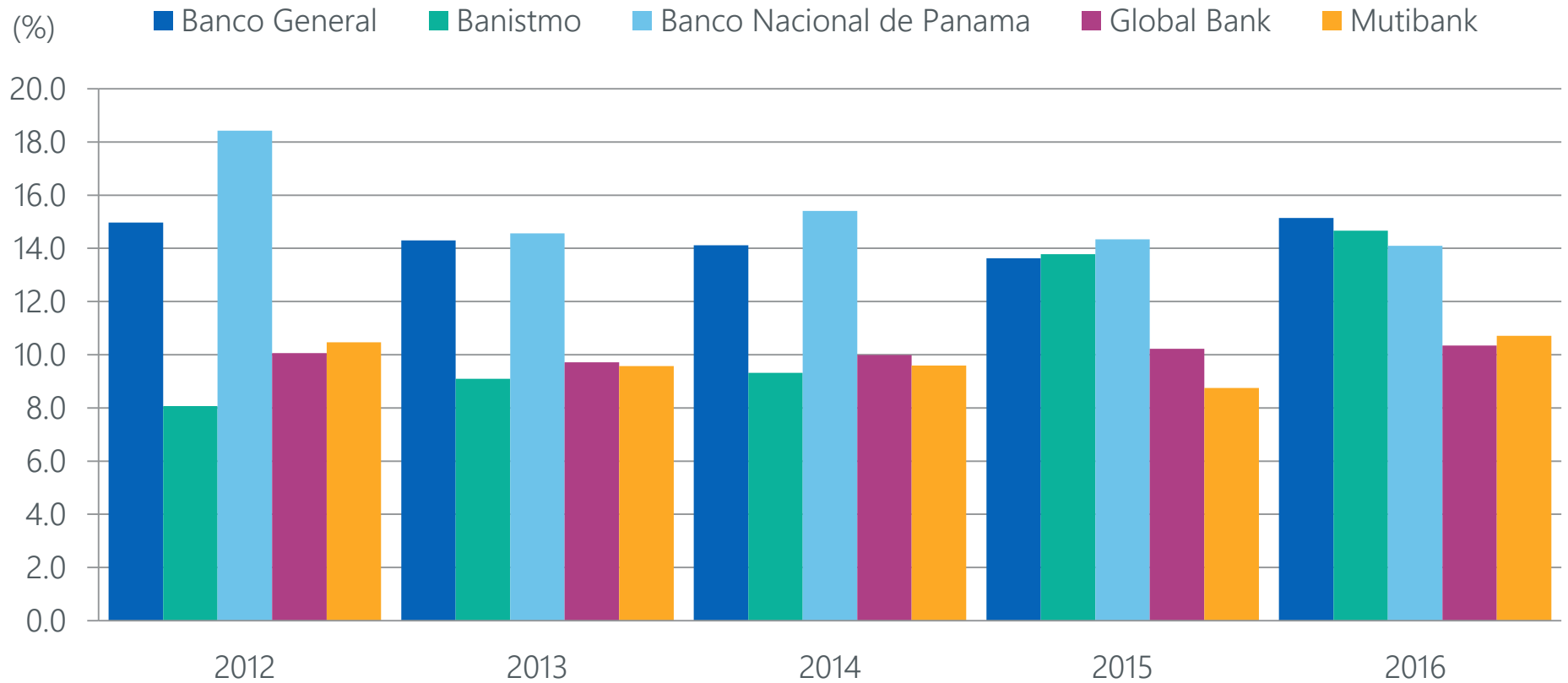
**Impairment Charges/Pre-impairment Profit**  
(2008-2016)



Source: Fitch

# Major Private Banks – Capital Adequacy

## Fitch Core Capital / Risk Weighted Assets

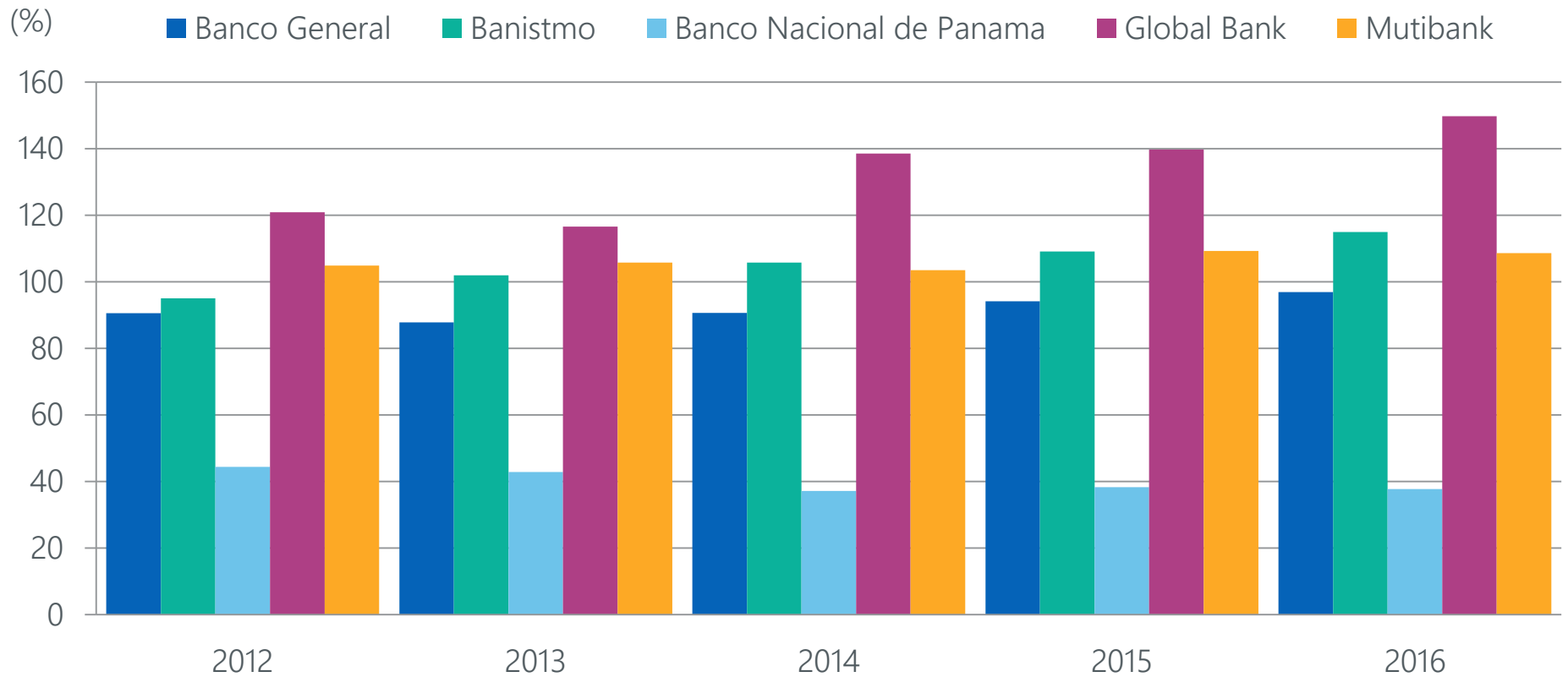


Source: Fitch



# Major Private Banks – Funding Profile

## Loans / Deposits



Source: Fitch

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