Panamanian Banks

Macro Outlook and Regional Framework

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Panama: Slower but Still Robust Growth
Stable Ratings With Some Downward Pressures

Latin America Sovereign Ratings

<table>
<thead>
<tr>
<th>Country</th>
<th>Rating</th>
<th>Outlook</th>
<th>Country</th>
<th>Rating</th>
<th>Outlook</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>B</td>
<td>Stable</td>
<td>Guatemala</td>
<td>BB</td>
<td>Stable</td>
</tr>
<tr>
<td>Aruba</td>
<td>BBB−</td>
<td>Stable</td>
<td>Jamaica</td>
<td>B</td>
<td>Stable</td>
</tr>
<tr>
<td>Bolivia</td>
<td>BB−</td>
<td>Stable</td>
<td>Mexico</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Brazil</td>
<td>BB</td>
<td>Negative</td>
<td>Nicaragua</td>
<td>B+</td>
<td>Stable</td>
</tr>
<tr>
<td>Chile</td>
<td>A+</td>
<td>Negative</td>
<td>Panama</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Colombia</td>
<td>BBB</td>
<td>Stable</td>
<td>Paraguay</td>
<td>BB</td>
<td>Stable</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>BB</td>
<td>Stable</td>
<td>Peru</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Dom Rep.</td>
<td>BB−</td>
<td>Stable</td>
<td>Suriname</td>
<td>B−</td>
<td>Negative</td>
</tr>
<tr>
<td>Ecuador</td>
<td>B</td>
<td>Negative</td>
<td>Uruguay</td>
<td>BBB−</td>
<td>Stable</td>
</tr>
<tr>
<td>El Salvador</td>
<td>CCC</td>
<td>-</td>
<td>Venezuela</td>
<td>CCC</td>
<td>-</td>
</tr>
</tbody>
</table>

• 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

Source: Fitch
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

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

Source: Fitch
Panama: Main Macroeconomic Trends

5-Year CDS

(bps)

- Mexico
- Colombia
- Panama

Source: Bloomberg

Inflation

(%yoy)

Source: Bloomberg

Unemployment Rate

(%)
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

FitchRatings
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

FitchRatings
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
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.
Major Private Banks – Performance

**Annual Loan Growth**
(2008-2016)

**Return on Average Assets**
(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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