

The Panama Banking Center

Banking on Future Success Challenges and Opportunities

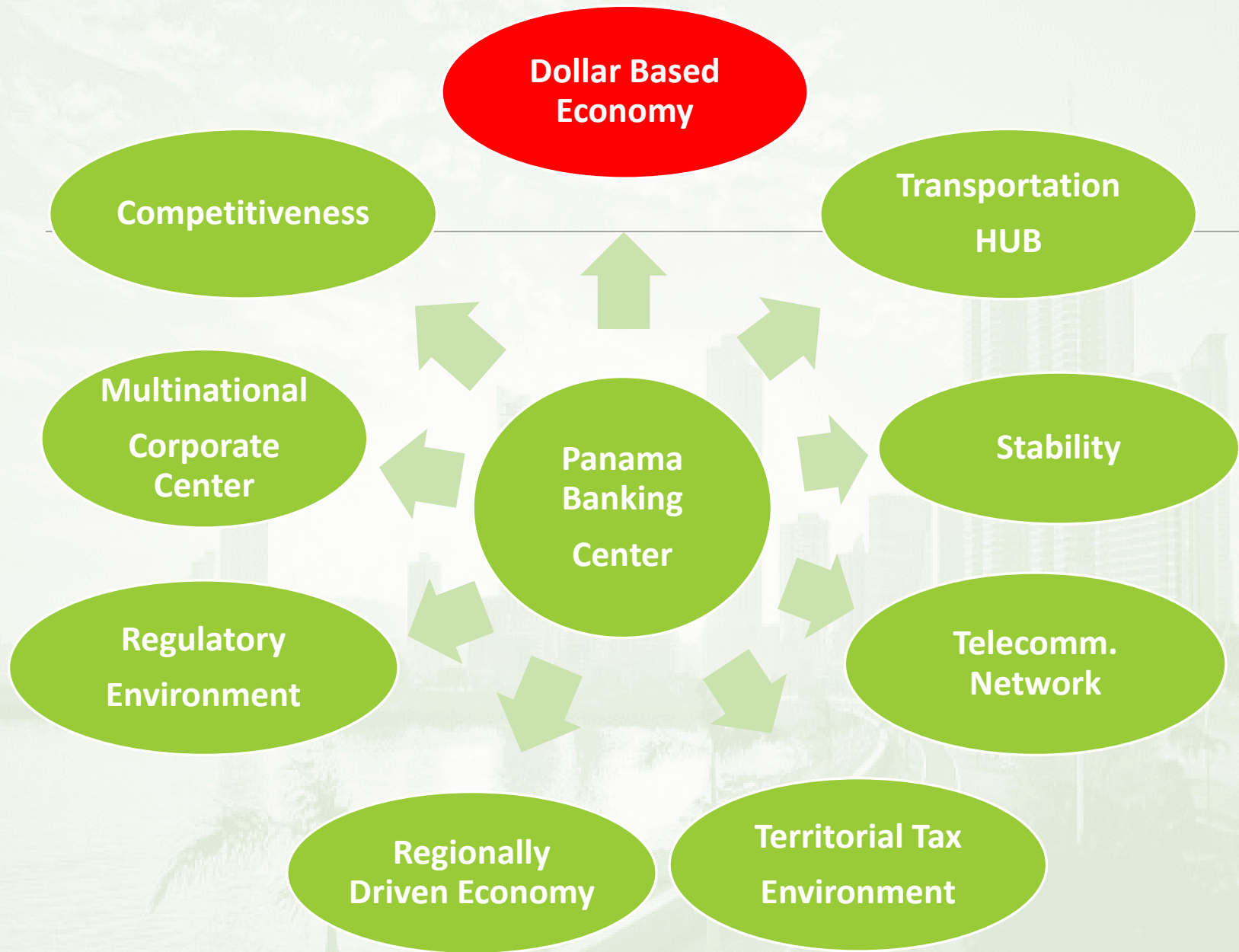
BRITISH CHAMBER OF COMMERCE PANAMA

21 JULY 2015



Background and History

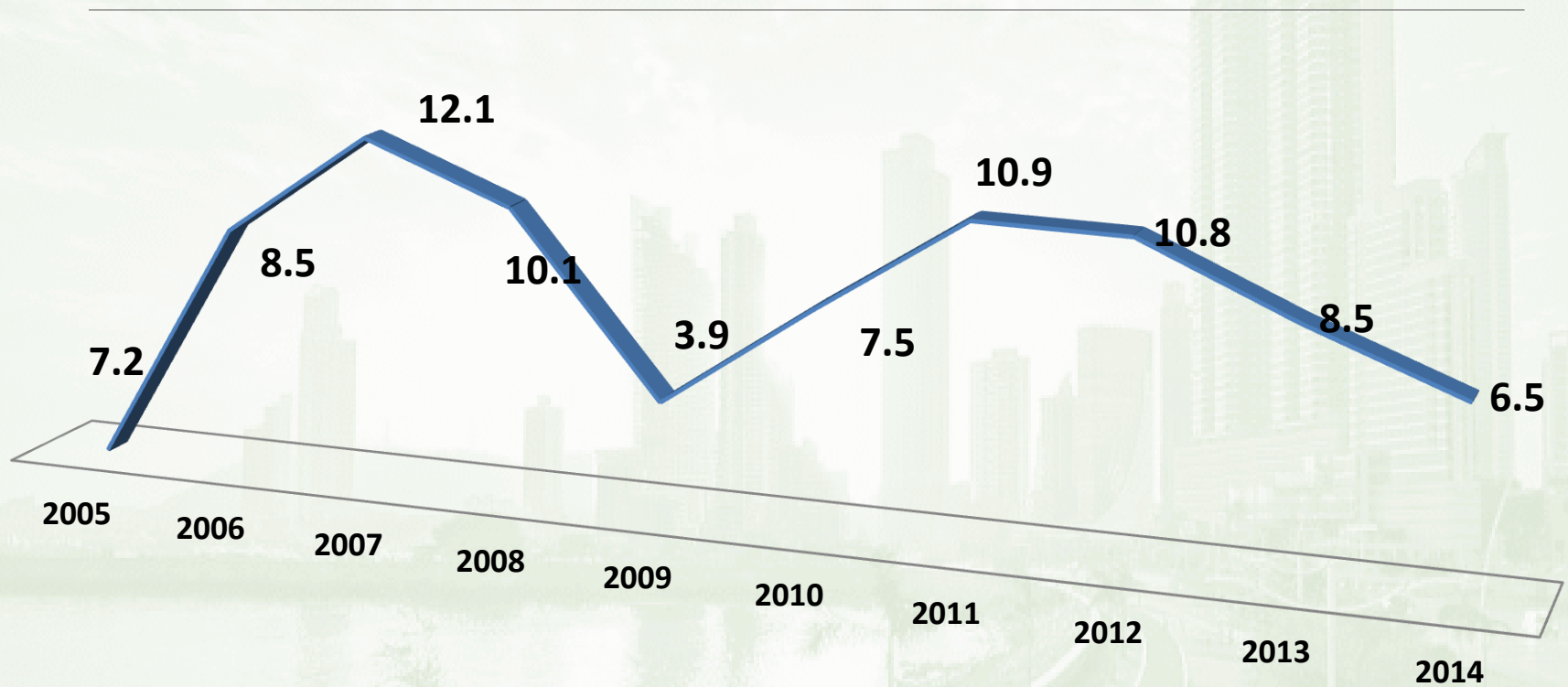
The background of the slide is a faded, green-tinted photograph of a modern city skyline. In the foreground, there is a curved promenade with a railing, leading to a body of water. The city skyline in the background features several tall, modern skyscrapers under a cloudy sky. The overall aesthetic is clean and professional.



Factors that contribute to the success of the Banking Center

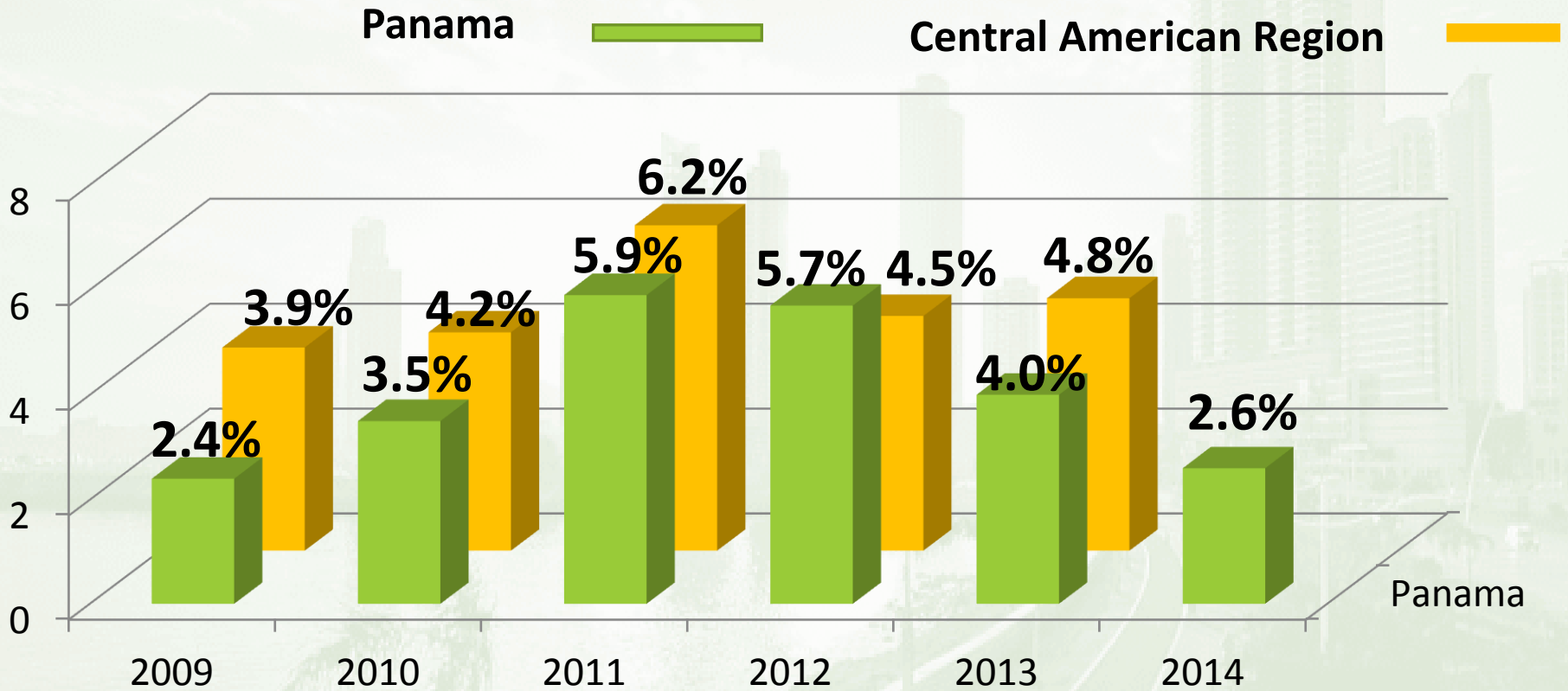
Annual Percentage GDP Growth

■ GDP Growth



The Country has enjoyed for the last 4 years one of the world's highest GDP growth rates

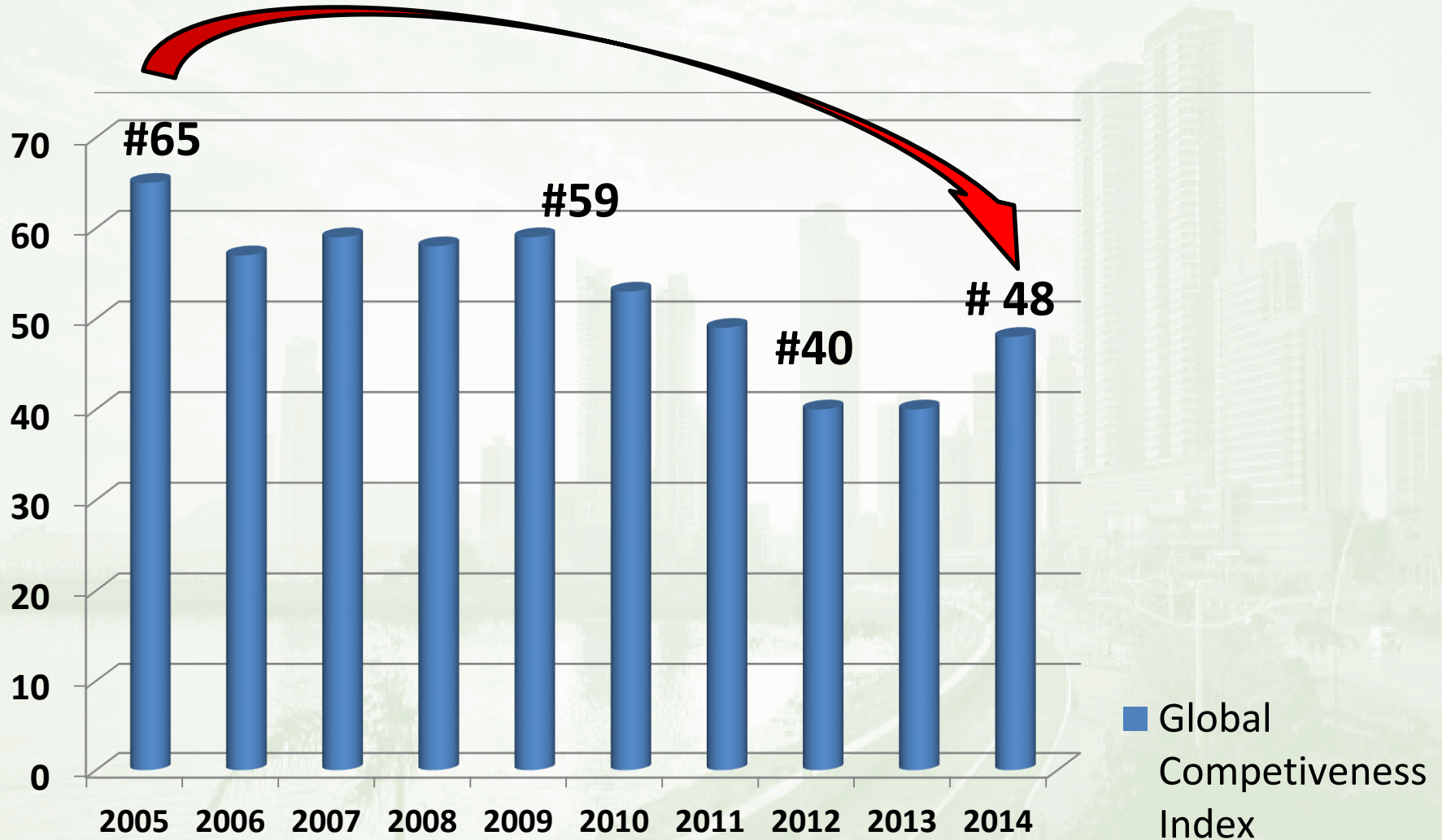
Average Annual Inflation



Panama

Panama's Global Competitive Ranking

(as per The World Economic Forum 2014)



Panama's Global Competitiveness Ranking #48

Top 20 Rankings 2014-2015

#4 FDI and Technology Transfer

#7 Quality of air transport infrastructure

#7 Quality of Port Infrastructure

#9 Business Impact on Malaria

#10 Mobile telephone subscriptions

#11 Government procurement of advanced technology products

#12 Soundness of Banks

#13 Business impact of rules on FDI

#13 Ease of access to loans / #13 Country capacity to attract talent

#16 Availability of financial Services / #16 Venture capital availability

#17 Efficiency of Financial Markets

#18 Affordability of financial services

#19 Prevalence of Foreign ownership, Country's capacity to retain talent

Other Factors Contributing to the Banking Center Success

- The government in its investment plan, has made effective use of its financial resources while managing to increase its tax revenues by more than 80% from 2009 to 2014.
- At the same time its debt profile has changed with interest coverage ratio improving from 6.23 times to 8.25 times. Debt GDP ratio was 66% in 2005, improved to 42% in 2008, and is presently at 40%. which has allowed for continued investment ratings: Moody Baa2, Fitch BBB.
- Continued execution of public investment in major infrastructure projects such as roads, and airports have allowed the opening of new areas for private investment.
- Foreign Direct investment as a consequence is on the increase and reached \$4.8 billion in 2014 and \$4.7 billion in 2013 up from \$2.9 billion in 2012.

The Panama International Banking Center

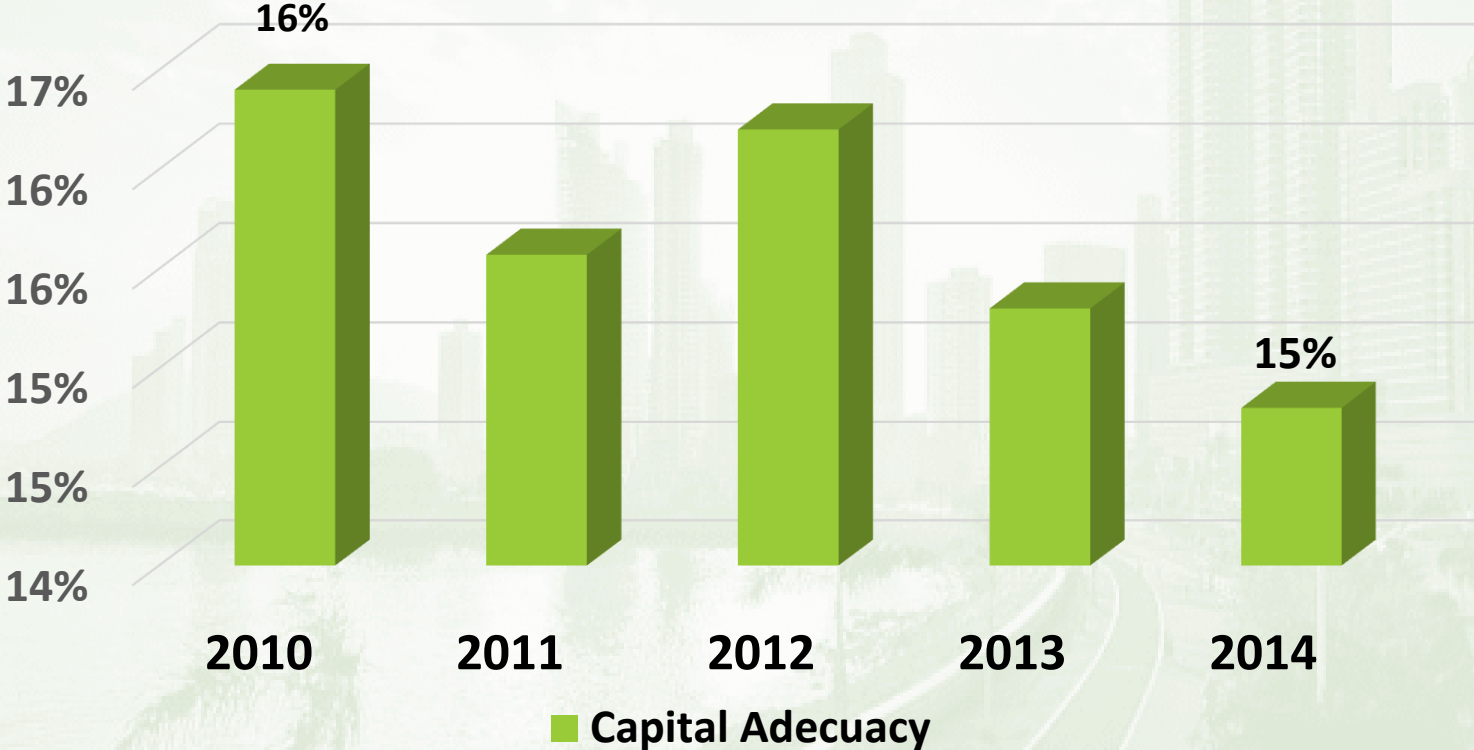
A green-tinted photograph of a modern city skyline, likely Panama City, featuring a waterfront promenade with palm trees and a body of water in the foreground. The image is overlaid with a solid green bar at the bottom.

Panama International Banking Center

Overview

- The Banking Center has consistently maintained a solid and stable foundation with historical high liquidity and capital levels, while being able to withstand instability of the financial markets globally.
- The Banking system is regulated by the Superintendence of Banks who has the authority to grant three types of licenses:
 - 1. General Banking License : Allows full banking services to clients on a local as well as on an external basis. 51 banks at present have a general banking license.
 - 2. International License: Allows for full banking services however, limited to external clients. 28 banks at present have an international banking license.
 - 3. Representative License: Allows for the referral of business to parent companies of banks. 14 banks at present have a representative banking license.

Capital Adequacy

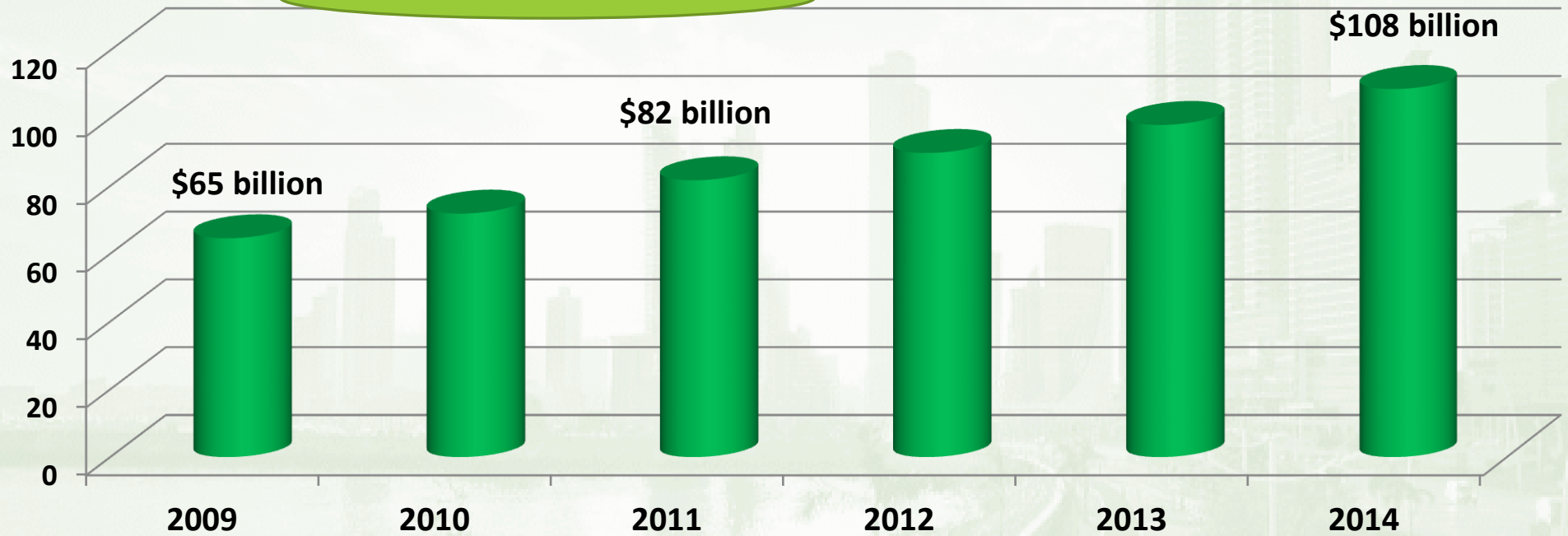


Liquidity Index



Total Assets : Banking Center

\$43 billion growth or 66% change in 5 years equivalent to 13.2% growth per year

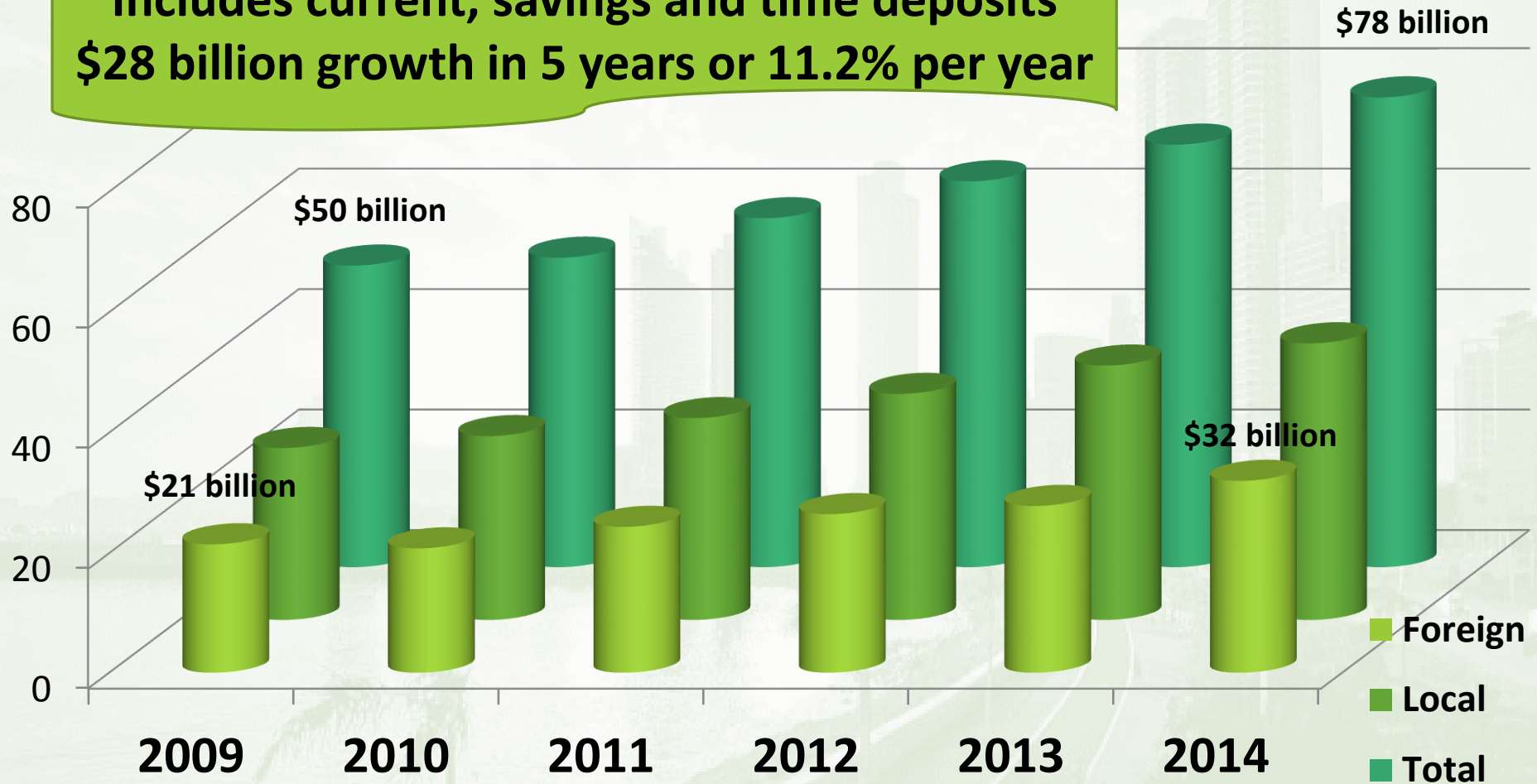


In billions

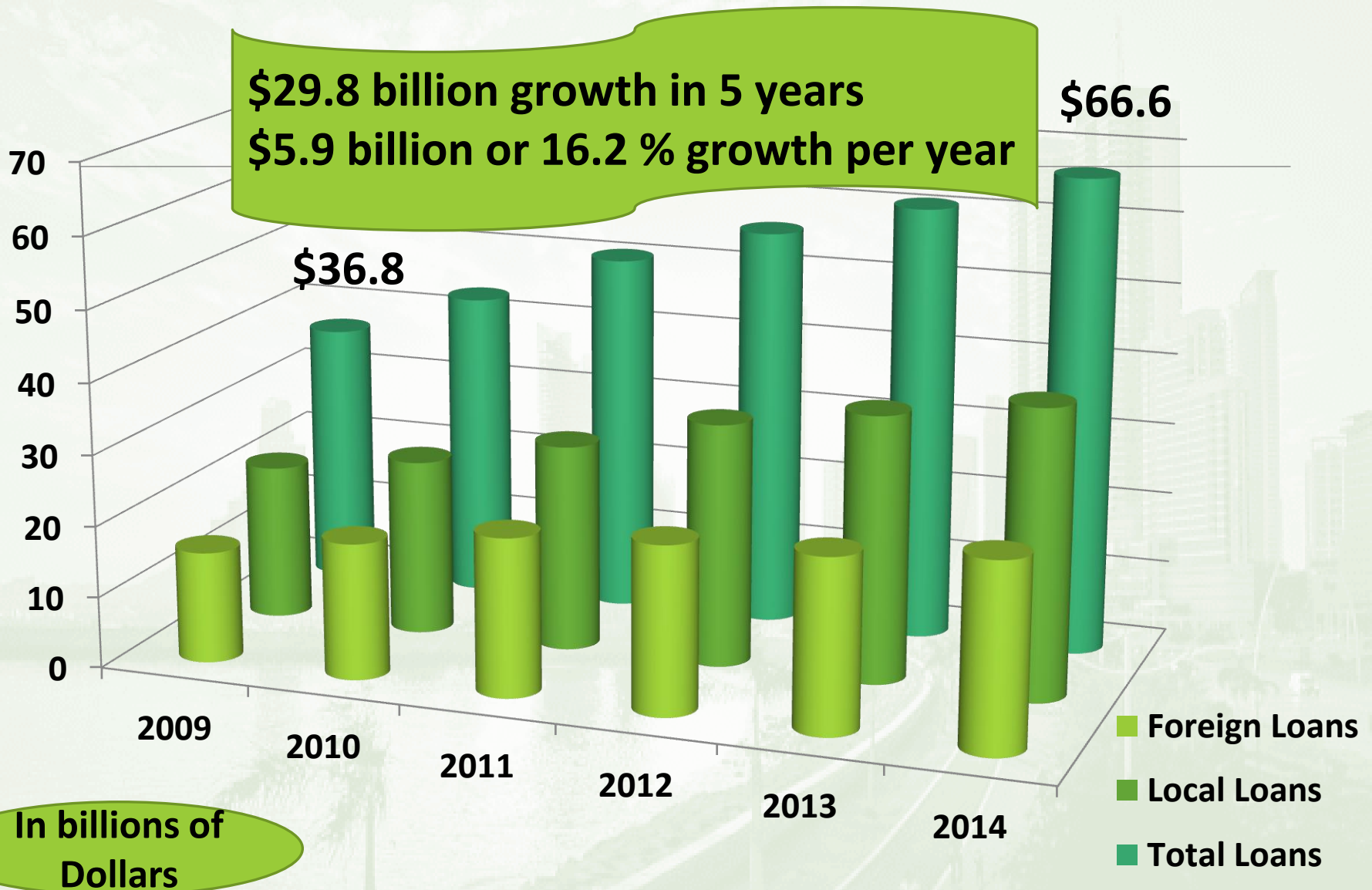
■ Total Assets

Deposits : Banking Center

Includes current, savings and time deposits
\$28 billion growth in 5 years or 11.2% per year

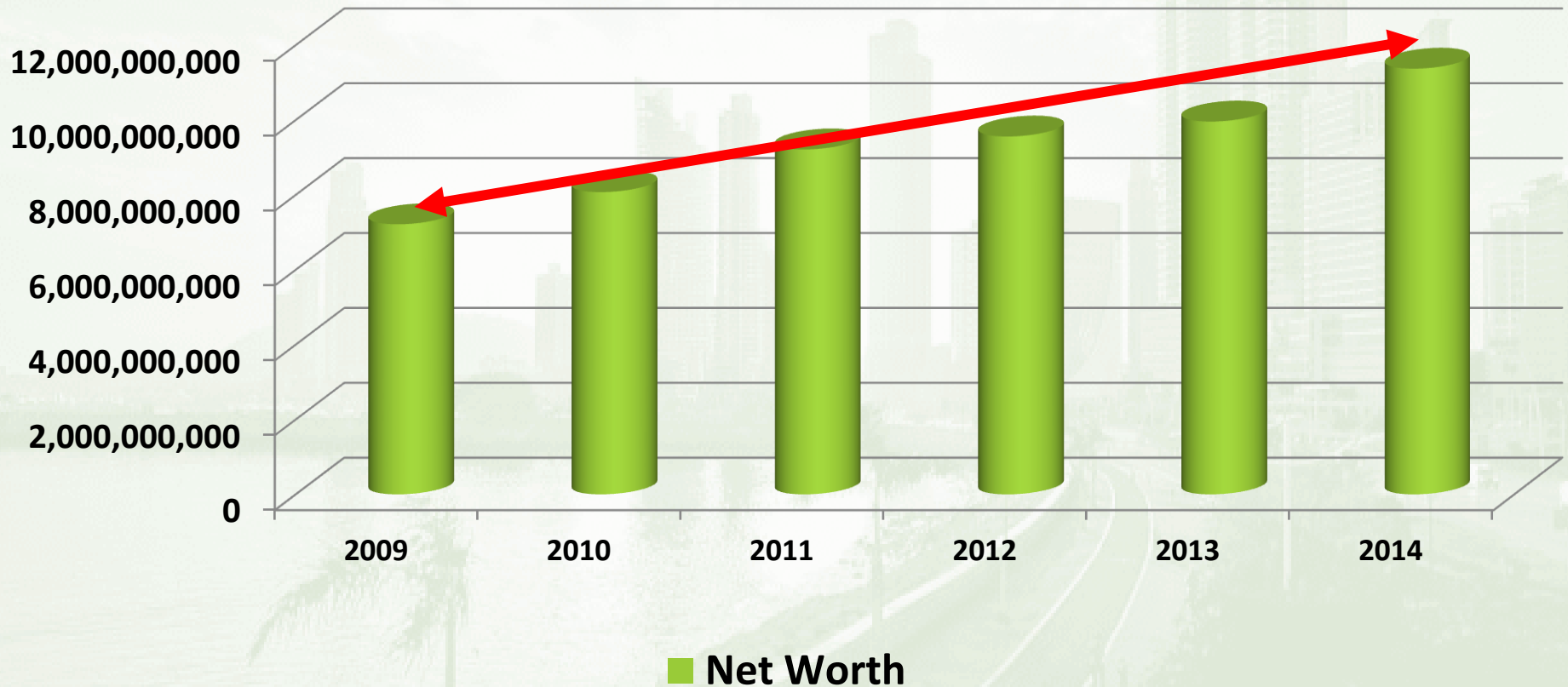


Loans : Banking Center



Net Worth : Banking Center

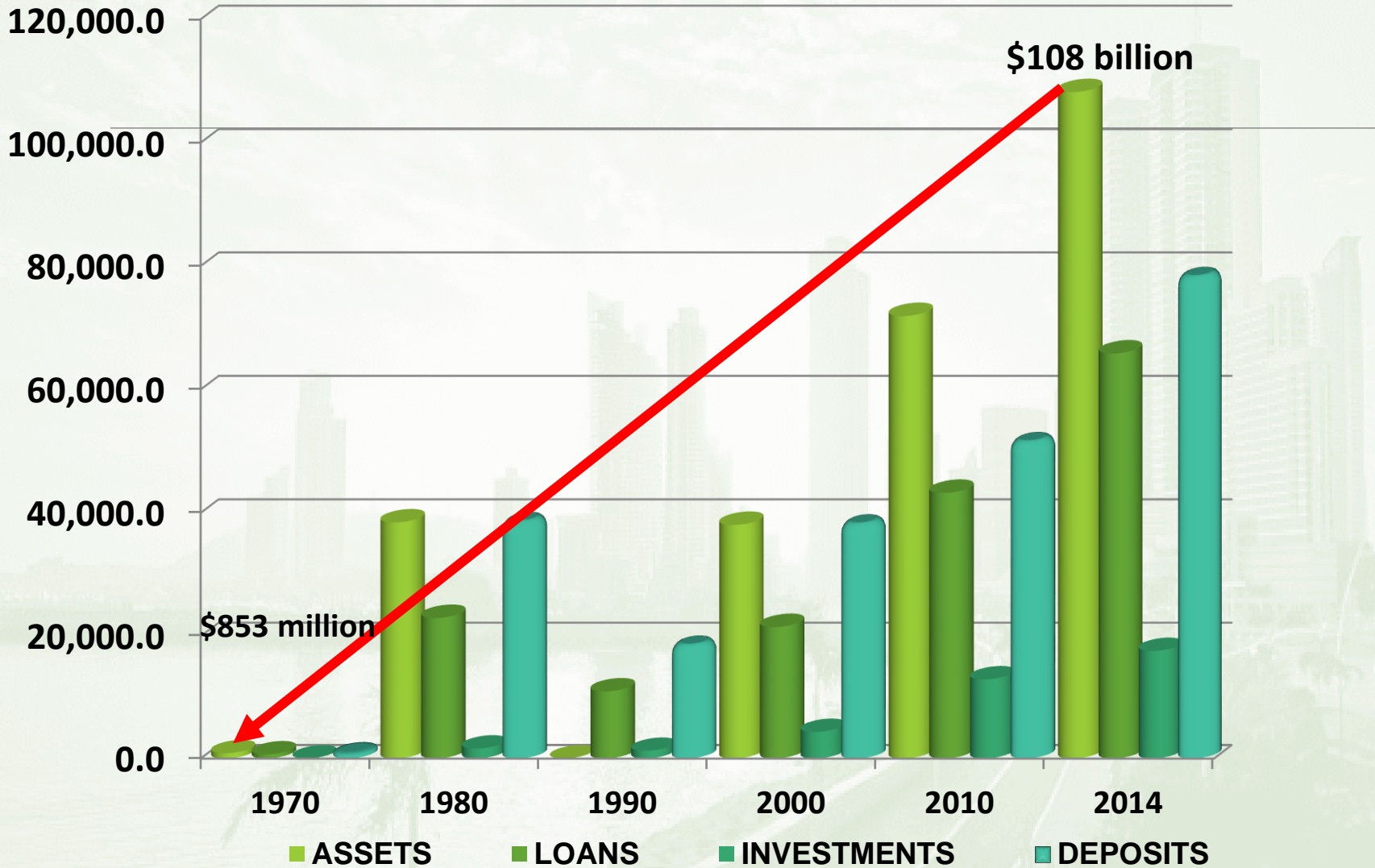
\$4.2 billion growth or 57.7% change in 5 years or 11.5% per year



Changing Banking Center Composition

A green-tinted photograph of a city skyline with a river and a curved walkway in the foreground. The image is used as a background for the title slide.

International Banking Center





International Banks with General Banking License

2014	Name of Bank
1	Citibank
2	Scotiabank
3	Bank of China
4	Mega International Commercial Bank of China
5	Korea Exchange Bank

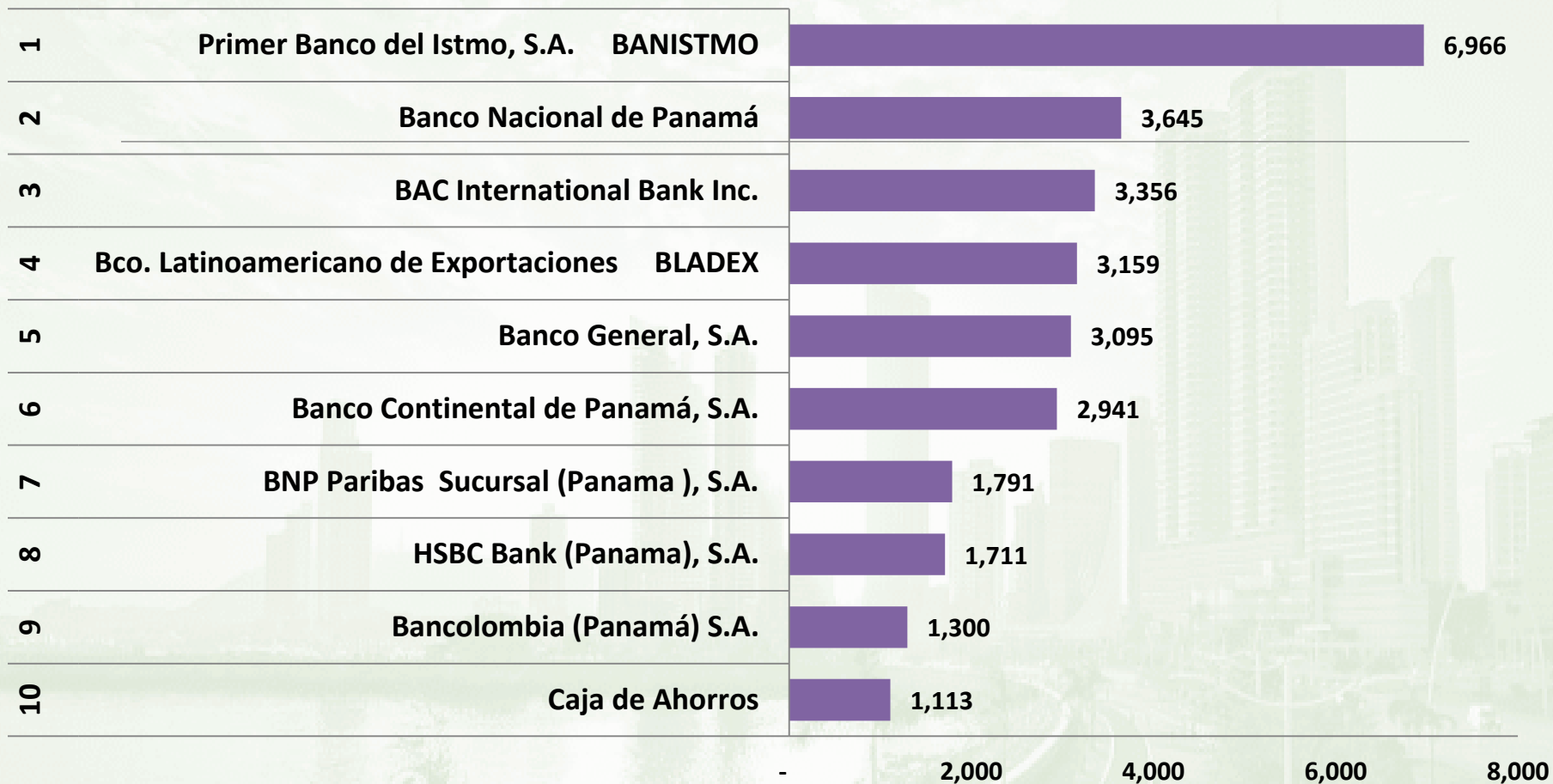
Recent Major Banking Purchases and Mergers

Acquirer	Absorbed Entity	Date
HSBC	Chase Manhattan Bank	2000
HSBC	Banco del Istmo	2006
Banco General	Banco Continental	2008
CitiBank	Banco Cuzcatlan	2009
ScotiaBank	BNP	2011
Banco Balboa	Banco Transatlantico	2012
Banco Colpatria	BAC	2012
Banco de Colombia	HSBC Bank (Panama), S.A.	2013

Top Ten Banks in 2000



Top Ten Banks in 2005

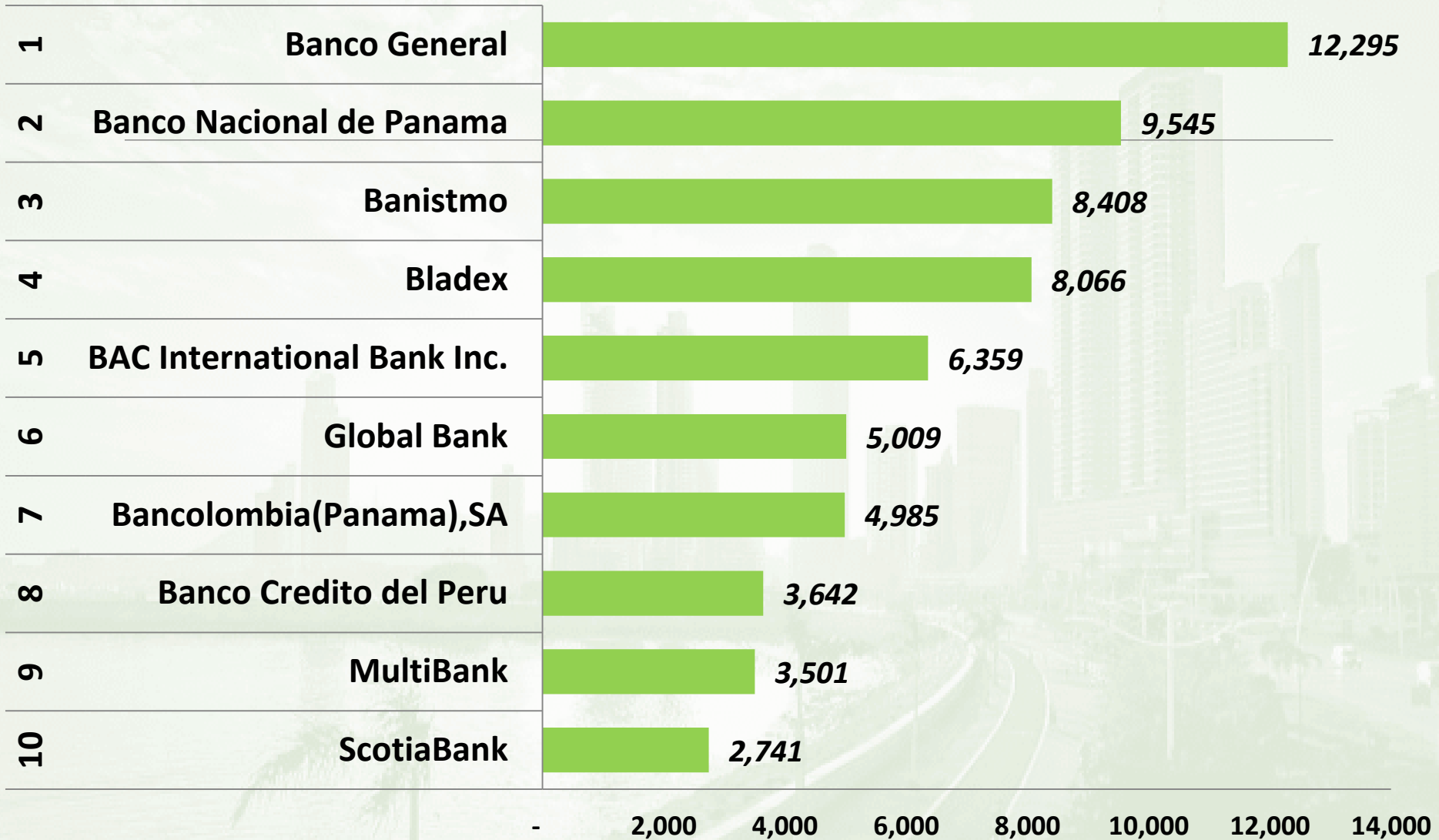


■ 2005

Top Ten Banks in 2010



Top Ten Banks in 2014



Challenges of The International Banking Center

Today's Realities

- Every time there is a financial crisis. The response is to immediately raise barriers and increase regulation.
- There is an absence of an understanding by bankers between earned wealth and stolen wealth.
- Concerns as to corruption exist, a consequence of the prior and previous government's actions. This has brought to light a problem of inadequate compliance procedures in a number of Banks in the country.
- Barriers are continually being raised thus causing increases in operational costs which are forcing smaller Banks to merge with other banking institutions.
- Financial crises are present in the region and there is a depressed Latin America Region, a consequence of the lowest rate of growth since 2009. Venezuela stands out as the region's most vulnerable to the drop in oil prices.

Today's Realities

- The emergence of FATCA and GATCA (Global Account Tax Compliance) places new responsibilities on Banks in the monitoring of tax compliance by its clients.
- Major international banking institutions have exited the Correspondent Banking market because of fears of being faced with money laundering issues or simply have decided correspondent banking is not sufficiently profitable with medium and smaller banking institutions. Banks, as a result, are struggling to maintain correspondence relationships.
- Most banking institutions have already lost some of their banking correspondent relationships which puts in jeopardy their ability to compete with other international banks in the transfer, receipt and payments of funds as well as international trade.
- Local larger Banks who have not lost all their correspondent banking relationships have been advised that they cannot piggy back for other Banks.

Today's Realities

- Money laundering today is not related to drugs but includes tax evasion, bribery, theft of state assets, human trafficking, gun trafficking, organ trafficking, overbilling, false invoices, etc.
- Financial tax planning by banks is out and banks are subject to severe penalties if they continue with this business.
- Banking secrecy no longer exists as a result, banks, if they wish to be competitive and if they wish to survive, must operate in a global environment with new stringent international standards.
- A Changing Interest Rate Environment is coming into play with its effect on deposits and on loan growth rate and the center will have to adjust to the upcoming scenario.
- The country has to improve its global competitiveness in order to make the country more attractive to International Investment.
- Acquisition and training of human resources is a growing issue and needs to be addressed.

Technology

- As per Tom C. W. Lin of the Temple Law School, the financial industry is becoming larger, more complex, more global, more interconnected, and less human.
- World class technology is lacking in the majority of the Banks operating in the country. They as a result, will be vulnerable to obtaining a comprehensible monitoring and knowledge of their customers' activities and possible fraud issues within the bank
- Key, to compliance, is the presence of the most modern technology available, in order to monitor effectively the cash flows of its client relationships.
- Mobile banking adoption is becoming common place in the larger banking institutions however, needs to be substantially expanded.
- Non traditional banking services ex Apple Pay, Pay Pal remain to be establish.
- Smart banking is just beginning to take place.
- Technology needs to be improved as Cyber Security is on the rise.
- Hackers, spies ,criminals, competitors and even some state governments now pose a threat to the financial industry via the use of technology.

Principles and Fundamentals of Banking

Issues that must be addressed to be effective and in order to be competitive include among others:_____

- Banks must be able to successfully undergo stress testing internally as well as publicly.
- Banks must have full transparency and disclosure in order to meet regulatory controls and the ability to undergo regulatory investigations.
- Banks will have to invest heavily in compliance and risk monitoring to insure they can deal with regulatory issues and requirements.
- Banks will have to have full accountability of its directors, officers and staff
- Banks will have to be able to be effective and at the same time carry out containment of costs.
- Banks must have the ability to monitor and control risk both on a credit basis as well as on an operational basis.
- Banks will have to invest heavily in technology in order to speed up transactions and reduce operational costs.

Compliance, Risk and Governance

Greater Financial Transparency is key to the future success of the Panama Banking System as compliance and regulatory controls and changes are taking their toll on Banks worldwide.

Action on a global basis as well on a local basis is being seen in the following:

1. Automatic Exchange of tax information across borders, led by US FATCA legislation. Spillover to occur in the reporting of other than US individuals and corporation.
2. Ultimate knowledge of the beneficial ownerships of corporations. United Kingdom took a leading role. No accounts in Panama can now be opened by corporations having bearer shares.
3. Country by country reporting is advancing. Undoubtedly the future is to require that all corporations to report their financial results in each taxing jurisdiction in which they operate.

The Superintendence of Banks

The new regulator of the banking system has a most difficult task as well as challenges going forward, among which some are:

Challenge 1

Rebuilding of the regulatory framework is required. Progress in this front is well underway. Critical is the need for leadership to ensure at which point reform must stop and evaluation take place of previous actions.

Challenge 2

Has to create a level playing field in the country in which banks can compete on same terms and conditions as in other banking centers.

Challenge 3

Has to build a new framework that limits risk but does not hamper economic activity. Key is to learn on mistakes of the past and avoid repetition of the same.

Challenge 4

Has to build a system that constraints the over exuberant credit supply but doesn't choke credit formation to the economy. This will require the allowing of a reasonable growth rate of credit volumes.

Compliance and Regulatory Entities

All of the entities' ratings and classifications are taken into account in the overall Risk Evaluation of the country.

Regulating and Compliance Entities:

- IMF, International Monetary Fund
- OFAC, Office of Foreign Asset Control
- FATCA, Foreign Account Tax Compliance Act
- GATCA: Global Account Tax Compliance
- FATF: Financial Action Task Force, GAFILAT FATF Latin America
- OECD: Organization for Co-operation and Development
- OICV/IOSCO: International Organization of Securities Commissions
- FINCEN: Financial Crimes Enforcement Network

Grey listing, black listing or incompliance with the above entities may result in

1. Converting the country into a high risk rating;
2. Scaring away of potential investors;
3. Damaging of the country's reputation;
4. Increment in operating and interest costs of financial institutions;
5. Loss of correspondent banking relationships;
6. Inability to compete in the global markets for depository relationships;
7. Withdrawal of international banks from the country.

Financial Action Task Force

Established in 1989 with the objective to set the international standards for combatting money laundering and the proliferation of weapons of mass destruction.

It safeguards the integrity of the global system.

Panama is a member of the GAFILAT regional organization.

In 2012 , FTF issued 40 new international recommendations on combating money laundering, the financing of terrorism and the proliferation of weapons of mass destruction.

IMF & FATF Assessment of Panama

Compliance assessment and recommendations conducted on October 2012 with Panama being determined to be vulnerable to money laundering.

Grey listed a consequence of:

1. Panama determined to have completed one recommendation, 3 mostly completed, 26 partially completed and 19 not completed;
2. 40+9 Recommendations included 16 core recommendations of which none were completed;

Grey listing constitutes a threat to the Banking and Financial Center competitiveness;

Panama may be considered as a high-risk country for money laundering thus possibly causing increases in operating and interest costs and loss of investors.



Future Opportunities of the Banking Center

Opportunities

- Eliminating grey and black listing of country by aggressively promoting the countries efforts in controlling money laundering.
- Completing the enactment of a new money laundering law that broadens the range of suspicious operations reports to include insurance companies, commercial operations in the Free Zones, finance companies, leasing operations, real estate dealers, casinos. Automobile agencies, jewelers, accountants, legal firms, etc.
- Attraction of more Multinational Corporations to set up their regional headquarters in Panama which will in turn make Panama more attractive to the setting up of International banks in the country.
- Improving the status of the Banking Center as the major Latin American Regional Banking Center by attracting more major Latin American banks to Panama especially from Brazil, Mexico and Argentina as well as from other Latin American countries not amply presently represented in Panama. Example Chile, Uruguay, and Argentina.

Opportunities

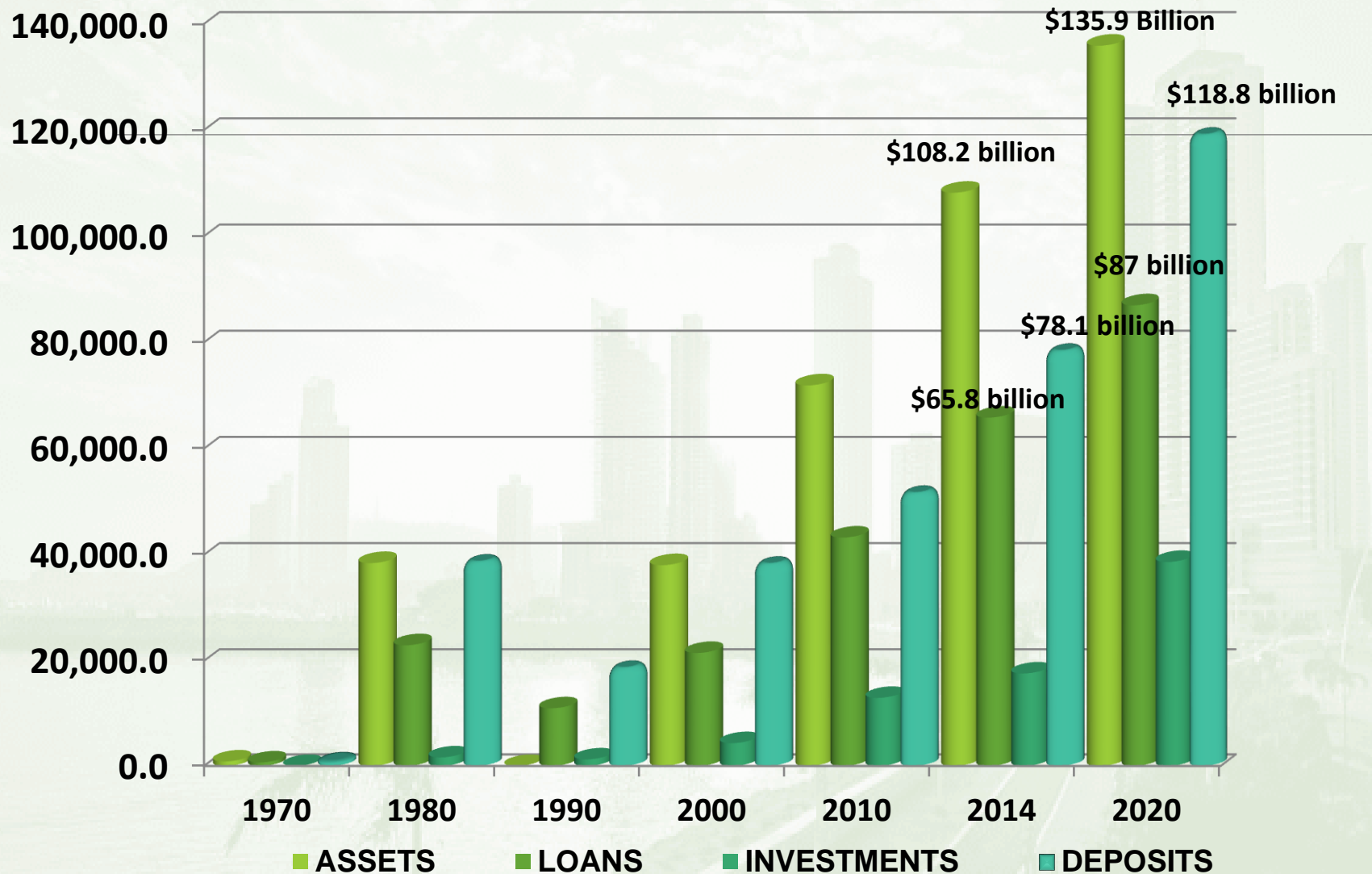
- The expansion of existing representative offices into International or General License Banks is viable as several Representative Banking License operations have grown considerably and warrant changing their licenses into either an International Banking License or a General Banking License.
- Improvement in technology of the banking system would place the Banking Center in a more competitive situation.
- The continuation of the Panamanian territorial tax regime would continue to present Panama as an interesting place from which to conduct business offshore.
- Improving the competitiveness of the country by focusing on existing weaknesses and maintaining areas of strength.
- The adoption of the FATCA process will allow for local and international banks to have US citizens as clients and avoid any tax issues with their clients as they will be reported under the process.

New Representative Banking Licenses since 2006

Name of Bank	Date Established
Merrill Lynch Bank (Suisse), S.A.	2006
Caixa de Ahorros de Galicia	2006
UBS AG	2007
Commerzbank	2007
Cayman National Bank	2008
Safra National Bank of New York	2008
Credit Suisse	2008
Mizrahi Tefahot Bank	2008
JP Morgan Chase	2011
Lombard, Odier & Cie (Bahamas) Ltd	2013

International Banking Center

Historical and projection to 2020





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