Superintendencia
de Bancos de Panamá

Banking Activity Report

July 2022

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Executive Summary

As of July 2022, banking operations maintained a positive performance despite the partial stoppage of economic activities due to national protests. The main income-generating assets continued with the trend observed in previous months, however, not as strong as that of the first half.

The assets of the International Banking Center (IBC) totaled 136.54 billion, an USD 8.59 billion rise versus July 2021 or a year-on-year increase of 6.7%, which was the result of growths in the net loan portfolio (13%) and the securities account (13.5%). As we have mentioned in previous reports, on the liquid assets side, although they fell short (-18.5%), this is a reflection in counterpart of loan increases.

The banks' total loan portfolio net of provisions continued with positive figures and recorded an increase in its nominal value, reporting a hike of USD 9.26 billion or a 13.0% growth annually. In this juncture, the portfolio reached USD 80.63 billion. The sustained increase in the loan portfolio responds to the boost given by entities to the placement of productive loans. On the performance of the external loan portfolio, it increased by 36.7%.

The domestic loan portfolio to July 2022 recorded a total of USD 56.85 billion, a USD 2.46 billion or 4.5% increase. These figures would show that the loan balances of the banking system continue to evolve favorably. However, when comparing new loan to those of June 2022, they recorded decreases of USD 150 million (-5.8%). Although there were decreases in most activities, loans to the State, the Financial Companies, and the Commercial sector for holiday season purchases offset these decreases, which affected this month's performance. These results would suggest that in the future, new protests could reduce domestic demand, slowing down loan growth, and weakening asset quality. As a result, this could affect the operating performance of the banks and the entire financial system.

Most recently, banking assets quality has slightly improved, driven by the economic recovery, the elevated level of collateral protecting banks' portfolios, and their provisioning levels. However, nonperforming loans were extremely high (14.1% in July 2022). The delinquency trend at the consumer level in this category is vastly different from the rest of the activities and could be partly the result of product originations by risk profile. It is foreseeable that at the removal of the financial relief program, the nonperforming loan ratios will weaken, but we expect them to remain manageable. As of July 2022, the National Banking System (NBS) recorded a delinquency ratio of 4.5%, of which 1.8% represents loans with arrears of 30+ days and 2.7% for loans with arrears of over 90+ days.

At the end of July 2022, the International Banking Center continued to show high liquidity and solvency ratios. The intermediation levels of the aggregate group of entities increased, which has allowed an improvement in profitability.

At the end of the month, the Banking System's liquidity reached 56.5%, which easily exceeds the regulatory minimums. Regarding solvency ratios, the capital adequacy ratio on risk-weighted assets (RWA) was 15.11% at the end of the first half of 2022. The capital integration of the banks that make up the IBC, did not record significant changes versus the previous quarter, however, in annual terms, this ratio fell short (-1.25 bp). This decrease resulted from RWAs increases, driven by strong private sector loans and a decline in capital funds instrumented by an authorized decumulation of dynamic provisions. Currently, all banks running operations satisfactorily comply with the new bank capital regulatory standards.

The modified [loan] portfolio as of July 2022 totaled USD 3.85 billion. The issuance of prudential regulations encouraged banks to reach agreements with their clients, with which, as of the second half of the year, there is an important shifting towards the unmodified [loan] portfolio. This represented USD 10 billion or 72% less than that of July 2021. Remarkably, as of July 2022, the household modified [loan] portfolio rises to USD 2.73 billion and accounts for 70.9% of the modified loan portfolio.

For July 2022, the International Banking Center recorded net profits for USD 1.096 billion, which is equivalent to USD 399.9 million more than that of July 2021 or a year-on-year increase of 57.5%. the positive evolution of financial margins and commissions, derived from the continuous growth of the loan portfolio; the extraordinary income by a banking group; the robust assets quality and expenditure management; and the lower provisioning expenses boosted this output. Nevertheless, these results are asymmetrical among banks. It is noteworthy that margin increase is in part by the fact that consumer loans, which are more onerous, increasingly have greater weighting in the balance sheets of entities and greater share of available deposits, whose cost is cheaper.

The deposits of the International Banking Center for July 2022 recorded USD 97.31 billion, USD 2.96 billion more (+3.1%) versus July 2021. Domestic deposits recorded a decrease during the surveyed period of USD 410 million (-0.7%) versus July 2021, because of a reduction of bank institutional deposits (-4.4%) and state deposits (-5.3%). Domestic customer deposits keep growing (+0.8%), but at a slower pace. On the other hand, external deposits grew by USD 3.37 billion reaching USD 35.46 billion. To date, we have not observed relevant increases in the interest rate paid on fixed-term deposits. Although in the past, these payments increased significantly at the face of external rate hikes, they could be lagging due to the lower needs for funds by financial entities in an environment in which they still have high liquidity ratios and deposits balances widely exceeding credit.

Bottom line, the Panamanian financial system has continued to show resilience and an overall solid position. However, given the impairment of the domestic and global macro financial perspective (due to increasing inflationary pressures and geopolitical tension) and the withdrawal of financial relief measures, they could imply prospective impairment risks in credit quality. We expect that loan losses and nonperforming assets will increase as the financial relief programs end. Currently, the SBP closely follows these ratios and their evolution.

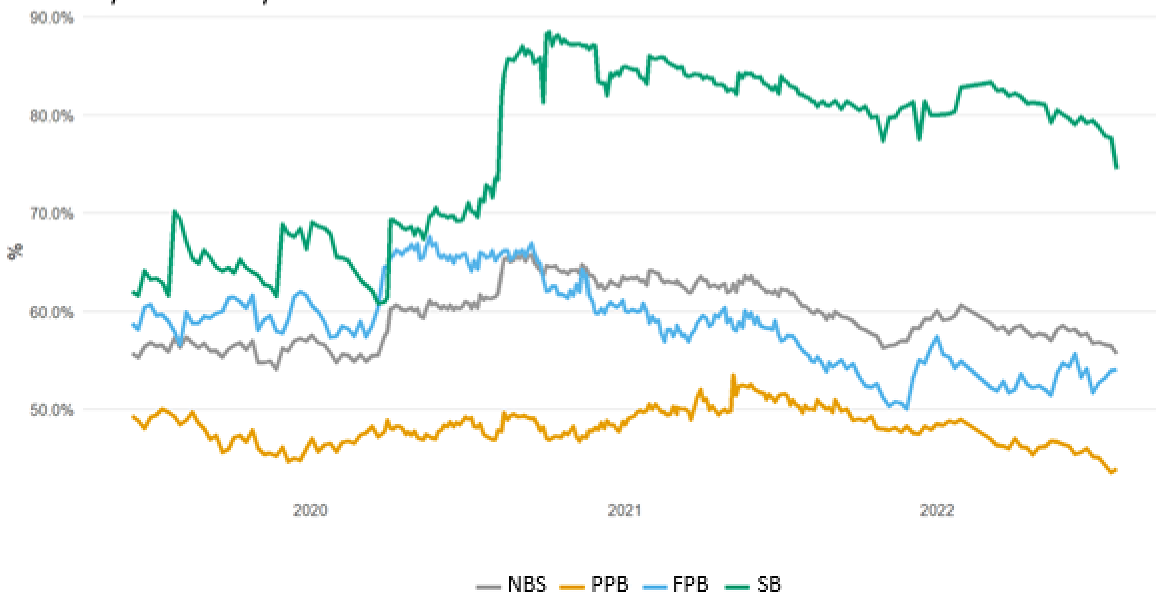
A. Liquidity

As of July 2022, the liquidity of the Banking System reached 56.5%, which easily exceeds the regulatory minimums. The domestic banking system has recorded a more well-heeled liquidity position since March 2020 (**see Graph 1**), because of the accumulation of short-term assets in a high uncertainty setting, which responds to the comprehensive strategy of caring for the quality of assets, provisioning, and expanding liquidity, guided by the prudential principles promoted by the Superintendency.

In relation to liquidity to date, although there has been certain decrease in ratios versus the levels reached in 2021, the financial system maintains adequate liquidity ratios at the aggregate level, with sufficient resources to meet its short-term financing needs and which, in turn, will make it easier to resume credit growth. The decreases recorded reflect greater loan disbursement.

Graph 1: Weekly average liquidity ratio

July 2019 – July 2022



Source: General License Banks

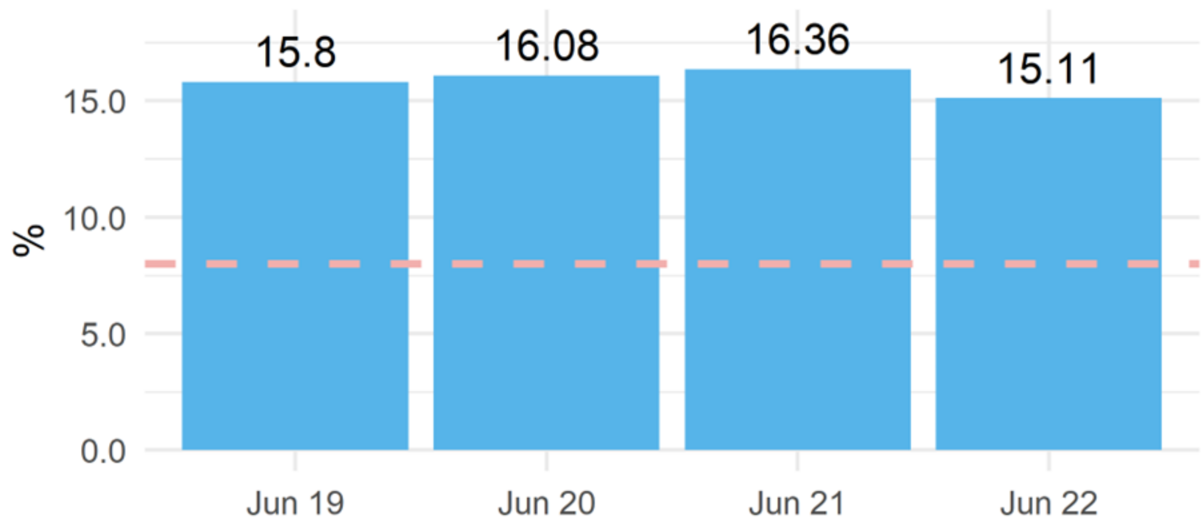
B. Solvency

At the end of the 1Q2022, the International Banking Center's aggregate solvency ratios remained high. The capital adequacy ratio on risk-weighted assets was 15.11% at the end of the 1Q2022 (**see Graph 2**), almost double the regulatory minimum of 8%. The capital integration of the banks that make up the IBC did not record significant changes versus the previous quarter. In a year-on-year comparison, this ratio slightly lowered (-1.25 bp).

This decrease resulted from RWA increases, driven by strong private sector loans and a decline in capital funds. This decrease in capital funds responds to the use of the dynamic provision, in accordance with the provisions of Circular SBP-DR-0124-2020 dated 15 April 2020 and as previously established in Article 5 of Rule 2-2020 dated 16 March 2020.

Currently, all banks running operations satisfactorily comply with the new bank capital regulatory standards.

Graph 2: Capital Adequacy Ratio
June 2019 – June 2022



Source: General and International License Banks

C. Income Statement

As of July 2022, the International Banking Center recorded net profits for USD 1.096 billion, which is equivalent to USD 399.9 million more than that of July 2021 or a year-on-year increase of 57.5%. The positive evolution of financial margins and commissions, derived from the continuous growth of the loan portfolio; the extraordinary income by a banking group; the robust assets quality and expenditure management; and the lower provisioning expenses boosted this output.

In this way, in addition to receiving profits generated abroad by an International License bank, the profits for the period responded significantly to the increase in other income (+35.2%) and net interest income (+16.4%) in its portfolio and investment interest income items.

Operating expenses amounted to USD 3.16 billion or a year-on-year rise of 27.2%. This increase responds, in part, to digitalization, innovation, and sustainability initiatives undertaken by banks, which, although they will save costs, entail high initial investments. We expect that banks in the system will continue with cost control and operational efficiency strategies.

Even though provisions for USD 369.2 million were set, they decreased by 25.0%, when compared with that of July 2021 (and they are approximately USD 122.8 million less than that of a year earlier). Although business volume increases, interest rate performance, and good efficiency will support profitability, these provisions are necessary due to the high uncertainty environment. We estimate that provisioning expenses should remain above pre-pandemic levels, as banks continue to write off exposures to borrowers that were unable to resume payments in the context of COVID-19 and the financial relief program related to this event.

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

International Banking Center	Jan.-Jul. 2021	Jan.-Jul. 2022	Difference %	Difference USD
Net interest income	1,321.5	1,538.5	16.4%	217.0
Other income	1,194.3	1,615.0	35.2%	420.8
Operating income	*2,515.8*	*3,153.6*	*25.3%*	*637.8*
General expenses	*1,328.1*	*1,688.8*	*27.2%*	*360.7*
Profit before provisions	1,187.7	1,464.8	23.3%	277.1
Provisioning expenses	492.0	369.2	-25.0%	(122.8)
Profit for the period	**695.7**	**1,095.6**	**57.5%**	**399.9**

Source: General and International License banks.

The National Banking System recorded accumulated net profits, as of July 2022, of USD 874.6 million, 44.3% more than that of July 2021. Like what happened in the IBC, greater credit activity and lower provisioning had a positive impact on the sector's profits.

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

National Banking System	Jan.-Jul. 2021	Jan.-Jul. 2022	Difference %	Difference USD
Net interest income	1,256.7	1,431.7	13.9%	174.9
Other income	1,048.8	1,342.8	28.0%	294.0
Operating income	*2,305.5*	*2,774.4*	*20.3%*	*468.9*
General expenses	*1,210.2*	*1,542.6*	*27.5%*	*332.4*
Profit before provisions	1,095.3	1,231.8	12.5%	136.5
Provisioning expenses	489.3	357.2	-27.0%	(132.1)
Profit for the period	**606.0**	**874.6**	**44.3%**	**268.6**

Source: General license banks.

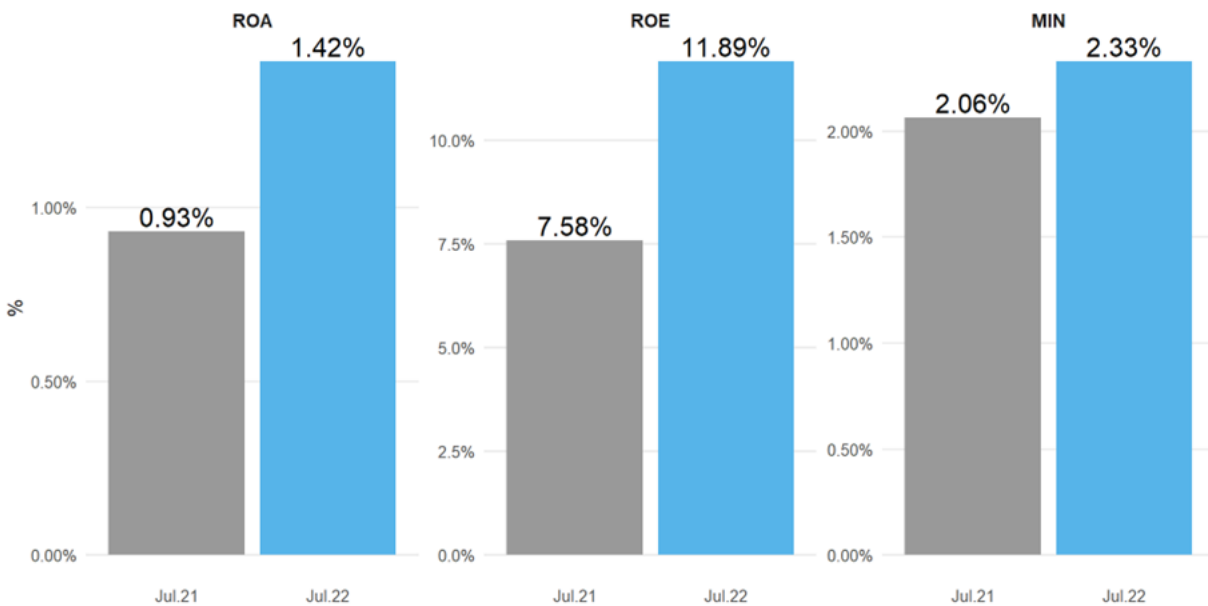
In nominal terms, both the IBC and the NBS record financial margins slightly higher than pre-pandemic ones, but not in real terms. We expect that banks in the system will continue with cost control and operational efficiency strategies. Currently, IBC efficiency levels are around 54%.

D. Profitability indicators

In July 2022, the IBC presented positive profitability indicators higher than those observed in previous months. In the accumulated through July, the total IBC results reached 1.42% (ROA) and 11.89% (ROE); i.e., a 0.49 bp and 4.31 bp, respectively, higher than those a year earlier (**Graph 3**). This increase occurred in an environment of higher income from financial intermediation and financial services provision, among others.

Although this result is positive, it is asymmetrical among credit entities, and there are still challenges ahead, among which are to finish recognizing the impairment of modified loans, maintaining the capitalization of profits to continue having capital strength, and continuing with the process of phasing out temporary regulatory flexibilities included in the modified loan categories.

Graph 3: Profitability Indicators - IBC
July 2021 – July 2022



Source: General and International License banks

E. Balance Sheet

The assets of the International Banking Center (IBC) totaled 136.54 billion, an USD 8.59 billion rise versus July 2021 or a year-on-year increase of 6.7%, which was the result of growths in the net loan portfolio (13%) and the securities account (13.5%). As we have mentioned in previous reports, on the liquid assets side, although they fell short (-18.5%), this is a reflection in counterpart of loan increases. Notably, over 80% of these assets are high-quality liquid assets; that is tier-one, placed in deposits with authorized entities and transformed into cash quickly and immediately, and whose loss of value is little or zero, as stated in the banking regulations and Basel standards on which local regulations are based.

In July 2022, the net loan portfolio of the International Banking Center grew 13.0% to reach USD 80.63 billion. In this way, the loan portfolio of the IBC continues to evolve favorably but underperforming because of the normalization of the global monetary policy and the lower growth perspective for the second half [of the year]. On the performance of the external loan portfolio, it increased by 34.8%.

Regarding the sources of bank financing, they represent a high percentage of the IBC's funding and finance its loan operations, which result in a low dependence of wholesale funding through market debt issuances, which are usually more volatile. IBC deposits, as of July 2022, totaled USD 97.31 billion, a year-on-year rise of USD 2.96 billion (3.1%), which is the resulting performance of external deposits, which grew 10.5% or USD 3.37 billion and domestic deposits that dropped by 0.7% or USD 410 [million] in nominal terms. Notably, although domestic deposits are underperforming, they are still higher versus pre-pandemic results. The deposits accumulated during 2020 and 2021, because of mobility restrictions and precautionary measures, are still positive and its decrease could reflect, among others, that households have used part of these savings to finance greater consumption in response to inflation hikes, without getting more financial commitments.

Obligations and other liabilities, for their part, presented increases of 3.4% and 0.9%, respectively, compared to July 2021. It is worth noting that, although bank deposits are on a record high and are the core component of the loan portfolio, the income collected by these instruments is more focused on investments in physical assets and capital goods, the integration of working capital, the refinancing of liabilities, and the integration of capital contributions in controlled or related ventures.

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

Breakdown	**2021**	**2022**	**Jul. 22/Jul. 21 Difference**	
	July	**July**	**Total**	**%**
Liquid assets	23,763	19,368	-4,394	-18.5%
Net loan portfolio	71,371	80,625	9,254	13.0%
Domestic	*52,294*	*54,552*	*2,258*	*4.3%*
External	*19,077*	*26,073*	*6,996*	*36.7%*
Securities	25,915	29,411	3,496	13.5%
Other assets	6,901	7,128	227	3.3%
Total Assets	**127,950**	**136,532**	**8,582**	**6.7%**
Deposits	94,348	97,302	2,955	3.1%
Domestic	*62,259*	*61,850*	*-410*	*-0.7%*
External	*32,089*	*35,453*	*3,364*	*10.5%*
Obligations	14,118	19,480	5,362	38.0%
Other liabilities	3,760	3,889	128	3.4%
Capital	15,723	15,861	138	0.9%

Source: General and International License banks

The assets of the National Banking System (general license banks only) totaled USD 119.62 billion, USD 5.54 billion or 4.9% more than that of July 2021. The net loan portfolio of the National Banking System showed a USD 6.68 billion (4.9%) increase amounting to USD 72.90 billion. Net external loans grew 32.6%, while the domestic portfolio had a performance of 4.3%. On the other hand, total deposits placed in the NBS amounted USD 84.65 billion, a 0.5% rise, which is the result of customer deposits.

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

Breakdown	2021	2022	Jul. 22/Jul. 21 Difference	
	July	July	Total	July
Liquid assets	19,062	15,581	-3,481	-18.3%
Net loan portfolio	66,120	72,891	6,771	10.2%
Domestic	*52,294*	*54,554*	*2,260*	*4.3%*
External	*13,826*	*18,337*	*4,510*	*32.6%*
Securities	22,232	24,367	2,136	9.6%
Other assets	6,671	6,781	110	1.7%
Total Assets	**114,085**	**119,620**	**5,535**	**4.9%**
Deposits	84,199	84,647	447	0.5%
Domestic	*62,174*	*61,639*	*-535*	*-0.9%*
External	*22,026*	*23,008*	*982*	*4.5%*
Obligations	14,002	19,000	4,999	35.7%
Other liabilities	3,598	3,719	121	3.4%
Capital	12,286	12,254	-32	-0.3%

Source: General License banks

F. Loans

As of July 2022, the domestic loan portfolio amounted to USD 56.85 billion, a USD 2.46 billion or 4.5% increase. At the sector level, the loan performance is still improving compared to that of July 2021. This would show that banking system loans continue to evolve favorably and that expectations of new placements are in an expansion area, but at decreasing rates.

As for the corporate portfolio, overall, all productive activities showed positive performances, except for loans to Mining and quarrying (-8.9%) and Construction (-9.7%). The household portfolio, made up of mortgages (+4.6%) and personal consumption (+3.8%), continues to show a positive performance in its different segments.

Table 5: National Banking System
Balance of domestic loan portfolio by economic sectors
(In millions of USD)

Sector	July 2021	July 2022	Jul. 22/Jul. 21 Difference	
			Total	%
TOTAL	**54,395**	**56,849**	**2,454.0**	**4.5%**
Public sector	1,443	1,336	-107.0	-7.4%
Private sector	52,952	55,513	2,561.0	4.8%
Financial & insurance activities	1,186	1,488	302.0	25.5%
Agriculture	415	463	49.0	11.7%
Livestock	1,358	1,396	38.0	2.8%
Fishing	87	113	26.0	29.5%
Mining & Quarrying	56	51	-5.0	-8.9%
Commerce	10,636	11,545	909.0	8.5%
Industry	2,729	3,185	456.0	16.7%
Mortgages	18,438	19,287	849.0	4.6%
Construction	5,552	5,013	-538.0	-9.7%
Personal consumption	12,496	12,971	475.0	3.8%

Source: General License banks

The flow of new loans to the domestic component granted from January to July 2022 was at 55.7%, higher than that granted in the same period a year earlier, but it is still under the influence of a comparison base effect. The advance of monthly data in the 2Q2022 shows even a greater increase with respect to the previous quarter, confirming the expansion of placements. The data shows that financial system disbursements have already reached pre-pandemic levels (**see Graph 4**).

Graph 4: New Loans
July 2018 – July 2022

Source: General License Banks

It is worth noting that when comparing loan granting to June 2022, there were decreases that totaled USD 150 million (-5.8%) and include activities such as agriculture, livestock, and household (in all its segments). Also noteworthy is the reduction recorded in industrial activities that contracted by USD 130 million (-41.8%), the latter being one of those that recorded the greatest falls. These decreases could be related to national protests and stoppages that occurred in July 2022. However, and on the bright side, loans to the State, the Financial Companies, and the Commercial sector for holiday season purchases offset these decreases, which affected this month's performance. These results would suggest that in the future, new protests could reduce domestic demand, slowing down loan growth and weakening asset quality. As a result, this could affect the operating performance of the banks and the entire financial system.

Table 6: National Banking System
New domestic loans by sectors and activities
(In millions of USD)

Sectors	June	July	Jan.-Jul.	Jan.- Jul.	Jul./Jun. 2022 Difference		Jan.-Jul. 22/21 Difference	
	2022 (P)	2022(P)	2021(R)	2022(P)	Total	%	Total	%
Public entity	186.6	195.9	113.7	792.8	9.4	5.0%	679.1	597.5%
Financial companies	151.4	169.1	356.0	852.4	17.7	11.7%	496.4	139.4%
Agriculture (incl. forestry)	*30.6*	*15.5*	*101.5*	*163.0*	*-15.1*	*-49.4%*	*61.5*	60.6%
Livestock	*109.0*	*72.5*	*287.8*	*469.1*	*-36.5*	*-33.5%*	*181.3*	63.0%
Fishing	2.6	5.4	24.1	18.6	2.9	112.7%	-5.6	-23.0%
Mining & Quarrying	0.5	0.4	6.3	10.2	-0.1	-23.9%	3.9	62.9%
Commerce (incl. Services)	1,213.9	1,262.2	3,854.2	6,696.9	48.3	4.0%	2,842.8	73.8%
Industry	311.4	181.3	1,426.8	1,417.8	-130.1	-41.8%	-9.0	-0.6%
Mortgages	*185.2*	*183.5*	*973.4*	*1,178.9*	*-1.7*	*-0.9%*	*205.5*	21.1%
Construction	*177.3*	*164.0*	*632.4*	*913.1*	*-13.3*	*-7.5%*	*280.7*	44.4%
Personal consumption	212.1	180.9	1,089.1	1,293.4	-31.2	-14.7%	204.3	18.8%
TOTAL	2,580.5	2,430.8	8,865.1	13,806.2	-149.8	-5.8%	4,941.0	55.7%

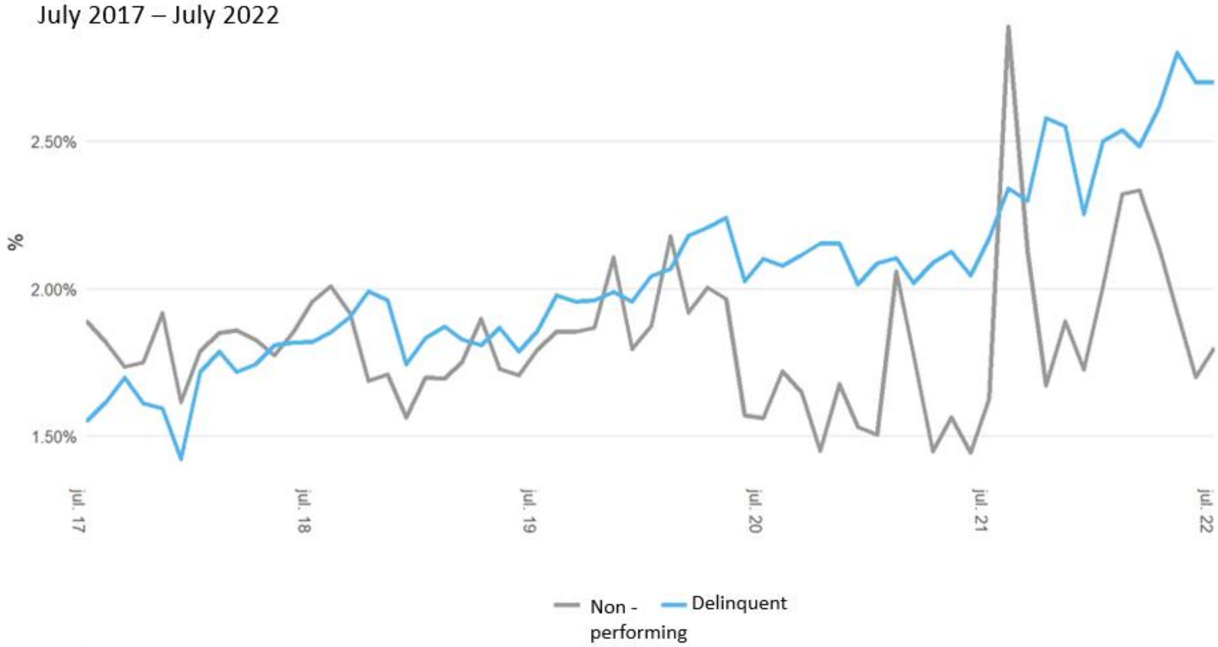
Source: General License banks

G. Credit Risk

As of July 2022, the National Banking System (NBS) recorded a delinquency ratio of 4.5%, of which 1.8% represents loans with arrears of 30+ days and 2.7% for loans with arrears of over 90+ days. We observe a stable performance before, during, and after the pandemic which, in certain way, is because of regulatory changes that permitted banking relief [measures] and which are gradually returning to normal.

Graph 5: Portfolio Quality: Nonperforming and Delinquent

July 2017 – July 2022



Source: General License Banks

For the Household sector, made up of Mortgages and Personal Consumption, as of the end of July 2022, the delinquency ratio is 7.6% and 6.9%, respectively. Credit card delinquency (14.1% in July 2022) is one of the highest among consumer loans. The rest of the activities have remained stable or have even shown improvements most recently.

As for corporate activities, such as Agriculture, the delinquency is 8.1%; Construction, which has also been one of the most affected sectors during this period, has a delinquency [rate] of 5.4%; meanwhile, Commerce has a default rate of 3.7%.

H. NBS Modified [Loan] Portfolio Structure

As part of the efforts to mitigate the financial risks caused by the pandemic, the SBP developed regulations to focus the efforts of the supervised entities on the definition and implementation of actions to mitigate the effects of the financial market conditions and the health emergency, included today in a so-called modified portfolio. This portfolio, as of July 2022, totaled USD 3.85 billion.

The foregoing would represent 72.2% less than that of July 2021. The sectors with the greatest shifting towards the regular portfolio under Rule 4-2013 are the household segment and the real estate sector.

On the other hand, in the framework of the classification established by Board of Directors' General Resolution SBP-GJD-0003-2021, as of the end of July 2022, the portfolios that could entail the greatest risk would be the modified doubtful and modified loss, because they were unable to make payment rearrangements and amount to USD 1.06 billion. All these performances connect to the improvement in monthly installments, however, the portfolio classified in this category is still higher and could entail greater provisioning.

Table 7: Modified loans of the National Banking System by Economic Activity
(In millions of USD)

Sectors	2021 July	2022 July	Total Diff.	% Diff.
Mortgages	6,454	1,878	-4,576	-71%
Consumer	2,811	985	-1,826	-65%
Construction	1,928	311	-1,617	-84%
Services	1,677	408	-1,269	-76%
Commerce	814	160	-654	-80%
Industry	161	31	-130	-81%
Others	264	77	-187	-71%
Total	14,109	3,850	-10,259	-73%

Source: General License Banks

As of July 2022, the household modified [loan] portfolio rises to USD 2.73 billion and accounts for 70.9% of the modified loan portfolio.

I. Deposits

The deposits of the International Banking Center for July 2022 recorded USD 97.31 billion, USD 2.96 billion more (+3.1%) versus July 2021 (**See Table 8**). Domestic deposits recorded a decrease during the surveyed period of USD 410 million, which represents a decline of 0.7% compared to July 2021, because of a reduction of bank institutional deposits (-4.4%) and state deposits (-5.3%). Domestic customer deposits keep growing (+0.8%), but at a slower pace.

Notably, although those domestic customer deposits are currently underperforming, they are still higher versus pre-pandemic results. The deposits accumulated during 2020 and 2021, because of mobility restrictions and precautionary measures, are still positive and its slower growth rate (in the case of customer) could reflect, among others, that households have used part of these savings to finance greater consumption in response to inflation hikes, without getting more financial commitments. This is still a positive balance in deposits, in addition to strengthening the balance of customers who were able to increase their savings at the face of new shocks, could continue to benefit consumption in the remainder of 2022 and in 2023.

On the other hand, external deposits grew by USD 3.37 billion reaching USD 35.46 billion. It is worth noting that the increase in global inflation, as well as the expectation that major central banks will fix interest rate hikes in the future, in addition to exchange rate uncertainty, have affected the demand for domestic financial assets and liabilities in the past.

Table 8: International Banking Center
Total Deposits
(In millions of USD)

	2021	2022	Jul. 22/Jul. 21 Difference.	
	July	July	Total	%
Total Deposits	**94,348.00**	**97,302.00**	**2,955.00**	**3.10%**
Domestic	**62,259.00**	**61,850.00**	**-410**	**-0.7%**
Government	*11,879*	*11,252*	*-627*	*-5.3%*
Customer	*47,051*	*47,414*	*363*	*0.8%*
Banks	3,330	3,183	-146	-4.4%
External	**32,089**	**35,453**	**3,364**	**10.5%**
Government	*177*	*367*	*189*	*106.9%*
Customer	*24,387*	*27,609*	*3,222*	*13.2%*
Banks	7,525	7,477	-48	-0.6%

Source: General and International License banks.

In the case of the banks of the National Banking System, there is a trend like that of the IBC, recording a balance of USD 84.65 billion, a 0.5% increase versus July 2021, driven by external deposits as domestic deposits are underperforming (**see Table 9**).

Table 9: National Banking System
Total Deposits
(In millions of USD)

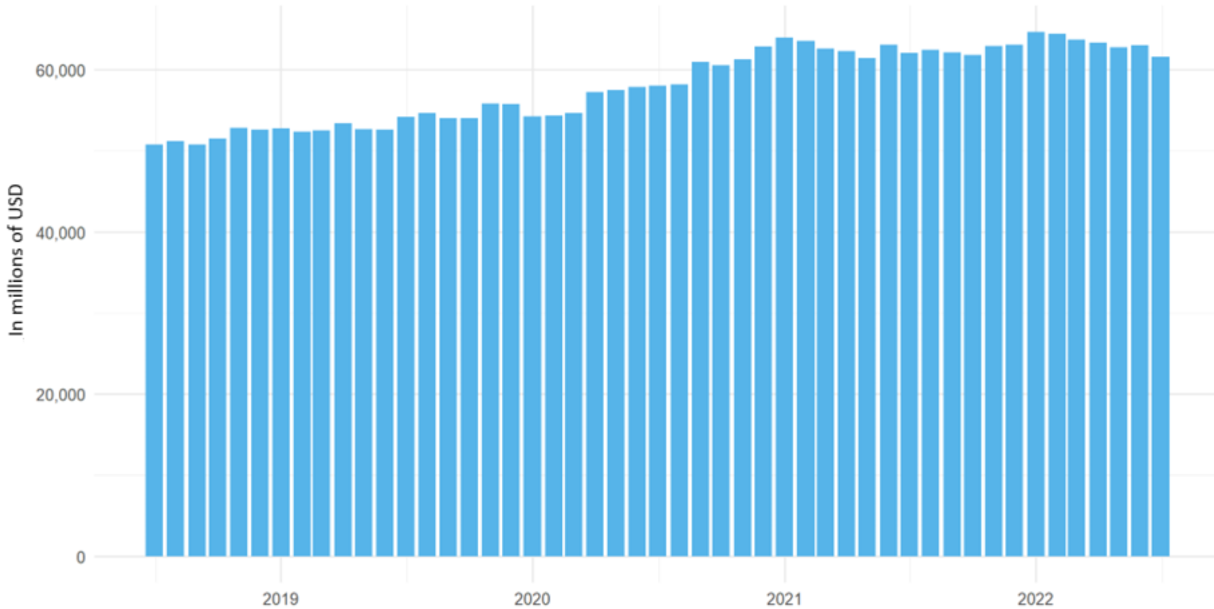
Accounts	2021	2022	Jul. 22/Jul. 21 Difference.	
	July	July	Total	July
Total Deposits	**84,199.00**	**84,647.00**	**447.00**	**0.50%**
Domestic	**62,174.00**	**61,639.00**	**-535**	**-0.90%**
Government	*11,879*	*11,252*	*-627*	*-5.30%*
Customer	*47,051*	*47,414*	*363*	*0.80%*
Banks	3,245	2,973	-272	-8.40%
External	**22,026**	**23,008**	**982**	**4.50%**
Government	*177*	*357*	*180*	*101.40%*
Customer	*14,863*	*15,645*	*782*	*5.30%*
Banks	6,986	7,006	20	0.30%

Source: General License banks.

The structure of the IBC deposits is based on collecting customers and corporate deposits, which hold 85% of total deposits and the remaining 15% are interbank positions. Remarkably, domestic deposits of the National Banking System account for 72.8% of total NBS deposits. To date, customer deposits have shown resilience and there are no short-term reductions that could indicate that there could be a situation that exposes the group of banks. **Graph 6** shows the evolution of domestic deposit balances.

Graph 6: Total Domestic Deposits

July 2018 – July 2022

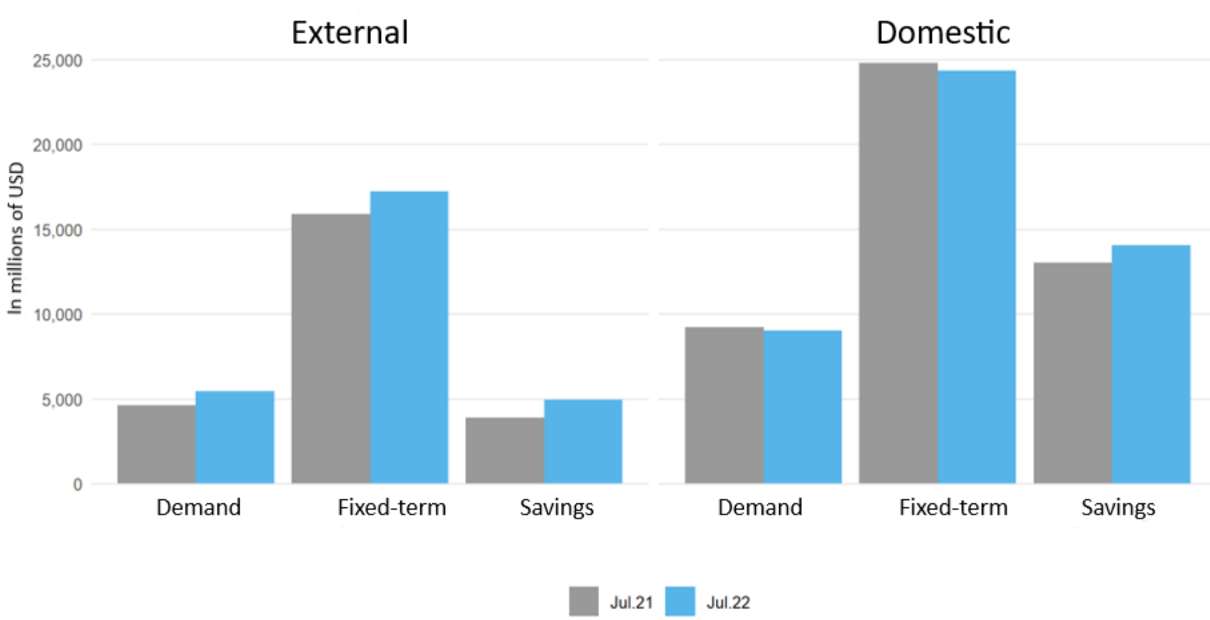


Source: General license banks.

Regarding the structure of customer liabilities by maturity, fixed-term deposits continue to be the most important savings instrument. In the Banking Center, as of July 2022, domestic customer fixed-term deposits amounted to USD 24.37 billion, followed by savings rising to USD 14.04 billion, and demand deposits totaling USD 9.02 billion.

Graph 7: Customer Deposits

July 2021 – July 2022



Source: General and International license banks.

Domestic customer deposits kept in the financial system increased (+7.60%). In this way, we continue to record a rearrangement of bank deposits, as immediate demand deposits increased since depositors sought to have greater availability and liquidity of their resources but with paid interest. It is worth noting that the structure of these highly liquid liabilities should work for a greater spending willingness, something that could support consumption in the future.

The reactivation of economic activity, which favored a greater flow of income from the sale of goods and services, as well as the substitution of part of term resources, could explain the increase observed in the performance of demand deposits.

On the other hand, the growth of fixed-term deposits has lost momentum. Although a couple of months ago the reported balances skyrocketed, in July customer fixed-term deposits fell. Notably, the performance observed in fixed-term deposits could, among others, be related to the expectation of upward trend changes in interest rates. Similarly, hikes in interest paid on fixed-term deposits is still incipient. Although in the past, these payments increased significantly at the face of external rate hikes, they could be lagging due to the lower needs for funds by financial entities in an environment in which they still have high liquidity ratios and deposits balances widely exceeding credit.

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