Banking Activity Report

August 2022

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Executive Summary

As of August 2022, the lending operations of the International Banking Center (IBC) maintained a positive performance despite the disruptions that occurred at the beginning of the second half [of the year]. In this way, the dynamics of consolidation that the financial system has shown has made it possible to maintain the credit supply, guaranteeing an orderly adjustment in terms of credit risk, ensuring access to savers' resources, and preserving continuity in financial service provision. The performance of the International Banking Center and the effects of the measures adopted by authorities allow us to confirm that, at the end of the eighth month of the year, the capital capacity and proper risk management remained favorable, which translated into appropriate solvency and liquidity levels at 15.1% and 56.4%, respectively.

The assets of the International Banking Center totaled USD 137.37 billion, a USD 6.55 billion increase versus August 2021 or a year-on-year rise of 5.0%, which was the result of increases in the net loan portfolio (12.8%) and the securities account (7.7%). As we have mentioned in previous reports, on the liquid assets side, although they fell short (-18.9%), this is a counterpart reflection 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 9.23 billion or a 12.8% growth annually. In this juncture, the portfolio reached USD 81.26 billion. The sustained increase in the loan portfolio responds to the boost given by entities to the placement of productive loans on commercial and mortgage loans. On the performance of the external loan portfolio, it increased by 33.9%.

The domestic loan portfolio to August 2022 recorded a total of USD 57.17 billion, a USD 2.72 billion or 5.0% increase, which is higher than the 4.8% recorded in August, the 4.4% in June, and 3.4% in May, which speaks of the upward trend in loan placement by banks, although this trend could slow down in the future. Regarding loan applications and granting so far this year, they continue to grow compared to 2021, casting a positive outlook for the financial system, which is still recovering from the lags of the pandemic. As for the flow of new domestic loans granted during the January to August 2022 period, it stood at 58%, higher than that granted in the same period a year earlier, however, it is still under the influence of a base comparison effect. The data shows that month-to-month financial system granting have already reached pre-pandemic average monthly levels. During this month, most segments showed new double-digit loans, except for consumer portfolio, which could suggest a slowdown in this segment.

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. An efficient asset and liability management, sustained profitability ratios, and a sound capitalization should help mitigate risks. As of August 2022, the National Banking System (NBS) recorded a delinquency ratio of 4.4%, of which 1.7% represents loans with arrears of 30+ days and 2.6% for loans with arrears of over 90+ days.

The total modified [loan] portfolio as of August 2022 totaled USD 3.42 billion, which represented a reduction of USD 75.2% versus the same period of 2021. Remarkably, the modified [loan] household portfolio, as of August 2022, reaches USD 2.73 billion and allocates for 70.9% of the loans within the modified portfolio. The highest-risk components of this portfolio, i.e., the loans under the modified doubtful and modified loss categories amount to USD 993 million, being the first time that it is below USD 1 billion. The modified household portfolio, as of August 2022, reaches USD 2.44 billion and represents 71.3% of the loans within the modified [loan] portfolio. This downward trend of the portfolio suggests the need to update the regulations on this type of portfolio and to promptly reestablish Rule 4-2013 on credit risk.

For August 2022, the International Banking Center recorded net profits for USD 1.26 billion, which is equivalent to USD 423.3 million more compared to August 2021 or a year-on-year increase of 50.7%. 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. With this result, the net profit of the banking system would consolidate levels closer to the pre-pandemic period.

The deposits of the International Banking Center for August 2022 recorded USD 97.73 billion, USD 1.20 billion more (+1.2%) versus August 2021 (**see Graph 8**). Domestic deposits recorded a decrease during the surveyed period of USD 788.2 million (-1.3%) versus August 2021, because of a reduction of customer deposits (-0.1%), bank institutional deposits (-1.4%), and state deposits (-6.0%). Currently, domestic deposits are underperforming, which could reflect greater consumption in response to inflation hikes, without necessarily increasing their financial commitments. 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 potential risks arising from a juncture marked by exogenous factors, such as global monetary policy standardization, market volatility and inflation behavior, it is necessary to continue monitoring the effects of the international and domestic environment on the performance of market liquidity and solvency, maintaining the permanent dialogue of the financial authorities, to continue ensuring stability of the financial system in the current juncture. In this context and for the sake of identifying areas for improving the financial system's resilience, Panama has requested an assessment to the Panamanian financial system's structure, practices, and risks called Financial Sector Assessment Program (FSAP) conducted by the IMF and the World Bank, which assesses the adoption of best practices and the system's prudential standards and would be carried out from IVQ2022 and would conclude on the second half of 2023.

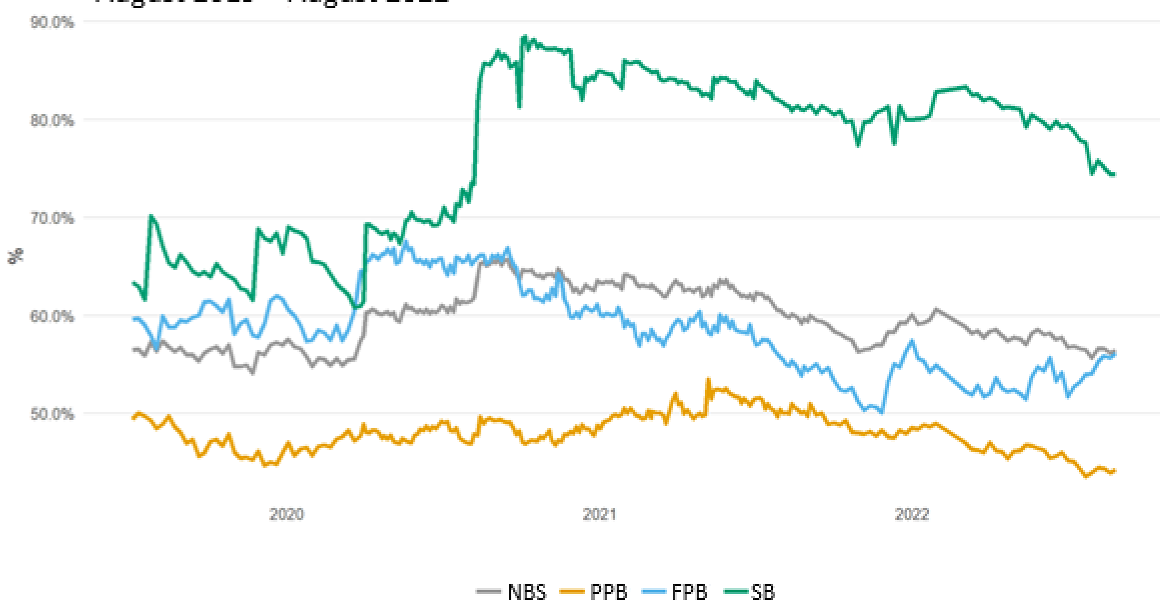
A. Liquidity

As of August 2022, the liquidity of the Banking System reached 56.4%, which exceeds the regulatory minimums on the matter. Currently, local banks are in a well-heeled position with respect to regulatory requirements, which would allow them to face market volatility, because, in large part, to their robust liquidity and reduced dependance on external financing. The banks of the system have historically had robust liquidity buffers and constant access to structural deposits, which are a fundamental part of their funding.

In relation to liquidity to date, although there has been a 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

August 2019 – August 2022



Source: General License Banks

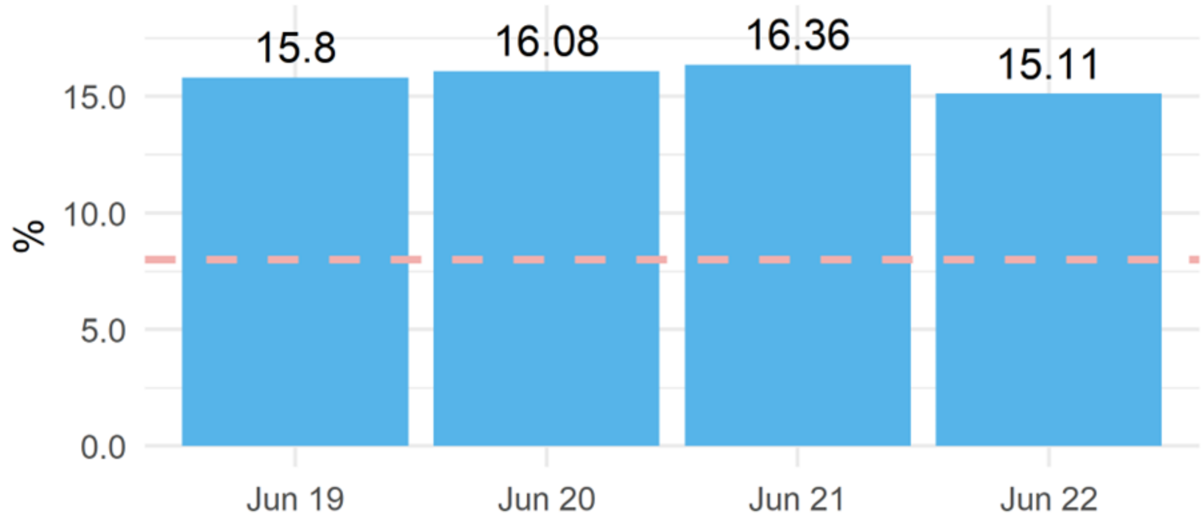
B. Solvency

At the end of the first half of 2022, 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 IIQ2022 (**see Graph 2**), easily exceeding the regulatory minimum of 8%. Capital compliance 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 August 2022, the International Banking Center recorded net profits for USD 1.26 billion, which is equivalent to USD 423.3 million more than that of August 2021 or a year-on-year increase of 50.7%. %. 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. With this result, the net profit of the banking system would consolidate levels closer to the pre-pandemic period.

Thus, 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 (+29.8%) and net interest income (+17.7%) in its portfolio and investment interest income items. It is noteworthy that because of the cycle of interbank market interest rate hikes, profits from deposits increased by 76%, therefore this item would be 6.3% of interest income.

Operating expenses amounted to USD 1.94 billion or a year-on-year rise of 26.0%. 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 when provisions for USD 411.6 million were set, they decreased by 25.1%, when compared with that of August 2021 (and they are approximately USD 138.0 million less than that of a year earlier). It is worth noting that the lower reserves for credit risks, now that the effects of the COVID-19 pandemic were mitigated, continued to drive banks' profits so far in 2022. However, 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.-Aug. 2021	Jan.-Aug. 2022	Difference %	Difference USD
Net interest income	1,518.1	1,786.2	17.7%	268.2
Other income	1,399.5	1,815.8	29.8%	416.3
Operating income	*2,917.5*	*3,602.0*	*23.5%*	*684.5*
General expenses	*1,532.9*	*1,932.1*	*26.0%*	*399.2*
Profit before provisions	1,384.6	1,669.9	20.6%	285.3
Provisioning expenses	549.6	411.6	-25.1%	-138.0
Profit for the period	**835.0**	**1,258.3**	**50.7%**	**423.3**

Source: General and International License banks.

The National Banking System recorded accumulated net profits, as of August 2022, of USD 1.02 billion, 40.4% more than that of August 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.-Aug. 2021	Jan.-Aug. 2022	Difference %	Difference USD
Net interest income	1,442.6	1,658.1	14.94%	215.6
Other income	1,222.1	1,523.0	24.62%	300.9
Operating income	*2,664.6*	*3,181.1*	*19.38%*	*516.4*
General expenses	*1,391.8*	*1,762.3*	*26.62%*	*370.5*
Profit before provisions	1,272.9	1,418.8	11.47%	145.9
Provisioning expenses	547.1	399.6	-26.96%	-147.5
Profit for the period	**725.8**	**1,019.2**	**40.43%**	**293.4**

Source: General license banks.

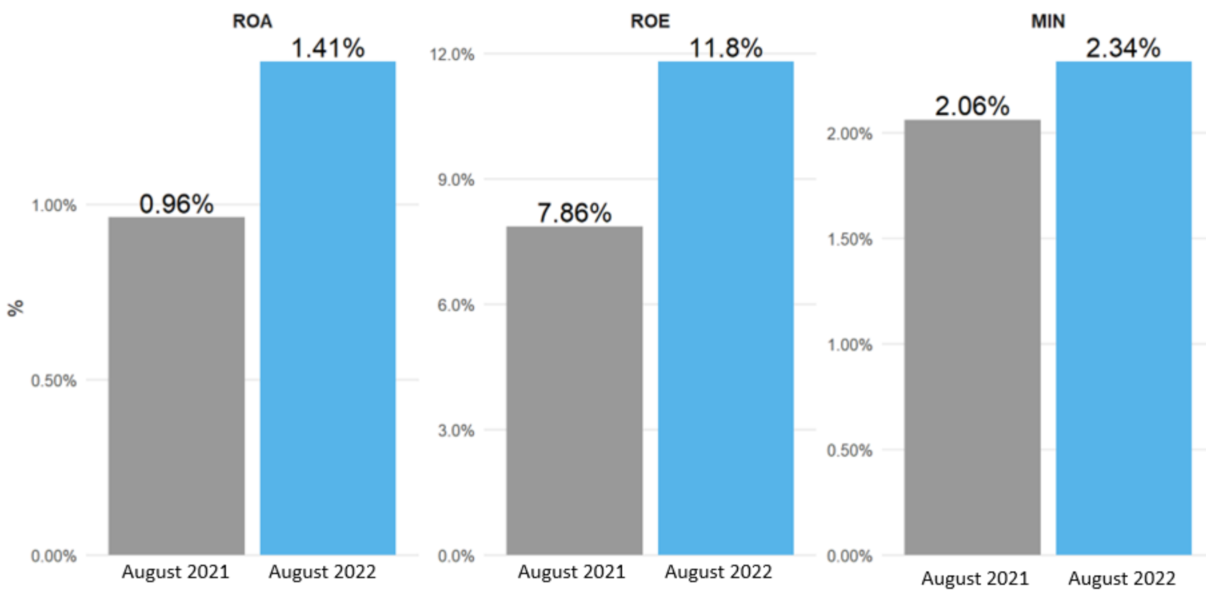
In nominal terms, both the IBC and the NBS record financial margins slightly higher than pre-pandemic ones. We expect that banks in the system will continue with cost control and operational efficiency strategies. Currently, IBC efficiency levels are around 54%.

D. Profitability indicators

In August 2022, the IBC presented positive profitability indicators higher than those observed in previous months. In the accumulated through August, the total IBC results reached 1.41% (ROA) and 11.8% (ROE); i.e., 44 bp and 395 bp, respectively, higher than those a year earlier (**see 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
August 2021 – August 2022



Source: General and International License banks

E. Balance Sheet

The assets of the International Banking Center totaled 137.37 billion, a USD 6.55 billion rise versus August 2021 or a year-on-year increase of 5.0%, which was the result of growths in the net loan portfolio (12.8%) and the securities account (7.7%). As we have mentioned in previous reports, on the liquid assets side, although they fell short (-18.9%), this is a reflection in counterpart of loan increases. Notably, over 80% of these 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 August 2022, the net loan portfolio of the International Banking Center grew 12.8% to reach USD 81.26 billion. In this way, the loan portfolio of the IBC continues to evolve favorably and the expectations for new placements are standing on an expansion zone but underperforming because of the standardization 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 33.9%.

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 August 2022, totaled USD 97.73 billion, a year-on-year rise of USD 1.20 billion (1.2%), which is the resulting performance of external deposits, which grew 5.8% or USD 1.99 billion and domestic deposits that dropped 1.3% or USD 788 [million] in nominal terms.
Obligations presented increases of 39.6%, while liabilities declined 4.4% compared to August 2021. As for obligations, it is worth noting that, although bank deposits are on a record high and are the core component of the loan portfolio, the net 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. Although there are increases in the cost of borrowing, current market conditions could produce an appetite for this kind of strategies to mitigate liquidity risks in the future, to reduce the uncertainty of even higher rates that could compromise new investment decisions, and take advantage of the flattening of the curve that exists between the short- and medium-term rates.

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

Breakdown	**2021**	**2022**	**Aug. 22/Aug. 21 Difference**	
	August	**August**	**Total**	**%**
Liquid assets	23,992	19,450	-4,542	-18.9%
Net loan portfolio	72,028	81,257	9,229	12.8%
Domestic	*52,329*	*54,889*	*2,560*	*4.9%*
External	*19,700*	*26,368*	*6,669*	*33.9%*
Securities	27,391	29,500	2,109	7.7%
Other assets	7,411	7,163	-248	-3.3%
Total Assets	**130,822**	**137,370**	**6,548**	**5.0%**
Deposits	96,526	97,721	1,195	1.2%
Domestic	*62,474*	*61,685*	*-788*	*-1.3%*
External	*34,052*	*36,035*	*1,983*	*5.8%*
Obligations	14,328	19,996	5,667	39.6%
Other liabilities	3,907	3,734	-173	-4.4%
Capital	16,061	15,920	-141	-0.9%

Source: General and International License banks

The assets of the National Banking System (general license banks only) totaled USD 120.40 billion, USD 6.69 billion or 5.9% more than that of August 2021. The net loan portfolio of the National Banking System showed a USD 7.36 billion (11.1%) increase amounting to USD 73.64 billion. Net external loans grew 34.4%, while the net domestic portfolio had a performance of 4.9%. On the other hand, total deposits placed in the NBS amounted USD 84.93 billion, a 1.1% rise, which is the result of customer deposits.

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

Breakdown	2021	2022	Aug. 22/Aug. 21 Difference	
	August	August	Total	August
Liquid assets	18,419	15,427	-2,991	-16.2%
Net loan portfolio	66,277	73,636	7,358	11.1%
Domestic	*52,329*	*54,891*	*2,563*	*4.9%*
External	*13,949*	*18,744*	*4,795*	*34.4%*
Securities	22,409	24,562	2,153	9.6%
Other assets	6,602	6,770	168	2.5%
Total Assets	**113,707**	**120,395**	**6,688**	**5.9%**
Deposits	84,036	84,929	893	1.1%
Domestic	*62,388*	*61,475*	*-913*	*-1.5%*
External	*21,648*	*23,453*	*1,806*	*8.3%*
Obligations	13,997	19,595	5,598	40.0%
Other liabilities	3,292	3,555	262	8.0%
Capital	12,382	12,317	-65	-0.5%

Source: General License banks

F. Loans

The domestic loan portfolio to August 2022 recorded a total of USD 57.17 billion, a USD 2.72 billion or 5.0% increase. Regarding the loan portfolio to the private sector, banks had an annual nominal increase of 5.4% to totalize USD 55.84 billion, which is higher than the 4.8% recorded in August, the 4.4% in June, and 3.4% in May, which speaks of the upward trend in loan placement by banks, although this trend could slow down in the future.

As for the corporate portfolio in August 2022, all productive activities showed positive performances, except for loans to Mining and quarrying (-7.7%) and Construction (-8.2%). The household portfolio, made up of mortgages (+5.8%) and personal consumption (+3.6%), 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	August 2021	August 2022	Aug. 22/Aug. 21 Difference	
			Total	%
TOTAL	**54,446.8**	**57,164.9**	**2,718.1**	**5.0%**

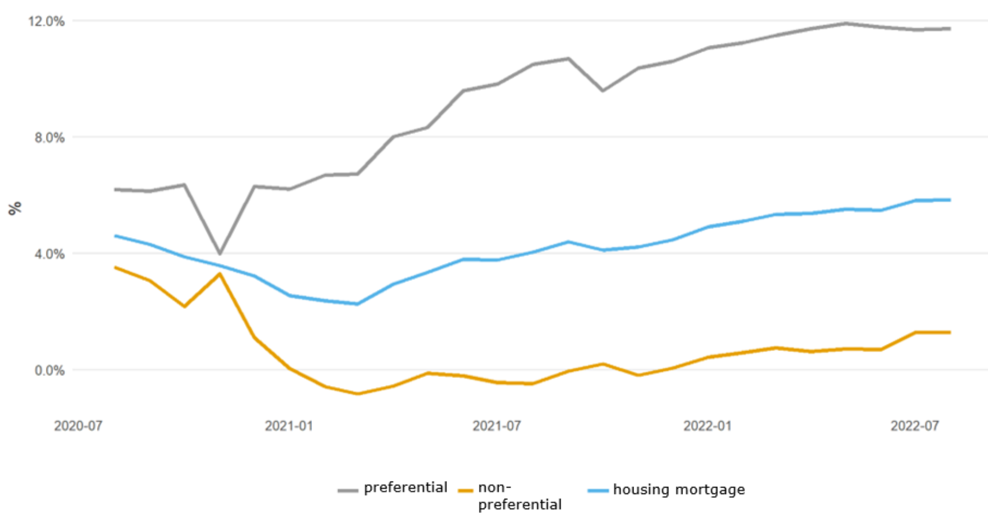
Sector	August 2021	August 2022	Aug. 22/Aug. 21 Difference	
			Total	%
Public sector	1,458.6	1,326.7	-131.9	-9.0%
Private sector	52,988.2	55,838.2	2,850.0	5.4%
Financial & insurance activities	1,209.8	1,551.0	341.3	28.2%
Agriculture	429.1	467.1	37.9	8.8%
Livestock	1,382.0	1,406.6	24.6	1.8%
Fishing	82.9	111.6	28.7	34.6%
Mining & Quarrying	54.6	50.4	-4.2	-7.7%
Commerce	10,563.2	11,726.0	1,162.9	11.0%
Industry	2,665.3	3,127.0	461.7	17.3%
Mortgages	18,577.8	19,374.9	797.0	4.3%
Construction	5,490.6	5,040.5	-450.1	-8.2%
Personal consumption	12,532.9	12,983.1	450.2	3.6%

Source: General License banks

The balance in terms of mortgage loans (commercial premises and housing loans) is positive and recorded a 4.3% increase. As for housing loans, banks have been increasing their disbursement significantly, recording, as of August 2022, a year-on-year increase of 5.8% in the amount placed; the portfolio balance covered by this survey reached USD 16.67 billion.

Regarding the data by type of financing for this segment, preferential interest rate loans grew by 11.7% and non-preferential interest rate loans by 1.3%. The foregoing implies that the performance of the housing market relies heavily on the subsidy regime. It is worth noting that, from the balance perspective, the largest component of the portfolio corresponds to non-preferential interest rate loans (53.9% of the total housing mortgage portfolio).

Graph 4: Housing Portfolio Growth
August 2020 – August 2022



Source: General License Banks

Regarding loan applications and granting so far this year, they continue to grow compared to 2021, casting a positive outlook for the financial system, which is still recovering from the lags of the pandemic. As for the flow of new domestic loans granted during the January to August 2022 period, it stood at 58%, higher than that granted in the same period a year earlier, however, it is still under the influence of a base comparison effect. The monthly data as for IIQ2022 shows an even greater increase compared to IQ2022, confirming placement expansion. The data shows that month-to-month financial system granting have already reached pre-pandemic average monthly levels (**see Graph 4**).

Graph 5: New Loans
August 2018 – August 2022

Source: General License Banks

Most segments showed new double-digit loans, except for consumer portfolio, which could suggest a slowdown in this segment. Although consumer portfolio performance is positive, it has started to show signs of moderation in its growth rate. We anticipate that, although the consumer portfolio performance is positive, in the future, it could slow down if the following occurs: a deceleration in formal employment growth, higher inflation that has a negative and prolonged impact on real wages, which could result in an underperformance of consumer loan portfolio, and lower savings rates.

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

Sectors	Aug. 2022 (P)	Aug. 2022(P)	Jan.-Aug. 2021	Jan.- Aug. 2022	Aug./Jul. 2022 Difference Total	Aug./Jul. 2022 Difference %	Jan.-Aug. 22/21 Difference Total	Jan.-Aug. 22/21 Difference %
Public entity	43.0	188.2	156.6	981.0	145.2	337.96%	824.4	526.26%
Financial companies	25.4	154.7	381.4	1,007.1	129.3	508.92%	625.7	164.06%
Agriculture (incl. forestry)	*28.3*	*14.8*	*129.8*	*177.8*	*-13.6*	*-47.89%*	*47.9*	*36.92%*

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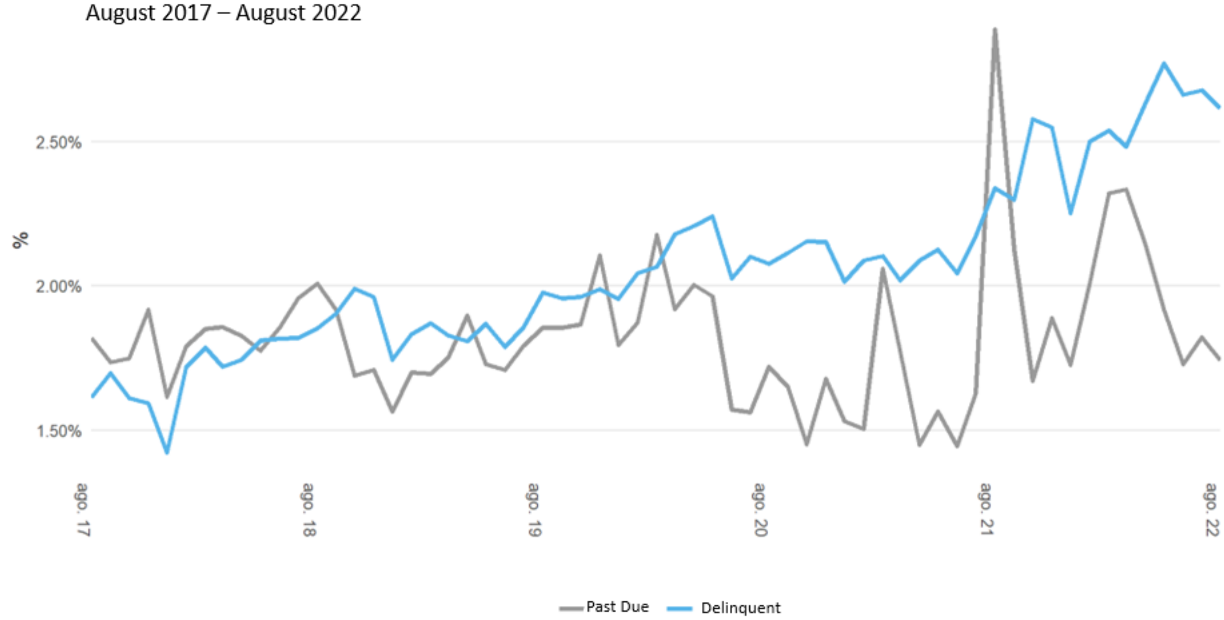
Sectors	Aug. 2022 (P)	Aug. 2022(P)	Jan.-Aug. 2021	Jan.- Aug. 2022	Aug./Jul. 2022 Difference Total	%	Jan.-Aug. 22/21 Difference Total	%
Livestock	*60.1*	*61.8*	*347.9*	*530.9*	*1.7*	*2.84%*	*183.0*	*52.61%*
Fishing	2.7	5.4	26.8	24.0	2.8	103.56%	-2.8	-10.38%
Mining & Quarrying	0.1	0.4	6.3	10.6	0.3	512.28%	4.3	67.28%
Commerce (incl. Services)	596.5	1,190.1	4,450.6	7,887.1	593.7	99.53%	3,436.4	77.21%
Industry	86.5	172.1	1,513.4	1,589.9	85.6	98.91%	76.6	5.06%
Mortgages	*180.0*	*182.0*	*1,153.4*	*1,360.9*	*2.0*	*1.11%*	*207.5*	*17.99%*
Construction	*79.8*	*153.9*	*712.2*	*1,067.0*	*74.1*	*92.78%*	*354.8*	*49.81%*
Personal consumption	181.0	183.9	1,270.1	1,477.3	2.9	1.60%	207.2	16.32%
TOTAL	1,283.5	2,307.5	10,148.6	16,113.7	1,024.0	79.79%	5,965.0	58.78%

G. Credit Risk

As of August 2022, the National Banking System recorded a delinquency ratio of 4.4%, of which 1.7% represents loans with arrears of 30+ days and 2.6% for loans with arrears of over 90+ days.

The delinquency ratio has been increasing due to the overdue component (**see Graph 6**). We expect that asset quality will be weaker in the coming months, although it should remain manageable thanks to banks' conservative growth strategies and lending practices, with a focus on clients with adequate borrowing capacity. A prominent level of loan loss reserves, sustained profitability, and strong capitalization should allow for risk mitigation.

Graph 6: Portfolio Quality: Past Due and Delinquent
August 2017 – August 2022



Source: General License Banks

H. NBS Modified [Loan] Portfolio Structure

As part of the labors to mitigate the financial risks caused by the pandemic, the SBP developed various 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 [loan] portfolio. This portfolio, as of August 2022, totaled USD 3.42 billion.

The foregoing would represent 75.2% less than that of August 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 August 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 993 million, being the first time that it is below USD 1 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 August	2022 August	Total Diff.	% Diff.
Mortgages	1,669.0	6,353.5	-4,684.5	-73.7%
Consumer	883.2	2,740.8	-1,857.7	-67.8%
Construction	263.4	1,884.1	-1,620.7	-86.0%
Services	367.1	1,613.6	-1,246.5	-77.2%
Commerce	150.1	774.8	-624.7	-80.6%
Industry	12.9	147.0	-134.1	-91.2%
Others	66.6	261.2	-194.6	-74.5%
Total	3,412	13,775	-10,362.9	-75.2%

Source: General License Banks

As of August 2022, the household modified [loan] portfolio rises to USD 2.44 billion and accounts for 71.3% of the modified loan portfolio.

I. Deposits

The deposits of the International Banking Center for August 2022 recorded USD 97.73 billion, USD 1.20 billion more (+1.2%) versus August 2021 (**See Table 8**). Domestic deposits recorded a decrease during the surveyed period of USD 788.2 million, which represents a decline of 1.3% compared to August 2021, because of a reduction of customer deposits (-0.1%), bank institutional deposits (-1.4%), and state deposits (-6.0%).

Currently, domestic deposits are underperforming, which could reflect, among others, that households have used part of these savings to finance greater consumption in response to inflation hikes, without necessarily increasing their financial commitments. Additionally, the underperformance of these instruments is, in part, due to a substitution effect, since holders have chosen to reallocate part of their liquidity towards longer-term instruments (a process that could be in its initial phases).

On the other hand, external deposits grew by USD 1.99 billion reaching USD 36.04 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	Aug. 22/Aug. 21 Difference.	
	August	August	Total	%
Total Deposits	**96,526.1**	**97,720.7**	**1,194.6**	**1.2%**
Domestic	**62,473.7**	**61,685.4**	**-788.2**	**-1.3%**
Government	*11,627.3*	*10,932.7*	*-694.6*	*-6.0%*
Customer	*47,486.8*	*47,441.3*	*-45.5*	*-0.1%*
Banks	3,359.5	3,311.4	-48.1	-1.4%
External	**34,052.5**	**36,035.3**	**1,982.9**	**5.8%**
Government	*185.9*	*365.4*	*179.5*	*96.6%*
Customer	*26,616.2*	*28,031.6*	*1,415.4*	*5.3%*
Banks	7,250.4	7,638.3	387.9	5.3%

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 84.93 billion, a 1.1% increase versus August 2021, driven by external deposits as domestic deposits are underperforming (**see Table 9**).

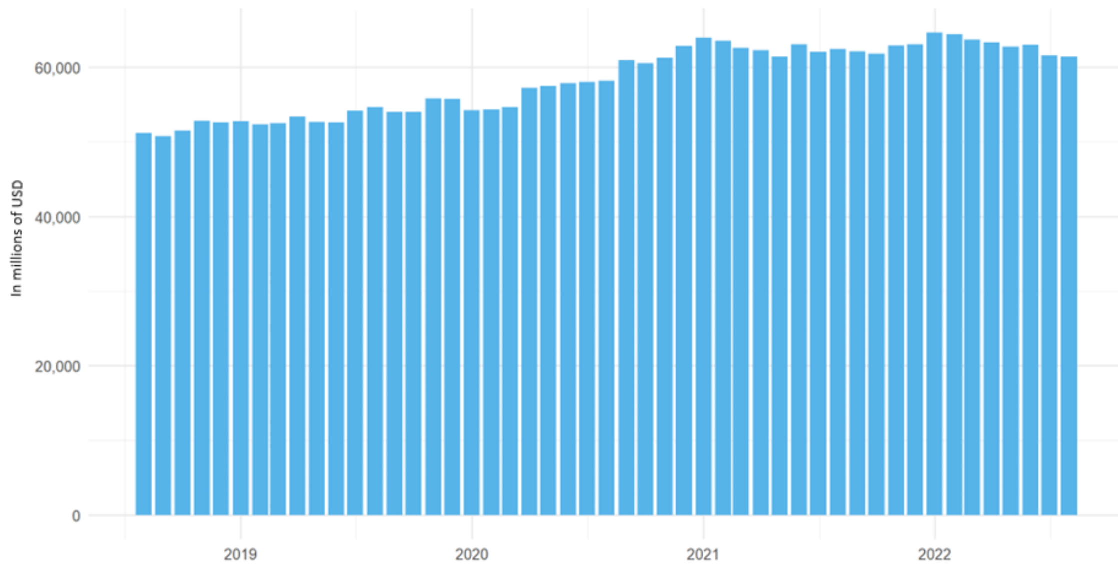
Table 9: National Banking System
Total Deposits
(In millions of USD)

Accounts	2021	2022	Aug. 22/Aug. 21 Difference.	
	August	August	Total	August
Total Deposits	**84,036**	**84,929**	**893**	**1.1%**
Domestic	**62,388**	**61,475**	**-913**	**-1.5%**
Government	*11,627*	*10,933*	*-695*	*-6.0%*
Customer	*47,487*	*47,441*	*-46*	*-0.1%*
Banks	3,274	3,101	-173	-5.3%
External	**21,648**	**23,453**	**1,806**	**8.3%**
Government	*186*	*357*	*171*	*92.0%*
Customer	*14,713*	*15,939*	*1,226*	*8.3%*
Banks	6,749	7,157	409	6.1%

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 72.4% 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 7** shows the evolution of domestic deposit balance.

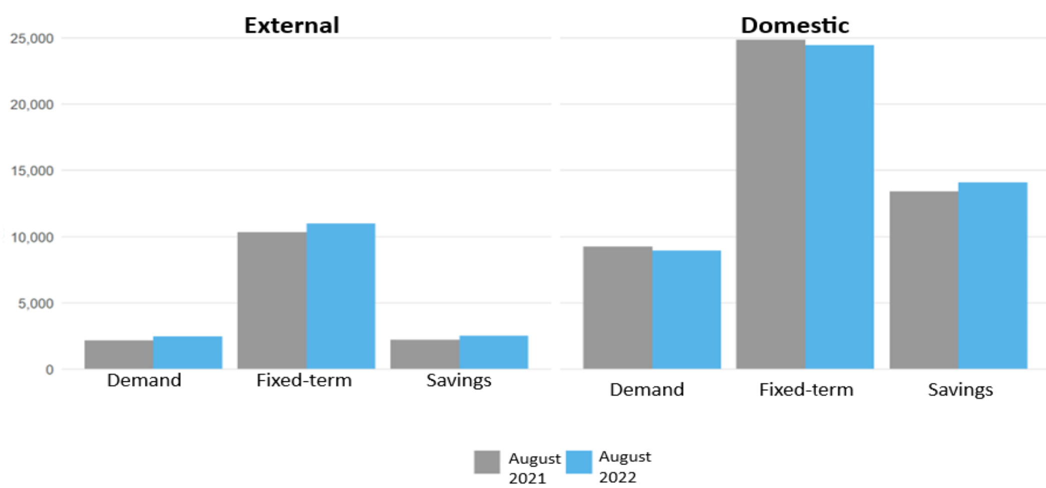
Graph 7: Total Domestic Deposits
August 2018 – August 2022



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 August 2022, domestic customer fixed-term deposits amounted to USD 24.44 billion, followed by savings rising to USD 14.07 billion, and demand deposits totaling USD 8.95 billion.

Graph 8: Customer Deposits
August 2021 – August 2022



Source: General and International license banks.

Domestic customer deposits kept by the financial system increased (+4.9%). In this way, we continue to record a rearrangement of bank deposits, as demand for immediate deposits increased since depositors sought to have greater availability and liquidity of their resources but with paid interest. Households' greatest savings will help to mitigate the impact of inflationary hikes. 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.

On the other hand, the growth of fixed-term deposits has lost momentum. Although until a couple of months ago the reported balances skyrocketed, in August 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, interest paid on fixed-term deposits hikes are 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 need 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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