Superintendencia de Bancos de Panamá

Banking Activity Report

December 2020

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As of the end of December 2020, the performance of the Banking Center continues to show a system with stable financial fundamentals. The legal liquidity ratio of the market was around 62.7% for the National Banking System (NBS), after having marked around 56% in 1Q2020. This is because, since the local declaration of the pandemic, banks have conservatively increased their liquidity positions. We note that historically, Panamanian banks have managed balanced funding structures, supported by relatively diversified and stable deposit bases.

The assets of the International Banking Center (IBC) totaled USD 130.36 billion, which represents an increase compared to a year-on-year increase of 4.3%. The performance shown by the collection of deposits and the management of liquid assets are observed in a positive manner.

As of December, IBC deposits increased by 8.11% compared to December 2019. This difference responds to an increase in both domestic and foreign deposits. Thus, as of the end of December 2020, the deposits taken in the market totaled USD 95.20 billion, an increase of USD 7.14 billion when compared to December 2019. When compared to the start of the pandemic, i.e. March 2020, the growth was 9.3%.

In regards to domestic deposits, an increase was recorded in December 2020 to reach USD 62.94 billion, a 12.7% increase versus December 2019, or a 14.8% growth compared to that of 1Q2020, i.e. March 2020. This increase in domestic deposits was mainly explained by the increase in State deposits. On the other hand, foreign deposits recorded a USD 44.6 million growth, reaching USD 32.26 billion, and whose increase was due to the positive performance of customer deposits. It is important to mention that deposits are one of the main sources of funding for banks and their increase boosted liquidity, which remained well above the regulatory levels required to all banks.

The International Banking Center registered accumulated net profits, as of December 2020, of USD 1.10 billion, 45.4% less than that of 2019. Despite the decrease in general expenses, the lower result obtained in 2020 is supported by a decrease in operating income (that dropped 10.9%) and the strong increase of provisioning, which was explained by the occurrence of the pandemic (particularly the changes arising from them) and the update of the expected loss models. Banks created provisions to face credit risks totaling USD 1.22 million, an 89.0% increase compared to that reported in the same period of 2019.

This increase in spending and decrease in income have had resulted in substantially lower profits. As we have stated in previous reports, the COVID-19 pandemic and its impact on the economy will have a negative effect on the income-generating capacity of banks, as is happening in many economic sectors affected by the measures [the government has] taken to preserve public health. The size of the impact will depend on the ability of each bank to gain efficiency or implement strategies to partially contain the expected negative effects. It is important to note that despite the negative results that are foreseeable this year, according to the sensitivity survey conducted by the Superintendency of Banks, the results are not expected to have adverse effects on the solvency and liquidity of the banking system.

It should be noted that, as a result of prudential regulations promoted by the Superintendency, both the provisions applied to loans, as well as the capital requirement, have contributed to banking being in a more robust financial condition compared to previous crises. It is noteworthy to mention that the main financial soundness indicators that determine the financial sustainability of any bank are the regulatory liquidity and solvency ratios, which are twice of the legally required.

It is important to mention that the most recent capital adequacy ratio on risk-weighted assets is 15.9%, including capital requirements for credit, market and operational risks in response to Basel III, which markedly exceeds the regulatory minimum of 8% required by the Banking Law.

As of December 2020, the loans to the domestic sector registered a total of USD 54.30 billion, with a USD 919 million decrease (-1.7%). The only sectors with a positive performance were loans to the public sector that increased USD 937 million (202.3%) and mortgages that had a year-on-year growth of USD 190 million (+1.1%). The remaining sectors decreased compared to 2019. In accordance with what happened with the balance at a sectorial level, as of December 2020, new loan disbursements in 2020 were reduced, in the year-on-year comparison new loans were 40.4% below the previous year's disbursements. However, these have been recovering throughout the year as new sectorial reopening took place. New loans have consistently grown after hitting rock bottom in May 2020.

It is noteworthy to mention that this underperformance responds to demand conditions and it is the result of the macroeconomic situation the country is facing due to the crisis triggered by the pandemic and there is no loan restriction by offering banks.

Following the approved regulation to provide financial relief measures to bank customers, as of December, 737,374 loan operations were reported as modified loans, a portion of the loan portfolio amounting to around USD 22.94 billion.

The foregoing sheds light on a gradual recovery process in line with the resuming of economic activities, but a definitive assessment of this result will depend on the evolution of the pandemic and how it may affect the proper functioning of economic activities in the coming months. In October, Rule 13-2020 was approved, granting an additional term until June 2021, so that banks and their customers may reach to an agreement on loan modifications based on the new commercial and financial realities derived from the pandemic. With this extension, banks and customers can responsibly continue making the necessary modifications to maintain a viable and sustainable credit relationship.

According to the provisions of the Banking Law, Banking Rule 13-2020 is a regulation of general application and of mandatory compliance for banks and whose non-observance is subject to sanctions by the Superintendency. To protect the rights of bank clients, the Superintendency of Banks will continue to receive complaints or queries in accordance with the procedures established in the Banking Law.

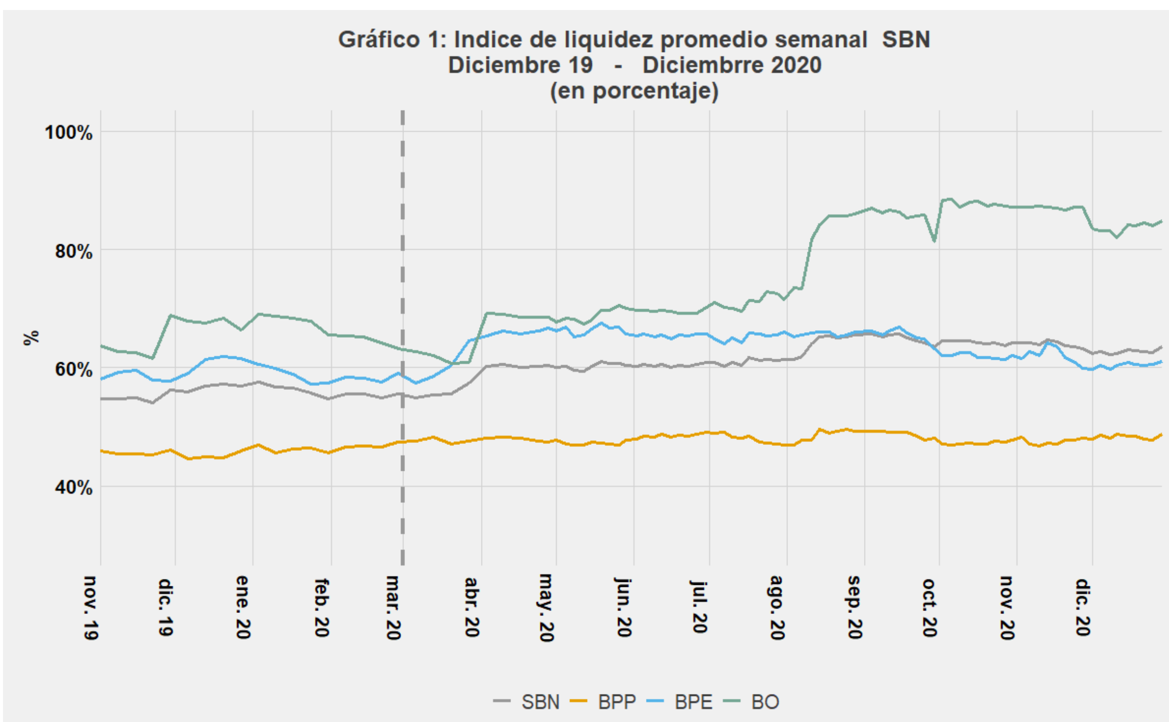
It is conclude that, despite the current economic situation, to date the fundamentals of the banking system as a whole show solidity. The high capital levels, the ample liquidity, the increase in provisions that banks have been making to face a possible deterioration of the loan portfolio, together with the creation of a generic provision equivalent to 3% of the gross balance of the loan portfolio provided by the SBP through Rule 9-2020, have allowed the financial system to maintain an adequate functioning and face the shocks caused by the pandemic.

A. Liquidity

As of December 2020, the liquidity of the banking system reached 62.7%. As indicated in previous reports, in terms of legal liquidity, most banks maintain levels higher than those registered before March (**see Graph 1**), which responds to a comprehensive strategy of taking care of the quality of assets, generating reserves and expanding liquidity. This growth was implemented through an increase in funding mainly from deposits and, financing, both from the domestic interbank market and resources that come from lines of credit from correspondent banks. This item was also benefited by replacing the loan portfolio with liquid assets.

It should be noted that Panamanian banks have historically managed balanced funding structures, supported by relatively diversified and stable deposit bases. Indeed, banking in Panama has maintained great liquidity levels since before the pandemic, which has been an important factor in dealing with the effects of the complex situation we have had since March 2020. The foregoing is explained, in part, because banks increased their liquidity reserves, as a result of the implementation of the Rule on Liquidity Coverage Ratio (LCR). The LCR and high-quality liquid assets (HQLA) requirements are especially relevant given the absence of a central bank and deposit insurance, which is why the provision has remained in force in the context of the COVID-19 contingency.

Graph 1: Weekly average liquidity ratio NBS
December 2019 – December 2020
(in percentages)



Dec. 2019, Jan. 2020, Feb. 2020, Mar. 2020, Apr. 2020, May 2020, Jun. 2020, Jul. 2020, Aug. 2020, Sept. 2020, Oct. 2020, Nov. 2020, Dec. 2020

NBS, PPB, FPB, SB

Source: General License Banks

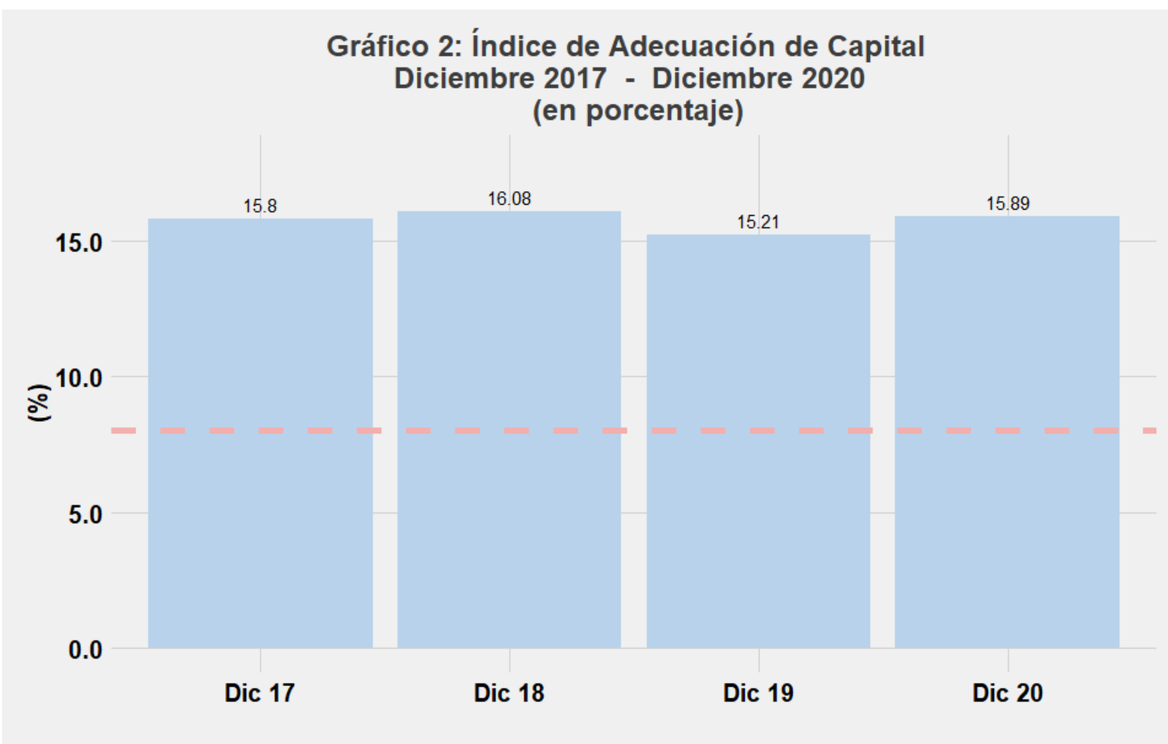
B. Solvency

Currently, all banks running operations satisfactorily comply with the new regulatory standards regarding bank capital. The most recent capital adequacy indicator of the Center almost doubles the 8% required by law.

As of December 2020, the capital adequacy ratio on risk-weighted asset is of 15.89% for the IBC, higher than the 15.21% recorded in 2019, which represents almost double the minimum regulatory capital of 8%, while that of the National Banking System is 15.71%. This increase in capitalization ratios was also benefited by the fact that a part of banks did not declare the payment of dividends in order to have a solid capital base that would allow them to better cope with the recent juncture.

It should be noted that solvency is measured under Basel III standards for capital composition and under a standardized methodology for credit, market and operational risk assets. These results show that both general and international license banks (to whom the regulation applies) have demonstrated their commitment to ensuring the well-being of savers, by maintaining such robust capital levels.

Graph 2: Capital Adequacy Ratio
December 2017 – December 2020
(in percentages)



Dec. 2017, Dec. 2018, Dec. 2019, Dec. 2020

C. Income Statement

The International Banking Center registered accumulated net profits, as of December 2020, of USD 1.10 billion, 45.4% less than that of 2019. Despite of the decrease in general expenses, the lower result obtained in 2020 is sustained by a decrease in operating income (that dropped 10.9%) and the strong increase in provisioning that was explained by the occurrence of the pandemic (particularly the changes derived from them) and the update of the expected loss models. These were the main causes of the downward trend for both the return on assets and the return on equity that will be further explained below.

It is worth noting that the increase in the account for provision expenses for loan operations is largely explained by Rule 9-2020 that regulates the minimum provisions that banks should make on the modified portfolio. The Rule establishes that banks must maintain accounting provisions against results that represent 1.5% of the modified gross portfolio. This rule produced a significant increase in the level of provisions reflected in the income statement.

As we have indicated before, we remark that, in view of the facility for modified loans, produced in the context of the pandemic, interests under this modality are registered under the accrual method, that is, accrued interest is recorded but not necessarily corrected. This must be considered before the possible occurrence of default events.

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

International Banking Center	Jan. – Dec. 2019	Jan. – Dec. 2020	Total Diff.	12-month diff. (%)
Net interest income	2,772	2,459	-313	-11.3%
Other income	2,263	2,028	-235	-10.4%
Operating income	5,035	4,486	-548	-10.9%
General expenses	2,545	2,266	-279	-10.9%
Profit before provisions	2,490	2,220	-269	-10.8%
Bad debt provision	641	1,211	570	89.0%
Profit for the period	1,849	1,009	-840	-45.4%

Source: General and International License banks.

As we have indicated in previous reports, the COVID-19 pandemic could have a negative effect on the income-generating capacity of banks. This situation could adversely affect the volume of economic activity and, therefore, of credit.

At a disaggregated level, the largest banks have a more diverse business base and, therefore, the impact of the pandemic has been, although hard, more moderate than in the smaller banks running operations in the system. Meanwhile, in the small and medium-sized banks, the impact has been greater due to the concentration of the business, since they serve very specific sectors that, in turn, are already having an impact on their economy and due of their lower aversion to risk. However, we highlight that the main financial soundness indicators that determine the financial sustainability of banks, such as regulatory liquidity and solvency, are at double digits than the legally required.

For its part, the National Banking System registered accumulated net profits as of December 2020 for USD 795 million, 44.0% less than that of 2019.

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

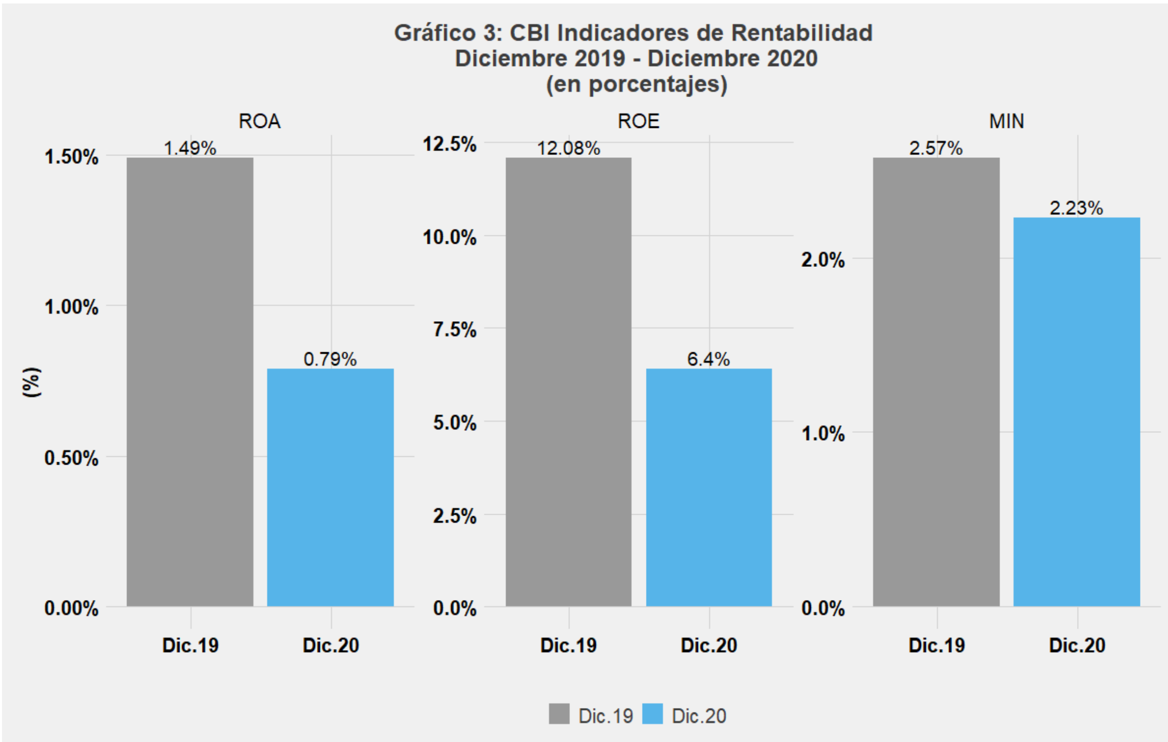
National Banking System	Jan. – Dec. 2019	Jan. – Dec. 2020	Total Diff.	12-month diff. (%)
Net interest income	2,537	2,308	-229	-9.0%
Other income	1,888	1,759	-130	-6.9%
Operating income	4,425	4,067	-358	-8.1%
General expenses	2,368	2,089	-279	-11.8%
Profit before provisions	2,058	1,978	-80	-3.9%
Bad debt provision	637	1,183	546	88.7%
Profit for the period	1,421	795	795	-44.0%

Source: General license banks.

D. Profitability indicators

Given the previous results of the International Banking Center, the return on assets (ROA) recorded 0.79%, while the return on equity (ROE) recorded 6.4%. This performance is the result of lower interest income from the portfolio and other sources, as well as higher expenditure. Although trading income (intermediation income) grew slightly, these did not offset the fall in other account items. On the other hand, the increase in provisioning expenses (additional credit reserves) have meant that the financial margin net of provisions has decreased. The increase in loan provisions is derived from the expected deterioration of the portfolio by banks.

Graph 3: IBC Profitability Indicators
December 2019 – December 2020
(in percentages)



Dec. 2019 Dec. 2020

Source: General and International License banks

E. Balance Sheet

The assets of the International Banking Center totaled USD 130.36 billion, which represents an increase compared to a year-on-year increase of 4.3%.

The performance shown by the collection of deposits is positively observed, maintaining a positive balance of 8.1% higher than that of December 2019, which is equivalent to an increase of USD 7.14 billion. Domestic and foreign deposits continue to show a positive trend, despite the health contingency, which indicates that they continue to have the confidence of keeping savings within the banking market. Domestic deposits grew by 7.1 billion (8.1%) and, with this, deposits continue to be the main source of financing for banks in the market, which promotes financial stability within the country. The sources of financing are represented in the liabilities of banks and deposits (74%), securities, bonds and obligations (13%) and other liabilities (3.0%) stand out. With these resources banks perform their main intermediation functions towards the different economic sectors.

The net loan portfolio, as of December 2020, of the International Banking Center showed a 5.2% decrease to reach a total of USD 72.18 [billion]. In the case of obligations, a decrease of 8.2% was recorded, despite growing for most of the year. These [funds] expanded the sources of resources available for the performance of lending operations and for the appropriate management of other activities aimed at having a better term relationship between assets and liabilities.

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

Breakdown	2019	2020	Dec./Dec. 2020 Difference	
	December	December	Total	%
Liquid assets	20,335	26,126	5,790	28.5%
Net loan portfolio	76,134	72,174	-3,960	-5.2%
Domestic	54,028	52,421	-1,607	-3.0%
Foreign	22,106	19,753	-2,353	-10.6%
Securities	23,219	25,101	1,882	8.1%
Other assets	5,298	6,952	1,654	32.2%
Total Assets	124,987	130,352	5,365	4.3%
Deposits	88,057	95,196	7,139	8.1%
Domestic	55,846	62,940	7,094	12.7%
Foreign	32,211	32,256	45	0.1%
Obligations	17,176	15,773	-1,403	-8.2%
Other liabilities	3,858	3,765	-93	-2.4%
Capital	15,895	15,618	-277	-1.7%

Source: General and International License banks

As for the National Banking System (general license banks only), a total assets of USD 115.63 billion, USD 7.68 billion or a 7.1% growth compared to December 2019, was registered. The loan portfolio of the National Banking System decreased 3.1%, reaching a total of USD 66.18 billion. Total deposits taken by the NBS totaled USD 84.68 billion, a 10.7% increase, driven by domestic deposits, increasing by USD 8.18 billion. For its part, obligations showed a total of USD 15.07 billion, USD 17 [million] less than that of December 2019.

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

Breakdown	2019	2020	Dec./Dec. 2020 Difference	
	December	December	Total	December
Liquid assets	14,745	21,299	6,554	44.4%
Net loan portfolio	68,324	66,179	-2,145	-3.1%
Domestic	54,028	52,421	-1,607	-3.0%
Foreign	14,296	13,758	-538	-3.8%
Securities	19,852	21,389	1,537	7.7%
Other assets	5,026	6,754	1,728	34.4%
Total Assets	107,946	115,621	7,674	7.1%
Deposits	76,498	84,676	8,178	10.7%
Domestic	55,733	62,844	7,111	12.8%
Foreign	20,765	21,832	1,067	5.1%
Obligations	15,085	15,068	-17	-0.1%
Other liabilities	3,716	3,650	66	-1.8%
Capital	12,648	12,228	-420	-3.3%

Source: General License banks

F. Loans

As of December 2020, loans to the domestic sector registered a balance of USD 54.30 billion, with a decrease of USD 919 million (-1.7%). The only sectors with a positive performance were loans to the public sector that grew USD 937 million (202.3%) and mortgages that had a year-on-year growth of USD 190 million (+1.1%). The remaining sectors decreased compared to 2019.

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

Sector	Dec. 2019	Dec. 2020	Dec. 2019/Dec. 2020 Diff. Total	%
TOTAL	**55,212**	**54,293**	**-919**	**-1.7%**
Public sector	**463**	1,400	937	202.3%
Private sector	**54,749**	52,893	-1,856	-3.4%
Finance & insurance activities	1,677	1,539	-138	-8.2%
Agriculture	410	397	-13	-3.2%
Livestock	1,326	1,312	-14	-1.0%
Fishing	86	79	-7	-7.9%
Mining & Quarrying	55	55	0	0.6%
Commerce	11,207	10,578	-630	-5.6%
Industry	3,299	2,764	-535	-16.2%
Mortgages	17,819	18,009	190	1.1%
Construction	6,288	5,791	-497	-7.9%
Personal consumption	12,582	12,	-213	-1.7%

Source: General License banks

In line with what happened with the total at the sector level as of December 2020, new loan disbursements during 2020 were reduced, in the year-on-year comparison, new loans are 40.4% below the previous year's disbursements. However, these have been recovering throughout the year as new sectorial reopening took place. New loans have consistently grown after hitting their lowest point in May 2020.

The disbursements of new loans accumulated as of December by banks stood at USD 15.67 billion, which represents a decrease of USD 10.47 billion when compared to December 2019.

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

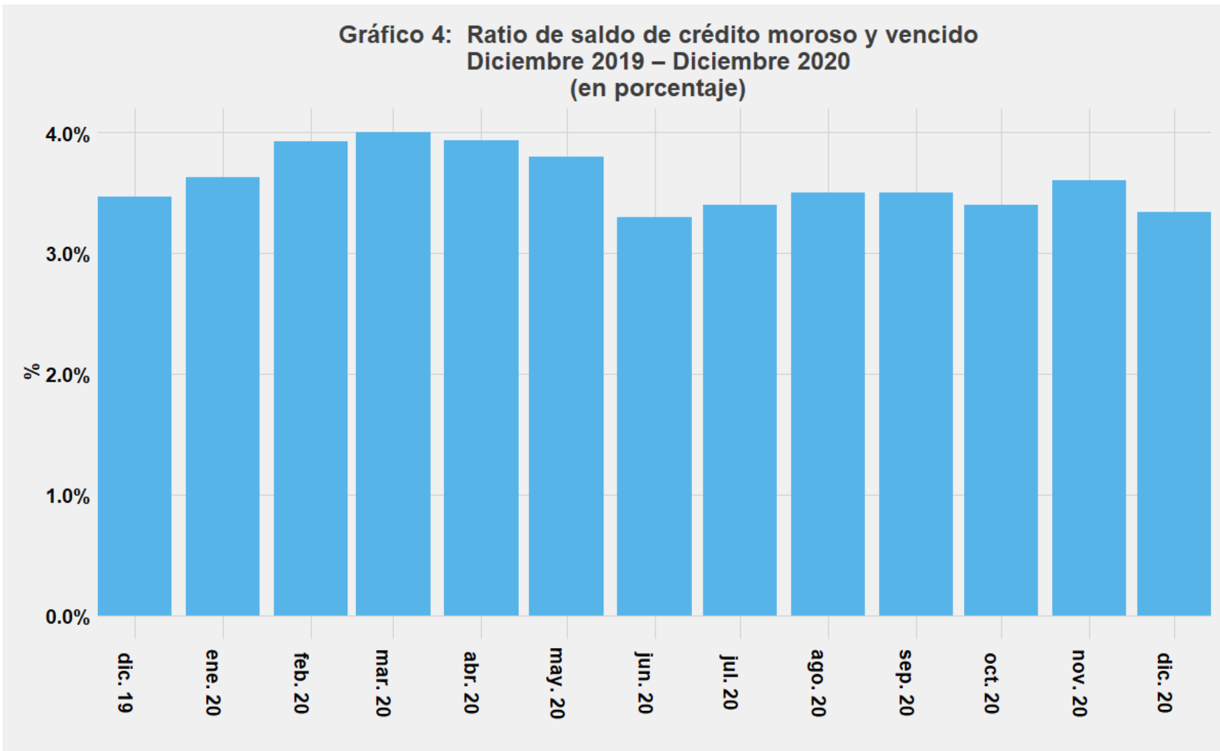
Sectors	Jan. – Dec. 2019 (P)	Jan. – Dec. 2020 (P)	Jan. – Dec. 2019/2020 Diff. Total	%
Public entities	866	1,396	530	61.2%
Finance companies	1,260	1,031	229	-18.2%
Agriculture (incl. forestry)	231	129	102	-44.1%
Livestock	534	393	140	-26.3%
Fishing	67	28	39	-58.3%
Mining & Quarrying	64	21	43	-66.8%
Commerce (incl. Services)	10,859	6,474	4,386	-40.4%
Industry	4,735	2,342	2,393	-50.5%
Mortgages	2,252	1,164	1,088	-48.3%
Construction	2,261	1,106	1,155	-51.1%
Personal consumption	3,181	1,583	1,598	-50.2%
Total	**26,310**	**15,668**	**10,642**	**-40.4%**

Source: General License banks

G. Portfolio Quality

The total delinquency rate of the International Banking Center (+30 days) stood at 3.4% in December 2020, its past due balance was 1.5% (30 – 90 days), while nonperforming loans were 1.9% (over 90 days).

Graph 4: Ratio of the balance of delinquency and past due loans
December 2019 – December 2020
(in percentages)



Dec. 2019, Jan. 2020, Feb. 2020, Mar. 2020, Apr. 2020, May 2020, Jun. 2020, Jul. 2020, Aug. 2020, Sept. 2020, Oct. 2020, Nov. 2020, Dec. 2020
Source: General and International License Banks

It is worth noting that, given the current situation, the category of modified loans was established (**See Section H**), with which in the event that loans are in default given the current juncture, the rolling instructions will not be applicable to the impaired categories. With this, banks do not deteriorate the debtor's ratings, therefore, banks are not required to make provisions immediately. Therefore, it is vitally important to continue with the evaluation and implementation of measures that seek an orderly performance of financial markets. All of the above helps to mitigate the pressure on credit markets and facilitates the channeling of financial resources to the private sector. Notwithstanding the above, it is important to mention that, within the modified portfolio, there could be a significant number of loans that are in the current portfolio and, at the time the normal regulatory regime protected by Rule 4-2013 is restored, there will be debtors who will still be unemployed or companies that could not resume operations, which would cause an increase in the default rate.

In order to have a tool to monitor the debtors' actual payment behavior, the SBP has developed a stressed loan portfolio ratio, which calculates the arrears elapsed since the last payment day for the entire portfolio, regardless of the modified or unmodified loans. This indicator produces a stressed loan ratio ranging between 20% and 25% for consumer loans and from 10% to 15% for corporate loans. The latter is affected to some extent by interest payment.

As of December 2020, the accounting provisions of the NBS amounted to USD 2.11 billion. Of the total provisions, 59.5% belong to unmodified portfolio and 40.5% to modified loans. The last indicator shows a 75% growth, if compared to the last month prior to the issuance of Rule 9-2020, which requested the increase of provisions due to the deterioration of economic variables, demonstrating compliance with the macro prudential criterion, in addition to that established by the IFRS 9.

H. Modified loans

Since the beginning of the pandemic, the Superintendency has been applying a series of regulatory and supervisory measures to protect financial stability. The initial actions were aimed at giving the banks the tools to modify the terms and conditions originally agreed on loans and allowed grace periods, changes in terms and adjustments in interest rates. Given the diversity of cases and situations that exist between different debtors, it is not easy or practical to take a single measure to mitigate the adverse effects of COVID-19.

Last October, the Board of Directors of the Superintendency of Banks of Panama (SBP) approved Rule 13-2020, by means of which banks and customers are permitted to continue making the necessary modifications to maintain a viable and sustainable credit relationship. Through this Rule, the term of the financial relief measures will be extended until June 30, 2021.

The amendment to our banking regulation comprises several measures, including the following:

- Extend until June 30, 2021 the deadline for banks and customers, in a responsible manner, can continue making the necessary modifications to maintain a viable and sustainable credit relationship. Clients who continue to have difficulties in meeting their payment obligations due to the loss of their source of income, their employment, the temporary suspension of the employment contract, the reduction of working hours, among others, as well as companies that have seen reduced their sales and income may have an additional six (6) months, after the end of this year (2020), to agree with the bank on modifications to the terms and conditions of their loans, according to their new payment capacity.

- Loan modifications may include the granting of grace periods, depending on the new payment capacity of each client, loan maturity extensions, monthly installment adjustments, among other options. The financial relief measures will continue to be made within the aforementioned six (6) month period, on the financial condition of each client.

- Banks will not execute the collaterals of loans that are already modified or those that are modified, in the new term granted, including homes, farms land, commercial premises, cars, buses, and other collaterals.

- Modified loans will not be charged late interest, surcharges or penalties.

- During the additional period to agree on loan modifications, clients' credit records will not be affected.

- Banks will strengthen and reinforce the different customer service channels in order to process any inquiry or claim regarding modified loans.

With this extension, banks and clients, in a responsible manner, can continue making the necessary modifications to maintain a viable and sustainable credit relationship. Clients who continue to have difficulties in meeting their payment obligations due to the loss of their source of income, their employment, the temporary suspension of the employment contract, the reduction of working hours, among others, as well as companies that have seen diminished their sales and income may have an additional six (6) months, after the expiration of Law 156, to agree with the bank, modifications to the terms and conditions of their loans, in accordance with their new payment capacity.

As it has been the case with the previous provisions, banks will not execute the collaterals of the loans that are already modified or those that are modified, in the new term granted, including homes, farms, land, commercial premises, cars, buses and other collaterals. Modified loans will not be charged late interest, surcharges or penalties. During the additional period to agree on loan modifications, clients' credit records will not be affected.

It is important to emphasize that this is an additional period in which banks and their clients will be able to agree on new terms and conditions based on their new payment capacity or their current financial situation. This measure should not be understood as debt forgiveness. The financial impact of the debtor must be documented in the loan files of the banks, so customers must ensure that they provide the corresponding supporting documentation. In the case of clients whose employment situation or income has not been affected, they must continue to comply with their bank obligations. With this, the payment of installments of retail banking products (mortgages, personal loans, credit cards and car loans) was deferred. Corporate banking loans are reviewed on a case-by-case basis on the conditions and particularities of each business. As a result of this rule, the banks of the Panamanian markets, as of December, have modified 737,374 loan operations, whose conditions reach USD 22.94 billion.

Picture 1: National Banking System
Modified loans and totals (in millions of USD)

	Mar. 2020	Apr. 2020	May 2020	Jun. 2020	Jul. 2020	Aug. 2020	Sept. 2020	Oct. 2020	Nov. 2020	Dec. 2020
Modified	909	21,634	24,879	24,475	26,311	25,916	23,819	23,603	23,390	22,933
Unmodified	54,847	34,137	30,630	28,666	28,917	28,490	30,322	30,395	31,307	31,360
Total Loans	55,756	55,772	55,509	53,160	55,227	54,406	54,141	53,998	54,698	54,293

According to the provisions of the Banking Law, Banking Rule 13-2020 is a regulation of general application of compulsory compliance for banks and whose non-observance is subject to sanctions by the Superintendency. To protect the rights of bank clients, the Superintendency of Banks will continue to receive complaints or queries both at its headquarters and at its Chitré and David agencies, in accordance with the procedures established in the Banking Law.

I. Deposits

As of December 2020, IBC deposits increased by 8.11% compared to December 2019. This difference is mainly due to an increase in domestic and foreign deposits. Thus, the deposits taken by the market, as of the end of December 2020, recorded a total of USD 95.20 billion, a USD 7.14 billion increase compared to December 2019. When compared to the start of the pandemic, i.e. March 2020, the growth was 9.3% (**See Table 7**). As for the domestic deposits, an increase was registered as of December 2020 to reach USD 62.95 billion, which represents a 12.7% increase compared to December 2019, but a 14.8% increase when compared to the 1Q2020, i.e. March 2020. This increase in domestic deposits was explained by the increase in State deposits. On the other hand, foreign deposits registered an increase of USD 44.6 million totaling USD 32.26 billion and whose increase was the result of the positive performance of customer deposits.

It is important to note that deposits are one of the main sources of funding for banks and their increase boosted liquidity, which remained well above the regulatory levels required in all banks.

Table 7: International Banking Center
Total Deposits
(in millions of USD)

	2019	2020	2020	Dec. 2020 / Mar. 2020 Diff.		Dec. 2020 / Dec, 2019 Diff.	
	December	March (p)	Dec. (p)	Total	%	Total	%
Deposits	**88,056.9**	**87,093.0**	**95,196.0**	**8,102.92**	**9.30%**	**7,139.03**	**8.11%**
Domestic	**55,845.9**	**54,828.2**	**62,940.3**	**8,112.12**	**14.80%**	**7,094.44**	**12.70%**
Government	10,418.6	8,627.2	13,033.4	4,406.19	51.07%	2,614.81	25.10%
Customer	42,399.1	42,828.9	45,820.6	2,997.67	6.99%	3,421.51	8.07%
Banks	3,028.3	3,3721	4,086.4	714.26	21.18%	1,058.13	34.94%
Foreign	**32,211.0**	**32,264.8**	**32,255.6**	**(9.20)**	**-0.03%**	**44.59**	**0.14%**
Government	141.2	163.9	184.6	20.68	12.62%	43.41	30.75%
Customer	24,647.8	24,471.2	24,749.4	278.15	1.14%	101.56	0.41%
Banks	7,422.0	7,629.7	7,321.7	(308.03)	-4.04%	(100.38)	-1.35%

Source: SBP

When analyzing the increase in deposits that have been registered since March 2020 (beginning of the declaration of the pandemic), it can be observed that these are sustained by domestic deposit operations (**Table 7**). These represent most of the increase in total deposits and the greater part corresponds to State deposits.

Bank domestic deposits (21.2%) have grown at a higher rate since March 2020, mainly driven by the performance of State deposits (that grew by 51.1%) and largely show the balances of issuances and loans managed by the government to face the COVID-19 crisis. State-owned banks accounted for 54.4%% of the total increase of total deposits.

As for customer deposits (that grew 7.0%), the greatest increase since the beginning of the pandemic in relative terms has been in savings deposits. In consultation with banks, it has been confirmed that customer funds correspond essentially to 3 reasons (sic):

1. The balance of the traditional deposits of the banking system remains high due to the impulse generated by the precautionary savings triggered by the epidemic. In complex situations such as the current one, households increase their propensity to save more in response to possible uncertain future events. Savings in this context are expected to continue at least until the uncertainties surrounding the virus dissipate.

2. The mobility restrictions and non-operation of non-essential activities led to a significant increase in forced savings due to the impossibility of spending. This component was accentuated especially in the weeks in which the restrictions were more severe. Part of these amounts were kept in these accounts on a precautionary basis.

3. Funds for compensation for laid-offs in private companies.

4. At the beginning of the pandemic there were also relevant increases since, when there was a massive payment standstill, an important part of debtors redistributed their resources to savings account, this had an accumulation period of several months, while the banks agreed on tailored [terms and conditions] with clients. Said amounts were kept in these accounts on a precautionary basis.

As for the banks of the National Banking System, there is a trend similar to that of the IBC, registering a balance of USD 84.68 billion, a 10.7% increase when compared to December 2019, driven by domestic and foreign deposits (see **Table 8**).

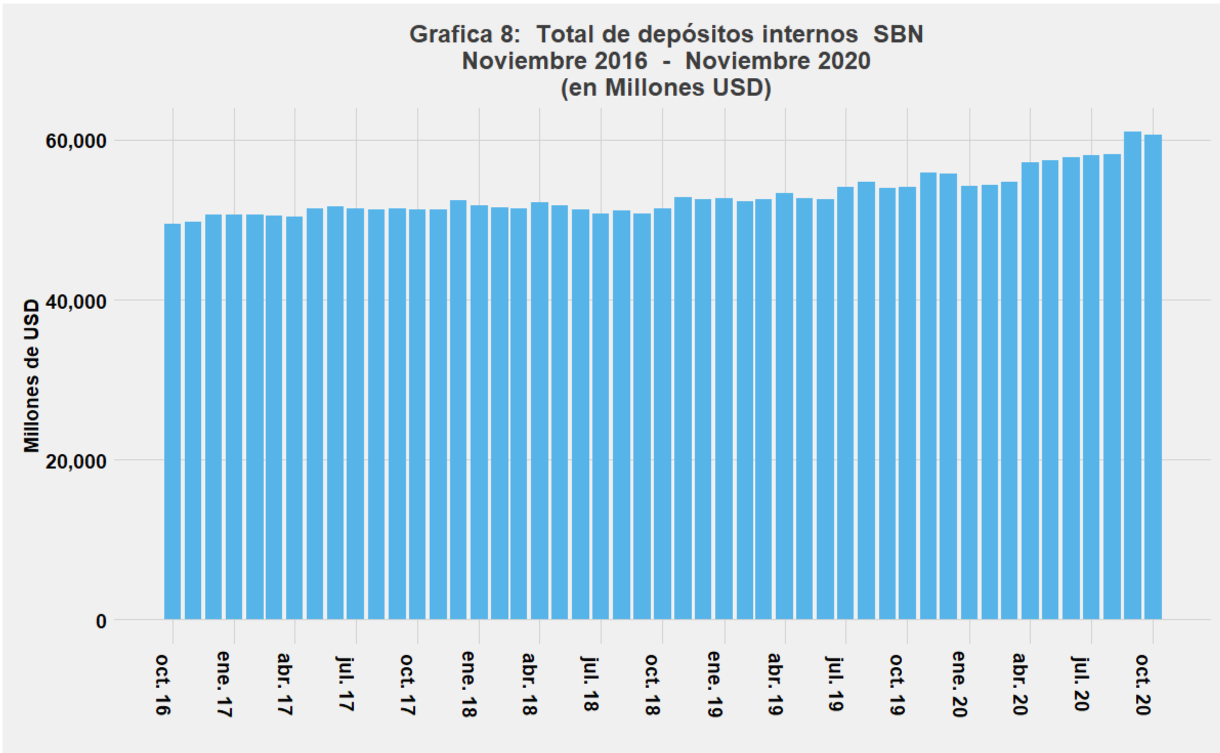
Table 8: National Banking System
Total Deposits
(in millions of USD)

	2019	2020	2020	Dec. 2020/Mar. 2020 Diff.		Dec. 2020 / Dec. 2019 Diff.	
	December	March(p)	December (p)	Total	%	Total	%
Deposits	**76,498.0**	**87,093.0**	**84,675.5**	**(2,417.51)**	**-2.78%**	**8,177.56**	**10.69%**
Domestic	**55,733.3**	**54,828.2**	**62,843.8**	**8,015.55**	**14.62%**	**7,110.50**	**12.76%**
Government	10,418.6	8,627.2	13,033.4	4,406.19	51.07%	2,614.81	25.10%
Customer	42,399.1	42,828.9	45,820.6	2,991.67	6.99%	3,421.51	8.07%
Banks	2,915.6	3,372.1	3,989.8	617.69	18.32%	1,074.19	36.84%
Foreign	**20,764.7**	**32,264.8**	**21,831.8**	**(10,433.06)**	**-32.34%**	**1,067.06**	**5.14%**
Government	141.2	163.9	184.6	20.66	12.60%	43.42	30.76%
Customer	13,596.5	24,417.2	14,825.0	(9,646.20)	-39.42%	1,228.51	9.04%
Banks	7,027.0	7,629.7	6,822.2	(807.53)	-10.58%	(204.87)	-2.92%

Source: SBP

The domestic deposits of the National Banking System represent 73.4% of the total deposits of the System. To date, we observe that customer deposits have shown resilience and we do not observe, in the short-term, decreases that could indicate there could be a situation that exposes the group of banks as a whole. **Graph 5** shows the evolution of the balance of domestic deposits.

Graph 5: Total domestic deposits NBS
December 2016 – December 2020
(in millions of USD)



Millions of USD
Dec. 2016, Mar. 2017, Jun. 2017, Sept. 2017, Dec. 2017, Mar. 2018, Jun. 2018, Sept. 2018, Dec. 2018, Mar. 2019, Jun. 2019, Sept. 2019, Dec. 2019, Mar. 2020, Jun. 2020, Sept. 2020, Dec. 2020

Source: General license banks.

As of December 2020, the customer domestic deposits taken by general license banks reached to USD 44.75 billion, of which 60% is represented by deposits made by corporations that grew 8.3% during the last year and, on the other hand, the natural persons represent 40% of the customer domestic deposits and grew 10.9%. It should be noted that with both demand and time deposits that corporations maintained in the financial system grew, especially those with greater liquidity, which could have been the result of the precautionary measures taken by said corporations to temporarily obtain greater liquidity before the beginning of the COVID-19 pandemic, a case similar to that of the liabilities of companies through the increase in loans registered at the beginning of the pandemic. In this regard, corporate savings instruments, since March 2020, have shown a greater performance than that of 2019.

The stars of growth in deposits are term deposits that grew 7% and current savings that increased 15.8% if compared to the same period of 2019. This significant growth may be due to the intention of savers to maintain greater mobility of their accounts, in order to have immediate liquidity. In the case of customer domestic time deposits, it has been possible to maintain significant levels of deposits largely because most of the natural persons renew their time deposits, being that 81% of the time deposit balances were renewed and on the business side, this percentage reached 76%. Regarding the maturity profile, natural and legal persons maintain maturities above 70% in terms greater than 6 months.

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