Superintendencia de Bancos de Panamá

Banking Activity Report

December 2021

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At the end of 2021, the Panamanian financial system continues to maintain a sound and resilient position, with capital and liquidity levels higher than the regulatory minimums. The latest global capital adequacy ratio shows 15.9%, almost double the regulatory minimum of 8%. This performance is based on solid financial regulation parameters that have been strengthened, due to regulatory mandates, since the onset of the pandemic. In terms of liquidity, the Banking System reached 60%, double of the legally required. Currently, all operating banks satisfactorily comply with regulatory standards on bank capital and the provisions on liquidity.

In this context of strong banking fundamentals, it has been possible to verify that the business volume of the IBC shows, at the end of 2021, an increase in credit activity, leveraged by the growth of customer deposits which remained relatively stable for most of the year. This has led to higher profitability; however, it remains at lower levels than before the pandemic and will gradually begin to recover in the coming years. This uncertainty caused by the credit risk will be the main vulnerability for the stability of the financial system.

At the end of December 2021, the assets of the International Banking Center (IBC) totaled USD 133.36 billion, a USD 3 billion increase versus December 2020, that is, a year-on-year increase of 2.3%, which is the result of increases in the net loan portfolio (3.2%) and the investment account (10.6%).

As for the gross loan portfolio, it should be mentioned that the domestic loan segment recorded a total of USD 55.13 billion, a USD 833.5 million or 1.5% increase, which would show an improvement in nominal terms. Credit shows clear signs of recovery, including corporate [loans], but their conclusive reactivation will become evident as demand and economic activity rise. This positive performance in the credit market allowed an improvement in the profitability levels of the IBC.

In terms of credit, it is worth noting the positive performance of the external component of the portfolio, which highlights the key role of the IBC in meeting the financing needs of Latin American and Caribbean countries. It is envisioned that maintaining this position will depend on having a solid financial sector, with an effective prudential supervision and regulation aligned with international standards and best practices, which is believed that will allow the reinforcement of this leading role in the regional financial environment.

Regarding the modified portfolio, it has been reduced by USD 13.69 billion or 59%. This portfolio, as of December 2021, totaled USD 9.26 billion. The issuance of prudential regulations promoted the achievement of agreements between banks and their clients, where significant movements towards the unmodified portfolio were recorded as of the second half of 2021.

The sectors with the greatest shifting to the regular portfolio are the mortgage sector, which decreased its modified portfolio by USD 4.18 billion or 78%; followed by personal consumption, with a reduction of 58%, and other decreases of a similar scale. On the other hand, in the context of classification as established by Board of Directors' General Resolution SBP-GJD-0003-2021, as of the end of December, the portfolio that could entail the greatest risk would be the modified doubtful and modified loss categories, due to the fact that to date they have not been able to make a larger payment arrangement, and together amounted to USD 1.62 billion or 17% of the total modified portfolio. This performance represents an important decrease of 42%. All these performances relate to the improvement in monthly payments; however, the portfolio classified in this category is still very high and could lead to higher provisioning.

The International Banking Center recorded accumulated net profits, as of December 2021, of USD 1.28 billion, USD 264.7 million more than that of December 2020, i.e., a year-on-year growth of 26.1%. The performance of profits shows a lower accumulation in provisioning expenses, and although there is lower portfolio income, these are offset by the greater relevance of financial services income. The lower level of provisioning expenses is associated with that, on this same date last year, the scenario was still unclear, specifically what the normalization of the economy and the readjustment process of the portfolio subject to the financial relief program would be like. This situation caused the banks to set up additional provisions, i.e., they saved resources, given the possibility of a more complicated scenario. As of the end of the last quarter of 2021, a significant migration of modified loans that could improve their financial condition and return to the stipulations of Rule 4-2013 was observed, showing a decrease versus 2020. However, it should be remarked that a segment of recorded provisions goes through equity and is not showed in the income statement account. It should be noted that bank profits are lower than those recorded during 2019.

Regarding bank financing sources, deposits recorded an increase of USD 1.82 billion (1.9%) to totalize USD 97.02 billion, which is the result of the performance of domestic (0.3% or USD 193.8 million) and external deposits (5% or USD 1.63 billion) in nominal terms. Customer deposits can be considered as the main dynamic component of the deposit portfolio. However, a foreseeable decrease has been observed that would be associated with the reopening of activities affected by the pandemic, the reduction of precautionary savings, and the resumption of payment obligations covered by financial relief programs.

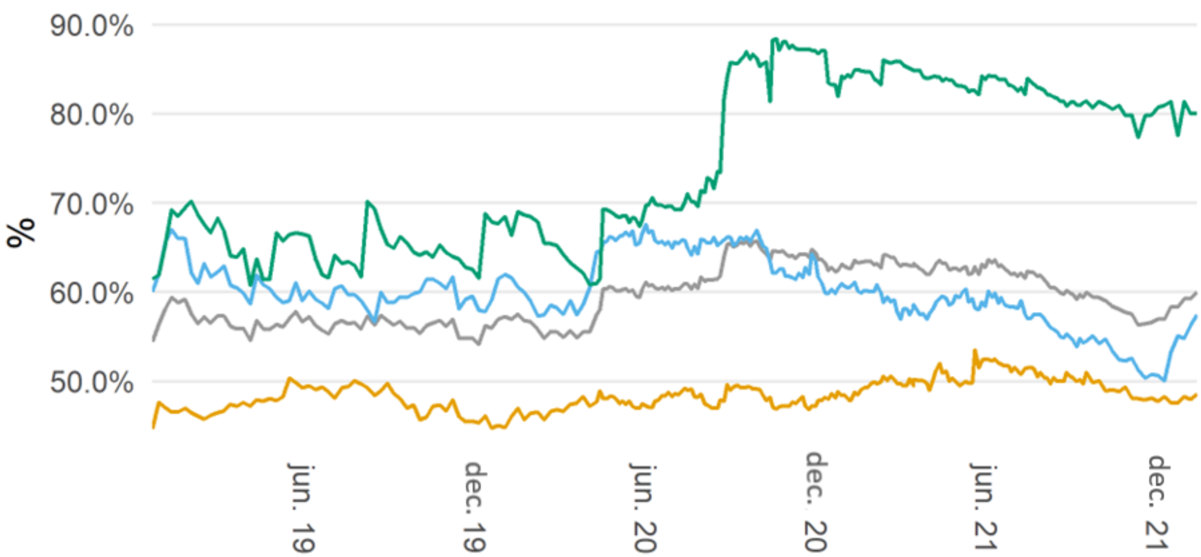
Customer demand deposits (+6.1%) and savings deposits (+12.4%) hold by the financial system increased. In this way, a rearrangement of bank deposits continued to be recorded, as immediate demand deposits increased as depositors sought to have greater availability and liquidity of their resources. The reactivation of economic activity, which benefited a greater inflow from the sale of goods and services, as well as the substitution of fixed term deposits, could explain the increase observed in the performance of demand deposits. It is worth noting that, although time deposits have remained relatively stable throughout 2020 and 2021, they have had an underperformance when compared to more liquid components.

A. Liquidity

As of December 2021, the liquidity of the [National] Banking System reached 60%, double than the legally required. The domestic banking system has recorded a more comfortable liquidity position since March 2020 (**see Graph 1**) as a consequence of the accumulation of short-term assets in a context of high uncertainty, which responds to a comprehensive strategy of caring for the quality of assets, provisioning and expanding liquidity, guided by prudential principles promoted by the Superintendency.

Regarding liquidity to date, although there has been a certain decrease in ratios versus the levels reached in 2020, the financial system maintains adequate liquidity at the aggregate level, with sufficient resources to meet its short-term financing needs and, in turn, will make it easier to resume credit growth. The decreases recorded reflect greater lending.

Graph 1: Weekly average liquidity ratio
December 2018 – December 2021



Source: General License Banks

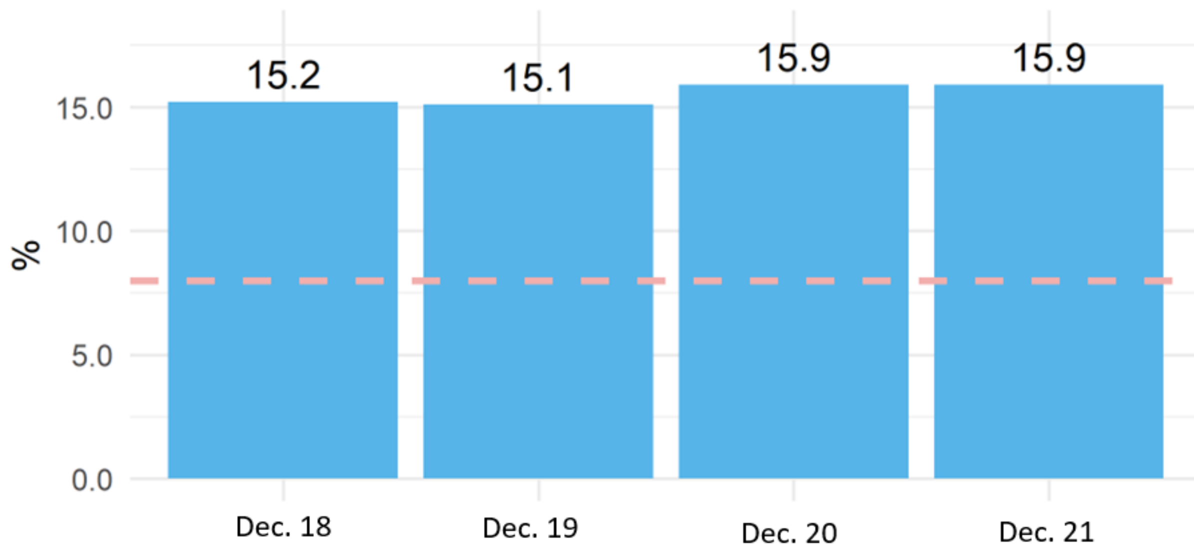
It should be noted that banking in Panama has maintained great liquidity levels since before the pandemic, which has been an important factor in coping with the effects of the complex situation we have had since March 2020. The foregoing is explained, in part, because banks increased their liquidity reserves, due to the application of Rule 2-2018 on the implementation of the Liquidity Coverage Ratio (LCR). The LCR and high-quality liquid assets (HQLA) requirements are especially relevant given the absence of a central bank and a deposit guarantee, which is why this provision has remained in place in the context of the COVID-19 contingency. The regulations set December 2021 as the deadline to comply with the LCR indicator established in the Rule.

As of December 2021, banks' HQLA reached USD 13.56 billion, which represents 15% of total assets. This shows that the quality and liquidity of assets that make up the investment portfolios of IBC banks have improved because of good corporate governance and solid liquidity risk management practices. It is also important to highlight that more than 80% of these liquid assets are very high quality, i.e. level 1, which have mainly been placed as deposits in authorized entities, such as the Bank for International Settlements (BIS) and in US Federal Reserve banks, and also invested in debt of authorized issuers rated between AAA and AA-, mostly representative of sovereign debt and debt of some multilateral development organizations approved by the Superintendency of Banks.

B. Solvency

The capital adequacy ratio (CAR) on risk-weighted assets was 15.9% as of end of the 2021 (**see Graph 2**), because of greater capital growth in relation to regulatory requirements. This represents twice the regulatory minimum of 8%. This increase can be explained by the recapitalization of some entities, the reduction in the payment of dividends, and the lower balance of assets subject to risk. Currently, all operating banks satisfactorily comply with the regulatory standards on bank capital.

Graph 2: Capital Adequacy Ratio
Dec. 2018 – Dec. 2021



Source: General and International License Banks

C. Income Statement

The International Banking Center recorded accumulated net profits, as of December 2021, of USD 1.28 billion or USD 264.7 million more than that of December 2020, i.e. a year-on-year increase of 26.1%. The performance of profits shows a lower accumulation in provisioning, and although there is lower income per portfolio, these are offset by the greater relevance of financial services income. The components that drove this result were mainly the reduction in the net provisioning expenses (-26.5%), the increase in other income (+10.8%), and the stability in operating income in portfolio interest income and investment income that, although they present lower results than a year ago, have been improving. It is noteworthy to mention that even when there is a clear improvement in the indicators, they are below pre-pandemic levels. Seen from a broad perspective, the lower level of provisioning expenses had a positive impact on the sector's profit. This reduction is associated with the fact that, on the same date last year, the scenario was still unclear, specifically what the normalization of the economy and the readjustment process of the portfolio subject to the financial relief program would be like. This situation caused the banks to set up additional provisions, i.e., they saved resources, given the possibility of a more complicated scenario. As of December 2021, there is a significant migration of modified loans that could improve their financial condition and return to the stipulations of Rule 4-2013, showing a decrease versus 2020. However, it should be remarked that a segment of recorded provisions goes through equity and is not showed in the income statement account.

It should be noted that, unlike what happened in the IBC (general and international license banks), general license banks showed a better performance than that of the IBC, which will be discussed later, as the IBC performance is influenced significantly by the income obtained by a foreign international license bank as the payment of dividends from its subsidiaries was deferred. It is noteworthy that, in view of the modified loans facility produced by the pandemic, interest under this modality are recorded under the accrual method, that is, accrued interest is recorded but not necessarily collected. This must be considered at the face of the potential occurrence of default events.

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

International Banking Center	Jan. - Dec. 2020	Jan. - Dec. 2021	% Diff.	Total Diff.
Net interest income	2,478.3	2,351.8	-5.1%	-126.5
Other income	2,031.5	2,251.5	10.8%	220.0
Operating income	4,509.8	4,603.3	2.1%	93.5
General expenses	2,283.3	2,433.4	6.6%	150.1
Profit before provisions	2,226.5	2,169.9	-2.5%	-56.6
Bad debt provision	1,211.4	890.0	-26.5%	-321.3
Profit for the period	1,015.2	1,279.9	26.1%	264.7

Source: General and International License banks.

As indicated above, the COVID-19 pandemic has had a negative effect on the income-generating capacity of banks. This is because that, in the current situation, the performance of loans continues at a reduced rate when compared to pre-pandemic performance.

The National Banking System recorded accumulated net profits, as of December 2021, of USD 1.12 billion, 38.9% more than that of December 2020. Like what happened in the IBC, lower provisioning had a positive impact on the sector's profit.

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

National Banking System	Jan. - Dec. 2020	Jan. - Dec. 2021	% Diff.	Total Diff.
Net interest income	2,327.8	2,228.6	-4.3%	-99.2
Other income	1,762.6	1,981.9	12.4%	219.3
Operating income	4,090.3	4,210.5	2.9%	120.2
General expenses	2,106.3	2,214.6	5.1%	108.4
Profit before provisions	1,984.0	1,995.9	0.6%	11.8
Bad debt provision	1,183.3	883.2	-25.4%	-300.0
Profit for the period	800.8	1,112.6	38.9%	311.8

Source: General license banks.

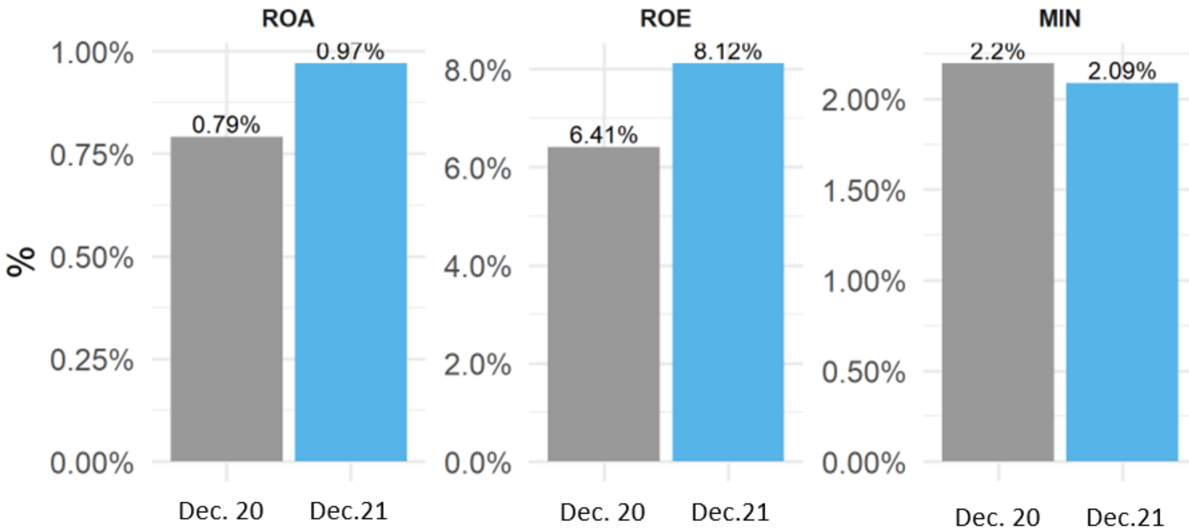
For the moment, the NBS will not record financial margins like those recorded before the pandemic, although, a month-by-month loan improvement is seen, which in turn will produce higher financial income. It is estimated that the banks of the system will continue with cost control and operational efficiency strategies. Currently, IBC efficiency levels are around 52%.

D. Profitability indicators

As for profitability, ROA and ROE indicators have been located at their lowest versus those observed in the pre-pandemic period, however, the downward trend recorded during 2020 and the first months of 2021 has changed its trend, and during the second half of 2021 a slight improvement was seen. The reduction in financial income has explained, to a greater extent, the reduction in profitability.

The increase in profits implied that the return on average equity grew to 8.12% (6.41% as of December 2020) and the return on assets were up to 0.97% (0.79% in December 2020). In an environment of still incipient recovery, the profitability of IBC banks continued with a weak performance. This is mainly due to the lower interest rates at which new loans were placed and the decrease in placements compared to pre-pandemic periods. It should be noted that these lower bank profitability levels, which have been accentuated during the COVID-19 crisis, were also observed in a significant sample of countries, i.e. it has not been an exclusive situation of banks in the country.

Graph 3: Profitability Indicators - IBC
December 2020 – December 2021



Source: General and International License banks.

E. Balance Sheet

As of the end of December 2021, the assets of the International Banking Center totaled USD 133.36 billion, a USD 3 billion increase, when compared to December 2020, that is, a year-on-year increase of 2.3%, which is the result of the increase in the net loan portfolio (3.2%) and the investment portfolio (10.6%). Although there is a decrease in liquid assets (-7.3%), they remain higher in a broad time context, since from last year most of the institutions have strengthened their positions, which allowed their sensitivity to negative shocks triggered by the health crisis to be limited during most of 2020.

Throughout 2021, a rearrangement within productive assets was noted. Thus, the loan portfolio, its main component, had exhibited an upward trend since the second half of the year. Regarding the net loan portfolio, as of December 2021, the International Banking Center recorded a 3.2% increase to reach USD 74.46 billion. As for the rate of recovery of credit demand, it has been mixed among portfolios, but it already showed a positive performance in the aggregate. Another important factor that contributed to the growth of the IBC's lending operations is the redirection of liquid assets and loan flows to the securities portfolio, which amounted to USD 27.77 billion, which represented an increase of USD 2.68 billion. In 2021, this component recorded a positive performance (showing a year-on-year increase of 10.6%) and this would reflect the search for profitability by banks.

The evolution of liabilities is especially related to the performance of its main component: deposits. Regarding bank financing sources, deposits recorded an increase of USD 1.82 billion (1.9%), which is the result of the performance of growing customer domestic deposits (0.3% or USD 194 million) and customer external deposits (5% or USD 1.63 billion) in nominal terms. The main components are customer deposits. The deposits of the International Banking Center as of December 2021 amounted to USD 97.02 billion. It should be remarked that the performance of customer deposits – both by domestic and external depositors – can be understood as that they have remained confident on the stability of the banking system, which is reflected in greater funding of establishments. As indicated in previous reports, bank liabilities showed a rearrangement towards more liquid instruments. In fact, it has been found that this growth has been underpinned by demand and savings deposits. It is noteworthy that during the analyzed period, there was an increase in other liabilities (+5.4%), while obligations decreased (-5.0%).

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

Breakdown	2020 December	2021 December	Dec. 21/Dec. 20 Difference Total	 %
Liquid assets	26,127	24,207	-1,920	-7.3%
Net loan portfolio	72,175	74,459	2,285	3.2%
Domestic	52,420	52,876	456	0.9%
External	19,755	21,583	1,828	9.3%
Securities	25,091	27,763	2,672	10.6%
Other assets	6,960	6,923	-37	-0.5%
Total Assets	**130,352**	**133,352**	**3,000**	**2.3%**
Deposits	95,196	97,015	1,819	1.9%
Domestic	62,940	63,134	194	0.3%
External	32,256	33,881	1,625	5.0%
Obligations	15,973	16,843	870	5.4%
Other liabilities	3,765	3,575	-190	-5.0%
Capital	15,418	15,919	501	3.2%

Source: General and International License banks

In the National Banking System (general license banks only), the assets totaled USD 117.52 billion, USD 1.90 billion or 1.6% more than that of December 2020. The difference between the growth versus the IBC was because of the participation of two international banks, one considered as globally systemic and the other as regionally systemic, both recorded important cross-border operations throughout the year, which boosted the performance of the entire Center. The net loan portfolio of the National Banking System showed an increase of USD 2.05 billion (3.1%), totalizing USD 68.23 billion. Net external loans grew by 11.6%, while the domestic portfolio outperformed by 0.9%. On the other hand, the total deposits raised by the NBS reached USD 85.37 billion, a 0.8% growth, mainly from customer deposits.

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

Breakdown	2020 December	2021 December	Dec. 21/Dec. 20 Difference Total	Dec. 21/Dec. 20 Difference December
Liquid assets	21,300	19,869	-1,430	-6.7%
Net loan portfolio	66,179	68,227	2,048	3.1%
Domestic	52,420	52,876	456	0.9%
External	13,759	15,351	1,592	11.6%
Securities	21,380	22,780	1,400	6.5%
Other assets	6,761	6,643	-119	-1.8%
Total Assets	**115,620**	**117,519**	**1,899**	**1.6%**
Deposits	84,676	85,364	688	0.8%
Domestic	62,844	62,928	85	0.1%
External	21,832	22,435	603	2.8%
Obligations	15,267	16,547	1,280	8.4%
Other liabilities	3,649	3,353	-296	-8.1%
Capital	12,028	12,256	228	1.9%

Source: General License banks

F. Loans

The domestic loan portfolio recorded a total of USD 55.13 billion, an USD 833.5 million or 1.5% increase, which would indicate an improvement in nominal terms. It should be noted that although the country is undergoing an economic recovery, it has been asymmetrical and some sectors are in a recovery process to improve the demand for credit they had in 2019, with which, the sectoral performance of the different loan portfolios has not been similar. Regarding domestic corporate loans, in 2021, the improvement in annual performance did not imply a generalized portfolio performance. The foregoing is explained by the fact that the demand for corporate credit is still recovering. The greater economic reopening and the growing commuting are expected to have a positive impact on the recovery of corporate income, allowing the payment of debts taken during the pandemic and, at the same time, facilitating greater new lending.

When analyzing the portfolio by company size, a severe contraction is observed in the financing of big companies, which were reduced since 2019 to 2021 to a total of USD 2.22 billion or 13%, while SMEs reduced USD 491 million or 5%. The decrease in the SMEs sector was not greater due to the financing of programs promoted by the national government. The balances during the last month of the year seem to confirm the recovery trend observed in the household portfolio (consumer and housing). This is the result of an improvement in employment and private consumption indicators. In fact, consumer banking within the National Banking System totaled USD 12.90 billion, a 4.2% growth; 86% of this portfolio is destined for personal loans or credit cards and 14% for car loans. On the other hand, total mortgage balances maintain their performance and continue their rearrangement towards the preferential interest rate segment.

Table 5: National Banking System
Balance of Domestic Loans by Economic Sectors
(in millions of USD)

Breakdown	December 2020	December 2021	Dec. 21/Dec. 20 Difference	
			Total	%
TOTAL	**54,292.7**	**55,126.1**	**833.5**	**1.5%**
Public sector	**1,400.1**	**1,476.2**	**76.0**	**5.4%**
Private sector	**52,892.5**	**53,650.0**	**757.4**	**1.4%**
Financial & insurance activities	1,539.4	1,116.5	-422.8	-27.5%
Agriculture	396.6	431.1	34.5	8.7%
Livestock	1,312.0	1,356.6	44.6	3.4%
Fishing	79.4	87.0	7.6	9.5%
Mining & quarrying	55.4	50.8	-4.6	-8.3%
Commerce	10,577.7	10,822.5	244.8	2.3%
Industry	2,763.7	2,834.7	71.0	2.6%
Mortgage	18,008.8	18,749.1	740.4	4.1%
Construction	5,790.6	5,309.1	-481.5	-8.3%
Personal consumption	12,369.0	12,892.4	523.5	4.2%

Source: General License banks

New bank loans accumulated from January to November 2021 (sic) stood at USD 16.85 billion, which represents an increase of 14.2% versus the same period of 2020. It should be noted that portfolio recovery is directly related to the successful inoculation strategy, which led to a higher commuting, positively impacting loan movement.

Table 6: National Banking System
New Domestic Loans by Sector and Activity
(in thousands of USD)

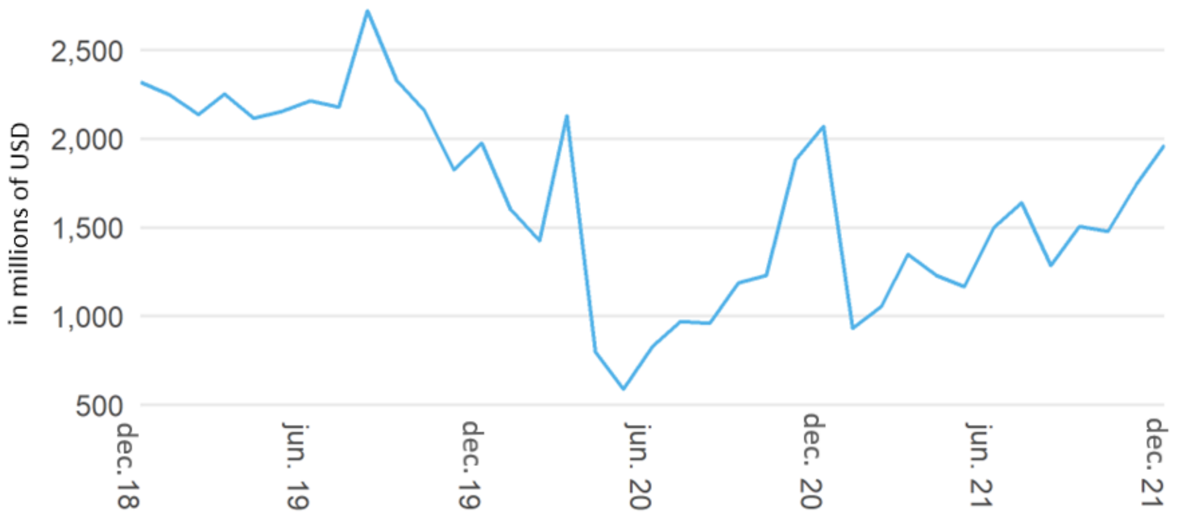
Sectors	Jan.-Dec. 20	Jan.-Dec. 21	Jan.-Dec. 21/20 Difference	
			Total	%
Public entities	1,396,290	1,081,005	-315,285	-22.6%
Financial companies	983,594	676,306	-307,288	-31.2%
Agriculture (inc. Forestry)	124,945	184,335	59,390	47.5%
Livestock	377,557	495,304	117,747	31.2%
Fishing	28,178	47,266	19,088	67.7%
Mining & quarrying	21,007	11,972	-9,034	-43.0%
Commerce (inc. Services)	6,141,217	7,214,101	1,072,884	17.5%
Industry	2,171,520	2,264,631	93,110	4.3%
Mortgage	1,153,468	1,829,346	675,878	58.6%
Construction	889,177	1,094,251	205,074	23.1%
Personal consumption	1,463,646	1,946,036	482,390	33.0%
Total	**14,750,598**	**16,844,554**	**2,093,956**	**14.2%**

Source: General License banks

It is noteworthy to mention that almost all new loan categories have been showing positive performances, except for those sectors that had record growths in the search for capital/liquidity at the onset of the pandemic. **Graph 4** shows the improvement recorded in 2021.

Graph 4: New Loans

Dec. 2018 – Dec. 2021



Source: General License Banks

A relevant aspect in the flow of domestic loans is that best performing activities are those that have a positive and direct impact on the economic reactivation and the one with the greatest contraction is the loan granted between intermediation entities, mainly interbank loans. This performance is associated with the loans granted by Banco Nacional de Panamá in 2020 and that, at the time, was one of the few activities that showed positive numbers that year.

At this point, it is worth noting the positive performance of the external loan portfolio, which highlights IBC's key role in meeting the financing needs of Latin American and Caribbean countries. Said increase could be driven by the country's competitive rates in a context in which most of the countries in the region began increasing their monetary policy rates that have already impacted the credit granting rates. We envisioned that maintaining this position will require having a solid financial sector, with effective supervision and prudential regulation adapted to international standards and sound practices, which we believe will allow us to reinforce this leading role in the regional financial environment.

In an economic reactivation context and a currently controlled health outlook, the credit risk indicator has remained at limited levels, as a result of the exceptional credit support measures applied by the SBP during the pandemic, and that would have ended in September 2021. As of December 2021, the total delinquency rate[1] (+30 days) stood at 4.15%, slightly below that of 2020. Going forward, the uncertainty caused by past due loans will be the main vulnerability for the stability of the financial system, but for now it has been reduced and has a downward trend. Regarding provisions, they

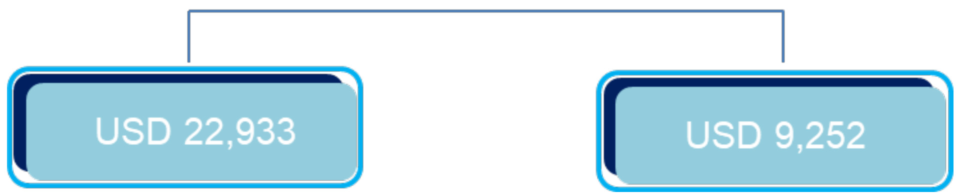
[1] Understood as the delinquent and past due components with respect to the total portfolio

allow credit risk coverage, representing more than 100% of overdue loans subject to the stipulations of Rule 4-2013.

G. Structure of the Loan Portfolio and the Performance of the Modified Portfolio

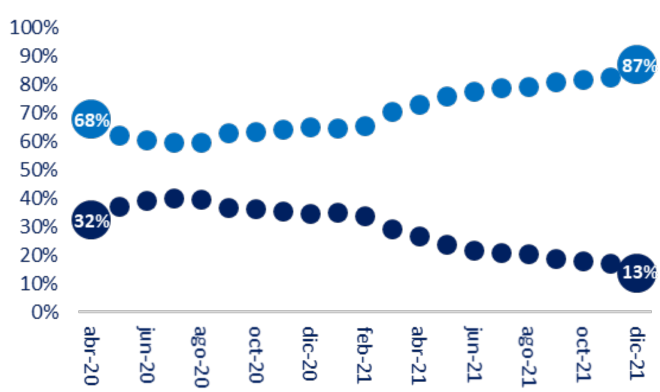
After one year, the modified [loan] portfolio has been reduced by USD 13.69 billion or 59%. This portfolio, as of December 2021, amounted to USD 9.26 billion. The issuance of prudential regulations promoted reaching to agreements between banks and their clients, with which, as of the second half of 2021, there is significant shifting towards the unmodified [loan] portfolio.

Year-on-Year Difference of Modified loans 59%

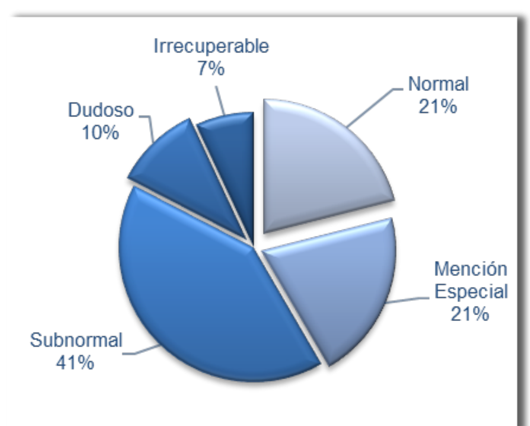


The sectors with the greatest shifting to the regular portfolio correspond to the mortgage sector, which decreased its modified portfolio by USD 4.18 billion or 78%; followed by personal consumption, with a reduction of 58%, and other decreases of a similar scale. On the other hand, in the context of classification as established by Board of Directors' General Resolution SBP-GJD-0003-2021, as of the end of December, the portfolio that could entail the greatest risk would be the modified doubtful and modified loss categories, due to the fact that to date they have not been able to make a larger payment arrangement, and together amounted to USD 1.62 billion or 17% of the total modified portfolio. All these performances relate to the improvement in monthly payments; however, the portfolio classified in this category is still very high and could lead to higher provisioning.

Evolution of loans with financial relief



Classification of modified loans



H. Deposits

As of December 2021, the deposits of the International Banking Center rose to 1.9% versus December 2020. This difference responds to an increase in both domestic and external deposits, having in common that both respond in a relevant manner to the growth of customer deposits, both in demand and savings deposits. This performance shows that customer and external bank depositors trust in the strength of IBC banks and the country's macroeconomic stability despite going through a complicated environment. In this way, the deposits placed in the market, as of December 2021, recorded a total of USD 97.02 billion, USD 1.82 billion more than that of December 2020 (**see Table 8**). If the analysis is focused on domestic deposits, an increase was recorded in 2021 to totalize USD 63.14 billion, a 0.3% growth versus December 2020. Although deposits continue with positive numbers, it has been possible to confirm a foreseeable decrease, which could be related to the opening of activities affected by the pandemic, the reduction of precautionary savings, and the resumption of payment of obligations covered by financial relief programs.

On the other hand, external deposits recorded an increase of USD 1.63 billion, amounting to USD 33.89 billion. In nominal terms, the largest deposit increases came from Peru, Colombia, and El Salvador. 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)

	2020	2021	Dec. 2021 /Dec. 2020 Diff.	
	December	December	Total	%
Deposits	**95,196.0**	**97,014.9**	**1,818.9**	**1.9%**
Domestic	**62,940.4**	**63,134.3**	**193.8**	**0.3%**
Government	13,033.4	11,612.6	(1,420.7)	-10.9%
Customer	44,768.6	48,092.3	3,323.7	7.4%
Banks	5,138.5	3,429.4	(1,709.1)	-33.3%
External	**32,255.5**	**33,880.6**	**1,625.0**	**5.0%**
Government	184.6	349.9	165.3	89.5%
Customer	22,538.6	26,137.6	3,599.0	16.0%
Banks	9,532.3	7,393.1	(2,139.3)	-22.4%

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 85.34 billion, a 0.8% increase versus December 2020, driven by domestic and external deposits (**see Table 9**).

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

	2020	2021	Dec. 2021 /Dec. 2020 Diff.	
	December	**December**	**Total**	**%**
Deposits	**84,675.5**	**85,363.5**	**688.0**	**0.8%**
Domestic	**62,843.9**	**62,928.4**	**84.5**	**0.1%**
Government	13,033.4	11,612.6	-1,420.7	-10.9%
Customer	44,768.6	47,988.9	3,220.3	7.2%
Banks	5,041.9	3,326.9	-1,715.0	-34.0%
External	**21,831.7**	**22,435.1**	**603.5**	**2.8%**
Government	184.6	347.8	163.2	88.4%
Customer	12,643.9	15,143.7	2,499.8	19.8%
Banks	9,003.1	6,943.6	-2,059.5	-22.9%

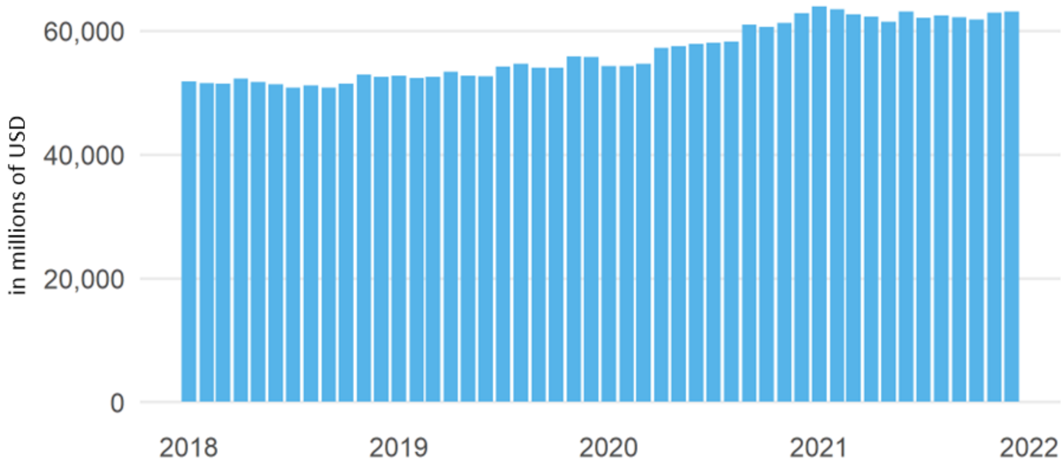
Source: General License banks.

The structure of IBC deposits is based mainly on collecting customers and corporate deposits, which hold 74% of total deposits, 12% are interbank deposits and 14% government deposits. This indicator demonstrates IBC's contribution to the national economy, which is based on deposits as a stable source of funds.

Regarding the client type, customer domestic deposits showed an increase of USD 3.32 billion or 7.2%, which demonstrates the relative importance of this type of client. Corporate deposits are the ones that maintain the largest share, accounting for 60% of customer domestic deposits, with a growth rate of 8.4%. The remaining 40% is made up of individual deposits, which grew by 4.2%.

It should be noted that the domestic deposits of the National Banking System represent 73.7% of the total deposits of the NBS. To date, it is observed that 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 5** shows the evolution of domestic deposits.

Graph 5: Total Domestic Deposits
Jan. 2018 – Dec. 2021

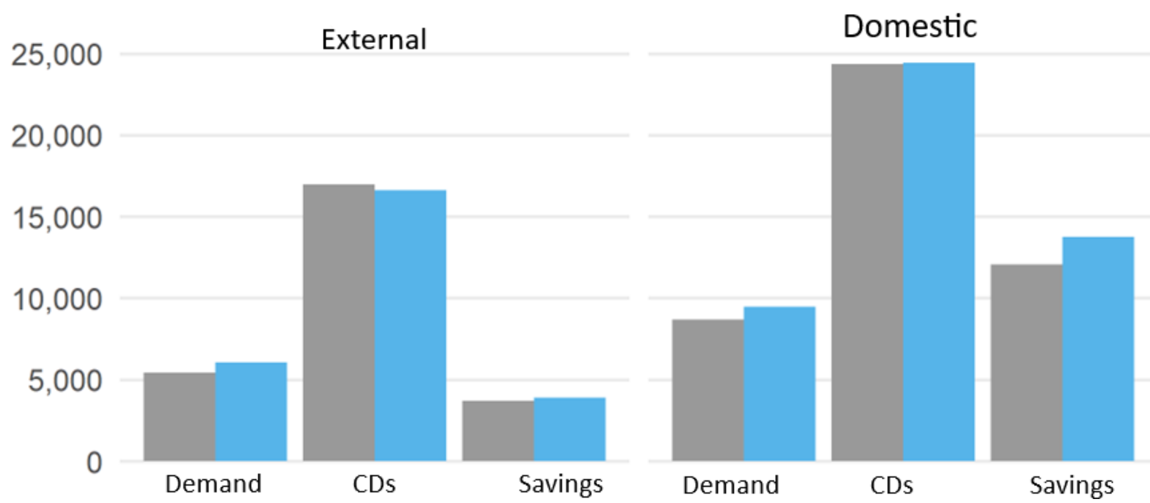


Source: General license banks.

Regarding the structure of customer liabilities by maturity, fixed term deposits continue to be the most important savings instrument. As of December 2021, they represent 51% of customer domestic deposits by totaling USD 24.61 billion, followed by savings rising to USD 13.92 billion; and demand deposits amounting to USD 9.57 billion.

Graph 6: Customer Deposits

Dec. 2020 – Dec. 2021



Source: General and International license banks.

Customers demand deposits (+6.1%) and savings deposits (+12.4%) held by the financial system grew. In this way, a rearrangement of bank deposits continued to be recorded, by increasing the collection of demand accounts as depositors sought to have greater availability and liquidity of their resources. The reactivation of economic activity, which benefited a greater inflow from the sale of goods and services, as well as the substitution of fixed term deposits could explain the increase observed in the performance of demand deposits.

It is worth noting that, although fixed term deposits have remained relatively stable throughout 2020 and 2021, they have had an underperformance when compared to more liquid components.

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