BANK FAQs REGARDING RULES 1-2015 AND 3-2016

1. Is Telered considered a finance company, such that the operations maintained with this corporation are considered in any of the categories for the capital adequacy ratio calculation?
SBP: Telered is not a finance company, it is a service company.

2. If the appraisal is updated but its value does not change, is it considered a new appraisal or registered as a current appraisal?
SBP: A change in value is not necessarily the result of a new appraisal. What must be considered are the new date and the changes, if any. The reappraisal dates are defined in Rule 4-2013.

3. Other reserves, what are they?
SBP: Other capital reserves are those voluntary reserves that come from non-distributed (retained) earnings and are approved by the Board of Directors. Any change in these reserves must be authorized by the SBP.

4. Does preferred stock affect retained earnings?
SBP: The new rule defines the characteristics of qualified instruments for each type of capital. Additional tier one capital, Article 6.

5. Category 2.3 (Instruments, issued by autonomous entities and public-private corporations, wholly, explicitly, jointly, and unconditionally secured by the Panamanian State), what types of instruments are included herein?
SBP: Any debt recognized in the State's general budget, approved by the Cabinet Council, and meeting the conditions to be wholly, explicitly, jointly, and unconditionally secured by the Panamanian State.

6. The frequency for submission of the Capital Requirement Report.
SBP: This was defined in the resolutions issued by the SBP related to the frequency for reporting atoms, tables and reports. The one that is currently in force is Rule 1-2015 and the Capital Adequacy Report must be submitted on a quarterly basis at the closing of March, June, September, and December.

7. Validity of credit cards. How are credit cards classified in the adequacy table?
SBP: According to the customer's credit card expiration date.

8. Delinquent loans of category 7.4 and in account 8 (account 1008006000).
SBP: A distinction is made on category 1 through 6 obligations, whose expired portfolios will be in category 7.4. Those delinquent obligations classified as category 7 will go to category 8.

9. Appraisal report. At what point does the date of the report and the pricing thereof begin to count, based on the multiple values presented by the appraisal companies?
SBP: The market valuation of the property is assessed when the new residential mortgage is executed, based, if applicable, on the technical appraisal or by reference to sales of similar properties. Reappraisals are defined in Rule 4-2013. For the purposes of this rule, to be

classified in the 35% category, the mortgage must meet the provisions established in Rule 4-2013.

10. Do insurance company reserves fall under Paragraph 7 of Article 3 as common tier one capital?
SBP: No, these are technical reserves that are not part of the regulatory capital.

11. Do all instruments issued in the different risk-weighted assets categories include debt and capital?
SBP: Yes, all instruments are included therein.

12. Is the local risk rating of issued instruments that of the jurisdiction in which the issuer operates?
SBP: A local risk rating has the suffix of the country to which it belongs. For this Rule, local ratings are in the 100% category, except for Panamanian banks for demand deposits, time deposits and other loans against Panamanian banks.

13. What are the requirements for a derivative to be considered to have a "contrasted" valuation?
SBP: Let's start by defining "to contrast": to test something to verify that its value has the desired accuracy or purity. For a derivative to be considered to have a contrasted (verified) valuation in that sense, it is considered that a market value may be reliably estimated if the hypotheses used in the valuation are reasonable and the model of valuation can be replicated and verified.

14. In the case of irrevocable contingencies pending reimbursement, is the period for determining CCF application the original period or the period remaining?
SBP: It is the period remaining.

15. Demand deposits of consolidating subsidiaries (financial sector) in currencies not fully convertible.
SBP: Those deposits in currencies not mentioned in the table will be included in the relevant category for the bank's international risk rating.

16. Where is interest receivable on mortgages registered in the risk-weighted assets classification?
SBP: They are registered in the category in which the asset was generated. Pending government obligations regarding preferential interest rate payment must be excluded from capital adequacy, as shown in the table containing the assets to be excluded from the capital adequacy calculation (below).

Single Account Plan (SB02)

Code	Account Name	Attribute
153000	**OPERATING LEASE RECEIVABLES**	**Y**
160000	**FIXED ASSETS (NET)**	**N**
171000	**REPOSSESSED PROPERTY (NET)**	**N**

172290	Provisions for overdue interest	**Y**
173000	**BRANCHES AND OFFICES**	**Y**
174000	**TEMPORARY ASSETS**	**N**
175000	**PENDING OPERATIONS**	**N**
176000	**BALANCE, MISCELLANEOUS DEBTORS**	**N**

17. What is the frequency and commencement date of the report on future capital needs according to the entity's business model?
SBP: January 2017. And it must be reported every three years, unless there are significant changes in the strategy or other changes that significantly alter the previous report.

18. How are the past due and delinquent balances on credit cards reported in relation to the card's expiration date?
SBP: The expiration date on the credit card does not define either the past due or the delinquent condition. This is defined by whether or not the agreed payments are met, in the same way as with other facilities granted.

19. Do declared reserves include credit and repossessed property reserves?
SBP: Regulatory reserves are not part of regulatory capital, and therefore are not considered in BAN05.

20. Are fixed asset revaluations and excess provisions (IFRS 4-2013) part of regulatory capital (Rule 1-2015)?
SBP: No, they are not part of regulatory capital.

21. In the BAN10-SB84 Report, under which line item/code must loans with financial collateral or mitigating guarantees be calculated? Do we have to adjust the collateral value by the adjustment factors included in Articles 11 and 12 of Rule 3-2016?
    - **a.** Under what item do we calculate the current covered portion
    - **b.** Under what item do we calculate the current uncovered portion

SBP: Guarantees and financial collaterals must be applied for capital adequacy but not for dynamic provisions.

22. Should the report on capital needs include the three capital levels?
SBP: Yes, capital projections should be included for all levels together; for the group, at the level of the bank and its subsidiaries, only for the bank.

23. Do real or personal property count for deferred taxes?
SBP: Please refer to the table where the nonfinancial assets excluded from the capital adequacy calculation are listed.

24. Paragraph 3.8 on Instruments – Debt – Banks.
SBP: Every bank categorization is clearly stated in the different categories.

25. Which are the lines of credit that are used: committed or irrevocable?

SBP: All lines of credit for which the bank has guaranteed payment upon condition that the beneficiary meets all agreed terms and conditions and that cannot be cancelled at the issuer's sole discretion must be included in the capital adequacy computations.

26. When is the appraisal effective? When the work is being performed or when the loan is disbursed?
    SBP: The appraisals are for finished property. Work being performed is measured under other criteria.

27. Do the loans for retirees include pensioners and senior citizens?
    SBP: It refers to those whose source of payment is through the program for retirees and pensioners of the CSS.

28. Does the appraisal of real estate land include improvements or just the land?
    SBP: The improvements can only be included when one is the owner of the land where the improvements are made.

29. How would gold and silver be considered when they are under the custody of a third party? If the gold and silver are property owned by the bank, they are assessed at market value, adjusted and then placed in category 1.
    SBP: If it is custody received as loan collateral, it is assessed and the established deduction is applied, and the covered part is placed in category 1.

30. Paragraph 1.10 of Article 2 of Rule 3-2016: "Any asset whose value is deducted from regulatory capital in accordance with the provisions of Article 9 of Rule 1-2015 on Capital Adequacy." Are the regulatory adjustments in paragraph 7 "Investment in own shares (Treasury)" and 8 "Reciprocal crossed stocks in banks, finance companies and insurance companies" included, given that they are deducted from Regulatory Capital? If so, must they be included in Table SB36?
    SBP: If the bank has its own shares (Treasury) among its assets, it therefore has them in equity. Assets with zero risk are placed in category 1 and this same amount is deducted from equity.
    If the bank does not show them as assets, it should not deduct them from regulatory capital.
    These accounts are being included in SB36, understanding that it is only for those that fall within the first condition above.

31. Shall we understand that the new regulation changes the way in which we calculate the dynamic provision and that the specific provisions in [Rule] 4-2013 are not affected?
    SBP: Table SB84 for reporting dynamic provisions remains the same. Only the 35% weighting for housing strictly meeting the conditions described in Rule 3-2016 is included.

32. Must reports using the new structures of BA05 and BA10 be submitted at the end of the (July-August-September 2016) quarter or starting in July, reporting the (April-May-June 2016) quarter?
    SBP: At the end of September 2016.

33. Reviewing the new structure for BAN05 and the Capital Adequacy Table (SB36) updated in the Rule, must we include all categories for each one of the companies or only for the individual bank?
SBP: It should be reported on three levels:
01 Individual bank
02 Bank and consolidated financial subsidiaries (if applicable)
03 Banking group (with the consolidated financial companies [if applicable])

34. Reviewing the new structure for BA10 and the Risk-Weighted Assets list (SB84) updated in the Rule, must we include all categories for each one of the companies or only for the individual bank?
SBP: It should be reported on three levels:
01 Individual bank
02 Bank and consolidated financial subsidiaries (if applicable)
03 Banking group (with the consolidated financial companies [if applicable])

35. (Omitted)

36. We have the following doubts on the List of Categories stated in Rule 3-2016: Category 6 (100%)
All loans secured by a mortgage that do not meet the conditions established in Categories 4 and 5 must be included in this category. Does “all” mean consumer loans secured by a mortgage or only mortgages?
SBP: These descriptions are only for classifying the mortgage portfolio.

What are the unfulfilled conditions? Only appraisals over 10 years old?
SBP: Please refer to Rule 3-2016, which clearly states the conditions that must be fully met without exception.

37. All past due loans that are defined in the regulations issued by the Superintendency, whose characteristics are described there and in the previous categories, will be weighted at 100%. Does the word “All” include personal loans, consumer loans secured by a mortgage and mortgages, the only condition being that they should be in the Past Due category?
SBP: There is a distinction between the mortgage portfolio, which is classified in the 35% or 50% categories but moves to the 100% category when it becomes past due, and the consumption portfolio, which may move to the 100% or the 125% category depending on the original maturity date or on whether they are for retirees or pensioners.

38. Category 7 (125%)
7.2 Current and past due loans for the debtor’s **personal consumption** with an original term greater than 5 years: does this include retirees and pensioners?
SBP: No, please refer to the Rule.

Doesn’t line item 6.10 contradict this line item? 6.10 indicates all past due loans. Could you please clarify?
SBP: No, please refer to the Rule.

39. To consider an appraisal valid, can the appraisal be conducted internally by our appraisal department or must it be conducted by a third party (external)?
    SBP: Please refer to Paragraph c of Article 41 of Rule 4-2013.

40. Category 1 (0% Weighting)
    1.7 Loans duly secured by pledged deposits within the same bank up to the secured amount; does this refer to secured loans applying 100% of the market value to be deducted as collateral?
    SBP: Yes, as stated.

    If the deposit is for an amount less than the loan amount, should the remainder be classified in a relevant category? i.e. if it were a personal loan, would it be placed in category 7, weighted at 125%?
    SBP: It would depend on the original term of the personal loan.

41. Category 5 (50% Weighting)
    5.10 Loans covered by financial collateral or by guarantees accepted by the Superintendency as risk mitigators shall have the covered portion weighted in this category after the corresponding coefficient is applied to the guarantee. For this calculation, should the principal or the mitigated amount be used?
    SBP: The type of financial collateral indicates the risk category in which the loan will be classified. The value percentage, when applied to the loan, indicates whether the loan will be covered at 100% or if there is any uncovered portion.
    The uncovered portion will be weighted in the 100% or 125% category depending on the type of loan.

    What about a past due loan?
    SBP: After making the necessary corrections above, please refer to Articles 11 and 12 of Rule 3-2016.

42. Category 6 (100% Weighting)
    6.5 Current loans without collateral acceptable as risk mitigators according to Article 9, for the debtor's personal consumption and with an original period of five (5) years or less. Are consumer loans to retirees and pensioners in this category?

    Please clarify if retiree loans with deductions from the Social Security System are permitted to apply an 85% coefficient, and should the principal or the market value with the mitigating collateral be used?
    SBP: Please refer to answer 42.

    All other risk assets or counterparty assets not covered by the previous categories or categories 7 and 8. We request your clarification on whether current corporate loans not secured by time deposits or mortgages having an LTV of 60-70% are classified in this category. I.e., are they calculated at 100%?
    SBP: For commercial mortgages with an LVT greater than 60%, the total loan amount will be included in the 100% category.

43. Category 7 (125% Weighting)

7.1 Current and past due loans whose purpose is the acquisition of personal vehicles and that were originally granted for a period greater than five (5) years.

7.2 Current and past due loans for the debtor's personal consumption with an original period greater than five (5) years.
Please clarify if the above refers to current and past due loans (at the same time), or if it refers to current loans and past due loans for the acquisition of a vehicle or for personal consumption, with an original period greater than five (5) years.
SBP: When the loan is a car loan or a personal consumption loan and it is current and its term is greater than 5 years, it will be weighted at 125%. If it is a past due loan, it will be weighted at 125%. Loans cannot meet both conditions; they are either current or past due.

7.3 Current loans of any type for the **acquisition of vehicles for personal use or for the debtor's personal consumption** whose payment plan does not cover their total amortization by the effective interest rate method in a 5-year plan:
Please clarify if this item covers car loans and personal loans, or car loans only.
SBP: It is for both types, as stated in the Rule.

7.4 All delinquent loans pursuant to the provisions of the Rule on credit risk management and administration inherent in the loan portfolio and off-balance sheet operations are weighted within this category except for those included in category 8.

Please clarify whether past due unsecured corporate loans fall within this category.
SBP: Past due unsecured corporate loans are weighted at 100% (Paragraph 6.11 of Article 2). Delinquent unsecured corporate loans are weighted at 125%.

44. Article 11. Market value of collateral.
Please expand on the scope of the second chart on financial collateral. For mortgage/car loans, do the guarantees act as mitigators?
SBP: This is already explained in Question 42.

For loans secured with deposits within the bank, should one insert the principal or the market value along with the mitigated collateral?
SBP: As long as it is the principal, without mitigation. It is reiterated that the mitigator indicates only in which category the asset belongs.
Neither the collateral value nor the mitigated value should be used.
If there is a loan with a balance of 10 and a collateral of 11 in category 1 time deposits, the 10 is inserted. If the deposit were 5, it would be inserted in category 1 and the remainder would be placed in category 6 or 7, depending on the term.

Regarding the management of requested appraisals, requiring data updates at 3, 5, 7, and 10 years. Is it possible for the bank to weight and average its portfolios using methodologies that will permit it to make quick sale valuations without incurring in such frequent expense for its customers , especially the 3-year appraisal?
SBP: To weight assets at 35%, one must strictly comply with all the requirements in the Rule; there are no acceptable modifications or methodologies. This is also applicable to the 50% category.

45. Do the instruments issued by private companies noted in categories 3.8, 5.9, 6.7, 6.8 and 8.4 of Article 2 include investments in banks?
SBP: No, banks have their own particular treatment for each category.

46. (Omitted)
47. If a bond has currency exchange coverage, should one automatically calculate the Potential future interest risk exposure (example provided by the SBP) separate from the exchange rate?
SBP: Both of them.

48. During the orientation it was mentioned that interest receivable must be part of the balance for calculating LTV and the part covered by collateral; however, interests are not mentioned in Rule 3-2016. Since interests are not mentioned in Rule 3-2016, should they be considered for the risk-weighting calculation? Please clarify.
SBP: We did not say this was for the calculation of the LTV; we said they would be weighted with the assets that generate them. Yes, interests must be weighted within the corresponding categories.

49. How should the regulatory capital reserves created by the difference between regulatory reserve and IFRS be classified within capital?
SBP: They are not part of regulatory capital.

How should repossessed property reserves be classified within capital?
SBP: They are not part of regulatory capital.

50. Is the "Central American Bank for Economic Integration (BCIE, for its acronym in Spanish) one of the multilateral banks authorized by your organization?
SBP: Yes, it is considered one of the authorized multilateral banks.