Superintendencia
de Bancos de Panamá

October 12, 2015
Circular N° SBP-DR-0160-2015

General Manager

Subject: Reminder of the entry into force of International Financial Reporting Standard No. 9.

Dear General Manager

As you are aware, Rule 6-2012 establishes that the technical standards that banks and banking groups must use for their accounting records and in preparing their individual and consolidated financial statements are the International Financial Reporting Standards (IFRS).

These technical standards change or are modified from time to time as business evolves or economic problems arise. Considering this and as a consequence of the global financial system crisis of 2008, a substantial modification to the rule, with greater impact on banks and financial institutions in general, has been in development. "IFRS 9 Financial Instruments" is ready to replace International Accounting Standard 39 (having the same name) on January 1, 2018.

The date of implementation may seem distant, but experience tells us that when facing great changes in accounting standards, processes and systems, two and a half years can end up being very short. Among the various changes introduced by IFRS 9, measuring the element of impairment for various financial instruments in a banking entity and, in particular, for their loan portfolios, will result in a fundamental change in our current practices.

IFRS 9 introduces the concept of expected loss, as opposed to our current use of the concept of incurred loss. The new deterioration model will require, at a minimum, the creation of provisions covering losses expected in the next 12 months for all loans and provisions for the expected losses over the life of a loan for those loans that have experienced a significant increase in credit risk. Accounting regulators estimate that this new model will result in around a 35 per cent increase in impairment provisions.

This increase in provisions, with the resulting decrease in performance and retained profits, can have a major impact on compensation policies, compliance with technical rates for loans, regulatory capital requirements, the views of risk rating agencies and others. Recent surveys by the Superintendency indicate that in general, banks have made very little progress in the analysis of the implications of the implementation of this new accounting standard.

In view the above, we request the bank and banking Group's Audit Committee, as well as the General Manager, provide the relevant instructions to their staff so that the entity can focus on the prompt analysis of this issue and coordinate an implementation schedule for IFRS 9 with its external auditors.

Av. Samuel Lewis, Torre Banistmo, planta baja - Tels.: (507) 506 7800 / (507) 506-7900 - Fax (507) 506-7700 / 506-7703
Apartado postal 0832-2397 W.T.C. Panamá, República de Panamá - www.superbancos.gob.pa - email: superbancos@superbancos.gob.pa

This implementation schedule should cover activities related to changes to procedures, policies, processes, computer systems, models for calculating provisions and training, among others.

The Superintendency will be monitoring the progress of each entity in the successful implementation of this new rule, and consequently requests they submit their implementation schedules to the Superintendency before 30 June 2016.

Best regards,

Ricardo G. Fernández D.
Superintendent

ARV/vb

Cc: Audit Committees