SUPERINTENDENCY OF BANKS OF PANAMA

APPENDIX TO CIRCULAR

TEMPLATE OF NOTE TO THE AUDITED FINANCIAL STATEMENTS OF THE MODIFIED SPECIAL MENTION CATEGORY PORTFOLIO

NOTE N° XX. REGULATORY MATTERS

Modified special mention category loans

According to the requirements of Article 4-E of Rule 9-2020 dated 11 September 2020 by means of which Rule 2-2020 dated 16 March 2020 was amended, below you will find the breakdown of the modified special mention category loans portfolio and its corresponding regulatory provisions and reserves as of 31 December 2020, classified according to the IFRS 9 three-stage model:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Modified special mention loans				
Modified loans				
Consumer	xxxxx	xxx	xx	xxxxxxx
Corporate	xxxxxx	xxxx	xx	xxxxxxx
(-) Modified loans secured with pledged deposits in the same bank for the collateralized amount	(xx)			(xx)
(+) accrued interest receivable	xxx	xx	xx	xxxx
(-) unearned discounted interest and fees	(xx)	(x)	(x)	(xx)
Total portfolio subject to Rule 9-2020 provisions	xxxxxx	xxxx	xx	xxxxxxxx
Provisions				
IFRS 9 provision	xx	xxx	xxxx	xxxx
Generic provision (1.5% complement)				xx
Regulatory reserve (3% complement)				xx
Total provisions and reserves				xxxxx

As explained in Note N° XX on the effects of COVID-19, as of 31 March 2020 the bank granted an automatic grace period to borrowers affected in their business or personal activities by COVID-19, until 30 June 2020. As of that date, and as a result of the agreement signed between the Panamanian Government and the Panama Banking Association, as well as the issuance of Law 156 on payments standstill, the financial relief to those affected by COVID-19 and that requested [the payments standstill] was extended up to 31 December 2020. These financial relief measures mainly consist of granting grace periods for principal and interests to clients whose income has been affected by the pandemic.

As part of the bank's risk management, both individual and collective analyses of the conditions of the loans have been developed, including the segmentation of the portfolio in order to identify the employment situation or the resuming of economic activity of each client and define who will be able to meet their bank obligations, who will have difficulties in doing so, and who will definitely not be able to meet them and in thus determine if there has been a significant increase in risk and classify said loans according to the corresponding impairment stage. Additionally, different agreements have been reached with clients based on the individual analysis of their ability to generate the income necessary to meet their obligations.

COVID-19 has resulted in a disruption in economic activities that have negatively affected, and are likely to continue to negatively affect the Bank's business, its financial condition, liquidity and operating results. The bank's cash flow have been significantly reduced as a result of the aforementioned payment standstill, as shown in the following table that describes the percentage of the value of the modified special mention loans, including interest, that as of 31 December 2020 have not present payment in their installments counted from the last payment of the installment registered at the time of the loan modification:

	Up to 90 days	**Between 91 and 120 days**	**Between 121 and 180 days**	**Between 181 and 270 days**
Consumer loans	%	%	%	%
Corporate loans	%	%	%	%

It is worth noting that in addition to modified special mention loans, the bank has loans included in the substandard, doubtful or loss category and that have availed themselves to the payment standstill of Law 156 dated 30 June 2020. The table below shows the amounts of these loans that, as of 31 December 2020, do not present any payment in their installments counted from the last payment of the contractual installment (in thousands of B/.):

	Between 91 and 120 days	**Between 121 and 180 days**	**Between 181 and 270 days**	**More than 270 days**
		(in thousands of B/.)		
High-risk consumer loans who availed themselves to Law 156				
High-risk corporate loans who availed themselves to Law 156				

As we have mentioned at the beginning of this note, on 11 September 2020, the Superintendency of Banks issued Rule 9-2020 that amended Rule 2-2020 dated 16 March 2020, by means of which is defined that loans classified as pass and special mention, as well as restructured loans that are not in arrears, may be modified according to the parameters established in the aforementioned Rule. On the other hand, the modified loans in the pass and special mention categories will be classified as “modified special mention” for the purposes of determining the respective provisions. Modified restructured loans that were in substandard, doubtful or loss category will maintain the loan classification they had at the time of their modification with their relevant provision.

According to the rule mentioned above, on the modified special mention portfolio, banks will create a provision equivalent to the highest value between IFRS provision of the modified special mention portfolio and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio, including uncollected accrued interests and capitalized expenses; modified loans secured with deposits pledged in the same bank may be excluded from this calculation up to the secured amount. For this, the following scenarios will be considered:

1. In cases where the IFRS provision is equal to or greater than the generic provision of 3% established herein, the bank will register the corresponding IFRS provision in the results of the year.

2. In cases where the IFRS provision is less than the generic provision of 3% established herein, the bank will register said IFRS provision in the results and the difference must be registered in the results or in a regulatory reserve in equity, taking into consideration the following aspects:

    a. When the IFRS provision is equal to or greater than 1.5%, the bank will register said IFRS provision in the income account. Likewise, the difference to complete the 3% of the generic provision established herein must be registered in a regulatory provision in equity.

    b. When the IFRS provision is less than 1.5%, the bank ensure that this percentage is completed and registered in the income account. Likewise, the difference to complete the 3% of the generic provision established herein must be registered in a regulatory provision in equity.