Republica de Panamá
SUPERINTENDENCIA DE BANCOS

GENERAL RESOLUTION No. 2-2000
(27th March 2000)

THE SUPERINTENDENT OF BANKS
in the exercise of her legal powers, and

WHEREAS:

In accordance with Article 17 Point 30 of Decree Law No. 9 of 26th February 1998 the Superintendent is responsible for evaluating the financial ratios of the Banks and of the Economic Groups to which they belong, such as the asset risk ratio and any others which the Superintendent considers appropriate;

In accordance with Article 17 Point 32 of Decree Law No. 9 of 26th February 1998 the Superintendent is responsible for determining the rules which Banks must observe, within the scope of the activities which the Law permits them to conduct, in order to ensure that their operations are carried out within adequate risk limits;

The asymmetries which are adverse to the Bank in terms of the terms, amounts and forms of interest rates applicable to their loans and deposits generate a greater risk of a loss in the market value of the Bank's assets.

It is necessary to fix certain minimum criteria to provide protection against possible losses as a result of variations in the economic value of the elements contained in the financial statements.

RESOLVES:

ARTICLE 1:- MANAGEMENT OF ASSETS AND LIABILITIES.

Every Bank must manage its assets, liabilities and off-balance sheet accounts in an efficient manner, which must include permanently measuring and evaluating the composition of its assets, liabilities and off-balance sheet positions by terms, amounts and by type of instruments or categories and other evaluation elements which are appropriate for such purposes.

The measurement and evaluation shall be conducted in accordance with the provisions of Article 2, without prejudice to other methods which the Bank may also use to measure and evaluate the interest rate risk.

ARTICLE 2:- MEASUREMENT OF NET INTEREST INCOME.

Banks shall calculate net interest income by category (NNIj) in accordance with the following formula which shall be the one used by the Superintendency to measure the interest rate risk:

$$NNIj = \{Aj\ (raj) - Lj\ (rlj)\}$$

Where: j is the category of Assets and Liabilities;

Aj and Lj are the assets and liabilities coming within the category j, raj is the average weighted nominal interest rate of the assets in category j; and

rlj is the average weighted nominal interest rate of the liabilities in category j.

Banks must carry out an estimate of the variation in net interest income by category (NNIj) on the assumption that there is an increase or reduction in the raj and the rlj of 100 and 200 base points.

ARTICLE 3:- CATEGORIES OF ASSETS AND LIABILITIES.

For the purpose of calculating the interest rate risk margin, the following assets and liabilities shall be taken into account:

Category 1:

1. Fixed rate Assets and Liabilities with an effective maturity date of up to 3 months, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

2. Floating rate Assets and Liabilities where the rate is renegotiated at intervals of up to 3 months, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

Category 2:

1. Fixed rate Assets and Liabilities with an effective maturity date of more than 3 months and up to 6 months, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

2. Floating rate Assets and Liabilities where the rate is renegotiated at intervals of more than 3 months and up to 6 months, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

Category 3:

1. Fixed rate Assets and Liabilities with an effective maturity date of more than 6 months and up to 9 months, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

2. Floating rate Assets and Liabilities where the rate is renegotiated at intervals of more than 6 months and up to 9 months, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

Category 4:

1. Fixed rate Assets and Liabilities with a maturity date of more than 9 months and up to 12 months, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

2. Floating rate Assets and Liabilities where the rate is renegotiated at intervals of more than 9 months and up to 12 months, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

Category 5:

1. Fixed rate Assets and Liabilities with a maturity date of more than 1 year and up to 3 years, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

2. Floating rate Assets and Liabilities where the rate is renegotiated at intervals of more than 1 year and up to 3 years, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

Category 6:

1. Fixed rate Assets and Liabilities with a maturity date of more than 3 years and up to 5 years, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

2. Floating rate Assets and Liabilities where the rate is renegotiated at intervals of more than 3 years and up to 5 years, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

Category 7:

1. Fixed rate Assets and Liabilities with a maturity date of more than 5 years and up to 10 years, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

2. Floating rate Assets and Liabilities where the rate is renegotiated at intervals of more than 5 years and up to 10 years, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

Category 8:

1. Fixed rate Assets and Liabilities with a maturity date of more than 10 years, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest;

2. Floating rate Assets and Liabilities where the rate is renegotiated at intervals of more than 10 years, including secondary capital elements and off-balance sheet financial instruments, providing they earn interest.

ARTICLE 4:- CONTENTS OF INFORMATION SENT TO THE SUPERINTENDENCY AND FREQUENCY OF FILING.

Banks must send the Superintendency the information listed in the Appendix to this General Resolution each quarter within the first ten (10) days of the month following the end of the quarter in question.
Similarly Banks shall submit their Average Weighted Nominal Interest Rates for both assets and liabilities and for each category to the Superintendency each quarter.
The information referred to in this Article must be submitted within the first ten (10) days of the month following the end of the quarter in question. This deadline shall expire on the tenth (10^{th}) day of the said month, regardless of whether the last day or days of the period coincide with national holidays or days of national morning or public holidays or Saturdays or Sundays.

ARTICLE 5:- MINIMUM ORGANISATIONAL STRUCTURE FOR THE MANAGEMENT OF ASSETS AND LIABILITIES.

Every Bank must have an asset and liability management committee within its institution in order to manage the interest rate risk.
The structure and denomination of this asset and liability management committee shall be defined in accordance with the organisational policies of each Bank.
The principal function of this committee shall be to provide support to the Board of Directors and the General Management of the Bank in defining, monitoring and controlling the general policies for management of assets and liabilities and assumption of risk, and it must therefore perform the following functions as a minimum:

a. Establish adequate procedures and mechanisms for the management and administration of risks, be responsible for ensuring that the Bank's staff are properly trained in relation to such matters and for monitoring the setting up of the required information systems.

b. Advise the Board of Directors and the General Management on the definition of the exposure limits by risk type, terms, amounts, currencies and instruments and ensure that they are complied with.

c. Provide the Bank's decision-making bodies with studies and prognoses on the performance of the main economic and monetary variables and recommend strategies for the structure of the balance sheet in relation to terms, amounts, currencies, types of instrument and hedging mechanisms.

ARTICLE 6:- CORRECTIVE MEASURES DUE TO A REDUCTION IN NET INTEREST INCOME.
In the event that the reduction in net interest income in one or more categories of assets and liabilities between one quarter and the next is more than TEN PER CENT (10%) of a Bank's consolidated Capital Funds, the Bank in question must take the corrective measures imparted by the Superintendent in the manner, with the contents and within the time period indicated.

ARTICLE 7:- SANCTION FOR DELAY IN THE FILING OF INFORMATION.
The criteria for the imposition of progressive fines for delays in filing reports and/or documents required by the legal provisions or by Circulars and/or Notes of the Superintendency which are contained in Agreement No. 2-98 of 23rd September 1998 are applicable to the delay in filing the information which is referred to in accordance with article 3 hereof.
ARTICLE 8:- SANCTION FOR BREACH.

A breach of the obligation to manage the interest rate risk in accordance with prudent banking practice, of the obligation to have an asset and liability management committee or of the obligation to adopt the measures imparted by the Superintendent in order to correct the reduction in net interest income, shall be sanctioned with a fine of One Thousand Balboas (B/. 1,000.00) for each day of the breach, up to a maximum of Five Thousand Balboas (B/. 5,000.00).

ARTICLE 9:- COMING INTO FORCE.

This General Resolution shall come into force from third (3rd) July 2000.

Issued in Panama City on the twenty seventh (27th) day of March two thousand (2000)
LET THIS GENERAL RESOLUTION BE NOTIFIED AND COMPLIED WITH.

SUPERINTENDENT OF BANKS.

Delia Cárdenas