Republica de Panamá
SUPERINTENDENCIA DE BANCOS

GENERAL RESOLUTION No. 7-2000
(8th September 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 economic, social and political environment within the country of domicile of the Banks' debtors may prevent the said debtors from complying with their obligations, thereby creating losses on the Banks' international portfolios; and

It has become apparent that it is necessary and advisable to fix certain minimum criteria in relation to the policies and procedures which are appropriate for the identification, review and control of the country risk in activities relating to all loans, bank deposits and investments in securities to enable the creation of adequate provisions to cover the said risk.

RESOLVES:

ARTICLE 1: CONCEPT OF COUNTRY RISK. For the purposes of this General Resolution, country risk shall be deemed to mean the possibility of a debtor defaulting on its obligation as a result of adverse effects in the economic, social or political environment or as a result of natural disasters in a country other than Panama. This risk shall be imputed to the country where the source which generates the cash flow required to obtain the recovery of the obligation is to be found and/or the country from which the return on the resources invested is to be obtained.

The country risk includes the transfer risk, the political risk and the sovereign risk. The transfer risk corresponds to the general inability of debtors in a particular country to comply with their financial obligations due to the lack of availability of the currency in which the obligation is denominated, regardless of the particular financial situation of the debtor in question. The political risk refers inter alia to the possibility of war, civil disturbances and other situations of a purely political kind. The sovereign risk corresponds to the possibility that sovereign debtors in a particular country may be unable to or may not be prepared to comply with their financial obligations for reasons other than the credit risk and other risks which are peculiar to the financing operations.

ARTICLE 2: POLICIES FOR THE EVALUATION OF THE COUNTRY RISK. Every Bank must manage its resources abroad efficiently and this includes having effective policies and procedures for identifying, managing, quantifying and controlling the risk assumed, through the application of the highest possible care and thoroughness in the analysis and monitoring of the country risk.

The use of resources in other countries requires effective policies to be fixed in order to reduce and manage the risk. In accordance with the above, the Board of Directors and/or General Management of each Bank shall be responsible for:

a. Establishing policies with regard to the use of loans, bank deposits and investments in securities in other countries;

b. Establishing an adequate geographical distribution of the resources, the maximum levels of credit exposure, bank deposits and investments in securities by country;

c. Establishing the criteria for evaluating the country risk, taking into account the economic and social indicators, economic policy, balance of payments and stability of the political regime in accordance with the provisions of Article 3 hereof; and

d. Establishing the percentages and/or the guidelines for the calculation of the country risk provision, taken into account the criteria laid down in this General Resolution, which must form part of the corresponding manuals.

ARTICLE 3. ELEMENTS FOR THE EVALUATION OF THE COUNTRY RISK. The purpose of this management is to ensure that the transactions undertaken by a Bank, principally in capital, debt, money and foreign exchange markets, do not expose it to losses which could threaten its net worth and/or liquidity.
The Bank shall take the following elements into account when evaluating and classifying the country risk:

a. The rating assigned to the country by the internationally recognised ratings agencies, as laid down in Appendix 1 hereto; or

b. The evaluations assigned to the country by international financial organisations or by specialist banks; or

c. The rating assigned to the country by specialist advisory firms contracted by the Bank; or

d. Other sources of information, analysis or studies to which the Bank has access.

ARTICLE 4. INFORMATION ON COUNTRY RISK. Every Bank must have the following information in relation to country risk available for the Superintendency as a minimum:

a. File for each country in which the Bank has loans, bank deposits and investments in securities.

b. Method of analysis for each country evaluated, the report which contains all the relevant information and the conclusions which determined the risk category assigned to the respective country.

c. Period, form of adaptation and monitoring of the country risk.

d. Any other information which the Superintendency considers it appropriate to ask for.

ARTICLE 5. CATEGORIES OF COUNTRY RISK CLASSIFICATION. For the purposes of the classification of a country, the Bank shall use the elements listed in this General Resolution. On the basis of the aforesaid and as a result of economic, political and social changes, the categories in which countries have to be classified are: normal risk, moderate risk, problematic risk and high risk.

ARTICLE 6. COUNTRIES WITH NORMAL RISK. Countries classified in this category are those countries which have an investment rating and are rated from level (1) to level (4) by the rating agencies (See Appendix 1), plus those countries which comply punctually with their international financial obligations and with the financing of their foreign trade activities and whose economic, political and social performance demonstrates economic capability and credibility.

ARTICLE 7. COUNTRIES WITH MODERATE RISK. Included within this category are countries which show no major macroeconomic imbalances, that is to say their internal and external imbalances are controllable, but there are doubts about the performance of their international financial obligations (See Appendix 1).
This category is the lowest risk category in which a country in which one or more of the following situations are to be found may be included:

a. There are reasonable doubts as to whether the country will succeed in maintaining its macroeconomic equilibrium in the medium term; or

b. Its level of indebtedness makes it difficult for it to obtain new credit on normal terms; or

c. One of the following circumstances is seen when it comes to its payments to service its debt:

i. It has suspended the repayment of its debts during the last five years either totally or in part, but has continued to service interest payments normally;

ii. It has renegotiated its debt within the last five years either wholly or in part and has extended the term of the debt.

ARTICLE 8. COUNTRIES WITH PROBLEMATIC RISK. Included within this category are countries in which internal and external imbalances are common or recurrent. Their economies generally show delays in complying with their international financial obligations.
A country in which one or more of the following situations is present shall be included in this category:

a. Countries which have a high risk rating, from levels one (1) to three (3) (See Appendix 1); or

b. It is unclear whether renegotiations agreed are due to a definitive adaptation of its ability to pay; or

c. One of the following circumstances is observed in its payment behaviour:

i. It has suspended the repayment of its debts during the last two years either totally or in part, but has continued to service interest payments normally;

ii. It has renegotiated its debt within the last two years either wholly or in part and has extended the term of the debt, or has shown an interest in so doing; or

iii. It has refinanced a substantial part of its interest with new loans in the last two years.

d. There is a shortage of international reserves.

ARTICLE 9. COUNTRIES WITH HIGH RISK. Included within this category are countries with internal and external imbalances which translate into high levels of inflation, low or even negative GDP growth and serious difficulties in financing its balance of payments. This scenario leads to increasing levels of rescheduling of its external commitments, with little prospect of payment.
A country in which one or more of the following situations is present must be included in this category:

a. It has a high risk rating from a rating agency and comes within levels four (4) to nine (9), (See Appendix 1).

b. One of the following circumstances is observed in its payment behaviour:

i. It has suspended interest repayments during the last two years either totally or in part;

ii. It has imposed a unilateral moratorium on its debts in the last two years.

ARTICLE 10. CRITERIA FOR THE APPLICATION OF THE COUNTRY RISK PROVISION. The Bank shall determine the country risk in accordance with the provisions of this General Resolution at the time when it evaluates its loans on the basis of Agreement 6-2000 and its investments in securities on the basis of Agreement 7-2000. The Bank shall lay down percentages which are adequate to establish the provision caused by the country risk in the categories of moderate risk, problematic risk and high risk. This provision shall be subsequently evaluated by the Bank's external auditors and by the Superintendency of Banks.

It is expressly understood that if a loan, bank deposit or investment in securities has a guarantee *in rem* which is located and realisable in Panama, the part of the said loan, deposit or investment covered by the guarantee shall be exempt from the provision.

The Superintendency may request an adjustment to the provision fixed by the Bank if in its opinion such an adjustment is appropriate.

ARTICLE 11. APPLICATION OF THE PROVISION FOR COUNTRY RISK BY FOREIGN BANKS. In the case of branches of Foreign Banks with General Licences or with International Licences, the Bank may prove that provision has been made for the loans, bank deposits or investments in securities of its Panama branch by its Parent abroad by means of a certificate issued by the said Parent's external auditors and/or by its respective Supervisory Body; in the event that this provision does not apply, such Banks shall make country risk provisions on the basis of Article 10 hereof.

However, the Superintendency reserves the right to evaluate the adequacy of the aforementioned provision and to order the Bank to create provisions in Panama at any time.

ARTICLE 12. SUBSEQUENT CHANGES IN CLASSIFICATION. If a country is reclassified into a higher or lower risk category, the Bank may make the necessary adjustments to the provision, without prejudice to any later revisions which the Superintendency sees fit to make.

ARTICLE 13. ACCOUNTING PROVISIONS AND DISCLOSURE OF INFORMATION. Banks must record in their accounting records and disclose in their Audited Financial Statements information which enables a user to evaluate the country risk profile of their loans, bank deposits and investments in securities abroad, on the basis of the criteria laid down in this General Resolution, in the International Accounting Standards and in the Standard Accounting Practices Generally Accepted in the United States of America (US-GAAP).

ARTICLE 14. COMING INTO FORCE. This General Resolution shall come into force from the first (1^{st}) of January two thousand and one (2001).

LET THIS GENERAL RESOLUTION BE NOTIFIED AND COMPLIED WITH.

THE SUPERINTENDENT OF BANKS.

Delia Cárdenas

APPENDIX No. 1
International long-term ratings in foreign currency

	Level	**Standard & Poors**	**Moody's**	**Duff & Phelps**	**Fitch IBCA**	**Thomson Financial Bankwatch**	**Explanation**
	1	AAA	Aaa	AAA	AAA	AAA	The highest rating
Investment Grade	2	AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-	AA+ AA AA-	AA	High rating
	3	A+ A A-	A1 A2 A3	A+ A A-	A+ A A-	A	Good payment ability
	4	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-	BBB	Adequate payment ability
Moderate	1	BB+	Ba1	BB+	BB+	BB+	Likely to meet obligations;
risk	2	BB	Ba2	BB	BB	BB	Day to day
	3	BB-	Ba3	BB-	BB-	BB-	uncertainty
	1	B+	B1	B+	B+	B+	Vulnerable to

							adverse
	2	B	B2	B	B	B	economic
	3	B-	B3	B-	B-	B-	conditions
High risk	4	CCC+	Caa1	CCC+	CCC+	CCC+	Propensity not
	5	CCC	Caa2	CCC	CCC	CCC	to meet
	6	CC-	Caa3	CC-	CC-	CC-	commitments
	7	CC	Ca	CC	CC	CC	
	8	C	Ca	C	C	C	
	9	D	Ca	D	D	D	