Republic of Panama
Superintendency of Banks

BOARD OF DIRECTORS' GENERAL RESOLUTION SBP-GJD-0003-2013
(dated 9 July 2013)

"Whereby the accounting treatment of differences between prudential regulations and the International Financial Reporting Standards (IFRS) are established pursuant to the provisions of Article 3 of Rule 6-2012"

THE BOARD OF DIRECTORS
In use of its legal powers and,

CONSIDERING

That due to the issuance of Decree Law 2 dated 22 February 2008, the Executive Branch reedited Decree Law 9 dated 26 February 1998 and all of its amendments as a sole text, and that this text was approved by means of Executive Decree 52 dated 30 April 2008, hereinafter referred to as the Banking Law;

That pursuant to Paragraph 7 of Article 11 of the Banking Law, the Board of Directors is charged with establishing the accounting requirements for the financial information that banks must provide;

That pursuant to Paragraph 8 of Article 11 of the Banking Law, the Board of Directors is charged with establishing the general standards that banks must follow in their accounting processes;

That by means of Rule 6-2012 dated 18 December 2012, the Superintendency amended the provisions on the technical accounting standards to be applied by banks established in Panama;

That the cited Rule established that the technical accounting standards used when preparing accounting records and submitting the financial statements of regulated parties will be exclusively the International Financial Reporting Standards (IFRS);

That during the Superintendency's working sessions it became obvious that it was necessary and advisable to establish the accounting treatment that banks must give to the differences arising from the application of the IFRS and the prudential standards issued by the Superintendency.

RESOLVES:

ARTICLE 1. IDENTIFYING DIFFERENCES. Banks shall identify the differences that arise from the application of the International Financial Reporting Standards (IFRS) and the application of prudential standards issued by the Superintendency, as well as the additional disclosures that the latter require to be included in the remarks section of the financial statements.

ARTICLE 2. METHODOLOGY. When the bank identifies any differences referred to in Article 1, it must ensure it follows the accounting recording methodology established in this article. This methodology, which follows the concepts included in the Conceptual

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Framework for Financial Reporting issued by the International Accounting Standards Board (IASB), shall be governed by the following parameters:

1. Calculations of the accounting balances shall be made applying both the IFRS and the prudential standards issued by the Superintendency of Banks and the resulting figures will be compared.

2. When the calculation made using the IFRS results in a higher reserve or provision than that required using the prudential standards, the bank will use the IFRS figures.

3. When the use of prudential standards results in a higher reserve or provision requirement, the bank will still record the IFRS data in its balance sheet. In addition, the difference between the IFRS and prudential figures will be debited from retained earnings and placed in the equity account as a regulatory reserve. In the event that the bank does not have enough retained earnings, the difference will be recorded as a cumulative reserve deficit.

4. The regulatory reserve referred to in subparagraph 3 above must not be re-credited to retained earnings as long as the reserve required by the IFRS and that required by prudential standards differ.

The above parameters will permit the bank's financial statements to be prepared according to IFRSw hile still incorporating the effects of the prudential standards.

ARTICLE 3. REGULATORY PROVISIONS. For the purpose of the capital adequacy index calculation and the limits on concentration of obligations in a sole borrower, related parties or other prudential relationship, the regulatory provisions will not be considered as equity unless a regulation emitted by the Superintendency permits its inclusion.

ARTICLE 4. EXTERNAL AUDITS. External auditors must state in their audit reports that the financial statements of audited banks have been prepared, reasonably and exclusively, according to the IFRS.

ARTICLE 5. ADJUSTMENT PERIOD. Banks preparing their financial statements based on the IFRS, as amended by the prudential standards issued by the Superintendency, shall apply the methodology indicated in Article 2 for the fiscal periods ending on or after December 31, 2014. However, the prior application of these rules is allowed.

The provisions contained in IFRS 1, "First-time Adoption of International Financial Reporting Standards," will be taken into account for the presentation of comparative information and the preparation of intermediate financial information.

ARTICLE 6. REPEAL. This Resolution rescinds General Resolution 1 dated 17 May 2007.

ARTICLE 7. ENACTMENT. This Resolution shall become effective upon its promulgation.

Given in the city of Panama on ninth (9th) day of July, two thousand thirteen (2013).

LET IT BE KNOWN, PUBLISHED AND ENFORCED.

THE CHAIRMAN,	**THE SECRETARY,**
Nicolás Ardito Barletta	L.J. Montague Belanger

APPENDIX

Examples of accounting differences between IFRS and the prudential standards

The examples below show some of the differences that might be encountered between the International Financial Reporting Standards (IFRS) and the prudential standards issued by the Superintendency. The examples include the adjustments that must be made retroactively during the first year in accordance with IFRS 1.

To simplify interpretation, accounting entries indicated herein assume that provisions are posted once a year. Additionally, the effects of deferred income tax, if any, were not considered.

The illustrative examples shown below are based on prudential regulations current as of the date of this Resolution and must be adapted to any future amendments of the relevant Rules.

I. LOAN LOSS PROVISIONS

Rule 6-2000, current as of the issuance date of this General Resolution, requires loans to be classified in one of five risk categories. Based on this classification, the minimum provisions for losses are determined, as well as the requirement for maintaining minimum global provisions of no less than 1% of the total value of the loan portfolio at all times.

Rule 4-2013, which rescinds Rule 6-2000, maintains the concept of classifying loans in risk categories, although with different calculation weights, and eliminates the concept of minimum global provisions. Specific provisions will be applicable for their establishment and recognition as of the monthly closure on December 31, 2014.

The estimated provisions under IAS 39 are based on the concept of losses incurred by impairment of loans receivable. This loss is usually calculated comparing the current value of expected cash flow, discounted at the loan's original effective interest rate, with its book value.

Example 1: Minimum global provisions according to Rule 6-2000 are greater than IFRS provisions.

This example shows the ledger entries related to the fact that the bank has had to post provisions that are higher than those required by IFRS in order to comply with Rule 6-2000.

Assumptions:

Minimum global provisions required as of January 1, 2013	B/.1,000,000
IFRS provisions as of January 1, 2013	B/. 350,000
Minimum global provisions (*) required as of December 31, 2013	B/.1,300,000
IFRS provisions as of December 31, 2013	B/. 360,000
Specific provisions required as of December 31, 2014	B/. 500,000
IFRS provisions as of December 31, 2014	B/. 360,000

(*) Please take into account that according to the new regulation (Rule 4-2013) the existing minimum global provisions will be calculated as dynamic provisions.

January 1, 2013

As of the transition date, the bank must compare the reserves required under IFRS and prudential standards, and apply the difference against retained earnings, immediately adding that amount to a regulatory reserve.

Dr Loan loss provisions (asset allowance account)	B/.650,000	
Cr Retained earnings (Equity)		B/.650,000

To adjust initial balances to IFRS.

Dr Retained earnings (Equity)	B/.650,000	
Cr IFRS Regulatory Reserve		B/.650,000

To move the difference required by prudential standards to regulatory reserves.

December 31, 2013

During 2013, it will be necessary to post the relevant adjustments to these accounts for both frameworks.

Dr Loan loss provisions (expenses)	B/.10,000	
Cr Loan loss provisions (asset allowance account)		B/.10,000

To post IFRS impairment for the year.

Dr Retained earnings (Equity)	B/.290,000	
Cr IFRS Regulatory Reserve		B/.290,000

To post the difference required by prudential standards.

December 31, 2014

During 2014, it will be necessary to post relevant adjustments to these accounts for both frameworks. It is worth noting that there will be no charge to the results of the year because the IFRS provision requirement remains unchanged.

Dr IFRS Regulatory Reserve (Equity)	B/.800,000	
Cr IFRS retained earnings (Equity)		B/.800,000

To post the difference required by the prudential requirements set forth in Rule 4-2013 on Credit Risk Management and Administration inherent in the Credit Portfolio and Off-Balance Sheet Operations.

<u>Example 2:</u> The specific provisions according to prudential regulations (Rule 6-2000 or Rule 4-2013 as of December 31, 2014) are higher than the IFRS provisions.

In this case the same entries from Example 1 will be used because they are similar.

<u>Example 3:</u> The specific or minimum global provisions according to prudential regulations (Rule 6-2000 or Rule 4-2013 as of December 31, 2014) are less than the IFRS provisions.

This example illustrates the ledger entries related to the fact that the bank has had to post lower provisions than those required by IFRS in order to comply with prudential regulations.

Assumptions:

Minimum global or specific provisions required as of January 1, 2013	B/.2,200,000
IFRS provisions as of January 1, 2013	B/.5,000,000
Minimum global or specific provisions required as of December	B/.2,500,000

31, 2013	
IFRS provisions as of December 31, 2013	B/.5,150,000
Specific provisions required as of December 31, 2014	B/.2,600,000
IFRS provisions as of December 31, 2014	B/.5,100,000

January 1, 2013

As of the transition date, the bank must compare the reserves required under IFRS and prudential standards and apply the difference against retained earnings.

Dr Retained earnings (Equity)	B/.2,800,000	
Cr Loan loss provisions (asset allowance account)		B/.2,800,000

To adjust initial balances to IFRS.

December 31, 2013

During 2013, it will be necessary to post the relevant adjustments only to the accounts derived from IFRS.

Dr Loan loss provisions (expenses)	B/.150,000	
Cr Loan loss provisions (asset allowance account)		B/.150,000

To post IFRS impairment for the year.

December 31, 2014

During 2014, it will be necessary to post relevant adjustments only to the accounts derived from IFRS.

Dr Loan loss provisions (asset allowance account)	B/.50,000	
Cr Loan loss provisions (Debit return)		B/.50,000

To post the return of IFRS loan loss reserves for the year.

II. INVESTMENT IMPAIRMENT

Rule 7-2000 establishes the criteria for the recording, valuation, classification and impairment of bank investment portfolios, which vary in some aspects from the IFRS.

Banks must make the necessary adjustments to reflect the impact of using IFRS in the assets and performance accounts, as shown below:

<u>Example 1:</u> Provisions for impairment according to Rule 7-2000 are higher than IFRS provisions.

This example shows the ledger entries related to the fact that the bank has had to post provisions that are higher than those required by IFRS, in order to comply with Rule 7-2000.

Assumptions:

Provisions required by Rule 7-2000 as of January 1, 2013	B/.3,000,000
IFRS provisions as of January 1, 2013	B/.2,700,000
Provisions required by Rule 7-2000 as of December 31, 2013	B/.3,000,000
IFRS provisions as of December 31, 2013	B/.2,800,000
Provisions required by Rule 7-2000 as of December 31, 2014	B/.3,100,000
IFRS provisions as of December 31, 2014	B/.2,900,000

January 1, 2013

As of the transition date, the bank must compare the reserves required under IFRS and prudential standards and apply the difference against retained earnings, immediately adding that amount to a regulatory reserve.

Dr Loan loss provisions (asset allowance account)	B/.300,000	
Cr Retained earnings (Equity)		B/.300,000

To adjust initial balances to IFRS.

Dr Retained earnings (Equity)	B/.300,000	
Cr IFRS Regulatory Reserve		B/.300,000

To move the difference required by prudential standards to regulatory reserves.

December 31, 2013

During 2013, it will be necessary to post the relevant adjustments to these accounts for both frameworks.

Dr Investment impairment provisions (expenses)	B/.100,000	
Cr Loan loss provisions (asset allowance account)		B/.100,000

To post IFRS impairment for the year.

Dr IFRS Regulatory Provisions (Equity)	B/.100,000	
Cr Retained earnings (Equity)		B/.100,000

To post the difference required by prudential standards.

December 31, 2014

During 2014, it will be necessary to post relevant adjustments to these accounts for both frameworks. However, in this case, no adjustments need be made to the regulatory provisions because the difference remains unchanged.

Dr Investment impairment provisions (expenses)	B/.100,000	
Cr Investment valuation provisions (asset allowance account)		B/.100,000

To post IFRS impairment for the year.

Example 2: Provisions according to Rule 7-2000 are below IFRS provisions

This example shows ledger entries related to the fact that the bank has had to post provisions that are less than those required by IFRS, in order to comply with Rule 7-2000.

Assumptions:

Provisions required by Rule 7-2000 as of January 1, 2013	B/.3,000,000
IFRS provisions as of January 1, 2013	B/.3,200,000
Provisions required by Rule 7-2000 as of December 31, 2013	B/.3,000,000
IFRS provisions as of December 31, 2013	B/.3,300,000
Provisions required by Rule 7-2000 as of December 31, 2014	B/.3,400,000
IFRS provisions as of December 31, 2014	B/.3,200,000

January 1, 2013

As of the transition date, the bank must compare the reserves required under IFRS and prudential standards and apply the difference against retained earnings.

Dr Retained earnings (Equity)	B/.200,000	
Cr Investment valuation provisions (asset allowance account)		B/.200,000

To adjust initial balances to IFRS.

December 31, 2013

During 2013, it will be necessary to post the relevant adjustments only to the accounts derived from IFRS, because the regulatory provisions remain unchanged.

Dr Investment impairment provisions (expenses)	B/.100,000	
Cr Investment impairment provisions (asset allowance account		B/.100,000

To post IFRS impairment for the year.

December 31, 2014

During 2014, it will be necessary to post the recovery of IFRS provisions and increases to prudential provisions.

Dr Investment impairmen tprovisions (asset allowance account)	B/.200,000	
Cr Investment impairment provisions (expenses)		B/.200,000

To post IFRS impairment for the year.

Dr Retained earnings (Equity)	B/.200,000	
Cr IFRS regulatory provisions (Equity)		B/.200,000

To post the difference required by prudential standards

III. ACCRUAL OF INTEREST INCOME

Article 18 of Rule 6-2000 (Article 30 of Rule 4-2013) requires banks to suspend accrual of interest for income purposes in interest receivable and earned interest accounts when the bank a) determines that the deterioration of the customer's financial condition is such that there is no certainty of recovering the balance of the loan and/or b) the debtor has not met the contractual terms previously agreed to for payment of capital and interest for more than a certain number of days according to the loan, and c) the bank determines that recovery of an overdraft is uncertain, given the failure to repay it for a specific number of days.

Under IFRS, the concept of interest accrual does not apply. AIS 39 AG93 establishes that "once the value of the financial asset or similar group of financial assets has been reduced as a consequence of loss by impairment, interest income will accrue as of that date by applying the interest rate to a discounted forward cash flow that reflects the loss due to the impairment in the value of the loans.

Banks must accrue interest income after recognizing impairment by applying the interest rate to the discounted cash flow.

An example would be:

The bank has a loan for $120,000 with a one-year maturity and a 10% interest rate. It expects to receive $100,000 on the date of maturity. The current value of expected cash flows would be $90,000. Therefore, the impairment would be $30,000 of which $20,000 corresponds to credit impairment and $10,000 to the effect of the discount over time.

As previously seen, the impairment will be posted in Loan loss provisions and subsequent interest income posted as a debit to the loan loss provision account (asset allowance account) and as a credit to interest income.

IV. FORECLOSED PROPERTY

Beginning on August 12, 2009 with the issuance of Rule 3-2009, IFRS were adopted to recognize the acquisition of property and its impairment. Additionally, an equity provision was established that must be created in a maximum period of five years was established.

Before that date, bank had to make loss provisions for the total book value of all property that remained unsold for more than 18 months (according to Rules current at that time). It is therefore probable that there are still properties which are currently fully covered by loss provisions, for which an independently appraised market value should be re-posted to assets, along with an equal sum posted in a regulatory reserve. In any case, the value to be reinstated to assets should not exceed the original book value at the moment of foreclosure.

The following example shows the adjustments required:

Assumptions:

Composition of the foreclosed property portfolio as of January 1, 2013.

Building A foreclosed on January 2007 for $1,000,000 and whose market value as of January 1, 2013 is of $250,000
Building B foreclosed on December 29, 2009 for $2,000,000 with equity provisions of $1,300,00 as of January 1, 2013.

January 1, 2013

As of the transition date, the bank must analyze foreclosed properties in its portfolio that may have a market value, which in no case can exceed the initial cost. In the case presented, only Building A would have an impact on accounting adjustments.

Dr Foreclosed properties (Assets)	B/.250,000	
Cr Retained earnings (Equity)		B/.250,000

To post the market value of foreclosed properties prior to the enactment of Rule 3-2009.

Dr Retained earnings (Equity)	B/.250,000	
Cr IFRS Regulatory Reserve (Equity)		B/.250,000

To transfer the difference required by prudential standards to regulatory reserves.

December 31, 2013

During 2013, the regulatory reserves required by Rule 3-2009 for Building B will be posted, along with any and all impairment noted in the value of either building.

	Debit	Credit
Dr Retained investments (Equity)	B/.300,000	
Cr IFRS regulatory provisions (equity)		B/.300,000

To establish the equity provisions required by Art. 6 of Rule 3-2009.

December 31, 2014

During 2014, the regulatory reserves required by Rule 3-2009 for Building B will be posted, along with any and all impairment noted in the value of either building.

	Debit	Credit
Dr Retained earnings (Equity)	B/.200,000	
Cr IFRS regulatory provisions (Equity)		B/.200,000

To establish the equity provisions required by Art. 6 of Rule 3-2009.

December 31, 2015

In the case that Building A loses value during 2015, e.g. its market value is reduced to $200,000 as of December 31, 2015, the following adjustments would be made:

	Debit	Credit
Dr Foreclosed property impairment provisions (Expenses)	B/.50,000	
Cr Foreclosed properties impairment provisions (asset allowance account)		B/.50,000

To post IFRS impairment for the year.

	Debit	Credit
Dr IFRS regulatory provisions (Equity)	B/.50,000	
Cr Retained earnings (Equity)		B/.50,000

To withdraw and return the equity provisions required by Art. 6 of Rule 3-2009.

December 31, 2016

If Building A is sold in 2016 for $200,000 cash, the following adjustments would be made:

	Debit	Credit
Dr Cash (Asset)	B/.200,000	
Dr Foreclosed property impairment provisions (Asset allowance account)	B/. 50,000	
Cr Foreclosed properties (Assets)		B/.250,000

To post the cash sale.

	Debit	Credit
Dr IFRS regulatory provisions (Equity)	B/.200,000	
Cr Retained earnings (Equity)		B/.200,000

To withdraw and return the regulatory provisions no longer required due to the sale of the property.