

Republic of Panama Superintendency of Banks

BOARD OF DIRECTORS' GENERAL RESOLUTION SBP-GJD-0003-2021 (dated 11 June 2021)

“Whereby the parameters and guidelines for reporting modified loans are established”

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

WHEREAS:

Due to the issuance of Decree Law 2 dated 22 February 2008, the Executive Branch re-edited Decree Law 9 dated 26 February 1998 and all its amendments as a consolidated text, and this text was approved by means of Executive Decree 52 dated 30 April 2008, hereinafter referred to as the Banking Law;

Pursuant to Article 5 (1) and (2) of the Banking Law, safeguarding the soundness and efficiency of the banking system and strengthening and fostering favorable conditions for the development of the Republic of Panama as an international financial center are objectives of the Superintendency of Banks;

Pursuant to Article 11 (I)(5) of the Banking Law, establishing the administrative interpretation and scope of the legal provisions and regulations on banking matters is among the technical duties of the Board of Directors;

According to Article 91 (2) of the Banking Law, all banks must submit to the Superintendency in the timeframe and format indicated by the Superintendency a report containing an analysis and classification of the credit and investment portfolios of their establishments in Panama at the close of operations;

By means of Rule 2-2021, dated 11 June 2021, the Superintendency of Banks establishes the parameters and guidelines that will be applicable to modified loans classified as modified special mention, as well as the modified loans returned to the conditions provided in Rule 4-2013;

Article 5 of Rule 2-2021 establishes that banks must ensure that they apply the reporting guidelines and parameters provided by the Superintendency on modified loans, as part of the monitoring and control processes to the modified special mention category;

To prevent banks from making changes in their systems for reporting the modified loans portfolio that are classified in the modified special mention category, it is advisable to establish a mechanism for reporting said portfolio to the Superintendency with the purpose that the aforementioned information allows the monitoring and control of the modified loan portfolio held by the banking system;

During its working sessions, the Board of Directors determined it necessary and advisable to establish new guidelines and reporting parameters that will be applicable to modified loans classified as modified special mention.

RESOLVES:

ARTICLE 1. REPORTING MECHANISM FOR MODIFIED LOANS. For the purposes of reporting to the Superintendency the modified loans portfolio included in the modified special mention category, banks must ensure that they adopt the following reporting mechanism that consists on the combination of the fields “*categoría de cambio*” (change category) (73) and “*clasificación del préstamo*” (loan classification) (8) of the loan atom (AT03).

Within the “*categoría de cambio*” field, the code “03-préstamo modificado” (03-modified loan) will be used along with the codes described in the following table:

Loan Atom (AT03)

(73) “ <i>Categoría de Cambio</i> ” (Change Category)	(8) “ <i>Clasificación de Préstamo</i> ” (Loan classification)
<u>Code/Description</u> 03-Modified loan	<u>Code/Description</u> 01-Pass 02-Special Mention 03-Substandard 04-Doubtful 05-Loss

ARTICLE 2. REPORTING CODES FOR MODIFIED LOANS. For the purposes of this Resolution, modified loans will be reported in the Loan Atom (AT03) under the following codes:

1. **Modified pass** refers to Code 03 of field 73 and Code 01 of field 8.
2. **Modified special mention** refers to Code 03 of field 73 and Code 02 of field 8.
3. **Modified substandard** refers to Code 03 of field 73 and Code 03 of field 8.
4. **Modified doubtful** refers to Code 03 of field 73 and Code 04 of field 8.
5. **Modified loss** refers to Code 03 of field 73 and Code 05 of field 8.

PROVISO. The codes referred to herein shall not be construed as the risk classifications referred to in Rule 4-2013.

ARTICLE 3. REPORTING PARAMETERS FOR MODIFIED LOANS: For the purposes of the provisions contained herein, banks will report modified loans following the parameters established in this Article.

1. **MODIFIED PASS.** The modified loans on which the bank has modified their terms and conditions until 30 June 2021 and that, upon the entry into force of Rule 2-2021, the debtor has complied with the new terms and conditions without having been returned to the provisions of Rule 4-2013 will be recorded in this category. These loans, if they show the fulfillment of their payments consecutively during the period of six (6) months, may be returned to the pass category in accordance with Rule 4-2013.

If these loans fail to comply with their terms and conditions, they may be restructured only once and recorded as modified substandard loans.

2. **MODIFIED SPECIAL MENTION.** The modified loans on which the bank has agreed grace periods for principal, interests, or others and which, upon the entry into force of Rule 2-2021, are following said grace period will be recorded in this category. The debtors in these conditions, once their new terms and conditions (restructuring) are established, their loans will be recorded as modified substandard. Said loans, if they show the fulfillment of their payments consecutively during the period of six (6) months, may be returned to the pass category, in accordance with Rule 4-2013. In case of noncompliance, they will be recorded as modified loss loans.
3. **MODIFIED SUBSTANDARD.** The modified loans on which the bank has managed to agree on new terms and conditions (restructured) during the period from 1 July to 30 September 2021, as long as they meet the characteristics provided in Article 7 of Rule 2-2021, will be recorded in this category.

The restructured modified loans recorded in this category may be returned to the provisions of Rule 4-2013, after fulfilling their terms and conditions, provided they show the fulfillment of their payments consecutively during the period of six (6) months, in accordance with the payment plan agreed on with the customer. In these cases, these loans may be classified in the pass category.

4. **MODIFIED DOUBTFUL.** The modified loans of clients that, as of 30 June 2021, have contacted the bank and their current financial situation prevents them to meet the characteristics to be subject to a restructuring, in accordance with Article 7 of Rule 2-2021, will be recorded in this category.

The bank may agree on new terms and conditions (restructuring) for these loans during the period from 1 July to 30 September 2021, if they meet the characteristics established in Article 7 of Rule 2-2021 and will be recorded as modified substandard loans.

The loans recorded in this category will correspond to the debtors who have shown a clear willingness to fulfill their obligation, despite being in a temporary liquidity restriction.

5. **MODIFIED LOSS.** The loans listed below will be recorded in this category:
- a) The modified loans that as of 1 July 2021 have totally or partially breached the terms and conditions agreed upon in their last modification. If, during the period from 1 July to 30 September 2021, the debtor succeeds in establishing new terms and conditions, these loans will be recorded as modified substandard loans.
 - b) The modified loans of customers who, as of 30 June 2021 have not contacted the bank to establish a payment agreement. Customers in this situation, who contact the bank during the period from 1 July to 30 September 2021 and manage to establish new terms and conditions for their loans (restructuring) will be recorded as modified substandard loans.
 - c) The restructured modified loans that fail to comply with their new terms and conditions, once ninety-one (91) have elapsed from the date of default.
 - d) The restructured modified loans that as of 1 October 2021 failed to meet the characteristics to be restructured.

PROVISO. The modified loans that have been restructured may not be subject to further restructuring. Any new changes to the terms and conditions of these loans, except in the case of a reduction in the interest rate, will be considered as a breach of the provisions of Rule 2-2021, for which they must immediately be recorded as modified loss loan.

ARTICLE 4. REPORTING. Banks must keep the information required herein in the Loan Atom (AT03). Additionally, they must ensure that they have the information of the days in arrears the clients with modified loans maintain, to submit it to the Superintendency in the format and timeframe it may establish.

ARTICLE 5. EFFECTIVE DATE. This Resolution shall become effective as of 1 July 2021.

Given in Panama City this eleventh (11th) day of June, two thousand twenty-one (2021).

FOR COMMUNICATION, PUBLICATION, AND ENFORCEMENT,

THE CHAIRMAN,

Luis Alberto La Rocca

THE SECRETARY

Nicolás Ardito Barletta