

Republic of Panama Superintendency of Banks

BOARD OF DIRECTORS' GENERAL RESOLUTION SBP-GJD-R-2023-01125 (dated 6 June 2023)

“Whereby the guidelines and parameters for the reinstatement of the dynamic provision as provided for in Rule 4-2013 are established”

THE BOARD OF DIRECTORS
in the exercise of its legal powers and,

WHEREAS:

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

Upon Article 5(1) and (3) of the Banking Law, safeguarding the soundness and efficiency of the banking system and promoting public trust in the banking system are objectives of the Superintendency of Banks,

Upon Article 11(3) of the Banking Law, approving general criteria for the classification of assets at risk and rules for the provision of reserves against risks is a technical duty of the Board of Directors,

Upon Article 11(3) and (5) of the Banking Law, approving general criteria for the classification of assets at risk and rules for the provision of reserves against risks and establishing the administrative interpretation and scope of the legal stipulations and regulations on banking matters are technical duties of the Board of Directors,

Upon Article 11(8) of the Banking Law, establishing the general standards that banks must follow in their accounting processes is a technical duty of the Board of Directors,

Upon Rule 4-2013, dated 28 May 2013, the provisions for credit risk management inherent in the credit portfolio and off-balance sheet transactions were established,

Upon Articles 36, 37, and 38 of Rule 4-2013, dated 28 May 2013, the criteria for the prudential regulations for constituting and calculating the dynamic provision that must be applied by all banks in the market were stipulated,

Upon Board of Directors' General Resolution SBP-GJD-0007-2020, dated 16 July 2020, the special and temporary considerations related to Articles 36, 37, and 38 of Rule 4-2013 on credit risk were provided,

Upon Article 1 of Board of Directors' General Resolution SBP-GJD-0007-2020, the Superintendency established the temporary suspension of the dynamic reserve established in Articles 36, 37, and 38 of Rule 4-2013, because of the declared State of National Emergency due to COVID-19,

Upon Rule 12-2022, dated 1 November 2020 (sic), the parameters and guidelines for the permanent reinstatement of the “Modified Special Mention” portfolio to Rule 4-2013 were established,

Upon Article 9 of Rule 12-2022, Rule 2-2021, dated 11 June 2021, and all its amendments are repealed in all its parts, in which it was established as an exceptional and temporary measure that banks could use up to 80% of the dynamic provision only to compensate for retained earnings reduced by the constitution of IFRS and generic provisions on the modified special mention portfolio. If the bank requires to use more than 80% of the dynamic provision amount, it had to obtain prior authorization from the Superintendency,

The reversal of the country's difficult economic situation caused by the COVID-19 health crisis has allowed the entire credit portfolio of the banking system to be subject to credit risk management and administration provisions included in Rule 4-2013,

During its working sessions, the Board of Directors determined it was necessary and advisable to establish guidelines and parameters for the reinstatement of the dynamic provision as provided for in Articles 36, 37, and 38 of Rule 4-2013.

RESOLVES:

ARTICLE 1. REINSTATEMENT OF THE DYNAMIC PROVISION. Starting from its enactment, banks must ensure the constitution of the corresponding amounts of the dynamic provision, according to the prudential regulatory provisions outlined in Articles 36, 37, 38 of Rule 4-2013. For these purposes, banks will use as a reference for the calculation of the dynamic provision the difference between the quarter at the cut-off date of 30 June 2023, and the quarter at the cut-off date of 30 March 2023, ensuring that they comply with the parameters established in Article 37 of Rule 4-2013.

Regarding banks that, at the enactment of this Resolution, maintain dynamic provision percentages below the required threshold or the corresponding dynamic provision percentages based on the risk-weighted assets, they can calculate the corresponding dynamic provision amounts and take advantage of the adjustment period established in Article 2 herein for the relevant constitution. In such cases, banks must notify the Superintendency in advance.

ARTICLE 2. DYNAMIC PROVISION BELOW THE MINIMUM THRESHOLD. Banks whose dynamic provision accounting balance is below 1.25% of their risk-weighted assets corresponding to the credit facilities classified in the "pass" category can take advantage of an adjustment period until 31 March 2024. In these cases, banks must ensure compliance during that period with the minimum percentage outlined in Article 37 of Rule 4-2013.

As for banks whose dynamic provision calculation is equal or higher than 1.25% of risk-weighted assets corresponding to the credit facilities classified in the "pass" category, and as of the enactment of this resolution, the accounting balance of the provision is below the required percentage, these banks may take advantage of a gradual adjustment period for the constitution of the corresponding dynamic provision, in accordance with the below table:

Gradual Adjustment Table

Quarter	Applicable percentage
Quarter ending on 30 June 2024	1.50%
Quarter ending on 30 September 2024	1.75%
Quarter ending on 31 December 2024	2.00%
Quarter ending on 31 March 2024	2.25%
Quarter ending on 30 June 2025	2.50%

Banks that take advantage of the adjustment period established herein cannot distribute dividends until they reach the required percentage based on their risk-weighted assets, except for dividends on preferred shares, which can be paid if there are enough profits.

ARTICLE 3. DYNAMIC PROVISION ABOVE THE MAXIMUM AMOUNT. Banks whose dynamic provision accounting balance, as of the enactment of this resolution, exceeds 2.50% of the risk-weighted assets corresponding to credit facilities classified in the "pass" category, can return any surplus up to 2.50% to undistributed profits.

In accordance with the provisions of the previous paragraph, banks that choose to return the surplus to undistributed profits and subsequently require a higher dynamic provision due to the growth of their credit portfolio will not be eligible for the adjustment period mentioned in Article 2 herein.

ARTICLE 4. EFFECTIVE DATE. This Resolution shall become effective upon enactment.

ARTICLE 5. REPEAL. This Resolution repeals, in its entirety, Board of Directors' General Resolution SBP-GJD-0007-2020, dated 16 July 2020.

Given in Panama City this sixth (6th) day of June, two thousand twenty-three (2023).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN,

Digitally signed by [S]
NAME ECHANDI LACAYO,
FELIPE JOSE – ID N-20-1549
Date: 2023.06.08 09:28:39 - 05'00'
Felipe Echandi Lacayo

THE SECRETARY,

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DAVID ALBERTO – ID 4-235-693
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