

# TRANSLATION

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## Republic of Panama Superintendency of Banks

**RULE No. 8-2016**  
(dated 29 November 2016)

**“Whereby Rule 3-2016 on the rules for determining credit and counterparty risk-weighted assets is amended”**

**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 reedited Decree Law 9 dated 26 February 1998 and all of 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 paragraphs 1 and 2 of Article 5 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 Subparagraphs 3 and 5 of Paragraph I of Article 11 of the Banking Law, approving general criteria for the classification of assets at risk and establishing the administrative interpretation and scope of the legal provisions and regulations on banking matters are technical duties of the Board of Directors;

In accordance with Article 70 of the Banking Law, all general and international license banks under the home supervision of the Superintendency will maintain capital funds equivalent to at least eight percent of the risk-weighted total of all assets and contingent off-balance sheet operations, as well as tier-one capital equivalent to no less than four percent of the risk-weighted total of all assets and contingent off-balance sheet operations;

In accordance with Subparagraph 3 of Article 91 of the Banking Law, banks must submit all information required by the Superintendency in the format indicated and within the timeframe and in the frequency it shall determine;

Rule 1-2015 dated 3 February 2015 established the capital adequacy rules applicable to banks and banking groups. This Rule became effective on 1 July 2016;

Given the progress of prudential regulation, best banking practices, and accounting and auditing standards, it is necessary to update the general regulatory framework governing the international banking center;

Rule 3-2016 dated 22 March 2016 establishes the rules for determining credit and counterparty risk-weighted assets;

During its working sessions, the Board of Directors determined it was necessary and advisable to amend articles of Rule 3-2016.

### RESOLVES:

**ARTICLE 1.** Article 2 of Rule 3-2016 shall read:

**ARTICLE 2. ASSETS RATED BY CATEGORIES.** For the purposes of risk-weighting in accordance with the provisions of Article 70 of the Banking Law, assets will be rated in the following percentage categories:

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Category	Percentage
1	0%
2	10%
3	20%
4	35%
5	50%
6	100%
7	125%
8	150%
9	200%
10	250%

The assets listed below fall in each of these categories:

## 1. Category 1 (0%):

- 1.1. Cash on hand.
- 1.2. Loans granted exclusively to the Panamanian State and Instruments issued by the Panamanian State.
- 1.3. Instruments explicitly, jointly and unconditionally issued or secured by governments internationally risk-rated between AAA and AA-.
- 1.4. Instruments issued or secured by the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the Agency for International Development (AID), the International Finance Corporation (IFC), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the Asian Development Bank (ADB), the African Development Bank (AfDB), the International Fund for Agricultural Development (IFAD), the Andean Development Corporation (CAF, for its acronym in Spanish), and any other multilateral development organization approved by the Superintendency.
- 1.5. The amount of investments in capital instruments in nonfinancial entities included in the perimeter of accounting consolidation and deducted from consolidated common tier-one capital in accordance with the application of Subparagraph 9 of Article 9 of Rule 1-2015 on Capital Adequacy.
- 1.6. The amount of significant participation in the capital of banks, finance and insurance companies not included in the perimeter of accounting consolidation and deducted from the regulatory capital funds in accordance with the Capital Adequacy reports (of the individual bank, of the bank and subsidiaries, and of the banking group), conforming to the application of Subparagraph 10 of Article 9 of Rule 1-2015 on Capital Adequacy.
- 1.7. Loans duly secured by pledged deposits within the bank, up to the secured amount.
- 1.8. Loans secured by instruments issued or secured by the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the Agency for International Development (AID), the International Finance Corporation (IFC), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the Asian Development Bank (ADB), the African Development Bank (AfDB), the International Fund for Agricultural Development (IFAD), the Andean Development Corporation (CAF, for its acronym in Spanish), and any other multilateral development organization approved by the Superintendency.
- 1.9. Gold and silver at market value.
- 1.10. Any other assets whose value has been deducted from regulatory capital in accordance with the provisions of Article 9 of Rule 1-2015 on Capital Adequacy.

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1.11. Interests receivable for these assets.

## 2. Category 2 (10%):

2.1. Demand deposits in banks established in Panama. These demand deposits include collection documents deposited or included in the settlement.

2.2. Demand deposits in banks established in other jurisdictions, as long as these banks are internationally risk-rated between AAA and A-, and the deposits are in a fully convertible currency according to the following table:

Code	Currency	Code	Currency
USD	United States dollar	GBP	Pound Sterling
EUR	Euro	CHF	Swiss franc
CAD	Canadian dollar	SEK	Swedish krona
NZD	New Zealand dollar	DKK	Danish krone
AUD	Australian dollar	NOK	Norwegian krone
JPY	Japanese yen		

2.3. Loans granted to autonomous entities and public-private corporations wholly, explicitly, jointly and unconditionally secured by the Panamanian State and Instruments issued by autonomous entities and public-private corporations wholly, explicitly, jointly and unconditionally secured by the Panamanian State.

2.4. Loans duly secured by pledged deposits in other banks established in Panama, up to the secured amount.

2.5. Interests receivable for these assets.

## 3. Category 3 (20%):

3.1. Demand deposits in banks established in other jurisdictions, as long as these banks are internationally risk-rated between BBB+ and BBB-, and the deposits are in a fully convertible currency according to the following table:

Code	Currency	Code	Currency
USD	United States dollar	GBP	Pound Sterling
EUR	Euro	CHF	Swiss franc
CAD	Canadian dollar	SEK	Swedish krona
NZD	New Zealand dollar	DKK	Danish krone
AUD	Australian dollar	NOK	Norwegian krone
JPY	Japanese yen		

3.2. Time deposits and any other bank credits with an original term of up to 90 days:

- a. Established in Panama, or
- b. Established in other jurisdictions, as long as these banks have an international investment grade risk rating.

3.3. Letters of credit confirmed and payable upon presentation for foreign trade operations, issued by foreign banks with an investment grade risk rating.

Banks may include contingent loans belonging to demand credit letter confirmations issued by foreign banks with an international investment grade risk rating in this category. For these purposes, the credit conversion factor (CCF) referred to in Article 4 herein will be applied.

3.4. Loans secured with bank acceptances with a 90-day maturity, issued by banks established in Panama or having an investment grade risk rating.

3.5. Loans duly secured by pledged deposits in other banks having an investment grade risk rating, up to the secured amount.

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- 3.6. Securities with internationally risk-rated mortgage pledges between AAA and A- issued by foreign private agencies.
- 3.7. Instruments issued or secured by governments holding a risk rating between A+ and A-.
- 3.8. Instruments issued by private companies, as long as these companies have an international risk rating between AAA and AA-.
- 3.9. Interests receivable for these assets.

#### 4. Category 4 (35%):

- 4.1. Mortgages on a main residence granted to the final acquirer of such property, as long as the loan amount does not exceed 80% of the lowest appraised value in the appraisal report. Banks may not include loans considered consumption loans linked to a mortgage in this category.

To be considered within this category, the bank must have a property appraisal conducted by independent professionals within the past three years.

- 4.2. Interests receivable for these assets.

#### 5. Category 5 (50%):

- 5.1. Demand deposits in banks established in other jurisdictions, as long as these banks are internationally risk-rated between BB+ and B-, and the deposits are in a fully convertible currency according to the following table:

Code	Currency	Code	Currency
USD	United States dollar	GBP	Pound Sterling
EUR	Euro	CHF	Swiss franc
CAD	Canadian dollar	SEK	Swedish krona
NZD	New Zealand dollar	DKK	Danish krone
AUD	Australian dollar	NOK	Norwegian krone
JPY	Japanese yen		

- 5.2. Time deposits and any other bank credits with an original term of greater than 90 days and up to 1 year:
  - a. Established in Panama, or
  - b. Established in other jurisdictions, as long as these banks have an international investment grade risk rating.
- 5.3. Mortgages on a main residence granted to the final acquirer of such property, for which the amount is greater than 80% but not more than 100% of the lowest appraised value in an appraisal report made within the last ten years.
- 5.4. Mortgage on a second home granted to the final acquirer of such property, as long as the loan amount does not exceed 80% of the lowest appraised value in an appraisal report not more than five years old.
- 5.5. Home mortgages meeting the conditions of subparagraph 4.1 but whose appraisal report is more than three years old.
- 5.6. Other loans (personal or corporate) with commercial real estate pledges, as long as the balance of the loan does not exceed 60% of the value of the secured property. The appraisal report cannot be more than three years old.
- 5.7. Other loans (personal or corporate) with residential property pledges, as long as the balance of the loan does not exceed 70% of the value of the secured property. The appraisal report cannot be more than three years old.

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- 5.8. Instruments issued or secured by governments risk-rated between BBB+ to BBB-.
- 5.9. Instruments issued by private companies, as long as the private companies are internationally risk-rated between A+ and A-.
- 5.10. Loans covered by financial collateral or security admissible as risk mitigators by the Superintendency. The part of the loan fully covered by the collateral after applying the relevant coefficient to the collateral will be weighted in this category.
- 5.11. Interests receivable for these assets.

## 6. Category 6 (100%):

- 6.1. Demand deposits in banks established in other jurisdictions, as long as these banks are internationally risk-rated under B- and the deposits are in a fully convertible currency according to the following table:

Code	Currency	Code	Currency
USD	United States dollar	GBP	Pound Sterling
EUR	Euro	CHF	Swiss franc
CAD	Canadian dollar	SEK	Swedish krona
NZD	New Zealand dollar	DKK	Danish krone
AUD	Australian dollar	NOK	Norwegian krone
JPY	Japanese yen		

- 6.2. Time deposits and any other credit in banks established in Panama with a term longer than 1 year.
- 6.3. Time deposits and any other credit in banks established in other jurisdictions with a term greater than 90 days, as long as these banks have an international non-investment grade risk rating or have no rating.
- 6.4. Existing loans whose purpose is the acquisition of cars for personal use with an original term of 5 (five) years or less.
- 6.5. Existing loans lacking an acceptable pledge as risk mitigator in accordance with Article 9, for the debtor's personal consumption, with an original term of 5 (five) years or less. Personal loans for retirees and pensioners fall within this category.
- 6.6. Instruments issued or secured by governments risk rated between BB+ and B-, as well as those instruments issued by governments lacking any rating.
- 6.7. Instruments issued by private companies, as long as these companies are internationally risk-rated between BBB+ and BB-, as well as those instruments issued by private companies lacking any rating.
- 6.8. Instruments issued by private companies holding a local rating will be weighted in this category.
- 6.9. Any mortgage loan not meeting the conditions in categories 4 and 5 must be included in this category.
- 6.10. All past due loans, as defined in the rules issued by the Superintendency, whose characteristics are described in this and previous categories, will be weighted at 100%.
- 6.11. All other risk and counterparty assets not described in either the above categories or categories 7 and 8.
- 6.12. Interests receivable for these assets.

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## 7. Category 7 (125%):

- 7.1. Current and past due loans whose purpose is the acquisition of cars for personal use originally granted with a term greater than five (5) years.
- 7.2. Current and past due loans for the debtor's personal consumption with an original term greater than five (5) years.
- 7.3. Current loans of any type for the acquisition of cars for personal use or for the debtor's personal use whose payment plan does not cover total amortization within a term of five (5) years using the effective interest rate method.
- 7.4. All delinquent loans, in accordance with the Rule on credit risk management and administration inherent in the loan portfolio and off-balance sheet operations, will be weighted in this category, except for those included in category 8.
- 7.5. Interests receivable for these assets.

## 8. Category 8 (150%):

- 8.1. Delinquent loans, in accordance with the Rule on credit risk management and administration inherent in the loan portfolio and off-balance sheet operations, whose purpose is the acquisition of cars for personal use originally granted for a term greater than five (5) years.
- 8.2. Delinquent loans for the debtor's personal consumption with an original term greater than five (5) years.
- 8.3. Instruments issued or secured by governments holding risk ratings below B-.
- 8.4. Instruments issued by private companies, as long as these companies hold an international risk rating below BB-.
- 8.5. Interests receivable for these assets.

## 9. Category 9 (200%):

- 9.1. Derivative instruments lacking any proven rating will have a 200% weighting applied to the market value. Should any part be covered, it will be governed by the provisions on credit and counterparty risk coverage.

## 10. Category 10 (250%):

- 10.1. The amount of significant shares in capital instruments of banks, finance, and insurance companies not included in the accounting consolidation perimeter, and that have not been deducted from regulatory capital according to the capital adequacy reports (of the individual bank, of the bank and subsidiaries, and of the banking group), in accordance with Paragraph 10 of Article 9 of Rule 1-2015 on Capital Adequacy.

**PROVISO.** For the purposes of this Article, delinquent loans will be understood as those fitting the definition in the Rule on credit risk management and administration inherent in loan portfolio and off-balance sheet operations.

**ARTICLE 2.** Article 4 of Rule 3-2016 shall read:

**ARTICLE 4. IRREVOCABLE CONTINGENCIES PENDING DISBURSEMENT.** Irrevocable contingencies pending disbursement, understood as those disbursements that the bank cannot unilaterally stop or terminate, will become the equivalent of credits by means of the "Credit Conversion Factor" (CCF).

The following "Credit Conversion Factors" (CCF) shall be applied to irrevocable contingencies pending disbursement:

1. Twenty percent (20%) for contingencies of up to one (1) year.



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2. Fifty percent (50%) for contingencies greater than one (1) year.

Once the relevant "Credit Conversion Factor" (CCF) is applied, the irrevocable contingencies pending disbursement will be weighted as follows:

Guarantee	Percentage
Fully secured by time deposits within the same bank	0%
Secured by other pledges acceptable for the Superintendency of Banks	50%
Unsecured	100%

**ARTICLE 3.** Article 11 of Rule 3-2016 shall read:

**ARTICLE 11. COLLATERAL MARKET VALUE.** The market value of the collateral will be multiplied by the coefficient that takes into consideration the quarterly volatility of the value. The result is the recognizable value of the collateral for credit risk mitigation.

Financial collateral	Coefficient
a) Cash	100%
b) Gold	90%
c) Deposits within the same bank or in other banks, whether pledged or in a trust	100%
d) Fixed or variable securities quoted on an active market	70%
e) Panama's sovereign debt	90%
f) Fixed or variable securities lacking an active market	50%
g) Sovereign debt traded on an active market	70%
h) Shares in funds listed daily and having an investment grade risk rating	80%

The portion of the credit or derivative backed by the collateral's recognized value will be weighted with the percentages below. Those not covered will be weighted in the 100% category, unless it is past due or delinquent, in which case it will be weighted in the 125% or 150% category.

Financial collateral	Percentage
a) Cash	0%
b) Gold	0%
c) Fixed or variable securities quoted on an active market	50%
d) Panama's sovereign debt	0%
e) Fixed or variable securities lacking an active market	50%
f) Shares in funds listed daily and having an investment grade risk rating	50%

For real property and cars used as collateral, the mitigator effect is already considered in the risk weighting. Loans secured by sovereign debt traded in an active market will be weighted in the category belonging to the rating of their collateral risk after applying the relevant coefficient based on the provisions of Article 11.

For loans secured with deposits within the same bank or in other banks, whether pledged or in a trust, their weighting will depend on the relevant risk category.

**ARTICLE 4.** Article 12 of Rule 3-2016 shall read:

**ARTICLE 12. ADMISSIBLE GUARANTEES.** For the purposes of this Rule, guarantees must meet the following requirements to be considered admissible:

1. The guarantee must represent a direct right against the supplier of the protection.
2. The guarantee contract must explicitly refer to specific credit positions or specific derivatives contracts, such that the scope of the coverage is perfectly defined and unquestionable.

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3. The guarantee contract must be considered irrevocable; that is, it cannot contain any clause that may permit the supplier of the protection to unilaterally cancel the coverage, or to increase the effective cost of the coverage as the result of deterioration of the credit quality of the covered position.
4. The guarantee must be unconditional; that is, the coverage contract must not contain any clause over which the bank does not have direct control or that permits the supplier of the coverage to evade timely payment in the case of a credit event.

Admissible guarantees are:

1. Standby letters of credit, guarantees, bonds, endorsements, and irrevocable import/export letters of credit issued by banks;
2. Promissory notes from the Caja de Seguro Social with deduction authorization;
3. Real property (land);
4. Real property (land solely for agricultural purposes);
5. Cattle;
6. Agricultural products duly identified by the bank.

The valuation of the guarantee is subject to the same conditions established in the Rule on credit risk management and administration inherent in loan portfolio and off-balance sheet operations.

The mitigator value of the guarantee is obtained by multiplying the guarantee's market value by the coefficients of the table below:

Financial collateral	Coefficient
Stand-by letters of credit, guarantees, bonds, endorsements, and irrevocable import/export letters of credit issued by banks	90%
Promissory notes from the Caja de Seguro Social with deduction authorization	85%
Real property (land)	50%
Real property (land solely for agricultural purposes)	50%
Cattle	75%
Agricultural products duly identified by the bank	40%

Risk weighting for the portion covered by the mitigator value of the guarantee is 50%. The uncovered portion will be weighted at 100%. If the loan is past due, the covered part will be weighted at 100% and the uncovered part at 125%. For delinquent loans, the total amount will be weighted at 150%, with exception of what is established in Category 7.4 of Article 2.

For real property and cars, the mitigator effect is already considered in the risk weighting determination.

**ARTICLE 5. ENACTMENT.** This Rule shall become effective upon its promulgation.

Given in the city of Panama on the twenty-ninth (29<sup>th</sup>) day of November, two thousand sixteen (2016).

**FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.**

**THE CHAIRMAN,**

**THE SECRETARY,**

Arturo Gerbaud

Jorge Altamirano-Duque