Republic of Panama
Superintendency of Banks

RULE N°. 4-2018
(dated 3 April 2018)

"Whereby Article 35 of Rule 2-2018 on liquidity risk management and the short-term liquidity coverage ratio 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 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 the provisions of 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 paragraph 1 of Article 6 of the Banking Law, ensuring that the banks maintain sufficient liquidity and solvency ratios to discharge their obligations is one of the functions of the Superintendency;

According to the provisions of Article 72 of the Banking Law, the Superintendency may take into account and evaluate other risks to determine capital adequacy ratios;

Article 73 of the Banking Law provides that all general license banks and international license banks that are subject to the home supervision of the Superintendency of Banks must at all times maintain a minimum amount of liquid assets equivalent to a percentage of the total gross deposits in Panama or abroad that will be periodically fixed by the Superintendency of Banks;

In accordance with the provisions of paragraph 10 of Article 75 of the Banking Law, the Superintendency may determine other assets as part of the assets making up the banks' liquid assets portfolio;

The Basel Committee on Banking Supervision made key reforms to develop a more resilient banking sector, for which it drafted the Liquidity Coverage Ratio (LCR), whose objective is to promote the short-term resilience of the liquidity risk profile of banks;

By means of Rule 2-2018 dated 23 January 2018 the provisions on liquidity risk management and short-term liquidity coverage ratio were prescribed;

During its working sessions, the Board of Directors determined it necessary and advisable to amend Article 35 of Rule 2-2018 in order to include a paragraph on the total cash inflows that must be taken into consideration to calculate the short-term liquidity coverage ratio.

RESOLVES:

ARTICLE 1. Article 36 of Rule 2-2018 shall be read:

> **"ARTICLE 35. TOTAL CASH INFLOW.** Total cash inflow is the sum of following numbered items:

1. One hundred percent (100%) of all interest receivable within 30 days on contractual obligations that are up to date on payments and for which there is no reason to expect a failure to comply within the next 30 days;

2. Zero percent (0%) of secured credit operations coming due within 30 days and backed by Level 1 assets;

3. Fifteen percent (15%) of secured credit operations coking due within 30 days and backed by Level 2A assets;

4. Twenty-five percent (25%) of secured credit operations coming due within 30 days and backed by Level 2B securitization bonds;

5. Fifty percent (50%) of secured credit operations coming due within 30 days and backed by Level 2B assets other than shares or securitization bonds;

6. Fifty percent (50%) of financing credit operations to individuals and micro and small enterprises coking due within 30 days;

7. One hundred percent (100%) of cash inflow coming from derivatives within the 30-day period;

8. One hundred percent (100%) of any cash inflow coming from active operations with medium and large enterprises coming due within 30 days;

9. One hundred percent (100%) of demand and term deposits with residual maturity of 30 days or less held by financial entities in other jurisdictions having an international credit rating between AAA and A- or its equivalent credit rating;

10. Eighty percent (80%) of demand and term deposits with residual maturity of 30 days or less held by financial entities in other jurisdictions having an international credit rating between BBB+ to BBB- or its equivalent;

11. One hundred percent (100%) of demand and term deposits with residual maturity of 30 days or less held by domestic banks having a domestic credit rating between AAA and A- or its equivalent credit rating;

12. Fifty percent (50%) of demand and term deposits with residual maturity of 30 days or less held by domestic banks having a domestic credit rating between BBB+ and BBB- or its equivalent.

13. One hundred percent (100%) of any other cash inflow, expected within the 30-day period, with the requirement to specify the nature of this inflow.

ARTICLE 2. ENACTMENT. This Rule enter into force as part of the Rule it amends, on 1 July 2018.

Given in the city of Panama on the third (3rd) day of April, two thousand eighteen (2018).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN, **THE SECRETARY, Ad-Hoc**

Louis-Jean Montague Belanger Luis Alberto La Rocca