Republic of Panama
Superintendency of Banks

RULE N°. 11-2019
(dated 1 October 2019)

"By means of which Article 27 of Rule 4-2013 prescribing provisions on management of the credit risk inherent in credit portfolio and off-balance sheet transactions 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 paragraph 2 of Article 5 of the Banking Law, fostering favorable conditions for the development of the Republic of Panama as an International Financial Center is an objective of the Superintendency of Banks;

Pursuant to paragraph 2 of Article 11 of the Banking Law, establishing the accounting requirements related to the financial information banks must provide is a technical duty of the Board of Directors;

Pursuant to paragraph 3 of Article 11 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;

Pursuant to paragraph 5 of Article 11 of the Banking Law, establishing the administrative interpretation and scope of the legal provisions and regulations on banking matters is a technical duty of the Board of Directors;

Pursuant to paragraph 8 of Article 11 of the Banking Law, establishing the general standards that banks must follow in their accounting process is a technical duty of the Board of Directors;

By means of Rule 4-2013 dated 28 May 2013, amended by Rule 8-2014 dated 16 September 2014, the provisions on management of the credit risk inherent in credit portfolio and off-balance sheet transactions were established;

During its working sessions, the Board of Directors determined it necessary and advisable to amend Article 27 of Rule 4-2013 in order to update the regulatory framework for credit risk management by banks.

RESOLVES:

ARTICLE 1. Article 27 of Rule 4-2013 shall read:

> **"ARTICLE 27. WRITE-OFFS.** Each bank shall write off all loans classified as unrecoverable within one year from the date in which they were classified within this category. The loans listed below are exempt from the application of this time-frame:
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> 1. **Home mortgages and consumer loans with real estate as collateral**, classified as risk mitigators as provided for in Article 42 herein and whose collateral is duly established in the Republic of Panama for the bank. In these cases, each bank will write off all of the loans classified as unrecoverable within two years from the date they were

classified within this category. The above provision may be extended only once for one additional year with the Superintendent's prior approval.

After the extension period, if the bank has not yet made any write-off, the bank must create a reserve in the equity account through the appropriation of its Retained Earnings to which the charges of the net loan amount of the already created provisions must be made, according to the percentages established in the table below:

PERIOD	APPLICABLE PERCENTAGE
At the beginning of the first year after the extension (fourth year)	50%
At the beginning of the second year after the extension (fifth year)	50%

PROVISO: In the event the bank does not request the extension referred to herein, or it the extension was requested but denied by the Superintendent, the bank must immediately create a 100% reserve in the equity account, net of provisions already established. The Superintendent will establish the parameters and guidelines that will be considered for the denial of extension through a Resolution.

2. **Corporate loans with real estate as collateral** classified as risk mitigators as provided for in Article 42 herein and whose collateral is duly established in the Republic of Panama for the bank. In these cases, each bank will write off all of the loans classified as unrecoverable within two years from the date in which the loan was classified within this category.

   After the two-year period, if the bank has not yet made any write-off, the bank must create a reserve in the equity account through the appropriation of its Retained Earnings to which the charges on the net loan amount of the already created provisions must be made, according to the percentages established in the table below:

PERIOD	APPLICABLE PERCENTAGE
At the beginning of the third year	50%
At the beginning of the fourth year	50%

The above provisions referred to in paragraphs 1 of 2 of this article will be maintained until the award of the property is duly made. Said reserve will be considered a regulatory reserve and will not be taken into consideration for the calculation of the capital adequacy index.

For home loans (mortgages), consumer loans with real estate as collateral and corporate loans with real estate as collateral, classified as unrecoverable in 2018 and that as of the enactment of this Rule had not been written off at the end of a year, prior to the exception established in this article, the bank must make sure to meet the deadlines provided in paragraphs 1 and 2 herein using the date in which the loan was classified as unrecoverable as the reference.

If there are situations occurring before 2018, the Superintendent will evaluate them on a case-by-case basis and will establish the relevant provision level."

ARTICLE 2. ENACTMENT. This Rule shall enter into force upon its promulgation.

Given in the city of Panama on the first (1st) day of October, two thousand nineteen (2019).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN, **THE SECRETARY,**

Joseph Fidanque III Nicolas Ardito Barletta