Republic of Panama
Superintendency of Banks

RULE N°. 2-2020
(dated 16 March 2020)

"Whereby additional, exceptional and temporary measures to comply with the provisions of Rule 4-2013 on credit risk 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 the provisions of 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;

Pursuant to Article 11 (5) 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;

By means of Rule 4-2013 dated 28 May 2013, the provisions for management and administration of credit risk inherent to loan portfolio and off-balance sheet operations were established;

Article 37 of Rule 4-2013 establishes the amounts of dynamic provisions that banks should maintain as well as other rules for the calculation and results of this provision;

As a consequence of the global Coronavirus outbreak, and following up international recommendations issued by the World Health Organization and the Pan American Health Organization, the National Government, through the Ministry of Health, issued Executive Decree 64 dated 28 January 2020, which adopts the necessary essential and urgent measures, contained in the National Plan in the face of the threat of the novel Coronavirus outbreak, as well as extraordinary measures that are necessary to prevent the introduction and spread of this public health issue;

Given the threat of an emergency situation in the territory due to the risk of spread of the coronavirus outbreak, by means of Cabinet Resolution 6 dated 28 January 2020, the Cabinet Council declared the high-risk threat of the Novel spread of the Coronavirus (2019-nCoV) outbreak in the national territory;

That later, in order to expand Cabinet Resolution 6 of 2020 and redouble surveillance measures to contain the epidemic, by means of Cabinet Resolution 10 dated 3 March 2020, the Cabinet Council rose to very high the threat of spread of the Novel Coronavirus (2019-nCoV) outbreak in the national territory and prescribed other provisions;

The global health threat situation of the Novel Coronavirus (2019-nCoV) has collaterally affected different economic sectors, including the financial sector, which is why it is necessary to protect the financial stability of the Panamanian banking system;

The provisions adopted by the Superintendency of Banks correspond to macro prudential measures that to help support companies and individuals with their banking commitments;

The Superintendency of Banks has made the relevant analysis of the Novel Coronavirus (2019-nCoV) threat situation in the national territory and given the potential negative effects on the country's economy, the client's capacity to pay his obligations, could be directly and indirectly affected, for which it is necessary to implement special and temporary measures to process the bank's loan portfolio;

During its working sessions, the Board of Directors determined it necessary and advisable to establish special and temporary considerations to the provisions contained in Rule 4-2013, in order to adapt the regulatory credit risk requirements to the current threat situation of the spread of the Novel Coronavirus (2019-nCoV) in the national territory.

RESOLVES:

ARTICLE 1. MODIFIED LOANS. Before the current situation posed by COVID-19, a new type of loans is created, called "modified loans," for which the following additional, exceptional and temporary measures are established. The provisions contained herein will apply both to consumer and corporate loans.

ARTICLE 2. MODIFIED LOANS FEATURES. In order to allow the debtor's adequate attention to his obligation in the face of the potential or real deterioration of his payment capacity, as a result of the crisis triggered by COVID-19, banks may modify the originally agreed on loan conditions without these adjustments being considered as a loan restructuring, according to the provisions of Rule 4-2013. These modifications may be made upon the debtor's request or by the bank's own initiative.

These loans will have the following features:

1. The new terms and conditions must meet financial viability criteria, taking into consideration the debtor's payment capacity and the bank's loan policies;

2. They will be subject to special monitoring by the bank;

3. The loans that are listed in the modified category and fail to comply with the new terms and conditions must be recognized as restructured loans.

ARTICLE 3. MODIFIED LOANS RULES. The modifications of loans according to the provisions herein, should not become a generalized practice to normalize the behavior of the loan portfolio. Additionally, banks must ensure that the following rules are applied:

1. Loans classified as pass and special mention, as well as restructured loans that are not in arrears, may be modified in accordance with the parameters established herein;

2. Loans modified during the period in which the exceptional and temporary measures are in force must be clearly identified by banks, in order to be broadly monitored by the Superintendency of Banks;

3. During the validity of the exceptional and temporary, at the time on agreeing the terms and conditions of the modified loan (especially in terms and interests), the banks will endeavor to take into consideration the current situation the country is going through;

4. The modification of loans will be exempted from the application of fees and surcharges by the bank, with the exception of legal, notarial and registry expenses paid to third parties;

5. The modification of loans will be exempted from the appraisal update;

6. The bank will establish specific policies and procedures for processing and following up on the requests to modify the conditions of these loans, pursuant to the aforementioned criteria;

7. The modification date will be considered as the date on which the Rule formalizing the new loan conditions was approved.

ARTICLE 4. ASSESSMENT PERIOD TO GRANT MODIFIED LOANS. Banks will have 120 days to evaluate the loans of those debtors whose cash flow or payment capacity has been affected by the COVID-19 situation or who are in arrears of up to 90 days. These loans may be subject to a review of their terms and conditions, therefore the bank may agree on and/or grant grace periods keeping the loan classification at the time of entry into force of this Rule.

ARTICLE 5. USE OF THE DYNAMIC PROVISION. For the purposes of the provisions of Article 37 (c) of Rule 4-2013, which provides restrictions on the amount of the dynamic provision, it is established as an exceptional and temporary measure that banks may use up to 80% of the dynamic provision for the creation of specific provisions.

In the event the bank requires to use more than eighty percent (80%) of the amount of the dynamic provision, it must obtain the prior authorization from the Superintendency of Banks.

Banks may only pay dividends once they have restored the relevant amount of dynamic provision in accordance with their loan portfolio.

ARTICLE 6. CONTAGION. During the enactment of the additional, exceptional and temporary measures, the provisions of proviso 1 of Article 18 of Rule 4-2013 will not apply.

ARTICLE 7. ENACTMENT. This Rule shall enter into effect upon its promulgation.

Given in the city of Panama on the sixteenth (16th) day of March, two thousand twenty (2020).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN,	THE SECRETARY,
Joseph Fidanque III	Nicolás Ardito Barletta