Republic of Panama
Superintendency of Banks

RULE No. 12-2022
(Dated 1 November 2022)

"Whereby the parameters and guidelines are established for the permanent reinstatement of the Modified Special Mention portfolio to Rule 4-2013"

THE BOARD OF DIRECTORS
in use 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, and this text 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 strengthening and promoting public trust in the banking system are objectives of the Superintendency of Banks,

Upon Article 11 (I)(5) of the Banking Law, establishing the administrative interpretation and scope of the legal stipulations and regulations on banking matters is among the technical duties of the Board of Directors,

Rule 4-2013, dated 28 May 2013, prescribed the stipulations on credit risk management and administration inherent to credit portfolio and off-balance sheet operations,

The Superintendency of Banks issued Rule 2-2020, dated 16 March 2020, which established additional, exceptional, and temporary measures to comply with the stipulations of Rule 4-2013. This rule allowed banks to modify the originally agreed on conditions for corporate and consumer loans, to provide financial relief to those clients whose payment capacity was affected because of COVID-19,

Rule 3-2020, dated 26 March 2020, amended Article 3 (7) of Rule 2-2020 to specify and make it more flexible that modifications could be accepted by the debtor through any means or method,

Rule 7-2020, dated 14 July 2020, amended Article 4 of Rule 2-2020 to extend until 31 December 2020 the period for banks to assess the loans affected because of the COVID-19 situation and to make the corresponding modifications. The Rule also established that these loans would keep the risk classification at the time Rule 2-2020 becomes effective, until the Superintendency sets the classification and provisioning criteria that will be applied to modified loans,

Rule 9-2020, dated 11 September 2020, amended Rule 2-2020 to establish, among other aspects, how modified loans will be managed and the definition of provisioning that allow protecting the interest of depositors and preserving financial stability,

Rule 13-2020, dated 21 October 2020, amended Rule 2-2020 to establish an additional term until 30 June 2021 for banks to grant financial relief measures on modified loans granted by the banking system,

Rule 2-2021, dated 11 June 2021, established new parameters and guidelines for modified loans granted by banks because of the economic effects triggered by COVID-19 and recognized the existence of the "Modified Special Mention" category, which includes modified loans up to 30 June 2021, therefore repealing Rule 2-2020 and all its amendments,

Article 8 of Rule 2-2021 set the provisioning requirements applied to loans classified under the "Modified Special Mention" category, Upon Board of Directors' General Resolution SBP-GJD-0003-2021, dated 11 June 2021, the Superintendency of Banks established the parameters and guidelines for reporting modified loans included in the "Modified Special Mention" category,

Articles 2 and 3 of Board of Directors' General Resolution SBP-GJD-0003-2021 established as an identification mechanism for reporting "Modified Special Mention" loans the codes of "modified pass," "modified special mention," "modified substandard," "modified doubtful," and "modified loss," as well as the reporting parameters corresponding to each of said codes,

Board of Directors' General Resolution SBP-GJD-0004-2021, dated 21 June 2021, established the guidelines for restructuring loans of those debtors who are willing to honor their obligations despite of being in a temporary liquidity restriction,

Rule 6-2021 established the parameters and guidelines for determining the provisions applicable to "Modified Special Mention" loans, amending Rule 2-2021,

The timely and correct provisioning according to the credit risk classification is a necessary tool for banks to hedge potential losses in the value of their assets and to guarantee the sustainability of their operations, as well as the soundness of the financial system,

The reversal of the country's challenging economic situation triggered by the COVID-19 health crisis has allowed a substantial number of economically affected individuals and companies to bargain new terms and conditions of the loans they had under financial relief conditions and return to normal the payment of their debts,

During its working sessions, the Board of Directors determined it was necessary and advisable to bringing to a successful end the "Modified Special Mention" loan portfolio, establishing the guidelines for the permanent reinstatement of Rule 4-2013 and the parameters for shifting these loans to the categories of said rule.

RESOLVES:

ARTICLE 1. PURPOSE. The stipulations set herein are aimed at establishing the guidelines and parameters to permanently reinstate the loan portfolio classified under the "Modified Special Mention" category to Rule 4-2013.

ARTICLE 2. SCOPE. This Rule will be applicable to banks holding "Modified Special Mention" loans on the date of entry into force of this Rule.

ARTICLE 3. GENERAL GUIDELINES FOR THE REINSTATEMENT TO RULE 4-2013. Banks will shift the "Modified Special Mention" loan portfolio to the risk categories of Rule 4-2013, in accordance with the parameters established herein, for which they will initially use as a reference the days in arrears each loan has, as described below.

For the purposes of the stipulations of the foregoing, the Superintendency will use as a reference the days in arrears according to the definitions of past-due loan and delinquent loan defined in Article 2 (13) and (14) of Rule 4-2013.

I. CORPORATE LOANS

a. Corporate loans that are 0 to 30 days behind in their payments will be classified under the "Pass" category of Rule 4-2013.

b. Corporate loans that are 31 to 90 days behind in their payments will be classified under the "Special Mention" category of Rule 4-2013.

c. Corporate loans with real estate as collateral, whose amount is less than 50% of the collateral value, which are 31 to 180 days behind in their payments will be classified under the "Special Mention" category of Rule 4-2013.

d. Corporate loans with real estate as collateral that are 91 to 180 days behind in their payments will be classified under the "Substandard" category of Rule 4-2013.

e. Corporate loans with real estate as collateral, whose amount is less than 50% of the collateral value, which are 181 to 270 days behind in their payments will be classified under the “Substandard” category of Rule 4-2013.

f. Corporate loans that are 181 to 270 days behind in their payments will be classified under the “Doubtful” category of Rule 4-2013.

g. Corporate loans with real estate as collateral, whose amount is less than 50% of the collateral value, which are 271 to 360 days behind in their payments will be classified under the “Doubtful” category of Rule 4-2013.

h. Corporate loans that are over 270 days behind in their payments will be classified under the “Loss” category of Rule 4-2013.

i. Corporate loans with real estate as collateral, whose amount is less than 50% of the collateral value, which are over 360 days behind in their payments will be classified under the “Loss” category of Rule 4-2013.

II. PERSONAL LOANS

Consumer loans

a. Consumer loans that are 0 to 60 days behind in their payments will be classified under the “Pass” category of Rule 4-2013.

b. Consumer loans that are 61 to 90 days behind in their payments will be classified under the “Special Mention” category of Rule 4-2013.

c. Consumer loans with real estate as collateral, whose amount is less than 50% of the collateral value, which are 61 to 90 days behind in their payments will be classified under the “Special Mention” category of Rule 4-2013.

d. Consumer loans that are 91 to 120 days behind in their payments will be classified under the “Substandard” category of Rule 4-2013.

e. Consumer loans with real estate as collateral, whose amount is less than 50% of the collateral value, which are 181 to 270 days behind in their payments will be classified under the “Substandard” category of Rule 4-2013.

f. Consumer loans that are 121 to 180 days behind in their payments will be classified under the “Doubtful” category of Rule 4-2013.

g. Consumer loans with real estate as collateral, whose amount is less than 50% of the collateral value, which are 271 to 360 days behind in their payments will be classified under the “Doubtful” category of Rule 4-2013.

h. Consumer loans that are over 180 days behind in their payments will be classified under the “Loss” category of Rule 4-2013.

i. Consumer loans with real estate as collateral, whose amount is less than 50% of the collateral value, which are over 360 days behind in their payments will be classified under the “Loss” category of Rule 4-2013.

Home loans (mortgages)

a. Mortgage loans that are 0 to 60 days behind in their payments will be classified under the “Pass” category of Rule 4-2013.

b. Mortgage loans that are 61 to 90 days behind in their payments will be classified under the “Special Mention” category of Rule 4-2013.

c. Mortgage loans with real estate as collateral, whose amount is less than 70% of the collateral value, which are 61 to 181 days behind in their payments will be classified under the “Special Mention” category of Rule 4-2013.

d. Mortgage loans that are 91 to 180 days behind in their payments will be classified under the “Substandard” category of Rule 4-2013.

e. Mortgage loans with real estate as collateral, whose amount is less than 70% of the collateral amount, which are 181 to 270 days behind in their payments will be classified under the “Substandard” category of Rule 4-2013.

f. Mortgage loans that are 181 to 360 days behind in their payments will be classified under the “Doubtful” category of Rule 4-2013.

g. Mortgage loans with real estate as collateral, whose amount is less than 70% of the collateral amount, which are 271 to 360 days behind in their payments will be classified under the “Doubtful” category of Rule 4-2013.

h. Mortgage loans that are over 360 days behind in their payments will be classified under the “Loss” category of Rule 4-2013.

i. Mortgage loans with real estate as collateral, whose amount is less than 70% of the collateral amount, which are over 360 days behind in their payments will be classified under the “Loss” category of Rule 4-2013.

To summarize, the terms previously established for reinstating modified loans to the loan portfolio of Rule 4-2013 are:

Corporate Loans		Personal Loans				Portfolio Classification in accordance with Rule 4-2013
		Consumer loans		Home Mortgage loans		
	(With real estate as collateral) Loan value less than 50% of the collateral value		(With real estate as collateral) Loan value less than 50% of the collateral value		(With real estate as collateral) Loan value less than 70% of the collateral value	
From 0 to 30 days	From 0 to 30 days	From 0 to 60 days	From 0 to 60 days	From 0 to 60 days	From 0 to 60 days	Pass
From 31 to 90 days	From 31 to 180 days	From 61 to 90 days	From 61 to 180 days	From 61 to 90 days	From 61 to 180 days	Special mention
From 91 to 180 days	From 181 to 270 days	From 91 to 120 days	From 181 to 270 days	From 91 to 180 days	From 181 to 270 days	Substandard
From 181 to 270 days	From 271 to 360 days	From 121 to 180 days	From 271 to 360 days	From 181 to 360 days	From 271 to 360 days	Doubtful
Over 270 days	Over 360 days	Over 180 days	Over 360 days	Over 360 days	Over 360 days	Loss

PROVISO 1. Regardless of the days in arrears, if a client has other weaknesses that could affect his/her ability to pay, as described in Article 18 of Rule 4-2013, the reinstatement of the modified loans must be made to the corresponding higher-risk category.

All “Modified Special Mention” loans reinstated to Rule 4-2013, as provided for herein, will be deemed restructured loans. Consequently, for them to be reclassified to a lower-risk category, they must meet the conditions of Article 19 of Rule 4-2013 and the six-month period referred to in that Article will start counting from the date of shifting (reinstatement) to Rule 4-2013.

PROVISO 2. Modified corporate or personal (consumer and mortgage) loans of the “Modified Special Mention” portfolio holding grace periods, which were recorded in the “Pass,” “Special Mention,” and “Substandard” categories, will be classified under the “Substandard” category of Rule 4-2013.

Modified corporate or personal (consumer and mortgage) loans holding principal and interest rate payment grace periods, which were recorded in the “Doubtful” and “Loss” categories, will be classified under the “Doubtful” and “Loss” categories of Rule 4-2013, as appropriate.

PROVISO 3. Banks must ensure that they fully comply with the stipulations of Article 30 of Rule 4-2013 on the suspension of interest income accrual of the reinstated portfolio, as appropriate.

ARTICLE 4. WRITE-OFFS. For the purposes of writing off all loans classified under the “Loss” category, the guidelines of Article 27 of Rule 4-2013 will be followed, and the respective terms will begin to count from the date the loan is reinstated to the conditions of said Rule. The foregoing will be without prejudice of writing off at an anticipated date.

ARTICLE 5. PROVISIONING. To hedge credit risk, banks must establish provisions on the portfolio of credits reinstated to Rule 4-2013, ensuring compliance with the International Financial Reporting Standards (IFRS), and considering the significant increase in risk. Additionally, banks must establish the specific provisions required by Rule 4-2013.

ARTICLE 6. CONTAGION. The application of the stipulations of Proviso 1 of Article 18 of Rule 4-2013 remains suspended.

ARTICLE 7. DELETION OF THE “MODIFIED SPECIAL MENTION” LOAN PORTFOLIO. Every “Modified Special Mention” loan will be deleted from the accounting reports closing 31 December 2022 onwards. However, banks will use the coding assigned by the Superintendency for the identification and reporting of these loans.

ARTICLE 8. EFFECTIVE DATE. This Rule shall become effective upon its enactment.

ARTICLE 9. REPEAL. This Rule repeals in all its parts Rule 2-2021, dated 11 June 2021, and all its amendments and Rule 6-2021, dated 22 December 2021, and all its amendments. It also repeals Board of Directors’ General Resolution SBP-GJD-0003-2021, dated 11 June 2021, and Board of Directors’ General Resolution SBP-GJD-0004-2021, dated 21 June 2021.

Given at Panama City this first (1st) day of November, two thousand twenty-two (2022).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN,	**THE SECRETARY,**
Rafael Guardia Pérez	Felipe Echandi Lacayo