

Republic of Panama Superintendency of Banks

RULE No. 3-2023
(Dated 6 June 2023)

“Amendment to Article 37 of Rule 4-2013 on credit risk”

THE BOARD OF DIRECTORS
in the exercise 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, which was approved by means of Executive Decree 52, dated 30 April 2008, hereinafter referred to as the Banking Law,

Upon Article 5(1) of the Banking Law, safeguarding the soundness and efficiency of the banking system is an objective of the Superintendency of Banks,

Upon Article 11(3) and (5) of the Banking Law, approving general criteria for the classification of assets at risk and rules for the provision of reserves against risks and establishing the administrative interpretation and scope of the legal stipulations and regulations on banking matters are technical duties of the Board of Directors,

Upon Rule 4-2013, dated 28 May 2013, the provisions for credit risk management inherent in the credit portfolio and off-balance sheet transactions were established,

Upon Article 33 of Rule 4-2013, banks constitute specific and dynamic provisions for credit risk coverage. Dynamic provisions are those established according to prudential criteria for all loans lacking a specific reserve, i.e., those loans classified under the “pass” category,

Upon Articles 36 and 37 of Rule 4-2013, banks are required to establish a dynamic provision on a quarterly basis, based on the data of the last day of the quarter. The provision amounts cannot fall below 1.25% or exceed 2.5% of risk-weighted assets corresponding to credit facilities classified under the “pass” category,

If banks operate as branch offices of foreign banks, and their capital (capital and debt necessary to fund their operations) mainly consists of deposits provided by their parent company, meaning their funding is supported by the parent company’s structure, the Superintendency has determined it appropriate to establish a special prudential criterion for the dynamic provision that these banks must constitute,

During its working sessions, the Board of Directors determined it was necessary and advisable to amend Article 37 of Rule 4-2013 to establish a special prudential criterion for the dynamic provision required by branch offices of foreign banks.

RESOLVES:

ARTICLE 1. Article 37 of Rule 4-2013, dated 28 May 2013, will be amended as follows:

“ARTICLE 37. AMOUNT OF THE DYNAMIC PROVISION. The amount of the dynamic provision is calculated based on the following components:

1. Component #1: The amount is determined by multiplying the balance of risk-weighted assets only for credit facilities classified under the “pass” category by the Alpha ratio from the chart.

2. Component #2: The amount is calculated by multiplying the quarterly difference of risk-weighted assets for credit facilities classified under the “pass” category, if positive, by the Beta ratio from the chart. If the difference is negative, the amount is set to zero.
3. Component #3: This is the difference in the balance of specific reserves during the quarter.

The amount of the dynamic reserve that must be maintained at the end of the quarter is the sum of the first two components obtained in (1) and (2), minus the third component, considering its mathematical sign. In other words, if the third component is negative, it must be added.

Chart of the Calculation of the Dynamic Reserves

Alpha	Beta
1.50%	5.00%

The following restrictions apply to the amount of the dynamic reserve:

- a. It cannot exceed 2.5% of the risk-weighted assets for the credit facilities classified under the “pass” category.
- b. It cannot be less than 1.25% of the risk-weighted assets for the credit facilities classified under the “pass” category.
- c. It cannot be less than the amount established in the previous quarter unless the decrease is the result of a conversion to specific provisions. The Superintendency of Banks will establish the criteria for this conversion.

From the date on which the dynamic provisions are calculated, the so-called “minimum global” provision will be calculated as a dynamic provision for the purposes of the required amount.

PROVISO: For branch offices of foreign banks, where at least 85% of their funding comes from their parent companies, they must always maintain a dynamic provision of no less than 1.25% of their risk-weighted assets for credit facilities classified under the “pass” category. Consequently, the requirement to maintain a dynamic provision exceeding 1.25% of their risk-weighted assets will not apply to these banks.

The provisions established in the proviso will be applicable starting on 31 March 2024.”

ARTICLE 2. EFFECTIVE DATE. The provisions herein shall become effective upon enactment.

Given in Panama City this sixth (6th) day of June, two thousand twenty-three (2023).

FOR COMMUNICATION, PUBLICATION, AND ENFORCEMENT.

THE CHAIRMAN,

THE SECRETARY,

Felipe Echandi Lacayo

David Alberto Davarro