

October 6, 2020  
Circular N° SBP-DR-0305-2020

General Manager

Subject: Report for loans in “Modified Special  
Mention” Rule 2-2020 and its amendments

Dear General Manager:

We refer to Rule 2-2020 dated 16 March 2020 and its amendments “Whereby which additional, exceptional and temporary measures to comply with the provisions of Rule 4-2013 on credit risk were provided.”

In this regard, the latest Rule 9-2020 that amends the aforementioned Rule 2-2020 creates the temporary Modified Special Mention category, which includes the portfolio of loans that have been modified as a consequence of the economic crisis triggered by the COVID-19 pandemic and that were classified in the “pass” and “special mention” categories at the time of their modification.

In connection with the above, the Superintendency of Banks has deemed it convenient to establish the following mechanism for reporting this portfolio:

- Currently, the Loan Atom (AT03) has box (73) “Change Category” that uses Table SB120 and has the following possibilities:

01 – Refinanced loan  
02 – Restructured loan  
03 – Modified loan  
It allows “NA” if none of the above applies

- Additionally, the Loan Atom includes box (8) “Loan Classification” according to Table SB19, according to the categories described in Rule 4-2013, with the following possibilities:

Code	Description
01 -	Pass
02 -	Special mention
03 -	Substandard
04 -	Doubtful
05 -	Loss

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- In view of the above, in order to avoid changes in the banks' systems, with the corresponding associated costs, banks may temporarily create the new Classification: **Modified Special Mention** with the combination of "Change Category" (03 – Modified Loan) and "Loan Classification" (01 – Pass or 02 – Special Mention) with which the Modified Special Mention classification must be formed. This information must be made available to the Superintendency and to the external auditors.
- In the Loan Atom (AT03) box 73 "Change Category" and box 8 "Loan Classification" will be maintained. The creation of the Modified Special Mention classification will be prepared internally at the Superintendency by the Information Technology Division, for which the bank must do the same in its system.
- The total expected loan loss provision that comply with IFRS standards and those that are established by banks whose IFRS provision is less than 1.5% and that must be completed to achieve this, must be reported in box (38) IFRS provision.
- For the purposes of the accounting atom, the following accounts will be used to report in November the October 2020 cutoff:

Table SB02 (AT01): These codes already exist, we have only changed the names.

132006	Modified special mention portfolio generic provision (up to 1.5%)
172290	Provisions on past due interest
313504	Other regulatory reserves (Generic provision – Modified special mention)

Table SB90 (AT21):

1.006.005.004.000.000.000	Modified special mention portfolio generic provision (up to 1.5%)
1.012.001.007.000.000.000	Provision on interest
3.004.002.003.005.000.000	Other regulatory reserves (Generic provision)

By the end of January 2021, new accounts will be included in accordance with the requirements of national and international organizations, which will only be indicated in Table SB90 of the catalog.

We would like to remind banks that for those loans classified as substandard, doubtful or loss from debtors that availed themselves to Law 156 of 2020, banks must ensure that they maintain their risk classification as provided in Article 4-B of Rule 9-2020. The modified restructure loans that were included in substandard, doubtful or loss categories will also maintain the loan classification they had at the time of their modification with the corresponding provision, as provided in the last paragraph of Article 4 of Rule 9-2020.

Should you have any question on this circular, please feel free to send an e-mail to the following e-mail address: [soporte@superbancos.gob.pa](mailto:soporte@superbancos.gob.pa) or [gdocumental@superbancos.gob.pa](mailto:gdocumental@superbancos.gob.pa), referring to this circular and including the name, position, e-mail address and telephone of the person making the enquiry.

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We would greatly appreciate your providing the necessary instructions to your staff for compliance with these provisions.

Best regards,

*Digitally signed by [S]  
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Amauri A. Castillo  
Superintendent

Enc.: A/s

ARV/eh