

# Republic of Panama

## Superintendency of Banks

### BOARD OF DIRECTORS' GENERAL RESOLUTION SBP-GJD-0002-2014 (dated 7 January 2014)

**“Which provides a requirement for banks to retain complementary specific provisions for credit portfolios held in the Colon Free Zone as of 28 February 2014.”**

**THE BOARD OF DIRECTORS**  
In use of its legal powers and,

#### CONSIDERING

That due to the issuance of Decree Law 2 dated 22 February 2008, the Executive Branch reedited Decree Law 9 dated 28 February 1998 and all of its amendments as a sole text, and that this text was approved by means of Executive Decree 52 dated 30 April 2008, hereinafter referred to as the Banking Law;

That pursuant to Paragraph 5 of Article 11 of the Banking Law, the Board of Directors is responsible for establishing the administrative interpretation and scope of the legal provisions and regulations on banking matters;

That pursuant to Paragraph 7 of Article 11 of the Banking Law, the Board of Directors is responsible for establishing the accounting requirements for the financial information that banks must provide;

That Article 11 of Rule 6-2000 defines specific provisions as those created for loans for which a higher than normal risk has been specifically identified, dividing these into individual provisions and provisions by groups of loans;

That bank loans granted to companies established in the Colon Free Zone have historically been handled under special criteria, given the characteristics of the commercial activities of that Zone and the normal method for recovering the respective credit portfolios;

That a situation has emerged recently because of the behavior of some Latin American markets, and the situation is being exacerbated by the internal policies of some jurisdictions, particularly Venezuela and Colombia, where the policies have resulted in foreign exchange and commercial restrictions, respectively;

That these restrictions are having an adverse effect on attempts to recover loans that banks have made, principally in those markets, because their debtors (clients of the banks) have had their cash flow and indebtedness directly affected;

That the Superintendency of Banks has conducted the relevant analysis and, as the situation faced by banks with respect to credit recovery in the Colon Free Zone is different from traditional behavior, it was deemed necessary to apply contingency measures;

That the exposure of banks in the International Banking Center to Colon Free Zone loans, taking into consideration the risk mitigators for those loans, merits the establishment of complementary provisions for the Colon Free Zone credit portfolio;

That during the Board of Directors' working sessions it became obvious that it was necessary and advisable to require individual specific provisions applicable to loans granted by banks to Colon Free Zone companies.

# TRANSLATION

## RESOLVES:

**ARTICLE 1. COMPLEMENTARY SPECIFIC PROVISION.** As of 28 February 2014, Banks shall establish a complementary specific provision for the credit granted to companies in the Colon Free Zone, reflected in its income statement and based on the minimum criteria provided herein.

The provisions above shall be applied monthly by the bank, based on the parameters established in Article 2 herein, such that they are reflected in the financial information submitted to the Superintendency.

**ARTICLE 2. MINIMUM REQUIREMENT.** Banks must calculate the complementary specific provision for each one of their clients in the Colon Free Zone and on the credit portfolio granted to these companies, using the following criteria:

1. Deduct the accounts receivable having an exposure to the Venezuelan market from the book equity for each of their clients, if applicable.
2. Calculate the indebtedness of each one of their clients, adjusting the equity pursuant to the provisions established in Paragraph 1 of this Article. The adjusted indebtedness shall be calculated dividing total liabilities by adjusted equity.
3. Consider as equity only the net equity, without including accounts payable to shareholders. Nevertheless, these accounts payable will be part of the liabilities.

Subordinated accounts payable to shareholders will be excluded from liability and will be considered part of equity. Only those accounts legally established and formally certified by independent auditors will be considered subordinated accounts payable.

4. To obtain the complementary specific provision, apply the percentages in Paragraph 5 to the indebtedness obtained in Paragraph 2 minus the following collateral:
  - a. Time deposits used as collateral will be recognized at 100% of value.
  - b. Real property mortgages will be recognized at their appraised value.
5. The following provision percentages will be applied to the results obtained under Paragraph 4 for each level of indebtedness:
  - a. **Ten percent (10%) of the uncovered debt** for companies with an indebtedness of **3 to 4.9 times**.
  - b. **Fifteen percent (15%) of the uncovered debt** for companies with an indebtedness of **5 to 7.9 times**.
  - c. **Twenty percent (20%) of the uncovered debt** for companies with an indebtedness of **8 to 12.9 times**.
  - d. **Fifty percent (50%) of the uncovered debt** for companies with indebtedness **equal to or greater than 13 times** or having negative net equity.

For these purposes, banks shall use their clients' most recent audited or interim financial data, according to the submission date agreed with them.

If, for technical reasons, the bank cannot meet this requirement for one of its debtors, the bank will provide evidence of the situation to the Superintendent and he/she will determine the exceptions that he/she deems advisable with respect to that particular debtor.

# TRANSLATION

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**PROVISO.** These provisions shall apply to portfolios classified as normal, special mention, substandard or doubtful as of the enactment date of this Resolution, using the greater of the existing provision or the provision calculated using this Resolution.

**ARTICLE 3. RECLASSIFICATION OF THE COLON FREE ZONE CREDIT PORTFOLIO.**

Banks must reclassify their Colon Free Zone credit portfolio according the percentages applied in the calculation of this provision, taking into consideration the following criteria:

1. **Special mention:** Those loans whose debtors have an indebtedness of **from 3 to 4.9** times and whose provision percentage is 10% pursuant to the provisions of Article 2, Paragraph 5 of this Resolution shall be placed in this category.
2. **Subnormal:** Those loans whose debtors have an indebtedness of **from 5 to 7.9** times and whose provision percentage is 15% shall be placed in this category. Those loans whose debtors have an indebtedness of **from 8 to 12.9** times and whose provision percentage is 20% pursuant to the provisions set forth in Article 2, Paragraph 5 of this Resolution shall also be placed in this category.
3. **Doubtful:** Those loans whose debtors have an indebtedness **equal to or greater than 13** times, or who have negative net equity, and whose provision percentage is 50% pursuant to the provisions set forth in Article 2, Paragraph 5 of this Resolution shall be placed in this category.

**ARTICLE 4. PROVISION NOTIFICATION.** Banks must notify the Superintendency of the amount of the registered provision on a monthly basis, using the AT03 Credit Atom. They shall also send the calculation sheet used for the analysis and calculation of this provision via email [soporte@superbancos.gob.pa](mailto:soporte@superbancos.gob.pa) using the format provided by this Superintendency.

**ARTICLE 5. PROVISION REVERSAL.** Subject to the Superintendent's prior approval, banks can partially or totally reverse the established provisions by submitting fully documented justifications to the Superintendency of Banks.

**ARTICLE 6. ENACTMENT.** This Resolution shall become effective upon its promulgation.

Given in the city of Panama on the seventh (7<sup>th</sup>) day of January, two thousand fourteen (2014).

**LET IT BE KNOWN, PUBLISHED AND ENFORCED.**

**THE CHAIRMAN,**

Nicolás Ardito Barletta

**THE SECRETARY,**

L.J. Montague Belanger