

TRANSLATION

Republic of Panama Superintendency of Banks

RULE N°. 9-2017
(dated 7 November 2017)

“Whereby Article 4 of Rule 8-2010 is amended”

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 paragraphs 1 and 2 of Article 5 of the Banking Law, safeguarding the soundness and efficiency of the banking system and fostering favorable conditions for the development of the Republic of Panama as an International Financial Center are objectives of the Superintendency of Banks;

In accordance with paragraph 2 of Article 11 of the Banking Law, approving general applicable standards for the definition and identification of credits to clients related among themselves or related to banks or to banking groups is among the technical duties the Board of Directors of the Superintendency of Banks;

According to paragraph 3 of Article 11 of the Banking Law, approving general criteria for the classification of assets at risk and rules for the provisions of reserves against risks is among the technical duties the Board of Directors of the Superintendency of Banks;

Pursuant to paragraph 5 of Article 11 of the Banking Law, establishing the administrative interpretation and scope of the legal provisions and regulations on banking matters is among the technical duties the Board of Directors of the Superintendency of Banks;

Rule 8-2010 dated 1 December 2010 established the provisions on comprehensive risk management so that banks and banking groups would implement a comprehensive risk management process to be able to identify, assess, oversee and control or mitigate the different types of risks to which they are exposed depending on the size and complexity of their operations, products and services,

During its working sessions, the Board of Directors determined it necessary and advisable to amend Article 4 of Rule 8-2010 in order to include social and environmental risk.

RESOLVES:

ARTICLE 1. Article 4 of Rule 8-2010 shall read:

“ARTICLE 4. TYPES OF RISK. For the purposes of this Rule, without prejudice to what have been provided for in other rules, these terms are defined as follows:

1. **Credit risk.** The possibility that the bank may incur in losses and a decrease in the value of its assets as a result of its debtors failing to meet the agreed terms of the credit agreement on time or in full;
2. **Counterparty risk.** The possibility that in a financial contract in which the bank is a party, any counterparty is unable to meet its financial obligations, making the bank incur in a loss;

TRANSLATION

3. **Liquidity risk.** The possibility of a bank facing an economic loss due to difficulty in liquidating assets or obtaining financial resources under normal conditions;
4. **Market risk.** The risk of loss arising from adverse movements in commodity prices in financial markets on commodities in which the entity maintains positions in its trading portfolio. It is comprised mainly of price risk, interest rate risk, and exchange rate risk;
 - 4.1. **Price risk.** The possibility of economic loss due to adverse movements in the market price of a financial instrument or due to the indeterminacy of the price at a given moment;
 - 4.2. **Interest rate risk.** The possibility of economic loss due to adverse movements in interest rates;
 - 4.3. **Exchange rate risk.** The possibility of economic loss due to changes in the exchange rate.
5. **Operating risk.** The possibility of incurring losses due to deficiencies, failures, or inadequacies in human resources, processes, technology or infrastructure, or by the occurrence of external events. This definition includes the legal risk associated with such factors;
 - 5.1. **Legal risk.** The possibility of financial loss resulting from breaches of rules, regulations, or procedures, as well as due to contractual stipulations. Legal risk also arises from malicious, negligent or unintentional acts affecting the execution, effectiveness or performance of contracts or transactions.
6. **Reputational risk.** The possibility that the bank may incur in economic losses due to deterioration of the bank's reputation. This includes, among others, the impact of money laundering.
7. **Country risk.** The possibility of incurring in losses due to adverse effects in the economic, social or political environment, or natural disasters, in countries where the bank or its customers do business. Country risk includes, among others, transfer risk, political risk, and sovereign risk;
 - 7.1. **Transfer risk.** The general inability of debtors in a given country to meet their financial obligations due to a lack of availability of the currency in which the obligation is made, regardless of the financial condition of the debtor concerned;
 - 7.2. **Political risk.** Refers to, among others, the possibility of war, civil disturbance, and other situations of a purely political nature;
 - 7.3. **Sovereign risk.** The possibility that the sovereign debtor of a given country cannot or is unwilling to meet his financial obligations.
8. **Contagion risk.** The possibility of loss that the bank may suffer directly or indirectly because of adverse circumstances in companies of its own economic group or companies performing similar activities in their location or in the financial system of another country;
9. **Strategic risk.** The possibility of incurring in losses due to decisions made by the top management of the bank associated with the creation of sustainable competitive advantages. It is related to failures or weaknesses in the market analysis, trends, and uncertainties of the environment, the bank's core competencies, and in the process of value generation and innovation;

TRANSLATION

10. **Information technology risk.** The possibility of economic losses resulting from an event related to the technological infrastructure, or the access or use of technology, which affects the development of business processes and risk management of the bank, in threatening the confidentiality, integrity, availability, efficiency, reliability, performance, or timeliness of the information;
11. **Concentration risk.** High levels of exposure that could cause losses in the bank which could affect the solvency or ability to maintain its operations. Risk concentration can arise in assets, liabilities, and off-balance operations;
12. **Social and environmental risk.** Refers to the possibility that the bank will incur in losses due to negative social and environmental impacts resulting from granting loans to fund projects, as well as from environmental activities in which the projects are conducted, significantly affecting the economic, social, or environmental system.”

ARTICLE 2. ENACTMENT. This Rule shall become effective upon its enactment.

Given in the city of Panama on the seventh (7th) day of November, two thousand seventeen (2017).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN,

THE SECRETARY,

Louis-Jean Montague Belanger

Nicolas Ardito Barletta