

Republic of Panama Superintendency of Banks

RULE N.º 5-2022
(dated 17 May 2022)

“Whereby Article 6 of Rule 6-2021, which establishes the parameters and guidelines for determining the provisions applicable to ‘Modified Special Mention’ loans and other provisions are prescribed, is amended”

THE BOARD OF DIRECTORS
in use of its legal powers and,

WHEREAS:

Pursuant 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 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;

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

Pursuant to Rule 2-2021 dated 11 June 2021, new parameters and guidelines applicable to modified loans granted by banks as a result of the economic effects triggered by COVID-19 were established and the existence of a “Modified Special Mention” loan category is recognized, within which modified loans are included as of 30 June 2021;

Pursuant to Rule 6-2021 dated 22 December 2021, the parameters and guidelines for determining the provisions applicable to “Modified Special Mention” loans were established and other provisions were prescribed;

Pursuant to Article 6 of Rule 6-2021, as of January 2022, banks will stop recognizing interests, for income purposes, of modified loans that have had a significant risk increase compared to their initial recognition and that also have an objective evidence of incurred loss;

During its work sessions, the Board of Directors determined it was necessary and advisable to amend Article 6 of Rule 6-2021 so that banks can apply an alternative process for recording the interest receivable established in that article.

RESOLVES:

ARTICLE 1. Article 6 of Rule 6-2021 dated 22 December 2021 shall read:

“ARTICLE 6. INTEREST RECEIVABLE. As of January 2022, banks will stop recognizing interests, for income purposes, in interest receivable accounts and interests earned on modified loans that have had a significant risk increase compared to their initial recognition and that also have an objective evidence of incurred loss (impaired loans), and those loans included in the modified special mention, modified doubtful, and modified loss categories referred to in Board of Directors’ General Resolution SBP-GJD-0003-2021.

Until the Superintendency indicates otherwise for the modified portfolio with these characteristics, the stipulations of Board of Directors' General Resolution SBP-GJD-0003-2013 will not be applicable, the banks must maintain the interest receivable as of 1 January 2022 in memorandum accounts, being able to recognize them as income only when they are actually paid by the debtor.

PROVISO. As for the cases where, for operational purposes, the banks cannot apply the memorandum accounts recording of interest receivable of the modified loans mentioned herein, the banks may recognize as income the interest receivable accrued in the portfolio of said loans, as long as at the same time a provision clearly identified with the corresponding interests is recognized at 100% of its value. These provisions will be gradually reversed as the client pays off the respective interest.

These processing must be included in the banks' relevant accounting manuals and must be informed to the operating areas recording these. For these purposes, the bank must create internal ancillary tables with said records (including the debtor's name and the transaction number) that will allow the Superintendency to make the relevant verification and queries.

Banks must ensure of disclosing this information to the public in their Audited and Semi-annual Financial Statements, therefore they must coordinate this with their External Auditors firms."

ARTICLE 2. EFFECTIVE DATE. This Rule shall become effective upon its enactment.

Given at Panama City this seventeenth (17th) day of May, two thousand twenty-two (2022).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN,

Rafael Guardia Pérez

THE SECRETARY,

Felipe Echandi Lacayo