

Banking - Panama

Banks must comply with amended capital adequacy requirements

February 05 2010

As of late 2009, Panamanian banks are obliged to comply with amended capital reserve requirements. The amended requirements were approved by the Superintendency of Banks pursuant to Agreement 005-2008, which came into effect in 2009.

The banking law requires that general licence banks (ie, banks that are licensed to engage in all kinds of domestic and international banking transactions in Panama) maintain an adjusted capital of no less than 8% of risk-weighted assets and off-balance sheet items. For calculation of the capital adequacy ratio, the amended regulations distinguish between primary capital and secondary capital. A bank's primary capital consists of:

- issued and fully paid common stock;
- disclosed reserves;
- retained earnings; and
- minority shareholder interests in subsidiaries that consolidate with the bank.

Secondary capital includes:

- undisclosed reserves;
- revaluation reserves;
- general provisions or general loan loss reserves;
- certain hybrid (debt/equity) capital instruments; and
- certain subordinated term debt.

The sum of the aforementioned components of a bank's secondary capital cannot exceed more than 100% of the bank's total primary capital components. These capital components are adjusted to take into account certain mandatory deductions and limitations, such as capital investments in non-banking subsidiaries.

Furthermore, the primary capital of a general licence bank may not fall below 4% of the bank's total assets and off-balance sheet items, weighted in proportion to their risk. For determination of a bank's risk-weighted assets, assets are assigned to one of seven broad risk categories, as outlined in the table below.

Category	Type of Asset	Weighted Risk
1	• Cash deposits. • Instruments guaranteed by Panamanian or other autonomous institutions. • Investments in non-banking business. • Loans secured by pledges on deposits held by the bank for the full amount of the loan.	0%
2	Instruments or loans guaranteed by international financial lending institutions (eg, the International Monetary Fund and the World Bank). Loans secured by pledges on deposits held in other banks for the full amount of the loan.	10%
	Long-term deposits held in Panama or in banks of other Organization for Economic Cooperation and Development (OECD) countries with investment grade ratings. • Confirmed letters of credit payable on demand, issued by banks of OECD member countries or	

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3	- countries with investment grade ratings. - Guaranteed loans issued by OECD member country banks, due within 186 days. - Loans guaranteed by pledge on deposits for the full amount of the loan, provided that the deposits are held in banks of OECD member countries. - Guaranteed mortgages with an investment grade rating issued by a foreign bank.	20%
4	- Housing loans secured by mortgages given to the final purchaser of such property, except non-performing loans included in Category 6. - Other home equity loans, provided that the loan balance does not exceed 60% of the mortgaged property's value.	50%
5	- Financings for the purchase of vehicles for personal use with a maturity date of five years or less. - Personal loans without acceptable collateral to mitigate risk as approved by the Superintendency of Banks and with a maturity date of five years or less. - Financings without acceptable collateral to mitigate risks as approved by the Superintendency of Banks, the purpose of which is the acquisition of the debtor's commercial vehicles with a maturity (original or remaining) of five years or less. - Loans properly guaranteed by means of a pledge on deposits established in other non-OECD member banks for the total amount of the loan. - The remainder of the assets not described in the aforementioned categories or Categories 6 and 7.	100%
6	- Financings, whose purpose is the purchase of vehicles for personal use with a maturity date of five years or more. - Personal loans without acceptable collateral to mitigate risk, as approved by the Superintendency of Banks and with a maturity date of five years or more.	125%
7	- Overdue financings without acceptable collateral to mitigate risks as approved by the Superintendency of Banks, for the purchase of vehicles for personal use with a maturity date of more than five years. - Overdue financings without acceptable collateral to mitigate risks as approved by the Superintendency of Banks, used for any purpose and with any maturity date.	150%

General licence (and international licence) banks must submit a capital adequacy report to the Superintendency of Banks on a quarterly basis, noting in detail each bank's capital funds, assets and off-balance sheet liabilities that represent irrevocable contingencies, weighted in proportion to their risk. However, Article 6 of Agreement 005-2008 specifically exempts the branches of foreign banks holding international or general licences from the requirement to submit such a report. Branches of foreign banks that hold international or general licences that consolidate results with their parent company are required to comply with the minimum capital adequacy ratio and requirements stipulated by the legislation applicable to their parent company. These foreign-owned branches must submit an annual certification from either an external auditor or the bank regulator in the country of origin, which states the capital adequacy ratio for the country of origin and the ratio for the parent company of the reporting bank.

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