

**REPUBLIC OF PANAMA
SUPERINTENDENCY OF BANKS**

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General Manager

Ref.: New Capital Agreement (Basle II).

Dear Sir:

The Basle Committee has published its latest version regarding the New Capital Agreement (Basle II). The present document represents the results of the Agreement among members of the Committee establishing a new framework of regulation to measure the assessment and minimum standards of capital, which will be proposed by the members of the Committee for adoption in their respective countries.

The Committee expects its members to carry out all their efforts to deal with the implementation in their respective countries. Therefore, it is expected that the new Agreement may be implemented by the end of 2006. The fundamental object of the task of revising the first Agreement of 1988 is the development of a new framework of regulation to strengthen the stability of the international banking system maintaining consistence in the regulation of Standardization of Capital. Therefore, the Committee considers that new framework of regulation will promote the adoption of better practices in risk management in the banking industry.

The Superintendency of Banks has started a process of internal organization to prepare a proposal of an Implementation Plan of a new framework of standardization under the parameters of the New Capital Agreement (Basle II). The Superintendency has designated a Technical Committee that will be responsible for revising, analyzing and proposing a new framework, which must be approved at the proper time, by the Board of Directors of the Superintendency of Banks. This framework will include gradual studies and consultations that will be carried out in strict coordination with the banks in the system, so as to guarantee an adequate transition between the current framework and the new proposal.

Coordination between the Institution's Technical Committee and the banks in the systems will be started in the next few days.

This is a priority topic for the Superintendency of Banks, therefore the preparation of a plan of action aimed at incorporating aspects linked to the Basle II, form part of the objectives and goals of the Institution at short and medium terms. The New Capital Agreement (Basle II) is accessible in the Internet sites of the International Payment Bank (IPS): www.bis.org

Sincerely,

Delia Cardenas
Superintendent