AGREEMENT Nº 5-98
(Of October 14, 1998)

THE BOARD OF DIRECTORS,
Exercising its Legal Authority, and

WHEREAS:

That according to Article 41 of Law Decree 9 of February 26 of 1998, it corresponds to this Superintendency to define and establish each of the elements of the capital of Banks with General License, establish the basis for the application of capital adequacy requirements and establish deductions based on capital;

That according to Article 45 of Law Decree 9 of 1998, sheet it corresponds to this Superintendency to establish asset evaluation indexes and out-of-balance operations of Banks with General License according to accepted international guidelines on the subject;

That, according to Numeral 7 of Article 16 of Law Decree 9 of 1998, it corresponds to this Superintendency to establish, on the administrative level, the interpretation and scope of the legal dispositions or regulations on banking matters; and,

That it is in accordance with the law to issue Standards on the observance by the Banks with General License on the limits established in Articles 63, 64 and 67 of Law Decree 9 of 1998.

APPROVES:

CHAPTER I.
CAPITAL ELEMENTS: PRIMARY CAPITAL AND SECONDARY CAPITAL

ARTICLE 1 (PRIMARY CAPITAL):

According to Article 41 of Law Decree 9 of 1998, the primary capital of a Bank with General License includes fully paid stock capital, declared reserves and retained profits.
Fully paid stock capital is the one represented by issued perpetual common stock and preferred stocks, non-cumulative, issued, and fully paid.
Declared reserves are those identified as such by the Bank and derived from their books from cumulative profits to reinforce their financial situation.
Retained profits are non-distributed profits from the term and non-distributed profits corresponding to previous terms.

ARTICLE 2 (SECONDARY CAPITAL)

According to Article 41 of Law Decree 9 of 1998, the secondary capital of a Bank with General License includes the hybrid instruments of capital and debts, debt subordinated to term, general reserves for loss, non-declared reserves and asset reevaluation reserves, according to the following description:

1. Hybrid instruments of capital and debts

They are those that combine the characteristics of capital and debt, and comply with the following requirements:

a. They are totally paid and free of any charges,
b. are subordinated to depositors and creditors in general, and therefore, absorb the loss of the Bank if the primary capital was insufficient and are only paid in preference to common stockholders.
c. They are not redeemable as an option for the holder,
d. are capable of absorbing the loss of the issuing bank as long as it is in operations, and
e. allow the issuing bank to delay interest payment if there are no profits in the year or if dividends on preferable and common stock must be delayed.

The following instruments are considered as hybrid instruments of capital and debt:

1.1. Accumulative preferred stock with the following characteristics

a. They offer their holders the right to receive previously agreed dividends and do not offer holders the option of reselling to the issuing bank, except when exceptionally authorized by the Superintendency.

b. The payment of dividends can be delayed and accumulated until dividends are totally payable.

c. In the event of winding up, holders have priority only over common shares in relation with payment of dividends and asset distribution, and

d. have an indefinite term.

1.2. Bonds transferable to Type 1 stock.

Must be available to absorb loss when Capital Funds are reduced under the minimum paid social capital or minimum assigned capital established by Article 42 of Law Decree 9 of 1998, or under adequate capital. Unlike preferred stock, these instruments are remunerated with a fixed premium that includes interests and amortization. Furthermore, these instruments must comply with the following requirements:

a. Original maturity term of more than 5 years,

b. Must be available to absorb losses in the event of forced or voluntary winding up of the Bank. Their holders have priority in regards to asset distribution before common stockholders, and

c. Issuing requirements do not include clauses that permit anticipated payment of the totality or part of the bonds issued.

To calculate secondary capital, these bonds will be valued at placement price and the computable value will diminish by 20% for each year elapsed from the time when six years remain to its maturity. Therefore, the calculation of the computable amount must be done on the present value of the bonds according to the implicit effective rate, applying the following percentages to the remaining years (non-calendar):

Present value of flows at:	Computable Capital Percentage (%)
More than 5 years:	100%
More than 4 years and up to 5 years:	80%
More than 3 years and up to 4 years:	60%
More than 2 years and up to 3 years:	40%
More than 1 year and up to 2 years:	20%

1.3. Whatever else is authorized by the Superintendency that complies with the requirements established by Numeral 1 of this Article.

2. Debt subordinated of term.

Includes subordinated securities placed up to the concurrence of 50% of the primary capital. Unlike instruments provided for in Numeral 1 of these Article, they cannot absorb losses while the bank is still in operation.

The following securities are considered subordinated debt to maturity:

2.1. Subordinated bonds.
Are securities with the following characteristics:

a. Original maturity term of more than 5 years,

b. The issuing requirements do not include clauses that permit anticipated payment of the totality or part of the issued bonds, and

c. Are available to absorb the losses of the issuing Bank in the event of winding up. Holders have priority in regards to asset distribution only before common shareholders.

To calculate secondary capital, these bonds will be valued at placement price and the computable value will diminish by 20% for each year elapsed from the time when six years remain to its maturity, in the same form established by Numeral 1.2 of this Article for convertible bonds of Type 1 stock

2.2 Bonds convertible to Type II stock.

Are securities with the following characteristics:

a. They grant their holders the right to convert the bond to a number of common shares of the issuing bank, previously authorized,

b. The conversion rate must be defined in the informative prospectus of remittance of said securities,

c. Contrary to Type I bonds, they are not available to absorb losses, except when the Bank enters into winding up, and

d. They are subordinated to the depositors and creditors in general, therefore, they absorb the Bank's losses if the primary capital were insufficient and will enjoy preference in payment only in preference to it.

   To calculate the secondary capital, these bonds will be valued at placement value and the computable value will diminish 20% for each year elapsed since there are yeas remaining to maturity in the same manner as established in Numeral 1.2 of said Article for bonds convertible to Type I shares.

2.3. Whatever else is authorized by the Superintendency that complies with requirements established by Numeral 2 of this Article.

3. General Reserves for Losses.

Are provisions that are not required for Banks with General License by law, by regulations, by the Superintendency, or that exceed those that have been required for those Banks by the Superintendency, regulations or legislation. General reserves are not intended to cover risks that might be present in assets, nor do they correspond to obligations of real or contingent payment. They do not have a specific objective.

General reserves can only be computed as part of the secondary capital up to an amount equivalent to 1.25% of pondered assets in relation to risks.

Once general reserves are computed as part of the secondary capital, Banks cannot diminish them when by doing so infringe the adequacy index considered in Article 45 of Law Decree 9 of 1998 or other legal or regulatory margins or limits established on the basis of the Capital Funds.

4. Non-declared Reserves

They consist of the retained profit part after taxes, as long as they are of the same quality than the declared reserves. As such, they are totally and immediately available to absorb future non-foreseen losses and are not encumbered with any obligation. However, unlike declared reserves, they are not attributed specific objectives and remain registered in a special reserve item.

5. Reevaluation Reserves:

Are those that derive from the revaluation of Stock Market negotiable securities, available for sale, to be registered at their market value. Such re-evaluation must be made WHEREAS the value in effect on the market for assets of similar characteristics, which must be certified by the external auditors in their commentaries to the financial statements. It is not permitted to include in this item those securities received as payment by Banks during the course of operations.

Total elements computed as secondary capital will be limited to a maximum of 100% of the amount of the elements of the primary capital.

ARTICLE 3 (CAPITAL DEDUCTIONS):

The calculation of the amount of Capital Funds of a Bank with General License must take into account the following deductions:

a. The non-consolidated capital assigned to Branches abroad

b. The non-consolidated paid capital of Banks Subsidiaries.

c. The paid capital of non-banking subsidiaries. Deductions will include assets registered salaries for the higher amount paid – in regards to accounting value – on permanent investment in corporations in the country and abroad.

d. Asset items corresponding to expenses and other entries, that due to the accepted General Accounting Principles and the International Accounting Standards correspond to overvaluation or different non-recognized losses procedures, and also losses experienced at any time in the course of operations.

These deductions will be made quarterly.

ARTICLE 4 (CAPITAL ADEQUACY):

1. Adequacy Index.

Capital Funds of a Bank with General License cannot be lower than 8% of its pondered assets in regards to risks. To that effect, assets should be considered net of their respective provisions or reserves and with the evaluation covered in Articles 6 and 7 of this Agreement.

2. Branches of Foreign Banks with General License:

In the case of Branches of Foreign Banks with General License the minimum adequacy index required by law of its Head Office will be observed and will be computed in a consolidated way with its Head Office. To that effect, the Foreign Bank must present to the Superintendency of Banks twice a year certificate from an external auditor of its Head Office certifying that the Bank complies in a consolidated way with the capital adequacy requirements.

The Superintendency, if it considers there is enough merit, can request of the Bank and the Foreign Supervising Entity additional information that will permit to corroborate that the Bank, in effect, complies with the referred adequacy index.

This is without <u>detriment</u> of the right of the Superintendency to require, when it considers it necessary, compliance with the adequacy and evaluation indexes established by Law

Decree 9 of 1998.

3. Branches and Subsidiaries of Panamanian Banks with General License.

Panamanian Banks with General License must comply with capital adequacy indexes in a consolidated way, including branches and *subsidiaries consolidated by them.*

ARTICLE 5. (DETERMINABLE LIMITS BASED ON CAPITAL FUNDS)

When Law Decree 9 of 1998 refers to Capital Funds, it will be understood as the amount of the primary capital, plus the secondary capital, less deductions established in Article 3 of this Agreement, and, in that way calculated, they will be taken into account for the application of the followings limits:

1. The limit of loans or credit facilities to one person as stated in Article 63 of Law Decree 9 of 1998.

2. The limit of loans and credit facilities to related parties as stated in Numeral 2 of Article 64 of Law Decree 9 of 1998.

3. The limit of loans granted by the Bank and the entities that constitute its banking Economical Group, accumulated, to related parties as stated in the last clause of Article 64 of Law Decree 9 of 1998.

4. The limit of participation of a Bank in other businesses as stated in Article 67 of Law Decree 9 of 1998.

CHAPTER II, CHAPTER III AND CHAPTER IV