AGREEMENT No. 6-2000
(28th June 2000)

THE BOARD OF DIRECTORS
in the exercise of its legal powers, and

WHEREAS:

In accordance with Article 5 Point 1 of Decree Law No. 9 of 26th February 1998 the Superintendency of Banks is responsible for ensuring that the soundness and efficiency of the banking system are maintained;

In order to achieve these objectives measures must be adopted which ensure that the General Licence Banks and the International Licence Banks maintain the necessary liquidity and solvency to meet their obligations;

In accordance with Article 16 Point 4 of Decree Law No. 9 of 1998 this Board of Directors is responsible for approving the general criteria for the classification of risk assets and the guidelines for the creation of provisions to cover loan and market risks;

In accordance with Article 16 Point 5 of Decree Law No. 9 of 1998 this Board of Directors is responsible for approving general rules for the suspension of the accrual of interest in accordance with internationally accepted criteria; and

In working sessions of this Board of Directors it has become apparent that it is necessary and advisable to adopt rules to govern the classification of loans and the corresponding creation of provisions,

AGREES:

ARTICLE 1: GENERAL CONSIDERATIONS. The credit risk in relation to loans arises out of the possibility that losses might be suffered as the result of the debtor's default.

Every Bank must adopt an adequate system for the administration of its credit risk in which management decisions relating to the identification and monitoring of any deterioration in the portfolio must be made in accordance with documented policies and procedures which reflect principles of prudence and consistency. The selection and application of these policies and procedures must meet prudent internal control practices and the international accounting standards or the standard accounting practices generally accepted in the United States of America (US-GAAP).

1.1. ADMINISTRATION AND PROCEDURES FOR THE ANALYSIS OF THE CREDIT RISK ASSOCIATED WITH LOANS.

The bank must maintain a Credit Manual with at least one well-documented section on the procedure for the administration and control of the credit risk relating to its loans which

evaluates the debtor's creditworthiness and its impact on the loan, differentiating between each phase of the credit cycle: analysis, monitoring and recovery.

a. Analysis.

The Credit Manual must cover as a minimum: the markets and products for the Bank's loans business; the availability, organisation, infrastructure and physical and human development required; it must establish the parameters for the evaluation of the loan application; the kind of requirements that it is prepared to finance; the terms and conditions on which its facilities will be offered; the criteria for the authorisation and approval of both the loan and its disbursement and the parameters used to fix the limits and the procedure for the approval of such limits. As far as the documentation and accounting registers are concerned, it must define the procedures required to facilitate access to the information and the accuracy and integrity of the registers.

b. Monitoring.

The Credit Manual must cover as a minimum: visiting policies and procedures, interviews and analysis of the debtor's record and payment ability which enable the Bank to detect and implement actions to correct, create or use the provisions which are needed for potential losses by reason of doubtful debts.

c. Recovery.

The Credit Manual must cover as a minimum the reports required to enable the Bank to collect payment on the terms originally agreed with the debtor, following the policies and procedures laid down for granting extensions and payment arrangements where necessary, making use of all the administrative and judicial remedies to collect payment which are available to it.

1.2 POLICIES FOR THE ADMINISTRATION AND CONTROL OF THE CREDIT RISK ASSOCIATED WITH LOANS.

The Board of Directors and/or the General Management shall lay down policies for the administration and control of the risk and shall be responsible for ensuring that they are complied with.

Every Bank shall have a functional body to deal with the administration and control of its credit risk which must be consistent and in accordance with the method and policies laid down by the Board of Directors and/or the General Management.

ARTICLE 2. SCOPE OF APPLICATION. Official Banks, General Licence Banks and International Licence Banks must create provisions to mitigate the risk of losses on their loan portfolios according to their respective categories and in accordance with the provisions of this Agreement.

ARTICLE 3. TYPES OF LOANS. For the purposes of the application of the new provisions, the loan portfolio shall be divided into:

3.1 Corporate loans.

These are loans which are used for the production and/or marketing of goods and services in the various sectors of the economy such as: agriculture, mining, industrial, construction, commercial and services. It is expressly understood that loans granted by means of corporate credit cards, corporate leasing arrangements, project finance and commercial mortgages are included within this type of loan, as are loans to micro, small and medium-sized companies and other forms of financing aimed at the aforementioned sectors.

3.2 Consumer loans.

3.2.1. Consumer credit.
These are loans for the purpose of acquiring goods or services which are not intended for the production or marketing of such goods or services. It is expressly understood that this type of loan shall be deemed to include occasional personal overdrafts, loans granted via credit cards, leasing arrangements, loans granted with a mortgage guarantee and all others intended for the aforementioned purpose.

3.2.2. Residential property loans (mortgages).
Loans for the purposes of acquiring residential property, provided that the loans are guaranteed by mortgages which are properly constituted and registered.

3.3 Other loans.
Loans for the purpose of financing Banks, co-operatives, insurance companies, leasing companies, financing companies, factoring, governments, international organisations and non-governmental organisations, amongst others.

ARTICLE 4. GENERAL PRINCIPLES FOR THE EVALUATION AND CLASSIFICATION OF LOANS. The evaluation for granting the loan is determined by the following:

a. In the case of corporate loans and other loans, by the debtor's ability to pay, which in turn is defined principally by its operating cash flow; that is to say by the ability to generate on a sustained and continuous basis the liquid resources for the payment of all the commitments acquired, on the agreed terms, in the normal course of the business or project financed.

In addition to the matters referred to in the first paragraph, account must also be taken of the economic environment and its future prospects, of the quality, value and actual availability of the guarantees, the assets and the possibility of support from the guarantor responsible.

c. In the case of consumer loans, by the source of payment, the type of guarantee *in rem*, the repayment date, ageing analysis, the ability to pay determined by all the income which the person or family group can demonstrate that it receives, in the event that its income has been treated in global terms.

ARTICLE 5. CLASSIFICATION CATEGORIES FOR THE LOAN PORTFOLIO. Banks shall classify their loans on the basis of their book value at the date of the analysis, using the following five categories in ascending order of risk:

a. Normal Category;
b. Special Mention Category;
c. Subnormal Category;
d. Doubtful Category;
e. Irrecoverable Category.

The system of classifying loans by categories must take into account:

a. The policies and procedures for their classification;
b. The debtor's ability to pay;
c. The debtor's current financial situation;
d. The evaluation of the operating cash flow;
e. The market value and the possibility of enforcing the guarantees *in rem* offered;
f. Other factors which affect the possibility of collecting payment for the

servicing of the debt such as: sales trends, operating margins, efficiency and changes in working capital and profits or losses for the period.

Account shall also be taken in the classification of the quality of the company's administration and management and its management control and information systems.

When evaluating the operating cash flow, the Bank must bear in mind the degree of sensitivity to changes in the economic environment in which the debtor operates.

In order to classify the loans it is important that Banks have a reliable system based on the level of exposure to risk and the degree of deterioration in the loan quality, taking into account the matters indicated for the purpose in this Agreement. Banks must keep their loan portfolio classified on a permanent basis.

The creation of provisions shall be effected by applying the minimum percentage corresponding to each category as laid down in this Agreement to the classification base of the loan. In addition Banks must adjust the provisions on the basis of the calculation of the estimated losses within a period of not more than ninety (90) days where necessary.

ARTICLE 6. PROFILE OF THE MATURITY DATES OF THE LOAN PORTFOLIO. The profile of the maturity dates of the loan portfolio shall be determined by reference to the remainder of the contractual term for the payment of the obligation and not to the original term granted when the said obligation was agreed.

For the purposes of the classification of the loans, the balance of a debt shall be deemed to be bad when no payment has been received to service the debt and/or the interest within thirty (30) days of the due date for such payments.

In the same way, the balance of the loan shall be deemed to be overdue if one of the following situations occurs:

a. If the total capital balance of any loan which is repayable by a single payment on the maturity date has not be repaid within thirty (30) days of the agreed date;

b. If the agreed periodic payment for the servicing of the debt is not received within a period of ninety (90) days from the agreed date;

c. If the debtor in respect of any loan has been declared in suspension of payments or bankrupt;

d. In the case of overdrafts for a fixed period of time, if the debtor has not repaid the overdraft within a period of thirty (30) days from the date agreed with the Bank;

e. In the case of overdrafts with no fixed maturity date, upon the expiry of ninety (90) days from the date on which the overdraft facility is first used;

f. In the case of occasional overdrafts, the debtor must repay the whole of the overdraft one hundred and eighty (180) days after the date on which the overdraft facility is first used.

ARTICLE 7. GENERAL CRITERIA FOR THE CLASSIFICATION OF THE LOANS. The loans shall be classified by taking into account the criteria which are listed below:

a. Normal: Loans in respect of which the payment of the principal and interest comes from a solid ability to pay on the part of the borrower and his co-debtors. The debt servicing is completely up to date and there are no doubts about its recovery; the documentation is complete, during the process of granting the loan the guarantees *in rem* were clearly defined and evaluated by qualified persons who are independent of the debtor.

b. Special Mention: Loans which show weaknesses which could affect their value in a significant way, due to the fact that they deviate in one or more aspects from the policies and procedures for the administration of the risk on the Bank's loan portfolio. The weaknesses are not prominent and do not represent an imminent or serious threat to proper and full payment on the terms originally agreed. Even so, greater than normal attention from the management is justified in order to ensure the continuity of the cash flow and the protection of the value of the assets.

c. Subnormal: The loans are not adequately protected by: a) the ability to pay of the debtor or his co-debtor; b) the net value of the market realisation of the guarantees: c) the current value of the assets; d) well-defined weaknesses which place the recovery of the balance of the loan at risk.

d. Doubtful: The loans have all the weaknesses of loans classified as subnormal, with the additional characteristic that the facts, conditions and values make full recovery unlikely. Even if the possibility of loss is significant, there may be certain specific factors of importance which work in favour of the strengthening of the asset. If a risk is classified as doubtful the interest must not be recognised and the obligation must be treated as though interest were not accruing.

e. Irrecoverable: Loans in respect of which a full loss is estimated and which must cease to be reflected as an asset in the Bank's books of account, despite the fact that the Bank retains the right to collect the balances owed and that there may be circumstances or events in the future which enable the total or partial recovery of balances charged to losses.

ARTICLE 8. CLASSIFICATION OF THE CORPORATE AND OTHER LOANS PORTFOLIO. The classification of corporate loans and other loans shall be made by taking into account the criteria which are listed below:

8.1 Normal: A loan is considered normal if the debtor's operating cash flow is adequate or exceeds the amount of the obligations to service the debt until such time it is repaid. Also where the debtor:

a. Demonstrates a financial position with an acceptable level of indebtedness;

b. Complies punctually with the payment of its obligations, which is deemed to occur when the debtor pays its obligations without resorting to new direct financing;

c. The guarantees have been checked, clearly defined and periodically valued by suitably qualified professionals who are independent of the debtor.

The Bank must also consider whether the debtor:

d. Has an adequate administration system which enables it to be aware of its financial situation at all times and has the appropriate internal control systems.

e. Belongs to a sector of economic activity which is performing well in the ordinary course of its business.

8.2 Special mention: The loans classified in this category are those whose debtors demonstrate some weakness. In addition the general state of the business and the guarantees supporting the financial commitments require special attention in order to ensure the recovery of the loan, because the debtor's ability to pay is expected to decline. This weakness on the part of the debtor may originate from:

a. Situations which affect it directly or indirectly; due to a moderate level of indebtedness; due to adverse situations which are affecting the economic sector in which it operates; due to an inadequate loan agreement; due to the fact that the operating cash flow has a tendency to weaken; or if the future prospects for the economic conditions could have an effect on the guarantees given in favour of the Bank;

b. Occasional defaults with payments being made in excess of thirty 30 days, but in less than sixty (60) days.

The Bank must also consider:

a. Whether the debtor is late in submitting its reports on the economic and financial situation of the business.

8.3 Subnormal: A loan must be classified in this category if its primary source of payment, the operating cash flow, is inadequate and places the recovery of the outstanding balances at risk. The Bank must evaluate the application of the net guarantees *in rem* at their realisation value in the market if the defects in the loan are not corrected at the proper time. The Bank must take into account whether the debtor shows:

a. An operating cash flow level which is insufficient to make debt servicing payments in full on the conditions originally agreed; or

b. Defaults in the debt servicing payments for more than sixty (60) days, but less than ninety (90) days.

The Bank must also consider whether the debtor:

a. Has loans which have matured and/or are being collected via the courts with other Banks in the system;

b. Shows clear evidence of a worsening in its working capital position which means that it cannot satisfy the payment on the terms agreed;

c. Has problems in its credit relationship with suppliers and customers.

8.4 Doubtful: Loans grouped in this category are generally transactions in respect of which recovery is very unlikely, given that the debtor shows a financial and economic position which has worsened significantly and usually legal proceedings have begun, as its sources of income, guarantees created or assets mean that the Bank would only be able to recover part of the resources lent. In order to classify a loan in this category, the Bank must take into account whether the debtor:

a. Has an operating cash flow which is continually shown to be inadequate to cover the debt servicing payments on the terms originally agreed; or

b. Defaults on payment for more than ninety (90) days, but less than three hundred and sixty (360) days; or

c. Has guarantees which do not cover the outstanding debt in full.

The Bank must also consider:

d. If there is a breach of the policies and procedures for the administration of the credit risk and whether there are inherent weaknesses in the granting, administration and collection of the loan;

e. If there are adverse conditions which could affect the recovery of the loan such as variations in the economic cycle within the country, specific unforeseeable events such as fires, changes in technology, political changes and others which are outside the control of the debtor.

f. If the loan has been renewed more than once without the payment of capital and interest, or if it was diverted to other projects; or

g. The difference between the balance on the loan and the net realisation value of the guarantee *in rem*.

8.5 Irrecoverable: This category covers loans whose irrecoverability is so obvious that their treatment as assets cannot be justified and they must be dealt with appropriately so that the loss is recognised, regardless of whether the Bank may ultimately recover the sums owed wholly or in part. This category shall also include loans granted to companies whose ability to generate resources also depends on other companies which in turn find themselves in a very precarious financial position when it comes to meeting their commitments, due to their own indebtedness, to their lack of operational capacity or to the situation of the economic sector to which the ordinary course of their business belongs. In order to classify a loan in this category, the Bank must take into account whether the debtor:

a. Has an operating cash flow which does not cover its costs; is in suspension of payments; is likely also to face difficulties in complying with any restructuring agreements; is in a state of insolvency; or has applied for its own bankruptcy;

b. Has defaulted on payment for more than 360 days.

The Bank must also consider:

a. Whether the debtor has ceased trading and whether its loans are being collected via the courts;

b. If the Bank has inadequate knowledge about the customer, particularly in relation to its most recent financial position and current location;

c. If the loan was granted without proper analysis or for subjective reasons;

d. If the documentation for the loan is inadequate, defective or false;

e. If there are no guarantees or if the guarantees are inadequate or are not properly created.

ARTICLE 9. CLASSIFICATION OF THE CONSUMER LOAN PORTFOLIO. The classification of consumer loans shall be made taking into account the criteria listed below:

9.1 Consumer credit.
All loans which relate to consumer credit, with or without guarantees *in rem*, including occasional personal overdrafts, shall be classified in accordance with the following criteria:

> **9.1.1 Normal:** Loans in respect of which instalments are paid as agreed or up to thirty (30) days in arrears.
>
> **9.1.2 Special Mention:** Loans whose instalment payments are in arrears by more than thirty (30) days but less than sixty (60) days.
>
> **9.1. 3 Subnormal:** Loans whose instalment payments are in arrears by more than sixty (60) days but less than ninety (90) days.
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> **9.1.4 Doubtful:** Loans whose instalment payments are in arrears by more than ninety (90) days but less than one hundred and eighty (180) days; in the case of loans with guarantees *in rem* the period shall be extended to three hundred and sixty (360) days.
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> **9.1.5 Irrecoverable:** Loans whose instalment payments are in arrears by more than one hundred and eighty (180) days; in the case of loans with guarantees *in rem* the period of default must be more than three hundred and sixty (360) days.

9.2 Loans for residential property (mortgages).

These loans must be classified in accordance with the following criteria:

> **9.2.1 Normal:** Loans in respect of which instalments are paid as agreed or up to thirty (30) days in arrears.
>
> **9.2.2 Special Mention:** Loans whose instalment payments are in arrears by more than thirty (30) days but less than ninety (90) days.
>
> **9.2.3 Subnormal:** Loans whose instalment payments are in arrears by more than ninety (90) days but less than one hundred and twenty (120) days.
>
> **9.2.4 Doubtful:** Loans whose instalment payments are in arrears by more than one hundred and twenty (120) days but less than three hundred and sixty (360) days.
>
> **9.2.5 Irrecoverable:** Loans which show arrears in the payments of instalments of more than three hundred and sixty (360) days.

ARTICLE 10. PROVISIONS COMMON TO THE CLASSIFICATION OF LOANS. In addition the following rules shall be applied to the loan classification categories:

> a. Action plans for supervising, monitoring and collecting the loans classified in the Doubtful and Irrecoverable categories must be approved by the Board of Directors and/or the General Management and must be placed within the Bank's risk administration procedure.

b. Any change in the classification of a loan to a lower-risk category must be approved at a more senior level than the level which originally approved the transaction.

c. The Bank shall provide for all loans classified as Irrecoverable within a period not exceeding the end of the financial year following the year in which it was classified in this category.

d. Guarantees relating to personal property must be valued at least once every two (2) years; the valuation of guarantees relating to real property shall lie within the discretion of the Superintendency of Banks; financial instruments must be valued on the basis of the principles laid down in the international accounting standards or the standard accounting practices generally accepted in the United States of America (US-GAAP), without prejudice to any other regulations which the Superintendency may issue for the valuation of such assets. All guarantees must be valued by suitably qualified professionals who are independent of the debtor.

ARTICLE 11. CLASSES OF PROVISIONS. For the purposes of the application of this Agreement, the following provisions are established:

a. Minimum global provision: A provision created in respect of the whole loan portfolio. Banks shall be obliged to maintain a provision of not less than 1% at all times, without prejudice to the power of the Superintendency to require a higher global provision. It is expressly understood that the said provision must not be less than the sum of the generic and specific provisions.

b. Specific provisions: Those provisions which are created in relation to loans in respect of which a higher than normal risk has been specifically identified, which are divided into:

i. Individual provisions: Those provisions assigned to loans which by their nature and amount have an impact on the solvency and other financial ratios of the Bank.

ii. Provisions by groups of loans: Those provisions assigned to groups of loans of the same kind, geographical area or with a common purpose or which have been granted under the same loan programme.

c. Generic provisions: Those provisions which are created on a temporary basis in relation to debtors' loans which are classified in the various categories referred to in this Agreement.

Banks must create provisions of a generic kind as soon as they become aware of a decrease in the value of a group of loans which have defined common characteristics, but which the Bank is unable to allocate to any of the individual loans at the time when the loss is recognised.
Amongst the factors which may lead to a decrease in the value of a group of loans with common characteristics being recognised are the following:

1. Abnormal climatic conditions in a particular geographical area;
2. The outbreak of a plague:
3. Changes in conditions and access to the market;
4. Unexpected variations in production costs;
5. Technological innovations which affect the debtor's market;
6. Banking centres with inadequate regulations or little regulation;
7. Any other circumstances of a social, economic, political or other nature which have a negative impact on the collection of the loans.

It is expressly understood that the provisions to which this point refers are not permanent replacements for the provisions of an individual nature.
Banks must create generic provisions for groups of loans with common characteristics if the Superintendency of Banks so requires.

ARTICLE 12. CALCULATION OF PROVISIONS. Once each loan has been classified, the Banks must create specific provisions in respect of the capital balance as specified in the following table:

CATEGORY OF THE LOAN	MINIMUM PERCENTAGES
Special Mention	2%
Subnormal	15%
Doubtful	50%
Irrecoverable	100%

ARTICLE 13. PROVISIONS OF FOREIGN BANKS. In the case of branches of Foreign General Licence Banks or Foreign International Licence Banks, the Bank may prove that the provisions for loans of its Panama branch have been made by its Parent abroad by means of a certificate issued by the external auditors of the said Parent and/or its respective Supervisory Body.

Nevertheless, the Superintendency reserves the right to evaluate whether the said provision is adequate and to order the bank to create provisions in Panama at any time.

ARTICLE 14. GENERAL CONCEPTS FOR THE ESTIMATION OF THE LOSS. In order to quantify the estimated potential loss on corporate loans and other loans, the Bank must carry out a test to check the likelihood of recovery; the result of the test will indicate the estimate of the balance of the loan which is irrecoverable and the following sources, inter alia, shall be taken into account when carrying out the tests:

a. The debtor's Financial Statements;
b. The debtor's operating cash flow;
c. The realisation value of assets pledged by way of guarantee *in rem*;
d. The actual value of any payments which might be obtained from co-debtors or guarantors.

The estimated loss shall be determined by discounting the estimated recovery from the primary, secondary and tertiary sources mentioned in the previous points from the balance of loan.
As far as consumer loans are concerned, the estimate of the possible loss shall take the following factors into account, amongst others:

a. Losses which the Bank has actually suffered in the past with comparable or similar groups;
b. The maturity profile of the portfolio;
c. The level and trend of bad debts, overdue loans, amount qualified, portfolio being collected via the courts;
d. The concentration of the portfolio by type of loan and business of the borrowers, inter alia;
e. Qualitative and quantitative changes in the Bank's credit policies;
f. Any other available information which could adversely affect the collection of the consumer loan portfolio.

ARTICLE 15. VALUATION OF THE RISK FOR THE ESTIMATION OF THE LOSS. The Banks must value the risk of each loan in order to estimate the potential loss within ninety (90) days of the classification of the loan in its respective category.

In the event that the loan presents an additional risk, or if the percentage of the estimated loss is higher than the minimum provision required in Article 13, the Bank must create new provisions and adjust the classification of the loan in question in accordance with the following table.

CATEGORY OF THE LOAN	Range of the estimated loss from to
Special Mention	2% 14.9%
Subnormal	15% 49.9%
Doubtful	50% 99.9%
Irrecoverable	100%

In the event that it is necessary to reclassify a loan into a lower-risk category as a result of an improvement in the debtor's ability to pay, the Bank may use the excess of the specific provisions to create other specific and/or generic provisions required by this rule, making provision in the first instance in those categories with the highest risk.

ARTICLE 16. CLASSIFICATION OF RENEGOTIATED LOANS. For the purposes of this Agreement a renegotiated loan shall be deemed to be a loan which, principally due to material difficulties with the debtor's ability to pay, has been the subject of:

a. An extension.
b. A payment arrangement.
c. Restructuring.
d. Refinancing.
e. Anything else which changes the term and/or amount or other terms and conditions of the original agreement, and which is due to difficulties with the debtor's ability to pay.

Every loan which is renegotiated must be properly documented and archived on the file for the loan and must be individually analysed, taking account in particular of the debtor's ability to pay, and must provide that the new loan granted shall be repayable on the new conditions which have been agreed as to interest and term.

Renegotiated loans shall be classified within the category to which they belonged prior to their renegotiation or in a higher-risk category, and shall remain in the said category for a prudent period which may not be less than six (6) months until, in accordance with the evaluation of the debtor's ability to pay and the performance of its obligations, it may be reclassified in a lower-risk category.

The balance of a renegotiated loan may be treated as coming within the normal category only if it complies with the provisions of the previous paragraph and if all the following conditions are fulfilled:

a. That in the process of negotiation the Bank did not grant the debtor the terms and conditions stipulated in the credit policies which are more favourable than those normally granted by the Bank for this kind of loan.

b. That the financial position and forecasts based on realistic objectives show that the debtor will have the ability to comply with the new payment plan; and

c. That the guarantees which support the transaction are adequate.

The Bank shall monitor the renegotiated loans and shall include quarterly reports on the debtor's files in relation to the performance and operational evolution of the loan.
If as a result of the review of the classification of the renegotiated loans it is found that there have been breaches of the new conditions laid down on the renegotiation, the Bank shall proceed to carry out the appropriate reclassification.

ARTICLE 17. VALUATION OF THE GUARANTEES. The rules on the valuation of guarantees contained in this Agreement are applicable for the purposes of the classification of the loan in accordance with the following parameters:

a. The valuation of the guarantees shall be based on the net realisation value, which must appropriately reflect their sales value in the market;

b. Net realisation value in the market is deemed to mean the net value which the Bank expects to recover as a result of any sale of the asset in the situation and location in which it is to be found. This value must take into account tax charges on sales, commissions, freight and wastage, among other matters;

c. This value must be based on a benchmark commercial value which is calculated on the basis of reliable information. Under no circumstances may the commercial value be estimated on the basis of mere expectations that market prices will improve or on hypotheses of a financial nature. Instead it must follow a strictly conservative criterion which is based on current market conditions;

d. In the case of mortgages and pledges, checks must be made to see whether they have been properly registered in the appropriate registers;

e. In the case of real estate the valuation must be carried out by means of a commercial valuation which has sufficient supporting evidence in relation to the prices used. Account shall be taken inter alia of recent sales of similar assets, the sources which gave rise to the calculation of these prices and the considerations which served as a basis for determining the final value of the asset. This historical data must remain on the file for the loan in question;

f. The main variables to be taken into account in the valuation of guarantees over securities and financial instruments in general must be related to the solvency and liquidity of the issuing company, the classification of these instruments and also the price at which they are quoted in the market, where appropriate. In the event that rating agencies give other classifications to the aforementioned instruments, the Bank must taken the lower classification into account.

g. Assets pledged by way of guarantee shall be valued by a suitably qualified professional who is independent of the debtor;

h. If the net realisation value in the market cannot be determined, assets received by way of guarantee shall be valued on the basis of reliable market information and files shall be generated which contains supporting evidence for such valuations.

The Superintendency of Banks may request a new valuation at any time.

ARTICLE 18. SUSPENSION OF RECOGNITION OF INTEREST INCOME. The Banks shall suspend recognition of interest for income purposes in their Interest Receivable and Interest Earned accounts if:

a. The Bank finds that there has been a deterioration in the customer's financial position and has lost the security of recovering the whole of the balance of the loan, and/or;

b. The debtor has not made the payments of capital or interest as originally agreed in the contract for:

1. More than ninety (90) days in the case of loans which finance commercial activities and/or production, including corporate loans and other loans.

2. More than ninety (90) days in the case of consumer loans with voluntary payments, that is to say all loans which are not debited directly;

3. More than one hundred and twenty (120) days in the case of consumer loans with payments to the Bank which are debited directly from the customer's employer, unless it is proved that he has lost his job, in which case the customer's position shall immediately be evaluated on an individual basis.

4. More than one hundred and twenty (120) days in the case of residential loans (mortgages) and consumer loans which are guaranteed by residential mortgages.

c. The Bank shall determine how unlikely it is that it will recover the full amount of an overdraft:

1. In the case of an overdraft with a maturity date, if the debtor has not made payment thirty (30) days after the due date.

2. In the case of overdrafts with no maturity dates and occasional overdrafts, if the debtor has not made payment within sixty (60) days of the date on which the facility was first used.

3. In the case of loans where disbursements were granted with exceptions to the credit policies and procedures, and where the exceptions have not been properly eliminated, if no payments have been received within sixty (60) days of the date of disbursement.

Every Bank must adopt a method which includes the accounting policies and procedures for the proper and consistent recording of accrued interest payable in the case of loans which are in a state where interest cannot accrue. This method must satisfy proper internal control procedures and the international accounting standards or the standard accounting practices generally accepted in the United States of America (US-GAAP).

ARTICLE 19. DISCLOSURE OF INFORMATION. Banks must supply information which enables its users to obtain a complete and accurate picture of the credit risk profile, the risk management practices, the quality of the loan portfolio, the profitability or the impact of losses on the financial position and performance of the Bank. In its audited annual financial statements the Bank must provide information in a clear and concise form on the following matters:

a) Accounting policies and practices

The Bank must supply information on the accounting policies and practices applicable to its loans and any deterioration in the said loans, without prejudice to the provisions contained in the international accounting standards or the standard accounting practices generally accepted in the United States of America (US-GAAP), and on the methods used to apply the policies relating to:

1. The assessment of loans which have not deteriorated, at the time when they are recognised;

2. The recognition of income from loans which have not deteriorated, including interest and the handling of commissions and expenses;

3. The basis on which loans are transferred to losses and the accounting treatment of recoveries if there are any;

4. When interest ceases to accrue on a loan.

b) Administration of the Credit Risk

The information disclosed must include information on the administration and control policies and practices used by the Bank in order to mitigate the credit risk and on its policies and practices in relation to:

1. The application for and review of the loans and principal guarantees;
2. The classification systems for the credit risk relating to the loans;
3. Analysis of the quality and review of overdue loans;

c) Exposure to Credit Risk

The Bank must make information available on:

1. Loans according to their type;
2. Loans by geographical area, including local and international loans.
3. Important concentrations of credit risk.

d) Credit Quality

The Bank must make information available on:

1. The balances of bad debts and overdue debts by principal categories and the amounts of generic and specific provisions for each category.

2. The balances of loans in respect of which accrued interest in accordance with the terms of the original loan agreement has been suspended due to a worsening of the credit quality or a default on payment as indicated in this Agreement.

3. The summary of problematic loans which have been renegotiated during the year.

ARTICLE 20. FILING OF THE INFORMATION. Banks must file a quarterly report with the Superintendency which reflects the state of the classification and provision of its loan portfolio. This report must be filed within the first ten (10) days of the month following the end of the quarter in question.
It is expressly understood that:

a. The deadline for the filing of the report expires on the tenth (10th) day of the month following the quarter in question, regardless of whether or not the last day or days of the period coincide with a national holiday or national day of mourning or a public holiday or a Saturday or Sunday; and that

b. The Bank must take the necessary steps when it is aware in advance that the tenth (10th) day will coincide with a day on which the Superintendency will not be working.

ARTICLE 21. PROCEDURE FOR THE REVIEW OF THE EVALUATION AND CLASSIFICATION OF LOANS AND THEIR NOTIFICATION TO THE SUPERINTENDENCY. The review of the evaluation and classification of the loan must be the responsibility of a distinct administrative unit which is separate from the units involved in the granting of the loan.

The reports generated by this unit must be addressed to the Board of Directors and/or the General Management. The existence of this unit does not mean that there is no need for the loan portfolio to be reviewed as part of the internal audit programme as well.

Banks must review the classification and the creation of provisions corresponding to all of their loan portfolios each quarter. This review must be undertaken by someone who is superior to and independent of the Credit Officer.

The above provisions are without prejudice to the ongoing review and classification of the portfolio which the Credit Officer must undertake.

ARTICLE 22. PROCEDURES FOR MONITORING AND CONTROL BY THE SUPERINTENDENCY. The Superintendency shall regularly review compliance by the Banks with those provisions pursuant to which the process of evaluation and classification of the debtors in their loan portfolios is carried out. As part of this review it shall have the right to reclassify into the corresponding categories those loans which in its opinion the Bank has classified and provided for without observing the rules laid down.

With this in mind Banks must maintain their loan files permanently up to date and the evaluation and classification of the loans must be properly supported on the said files, including any provisions required to cover possible losses. Likewise they must maintain their Credit Manuals permanently up to date and have them available for the Superintendency of Banks.

If as a result of the review of the loans the Superintendency feels that higher provisions than those calculated by the Bank should be made, the Bank must create the said provisions within a period of time which is acceptable to the Superintendency. In any event the Bank must proceed immediately to reclassify the debtors involved. If the difference in provisions found by the Superintendency is substantial, the bank must re-evaluate the rest of its loan portfolio and this will be checked by the Superintendency.

Any transfer to lower-risk categories made by Banks as a result of the application of this Agreement shall take place only if the Banks consider that the reasons which gave rise to this classification have been superseded from the technical point of view.

ARTICLE 23. SANCTION FOR BREACH. The breach of or contempt for the instructions issued by the Superintendency in relation to the provisions contained in this Agreement shall be sanctioned with a fine of ten thousand Balboas (B/. 10,000.00) for each day of the breach, up to a maximum of one million Balboas (B/. 1,000,000.00).

ARTICLE 24. SANCTION FOR DELAY IN THE FILING OF THE LOAN PORTFOLIO CLASSIFICATION REPORT. The criteria for the imposition of progressive fines for delays in filing reports and/or documents required by the legal provisions or by Circulars and/or Notes of the Superintendency which are contained in Agreement No. 2-98 of 23rd September 1998 are applicable to the delay in filing the loan portfolio classification report referred to in Article 19 hereof.

ARTICLE 25. COMING INTO FORCE AND GRADUAL CREATION OF PROVISIONS. This Agreement shall come into force from 1st January 2001.
The provisions required on the basis of this Agreement shall be enforced gradually, in accordance with the following:

a. On 31st March 2001 all Banks must have the whole of their loan portfolio classified on the basis of the principles determined in this Agreement.

b. Of their estimated losses at 30th June 2001, the Banks must make provisions for at least the following percentages by category:

* Special Mention 50%
* Subnormal 50%
* Doubtful 100%
* Irrecoverable 100%

c. At 31st December 2001 Banks must make provision for the whole of the estimated loss in the different categories of their loan portfolios.

Issued in Panama City on the twenty eighth (28th) day of the month of June two thousand (2000).
LET THIS AGREEMENT BE PUBLISHED AND COMPLIED WITH.

THE CHAIRMAN, (acting)
Rogelio Miró

THE SECRETARY, (acting)
Eduardo Ferrer