Republica de Panamá
SUPERINTENDENCIA DE BANCOS

RESOLUTION No. 7-2000
(19th July 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 this objective measures must be adopted which ensure that General Licence Banks and 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;

By its Agreement No. 6-2000 of 28th June 2000 this Board of Directors laid down rules for the classification of loans and the corresponding creation of provisions for the Banks in the system; 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 and recording of investments by Banks in securities and the corresponding creation of provisions,

AGREES:

Article 1: Scope of Application. Official Banks, General Licence Banks and International Licence Banks must evaluate, classify and create provisions in relation to their securities portfolios on the basis of the criteria laid down in this Agreement.

Article 2.- Terms and Concepts. For the purposes of the application of this Agreement, the terms and concepts relating to investments in securities shall be understood in accordance with the provisions of Decree Law No. 1 of 8th July 1999 and the Executive Decrees and Agreements of the National Securities Commission which implement them.

Article 3.- Risk Administration in relation to Investments in Securities. Banks must maintain a method which identifies, quantifies and controls the risks relating to investments in securities.

Its purpose is to ensure that the transactions, in particular those carried out by the Banks on the stock markets, do not expose them to losses which could threaten their net worth.

Every Bank must have a Securities Investment Manual which must include the following as a minimum:

a. The policies and procedures for acquiring securities;

b. The checks for the purposes of risk administration, recording and classification of the investments in securities;

c. The methods and procedures for the valuation of the securities portfolios; and

d. The control and verification systems which allow the monitoring of the above matters.

Article 4.- Valuation of the Securities Portfolios. The criteria for valuation and recording laid down in the International Accounting Standards or the Standard Accounting Practices Generally Accepted in the United States of America (US-GAAP) shall be used by Banks for the valuation of their investments in securities.

Article 5.- Policies for investments in securities: The Board of Directors and/or the General Management are the bodies responsible for formulating and monitoring the execution of the policies and procedures for investments in securities, which must come within the principles and criteria laid down in this Agreement.

The said policies shall include inter alia:

a. The information required to enable the identification and evaluation of the issuer of the securities acquired by the Bank. It is expressly understood that the Bank must apply a "know your customer" policy;

b. Classification criteria and valuation methods in accordance with the accounting rules previously chosen by the Bank or by the particular method approved by the Superintendency, as the case may be;

c. Acceptable and unacceptable investment practices;

d. Maximum exposure levels; and

e. Limits for approval.

Article 6. Information on Investments in Securities. Banks must have the following information in relation to their investments in securities available for the Superintendency as a minimum:

a. Securities Investment Manual;

b. Files on their investments in securities which as a minimum contain the following documentation: general and up to date information on the issue consonant with the type of acquisition or sale, acquisition or sale information, confirmation of custody;

c. Information on the nominal value, book value and market value; and

d. Any other related information which the Superintendency requires for the purposes of this Agreement.

Article 7.- Verification of Risk Control. The Bank must carry out the required control verifications to determine that the investments in securities are properly classified, valued and recorded and to ensure compliance with the criteria laid down in the Securities Investment Manual.

The Superintendency reserves the right to assess whether the classification, valuation and recording undertaken by the Bank are adequate.

Article 8.- Classification. Investments in securities shall be classified on the basis of the parameters laid down in the International Accounting Standards and the Standard Accounting Practices Generally Accepted in the United States of America(US-GAAP) in the following categories:

a. Investments in Trading Securities;

b. Investments in Securities Available for Sale;

c. Investments in Securities to be held until Maturity; and

d. Permanent Investments.

Article 9.- Investments in Trading Securities. The category of Investments in Trading Securities includes capital and debt securities acquired by the Bank with the main aim of generating profits from short-term price variations. Only publicly quoted securities shall be placed in this category and they must be held on a short-term basis.

Securities issued by the Bank itself or by companies in the same Economic Group as the Bank may not be classified in this category.

Article 10.- Investments in Securities Available for Sale. The category of Investments in Securities Available for Sale shall include all securities which are not classified as:

a. Investments in Trading Securities;

b. Investments in Securities to be held until Maturity; or

c. Permanent Investments.

Article 11.- Investments in Securities to be held until Maturity. This category includes securities which represent debt acquired by the Bank with the intention of holding it until it matures. Investments in securities which the Bank plans to hold for an indefinite length of time may not be included in this category.

Banks may register their investments in securities in this category if they meet the following requirements:

a. They have a residual term of more than one year at the date on which they are acquired;

b. They are rated at the level immediately before investment grade by at least one well-known rating agency, whether local or foreign.

> If a security has been rated with investment grade by a local rating agency, the Superintendency may evaluate the criteria used by the said agency to define investment grade so that it can ensure that the said criteria accord with international standards on the subject, and

c. Any others which this Superintendency may lay down from time to time for the purposes of this Agreement.

The above requirements shall not apply to:

a. Securities issued or guaranteed by the Panamanian State.

b. Panamanian private sector issues, provided that they are traded on an organised securities market which is acceptable to the Superintendency.

Article 12.- Permanent Investments. The category of Permanent Investments includes securities representing capital acquired by the Bank for the purpose of being a shareholder in and having control of or a connection with other companies or institutions. Investments recorded in this category shall be accounted for using the following methods which are contemplated for the purpose in the International Accounting Standards or the Standard Accounting Practices Generally Accepted in the United States of America (US-GAAP):

a. Equity Accounting Method, or

b. Cost Method.

Article 13.- Investments in Trading Securities. The initial recording in the accounts shall be made at acquisition cost, including all expenses such as brokers' fees, duties and miscellaneous commissions.

The book value of investments in securities which come within this category shall be updated daily to the fair value.

Profits or losses arising from an investment in trading securities which arise out of the change in the fair value must be included in the net profit or loss for the period in which they arose.

Article 14.- Investments in Securities Available for Sale. The initial recording in the accounts shall be made at acquisition cost, including all expenses such as brokers' fees, duties and miscellaneous commissions.

The updating of the book value of securities available for sale shall be recorded at the fair value at the end of each month.

Any profit or loss arising out of a change in the reasonable value of investments classified in this category must be:

a. Included in the net profit or loss for the period in which they arose; or

b. Recorded directly against equity, with the information being shown in the statement of changes in net equity.

The Bank must choose one of the two accounting policies described above. This policy must be applied permanently to all investments in securities available for sale.

Article 15.- Investments in Securities to be held until Maturity. Investments in securities to be held until maturity shall be recorded in the accounts at their amortised cost. Investments in securities to be held until maturity must recognise interest earned each month and the amortisation of the discount or premium must also be recorded on a monthly basis.

The results for the year shall not be affected by fluctuations in the market price of securities classified in this category save where there is a conjunction of several of the following criteria and elements which means that the said losses are not temporary:

1. Reduction in the credit rating by a local or international rating agency;

2. The fair value becomes significantly lower than the cost value;

3. Reduction in the fair value for a long period of time (more than one year);

4. Material reduction which is not temporary, unless there is evidence that collection is probable;

5. Deterioration in conditions in the industry or geographical area;

6. Reduction in the ability to continue to function as an active business.

Banks must create provisions which are equivalent to the amount of these non-temporary losses.

Article 16.- Special Provisions. Banks must create special provisions if one of the following situations arises:

a. If the issuer of the securities suffers a clear and recurrent deterioration in its financial solvency or there is a high probability of it going bankrupt, the Bank must estimate the amount recoverable and record the estimated value in its books, either by reducing the balance directly or by making a provision. The amount of the deterioration in question must be included in the net profit or loss for the period.

b. More than ninety days have elapsed since the maturity of the principal or interest or both, whether wholly or in part. A provision shall be made for these investments in securities based on the following concepts:

i. For the amount which it is reasonably estimated is unlikely to be collected, net of guarantees, if any; or

ii. By reference to the time lapsed since maturity:

1) More than 90 days but less than 180 days 25%

2) More than 180 days but less than 270 days 50%

3) More than 270 days but less than 360 days 75%

4) More than 360 days 100%

c. If the investments in securities do not have reliable prices and are not listed on an organised market, Banks must make provisions of up to 100% of the estimated loss.

d. If there is an important deterioration in the exchange-rate risk or a significant deterioration in the country risk or investments are made in banking centres which lack prudent regulations which accord with the international standards and they have not been properly covered, the Bank must make the necessary provisions to cover the said risks.

Article 17.- Securities Transactions. If investments are made in repo agreements, stock market resale agreements, loans of securities and investments in negotiable commercial instruments and other similar transactions in an organised securities market they must be classified as investments in trading securities and the criteria laid down in the International Accounting Standards and the Standard Accounting Practices Generally Accepted in the United States of America (US-GAAP) shall be applied to their valuation and recording.

Article 18.- Derivatives. The classification, recording and valuation of derivatives, whether or not they are used for hedging, shall be done on the basis of the provisions of the International Accounting Standards or the Standard Accounting Practices Generally Accepted in the United States of America (US-GAAP), without prejudice to any other provision on the subject which the Superintendency may subsequently make.

Article 19.- Changes in Classification Category. Any change in the classification category of the securities must be notified by the Banks to the Superintendency using the form in Appendix No. 1 hereof "Investments in Securities" in the period in which the change in question occurs.
This transaction must be registered in the accounts on the basis of the following considerations:

a. If the investments in securities are transferred from the Trading Securities category to any other category, the unrealised gain or loss at the date of the transfer must have been recognised and may not be reversed;

b. If the investments in securities are transferred from any other category to the Trading Securities category, the unrealised gain or loss on the securities transferred shall be recognised in the results for the period;

c. If the investments in securities are transferred from the Securities to be held until Maturity category to the Securities Available for Sale category or vice versa, the unrealised gain or loss on the securities transferred shall be recorded in accordance with the International Accounting Standards or the Standard Accounting Practices Generally Accepted in the United States of America (US-GAAP).

Article 20.- Sales of Investments in Securities to be held until Maturity. Early sales of investments in securities recorded in the category of Investments in Securities to be held until Maturity must be notified, and accompanied by the appropriate justification, at the latest together with Appendix No. 1 "Investments in Securities" corresponding to the period in which the sale took place.

Article 21.- Disclosure of Information. Banks must disclose information in their Audited Financial Statements which enables the user to evaluate the risk profile of the Bank's securities portfolio on the basis of the criteria laid down in the International Accounting Standards or the Standard Accounting Practices Generally Accepted in the United States of America (US-GAAP).

Article 22.- Custody of Securities. When it comes to custody of securities, Banks may elect to have custody of their securities themselves or may contract such custody services from a custody company or use the services offered by brokerage firms or banking institutions. The custody companies and services contracted by the Banks must be acceptable to the Superintendency.

The aforementioned companies must guarantee the preservation and integrity of the investment instruments in their custody, whether they are physically in their custody or in transit, through insurance policies contracted for these purposes.

The custody agreements entered into by Banks with the aforementioned companies and the reports and information which the custodians send to the Banks shall be available to the Superintendency.

Article 23.- Information for the Superintendency. Banks must inform the Superintendency in writing of their intention to contract a custody company or custody services from brokers, brokerage firms or banking institutions and must give their name or business name, country of incorporation, experience and, if appropriate, the risk rating required.

The Superintendency shall have ten (10) business days starting from the date of receipt of the information referred to in the previous paragraph in which to raise any objections about the suitability of the company.

Article 24.- Sanction for change of category. The Superintendency shall sanction a Bank:

a. If it makes changes in category in order to hide losses and/or show profits or in the event of any other use which the Superintendency deems improper, with a fine of from ten thousand Balboas (B/.10,000.00) up to a maximum of one million Balboas (B/.1,000,000.00), depending on the seriousness of the offence.

b. With a further fine of from ten thousand Balboas (B/.10,000.00) per day up to a maximum of one million Balboas (B/.1,000,000.00) for so long as it fails to comply with instructions issued by the Superintendency to remedy the offence committed.

In the event that the Superintendency detects an improper use of the Investment in Securities to be held until Maturity category, it may prohibit the Bank from recording investments in this category for a certain period of time.

Article 25.- Sanction for Delay in the Filing of the Report on the Classification of the Securities Investment Portfolio. 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 report on the classification of securities investment portfolio referred to in this Agreement.

Article 26.- Coming into Force. This Agreement shall come into force as from 1st August 2000.

Article 27.- Adaptation period. Banks shall have a period of time expiring on 30th June 2001 in which to ensure that they conform to the obligations laid down in this Agreement.

Issued in Panama City on the nineteenth (19th) day of the month of July two thousand (2000).
LET THIS AGREEMENT BE PUBLISHED AND COMPLIED WITH.

THE CHAIRMAN,
Rogelio Miró

THE SECRETARY,
Eduardo Ferrer