



Republica de Panamá
SUPERINTENDENCIA DE BANCOS

AGREEMENT NO. 1-2001
(of May 4, 2001)

THE BOARD OF DIRECTORS
duly exercising its legal powers, and

WHEREAS

According to Numeral 4 of Article 16 of Decree Law No. 9 of February 26, 1998, this Board of Directors is in charge of approving general criteria for the classification of the risk assets and the Standards for the constitution of provisions for the coverage of credit risks and market risks;

According to Agreement No. 7-2000 of July 19, 2000, this Board of Directors established the Standards regulating the classification of the registry of investments in securities by the Banks, and the corresponding constitution of provisions;

In the work sessions of this Board of Directors it has been made clear that it is necessary to re-examine the advisability of adding the established provisions through the aforementioned Agreement 7-2000.

AGREES:

Article 1. Article 8 of Agreement No. 7-2000 of June 19, 2000 shall read as follows:

“Article 8. Classification. Investments in securities shall be classified based on the parameters established in the International Accounting Standards (IAC) or in the United States Generally Accepted Accounting Principles (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 2. Article 9 of Agreement No. 7-2000 shall read as follows:

“Article 9. Investments in Trading Securities. The category of Investments in Trading Securities covers the capital securities and debt securities acquired by the Bank mainly to generate a profit from short-term price fluctuations. Only securities quoted through a Stock Exchange or any other organized market acceptable to the Superintendency, will be maintained in this category. They should be maintained in that category for a short term.

Securities issued by the Bank itself or by Companies integrated to the same Economic Group to which the Bank belongs, shall not be considered in this category.”

Article 3. Article 11 of the Agreement No. 7-2000, shall read as follows:

“Article 11. Investments in Securities to be Held Until Maturity. This category covers securities representing debt acquired by the Bank with the effective capacity and intent, either expressed or manifested, of holding them until their maturity. The investments in securities that the Bank plans to hold for an undetermined period, as well as the debt securities of the Bank itself or of companies integrated to the same Economic Group to which the Bank belongs, cannot be included in this category.

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

- a. Having a residual term greater than one (1) year at the time of acquisition:
- b. Being rated at the level immediately before investment grade, by at least one recognized rating agency, be it local or foreign

When a security is rated with an investment grade by a local rating agency, the Superintendency shall evaluate the criteria used by the agency to define the investment grade so that it can ensure that the said criteria agree with international standards on the matter, and

- c. Others established in due time by this Superintendency, for the purposes of the present Agreement.

The previous requirements shall not apply to securities issued or guaranteed by the Panamanian State, nor to issues by corporations constituted in Panama of securities registered in the National Securities Commission to be offered to the public, or in other mandatory registries established by Decree Law No. 1 of July 8, 1999, provided they are traded in a stock exchange or any other organized market acceptable to the Superintendency.”

Article 4. Article 12 of Agreement No. 7-2000 shall read as follows:

“Article 12. Permanent Investments. The category of Permanent Investments covers the securities representing capital acquired by the bank for the purpose of being a shareholder and have control of other companies, or merely to be linked to them. The following methods, contemplated in the International Accounting Standards or in the United States Generally Accepted Accounting Principles (US-GAAP) are applied for the accounting Investments registered under this category:

- a. Equity Accounting Method, or
- b. Cost Method.”

Article 5. Article 13 of the Agreement No. 7-2000 shall read as follows:

“Article 13. Investment in Trading Securities. The initial accounting registry will be effected at the cost of acquisition, including all the expenses incurred in their acquisition.

The accounting value of investments in securities considered in this category will be updated daily, at a reasonable value

Profits or losses of an investment in trading securities that arise from the variation of the reasonable value, shall be included in the net profit or loss of the period in which they occurred.”

Article 6. Article 14 of Agreement No. 7-2000 shall read as follows:

“Article 14. Investments in Securities Available for Sale. The initial accounting Registry will be effected at the cost of acquisition, including all the expenses involved in them.

The updating of the accounting value of the securities available for sale shall be registered under the reasonable value, at the end of every month.

Any profit or loss resulting from a change in the reasonable value of the investments in classified securities under this category should be:

- a. Included in the net profit or loss of the period in which they occurred; or
- b. Registered directly to net equity, stating this information in the statement of changes in the net equity.

The Bank must choose one of the two aforementioned accounting policies, and shall apply it permanently to all investments in securities available for sale. “

Article 7. Article 15 of Agreement No. 7-2000 shall read as follows:

Article 15. – Investments in Securities to be Held Until Maturity. The accounting registry of investments in securities to be held until maturity will be effected at the amortized cost. Investments in securities to be held until maturity should admit the interests earned monthly; as well as being registered monthly in the amortization of the discount or premium.

The result of the exercise will not be affected by the fluctuations in the market price of the securities classified under this category, unless at least one of the following situations or events exist, which will determine whether said losses are not temporary.

1. Reduction of the credit rating by a local or foreign rating agency;
2. The reasonable value becomes substantially lower than the value;
3. Reduction of the reasonable value for a period of more than one (1) year.
4. Material, not temporary reduction, unless there is evidence that its collection is probable;
5. Deterioration of the condition of the industry or geographical area.
6. Reduction in the capacity to continue as a thriving business.

The Banks shall have to constitute provisions equivalent to the amount of said non-temporary losses.”

Article 8. Article 16 of Agreement No. 7-2000 shall read:

“Article 16 – Special Provisions. Banks shall constitute special provisions when one of the following situations occur:

- a) When the issuer of the securities suffers a notorious and recurrent deterioration in its economic solvency, or if there is a high probability of bankruptcy, the Bank should estimate the recoverable amount and register the estimated value in the books, by directly reducing the balance or by making a provision. The amount of the corresponding deterioration should be included in the net profit or loss of the period.
- b) When more than ninety days have elapsed since the total or partial maturity of the principal, the interest, or both. A provision based on the following concepts will be made of these investments:
 - i. For the amount which it is reasonably estimated is unlikely to be collected, net of the guarantees, if any; or
 - ii. According to the time elapsed since maturity
 - 1) More than ninety (90) days but less than one hundred and eighty (180) days – twenty five percent (25%);
 - 2) More than one hundred and eighty (180) days but less than two hundred and seventy (270) – fifty percent (50%);
 - 3) More than two hundred and seventy (270) days but less than three hundred (360) days – Seventy five percent (75%)
 - 4) More than three hundred and sixty (360) days – one hundred percent (100%)
- c) When the investments in securities do not have reliable prices and are not quoted in a stock exchange or other organized market acceptable to the Superintendency, the Banks shall make provisions up to 100 percent (100%) of the estimated loss.
- d) When there is an important deterioration in the exchange rate risk or country risk, or investments in banking centers that do not have the prudential regulations according to international standards and which have not been properly covered, the Bank must effect the necessary provisions to cover the said risks.

Investments in securities provisioned at one hundred percent (100%) should be penalized in a period not to exceed the closing of the fiscal period after which the provision was made, unless the aforementioned securities show clear signs of recovery.”

Article 9. The following Article 16A is added to Agreement 7-2000:

“Article 16A. Additional Provisions for Foreign Banks.

For the effects of the provision mentioned in Article 16 of the present Agreement, branches of Foreign Banks with General Licenses or International Licenses may certify that the said provision is constituted in their Main Branch abroad, through a certification issued by the external auditors of the said Main Branch and /or by their respective Regulatory entity.

The Superintendency, however, reserves the right to evaluate the sufficiency of the said provision and to order the Bank to constitute the provisions in Panama at any moment.”

Article 10. Article 17 of Agreement No. 7-2000 shall read as follows:

"Article 17.- Securities Transactions. When investments are made in carry-over operations, repurchase of stock market securities, security loans and investments in Trading commercial securities and other similar operations, in an organized market acceptable to the Superintendency, these will have to be classified as investment in trading securities and they will be evaluated and registered according to the criteria established in the International Accounting Standards or in the United States Generally Accepted Accounting Principles (US-GAAP)."

Article 11. Article 21 of Agreement No. 7-2000 shall read as follows:

"Article 21. Disclosure of Information. The Banks will reveal in their Audited Financial Statements the information that will allow the user to evaluate the profile of risk in the securities investment portfolio of the Bank based on the criteria established in the International Accounting Standards or the United States Generally Accepted Accounting Principles (US-GAAP)."

Article 12. The following Article 28 is hereby added to Agreement No. 7-2000:

"Article 28. Presentation of the information. Bank must present to the Superintendency every month a report showing the status of the classification and provision of the investment portfolio. The said report is part of Annex 1, which must be presented during the first ten (10) working days of the month following the closure of the respective quarter.

It is expressly understood that:

- a) The term for its presentation expires the tenth (10th) day of every month following the corresponding quarter, regardless if the last day(s) coincide with days of national holiday or national mourning, or Saturdays or Sundays; and that
- b. The Bank shall make provisions when it knows in advance that the tenth (10th) day coincides with a day when the Superintendency is not working."

Article 13. Without detriment to the adjustment period established in Article 27 of Agreement 7-200, the present agreement will be in effect starting from the day it is signed.

Given in the city of Panama, on May four (4), two thousand one (2001)

TO BE RELEASED AND PUBLISHED

THE PRESIDENT
Eduardo Ferrer

THE SECRETARY
Felix Maduro

