RULE No. 7-2000[1]
(dated 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 License Banks and International License 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 Rule 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,

RESOLVES:

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

Article 2: Terms and Concepts. For the purposes of the application of this Rule, 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 Rules of the National Securities Commission which implement them.

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[1] Amended by Rules 1-2001 dated 4 May 2001, 5-2002 dated 8 May 2002 an as a temporary measure by Rule 8-2008 (RESCINDED) dated 31 October 2008.

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 Rule.

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 Rule.

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[2]: 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 9[3]: 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 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.

[2] Amended by Article 1 of Rule 1-2001 dated 4 May 2001.
[3] Amended by Article 2 of Rule 1-2001 dated 4 May 2001.

Article 11[4]: 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 Rule.

The previous requirements shall not apply to:

1. Securities issued or guaranteed by the Panamanian State, nor to
2. 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 12[5]: 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 13[6]: Investments in Trading Securities. The initial accounting registry will be effected at the cost of acquisition, including all the expenses incurred in their acquisition.

4 Amended by Article 3 of Rule 1-2001 dated 4 May 2001.
5 Amended by Article 4 of Rule 1-2001 dated 4 May 2001.
6 Amended by Article 5 of Rule 1-2001 dated 4 May 2001.

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 14[7]: 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 polices, and shall apply it permanently to all investments in securities available for sale.

Article 15[8]: Investments in Securities to be held until Maturity. Investments in securities to be held until maturity shall be recorded in the accounts at their amortized cost. Investments in securities to be held until maturity must recognize interest earned each month and the amortization 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.

[7] Amended by Article 6 of Rule 1-2001 dated 4 May 2001.
[8] Amended by Article 7 of Rule 1-2001 dated 4 May 2001.

Article 16[9]: 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 16A[10]: Additional Provisions for Foreign Banks. For the effects of the provision mentioned in Article 16 of the present Rule, branches of Foreign Banks with General Licenses or International Licenses may certify that the said provision

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[9] Amended by Article 8 of Rule 1-2001 dated 4 May 2001.

[10] Added by Article 9 of Rule 1-2001 dated 4 May 2001.

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 17[11]: 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 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 unrealized gain or loss at the date of the transfer must have been recognized and may not be reversed;
b. If the investments in securities are transferred from any other category to the Trading Securities category, the unrealized gain or loss on the securities transferred shall be recognized 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 unrealized 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).

[11] Amended by Article 10 of Rule 1-2001 dated 4 May 2001.

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[12]: 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 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 Rules 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.

[12] Amended by Article 11 of Rule 1-2001 dated 4 May 2001.

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 Rule 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 Rule.

Article 26: Coming into Force. This Rule 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 Rule.

Article 28[13]. Presentation of the information. The Banks must deliver each month to the Superintendency, information that reflects the classification and provisions status of the loan portfolio. This information will allow the Superintendency to generate reports, including the ones contained in Attachment 1, and it must be sent within the first ten (10) working days of the month after the corresponding month's closing.

Issued in Panama City on the nineteenth (19th) day of the month of July two thousand (2000).

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[13] Added by Article 12 of Rule 1-2001 dated 4 May 2001. It was later modified by Article 2 of Rule 5-2002 dated 8 May 2002.