

Republic of Panama
Superintendency of Banks

AGREEMENT No. 6-2002
(of August 12, 2002)

THE BOARD OF DIRECTORS
in use of its legal faculty, and

WHEREAS

According to Numeral 1 of Article 5 of Law Decree No. 9 of February 26, 1998, it is a function of the Superintendency of Banks, to look after the maintenance of a solid and efficient banking system;

According to Numeral 4 of Article 16 of Law Decree No. 9 of February 26, 1998, this Board of Directors must approve the general classification criteria of the risk assets and the standards for the constitution of reserves for credit and market risk coverage;

According to Number 7 of Article 16 of Law Decree No. 9 of February 26, 1998, this Board of Directors must set, in the administrative level, the interpretation and scope of the legal or statutory provisions in banking matters;

Through Agreements 5-98 and 6-98 of October 14, 1998, the basis was established for the application of the capital customization requirement to the General License Banks and the International License Banks, respectively;

Through Agreement No. 6-2000, criteria were established for rating loans and the corresponding constitution of provisions that are applicable to the system's Banks;

Through Agreement No. 7-2000, the scope and interpretation of standards were established in reference to registering and classification security investments, and the corresponding constitution of provisions that are applicable to the system's Banks;

Through Agreement No. 5-2001, the scope and interpretation of standards were established in reference to market risk management; and

In working sessions of this Board of Directors, the need and convenience has been made evident of establishing the scope and interpretation in reference to the legal provisions for classification out of balance credit-based transactions, and the corresponding constitution of provisions,

AGREES:

ARTICLE 1: APPLICATION SCOPE. This Agreement will apply to the General License Banks, Official Banks, and the International License Banks.

ARTICLE 2: NOTION OF OUT OF BALANCE CREDIT TRANSACTIONS AND OTHER TRANSACTIONS. For the purpose of applying this Agreement, "Out of Balance Transactions" refers to those transactions that, although they do not appear inside the balance sheet, they must be reviewed in detail because they can expose the Bank to financial obligations that depend on future events or actions occurring in other places. Those transactions include, among others, the legally binding credit commitments, such as unused balances of contractual credit lines of irrevocable character, and overdraft lines, including unused balances of credit cards; commercial or contingent credit letters; shares in the financing of banking acceptances of other banks; revolving or non-revolving credit facilities of irrevocable character, for issuing financial debt instruments; prenegotiated commitments of security sales when they are issued; guarantees; securities; sale of loans with resources; and transactions with by-products.

ARTICLE 3: CLASSIFICATION. The contingent liabilities that could arise from out of balance credit-based transactions, including securities and guarantees, must be initially classify in one of the following categories:

Normal: The possibility that the contingency becomes a real liability is minimal, and the potentially obtainable assets are considered normal.

Special Mention: The possibility that the contingency becomes a real liability is not very probable, and the potentially obtainable assets are considered as having a special mention quality.

Subnormal: The possibility that the contingency becomes a real liability is very probable, and the potentially obtainable assets cannot be rated in a category above subnormal.

Doubtful: The possibility that the contingency becomes a real liability is very high, and the potentially obtainable assets are considered as being of doubtful quality.

Unrecoverable: The possibility that the contingency becomes a real liability is certain, and the potentially obtainable assets are considered unrecoverable.

The transactions initially rated as out of balance credit-based transactions must, in a period not greater than 90 days after the mentioned classification, be reserved and rerated according to the “estimated loss” for each transaction, in an analogous way as Agreement 6-2000 applies to the loan portfolio.

ARTICLE 4: SPECIFIC PROVISIONS. For the purpose of evaluating risks of loss in the transactions described in Article 3, the banks must estimate the appropriate specific provisions, in case it is necessary, to cover the losses in this type of credit-based contingency, including securities and guarantees. For this purpose, and in whatever is relevant, the requirements, controls, criteria, credit analysis procedures and factors, classification and provisions of funds by categories described in Agreements 6-2000 and 7-2000, will be applicable thereto.

The out of balance credit-based transaction portfolio will not be included for calculating the 1% minimum global provision to which Agreement 6-2000 makes reference.

The Superintendency of Banks reserves the right to impose the additional provisions, whenever they are needed.

ARTICLE 5: RISK LIMIT. The Banks must establish adequate exposure and concentration limits in their out of balance credit-based transactions. These transactions must also be properly included in the calculations of legal adequacy indicators that the Superintendency stipulates.

ARTICLE 6: CONCENTRATION LIMIT – SINGLE-PERSON LOANS AND TO RELATED PARTIES. For the measurement and proper fulfillment of the concentration limit for loans to single persons and to related parties, established in Articles 63 and 64 of Law Decree No. 9 of February 26, 1998, respectively, the Banks must take into account, not only the credit portfolio and the investment portfolio, but also the out of balance transactions.

ARTICLE 7. INFORMATION DISCLOSURE. The Banks must provide information that enables to obtain an exact and complete view on the risk profile of the out of balance transactions, as they are rated in Article 3, on the risk management practices, and the impact of losses on the Bank’s financial position and fulfillment. In its audited and non-audited periodic financial reports, the Bank must provide information in a clear and concise manner, on the following aspects:

a) Accounting Policies and Practices:

The Bank must provide information on the accounting policies and practices of its out of balance credit-based transactions, the deterioration of those transactions, despite of what is stated by the International Accounting Standards (IAN) or the United States Generally Accepted Accounting Principles (US-GAAP), and on the methods used to apply the policies pertaining to:

1. The measurement of the non-deteriorated transactions, at the time they are recognized;

2. The recognition of the income of the non-deteriorated transactions, including the interests and the commission and cost management;
3. The basis to write off transactions to losses and the accounting used for their recovery when appropriate;
4. When it stops accumulating interests and / or commissions on a transaction.

b) Risk Credit Management

The disclosed information must include information about the management and control policies and practices used by the Bank to mitigate the credit risk, such as policies and practices pertaining to:

1. The request and review of transactions and the guarantees on the principal;
2. The credit risk rating systems in the transactions;

c) Credit Risk Exposures

The Bank must reveal information on:

1. Transactions according to their type;
2. Transactions according to their term;
3. Transactions according to place of origin and destination;
4. The important concentrations of credit risk.

d) Credit Quality

The Bank must reveal information on:

1. The balances of credits derived from past due and matured out of balance transactions by main categories, and the amounts of the generic and specific reserves for each category.
2. The balances of transactions whose interest accumulation, according to the terms of the original loan contract, has been suspended due to deterioration of the credit quality or for failure to fulfill payment according to what is stated in this Agreement.
3. The summary of the problematic transactions that have been renegotiated during the year.

ARTICLE 8. PENALTIES FOR NON-COMPLIANCE. The Non-Compliance of this Agreement's provisions or the disrespect of the instructions given by the Superintendency pertaining to the provisions contained herein, will be penalized according to what is established in Article 137 of Law Decree No. 9 of February 26, 1998.

ARTICLE 9: VALIDITY. This Agreement will go into effect from the time of its proclamation.

ARTICLE 10. CLASSIFICATION AND PROVISION ADEQUACY TERM. The Banks will have a term that will end on March thirty one (31), two thousand three (2003) to classify their out of balance transactions, to make adjustments in the concentration limit and to complete the provisions required by this Agreement.

Given in the city of Panama, on the twelfth (12) day of the month of August of two thousand two (2002).

THE PRESIDENT

THE SECRETARY, a.i.

Jorge W. Altamirano-Duque M.

Rogelio Miró