

Republic of Panama
Superintendency of Banks

Agreement No. 2-2003
(of March 12, 2003)

THE BOARD OF DIRECTORS
In exercise of its legal faculties, and

WHEREAS:

Pursuant to Article 3 of Law No. 10 of January 30, 2002, "Whereby regulations are established relating to the microfinances system", the organization and management of Microfinances Banks (BMF – acronym from the Spanish Bancos de Microfinanzas), is authorized for financial enterprises which main objective is to channel micro and small borrowers' resources in urban and rural areas.

Pursuant to Article 4 of Law No. 10 of January 30, 2002, Microfinances Banks shall be regulated by the Superintendency of Banks, pursuant to Decree Law No. 9 of February 26, 1998 and regulatory provisions thereof;

Pursuant to Article 5 of Decree Law No. 9 of February 26, 1998, the Superintendency of Banks is responsible for maintaining the strength and efficiency of the banking system, and fostering the conditions conducive to Panama's development as an international financial center.

Pursuant to Number 7 of Article 16 of Decree Law No. 9 of February 26, 1998, the Board of Directors is responsible for determining the interpretation and scope of legal and regulatory banking provisions in the administrative realm;

Pursuant to Article 21 of Decree Law No. 9 of February 26, 1998, the necessary characteristics are established to authorize the Superintendency of Banks to issue the General License required for the exercise of banking activities; and

That in the course of joint work sessions of this Superintendency, there became evident the convenience of facilitating conditions for compliance with provisions of Law 10 of January 30, 2002.

AGREES:

Article 1: SCOPE OF APPLICATION. The provisions of this Agreement shall be applied to Microfinances Banks (BMF), pursuant to Law No. 10 of January 30, 2002, which scope of activity is limited to the national level of operation.

For the purposes of this Agreement, national level operation, shall be understood to cover all assets operations carried out in Microfinances Banks.

Article 2: ABOUT MICROFINANCES BANKS. For the purposes of this Agreement, Microfinances Banks are those guided by the principal objective of channeling the resources of micro and small businesses nationwide, which total loan portfolio is comprised of at least seventy five percent (75%) in personal guarantee credits not exceeding one percent (1%) of the net capital, and of real guarantee loans not exceeding three percent (3%) of the Banks net capital.

Article 3: DEFINITIONS: For the purposes of this Agreement, it shall be understood as:

1. **Microfinances System:** that which serves micro and small businesses through credits and other financial services, and is comprised by institutions assigning at least 75% of their loan portfolio to fostering, financing and promoting this sector.
2. **Microbusiness:** Natural or juridical person constituting an economic unit generating a gross annual income or billing of up to **Twenty Five Thousand Balboas (B/.25,000.00)**.

- 3. Small Business:** Natural or juridical person constituting an economic unit generating a gross annual income or billing ranging from **Twenty Five Thousand Balboas (B/.25,000.00) up to One Hundred Thousand Balboas (B/.100,000.00)**.

Article 4: ORGANIZATION OF MICROFINANCES BANKS. Microfinances Banks shall organized pursuant to Article 5 of Law No. 10 of January 30, 2002, as corporations with the principal objective as delineated in Article 2 of this Agreement, shall add the acronym BMF following their name, and shall have available for its incorporation a minimum paid-in capital stock equivalent to Three Million Balboas (B/.3,000,000.00).

Article 5: AUTHORIZATION FOR THE ORGANIZATION AND MANAGEMENT OF MICROFINANCES BANKS. Corporations intending to organize as a Microfinances Bank shall submit to the Superintendency of Banks the corresponding application for a General License, having complied with all minimum licensing requirements, attaching all essential documents pursuant to Law No. 10 of January 30, 2002.

Applying corporations shall carry the burden of proof of their Business Plan's compliance with objectives and specifications established in Law No. 10 of January 30, 2002 for Microfinances Banks.

Article 6: REORGANIZATION WITHIN MICROFINANCES BANKS. Existing banking institutions intending to convert to a Microfinances Bank shall make a formal application, through an Attorney or an Attorney Firm, to the Superintendency of Banks, with the following additional documents:

1. Power of Attorney.
2. Application legal brief.
3. Minutes of the Shareholders Meeting authorizing the conversion of the Bank into a Microfinances Bank.
4. Modifications to the Articles of Incorporation reflecting requirements pursuant to Law No. 10 of January 30, 2002 for Microfinances Banks.
5. Analysis of the Bank's loan portfolio, demonstrating the holding of at least seventy five percent (75%) in credits to micro and small businesses nationwide, with personal guarantees not exceeding one percent (1%) of its net capital, and in loans to micro and small businesses nationwide with real guarantees not exceeding three percent (3%) of the Bank's net capital, certified by External Auditors of the Bank.
6. The Bank's strategic plan.
7. Curriculum vitae of top executives verifying their experience in the Microfinancing field.

The loan portfolio certification issued by External Auditors shall be inspected by Superintendency staff.

The organization, credit and compliance manuals shall be made available to the Superintendency for review upon request.

Article 7: CLASSIFICATION OF LOAN ASSETS AND RESERVES. Microfinances Banks shall maintain a Credit Manual containing a well documented section on credit risk administration and control of loans, whereby the debtor's credit standing and the loan's impact are evaluated by specific and separate credit cycle phases: analysis, follow-up and recovery.

The loans classification shall consider criteria established in Article 7 of Agreement 6-2000 of June 28, 2000, establishing a minimum global reserve of one percent (1%) over the totality of the loan portfolio.

Specific provisions in the tables provided below shall be applied to the seventy five percent (75%) of the loan portfolio comprised of credits with personal guarantees not exceeding one percent (1%) of the net capital, and of loans with real guarantees not exceeding three percent (3%) of the net capital.

I. Loans not exceeding Two Thousand Balboas (B/.2,000.000) with personal guarantees.

Category	Delinquency	Provision
Subnormal	From 31 to 90 days	From 15% to 49%
Doubtful	From 91 to 180 days	From 50% to 99%
Unrecoverable	Over 180 days	100%

II. Loans exceeding Two Thousand Balboas (B/.2,000.000) with personal guarantees.

Category	Delinquency	Provision
Normal	Up to 30 days	0%
Special Remark	From 31 to 60 days	From 2% to 14%
Subnormal	From 61 to 90 days	From 15% to 49%
Doubtful	From 91 to 180 days	From 50% to 99%
Unrecoverable	Over 180 days	100%

III. Loans exceeding Two Thousand Balboas (B/.2,000.000) with real estate and automobile guarantees.

Category	Delinquency	Provision
Normal	Up to 30 days	0%
Special Remark	From 31 to 90 days	From 2% to 14%
Subnormal	From 91 to 180 days	From 15% to 49%
Doubtful	From 181 to 360 days	From 50% to 99%
Unrecoverable	Over 360 days	100%

*All provisions pursuant to Agreement 6-2000, not contrary to this Agreement, shall be applied to Microfinances Banks as they pertain to corresponding analyses and provisions.

Provisions pursuant to Agreement 6-2000, and well as all current legal requirements, shall be applied in their totality to the twenty five percent (25%) remainder of the portfolio not framed within the seventy five percent (75%) of the loan portfolio to micro and small businesses comprised of personal guarantee credits not exceeding one percent (1%) of the net capital, and of loans with real guarantees not exceeding three percent (3%) of the net capital.

Article 8: SUPERVISION. Pursuant to Article 4 of Law No. 10 of January 30, 2002, Microfinances Banks are subject to the supervision of the Superintendency of Banks.

Article 9: ADAPTATION AND WEIGHTED AVERAGE INDEX. Pursuant to authority vested on the Superintendency of Banks in Article 45 of Decree Law 9 of 1998, to increase the capital adaptation index if considered appropriate, Microfinances Banks shall maintain Capital Funds equivalent to a minimum of twelve percent (12%) of their total assets and out of balance operations, weighted according to their risks.

Article 10: LOANS TO LINKED PARTIES. Loans granted by Microfinances Banks to linked parties shall be approved by the Bank's Board of Directors and shall have a real guarantee covering 100% of the loan. The enforcement of Agreement 2-99 shall apply. Microfinances Banks shall comply with concentration limits pursuant to Decree Law No. 9 of 1998.

Article 11: Microfinances Banks shall comply with provisions of Decree Law No. 9 of February 26, 1998 and Superintendency of Banks Agreements, not in contravention of Law No. 10 of January 30, 2002.

Article 12: NONCOMPLIANCE WITH REQUIREMENTS. Noncompliance by Microfinances Banks with requirements set forth in this Agreement shall carry sanctions established in Article 137 of Decree Law No. 9 of February 26, 1998.

In the event of recurrent noncompliance on the part of the Bank with objectives and obligations set forth in Law No. 10 of January 30, 2002, Decree Law No. 9 of February 26, 1998 and this Agreement, the Superintendency of Banks may revoke the General License.

ARTICLE 13: This Agreement shall become effective upon its promulgation.

Given in the city of Panama, on the twelfth (12th) day of the month of March two thousand three (2003).

COMMUNICATE, PUBLISH AND ENFORCE:

THE PRESIDENT

Jorge W. Altamirano-Duque M.

THE SECRETARY

Joseph Fidanque, Jr.