Republic of Panama
Superintendency of Banks

AGREEMENT No. 002-2008
(of July 3, 2008)

"Whereby the general parameters are set for the valuation of guarantees for the coverage of credit risk"

THE BOARD OF DIRECTORS
using its legal authority, and

WHEREAS:

Pursuant to Numeral 1 of Article 5 of Decree Law No. 9 of February 26, 1998, the Superintendency of Banks is responsible for preserving the soundness and efficiency of the banking system.

Pursuant to Numeral 2 of Article 5 of Decree Law No. 9 of February 26, 1998, the Superintendency of Banks is responsible for strengthening and fostering auspicious conditions conducive to the development of Panama as an International Financial Center.

Pursuant to Numeral 3 of Article 5 of Decree Law No. 9 of 1998, the Superintendency of Banks is responsible for promoting public confidence in the banking system.

Pursuant to Numeral 7 of Article 16 of Decree Law No. 9 of February 26, 1998, the Board of Directors must set in the administrative realm, the interpretation and scope of the legal or regulatory provisions in banking matters.

The banking entities must keep in mind the need to identify, measure, monitor and control credit risk, as well as to determine that their capital is adequate to face those risks.

For the purposes of adequately hedging or offsetting the credit risk acquired by a banking entity, it is crucial to take into account the cash value of the collateral and, the bank's ability to liquidate it, having a constant valuation procedure for the collateral that ensures that it is, and continues to be, highly realizable.

In work sessions of this Board of Directors, the need and convenience has been made evident of setting the parameters and basic general guidelines regarding the uptake of guarantees for mitigating risk.

AGREES:

ARTICLE 1: APPLICATION SCOPE. The provisions of this Agreement will apply to Official Banks, General License Banks and International License Banks.

ARTICLE 2: DEFINITIONS. For the purposes of this Agreement, the following terms will be understood as follows:

1. **Collateral:** Asset placed as a guarantee for backing up a credit facility.

2. **Credit Derivative Instruments:** Contract designed to totally or partially assume or transfer the credit risk proceeding from a financial asset in exchange for a premium or a money flow during a time period equal to or less than the life of the mentioned financial asset.

3. **Guarantee Trust:** Trust constituted aiming to back up the compliance with an obligation in the event that it is not satisfied with timeliness by way of its sale, to allocate its product to pay the debt.

4. **Real Collateral:** The pledged security, mortgage and antichresis constituted on chattels, real estate or eligible financial collateral.

5. **Risk Mitigants:** They are limited to financial collateral, credit derivative instruments, real collateral or guarantee trusts comprised by transferable assets or goods with a minor risk of loss to absorb the risk of non-compliance with an obligation.

6. **Periodicity:** For the purposes of this Agreement, periodicity is defined when the instrument has estimates based on cash transactions and that trades at least 80% of the working days corresponding to one (1) year.

ARTICLE 3: GUARANTEES THAT ARE ELIGIBLE AS RISK MITIGANTS. Regardless of the guarantee or collateral received by the banking entity at the time of granting credit facilities (loans, debt instruments and placements), for the purposes of this Agreement, the only eligible guarantees deemed risk mitigants are financial collateral, credit derivative instruments, real collateral or guarantee trusts described in the following articles and when they observe the stated conditions.

The provisions of this Agreement do not keep the banks from backing up their credit assets with personal guarantees or any other good legitimately capable of being received as guarantee. Nevertheless, personal guarantees (securities or bonds) and, in general, all those that do not levy tangible goods, will not be considered guarantees that are eligible as risk mitigants, except for those documents mentioned in the following articles.

ARTICLE 4: RATINGS FOR GUARANTEES THAT ARE ELIGIBLE AS RISK MITIGANTS. For the purposes of this Agreement, the following will be considered guarantees that are eligible as risk mitigants:

1. **Real Mortgage Guarantee:**

   a. Mortgages on land and buildings, or other improvements.

2. **Personal Mortgage Guarantee:**

   a. Chattel mortgages constituted on cars for private use; chattel mortgages on cars intended for collective and selective transportation are explicitly excluded, as well as commercial fleets and any other chattel.

3. **Pawned Deposits:**

   a. Pawned deposits, placed in the same bank or in any other bank that totally or partially guarantee the balances of the credit operations.

4. **Pledged Securities:**

   a. Commercial pledged security on debt instruments issued by the Panamanian State, which are periodically traded in an active market, excluding CERPAN, labor benefit titles, CAT and tax credit.

   b. Commercial pledged security on sovereign debt instruments issued by other countries, as long as they have an international investment grade rating issued by a renown risk rating agency, and are periodically traded in a public market.

c. Commercial pledged security on fixed or variable revenue securities, including common and preferred stocks, issued by national or foreign private entities, other than the debtor of the secured obligation, that are periodically traded in a public market and have an international investment grade rating issued by a renowned risk rating agency.

d. Agrarian, livestock or commercial pledge on cattle or completely identifiable merchandise, protected by certification that the pledge is under the possession of the debtor or of a third party in his or her capacity as safekeeper o depositary; the bank must make sure that the safekeeper or depositary separates the collateral from his or her own assets and that he or she will be liable for its impairment or decrease. In the case of an agrarian pledged security, this certification's seniority cannot be greater than the corresponding productive cycle.

e. A pledge will not be accepted on future harvests or in gestation.

5. <u>Other Guarantees</u>:

a. Stand-by credit letters, guarantees, bonds or securities issued or confirmed by banking entities with a General License granted by this Superintendency of Banks and by insurance companies, as long as they are irrevocable and executable at the simple requirement of the banking or insurance entity in case that the debtor does not pay on the agreed-upon date, and that they are not issued by institutions that form part of the financial group to which the entity that granted the financing belongs.

b. Stand-by credit letters, guarantees, bonds or securities issued or confirmed by foreign banks that do not do banking in or from Panama and by insurance companies, as long as they have an international investment grade rating issued by a renown risk rating agency, as long as they are irrevocable and executable at the simple requirement of the banking entity in case that the debtor does not pay on the agreed-upon date, and that they are not issued by institutions that form part of the financial group to which the entity that granted the financing belongs.

c. Irrevocable export / import credit letters, issued or confirmed by a banking entity with a General License granted by this Superintendency of Banks, or by a foreign bank that does not do banking in or from Panama with an international investment grade rating issued by a renowned risk rating agency, which protects the export of a product from Panama, as long as they represent for the issuer an irrevocable and unconditional payment obligation, and that they are not issued by institutions that form part of the financial group to which the entity that granted the financing belongs.

d. Cession on promissory notes with direct discount on retirees and pensioners of the Social Security Agency, as long as they are rated in the standard portfolio category.

e. Guarantee Trusts on chattels and real property, money or securities, according to the nature and quality of the goods as described in this Article, as long as the bank that granted the financing is the beneficiary and does not act as trustee, in which case the financing must be posted in the banking entity's balance sheet.

f. Credit derivative instruments subject to the previous approval of the Superintendency of Banks for guarantees that are eligible as risk mitigants.

g. Other guarantees that the Superintendency authorizes as risk mitigants.

PROVISO: Pursuant to what is stipulated by literals "a" and "b" of this article, in the cases of bonds and guarantees issued by insurance companies, they must have a risk rating issued by a risk rating agency.

ARTICLE 5: FORMALITIES. All the guarantees that are eligible as risk mitigants must be legally constituted and perfected in favor of the banking entity that granted the financing and, whenever applicable, they must have insurance policies in force, issued or endorsed in favor of the bank, such that the insurance company with risk rating guarantees the payment of the coverage at the time of the damage. The guarantees that are eligible as risk mitigants must allow the creditor banking institution to directly exercise the legal actions to pay itself at their expense in case of non-compliance.

The banking entity must ensure that the pawning contract allows, in case of non-compliance, the unconditional and immediate payment of the total balance owed against the deposits pledged in favor of the bank.

ARTICLE 6: VALUATION OF THE GUARANTEES THAT ARE ELIGIBLE AS RISK MITIGANTS. At the time that the banking entities appraise the pledged goods as risk mitigants, they must use as base the values that are predominant in the market. The entities that grant the financing must use a strictly conservative criterion, in the sense of calculating the liquidation value to be attained when alienating the referred goods. Said valuation must be made according to what type of good it is, as described below:

1. Mortgage Guarantee on Real Property.

a. The valuation of the real estate mortgage guarantee must be backed up by an appraisal of the pledged good, made by an expert other than the debtor and acceptable to the creditor. The banking entities must keep in the respective file the duly updated appraisal, as we detail later.

b. In the case of loans granted for the purchase of new housing in projects completely finished by the promoter, whichever is less of the sale or market value of the real property will be taken, for the purposes of the valuation of the real property.

c. The valuation of the real estate mortgage guarantee must be done every two (2) years for corporate loans, every five (5) years for housing loans, and every ten (10) years for preferred interest housing loans, both on the date of the original appraisal or the date of sale.

   Any refinancing must be accompanied by an appraisal acceptable to the creditor.

   In those cases wherein the bank has determined that the loan guarantee has been impaired, the valuation must be performed immediately.

d. When dealing with interim construction loans, secured by the land and the value of the built-in improvements, the value of the land will be considered first and the guarantee value will be increased considering the progress of the work in construction, certified in writing by the inspector of the work other than the debtor or the constructor and acceptable to the creditor.

e. Preference in the allotment of the value of the mortgaged goods:

   Only mortgages of second degree or higher degrees will be accepted as risk mitigants, when the previous ones are registered in favor of the banking entity that grants the financing or of any of the companies of its economic group. The residual value of the guarantee must cover all the financing. The residual value is considered the result of subtracting from the market value set by the most recent appraisal, the sum of the balances of the credits secured by the previous mortgages.

2. Mortgage Guarantee on Chattels:

a. The valuation of the mortgage guarantee on chattels will be the equivalent to the value contracted with the insurer.

3. Pawned Deposits:

a. The pawned deposits will be taken at the value of the balance of the obligation they guarantee.

4. Pledged Securities:

a. The sovereign debt, as well as the financial instruments of commercial and state entities, will be valued on a monthly basis at the market price.

b. The valuation of the agrarian, livestock or commercial pledged security on cattle must be backed up by an appraisal or certification of the value of the pledged good, performed by persons other than the debtor and acceptable to the creditor.

c. In the case of an agrarian and livestock pledge, second rate pledges will not be allowed.

5. Other Guarantees:

a. Stand-by credit letters, guarantees, bonds or securities, as well as irrevocable export credit letters issued by banking entities, insurance and reinsurance companies, the cession of promissory notes with direct discount and the guarantee trusts mentioned in Numeral 5 of Article 2 of this Agreement will be taken at the value of the balance of the credit obligation they guarantee.

b. Promissory notes with direct discount on retirees and pensioners of the Social Security Agency will be taken at the value of the balance of the credit obligation they guarantee.

c. The credit derivative instruments will be considered at the value that the Superintendency determines by previous approval.

ARTICLE 7: MAXIMUM VALUE APPLICABLE TO GUARANTEES THAT ARE ELIGIBLE AS RISK MITIGANTS. At all times, the maximum value applicable to guarantees that are eligible as risk mitigants will be the following:

Guarantees Eligible As Risk Mitigants	***Maximum Value Applicable***
1. Pawned deposits	At all times, 100% of the secured sum
2. Fixed or variable revenue securities	At all times, 90% of the instrument's public reference market price
3. Sovereign debt	At all times, 90% of the instrument's public reference market price
4. Stand-by credit letters, guarantees, bonds, securities and irrevocable export / import credit letters issued by banking entities	At all times, 90% of its face value
5. Cession of promissory notes with direct discount on retirees and pensioners of the Social Security Agency	At all times, 85% of the value of the promissory note's balance

6. Credit derivative instruments	They will be defined in the previous approval pursuant to the underlying percentage that hedges the derivative instrument.	
7. Residential Real Estate (Preferred)	Standard Category	90% of the last appraisal's market value
	Special Mention Category	90% of the last appraisal's market value
	Sub-Standard Category	90% of the last appraisal's market value
	Doubtful Category	75% of the last appraisal's market value
	Uncollectable Category	60% of the last appraisal's market value
8. Residential Real Estate (Non-Preferred)	Standard Category	80% of the last appraisal's market value
	Special Mention Category	80% of the last appraisal's market value
	Sub-Standard Category	80% of the last appraisal's market value
	Doubtful Category	75% of the last appraisal's market value
	Uncollectable Category	60% of the last appraisal's market value
9. Corporate Real Estate	Standard Category	60% of the last appraisal's market value
	Special Mention Category	60% of the last appraisal's market value
	Sub-Standard Category	60% of the last appraisal's market value
	Doubtful Category	20% of the last appraisal's market value
	Uncollectable Category	20% of the last appraisal's market value
10. Real Estate (Land used exclusively for farming and stockbreeding)	Standard Category	75% of the last appraisal's market value
	Special Mention Category	75% of the last appraisal's market value
	Sub-Standard Category	75% of the last appraisal's market value
	Doubtful Category	75% of the last appraisal's market value
	Uncollectable Category	75% of the last appraisal's market value
11. Chattels	Standard Category	80% of the car's value according to the last valuation
	Special Mention Category	78% of the car's value according to the last valuation
	Sub-Standard Category	65% of the car's value according to the last valuation
	Doubtful Category	40% of the car's value according to the last valuation
	Uncollectable	20% of the car's value

	Category	according to the last valuation
12. Cattle and completely identifiable agrarian merchandise	Standard Category	75% of the good's value according to the last valuation
	Special Mention Category	65% of the good's value according to the last valuation
	Sub-Standard Category	50% of the good's value according to the last valuation
	Doubtful Category	40% of the good's value according to the last valuation
	Uncollectable Category	40% of the good's value according to the last valuation

ARTICLE 8: INFORMATION REGARDING GUARANTEES. In the case of credit assets with real collateral constituted on chattels or real estate, the banking entities must keep, at least, the following documentation in their respective files:

a. Title or ownership certificate of the judicial decree issued by the Municipality.

b. Ownership certificate issued by the Public Registry of Panama, wherein there is evidence of any lien or limitation on the estate.

c. The appraisals and their update reports.

d. Photocopy of the insurance policies in force, with the conditions and coverage required, when they proceed.

e. Reports of the inspections made periodically to the real collateral received by the banking entity for loans rated in any category, as well as for those with extensions or refinancing.

ARTICLE 9: APPRAISER COMPANIES. The banks must set and apply policies and procedures that ensure that they adequately know the appraiser companies hired and the methodologies they use at the time of determining the value of the goods object of guarantee, whether they are chattels or real estate.

ARTICLE 10: SANCTIONS. In case of breach of the provisions stipulated in this Agreement, the sanctions stipulated in Article 137 of Decree Law No. 9 of 1998 will be applied.

ARTICLE 11: EFFECT. This Agreement will be in force ninety (90) days after it is proclaimed.

Given in the city of Panama, on the third (3rd) day of the month of June of two thousand eight (2008).

TO BE RELEASED, PUBLISHED AND FULFILLED.

THE CHAIRMAN,	**THE SECRETARY,**
Felix B. Maduro	Jorge W. Altamirano-Duque