

TRANSLATION

SOLE TEXT

Law 4 dated 17 May 1994

Whereby the preferential interest rate regime for the agriculture sector is established and other measures are taken

Amended by means of Law 25 of 1994, Law 28 of 1995; Law 56 of 1995, Law 58 of 1995, Law 64 of 1996, Law 33 of 2000, Law 6 of 2005, Law 2 of 2007, Law 49 of 2009, Law 69 of 2009, Law 110 of 2013, Law 15 of 2015, and Law 46 dated 16 June 2017.

THE NATIONAL ASSEMBLY

DECREES:

Article 1. Domestic loans for qualified agriculture sector and agro-industrial sector exporters of non-traditional products shall be entitled to a discount on the interest rate agreed to with the bank or lending entity, which will be reimbursed when applying the withholding made by banks and finance entities as provided by the law.

To be entitled to these discounts, the loans will be subject to the following conditions:

1. Maximum amount per productive cycle per item: five hundred thousand balboas (B/.500,000.00), except for those loans granted to agricultural production associations.

For those activities of the qualified agriculture sector whose production cycle cannot be determined due to their nature, the period will be understood to be one year.

2. Beneficiaries: individuals and legal entities serving as agricultural producers and producers and processors of national sea salt¹.
3. Activities and purposes: those stated in Article 6.
4. Number of operations: only one loan per production cycle per item per individual or legal entity.
5. Sanctions: non-compliance with the conditions herein will result in the sanctions established in Article 7.

¹ Amended by means of Article 1 of Law 46 dated 16 June 2017.

TRANSLATION

Loans granted by banks and finance entities to the Banco de Desarrollo Agropecuario (Agricultural Development Bank) will be entitled to the interest rate discount established in this article.

Article 2. Interest rates for domestic personal and commercial loans greater than five thousand balboas (B/.5,000.00), granted by banks and finance entities as of the enactment of this Law, will include and withhold an annual amount equal to 1% of the base amount used for calculating the interest rate. The same withholding will be applied to factoring contracts, except that the 1% withholding will be applied to the total amount of the invoice transferred by the grantor to the finance entity.

Fifty percent (50%) of these amounts will be given to the National Treasury to pay for the preferential interest rate prescribed for the preferential mortgage loans referred to in subparagraph e of Article 2 of Law 3 of 1985; 12.5% will be remitted to the Banco de Desarrollo Agropecuario (Agricultural Development Bank); 12.5% to the Ministry of Agriculture; 5% to the Agricultural Insurance Institute and the remaining 20% to the Special Interest Compensation Fund to be administered by the Superintendency of Banks of Panama.

Excluded from the surcharge in this article equivalent to 1% are:

1. Loans granted to cooperative associations granting loans to their members and to agricultural production association groups recognized by Law 17 of 1997.
2. Interbank loans, loans secured with bank deposits, external loans, financing through the issuance of bonds and securities duly registered with the Superintendency of the Securities Market, as well as loans granted to finance entities regulated by Law 42 of 2001. This Law affects loans secured with bank deposits made before the enactment of Law 49 of 2009, and banks are ordered to return the Special Interest Compensation Fund rate applied as of 18 September 2009 on loans secured with bank deposits.
3. Loans granted to companies engaged in operating credit card systems, as long as these funds are for direct financing that will subsequently be subject to the withholding.
4. Loans granted to retirees, pensioners or the elderly, as defined by Law, when those loans are paid by direct discount from their pensions or are secured by mortgages

TRANSLATION

- and/or antiretic charges on properties occupied by those borrowers as their primary residence.
5. Loans agreed to as automatic loans on life insurance policies secured with the actuarial or cancellation value of the product and used to pay the premiums on this insurance policy to avoid its premature cancellation.
 6. Loans, lines of credit or factoring agreements aimed at partially or totally financing the execution of Government contracts awarded to contractors for work, property and/or services, as long as the Ministry of Economy and Finance requires it, agrees that they are in full compliance with Law 34 of 2008 on Fiscal Social Responsibility and confirms that the project represents social interests. This exemption will be applicable only in cases in which the contractor receives the funding. The Ministry of Economy and Finance reserves the right to reject it if the funding does not conform to the usual terms and conditions agreed to in the Republic of Panama on financings having similar characteristics.
 7. Factoring contracts in the amount of up to five thousand balboas (B/.5,000.00) entered into by and between micro, small and medium enterprises duly registered with the Authority for the Micro, Small and Medium Enterprise, as long as they can verify their eligibility.

PROVISO 1: After creating the necessary technical reserves, the Superintendency of Banks will send the remaining funds to programs to promote the production and the modernization of agricultural activity. The Ministry of Agriculture will hold 75% and the cooperatives of agricultural credit the remaining 25%, provided as loans at an annual interest rate of 1% under the terms and conditions these entities agree on with the Superintendency of Banks.

Payments made to current loans granted to the Banco de Desarrollo Agropecuario (Agricultural Development Bank) and granted by the Superintendency of Banks before the enactment of this Law will also go through the Ministry of Agriculture, as long as there is a surplus in the technical reserve created by the Superintendency of Banks.

PROVISO 2: The application of this Law will be determined by a committee consisting of the Minister of Economy and Finance, the Minister of Agriculture and the Superintendent of Banks or by the persons appointed by them.

TRANSLATION

PROVISO 3: The funds in the Special Interest Compensation Fund on 31 December 2008 that are not required for the technical reserves of the Special Interest Compensation Fund will be automatically transferred to the National Treasury upon the enactment of this Law. The funds remaining at the end of July and December of each year and not required for the technical reserves of the Interest Compensation Fund will be transferred to the National Treasury by the Superintendency of Banks within ten days of the month following the period in question, with a report substantiating the relevant technical reserves.

Article 3. The Special Interest Compensation Fund will guarantee the functioning of the benefits established in this Law.

FECI will have the necessary technical and administrative staff for the efficient execution of its functions. Administration and oversight expenses will be covered from its own resources.

Article 4. For the purposes of this Law, the duties and powers of the Superintendency of Banks are:

1. Comply with the instructions and decisions made by the committee established pursuant to Proviso 2 of Article 2.
2. Order the creation of the necessary technical reserves, which may be maintained as time deposits in Banco Nacional de Panamá.
3. Arrange loans for the Banco de Desarrollo Agropecuario (Agricultural Development Bank) and agricultural credit unions referred to herein.
4. Require banks, finance entities and borrowers to provide the necessary information to verify the correct application of the legal and regulatory provisions, in the manner and on the schedule it may determine.
5. Verify that the banks, finance entities and borrowers are in full compliance with this Law and its regulatory provisions.
6. Appoint FECI administrative and oversight staff, list their duties and fix their remuneration. Designate personnel authorized to sign for the FECI account.

TRANSLATION

7. Impose sanctions established herein. Requests for reconsideration and appeals can be made to the Superintendency of Banks, as well as through the relevant contentious-administrative processes.
8. Fix the amount of the specific interest rate discount referred to in Article 1 herein.
9. Fix the maximum interest and reference rates for the practical application of the discount and reimbursement referred to in Article 1 herein.

Until the committee has made a decision or provided instructions, the Superintendency of Banks will continue implementing the policies previously established by the institution for the management of the Special Interest Compensation Fund.

The duties and powers herein are only applicable for the management of the Special Interest Compensation Fund.

It is understood that the Superintendency of Banks holds the duties and powers prescribed in the relevant laws governing its functioning.

Article 5. For loans subject to the preferential interest rate, banks and finance entities will require a customer affidavit on his use of the funds granted with this benefit.

The consignment of false information will make those responsible punishable by the sanctions established in Article 7.

Article 6. The following activities qualify to receive the interest rate discount referred to in Article 1 for the purposes below:

ACTIVITIES:

1. Agriculture;
2. Livestock:
 - 2.1. Cattle: Breeding, fattening and dairy;
 - 2.2. Swine, sheep and goats;
3. Poultry farming;
4. Fish farming;
5. Forestry and reforestation;
6. Beekeeping;

TRANSLATION

7. Production and processing of national sea salt²;
8. Agroindustry for exporting non-traditional products;
9. Artisanal fisheries.

PURPOSES:

1. Purchase of raw materials:
 - 1.1. Capital goods;
 - 1.2. Workforce;
 - 1.3. Raw materials;
 - 1.4. Others;
2. Planting and farming;
3. Enhancement of production facilities;
4. Purchase of livestock;
5. Purchase of land destined exclusively to the above activities and zoning to carry out those activities.

Article 7. Infractions of the provisions herein will be penalized by a fine between five thousand balboas (B/.5,000.00) and twenty-five thousand balboas (B/.25,000.00), depending on the seriousness of the infraction.

The offender will be required to consign the total amount that should have been withheld plus the interest corresponding to the domestic market rate in the Special Interest Compensation Fund.

The Superintendency of Banks is the competent authority for imposing the penalties established herein.

The penalties collected will be deposited in the Special Interest Compensation Fund.

Article 8. For the application of Article 2, the following are considered domestic commercial and personal loans:

1. New loans granted within the national territory, including international trade areas owned or operated by the Colon Free Zone or any other free trade zone or area

² Amended by Article 2 of Law 46 dated 16 June 2017.

TRANSLATION

established or to be established in the future, as of the enactment of this Law. Development regimes granted by means of international bidding are excluded.

2. All loan extensions, payment arrangements, refinancing and renewals in effect when the Law enters into effect.
3. Customer's partial use of a line of credit within a defined or undefined term.
4. Daily balances or average of overdrafts on current accounts.
5. All other cases to be specified by the Superintendency of Banks within the powers granted by this Law.

PROVISO: The original rate will be maintained on personal and commercial loans that are subject to withholding at the time of the enactment of this Law.

Article 9. Personal and commercial loans granted to retirees, pensioners or the elderly favored with the benefits established in Law 6 dated 16 June 1987 are exempt from the application of Article 8.

Withholding on loans granted jointly and severally will be applied only if all joint debtors meet the age or conditions required by Law 6 dated 16 June 1987, except in cases of spouses who are joint co-debtors. Under these circumstances, the exemption is applicable when one of them meets the age or conditions.

In cases of several loans granted jointly, the application of the withholding will proceed only when the debtors meet the age or conditions required by Law 6 dated 16 June 1987 proportionate to the quota belonging to the benefitted borrower and in favor of that borrower.

Personal and commercial loans granted to microenterprises, be they individuals or legal entities, will also be exempt as long as they provide a certification issued by the Authority verifying they are registered in the Authority's commercial registry.

The funds granted as loans pursuant to the provisions of the above paragraph must be fully invested in the ordinary course of business.

Article 10. For the purposes of this Law and its regulatory provisions, the following definitions will apply:

TRANSLATION

1. *Banks.* Entities holding banking licenses issued by the Superintendency of Banks of Panama.
2. *Finance entities.* Individuals or legal entities that usually operate credit concession systems of money originating interest, expressly including agricultural credit cooperatives and the Banco Agropecuario Nacional (Agricultural Development Bank).
3. *Loan.* Any granting of credit facilities to any individual or legal entity.
4. *Personal and commercial loans.* Those loans to sectors other than the agricultural, industrial, household, nonprofit entity and public sectors.
5. *Domestic Market Interest Rate (DMIR).* The rate resulting from adding a margin to the 6-month Libor rate that will be fixed every six months by the Superintendency of Banks of Panama.
6. *Preferential Interest Rate (PIR).* The rate resulting from applying the discount fixed by the Law to the domestic market interest rate (DMIR).

Article 11. The Executive Branch, through the Ministry of Planning and Economic Policy and after consulting the Ministry of Agriculture, will regulate this Law, especially, the conditions under which loans will be the subject of interest rate withholding or discount, taking into consideration money market conditions and the needs of the affected sectors, as well as the amount and terms of the loan and the activity, purpose and region

Article 12. This Law replaces Law 20 dated 9 July 1980 (revised by Law 28 dated 15 December 1983 and Law 36 dated 8 November 1984, and amended by Law 23 dated 30 July 1991) and Articles 1, 2 and 7 of Executive Decree 18 dated 2 July 1993; and derogates any provision contrary to it.

Article 13. This Law shall become effective upon its enactment.

TRANSLATION

FOR COMMUNICATION AND ENFORCEMENT.

Sole Text of Law 4 dated 17 May 21994, ordered by Article 7 of Law 15 dated 21 April 2015.

The President,

Ruben De Leon Sanchez

The Secretary General,

Franz O. Wever Z.