



Republica de Panamá
SUPERINTENDENCIA DE BANCOS

AGREEMENT No. 4-2001
(of September 5 of 2001)

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

WHEREAS:

According to Numeral 2 of ARTICLE 5 of Law Decree No. 9 of 26 February 1998, the task of to strengthening and fostering suitable conditions for the development of Panama as an international financial center pertains this Superintendency of Banks;

According to Numeral 3 of same ARTICLE 5, the task of fostering public confidence in the banking system pertains this Superintendency;

The objectives stated in the previous paragraphs can be fulfilled through the promotion of safe and sound banking practices, leading to an efficient decision-making process, providing adequate incentives for the Board of Directors and Senior Management to focus toward objectives for the benefit of the Bank, its depositors, its shareholders and other stakeholders, and may encourage the Banks to use their resources more efficiently;

To these effects, by means of this Agreement the Superintendency of Banks, with regard to the foundation of good Corporate Governance, the structure and responsibilities of the Board of Directors and the relationship between the Board of Directors and the Senior Management; considers it necessary to establish guidelines in order to enable the Banks to be adequately structured within good and safe banking practices; and so they also be incorporate within standards pursuant to which the Superintendency of Banks will base the evaluations of each bank's management. Furthermore, with regard to to internal control issues, the Superintendency of Banks considers it necessary to establish compulsory requirements on Banks, by means of this Agreement;

Through this Agreement the Superintendency of Banks will demand from the Banks a clear internal control structure, which will provide this institution with an adequate supervisory tool for verifying the existence of an appropriate environment for internal control in the Banks. Besides, a clear structure contributes to provide explicit guides to the Board of Directors and the management of the Bank on their responsibilities, reducing in this way the operational risk,

Consequently, in work meetings of this Board of Directors with the Superintendent of Banks, the need and convenience of adopting measures to optimize the Corporate Governance in Banks have been made evident.

AGREES:

ARTICLE 1. SCOPE OF ITS APPLICATION. The provisions of this Agreement will be applicable to Official Banks, General License Banks and International License Banks.

In the case of Official Banks, the provisions of this Agreement will apply to the extent that they are not contrary to the legal and regulatory provisions prevailing for said institutions.

In the case of Banks being branches of foreign Banks, the compliance of this Agreement could be evidenced when relevant, by an annual certification from their Parent Bank stating that the branch has the structure, organization and controls to ensure a Corporate Governance adjusted to the good banking practices.

ARTICLE 2. DEFINITION OF CORPORATE GOVERNANCE. For the effects of this Agreement, Corporate Governance will be understood as the group of rules that govern with transparency the relationship and behavior between the Senior Management of the Bank, its Board of Directors, its shareholders, its depositors and any other stakeholder, which produces the strategic objectives of the enterprise, the means, resources and procedures to attain these objectives, as well as the system for the verification of the monitoring of responsibilities and controls corresponding to each level of the Bank's structure.

ARTICLE 3. MINIMUM REQUIREMENTS FOR CORPORATE GOVERNANCE. The Banks will manage their business with the participation of Corporate Governance that will include at least:

- a) Documents stating clearly the corporate values, strategic objectives, codes of conduct and other appropriate standards of behavior;
- b) Documents stating clearly the system to ensure the compliance of the subject stated in previous point ordinal, and its communication to all levels of the Bank organization.
- c) A balanced corporate strategy, in regard to which the global fulfillment of the Bank and the contribution of each level of the Corporate Governance structure may be measured;
- d) A clear assignment of responsibilities and of authorities entitled for decisions making, incorporating the necessary individual qualification to exercise those and a hierarchic line for approvals required in all the levels of the Corporate Governance structure up to the Board of Directors;
- e) Setting up of a mechanism for interaction and cooperation between the Board of Directors, the Senior Management and the internal and external auditors;
- f) Adequate control systems including the risk management duties independent of the business lines and other balance and counterbalance;
- g) Previous approval, follow up and special supervision of the risk exposures, particularly with regard to credit facilities and investments and under good banking practice criteria, where conflicts of interest are obviously high, including all business relationships with persons that may be related parties of the Bank or part of their economic group, principal shareholders, Senior Management or other key employees authorized to make important decisions within the Bank;
- h) Documents containing information about the recruitment policy, induction and continual training of staff, financial and administrative incentives offered to the Senior Management, the business lines management and other employees so that they behave adequately and focussing on the best interests of the Bank, such as

remuneration policy, executive compensations, stock options on the Bank or its holding company, promotions and other rewards;

- i) Appropriate flows of internal and public oriented information, guarantying the system transparency of the Corporate Governance, at least in the following areas:
 - i. Board of Directors structure (size, membership, credentials and committees);
 - ii. Structure of general management (responsibilities, hierarchic lines, credentials and experience),
 - iii. Structure of the basic organization (business line structure, legal structure of the Bank, holding company and economic group);
 - iv. Nature and extension of transactions with related parts and members of the economic group of the Bank.
- j) Direct supervision system by each member of the hierarchic levels of the organizational structure over the immediate hierarchic subordinate, including duties not involved with the daily operations of the Bank; and
- k) Internal and external auditing independent from Senior Management;

ARTICLE 4. DEFINITION OF INTERNAL CONTROL SYSTEM. For the effects of this Agreement, internal control system will be understood as the procedures through which the Board of Directors, the Senior Management and other employees will comply and confirm the execution of the goals and objectives of the Bank, the trustfulness of the financial and administrative reports for internal use, of the Superintendency or to the public, and observance of policies, plans, rules and internal procedures at all levels of its organizational structure.

ARTICLE 5. PARTICIPANTS OF THE INTERNAL CONTROL SYSTEM. The internal control system involves the Board of Directors members, Managers and employees in general being part of the Bank, so that the participation of each one of them shall be clearly stated in the organizational and duties manuals, policies and procedures, risk control and other regulations of similar nature established by the Bank.

ARTICLE 6. MINIMUM REQUIREMENTS OF THE INTERNAL CONTROL SYSTEM. All Banks shall set up an internal control system adequate to the nature, the complexity and the risks inherent to their business, which shall be periodically reviewed and adapted to the changes and needs of their surroundings. The internal control system will hold minimum the following:

- a. An organizational and administrative system corresponding to the establishment of an adequate organizational and administrative structure defining clearly the obligations, responsibilities and the degree of dependency and interrelation existing between the operational and administrative areas which shall be contained in the corresponding organization and duties manual. This system shall consider an adequate segregation of the activities attributed to the members of the institution so as to avoid, among others, the conflict of interests, as well as to foresee the means to minimize and adequately control areas identified as of potential conflict;
- b. A system of risk control corresponding to the mechanisms set in the Bank for identification, control and administration of the potential risks to be experienced by the Bank, the consolidated organization and its economic group. This system shall refer to external as well as internal risks of the Bank and will include the permanent evaluation of the mechanisms and control activities, and also the corrective actions or improvements required depending on the case;
- c. A monitoring system for the activities developed, in order to be able to evaluate whether the institutional objectives are being reached, if the limits set and the applicable laws and regulations are in being complied with and to ensure that any exceptions and significant detours can be promptly informed to the Senior Management and the Board of Directors, and corrected as the case might be.
- d. A reliable and timely information system with regard to matters such as finance, operations, administration and compliance, and information of market of events and conditions relevant to decisions making, and corresponding to the mechanisms assigned to the elaboration and exchange of information, internal as well as external, necessary to develop, administrate, verify and control the operations, the banking activities and the resources of the Bank. This system shall also include actions to be taken in order to communicate the responsibilities corresponding to the different management levels and the staff regarding the control of their activities, as well as the remittance of information to the regulatory entities about the Bank operations and about the development of the control system; and

- e. Policies and procedures for the use of the information systems guarantying their applicability, including security measures and contingency plans to preserve the confidentiality and integrity of the information transmitted and/or stored in the data basis.

ARTICLE 7. MONITORING OF THE INTERNAL CONTROL SYSTEM. The internal audit unit of the Bank is responsible for the permanent evaluation and monitoring of the internal control system. The internal audit unit will depend administratively from the Board of Directors, through its Audit Committee, which shall meet regularly, will be operationally independent and shall have the powers required to evaluate compliance of the management policies for the risks where the Bank is exposed, both as a individual and as a consolidated organization, that could lessen the success of the Bank objectives.

In the case of branches and subsidiaries of Foreign Banks holding a General or an International License, the internal audit task could be conducted by the internal audit unit of its parent bank abroad or of the corresponding regional office.

In addition to the reports that the internal audit unit is to present within its continual and permanent tasks on situations related to the internal control in the institution, this one shall present to the Board of Directors or the Audit Committee and to the Senior Management, at least each semester, reports on the global situation of the internal controls, containing at least:

- a) The conclusions of the tests carried out;
- b) The recommendations on eventual deficiencies, by means of a schedule for their redress; and
- c) The report from the responsible individuals for the corresponding areas with reference to the deficiencies found in previous verifications and the measures adopted effectively for their redress.

For their part, the external auditors will evaluate the internal control system of the Bank at least once a year. In both cases, the aforementioned evaluations must be effected according to the provisions expressed by the Superintendency and the International Auditing Standards.

ARTICLE 8. IDENTIFICATION OF DEFICIENCIES OF THE INTERNAL CONTROL SYSTEM.

The deficiencies of the internal control system identified by any of the Bank's divisions shall be promptly reported to the internal audit unit and to the appropriate management level, in order to adopt the corresponding correction measures.

ARTICLE 9. MEMBERS OF THE BOARD OF DIRECTORS. The Board of Directors of the Bank shall be integrated by at least seven (7) individuals, who shall possess the knowledge or experience relevant to the operations and/or the risks inherent to the banking activities. Most of the Directors shall be individuals without participation in the daily administrative management of the Bank and whose participation would not present any material ethic conflicts or conflicts of interest. Consequently, the minority of members of the Board of Directors may be comprised by the General Manager, the Operations Manager and/or the Finance Manager or their equivalent, none of whom shall chair.

Directors participating within a specific committee of the Board of Directors shall possess a specialized knowledge or the relevant experience in the corresponding area.

The Board of Directors shall meet at least once (1) every three (3) months and the subjects discussed during these meetings must be duly and well recorded in writing in the Minutes Book of the Board of Directors or through electronic means, provided that the latter have the same legal force.

The presence of a majority of directors not involved in the daily management of the Bank shall constitute *quorum* in the Board of Directors' meetings.

ARTICLE 10. RESPONSIBILITIES OF THE BOARD OF DIRECTORS. The Board of Directors is responsible for the establishment and maintenance of an effective internal control system in the Bank and to ensure the existence of generally adequate working conditions for the execution of the tasks assigned to each level of the staff. The Board of Directors is also responsible, in coordination with the Senior Management, for the promotion of high ethic and integrity standards; as well as for the establishment of an organizational culture clearly emphasizing to the whole staff the importance of an internal control process, on each one's role in the Bank and to be fully integrated into it.

In order to comply with its responsibilities, the Board of Directors shall fulfill at least the following duties:

- a) To approve and review periodically the business strategies and other important policies of the Bank;
- b) To appreciate and understand the main risks exposures of the Bank, setting reasonable limits and procedures for such risks and to ensure that the Senior Management adopts the measures required for their identification, assessment, supervision and control;
- c) To keep the Superintendency informed about the situations, events and problems affecting or that may affect the bank and the specific actions to face and/or correct the deficiencies identified
- d) To be duly informed and ensure its access to all the information required about the conditions and administrative policies for decision making, in the exercise of their executive and supervisory duties;

- e) To approve the organizational structure and to ensure that the Senior Management checks the effectiveness of the internal control system;
- f) To establish and review at least once (1) a year the objectives and procedures of the internal control system; to approve the organizational and duties manuals, policies and procedures, risks control and other Bank's manuals where these are stipulated, as well as the incentives, penalties and corrective measures promoting the adequate execution of the internal control system, and systematically check their compliance;
- g) To select and evaluate the General Manager and the personnel responsible for the external and internal audit duties, and
- h) To approve the internal and external audit program and review the non-audited Financial Statements of the Bank at least once (1) each three (3) months.

ARTICLE 11. AUDIT COMMITTEE. The Board of Directors of the Banks shall constitute an internal audit committee, who will ensure the fulfillment of the duties stated in Article 13 of this Agreement.

ARTICLE 12. STRUCTURE OF THE AUDIT COMMITTEE. The Audit Committee shall be integrated by members of the Board of Directors without participation in the daily management of the Bank.

The members of the Audit Committee shall possess the required knowledge and experience for the adequate compliance of their duties.

ARTICLE 13. AUDIT COMMITTEE DUTIES. The Audit Committee has the duty to keep informed the Board of Directors on the following subjects:

- a. The supervision of the correct execution of the internal control system and of compliance with the internal and external audit programs, through internal policies and procedures for the detection of problems with control and internal administration; as well as of the corrective measures implemented, based on the evaluations conducted by the internal audit unit, the external auditors and this Superintendency;
- b. The assessment of the performance of the internal audit unit and the external auditors, in order to ensure that they correspond to the Bank's needs; and
- c. The permanent coordination with the internal audit function and with the external auditors on items related to the effectiveness and efficiency of the internal control system.

ARTICLE 14. AUDIT COMMITTEE MEETINGS. The audit committee shall meet with the frequency set by its own internal regulations, which shall be at least every two (2) months. The Internal Auditor, the General Manager and other invited employees considered pertinent by the Audit Committee shall participate in these meetings.

Decisions made during the Audit Committee meetings must be recorded in a Minutes Book, or by electronic means, provided the latter have the same legal force, which will have to be at the disposition of the Superintendency.

ARTICLE 15. AUDIT COMMITTEE WORK REGULATIONS. The Audit Committee shall elaborate its own internal work regulations that must be approved by the Board of Directors and will hold the policies and procedures for the achievement of its duties. The aforementioned regulations will be in adequacy to the provisions issued by this Superintendency, including this Agreement, and will state, among other aspects, the frequency of their meetings as well as the information that shall be submitted to the Board of Directors.

ARTICLE 16. OTHER COMMITTEES. The Board of Directors may create any other committees besides the Audit Committee considered necessary for achieving compliance of the provisions contained in this Agreement.

ARTICLE 17. RISK UNIT. The risk unit will be in charge of the identification and administration of the risks faced by the Bank, being possible as well the constitution on itself of specialized units for specific risks according to the nature of the operations and structure of the Bank.

The coordination required for an adequate and comprehensive risks management shall be carried out through a risks unit, the risks committee or another similar entity established for this purpose.

The risks unit must collaborate with the drafting and permanent development of the organizational and duties handbook, policies and risks control procedures and other internal regulations of similar nature in the Bank.

ARTICLE 18. RISK UNIT STRUCTURE. The members of the risk unity must possess the experience and technical knowledge to enable them for the adequate completion of their duties.

The risk unity shall not execute, process or approve transactions. Its primary task is to supervise the risk, assist in the elaboration of policies and procedures, check for their compliance and alert the Board of Directors and the Senior Management on the risks that could require additional controls.

ARTICLE 19. REPORTS. The risk unit is responsible for communicating to the Board of Directors, to the Senior Management, or to the Committees designated by the Board of Directors, and to the corresponding decision making areas; of the risks, grade of exposure, the limits and their administration, in accordance with the policies and procedures stipulated by the Bank.

The reports shall detail, among others, the existing exposures, the compliance with the policies and procedures approved by the Bank, laws and juridical regulations; new risks needing follow up and control; and any material subject having to do with transactions with economic groups and related parties.

ARTICLE 20. HUMAN RESOURCES POLICY. The human resources policy stated by the Board of Directors shall consider the selection and promotion of the staff, based on aptitude and professional merits, as well as on the professional improvement of the staff and the implementation of measures ensuring the mitigation of risks derived from professional inadequacy or dishonesty.

ARTICLE 21. SENIOR MANAGEMENT RESPONSIBILITIES. For the effects of this Agreement, will be understood as Senior Management the grouping of the General Manager, Deputy General Manager and other Managers and employees executing key duties having to report directly to the General Manager or the Deputy General Manager.

The Senior Management is responsible for the implementation of the strategies and policies approved by the Board of Directors and the settlement and operation of an effective internal control system. To this effect, the Senior Management will provide the different management and operations levels of the Bank with the resources required for the adequate development of this system. The Senior Management will also be responsible for the operation and effectiveness of the process that will make possible the identification and administration of the risks assumed by the Bank in the development of its operations and activities.

In order to comply with their responsibilities, the Senior Management shall carry out at least the following duties:

- a) To maintain an organizational structure that assign clearly the responsibilities, authority and hierarchical lines;
- b) To develop systems to identify, measure, check and control the risks incurred by the Bank;
- c) To ensure that the responsibilities delegated are executed; and
- d) To settle appropriate policies of internal control and check that this system is adequate and effective;

ARTICLE 22. SANCTION FOR NON-COMPLIANCE OF THE AGREEMENT. Non-compliance of the provisions of this Agreement will be sanctioned according to what is stated in Article 137 of Decree Law 9 of 1998.

ARTICLE 23. LEGAL EFFECT. This Agreement will be in force from its date.

ARTICLE 24. TERM FOR ADEQUACY. The Banks will have a term for meeting the requirements established in this Agreement, until March 1st of 2002.

Signed in Panama, on the fifth (5) day of the month of September of two thousand one (2001).

THE PRESIDENT

THE SECRETARY

Félix B. Maduro

Jorge W. Altamirano-Duque M.