

Republic of Panama
Superintendency of Banks

Agreement No. 4-2003
(of April 23, 2003)

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

WHEREAS:

Pursuant to Agreement No. 6-2000 of June 28, 2000 standards were adopted for the classification of loans and the corresponding reserves;

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

That in the course of joint work sessions of this Board of Directors and the Superintendency, there became evident the convenience of modifying Article 11 of Agreement 6-2002 of June 28, 2000.

AGREES:

Article 1: Article 11 of Agreement No. 6-2002 of June 28, 2002 shall read as follows:

“ARTICLE 11. KINDS OF RESERVES. Relating to the application of this Agreement, the following reserves are established

- a) Minimum global reserve: Those constituted over the loan portfolio. Banks shall be obligated to maintain at all times a minimum reserve of 1%, without prejudice to the authority of the Superintendency to require a larger global reserve. It is expressly understood that the minimum required for this reserve is the sum of generic and specific reserves.
- b) Specific reserves: Those constituted over loans identified specifically as carrying a greater than normal risk are divided into:
 - I. Individual reserves: Assigned to loans which, due to their nature and amount, impact on the Bank’s solvency and other financial indicators.
 - II. Loan Group reserves: Those assigned to groups of loans of similar nature, geographic area, or common purposes, or granted under the same loan program.
- c) Generic reserves: Those constituted, temporarily, in relation to debtors classified within various categories set forth in this Agreement.

Banks shall establish generic reserves upon gaining knowledge of the deterioration in value of a group of loans sharing defined common characteristics, but that may not be attributed to any of the individual loans at the time of recognition of the loss.

The following are indicators useful in the recognition of value deterioration of a group of loans with common characteristics:

1. Abnormal weather conditions in a geographic area;
2. The development of a plague;
3. Changes in market conditions and access;
4. Unexpected variations in production costs;

5. Technological advances affecting debtor markets;
6. Banking systems with inadequate or insufficient regulations.
7. Any other social, economic, political event, or of any other nature, with a negative impact on the recovery of loans.

It is expressly understood that the foregoing reserves are not permanent substitutes of individual reserves.

“Banks shall establish generic reserves for loans with common characteristics whenever so required by the Superintendency of Banks.”

NOTE: Without prejudice of the foregoing, loans guaranteed in their totality by cash deposits in the same bank shall not be considered for the calculation of reserves. Said deposits may not deposited in subsidiaries, notwithstanding their financial nature.

Article 2: This agreement shall become effective on July first (1st), 2003.

Given in the city of Panama, on the twenty third (23rd) day of the month of April two thousand three (2003).

COMMUNICATE, PUBLISH AND ENFORCE:

THE PRESIDENT

THE SECRETARY

Jorge W. Altamirano-Duque M.

Joseph Fidanque, Jr.