

Republic of Panama
Superintendency of Banks

AGREEMENT No. 11-2005
(of November 23, 2005)

on Bank Rating

THE BOARD OF DIRECTORS
using its legal authority, and

WHEREAS:

Pursuant to Numeral 1 of Article 5 of Decree Law No. 9 of 1998, looking after the maintenance of the soundness and efficiency of the banking system is a function of the Superintendency of Banks;

Pursuant to Numeral 2 of Article 5 of Decree Law No. 9 of 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;

The Basel Banking Supervision Committee recommends in its document titled International Capital Convergence Measures and Capital Standards (known as Basel II), as one of its methodologies for measuring the calculation of capital adequacy for credit risk, the standardized methodology which rests on the use of ratings by Recognized Agencies for the weighting of risk assets;

The calculation of the equity requirement under the standardized methodology allows certain national discretion for weighting inter-bank assets;

The rating requirement for the System's Banks will bring in greater transparency and will deepen the risk assessment culture, which will redound in greater security, soundness and stability for the Banking System;

The rating requirement for the banking system will constitute a complementary tool for the effective oversight of the Banks;

Pursuant to Numeral 28 of Article 17 of Decree Law No. 9 of 1998, the Bank Superintendent has the attribution of making sure the Banks provide information to their customers that ensures greater transparency of banking operations;

In work sessions of this Board of Directors with the Bank Superintendent, the need and convenience of launching a general criteria framework for the banking entities' risk rating became evident.

AGREES:

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

In the case of Banks that operate in Panama which are branches or subsidiaries of Foreign Banks or subsidiaries of supervised bank stockholding corporations, they will be able to prove their rating through an annual certificate from their Parent Bank or from the bank's supervised holding company wherein the rating is certified, with the duty to observe the information broadcasting and delivering obligations to this Superintendency. The acceptance of said rating depends on the Superintendency's judgement.

ARTICLE 2: RISK RATING. The Banks must hire, at their own expense, the service of specialized Risk Rating Entities, so that they have a risk rating. Said risk rating can be local or international, depending on the bank's choice.

Those Banks with Parent Banks in Panama that have branches and subsidiaries with a physical regional presence and active as well as passive operations in other international markets, must have an international risk rating.

The obligation to rate the Banks provided by this Superintendency does not extend to the observance of other rating requirements or requisites that Banks must comply with in their capacity as public bid security issuers, in which case they will be subject to the provisions that apply in said subject.

ARTICLE 3: RISK RATING. For the purposes of this Agreement, Risk Rating will be understood as the intrinsic financial security and soundness assessment of the Bank, which constitutes an opinion on its capacity to manage third party risks and on the entity's solvency.

Among the elements that traditionally cover the Bank's rating, we emphasize the financial foundations, franchise value, diversification of assets, business twist, and we exclude credit support elements.

The local risk rating for banking entities will be comparable among the Panamanian banking system institutions during a time period.

ARTICLE 4: NOTICE OF HIRING THE RATING ENTITY. The Bank will inform the Superintendency in writing, with the Board of Directors' previous approval, the name of the Risk Rating Entity it wishes to hire to perform the risk rating, which must comply with all the requirements stipulated in this Agreement. In the case when the Risk Rating Entity infringes an aforementioned requirement, this Superintendency can require that the Bank hire a new Risk Rating Entity.

ARTICLE 5: RATING SUBMITTAL AND PUBLICATION. The Banks must submit to the Superintendency within six (6) months after each fiscal exercise closing, the rating issued by the Risk Rating Entity hired pursuant to the parameters set in this Agreement.

Afterwards, if the Superintendency of Banks does not object, the Bank must publish in a nationally circulating newspaper, just once, a notice with the rating issued by the Risk Rating Entity. The publication's content must include:

- a. The rated Bank's name;
- b. The rating's reference date;
- c. The rating granted;
- d. The Risk Rating Entity's identification.

The Banks must display all year long in a place accessible to the public in each one of its establishments, a copy of the rating notice.

ARTICLE 6: ON UPDATES. The Banks must be given a periodic review by the Risk Rating Entities, pursuant to the information the Bank provides voluntarily or that is available to the public.

Nevertheless, the rating entity hired by the Bank can request from the latter the information not available to the public that is strictly needed to perform a correct analysis. This information, at the Bank's request, cannot be used by the Rating Agency for purposes other than those contemplated in this Agreement; neither can they be totally or partially provided to or shared with third parties.

ARTICLE 7: PUBLISHING UPDATES. The Bank must send to the Superintendency of Banks, after disclosing to the public, the updates performed on it by the Risk Rating Entity.

ARTICLE 8: CONFIDENTIALITY. Partners, administrators, and in general any person that because of his position has access to reserved information of the Risk Rating Entities, are forbidden from using said information to obtain for themselves or for others, economic or any other type of advantages.

ARTICLE 9: MINIMUM REQUIREMENTS FOR THE RATING ENTITY. Banks can hire Risk Rating Entities that comply with the following criteria:

1. **Objectivity:** The methodology must be rigorous, systematic, and must be validated by historical experience. For each market segment the methodology should have been established at least one year before and preferably three years before.
2. **Independence:** The Risk Rating Entity must be free of all kinds of conflicts of interest or political and/or economic pressures. (See Article 10)
3. **Resource Adequacy:** The rating entity must have diversified income that does not allow the concentration or dependency of income on a few customers, who can derive to the detriment of criteria independence to issue risk ratings.
4. **Transparency:** The ratings granted must be available to local as well as international entities. Furthermore, the general methodology used by the Risk Rating Entity must be of public knowledge.
5. **Credibility:** The entity must demonstrate a recognized performance or trajectory on the use of its services by third economic agents such as investors, financial entities, among others.
6. **Disclosure:** The Risk Rating Entity must disclose its assessment methodologies, the non-compliance degrees for each rating category and information on the rating transitions.

ARTICLE 10: INDEPENDENCE OF RISK RATING ENTITIES. The Bank cannot hire as Risk Rating Entities those entities wherein one of their partners, officials or persons that compose the rating team, incurs in the incompatibilities stipulated hereinafter, regardless of others that the Superintendency of Banks could stipulate later:

1. Holding or having held positions in the Rated Bank, its branches, subsidiaries or in entities that comprise its Economic Group, during the last two rated fiscal periods;
2. Having, directly or through third parties, economic interests or bonds with the Rated Bank's businesses or with the Economic Group of which said Bank forms part, with the stockholders or with the members of the Board of Directors of the Rated Bank or its Economic Group;
3. Being a debtor of the Rated Bank or of the bodies that comprise its Economic Group, if the credits have been granted in more favorable conditions than those of the market or the loan is rated in a subnormal or greater risk category pursuant to what is stipulated in the loan rating regulation issued by this Superintendency of Banks;
4. Being an exercising stock exchange agent;
5. Rendering other professional rating services to the Rated Bank that lead to an active participation in decision-making, in management or that jeopardize the Rating Entity's independence by issuing his objective and professional opinion;
6. Receiving services from the Rated Bank in more favorable conditions than those of the market;
7. Being an External Auditor of the rated Bank or of a subsidiary of the Bank's External Auditing firm;
8. Being part of the Bank's Economic Group.

ARTICLE 11: ROTATION OF THE RATERS. The Banks must agree with the hired risk rating agency to rotate at least every five (5) years its team of analysts and specialized staff. It will only be allowed that, at the time of carrying out the rotation, one member of the rating team that was serving the Bank remain for an additional one (1) year period. The person that remains for the additional period may not be the partner that was serving the Bank.

ARTICLE 12: OBJECTIONS. The Superintendency of Banks will have the authority to object to the rating issued by the Risk Rating Entity and its updates, if in its judgement it considers that it does not comply with the aforementioned criteria, and/or there is a reasonable difference between the rating granted by the Risk Rating Entity and the risk perception the Superintendency of Banks has on the banking entity.

The rating to which the Superintendency of Banks objects must not be published.

ARTICLE 13: CUSTOMIZING TIME PERIOD. The banking entities must make their rating public starting on the month of January of two thousand eight (2008), for which they will have a period of six (6) months after the fiscal exercise closing.

The banking entities that on the date this Agreement goes in effect have a rating issued by a risk rating agency can certify it before this Superintendency, as long as they comply with all the requirements stipulated in this Agreement.

In the future this Superintendency will establish the time period whereby the banking entities must have an international risk rating.

ARTICLE 14: EFFECT. This Agreement will be in force from the time it is proclaimed.

Given in the City of Panama, on the twenty third (23) day of the month of November of two thousand five (2005).

THE PRESIDENT,

THE SECRETARY, provisionally

Jorge W. Altamirano-Duque M.

Arturo Gerbaud