

Republic of Panama
Superintendency of Banks

AGREEMENT No. 005-2006
(of October 6, 2006)

"Which modifies Articles 6 and 8 of Agreement 5-98 of October 14, 1998, and adds Article 6-A"

THE BOARD OF DIRECTORS
using its legal authority, and

WHEREAS:

Pursuant to Article 41 of Decree Law No. 9 of February 26, 1998, it is this Superintendency's duty to define and set each element of the General License Banks' capital, to set the bases for applying the capital adequacy requirement and to set the deductions to the capital base;

Pursuant to Article 45 of Decree Law No. 9 of 1998, it is this Superintendency's duty to set the asset weighting indexes and the out-of-balance operation indexes of the General License Banks, pursuant to the internationally accepted standards on this subject;

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

In work sessions of this Board of Directors with the Bank Superintendent, the convenience of modifying Articles 6 and 8 of Agreement No. 5-98 of October 14, 1998 has become evident, as well as the addition of Article 6-A.

AGREES:

ARTICLE 1: Article 6 of Agreement No. 5-98 of October 14, 1998 will read:

ARTICLE 6. ASSET RATING BY CATEGORY.

For the effects of their risk weight, pursuant to the provisions of Article 45 of Decree Law No. 9 of 1998, assets will be rated in the following categories and the risk percentage is shown below:

Category (%)	Risk weight
1	0
2	10
3	20
4	50
5	100

The following assets correspond to each of the following categories:

1. Category 1: (0%)

- a. Available funds kept in cash.
- b. On-Sight Deposits in Banks established in Panama and On-Sight Deposits in Banks established in member countries of the Organization for Economic Cooperation and Development (hereafter OECD) with investment grade rating. Also included are checking account deposits or On-Sight Deposits abroad, when the depositary Bank belongs to an OECD member country, and said Bank has a risk rating not less than the sovereign risk rating of the involved country. Also included are documents in the collection process, deposited or included in the clearing.

- c. Instruments issued or secured by the Panamanian State or by its autonomous institutions.
- d. Investments in other companies not related to the banking business, that are deducted according to Article 3 of this Agreement.
- e. Loans duly collateralized by pledging deposits in the same Bank for up to the secured amount.
- f. Gold and silver in the way the Superintendency approves.

2. Category 2: (10%)

- a. Instruments issued or secured by OECD member countries or by their autonomous institutions, in the currency of those countries.
- b. Instruments issued or secured by the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Financial Corporation (IFC), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the Asian Development Bank (ADB), the African Development Bank (ADB), the International Fund for Agricultural Development (IFAD), the Andean Development Corporation (CAF), and by any other multilateral development Banks approved by the Superintendency.
- c. Loans secured by funds deposited in other Banks established in Panama or by Instruments issued or secured by the International Monetary Fund, the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Financial Corporation (IFC), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the Asian Development Bank (ADB), the African Development Bank (ADB), the International Fund for Agricultural Development (IFAD), the Andean Development Corporation (CAF) and by any other multilateral development Banks approved by the Superintendency.

3. Category 3: (20%)

- a. Other credits not included in Literal b of Numeral 1 of this Article against Banks established in Panama, in OECD member countries or in countries with investment grade risk rating, in the latter case as long as the Bank has a risk rating not less than the sovereign risk rating of the country involved. Interbank time deposits, stock exchange operations with repurchase agreement, bond investments, time deposits and any other credit against said banks.
- b. Confirmed credit letters payable when submitted for foreign trade operations, issued by foreign banks belonging to OECD member countries or to countries with investment grade risk rating, in the latter case as long as said Banks have a risk rating not less than the sovereign risk rating of the country involved. For these effects, the bank rating will be considered the short term instrument rating of the foreign issuer involved. The Banks will be able to include in this category the contingent credits corresponding to on-sight credit letter confirmations, issued by foreign banks rated in the first risk category by an internationally renowned risk rating entity, in favor of Panamanian exporters.
- c. Loans secured with bank acceptances with a term not less than 186 days, issued by Banks established in Panama or by Banks established in OECD member countries.
- d. Loans secured by funds deposited in other Banks established in an OECD member country.

4. Category 4: (50%)

- a. Housing loans secured with mortgages granted to the final acquirer of said real estate; except the non-performing portfolio included in Category 5.
- b. Other loans secured by mortgages, as long as the loan amount does not exceed 60% of the mortgaged good's value.
- c. Out-of-balance operations or contingent credits resulting from granting debt securities and bonds, credit letter issues and those credit letter confirmations not included in Literal b of Numeral 3 of this Article.

5. Category 5: (100%)

- a. All other assets not included in the categories above.
- b. The non-performing portfolio credits.

ARTICLE 2: Add Article 6-A to Agreement No. 5-98 of October 14, 1998:

ARTICLE 6-A. IRREVOCABLE CREDIT FACILITIES PENDING PAYMENT.

The irrevocable credit facilities pending payment, the latter being understood as those wherein the bank does not have the capacity to suspend or end the payments at its discretion, will become credit equivalent through the "Credit Conversion Factor" (CCF).

A "Credit Conversion Factor" (CCF) will be applied to the irrevocable credit facilities pending payment, of:

- a. Twenty percent (20%) for those credit facilities for less than one (1) year.
- b. Fifty percent (50%) for those credit facilities for more than one (1) year.

Once the corresponding "Credit Conversion Factor" (CCF) has been applied, the irrevocable credit facilities pending payment will be weighted as follows:

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| a. Totally secured by Fixed Term Deposits in the same bank. | 0% |
| b. Secured by other acceptable guarantees at the Superintendency of Banks' judgment. | 50% |
| c. Unsecured. | 100% |

ARTICLE 3: Article 8 of Agreement No. 5-98 of October 14, 1998 will read:

ARTICLE 8. PROCEDURE FOR DETERMINING THE CAPITAL ADEQUACY INDEX. To determine the Capital Funds adequacy index pursuant to what Article 45 of Decree Law 9 of 1998 stipulates, General License Banks must observe the following steps, which will be depicted in summarized form in the Annex to this Agreement:

1. Determining the Capital Funds pursuant to what Articles 1 and 2 of this Agreement stipulate;
2. Determining the sum of weighted assets, pursuant to what Article 6 of this Agreement stipulates;
3. Adding the appropriate amounts to the credit equivalent of the irrevocable credit facilities pending payment and of the derivative instruments, pursuant to the calculating procedure set forth in Articles 6-A and 7 of this Agreement;
4. Deducting the allowance amounts constituted over the assets including: "allowances for the loan amount", "allowances for mature interests", "allowances for interests on deposits", "allowances for securities loss in the portfolio" and "allowances for country risk". It is understood that these allowances cannot be added as part of the regulatory capital.

Once the Capital Funds and risk assets have been determined, the capital adequacy index must be determined based on the percentage that Capital Funds represent of the risk asset total.

ARTICLE 4: This Agreement will be in force from the time it is proclaimed.

Given in the City of Panama, on the sixth (6th) day of the month of October of two thousand six (2006).

THE PRESIDENT,

Antonio Dudley Amstrong

THE SECRETARY,

Arturo Gerbaud De La Guardia