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Superintendencia
del Sistema Financiero

Bank Law

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BANK LAW

Updated by means of:

• Reforms contained in Legislative Decree No. 955, dated August 21, 2002, Published in the Official Gazette on September 25, 2002.

• Reforms approved by the Legislative Assembly to articles 59 (paragraph one), 201 (paragraph three) and 232, through Legislative Decree No. 492 dated October 27, 2004. (See Reforms on page 99).

• The constitutional court of the Supreme Court of Justice declared the following articles of the Bank Law non constitutional: 74; 217 letter a), regarding exceptions; 219, paragraphs 1,2 y 3; 221 and 223; by means of sentence dated December 22, 2004, published in the Official Gazette # 6 of Monday, January 10, 2005, Volume 366, dated December 22, 2004.

• Reforms approved by the legislative Assembly to articles 217, 221 and 232, through legislative Decree No. 636, published in the Official Gazette No. 74, Volume 367, dated April 21, 2005.

DECREE No. 697

LEGISLATIVE ASSEMBLY REPUBLIC OF EL SALVADOR,

WHEREAS:

I. That the economic and social development of the country requires a reliable, sound, modern and competitive financial system, capable of contributing to the growth and sustainability of the domestic economy through the savings and investment processes;

II. That given the openness and globalization processes of our economies, it is growingly important to have a financial system that can become an instrument for national development able to insert itself into international financial markets;

III. That it is necessary to have a legal framework based on international bank regulation and oversight principles, to foster a sound and competitive financial system, fully integrated into globalized markets;

IV. That the establishment of consolidated oversight mechanisms that follow international practices is required to adequately supervise financial groups and to protect the deposits of the public.

THEREFORE,

Exercising their constitutional powers and at the initiative of the President of the Republic, through the Ministry of Economy and Congressmen Juan Duch Martínez, Rubén Ignacio Zamora, Mercedes Gloria Salguero Gross, Gerson Martínez, José Antonio Almendáriz, Ronal Umaña, Roberto Serrano Alfaro, Kirio

Waldo Salgado Mina, Juan Ramón Medrano Guzmán, Isidro Antonio Caballero Caballero, Norman Noel Quijano, Norma Fidelia Guevara de Ramirios, Elizardo González Lovo, Donal Ricardo Calderón Lam, Julio Alfredo Samayoa, Guillermo Welman and Héctor Córdova,

DECREES the following:

BANK LAW

FIRST TITLE
BASIC PROVISIONS

SINGLE CHAPTER

Purpose and scope of the Law

Art. 1.- The purpose of this Law is to regulate the financial intermediation operation, as well as any other operation carried out by banks, in order for banks to provide a transparent, reliable and expedite service to customers, contributing in this manner to the development of the country.

Regarding any issue not foreseen in this Law, or in the Basic Law of the Central Reserve Bank of El Salvador, the basic Law of the Superintendence of the Financial System, the Law for the Privatization of Commercial Banks and Loans and Savings Associations, the Stock Market Law, the Law of the Securities Superintendence and the Law for Credit Losses and Commercial Bank Strengthening; banks shall abide by the provisions set forth in the Code of Commerce and other applicable laws of the Republic.

Non Banking financial entities under the supervision of the Superintendence of the Financial System shall operate under a special law that shall regulate them.

In this Law, the Central Reserve Bank of El Salvador shall be referred to as the "The Central Bank" and the Superintendence of the Financial System shall be referred to as "The Superintendence".

Banking Activity

Art. 2.- For the purposes of this Law, banks are all those institutions that habitually operate in the financial markets, calling on customers to attract their deposits, issue and place securities, or any other lending activity, being directly obliged to cover capital, interests and other accessories, to place them in lending activities for the public .

Enforcement of Incorporation Laws

Art. 3.- Public or private financial institutions, set up through their incorporation laws, shall continue under these laws in everything that does not oppose this Law.

Due to the nature of the operations carried out by the Central Bank, it shall not be ruled by the provisions set forth in this Law.

Likewise, these provisions shall not be applied to the Fund for Credit Losses and the Strengthening of the Financial System, with the exception of the provisions in Chapter II of the Seventh Title and article 74 of this Law, that shall be applicable.

Names

Art. 4.- Banks may adopt any commercial name that they might deem convenient, provided that no other bank uses that name and that it does not lend itself to confusion. The name "Bank" shall be exclusive and of obligatory use of those institutions authorized by the Superintendence to operate as such in accordance with this Law. Any other entity not authorized by the Superintendence or by a special law may not use this name or any derivation of the same, and may not use the term "Financial" either.

In the case of foreign banks or local banks whose majority shareholders are foreign banks, the word "bank" or a derivative of the same can be used in their respective language.

No individual or legal entity that is not duly authorized may use posters, receipts, letterheads, titles or any other means that could indicate that their line of business is related to the banking system. They cannot use any advertising with the word "bank" or "financial" in it.

No entity under this law may use the word "national" in its name, or any other that might suggest that it is a public or state owned entity or backed up by the state. This provision shall not be applied when the word "national" refers to another country.

Any infringement to the provisions set forth in this article shall be penalized with a fine up to four hundred urban minimum monthly wages by the Superintendence, in accordance with the procedure set forth in the Basic Law of that institution. These same penalties might be imposed to the board members or administrative staff of the companies that violate this Article; and these shall be considered irregular, in accordance with the mercantile law in force.

Statutory Interpretation

Article 4 of the Bank Law, issued by means of Legislative Decree 697, dated September 2, 1999, published in the Official Gazette No. 181, Volume 344, dated September 30, 1999, shall be interpreted as the prohibition to use the words "Bank" and "Financial", only as a noun to name these institutions; this prohibition is not applicable to the use of these word in a generic manner, as an adjective to name the activity they are dedicated to.

This statutory interpretation is incorporated into the text of this Bank Law.

This decree shall enter into force eight days after its publication in the Official Gazette. (1)

SECOND TITLE
ORGANIZATION, ADMINISTRATION AND OPERATION

CHAPTER I
ON SALVADORAN AGENCIES

Corporate Form
Art. 5.- Banks incorporated in El Salvador shall be organized and operated as fixed capital public limited companies, divided into nominal shares, with no less than ten partners.

Shares and Rights
Art. 6.- Shares shall confer equal rights. Nevertheless, the deed might state that the capital is divided into several kinds of shares, with special rights for each kind, without excluding any shareholder from receiving earnings.

Preferential shares could also be issued with a limited vote right, which shall preempt over all other shares at the moment of distributing earnings, up to the agreed upon percentage or ceiling.

Banks must record their shares in a stock exchange no later than sixty days after registering the corresponding deed in the respective Registry of Commercial Concerns. Treasury shares shall be recorded prior to placing them, as the case may be.

Treasury Shares
Art. 7.- The bank's charter should state that the bank shall also issue nominal treasury shares, in the number necessary to equal the total value of the issued shares to the equity fund of the bank or the required equity fund, whichever is the highest on December thirty first of each year, which should be kept in a deposit at the Central Bank. These shares shall be represented in one single provisional certificate, with a special series number and can be used to increase the capital stock prior the authorization of the Superintendence. (4)

These treasury shares shall be sold as ordinary shares and should be replaced in a period not to exceed sixty days. This is also the term to issue treasury shares from the equity fund increases of each bank as of December thirty first of each year. Likewise, the bank shall fraction the provisional certificate referred to in the above paragraph, delivering the definitive shares to their subscribers.

The bank charter should indicate that once the treasury shares are paid for and subscribed, the capital stock shall be increased in that same amount, without the need to hold a Special Shareholders Meeting, needing only a certificate signed by the External Auditor verifying that the shares have been subscribed and paid for, so that the value can be recorded at the capital stock account. This amendment to the charter regarding the increase in the capital shall be done in a period not to exceed sixty days, and the legal representative of the bank shall deliver the amended charter. While the treasury shares have not been paid for and subscribed they shall not have the right to vote and shall not generate dividends.

When the Superintendence authorizes the number of treasury shares to be placed, the bank shall send a written notice to all shareholders and publish two publications in two nation wide newspapers, for two consecutive days, offering the shares, and they can subscribe them in proportion to the number of shares they posses. The written notices shall explain the advantages of subscribing the above referred shares and the disadvantages of not doing so. The day after the last notice, shareholders shall have fifteen days to fully pay and subscribe their corresponding shares in cash. The placement price of these shares shall be the book value of the last audited balance; in the case that said price differs from the one mentioned it shall be authorized by the Superintendence. The Bank management shall sell the treasury shares authorized by the Superintendence that were not subscribed in a special auction or through the stock exchange, and if not possible, directly with the authorization of the Superintendence, and the base price shall be the one previously mentioned. (4)

DEROGATED (4).

DEROGATED (4).

Payment of Shares

Art. 8.- The foundation capital referred to in Article 36 herein, shall be fully paid in cash and credited by depositing the corresponding sum at the Central Bank.

Subscribers of non paid capital, that exceed the legally required amount, are forced to pay the corresponding amount in cash, at any time when it is necessary to overcome a deficit in capital incurred by the bank, be it through calls made by the Board of Directors or as required by the Superintendence.

Prohibition

Art. 9.- Banks cannot issue founding bonds or shares to remunerate their services.

Shareholding

Art. 10. Share ownership of banks incorporated in El Salvador, shall keep as a minimum, fifty one percent of the following types of shareholders:

a) Salvadoran or Central American Individuals;

b) Salvadoran Legal persons whose shareholders or majority members are Salvadoran or Central American individuals or other Salvadoran legal persons. Shareholders or majority members of these entities shall be Salvadoran or Central American individuals;

c) Central American banks with prudential regulation and supervision in their countries of origin in accordance with the international practice in this regard, ranked by internationally recognized risk rating companies that comply at all times with the legal provisions in force in the country; and

d) Banks and other foreign financial institutions with prudential regulation and supervision in their countries of origin in accordance with international standards on this issue, and that are qualified as first liners by internationally recognized risk rating companies. Besides bank controlling forms and other foreign financial institutions that comply with the previously mentioned requirements and that are

subject to a consolidated supervision according to international standards. The Superintendence, prior the opinion of the Central Bank shall issue an Instruction manual to determine all eligible institutions.

In the case of investors mentioned in letters c) and d), the Superintendence should subscribe memos of cooperation with the oversight organization in the country where the investors entity is located, with the purpose of coordinating information exchange to allow for a consolidated supervision.

Special Authorization for Shareholding

Art. 11.- No individual or legal entity may personally or through others hold shares of a bank representing more than one percent of the capital of the institution, without the prior authorization of the Superintendence. Included within this percentage are the shares of shareholder companies of the bank.

The Superintendence shall deny its authorization only when the potential buyer falls under one of the following circumstances:

a) The buyer is in a state of bankruptcy, payment suspension o creditor contest;

b) The buyer was sentenced for having willfully committed or participated in any crime;

c) That it was legally proven that the buyer participated in drug trafficking related activities and other related crimes as well as in money and other assets laundering;

d) That the buyer is a debtor of the financial system for loans that required a loan loss provision of fifty percent or more of the balance;

e) That the buyer was the manager, director, administrator, official of an institution part of the financial system which incurred in an equity deficiency of twenty percent or more than the minimum required, as of the entry into effect of the Law for the Privatization of Commercial Banks and Savings and Loan Associations, and that his or her responsibility was proven in this, and that it was necessary for the State or the Deposit Guarantee to contribute to clear the institution, or that it was necessary for the pertinent entity to take over the institution or that it was necessary to restructure it and that consequently the authorization to operate as a bank was revoked. In the case of legal representatives, general managers, executive Directors and Board members in executive positions in a financial entity, it shall be assumed that they were liable regarding any of the above mentioned circumstances. The previous assumption shall not be applied to individuals who ceased to work for the institution two years before the situation arose; nor to those who participated in the clearing of financial institutions, in accordance with the provisions set forth in the Law for Credit Losses and the Strengthening of Commercial Banks and Loans and Savings Associations, notwithstanding the liability in which they may incur after the credit loss provision;(4)

f) That the buyer was sentenced either administratively or judicially for his or her participation in a serious violation to any financial Standard or law, particularly in the attraction of funds from the public without authorization, or the granting or reception of loans exceeding the ceiling allowed and any financial crime;

g) That the buyer fails to demonstrate the origin of the funds to procure the shares; and

h) That his/her equity status is not economically proportional to the cost of the shares to be bought.

In the case of a legal person, the preceding circumstances shall be considered with respect to partners or shareholders with twenty five percent or more of the shares or rights of the corporation.

The shareholders of the legal persons above mentioned, may assign their shares in percentages of twenty five percent or more of the equity of said partnership, only with the prior authorization of the Superintendence.

The shareholders referred to in this Article shall submit a sworn statement to the Superintendence, through their respective banks, during the first ninety days of every year, confirming that they are not under any of the circumstances mentioned in the previous provision; they shall be obliged to do the same procedure when applying for the authorization mentioned in the first paragraph of this Article.

It is forbidden for a person who owned more than one percent of the shares of banks that were cancelled completely to absorb losses to hold shares of a bank. (4)

Relevant Shareholders

Art. 12.- A relevant shareholder is understood as one under the following circumstances:

a) One that owns ten percent or more of the shares of a bank with the right to vote. To determine this percentage the shares of the spouse of the holder shall be added, as well as those of the relatives within the first degree of consanguinity and the proportional part that corresponds to him/her in partnerships that are shareholders of said bank; and

b) One that directly or through a joint agreement with another shareholder or shareholders has the power to elect one or more directors.

The shareholders referred to in this Article shall submit a sworn statement to the Superintendence, through their respective banks, during the first one hundred and twenty days of every year, their annual financial statements, which should be audited by an auditor registered at the Superintendence. In the case of foreign banks, their financial statements should be audited by an internationally renowned auditing firm.

Whenever the Superintendence determines that one of its shareholders, as referred to herein, is under any of the circumstances mentioned in the previous Article or has solvency problems, the rights of said shareholder, as shareholder of the bank, shall cease, with the exception of the endorsement of the shares at any title, which at the moment of selling them the shareholder shall have the right to receive the withheld dividends.

Any relevant shareholder who considers that the grounds for the Superintendence to have made the decision mentioned in the previous paragraph have ceased, may request that the suspension be lifted.

Whenever a bank shareholder wishes to acquire ten percent or more of the shares of that institution, he must comply with the provisions set forth in the previous Article and submit the corresponding financial statements to the last year. Someone declared a relevant shareholder of a bank may only acquire up to one percent of the shares of other Banks.

Share Negotiation and Assignment

Art. 13.- The negotiation and assignment of any kind of shares from Salvadoran enterprises that operate as Banks shall be totally free, with the exception of the provisions set forth in Articles 10, 11, 12and 125 herein.

Share Assignment Report

Art. 14.- During the first ten working days of each month, Banks shall send a report of the shares assigned as recorded in their Book of Recorded Shares.

Banks must also send a list of shareholders at the end of every fiscal year, in a period not to exceed thirty days upon the closing of each exercise. As provided for by the Instructions Manual issued by the Superintendence for that purpose.

In the event that a shareholders owns more than one or ten percent as a result of a share assignment, as provided for in Articles 11 and 12 herein, the bank shall request the certification verifying the authorization granted by the Superintendence before recording them.

Public Promotion and Setting up

Art. 15.- Any Salvadoran partnership with the intention to operate as a bank or promote one publicly , must have the prior authorization of the Superintendence.

Public promotion is understood as the public call to buy shares through the media or advertising.

Art. 16.- Public promotion applications must be submitted to the Superintendence and interested parties, which cannot be less than ten, and shall include the following information in the application:

a) Name, age, profession, residence, nationality, experience in financial issues and the sources of bank references of each one of the promoters;

b) The name and place of residence of the planned institution;

c) The operations to be developed and a report explaining the economic reasons that justify the start up of the bank; and

d) The amount of capital stock paid, with which the bank will start operating

The Superintendence must resolve applications in a period of sixty days following the date in which applicants submitted all the information required.

If the decision favors applicants, the Superintendence shall grant the authorization to promote the partnership through a resolution, indicating the maximum promotion term, which should not exceed six months. This resolution does not guarantee the applicants that the authorization to start the partnership shall be granted to them.

Art. 17.- Once the public promotion period has concluded, the interested parties shall request the Superintendence the authorization to set up a corporation, and will include the following information:

a) The deed of incorporation to which the statutes shall be incorporated;

b) The organizational and management chart of the bank; the financial foundation of the activities to be developed and the commercial bases for the institution.

The bank's organization and management layout, the financial description of the operations to be developed, and the institutional commercial plans.

c) The nationality of the future shareholders, as well as the amount of their shareholdings; and

d) The general data of the initial directors, describing their experience and the sources of their banking references.

The Superintendence shall also demand the interested parties to provide any other data deemed pertinent, within thirty days after the submission of the application.

The Superintendence, upon receiving the application and all the required information, shall publish one time the list of shareholders with one per cent or more of the capital, and the names of the initial Board members of the corporation to be chartered, in two major newspapers, and at the expense of the interested parties. When the shareholders are other corporations, then the list of the shareholders with more than five per cent of the capital shall also be published. The foregoing is aimed at allowing any person who has knowledge of any of the circumstances expressed in Articles 11 and 33 herein, to object the quality of shareholders. These objections shall be submitted to the Superintendence in writing, in a term not to exceed fifteen days after its publication, annexing the evidence necessary. The information referred to in this paragraph is classified.

The Superintendence shall grant the authorization to set up the corporation once the projected financial foundations, as well as the honorability and responsibility of the shareholders with more than one per cent , and also of the directors and managers has been thoroughly proven, and that the interests of the public are safeguarded.

The Superintendence shall pronounce itself regarding the respective application in a term not to exceed twenty days from the date in which the founding shareholders submitted all the information required, and taking at least the following into account:

a) Verify the financial status and credit worthiness of the shareholders with more than one per cent, including the consolidated analysis for each one of them, the set of companies, businesses, properties and debts that affect them. In any case, at least the equity of each one of them should be equivalent to the capital that they pledged to input in the new institution. The interested parties must demonstrate the legal source of the funds to be invested. Besides, they should not be under any of the circumstances previously mentioned in Article 11 herein; and

b) That the submitted financial projections and business plans soundly sustain the feasibility of the new bank.

Foreign banks and financial conglomerates could be exempted from the requirements in the previous letters, provided that, according to the Superintendence, and prior the favorable opinion of the Central Bank, they are duly supervised institutions in their countries of origin and display the highest ranking granted by two internationally recognized risk rating firms, are supported by the supervisory authorities of their countries and that the capital input is made through the main bank or conglomerate offices and that the company investing in El Salvador is duly incorporated within the consolidated supervision by the supervisory authorities of its respective country of origin. In this last case, it shall be necessary to also have the authorization of said authorities.

If the applicants are given a favorable answer, the authorization to constitute the corporation shall be issued through a resolution by the Superintendence, indicating the time frame in which the deed of constitution shall be delivered.

Bank Start Up without prior Public Promotion

Art. 18.- In the event of founding a bank without prior public promotion, the interested parties may submit the application required in Article 17 herein; and the Superintendence shall carry out the proceedings and shall resolve the application as indicated in the preceding Article.

Charter Qualification and Registry

Art. 19.- The affidavit of the deed of constitution shall be submitted to the Superintendence to establish whether the terms in the partnership agree with the previously accepted projects and if the capital stock was integrated in accordance with the authorization.

The deed of constitution of a bank cannot be registered in the registry of commercial concerns unless it bears the signature of the Superintendent confirming the favorable qualification of the deed.

Operations Start Up

Art. 20.- The Superintendence shall authorize an entity to operate as a bank and to start its operations once all requirements have been fulfilled, as set forth in this Law, and that the internal controls and procedures of said entity have been verified, and that it has been recorded in the Registry of Commercial Concerns.

The authorization referred to in this article, shall be Published one time at the expense of the applicant, in the Official Gazette and in two major domestic newspapers, containing at least the name of the bank, data concerning the granting and recording of the deed, the amount of capital stock paid and the names of the members of the Board and Management.

In any case, the operations of an authorized bank shall not initiate until it is verified that the publications in the major domestic newspapers, referred to in the previous paragraph have indeed been published.

During the first three years of operation of a bank, the ratio between its equity fund and the sum of its weighted assets referred to in Article 41 herein, shall be at least fourteen point five percent. At the end of this time frame, the Superintendence shall determine whether this percentage can or cannot be reduced to twelve percent, after taking the following into consideration:

a) That the bank´s financial results turned satisfactory, and

b) That the bank has a sound internal control system that enables it to adequately manage its risks.

If the Superintendence resolves that the bank shall continue with the fourteen point five percent, this shall be effective for a term no longer than three years. (4)

Merger Special Authorizations

Art. 21.- Established banks shall require the authorization of the Superintendence to merge with other corporations and assign all or part of their assets.

The merger shall take place in accordance with the regulations set forth in the Code of Commerce, provided that the merger agreement record and the last bank balance are published one time in two major domestic newspapers and that the merger takes place thirty days after the previously mentioned publication, and if there is no disagreement.

The merger agreement cannot be registered at the Registry of Commercial Concerns unless it bears the signature of the Superintendent endorsing the authorization.

Country Branches

Art. 22.- Banks must inform the Superintendent about each project to open new branches in the country.

The Superintendent shall have the following thirty days to object said project, based on his judgment that it could have a negative impact on the financial and administrative ability of the bank. Depending on the Superintendent's resolution an appeal shall be made before the Board of Directors of the Superintendence, in accordance with its internal law.

For the purposes herein, a branch shall be understood as an Office physically separated from the main office or headquarters, but which is part of the same legal person, that can carry out the same operations as the main office, but that does not have capital assigned to it, and whose accounting is not separated from the main offices or headquarters.

In the event a branch is closed, the bank must notify the superintendence and the public with at least sixty days in advance.

Subsidiaries and Offices Abroad

Art. 23.- Banks may carry out financial operations in other countries through subsidiary bank entities and offices, provided that these countries have prudential regulations and supervision that fulfill international requirements, and in accordance with the international practice on this matter, and in line with the provisions set forth in the laws of the other country and with the prior authorization of the Superintendence. For purposes of this law, the term office shall be understood as any premise physically separated from the main offices or headquarters, but part of the same legal person, which has been authorized to carry out the operations agreed upon by the Superintendence and the regulatory entity of the host country.

If authorized, banks and their subsidiaries shall be ruled by the following provisions:

a) The share in the capital of the subsidiary shall be subtracted from the Primary and Supplementary Capital sum, in order to determine the Bank's Equity Fund;

b) The additional resources that banks provide in any way to their subsidiaries abroad, as well as guarantees, bonds and sureties shall be deducted from the Primary and Supplementary Capital sum to determine the Bank's Equity Fund;

c) Subsidiaries may not execute nor offer operations in El Salvador, with the exception of those carried out with their main offices, and those authorized by the Superintendence prior the favorable opinion of the Central Bank;

d) Subsidiaries shall comply with the provisions set forth in Articles 41, 42, 197 and 203 and other applicable provisions herein. These provisions shall be applied based on their own equity fund;

e) Subsidiaries shall be subject to the Superintendence's oversight and to the examination of the external auditors of the respective banks, notwithstanding the supervision from foreign authorities as well; and

f) In the case that the banks carry out operations in other countries through subsidiary bank entities, remaining shareholders with a share equal or higher than ten percent of its capital shall comply with the requirements set forth in Article 12 of this Law.

The total sum of the resources assigned in the operations pointed out in a) and b) of this Article, shall not exceed fifty percent of the Equity Fund of the referred to bank or ten percent of the loans portfolio, whichever is lower.

The Superintendence shall order the closing or sale of any subsidiary or office abroad, which is managed in violation of the provisions in this Article, or that suffer sever deficiencies in their operational or internal control systems which may endanger the interests of the public.

Prior to the authorizations referred to in this Article, and the following in this Law, the Superintendence shall sign cooperation memos with the regulatory entity of the country of investment, in order to coordinate the exchange of information from the subsidiaries and offices established in that country, as well as the mechanisms that shall enable a consolidated supervision, insuring the confidentiality of this information.

No subsidiary referred to in this Article is authorized to posses investments in shares in any other partnership, with the exception of corporations with the same or similar line of business as the ones mentioned in Article 24 herein, and with the prior authorization of the Superintendence.

Subsidiaries and Joint Investments.

Art. 24.- Banks may invest in shares of Salvadoran Capital corporations, subject to the authorization of the Superintendence, and if in currency exchange houses, stock exchange offices, credit card issuers, general deposit warehouses, firms providing goods payment, custody and transportation and other companies that offer services that supplement a bank's financial services. These companies may offer their services directly to the users, even if there is no relationship between the latter and the banks; they are not allowed to make capital investments in other corporations unless permitted by the law or the respective regulatory entity. The previous authorization shall proceed provided that the banks have more than fifty percent of the shares either alone or together with other banks or controlling firms with an exclusive purpose, or if exceptionally authorized

by the Superintendence, when due to a strategic holding partner it is not possible to complete the previously mentioned percentage.(4)

For purposes of this Law, corporations set up in accordance with the provisions in this Article, and also with Article 23 herein, in which one bank possesses more than fifty percent of its shares, shall be called subsidiaries or affiliates. Banks with shares from subsidiaries shall consolidate their financial statements together and publish them in accordance with the provisions set forth in Article 224 herein.

Subsidiaries and other corporations which have a bank as one of its shareholders, in accordance with the provisions set forth in this Article, fall under the surveillance and oversight of the Superintendence. Exceptions to this provision are those corporations that in accordance with Article 3 of the Internal Law of the Securities Superintendence should be supervised by this other Superintendence instead. Likewise they shall abide by the provisions referred to in Articles 41, 42, 197 and 203 herein. These provisions shall be enforced based on their own equity fund. They shall also abide by the rule to set up loan loss provisions, reserves on obligations and other legal provisions in force.

The sum of the participation in loan capital, sureties, bonds and other guarantees that the bank might provide its subsidiaries directly or indirectly in any way, as referred to in this Article, may not exceed fifty percent of its Equity Fund, or ten percent of the loans portfolio, whichever is lower.

The sum of the participation in capital, loans, sureties, bonds and other guarantees that the bank might provide directly or indirectly in any way to its subsidiaries in which it has a minority share, should not exceed twenty five percent of its Equity Fund.

The Subsidiaries referred to in this Article shall be audited by the same external auditor of the respective bank. Any corporation with joint investments from a bank shall be audited by an external auditor recorded in the registry of the corresponding oversight entity.

Operation and Customer Service

Art. 25.- Banks are institutions with the obligation to operate. No bank can cease or end its operations without the prior authorization of the Superintendence.

The Superintendence shall publish, at least once every year, in two major domestic newspapers, the minimum work day schedule to serve the public and the days in which a bank may close its branches to the public.

CHAPTER II
BRANCHES AND OFFICES OF FOREIGN INSTITUTIONS

Authorization

Art. 26.-Banks set up in accordance with foreign laws whose intention is to establish branches in the country, to carry out their banking operations through them, shall previously have the authorization of the Superintendence.

This same authorization shall be required from foreign banks whose intention is to open offices to provide information to their customers or to place funds in the country for loans or investments, without the intention

of executing liability operations throughout the national territory. The authorization mentioned herein shall be for a period not to exceed two years which could be extended for two equal periods by the Superintendence, provided that the bank has complied with all existing legal requirements.

The Superintendence may terminate the authorization of these offices if they execute liability operations in the country or if they breach any applicable provision herein.

Setting Up Requirements

Art. 27.- A foreign bank shall fulfill the following requirements to be entitled to the authorization described in the previous Article:

a) Prove that the main offices or headquarters are legally established in accordance with the laws of their country and that the source country subjects these entities to sound regulations and supervision, according to international practices on this matter, and that the institution has been ranked as a first line bank by an internationally renown risk rating firm;

b) Prove that in accordance with the laws of its country of origin and its own statutes it can establish branches, agencies or offices that comply with the requirements established herein, and also that the willingness to operate in El Salvador has been duly authorized, both by its headquarters and by the government authority in charge of overseeing the institution in its country of origin;

c) Commit to keep at least one representative in the Republic with ample and sufficient powers to execute all proceedings and contracts to be entered into and enforced throughout the national territory. This power should be granted in a clear and precise manner in order to commit the represented institution, and the latter should respond in and out of the country without limitation to any actions executed or contracts entered into in the Republic, and shall fulfill the requirements demanded by both the Salvadoran laws and the laws of the country of origin of this foreign institution;

d) Commit to leave and keep the capital amount and capital reserves that correspond to Salvadoran Banks in accordance with the provisions herein, with the exception of the offices referred to in the second paragraph of the previous Article;

e) Credit having at least five years operating with satisfactory results, as provided for in the reports of the oversight entity of their country of origin, and of internationally renown rating firms; and

f) Clearly submit to the laws, courts and authorities of the Republic, regarding any action executed and contract entered into in Salvadoran territory or that should take effect in such territory.

Application and Proceedings

Art. 28.- The application for a foreign bank to obtain the authorization to set up and operate in the country, in accordance with the preceding Articles, shall be processed as provided for in the provisions in Article 18 and following of this Law.

The Superintendence, in a term not to exceed ninety days from the submission of the application, and prior to the report from the Central Bank, shall grant the bank the permission to establish and operate in the country,

provided that the projected financial bases and the seriousness, soundness and responsibility of the institution guarantees it shall not jeopardize the interests of the public.

The same resolution shall authorize the recording of the incorporation documents or a certification of the same at the Registry of Commercial Concerns.

Oversight and Other Authorizations

Art. 29.- Foreign banks authorized to operate in the country as provided for in Article 26 of this Law, shall be subject to the inspection and oversight of the Superintendence under the same terms as any Salvadoran Bank.

Prior to the granting of the respective authorization, the Superintendence shall sign cooperation memorandums with the oversight institution in the country where the main offices of the authorized bank are located, in order to coordinate all oversight activities.

The provisions set forth in Articles 21 and 22 herein, shall be enforced by foreign banks authorized to operate in the country, as applicable.

Preference of Resident Depositors and Creditors

Art. 30.- Depositors and creditors residing in El Salvador shall enjoy preferential rights over the assets that a foreign financial institution owns in the country.

Applicable Regime

Art. 31.- Unless otherwise stated, a foreign bank operating in El Salvador in accordance with the preceding Articles shall enjoy the same rights and privileges and shall be submitted to the same laws and shall be governed by the same standards and regulations applied to Salvadoran banks.

CHAPTER III
BOARD OF DIRECTORS ADMINISTRATION, REQUIREMENTS AND LEGAL INCAPACITY

Obligations and Responsibilities of Board Members

Art. 32.- Directors, executive directors or general managers of a bank should at all times watch over the deposits of the public to insure they are handled under the criteria of honesty, prudence, and efficiency, as if it were their own business. They shall be liable for the sound administration of the bank, insuring that the laws, regulations, instructions, and internal applicable standards are complied with at all times, and should abstain from executing practices or applying legal standards that willfully distort the objectives of a prudential performance. They shall also be liable for ensuring that the information provided to the Superintendence and the public is true and transparent, reflecting the true financial status of the bank.

The non compliance with this provision shall be penalized by the Superintendence with a fine ranging from fifty to five hundred minimum wages, unless there is any other specific penalty herein or in other laws, without disregarding the criminal liabilities incurred. The penalty shall be imposed by the Superintendence by applying the procedures provided for in the Internal Law of the Superintendence.

Board Members Requirements and Legal Incapacity

Art. 33.- Banks should be managed by a Board of Directors, comprised of three or more full directors and the same number of alternate directors, who should be renown for their honesty and their knowledge of financial and adminstratrive matters. The Board Chairman or his replacement should have at least five years experience in directive or high management positions in any financial or banking institution.

The following are incapable of being Directors:

a) Those under thirty years of age;

b) Directors, officials or employees of any other national bank or loans institution. An exception to this are the provisions contemplated in Article 14 letter d) of the Law for the Creation of the Multisectoral Investment Bank and the Fund for Credit Losses and Financial Strengthening;

c) Any debtor of any bank, except when the debt was authorized in accordance with the provisions set forth in Article 204 herein;

d) Any individual under a state of bankruptcy, payment suspension or creditors composition agreement and in no case an individual who has been judicially sentenced as responsible for a willful bankruptcy;

e) Any debtor of the Salvadoran financial system for loans requiring a loan loss provision of fifty percent or more of the balance.

This incapacity also applies to directors who possess twenty five percent or more of the shares of any corporation under the above situation;

f) Any individual who has been part of the management of a financial institution, either as director, manager or official and whose responsibility has been duly proven, as off the entry into force of the Law for the Privatization of Commercial Banks and Savings and Loan Associations, in an equity shortfall of twenty percent or more over the legal minimum required, or in the need for the State or the Deposit Guarantee to contribute to clear the institution, or in the need for the pertinent entity to take over the institution or in the need to restructure it and consequently lose the authorization to operate as a bank. In the case of legal representatives, general managers, executive Directors and Board members in executive positions in a financial entity, it shall be assumed that they were liable regarding any of the above mentioned circumstances. The previous assumption shall not be applied to individuals who ceased to work for the institution two years before the situation arose; nor to those who participated in the clearing of financial institutions, in accordance with the provisions set forth in the Law for Loan Losses and the Strengthening of Commercial Banks and Loans and Savings Associations, without disregarding the liability in which they might incur after the loan loss provision;(4)

g) Any individual sentenced for having willfully committed or participated in the commission of any crime;

h) Individuals whose participation in any drug related activity, any derived crime and money and other asset laundering, has been duly proven;

i) Any individual who has been penalized administratively and judicially for having participated in a serious crime against the financial laws and standards, particularly for attracting funds from the public without the required authorization, granting or receiving loans which exceed the allowed ceilings and financial crimes; and

j) The President and the Vice President of the Republic as well as the ministers and Vice ministers of State, full Deputies, Justices of the Supreme Court of Justice and the Second Instance Courts, and the presidents of state autonomous institutions and businesses;

The clauses contained in letters d), f) y h), as well as in the first paragraph in letter e), that concur in the spouse of a director, shall render the latter incapable, provided they live under the tenancy by entireties, or income sharing regime.

Executive directors, directors with executive positions or CEO's should fulfill the same requirements and not have the disabilities provided for herein for the President. If dealing with the remaining bank managers and executives with authorization to decide on loans granting, they should meet the same requirements and not have the disabilities set forth in this provision for directors, with the exception of the provisions set forth in letter a) of this Article, and in this case it must be proven that they have at least three years experience in this matter. (4)

Directors, executive directors and managers, within the thirty days after taking office and in January each year, shall give their sworn statement at the Superintendence that they are not incapacitated to perform the job and inform this institution no later than the following working day about their incapacity if they should become incapacitated in the future.

Representatives and Administrators of Foreign Entities

Art. 34.- The management of the businesses carried out by foreign bank branches authorized to operate in the country, shall be entrusted to one or more representatives or managers residing in the Republic, with sufficient powers as provided for in Article 27, letter c) herein.

The provisions set forth in Articles 32, 33 and 35 herein shall be also applied to the representatives, managers or directors of foreign institutions operating in the country, as well as to their officials authorized to grant loans.

Declaration of Incapacity

Art. 35.- In the event that any of the causes for incapacity mentioned in Article 33 of this Law should arise, the term of the director, or official shall terminate and he or she shall be replaced in accordance with charter of incorporation of the respective bank.

The superintendence on its own or responding to a request by any party, shall declare the incapacity.

Notwithstanding, actions and contracts authorized by an official, prior to the declaration of incapacity, shall not be invalidated by this circumstance, with respect to the bank or third parties.

CHAPTER IV
MINIMUM CAPITAL AND CAPITAL RESERVES

Minimum Authorized Capital

Art. 36.- The capital stock paid by a bank may not be less than one hundred million colones.

The Board of Directors of the Superintendence shall update the capital stock amount referred to in this Article, based on the Consumer Price Index, and prior the opinion of the Central Bank, in order to maintain its actual value. Banks shall be given a term of one hundred and eighty days to adjust their capital stock.

Capital Stock Increase

Art. 37.- Banks can increase their capital stock at any time. The shares to be subscribed must be totally paid for in the term agreed upon by the respective General Shareholders Meeting or by the by the Superintendence, without disregarding the provisions established in Article 7 herein. In the event that the increase takes place to set off against the bank, as referred to in Articles 43 y 86 of this Law, the prior authorization of the Superintendence shall be required. (4)

The call to a General Meeting to increase the capital stock, shall be Published in two major domestic newspapers, fifteen days ahead of the meeting date, with at least two notices in each one.

During the General Meeting referred to in the previous paragraph, shareholders shall be clearly informed about the reasons that justify the capital increase and the advantages for them if they subscribe new shares.

The agreement to increase the social capital shall be published only one time in two major domestic newspapers explaining the advantages for shareholders if they subscribe new shares as well as the disadvantages of not doing so.

In no case shall non perceived income be capitalized or distributed as dividends, nor the surpluses due to reappraisals, unless the respective goods subject to the reappraisal were sold in cash, prior the authorization of the Superintendence and in accordance with the laws of the latter. When these goods are sold with funds from the bank, the surplus shall be acknowledged as the positive difference between the sales price and the cost, less the capital balance and interests gained by the loan granted.

In the case that the real estate sales operations are carried out, as referred to in the previous paragraph, between related persons mentioned in Article 204 herein or with the subsidiaries of the bank in question, they shall only be considered as encashed if made in cash.

Capital Stock Reduction

Art. 38.- A bank can only reduce its capital stock with the authorization of the Superintendence. Under no circumstance shall a bank be authorized to reduce its capital below the amount of capital stock paid in accordance with Article 36, or in violation to the provisions set forth in the third paragraph of Article 41, without disregarding the provisions set forth in third paragraph of Article 40, all of them part of this Law.

Capital Reserves

Art. 39.- Banks must set up statutory reserves amounting to at least twenty five percent of their paid capital. In order to set up this statutory reserve, banks must earmark at least ten percent of their annual income.

Likewise, in accordance with their statutes they are allowed to set up other capital reserves.

Operating Balance Application

Art. 40.- At the end of each annual exercise, after the statutory reserve, banks shall retain from their earnings an amount equivalent to the amount of the products pending collection net from loan loss reserves. Retained income cannot be distributed as dividends while said products have not been actually collected.

Income made available in this manner shall be applied and distributed as provided for in the laws, the charter and the provisions set forth in the previous paragraph. In no case may dividends be paid or distributed when this implies the non compliance with the provisions established in Articles 41, 197 and 203 herein. Dividends cannot be paid nor distributed when a bank is under a regularization process as referred to in this Law.

In the event of losses in any given period, the General Shareholders Meeting in which these results are notified shall agree on the manner to cover them as follows:

a) With the annual earnings of other years;

b) With applications equivalent to the capital reserves, if the earnings are not enough; and

c) With a charge to the paid capital stock of the bank, if the reserves are still not enough to absorb the loss balance. This capital reduction shall be made by reducing the nominal value of the shares and the provisions set forth in Article 129 of the Code of Commerce shall not be applied. In the case that the capital is not enough to absorb losses, the reduction of the capital stock shall be made by canceling all shares. (4)

Without disregarding the provisions set forth in Article 76 of this Law, if as a consequence of applying the provisions in letter c) of the previous paragraph, the capital stock of the bank is reduced to a level below the one established in Article 36 herein, the corresponding bank shall have a maximum of sixty days to re-integrate it, if it is a nominal value reduction and thirty days if through a share amortization.

CHAPTER V
SOLVENCY

Ratio between Equity Fund and Weighted Assets.

Art. 41.- With the purpose of keeping their solvency, banks should present a ratio of at least twelve percent between their Equity Fund and the sum of their weighted assets, net from depreciation, reserves, and loan loss provisions. For this purpose the following shall be weighted:

a) One hundred percent of the total value of assets, except the following: money deposits in the Central Bank, in local banks or in foreign first line banks, loans to local banks, totally secured by money

deposits or local banks and foreign first line bank collaterals; long term credits granted to low and mid income families for housing purposes totally secured with mortgages; investments in securities issued by the State or issued and guaranteed by the Central Bank; stock exchange investments carried out with securities issued or guaranteed by the State, or issued and guaranteed by the Central Bank or issued by the Deposit Guarantee Institution; investments in securities issued by sovereign states or foreign central banks, cash availabilities and funds in transit;

b) Fifty percent of the total value: all securities corresponding to loans secured with local bank guarantees; loans to local banks with the exception of loans convertible into shares, according to Article 86 herein, which shall be weighted at one hundred percent; long term loans granted to low and medium income families for housing purposes totally secured by mortgages; cash deposits in local banks, the amount of bonds, guarantees, collateral; other payment commitments for the account of third parties; letters of credit, net from guarantee deposits and advanced payments and loans with guarantees from Salvadoran reciprocal guarantee corporations;

c) Between zero and twenty percent: funds in transit, credits, guarantees, bonds and collateral totally secured with cash deposits; assets under a trust administration, in accordance with the purpose of the trust and the type of assets in which assets are invested;

d) Between zero and one hundred and fifty percent: investments in securities issued by the state or foreign central banks, in terms of the risk rating of the issuing country. The Superintendence, with the prior favorable opinion of the Central Bank, shall issue the technical standards which establish the specific weights within the range established in this letter in terms of the risk rating, as well as the requirements to be complied with by the above mentioned ratings; and

e) Between twenty and fifty percent, in terms of their risk rating: cash deposits in foreign first line banks and loan guarantees, bonds and collateral secured by first line foreign banks. The Superintendence, with the prior favorable opinion of the Central Bank shall issue the technical standards which establish the specific weights within the range set forth in this letter, in terms of the risk rating, as well as the requirements to be complied with by the above mentioned ratings.

The value of the resources invested in the operations set forth in Article 23 herein, shall not be computed to determine the sum of weighted assets, nor the value of guarantees, bonds, and collaterals granted to subsidiaries abroad, nor the amount of corporate shares as provided for in Article 24 herein, nor the amount of other capital shares in any other corporation.

Highly liquid and low risk securities, that comprise the liquidity reserve referred to in The Second Title of Chapter VI of this Law, are not required to satisfy the equity fund requirement.

In any case, the Equity Fund of a bank cannot be less than seven percent of its obligations or total liabilities with third parties, including quotas. Likewise, said equity fund shall not be less than the amount of capital stock paid as indicated in Article 36 of this Law.

The Superintendence, prior the favorable opinion of the Central Bank and in order to Protect the savings of depositors, and following international guidelines and methodologies regarding bank prudential regulation,

may establish additional Equity Fund requirements regarding the weighted assets up to two percentage points with respect to the operational risk, market risk, risks derived from credit operations abroad, as well as other risks that could affect the solvency of banks and consequently customer deposits.

Banks shall have a term of one hundred and twenty days, from the day the Superintendence notifies them to adjust themselves to any additional equity fund requirement referred to in the above paragraph.

The Superintendence, prior the favorable opinion of the Central Bank, shall dictate the technical standards that shall allow to apply this article and the following. (4)

Equity Fund

Art. 42.- For the purposes of this Law, Equity Fund or Net Equity shall be understood as the sum of primary and supplementary capital, less the amount of the resources invested in the operations mentioned in Article 23 of this Law, as well as the amount of the shares in corporations according to Article 24 of this Law, and other capital share in any other company. In order to determine the Equity Fund, the Supplementary Fund shall be accepted up to the amount of the Primary Fund.

To determine Primary Capital, the paid for capital stock shall be added to the statutory reserve and other capital reserves from earnings gained.

The Supplementary Capital shall be determined by adding the results of previous exercises, other non distributable earnings, seventy five percent of the value of the surplus resulting from a reappraisal authorized by the Superintendence of any application received until January 31, 1998, fifty percent of the net earnings from income taxes of the current exercise; fifty percent of the voluntary loan loss provision reserves, and the fixed term subordinated debt up to fifty percent of the amount of the Primary Capital. The loss from prior exercises shall be deducted as well as from the current exercise, if any.

The subordinated debt referred to in the previous paragraph is comprised of credits that the bank contracts, and in the event of a dissolution and settlement of the same, all creditors shall be paid upon termination before the shareholders of the bank. The subordinated debt cannot be secured with assets from the debtor bank and shall be subject to the following conditions:

a) That the debt term be for at least five years;

b) That an accumulative discount factor of twenty percent a year be applied during the five years prior the maturity of the Equity fund for computation purposes; and

c) That the creditor be a first line foreign financial institution.

The following cannot be computed as Equity Fund: liability reserves or provisions, or those whose purpose is to service pensions, retirements and other benefits that the bank may grant its employees in a voluntary or obligatory manner. Allowance reserves such as depreciations, and loan loss reserves created in agreement with the instructions issued by the Superintendence.

Stocks Convertible Bonds

Art. 43.- For purposes of the previous two Articles, the Superintendence, by means of a general resolution may authorize the banks to consider the bonds issued and placed as Supplementary capital to convert them into shares as provided for in Article 700 of the Code of Commerce, which in the event of a composition of creditors, shall be paid after covering non preferential credits, provided that:

a) They gain an interest rate that reflects terms, risks and market conditions;

b) The total balance of the issued documents does not exceed thirty percent of the capital and capital reserves of the issuing institution; and

c) That they are paid for at a rate not below the nominal value.

The Superintendence shall determine the conditions and characteristics of the respective issuances in its resolution, so as to verify the preceding requirements.

CHAPTER VI (2)
LIQUIDITY REQUIREMENTS (2)

Liquidity Reserve

Art. 44.- The Superintendence of the Financial System shall establish a liquidity reserve that the banks shall keep in a manner proportional to their deposits and obligations.

Negotiable obligations recorded at the stock exchange, secured by means of mortgage credit guarantees issued by bancs at a five year term or more, shall not be subject to the liquidity reserve provided for herein, provided that the resources obtained through these instruments are earmarked to fund mid and long term investments, and for housing. (2)

Establishment of Liquidity Provisions

Art. 45.- Liquidity reserves of each bank may be constituted as a US Dollar at sight deposit, at the Central Bank or as US Dollar securities issued by the Central Bank. This reserve may also be invested abroad, as deposits in first line banks which should be qualified and authorized by the Superintendence for this purpose, or in high liquidity and low risk securities issued. In this case the Central Bank is authorized to act as custodian and manager, as determined by the Superintendence. In any case, deposits and values that comprise the liquidity reserve should be free from any lien, unattachable, and their availability shall not be subject to any restriction. (2) (4)

The liquidity reserve shall be general to cover the various types of obligations.

Without disregarding the above, differentiated reserves could be established, depending on the nature of the obligations or deposits. In any case, the average liquidity reserve should not be higher than twenty five percent of the same. (2)

The Superintendence, in coordination with the Central Bank shall dictate the standards to enforce the provisions referred to in this Article. The investment of the reserves should be easily identifiable and totally separated

from any type of liquid resource kept at the bank, and the Superintendence may delegate in the Central Bank the supervision of these obligations. (4)

Remuneration from Liquidity Provisions

Art. 46.- Liquidity reserves constituted as at sight deposits or Central Bank securities shall be remunerated. The Central Reserve Bank of El Salvador shall charge a commission for managing the reserve. (2)

Calculation and Use of Liquidity Provisions

Art. 47.- The Superintendence shall determine the frequency with which the liquidity reserve shall be calculated and shall inform about the period in which a bank can set off the amount of liquidity deficiencies it might have on a given day with the surplus resulting on other days during the same period. Likewise, it shall dictate the necessary technical standards to enforce the provisions on liquidity reserves dealt with in this Law.

Each bank can use its reserves to cover its own liquidity needs, as provided for in this chapter and the technical standards the Superintendence may issue to this respect.

The Superintendence shall observe the following when drafting the above mentioned technical standards:

a) Of the total liquidity reserve above mentioned, twenty five percent shall correspond to the first tranche and shall be comprised of at sight deposits remunerated at the Central Bank or the foreign bank in question. The bank shall have automatic access to this tranche;

b) The second tranch corresponds to twenty five percent of the liquidity reserve comprised of at sight deposits remunerated by the Central Bank or the pertinent foreign bank, or securities issued by the Central Bank to this effect. The bank shall have automatic access to this tranche. The Central Reserve Bank of El Salvador shall charge a commission for managing the reserve The Central Reserve Bank of El Salvador shall charge a fee proportional to the amount of funds withdrawn on this tranche; and

c) The third tranche shall constitute fifty percent of the liquidity reserve, comprised of securities issued by the Central Bank to this effect or in accordance with the Superintendence; the use of this tranche requires the prior consent of the Superintendence of the Financial System.

When the use of the liquidity reserve so requires, the Central Bank may carry out repo operations with the securities that comprise the liquidity reserve (2)

Art. 48.- To calculate the liquidity reserves that corresponds to a bank, the whole set of main offices, branches and agencies established in the Republic shall be considered.(2)

Liquidity Provisions to Other Entities

Art. 49.- The Superintendence may decide on liquidity reserve requirements for other legally established entities that habitually receive money from the public through any liability operation in their line of business.

The Central Bank shall inform the Superintendence on a daily bases about the liquidity status of banks, as the depositary of the previously mentioned liquidity reserves.(2)

Regulation Plan
Art. 49-A.- DEROGATED. (2) (4)

Repo Operations
Art. 49-B.- In order to protect banking liquidity, the Central Bank may carry out repo operations with US Dollar securities issued by the State, by the Central Bank itself or by the Deposit Guarantee Institution, with the funds that the state deposited for this purpose.

The operations referred to in the previous paragraph shall be carried out by the Central Bank in Coordination with the Superintendence, but only in the following cases:

a) To prevent general liquidity problems in the financial system;

b) To establish liquidity in case of a crises caused by a strong market squeeze; and,

c) In cases of force majeur.

The Central Bank shall issue the respective technical standards to enforce this Article. (2)

Liquid Assets Requirement
Art. 49.-C.- Without disregarding the liquidity reserve established in Article 44 of this Law, and as a prudential measure, the Superintendence shall establish a liquidity requirement for all banks part of the system, consisting in a given percentage of liquid assets related to their enforceable liabilities. The liquid assets comprising the liquidity reserve shall be included in this percentage. The Superintendence shall set the percentage above referred to in this Article and shall also set forth the technical standards to comply with this requirement.(2)

Fines and Penalties due to Liquidity Requirement Deficiencies
Art. 50.- Banks that incur in liquidity reserve shortcomings at the end of the computation period established by the Superintendence, shall be penalized by the latter regarding the missing amount, in accordance with the procedures established in its internal Law.

Likewise, the non compliance with the liquid assets requirement contemplated in Article 49-C of this Law, shall be penalized by the Superintendence in accordance with the procedures set forth in its internal Law.(2)

THIRD TITLE
FINANCIAL OPERATIONS AND SERVICES

CHAPTER I
GENERAL OPERATIONS

Types of Operations
Art. 51.- Banks may carry out the following operations either in local or a foreign currency:

a) Receive at sight deposits, that can be withdrawn by means of a check or another way;

b) Receive term deposits;

c) Receive savings deposits;

d) Obtain funds through the issuance of savings capitalization securities,

e) Attract funds by means of the issuance and placement of mortgage bonds;

f) Attract funds through the issuance of bonds or other negotiable securities;

g) Attract funds through the issuance of deposit certificates, mortgage bonds, bonds or any other way that allows attracting mid and long term resources to be placed for housing projects for low and mid income families;

h) Accept term bills of exchange drafted against the bank from goods or services operations;

i) Discount the bills of exchange, promissory notes, invoices and other documents that represent payment obligations;

j) Acquire, assign, enter into contracts with a reselling back pledge and assign commercial instruments, securities in any capacity, as well as any other instrument that represents the obligations undertaken by corporations. With the exception of shares, unless these shares are not permitted by Article 190 of this Law; or to carry out similar operations with securities issued or secured by the State or issued by the Central Bank or to participate in the secondary mortgage market;

k) Accept and manage trusts, with the prior authorization of the Superintendence;

l) Contract credits and undertake obligations with the Central Bank, domestic and foreign banks and financial institutions in general;

m) Keep assets and liabilities in foreign currencies and execute currency purchase and sales operations;

n) Accept, negotiate and confirm letters of credit and documentary credits, and also issue those letters of credit;

o) Undertake monetary contingent obligations by granting bonds, guarantees and other sureties, insuring the compliance with an obligation on behalf of third parties at the charge of some customers;

p) Collect, pay, transfer funds and issue credit cards;

q) Issue bills of exchange, collections, payment orders and wire transfers against their own corresponding offices;

r) Receive valuables and documents under their custody and provide safety boxes and transportation of cash and valuables services in general;

s) Serve as the financial agent of financial institutions and domestic, foreign and international enterprises, to place resources in the country;

t) Grant any type of loans, such as the ones related to agriculture, raising of livestock, industry, commerce, transportation, construction, and other forms of producing goods and services, the procurement of non perishables and consumption expenses;

u) Grant mortgage loans for the procurement of housing or land, their improvement, repairs, or any other residential purpose;

v) Assign, at any capacity whatsoever, credits from own portfolio, as well as to acquire credits, provided that these operations are not carried out under a reselling back pledge, in which case it shall be rendered nil or valueless; and

w) Other credit asset and liability operations and other services approved by the Central Bank.

CHAPTER II
LIABILITY OPERATIONS

Powers of the Central Bank

Art. 52.- The Central Bank may dictate standards through an instructive regarding the terms and negotiability that banks have to follow to attract funds from customers in any way, either in domestic or foreign currency.

The Central Bank may also dictate the standards regarding the face value of readjustment mechanisms of the activities mentioned in letter g of Article 51 of this Law, in order to preserve the actual value of the same.

Likewise, the Central Bank may set resource attraction ceilings for the banks, under any mode, coming from the State and autonomous state institutions and companies, based on their deposits and total liabilities. The Central Bank shall be empowered to dictate the regulations for the enforcement of this provision.

The Superintendence shall penalize the violation to the provisions set forth in this Article, as provided for in its internal Law.

Issuance of Negotiable Bonds

Art. 53.- Banks may issue any type of negotiable obligations such as bonds and mortgage bonds with only the agreement of the respective Board of Directors; To issue stock convertible bonds the agreement of the General Shareholders Meeting is required.

Art. 54.- Support documents issued by banks to attract funds must have the following legend: "This bank is authorized by the Superintendence of the Financial System to attract funds from the public".

Banks must display the above described legend in their customer Service Offices.

Any person who uses the above legend without being authorized to do so shall be penalized as provided for in Articles 283 or 284 of the Criminal Code or in both, without prejudice of any other crime they might have committed.

Conditions Established by the Banks

Art. 55.- Each bank shall prepare standards to regulate the characteristics, modes and conditions for the constitution of sight deposits, term deposits, savings account deposits, capitalization contracts and to issue bonds , mortgage bonds and other securities.

These standards should be approved by the Central Bank, regarding the transfer or negotiability and the term, without prejudice of the provisions contemplated in letter "L" of the following Article.

These standards on terms, interest rates, interest capitalization, surcharges, commissions and other conditions that translate into material benefits or costs for users shall be disseminated to the public. Banks shall publish this information in two major domestic newspapers, at least three times a year which shall be totally available to users in their customer service offices.

Applicable Terms of Reference

Art. 56.- In order to draft the standards referred to in the previous paragraph, banks shall take the following into account:

a) They can pay interests, commissions and benefits over sight deposits, regardless of their currency and the rules to withdraw the money, and the bank may also prohibit or restrict said payment when the circumstances so merit.;

b) Banks may receive deposits in fungible securities, with the obligation to replace securities with ones of the same kind and quality, for the deposited amount;

c) Banks may establish special deposit plans in savings accounts, on behalf of individuals interested in buying a house, giving these individuals preference in the granting of loans for this purpose; and also special deposit plans in parallel savings accounts also granting family consumption loans, such as the ones related to health, education, and the procurement of goods required in a household;

d) The interests gained by deposits in savings accounts shall be calculated based on daily balances which shall be credited to an account and shall be capitalized at least at the end of March, June, September and December of each year on the date the account is closed;

e) Amounts deposited in a savings account shall not have a ceiling and shall gain interests as of the time of delivery. The type of interest shall be set and published by the pertinent institution and can be increased at any time in accordance with this Law, but cannot be reduced unless through a notice published with at least eight days in advance to its enforcement. In this last case, savings account customers can withdraw their deposits without a prior warning; the publications referred to in this letter shall be made once in two major newspapers.

Likewise, in the case of the renewal of term deposits, if the bank reduces the interest rate, it shall notify the depositors with eight days in advance to maturity, to allow them to withdraw them during the fifteen days following the expiration of the term, without penalty.

f) Savings account deposits shall be verified with a passbook, which is unassignable and shall show proof of an enforceable right against the bank on behalf of the legal bearer, without the need to recognize the signature, and no other prior requirement than the legal payment of the balance shown on the account. These deposits may be verified through account statements or other means authorized by the Central Bank;

g) Minors having celebrated their sixteenth birthday may open a savings account, make deposits and withdraw the money freely and create capitalization bonds;

h) Current, savings and term depositors may designate one or more beneficiaries in order to deliver them the deposited funds, with their respective interests in the event of death of the holder,
Unless otherwise stated by the depositor, the bank shall be obliged to notify beneficiaries in writing and in a term of three days, about the designation on their behalf.

Depositors shall state the ratio in which the balance of the account shall be distributed among beneficiaries; otherwise it shall be assumed that the distribution shall be in equal parts.

The bank has the obligation to notify beneficiaries in writing about the designation on their behalf, within the three days following their knowledge of the death of the depositor.

The rights corresponding the current, savings or term account beneficiary or beneficiaries in accordance with this law, shall be subject to the provisions set forth in Article 1334 of the Civil Code;

i) Legally issued capitalization bonds shall constitute an enforceable right against the issuing bank, either upon maturity, for the total amount capitalized by virtue of term expiration, or at any time before, for the respective redemption amount, without the need to recognize the signature and with no other requirement than a certificate issued by the Superintendent, acknowledging the balance owed to the holder, and stating that the holder does not have any kind of pending secured loans with the bank, whatsoever;

j) Amounts up to the sum of twenty thousand colones that have been deposited in a savings account at the bank for more than one year, can only be attached to cash an obligation related to child support;

Notwithstanding the above, if it is proven that the sentenced person has several savings accounts and capitalization bonds in the same or different financial institutions, and that as a whole the balance exceeds the twenty thousand colones, only the amounts deposited in the most senior accounts shall enjoy the non attachment privilege, up to the established ceiling;

k) Mortgage bonds shall be issued in series and under the conditions as determined by the same issuing bank;

l) Banks may carry out operations and render services to customers using automated equipment and systems, and contracts have to express the operations and services entered into; how to identify users and the responsibilities inherent to their use; and how to certify the creation, transmission, amendment or termination of rights and obligations inherent to the operations and services dealt with.

Any form of ID established in accordance with the provisions set forth in this letter, that replaces a written signature, shall produce the same effect as that granted by the laws to the corresponding documents and consequently, shall have the same evidentiary value; in the event that these operations are carried out by means of a standard form contract, whose models should be made available to the Superintendence in advance, and who in turn may, in a time frame not to exceed thirty days following the deposit of the model, and based on reasoned decision, require any changes deemed necessary, if the models contain clauses contrary to the laws or when they are considered to violate he rights of a customer. In any case, the bank is obliged to explain the customer the implications of the contract, before it is signed. (4)

m) The securities referred to in letter g) of Article 51 of this Law, in accordance with the general provisions of the Central Bank, can be negotiated. They shall be backed up with the guarantees provided by law and their face value can be readjusted, in order to preserve their actual value.

The Board of Directors of the Superintendence shall adjust the amount referred to in letter j) of this Article every two years so that it may keep its actual value, but prior the opinion of the Central Bank and based on the Consumer Price Index.

Bank Assets Affected

Art. 57.- The operations carried out by the banks which imply the creation of any lien on its freely available assets, for amounts that exceed two and a half percent of the Equity Fund of the respective Bank, shall be executed notifying the Superintendent with no less than five working days in advance. This same treatment shall be given to an eventual effect on income.

Likewise, with the exception of securities or other liquid or treasury investments, or idle goods, foreclosed assets or in the cases that the Superintendence might determine in general that the sales of bank assets for amounts exceeding two and a half percent of the Equity Fund of the respective bank shall require the prior notification of the Superintendent. This same notification shall be made in the case of foreclosed assets or loans portfolio among corporations part of the same conglomerate.

The Superintendent may make observations in a term of five working days after the communication. If within this term there is no pronouncement, it shall be understood that there are no observations to the operation. (2) (4)

Art. 58.- DEROGATED(2)

CHAPTER III
ASSET OPERATIONS

Criteria followed to Grant Financing, its Types and Terms.

Art. 59.- Banks shall base the granting of financing on the analysis of each application, to allow to appreciate the risk of recovering the funds. To this end, they shall consider the payment and entrepreneurial capacity of applicants, as well as their moral standing, and present and future economic and financial status, for which they must require their audited financial statements as provided by law; the guarantees necessary in each case; the list of partners or shareholders with their share in the capital stock and all other elements and information considered pertinent. Additionally, they may request tax returns and other elements deemed necessary.

In the event of obtaining resources from the Investment Multisectoral Bank or other sources of credit, banks shall grant loans in harmony with the financing conditions established by the pertinent source. If resources are in a foreign currency, they may grant the financing for which debtors must agree to repay in the same foreign currency.

Short term loans are those up to one year; mid term loans are those for more than one year but not more than five years; and long term loans are those that exceed five years.

On payment Systems and Electronic Transactions.

Art. 60.- Deposit and credit operations of banks and other institutions through the accounts manager of the Central Bank, can be carried out electronically. To this end, the records, or logs contained in the IT systems shall have an evidentiary value, as well as any print that reflects transactions carried out by the same digital signature records or IDs of authorized system participants. Certificates issued by the Central Bank´s authorized staff person in charge of keeping the above mentioned records and controls, shall have enforceable rights against the parties that do not comply. The instructions issued by the Central Bank shall be irrevocable.

The operations referred to in the previous paragraph, may adopt the shape of inter bank loans, settlement of operations resulting from the clearance house, direct credits and debits, transfers related to State operations, transfers to and from abroad, and other operations carried out among Banks themselves.

The Central Bank shall regulate the Check clearance system and other payment systems among banks and other financial system institutions. The payment system operation can be carried out by the Central Bank or by other entities.

Banks shall accept the electronic instructions to carry out credit and debit operations in customer accounts sent by other Banks. In the case of debit operations these shall be executed in accordance with the agreement reached in advance between the customer and the source. (4)

Information System

Art. 61.- The Superintendence shall keep a credit data service regarding users of the institutions part of the financial system, with the purpose of facilitating the risk assessment of user operations, which could be entrusted to a private organization.

Banks and other institutions under the supervision of the Superintendence shall be obliged to provide the information requested by the latter.

CHAPTER IV
RELATIONSHIP BETWEEN ASSET AND LIABILITY OPERATIONS

Sources and Usage Relationships

Art. 62.- The Board of Directors of the Superintendence shall issue the standards that govern the relations between asset and liability operations of Banks, at the proposal of the Superintendent and with the prior opinion of the Central Bank, aiming at keeping the risks derived from the differences in terms and currency within the a reasonable prudence range. Additionally, the Board shall dictate the standards and the ceilings of banks regarding, guarantees, bonds, and sureties and other contingent operations.

Internal Control Policies and Systems

Art. 63.- Banks shall elaborate and implement policies and control systems that allow them to handle their financial and operational risks in a sound manner; considering among other things, the provisions related to the handling, destination and diversification of the loan and investments, liquidity management, interest rates, and operations in foreign currency, as well as those carried out abroad.

Likewise, banks shall establish policies, practices and procedures that allow them to know their clients well.

The policies referred to in this Article, as well as the changes to the same, shall be subjected to the approval of their respective Boards of Directors, and should be communicated to the Superintendence in a term not to exceed ten working days. External auditors shall inform the Superintendence about their compliance.

Interest Rates

Art. 64. The banks will freely establish the interest rates, commissions and surcharges; nevertheless, the interest rate variation policies shall have to be previously informed to the Central Bank and the latter shall only be able to fix them in cases contemplated in Article 29 of the Constitution or in situations of serious imbalance of the monetary and credit market and per periods not higher to one hundred and eighty days.

The interest rates, commissions and other surcharges that the banks apply to their operations will have to be informed on a monthly basis to the public or whenever they are modified. Under no circumstance a bank shall be able to increase them in asset operations or to diminish them in liability operations, without having previously informed the public.

For purposes of the above paragraph, banks shall publish such information, at least, in two major domestic newspapers, and they will also have to exhibit them in bulletin boards installed in their customer service offices, in addition to any other mass media. These communications will have to be done in a clear, legible and visible way, being such institutions compelled to fulfill what has been offered or communicated to their clients.

The interest for the asset and liability operations shall be calculated based on a calendar year, considering the days passed in each operation. In no case will they be able to calculate based on a commercial year or combining the latter with the calendar year.

The Central bank shall publish the average interest rates of the banks with a frequency of at least once a month.

Creditors Rate

Art.65 – Liability rates that are communicated to the public shall be the minimum rates that the banks will pay for deposits and other obligations in their different forms and terms.

In the case of saving accounts, banks will not be able to charge commissions for account management unless the balance of the account is lower than the minimum established by the bank to open a savings account.

In the case of fixed-term deposits and obligations with adjustable interest rates, the regularity of the adjustments and the differential in relation to one of the rates published on the previous paragraph, which will remain fixed during the term of the deposit or obligation unless it is modified in favor of the depositor or investor, shall be specifically defined in the deposit or the securities contract.

Depositors Rate

Art. 66. – Each bank will have to establish the single reference rate for its loan operations in national currency and another one for its loan operations in foreign currency, and inform the public.

Banks shall establish the interest rates in relation to the rate of reference published by them. For loan operations with adjustable interest rates, the differential in relation to the rate of reference that will be applied during the use of the loan, the regularity of adjustments and the moratory interests charged in cases of payment arrears shall be clearly described in the contract entered into to this effect. The established differential will be the maximum and the moratory interest will remain fixed until the total repayment of the respective credit obligation. The modifications in the interest rate of reference shall be applied to all loans with adjustable rates granted by the banks.

Notwithstanding the provisions set forth in this Article, banks shall be able to establish loan programs with adjustable interest rates that are not tied to the rate of reference and the same interest rate and equal commissions shall be applied to loans granted within each program, and any increase to the rates shall be published according to what is established in this Article, thirty days in advance to said increase, when it occurred. Banks shall communicate the Superintendence the opening of each special program as provided for by the latter.

Likewise, banks shall be able to grant mid and long term loans with adjustable interest rates with resources coming from specific financial institutions, tying these interest rate adjustments to the cost of the financial resources.

Notwithstanding the provisions set forth in this Article, Banks may establish loan schedules with adjustable interest rates not linked to the reference rate and the same interest rate and equal commissions shall be applied to loans granted within each schedule, and any increase to this rate should be published as provided for in this Article, whenever it occurs, with thirty days advance notice. Banks shall communicate the opening of each special schedule in the manner required by the Superintendence.

Likewise, Banks may grant mid and long term loans with adjustable interest rates with resources from specific financial institutions, linking said interest rate adjustments to the cost of the financial resources.

It is forbidden to charge interest rates not yet gained, notwithstanding otherwise agreed. Every payment shall be imputed first to interests and the remaining balance, if any, to the principal. Interests cannot be agreed or charged over interests gained and unpaid. Nevertheless, to facilitate the access to loans for five or more years earmarked to the financing of housing investments or purchases, banks may use the system of adjustable fees that contemplate the capitalization of interests, but in no case shall interests derived from payment arrears or moratory interests be capitalized.

Interest rates over depositor or asset operations shall only be applied for unsolved balances during the time these balances are outstanding. In the case of delinquency, the moratory interests shall be calculated and paid over delinquent balances and not the total balance, notwithstanding otherwise agrees.

In credit document discount operations, the discounting bank may deduct the amount of interests agreed upon with the discountee from the nominal value of the discounted document, but if the obligation were paid in full before maturity, the institution is obliged to pay the interests not gained.

In asset operations, the bank shall publish the maximum effective annual rate for each type of operation. This computation in one operation or one type of operation shall be made taking into account total charges that the bank shall charge the customer, incorporating the term and modes to redeem the obligation and express it in percentage terms over the principal.

In every loan operations contract entered into with a customer, besides the nominal interest rate and all other charges established, the bank shall certify the actual yearly interest yield, in letters and numbers using a larger letter and number size, placing it right after the nominal interest rate. The noncompliance with this provision shall be penalized by the Superintendence in accordance with its internal law.

The Superintendence shall issue the provisions that shall allow enforcing this Chapter. Likewise, it shall oversee the compliance with these provisions and shall penalize any breach to the same, as well as any case in which the publications are wrong or misleading.

CHAPTER V
SERVICES

Trusts

Art. 67.- Banks may practice trust operations, prior the authorization of the Superintendence as provided for in the following Article, by receiving goods to manage, employ or dispose of them on behalf of a trustee according to the instructions given by the trustor in the trust creation document. In no case can a bank carry out forbidden operations or those that exceed the amounts permitted to them as Banks, particularly those set forth in Articles 197, 202 and 203 of this law, with the trusts entrusted to them.

Besides, Banks are empowered to offer and render goods custody and management services to their customers.

Banks shall perform through authorized professionals as required by Law.

Authorization to Manage Trusts

Art. 68.- In order to be authorized by the Superintendence as foreseen in the previous Article, Banks must submit the business plan, organization and policies that shall be applied to the various kinds of trusts to be offered to customers.

Within the first five days of each month, banks are obliged to inform the Superintendence in writing about the trusts created the previous months. The Superintendence shall have thirty days, from the date it received the information, to object said trusts.

Banks shall guarantee the full separation of trustors´ equity from their own equity, for which each trust shall have a separate accounting.

Trust Certificates and Reserves

Art. 69.- Banks can issue trust share certificates, provided that the Superintendence verifies the existence of the of the trust and an expert appraises the goods part of the trust, so that they can be used as the floor for the issuance.

Notwithstanding the provisions in the previous paragraph, banks are not allowed to issue trust share certificates to invest in credits or other financial instruments.

Trust share certificates shall be issued in series, in denominations and under the conditions determined by the issuing institution.

When a bank receives liquid funds by way of trusts or any other operation of the ones mentioned in Article 67 of this Law or any other good for its investment in financial operations, the provisions set forth in Articles 197, 202 and 203 of this Law shall be applied, as well as the provisions on conflicts of interest and investment diversification established in the Stock Exchange Law to manage the portfolio.

Without disregarding the provisions set forth in Article 41 of this Law, the Superintendence may establish a different weight in accordance with the assets in which the managed equity is invested.

Banks in their capacity as fiduciary institutions shall be subject to the reserves established by the Central Bank regarding received funds, when these are placed directly or indirectly in a credit or other financial instruments that are not subject to a reserve.

The Superintendence shall pronounce the instructions allowing the enforcement of this Article.

Operations and Services Rendered

Art. 70.- Banks shall perform the operations and render the services provided for in Article 51 of this Law, in accordance with the provisions in the Code of Commerce and other laws in effect, adhering to sound practices conducive to the safety of these operations and services and to an adequate customer service.

CHAPTER VI
FORECLOSED ASSETS

Procurement

Art. 71.- Banks may accept all kinds of guarantees and acquire movable and real estate goods of any kind, when accepted or acquired under any of the following cases:

a) As a supplementary guarantee, in absence of a better one, and when it is compulsory to insure the payment of a loan on its behalf, resulting from previously executed legal operations;

b) Whenever, in absence of other means, they had to accept them as total, or partial payment of credits resulting from operations legally performed in the course of their business;

it is necessary to make the payment effective, they c) Whenever they have to buy them to encash credits on their behalf, or to assure their rights as creditors; and

d) When adjudicated by virtue of a judicial action against its debtors.

In a term of five years from the date of acquisition, having to provision it as a loss in their accounting during the first four years through uniform monthly provisions.
Every provision that the bank established through a loan that originated the procurement of a foreclosed asset, cannot be reverted, but shall rather be transferred to the provision of the foreclosed asset under question. For purposes of the gradual creation of reserves, the provisions in the previous paragraph shall be fulfilled. In any case during the first year twenty five percent shall be completed and the second year fifty percent, the third year sixty percent and the fourth and last year one hundred percent of the allowance.

If at the end of the fifth year of their acquisition the bank had not liquidated the foreclosed assets, it shall sell them in a public auction within the sixty days following the expiration date, prior the publication of two notices in two major domestic newspapers in the Republic, clearly indicating the place, day and time of the auction and the base amount of the same.

The auction base Price shall be the actual value of assets, as estimated by the institution itself. In the event that no bidder appears, the auction shall be repeated no later than every six months.

If after an auction, a buyer shows up offering an equal or higher sum than the base value of the auction, the bank may sell the good without any extra proceedings than the offered Price.

In the event that the Superintendence should detect any irregularity in the auction process, it may require the repetition of the process, provided that the movable or real estate good had not yet been adjudicated. If the respective good had already been adjudicated, the Superintendence shall inform the Attorney General's office for this entity to follow the corresponding legal process.

Banks can preserve the goods referred to in this Article, provided that they are earmarked to Works that benefit the community, or for cultural purposes, goods for own use, or the welfare of their staff, prior the authorization of the Superintendence, and subjecting to the ceiling prescribed in Article 236 of this Law.

The Superintendence shall pronounce the corresponding Instructions to enforce this Article. (4)

CHAPTER VII
PRESCRIPTIONS

Public Savings Prescriptions

Art. 73.- Bank balances on behalf of the savings account holders, from deposits, capitalization bonds, transfers received and any other account that has been inactive for ten or more years, shall be deemed as prescribed, and shall pass to the State.

It shall be understood that an account has been inactive when its incumbent has not carried out any activity that might show his or her knowledge of the existence of the balance on his/her behalf or the purpose to continue keeping the balance in the bank. In both cases, the term of the limitation shall be counted as off the date in which the last activity took place at the bank.

In order to avoid the prescription, each bank shall publish one time in two mayor domestic newspapers during the first sixty days of each year, a list of all the accounts that have been found inactive for eight or more years the year just ended, indicating the account number and type, the name of the holders in alphabetic order. Additionally, banks may use at their discretion, other means to avoid the limitation.

The first three months of each calendar year, Banks shall inform the General Treasury Directorate about the capital sum of the accounts that in accordance with this Article prescribed the year just ended.

In the event of an account subject to the payment of interests, it shall also be understood that these interests gained are part of this procedure.

Credit Prescriptions

Art. 74.- Notwithstanding their mercantile nature, the actions derived from loan contracts granted by Banks and the Fund for Loan Loss Provisions and Financial Strengthening, shall prescribe five years after the holder recognized his/her obligation for the last time.

FOURTH TITLE
REGULARIZATION, RESTRUCTURE, TAKE OVER AND SETTLEMENT (4)

CHAPTER I
REGULARIZATION PROCESS (4)

Art. 75.- Whenever a bank incurs in any of the causes mentioned in Article 76 of this Law, the Superintendence, defending the rights of depositors and for social interest reasons, shall demand the compliance with a regularization plan that shall allow the bank to go back to normal. (4)

Art. 76. The Superintendence shall require that a bank submit a regularization plan and comply with it, in any of the following cases:

a) When the ratios indicated in Article 41 of this Law present any of the following circumstances:

I. That the ratio between the equity fund required and the sum of weighted assets is lower tan ten percent;

II. That the ratio between the required equity fund and the sum of weighted assets shows a shortfall of more tan two percentage points;

III. That the ratio between the equity fund and total liabilities is lower than six percent;

IV. When the equity fund is lower tan the paid capital stock indicated in Article 36 of this Law.

b) When at the request of a bank, the use of the third tranche of the liquidity reserve is authorized, or that resource shortfalls were decreed to comply with its payment obligations, regardless of the nature of the same;

c) When the existence of a financial conglomerate has been declared, in accordance with the provisions in Articles 115 and 116 of this Law.

d) When, based on the technical reports, and according to the judgment of the Superintendent, one of the following situations have been detected:

I. Illegal practices that endanger the deposits of customers;

II. That as a consequence of a poor risk handling: of loans, the country, interest rates, market, liquidity, operations, legal or reputation, the solvency of the bank is endangered and consequently the recovery of customer deposits;

III. The occurrence of serious and reiterated violations to the prohibitions, parameters or operational directives established in the laws and standards, instructions, or resolutions of the oversight entities, that were communicated and that affect solvency and liquidity;

IV. That any of the subsidiaries present solvency or liquidity problems that affect the bank's solvency or liquidity;

V. That there are high levels of risk contamination among the remaining entities that comprise the financial conglomerate or entrepreneurial group, in accordance with the Securities Market Law, that affect the bank's solvency and liquidity;

VI. That one or more relevant shareholders that participated in the appointment of the bank's Board of Directors, present solvency problems, or have credits that require a loan loss reserve of fifty percent or more of the balance, when this affects the bank's liquidity or solvency;

VII. That there has been serious or reiterated violations to the spreads and limits established in this Law, particularly los stated in Articles 197, 202 and 203 of the same; or

VIII. That the contracts referred to in Article 208 of this Law have been objected in a reiterated manner, when this affects the solvency and the liquidity of the Bank.

When according to the judgment of the Board of Directors or of one of its members there is reasonable doubt to believe or it has been proven that one of the causes mentioned in this article has occurred, they should leave written evidence of this fact in the book of minutes and also inform about this to the Superintendence no later than one day after, as a relevant fact.

The Superintendence may decide to provide a special supervision to a bank that has been required to submit a regularization plan, in accordance with Article 87 of this Law, prior a hearing for three working days from the day of notification, so that the bank may use its right to a hearing. (4)

Art. 77.- Regularization plans have to be submitted in a term not to exceed ten working days from the date that the bank receives the notification to submit the plan. The Board of Directors of the bank has to approve the plan before it is submitted to the Superintendence.

In order to be considered by the Superintendence, the regularization plan should contain a description of the set of measures, proceedings and commitments undertaken by the Board of Directors of the bank to insure its capitalization, as necessary, as well as the establishment of its financial balance or its level of liquidity. The following should be included among these measures: restrictions in the granting of loans and investments, sales of the portfolio or investments, renegotiation of financial obligations, and any other type of action conducive to the normal attention of deposits, and if necessary, the manner in which the bank shall be capitalized should be described.

The regularization plan shall contemplate the return of the bank to normalcy in the time frame set forth by the Superintendence, in accordance with Article 83 herein.

If in the opinion of the Superintendence prior or during the compliance with the regularization plan, it might require that the bank deposit the loans recoveries and increases in deposits or other forms of obtaining money in a limited access account at the Central Bank. The measure could continue until the bank has completed its

regularization process. In such cases, the Central Bank shall pay a yield over these deposits, equivalent to the interest rate determined by the Board of Directors. (4)

Art. 78.- When the levels of the Equity Fund are lower tan the ones required in Article 41 and higher tan the ones indicated in letter a) of Article 76, both in this Law, or when the non compliance recorded by the entity does not deserve the requirement of a regularization plan and the commitments undertaken by the bank to overcome this situation are not sufficient in the opinion of the Superintendence, then the Superintendent shall require that the pertinent bank submit the measures and commitments considered necessary to solve the shortcomings, and among these measures we could include, restrictions to the granting of loans and investments, sales of the loans and investments portfolio, renegotiation of financial obligations, capitalization of the bank through the use of treasury shares or any type of measures that allow to solve the shortcoming.

Whenever the measures undertaken are not adequate to solve the shortcoming, the provisions in Article 76 herein shall be followed. (4)

Art. 79.- The Superintendence shall have five working days to approve the regularization plan proposed, formulate observations, demand compliance of any other type of measures deemed convenient to overcome the irregular situation of the bank, or reject it. In the event of observations to the plan, the bank shall have five working days as off the day following the corresponding communication, to submit the corrected plan and the Superintendence shall have in turn three working days to approve it or reject it definitely. Notwithstanding the above, the actions conducive to correct the differences of the bank shall start from the moment of detection by the bank officials or Board members or by the Superintendence. (4)

Art. 80.- Having demanded a regularization plan to a bank, if the Superintendence decides to carry out a special audit to a banks financial statements, and purged the same, the Board of Directors shall immediately call a General Shareholders Meeting to agree on the amortization of any resulting losses, in the order established in Article 40 herein; This board shall be set up on the first summons, regardless of the quorum, and members shall be summoned once in two major newspapers three days before the Meeting. The application of losses shall not require any other formality than the agreement of the General Shareholders Meeting, and the provisions contained in Section "F", Chapter VI, Title II Book I of the Code of Commerce shall not be enforced. The general purged balance shall attest without the need to record it in the Registry of Commercial Concerns.

In the event it were necessary to redeem the losses with capital stock, the provisions set forth in Article 35, Number I of the above mentioned Code , shall be applied.

In the case that the losses determined by the Superintendence and the audited and purged financial statements are different, the highest shall be accounted for.

Any of the officials with the legal representation of the bank shall be empowered to amend the banks charter in those clauses deemed necessary to reduce the principal, with no other authorization or requirement than those provided for in this Article. (4)

Art. 81.- In the event that the loss redemption does not absorb all the capital stocks of the bank and to use treasury shares to capitalize it , they should be offered to shareholders, respecting their right to a preferential

subscription, which they shall exercise in a term of three days from the date of publication of the notice in two major newspapers or to other investors, immediately after writing off the losses in accordance with the order provided for in Article 40 of this law. (4)

Art. 82.- Notwithstanding the above, if the Superintendence deems that the existence of any of the causes described in Article 76 endangers the repayment of customer deposits, it may decide to subject the bank to any of the restructuring procedures established in this Title, without any other proceeding, and in accordance to the opinion of the Superintendence regarding the seriousness of the situation of the bank. (4)

Art. 83.- The Superintendence may grant an initial term of up to ninety days to comply with the regularization plan and thus overcome the cause that originated the application of the regime or its consequences. The term shall be counted from the date that the bank informs the Superintendence about the cause or from the date that the Superintendence informs the bank about the same, provided that the oversight entity detected the problem.

This initial term of ninety days can be extended by the Superintendence, for additional periods of up to thirty days that together with the initial term shall not exceed one hundred and eighty days, provided that in the Superintendence's opinion:

a) There are agreements and specific actions that insure the capitalization of the bank by its shareholders, other investors, creditors, or financial institutions; or

b) Substantial advancements have been made to solve the detected problems.

Notwithstanding the above, when the Board of Directors of the Superintendence in a resolution reasoned by a qualified majority agrees to the acknowledgement of an extraordinary situation, this term can be extended until it is recognized that the extraordinary situation has disappeared. (4)

Art. 84.- The Superintendence shall penalize the bank that does not submit the regularization plan required in accordance with this Law, and also the officials and board members who are responsible for these non compliances, in accordance with the procedures established in its internal Law. A similar treatment can be followed when the plan submitted was rejected because it was not drafted following the guidelines established in Article 77 herein. (4)

Regularization Termination

Art. 85.- It shall be understood that the bank has regularized its situation when it has overcome any of the causes described in Article 76, particularly when the ratio between the Equity Fund of the bank and the sum of its weighted assets or any other of the technical ratios established in terms of the provisions set forth in Article 41 herein, have been repaid to the minimum level required. (4)

Art. 86.- Prior the authorization of the Superintendence, that shall only grant this authorization when in its opinion this operation does not affect the solvency of the subscribing bank, banks may subscribe and pay shares representing a capital increase of another banking entity that is under the situation provided for in Article 76 of this Law. Likewise, they may grant an encashable loan in accordance with the Code of Commerce computed as Supplementary Capital of the Equity Fund at the receiving entity, provided that the term of the same is more than one year. Once the term is over, the loan shall be converted into full shares. This loan shall

only be considered as paid with the ordinary or treasury shares derived from the capital increase carried out to set off said credit, or in cash if the institution was regularized, in which case it must have the prior authorization of the Superintendence. This loan cannot be guaranteed with assets from the receiving entity.

In no case the value of the subscribed shares or of the convertible loan can represent more than forty percent of the Primary Capital of the bank subscribing the shares or creditor.

Banks subscribing the shares or having granted the loan-shares swap, or that have acquired bonds convertible into shares, may keep the corresponding shares.
The Superintendence may determine the equity fund and liquidity requirements for creditor or contributing banks, different to those established in this Law, for a term the oversight entity may so decide.

Banks under the regularization process may increase their capital stock by means of a compensation of bank shares of the obligations on behalf of creditors, prior the written consent of the latter. For this purpose, creditors shall be understood herein as all holders of obligations, different from those corresponding to depositors with balances below the amount of the guarantee granted by the Institution for Deposit Guarantees. (4)

Special Oversight

Art. 87.- Having required a bank to submit a regularization plan, the Superintendence may decide on a special oversight over said entity, for which it shall designate a Delegated Supervisor and any other assistants as necessary.

Once the Designated Supervisor has been appointed, the board of directors of the bank under a regularization process cannot meet without the attendance of this person, and any Meeting without him shall be deemed invalid as well as the decisions reached without this person's participation. The Delegate Supervisor shall have the right to veto any type of measure adopted by the board of directors or the banks management, when according to his opinion it could deteriorate the situation of the bank or not help to regularize it.

In any case the Delegate Supervisor and his assistants shall be free from any responsibility regarding any action or decision under their jurisdiction that was not brought before them, for their consideration.

Expenses required to perform the Delegate Supervisory or caused by this job, shall be paid by the bank under the regularization process. (4)

Art. 88.- Having required the bank to draft a regularization plan, the Superintendence may order the removal of its managers, including members of the board of directors so that they may be replaced in accordance with the banks charter, and to impose limits to the credit and investment policies of the bank, and declare the corresponding incapacities. (4)

Art. 89.- The Superintendence shall immediately notify the Central Bank and to the Institution for Deposit Guarantees about the requirement of a regularization plan from a bank. From that moment on, the Institution for Deposit Guarantees shall have an unrestricted access to all the information of the bank under a regularization process, either by its own means or through the Superintendence, regardless of the material support of the same. (4)

Penalties Related to the Regularization Regime

Art. 90.- In the case described in Article 76, letter a), or in Article 78, the Superintendence shall apply a fine up to ten percent of the value of the shortcoming, except in the case of a fortuitous or force majeur case. In the case that the bank does not comply with the obligation to inform, or if a date different to the actual one is decided to certify the shortcoming, the Superintendence shall establish this date and shall apply an additional fine up to ten percent of the value of the shortcoming, all in accordance with the provisions established in its internal law. (4)

CHAPTER II
RESTRUCTURE

SECTION A
GENERAL PROVISIONS

Art. 91.- The Board of Directors of the Superintendence , in defense of the rights of depositors and at the request of the Superintendence, prior to considering the reversal of the authorization to operate as a bank, may decide on its restructure:

a) When under any of the situations foreseen in Article 76 and has not yet overcome it in the term established by the Superintendence for its regularization process;

b) When it did not comply with any of the obligations, that correspond to it, derived from the regularization process and contained in Chapter I of the Fourth Title of this Law, endangering the solvency of the bank and the repayment of customer deposits ;

c) When it had not subjected itself to the regularization process either because the bank denies to do so or due to the omission of the bank to submit the regularization plan, and in the opinion of the Superintendence , endangers the solvency of the bank and the repayment of customer deposits;

d) When, even before the term determined to comply with the regularization plan expires, the Superintendence deems that it is not possible that it is not possible to overcome the shortcomings detected or if the situation of the bank is considered so serious that it cannot be resolved through a regularization plan; or

e) When it is requested by the Banks authorities (4)

Art. 92.- The Superintendence may adopt any of the measures that appear in this Chapter, or a combination of the same, to restructure a bank.

If the adoption of a restructure measure involves the participation of the Institution for Deposit Guarantees, it is necessary to have the prior favorable opinion of said institution. To this effect , the Institution for Deposits Guarantee may have all the information that it can obtain by its own means , in accordance with the provisions set forth in Article 89 herein, plus all other that is available to the Superintendence , the Institute deems it necessary.

If the opinion of the Institute is unfavorable, the Superintendence shall proceed to revoke the authorization of the bank to operate, and the Institute shall pay the guarantee to the depositors.

The decision of any type of restructure measure adopted by the Superintendence shall be informed immediately to the Central Bank and to the Institute for Deposit Guarantee. (4)

SECTION B
RESTRUCTURING MEASURES

Art. 93.- Once the Superintendence decides on the restructure of a bank, the Superintendence shall be empowered to adopt one or several of the following measures:

a) Require the bank to proceed to record the reduction of the equity fund or of the corresponding capital as a consequence of recognizing the losses originated in the partial or total formation of risk provisions on assets whose repayment, redemption, encashment or liquidity status is required by the Superintendence;

b) Grant a term not to exceed thirty days to allow the bank to resolve an increase in the capital stock which it has to subscribe and pay for within this time frame, using treasury shares for this purpose, in order to comply with the requirements established by the standards in force;

c) Decide on the exclusion of assets and liabilities of the bank, under the terms of Section C of this Chapter;

d) Require the legal take over of the bank, under the terms provided for in Article 104 of this law; or

e) All those other technically necessary steps, in accordance with the nature of the problem.

The Superintendence, may cease the exercise of the partnership rights of relevant shareholders, who participated in the actions that gave place to the financial deterioration of the bank under the restructure requirement, as a cautionary measure, while their responsibility in these happenings is fully evidenced through the process established in its internal Law. In this last case the authorization to be the owner of a percentage over one percent shall be revoked. (4)

SECTION C
EXCLUSION OF ASSETS AND LIABILITIES AND THEIR ASSIGNMENT

Asset and Liability Exclusion

Art. 94.- The Superintendence shall decide on the exclusion of assets at their discretion, for an amount equivalent to the liabilities corresponding to labor deposits and obligations, called "the excluded mass" as a whole.

The excluded mass can also comprise secured creditors with collateral and mortgage loans, whose credit rights are lower then the value of the goods or rights that secure them, and if in the opinion of the Superintendence, this difference is necessary to pay excluded liabilities, in accordance with the preceding paragraph. In this case, although the excluded mass shall contain goods that were embargoed by the bank, it shall not acknowledge

these creditors more rights tan those generated by the assets specifically embargoed.

Any other type of liability that is part of the excluded mass of a restructured bank, shall respect the order of priority of payments defined in Article 112-A.

Banks undertaking liabilities that correspond to rights derived from the excluded mass shall receive the corresponding rights derived from said liabilities or the corresponding trust certificates mentioned in Article 97 of this Law.

The Superintendence shall issue the technical standards containing the standards to appraise the assets part of the excluded mass, which must be adapted to the international accounting standards.

In case that the asset repayment values finally turned out to be higher tan the face or accounting values of the excluded liabilities, that difference shall be used to satisfy the holders of non excluded liabilities, in accordance with the corresponding payment order of priority. (4)

Assignment of Excluded Assets and Liabilities.

Art. 95.- The excluded mass could be transferred in accordance with the modalities established herein, and shall not respond for any other type of obligation different to the ones incorporated,, nor other order of priority or subordination of collection rights tan the ones established in this Law, except for the costs required to for the encashment of the assets and the attention of liabilities. (4)

Art. 96.- The assignment of part or the totality of the assets and liabilities of the excluded mass shall be made by the bank under restructure, through a public deed in which the goods assigned, in any way, can be described in a global manner, for their amount and entry, according to the balance used by Banks. The name, surname, brand name or denomination of the depositor or the debtor, whichever is pertinent, balance to the date of deposit, and as necessary, the original amount of the loan, place, date and time of notary that authorizes it. It shall not be necessary to describe the goods given as collateral, it shall be sufficient to give the number of presentation or recording, in the respective Registry. If the documents were subject to a recording, they shall be recorded at the corresponding registry without the need to provide any certificate of solvency whatsoever.

The transfer of title of goods and their corresponding guarantees and accessory rights shall operate with full rights, without the need of an endorsement, notices or recording, except in the case of real estate, and real guarantees that shall be recorded in the corresponding registry and the respective transfer of title deed and the corresponding procedures shall be followed. Additionally, the notice regarding the assignment of the deposits and credits can be done through a publication of the extract of the transfer, in two major domestic newspapers. (4)

Art. 97.- The transfer of the excluded mass can be carried out by means of the constitution of a trust in which the assets of the mass are included as trust committed goods, whose trustee shall be the bank under restructure.

The same procedure pointed out in the previous article shall be followed to formalize the transfer of a trust property.

Trust participation certificates shall be issued, regarding the trust that correspond to the different categories that will reflect the subordination order for payment rights, required to satisfy the restructure process, which can be acquired by other banks and by the Deposit Guarantee Institute, and the latter is in charge of acquiring those of inferior category, as needed, since it is the entity that legally guarantees the deposits. It will be enough to have the appraisal made by the Superintendence as prescribed in Article 94 herein, to comply with Article 893 of the Code of Commerce and Article 69 of this Law.

The Superintendence may determine requirements from the Equity Fund, liquidity and other technical relationships other tan those established herein, and to the Banks that participate in the restructure process, undertaking deposits and liabilities of the restructured Banks.

The undertaking of the liabilities shall be formalized as stated in Article 96, as applicable. (4)

Art. 98.- The Deposit Guarantee Institute is empowered to acquire trust certificates mentioned in the previous article, in the amount it may determine based on a cost benefit study referred to in Article 175 of this Law, under the conditions approved by its Board of Directors. Likewise, The Deposit Guarantee Institute may also, if necessary, issue put options for these trust certificates, on behalf of other buyers or holders of the trust certificates. (4)

Art. 99.- In the case that the excluded mass contains liened goods, the receiving bank or the trustee of the excluded mass, as the case may be, may free the liened goods at the satisfaction of the respective mortgage or collateral creditor. (4)

Art. 100.- If as a consequence of an asset and liability exclusion, a bank undertakes total or partial deposits of a bank under restructure, the holders or owners of the deposits originally constituted at the bank under restructure, shall consider themselves as depositors of the receiving bank under the modalities and conditions agreed upon, and the receiving bank is exempted from complying with any other type of regulatory demand to fulfill the agrees upon accords, without the need of any other proceeding. (4)

Art. 101.- No protection measures on excluded assets shall be taken, and executive trials cannot be initiated or pursued when the embargoes affect these excluded assets, unless these have the purpose of collecting a mortgage or collateral loan or one derived from a labor relationship, or a food obligation of the creditor. (4)

Art. 102.-Asset assignment necessary to establish a trust referred to in Article 97 of this law, shall be exempt of the Real Estate Transfer Tax, and of the payment of the Value Added Tax, as well as of any registry duties necessary to record them. The same treatment shall be accorded to asset procurement by Banks by virtue of the restructuring process of the bank.

The Deposit Guarantee Institute shall rate the need to transfer these assets to the trust. (4)

Art. 103.- The creditors of the bank under restructure, divesting the excluded assets, shall have no action or right against the buyers of said assets, unless they could be repossessed with respect to special privileges that fall on certain goods. (4)

SECTION D
LEGAL TAKE OVER

Art. 104.- Once the restructure of a bank is decided, the Superintendence may, at any given moment, directly require any of the Mercantile judges of San Salvador to appoint one or several referees. The Judge shall resolve the appointment of the person or persons that the Superintendence placed as referees, designating the functions and duties that the Superintendence has granted, within a term of sixteen working hours that cannot be extended after the request is received.

The judicial referee or referees appointed by the judge shall represent the bank exclusively for the granting of the necessary instruments to assign the excluded mass goods, or to set up the trusts referred to in the articles in this Chapter. The bank´s Board of Directors shall continue managing everything that does not refer to the goods part of the excluded mass or the establishment of the trust. (4)

CHAPTER III
CEASE OF OPERATIONS

Art. 105.- The Superintendence, at the request of the bank authorities, or in defense of the rights of the depositors and also for social interest reasons, prior the favorable opinion of the Central Bank, may decree the transitory total or partial suspension of the operations of a bank, for an initial period of up to thirty days:

a) Whenever any of the causes mentioned in Article 76 should arise, and that could endanger the recovery of the deposits of customers; or

b) When it is required to enforce any of the restructure measures.

The term of the suspension can only be extended for sequential periods of up to thirty days each by the Board of the Superintendence, prior the favorable opinion of the Central Bank, but this period cannot exceed a total of ninety days, taking into account the original term.

While the term of the suspension elapses, no protection measure may be enforced, and no forced execution can be taken by third parties against the suspended bank and the acceleration of the Bank's liabilities is also suspended, as well as the earning of interests generated by the latter. (4)

CHAPTER IV
ABROGATION OF THE JUDGEMENT TO OPERATE

Art. 106.- The Superintendence shall revoke the authorization to operate conferred to a bank when:

a) At the request of the bank's managing team, provided that there are no obligations derived from deposits and that the circumstances mentioned in the first paragraph of Article 109 de this Law were verified;

b) The partnership is dissolved as provided for in the Code of Commerce and other related laws;

c) For the reasons set forth in Article 76, and provided that in the judgment of the Central Bank, cannot be resolved by means of a regularization plan; or

d) Assets and liabilities have been excluded as necessary, as a result of its restructure.

Once the notice of the annulment of the permission to operate is issued, the partnership is extinguished as well as its power to exercise as a bank, and the partnership has to change its name , and eliminate the Word bank from its name.

In the cases contemplated in letters b), c) y d) of this Article, the Superintendence can abrogate the authorization to operate as a bank, prior a hearing, for a period of three working days from the day of its notice, so that the interested party can use its right to a hearing. (4)

Notice

Art. 107.- In the cases of letters b), c) and d) of Article 106 herein, the Superintendence shall immediately notify the bank authorities regarding the abrogation of the permission to operate and shall also notify the Attorney Generals Office, the Central Bank and the Deposit Guarantee Institute and finally to the Superintendence of Mercantile Obligations. (4)

Closing of Offices

Art. 108.- From the date of the notice resolving to abrogate the authorization to operate as a bank, the partnership shall close its offices, agencies and branches operating as such, and shall place a sign communicating the public about the reversal. Notwithstanding the above, the Superintendence may authorize the use of said offices to facilitate the payment of deposit guarantees, as the case might be. (4)

Voluntary Settlement

Art. 109.- For a bank to request the reversal of the authorization to operate, it must have paid all its obligations derived from its deposits, and should not be included in any of the causes established in Article 76 and that according to the Superintendence it will be able to comply with its obligations , without increasing the level of indebtedness it had at the movement of making the request.

The voluntary liquidation of the partnership can only take place after the authorization to operate as a bank has been annulled.
Once the obligations derived from deposits extinguish, and if the Superintendence should authorize the voluntary liquidation of the other operations of the bank, this process shall be followed in conformance with its Partnership Agreement, the Code of Commercial Concerns, and all other regulations and laws in force.. While there are no deposit obligations and until the final annulment of the authorization to operate is fully annulled, the bank under the voluntary operations liquidation process shall adjust its operations in compliance with the special regime established by the Superintendence. (4)

Legal Settlement

Art. 110.- Once the authorization to operate as a bank has been annulled, due to the causes set forth in the letters b), c) and d) of Article 106, the corresponding settlement shall take place in accordance with the Code of Commercial Concerns and the Mercantile Procedural Law, with the exception of the procedures foreseen

in this law, by means of an trustee in bankruptcy appointed from a short three name list proposed by the Superintendence.

The Deposit Guarantee Institute may supervise the asset settlement process, in the event that deposit guarantees were paid, with the purpose of seeing to the recovery of its assets.

The Deposit Guarantee Institute may coordinate joint actions with the liquidator judicial or the trustee in bankruptcy, in order to facilitate the process of claims filed by the depositors y all the documents that this entails. (4)

Art. 111.- Although the Banks may request the transitory cease of operations in accordance with the procedures set forth in Article 105 herein, it may not request by itself the cease of obligation payments nor its own bankruptcy, under the terms of the Code of Commerce. These measures may not be claimed by third parties either.

The partnership that results from the annulment of the authorization to operate as a bank, shall be subjected to the respective provisions contained in the Code of Commerce, the Mercantile Procedures law, with the exception of the matters regulated by the Bank Law, such as those relative to financial conglomerates. (4)

Depositors Privilege

Art. 112.- Bank deposits are privileged loans regarding all the other obligations of a bank. In the event that a bank is under a restructure process regulated by this Law, the payment of the said deposits shall be covered with:

a) The proceeds of the sale of the assets defined by the Superintendence in accordance with the provisions set forth in Section C, Chapter II, of this Title; or

b) Through the payment made by the Deposit Guarantee Institute, in the event that the annulment of the authorization to operate as a bank, up to the guaranteed sum, all in compliance with this Law.

The privilege of the depositors and creditors, implies that they receive payment of their credits in the preemptive order and the ratio established herein.

Payment Ranking

Art. 112-A.- In the cases that the annulment to operate as a bank due to the causes established in letters b), c) and d) of Article 106 herein, shall execute the payment in accordance with the ranking as follows:

a) Wages, social benefits and food;

b) Owed balances to all depositors, up to fifty eight thousand six hundred and twenty five colones;

c) Obligations with foreign Banks derived from the short term financing of foreign trade, provided these are recorded in the registries that the Central bank keeps for this purpose;

d) Balances owed to depositors exceeding fifty eight thousand and six hundred twenty five colones;

e) All other obligations that enjoy privileges in the country.

f) Obligations derived from securities that lack a mortgage or collateral guarantees

g) Balances owed to the Banco Multisectorial de Inversiones that lack a mortgage or collateral guarantee;

h) Obligations on behalf of the State and the City Halls;

i) Other balances owed to third parties; and

j) Balances of the fixed term subordinate debt.

Depositors referred to in letters b) and c) of article 168 herein, shall be paid after having covered all other obligations encompassed in the above mentioned articles.

Obligations secured by a mortgage or a collateral shall be paid with the proceeds of those guarantees, and in the event of a debtor balance, these obligations shall be included in the corresponding letter within this provision.

In the event that a creditor, including depositors, hold delinquent obligations on behalf of a bank under liquidation, the amount of the payments made in accordance with this Article shall be credited to the delinquent amounts.

The amounts referred to in letters b) and d) of this Article shall be updated in terms of the secured amount in force at the moment of the settlement. (4)

Hearing Assurance

Art. 112-B.- The Superintendence shall grant the failed entity three working days from the notice to adopt any of the measures set forth in this title , to make use of the right to a hearing, when the law does not provide for any other established procedure for this purpose. (4)

Art. 112-C.- The Superintendent shall, prior to the expiration of the statutes of limitations established in the Civil Code, Commerce Code and Criminal Code and all other laws, initiate or give notice to the Attorney General's Office of the Republic to start the necessary judicial action against board members, managers, employees, administrators, external auditors, experts, appraisers, and in general any person that could be liable of the causes established in Articles 76, 91 and letter c) of Article 106, herein. (4)

FIFTH TITLE
CONSOLIDATED SUPERVISION OF FINANCIAL INSTITUTIONS

CHAPTER I
CONGLOMERATE SET UP

Concept and Structuring of a Conglomerate

Art. 113.- A financial conglomerate or conglomerate referred to herein, is a set of partnerships characterized by the fact that more than fifty percent of their respective capital shares are owned by a controlling firm, which is also a member of this conglomerate.

Notwithstanding the provisions in the previous paragraph, the Superintendence may authorize a bank set up abroad to be part of a conglomerate, provided that the controlling firm possess at least forty five percent of the shares of the mentioned bank, and that it complies with the following requirements:

a) That foreign banks are subject to the Superintendence's consolidated supervision and that in the country in which they are dwelling they are subject to in accordance with international usage;

b) That the Superintendence has undersigned memos of cooperation with the oversight entities in the host country, to facilitate a consolidated supervision.

c) That the foreign bank be included in order to determine the creditworthiness of the conglomerate; and

d) That it is proven that the controlling entity exercises the control of the bank, including the majority of the votes at General Shareholders Meeting, by means of joint performance agreements and the participation in the foreign Banks management.

The conglomerate's controlling entity can be a partnership whose exclusive purpose is the one set forth in letter a) of Article 121 herein, or a bank established in the country, that hereinafter can be called the controlling bank.

When this Law refers to a financial conglomerate or conglomerate, it shall be also understood that it refers to all the partnerships that are part of it. Likewise, when there is a reference to a "controlling partnership", or "controller" it shall be understood that it refers to the controlling bank and to the controlling partnership of an exclusive nature.

Financial conglomerates shall be subject to the Superintendence's consolidated oversight and to the approvals and requirements set forth in this Title.

Additionally to the exclusive purpose controlling partnership, as the case may be, the partnerships that are part of a conglomerate are banks chartered in the country and one or more entities of the financial sector such as insurance companies, fund management institutions, stock exchanges, securities deposit and custody entities,

credit card issuers, foreign currency exchange houses, financial leasing entities, general deposit warehouses, including their subsidiaries , duly overseen by the Superintendence or the corresponding oversight entity.

Likewise, the conglomerate can be comprised of controlling corporations chartered in a foreign country which operate in those markets or financial entities similar to the ones described in this Article, all of which have to be duly regulated and supervised in their respective countries.

Art. 114.- As result of a general resolution, the Superintendence may authorize other types of financial entities to become part of the financial conglomerate, provided that there is no legal prohibition

Existence Assumption

Art. 115.- The existence of a conglomerate shall be assumed when one or more ordinary shareholders are the owners of shares representing more tan fifty percent of the paid capital of a domestic bank, either directly or through legal persons, and one or more of the corporations mentioned in Article 113 herein, or when notwithstanding having percentages lower than that amount, as judged by the Superintendence or stated by the interested party, there is a common control of these entities.

It is assumed that there is common control of a corporation for the purposes of this Law, when a person or a group of persons acting jointly, directly or through third parties, participate in the ownership of the corporation or have power to carry out the following activities:

a) Insure the majority of votes in General Shareholders Meeting or elect the majority of Board members

b) Control at least ten percent of a corporation's capital with the right to vote, except if there is another person or group of persons with an agreement to act jointly, and which control, directly or through third parties, a percentage equal or greater than the one previously mentioned.

It shall also be assumed that there is common control when there are two or more common board members between two or more of the corporations mentioned in Article 113 herein, and when they use a common corporate image.

Prior to declaring the existence of a conglomerate, the Superintendence, based on any of the assumptions established in this Article, will hear the corporations affected by the conglomerate, so that in a period of eight working days after the notice, they can express if they abide by or oppose the declaration, annexing the corresponding evidence.

Regularization Obligation

Art. 116.- When the resolution declaring the existence of a conglomerate is firm, the corporations affected by this declaration must regularize themselves by adapting their structures to the provisions set forth herein, in a term of one hundred and twenty days, starting from the day they were notified of the corresponding resolution. To this end, they shall submit a Regularization Plan to the Superintendence, during the first thirty days of the term previously mentioned, indicating the necessary actions to be undertaken to transform and adapt themselves to comply with all the requirements established in this Title, in accordance with the provisions set forth in Article 77 of this Law. (4)

The transfer of shares approved by the Superintendence to set up financial conglomerates within the time frames set forth in this article, shall not generate any taxes.

If after the one hundred and twenty days referred to in this article, partnerships were not totally regularized, the Superintendence, at the request of the interested parties, may extend this time frame for another one hundred and twenty days, when the former may deem fit to do so.

Notwithstanding the provisions in Chapter I of Title IV herein, regarding the regularization plans, and for the cases in which there is a declaration of the existence of a financial conglomerate, the terms to deliver the plan, its compliance and extension, shall be the ones set forth in this Article. (4)

De Facto Conglomerates

Art. 117.- In the event that the partnerships affected by the declaration referred to in the above article should not submit their Regularization Plan within the indicated time frame or if they should express their intention not to regularize themselves or if after the initial period to become regularized has elapsed as well as the extension of the same and they still have not regularized themselves, they shall become subject to the obligations of financial conglomerates, and the pertinent provisions contained in Articles 41, 42, 197, and 203 herein as well as those regarding the ranking of risk assets, the establishment of loan loss reserves and external audits

The superintendence shall have the same oversight powers over these institutions as the ones conferred by the Organic Law and shall demand the preparation and presentation of the consolidated or combined financial statements, as the case may be.

It is forbidden for partnerships part of a group to carry out a joint trading of services, or to use equal or similar names that the public could identify as members of one same group, or to have common board members, share managers and staff, and in general act in a joint capacity, in accordance wit the provisions set forth in Chapter V of this Title.

Partnerships that fail to present the Regularization Plan within the deadline or that express their intention of abstaining to regularize, shall be given a term of sixty days from the date of the declaration referred to in the previous article, to stop the execution of any shared activity, the joint trade of services, the use of equal or similar names, the existence of common directors and sharing managers and staff.

Authorization to Invest in Partnerships

Art. 118.-The controlling partnership must request the authorization of the Superintendence to invest in a company that is already operating. The Superintendence will pronounce itself on the application within sixty days of the interested parties submitting the necessary background information, the permission to proceed will depend on whether if the projection of the consolidated Patrimonial Fund considering the future investment is more than the required minimum.

Whenever the application is meant for investing in the creation of a corporation, the Superintendence shall act in accordance to the procedure laid down by the respective laws or otherwise, the interested parties should resolve within a maximum period of sixty days after the filing of the necessary background information.

Common External Audit.

Art. 119.- The financial statements of all the member companies of the conglomerate, including the consolidated statements of the controlling corporation must be audited by the same external auditor registered with the Superintendence. The member companies of the conglomerate, based abroad, must be audited by associated firms or correspondents of the auditors of the controlling corporation, and if this were not possible, by internationally recognized audit firms

Without prejudice to the powers provided for in this Law and the Organic Law of the Superintendence, it may establish minimum audit requirements on the consolidated financial statements of the conglomerate, according to international standards.

Shares Deposit and Custody

Art. 120.- The shares that correspond to the investments of the controlling company and those that apply to investments of any other member corporation of the conglomerate, must remain free of any lien and will be kept under custody in a corporation specialized in the deposit and custody of securities recorded in the Public Stock Exchange Registry, however, may be taxed or transferred with the permission of the Superintendence.

CHAPTER II
HOLDING COMPANY

Controlling Company with and Exclusive Purpose

Art. 121.- Controlling corporations of exclusive purposes will be subject to the provisions on organization, management, ownership and operation of articles 5-21 of this law established for the case of banks and also must meet the following characteristics:

a) Its sole purpose is investing in more than fifty percent of the capital of the entities referred to in Article 113 of this Law. It may also have minority investments, for a total amount not exceeding one quarter of its equity fund, in shares of Pension Fund Administrating Institutions of the country and, together, the corporations referred to in Article 24 of this Act. Corporations in which the controller has minority investments, shall not be members of the conglomerate in question, but will be subject to all obligations of member corporations, as well as control of the Superintendence;

b) Its name must contain the term "Financial Investments" followed by a name that identifies with the bank's conglomerate. The Superintendence may object to the designation of a holding company that does not meet these requirements or that lends itself to confusion;

c) It may not maintain credit or linkages with commercial companies that are part of the conglomerate, with the exception of loans or bonds convertible to shares issued by them, nor can it enter into contracts with third parties, except those necessary for the development of its purpose;

d) It may not enter into financial obligations of any kind with third parties for a sum exceeding twenty per cent of its paid-up capital and capital reserves, including within this limit loans or bonds convertible into shares;

e) The directors must comply with Chapter III of Part II of this Act; and

f) will also be responsible up to the amount of their assets, of he obligations of the other member corporations of the conglomerate in the country, as long as the bank established in the country, according to the Superintendence, is up to date in compliance with its obligations and meets all the requirements of solvency according to the precepts of this Law.

The assets of the controlling corporation will be added to the mass of assets of the bank located in the country, when that bank is subject to the provisions of Section C, Chapter II of Part IV of this Act, or when the Institute of Deposits Guarantee pays for the guarantee to depositors of the bank, according to Article 92 of this Law. The application of this rule will keep unchanged the priority of payments specified in Article 112-A of the Act. (4)

Prohibition for Controlling Banks

Art. 122.- is forbidden for controlling banks and their subsidiaries to invest in the share capital of Pension Fund Administrating Institutions or Insurance Corporations.

CHAPTER III
RELATIONSHIP OF COMPANIES WITHIN A CONGLOMERATE

Support to Companies in a Conglomerate

Art. 123.- The controlling company is obliged to subscribe and pay on a timely manner the proportionate part corresponding to capital increases of member corporations of the conglomerate based in the country, which are required by the authorities or that are indispensable to regularize their asset status in accordance with the laws that govern it. Without prejudice to the possibility of obtaining resources by the usual means at its disposal, the statutes of the company shall include, among other measures, the sales of one or more of the corporations within the conglomerate, except the bank in the country.

The mechanisms established in this Article may be applied to regulate the corporations involved if the bank established in the country, according to the Superintendence, is up to date in the service of its obligations and complies satisfactorily with all solvency requirements; otherwise, the corporation must allow for third party investors to subscribe to shares of the subsidiary in question.

Bank Stability Maintenance

Art. 124.- In order to safeguard the stability of the bank established in the country, a member of the conglomerate, the Superintendence may require that the company proceed to dispose of its shareholding in those member companies that are subject of mismanagement or showing financial problems or solvency, if the periods allowed in the time frame for this purpose by the respective laws or by the Superintendent in his case were not normalized, or failing to agree on its dissolution and liquidation.

Provision to Invest in Companies

Art. 125.- The controlling corporation, subject to authorization by the Superintendence may dispose at any time in whole or in part of, the shares it may own. The Superintendence will authorize such sales when the order does not affect the consolidated assets of the corporation.

When for any reason the controlling company of exclusive purposes loses the majority of shares of a member corporation, it must dispose of the remaining shares within one hundred and eighty days of having lost the majority of shares, except when it is a joint investment.

Cross Capital Prohibition

Art. 126.- Subject to the limitations on investing in the stock of other companies covered in the laws that govern it, the member companies of the conglomerate may not invest in any way in the capital stock of other corporations in the financial conglomerate including shares of the controlling corporation, except when they are subsidiaries authorized by those laws.

An exception to the prohibition in the preceding paragraph are portfolio investments in shares and other securities of public offers to keep the member companies of the conglomerate as institutional investors exclusively in terms of the funds they manage, and always giving full respect to the procedures that apply to it under the laws that govern them.

Likewise, member companies of the conglomerate will be banned from guaranteeing in any way that third parties or the controlling corporation itself to pay the subscription of capital in other member companies. Nor can they keep within their assets any type of Bonds convertible into shares that can be computed as an endowment fund in the host society member of the conglomerate, except where provided for in Articles 86 and 121, literal c) of this Act. (4)

CHAPTER IV
CONGLOMERATE WORTH AND OTHER REQUIREMENTS

Requirement for a Consolidated Equity

Art. 127.- The Superintendence, taking into consideration the solvency requirements of corporations in which the controlling company of exclusive purposes invests in, will demand from it Equity Fund requirements at a consolidated level. In any case, the Equity Fund cannot be less than the amount of Equity Funds required by the norms corresponding to each one of the corporations in which the controlling corporation of exclusive purpose has invested in, according to the proportion of participation.

Additionally, for purposes of determining the assets of the conglomerate as a whole, in the case where a controlling corporation of exclusive purpose exists, the Superintendence will calculate the excess or deficiency of the conglomerate fund, adding to the Equity Fund of each of the member corporations, excluding the controlling corporation, and subtracting from the amount thus obtained the sum of their Equity Fund requirements. All of the above, without prorating the participation percentage of the controlling corporation in the respective corporations.

The provisions found in Article 42 of this Law will apply to calculate the Consolidated Equity Fund of the controlling corporation of exclusive purpose.

In the case of one corporation in which the controlling corporation of exclusive purpose has investments in has no regulations on matters covered by this Article or they are insufficient for the implementation of these rules, then the solvency provisions required by the banks will apply to those companies.

To the same purpose, in the case of the conglomerate of corporations based abroad, the Superintendence shall require that they meet the effective standards that apply to corporations of the same type in El Salvador.

The Superintendence may coordinate with the agencies responsible for overseeing the corporations in which the controlling corporation of exclusive purpose has investments in, the necessary measure for them to comply with the provisions of this Article.

Deduction of Investments in Shares

Art. 128.- In order to avoid a capital stock pyramid of the corporations within the conglomerate and of the corporations in which the controlling corporation has minority stake in, except for the controlling corporation of exclusive purpose, the value of investments in shares of any other corporation will be deducted to determine the Equity Fund or Net Equity of said corporations. Similarly, investments in shares of any other corporation will be deducted from the weighted assets of the respective entity.

Risk Taking Ceiling

Art. 129.- The bank established in the country being a member of the conglomerate, cannot assume risks at any time in any way directly or indirectly, with the controlling corporation of exclusive purpose nor with the other member companies of the conglomerate established in the country, for a total amount that exceeds fifty percent of the Equity Fund of the bank or ten per cent of its loan portfolio, whichever is less. Also, the amount of investments made by the bank in foreign subsidiaries and credits, guarantees, bonds and securities it grants to member corporations of the conglomerate established overseas, may not exceed fifty per cent of its Equity Fund or ten percent of the loan portfolio, whichever is less.

The bank established in the country being a member of the conglomerate, at no time can assume risks in any way directly or indirectly, for more than twenty-five percent of its Equity Fund, with the corporations in which it has minority stake. This limit will include credits, guarantees, bonds and guarantees that the bank issues to corporations in which the controlling corporation of exclusive purpose has a minority equity stake.

The credits that the bank grants to members corporations of the same conglomerate abroad are subtracted from the sum of its Primary and Supplementary Capital to determine its Equity Fund and will not be registered within the weighted assets.

The other member companies of the conglomerate will be subject to the provisions of Articles 197 and 203 of this Act and the classification of risk assets and establishment of sanitation reserves, according to rules issued by the Superintendence.

CHAPTER V
ON JOINT OPERATION OF FINANCIAL CONGLOMERATES

Joint Operation

Art. 130.- Art. 130 .- Only the member companies of a financial conglomerate, set up and operating in accordance with the provisions of this Act may work together in public, conduct joint marketing of services, offer complementary services and declare themselves as part of the conglomerate in question.

The corporations in which the controlling corporation has minority investments, that are not part of the conglomerate, may not act as envisaged in the preceding paragraph.

Ban to Share with Corporations of the Social Security Scope

Art. 131 .- The institutions that manage pension funds, in which the controlling corporation of exclusive purpose carried out a major capital investment, may not provide or receive services from any member company of the respective conglomerate, except as provided in the Pensions Savings System Law, nor may they share activities, infrastructure, local customer service, managers or staff, being able to share only the name and distinctive business.

It will be up to the regulating agency of the corporations who are presumed to be infringing to determine whether these activities violate the provisions of this Article and shall impose sanctions on offending corporations according to the procedure laid down in its Organic Law.

Advertising Cease

Art. 132 .- The regulating bodies of the member societies of the financial conglomerate, may order the suspension of advertising carried out by them, when believing it involves inaccuracy, darkness or unfair competition, or for any other circumstances which may conduce to errors, regarding their support, the nature of their services or operations.

Joint Operation Standards

Art. 133.- The member corporations of the conglomerate while developing their activities, may:

a) Use the same or similar names that identify them with the public as members of the same conglomerate, or retain the title they had before becoming part of that conglomerate. In any event, they should clearly identify the purpose of each institution belonging to the conglomerate;

b) Carry out their normal operations through offices and customer service agencies from other member corporations of the conglomerate, according to general rules issued jointly by the superintendence authorities which control the financial activity and welfare;

c) Share directors, managers and staff; (4)

d) Share customer databases. Each of the companies that are part of the conglomerate may make available economic financial information to the other institutions regarding their clients. In no case may they provide information subject to bank secrecy, and

e) Sharing of communication and computer systems.

The Superintendence, after a previous authorization from Superintendence of Securities and the Superintendence of Pension Funds, may issue regulations to facilitate the implementation of this article.

Segregation of Duties

Art. 134.- Without detriment to the provisions of the Securities Market Act, decisions of acquisition or disposition of securities carried out by member corporations of the conglomerate on their own, should be undertaken

separately and independently from those made by third parties on behalf of companies that are authorized to do so.

Managers, representatives, financial advisors of a member corporation of a conglomerate negotiating securities, may not participate in the management of another company that manages funds on behalf of third parties authorized by law. (4)

The limitations to which this article refers to are without prejudice to the member companies of the conglomerate that manage funds on behalf of third parties to share resources or infrastructure to conduct such transactions with other member corporations of the conglomerate.

Violations of the provisions in this Article shall be punished by the competent supervisory body, in accordance with the provisions of their respective Organic Law.

Non Compliance Sanction

Art. 135.- Failure to comply with the provisions in this chapter will result in a fine to be imposed administratively by the Superintendence of the Financial System, the Superintendence of Securities or the Superintendence of Pension Funds, in their respective jurisdictions, according to the procedure in question, up to five per cent of the paid-up capital of the company in question, which will refrain from proceeding with the activity that led to the penalty.

CHAPTER VI
CONGLOMERATE OVERSIGHT

Consolidated and Functional Oversight

Art. 136.- The controlling corporations will be subject to the control of the Superintendence, with all the powers conferred to it by its organic law. Equally, without prejudice to the powers of the rest of foreign or national supervising agencies regarding the control of the member corporations of the conglomerate, the Superintendence will have access to the information of each of them in order to exercise a consolidated supervision of the conglomerate, to ensure their general creditworthiness and develop their monitoring and control tasks.

The Superintendence will also have powers of inspection and audit over member corporations of the conglomerates, which are not under the jurisdiction of another Superintendence.

The Superintendence will have powers of inspection in corporations where there is common control with one or more member corporations of a conglomerate; it may also demand information and can apply sanctions in cases of non-compliance in accordance with their Organic Law.

Elements of judgment of involvement

Art. 137 .- When one or more member corporations of the conglomerate uses infrastructure of another member corporation, the latter should enable the Superintendence or the competent supervisory bodies responsible for oversight of a particular corporation of the conglomerate, to be able to, through the means provided by the law, carry out their monitoring and control obligations. In case the audit is obstructed, the

corporations involved and their respective managers shall be deemed as participants for the purpose of sanctions provided by the law.

Obligation to Inform the Superintendence

Art. 138 .- In order to facilitate the Superintendence´s ability to monitor the compliance wiiith requirements of soundness of the holding company of the conglomerate, the supervisory bodies of the member companies must inform the Superintendence, as often as it determines, on the relevant requirements applicable to the respective corporations and their compliance with these provisions, without prejudice to provide any other information it may demand.

The Superintendent must inform the remaining supervising agencies involved about the results of their assessment.

Coordinated Visits

Art. 139.- To carry out the consolidated supervision of the conglomerate, when deemed necessary, the Superintendence may conduct inspections at the offices of member corporations that are not directly under their supervision. In any case, the Superintendence shall coordinate for this purpose with the agencies responsible for overseeing the respective member corporation and the inspection visit may be designated to the latter.

Consolidated Financial Statements

Art. 140 .- The Superintendence, based on international accounting standards issued by internationally recognized entities, will issue rules to be observed in the preparation and publication of consolidated and individual financial statements of the controlling corporation, without prejudice to the individual financial statements that each of the member corporations has to elaborate and publish, as dictated by the corresponding laws or supervising agencies.

Year Book

Art. 141.- The company must prepare an annual report on its activities. In addition, it must inform its shareholders, at least quarterly on the progress of their businesses and composition of their investments. Also, with equal frequency, must deliver to the Superintendence, a list of persons or entities linked directly or through third parties to their property or management, with the information requested by the Superintendence.

Businesses with Related Parties

Art. 142.- Member corporations of the conglomerate may not enter into contracts with persons related to them by ownership or management, as provided in Article 204 of the Act, except those related to the provision of services, provided they are conducted under normal market conditions and credits associated with related people who are within the scope permitted by the laws that govern it.

Where there is reason to presume that the provisions of the above subparagraph have been infringed, or that the companies within the conglomerate are being exposed, particularly the bank in the country, to risks of contagiousness arising from the situation affecting those people related, the Superintendence, will have over those companies the same supervision powers that its organic law grants it in the case of banks. If determined that an offense or exposure has taken place, the Superintendence, without prejudice to penalties included in the laws, will order the immediate termination of such contracts or require the organizational arrangements that are necessary.

Penalties

Art. 143.- If by the circumstances described in the previous article, the authorization to operate was revoked from the member bank of the conglomerate in the country, according to Title IV of the Act, the directors, managers or administrative agents of the bank will be responsible for evading the consolidated supervision and will apply the sanctions contained in Article 240-A of the Penal Code.

The same penalty will apply to directors, managers, administrative agents of banks in the country which are not constituted as a financial conglomerate, whose revocation of authorization to operate under Title IV of the Act, may be caused by the circumstances set forth in the second subparagraph of the previous Article or by difficulties arising from contracts with persons related to a factual financial group. (4)

CHAPTER VII
INVESTMENTS ABROAD

Authorized Investments

Art. 144.- The controlling companies may invest abroad more than fifty percent of the shares of parent corporations in regulated financial groups, banks, insurance corporations or pension fund administrators or entities of the stock market constituted having similar nature to corporations that this Act authorizes investing to the controlling corporation of the conglomerate in El Salvador, all without prejudice to the investments that the bank of the conglomerate in the country can carry out, as provided for in Article 23 of this Act or other member corporations under the governing laws.

The investments referred to in the preceding paragraph shall require the approval of the Superintendence. In the event that any of the investments mentioned correspond to activities carried out in El Salvador are conducted under the supervision of another supervising agency, the Superintendence shall request its opinion first.

Requirement to Authorize Investments

Art. 145.- To authorize the investments referred to in the preceding article, the Superintendence must verify that the following requirements are met:

a) That the controlling corporation at a consolidated level and all member corporations, comply with the solvency requirements laid down by this Act and their respective special laws before and after the planned investment;

b) That the investment is justified according to economic feasibility studies - financial reviews carried out by the Superintendence;

c) That the country in which the investment will take place offers prudential regulation and supervision conditions according to international principles on the subject, which allows to determine the risk of operations and that its authorities have been duly informed about the investment. In any case, the authorization is subject to the approval of such authorities;

d) If partners will participate with a percentage equal to or greater than ten percent of its equity in a corporation in which capital will be invested in, they will need to demonstrate that they meet the requirements of Article 12 of this Law;

e) That the licenses granted to financial institutions or subsidiaries of the respective controlling company in the host country, enable them to operate with the local public under the rules applicable in that market;

f) That Salvadoran supervising organizations, depending on the nature of the investment, have signed memorandums of cooperation with the supervising organization of the respective host country, with the aim of coordinating the exchange of information, allowing for the consolidated supervision of the conglomerate, ensuring confidentiality of the information or that the country where the investment will take place has qualified risk conditions within the range described in the first category, according to a methodology and publications from international rating corporations included in a registered roster by the Superintendence, after the Central Bank has had an opinion of the matter.

g) That the corporation's foreign statutes allow Salvadoran supervisory authorities to exercise their oversight and request appropriate information, provided that the controlling corporation, whether directly or through the controlling company abroad, holds more than fifty percent of the shares of that foreign corporation.

The Superintendence will determine through an arraignment the documents to be submitted to process the request for authorization.

The investments of the controlling corporation and the resources granted by the member bank constituted in El Salvador to the corporations in the foreign conglomerate are subject to the provisions of Article 23 of this Law.

Ceilings

Art. 146.- The amount of foreign investments that the controlling corporation of exclusive purpose of the member corporations located in the country in accordance with the laws that govern it, shall at no time surpass fifty percent of the Equity Fund of the controlling corporation.

Oversight and Surveillance

Art. 147.- Without prejudice to the monitoring activities exercised by the authorities of the host country of the investment and in order to sustain the consolidated supervision of the Salvadoran financial conglomerate, the Superintendence must exercise control and demand information from foreign banks or other corporations in which the controlling corporation or the member corporations have invested, provided that they are owners of more than fifty percent of the voting shares of the respective corporation.

Coordination among Oversight Entities

Art. 148.- The audit of banks or companies referred to in the preceding Article shall be exercised in accordance with the memorandums of cooperation signed with the monitoring agency of the country in which the investment is made. These memoranda may authorize the audit institutions to share, in a reciprocal manner the information from the companies that operate in both countries. These memoranda must provide that

information to be provided to foreign monitors should be subject to the same reservation as established by law in El Salvador. In any case, the Superintendent may provide information subject to secrecy under Article 232 of this Act. They also will see memoranda facilities for drug control agencies of a country can make similar requests to their country to carry out special inspections in accordance with their respective powers, or directly undertake such work if this is indispensable.

Non Compliance of any Company part of the Conglomerate

Art. 149.- Without prejudice to the penalties provided by law, the failure to comply with any of the standards referred to in this chapter by the member companies of the conglomerate with investments abroad, shall empower the respective Superintendence to compel the company to dispose of all the shares it holds in the foreign company that has committed the infringement or require the dissolution of the latter, where appropriate. Superintendent will have the same power in the event that the foreign company's insolvency or mismanagement threatens the stability of the bank or other member company of the conglomerate located in El Salvador.

CHAPTER VIII
FOREIGN CONGLOMERATES IN EL SALVADOR

Requirements to Operate

Art. 150.- Salvadorans banks whose share ownership is owned in more than fifty percent by banks or financial conglomerates abroad, may only share names, assets, infrastructure or offer joint services to the public with other companies in the same foreign financial conglomerate as per Article 113 of this Law, provided that the conglomerate or foreign bank in El Salvador is a subsidiary holding company and give full effect to the provisions of this title.

Exceptions

Art. 151.- Foreign banks and financial institutions that establish branches or agencies in the country in accordance with Articles 26 and 27 of this Law and whose parent companies or the financial conglomerate they belong to own in the country more than fifty percent of other companies referred to in Article 113 of this Act may operate similarly to a financial conglomerate referred to in this Act without the need to establish in the country a subsidiary holding company. Equal treatment shall be given in the event that the bank set up in El Salvador is owned in more than fifty percent by first line banks or financial conglomerates from abroad that are subject to consolidated supervision by the authorities of their countries of origin.

Oversight and Surveillance

Art. 152.- The Superintendent will have the same powers on foreign financial conglomerates operating in El Salvador, as the ones conferred upon it in respect of financial Salvadoran conglomerates.

SIXTH TITLE
DEPOSIT INSURANCE ORGANIZATION

SINGLE CHAPTER

Charter and Residence

Art. 153.- Create the Deposit Guarantee Institute in this Title, referred to as "the Institute", as a public credit institution, autonomous, with legal personality and its own equity.

Its duration shall be indefinite and shall have its residence in the city of San Salvador.

Purpose

Art. 154.- The Institute will aim to guarantee the deposits of the public, under the procedures set out in this Act.

If the permission to operate of any of its members is revoked, the Institute will pay the sum that this law stipulates in Article 167 as a guarantee, according to the causes mentioned in the letter b) and c) of Article 106 of this Act .

The Institute may, alternatively, take part in the restructuring process of a bank in accordance with Section C, Chapter II, Title IV of the Act. (4)

Equity

Art. 155.- The equity of the Institute shall consist of:

a) A single contribution of the Central Bank of two hundred fifty million colones, which may be made in securities or other assets, as provided, for which this provision authorizes him to carry it out;

b) Premiums paid to member banks;

c) The movable and immovable property acquired for the development of its functions;

d) Donations from corporate or natural persons, and

e) Other income they can legally obtain.

Members

Art. 156.- The Members of the Institute shall be all banks regulated by this Act. The Banco de Fomento Agropecuario and the Multisectoral Investment Bank shall not be members of the Institute. The guarantee referred to in this title, in the case of Banco de Fomento Agropecuario, shall be granted by the State.

Also, branches of foreign banks where deposits are guaranteed in the country where these banks are established provided that this fact is checked by Superintendent, are not obliged to become members.

Management

Art. 157.- The Institute will be administered by a Board of Directors, which in this title shall be called the "Council", whose members serve for four years in office and may be reappointed. The Council will be composed as follows:

a) Two Directors appointed by the Central Bank, who will perform as Chairman and Vice Chairman and

b) Two directors appointed by the presidents of member banks.

Each director, except for the chairman, will have its own alternate who will be elected in the same way as the full member and will replace them in their absence, and when this is not possible, the Council shall appoint from among the alternates, another to take his place. In the temporary absence of the Chairman, the Vice Chairman will replace him. In the vent of a definitive absence of the Chairman or any other member of the Council, the corresponding body will elect a new one to end the period while a new one is appointed the Deputy Chairman shall replace him, or the respective alternate as the case may be.

The Council shall elect, in addition, a secretary from among its members, who will issue certificates of Council resolutions.

The alternate members of the Council will attend meetings as non-voting members, except when replacing a full member.

Appointment of Board Members

Art. 158.- The meeting to appoint directors referred to in paragraph b) of the preceding article shall be performed at least thirty days prior to the end of the period of the director being replaced. The call for holding the meeting shall be made by the Chairman of the Central Bank, at least fifteen days before the date specified in the invitation for the meeting. The call will be issued only once in a newspaper of national circulation.

The quorum for the meeting will be established with the assistance of the majority of those called and the election of directors will be by a majority of those present. The Chairman of the Central Bank will certify the results of that meeting.

In the vent of no appointment, the Chairman of the Central Bank shall notify the Committee of Superintendents, established in the Organic Law of the Securities Superintendence to proceed with the appointment in a term of fifteen days from the notification.

If for any reason a substitute is not appointed or has not taken office at the Council, the alternate shall continue in that position until the inauguration of the Director concerned.

Council Meetings

Art. 159.- The meetings of the Council shall be convened by the Chairman or his / her alternate and will be held at least once every three months. Meetings will be validly conducted with the concurrence of three of its members and decisions will require at least three votes in agreement. In the event of a tie the Chairman shall have a casting vote.

Privileges and Legal Counsel

Art. 160.- Council members will be tried for official crimes committed by the courts, after declaring that there is a cause of formation by the Supreme Court. The above officials are subject to regular procedures for common crimes and misdemeanors committed.

In the event that the directors or former directors of the Institute be sued by any person, for acts arising from the performance of their duties, the Institute may provide the necessary legal assistance .

Legal Representation

Art. 161.- The Chairman shall have the legal representation of the Institute and may delegate in the Deputy Chairman or other Council members, and empower them on behalf of the Institute, with the express permission of the Council.

Requirements and Incapacities

Art. 162.- The requirements established by this Act for the presidents of banks and disqualifications contained in the literal a), d), e), f), g), h), i) j) Article 33 of this Law shall be applicable to the directors of the Institute.

The causes contained in letters d), f) and h), as well as in the first paragraph of letter e), that concur on the spouse of a director, will lead to his disqualification, provided they are under the regime of deferred community or participation of profits.

Council members appointed by the Presidents of member banks, may be relevant shareholders, directors, chief executives, managers and other officials of the banks, except when the bank concerned is subjected to the process of regularization or restructuring referred to in this Act; in this case the Council member shall be exempt from office. (4)

Council members are to report to the Superintendent, no later than the next business day of the occurrence of the disability, if this occurs after the date on which it has taken up his duties.

It will be up to the Superintendent, ex officio or on application, to declare the Disability referred to this article.

However, the acts and contracts approved by a member of the Council prior to its inability are to be declared valid.

Council Functions

Art. 163.- The Council shall have the following functions and powers:

a) To develop the accounting system of the Institute and submit it to the Superintendent for approval;

b) To approve the Annual Budget. The operating budget may not exceed five percent of the premium income received during the immediately preceding financial year. In the event that the Superintendent requires the participation of the Institute on a restructuring plan for a bank, this limitation may be extended by the Council. This budget will be covered by the income Institute makes;

c) To approve the Annual Report of Work;

d) Manage the equity of the Institute with a cautious approach;

e) Develop the Operating Instructions of the Council;

f) Issue the Internal Rules of Work of the Institute;

g) To authorize the payment of the deposit guarantee referred to in this Title, when necessary;

h) Authorize in each case the support to the implementation and funding of a bank's restructure process, as well as coordinate with the Superintendence the oversight of the process in reference;

i) Report member banks, within ten working days of each quarter, the amount of premiums to be paid;

j) Sell the shares, other securities, property and rights acquired by the Institute according to the requirements of this Act;

k) Issue technical standards, in terms of their competence, addressed to member banks, especially with regard to payment and disclosure of the guarantee offered by the Institute to depositors;

l) To authorize entering into loans and negotiable and non negotiable bond issuance, with or without collateral, and

m) Others within its competence in accordance with this Act. (4)

Management Support

Art. 164.- The Institute will have their own executives and technical staff, and can also agree with the Central Bank on its administrative infrastructure and other resources needed for its operation.

Financial Statements

Art. 165.- The financial year of the Institute will be from the first of January to the thirty-first of December each year and at the end of each financial year the financial statements shall be prepared, which must be audited by external auditors registered with the Superintendence. These financial statements should be published only once during the first sixty days of each year, in two daily newspapers of national circulation.

Also, the Institute develops and submits its annual report to member banks, the Central Bank and the Superintendence of its administration including the annual audited financial statements.

The regulations of the State's Financial Administration Internal Law shall not be applied to the Institute (3)

Data from Member Banks

Art. 166.- All information and checks as required by the Institute on member banks will be obtained and carried through the Superintendent and the Central Bank.

Powers in the Establishment of the Trust

Art. 166-A.- .- When the Institute supports the restructuring of a member bank under the procedure for exclusion of assets and liabilities, and uses the modality of establishing a trust, the Board shall be empowered to:

a) Authorize the amount of trust certificates to be purchased by the Institute up to the amount necessary, and put options in favor of holder banks, subject to the provisions of Article 174 of this Act;

b) Choose the trustee, or if necessary replace it;

c) Oversee the trustee regarding the management of trusted assets;

d) Require the trustee to directly provide any kind of information with respect to the trust;

e) To approve directly or responding to a request from the trustee the policies for the realization of assets, determine criteria or lines of operation;

f) Other measures he deems necessary to make an efficient recovery, administration and realization of assets in the trust, according to the provisions of Article 174 of this Act; and

g) Communicate directly with the Superintendent or the Prosecutor General's Office, if any irregularities are found in the Trust, its officials or employees, regarding the administration of the trust under the jurisdiction of said authorities. (4)

Deposit Guarantee

Art. 167.- The Institute shall be the guarantor of all deposits of a depositor in one bank, for a principal amount of up to fifty-eight thousand six hundred twenty-five colones. In case of accounts whose holders are two or more persons, the amount of the guarantee will be computed separately for each holder, with a limit of three persons per account. No person may receive in payment of the guaranteed deposits more then fifty-eight thousand six hundred twenty-five colones.

The Institute regulates the manner in which member banks must report to the depositors about the existence of any legal circumstance that could allow or prevent to cover deposits as referred to in this article.

The Board of Directors of the Superintendence should update the amount of the guarantee referred to in this article every two years, so as to maintain its real value, based on the Consumer Price Index, after the Central Bank's opinion.

The banks should report to the Institute and the Superintendence, , the amount of deposits guaranteed in the manner herein established, on the first ten days of each month. (4)

Non Guaranteed Deposits

Art. 168.- Bearer deposit certificates shall not be guaranteed deposits nor those made by the following persons:

a) Other banks;

b) Companies that belong to the same financial conglomerate or group of the bank in question;

c) People involved with the bank concerned, in accordance with the provisions of Article 204 of this Act; and

d) Companies that manage third-party resources in the form of autonomous equity or any other similar figure, if the deposits belong to these equity funds.

The deposits that are legally proven to be related with money and asset laundering shall not be guaranteed either.

Installments

Art. 169.- In order to cover the costs and obligations undertaken by the Institute, member banks will pay a premium of zero point ten per cent per annum, which will be calculated and paid quarterly based on the daily average of deposits held during the previous quarter.

The percentage of premium referred to in the preceding paragraph may be increased by agreement of the Council until it triples in the event that the Institute receives loans or securities issued by the Central Bank or other financial institutions, in which case the increase will be used to pay such obligations. Once the obligation has been settled the premium percentage will be reduced to its initial level.

When the Institute accumulates resources at an amount equivalent to one percent or more of total deposits of member banks, fifty percent of premiums to be paid by banks shall be used to pay the central bank, up to an amount equivalent the initial contribution, and the remaining fifty percent will continue increasing the resources of the Institute.

The premium paid by a bank will have a surcharge of fifty per cent if it fits one of the following circumstances:

a) That its rating as an issuer or that the rating of the securities issued do not reach the qualification necessary for purposes of investments in pension funds, or

b) Is under a restructure plan.

The Council shall report member banks in the first ten days of each quarter of each year the value of their premiums as prescribed in this article and such payment shall be made in the following five business days. When a bank fails to make the payment within the prescribed time, the Institute will charge a fee of zero point twenty-five percent daily over the amount of the premium unpaid. (4)

Investments in the Institution

Art. 170.- The total funds of the Deposit Guarantee Institute, except for the funds to cover its operating expenses, should be deposited fat the Central Reserve Bank of El Salvador to be administrated and may only be used for the purposes for which The Institute was created. These funds cannot be embargoed.

The funds can be deposited at member banks as sight deposits for its operation. (2)

Investment Limits

Art. 171.- DEROGATED (2)

Art. 172.- DEROGATED (2)

Guarantee Payment

Art. 173.- In order to pay the guarantee the Institute will use the information available at the bank whose approval has been revoked and documents of the depositor and an affidavit should also be required expressing the deposit balance, and its obligations to the bank.

The legal representative of the bank or his acting officer, should previously certify the amount paid by the Institute as guaranteed deposits, for which the Institute and the Superintendent may give this person the assistance he may require.

When the Institute pays the guarantee referred to in this Article shall a subrogation shall be operated in accordance with Paragraph 5 of Article 1480 of the Civil Code, up to an amount equal to the sum paid. To that end, the Board of Directors shall certify the overall amount paid as a guarantee. The certificate must have the approval of the Superintendent and shall be enforceable against the respective bank.

If within thirty days from the date the bank's authorization to operate is revoked , the corresponding obligations have not been proven and provided there is a prima facie evidence in writing of these obligations, the Institute may pay up to eighty percent of the guarantee to depositors as an advance payment, and the latter must sign a receipt and file the affidavit referred to the first paragraph of this article.

If any errors or improper payments are made, the receipts issued by the depositors will be enforceable so that the Institute can collect amounts paid in excess, without prejudice to initiate criminal prosecutions in the event of willful misconduct or fraud.

In the event that a depositor is a defaulting debtor of the bank, the Institute will pay the guarantee to the bank up to the amount of the balance in arrears to pay part of the loan. If the guaranteed amount is greater than the arrears, it shall pay the difference to the respective depositor. (4)

Art.173-A.- Art.173-A .- For the purposes of collecting the secured deposit, depositors shall be any collective entity without legal status, provided they are fully identified, so that they can be considered independent of the persons who represent them. The Board of Directors of the Institute is the authority empowered to rule over such cases and may delegate this task to its Cahirman. (4)

Support Measures of the Institute to its Members

Art. 174.- When a member bank starts a restructuring process, the Superintendent may require financial support from the Institute, who may take the following steps:

a) Enter into a put sales contract with other banks that acquire assets and undertake the payment of

the liabilities of another entity subject to the arrangements set out in Section C, Chapter II, Title IV of the Act, in favor of the acquiring entity on all or part of the transferred assets. This operation may be realized through the establishment of a trust to include the assets of the bank under the restructuring scheme, and the Institute acquires the beneficiary right over the sales or liquidation proceeds of the assets in the trust.

b) Perform at the request of banks, capital contributions or loans to:

i. Member banks that acquire assets and undertake the payment of liabilities of another under the regime set out in Section C, Chapter II, Title IV of the Act, if necessary to compensate for the lack of assets with respect to the total number of liabilities transferred, or

ii. Member banks that absorb or acquire other banks as part of a restructure plan.

c) Absorb losses and assume the restructuring costs as well as contingencies and litigations arising thereof, taking into account the uniqueness of each case; or

d) Any other measures that the Institute sees fit to support the restructuring of a bank. (4)

Art.174-A.- The Institute, according to the conditions set forth by its Council, can issue negotiable obligations to pay for the commitments arising from the compliance of its goals, which may be registered in a stock exchange without further formalities than those required for the securities issued by the State or the Central Bank. (4)

Art. 175.- The Institute must conduct a cost-benefit study to estimate its direct and indirect costs, as well as the coverage of depositors, and the contribution to the stability and confidence in the financial system, participation in various modes of support to member institutions in order to make the best decision to use its equity to comply with its main purpose to protect the savings of the public, and the economic and financial viability of each case where their participation is required, without prejudice to Article 176 herein.

Only if the result of cost-benefit study indicates that the cost of restructuring is less than the payment of the guarantee, a favorable opinion shall be issued to the Superintendent to proceed with it. (4)

Art. 176. In the event that one or more banks face solvency problems of such magnitude that they may cause a serious problem of liquidity or solvency within the financial system, the Council shall decide whether to support the restructure financially or not, prior the favorable opinion of a Committee comprising the Chairman of the Central Bank, the Superintendent of Financial System and the Minister of Finance. The Chairman of the Central Bank will be the coordinator of this committee. (4)

Art. 177.- In the cases when a bank undertakes the liabilities of another under a restructure regime, by virtue of its participation in accordance with the provisions set forth in articles 96 or 97 herein, depositors who are customers of the bank that undertakes the liabilities as well as the bank under restructure shall enjoy of independent guarantees by means the deposits of each one, for a term of up to six months, by the transferred

savings and checking accounts and in the case of term deposits up to their maturity. If the authorization of a bank to operate is revoked and this bank had undertaken the liabilities of another within the time frame established, a double guarantee shall be paid, estimated as if we were considering two different Banks. (4)

Art.177-A.- Contracting and acquisitions by the institute, can be made through direct contracts without further formalities than the approval of the regime by the Council of Directors of the Institute, from the time of notice that a bank is under a restructuring process, to prepare for their participation in the problems of the bank, and all other to comply with its purpose, and this provision herein stated is considered an exception to the Law of Public Procurement and Contracts. (4)

Share Sales

Art. 178.- In the term not to exceed one year from the procurement of the shares of a member bank, the Institute shall offer said shares in sale through a bid, stock Exchange or any other sales system that insured the neutrality and advertising of the process. The base sales price shall be the Price in books of the shares after computing the restructure by the Institute. The offer to sell the shares and under what conditions shall be published only once in two newspapers of major distribution in the country, with at least eight days in advance.

The Superintendence may expand the term of one year to offer the shares of a bank for sale, just once and up to a period of six months, in the case of force majeur.

Loans

Art. 179.-If the funds accrued by the Institute and the amount of the investments were not enough to cover the provisions set forth in Articles 173and 174 herein, the Institute shall use loans either from the Central Bank, with or without interests or from other financial institutions, in the amounts necessary, be it in cash or in securities.

These loans shall be paid with the increase in the premiums referred to in Article 169 herein, and with the proceeds on behalf of the Institute that assigns the assets and liabilities acquired, as well with the yields of its equity, as the case may be.

Responsibility of Directors, Officials and Employees

Art. 180.- Board meeting attendants shall be liable for damages caused for revealing any information on issues dealt with during a meeting or if they use such information for personal purposes or to harm the State, or the Institution or Third Parties, without prejudice to any criminal liability as appropriate. It is prohibited for any employee, officer or person who renders services at the Institute to disclose any details of the reports it has issued or to give notice of any fact he or she has been made aware of during his/ her tenure. Those who infringe this provision shall be dismissed without the employer's liability and without prejudice to any criminal liability as appropriate

Oversight

Art. 181.- The Superintendence is conferred the oversight of the Institute, with whom it shall have the same powers as those conferred to all other overseen entities.

Tax Provisions

Art.- 182.- The premiums paid by Banks as a consequence of the enforcement of the provisions in this title, shall be considered tax expenses.

Art. 183.- The Institution shall be exempted from all taxes, duties and any other tax contributions already established or to be established .

SEVENTH TITLE
GENERAL PROVISIONS

CHAPTER I
CONSTRAINTS, PENALTIES AND FELONIES

Illegal Fund Raising from the Public

Art. 184.- Persons not authorized under this Act or other regulations governing this matter are prohibited from raising funds from the public, either with or without advertising, habitually or through any form. Any breach to the provisions of this subsection shall be punished according to the provisions established in Article 240-A of the Criminal Code, without prejudice to any other crime committed.

Any person or entity that has knowledge of an offense as provided for in the preceding paragraph, shall submit a complaint to the Superintendent or the Attorney General's Office for the corresponding charges to be made in the field of their respective competition. This same obligation is applicable to Directors, managers, accountants and internal and external auditors of the entities that violate this provision.

Directors, managers, accountants and internal and external auditors of the entities that raise funds from the public without authorization and who do not comply with the obligation to report such acts, shall be subject to the application of Article 309 of the Criminal Code, without prejudice to any other crime committed.

Art. 185.- When the Superintendence has knowledge or evidence of an alleged breach of the provisions of the preceding article, either by complaint or by any other means shall, in respect of the alleged offenders, have the same powers conferred upon it by its Internal Law regarding the entities subject to its oversight.

If the Superintendence were prevented from exercising its oversight power, including an inspection ordered by the superintendent, the latter must seek the help of the police force, accompanied at all times by delegates from the Attorney-General's Office in the Republic. In case of refusing access to the Superintendence, or not providing the required information, those responsible for these actions shall be liable for disobedience, without prejudice to any other crime that was committed, and the respective officials should proceed in accordance with the law and the Superintendent shall publish a one- time notice, in two daily newspapers of national circulation, notifying the public about the matter under investigation

Art. 186.-If as a result of the inspection referred to in the preceding article, a potential infraction to the Law is established, the superintendent shall immediately initiate administrative proceedings and must report the facts to the Attorney General's Office on the matter under investigation. In addition, the Superintendent shall order the suspension of the fundraising activities and publish the order above in a one-time notice through any means deemed convenient, preventing the public from engaging in the above cited operations.

Once the possible infractions to the Law have been established, the superintendent shall ask a Mercantile judge

to freeze all the funds that the alleged offender has deposited in any institution part of the financial system, and shall also seize all the property for a period of up to one hundred and eighty days, as a precautionary measure, and must attach certification of the passages leading to the respective administrative trial. If the alleged offender is a corporation, the freezing and seizure aforementioned will be required for both the funds and assets of the corporation and for the funds of the respective administrators, be they Directors or managers, everything up to the amount of funds raised from the public until that moment, as reported by the Superintendent. This request shall be decided by the judge within the third working day after the request was made and if denied, he must support his decision.

If after the one hundred and eighty days have elapsed the funds raised have not been returned, the Superintendent shall ask the judge to extend the freezing and seizure of funds for one or more terms.

If there is merit enough, the Attorney General's Office shall request the Criminal judge to impose precautionary measures on those individuals who might have infringed the provisions herein, and the same shall be applied to the administrators either Directors or managers of a corporation, if the offender is a corporation. The Attorney General's Office must also request the judge to freeze and seize the funds referred to in the second paragraph of this article, if the Superintendent has not done so already.

Art. 187.- Within three days following the de-freezing of funds, the Superintendent shall report to the Attorney General´s Office, for the corresponding legal effects. The freezing of funds and seizure of property referred to in the preceding article shall cease in the following cases:

a) If the alleged offender pays sufficient bail granted by a bank;

b) If during the administrative proceedings, the Superintendent finds that the law has not been infringed, making it clear to the public through a notice to be published once in two newspapers of national circulation, and

c) If the alleged offender can prove that he has paid or returned the funds raised in the respective operations.

Within three working days of the order to unfreeze funds, the superintendent must report it to Attorney General's Office, for the legal purposes thereof

Art. 188.-
Violations of the provisions in the first paragraph of Article 184 of this Act shall be punished with fines of up to one million colones, according to the procedure established by the Internal Law of the Superintendence. Same penalties may be imposed on directors and managers of legal persons who infringe that provision. If the final judgment is of conviction, the Superintendent shall notify the Attorney General's Office and publish this result, in a one-time notice in two daily newspapers of national circulation.

In the case of directors, legal representatives, general managers, executive directors, internal and external auditors and directors performing in executive positions within the companies that raise funds from the public without authorization, it shall be presumed that they are liable for the breach of the provisions in the first paragraph of Article 184 of this Act and the companies will be considered illegal, according to the trade legislation.

Irregular Share Procurement or Holding

Art. 189.-Individuals who buy bank shares in violation to the provisions of Articles 10, 11 and 12 of this Law shall be suspended in the exercise of the right to vote and shall be sanctioned by the Superintendence with a fine of up to four minimum monthly wages, depending on the seriousness of the offense, and the repetitive behavior and the economic capacity of the offender.

Bank shareholders who are or could be under any of the grounds that according to Articles 10 and 11 impede them from acquiring shares of these companies will be suspended in the exercise of the corporate rights granted by the shares, except the endorsement in property in any capacity, and will be entitled to sell them and be paid the dividends withheld.

Prohibition to Procure Shares

Art. 190.- Banks are forbidden to acquire shares or capital shares from any other corporation unless included in Articles 23, 24, 71 and 86 of this Law. (4)

Non Written Provisions

Art. 191.- Any clause that exists in the corporate deed, statutes and internal regulations of any other bank, which prohibits the transfer of shares without the consent of the bank or in any other way contravenes Article 13 of this Law shall be deemed as not written

Unauthorized Public Advertising

Art. 192. Those who publicly promote the organization of a bank, or proceed to establish one without the prior permissions required shall be punished with fines of up to one million colones, without prejudice to cancel or suspend the promotion.

Penalties to Foreign Financial Institutions

Art. 193.- The representative or manager of a foreign bank conducting operations in the country contrary to the provisions of Article 26 of this Law, shall be punished with a fine of up to one million colones without prejudice to proceed with the closure of the offices established within the national territory.

Prohibition to Register at the Registry of Commercial Concerns

Art. 194.- The Registry of Foreign Concerns is prohibited to register foreign corporations included in the provisions of Article 26 herein, without the authorization referred to in this provision and in Article 27 of this Law.

Prohibition to Report Paid Capital in an Incomplete Fashion

Art. 195.- Banks are prohibited to advertise its recorded capital in any way, without indicating at the same time the amount of its paid-up capital. Branches of foreign Banks are also forbidden to advertise in any manner the amount of their capital and the reserves of the parent office without indicating at the same time the amount of capital and reserves assigned to the branch in El Salvador.

Limitations for the Public Sector

Art. 196.- The State, state institutions and state enterprises of an autonomous nature and any other organization in which such entities may be involved, the same as foreign governments and official dependencies, may not

acquire shares in banks, except for the payment of obligations, in which case such shares must be transferred within a period of one year from the date of receipt. While the shares are not transferred, the holders will not exercise the right to vote, inherent to them.

Restrictions and Prohibitions regarding Risk Taking

Art. 197.- Banks may not grant credits or take risks for more than twenty-five percent of its equity fund in relation to the same person or legal entity, including autonomous institutions and state enterprises, except in the case of the Central Bank or Institute of the State or the Deposit Guarantee. This limit applies to subsidiaries abroad, according to its own equity. The fifteen per cent of the surplus should be covered with sufficient collateral or guarantees from local banks or first line foreign banks.

The loans granted by banks to non-residents or to be invested abroad and those acquired by the banks subsequently or those having been granted to non-residents or to be invested abroad, may not exceed ten per cent of the equity of the creditor bank. To carry out these operations, banks should have adopted relevant policies to carry out operations abroad as referred to in Article 63 of this Law, which should include specific limits to the country's credit exposure.

The amount of credits referred to in the preceding paragraph may not exceed one hundred and fifty percent of the bank's equity. However, for a bank to undertake credits for an amount greater than seventy-five percent of the equity fund, it will require the approval of the Superintendence. The authorization shall proceed, provided that the bank in question can prove that it has met the capital requirements according to what is stated in Article 41 of this Law, as well as the reporting requirements and internal controls. It must also show consistency with the domestic policies and provide financial projections that demonstrate how the bank will comply with the technical ratios required for banks.

The authorization referred to in the preceding paragraph may be revoked by the Superintendent, by following the procedure provided for in its internal regulations, when a bank fails to comply with the requirements considered for its approval. The loans granted by subsidiaries of banks in the countries in which they are established, are not subject to compliance with the limit specified in the preceding paragraph.

The Deposits and High Liquidity and low risk Securities referred to in Chapter VI of Part II herein shall not be included in the overall ten percent limitation referred to in the second paragraph of this Article, nor the investments in securities that have a minimal risk rating of "AA" or its equivalent in the country.

Nor shall securities with a risk rating from "BBB-" to "AA" or its equivalent in the country, be included in the overall percent limitation.

To calculate the ceiling of a loan or another risk that may be undertaken by one single person locally or abroad, it will be necessary to accrue the direct and contingent liabilities of a person or group of persons among which there is an economic linkage, and the participation the bank has in the capital of the latter; it shall be understood that there is an economic linkage in the case of controlling companies, subsidiaries, branches or those with shareholders in common who hold more than fifty percent of the capital or among which there exists unity of control or decision.

When there are facts that suggest that the loans granted to various debtors, constitute one single transaction or credit risk, the Superintendence may accumulate them into one obligation of one single individual or juridical person.

The obligations of a debtor contracted by a collective partnership or a limited partnership company in which they are a joint partner, or by companies of every kind, in which they own more than fifty percent of the paid capital or profits, shall also be considered obligations of one debtor. If the participation in a partnership is more than ten per cent but not more than fifty per cent of the paid capital or profits, the inclusion will be made on a pro rated basis.

Banks must require their customers to whom they grant loans for more than five percent of the equity of the institution concerned, to provide a duly authenticated affidavit prior to the granting of the loan, to certify that the loan met all the provisions established in Article 203 of this Law.

Banks that violate this Article shall be punished by the Superintendence with a fine equal to ten percent of the amount of excess credit, in accordance with the procedure established in its internal law and should correct the excess within the terms set by the Superintendence. In the case that the causes of the credit surplus is attributable to the bank but rather to changes in securities investments, the fine shall be applicable from the fifth day in which the excess occurred.

A Credit to an individual or juridical person shall be understood as the loans granted, the documents discounted, bonds acquired, guarantees and sureties given and any form of direct or indirect financing or any other transaction that represents an obligation for the same. Additionally, in the case of legal persons, a risk is understood as the participation of the bank in the capital of these people.

For purposes of this article, the Superintendent may use the mechanisms of exchange of information it deems relevant, in order to properly assess the risks that banks are incurring into

The Superintendence following international guidelines regarding prudential banking regulation, may establish the criteria and methodology to be used to rate the risks associated with bank assets.

The Superintendent, after a favorable opinion from the Central Bank, will issue technical standards that enable the implementation of this article. (4)

Prohibition of Tied Loans

Art. 198.- Users shall freely acquire the goods and services that the loans were contracted for.

Prohibition to Sell Land and Build

Art. 199.- It is prohibited for banks to acquire property for development and housing construction purposes, likewise, to engage in such activities, unless they are extraordinary assets subject to the authorization by the Superintendence. This does not preclude that banks could grant loans under this Act earmarked to the development of land and construction, provided that neither the institution concerned, nor its Directors, managers, or officials authorized to grant loans, including their spouses and relatives within the third degree of consanguinity and second of affinity, have shares or participate directly or indirectly, in the developing company or builder who receives the credit.

Any violation to the provisions of this Article shall be punished by the Superintendence with a fine equivalent to twenty percent of the resources invested in these activities

Real Estate Investments

Art. 200.- Banks may not have real estate among their assets, with the exception of the cases referred to in Articles 71, 72 and 236 of this Law.

Liability of Directors, Officials and Employees.

Art. 201.- The Directors, managers, officials and employees of banks that violate the provisions of the laws, regulations and internal rules or who intentionally, by their actions or omissions cause damage to the institution or third parties, shall be liable for damages caused.

Those who disseminate or disclose any sensitive information on the operations of banks or on issues reported to them, or who take advantage of such information for personal gain or that of third parties shall incur into the same liability without prejudice to any penalties they may be subject to.

Information required by the courts, the Attorney General's Office and by other authorities in the exercise of their duties shall not be included in the preceding paragraph, nor the exchange of confidential data between banks in order to protect the accuracy and safety of its operations, nor the information that corresponds to the public as stipulated in this Law and the one provided to the Superintendent in relation to bank credits.

Prior the permission of the Superintendent and with the purpose to facilitate the exchange of data between banks referred to in the preceding paragraph, banks may jointly enter into service contracts with specialized entities of recognized standing and experience in the matter, respecting at all times the provisions in Article 232 of this Act. The Superintendent shall have powers of inspection in these companies and will have access to the data by the means it deems appropriate.

Banking institutions shall jointly be liable for damages caused to third parties by the actions or omissions of Directors, managers, officers and employees of the same, in the exercise of their duties.

Prohibition for Board Members and Managers to Negotiate and Finance

Art. 202.-It is prohibited for banks to assign goods of any kind, at any title, in favor of Directors, officials, employees and shareholders, their spouses or relatives within the third degree of consanguinity and second of affinity, and any partnership in which these persons are directly or indirectly involved with more than five per cent of the share capital; or buy goods from them for profit. Assets whose cost does not exceed four hundred thousand colones shall be exempted from this prohibition. (4)

Banks may not have loans, guarantees, bonds and other guarantees granted to its employees in their portfolio, excluding managers and executive directors, unless the transaction is ratified by the Board and that it is included in the employees benefit plans that institutions have for their employees to cover their basic needs for housing, transportation and other consumer loans.

The above provision does not mean that banks can not lend to their directors and officers, as well as their relatives and societies that they are part of, all services related to the liability, treasury and cash operations, such as the reception of deposit, placement of securities, currency purchase sales, safety deposit boxes and other similar ones, as well as loans fully secured with money deposits, provided they are made under the same terms as the ones offered to the public in general. These credits do not count for purposes of Section 203 of this Law.

Loans and Contracts with Related Persons

Art. 203.- The banks and their subsidiaries, may not have in their portfolio loans, guarantees and sureties granted to individuals or legal entities directly linked to the administration or directly or indirectly linked to the assets of the respective institution, nor acquire securities issued by them in a lump sum exceeding five per cent of the paid capital share and capital reserves of the institution.

The loans referred to in the preceding paragraph shall not be granted on more favorable terms regarding tenure, interest rates or collateral, as those granted to third persons in similar operations, except those granted to managers in similar conditions to those granted to other staff of the bank concerned.

Related Persons

Art. 204.- Persons related by the property, are the owners of three percent or more of the shares in a bank. To determine this percentage the shares of the spouse of the holder and of his or her relatives within the first degree of consanguinity and the proportionate share allocated to them shall be added to the shares of the holder, when they have a share in partnerships that are shareholders of the bank.

Related subjects are also partnerships whose ownership is in one of the following circumstances:

a) Companies in which a related shareholder of the bank is the holder of ten percent or more of the voting shares of the company, either directly or through or through a legal entity in which they have shares;

b) Companies in which a director or manager of the bank is the owner of ten percent or more of the shares with the right to vote of the referred to partnership, either directly or through a legal person;

c) Companies in which two or more directors or managers are joint holders of twenty five percent or more of the voting stock, either directly or through a legal person

d) Companies that have common shareholders with a bank, in which the common shareholders, jointly possess either directly or through a legal person who may be involved, at least twenty-five per cent of the voting shares of the company and ten percent or more of the shares of the bank in question.

To determine the rates mentioned above we add to the equity of the shareholder, director or manager, that of the spouse and relatives within the first degree of consanguinity, and the proportional part corresponding to him or her, when he or her has shares in the company that is a shareholder of the bank, either directly or through a legal person.

The link through management shall be limited to directors and managers of the entity, and credits that are granted must be approved unanimously by the board without the individual concerned.

Related Operations

Art. 205.- Related operations are credits, sureties and guarantees granted to spouses or relatives within the second degree of consanguinity or first of affinity of the persons referred to in the preceding Article.

Related are also credits, guarantees and sureties granted in order to transfer assets owned by individuals associated with a bank.

Operations carried out in accordance with Articles 23 and 24 of this Law are not considered related, nor the credits to partnerships part of the same financial conglomerate with the bank and loans fully collaterized with money deposits. Also, autonomous State institutions or companies are not considered related persons.

It is prohibited to grant credits, guarantees and sureties to persons connected with a bank, aimed at the development or transfer of any title to real property, except those granted to directors or managers for the purchase of housing for to their own use.

The external auditors, upon giving their opinion on the financial statements of banks, shall indicate in a separate note all the related loans. The above-mentioned institutions must keep detailed records separately from the referred loans.

Persons connected to a bank, must submit to the Superintendent, in the first thirty days of each year, an affidavit certifying the names of their spouses and relatives within the second degree of consanguinity and the first of affinity, the companies where they are directors or shareholders either directly or through a legal person, indicating the percentage of shares; in the event of changes must they must report them within thirty days from their occurrence.

Banks must keep a record of individuals or legal entities related with the ownership and administration of the respective institution.

Assumed Related Operations

Art. 206.- The Superintendence may presume that it faces a related operation in the following cases, among other, when:

a)Loans have been granted to borrowers or groups of borrowers, with a preferential rate or a disproportionate rate with respect to the debtor's assets or its ability to repay;

b)Loans have been granted to debtors or group of borrowers without the information available about them;

c) Loans have been granted to borrowers or groups of debtors in reciprocity with another financial institution;

d) Debtors have business and managerial relations of a nature such that they can permanently influence them or the persons involved in the granting credits in any way, and

e) There are facts that suggest that the loans granted to one person will be used for the benefit of another.

In the cases referred to in the preceding paragraph, the Superintendent shall communicate its decision to the relevant banks, so that in a term not to exceed five working days, beginning on the day following the notification, the bank may submit its discharge arguments. If these arguments are not submitted on the deadline or are not to the satisfaction of the superintendent, the latter shall have a term of thirty days to rule whether or not the credit is related. If the decision of the superintendent is that the loan is related, and therefore exceeds the limit established in Article 203 of this Act, the institution shall have thirty days from the day following the

notification, to eliminate the aforementioned excess or otherwise the bank must constitute a loan loss reserve for the above mentioned excess and the Superintendent shall impose the respective penalty.

The Superintendence is empowered to issue rules that allow the implementation of this Article, as well as of Articles 203, 204 and 205 of this Law

Penalties

Art. 207.- Any breach to the provisions in the first paragraph of Article 203 of this Law shall be punished with a fine equivalent to twenty percent of the excess over the global limit referred to in that paragraph.

Any breach to the provisions in the fourth paragraph of Article 205 of this Act, shall be punished with a fine equivalent to twenty percent of the operations.

Superintendence´s Objection to Contracts

Art. 208.- The Superintendence may object the bank entering into contracts or that it entered into contracts to provide services, leasing, or any other commercial transaction not prohibited by the Act to persons referred to in Article 20, on the grounds that it affects the equity of the entity

Other Prohibitions

Art. 209.- Banks cannot:

a) Perform credit operations with guarantees from their own shares or with guarantees from shares from other banks or guarantees from shares of companies belonging to the same financial conglomerate;

b) Grant loans to a person who subscribes shares with its own capital or shares of companies belonging to the same financial conglomerate;

c) Provide its fixed assets as collateral;

d) enter into contracts for the transfer or acquisition of loans with a re purchase agreement. It shall be presumed that this provision has been infringed when credits go back to the original creditor within a period of less than two years;

e) Redeem in advance or force to provide liquidity under any modality to deposits or other term obligations , either directly or through a subsidiary or a related enterprise, in accordance with the provisions established in Article 204 of this Act;

f) Acquire the real estate of its property, within the following five years from the date of transfer, when this acquisition has been conducted with people connected to those mentioned in Article 204 of this Act, as well as their spouses and relatives within the first degree of consanguinity or first degree of affinity

g) Grant loans to people who have investments in shares of financial institutions established in countries where there is no prudential regulation nor supervision according to international standards on this matter, provided that the bank is aware of this situation;

h) Make investments in financial institutions established in countries where there is no prudential oversight regulation according to international standards in this field. This prohibition also applies to corporate members of the Financial Conglomerate belonging to the bank.

Enter into contracts of any nature, make capital contributions, grant funding, give guarantees, bonds or sureties, acquire assets, commit its prestige or image, use in any manner its infrastructure, personnel or information with banks or financial institutions incorporated in a foreign country, whose ownership or management, directly or through third parties is linked to its shareholders or to the business group that the bank belongs to. This prohibition also applies to the bank's subsidiaries established in the country or abroad and to the member companies of the conglomerate to which it belongs. The Superintendence, based on general rules, may allow certain transactions with entities of foreign countries referred to in this literal, as long as these institutions are properly supervised by the authorities of the country where they are incorporated. The Superintendent may require the establishment of loan loss reserves when credits are granted in contravention of this literal;

j) Notwithstanding the provisions of Articles 117, 142 and 203 of this law, banks may not give support, nor compromise their reputation or image, share personnel or infrastructure or enter into service contracts other than the usual financial services, with a society whose ownership or management, directly or through third parties is linked to its shareholders or the business group that the bank belongs to. The Superintendent shall order the immediate cessation of any activity that contravenes this literal, and in order to investigate the bank's involvement in the events, shall have the same powers granted by its internal law to demand information from banks and

k) Have branches in a foreign country. A branch shall be understood as a an office physically separated from the main office, but which is an integral part of the same legal person, and that can carry out the same operations as the main office, has capital allocated, its own accounting but at the same time is part of the accounting of the main office.

Bank Fraud Crimes Management

Art. 210.- Directors, managers, employees, external and internal auditors or other persons in a bank, who knowingly have prepared or approved or submitted a balance or financial statement that has been adulterated or forged, or who executed or approved operations to disguise the status of a bank, shall incur in the crime of document forgery and shall be applied the penalties established in Article 283 of the Criminal Code. In the event of bankruptcy, or forced settlement of the institution they shall be considered as liable of unlawful bankruptcy and shall be applied the penalties set forth in Article 242 of the Criminal Code.

Art. 211.- The directors, managers, employees external auditors and other persons of a bank who alter, disfigure, or conceal data or information in books, statements, accounts, mail, or any other document aimed at hindering, making difficult, deviating, or elude the oversight by the Superintendence, shall be penalized in accordance with the provisions set forth in Article 286 of the Criminal Code.

Art. 212.- When the permit of a bank to operate is revoked, it is presumed that fraud has been committed when:

a) The institution recognizes inexistent debts;

b) The institution has simulated transfers, in prejudice of creditors;

c) The institution compromised in its business the property received in deposit for custody or trust;

d) In the case of deciding to restructure the institution, its managers carried out an administrative action or disposal of goods, other tan the ones necessary to carry out the restructure;

e) During the fifteen days prior to the resolution to restructure a bank, the institution paid a creditor in prejudice of others, by advancing the due date of an obligation;

f) The books or documents of the institution have been concealed, altered, forged, made useless, as well as their support data;

g) Within the sixty days prior to the resolution to restructure, the institution paid the interests on term deposits or savings accounts with rates considerably higher than the average in force in similar institutions in the country, or sold goods from its assets at notoriously lower prices than those prevailing in the market, or employed any other undue method to get funds;

h) One year prior to the date the resolution to restructure was made, the institution executed any action aimed at hindering, deviating, or eluding the oversight of the Superintendence;

i) It entered into contracts or other type of conventions in prejudice of the institution with persons related to their property or administration as referred to in Article 204 herein; and

j) The bank unlawfully executed an operation that reduced its assets or increased its liabilities.

Directors, managers or other personnel accountable for the previous facts shall be considered the authors of the unlawful bankruptcy and shall be penalized in accordance with the provisions set forth in Article 242 of the Criminal Code. (4)

Art. 213.- Bank directors, administrators or managers who grant loan or carry out operations for their own benefit abusing their positions, or who carry out any fraudulent operation, shall be penalized in accordance with the provisions established in Article 215 of the Criminal Code.

If as a consequence of the actions referred to in the previous paragraph, damages are caused to depositors, the offenders shall be penalized in accordance with the provisions set forth in Article 240-A of the Criminal Code.

Art. 214.- Directors, administrators or managers of a bank who carry out operations prohibited by the laws that regulate the financial system or authorize such operations to be carried out, shall be penalized in accordance with the provisions set forth in Article 215 of the Criminal Code.

Art. 215.- Any individual who provides forged documents with the purpose of obtaining a loan and that due to the lack of repayment and impossible recovery causes damages to the bank in detriment of depositors, shall be penalized in accordance with the provisions set forth in Article 283 of the Criminal Code.

Art. 216.- The individual who carries out fictitious operations with the purpose of avoiding an embargo of goods through an executor process, shall be penalized in accordance with the provisions set forth in Article 215 of the Criminal Code.

CHAPTER II
EXECUTORY PROCESS AND OTHER LEGAL ACTIONS AND RIGHTS

Executory Process

Art. 217.-The proceedings for an executory process promoted by a bank shall be subject to common rules, with the following amendments:

a) The trial term shall be of eight days and as an exception only cash payments, the statute of limitations and the error in settlement shall be admitted;

b) The executing bank shall be the depositary of the embargoes goods without the obligation to render bail, but shall respond for the deterioration they might suffer;

c) The base to auction the embargoed goods shall be the valuation carried out by two experts recorded at the Superintendence. In the event of discrepancy, the Judge shall use the lowest appraisal as bases. Nevertheless, if the discrepancy is greater than twenty five percent of the lowest appraisal, it shall appoint a third expert appraiser and shall use its appraisal as the bases for the auction. In any case, the appraisal established in the respective instrument shall be taken as bases, if this one is greater than the ones indicated by the experts, unless it were determined judicially that the guarantee suffered a devaluation. Amounts lower than the value determined by the experts shall not be admitted and when the goods are sold to third parties at a price higher than the value of the capital balance plus interests and other expenses, the remaining amount shall be returned to the debtor. If no offers are made, and if the creditor bank requests to be awarded the goods, the remaining amount shall also be returned to the debtor, if any, once the base price has been deducted and the loans and accessories in charge of the debtor, as well as the expenses generated by the awarded good. If the good is auctioned three times and is still not sold or awarded, a new appraisal shall be made for other auctions; this procedure shall be repeated until the good is auctioned or awarded;

d) No third persons may be admitted unless it is based on a title of dominance, previously recorded to the mortgage of the executing bank; and

e) No preventive annotation shall impede the auction or awarding of goods embargoed by the execution of the executing bank, regardless of its origin, unless they are food obligations, salaries, benefits and when the ownership of the real estate property is demanded through a judgment.

After having stipulated the obligation to pay insurance premiums and other items on the account of the debtor in the document where this action is based and the transcripts, extracts, and certifications issued by the accountant of the institution bearing the endorsement of the manager, shall be enough to establish the balance owed to be claimed judicially. The same procedure shall be followed to test the variability of the interest rate.

Every contract in which a bank is a creditor, the clauses that establish the anticipated waiver of rights shall be deemed as not written.

Assignment of Loans and Litigious Rights

Art. 218.- Loans granted by Banks, shall be assignable by submitting the corresponding titles, accompanied by a written reason, containing: name and dwelling of the assigner and the assignee; signatures of the representatives, the date of the assignment, capital and interests owed to the date of the assignment. The signatures of the parties involved shall be authenticated by a notary public, in accordance with the provisions set forth in Article 54 of the Notary Law. The assignment should be annotated, as pertinent, in the Registry of Real Estate and Mortgages, Social Registry of Real Estate or the Registry of Commercial Concerns, as the case may be, at the margin of the respective recording so that is applicable against the debtor and third parties. The Certification issued by the Registrar containing the reason shall be enough to proof the transfer of these loans.

If it is a matter of two or more assignments contained in a deed, the assignment of the litigation rights shall be proven by submitting before a judge with competition the testimony of the respective contract containing the description of the assigned credit, the head and foot of the instrument, and any other pertinent clause.

The notification of the credit assignment can be done by publishing once the extract of the transfer in two newspapers of national circulation.

Other Rights and Actions

Art. 219.- To record a deed to sell, assign, lien or in any other manner constitute an actual right over the whole or part of a mortgaged real property on behalf of the bank, at the Registry of Registry of Real Estate and Mortgages, Social Registry of Real Estate or the Registry of Commercial Concerns , it shall be necessary to have the prior consent of the creditor bank.

Once the loan was granted by the creditor bank, the goods given as collateral cannot be embargoed for personal loans prior or subsequent to the constitution of the mortgage. This effect shall take place on the date of the presentation of the preventive annotation.

All the privileges that this law confers to the creditor bank, regarding the grants originally granted on its behalf, are understood as granted with respect to the mortgage loans acquired by the same bank by virtue of the legal assignment by third creditors.

All the rights and privileges conferred by this law shall be taken as a legal and integral part of the right to mortgage of the creditor bank, in such as way, that once the mortgage is recorded, all the rights conferred by this law damage third parties, even though they are not affirmed specifically in the contract o r in the Registry.

If it is a mortgage debt, the lease ends with the writ certifying the auction or the award writ on the mortgaged property, usufruct and ease or any other right constituted subsequently to the recording of the mortgage over the property, without prejudice to the refurbished loans granted with the consent of the bank.

CHAPTER III
PLEDGED GOODS

Non Attachment of Pledged Goods

Art. 220.- Goods pledged on behalf of Banks for loans to production, cannot be seized in the executions by third parties, from the moment that the registration of the collateral produces effects .

The unseizable nature of goods established in the previous paragraph shall extend to the product of the sales of the seized goods and to any other right of the debtor from the trading of said goods.

During the executions followed by third parties the goods affected by the irrevocable payment order cannot be seized, nor the product obtained from the sales of the same, when this order was given on behalf of a bank by the debtor of the latter as a loan to production, accepted by those that had to make the payment referred to in the order and when the acceptance is communicated to the credited institution.

The individual that accepts an irrevocable payment order on behalf of a bank is obliged on behalf of the latter under the terms of its acceptance.

Sales of Pledged Goods

Art. 221.- Upon the expiration of a loan with a collateral consisting in movable property of any kind given to a bank, if the bank decides to sell it, it shall notify the debtor and grant it an eight day term to make the payment; if it is not received in a term of eight days, the bank may sell it through two authorized brokers, and otherwise, from two traders in the area, at market price. If due to the nature of the goods given in collateral they should lose value, and if the term stated in this paragraph is granted, the bank must notify the debtor and proceed to the sales immediately.

The product of the goods sold in this manner shall be imputed to the following payment:

a) Expenses caused by the sales;

b) Custody expenses, if any;

c) Insurance premiums over the goods given in guarantee, paid at the account of the debtor; and

d) Interests and the sales price.

If the product obtained from the sales is not enough to cover the value of related obligations, the creditor bank may legally proceed against the debtor, for the difference resulting against it.

On the contrary, when these obligations are paid and leave a surplus, the bank shall give its value to the debtor.

Guarantee Devaluation

Art. 222.- When the value of the goods given in guarantee to a bank reduce their value due to deterioration,

depreciation or any other reason, to the extent that said value is not enough to cover the price of the debt and twenty percent more, debtors shall be obliged to improve the guarantee sufficiently in the next two months from the sate in which they are required by the bank, provided that the requirement is accompanied by the decision of two experts that certify that reduction.

The requirement shall be made judicially before a judge of the dwelling of the bank consisting in the written notification requiring the debtor to improve the decision referred to in the previous paragraph.

In the case that the guarantee is not improved enough within the indicated term and that loan obligations are not complied with, the tern shall be deemed as expired and the obligation shall be totally paid immediately.

In the case of movable goods given to the bank, the latter can sell them, in accordance with the preceding Article and in the case of real estate or collateral without dispossession, the bank can promote its execution crediting the termination of the term with the original proceedings that gave place to the requirement.

Exercising Rights

Art. 223.- All procedural rights granted to Banks shall be understood as those referring to only the loans granted by the bank originally as the creditor in favor of the respective debtor, or to credits of this kind transferred by a bank on behalf of another bank.

These rights shall not pass to third parties to whom Banks transfer their respective credits, except other partnerships members of the Financial Conglomerate the bank pertains to.

CHAPTER IV
FINANCIAL STATEMENTS AND AUDITS

Financial Statements and Publications

Art. 224.- The first sixty days of each year, banks must publish their financial statements of the previous year, one time in two newspapers of national coverage, prior the approval of the Shareholders General Meeting, subject to the standards of the Superintendence in accordance with its internal law. These financial statements shall be certified by external auditors recorded at the Superintendence's registration and the decision shall be published at the same time.

Additionally, Banks must publish situation balances and the provisional settlement of accounts of results, in two newspapers of national coverage at least three times a year. The other two dates shall be determined by the Superintendence at its discretion.

The Superintendence Board of Directors shall set the general standards to prepare and submit the financial reports and banking complementary information, determine the principles in accordance with which accounting shall be carried out, based on international accounting standards issued by worldwide renown entities, establish the criteria to appraise assets, liabilities and the setting up of risk provisions. All this with the purpose of reflecting the actual situation of liquidity and good standing of the Banks.

Likewise, the Superintendence Board of Directors shall establish the standards to appraise collateral of the loans granted by the Banks.

The general balance and the profit and losses statement, as well as the status balances and the provisional settlements of accounts of results, shall be signed by the members of the Board of Directors and by the General Manager or the Executive Manager, who shall be responsible for those financial statements to reflect the actual liquidity and good standing status of the entity under their administration. For purposes of publication, the signature can be obviated and it shall be enough to write "signed by", followed by the names of the signatories. (4)

Art. 225.- The Superintendence Board of Directors shall set the standards to prepare a quarterly financial statement that shall be sent to the Superintendence and placed at the disposal of the public at the offices of the Banks, in order to report on the liquidity and good standing status of the respective bank. That report, should at least contain the financial statements and the relevant information on the adaptation of the Equity Fund, quality and diversification of assets at risk, credits and contracts entered with related persons, contingencies with domestic and foreign entities, and the matching of terms and currencies of asset and liability operations.

The report mentioned in the above paragraph shall be signed by the general manager of the executive manager of the corresponding bank who shall be liable for the truth of the information in the document.

External Auditors

Art. 226.- The external auditor, the individual or legal person, shall be designated for each annual accounting period and shall be independent from the audited entity; and cannot hold any shares either directly or through legal persons, and shall not be a debtor of the audited bank, and the income earned for auditing the bank shall not exceed twenty per cent of his total earnings.

The external auditor's obligations and duties shall be the following, besides the ones established in other laws and instructions submitted by the Superintendence:

a) Give an opinion on the sufficiency and effectiveness of the accounting internal control systems of the institution;

b) Give an opinion on the compliance with the legal and regulatory provisions, particularly those related to the Equity Fund, Credit limits, credits and contracts with related persons and the sufficiency of the loan loss provisions;

c) Provide information on the investments and funding of the bank to its Subsidiaries;

d) Give an opinion on the compliance with internal policies referred to in Article 63 of this Act;

e) Pronounce itself or abstain from doing so in a reasoned manner on other aspects required by the Superintendence or the audited bank; and

f) Express if he has had access to the information needed to issue an opinion.

The Superintendence shall establish the minimum auditing requirements that external auditors must comply with regards to the independent audits carried out at the banks. Likewise it shall have the power to verify the compliance with these minimum requirements, having access to the working documents.

The duties of the external auditor of a bank are incompatible with the rendering of any other service to the audited institution.

A default of the provisions contained in this Article shall be punished by the Superintendence with fines, suspensions of up to one year or the exclusion form the Auditors Registry, in accordance with the procedures established in their Internal Law.

If the external auditor should identify any situation of lack of liquidity or good standing, or if he should have difficulty in accessing information, he shall report this to the Superintendence.

Audit Committee

Art. 227.- Banks shall set up an Audit Committee, comprised of at least an Internal Auditor, the Executive Director or a Manager with equal rank and two members of the Board of Directors who do not serve in any executive position.

The duties of the Audit Committee shall be the following:

a) See to the compliance with the agreements reached at Regular Board Meetings, and the provisions of the Superintendence and the Central Bank,

b) Follow up the internal and external auditors´ reports as well as of the Superintendence to correct any observation made;

c) Collaborate in the design and application of internal controls and propose the pertinent corrective measures; and

d) Other deemed important by the Superintendence.

The Superintendence shall issue the provisions to regulate the operation of the Audit Committee.

Requirements to Register Auditors

Art. 228.- Bank external auditors shall register at the Superintendence, in accordance with this Law and the Regulation for the case. Registration shall be for a period of two years which can be extended, provided that the auditor complies with the legal requirements and regulations in force.

The Superintendence shall submit the names of the auditors seeking to be registered for their evaluation that must be based on general features such as Independence, professional competence, experience, organizational efficiency, among other. Applicants must provide the information necessary for their evaluation and must also allow it to be verified through the means the Superintendence might consider fit.

In order to be registered, external auditors must have at least five years experience in their profession; in the case of a legal person, the external auditors in charge of auditing the bank must have this professional experience.

Auditors under the situations pointed out in letters b), d), e), f), g), h) and i) of Article 33 herein shall not be eligible for registration.

In the event that the auditor is a legal person, these disqualifications shall be applied to its partners and to the auditors designated to audit the bank.

If the cause of disqualification should arise after being recorded at the Registry, the Superintendence shall immediately proceed to cancel the registration, notifying all Banks.

Each audit company shall have a limit of three Banks it can audit.

CHAPTER V
AMENDMENTS OF PARTNERSHIP AGREEMENTS

Amendment Procedure

Art. 229.- If a bank wishes to amend its partnership agreement in order to verify a capital stock increase or reduction as a consequence of letter c) of Article 40 herein, or a merger or other reforms, it shall proceed as follows:

a) In the case of a capital stock increase, merger or other amendments to the partnership agreement other than the reduction, this shall be agreed upon at a Special General Shareholders Meeting, called specially for this purpose. Preemptive right to subscribe capital and the right to withdraw as a partner conferred by the Code of Commercial Concerns, can only be exercised during the Ordinary Shareholders Meeting or within the fifteen days following the publication of the respective agreement;

b) In the event of a capital reduction to absorb losses, the agreement should be reached by the Special Shareholders Meeting, called specifically for this purpose and in accordance with the provisions ion Article 38 herein. In this case, the provisions set forth in articles 30, 181 and 182 of the Code of Commerce shall be applied;

c) Once the agreements mentioned in the previous letters have been reached, a certificate from the Superintendence shall be requested so that in the event of a capital increase, a merger or any other change, it can be proven that the application metes all the legal requirements of the case and may authorize the amendment; and in the case of a capital reduction prove that the amendment of the partnership agreement was agreed upon as authorized;

d) After the agreements to amend the partnership agreement have been authorized or proven, the agreement shall be executed without any further proceeding and the respective public deed shall be

drafted and granted, which shall be recorded at the Registry of Commercial Concerns on the date of its registration, and shall enter into effect on that same date. A notice of the amendment shall be published once in two newspapers of national distribution; and

e) The amendment of the Partnership Agreement deed cannot be recorded at the Registry of Commercial Concerns unless accompanied by a letter written by the Superintendent stating its agreement with said deed.

The Superintendence shall issue the corresponding instructions to enforce this Article.

CHAPTER VI
OTHER REGULATIONS

Notary Freedom

Art. 230.- The awardees of any kind of loans shall freely designate a notary public to whom the respective contract shall be delivered.

If the awardee designates its own notary public, the bank shall have the obligation to provide the notary with an example of the contract to to be entered into.

If a bank should establish any direct or indirect restriction or dilation of any kind to this power of the awardee, the latter or his notary public can denounce this before the Superintendence, which upon proving these facts shall impose a fine corresponding to the ten percent of the loan amount.

It is forbidden for bank officials and employees who are notary publics to exercise this duty in the event of notary instruments granted by the bank where they work as officials, employees of contracted personnel, except when the contract amount or instrument does not exceed twenty minimum monthly wages.

Extracted Certificates

Art. 231.- Banks can issue extracted certificates of the mortgage loans as agreed upon for them to be annotated in a preventive manner. These certificates should contain the date of the writ that approves the granting of the loan, the name and surname of the debtor, the amount of the loan agreed upon, and the repayment term, and also the mentioning of their registration in the Registry of Property and Mortgages and the Social Registry of Real Estate, regarding the domain and liens referring to the movable and immovable property offered and accepted as a guarantee, without having to describe these real properties.

This certifícate signed and sealed by the general manager or duly authorized bank official, and shall be noted in a preventive manner at the corresponding Registry marginalizing the corresponding entries, this notation shall not cause any tax or duty.

The effect of the mortgage when the respective contract is recorded, shall go back to the date in which the certificate was submitted for its registration, when it refers to the same immovable property referred to in the registry.

The effects of the notation shall cease:

a) By the submission of the mortgage;

b) By the written notification that the bank gives to the Registry to cancel this notation; and

c) After ninety days of the submission of the preventive notation without presenting the respective mortgage contract for its registration.

Bank Secrecy

Art. 232.- Deposits and money obtained by the bank are subject to secrecy and information can be given regarding these operations only to the incumbent or to the legal representative.

All other operations are subject to confidentiality and information on them can only be given to the authorities referred to in Article 201 of this Law and to whoever shows a legitimate interest, prior the authorization of the Superintendence.

The provisions in this Article are without prejudice to the information to be requested to the Superintendence in order to comply with the provisions set forth in Article 61 of this Law and with the detailed data that the public has the right to know by virtue of letter f) of Article 21 of the Internal Law.

Bank secrecy shall not be a hindrance to clarify crimes, nor to impede an embargo on the goods.

Exclusion of Confidential Information

Art. 233.- The confidential information established in other legal provisions regarding loan loss provisions carried out by the institutions part of the Financial System referred to in Article 2 of the Internal Law of Superintendence of Financial System and the loans that the Banks grant on the ones that constitute one hundred percent of the loan loss reserve, in accordance with the regulations issued by Superintendence.

Divulgation of Asset Ranking and Equity Fund

Art. 234.- The Superintendence shall make known, at least every four months during the year, detailed background of each bank on the ranking of assets referred to in Article 41, of this Law. Additionally, indicators on the concentration of asset and liability operations must be included.

Risk Rating

Art. 235.- Banks must be ranked every year by a risk rating company recorded at the Stock Exchange Public Registry carried out by the Securities Superintendence. The Superintendence may require another rating when the first is presumed to have been rated inadequately, against the law of when information has been manipulated.

In the case of branches of foreign banks the rating of the bank shall be accepted, when carried out by an internationally renowned risk rating company.

Entities that provide the rating service must update and make public the ratings referred to in this Article, in the manner and frequency as determined by the Superintendence.

Goods to Operate

Art. 236.- Banks may acquire or keep real estate and movables, as well as build facilities as necessary for their operation and also ancillary services, provided that their total value, excluding the twenty five percent of the value of reappraisals, does not exceed seventy five percent of the equity fund.

The Superintendence shall establish the standards to carry out and authorize movable and immovable appraisals previously mentioned, and must review, at least every two years, the appraisals and reappraisals referred to in this provision and in Article 42 of this Law in order to determine the Complementary Capital.

For purposes of the appraisal of movable and immovable goods of the bank, and also when due to legal requirements it is necessary to appraise these goods received as guarantee, these appraisals shall be made by experts registered at the Superintendence in accordance with the Instructive of the Superintendence for this purpose. The registration shall be for a term of two years and can be extended, provided that the expert complies with the applicable legal requirements and regulations.

Securities Raffle and Redemption

Art. 237.- The raffle of the securities capitalization, hypothecation bonds, and bonds as well as the redemption of the share trust certificates shall not be subject to the supervision and intervention of the municipalities.

Superintendence Inspection Costs

Art. 238.- Banks shall contribute to cover the costs for inspection services of the Superintendence , paying the Central Bank, according to what it may determine, up to fifty percent of the annual budget of the Superintendence in a proportional manner to total assets, in conformity with the general balance corresponding to the closing of the economic exercise of the previous calendar year. Total assets do not include costs for bank guarantees, bonds, liability for letters of credit and other contingent items.

Superintendence Oversight

Art. 239.- Banks shall be overseen by the Superintendence, which shall have all the powers provided for in this Law and those established in their Internal Law.

The Superintendence shall also see to the partnerships that manage the assets of a bank , such as credit card operating companies.

The Superintendence shall apply the penalties included in its Internal Law in accordance with the procedure established therein, when there is no specific penalty established for a particular case.

Information Transparency and Delivery

Art. 240.- Notifications and publications that Banks need to make in general, shall be published at least in two newspapers of national distribution, unless otherwise provided for in the Law.

Banks shall provide all information required by the Central Bank in an accurate and timely manner to comply with its duties and in the manner and means indicated by the Central Bank. Likewise, they should also facilitate the direct access to the Superintendence for it to Access their computer systems to obtain accounting and financial information that shall allow them to comply with their duty to oversee the system in accordance with the Law and security, confidentiality standards, and the technological limitations of each institution.

Non compliance with the provisions in the previous paragraph and the undue use of the information by Superintendence officials, and misleading information conducive to errors shall be penalized with a fine of up to four hundred minimum monthly wages, unless there is a specific penalty set forth in other laws without prejudice to the criminal responsibility incurred.

Jurisdiction

Art. 241.- Agreements or covenants between and among Banks are forbidden, the associated decisions of Banks or practices that either directly or indirectly are conducive to set prices or impede, restrict or distort free competition within the financial system. Infringements to the provisions set forth in this Article shall be penalized by the Superintendence in accordance with its Internal Law.

Treatment to Forged Bills

Art. 241-A.- In accordance with its controls, if a bank detects a bill of legal tender within the national territory that has been forged , it shall proceed as follows:

a) The head of the Branch or agency, shall stamp a wet seal with the word "forged" on it, and shall keep the bill, issuing a document stating that the bill is under investigation, identifying the bill with its general features, as well as the owner of the bill, the branch that will retain it, the person who detected the forgery, the date, signature and seal of the institution;

b) The interested party shall receive a copy of the document; and

c) The person responsible for retaining the bill shall deliver the bill to the Central Bank in no more than three working days for its verification, which should not take more than seventy two hours.

If the verification results in the confirmation of forgery, the Central Bank keeps it during the following three working days; in order to place it at the disposal of the Attorney General's office; if it is not forged, the bank shall Exchange it for another of equal value and deliver it to the interested party against the copy of the document. (4)

EIGHTH TITLE
TRANSITORY PROVISIONS

SINGLE CHAPTER

Art. 242.- The Banks that at the entering into effect of this Law have branches abroad, shall have a year to convert them into subsidiaries, or otherwise close them. While operating as branches they shall be applied the provisions set forth in Article 23 herein. The accounting of branches shall be integrated to the general main office accounting.

Art. 243.-In the case of the Chairman, executive directors and general managers who during the enforcement of this law fill these positions shall not be applied the provisions set forth in Article 33 of this Law, regarding age and regarding age and experience.

Art. 244.- As of the enforcement of this Law, the Superintendence cannot authorize the constitution of partnerships to operate as financial institutions. Those institutions operating as such can become banks in the following three years after the entering into force of this Law or could abide by the provisions that govern loans and savings companies, other financial entities under the supervision of the Superintendence.

In the event that they should decide to become Banks, they shall be granted a term not to exceed seven years to increase its capital stock paid at the minimum as established in Article 36 herein. In any case, while they are not authorized by the Superintendence to operate as Banks, they cannot carry out any banking operation established in Article 51 letter a) of this Law.

Art. 245.-The Banks authorized to operate, shall have three years after the entry into force of the law to increase their capital stock paid at one hundred million colones, having to cover at least each year at least one third part of the necessary value to reach this sum.

The first update of minimum capital amounts referred to in Article 36 herein, shall be carried out on January 1, 2003.

Art. 246.- Regarding the provisions set forth in the first paragraph of Article 41 of this Law, the minimum ratio of bank solvency shall be: nine point two percent during 1999; nine point six percent during the year 2000; ten percent during 2001; ten point five percent during 2002; eleven percent during 2003; eleven point five percent during 2004 and from January 1, 2005, twelve percent.

Art. 247.- REPEAL(2)

Art. 248.- The updating of the amounts established in letters j) of Article 56 and in Articles 112-A and 167 of this Law shall be made in January of the year that corresponds from the latest updating. (4)

Art. 249 In a term of one hundred and eighty days, counted from the entering into force of this Law, the Banks that are carrying out trust operations shall submit the business plans, organization and policies applied in the various trust classes offered to the public, in order to get the authorization referred to in Article 67 of this Law.

Art. 250.- Banks and any person who at the entry into force of this Law introduce themselves as financial conglomerates or groups should request from the Superintendence the corresponding authorization to transform itself into a financial conglomerate in accordance with the provisions in this Law, in a term not to exceed one hundred and eighty days from the entry into force of this Law.

The Regularization Plan shall be submitted together with this application to make the adaptations and transformations needed, indicating the actions to be carried out gradually in the term of one year from the approval of the application, all requirements of Title V of this Law are complied with. This Plan shall be authorized by the Superintendence in a term of ten working days, from the day after the corresponding communication, to submit the corrected plan to the Superintendence, with the purpose of guaranteeing the compliance with the applicable legal provisions.

Notwithstanding the provisions set forth in the previous paragraph, the persons who are denied the authorization,

shall have a term of one hundred and twenty days from the communication of the denial to cease declaring themselves as financial conglomerates and must adopt all measures to stop sharing infrastructure, staff or act jointly with corporations of the financial sector and any other type with the bank. In such case, they shall be considered de facto groups in accordance with the provisions set forth in Article 117 herein.

If after the term mentioned in the previous paragraph the joint action or joint trading persists, or continues sharing staff, infrastructure or any other asset, the Superintendence, in accordance with the provisions set forth in its Internal Law, shall penalize the infringing entities. If due to the difficulties caused to the bank by the financial sector partnerships of the group, the former is intervened and declared dissolved and forced to liquidate according to the provisions in this Law, the guilty parties shall be responsible for avoiding consolidated supervision.

If once the Regularization Plan is authorized it is not complied with within the foreseen plan, the bank of the respective group shall be submitted to the Special Supervision Regime.

Art. 251.- The Institution for Deposit Guarantees shall initiate its operations within the thirty days following the entry into force of the Law, term in which they shall appoint the directors and shall prepare the corresponding instructive.

The initial period of the Vice President of the Deposit Guarantee Institute and of one of two directors appointed by member Banks shall be of two years.

Art. 252.- The Central Bank shall pay the amount referred to in letter a) of Article 155 herein, by means of five installments of fifty million colones each, having top ay the first in the thirty days following the date in which the Board of Directors takes office and of all sequential ones at least for one year.

Art. 253.-The budget of the Deposit Guarantee Institute, while still in the same fiscal year, shall be not more than two and a half million colones. In the event that the Superintendence requires the alternative decision of the above mentioned institute which shall proceed or not to the restructuring of a member bank, this limit could be extended by its Board of Directors.

Art. 254.-regarding Article 197 of this Law, from the enforcement date, Banks cannot grant loans, guarantees, bonds and other guarantees to the debtors of loans that surpass the respective loan, in line with the agreement in the corresponding contract.

In the event of refunding or any other amendment to the contract, shall be necessary prior the authorization of the Superintendence.

Art. 255.- Regarding Article 203 of this Law, Banks shall have a term of one year to comply with the established deadline.

Art. 256.-In order to comply with the requirement included in the first paragraph of Article 235 of this Law, the risk rating shall be carried out within the six months following the enforcement of this Law.

Art. 257. Banks shall have to modify their partnership agreements to harmonize them with this Law, in a term not to exceed one hundred and eighty days starting from the date of enforcement.

Art. 258.- In the case that the representative shares of a bank should be transferred to an exclusive purpose controlling partnership and that said shares were pledged on behalf of the Fondo de Saneamiento y Fortalecimiento Financiero, and the latter accepted the shares of the controlling company as loan guarantee of the respective bank.

Art. 259.- Any application to build new Banks that upon the date of entry into effect of the Law have been submitted to the Superintendence, shall be applied everything set forth in this Law.

Art. 260.- The Superintendence, in a term of one year, from the enforcement of this Law, shall prepare or update the corresponding Instructions. These Manuals referred to in this Law shall contain the technical and prudential standards pertinent to apply the Law and its regulations.

Regulations, agreements and other provisions adopted by the organizations with jurisdiction, provided that they do not contradict this Law shall continue being binding to all until reformed by the Central Bank or the Superintendence or are not in force any more.

The procedures and remedies promoted by the Banks or financial institutions still pending on the date of enforcement of this Law, shall follow their process in accordance with the law they were initiated on.

NINETH TITLE
FINAL PROVISIONS

SINGLE CHAPTER

Derogatory
Art. 261.- The Bank and Financial Institutions Law is derogated as promulgated by Legislative Decree number 765 dated April 19, 1991, published in the Official Gazette number 92, Volume 311, dated May 22, 1991 and further reforms.

Reference to other laws
Art. 262.- Whenever in other legal provisions there is a reference to the Bank and Financial Institutions Law, or to Ancillary Organizations, it shall be understood that they refer to this Law.

Preferred Enforcement
Art. 263.- This Law shall prevail over any other law that contradicts it. Notwithstanding the above, the Savings and Loans Cooperatives shall continue with their money deposit operations, in accordance with their own laws.

Enforcement
Art. 264.-This Decree shall enter into force after its publication in the Official Gazette.

GIVEN IN THE BLUE ROOM OF THE LEGISLATIVE PALACE: San Salvador, on the second day of September, nineteen ninety nine.

JUAN DUCH MARTINEZ,
PRESIDENT.

GERSON MARTINEZ,
FIRST VIVE PRESIDENT,

CIRO CRUZ ZEPEDA PEÑA,
SECOND VICE PRESIDENT.

RONAL UMAÑA,
THIRD VICE PRESIDENT,

NORMA GUEVARA DE RAMIRIOS,
FOURTH VICE PRESIDENT.

JULIO ANTONIO GAMERO QUINTANILLA,
FIRST SECRETARY.

JOSE RAFAEL MACHUCA ZELAYA.
SECOND SECRETARY.

ALFONSO ARISTIDES ALVARENGA,
THIRD SECRETARY.

GERARDO ANTONIO SUVILLAGA,
FOURTH SECRETARY.

ELVIA VIOLETA MENJIVAR,
FIFTH SECRETARY

JORGE A. VILLACORTA MUÑOZ,
SIXTH SECRETARY.

PRESIDENTIAL HOUSE: San Salvador, on the twenty seventh day of September nineteen ninety nine.

BE IT PUBLISHED,

FRANCISCO GUILLERMO FLORES PEREZ,
President of the Republic.

EDUARDO AYALA GRIMALDI,
Vice-Minister of Economy
In Charge of the Office.

L.D. No. 697, dated September 2, 1999, published in O.G. No. 181, Volume 344, dated September 30, 1999.

REFORMS:

(1) L.D. N°. 814 dated January 6, 2000 published in the O.G N°. 31 Volume N°. 346.

(2) L.D Nº 201, dated November 30, 2000, published in the O.G.Nº 241, Volume 349, dated December 22, 2000.(THIS REFORM CONTAINS THE MONETARY INTEGRATION LAW) NOTE:

START OF NOTE:

THE FOLLOWING ARTICLE OF THE MONETARY INTEGRATION LAW IS OF A TRANSITORY NATURE; THEREFORE IT SHALL BE TRANSCRIBED AS FOLLOWS SINCE IT DIRECTLY AFFECTS ARTS. 44 AND 45 OF THE BANK LAW:

Art. 24.- During the first two years of enforcement of this Law, the liquidity reserve referred to in Art.44 of the Bank Law, shall be constituted in the shape of US dollar deposits, at sight, in the Central Bank or in securities issued the latter in accordance with the provisions established in Art. 45 of the Bank Law.

END OF NOTE

(3) L.D. Nº 390, dated April 20, 2001, published in O.G. Nº 90, Volume 351, dated May 16, 2001.

(4) L.D.N° 955, dated September 04, 2002, published in the O.G. N° 178, Volume 356, dated September 25, 2002.

START OF NOTE:

LEGISLATIVE DECREE N° 955, DATED SEPTEMBER 04, 2002; CONTAINS TRANSITORY ARTICLES; SINCE THESE ARTICLES ARE NOT SPECIFIED HEREIN, THEY SHALL BE TRANSCRIBED AS FOLLOWS.

Transitory

Art. 42.- The Superintendence, within sixty days of the entering into force of these amendments, shall issue the agreement referred to in article 20 herein, for the banks operating on that date.

Likewise, it shall proceed with the Financial Institutions operating on that date.

Art. 43.- Notwithstanding the provisions in article 41 of this law, the relationship between the equity fund and the obligations or total liabilities with third parties including contingencies shall be six percent for the year 2002, six point three percent during year 2003 and six point six percent during year 2004.

Art. 44.- Notwithstanding the provisions in article 72 herein, the loan loss provision on foreclosed assets that the Banks possess as of June 30, 2002, should be completed in one hundred percent, in the term of five years from the date of enforcement of this Decree, through monthly provisions, in accordance with the following schedule:

During the first year of enforcement of this Decree, they should complete fifteen percent of the provision; on the second year they should have completed thirty percent; fifty percent on the third year, seventy percent on the fourth year, and by the end of the fifth year they should have complete done hundred percent of the provision.

The respective auction process should start at the end of the fifth year, from the date of enforcement of this

Decree.

The provisions that the bank has as foreclosed assets at the date of enforcement of this Decree cannot be reversed until the realization of the respective asset.

Art. 45.- The updating of the amounts referred to in letters b) and d) of Article 112-A, and 167 herein, shall be done on January 1, 2004, and then on every two years in accordance with the provisions set forth in those articles.

Art. 46.- Regarding paragraph two of article 197 herein, from the enforcement of this Decree, Banks shall not be able to grant loans to debtors who exceed the respective loan, in accordance with the agreement reached in the corresponding contract.

Fitness of the Social Agreement

Art. 47.- Banks should modify their partnership agreements in order to harmonize them with the provisions of this Decree, no later than March 31, year two thousand and three.

Update of Technical and Prudential Standards.

Art. 48.- The Superintendence of the Financial System shall elaborate or update the technical and prudential standards for the application of the provisions in this Decree, no later than March thirty first year two thousand and three.

BANK LAW REFORMS

DECREE No. 492
THE LEGISLATIVE ASSEMBLY OF THE REPUBLIC OF EL SALVADOR, WHEREAS:

I. That through legislative Decree No. 697, dated September 2,1999, published in the Official Gazette No. 181, Volume No. 344, dated the 30th of that same month and year, the **Bank Law** was issued.
II. That this Law provides for restrictions to Access information requested for tax purposes, which in some cases hinders the determination of the actual capacity of some tax payers.
III. That the tax legislation in force in other countries recommends to adopt standards that guarantee fiscal transparency to facilitate the Access to banking and financial information of those tax payers, who in accordance with their tax status could be revealing an irregular status regarding their obligations to the Tax Administration.
IV. That by facilitating the Tax Administration to access to specific financial information, it transcends to a confidentiality stage that allows using it only for tax purposes.
V. That due to the above mentioned reasons, it becomes necessary to introduce reforms to the Bank Law so that the Tax Administration might have the financial information from the Banks and help reach the goal of all tax payers paying their taxes in a legal, fair, general and equal manner in accordance with their taxpayer capacity.

THEREFORE:

In the use of their constitutional powers and at the initiative of the President of the Republic, through the

Minister of Economy and the deputies: Ciro Cruz Zepeda Peña, José Francisco Merino López, Elizardo González Lovo, René Napoleón Aguiluz Carranza, Salvador Rafael Morales, José Antonio Almendáriz Rivas, Rolando Alvarenga Argueta, Luis Roberto Angulo Samayoa, José Orlando Arévalo Pineda, Miguel Francisco Bennett Escobar, Juan Miguel Bolaños Torres, Noel Abilio Bonilla Bonilla, Ernesto Antonio Dueñas, Agustín Díaz Saravia, Roberto José d´Aubuisson Munguía, Guillermo Antonio Gallegos, Julio Antonio Gamero Quintanilla, César Humberto García Aguilera, Santos Fernando González Gutiérrez, Noé Orlando González, Manuel de Jesús Gutiérrez Gutiérrez, Carlos Walter Guzmán Coto, Mauricio Hernández Pérez, Mario Marroquín Mejía, Alejandro Dagoberto Marroquín, Marco Tulio Mejía Palma, Manuel Vicente Menjívar Esquivel, Rubén Orellana, Rodolfo Antonio Parker Soto, Renato Antonio Pérez, William Rizziery Pichinte, Francisco Antonio Prudencio, Norman Noel Quijano González, José Mauricio Quinteros Cubías, Oscar Edgardo Mixco Sol, Carlos Armando Reyes Ramos, Dolores Alberto Rivas Echeverría, Víctor Manuel Melgar, Héctor Ricardo Silva Argüello, Juan de Jesús Sorto Espinoza, Ernesto Antonio Angulo Milla, Enrique Alberto Luis Valdés Soto, Donato Eugenio Vaquerano Rivas, María Patricia Vásquez de Amaya, Jorge Alberto Villacorta Muñoz, Armando López, Mario Tenorio, Alba Teresa de Dueñas, José Vidal Carrillo and Sigfredo Campos Fernández.

DECREES the following:

Art. 1 Reform paragraph one of Art. 59, as follows:
Art. 59 Banks have to base the granting of funding on an analysis of the respective applications so as to assess the fund recovery risk. To this end they must consider the repayment and entrepreneurial capacity of the applicants: their moral standing, their current and future economic and financial status, for which they must require their financial statements that should be audited as required by law; collateral, if any, as necessary; the roster of partners or shareholders with a share in the capital stock and other elements and information deemed pertinent. Additionally, they must request the statement on income taxes of the previous fiscal year to the application and the Financial Statements presented to the Tax Administration. It can also request other elements deemed necessary. Refinancing must be based on the same grounds as financing. The Superintendence of the Financial System shall see to the compliance with the previous provisions to qualify any funding.

Art. 2 Reform paragraph three of Art. 201, as follows:
Information required by the courts, the Attorney generals Office, the Internal Revenue General Directorate are not included in the previous paragraph when required to supervise, and also of other authorities in the performance of their jobs, nor the Exchange of confidential data between Banks in order to protect the truthfulness and safety of their operations, nor the information that should be delivered to the public in accordance with the provisions of this Law and those provided to the Superintendence in regards to the bank loan data.

Art. 3 Reform Art. 232 as follows:

Bank Secrecy

Art. 232. Deposits and Money received by the Banks are subject to secrecy and information on said operations can be provided only to the incumbent, to the incumbents legal representative and to the Internal Revenue General Directorate, when required in a supervision proceeding.

All other operations are subject to reserve and may only be made known to the authorities mentioned in article 201 herein, and to can prove a legitimate interest, prior the authorization of the Superintendence,

except when requested by the Internal Revenue General Directorate during an oversight proceeding.

What is herein established is without prejudice to the detailed information that should be made known to the public by virtue of letter 1) of Article 21 of its internal law, as well as the one required by the Internal Revenue General Directorate in its oversight procedures.

Bank secrecy shall not be an obstacle to clarify any crime, to supervise, determine taxes of collect tax obligations, or impede the embargo of goods.

Art. 4. This decree shall enter into force eight days after its publication in the Official Gazette.

GIVEN AT THE LEGISLATIVE PALACE, San Salvador, on the twenty seventh day of October the year two thousand and four.

CIRO CRUZ ZEPEDA PEÑA
PRESIDENT

JOSÉ MANUEL MELGAR HENRIQUEZ
FIRST VICE PRESIDENT

JOSE FRANCISCO MERINO LÓPEZ
THIRD VICE PRESIDENT

MARTA LILIAN COTO VDA. DE CUÉLLAR
FIRST SECRETARY

ELIZARDO GONZALEZ LOVO
THIRD SECRETARY

ELVIA VIOLETA MENJIVAR
FOURTH SECRETARY

Decree No. 636.- The Bank Law is amended as follows

Art. 1.- The first paragraph and letter a) of Art. 217 shall be replaced by the following:

Art. 217.- The executive process followed by a bank includes the guarantees of a hearing and the defense of the defendants, who can give notice of appeal as pertinent. Executive trials promoted by a bank referred to in this provision, shall be carried out in accordance with common regulations with the following amendments:

a) The trial period shall be of eight days.

Art. 2.- Art. 221, shall be replaced by the following:
Art. 221.- Once the term of a loan collateralized with movables of any kind delivered to a bank is due, the latter can request the judge to authorize the sales of the pledged goods through two authorized agents or two well established businessmen at market prices, prior the hearing of the debtor and the collateral constituent.

The hearing granted to the debtor and the collateral constituent, as the case may be, shall be for three working days and within this term, they shall express their agreement or dissent, to the sales of the pledged goods. In the case of a search, sentence shall be pronounced immediately, and the sales and payment of the debt and its accessories shall be ordered using the product of the sales. In the event that the debtor and the

collateral constituent do not appear, or if they appear and disagree, the mercantile executive judgment shall be followed.

In case of an emergency, duly justified before a judge, because of the risk of deterioration, loss of value, or misplacement of the pledged good, the latter can, through a well reasoned resolution, order the sales of the pledged goods under the responsibility of the creditor, even before notifying the debtor and the collateral constituent. After the sales, the debtor and the collateral constituent, if any, shall be informed, granting them a hearing during three working days for them to pronounce themselves on the payment to the creditor of the amount obtained. If they agree, sentence shall be pronounced immediately ordering payment to the bank. In the event of a lack of appearance, or opposition, the mercantile executive judgment shall be followed.

In any case the amount gained from the sales of the goods pledged and sold as above described in this article, shall be charged as follows: a) Expenses caused by the sales; b) Custody expenses, if any; c) insurance premiums on the goods given as collateral, and paid by the debtor; and d) The interests and the amount of the debt. In the event that the product obtained from the sales is not enough to cover the cost of related obligations, the creditor bank shall proceed judicially against the debtor, regarding the difference resulting against him. On the contrary, if once these obligations have been paid there still is a surplus, the bank shall deliver it to the debtor.

Art. 3.- Add a new paragraph to Art. 231, as follows:
Once the mortgage lien has been established on behalf of a bank on the real property subject of the collateral, and from the date of its preventive annotation in any of the respective registries, the real property cannot be subject to any lien, embargo, transfer, assignment or any other right to be recorded on the same, unless there is a written agreement between the mortgager and the creditor, in accordance with the provisions herein. No lien , embargo, transfer, assignment r any other right on behalf of a third party can be recorded, regarding the elements of a company mortgaged on behalf of a bank.

The Superintendence shall establish the standards that shall allow enforcing this article in order to insure the protection of both the mortgager and the creditor.

Art. 4.-shall enter into force eight days after its publication at the Official Gazette." D.O. No. 74, Volume No. 367, dated April 21, 2005.