

MINISTRY OF ECONOMY AND FINANCE
DIRECTORATE OF PUBLIC CREDIT
Resolution No. 002-2010-DdCP
of January 29, 2010

"BY WHICH IT REGULATES THE PLACEMENT OF INSTRUMENTS OF"
INTERNAL PUBLIC DEBT THROUGH PUBLIC AUCTION"

THE DIRECTOR OF PUBLIC CREDIT

In use of his legal powers,

WHEREAS:

That Law No. 97 of December 21, 1998 created the Ministry of Economy and Finance. That based on Law No. 97 of 1998, it issued the Executive Decree No. 70 of June 21, 2002, by which it reorganizes the Directorate of Public Credit of the Ministry of Economy and Finance.

That through Executive Decree No. 113 of November 28, 2003, the Executive Decree No. 70 of June 21, 2002 was modified and a single text with the roles and powers of the Directorate of Public Credit of the Ministry of Economy and Finance.

That through Executive Decree No. 71 of June 24, 2002, the Directorate of Public Credit of the Ministry of Economy and Finance was appointed as the administrative entity responsible for the preparation and execution of issuances of state securities, duly authorized by the Cabinet Council.

Furthermore, Executive Decree No. 71 of 24 of June of 2002, appointed the Directorate of Public Credit as responsible of dictating the procedures and organization of the system of placement of state securities in the domestic capital market.

RESOLVES:

FIRST ARTICLE: Approve the "Regulation of Placement of Internal Public Debt Instruments by Public Auction", which is described as follows:

"" REGULATION OF PLACEMENT OF INTERNAL PUBLIC DEBT
INSTRUMENTS BY PUBLIC AUCTION"

CONTENT

Article 1: DEFINITIONS

1. Authorized agent
2. Treasury bonds
3. Coupon
4. Accrued interest
5. Custody account
6. Central Securities Depository
7. Business day
8. Settlement date
9. Internal public debt instruments
10. Treasury bills
11. Amount allocated
12. Indicative amount
13. Settlement amount
14. Amount offered
15. Treasury notes
16. Competitive offers

17. Non-competitive offers
18. Ex-coupon price
19. Weighted average price
20. Re-offer
21. Bill series
22. Organized System of Authorized Negotiation (SONA for its Spanish acronym)
23. Multiple price auction
24. Sole price auction
25. Discount rate
26. Internal rate of return (IRR)

Article 2: CALL FOR AUCTION

Article 3: PRESENTATION OF PROPOSALS

Article 4: ALLOCATION PROCESS

Article 5: ANNOUNCEMENT OF THE AUCTION RESULTS

Article 6: AUCTION SETTLEMENT PROCESS

Article 7: SECONDARY MARKET TRADING OF DOMESTIC DEBT INSTRUMENTS AFTER AUCTION ALLOCATION

Article 8: FORMULAS USED IN THIS REGULATION

Article 9: TERMS AND CONDITIONS OF TREASURY BILLS

Article 10: TERMS AND CONDITIONS OF TREASURY NOTES

o0o

Article 1: DEFINITIONS:

For all legal purposes, in the application and interpretation of this regulation, the following terms are defined as follows:

1. **Authorized agents:** They are financial institutions and brokerage firms that have been convened and expressly authorized by the Directorate of Public Credit of the Ministry of Economy and Finance to send proposals to auctions of Domestic Public Debt Instruments, on their own behalf or third parties.

The authorized agents who are not holders of custody accounts in the Central Latinoamericana de Valores will have to express in writing directly to the Directorate of Public Credit which will be its settlement bank and under what custody account shall the settlement of securities be made in favor of the National Treasury. This written communication must be accompanied by an explicit acceptance by the settlement entity.

2. **Treasury bonds:** It is an instrument issued by the Republic of Panama, which represents a long-term debt, installments equal to or greater than ten (10) years.

3. **Coupon:** Interest rate which an internal public debt instrument or a fixed income obligation will accrue.

4. **Accrued interest:** Unpaid accrued interest of an internal public debt instrument. The basis for calculation will be 30/360 (see article 9, formula 3).

5. **Custody account:** Is any account carried by each of the registered participants in the Central Securities Depository.

6. **Central Securities Depository:** is a legal person, duly authorized by the National Securities Commission that performs one or more of the following activities: (1) that keeps records of securities transactions with the purpose of clearing and settling entitlements created by such transactions; (2) that keeps records of securities transfer and guarantees granted on these, with the purpose of establishing property rights and guarantees of these securities; (3) that keeps certificates of securities with the purpose of transferring such securities through the book-entry mechanism. This expression does not include brokerage firms, members of self-regulatory organizations, nor banking or financial institutions that perform one or more of the activities described above incidentally, to the regular course of its businesses.

7. **Business day:** Any day other than Saturday, Sunday, national holiday or mourning day and that the General License banks are authorized by the Superintendence of Banks to open to the public in Panama City. If the due date of the payment of principal and interest of the internal public debt instruments falls on a day which is not a business day, the payment of principal and interests will be extended until the first following business day.

8. **Issuer:** Refers to the Republic of Panama as debtor of the obligations issued through internal public debt instruments.

9. **Participating public agency:** Autonomous, semi-autonomous and/or affiliated institutions of the state, which are duly authorized by law and authorized to participate in the acquisition of internal public debt instruments, through the primary or secondary market, indirectly through authorized agents or directly through competitive and/or non-competitive offers.

10. **Settlement date:** Three (3) business days after the auction date (T+3).

11. **Internal public debt instrument(s):** It refers to Treasury bills, notes and bonds or any public debt instrument issued by the Republic of Panama in the domestic market, in compliance with the laws applicable.

12. **Treasury bills:** It is an instrument issued by the Republic of Panama, which represents a short term (1 year or less) debt, sold at discounts through auctions and payable at maturity at face value.

13. **Amount allocated:** It is the nominal amount that is placed in the auction.

14. **Indicative amount:** It is the nominal amount to be auctioned by the Directorate of Public Credit of the Ministry of Economy and Finance, and that is not binding either in minimums or maximums.

15. **Settlement amount:** The amount in cash that the National Treasury will receive from the participants, and is calculated by multiplying the ex-coupon price or market price by the nominal amount of each awarded auction, plus the accrued interest.

16. **Amount offered:** Sum of the amounts received in time and form.

17. **Treasury notes:** It is an instrument issued by the Republic of Panama, which represents a medium-term debt with maturity between two (2) and ten (10) years.

18. **Competitive offers:** The proponent establishes the amount of the internal public debt instrument that it wishes to purchase and the price it offers.

19. **Non-competitive offers:** The proponent establishes the amount of the internal public debt instrument that it wishes to acquire and accepts the weighted average price resulting from competitive offers accepted by the issuer.

20. **Ex-coupon price:** It is the market price or clear price that participants present in their proposals.

21. **Weighted average price:** Is one that is obtained by averaging the prices proposed in Competitive offers by the corresponding allocated amounts.

22. **Re-offer (Tranches):** Securities placement system that consists of keeping open an authorized issuance of a single series in successive auctions, being completely expendable and forming a single issuance with homogeneous characteristics (coupon, interest and amortization payment dates). The main objective is to achieve the total authorized amount of that Instrument to facilitate trading in the secondary market. The re-opening period of a certain issuance shall be determined in each case by the Directorate of Public Credit of the Ministry of Economy and Finance.

23. **Bill series:** It corresponds to the reference used by the Directorate of Public Credit of the Ministry of Economy and Finance to identify a series of Treasury bills, based on their term, as it is set below:

D3 corresponds to bills with terms of three (3) months.

D6 corresponds to bills with terms of six (6) months.

D9 corresponds to bills with terms of nine (9) months.

D12 corresponds to bills with terms of twelve (12) months.

24. **Organized System of Authorized Negotiation (SONA):** is a set of rules of market prices and negotiations governed by a set of rules of operation communication and restricted to a group of institutions (participants) who have direct access to the negotiation through a technical infrastructure that supports it (trading system) and is authorized by the Directorate of Public Credit of the Ministry of Economy and Finance.

25. **Multiple price auction:** is defined as the auction in which each offered proposes a price, and in case of being accepted, pays the price proposed in its offer.

26. **Single price auction:** is defined as the auction in which all acceptable bids are awarded to the minimum discount price accepted by the issuer, based on prices that have been proposed.

27. **Discount rate:** it refers to the "discounted performance rate" and it means an annualized return rate at maturity of the Treasury bills, expressed as a percentage and based yearly actual/360 day.

28. **Internal rate of return (IRR):** It is the interest rate that equals the present value of flows to the price of the investment.

Article 2: CALL FOR AUCTION:

The Directorate of Public Credit of the Ministry of Economy and Finance shall convene every auction with no less than three business days in advance. For each auction the instrument to be auctioned will be announced, the term, indicative amount, date of auction, issuance and settlement, payment and registration agent, and any modification of the usual procedure of the auction.

The call will be done so that deviations from the previously announced annual calendar are minimal and only in extraordinary situations other dates will be announced.

Article 3: PRESENTATION OF PROPOSALS:

The auction proposal (s) must be presented in the format defined by the Directorate of Public Credit of the Ministry of Economy and Finance.

The Authorized Agents that present Competitive Offers shall specify the following:

i. Nominal amount that it desires to acquire, in denominations of one thousand dollars United States of America dollars (1,000 USD) or multiples of that amount (in numbers and letters).

ii. Ex-coupon price expressed in percentage terms on the desired nominal amount, with two (2) decimal places, when it comes to Treasury notes and Treasury bonds.

iii. Price expressed in percentage terms on the nominal amount that it wishes to purchase, with two (2) decimal places, when it comes to Treasury bills.

For all instruments, bids for the non-competitive tranche of the auction will only express the requested amount. If an Authorized Agent makes several offers, each proposal must go separately and indicate the amount and the price offered.

Any national or foreign natural or legal person may make requests for purchase through the Authorized Agents, with prior compliance with the requirements of the Authorized Agents and Current applicable laws.

Participating Public Entities may submit Competitive and Non Competitive Offers; Non Competitive Offers submitted by Participating Public Entities will accept the Weighted Average Price.

All proposals will be binding for the Authorized Agent presenting them and will be irrevocable, even if the client of the Authorized Agent desists, given the responsibility of compliance falls entirely in the Authorized Agent.

Article 4: ALLOCATION PROCESS:

Proposals that are received until the appointed time will be registered, analyzed, and accepted or rejected; bids may be rejected where there are defects in time and/or form.

The public auction shall be presided over by the Minister of Economy and Finance, or in his absence, by the Deputy Minister of Finance, or in his/her absence, by the Deputy Minister of Economy, or in absence thereof, by The Director of Public Credit or the Deputy Director of Public Credit, who will make the decision about the minimum price accepted for the resolution of the auction.

The resolution process will be as follows:

1. Accepted proposals will be classified in Competitive Offers and Non Competitive Offers.
2. Competitive Offers are sorted from highest to lowest price; then, the authority that presides over the auction will announce the minimum price in which bids are accepted.
3. In the case of a Multiple price auction, the Competitive Offers at multiple price will be awarded on the basis of the price offered by each bidder, up to the minimum price set by the Issuer.
4. In the Single Price Auction, all accepted bids will be awarded at the minimum price set by the Issuer.
5. Non Competitive Offers will be awarded at the Weighted Average Price resulting from the Competitive Offers accepted by the Issuer. The Weighted Average Price calculation formula is defined in Article 9, formula 1.
6. In the event that only Non-Competitive Offers are received or that the competitive tranche of the auction is un-awarded, the Issuer may also declare the Non Competitive auction un-awarded.
7. After making the allocation to the minimum price set by the Issuer, and in case there is parity in the proposed prices, the amount to be assigned between the tied bidders will be prorated. The prorate formula to be used is described in Article 9, formula 2.
2. When the arithmetic approaches of two or more proposals resulting from the apportionment are equal, it will be considered upward to the closest thousand, the offer that came first, and downward to the closest thousand, the offer that came in second, and so on.

Article 5: ANNOUNCEMENT OF THE AUCTION RESULTS:

After the auction is completed, the Ministry of Economy and Finance will make an official announcement through the media about the results of the auction. The announcement will include information about:

1. Date of the auction.
2. Settlement date.
3. Maturity date.
4. Name of the instrument.
5. Tranche offered.
6. Indicative amount.
7. Number of competitive and non-competitive proposals received.
8. Auction procedure applied.
9. Minimum and maximum price received on the proposals.
10. Price set by the Issuer and yield.
11. Resulting weighted average price.
12. Amount allocated.
13. Amount of securities in circulation from same reference.
14. As well as any other relevant information that the Ministry of Economy and Finance considers necessary.

Article 6: AUCTION SETTLEMENT PROCESS

All offers submitted by an Authorized Agent are firm. The withdrawal of an offer by an Authorized Agent, either on its own behalf or as a third party, will mean the immediate loss of its Authorized Agent condition, for a minimum period of a year, without prejudice of other legal measures that the Directorate of Public Credit of the Ministry of Economy and Finance or other agencies may undertake against said Authorized Agent.

The Authorized Agent who submits proposals on its own behalf or their customers is forced upon the Issuer to enforce payment on the Settlement Date of those offers that have been allocated, either on its own behalf or for clients. Nonpayment by a client does not exempt the Authorized Agent of its responsibility in the settlement.

The settlement will be made according to the procedures established by the Issuer in accordance with the regulations of the Central Securities Depository and the Paying Agent.

The delivery of the securities shall be made the moment the payment thereof has been made. In this regard, the Central Securities Depository will not transfer ownership of the securities until the bidder has made the payment to the corresponding price and when the Paying Agent confirms it.

The Paying Agent will receive and register the total amount that corresponds to the Issuer, as a result of each auction and will send all receipts and necessary notes which support the debit and credit in favor of the National Treasury. This transaction should be verified the day established as the Settlement date.

Article 7: SECONDARY MARKET TRADING OF DOMESTIC DEBT

INSTRUMENTS AFTER AUCTION ALLOCATION:

The entitlements of the allocated securities in each auction may only be modified by secondary market transactions, duly informed in the price registration and distribution system, that, at Directorate of Public Credit of the Ministry of Economy and Finance establishes.

Article 8: FORMULAS USED IN THIS REGULATION:

1. Weighted Average Price (WAP):

Weighted Average Price = $\frac{\sum (X_i) (P_i)}{\sum X_i}$

$\sum X_i$

X_i : The amount allocated by each of the competitive proposals.

P_i : Price proposed by each of the agents with allocated competitive offers.

$\sum X_i$: Sum of the amounts allocated by each of the competitive proposals.

The price of acquisition or purchase shall be rounded up to two (2) decimal places, using the normal rounding procedure, i.e.: 1-4, round down; 5. 9, round up.

2. Apportionment formula (proportional distribution):

$(X) \times M$

$\sum Z$

X = Amount requested by each offeror.

M = Amount allocated to be distributed.

$\sum Z$ = Sum of the amounts requested.

Using the formula for apportionment, everything over five hundred and fifty dollars of the United States of America (US\$ 550.00) is rounded up to the unit of a thousand, since Internal Public Debt Instruments will only be sold in multiples of one thousand dollars of the United States of America

(US\$ 1,000.00); Example: if an amount of ten million eight hundred thirty-four thousand five hundred and fifty with 76/100 dollars of the United States of America (US\$ 10,834,550.76) results, ten million eight hundred thirty-five thousand dollars of the United States of America will be awarded (US\$ 10,835,000.00).

3. **Accrued interest:**

$CC \% = C / FxDc$

DT

C = Nominal coupon.

F = Payment frequency of the coupon.

Dc = Days from issuance, or from the last coupon payment.

Dt = Number of days in the coupon period.

Article 9: TERMS AND CONDITIONS OF TREASURY BILLS

Securities: Treasury bills.

The issuance amount: The total issue amount will be authorized by Cabinet Decree and it will be defined depending on the resource requirements that the Issuer has, and the market conditions. The balance in circulation of Treasury Bills must be equivalent to the total authorized amount.

Currency: United States of America dollars (US \$).

Term: three (3), six (6), nine (9) and twelve (12) months.

Series: D3 corresponds to bills with term of three (3) months.

D6 corresponds to bills with terms of six (6) months.

D9 corresponds to bills with terms of nine (9) months.

D12 corresponds to bills with terms of twelve (12) months.

Denominations: One thousand dollars of the United States of America (US\$ 1,000.00) or multiples of a thousand.

Type of instrument: Treasury bills are issued at a discount on the nominal value, zero coupon.

Day count basis: Actual/360.

Payment of principal: A single payment of principal at maturity.

Redeemability: The bills will not be redeemable previous to maturity. However, the Issuer can perform buy and sell operations in the secondary market, directly or through agents.

Paying Agent: Banco Nacional de Panamá or any other banking entity that the Issuer designates.

Registry Agent: The Issuer may register in a Central Securities Depository, or in any stock exchange

or depository entity deemed suitable, to enhance the marketability and market price of The Treasury bills in the primary and secondary markets.

Transfer: The transfer of the property of the Treasury bills represented in the Global titles, will be done exclusively through the book-entry system.

Individual bills will not be issued.

Offer Announcement: The Ministry of Economy and Finance will announce in advance,

through the media, the issuance, settlement and maturity date, the auction procedure to be applied and the Indicative Amount of the offer which will not be binding on maximums nor minimums.

Classification of Bills: Direct, general and unconditional obligation of the Issuer, that

will be pari passu with all other non-guaranteed obligations, present and future.

Taxes: the implicit accrued interest of the Treasury Bills authorized by Cabinet Decree, are exempt from the payment of income tax.

Applicable Legislation: Laws of the Republic of Panama.

Paragraph: The terms and conditions of the Treasury bills will be defined in each issuance that is approved, which may be varied from time to time, safeguarding the best interests of the State.

Article 10: TERMS AND CONDITIONS OF TREASURY NOTES:

Securities: Treasury Notes.

Issuance amount: The total amount of Treasury notes to be issued will be authorized by Cabinet Decree and will be defined depending on the resource requirements that the Issuer has and the market conditions.

Tranches: The Treasury notes will be issued by Re-offers or Tranches through indicative amounts and successive auctions being expendable and forming a single issuance with homogeneous characteristics.

Currency: United States of America dollars (US \$).

Term: As determined by Cabinet Decree.

Denominations: One thousand dollars of the United States of America (US\$ 1,000.00) or multiples of a thousand.

Coupon: The interest rate will be fixed and will be announced to the market up to a day before the Issuance.

Payment of principal: A single payment of capital at maturity.

Interests: Payable every six months on a 30/360 basis.

Redeemability: The notes will not be redeemable in previous to maturity. However, the Issuer can perform buy and sell operations in the secondary market, directly or through agents.

Paying Agent: Banco Nacional de Panamá or any other banking entity that the Issuer designates.

Registry Agent: The issuer may register or list the issuance in a Central Securities Depository, or in any stock exchange or depository entity, deemed suitable, to enhance the marketability and market price of the Treasury notes in the primary and secondary markets.

Transfer: The transfer of property of the Internal Public Debt Instruments represented in Treasury notes through an organized system of negotiation, shall be made only and exclusively by the book-entry system.

Offer Announcement: The Ministry of Economy and Finance will announce in advance, through the media, the auction, issuance, settlement and maturity date, Paying and registry agent, the auction procedure to be applied, and the Indicative Amount of the offer which will not be binding on maximums and minimums.

Classification of notes: Direct, general and unconditional obligation of the Issuer, that will be pari passu with all other non-guaranteed obligations, present and future.

Taxes: The accrued interest of the Treasury notes authorized by Cabinet Decree, are exempt from the payment of income tax.

Applicable Legislation: Laws of the Republic of Panama.

Paragraph: The terms and conditions of the Treasury Notes will be defined in each issuance to be approved, which may be varied from time to time, while safeguarding the best interests of the state.

Article 11: This regulation will take effect from the date of issue".

SECOND ARTICLE: This Ministerial resolution will be effective from the date of approval.

LEGAL BASIS: Law No. 97 of December 21, 1998; Executive Decree No. 113 of November 28, 2003; Executive Decree No. 71 of June 24, 2002.
Given in Panama City on the twenty-ninth (29) day of the month of January of two thousand ten (2010).

COMMUNICATE, BE PUBLISHED AND ENFORCED,

Dulcidio De La Guardia
Minister In-charge

Mahesh C. Khemlani
Director of Public Credit