



DRAFT PAPER
(Version as of July 2, 2004)

CENTRAL AMERICAN REGIONAL CONFERENCE

San Pedro de Sula, Honduras

July 8–9, 2004



ISSUES IN BANK RESOLUTION

David S. Hoelscher and Luis Cortavarría

Monetary and Financial Systems Department

INTERNATIONAL MONETARY FUND

ISSUES IN BANK RESOLUTION¹

A. Crisis Outbreak and Containment

1. A systemic banking crisis emerges when problems in one or more banks are serious enough to have a significant adverse impact on the real economy. The immediate impact is often felt through disruptions in the payment system, reductions in credit flows, or the loss of asset values. A systemic crisis often is characterized by runs of creditors, including depositors, from both solvent and insolvent banks, thus threatening the stability of the entire banking system. The run is fuelled by fears that the means of payment will be unobtainable at any price, and in a fractional reserve banking system this leads to a scramble for high-powered money and a withdrawal of external credit lines.
2. While in most cases the roots of banking crises reside in problems that should have been addressed at an earlier stage, under these circumstances, the authorities must act quickly to adopt measures directed to contain deposit outflows, and announce a credible strategy to crisis resolution. A delay in addressing the emerging crisis increases the costs and prolongs the crisis.
3. The strategy for managing a banking crisis must be tailored to country-specific conditions. Country-specific factors include the cause of the crisis, the macroeconomic conditions and outlook of the country, the financial position of the banking system, the risks of internal and external contagion, and the availability of resolution tools.² However, several lessons can be drawn from experiences from other countries.

B. Bank Restructuring Options

4. Bank restructuring is a central part of crisis resolution. It should begin with a thorough diagnosis of the condition of all banks in the system, together with an assessment of the country's macroeconomic situation. Based on the diagnosis, the authorities should classify the banks and develop a bank restructuring strategy. The strategy should include bank resolution techniques consistent with macroeconomic, legal, and institutional constraints.
- **Bank diagnosis:** All banks, including state-owned, must be subjected to strengthen their assessment of their financial solvency. However, a bank's viability is not always identifiable from just the financial statements. Such statements and asset values of a bank

¹ Prepared by David Hoelscher and Luis Cortavarria. This presentation has benefitted from comments by Ms. Marina Moretti and Mr. Alfred Schipke.

² Country-specific factors also include ownership structures of the banking system and the corporate sector; human resource constraints; the legal, regulatory, judicial, and administrative frameworks; traditions of transparency; as well as political cohesion and the quality of leadership. These factors will influence the pace and success of the resolution strategy.

are often distorted during a crisis, making it difficult to determine a bank's financial position. Therefore, all banks should demonstrate their viability through two factors: (i) a medium-term business plan and cash flow projections, based on realistic macroeconomic assumptions that show future profitability and medium-term strength; and (ii) shareholders serious financial commitment to restore their bank's solvency and credibility. Any business plan can go wrong; the shareholders must stand ready to adopt corrective measures.

- **Classification of banks:** On the basis of their financial condition, banks would be classified as (i) sound and solvent; (ii) undercapitalized; (iii) insolvent, but viable; and (iv) insolvent and non viable.
- **Restructuring options:** These can be broadly divided into private sector solutions and public sector assisted solutions.
 - **Private sector solutions:** Shareholders should always have the first opportunity to recapitalize and restructure their bank (including by bringing in new private investors). If the shareholders are unable to fully recapitalize their bank immediately but they are fit and proper and the bank is deemed viable, consideration could be given to allowing solvent but undercapitalized banks to remain in the system under strict conditions.³ Under these circumstances, the recapitalization schedule could be phased in, as banks should be required to suspend dividend distributions until the required level of capital has been restored. If bankers are not able to present such plans, fail to comply with them, or if the bank becomes insolvent, the bank should be taken over by the authorities for their resolution.
 - **Public sector assisted solutions:** Failure of private sector solutions and bank insolvency does not necessarily result in bank liquidation. Circumstances can exist where public sector action may be warranted to limit the costs to the economy of a banking failure. Public sector assistance can use a variety of techniques: (i) joint recapitalization and/or restructuring plans; (ii) resolution through purchase-and-assumption (P&A) transactions; (iii) liquidation and asset resolution; and (iv) as last resort, nationalization (with a view to future reprivatization). The toolkit may also include regulatory forbearance. Each resolution technique has benefits but, at the same time, safeguards must be in place to prevent inappropriate use of the assistance provided by the authorities.

³ Undercapitalized banks are banks operating below the legal minimum capital adequacy ratio (CAR). Insolvency is often defined as operating with a CAR of zero or less. In some countries with prompt corrective action regimes, the law may oblige supervisors to intervene a bank when its CAR falls below a certain threshold (between 2–4 percent in some countries).

C. Public Sector Assisted Bank Resolution Techniques

5. Insolvent and unviable banks should be intervened and immediately resolved. If insolvent banks stay open without financial and operational restructuring, losses are likely to grow, the credibility of the bank supervisors may be undermined, competition may be distorted, and perverse incentives may arise for other banks.

Public recapitalization plans

6. When purely private sector solutions are insufficient, public sector action may be warranted to limit the costs to the economy of the banking failure. The public sector can assist bank recapitalization by either existing or new shareholders in a variety of ways, including participating with the shareholders in recapitalization programs or by using methods of strengthening banks' portfolios.⁴

7. Joint recapitalization and restructuring programs seek to combine public sector support and the best of private sector involvement. When the injection of new funds by shareholders is insufficient to support otherwise viable banks, the authorities can supplement their efforts with public funds. Public capital, therefore, may be used to assist private owners achieve a least cost resolution.

8. Public sector programs may also be appropriate when the causes of the financial collapse are outside the control of the private sector. For example, public funds may be justified when the public sector causes the banking problems through policies directly affecting the bank such as sovereign debt restructuring or imposition of contract modifications. In this case, if feasible, issuance of bonds to compensate banks for the loss could be considered.

9. The costs of joint recapitalization depend on the design of the program. Typically, the authorities will require that private shareholders match public sector contributions and agree to repay the authorities within a specified period. If private shareholders do not contribute, the public sector initially bears the full cost, with the net cost determined by the shareholders' repayment program.

10. Joint recapitalization plans ensure the financial health of the bank but not necessarily its medium-term viability. The injection of public funds, in itself, does not address any operational weaknesses of a bank. If the bank is generating operational losses, does not have an appropriate client base, or is not viable over the medium run, recapitalization alone will not return the bank to medium-term health.

- Successful joint recapitalization programs have shared a number of characteristics:

⁴ If existing owners remain in the bank, related loans must be performing and there should be no indication of fraud. Only fit and proper shareholders may remain in the system.

- They have safeguards to ensure that bank owners have strong incentives to raise private capital before turning to government funds, and that government investments are repaid within a specified period of time.
- Bank losses are fully identified before recapitalization through a due diligence audit by firms of international standing may be necessary to identify the total losses of the bank.
- Shareholders absorb all identified losses before injection of public funds.
- The government receives preferential shares that can be converted to equity if shareholders do not implement adequate restructuring plans or if the bank cannot stem operational losses.
- The government has representation on the bank's board, the authority to approve the bank's management, and veto rights on certain decisions.

11. For the successful and transparent implementation of joint recapitalization, the supervisory authority must have the ability to enforce restructuring agreements and to intervene and require adjustments if shareholders fail to implement the agreed programs. The legal framework must be adequate. Failure to meet these conditions has led to higher resolution costs and has threatened the stability of the banking system.

12. Government-funded asset management companies (AMCs) have been used in some jurisdictions to recapitalize banks by buying nonperforming loans at above market value.⁵ This recapitalization option is less transparent than more direct methods. It converts the AMC into a loss-making operation, and provides the government with less leverage in the recapitalized institution. Alternatively, the AMC can purchase nonperforming assets at market value. In this case, the bank's actual solvency position is not changed but its operations are strengthened as the bank can devote full attention to its normal banking activities rather than to managing the NPL portfolio.⁶

Intervention and sale

13. If existing or new private shareholders are unable to restructure a bank, the supervisors may be forced to briefly take control of the insolvent or undercapitalized bank, impose losses on the shareholders, and sell the bank—either as a whole or in parts.⁷ New

⁵ Two types of AMCs have been established. One type of AMC limits activities to managing assets from liquidated banks. The other type purchases nonperforming loans from open banks.

⁶ For a description of operational issues associated with establishing and managing AMCs, see Seelig (2004).

⁷ Definition of a bank intervention may vary among countries.

investors will have to inject sufficient capital and prepare an operational restructuring plan, which would have to be approved by the authorities.

14. Purchase and assumption (P&A) transactions have been used in several jurisdictions.⁸ Under this technique, sound assets and an equal amount of liabilities are transferred to another institution. The acquiring banks purchases the operations, but not the failed bank's license. P&A transactions can be effective when a full merger or sale is not feasible, because the private investor acquire only part of the assets and liabilities of the failed bank, not the entire entity.

15. Potential acquirers of part of a failed bank's business may require some public assistance. To that end, the authorities may commit public resources to cover any excess of liabilities over the fair value of the assets. This injection of capital would have to be of a lesser cost to the public than liquidation and payoff of insured deposits.

16. Although helpful in the resolution process, P&A transactions require market conditions to be effective. There must be a market for performing assets. The authorities cannot force operating banks to receive the assets from a failed bank. In the midst of an economic downturn when many banks fail, the opportunities for P&A transactions may be limited. In addition, if the banking system is not relatively deep, a downside is that banks will not compete for the purchase of the assets, and the government may not realize the full value from the bank resolution process and minimize its costs.

17. Some countries have also used a good bank/bad bank structure to resolve an intervened bank. Under this technique, the good-quality assets of the intervened bank are separated from the nonperforming portion of the portfolio. This allows the bank's operations to continue without interruption on a clean basis, pending privatization.

18. Successful sale of an intervened bank—either as a whole or in parts—will depend on the underlying viability of the intervened bank and the authorities' ability to control operating losses and identify qualified purchasers. The authorities should adopt operational restructuring and cost cutting measures to ensure that the intervened bank's financial position does not deteriorate further. New owners must be fit and proper and the purchased bank should be viable. If the failed bank is absorbed into another institution, the final bank must be financially strong. Misuse of these techniques in some jurisdictions has resulted in subsequent failure at higher costs.

⁸ A variant of the P&A operation is found in the Argentina bank resolution framework (Art. 35bis of the Central Bank Law.

Intervention, liquidation, and asset resolution

19. A bank is liquidated when it is not viable or when interested investors cannot be found. Shareholders lose of their investment and only receive proceeds from the liquidation if a residual remains after paying off all creditors.

20. The objective of liquidation is to maximize the value of asset collections rather than maintain the bank as a going concern. A critical issue in bank liquidation is the existence of an adequate legal framework. The liquidation framework should comprise clear rules for: placing the insolvent bank in liquidation; terminating its banking activities; and assigning the tasks related to the liquidation.

Bank nationalization

21. If all efforts to restore capital with new or existing shareholders fail but the bank's liquidation would destabilize the financial system, the authorities may have no option but to nationalize the bank. The state assumes ownership of the bank, which retains its banking license and remains open for business, while it's restructuring is pursued. Alternatively, to isolate the nationalized entity from contingencies, the government can transfer net assets and privileged liabilities to a new institution fully capitalized with public funds.

22. Key elements of successful nationalization are (i) the authorities' ability to undertake sufficient recapitalization and operational restructuring so that the bank is viable and (ii) the full imposition of losses on shareholders, based on a due diligence audit of the intervened bank. As the authorities will run the banks after nationalization, they must ensure full recapitalization and operational streamlining. The bank must be returned to profitability and its administration strengthened to prevent fiscal costs from escalating. A nationalized bank should also refrain from an aggressive expansion of activities.

23. Nationalization can be costly. Experience suggests that bank assets deteriorate faster under public ownership, reflecting a lack of incentives for borrowers to meet debt service obligations. Moreover, political interference may arise and bank operations be distorted by public policy-induced decisions. In the past, the most successful and least costly nationalizations have been relatively short, and the time has been used to restructure the bank and prepare it for eventual privatization. Moreover, to ensure success nationalized banks must be run at arms length by professional managers and subject to the same regulatory framework as private commercial banks. The government should seek to reprivatize the bank as soon as feasible—preferably within two years of the bank's intervention.

Bank resolution through regulatory forbearance

24. Forbearance arises when the supervisory authorities opt not to enforce prudential regulations. Forbearance can be informal—when the supervisory authorities turn a blind eye to infractions—or formal—when the supervisors and the banks have agreed on a restructuring process to ensure full compliance with regulations within an acceptable period.

25. Experience suggests that formal forbearance has an important role in bank restructuring, as long as it is used within the framework of a comprehensive and credible bank restructuring program that entails capital injections from bank shareholders. Nonetheless, in view of the potential for moral hazard and conflicts of interest, regulatory forbearance is risky even in the context of a bank restructuring program. Thus, banking authorities should use this resource only very cautiously.

D. Which Bank Resolution Technique is Best?

26. Experience suggests that there is no single bank resolution technique that is consistently and uniformly superior to others. The appropriate resolution technique depends on a number of factors, including (i) the limitations imposed by the legal framework of the country, (ii) the size of the financial hole in the banking system, (iii) the depth of the financial system, (iv) the private sector alternatives available, and market conditions; and (v) the underlying macroeconomic, and in particular fiscal, conditions.

27. As a result, the supervisory authorities need to have a range of instruments available, and select the tool appropriate to the circumstances. The description of alternative resolution techniques, provided above, point to the circumstances in which each technique is most effective. However, there are broader considerations and practical issues must be kept in mind in the design and selection of a bank resolution framework.

28. Resolution of banking failures must be designed to meet sometimes conflicting criteria. The authorities will seek to limit fiscal costs as well as any disruption to the economy as a whole. The resolution strategy should aim at preventing contagion of banking failure to otherwise sound banks or the weakening of the banking system. As these objectives may conflict, crisis resolution can be politically and economically complex. The issue of burden sharing (the distribution of the costs of resolving failed or failing institutions) has widespread repercussions on the conduct of economic policy.

Drawing lessons from banking crisis resolutions

29. In the last decade, the authorities in Latin America, countries have used many of the techniques outlined above—nationalization, liquidation, P&A, mergers, public supported recapitalization. Experiences have been diverse, as countries have moved at different speeds in resolving banking crises.

30. From these experiences, a set of common principles for proper crisis management can be drawn, as well as key lessons in the area of crisis prevention and bank resolution to limit their costs and minimize the impact on economic growth.

Common principles for proper crisis management

31. Experience in both Latin America and other regions of the world point to broadly accepted common principles in crisis management for organizing and managing the

authorities' response to severe banking distress. The key principles in crisis management identified on the basis of international experience include:

- **Strong political support is important to ensure success in crisis management.** Public disagreements or expressions of doubt among prominent government participants can undermine confidence in the containment and restructuring process.
- **A coherent and comprehensive package of measures should be implemented.** Such a package may have to include credible macroeconomic adjustments, emergency liquidity support, a blanket guarantee where feasible, and early closure of clearly insolvent banks.
- **The legal system must be adequate.** The authorities need sufficiently clear powers to implement their desired strategy. Legal protection for the authorities also facilitates the restructuring process. In particular, bank supervisors should be insulated from legal challenges undertaken by the former bank owners.
- **Protection of depositors and other creditors will facilitate the restructuring process.** When faced with a systemic crisis, experience suggests that, where feasible, a blanket guarantee can ease creditor fears and facilitate the closure of weak banks. Where a blanket guarantee is not feasible or would not be credible, the authorities may have to rely on administrative measures such as securitization of deposits, forced extension of maturities, or a deposit freeze.
- **Bank resolution should follow a principle of equity and fair treatment.** Restructuring policies should be applied to all banks on a uniform basis. Existing shareholders should be the first to either inject additional capital or lose their investment. If capital continues to be insufficient, other stakeholders may need to take losses.
- **Asset resolution is an essential complement to bank restructuring.** An early and active involvement in impaired asset management prevents credit discipline from eroding. A variety of institutional arrangements and techniques are available. They should be chosen in order to achieve the desired trade-off between rapid resolution and recovering the value of the impaired assets.

Lessons on strengthening the prevention framework

32. The supervisory and regulatory framework must be sufficiently robust to ensure rapid identification of banking weaknesses and implementation of corrective actions. Progress has been made in updating and modernizing supervisory regimes in Latin America. An important part of the reform agenda, however, remains to be completed. A large number of countries in the region have undergone evaluations of the vulnerabilities of their financial sector frameworks through the IMF's Financial Sector Assessment Program (FSAP). The results suggest that, even when compared with emerging markets outside the region, considerable progress remains to be achieved. Noncompliance with Basel Core Principles related to

supervisory independence, enforcement powers, and legal protection suggests weaknesses in the framework for the prevention of banking problems (Table 1).

33. In reviewing experiences of supervisory actions, the following issues have played against **the early adoption of bank resolution measures**:

- **Lack of independence and discretionary powers of bank supervisors to act at early stage.** In a number of jurisdictions, as a result of legal limitations or political interference, bank supervisors have no independence to impose remedial actions to weak banks at an early stage. Furthermore, sometimes they must follow very rigid steps before intervening a bank, including a mandatory requirement for requesting weak banks to submit rehabilitation plans, which in some case may simply delay bank resolution actions.
- **Failure to supervise on a consolidated basis.** In some cases, financial groups have used unregulated affiliates (including off-shore banks) to evade supervision and hide their actual financial condition.
- **Weak monitoring of loans to related parties.** Due to political interference or weak supervisory capacity to enforce credit limit to insiders, a number of banks have failed as a result of their large exposure to insolvent related parties.
- **Inaccurate asset valuation rules.** Lack of assessment of the borrower's future repayment capacity, extreme reliance on loan collateral and excessive regulatory forbearance have all contributed to postponing the recognition of bank losses.
- **Requirement of prior approval by a higher-level body for bank intervention.** While bank supervisors should communicate their decision on a bank intervention to a high-rank government official, they should have sufficient legal powers to intervene without the need of prior consent from such an official.
- **Weak legal protection for bank supervisors.** The risk of legal retaliation from former bank shareholders also postpone the adoption of early bank resolution measures by banking supervisors.

Lessons for bank resolution

34. Experience from both inside and outside the region suggests that success or failure of a restructuring tool is only partially determined by the design of the tool. Equally important is the context in which the tool is used, including the market conditions and the legal framework. For example, a liquidation and P&A transaction can be a low-cost and effective alternative when markets for assets exist and sound private banks are willing to participate in the resolution. That same technique, in an environment of poor financial soundness and insufficiently deep markets can result in contagion and deterioration in the overall conditions of the banking system.

35. In general, the following lessons for the use of resolution techniques can be identified:

- **The faster the recognition and resolution of banking distress, the more efficient and less costly will be the resolution.** The sooner the problems come to light and can be tackled, the greater will be the options available to the authorities and the lower the cost of resolution. The faster the authorities move, the lower will be the resolution costs and the faster the reestablishment of banking sector stability.
- **Banking authorities must maintain close coordination.** While a clear legal and operational division of labor is necessary to facilitate bank resolution, it is critical that a fluent mechanism to coordinate and communicate actions is put in place. Furthermore, strong leadership is vital to shepherd the restructuring process and avoid influence from third parties.
- **Banks should be allowed to fail.** Bank failure can be a positive force for banking system stability. The presumption should not be that all banks must be protected. In any decision to use public money to support a bank, the benefits of keeping a bank open must be judged explicitly against the costs to the public sector and to the banking system of maintaining a weak bank.
- **Care must be taken in determining that financial problems in a single bank constitutes a systemic risk.** When the core of a banking system is sound and liquid, the range of options is broader. Bank resolutions or liquidation will not pose systemic threats and will be less costly and more efficient. When a bank failure threatens systemic stability, the costs are likely to be higher and the resolution more difficult. For that reason, the authorities should not see systemic crises in every banking failure.
- **When bank restructuring is not comprehensive, the financial difficulties will persist and, with time, grow.** The resolution options chosen should not only resolve current banking problems, but also address the medium-term structural problems found in the legal and institutional framework. Any nationalized bank should be run by a third party with an established reputation and experience in bank management, or by new managers and board members that are fit and proper and isolated from political interference.
- **The cost of resolution is usually underestimated, sometimes leading to slow response and more costly resolution.** A rule of thumb is that the costs of banking resolution are always higher than initially thought. Unforeseen developments or unexpected delays in action are common. Accordingly, care should be taken when deciding that a situation is not sufficiently serious to require immediate action.
- **Legal action must be taken against those responsible for banking failure.** The prosecution of managers and directors responsible for wrongdoing in banks is the best recipe to impose market discipline. In cases when legal action has been taken, remaining actors in the market understand that the authorities are determined to have a sound and

safe banking system. In the absence of such resolve, similar accidents will be repeated in the future.

- **Market conditions can limit the effectiveness of some resolution tools.** In Latin America, some resolution tools have limited effectiveness. Tools that rely on private sector participation either for asset resolution or to absorb failed banks require effective markets and accurate asset valuation. Factors that have prevented such techniques from being effective in reducing fiscal cost include: (i) limited interest of sound banks to participate in bank resolution; (ii) low market demand for financial assets; (iii) high levels of insider lending; and (iv) lack of market credibility and solvency of deposit insurance agencies;
- **Liquidity support must be used cautiously.** Once a bank starts losing deposits at rapid pace, it will fail unless dramatic changes are adopted in terms of recapitalization and management and/or ownership. Therefore, central banks should provide liquidity facilities within limits to solvent, but illiquid banks; however, there should be clear limits and safeguards in the access to liquidity facilities in order not to undermine the management of monetary policy .
- **Under proper incentives, internationally well-recognized banks may play a significant role.** They are likely to improve competition and strengthen good banking practices within the banking system. Therefore, elimination of restrictions to the entry of foreign banks can result in a sounder and more efficient banking system.
- **When banking supervision is weak, the diagnosis of banking conditions can be enhanced through the participation of foreign experts.** The participation of external banking experts will ensure independence in the assessment of the banks' financial condition and viability. This is particularly important when the local accounting firms have been involved in the audit of failed banks.
- **Avoid excessive regulatory forbearance for bank purchase.** Only sound and liquid banks should be allowed to acquire assets and liabilities from failed banks; otherwise border line banks would use the failure of other banks to postpone their own resolution.
- **Increasing financial regional integration underscores the need of close cooperation and share information among banking supervisors.** This is clearly significant for Central America, where regional financial groups are not only spreading their operations across the area by opening subsidiaries (Table 2), but also by extending credits to non-resident borrowers.
- **Limitations in the legal framework have been an important factor influencing the bank resolution framework.** Weaknesses in this area have resulted in (i) incentives to postpone adequate treatment of failing banks; (ii) higher costs for bank resolution; and (iii) weaknesses in the banking system. Limiting legal factors include:

- ***Inability to write down shareholder capital.*** Bank supervisors should have legal powers to write off shareholders' equity to facilitate bank resolution.
- ***Limited legal authority to ensure proper asset valuation in support of bank restructuring.*** To accelerate the transfer of bank assets and liabilities to a sound acquirer, a credible public or private party should guarantee, for a limited and reasonable period, the reimbursement of unknown losses arising from the fair assessment of assets.
- ***Weak mandate of deposit insurance corporations or contingency funds to restructure banks.*** These bank resolution entities should have a clear organizational framework, be adequately capitalized and have a board composed by prestigious professionals.
- ***Ineffective procedures to speed up P&A transactions.*** In practice, banking legislations require further strengthening to allow supervisors the transfer to a third institution of a portion of "privileged" liabilities from a failed institution along with good assets. This could eliminate the risk of legal challenges from the remaining creditors.
- ***Unclear procedures for dealing with foreign creditors.*** The financing of international trading can be severely disrupted when claims from foreign creditors are left unresolved.
- ***Lack of powers at the executive branch to deal with systemic banking problems.*** This includes powers to commit public funds in order to recapitalize banks, and to announce a blanket guarantee. Once banking crises have erupted, lengthy discussions at Congress on the use of resolution tools cause further uncertainty among market participants.
- ***Insufficient knowledge of judges on banking matters.*** As a result of structural weaknesses or limited knowledge on banking matters, in some jurisdictions, judges have impeded the resolution of banks or the legal prosecution of the former managers and directors of failed banks.

36. These issues point to an agenda to continue making progress in the strengthening of the institutional, prudential and legal frameworks for bank supervision and resolution.

Table 1. Financial Sector Assessment Programs In Latin America:

Summary of Main Findings

Observance of Basel Core Principle for Effective Banking Supervision
(Percentage of countries “materially noncompliant” or “noncompliant”)

Basel Core Principle	All Countries	Other Developing Countries	Latin American and Caribbean Countries 1/
1. Objectives, autonomy, powers, and resources			
1.1 Objectives	12	13	31
1.2 Independence	43	42	75
1.3 Legal framework	12	6	38
1.4 Enforcement powers	23	13	38
1.5 Legal protection	32	23	63
1.6 Information sharing	32	45	38
2. Permissible activities	8	6	13
3. Licensing criteria	20	23	38
4. Ownership	26	35	31
5. Investment criteria	27	23	50
6. Capital adequacy	41	42	75
7. Credit policies	39	55	50
8. Loan evaluation and loan-loss provisioning	35	35	50
9. Large exposure limits	31	35	56
10. Connected lending	46	52	50
11. Country risk	51	48	69
12. Market risks	53	61	75
13. Other risks	54	68	69
14. Internal control and audit	41	48	63
15. Money laundering	53	71	56
16. On-site and off-site supervision	26	32	44
17. Bank management contact	18	16	38
18. Off-site supervision	28	29	50
19. Validation of supervisory information	24	29	38
20. Consolidated supervision	53	55	75
21. Accounting standards	32	35	44
22. Remedial measures	45	55	56
23. Globally consolidated supervision	31	23	56
24. Host country supervision	26	29	44
25. Supervision over foreign bank’s establishments	27	35	38
Memorandum item:			
Sample size	74	31	16

Source: FSAP reports and staff estimates.

1/ Sample, with assessment date in parenthesis: ECCU (aggregated, 2003), Barbados (2002), Belize (2001), Bolivia (2003), Brazil (2002), Colombia (1999), Costa Rica (2002), Dominican Republic (2002), Ecuador (2003), El Salvador (2000), Guatemala (2001), Guyana (2001), Honduras (2003), Mexico (2001), Nicaragua (2004), and Peru (2000). Some assessments are preliminary.

Table 2. Conglomerates in Central America, 2003.

Country	Bank Name	Percent of Total Assets in Banking System
Grupo Financiero Uno (Panama)		
Costa Rica	Banco Uno (Banco del Pacifico)	0.7
El Salvador	Banco Uno (Banco Multivalores)	2.1
Guatemala	Banco Uno	1.7
Honduras	Banco Uno (Banco de la Exportación)	3.2
Nicaragua	Banco Uno (Banco de la Exportación)	10.1
Panama	Banco Uno	1.3
Corporacion Accionaria UBC (Costa Rica)		
Costa Rica	Banco Cuscatlan (Banco BFA)	2.6
El Salvador	Banco Cuscatlan SA (Banco Cuscatlan)	22.8
Guatemala	Banco Cuscatlan	2.4
Panama	Banco Cuscatlan	0.1
Banco Agricola (El Salvador)		
El Salvador	Banco Agricola	28.3
Nicaragua	Banco Caley Dagnall	3.9
Panama	Banco Agricola Panama	0.6
Banco de la Producción		
Honduras	BANPRO	0.7
Nicaragua	Banco de la Produccion (BANPRO)	29.0

Sources: Bankscope, Bankers Almanac and Superintendencies.