



BUSINESS LETTER

BY WEEKLY PUBLICATION

BUSINESS LETTER NO. 1-2009

List of Contents

Business Opportunities in Panama

- COPA increases next-generation Boeing 737 order
- FTA with Honduras entered force Jan, 1, 2009

Panama in the International News

- Panama bankers upbeat on growth despite economic gloom:
- Panama: Expansion plan puffs Canal

Business Opportunities in Panama

COPA INCREASES NEXT-GENERATION BOEING 737 ORDER

Copa Airlines has ordered four additional Boeing 737-800 aircraft, Copa Holdings and Boeing Co. announced early this month. The next-generation 737s will be delivered within the next three years.

In total, Copa has now ordered 13 of the planes from Chicago-based Boeing. Panama City-based Copa currently has 42 aircraft in its fleet, and 27 of those are 737-800s. Up to 160 passengers can fit in the aircraft, with 144 seats in the main cabin and 16 in executive class.

If you are interested in receiving details of commercial ventures in the aviation sector, please contact Ms. Maria de Lourdes Marengo, mmarengo@pmallawyers.com

FTA WITH HONDURAS ENTERED FORCE JAN 1, 2009

The Free Trade Agreement (FTA) between Panama and Honduras took effect on January 1, 2009 which will facilitate the circulation of 80% of the goods between both countries. According to the Ministry of Trade and Industries (MICI) the commercial agreement will allow the free circulation of goods, intensify the services sector and create opportunities for bilateral commercial exchanges, which totaled \$165M.

The agreement was signed in June 2007 by Panamanian President Martin Torrijos and his Honduran counterpart Manuel Zelaya after one-year negotiations.

For the Panamanian production sector, the accord means preferential deals

on the trade of 400 tons of bovine meat and 100 tons of pork meat in two years, as well as quotas on other products like milk and cheese.

Honduras is considered the third largest market of exports for the Panamanian products and one of the most important destinations of the re-exports in the Colon Free Zone, the main commercial center of the region.

Meanwhile, 17% of the Honduran exports are sent to Panama. Honduras' main investments and credits also come from Panamanian banking institutions, with a credit portfolio of over \$236M.

In addition, the Panamanian financial and insurance institutions will extend their operation to the Honduran market, where there is a growing maritime industry that needs those services.

At the moment, Panama is negotiating a FTA with Canada and according to Panama's deputy minister of foreign trade Severo Sousa both countries have agreed upon some 90% of export products. In 2007, trade between Canada and Panama exceeded \$700M.

If you are interested in receiving details of commercial ventures, please contact Ms. Ivette Martinez, imartinez@pmalawyers.com

PANAMA IN THE INTERNATIONAL NEWS

PANAMA BANKERS UPBEAT ON GROWTH DESPITE ECONOMIC GLOOM

BUSINESS NEWS AMERICAS

January 5, 2009

With US\$53bn in assets and 45 banks in operation, Panama's banking sector stands out as Central America's largest.

Despite the global economic slowdown and deceleration in Panamanian economic growth, local bankers remain positive about growth prospects in the industry, although they admit rates seen in previous years are not sustainable given the current economic scenario.

To find out about the industry outlook and sector developments, BNamericas spoke with Mario de Diego, executive VP of banking association ABP, in Panama City.

BNamericas: What effects do you expect the slowdown in the Latin American and US economies to have on the Panamanian banking sector?

de Diego: The slowdown in the Latin American economies - in particular, the main markets of the Colón free trade zone - could lead to less business activity in the zone. If this happens, the local banking sector will be [negatively] affected as all operations in the Colón free trade zone are financed by Panamanian banks.

Whatever happens with the Venezuelan economy - the eventual devaluation of the bolívar - will affect business in the Colón free trade zone because Venezuela is the zone's largest market.

BNamericas: Panama's economic growth rate is expected to slow this year after recording 11% in 2007. To what extent this will affect the banking sector's performance?

de Diego: As long as the economy grows, credit demand grows. As you

said, economic growth will decelerate this year compared to 2007 and this will result in a reduction of credit demand.

BNamericas: Loans rose 22% in real terms in 2007 compared to the previous year. At end-October, loans reported a 10% year-on-year increase. What factors explain such notable deceleration in credit growth?

de Diego: Two factors. One, the economy is growing at a slower pace. Two, inflation is affecting the income of individuals, for whom it is now more difficult to pay debts and take out new loans.

Banks - since the beginning of the year and not because of the international crisis - have become more conservative on lending, especially loans to individuals.

BNamericas: Is there another factor explaining the slowdown in credit growth?

de Diego: Over the past few years foreigners, especially retired people from the US, boosted strong demand for construction loans and mortgages. This demand has been affected by the deteriorating economic environment in the US and Europe. In fact, many real estate projects in the pipeline have been suspended and others already started have been reduced.

BNamericas: What is sustaining demand for construction loans and mortgages?

de Diego: Local demand as there are construction projects for satisfying local demand. But as I said before, inflation is affecting the indebtedness capacity of consumers and this affects demand for loans. The government, however, recently implemented a measure which should help mitigate the effect of inflation on consumers' ability to pay. Thanks to this measure, consumers now can take out a mortgage at a preferential interest rate to buy a house worth US\$80,000 compared to US\$62,500 previously.

So despite demand for mortgages and construction loans from foreigners having dropped, local demand for these loans has maintained the same pace of growth.

BNamericas: Consumer loans had been expanding at a brisk pace over the past few years. Have banks become more cautious on consumer lending in light of the worsening economic scenario?

de Diego: Yes. Consumer loan performance depends on individuals' indebtedness capacity. Even though competition among banks remains strong, many things banks offered in the past to attract clients have started to disappear. This reflects the fact banks have become much more conservative on consumer lending.

BNamericas: Do you expect loan growth to continue to decelerate or keep the current rate of growth of 10% in 2008?

de Diego: We are trying to maintain at least the current rate of loan growth.

PANAMA: EXPANSION PLAN PUFFS CANAL

EUROMONEY, January 2009

By Chloe Hayward ---Despite a collapse in bank financing lines and the export markets, the Panama Canal expansion project will be an attractive

investment in 2009, according to the Panama Canal Authority. The project secured funding from five multilateral agencies in November and strong competition is expected for the coming license auctions.

In March 2009, the Panama Canal Authority (ACP) will finally award the new locks contract to a consortium of constructors. Four different groups are fighting for the contract: "We don't see any problems ahead that could jeopardize this expansion project. The four groups confirmed again in November that they are committed to putting together a bid and they are all diligently working to meet the deadline," says Francisco Miguez, executive manager at the ACP.

In addition, the ACP has managed to raise \$2.3 billion in 20-year loans with a 10-year amortization and a 10-year grace period from multilateral agencies, including the Inter-American Development Bank, the Andean Development Corporation (CAF) and International Finance Corporation, making it clear that these banks are confident about the project. Mizuho Corporate Bank is exclusive financial adviser on the agreement.

The loans are unsecured, and untied, therefore the money can be drawn down gradually when required, and no single loan is tied to any specific part of the project. This is despite the Baltic Dry Index, which measures world-shipping charges for raw materials, plummeting from a high of 11,793 in May to a lowest point of 672 in early December. The canal is running at 97% capacity with a three-year price increase programme in place, meaning this sum is basically secure despite the global economic downturn. Surprisingly, Miguez is quite positive. "When we started planning this project in 2004 we were looking at rates of 6.25%," he says. "Today, despite the economic problems, Libor exchange is closer to 4% and we are getting financing on better terms than we planned." ACP revenues will provide the final \$3 billion needed for the project.

PATTON, MORENO & ASVAT

PANAMA
Roberto Motta Avenue,
Capital Plaza Building, 8th Floor
P.O. Box 0819-05911, Panama
Republic of Panama
Telephone: (507) 306-9600
Fax: (507) 263-7887
E-mail: info@pmalawyers.com
www.pmalawyers.com

LONDON
4th Floor, 22 Old Bond Street
England
Telephone: +44 (207) 491-9200
Fax: +44 (207) 629-6933
E-mail: infolondon@pmalawyers.com

Lon

BRITISH VIRGIN ISLANDS
Palm Chambers, 197 Main Street
P.O. Box 3174 Road Town Tortola
British Virgin Islands
Telephone: (284) 494-4694
Fax: (284) 494-7153
E-mail: infobvi@pmalawyers.com

THE BAHAMAS
Atlantic House, 3rd. Floor
2nd. Terrace and Collins Ave.
P.O. Box N-8308 Nassau, Bahamas
Telephone: (242) 323 7585
Fax: (242) 323-7284
E-mail: infobah@pmalawyers.com

URUGUAY
Junca 1378, Office Number 407
Between Plaza Independencia and Rincón
Montevideo, Uruguay
Telephone: (598) 2 902-7277
Fax: (598) 2 902-7278
E-mail: infouruguay@pmalawyers.com

BELIZE
60 Market Square
Belize City
Belize
Telephone: (501) 227-0263
Fax: (501) 227-0265
E-mail: infobelize@pmalawyers.com



ANGUILLA

Hansa Bank Building – 1st Floor
Landsome Road, P.O. Box 941
The Valley, Anguilla
Telephone: (264) 498 5858
Fax: (264) 497 5504

E-mail: infoanguilla@pmalawyers.com

HONG KONG

Suite 18B,
148 Connaught Road Central
Hong Kong
Telephone: (852) 3966 1732
Fax: (852) 3764 0699

E-mail: info@pmaglobal.hk

The information contained in this Newsletter regarding organizations, companies and other matters is for reference purposes only, and is provided by Patton, Moreno & Asvat, International Lawyers, Panama City, Republic of Panama, as a complimentary service. Many sources were used in compiling this information including specific companies' marketing materials, websites, international and specialized newspapers and magazines as well as Panamanian media and others and Patton, Moreno & Asvat does not purport to claim copyright on any of the articles or information appearing in it. Patton, Moreno & Asvat makes no warranty of any kind with respect to the subject matter included herein or the completeness or accuracy of this newsletter. Patton, Moreno & Asvat is not responsible for any actions (or lack thereof) taken as a result of relying on or in any way using information in this newsletter and in no event shall be liable for any damages resulting from reliance on or use of this information. Readers should take advice from a qualified professional when dealing with specific situations. This newsletter could contain technical inaccuracies, and changes to the information contained herein may be made at any time. Additional copies can be required at Patton, Moreno & Asvat, e-mail: info@pmalawyers.com, free of charge.