

MEMORANDUM OF UNDERSTANDING
FOR MUTUAL COOPERATION
BETWEEN THE
BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION
AND THE
OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS
OF THE
COMMONWEALTH OF PUERTO RICO

1. REASONS FOR THE MEMORANDUM OF UNDERSTANDING

Banco Popular de Puerto Rico ("Banco Popular") and FirstBank Puerto Rico ("First Bank") are commercial banks organized under the laws of the Commonwealth of Puerto Rico ("Puerto Rico"). Banco Popular and FirstBank have branch bank operations in the British Virgin Islands (the "BVI"). Both branches in the British Virgin Islands are licensed and supervised by the BVI Financial Services Commission (the "Commission") established under the BVI Financial Services Commission Act, 2001.

Recently, FirstBank was granted approval by the Commission to establish a branch in the island of Virgin Gorda and to expand the Tortola operations by the addition of a Business Centre. Banco Popular has approached the Commission to discuss the establishment of a branch in the island of Virgin Gorda.

The banking authorities of the BVI and Puerto Rico consider that, in light of the mentioned operations in the BVI by Puerto Rican banking entities, it is convenient and beneficial to execute an agreement of mutual cooperation in order to achieve the adequate supervision of the mentioned entities as well as any other Puerto Rican banking entity which now or in the future engages in the business of banking in the BVI.

This agreement is also intended to provide for the cooperation of both supervisory agencies in the event any banking institution organized under the laws of the BVI engages in the business of banking in Puerto Rico.

With such purposes in mind, the Commission and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico

(the "OCFI"), in the exercise of their respective legal faculties, hereby agree to base their cooperation on the terms established in this Memorandum of Understanding (the "MOU").

2. GENERAL DISTRIBUTION OF RESPONSIBILITIES

Both banking authorities endorse the principles included in the document of the Basel Committee on Banking Supervision of May of 1983, known as the Basel Capital Accord, as well as its subsequent developments, particularly, the document titled "Core Principles for Effective Banking Supervision". Therefore, both parties agree on the role assigned in the mentioned documents to the banking supervisor of the country of origin where the holding or parent company is domiciled and to the banking supervisor of the host country, where the affiliates or subsidiaries are located or engage in business. Hereinafter, we shall respectively refer to these agencies as the "Banking Supervisor of the Country of Origin" ("CO") and the "Banking Supervisor of the Host Country" ("HC").

More specifically, both authorities assume that the CO will supervise the organization, endeavors and internal controls, the risks, the sufficiency of capital and, in general, all the significant aspects which may affect the solvency and stability of the total banking group in question. To achieve this, the CO should have access to all the information of the entities that comprise the banking or financial group and that is necessary to carry out its responsibilities as CO.

The HC will supervise the organization, endeavors, internal controls, the risks, the solvency and, therefore, the continuity of the entities that carry out business in its territory, assuring, pursuant to the rules that are locally applicable, the reasonability of its financial statements and the accuracy of the information received by the CO.

In addition, in the event that the entities that operate in the HC have established branches or affiliates in other countries, the HC will have the responsibility of the supervisor of the country of origin in relation to such branches or with the corresponding subgroup.

3. **GENERAL PLEDGE OF COOPERATION AND EXCHANGE OF INFORMATION ABOUT THE BANKING ENTITIES.**

Both authorities bind themselves to cooperate closely in the achievement of the goals established in the previous section. To achieve this they will exchange, on their own initiative, or at the request of the other party, the available information that is significant. In the appropriate cases, they shall serve as intermediaries concerning other authorities in their respective countries, and, in general, shall facilitate, to the extent of their possibilities, the execution of their respective functions and duties.

In particular, the CO is interested in being able to:

(a) identify the conglomerate of entities and enterprises belonging to the group or those in which the group has a significant participation, and knowing the inter-group operations and any other information, which is capable of triggering adjustments in the compiled financial statements.

(b) know any problem or weakness, which has been manifested in the operations, in the internal controls, in the financial condition or the public image of the enterprises, which have activities in the HC;

(c) be informed, any time it is relevant, of the observations, the requirements, the proposed sanctions and, in general, any measures taken by the HC in relation with the entities or their directing bodies;

(d) be informed of any authorization granted by the HC, including special plans, by means of which a compliance schedule or exemption to compliance with local rules is granted;

(e) be informed by the HC of any significant fact which comes to its knowledge and that leads it to doubt that the endeavors of the group are carried out in a prudent manner;

(f) be informed by the HC, with the purpose of knowing its effect on a consolidated level, of the obligatory local solvency standard, including

the details of the requirements according to the type of risk and the composition of their own resources computed by relevant segments;

(f) obtain from the holding companies the accounting information, or of any nature, of the enterprises in question necessary for the control of its risks and for its adequate accounting consolidation and, in particular, the itemized information of the credit investments and of the precise securities portfolios to assess the quality of such assets. For these purposes, the CO may seek the help of the HC in order to cause the pertinent entities to provide such information to their holding companies.

The HC is particularly interested in knowing the quality of the endeavors and the internal controls established by the holding bank or entity, as well as the problems of the groups in the aggregate, or the measures taken by the CO, as long as these may have repercussions in the stability of the local entities.

Both authorities are interested in knowing the situation and evolution of their respective financial markets and the competitive position of the groups that have a presence in the other country and of the affiliates that form part of such groups.

4. CONFIDENTIAL NATURE OF THE INFORMATION

The exchanged information shall only be used for banking supervision purposes and shall be subject to the legal restrictions of the professional secret or confidentiality pursuant to the legal rules of each country.

The information shall continue to be the property of the authority that furnished it. In this sense, in the event that any information obtained pursuant to this agreement must be disclosed to another authority in compliance with a legal mandate, both authorities bind themselves to previously notify each other of this fact and to cooperate in order to preserve, by the legal and accessible means, the confidentiality of such information.

4.1 In the BVI there is no specific regulation providing for the secrecy of banking information. The Commission is authorized to exchange information with other supervisors pursuant to Section 29 of the Financial Services Commission Act, 2001 and section 5 of the Financial Service (International Co-operation) Act, 2000. The complete text of this provision is attached hereto as Appendix A to this Agreement.

In view of the above, the information provided by the Commission to the OCFI must remain in the latter's possession subject to Section 29 of the Financial Services Commission Act, 2001 cited above.

4.2 In Puerto Rico, there is no specific statute or regulation providing for the secrecy of banking information. However, the Supreme Court of the Commonwealth of Puerto Rico has ruled that any information that is classified as confidential by specific laws that govern the matter at hand and under which the information is provided, shall be deemed confidential for evidentiary purposes. Thus, in the case of banking institutions that operate in Puerto Rico, all information provided by such institutions to the OCFI under statutes or regulations that classify it as confidential will be treated as confidential by the OCFI.

Section 28(h) of the Banking Law of Puerto Rico, Law Number 55 of May 12, 1933, as amended, (hereinafter, the "Banking Law"), provides, as is here pertinent, that the "reports rendered by the examiners to the Commissioner with regard to the examination made of any bank or foreign bank, shall be of confidential nature, except for the Legislature of Puerto Rico or a committee appointed by it, or for other banking agencies which supervise said bank"

To implement the authority of sharing confidential information about banks with other supervisory agencies of such banks, the law which provided for the creation of the OCFI, article 10(a)(15) of Puerto Rico Law Number 4 of October 11, 1985, as amended ("Puerto Rico Law No. 4"), authorizes the Commissioner of Financial Institutions to "Grant contracts or cooperative agreements with other jurisdictions to, among other

things, perform joint examinations and share confidential information compiled in said financial institution's examinations ... coordinate and share information with nay other supervisory agencies of financial institutions of any other jurisdiction, or any organization affiliated to or representing one or more supervisory agencies of financial institutions" The cited article also specifies that "Before revealing any confidential information under the provisions of [the language cited above], the Commissioner shall obtain the assurance of said supervisory agency to maintain the confidentiality of such information to the extent possible under this or any other applicable [statute]." The complete text of these provisions is attached hereto as Appendix B to this Agreement.

Therefore, the information provided by the OCFI to the Commission shall remain the latter's possession subject to the same rule of confidentiality applicable to the OCFI as established in article 28(h) of the Banking Law and article 10(1)(15) Of Puerto Rico Law No. 4, cited above.

5. **"IN-SITU" INSPECTIONS.**

5.1 In Puerto Rico, pursuant to article 28(a) of the Banking Law, the OCFI examines all banks and banking institutions organized under the laws of Puerto Rico and all banks and banking institutions that operate in Puerto Rico. In the case of banks and banking institutions organized under the laws of Puerto Rico, the faculty to examine extends to any branch, office or other dependency of such banking institutions located outside the geographical boundaries of Puerto Rico.

The decision whether to inspect affiliates of banking institutions organized under the laws of Puerto Rico and operating abroad, depends on the relative importance of the supervised entity, the possibility of having sufficient comparative information, the existence of reliable internal audit reports, the assurances obtained from the annual reports of external audits, and, very importantly, the existence of supervision

by other supervisory authorities and the possibilities to gain access to their reports.

5.2 In BVI, pursuant to Section 4 of the Financial Services Commission Act, 2001, the Commission examines all banks and banking institutions organized under the laws of British Virgin Islands and all banks and banking institutions that operate in British Virgin Islands. In the case of banks and banking institutions organized under the laws of British Virgin Islands, ~~the faculty to examine extends to any branch, office or other dependency of such banking institutions located outside the geographical boundaries of British Virgin Islands~~

The decision whether to inspect affiliates of banking institutions organized under the laws of the BVI and operating abroad, depends on the relative importance of the supervised entity, the possibility of having sufficient comparative information, the existence of reliable internal audit reports, the assurances obtained from the annual reports of external audits, and, very importantly, the existence of supervision by other supervisory authorities and the possibilities to gain access to their reports.

5.3 Based on the premises stated above, and pursuant to the joint agreement of the parties, the CO may perform "in-situ" inspections of the relevant entities that are part of the banking groups supervised on a consolidated basis. In each particular case, both authorities shall determine how to carry out such inspections, including the possibility of carrying out joint examinations and inspections, when deemed advisable.

Both authorities state that they know of no legal impediment for such examinations or inspections or to provide access to the CO to the information pertaining to the affiliates, in the terms stated in clause number 4 of this agreement. In any event, both authorities bind themselves to cooperate, to the extent of their possibilities, to facilitate access to the CO to the institutions being examined, whether or not they are within the scope of jurisdiction of the HC.

In the case of inspections performed exclusively by the CO, the HC shall advise the CO regarding the necessary procedures to comply with local legislation in effect and, when necessary, shall provide assistance in completing the pertinent administrative process. Before commencing a visit, the representatives of the CO shall meet with those of the HC in order for the latter to inform the CO representatives on any particular items which may be of interest for the performance of the work. Once the examination, inspection, or visit is finished, a new meeting shall be held to comment the most important results. The inspection report of the CO, once prepared, or a summary of its salient aspects, shall be forwarded to the HC.

Concerning the inspections or examinations of the pertinent entities performed by the HC, the latter binds itself to inform the results to the CO by sending a summary of the most important aspects of the resulting report.

6. BRANCH RELATED ASPECTS.

In the BVI, the establishment of foreign branches by BVI banks is subject to previous authorization by the Commission. This authorization is granted based on the financial condition of the entity, its organizational capacity, and the availability in the BVI of information about the branch in order for the bank's directives and the supervisory authorities to control and supervise the branch's activities.

In Puerto Rico, the establishment of foreign branches by Puerto Rican banks is subject to previous authorization by the OCFI. This authorization is granted based on the financial condition of the entity, its organizational capacity, and the availability in Puerto Rico of information about the branch in order for the bank's directives and the supervisory authorities to control and supervise the branch's activities.

Both authorities consider it opportune to establish in this MOU the foundations of their future cooperation in the event that a BVI or Puerto Rican entity decides to establish a branch in the BVI or in Puerto Rico,

respectively. Both authorities acknowledge that the other authority has the right to perform direct examinations of such branches and to have access to any information relevant to said branches.

7. CONTACTS AND MEETINGS BETWEEN BOTH AUTHORITIES.

The supervisory authorities of both countries may, at all times, request advice and elucidation from the other party as well as the celebration of the meetings deemed necessary. For these purposes, both supervisory authorities agree to designate and mutually notify the name of one or more officers in their respective organizations as liaisons for the pursuit of the ordinary relations that ensue from this MOU.

8. GENERAL PLEDGE OF THE PARTIES TO EXCHANGE INFORMATION CONCERNING THEIR RESPECTIVE BANKING SYSTEMS

Both authorities agree to respond to mutual requests for information on specific aspects of their respective financial, legislative, and legal systems as well as the policies, which affect them, and to inform each other of any relevant change, particularly, of those changes that may have a significant effect in the activities carried in or controlled in the other country.

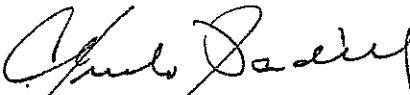
9. RECIPROCITY AND ACTUALIZATION OF THE DOCUMENT.

Although at the present time there are no financial entities organized under the laws of the BVI operating in Puerto Rico, both authorities agree that the provisions of this agreement shall be reciprocally applied in all its contents, if such a situation were to arise.

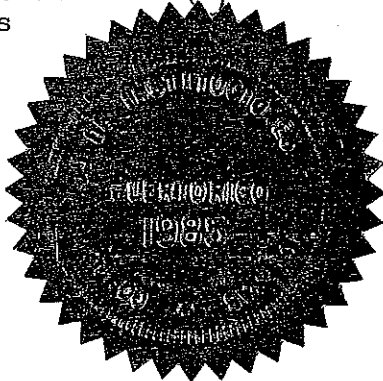
Both supervisory authorities agree that the general terms of this agreement may be further specified by common agreement by means of addenda that develop specific programs established for the supervision of entities specifically identified by both parties.

Signed in two originals on November 14, 2005.

Office of the Commissioner
Of Financial Institutions of the
Commonwealth of Puerto Rico
By:



Mr. Alfredo Padilla
Commissioner of Financial
Institutions



British Virgin Islands Financial
Services Commission
British Virgin Islands
By:



Mr. Kenneth Baker
Deputy Managing Director



ATTACHMENTS (OPTIONAL)**I) ASPECTS ASSOCIATED WITH THE ACTIVITIES CARRIED OUT BY THE FINANCIAL GROUPS.**

1. In the British Virgin Islands, the Commission carries out its supervision based on the consolidation of the bank's subsidiaries, units, or divisions that are within the bank's legal structure.

2. In Puerto Rico, the OCIF carries out its supervision based on the consolidation of the bank's subsidiaries, units, or divisions that are within the bank's legal structure.

II) ASPECTS ASSOCIATED with each one of the bank affiliates.

1. In British Virgin Islands, the creation by British Virgin Islands banking entities of subsidiaries established in foreign countries, or the acquisition of a significant participation of shares, directly or indirectly, in a pre-existing entity is subject to the authorization of the Commission. Such authorization may be denied, if the Commission concludes that the proposed organization or acquisition jeopardizes the principles of safety and soundness established in the British Virgin Islands Banks and Trust Companies Act, 1990, or when the proposed organization or acquisition is contrary to the public policy of the Commonwealth of British Virgin Islands.

The Commission requires that British Virgin Islands banks to maintain information in British Virgin Islands, adequately updated, concerning the financial condition of their subsidiaries abroad, as well as information of their risks levels and the control and operation of such subsidiaries.

2. In Puerto Rico, the creation by Puerto Rican banking entities of subsidiaries established in foreign countries, or the acquisition of a significant participation of shares, directly or indirectly, in a pre-

existing entity is subject to the authorization of the OCFI. Such authorization may be denied, if the OCFI concludes that the proposed organization or acquisition jeopardizes the principles of safety and soundness established in the Puerto Rico Banks Act, or when the proposed organization or acquisition is contrary to the public policy of the Commonwealth of Puerto Rico.

The OCFI requires that Puerto Rican banks to maintain information in Puerto Rico, adequately updated, concerning the financial condition of their subsidiaries abroad, as well as information of their risks levels and the control and operation of such subsidiaries.

Both authorities shall freely consult each other about any aspect and may request from each other the exchange of all significant information in its possession concerning such affiliates.

III) ASPECTS CONCERNING OTHER NON-BANKING AFFILIATES IN THE HOST COUNTRY.

The CO desires that the HC share with it any information it may receive and that may be of interest for the consolidated supervision of the banking groups that may be covered by this agreement. In addition, the CO would like to know any relevant amendments or changes in the local legal rules that affect such entities.

At the request of the CO, the HC offers to act as intermediary when dealing with other supervisory authorities in its country.

IV) ASPECTS CONCERNING OTHER NON-FINANCIAL AFFILIATES IN THE HOST COUNTRY.

1. In British Virgin Islands, a bank may not operate outside the Virgin Islands any subsidiary, branch, agency or representative office without the prior written approval of the Commission.
2. In Puerto Rico, banking entities may only invest in, and hold shares of, enterprises and institutions engaged in financial business.

3. The CO desires that the HC share with it any relevant information it may receive on this topic.

APPENDIX A

1. Financial Services Commission Act, 2001
2. Financial Services (International Co-operation) Act, 2000