

PROSPECTUS

\$4,000,000

Republic of Panama

Twenty-six Year 3½% External Secured Refunding Bonds, Series B

Dated March 15, 1941

Due March 15, 1967

Interest payable March 15 and September 15

Principal and interest payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, in New York City at the office of The National City Bank of New York (the Fiscal Agent of the Loan) without deduction from either principal or interest for or on account of any present or future taxes of the Republic of Panama or taxing authority thereof.

Coupon Bonds in the denomination of \$1,000, registerable as to principal.

The Series B Bonds are not subject to redemption prior to March 15, 1951 except for the sinking fund, thereafter the Series B Bonds are redeemable, at the option of the Republic of Panama, in whole on any semi-annual interest date at 102½% to and including March 15, 1954, and thereafter at 100% upon, in either case, at least 30 days' notice. The Series B Bonds are subject to redemption on any September 15 interest date prior to maturity through operation of the sinking fund upon at least 30 days' notice at 102½% to and including September 15, 1950 and thereafter at 100%.

The Fiscal Agent of the Loan will set aside annually, on March 10, out of the pledged and assigned revenues, more fully described herein on pages 6 and 7, the sum of \$240,000 as a fixed annual service charge for the Series B Bonds; from this annual sum there will first be set aside the amount required for the interest payments due on the next succeeding September 15 and March 15 on the outstanding Series B Bonds and the balance thereof shall constitute the sinking fund installment for that year; however in respect of the year 1941, such annual service charge shall be \$170,000, as stated herein on page 7. Such sinking fund installments are calculated to be sufficient to retire the entire issue by maturity.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION

The Republic of Panama has registered these securities by filing certain information with the Commission. The Commission has not passed on the merits of any securities registered with it.

IT IS A CRIMINAL OFFENSE TO REPRESENT THAT THE COMMISSION HAS APPROVED THESE SECURITIES OR HAS MADE ANY FINDING THAT THE STATEMENTS IN THIS PROSPECTUS OR IN THE REGISTRATION STATEMENT ARE CORRECT

Price 103% and Accrued Interest

Table with 4 columns: Description, Price to Public, Underwriting Discounts or Commissions, Proceeds to Republic. Rows: Total, Per Unit.

* Exclusive of accrued interest.

These Series B Bonds are offered subject to prior sale and when, as and if issued, and accepted by the Underwriters, including the undersigned and the others named herein on page 11, and subject to the approval of counsel for the Underwriters. It is expected that delivery of the Series B Bonds in temporary form, exchangeable for definitive Bonds when prepared, will be made at the offices of Glore, Forgan & Co., 38 Wall Street, New York, N. Y., on or about March 28, 1941 against payment in New York Clearing House Funds.

The undersigned Underwriters, namely Glore, Forgan & Co. and Hornblower & Weeks, have acted in the capacity of Financial Advisers to the Republic of Panama in connection with the Plan for the Readjustment of the External Debt dated January 31, 1940 and as compensation for their services will receive a fee of \$167,500 upon said Plan being declared effective; said Financial Advisers have agreed to make payment of a portion of such compensation to others including two of the Underwriters named herein on page 11, as more fully set forth herein on page 13.

TO FACILITATE THE OFFERING, IT IS INTENDED TO STABILIZE THE PRICE OF THE SERIES B BONDS. THIS STATEMENT IS NOT AN ASSURANCE THAT THE PRICE OF THE SERIES B BONDS WILL BE STABILIZED OR THAT STABILIZATION, IF COMMENCED, MAY NOT BE DISCONTINUED AT ANY TIME. IN THIS CONNECTION, SEE "UNDERWRITING AGREEMENT AND TERMS OF OFFERING" HEREIN.

Glore, Forgan & Co.

Hornblower & Weeks

No person has been authorized to give any information or to make any representations other than those contained in the Prospectus in connection with the offer contained in this Prospectus, and if given or made such information or representations must not be relied upon as having been authorized by the Republic of Panama.

The date of this Prospectus is March 28, 1941.

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\$4,000,000

REPUBLIC OF PANAMA

Twenty-six Year 3½% External Secured Refunding Bonds,
Series B, Due March 1, 1967

REGISTRATION STATEMENT

The Republic of Panama (hereinafter referred to as the "Republic") has filed with the Securities and Exchange Commission, Washington, D. C., a Registration Statement under the Securities Act of 1933, as amended, with respect to this issue of \$4,000,000 Twenty-six Year 3½% External Secured Refunding Bonds, Series B, due March 1, 1967, (hereinafter sometimes referred to as the "Series B Bonds"). Said Registration Statement also registers the Fifty-five Year 3¼% External Secured Refunding Bonds, due March 1, 1994, the Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, Stamped under Deposit Agreement of January 31, 1940 (due December 1, 1994) and the Certificates of Deposit, Series A and Series B, which securities relate to the Plan for the Readjustment of the External Debt of the Republic of Panama. Said Registration Statement as amended is herein called the "Registration Statement". Copies of such Registration Statement may be procured from the Commission by payment of the regular charge therefor.

This Prospectus does not contain all of the information set forth in the Registration Statement certain items of which are omitted or included in condensed or summarized form, as permitted by the rules and regulations of the Commission, and this Prospectus includes certain additional information not included in the Registration Statement. For further information with respect to the Republic, the Series B Bonds, the aforesaid Plan for the Readjustment of the External Debt and the securities relating thereto, reference is made to the amended Registration Statement and to the exhibits filed therewith.

SUMMARY OF DEBT OF THE REPUBLIC OF PANAMA

The following is a summary of the direct external and internal debt of the Republic of Panama:

Direct External Loans Payable in U. S. Dollars (as of December 31, 1940)

Thirty Year 5½% External Secured Sinking Fund Gold Bonds, dated June 1, 1923, due June 1, 1953 (herein referred to as the "5½% Bonds")	\$ 3,432,500.00	
Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, dated May 15, 1928, due May 15, 1963 (herein referred to as the "5% Bonds")	11,313,500.00	
Total		\$14,746,000.00

Internal Debt and Debt to the United States (as of December 31, 1939)

Debt to United States of America for improvements in the cities of Panama and Colon, payable in United States dollars	\$ 1,007,426.71	
Other, payable in Balboas	B/. 1,289,520.01	
Total		\$ 2,296,946.72
Total External and Internal Loans		\$17,042,946.72

(a) The Balboa, the legal standard unit of currency of the Republic, is on a parity with the United States dollar.

Other obligations of the Republic in respect of its external debt are:

Accrued unpaid interest on the 5% Bonds to and including November 15, 1939 (the date determining the period for which holders of 5% Bonds assented to the Plan for the Readjustment of the External Debt are to receive payment in respect of unpaid matured interest coupons thereon at the rate of 4% per annum instead of the coupon rate of 5%, as hereinafter more fully described)	\$ 2,099,354.33
Accrued unpaid interest on the 5% Bonds for the 12½ months ended December 1, 1940 at the coupon rate of 5% per annum (holders of 5% Bonds assented to the Plan for Readjustment of the External Debt are to receive payments by way of interest at the rate of 3¼% per annum for this and subsequent annual periods, subject to an increase, under certain conditions, to a rate not to exceed 3½%, as hereinafter more fully described)	589,244.79
Arrears Certificates issued or subject to issue at December 5, 1939, pursuant to terms of Service Readjustment Plan of November 23, 1933	1,046,568.41
Accrued unpaid interest on Arrears Certificates to and including May 1, 1940, the date as of which the new 3% External Bonds of the Republic are to be issued in exchange for the Arrears Certificates; holders by surrendering their Arrears Certificates in acceptance of such offer of exchange (to be made on or before May 1, 1941) will thereby waive all claims for interest on such Arrears Certificates	237,658.23
Total	<u>\$ 3,972,825.76</u>

The internal floating debt of the Republic at December 31, 1939 was approximately B/.500,000, consisting of outstanding accounts for general services due by the Treasury of the Republic at the end of the fiscal period. The Republic had no external floating debt at December 31, 1939.

The Republic, on April 4, 1940 submitted to the holders of its 5% Bonds a Plan for the Readjustment of the External Debt, (hereinafter referred to as the "Plan") dated January 31, 1940, which Plan was promulgated pursuant to Law No. 5 of 1928, Law No. 66 of 1938 and Decree No. 7 of 1940. Holders of the 5% Bonds who assented to the Plan deposited their Bonds with the Bank of the Manhattan Company, New York, N. Y., (hereinafter referred to as the "Depositary") under a Deposit Agreement; said Plan and Deposit Agreement are hereinafter collectively referred to as the "Plan and Agreement".

The Plan as modified and amended under authority of Law No. 21 of 1941 and by Decree No. 25 of March 24, 1941 of the Ministry of Finance and Treasury provides that in order to make the benefits of the Plan available to assenting holders of the 5% Bonds, the Republic may declare the Plan effective if holders or registered owners of less than all, but at least 75%, of the outstanding 5% Bonds assent to the Plan and Agreement. On March 28, 1941, announcement was made by the Republic that in excess of \$8,639,000 principal amount, or 76.36% of the outstanding 5% Bonds had assented to the Plan and accordingly, the Plan would be declared effective coincidentally with the issue and sale of the Series B Bonds, to which this Prospectus relates.

The Plan and Agreement deals with certain income which the Republic receives from the United States Government and from its investments in New York City and which is necessary for the service of the bonds to be issued pursuant to the Plan. In respect of income received from the United States Government, Article XIV of the Treaty of November 18, 1903 between the United States of America and the Republic, more fully described on page 8 of this Prospectus, provided that the United States would make an annual payment to the Republic of \$250,000 in gold coin. This annual payment is hereinafter referred to as the "Original Treaty Payment". The Treaty of November 18, 1903 was amended and supplemented by the Treaty of March 2, 1936, ratified on July 25, 1939, between the United States and the Republic, under which the United States has agreed to pay to the Republic in each year the sum of 430,000 Balboas (each Balboa to contain 987½ milligrams of gold of 0.900 fineness), the United States to discharge its obligations with respect to such payment in United States dollars, provided the amount so paid is the equivalent of four hundred and thirty thousand Balboas (B/ 430,000) as above described, as provided by Article VII of said Treaty and as embodied in agreements of March 2, 1936 between the Secretary of State of the United States and the members of the Panamanian Treaty Commission more fully described on pages 8 and 9 of this Prospectus. This full annual amount of 430,000 Balboas is hereinafter referred to as the "Total Treaty Payment". The annual amount by which the Total Treaty Payment exceeds the Original Treaty Payment is hereinafter referred to as the "New Treaty Payment".

Accruing to the Republic from investments in New York City is the net interest, income and revenue of the principal of such investments known as the Constitutional Fund of Panama more fully described on pages 9 to 11, inclusive, of this Prospectus. This amount varies from year to year as the yield on the Constitutional Fund of Panama varies. This annual varying amount is hereinafter referred to as the "Constitutional Fund Income".

A Summary of the Plan for the Readjustment of the External Debt as modified and amended will be found on page 17 of this Prospectus.

DESCRIPTION OF THE SERIES B BONDS

The \$4,000,000 Republic of Panama Twenty-six Year 3½% External Secured Refunding Bonds, Series B, due March 15, 1967, (hereinafter referred to as the "Series B Bonds") are to be issued under a Supplementary Agreement to the Fiscal Agency Contract of June 22, 1928 (hereinafter referred to as the "Supplementary Agreement") pursuant to authorization of Law No. 5 of 1928 of the National Assembly of the Republic, as the remaining \$4,000,000 of the Loan provided for by Article Twenty-sixth of said Fiscal Agency Contract of June 22, 1928, for the refunding of the loan contracted for by the Republic in 1923 authorized by Law No. 4 of 1923, and for the payment of all expenses of the Republic in connection therewith, including the cost to the Republic of submitting and making effective the Plan for the Readjustment of the External Debt authorized by Law 66 of 1938, Decree No. 7 of 1940, Law No. 21 of 1941 and Decree No. 25 of 1941 of the Ministry of Finance and Treasury. Summarized below are the essential provisions of the Supplementary Agreement. Wherever reference is made below to the provisions of any article or paragraph, such reference shall be understood to pertain to the article or paragraph, similarly numbered, of the aforesaid Supplementary Agreement. The particular provision or article is incorporated by reference at the point where notation thereof is made and the statements made with respect of such provision or article are qualified in their entirety by the reference.

Payment of Principal and Interest

The Series B Bonds are to be dated March 15, 1941, are to mature March 15, 1967 and are to bear interest at the rate of 3½% per annum, payable semi-annually on March 15 and September 15. Principal and interest of the Series B Bonds, and any premium thereon, in case of the redemption thereof before maturity, are to be payable at the Head Office of The National City Bank of New York, the Fiscal Agent of the Loan, in the Borough of Manhattan, City of New York, United States of America, in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, without deduction from either principal or interest for or on account of any present or future taxes or duties imposed or levied by or within the Republic of Panama or any political subdivision or taxing authority thereof. (Articles Third and Ninth.)

Form and Delivery of Series B Bonds

The Series B Bonds are to be in the form of coupon bonds in the denomination of \$1000, registerable as to principal only. It is expected that delivery of Series B Bonds in temporary form, exchangeable for definitive bonds when prepared, will be made at the office of Glone, Forgan & Co., 38 Wall Street, New York, N. Y. on or about March 28, 1941, against payment in New York Clearing House Funds. The temporary Bonds will be exchangeable for definitive Bonds, when prepared, at the Head Office of the Fiscal Agent of the Loan. (Articles Third and Fifth.)

Security

The Series B Bonds are to be the unconditional obligations of the Republic and to the payment of principal, and interest thereon, as well as amortization charges, there will be pledged the good faith and credit of the Republic. As a further guaranty and security for the Series B Bonds, the Republic has created the following specific charges and liens in favor of the Series B Bonds upon each and all of the income and revenues of the Republic which may at any time arise from the following sources respectively:

(1) *When all of the 5% Bonds have been retired or provision for their retirement has been made, a first and prior charge and lien on the Total Treaty Payment of 430,000 Balboas (each Balboa to contain 987½ milligrams of gold of 0.900 fineness), receivable by the Republic, subject to the prior lien on the Original Treaty Payment in favor of the 5½% Bonds until they are retired, as they are to be with the proceeds of the issue of the Series B Bonds.*

(2) *So long as the 5% Bonds remain outstanding or provision for their retirement has not been made,*

(a) A first and prior charge and lien on 25% of the Original Treaty Payment and on 25% of the Constitutional Fund Income, subject only to the prior lien of the 5½% Bonds, which are to be retired out of the proceeds of the sale of the Series B Bonds. Article Thirteenth of the Supplementary Agreement stipulates that the Original Treaty Payment and the Constitutional Fund Income shall be allocated 25% to the Series B Bonds and 75% to the 5% Bonds.

(b) A first and prior charge and lien on the annual amount by which the Total Treaty Payment receivable from the Government of the United States of America exceeds the Original Treaty Payment, being the New Treaty Payment. The Republic covenants and agrees that the New Treaty Payment is unencumbered and available for pledge to the service of the Series B Bonds.

(c) A first and prior charge and lien on the amount by which \$200,000 exceeds the income from the Constitutional Fund in any twelve months period ending October 31st, commencing with the year 1940 which amount the Republic agrees to provide.

(d) A first and prior charge and lien on any and all monies collected by the Bank of the Manhattan Company, 40 Wall Street, New York, N. Y., or its successor, as Depositary under a Deposit Agreement, dated January 31, 1940, between the Republic and the said Bank, upon interest coupons detached by the said Depositary from such of the 5% Bonds the holders of which have assented to the Plan for the Readjustment of the External Debt.

In each calendar year, the amounts received by the Fiscal Agent of the Loan for the service of the Series B Bonds will be applied in full in such year in the order enumerated above, so that no part of the amount described in paragraph (d) above will be used in such year for the service of the Series B Bonds unless the amounts described in paragraphs (a), (b) and (c) above, are insufficient to meet in full the \$240,000 annual service charge; and in like manner the amount described in paragraph (c) above will be used only to the extent that the amounts described in paragraphs (a) and (b) above are so insufficient and the amount described in paragraph (b) above will be used only to the extent that the amount described in paragraph (a) above is so insufficient. The Series B Bonds will not share with the 5% Bonds in the first lien on certain internal revenues of the Republic provided in paragraphs A, B, C and D of Article Sixteenth in the 1928 Contract for the service of the 5% Bonds. (Article Eleventh.)

The Republic will issue irrevocable instructions in a communication to the Secretary of State of the United States, to be acknowledged, copies of which communications will be attached to the Supplementary Agreement, to pay directly to The National City Bank of New York, Fiscal Agent of the Loan, or any duly authorized successor Fiscal Agent, the Original Treaty Payment and the New Treaty Payment for application to the annual service of the external loans of the Republic in the manner provided in the Supplementary Agreement and the 1928 Fiscal Agency Contract so long as any of the Series B Bonds, the Series A Bonds and the Bonds of any external loan hereafter issued by the Republic in exchange for or to refund said Series A Bonds are outstanding and unpaid. The Republic will issue irrevocable instructions to the Chase National Bank of the City of New York, Fiscal Agent of the Republic, to pay the Constitutional Fund Income monthly as received by the Fiscal Agent of the Republic to the Fiscal Agent of the Loan, of which 25% will be applied to the service of the Series B Bonds and 75% to the service of the 5% Bonds. (Articles Eleventh, Thirteenth, Eighteenth and Schedule C.) Copies of the aforesaid instructions are attached as Exhibits A and B, respectively, to this Prospectus.

There will be no provision for the acceleration of the maturity of the Series B Bonds if there is a default in the covenant.

Sinking Fund

As and for a sinking fund for the redemption of the Series B Bonds at or prior to maturity the following provisions will be made:

(1) *During the period when the Series B Bonds are secured by a first lien on the Total Treaty Payment,* the Fiscal Agent of the Loan will set aside the sum of \$240,000 as a fixed annual service charge for the Series B Bonds. From this annual sum the Fiscal Agent of the Loan on March 10th of each year will first set aside the amount required for the interest payments due on the next succeeding March 15th and September 15th on the outstanding Series B Bonds. Said Fiscal Agent will thereupon set aside as and for a sinking fund for the Series B Bonds the balance of said \$240,000 and such balance shall constitute the sinking fund installment for that year. The Fiscal Agent will

apply said sinking fund installment, prior to the next succeeding August 1st to the purchase of Series B Bonds, at public or private sale at prices not in excess of the then current sinking fund redemption price plus accrued interest, if available at such prices. In the event that on such 1st day of August the monies in said sinking fund shall not have been exhausted by such purchases at public or private sale, the Fiscal Agent of the Loan will apply the balance of the said monies remaining in the sinking fund so far as practicable to the redemption of Series B Bonds to be selected by lot in such manner as it may deem fair, for redemption on the next September 15th interest payment date, at 102½% of the principal amount thereof to and including September 15, 1950, and thereafter at the principal amount thereof, plus accrued interest to date of redemption, upon at least 30 and not more than 90 days published notice.

(2) *So long as any of the 5% Bonds remain outstanding or their retirement has not been provided for*, the Republic will cause to be applied toward the annual service charge of \$240,000 for the Series B Bonds the pledged and assigned revenues above described and in the order set forth. Out of said pledged and assigned revenues the Fiscal Agent of the Loan will set aside on March 10th in each calendar year, or as soon thereafter as may be practicable, the said annual service charge of \$240,000 to be applied to the payment of interest on the outstanding Series B Bonds and to constitute the sinking fund installment to be applied in the manner set forth in (1) above; provided, however, that in respect of the year 1941, such annual service charge to be set aside out of the pledged and assigned revenues shall be the sum of \$170,000, of which sum \$70,000 shall be applied to the payment of interest on September 15, 1941 on the outstanding Series B Bonds and the balance thereof shall constitute the Sinking Fund Installment for that year for application as hereinabove provided. (Article Twentieth.)

Redemption

The Series B Bonds shall not be subject to redemption prior to March 15, 1951 except for the sinking fund hereinabove described; and the Republic reserves the right, at its option, to redeem all of the outstanding Series B Bonds on March 15, 1951, or on any semi-annual interest date thereafter upon at least thirty (30) days and not more than ninety (90) days published notice at the redemption price of 102½% of the principal amount to and including March 15, 1954, and thereafter at the principal amount thereof. (Article Nineteenth.)

Authentication

The Series B Bonds will be authenticated by The National City Bank of New York as Fiscal Agent of the Loan. (Article Fourth.)

Listing on National Securities Exchange

The Republic has agreed to make application for the listing of the Series B Bonds on the New York Stock Exchange and for the registration under the Securities Exchange Act of 1934 necessary in connection with such listing.

PURPOSE OF FINANCING

The proceeds to the Republic from the sale of the \$4,000,000 principal amount of Series B Bonds will be \$4,000,000, which sum, pursuant to Law No. 5 of 1928, Law No. 66 of 1938, Decree No. 7 of 1940, Law No. 21 of 1941 and Decree No. 25 of 1941 of the Ministry of Finance and Treasury, will be applied to the retirement and redemption of the Thirty-Year 5½% External Secured Sinking Fund Gold Bonds, dated June 1, 1923, due June 1, 1953, at the principal amount thereof, together with the redemption premium of 2%, or an aggregate of \$3,501,150. The balance of said proceeds will be applied to the payment, or creation of reserves for payment, of expenses incurred by the Republic in connection with the issue and sale of the Series B Bonds, including the cost to the Republic of submitting and making effective the Plan for the Readjustment of the External Debt of the Republic, comprising (1) the fee of the Financial Advisers to the Republic in connection with said Plan, \$167,500; (2) various fees and expenses incurred or to be incurred by the Republic, including fees and expenses of the Depositary under the Plan and Counsel for the Republic, \$150,000; and (3) the remaining amount of approximately \$181,350 will be applied to discharge, in part, the obligation of the Republic to make payment in respect of unpaid matured interest on the 5% Bonds from May 15, 1936 to and including November 15, 1939 to the extent necessary to equal 4% on the 5% Bonds to that date when added to the pledged revenues available to pay said accrued unpaid interest.

ANNUAL PAYMENTS UNDER THE TREATIES BETWEEN THE UNITED STATES OF AMERICA AND THE REPUBLIC OF PANAMA

The Republic derives a substantial annual income from the United States of America in connection with the use and occupancy of the Canal Zone. This annual income was originally provided for in Article XIV of the "Convention of November 16, 1903 between the United States and the Republic of Panama for the Construction of a Ship Canal to Connect the Waters of the Atlantic and Pacific Oceans" in the following terms:

Article XIV of the Treaty of 1903

"As the price or compensation for the rights, powers and privileges granted in this convention by the Republic of Panama to the United States, the Government of the United States agrees to pay to the Republic of Panama the sum of ten million dollars (\$10,000,000) in gold coin of the United States on the exchange of the ratification of this convention and also an annual payment during the life of this convention of two hundred and fifty thousand dollars (\$250,000) in like gold coin, beginning nine years after the date aforesaid."

Of the payment of \$10,000,000 the Republic applied \$4,000,000 to the construction of public works and placed the remaining \$6,000,000 into a fund authorized by Article 138 of the Constitution of the Republic and designated as the "Constitutional Fund of the Republic of Panama", hereinafter more fully described.

The annual payment of \$250,000 (herein referred to as the "Original Treaty Payment") has been pledged to secure the service on the present external debt of the Republic.

The relations between the two nations in subsequent years and the experience gained in the administration by the United States of the Canal Zone, indicated the desirability of redefining and clarifying certain terms and provisions of the Treaty of 1903. On March 2, 1936 a new Treaty was signed which provided additional concessions, rights and privileges for both nations and was finally ratified on July 25, 1939. Article VII of the Treaty of 1936 provides that the United States will henceforth make an annual payment of 430,000 Balboas commencing with the year 1934, which annual payment is herein referred to as the Total Treaty Payment and the amount by which it exceeds the Original Treaty Payment is referred to as the New Treaty Payment.

Article VII of the Treaty of 1936

"Beginning with the annuity payable in 1934 the payments under Article XIV of the Convention of November 18, 1903, between the United States of America and the Republic of Panama shall be four hundred and thirty thousand Balboas (B/430,000.00) as defined by the agreement embodied in an exchange of notes of this date. The United States of America may discharge its obligation with respect to any such payment, upon payment in any coin or currency, provided the amount so paid is the equivalent of four hundred and thirty thousand Balboas (B/430,000.00) as so defined."

The exchange of notes referred to in Article VII consisted of the following note of March 2, 1936 and its acknowledgment and confirmation by the Panamanian Treaty Commission on the same date:

Department of State,
March 2, 1936.

"The Honorable Doctor Ricardo J. Alfaro,
The Honorable Doctor Marciso Garay,
Members of the Panamanian Treaty Commission,
Washington, D. C.

Sirs: I have the honor to refer to our conversations with respect to the effect upon the Monetary Agreement of June 20, 1904, between the United States of America and the Republic of Panama as modified by the exchanges of notes of March 26-April 2, 1930, and of May 28-June 6, 1931, of the action taken by the President of the United States of America in his Proclamation of January 31, 1934, reducing the weight of the gold dollar of the United States of America.

It has been recognized that, as a result of this action, the provision of the Monetary Agreement that the monetary unit of the Republic of Panama should be a gold Balboa of the weight of one gram, 672 milligrams, nine-tenths fine, is no longer consistent with the necessary condition of the Agreement that the standard unit of value of the United States of America, the dollar, and the standard unit of value of the Republic of Panama, the Balboa, should continue at a parity

at the rate of one dollar for one Balboa. It has also been recognized that in the Republic of Panama and in the Canal Zone silver Balboas and fractional currency of the Republic are circulating together with the United States currency at the rate of one Balboa for one dollar.

For these reasons, it is desirable that the existing Monetary Agreement, as modified, be further modified to make provision for the reduction of the weight of the gold Balboa so that the legal standard units of value of the Republic of Panama and of the United States of America shall be equal. Accordingly, for the purpose of Article VII of the General Treaty signed today, the Balboa shall be regarded as defined to consist of 987½ milligrams of gold of 0.900 fineness.

It is understood that the reduction in the weight of the gold Balboa shall not necessitate an alteration of the weight of the silver coins of the Republic of Panama, but that these shall continue to be of the same size, weight, and fineness as at present.

Notwithstanding any language contained in the existing Monetary Agreement, as modified, which has been interpreted or might be interpreted as limiting the number of coins of any denomination to be issued by the Republic of Panama within the total amount of coins of all denominations, it is now understood and agreed that the Monetary Agreement, as modified, shall not be considered as contemplating any such limitation, so that, as long as such total amount is not exceeded, that total amount may be apportioned among the coins of the various denominations referred to in the Agreement as may seem fitting to the Government of the Republic of Panama.

As a further modification of the existing Monetary Agreement, it is agreed that the Government of the United States of America shall not be required to accept Panamanian silver currency for the payment of tolls for the use of the Panama Canal.

I may say that the above understandings and agreements are acceptable to my Government, and that upon receipt of a note confirming them on behalf of the Government of the Republic of Panama, the Government of the United States of America will consider as further modified in accordance therewith the Monetary Agreement of June 20, 1904, as modified.

Accept, Sirs, the renewed assurances of my highest consideration.

CORDELL HULL"

The Monetary Agreement of June 20, 1904 between the Republic and the United States provides, briefly, that (1) the monetary unit of the Republic shall be a gold coin of the same weight and fineness as the United States dollar, (2) United States gold currency shall be legal tender in the Republic as equivalent to the currency of the Republic, (3) the Republic may issue silver coins under certain limitations, (4) the Republic shall create a Reserve Fund to secure the legal parity of its coinage with the gold standard, (5) the Republic shall cause its coinage to be executed at United States mints, (6) the gold and silver coin of the Republic shall be legal tender in the Canal Zone.

This Monetary Agreement is embodied in an exchange of letters dated June 20, 1904, March 26-April 2, 1930, May 28-June 6, 1931, and March 2, 1936 (set forth above), copies of which are filed with the Registration Statement as Exhibit C-1 thereto.

CONSTITUTIONAL FUND OF THE REPUBLIC OF PANAMA

The Constitutional Fund was established in 1904 pursuant to the authority of Article 138 of the Constitution of the Republic which provides as follows:

"In order to guarantee to posterity a part of the pecuniary benefits which are received from the negotiation for the opening of the interoceanic canal, the sum of six million dollars is reserved which will be invested in securities which produce a fixed annual revenue. The law will regulate this investment."

The sum of \$6,000,000 comprising the Fund was received by the Republic from the United States of America under the terms of the Treaty of 1903 referred to above.

The fund is administered by The Chase National Bank of the City of New York, New York, (hereinafter in this Article referred to as the "Bank") as successor Fiscal Agent of the Republic, pursuant to a Fiscal Agency Agreement, dated October 21, 1937 filed with the Registration Statement as Exhibit C-2 thereto. Said Agreement, among other things, provides:

"Any balance of cash principal shall be invested and reinvested from time to time by the Bank in first mortgages on real estate in New York City which shall at the time of any such

investment or reinvestment be eligible for the investment of trust funds under the laws of the State of New York and provided that the net rents from such property, as reasonably estimated by the Bank for the 12 months' period immediately succeeding the making of said investment shall be not less than the amount required for the payment of the first year's interest on such first mortgage. In determining the amount of the net rents for this purpose the Bank shall be entitled to rely upon the books of the owner and/or upon an affidavit from the owner with respect thereto."

The Fund at present consists of cash, first mortgages, notes, real estate and other property as shown in the following tabulation. All real estate securing the first mortgages and all of the real estate held by the Fund is located in the City of New York:

SUMMARY OF CONSTITUTIONAL FUND

Classification of Mortgages	As of November 30, 1940		As of November 30, 1939	
	No. of Mortgages	Principal Amount	No. of Mortgages	Principal Amount
Class No. 1				
Mortgages having no defaults.....	70	\$3,092,108.82	60	\$2,769,773.82
Class No. 2				
Mortgages with defaults (other than those foreclosed or under Assignment of Rents).	11	652,250.00	15	773,900.00
Class No. 3				
Mortgages on properties, title to which is in the name of				
"Fifty Central Park West Corporation".	13	914,300.00	16	1,001,300.00
"Second Park West Corporation".....	10	727,500.00	9	584,000.00
Class No. 4				
Mortgages on properties, rents of which have been assigned to "Fifty Central Park West Corporation"	3	307,000.00	4	355,000.00
Class No. 5				
Mortgages on properties, rents of which have been assigned to "Republic of Panama"...	—	—	2	196,000.00
Class No. 6				
Mortgages under foreclosure or Deeds Pending	—	—	1	70,000.00
Total	<u>107</u>	<u>\$5,693,158.82</u>	<u>107</u>	<u>\$5,749,973.82</u>
Note of "Fifty Central Park West Corporation"	—	—	—	7,500.00
Cash held in Principal Account.....	—	280,841.18	—	242,526.18
Total Constitutional Fund	<u>107</u>	<u>\$5,974,000.00</u>	<u>107</u>	<u>\$6,000,000.00</u>

Note: The two corporations referred to in the above tabulation were created for the purpose of holding certain properties heretofore acquired by or for the account of the Republic in connection with the enforcement of mortgages constituting a part of the Constitutional Fund and such properties are held subject to the aforesaid Fiscal Agency Agreement of October 21, 1937.

The principal amounts at which the mortgages comprising the Fund are stated in the foregoing tabulation do not purport to represent their present realizable value.

The mortgages in the foregoing classifications of the Fund bear various contractual rates of interest and in the case of certain mortgages the original contractual rates have been reduced by subsequent agreement between the Republic and the mortgagors. On November 30, 1940, the average of such contractual rates in effect, and the average rate of interest received during the preceding twelve months' period on the mortgages in the respective classifications, were as follows:

Classification of Mortgages as Stated in the Preceding Tabulation	Average Contractual Rate of Interest in Effect on the Mortgages in the Respective Classifications on November 30, 1940	Average Rate of Interest Received in the 12 Months' Period Ended Nov. 30, 1940 on the Mortgages in the Respective Classifications on that date
Class 1	4.57%	4.47%
Class 2	4.27%	3.18%
Class 3	4.92%	—0%
Class 4	5.27%	4.79%
Class 5	—0%	—0%
Class 6	—0%	—0%
Total—107 Mortgages	<u>4.68%</u>	<u>3.05%</u>

The net income of the Constitutional Fund, after deducting all costs, expenses and disbursements incurred in the administration of the property of the Fund, including the fees of the Fiscal Agent and its predecessor, for the eleven fiscal years and three months ended February 28, 1940 have been as follows:

Fiscal years ended November 30, 1930.....	\$317,880.92
1931.....	302,882.87
1932.....	297,589.94
1933.....	210,702.25
1934.....	193,269.99
1935.....	191,595.07
1936.....	209,877.27
1937.....	227,080.05
1938.....	183,685.42
1939.....	183,266.51
1940.....	165,430.32
Three months ended February 28, 1941.....	31,902.79

UNDERWRITERS

The names and addresses of the several Underwriters of the Series B Bonds and the principal amount thereof which each has severally agreed to purchase from the Republic upon the representations and warranties, but subject to the conditions, of the Underwriting Agreement, are as follows:

<u>Underwriters</u>	<u>Address</u>	<u>Principal Amount</u>
Glore, Forgan & Co.	38 Wall St., New York, N. Y.	\$ 725,000
Hornblower & Weeks	40 Wall St., New York, N. Y.	725,000
Lehman Brothers	1 William St., New York, N. Y.	725,000
Dick & Merle-Smith	30 Pine St., New York, N. Y.	625,000
Fuller, Rodney & Co.	44 Wall St., New York, N. Y.	400,000
Auchincloss, Parker & Redpath	52 Wall St., New York, N. Y.	200,000
Schlater, Noyes & Gardner, Inc.	60 Broadway, New York, N. Y.	200,000
Seasongood & Haas	63 Wall St., New York, N. Y.	200,000
James H. Causey & Co. Inc.	63 Wall St., New York, N. Y.	200,000
Total		\$4,000,000

No underwriter named above is controlled by the Republic of Panama.

UNDERWRITING AGREEMENT AND TERMS OF OFFERING

By Agreement, dated March 26, 1941, and upon the terms and subject to the conditions therein set forth, the Underwriters named above have severally agreed to purchase and the Republic of Panama has agreed to sell to them severally the principal amounts of Series B Bonds set forth above under the heading "Underwriters". A copy of said Agreement is filed as Exhibit B-2 to the Registration Statement. The total amount to be received by the Republic from the Underwriters as provided in said Agreement is the amount set forth on Page 1 of this Prospectus under the heading "Proceeds to Republic", plus accrued interest on the \$4,000,000 principal amount of the Series B Bonds from March 15, 1941 to the date of payment therefor.

The several obligations of the Underwriters are subject to the following conditions.

(a) The form and validity of the Series B Bonds and the form of the Registration Statement and Prospectus shall be subject to the approval of counsel for the Underwriters and of counsel for Panama in the United States, it being understood that the approval or disapproval by such counsel of the form of the Registration Statement and Prospectus shall be given prior to the public offering date or the closing date whichever is earlier;

(b) The Registration Statement shall have become effective not later than March 26, 1941 or with the consent of the Underwriters' Representatives not later than March 29, 1941 and no stop order suspending the effectiveness thereof shall have been issued on or prior to the closing date nor any proceedings for that purpose shall have been taken or threatened on or prior to such date;

(c) The receipt by the Underwriters' Representatives, or their nominees in Panama City, prior to the payment by the Underwriters for the Series B Bonds of a written opinion of the Attorney General of the Republic addressed to the Minister of Finance and to the Underwriters' Representatives to the effect that the Series B Bonds upon execution will have been duly issued and executed in accordance with the Constitution and Laws of the Republic and that upon delivery of the Series B Bonds pursuant to this Agreement they will constitute the valid and unconditional obligations of the Republic;

(d) The receipt by the Underwriters' Representatives concurrently with the payment by the Underwriters for the Series B Bonds of satisfactory evidence of (1) delivery by the Republic to the Secretary of State of the United States of a communication in the form of Exhibit A to the Prospectus and of an appropriate acknowledgement of receipt thereof by such Secretary of State, and (2) delivery by the Republic to The Chase National Bank of the City of New York of a communication in the form of Exhibit B to the Prospectus and of an appropriate acknowledgment thereof by said Bank;

(e) The receipt by the Underwriters' Representatives prior to payment by the Underwriters for the Series B Bonds of a written statement of the Ambassador Extraordinary and Plenipotentiary of the Republic in the United States, dated as of the closing date, to the effect that there has been no substantial change in the financial, economic or political condition of the Republic as set forth in the Registration Statement and Prospectus other than changes arising in the ordinary and normal course of operations of the Republic; and

(f) That on or prior to the public offering date, provided, the public offering date is not later than the closing date, no substantial change either in the financial, economic or political condition of the Republic or in any of its international relationships or in existing political, economic or market conditions shall have occurred which, in the judgment of the Underwriters' Representatives or of such number of Underwriters as have in the aggregate agreed to purchase more than 50% of the principal amount of Series B Bonds which the Underwriters agree to purchase, either renders it impractical or inadvisable to market the Series B Bonds at the public offering price stated on page 1 of this Prospectus or adversely affects the condition of the markets for the sale or placing of securities to such a degree as to endanger the success of this operation.

Except for the underwriting discounts or commissions set forth in the table on Page 1, no commissions or discounts are to be paid directly or indirectly by the Government in respect of the sale of the Series B Bonds. Out of the underwriting discounts or commissions are to be paid the management fee, concessions and allowances set forth in the three succeeding paragraphs.

The Underwriters have agreed to pay to Glore, Forgan & Co. and Hornblower & Weeks as Underwriters' Representatives for their services in connection with the purchase of the Series B Bonds and managing the public offering and sale thereof, to each of them, an amount equal to $\frac{1}{4}\%$ of the principal amount of Series B Bonds which the Underwriters have severally agreed to purchase from the Republic;

The Underwriters propose to offer the \$4,000,000 principal amount of the Republic of Panama Twenty-six Year $3\frac{1}{2}\%$ External Secured Refunding Bonds, Series B, due March 15, 1967, in part directly to the public at the public offering price and the balance to dealers who are members of the National Association of Security Dealers, Inc., at the public offering price less a concession of 1%, payable upon the termination of the agreements between the Underwriters and such dealers. In the event that prior to the termination of such agreements, the Underwriters' Representatives purchase for the accounts of the several Underwriters in the open market or otherwise at or below the public offering price any Series B Bonds delivered to a dealer or any Series B Bonds which may have been issued in exchange for such Series B Bonds, the right is reserved to withhold the aforementioned concession on such Series B Bonds. Dealers purchasing Series B Bonds pursuant to such agreement, and the Underwriters, may allow $\frac{1}{2}\%$ out of the selling concession to any member of the National Association of Security Dealers, Inc., provided in all cases that the rules of fair practice of said Association are observed.

The Underwriters have agreed among themselves that any Series B Bonds reserved for special sale or sale to dealers but not purchased and paid for shall be divided among the Underwriters in the proportion that the principal amount of Series B Bonds purchased by each Underwriter reserved for special sale or sale to dealers bears to the total number of Series B Bonds so reserved.

Glore, Forgan & Co. and Hornblower & Weeks, as Underwriters' Representatives, are authorized in agreements between all the Underwriters during the term of said agreements to buy and sell Series B Bonds (in addition to the Series B Bonds sold to dealers) in the open market or otherwise for either long or short account on such terms and at such prices as they in their discretion deem desirable, and in arranging for sales of Series B Bonds to dealers as aforesaid, to over-allot provided that such purchases, sales and over-allotments shall be made for the account of each of the several Underwriters as nearly as practical in the proportion to the principal amount of Series B Bonds which the Underwriters severally agree to purchase from the Republic, provided, however, that at no time shall the net commitment in respect of the Series B Bonds under this provision of any Underwriter, for either long or short account, exceed 10% of the principal amount of Series B Bonds which such Underwriters have agreed to purchase from the Republic. The purpose of this provision is to facilitate the distribution of the Series B Bonds by attempting to stabilize the market price thereof. The existence of this provision is no assurance that any such transactions will be effected, or if effected, that they will not be discontinued at any time.

Any Underwriter may, subject to the terms of the Agreement between the Underwriters, buy or sell Series B Bonds, as agent for the account of others, or for its own account, in the open market or otherwise, either for long or short account except for the purpose of stabilizing the price thereof.

Glore, Forgan & Co. and Hornblower & Weeks, named herein as Underwriters, entered into an agreement with the Republic dated October 25, 1939 whereby said firms have acted in the capacity of Financial Advisers in connection with the Plan for the Readjustment of the External Debt of the Republic. Said agreement is summarized in Article X of said Plan, hereinafter set forth, to which reference is hereby made. Such agreement was modified by an exchange of letters dated March 7, 1941 and March 10, 1941 between the Republic and the Financial Advisers which, among other things, provided that the fee to be paid to the Financial Advisers shall be reduced from the sum set forth in the agreement to \$167,500. The Financial Advisers superseded a group originally contracting with the Republic in respect of the readjustment of the external debt and in consideration of such succession, the Financial Advisers have advised the Republic that they have agreed to pay to each of such withdrawing members of said original group, namely, James H. Causey & Co. Inc., Schlater, Noyes & Gardner, Inc., Underwriters named herein on Page 12, and Norman S. Taber & Co., 16⅓% of the aforementioned fee of \$167,500 after deduction therefrom of all expenses incurred by the Financial Advisers in performance of their services under their Agreement dated October 25, 1939, with the Republic. Also, Hornblower & Weeks, James H. Causey & Co. Inc., Schlater, Noyes & Gardner, Inc. and Norman S. Taber & Co. have each agreed to pay to R. W. Ince, a partner of the firm of Seasongood & Haas, one of the Underwriters named herein on Page 11 the sum of \$1,250, or an aggregate of \$5,000, as and for services rendered in connection with prior negotiations for a contract with the Republic of Panama.

LEGAL OPINIONS

The Hon. Ismael Ortega B., Attorney General of the Republic in 1940 passed upon the legality of the Plan for the Readjustment of the External Debt and upon the legality of the new Bonds issuable under said Plan. The Hon. Victor A. de Leon, the present Attorney General of the Republic has passed upon the legality of the Twenty-six Year 3½% External Secured Refunding Bonds, Series B, due March 15, 1967.

Newell W. Ellison, Esq., of Covington, Burling, Rublee, Acheson & Shorb, Union Trust Building, Washington, D. C., counsel for the Republic, has passed upon matters under the Laws of the United States relating to the Plan and will pass upon the validity of the Republic of Panama Twenty-six Year 3½% External Secured Refunding Bonds, Series B, due March 15, 1967, in accordance with the Laws of the United States and the State of New York. In passing upon the validity of the Series B Bonds under the Laws of the Republic of Panama, said counsel will rely upon the aforesaid opinions of the Hon. Ismael Ortega B., and the Hon. Victor A. de Leon.

Thomas E. Wing, Esq., of New York City, will pass upon certain legal matters in connection with the purchase and sale of the Series B Bonds by the several Underwriters.

CERTAIN HISTORICAL INFORMATION CONCERNING THE EXTERNAL DEBT

The Republic did not default on the principal or interest of any external security prior to May 15, 1933. At that time the Republic found itself in a straitened financial situation resulting from the world depression in business and trade. On November 23, 1933, the Republic announced to the holders of the 5% Bonds a Service Readjustment Plan, (hereinafter referred to as the "Service Readjustment Plan") which provided briefly as follows:

"(a) The interest represented by the coupons maturing in the years 1933, 1934 and 1935 will be paid in the first instance to the extent of the excess moneys of the annual treaty payment from the United States Government and the annual revenue from the Constitutional Fund of the Republic available in such years after deduction of the prior service charges of the 5½% Bonds of 1923.

"(b) The balance of this interest, not met with these moneys, will subsequently be paid with funds which the Republic will provide in amounts equal to the stipulated sinking fund instalments of the issue, beginning with the year 1936 and continuing until this balance is paid in full.

"(c) The operation of the sinking fund will be suspended in the years 1933, 1934 and 1935 and thereafter as long as the Republic is making the aforesaid provision of funds for the payment of the unpaid interest balance.

"Further, assenting Bondholders will receive Arrears Certificates for an amount equal to the balance of the interest which is not paid to them in each of the years 1933, 1934 and 1935. Interest will accrue thereon from October 15, 1935 at the rate of 5% per annum, payable with the

principal amount of the Certificates. They will have no fixed maturity but will be retired with the funds which the Republic provides for payment of the unpaid interest balance, by purchase at or below par and accrued interest or by call at par and accrued interest. Also, the Republic may at any time apply any other funds to the retirement of Arrears Certificates in the same manner."

* * *

"Bondholders who wish to assent to the Plan should present their Bonds, with the May 15, 1933 and all subsequent coupons attached, to The National City Bank of New York, 55 Wall Street, New York, N. Y., as Agent. Each bond so presented will be stamped as assenting to the Plan. The coupons maturing in the years 1933, 1934 and 1935 will be detached and two Substituted Coupons will be affixed, entitling the holder to receive the aforesaid cash payment on October 15 of the years 1934 and 1935 and the aforesaid Arrears Certificates for an amount equal to the unpaid balance of the coupons maturing in such years. The Bond will then be returned to the holder, together with a check for 33.56% of the detached 1933 coupons (\$16.78 for each \$1,000 Bond and \$8.39 for each \$500 Bond) and an Arrears Certificate for an amount equal to the unpaid 66.44% balance (\$33.22 for each \$1,000 Bond and \$16.61 for each \$500 Bond). As the Substituted Coupons mature in the years 1934 and 1935, the available cash will be paid and Arrears Certificates delivered, upon surrender thereof in due course to the Agent.

* * *

"Bondholders who do not wish to assent to the Plan will be paid their proportionate part of the aforesaid excess moneys of the treaty payment and the revenue from the Constitutional Fund upon presenting to the Fiscal Agent their matured coupons, in the order of maturity, for endorsement of payment thereon. The payment for the present year will be made to the non-assenting Bondholders against presentation of the May 15, 1933 coupon for endorsement (\$16.78 for each \$1,000 Bond and \$8.39 for each \$500 Bond). This coupon, after being endorsed as paid to such amount, will be returned to the holder and must be presented again for the next payment to non-assenting Bondholders out of the aforesaid excess moneys, together with the next maturing coupons (November 15, 1933 and so on), to the extent that its unpaid balance is exceeded by the amount of such further payment."

The excess monies from the Treaty Payment and the Constitutional Fund Income in 1933 were sufficient to pay in cash 33.56% of the face value of the 1933 interest coupons and Arrears Certificates were issued to assenting bondholders in payment of the balance due on such coupons. Substituted Coupons were provided assenting bondholders in respect of the unmaturing coupons for the years 1934 and 1935 specifying payments of cash and delivery of Arrears Certificates.

Payment in cash of 33.56% of the face value of the 1933 interest coupons to the non-assenting Bondholders was evidenced by endorsement on the May 15, 1933 coupons of the amount so paid. This left a balance of interest due on the 1933 coupons of the Bonds the holders of which had not assented to the Service Readjustment Plan in the amount of \$29,117.33.

In slightly more than three months after the announcement of the Service Readjustment Plan, a serious difficulty arose in connection with the annual treaty payment receivable by the Republic from the Government of the United States of America pursuant to Article XIV of the Treaty of November 18, 1903 between the United States and the Republic amounting to \$250,000 in gold coin. The payment, which became due on February 26, 1934, and in each year subsequent thereto, was tendered on the respective dates by the United States in its currency, but the Republic of Panama in each such year refused to accept payment in United States currency on the ground that the Treaty provided for payment in gold of the standard of weight and fineness which prevailed at the date of signing of the Treaty and further, that in the absence of any modification of said Treaty in such respect the Republic could not accept payment in any form other than as provided therein. In the absence of any receipts from the United States Government on account of the Treaty payments for the years 1934 and 1935, as provided by the Service Readjustment Plan, the Republic advanced from other sources the funds required to make a one-third payment in cash on the Substituted Coupons in each of the two years and issued Arrears Certificates for the remaining two-thirds, subject to the following conditions endorsed on the Arrears Certificates thus issued:

"Pending receipt of the annual treaty payment for 1934, there are no 'excess moneys of the annual treaty payment from the United States Government and the annual revenue from the constitutional fund of the Republic' now available, 'after deduction of the prior service charges of the 5½% Bonds of 1923,' for payment upon the Substituted Coupons due October 15, 1934, in accordance with the Service Readjustment Plan. However, the Republic is advancing the funds required to make a one-third interest payment thereon, in anticipation of the receipt of the

said treaty payment, and Arrears Certificates are being issued for the remaining two-thirds interest. When the said treaty payment is received, if the aforesaid 'excess moneys' available in respect of Bonds assenting to the Plan are greater than the one-third interest payment advanced by the Republic, the balance, after reimbursing the Republic for such advance, will be paid out upon the Arrears Certificates now issued in respect of the said Substituted Coupons. Notice of such payment upon the Certificates will be published in an English language newspaper of general circulation in the Borough of Manhattan, City of New York. The principal amount of the Certificates shall be reduced by the amount available for said payment as from the date of such publication."

(The Arrears Certificates for 1935 carried the same endorsement except that the year 1935 was substituted for 1934.)

The failure of the Republic to establish its claim to payment in gold and the decision to negotiate a new Treaty with the United States gave rise to a situation which was not anticipated at the time the Service Readjustment Plan was announced on November 23, 1933. This situation is hereinafter more fully discussed in connection with an offer which the Republic will make in satisfaction of the claims of the holders of the Arrears Certificates.

On May 14, 1936, the Republic communicated to the holders of its 5% Bonds a statement explaining the financial stringency and announced:

"In spite of these circumstances, the Republic has decided to pay the interest coupons due May 15, 1936, but at the rate of 4% per annum. Even at this rate of interest such payment involves a great financial effort and a sacrifice of vital national needs. In doing this the Republic wishes to show its good faith and its earnest desire to meet its obligations in the measure of its capacity to pay. The Panama Government wishes also to state that under the contract in force the Republic would have to pay on its External Debt a rate of interest which is excessive in view of the conditions of the money market and the strong security the Republic is able to offer in guarantee of this indebtedness."

On November 15, 1936 the Republic decided to suspend completely the service on the 5% Bonds pending ratification of the new Treaty signed on March 2nd of that year with the United States. This new treaty was not ratified by the United States Senate until July 25, 1939. On April 4, 1940 the Republic proposed to its 5% Bondholders the Plan for the Readjustment of the External Debt more fully described on page 35 of this Prospectus.

Until June 1, 1938, service on the 5½% Bonds was maintained from the Constitutional Fund income and from funds obtained by the Republic for this purpose and advanced, in the years 1934 to 1937, inclusive, to the Trustee for the 5½% Bonds, on the condition that the Republic would be reimbursed out of the Original Treaty Payments for the respective years in which such advances were made. The Republic has now waived claim to such reimbursement as more fully explained hereinafter. The Market Fund of \$25,000 per annum became inoperative on and after September 1, 1934. The operation of the sinking fund on the 5½% Bonds was suspended on September 1, 1938. Interest payments due on June 1, 1938 and subsequently were paid four to five months late because of the inadequacy of the Constitutional Fund income which had declined by about one-third compared with its annual average prior to 1933. However, the December 1, 1939 interest coupons were paid when due from the Constitutional Fund income available to that date and by the application of \$71,727.13 from the \$1,500,000 Original Treaty Payments in arrears then on deposit with the Fiscal Agent of the Republic.

In accordance with the instructions of the Republic dated June 8, 1923 relating to the 5½% Bonds, the United States Government paid to The Chase National Bank of the City of New York, Fiscal Agent for the Republic, on September 18, 1939, the sum of \$1,500,000 representing the Original Treaty Payment in arrears for the years 1934 to 1939, inclusive of which \$71,727.13 was applied to complete the payment of interest on the 5½% Bonds due December 1, 1939. The Republic presented to its Fiscal Agent a claim for reimbursement of \$254,795.12, representing sums advanced by the Republic in connection with the service of its 5½% Bonds and a claim for reimbursement of \$605,552.34, representing sums advanced in connection with the Service Readjustment Plan and the offer of the Republic to purchase the May 15, 1936 coupons at the rate of 4% interest instead of 5%. Thus, the aggregate claims of the Republic against the \$1,500,000 of pledged Original Treaty Payments for the years 1934 to 1939, inclusive, amounted to \$860,347.46. The Republic has now waived its claims for reimbursement of the aforementioned \$860,347.46. On September 18, 1939 and on December 19, 1939, the Republic issued instructions to, and received from, the United States Government the sums of \$860,000 and \$220,000, respectively, representing the unpledged New Treaty Payments for the years 1934 to 1939, inclusive. Of this amount the Republic is holding \$220,000 available for use in con-

nection with the Plan. The Original Treaty Payment due in 1940 was received by the Fiscal Agent of the Republic and was paid to the Trustee for the 5½% Bonds in accordance with the irrevocable instructions of the Republic dated June 8, 1923. Such Original Treaty Payment, together with the Constitutional Fund income received subsequent to December 31, 1939, has been applied to the service of the 5½% Bonds, which will be called for redemption on June 1, 1941. The Original Treaty Payment for 1941 was likewise received by the Fiscal Agent of the Republic and paid to the Trustee for the 5½% Bonds for the service thereof. The New Treaty Payments due in 1940 and 1941 were paid to the Republic by the United States Government and are being held by the Republic for use in connection with the Plan.

The face amount of Arrears Certificates issued or subject to issue at December 5, 1939, on which date the Service Readjustment Plan was terminated, aggregated \$1,046,568.41; the interest thereon payable upon redemption amounted to \$237,658.23 accrued to May 1, 1940. The Service Readjustment Plan stated that the Republic would provide amounts equal to the stipulated sinking fund instalments of the 5% Bonds for the redemption of Arrears Certificates beginning with the year 1936. However, as set forth above, in 1936 the Republic suspended completely the service of the 5% Bonds pending ratification of the new Treaty signed on March 2nd of that year with the United States. No amounts were provided by the Republic for the redemption of Arrears Certificates and therefore no sums have been available for redemption of Arrears Certificates. After giving effect to the terms of the endorsement on the Arrears Certificates for 1934 and 1935 above set forth, the "excess moneys" from the Original Treaty Payments for the years 1934 and 1935 available in respect of Bonds assented to the Service Readjustment Plan for application to payments on the principal of the Arrears Certificates in each of such years are shown below :

Allocation of Moneys Received by the Republic from the Annual Treaty Payments

	<u>Year 1934</u>
Annual Treaty Payment.....	\$250,000.00
Less obligation in respect of accrued unpaid coupons for 1933 @ \$33.22 per \$1,000 Bond on the \$876,500 principal amount of 5% Bonds not assented to the Service Readjustment Plan.....	29,117.33
	<hr/>
Leaving a balance of "excess moneys" available in respect of \$11,356,000 principal amount of 5% Bonds outstanding in 1934 assented and not assented thereto and equivalent to a payment of \$19.45 in respect of each \$1,000 Bond approximately.....	<u>\$220,882.67</u>
Amount applicable to coupons from \$10,479,500 of Bonds assented to 1933 Readjustment Plan at \$19.45 per \$1,000 Bond. (Includes \$42,500 of Bonds subsequently surrendered and cancelled).....	\$203,826.27
Amount applicable to \$876,500 5% Bonds not assented to 1933 Readjustment Plan at \$19.45 per \$1,000 Bond.....	17,047.92
	<hr/>
Total	\$220,874.19
Unexpended Balance	8.48
	<hr/>
Total "Excess Moneys" available.....	\$220,882.67
Less amount required for payment of \$19.45 to \$876,500 principal amount of 5% Bonds not assented to 1933 Readjustment Plan as shown above	17,047.92
	<hr/>
"Excess Moneys" available for coupons from 5% Bonds assented to 1933 Readjustment Plan	\$203,834.75
Less amount of the "one-third interest payment advanced by the Republic" in such year for which the Republic shall be reimbursed by the terms of the endorsement on the Arrears Certificates for 1934 and 1935	174,688.63
	<hr/>
"Excess Moneys" available	<u>\$ 29,146.12</u>
Principal amount of 1934 Arrears Certificates issued and outstanding Payment in respect of each \$100 principal amount of 1934 Arrears Certificates	\$349,286.37
	<hr/>
	8.3444%

**Allocation of Moneys Received by the Republic from the
Annual Treaty Payments—(Continued)**

	<u>Year 1935</u>
Annual Treaty Payment	\$250,000.00
Less obligation in respect of accrued unpaid coupons for 1934 at \$30.55 per \$1,000 Bond on the \$876,500 principal amount of 5% Bonds not assented to the 1933 Readjustment Plan.....	26,777.07
Leaving a balance of "excess moneys" available in respect of \$11,356,000 principal amount of 5% Bonds outstanding in 1934 assented and not assented thereto and sufficient to provide a payment of \$19.6568 in respect of each \$1,000 Bond approximately ...	<u>\$223,222.93</u>
Amount applicable to coupons from \$10,479,500 of bonds assented to 1933 Readjustment Plan at \$19.6568 per \$1,000 Bond (includes amount applicable to \$42,500 of bonds subsequently surrendered and cancelled of which \$4,000 principal amount bore 10/15/35 substituted coupons which were also cancelled, leaving Arrear Certificates issued or issuable in respect of \$10,475,500 of bonds) ...	\$205,993.43
Amount applicable to \$876,500 5% Bonds not assented to 1933 Readjustment Plan at \$19.6568 per \$1,000 Bond.....	17,229.18
Total	<u>\$223,222.61</u>
Unexpended balance .....	.32
	<u>\$223,222.93</u>
Less amount required for payment of \$19.6568 to 5% Bonds not assented to 1933 Readjustment Plan as shown above.....	17,229.18
"Excess Moneys" available for coupons from 5% Bonds assented to 1933 Readjustment Plan	\$205,993.75
Less amount of the "one-third interest payment advanced by the Republic" in such year for which the Republic shall be reimbursed by the terms of the endorsement on the Arrears Certificates for 1934 and 1935	174,621.95
"Excess Moneys" available	<u>\$ 31,371.80</u>
Principal amount of 1935 Arrears Certificates issued and outstanding Payment in respect of each \$100 principal amount of 1935 Arrears Certificates	\$349,136.38
	<u>8.9855%</u>

Accordingly, the Republic has determined that it will, on or before May 1, 1941, cause notice to be published to the holders of Arrears Certificates for the years 1934 and 1935 of cash payments approximately equal to the percentages indicated above on account of principal and of the offer to exchange the remaining unpaid principal amount of such Arrears Certificates for an approximately equal principal amount of Republic of Panama 3% External Secured Sinking Fund Bonds (hereinafter called the "3% Bonds") to be dated as of May 1, 1940, to mature May 1, 1987. In the same notice the Republic will offer to the holders of 1933 Arrears Certificates to exchange the unpaid principal amount of such Arrears Certificates for an approximately equal principal amount of 3% Bonds. Holders by surrendering their Arrears Certificates in acceptance of the exchange offer will thereby waive all claim for arrears of interest on such Arrears Certificates. The Republic will provide annually out of its internal revenues an amount sufficient to pay interest at 3% and for a sinking fund calculated to retire the 3% Bonds at or before maturity. As further security, the Republic will charge and pledge the Total Treaty Payment and the Constitutional Fund Income but such lien and pledge is to take effect only when the Series B Bonds, the 5% Bonds and the 3¼% Bonds have been retired or their retirement has been provided for. The conditions of this lien and pledge are covered in a communication from the Republic to the Secretary of State of the United States and in a communication to the Fiscal Agent of the Republic, both to be delivered prior to the issue of the Series B Bonds.

**SUMMARY OF PLAN FOR THE READJUSTMENT OF THE EXTERNAL DEBT
AS MODIFIED AND AMENDED**

The following statements are brief summaries of certain terms and conditions contained in the Plan and Agreement as modified and amended, which follows immediately hereafter on page 21 of this Prospectus. These statements do not purport to be complete, and reference is hereby made to the said Plan and Agreement as modified and amended for a full statement of the terms and conditions thereof.

In proposing the Plan, the Republic determined that the service of the bonds to be issued or issuable thereunder should be derived from its revenues within the United States, consisting of the

aforesaid Original Treaty Payment, New Treaty Payment and Constitutional Fund Income; that the entire amount of such revenues should be pledged until the External Debt as readjusted under the Plan shall be fully paid; and that by irrevocable instructions to the United States Government and to its Fiscal Agent in New York, all of such revenues should be paid over to the Fiscal Agent for the bonds to be issued or issuable under the Plan, for interest and amortization, in the order and priority therein stipulated. Although the Republic determined that the New Treaty Payment is not pledged under any existing contract, the Republic considered that the use and pledge thereof in the manner provided in the Plan constituted evidence of a desire to deal fairly with the holders of its external bonds in all the circumstances. Certain internal revenues now pledged to the 5% Bonds, under the Fiscal Agency Contract of June 22, 1928, were not included in the Plan, notwithstanding the pledge will continue until the 5% Bonds are no longer outstanding. The Republic discontinued remittance of these internal revenues in 1933, due to its straitened financial situation and considered that its budgetary position did not and would not justify the resumption of such remittances now or in the future. Since the time of issue of the 5% Bonds the internal revenues pledged to the service thereof have been as follows:

Revenues Derived From Retail Liquor Tax,
Export Duties and Stamp Tax (1)
(Years ended December 31st)

1928 (2).....	\$ 859,663.70	1935.....	\$1,048,804.00
1929.....	2,005,344.10	1936.....	1,115,065.00
1930.....	1,986,539.23	1937.....	1,176,402.07
1931.....	1,457,724.14	1938.....	1,205,430.34
1932.....	1,104,796.25	1939.....	1,308,575.16
1933.....	921,292.03	1940 (3).....	1,005,182.22
1934.....	931,913.96		

- (1) During the period covered by the above tabulation there was no net revenue derived from operation of the National Railway, which net revenue was pledged under the 1928 Contract.
- (2) Six months ended December 31, 1928.
- (3) Nine months ended September 30, 1940.

The Plan is being declared effective concurrently with the offering of the Series B Bonds and in accordance with the following procedure: (1) The 5½% Bonds will be refunded by the issue of the \$4,000,000 Series B Bonds, to which this Prospectus relates, and (2) The 5% Bonds deposited under the Plan and Agreement will be stamped to evidence assent thereto and returned to the holders of the Certificates of Deposit, issued at the time of such deposit, upon surrender thereof. Such assent to the Plan provided that:

- (a) All attached coupons would be detached from said stamped 5% Bonds by the Depositary and held by it for collection, and new coupons would be attached representing semi-annual payments by way of interest at the rate of 3¼% per annum from November 15, 1939 to December 1, 1994; such interest payment also being subject to an increase of one-eighth of 1% per annum for each \$14,141.88 excess of Constitutional Fund Income over \$200,000 per annum, but not to exceed 3½% per annum. The June 1, 1940 coupon on the Stamped 5% Bonds would provide for payment of interest for a 6½ months' period commencing November 16, 1939.
- (b) The balance of the monies provided for the service, after provision has been made for annual interest on the stamped 5% Bonds, would be set aside annually on each December 1st as and for a Sinking Fund to effect the eventual retirement of the stamped 5% Bonds, and would be applied by the Depositary to (1) the purchase of such Bonds at public or private sale at prices not in excess of the principal amount thereof and accrued interest (at 3¼%), if available at such price, and (2) to the extent that on the 15th day of March in any year beginning with March 1, 1942 such monies in the sinking fund should not have been exhausted by the aforesaid purchases, the Depositary would apply the balance so remaining, so far as practicable, to the purchase by call of the Stamped 5% Bonds on the next succeeding June 1st interest payment date.
- (c) The security would consist of the following, subject only to a prior pledge in favor of the Series B Bonds:
 - (1) The pro-rata share of the stamped 5% Bonds in 75% of the income receivable from the Original Treaty Payment and the Constitutional Fund Income which was pledged to the 5% Bonds in accordance with Article Sixteenth of the 1928 Contract (more fully described in page 74 of this Prospectus).
 - (2) The New Treaty Payment.
 - (3) The amount by which \$200,000 exceeds the Constitutional Fund Income in any year ended October 31st, which amount the Republic agrees to pay on October 31st in each year commencing with the year 1940.

- (d) At such time as all of the outstanding 5% Bonds should have assented to the Plan or the retirement of the unassented 5% Bonds should have been duly provided for, the holders of stamped 5% Bonds have agreed to exchange them for an equal principal amount of new 3¼% Bonds due 1994, to be secured by a first lien on the Constitutional Fund Income and by a second lien on the Total Treaty Payment.

Payment in cash would be made to all holders of 5% Bonds deposited under the Plan at the time of return to them of stamped Bonds in respect of all unpaid matured interest coupons to and including November 15, 1939 computed at the rate of 4% interest per annum instead of the coupon rate of 5%, subject to the deduction of \$1.25 per \$1,000 Bond as a contribution to The Foreign Bondholders Protective Council, Inc. for their services to the 5% Bondholders. In accordance with Article III of the Plan deposited 5% Bonds will receive the following amounts in respect of such unpaid matured interest coupons:

Cash Payments Provided by Article III of the Plan

Aggregate Cash Payment per \$1,000 Bond in respect of accrued unpaid interest adjusted to the rate of 4% per annum from May 16, 1936 to and including November 15, 1939:

With interest coupon dated November 15, 1936 and all subsequent coupons attached	\$140.00
With interest coupon dated May 15, 1933 endorsed \$16.78 paid, and all subsequent coupons attached, except coupon dated May 15, 1936	\$273.22

These payments will be made to non-assenting holders of the 5% Bonds as well as to holders of the 5% Bonds assenting to the Plan. Such payments will comprise payment at the coupon rate of 5% per annum on all coupons to and including November 15, 1938 (except the May 15, 1936 coupon as hereinafter set forth) and a partial payment on the May 15, 1939 coupon. Holders of 5% Bonds not assenting to the Plan will retain said May 15, 1939 coupon and subsequent coupons on which partial payment may be made as above or from time to time thereafter until each such coupon is fully paid at the coupon rate of 5%. Holders of 5% Bonds still holding the May 15, 1936 coupon will in addition to the above payments have the right to collect the \$20.00 per \$1,000 Bond payable thereon by surrender of same to The National City Bank of New York in accordance with the previous offer of the Republic relative thereto.

The holders of 5% Bonds in assenting to the Plan and Agreement, have agreed to (1) extend the maturity of their 5% Bonds from 1963 to 1994, (2) accept reduction of their annual interest from 5% to 3¼% (or a possible 3½%), (3) the subordination in favor of the Series B Bonds of monies collected annually by the Depository from the Fiscal Agent for the 5% Bonds as interest on the 5% Bonds assented to the Plan.

The Plan is being declared effective on March 28, 1941 upon the assent of at least 75% of the outstanding 5% Bonds. The following tabulation shows the estimated available income and the application of such income to the service of Bonds under the Plan on the basis of 75% assent:

Estimated Income Available Under the Plan			
Original Treaty Payment	\$250,000.00		
New Treaty Payment	180,000.00		
Constitutional Fund Income, estimated (based on 12 months ended November 30, 1940)	165,430.32		
Deficiency in Constitutional Fund Income guaranteed by the Republic	34,569.68		
Total Estimated Income Available Under the Plan			\$630,000.00
Application of Estimated Income Available to Service of Series B Bonds and 5% Bonds, Deposited and Undeposited			
1. For Series B Bonds			
25% of Original Treaty Payment	\$ 62,500.00		
25% of Constitutional Fund Income	41,357.58		
From New Treaty Payment	136,142.42		
			240,000.00
2. For Deposited 5% Bonds			
(\$8,485,125 principal amount)			
Balance of New Treaty Payment	\$ 43,857.58		
Payment by Republic to make up deficiency in Constitutional Fund Income	34,569.68		
Pro rata share of 75% Original Treaty Payment	140,625.00		
Pro rata share of 75% of Constitutional Fund Income	93,054.56		
			312,106.82
For Undeposited 5% Bonds			
(\$2,828,375 principal amount)			
Pro rata share of 75% of Original Treaty Payment	\$ 46,875.00		
Pro rata share of 75% of Constitutional Fund Income	31,018.18		
			77,893.18
			<u>\$630,000.00</u>

On the basis of the foregoing tabulation there should be available for the service of \$8,485,125 deposited 5% Bonds (75%) the sum of \$312,106.82. There would be outstanding \$2,828,375 of undeposited 5% Bonds for the service of which the sum of \$77,893.18 would be available, sufficient to provide payments by way of interest at the rate of approximately 2.75% per annum. However, in the year 1940, the Original Treaty Payment of \$250,000 was paid to the Guaranty Trust Company and was applied to the service of the 5½% Bonds. As the result of such application, the sum of approximately \$43,355 will become available to the Fiscal Agent for the 5% Bonds to be paid out pro rata to all 5% Bondholders by way of interest for the year 1940 and which is equivalent to a payment of approximately .38%. Consequently, the non-depositing bondholder will receive payment by way of interest of approximately .38% for the year 1940, whereas, the depositing bondholder, in accordance with the terms of the Plan, will receive interest for the year 1940 at the rate of 3¼%. In respect of unpaid matured interest coupons, the bondholder who does not deposit under the Plan will have the right to collect from the Fiscal Agent for the 5% Bonds such amounts as the Fiscal Agent, by published notice, may advise are available for payment and against the surrender of such coupons as the Fiscal Agent may specify for payment in full at the coupon rate and all partially paid or unpaid coupons shall be retainable by such holders for future payments thereon, which procedure constitutes a modification of the Plan insofar as the Plan originally specified that non-assenting holders of 5% Bonds would be required to surrender all unpaid matured coupons to and including November 15, 1939 as a condition to receiving the full amount of the cash payments provided by Article III of the Plan. It is estimated that upon receipt by the Fiscal Agent for the 5% Bonds of the funds to be made available in accordance with Article VI of the Plan, as modified and amended, said Fiscal Agent will be enabled to make full payment on all unpaid matured coupons to and including November 15, 1938 and a partial payment on the coupon which matured on May 15, 1939. The Republic has extended to April 30, 1941 the period during which non-assenting 5% Bondholders may deposit their Bonds in assent to the Plan and receive interest accrued from November 16, 1939 to the date of deposit and on the same terms and conditions as 5% Bondholders who deposited prior to March 28, 1941. Undeposited 5% Bonds will not enjoy the additional security of the New Treaty Payment or the guarantee by the Republic of any deficiency in the Constitutional Fund below \$200,000. However, undeposited 5% Bonds will continue to receive pro rata with the deposited 5% Bonds, 75% of the Original Treaty Payment and 75% of the Constitutional Fund Income pledged under the 1928 Fiscal Agency Contract.

PLAN FOR THE READJUSTMENT OF THE EXTERNAL DEBT
of the
REPUBLIC OF PANAMA
AS MODIFIED AND AMENDED

March 24, 1941.

Bank of the Manhattan Company
40 Wall Street
New York, N. Y.

Gentlemen:

Pursuant to Law No. 21 of 1941 and Decree No. 25 of March 24, 1941 of the Ministry of Finance and Treasury, the Republic of Panama (hereinafter referred to as the "Republic") has determined to modify and amend, as of the date hereof, the Plan for the Readjustment of the External Debt of the Republic of Panama, dated January 31, 1940 (hereinafter referred to as the "Plan") and the Deposit Agreement, dated January 31, 1940, (hereinafter referred to as the "Agreement") to conform with the modifications and amendments to the Plan.

The Republic has determined that all such modifications and amendments to the Plan and the Deposit Agreement adopted by the Republic do not, in its judgment, affect materially the rights and benefits of the holders of Certificates of Deposit adversely, and hereby files with the Depositary the following modifications and amendments of the Plan and Agreement, all such modifications and amendments to be effective upon such filing:

Article II of the Plan is hereby modified and amended to read as follows:

ARTICLE II

New External Loan Bonds Authorized for Issue

A. Republic of Panama Twenty-six Year 3½% External Secured Refunding Bonds, Series B, due March 15, 1967.

These Bonds (hereinafter referred to as the "Series B Bonds") will be issued in the principal amount of \$4,000,000 pursuant to authority of Law No. 5 of 1928, for the purpose of refunding the 5½% Bonds and for the payment of all expenses of the Republic in connection therewith including the cost to the Republic in submitting and making the Plan effective, under a Supplementary Agreement to the 1928 Contract (hereinafter referred to as the "Supplementary Agreement"). The Republic will pledge its full faith and credit to the payment of principal, interest and sinking fund thereof. The Series B Bonds will constitute the second series contemplated in Article Twenty-sixth of the 1928 Contract. The Supplementary Agreement provides that, after all of the Series A Bonds (the 5% Bonds) have been retired or provision for their retirement has been made, the Series B Bonds will have a first and prior charge on the Total Treaty Payment. The service charge for interest on and amortization of the Series B Bonds, so long as any remain outstanding, will be \$240,000 per annum. The Series B Bonds will bear interest at the rate of 3½% per annum. So much of the \$240,000 as is not required for interest will be applied annually to a sinking fund. So long as the 5% Bonds remain outstanding or provision for their retirement has not been made, the Series B Bonds will be secured as stated in Article III hereof. The Series B Bonds are more fully described in Appendix A attached hereto.

B. Republic of Panama Fifty-five Year 3¼% External Secured Refunding Bonds, due December 1, 1994.

These Bonds (hereinafter referred to as the "3¼% Bonds") will be issued, pursuant to authority of Law No. 66 of 1938, Decree No. 7 of 1940, Law No. 21 of 1941 and Decree No. 25 of 1941 of the Ministry of Finance and Treasury, in a principal amount not to exceed \$11,313,500 in exchange for 5% Bonds as provided in Article III hereof, under a Fiscal Agency Contract (hereinafter referred to as the "3¼% Contract") and the Republic will pledge its full faith and credit for the payment of principal, interest and sinking fund thereof.

The 3¼% Bonds will be secured by (1) a first lien on the Constitutional Fund income, and (2) a lien on the Total Treaty Payment, subject only to the pledge of \$240,000 for the annual service of the Series B Bonds until they are retired. The Republic will covenant in the 3¼% Contract that, so long as any 3¼% Bonds are outstanding, if the Constitutional Fund income is less than \$200,000 in any 12 months' period ending October 31st, it will make up any such deficiency. For each \$14,141.88 of Constitutional Fund income in excess of \$200,000 received in any such period, the interest payment on the 3¼% Bonds will be increased by the amount of \$1.25 per \$1000 bond on the next succeeding June 1st interest date, representing an increase of ⅛ of 1% per annum, provided that

the pledged revenues (excluding such excess Constitutional Fund Income), received in such period are sufficient to pay interest at the rate of 3¼% per annum and that in no event shall the rate of interest exceed 3½% per annum. The 3¼% Bonds are more fully described in Appendix B attached hereto.

C. Republic of Panama 3% External Sinking Fund Bonds, due May 1, 1987.

These Bonds (hereinafter referred to as the "3% Bonds") will be issued, pursuant to authority of Law No. 66 of 1938, Decree No. 7 of 1940, Law No. 21 of 1941 and Decree No. 25 of 1941 of the Ministry of Finance and Treasury, in a principal amount not to exceed \$1,046,500 in exchange for Arrears Certificates as provided in Article III hereof, under a Fiscal Agency Contract (hereinafter referred to as "3% Contract"). The Republic will pledge its full faith and credit to the payment of principal, interest and sinking fund on the 3% Bonds and will covenant that the Total Treaty Payment and Constitutional Fund income, when and as released from the prior liens thereon as stated in this Plan, shall be applicable to interest and retirement of any 3% Bonds then outstanding. The 3% Bonds are more fully described in Appendix C attached hereto.

Article III of the Plan is hereby modified and amended to read as follows:

ARTICLE III

**Offer of Exchange of Bonds and Payment
of Accrued Unpaid Interest**

The Republic hereby offers to the holders and registered owners of its 5% Bonds, subject to this Plan being declared effective as provided in Article V hereof, the right to exchange such bonds for an equal principal amount of new 3¼% Bonds, and, at the time of such exchange, to receive payment, in currency of the United States of America, in respect of unpaid matured interest coupons on the 5% Bonds to and including November 15, 1939, such interest payment to be computed at the rate of 4% per annum instead of the coupon rate of 5% and to be in the aggregate amounts set forth in the following tabulation; the issue of the 3¼% Bonds being subject further to assent to the Plan and Agreement by all of the holders and registered owners of the 5% Bonds, in the manner provided in Article IV hereof.

<u>5% Bonds</u>	<u>Aggregate Cash Payment per \$1000 Bond in Respect of Accrued Unpaid Interest Adjusted to Rate of 4% per Annum</u>
With interest coupon dated November 15, 1936 and all subsequent coupons attached	\$140.00
With interest coupon dated May 15, 1933, endorsed \$16.78 paid, and all subsequent coupons attached, except coupon dated May 15, 1936.....	273.22

Note: The payment of the aforesaid amounts shall be made by the Depository upon detachment of the appropriate coupons from the 5% Bonds and surrender thereof by the Depository to the Fiscal Agent for the 5% Bonds for collection of the amounts so provided. Section 17(f) of the Deposit Agreement authorizes the Depository to deduct from these payments the sum of \$1.25 per \$1,000 Bond and to pay the same to the Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York, N. Y., as a contribution for its services to the holders of 5% Bonds. Instructions to this effect will be contained in the letter of acceptance and transmittal, referred to in Article IV hereof.

Holders and registered owners of the 5% Bonds by assenting to this Plan and Agreement will thereby, on behalf of themselves and all subsequent holders of Certificates of Deposit, evidencing the deposit of such Bonds in acceptance of the terms of the Plan, agree to accept therefor the 3¼% Bonds and the payment in cash in respect of accrued unpaid interest herein provided, in full satisfaction of all claims in respect of said 5% Bonds under the 1928 Contract.

In the event that the Plan is declared effective upon the assent of less than all of the 5% Bonds.

In order to make the benefits of the Plan available to assenting holders of the 5% Bonds, the Republic may declare the Plan effective if holders or registered owners of less than all, but at least 75%, of the outstanding 5% Bonds assent to the Plan and Agreement. In such event, the new 3¼% Bonds will not be issued immediately, but in lieu thereof the deposited 5% Bonds will be stamped to evidence acceptance by the Depositors of the conditions of the Plan and returned to them; in conjunction with and upon such return of said stamped 5% Bonds, the holders thereof shall receive payment, in currency of the United States of America, in respect of unpaid matured interest coupons on the 5% Bonds to and including November 15, 1939, such interest payment having been computed at the rate of 4% per annum from May 16, 1936 to and including November 15, 1939 instead of the coupon rate

of 5% and to be in the aggregate amounts specified in the tabulation above. The terms and conditions of the Agreement providing for the stamping and return of the assented 5% Bonds are set forth in Sections 7B to 12, inclusive, of the Deposit Agreement, attached hereto as Appendix D, which provide briefly as follows:

- (1) All attached coupons will be detached from said stamped 5% Bonds by the Depository and held by it for collection, and new coupons will be attached representing semi-annual payments by way of interest at the rate of $3\frac{1}{4}\%$ per annum from November 15, 1939 to December 1, 1994; for each \$14,141.88 excess of the Constitutional Fund Income over \$200,000 in any twelve months' period ending October 31st the interest payment on the next succeeding June 1st interest payment date shall be increased by the amount of \$1.25 per \$1000 bond, representing an increase of one-eighth of 1% per annum, provided that the pledged revenues (excluding such excess Constitutional Fund Income), received in such period are sufficient to pay interest at the rate of $3\frac{1}{4}\%$ per annum and that in no event shall the rate of interest exceed $3\frac{1}{2}\%$ per annum.
- (2) After provision has been made for annual interest on the stamped 5% Bonds, the balance of the monies provided for the service thereof will be set aside annually on each December 1st as and for a Sinking Fund to effect the eventual retirement of the stamped 5% Bonds, and will be applied to the purchase of such Bonds in the manner set forth in Section 12C of the Deposit Agreement.
- (3) The security will consist of the following, subject only to a prior pledge in favor of the Series B Bonds:
 - (a) All amounts collected under the 1928 Contract for the deposited 5% Bonds, only the amounts collected for interest being pledged in favor of the Series B Bonds.
 - (b) The New Treaty Payment.
 - (c) The amount by which \$200,000 exceeds the Constitutional Fund Income in any year ended October 31st, which amount the Republic agrees to pay, as more fully set forth in Article VIII hereof.
- (4) At such time as all of the outstanding 5% Bonds shall have assented to the Plan or the retirement of the unassented 5% Bonds shall have been duly provided for, the stamped 5% Bonds shall be exchanged for an equal principal amount of new $3\frac{1}{4}\%$ Bonds.

The \$4,000,000 Series B Bonds will be issued as contemplated in Article II hereof and will be secured as follows so long as the 5% Bonds remain outstanding:

(a) By their pro-rata share of the first charge on (1) the Original Treaty Payment, and (2) the Constitutional Fund Income as contemplated in Article Twenty-sixth of the 1928 Contract. Such pro-rata share will be an amount which bears the same ratio to the total amount pledged as \$4,000,000 bears to \$16,000,000 which was the total principal amount authorized for issue under the 1928 Contract. (b) By a first and prior charge on the New Treaty Payment. (c) By a first and prior charge on the amount by which \$200,000 exceeds the Constitutional Fund Income in any year ending October 31st, which amount the Republic agrees to pay, as more fully set forth in Article VIII hereof. (d) By the subordination by the holders of stamped 5% Bonds in favor of the Series B Bonds of monies paid annually to the Depository by the Fiscal Agent under the 1928 Contract as interest on the 5% Bonds assented to the Plan.

In the event the Plan is declared effective upon the assent of less than all of the holders of 5% Bonds, the holders who do not so assent will have the right to present their coupons and to collect payment, in currency of the United States of America, in the same amounts as are paid upon those coupons presented by the Depository in respect of 5% Bonds assenting to the Plan.

The Republic, upon declaring the Plan effective, will make available from the unpledged New Treaty Payments, and from other sources, a sum sufficient to provide, when applied together with the \$1,428,362.38 of revenue pledged under the 1928 Contract, for the interest payments hereinabove described in this Article III, aggregating \$1,703,382.33, as more fully set forth in Article VI of the Plan. The Republic has waived all claims for reimbursement of the \$860,000 from the revenue pledged under the 1928 Contract in favor of all holders of the 5% Bonds.

Offer to be made in satisfaction of Arrears Certificates.

The Arrears Certificates constitute an external obligation of the Republic and, although the satisfaction thereof is not provided for by this Plan and Agreement, the Republic has determined that

within a reasonable time after consummation of the offer to be made under the Plan to holders of the 5% Bonds and the refunding of the 5½% Bonds, it will make a separate offer to the holders of Arrears Certificates of the right to exchange such Certificates at their face amount for an approximately equal principal amount of the new 3% Bonds referred to in Article II hereof. Holders by surrendering their Arrears Certificates in acceptance of such offer of exchange will thereby waive all claims for interest on such Arrears Certificates.

The offer of exchange when made by the Republic will be in the form of a notice published in a newspaper printed in the English language and of general circulation in the Borough of Manhattan, City of New York, New York and will set forth the time and place at which such exchange may be effected and the terms thereof.

Article V of the Plan is hereby modified and amended to read as follows:

ARTICLE V

Manner of Declaring Plan Effective or of Abandoning It

The Republic may declare the Plan effective upon the following conditions; (1) whenever the holders of at least 75% of the \$11,313,500 principal amount of 5% Bonds shall have assented to the Plan and Agreement, and (2) provided that firm commitments for the sale of the \$4,000,000 principal amount of Series B Bonds shall have been obtained by the Republic. The arrangements contemplated for the sale of the Series B Bonds are more fully set forth in Article X hereof.

The Plan shall become effective when so declared by the Republic on or before October 25, 1940 upon notice of such declaration made in the manner provided in Article XIII of this Plan. If the Plan is declared effective, depositors of 5% Bonds will receive at the time specified in the aforesaid notice and upon surrender of their Certificates of Deposit properly endorsed for transfer new 3¼% Bonds plus the cash payment specified for the respective Series of Certificates of Deposit or in lieu thereof the return of their deposited 5% Bonds, stamped to evidence acceptance of the Plan and Agreement, together with a similar cash payment, as more fully described in Article III hereof.

Holders of 5% Bonds who do not assent to the Plan will not thereby impair their legal rights to receive payment of principal and interest when due, in accordance with the terms and provisions of the 1928 Contract and the Supplementary Agreement.

The Plan may be abandoned by the Republic at any time prior to its being declared effective, by giving notice of such abandonment in the manner provided in Article XIII of this Plan. The Plan shall be abandoned if it shall not have been declared effective by the Republic on or before October 25, 1940, or such later date or dates to which the Agreement dated October 25, 1939 between the Republic and its Financial Advisers may reasonably be extended, in which event such extension of the period of the Plan shall be established by notice in the manner provided in Article XIII and shall not be deemed a material modification of the Plan within the meaning of Article XII hereof. Upon any such abandonment, all assents to the Plan will be automatically revoked and all 5% Bonds theretofore deposited under the Plan and Agreement will be returned to the holders of the Certificates of Deposit issued in respect thereof without expense to them upon the surrender of such Certificates of Deposit to the Depositary, properly endorsed for transfer.

Notwithstanding the fact that the Plan may be declared effective prior to April 30, 1941, the Republic has determined that in such event holders of 5% Bonds may, on or before April 30, 1941 deposit such 5% Bonds in accordance with Article IV of the Plan and thereby be entitled to the same rights and benefits of the Plan as are enjoyed by holders of 5% Bonds who have deposited on or before the date on which the Plan is declared effective; provided that the Republic may, subsequent to April 30, 1941 in its discretion, accept the deposit of 5% Bonds on the aforesaid terms and conditions in special instances.

Article VI of the Plan is hereby modified and amended to read as follows:

ARTICLE VI

Estimated Cash Requirements of the Plan and Sources of Funds

The estimated cash requirements of the Plan and sources of funds are as shown in the following tabulation:

SOURCES OF FUNDS UNDER THE PLAN

Funds available at December 1, 1939 for the service of external loans of the Republic:		
Original Treaty Payments received in respect of years 1934-1939 inclusive	\$1,500,000.00	
Less: Amount applied towards payment of December 1, 1939 interest coupons of the 5½% Bonds	71,727.13	
		\$1,428,272.87
Amount reserved out of the aforesaid Original Treaty Payments by Order of Justice Aaron J. Levy of the Supreme Court of the State of New York to pay any fees which may be allowed by said Court in connection with litigation		35,000.00
		\$1,393,272.87
Cash balance with Fiscal Agent for 5% Bonds after termination of Service Readjustment Plan on December 5, 1939 ..		29,221.76
		\$1,422,494.63
Total		
Deduct: Aggregate amount of Original Treaty Payments for the years 1934 and 1935 determined to be applicable to payments on the principal of the Arrears Certificates for such years		60,517.92
		\$1,361,976.71
Funds to be made available by the Republic out of the New Treaty Payments for the years 1934 to 1939, inclusive		160,055.62
		\$1,522,032.33
Proceeds from the sale of \$4,000,000 principal amount of Series B Bonds	\$4,000,000.00	
Less: Amount required for redemption of the 5½% Bonds:		
Principal amount	\$3,432,500.00	
Redemption premium—2%	68,650.00	
	3,501,150.00	
Balance, to be applied as set forth below		498,850.00
		\$2,020,882.33
Total		\$2,020,882.33

ESTIMATED CASH REQUIREMENTS OF THE PLAN

Payment of expenses incurred by the issue and sale of the Series B Bonds, including the cost to the Republic of submitting and making effective the Plan, namely:		
Expenses, estimated		\$150,000.00
Fee of Financial Advisers to be paid in accordance with Article X of the Plan		167,500.00
Amount required to make payments in respect of unpaid matured interest on the 5% Bonds in accordance with Article III of the Plan		1,703,382.33
		\$2,020,882.33
		\$2,020,882.33

After meeting the cash requirements of the Plan set forth above, including any unforeseen costs and expenses not included in the estimate, the Republic will direct that any unused balance of the funds shall be transmitted to the Depository for application to the Sinking Fund for the stamped 5% Bonds.

In connection with the amount of accumulated funds for the service of the external loans, it is to be noted that all Constitutional Fund Income available to November 30, 1939 was applied toward payment of interest on December 1, 1939 on the 5½% Bonds. Interest on the 5½% Bonds subsequent to December 1, 1939, and until the redemption thereof, will be paid out of the Original Treaty Payments and Constitutional Fund Income received by the Republic after that date, in accordance with the lien of said 5½% Bonds, and thus will not constitute a part of the cash required to refund the 5½% Bonds.

Interest on the stamped 5% Bonds will commence as of November 16, 1939 (payments in respect of unpaid accrued interest to and including November 15, 1939 being made pursuant to Article III hereof). Such interest payments to and including December 1, 1940 will be met out of (a) the pro-rata share of the deposited 5% Bonds in the pledged revenues for the year 1940 (b) \$26,361.66 representing the guarantee by the Republic of the deficiency in the Constitutional Fund Income for the year 1940 (c) \$400,000 New Treaty Payments which the Republic is holding for use in connection with the Plan.

The retirement of the 5½% Bonds provided for in the Plan upon and subject to the Plan being declared effective, will be by payment of the principal amount, the redemption premium thereon, and the interest thereon to date of redemption in currency of the United States of America, notwithstanding the fact that the 5½% Bonds contain a provision commonly known as a "Gold Clause". The Trust Indenture, dated June 1, 1923, relating to the 5½% Bonds, provides in Article Eleventh thereof, that said Indenture and all the provisions thereof, as well as the Bonds secured thereby, shall be construed and enforced under and in accordance with the laws of the State of New York, United States of America. Said Trust Indenture was executed prior to the approval on June 5, 1933, of Public Resolution No. 10 of the 73rd Congress of the United States, which is applicable to the obligations of said Indenture and which provides in part as follows: "Every obligation heretofore or hereafter incurred, whether or not any such provision is contained therein or made with respect thereto, shall be discharged upon payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender for public and private debts".

Article IX of the Plan is hereby modified and amended to read as follows:

ARTICLE IX

The Depositary

Pursuant to the terms and provisions of the Deposit Agreement, dated January 31, 1940, the BANK OF THE MANHATTAN COMPANY, 40 WALL STREET, NEW YORK, N. Y. (commonly referred to in the Plan and Agreement as the "Depositary") has agreed to act as depositary for the 5% Bonds. A copy of the Plan and Agreement has been filed, and any modifications thereof or amendments thereto will be filed, with said Depositary.

There are no business or professional relations between the Depositary and the Republic except those arising from the fact that the Depositary is acting as such. Under the Deposit Agreement, the Depositary is only liable for the exercise of its best judgment and good faith.

The Deposit Agreement provides that the Depositary shall be reimbursed for its costs, charges, expenses and any taxes which the Depositary may be called upon to pay in connection with the consummation of the Plan, and shall be compensated for its services by the Republic of Panama in the event the Plan is declared effective or by Messrs. Glorie, Forgan & Co. and Hornblower & Weeks in the event the Plan is abandoned; no lien on the deposited securities is to be created to assure payment of the aforesaid compensation and expenses.

The Deposit Agreement also provides that the Depositary, and any of its officers, directors, or agents may be or become depositors and may deposit 5% Bonds under said Agreement, and shall in such event be entitled to all the benefits and rights conferred upon depositors under any provisions thereof or of the Plan with the same effect as if the Depositary were not acting as such.

In the event that the Plan is declared effective upon the deposit of less than all of the Bonds outstanding, Section 7-B of the Deposit Agreement provides that the Depositary shall detach from the deposited Bonds all attached coupons to be held for the purposes stated in Sections 9 and 10 of said Agreement, to which reference is hereby made. In the same event, the Depositary shall present all such coupons for the payment of which funds have been made available (and may, in its discretion, present all such coupons as they mature) to the Fiscal Agent for the 5% Bonds for the collection of any amounts due on account of their share, pro rata with the holders of any bonds which do not assent to the Plan and Agreement, in the revenues pledged under the 1928 Contract, against the notation on such coupons of said payment, or by such other method of evidencing payment as shall be acceptable to said Fiscal Agent and to the Depositary, and, acting as agent for the Republic, shall apply said amounts and such further amounts as it may receive from the security for the stamped 5% Bonds to payments by way of interest and sinking fund on the stamped 5% Bonds as provided in Section 12 of the Deposit Agreement, subject, however, to the prior charge as provided in Section 9 of the Deposit Agreement in favor of the Series B Bonds.

Article X of the Plan is hereby modified and amended to read as follows:

ARTICLE X

Agreement Between Republic and Financial Advisers

The Republic has entered into an Agreement dated October 25, 1939 with Messrs. Glorie, Forgan & Co., 38 Wall Street, New York, N. Y., and Messrs. Hornblower & Weeks, 40 Wall Street, New York, N. Y., whereby said firms are to act in the capacity of Financial Advisers and further, in the event the Plan is declared effective, subject to certain conditions hereinafter set forth, to act as Bankers for the purchase of \$4,000,000 principal amount of Series B Bonds. Said Agreement has been filed with the Registration Statement as Exhibit B-1 thereto and to which reference is hereby made for a full and complete statement of its terms and provisions.

The Agreement embodies in outline this Plan as a sincere effort on the part of the Republic to find a fair adjustment of the outstanding External Debt in all the circumstances and states that, for

the future, the service of the readjusted debt under the Plan should be derived from the Constitutional Fund Income and from the Total Treaty Payment. In addition, however, the Republic has agreed to provide the necessary amount from its internal revenues (a) to complete the service for interest and amortization on the \$1,046,500 principal amount of 3% Bonds to be issued in exchange for the Arrears Certificates and (b) in the event that the income from the Constitutional Fund is less than \$200,000 in any year to make up any deficiency therein.

The Agreement further provides that the Republic will, at the same time it files the Plan with the Securities and Exchange Commission, address a communication to the Secretary of State of the United States of America enclosing a copy of the Plan and informing the Secretary of State that simultaneously with (a) the issue of formal published notice that the Plan has become effective in accordance with its terms and (b) delivery of and payment for the \$4,000,000 principal amount of Series B Bonds, it will deliver to the Secretary of State irrevocable instructions to pay to and upon the order of The Chase National Bank of the City of New York, or its successor, as Fiscal Agent of the Republic, the Total Treaty Payment so long as any of the External Loan Bonds of the Republic issued or to be issued under the Plan remain outstanding and unpaid. Coincidentally therewith the Republic will issue irrevocable instructions to its Fiscal Agent to pay to and upon the order of the respective Fiscal Agents for the Bonds or the paying agents therefor, pursuant to the terms of the Plan, the Total Treaty Payment and Constitutional Fund Income when and as received by said Fiscal Agent.

Messrs. Glore, Forgan & Co. and Hornblower & Weeks agree (a) to use their best efforts to assist the Republic in bringing the Plan to a successful conclusion, including the preparation of the Registration Statement and otherwise complying with the Federal Securities Act of 1933, as amended, the Federal Securities Exchange Act of 1934 and the Securities Laws of the various States; (b) that in full compensation for their past and future services in connection with the Plan they will accept a fee of 1½% of the \$15,313,500 principal amount of the Bonds issuable under the Plan, which fee will amount to \$229,702.50 and shall be paid as part of the expenses of putting the Plan into effect; (c) that in the event the Plan is not declared effective they will pay certain expenses in connection with the issuance of the Plan estimated not to exceed \$12,380 provided the Republic pays certain other expenses estimated to amount to \$21,100, all in accordance with a schedule of the specified items of expense set forth in the Agreement and (d) that in the event the Plan is declared effective the Republic shall pay all of the expenses, estimated to amount to \$86,900, incurred and to be incurred in connection with the issuance and consummation of the Plan.

The Agreement further provides that upon determination by the Republic and its Financial Advisers jointly that sufficient holders of the 5% Bonds have assented to the Plan and Agreement, which determination shall in no event be made unless at least 80% of \$11,313,500 principal amount of 5% Bonds shall have so assented, the Republic will file a post-effective amendment to its Registration Statement under the Federal Securities Act of 1933 covering the sale of the \$4,000,000 principal amount of Series B Bonds based upon an Underwriting Contract to be entered into between the Republic and Messrs. Glore, Forgan & Co. and Hornblower & Weeks and such associated Underwriters as they may select. The Underwriting Contract, form of which is to be submitted with the post-effective amendment, will thereafter be executed, provided there are no conditions in the financial markets which in the opinion of the underwriters would make it impossible to market the Series B Bonds successfully and to assure that the proceeds to the Republic will be at least the principal amount thereof (the interest rate in no event to exceed 4½% per annum). In the event the Series B Bonds are sold privately, Messrs. Glore, Forgan & Co. and Hornblower & Weeks agree that the underwriting contract shall stipulate that the spread between the price to be received by the Republic and the selling price to be obtained by the Bankers shall be 1% (\$40,000) and, if a public offering is made, such spread shall not exceed 3% (\$120,000).

The Agreement was extended by mutual consent from October 25, 1940 to November 25, 1940, from November 25, 1940 to December 24, 1940, from December 24, 1940 to January 24, 1941, from January 24, 1941 to February 24, 1941 and from February 24, 1941 to March 31, 1941. On March 7, 1941 the Agreement was amended by mutual consent to provide that (1) the coupon rate on the proposed issue of \$4,000,000 Series B Bonds would be 3½% per annum; (2) the fee to be paid to the Financial Advisers would be reduced to \$167,500; (3) the irrevocable instructions to be issued by the Republic to the United States would provide for payment by the United States of the Original Treaty Payment and the New Treaty Payment directly to The National City Bank of New York (or any duly authorized successor Fiscal Agent) as Fiscal Agent for the Series B Bonds and the 5% Bonds; (4) the Series B Bonds would not be redeemable except for the sinking fund for a period of 10 years after the date of issue; from the 11th to the 13th year, inclusive, the Series B Bonds would be redeemable at 102½% and interest; and in the 14th year after issue and until maturity (1967) the Series B Bonds would be redeemable at 100% and interest. The Series B Bonds would be redeemable for the sinking fund for the first 10 years after date of issue at 102½% and interest, and thereafter at 100% and interest; (5) appropriate changes would be made in the Plan and Deposit Agreement so that the percentage of deposits required would be reduced from 80% to a percentage that would not be more than the amount of Bonds which the Republic and the Depositary mutually agree were deposited under the terms of the Plan as of March 7, 1941.

Appendix A to the Plan is hereby amended to read as follows:

APPENDIX A

Republic of Panama Twenty-six Year 3½% External Secured Refunding Bonds, Series B, due March 15, 1967.

Fiscal Agent

The National City Bank of New York.

Amount Authorized and to be Issued

\$4,000,000.

To Be Dated

As of March 15, 1941.

To Be Due

March 15, 1967.

Denomination

The Bonds are to be coupon bonds in the denomination of \$1,000, registerable as to principal.

Interest

Interest payable March 15 and September 15.

Payment of Principal and Interest

Principal and interest are to be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, in New York City at the offices of the Fiscal Agent of the Loan, without deduction from either principal or interest for or on account of any present or future taxes or duties imposed or levied by or within the Republic of Panama or any political subdivision or taxing authority thereof.

Security

The Series B Bonds will be the unconditional obligations of the Republic and to the payment of principal, and interest thereon, as well as amortization charges, there will be pledged the good faith and credit of the Republic. The Series B Bonds will be issued under a Supplementary Agreement to the Fiscal Agency Contract of June 22, 1928, as provided in Article Twenty-sixth of said Fiscal Agency Contract. Provision will be made in the Supplementary Agreement for further security for the Series B Bonds substantially as follows:

(1) *When all of the Series A Bonds have been retired or provision for their retirement has been made*, the Series B Bonds will be secured by a first and prior charge and lien on the Total Treaty Payment of 430,000 Balboas (each Balboa to contain 987½ milligrams of gold of 0.900 fineness), receivable by the Republic, subject to the prior lien on the Original Treaty Payment in favor of the 5½% Bonds until they are retired, as they are to be with the proceeds of the issue of the Series B Bonds.

(2) *So long as the Series A Bonds remain outstanding or provision for their retirement has not been made*, the Series B Bonds will be secured as follows:

(a) By a first and prior charge and lien on 25% of the Original Treaty Payment and on 25% of the Constitutional Fund Income, subject only to the prior lien of the 5½% Bonds, which are to be retired out of the proceeds of the issue of the Series B Bonds.

(b) A first and prior charge and lien on the annual amount by which the Total Treaty Payment receivable from the Government of the United States of America exceeds the Original Treaty Payment, being the New Treaty Payment.

(c) A first and prior charge and lien on the amount by which \$200,000 exceeds the income from the Constitutional Fund in any twelve months period ending October 31st, which amount the Republic agrees to provide.

(d) A first and prior charge and lien on any and all monies collected by the Bank of The Manhattan Company, 40 Wall Street, New York, N. Y., or its successor, as Depositary under a Deposit Agreement, dated January 31, 1940, between the Republic and the said Bank, upon interest coupons detached by the said Depositary from such of the Series A Bonds as may have been deposited under the said Deposit Agreement.

In each calendar year, the amounts received by the Fiscal Agent of the Loan for the service of the Series B Bonds will be applied in full in such year in the order enumerated above, so that no part of the amount described in paragraph (d) above will be used in such year for the service of the Series B Bonds unless the amounts described in paragraphs (a), (b) and (c) above, are insufficient to meet in full the \$240,000 annual service charge; and in like manner the amount described in paragraph (c) above will be used only to the extent that the amounts described in paragraphs (a) and (b) above are so insufficient and the amount described in paragraph (b) above will be used only to the extent that the amount described in paragraph (a) above is so insufficient. The Series B Bonds will not share in the first lien on certain internal revenues of the Republic provided in paragraphs A, B, C and D of Article Sixteenth in the 1928 Contract for the service of the 5% Bonds.

The Republic will issue irrevocable instructions in a communication to the Secretary of State of the United States, to be acknowledged, copies of which communications will be attached to the Supplementary Agreement, to pay to The National City Bank of New York, Fiscal Agent of the Loan, or to its successor, the Original Treaty Payment and the New Treaty Payment so long as any of the Series B Bonds, the Series A Bonds and the Bonds of any external loan hereafter issued by the Republic in exchange for or to refund said Series A Bonds are outstanding and unpaid. The Republic will issue irrevocable instructions to the Fiscal Agent of the Republic in a communication to be acknowledged, copies of which communications will be attached to the Supplementary Agreement, to pay over to the Fiscal Agent of the Loan the Constitutional Fund Income as received by said Fiscal Agent of the Republic.

There will be no provision for the acceleration of the maturity of the Series B Bonds if there is a default in the covenant.

Sinking Fund

As and for a sinking fund for the redemption of the Series B Bonds at or prior to maturity the following provisions will be made:

(1) *During the period when the Series B Bonds are secured by a first lien on the Total Treaty Payment*, the Fiscal Agent of the Loan will set aside the sum of \$240,000 as a fixed annual service charge for the Series B Bonds. From this annual sum the Fiscal Agent of the Loan on March 10th of each year will first set aside the amount required for the interest payments due on the next succeeding March 15th and September 15th on the outstanding Series B Bonds. Said Fiscal Agent will thereupon set aside as and for a sinking fund for the Series B Bonds the balance of said \$240,000 and such balance shall constitute the sinking fund installment for that year. The Fiscal Agent will apply said sinking fund installment, prior to the next succeeding August 1st to the purchase of Series B Bonds, at public or private sale at prices not in excess of the then current sinking fund redemption price plus accrued interest, if available at such prices.* In the event that on such 1st day of August, the monies in said sinking fund shall not have been exhausted by such purchases at public or private sale, the Fiscal Agent of the Loan will apply the balance of the said monies remaining in the sinking fund so far as practicable to the redemption of Series B Bonds to be selected by lot in such manner as it may deem fair, for redemption on the next September 15th interest payment date, at 102½% of the principal amount thereof to and including September 15, 1950, and thereafter at the principal amount thereof, plus accrued interest to date of redemption, upon at least 30 and not more than 90 days published notice.

(2) *So long as any of the 5% Bonds remain outstanding or their retirement is not duly provided for*, the Republic will cause to be applied toward the annual service charge of \$240,000 for the Series B Bonds the pledged and assigned revenues above described and in the order set forth. Out of said pledged and assigned revenues the Fiscal Agent of the Loan will set aside on March 10th in each calendar year, or as soon thereafter as may be practicable, the said annual service charge of \$240,000 to be applied to the payment of interest on the outstanding Series B Bonds and to constitute the sinking fund installment to be applied in the manner set forth in (1) above; provided, however, that in respect of the year 1941, such annual service charge to be set aside out of the pledged and assigned revenues will be the sum of \$170,000, of which sum \$70,000 will be applied to the payment of interest on September 15, 1941 on the outstanding Series B Bonds and the balance thereof will constitute the sinking fund installment for 1941 for application in the manner set forth in (1) above.

Redemption

The Series B Bonds shall not be subject to redemption prior to March 15, 1951 except for the sinking fund as above described, and the Republic reserves the right, at its option, to redeem all the outstanding Series B Bonds on March 15, 1951 on any semi-annual interest date thereafter, at 102½% of the principal amount to and including March 15, 1954, and thereafter at the principal amount thereof.

Appendix B to the Plan is hereby amended to read as follows:

APPENDIX B

Republic of Panama Fifty-five Year 3¼% External Secured Refunding Bonds, due December 1, 1994.

Fiscal Agent

The National City Bank of New York.

Amount Authorized and to be Issued

Not to exceed \$11,313,500.

To be Dated

As of December 1, 1939.

To be Due

December 1, 1994.

Denominations

The Bonds are to be coupon bonds in denominations of \$500 and \$1,000, registerable as to principal.

Interest

Interest payable June 1 and December 1 at the rate of 3¼% per annum, provided, however, that for each \$14,141.88 that the Constitutional Fund Income is in excess of \$200,000 in any twelve months' period ending October 31st the interest payment on the next succeeding June 1st interest payment date will be increased by the amount of \$1.25 per \$1000 bond (representing an increase of one-eighth of 1% per annum) provided that the pledged revenues (excluding such excess Constitutional Fund Income), received in such period are sufficient to pay interest at the rate of 3¼% per annum and that in no event will the rate of interest exceed 3½% per annum, and provided further that the interest coupon maturing June 1, 1940 will provide for payment of interest for a period of 6½ months commencing November 16, 1939.

Payment of Principal and Interest

Principal and interest are to be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, in New York City at the offices of the Fiscal Agent of the Loan, without deduction from either principal or interest for or on account of any present or future taxes or duties imposed or levied by or within the Republic of Panama or any political subdivision or taxing authority thereof.

Security

The Bonds will be the irrevocable obligations of the Republic, to the payment of principal, interest and sinking fund of which will be pledged the good faith and credit of the Republic and will be further secured by:

(1) a first charge and lien on the Constitutional Fund Income; and

(2) a second charge and lien on the Total Treaty Payment subject only to the \$240,000 annual service charge of the Series B Bonds until they are retired, or their retirement is duly provided for.

The Republic guarantees that the Constitutional Fund Income will not fall below \$200,000 in any 12 months' period ending October 31st, and agrees to pay to the Fiscal Agent of the Loan not later than November 15th following any such 12 months' period, the amount by which the Constitutional Fund Income falls below \$200,000 in such period.

The Republic will give irrevocable instructions to the Secretary of State of the United States in a communication to be acknowledged, copies of which communications will be attached to the Fiscal Agency Contract to pay to The National City Bank of New York, Fiscal Agent of the Loan after the Series B Bonds and the 5% Bonds have been retired or provision for their retirement has been made the Total Treaty Payment so long as any of the 3¼% Bonds remain outstanding. The Republic by irrevocable instructions will direct the Fiscal Agent of the Republic to pay over to the Fiscal Agent of the Loan from the time that such Bonds are issued until all of them have been retired, or their

retirement duly provided for, the Constitutional Fund Income monthly after it is received by said Fiscal Agent of the Republic after all of the Series B Bonds have been retired, or their retirement duly provided for. While the Series B Bonds are outstanding and their retirement has not been duly provided for, the Republic will direct the Fiscal Agent for said Series B Bonds to pay over the excess of the Total Treaty Payment not required for the service of the Series B Bonds to the Fiscal Agent of the Loan for the service thereof.

Sinking Fund

On November 15th in each year the Fiscal Agent of the Loan, after having provided from the service monies pledged to the $3\frac{1}{4}\%$ Bonds the amount necessary to pay the semi-annual interest due on June 1 and December 1 in such year, will apply the entire balance of such service monies as and for the Sinking Fund for the $3\frac{1}{4}\%$ Bonds. Such Sinking Fund payments will be applied by said Fiscal Agent to the purchase of the $3\frac{1}{4}\%$ Bonds at public or private sale at prices not in excess of the principal amount thereof, if available at such prices. In the event that on the next succeeding fifteenth day of April, Sinking Fund monies in hand shall not have been exhausted by such purchases, then the Fiscal Agent will apply the balance remaining in the Sinking Fund so far as practicable to the redemption of $3\frac{1}{4}\%$ Bonds, selected by lot, in such manner as the Fiscal Agent of the Loan deems fair, at the principal amount thereof, on the next succeeding June first interest payment date upon at least 30 and not more than 45 days notice. The Republic reserves the right at any time to increase the monies in the Sinking Fund and by providing the funds therefor from sources other than the pledged revenues at least 60 days prior to such June first interest date.

Redemption

The $3\frac{1}{4}\%$ Bonds may be redeemed at the option of the Republic as a whole on any semi-annual interest date, upon at least 30 and not more than 90 days' published notice, at the principal amount thereof.

Appendix C to the Plan is hereby amended to read as follows:

APPENDIX C

Republic of Panama 3% External Secured Sinking Fund Bonds, due May 1, 1987.

Fiscal Agent

The National City Bank of New York.

Amount Authorized and to be Issued

Not to exceed \$1,046,500.

To be Dated

As of May 1, 1940.

To be Due

May 1, 1987.

Denominations

The Bonds are to be coupon bonds in denominations of \$50, \$100, \$500 and \$1,000, and Bonds of the lower denominations are to be changeable for Bonds of either or both of the denominations of \$500 and \$1,000 when surrendered in aggregate principal amounts equivalent to such larger denomination.

Interest

Interest payable May 1 and November 1 at the rate of 3% per annum.

Payment of Principal and Interest

Principal and interest are to be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, in New York City at the offices of the Fiscal Agent of the Loan, without deduction from either principal or interest for or on account of any present or future taxes or duties imposed or levied by or within the Republic of Panama or any political subdivision or taxing authority thereof.

Security

The 3% Bonds will be the unconditional obligations of the Republic and to the payment of principal, interest and Sinking Fund thereof, there will be pledged the good faith and credit of the Republic. As further security for such payment, the Republic will charge and pledge in favor of the Bonds the Total Treaty Payment of 430,000 Balboas (each Balboa to contain 987½ milligrams of gold of 0.009 fineness) and the interest, income and revenue of all investments constituting the principal of the Constitutional Fund; the aforesaid revenues being fully charged and pledged with priority in favor of the 5% Bonds, the Series B Bonds and the 3¼% Bonds, the lien and pledge to be created is to take effect only when all of the aforesaid issues of bonds of the Republic have been retired, or their retirement provided for. The Republic will give irrevocable instructions to the Secretary of State of the United States in a communication to be acknowledged, and to the Fiscal Agent of the Republic in the City of New York in a communication to be acknowledged, with respect to the said pledge and charge in favor of the 3% Bonds and will direct the said Fiscal Agent of the Republic to pay to the Fiscal Agent of the Loan so soon as all the said issues of Bonds hereinbefore mentioned have been retired, or their retirement provided for, so long as any of the 3% Bonds and their interest coupons remain outstanding and unpaid, the full amount of the revenues thus pledged.

Sinking Fund

As and for the service of the 3% Bonds, the Republic will pay to the Fiscal Agent of the Loan on October 15, 1940 and on each succeeding April 15th and October 15th until all of the 3% Bonds are retired, a sum equal to 2% of the principal amount of 3% Bonds originally issued. After providing the amount required to pay the interest falling due on the next succeeding interest payment date, said Fiscal Agent will set aside the balance as and for a Sinking Fund to be applied to the purchase of Bonds at prices not in excess of the principal amount thereof, if available at such prices. If, on the 15th day of March in any year, there shall remain in the Sinking Fund monies not exhausted by such purchases, said Fiscal Agent will apply such balance so far as practicable to the redemption of 3% Bonds, selected by lot, in such manner as said Fiscal Agent deems fair, at the principal amount thereof on the next succeeding interest payment date upon at least thirty days' published notice.

Redemption

The 3% Bonds may be redeemed at the option of the Republic as a whole or in part on any semi-annual interest date, upon at least 30 and not more than 90 days' published notice, at the principal amount thereof.

Section 7-B of the Agreement is hereby modified and amended to read as follows:

B. In the event that the Plan is declared effective upon the deposit of less than all of the Bonds outstanding and for the retirement of which provision shall not have been made, the Depositary shall detach from the deposited Bonds all attached coupons, to be held for the purposes stated in Sections 9 and 10 hereof, and shall deliver to the holders of the Certificates of Deposit upon surrender thereof the Bonds against which said Certificates were issued, stamped in the form set out in Exhibit III hereto, (hereinafter referred to as the "stamped 5% Bonds" or the "stamped Bonds"), and with new coupons representing semi-annual payments by way of interest at the rate of 3¼% per annum from November 15, 1939 to December 1, 1994, such coupons to be in the form set out in Exhibit IV hereto. Thereafter, with respect to the stamped Bonds, the Depositary shall act as agent of the Republic with the duties and compensation herein set forth.

The Depositary shall also collect from the Fiscal Agent for the 5% Bonds the funds for the cash payments referred to in Article III of the Plan by detaching the appropriate coupons and presenting them for such cash payments; and the Depositary shall make such cash payments in the amount and manner provided in said Article III of the Plan upon surrender of the Certificates of Deposit.

The Depositary shall continue to receive the deposit of 5% Bonds after the Plan is declared effective as provided in Article V of the Plan, as amended, and in Sections 1 and 5 hereof; upon such deposit of 5% Bonds, the Depositary shall detach therefrom all attached coupons, to be held for the purposes stated in Sections 9 and 10 hereof, and shall return to the holders thereof their respective Bonds, stamped in the form set out in Exhibit III hereto, and with new coupons representing semi-annual payments by way of interest at the rate of 3¼% per annum from the interest payment date preceding such deposit to December 1, 1994, such coupons also to be in the form set out in Exhibit IV hereto.

C. Each Depositor hereby covenants and agrees that, in the event the Plan is declared effective, he will accept the 3¼% Bonds, or stamped Bonds, and cash payments provided in Article III of the Plan, in accordance with the foregoing and subject to all the terms hereof and of the Plan.

Section 9 of the Agreement is hereby modified and amended to read as follows:

Specific Agreements to New Terms

SECTION 9. Specifically, and without limiting the generality of the waivers, agreements, assignments, authorizations and directions in this Agreement given, each holder and registered owner of 5% Bonds covenants and agrees irrevocably, by the deposit of Bonds hereunder, or by otherwise assenting to this Plan and Agreement, as herein provided, for himself and for all subsequent holders of Certificates of Deposit and for all subsequent holders of stamped Bonds, to the provisions hereof and of the Plan and to the acts to be taken by the Depositary thereunder, and particularly agrees:

A. In the event described in Section 7A hereof, to the surrender by the Depositary of the deposited Bonds with coupons attached as provided in Article IV of the Plan in exchange for an equal principal amount of 3¼% Bonds with all coupons payable on and after June 1, 1940, and to the collection of the cash payments referred to in said Section 7A by the Depositary in full satisfaction of accrued unpaid interest to November 15, 1939;

B. In the event described in Section 7B hereof, to the detachment from the deposited Bonds by the Depositary of all attached coupons, to be held by the Depositary for the purposes referred to in Section 10 hereof, and to the acceptance of the returned Bonds stamped as herein provided; and to the collection of cash payments by the Depositary in satisfaction of accrued unpaid interest to November 15, 1939 as provided in the Plan and herein;

C. To a pledge of the interest on the stamped Bonds collected under the 1928 Contract, whether represented by coupons or otherwise, in each year in favor of the annual service charges for each twelve month period beginning April 1, 1940, on the Republic of Panama Twenty-six Year 3½% External Secured Refunding Bonds, Series B, due March 15, 1967 (hereinafter referred to as the "Series B Bonds"). The Depositary shall not pay over to the Fiscal Agent of the Series B Bonds any part of the pledged annual interest under the 1928 Contract on the deposited Bonds, represented by the detached coupons or otherwise and collected by the Depositary as provided in Section 10 hereof, unless and until the Fiscal Agent of the Series B Bonds shall make written demand on the Depositary for such pledged interest money, or any part thereof, for the service of the Series B Bonds within said annual period and for any and all payments made by the Depositary in compliance with such written demand it shall be fully released and discharged. All interest monies not required during any year for the annual service charges on said Series B Bonds shall be applied by the Depositary for payments by way of interest at the rate of 3¼% per annum or more on the stamped Bonds and for the sinking fund for the stamped Bonds provided in Section 12 hereof; and

D. In the event described in Section 8 hereof, to the surrender of the stamped Bonds in exchange for an equal principal amount of 3¼% Bonds as therein provided, in lieu of all rights which otherwise might be enforced on the 5% Bonds and notwithstanding that such Bonds may have been called for redemption under the 1928 Contract, to the giving of a release by the Depositary on the behalf of all holders and owners of stamped 5% Bonds of all their claims under the 1928 Contract, and to the surrender by the Depositary of all coupons detached from the 5% Bonds by said Depositary to the Fiscal Agent of the 5% Bonds for cancellation.

Section 10 of the Agreement is hereby modified and amended to read as follows:

SECTION 10. The Depositary shall hold the coupons detached from the deposited 5% Bonds pursuant to Section 7B hereof for the following purpose:

The Depositary shall present all such coupons for the payment of which funds have been made available (and may, in its discretion, present all such coupons as they mature) to the Fiscal Agent for the 5% Bonds for the collection of any amounts due on account of their share, pro rata with the holders of any bonds which do not assent to the Plan and Agreement, in the revenues pledged under the 1928 Contract, against the notation on such coupons of said payment, or by such other method of evidencing payment as shall be acceptable to said Fiscal Agent and to the Depositary, and shall apply said amounts to payments by way of interest and sinking fund on the stamped Bonds, as provided in Section 12 hereof, subject, however, to the prior charge as provided in Section 9C of this Agreement in favor of the Series B Bonds.

In the event that there remain outstanding any stamped Bonds after all detached coupons shall have been collected, the Depositary shall continue to collect the interest payable on the principal amount of said stamped Bonds, and shall apply the interest money so collected in the same manner as the money collected on the coupons, as set forth in Sections 9 and 12 hereof.

Very truly yours,

REPUBLIC OF PANAMA

By ENRIQUE LINARES, JR.
*Minister of Finance
and Treasury*

PLAN FOR THE READJUSTMENT OF THE EXTERNAL DEBT
of the
REPUBLIC OF PANAMA

The Republic of Panama (hereinafter referred to as the "Republic") hereby proposes this Plan and the accompanying Deposit Agreement for the readjustment of its external debt, pursuant to Law No. 5 of 1928, Law No. 66 of 1938 and Decree No. 7 of 1940. This Plan and Deposit Agreement are hereinafter collectively referred to as the "Plan and Agreement".

This Plan and Agreement deals with certain important sources of revenue which are necessary for the service of the bonds to be issued pursuant to the Plan. In accordance with Article XIV of the Treaty of November 18, 1903 between the United States of America and the Republic, the United States agreed to make an annual payment to the Republic of \$250,000 in gold coin. This annual payment is hereinafter referred to as the "Original Treaty Payment". The Treaty of November 18, 1903 was amended and supplemented by the Treaty of March 2, 1936, ratified on July 25, 1939, between the United States and the Republic, under which the United States has agreed to pay to the Republic in each year the sum of 430,000 Balboas (each Balboa to contain 987½ milligrams of gold of 0.900 fineness), the United States to discharge its obligations with respect to such payment in United States dollars, provided the amount so paid is the equivalent of four hundred and thirty thousand Balboas (B/ 430,000) as above described, as provided by Article VII of said Treaty and as embodied in agreements of March 2, 1936 between the Secretary of State of the United States and the members of the Panamanian Treaty Commission (see Article VII of this Plan). This full annual amount of 430,000 Balboas is hereinafter referred to as the "Total Treaty Payment". The annual amount by which the Total Treaty Payment exceeds the Original Treaty Payment is hereinafter referred to as the "New Treaty Payment".

Another important source of revenue is the net interest, income and revenue of the principal of the investments known as the Constitutional Fund of Panama (see Article VIII of the Plan). This amount varies from year to year as the yield on the Constitutional Fund of Panama varies. This annual varying amount is hereinafter referred to as the "Constitutional Fund Income".

In proposing the Plan, the Republic has determined that the service of the bonds to be issued or issuable thereunder shall be exclusively derived from its revenues within the United States, consisting of the aforesaid Total Treaty Payment and Constitutional Fund Income; that the entire amount of such revenues shall be pledged until the External Debt as readjusted under the Plan shall be fully paid; and that by irrevocable instructions to the United States Government and to its Fiscal Agent in New York, all of such revenues shall be paid over to the Fiscal Agent for the bonds to be issued or issuable under the Plan, for interest and amortization, in the order and priority therein stipulated. Although the Republic has determined that the New Treaty Payment is not pledged under any existing contract the Republic believes the use and pledge thereof in the manner provided in the Plan constitutes evidence of a desire to deal fairly with the holders of its external bonds in all the circumstances. Certain internal revenues now pledged to the 5% Bonds, under the Fiscal Agency Contract of June 22, 1928, are not included in the Plan, notwithstanding the pledge will continue until the 5% Bonds are no longer outstanding. The Republic discontinued remittance of these internal revenues in 1933, due to its straitened financial situation and feels that its budgetary position does not and will not justify the resumption of such remittances now or in the future.

ARTICLE I

Present External Debt

A. Republic of Panama Thirty-Year 5½% External Secured Sinking Fund Gold Bonds, dated June 1, 1923, due June 1, 1953.

These Bonds (hereinafter referred to as the "5½% Bonds") were outstanding in the principal amount of \$3,603,000 on December 1, 1939. There was no accrued unpaid interest thereon. These Bonds are secured by a first lien on the Original Treaty Payment and the Constitutional Fund Income. These Bonds are callable currently on any interest payment date, on at least 60 days' published notice, for redemption at 102% of the principal amount thereof.

This Plan does not contemplate the call for deposit of the 5½% Bonds, but it is an essential part of this Plan that funds be raised in order to refund these Bonds and to release the security pledged thereto as hereinafter provided.

B. Republic of Panama Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, dated May 15, 1928, due May 15, 1963.

These Bonds (hereinafter referred to as the "5% Bonds") were outstanding in the principal amount of \$11,313,500 on December 1, 1939; accrued unpaid interest thereon amounted to \$2,102,-

864.83 on November 15, 1939. These Bonds were issued under the Fiscal Agency Contract of June 22, 1928 (hereinafter referred to as the "1928 Contract") and are secured by a second lien on the Original Treaty Payment and the Constitutional Fund Income and a first lien on certain internal revenues of the Republic, subject, however to sharing such security with a second issue of Bonds contemplated in Article Twenty-sixth of the 1928 Contract, which may be issued for the purpose of refunding the 5½% Bonds.

This Plan contemplates that deposit of the 5% Bonds will be solicited under the Plan and Agreement.

C. Republic of Panama Arrears Certificates, issued pursuant to the Service Readjustment Plan, dated November 23, 1933, and terminated December 5, 1939.

These Certificates (hereinafter referred to as the "Arrears Certificates") were outstanding December 5, 1939 in the face amount of \$1,046,568.41 which includes \$12,582.28 face amount deliverable by the Special Agent under the Service Readjustment Plan upon surrender by the holders of outstanding Substituted Coupons in respect of the years 1934 and 1935, as more fully described under Article XI hereof. The Arrears Certificates provide for interest at the rate of 5% per annum from October 15, 1935, payable upon redemption of said Arrears Certificates pursuant to the Service Readjustment Plan; such interest amounted to \$209,313.68 accrued to October 15, 1939.

This Plan contemplates that the holders of Arrears Certificates subsequently will receive the right to exchange them for new 3% Bonds as more fully set forth in Article III hereof; the Arrears Certificates, however, are not to be deposited under the Plan and Agreement.

ARTICLE II

New External Loan Bonds Authorized for Issue

A. Republic of Panama Thirty-two Year % External Secured Refunding Bonds, Series B, due April 1, 1972.

These Bonds (hereinafter referred to as the "Series B Bonds") will be issued in the principal amount of \$4,000,000 pursuant to authority of Law No. 5 of 1928, Law No. 66 of 1938 and Decree No. 7 of 1940, for the purpose of refunding the 5½% Bonds, under a Supplementary Agreement to the 1928 Contract (hereinafter referred to as the "Supplementary Agreement") and the Republic will pledge its full faith and credit to the payment of principal, interest and sinking fund thereof. They will constitute the second series contemplated in Article Twenty-sixth of the 1928 contract. The Supplementary Agreement provides that, after all of the Series A Bonds (the 5% Bonds) have been retired or provision for their retirement has been made, the Series B Bonds will have a first and prior charge on the Total Treaty Payment. The service charge for interest on and amortization of the Series B Bonds, so long as any remain outstanding, will be \$240,000 per annum. The Series B Bonds will bear such rate of interest not exceeding 4½% per annum as is required to assure that the proceeds to the Republic from the sale of the Series B Bonds will be at least the principal amount thereof. So much of the \$240,000 as is not required for interest will be applied annually to a sinking fund. So long as the Series A Bonds remain outstanding or provision for their retirement has not been made, the Series B Bonds will be secured as stated in Article III hereof. The Series B Bonds are more fully described in Appendix A attached hereto.

B. Republic of Panama Fifty-five Year 3¼% External Secured Refunding Bonds, due December 1, 1994.

These Bonds (hereinafter referred to as the "3¼% Bonds") will be issued, pursuant to authority of Law No. 66 of 1938 and Decree No. 7 of 1940, in a principal amount not to exceed \$11,313,500 in exchange for 5% Bonds as provided in Article III hereof, under a Fiscal Agency Contract (hereinafter referred to as the "3¼% Contract") and the Republic will pledge its full faith and credit for the payment of principal, interest and sinking funds thereof.

The 3¼% Bonds will be secured by (1) a first lien on the Constitutional Fund Income, and (2) a lien on the Total Treaty Payment, subject only to the pledge of \$240,000 for the annual service of the Series B Bonds until they are retired. The Republic will covenant in the 3¼% Contract that, so long as any 3¼% Bonds are outstanding, if the Constitutional Fund Income is less than \$200,000 in any 12 months' period ending October 31st, it will make up any such deficiency. For each \$14,141.88 of Constitutional Fund Income in excess of \$200,000 received in any such period, the interest payment on the 3¼% Bonds will be increased by the amount of \$1.25 per \$1000 bond on the next succeeding June 1st interest date, representing an increase of ⅛ of 1% per annum, provided that the pledged revenues (excluding such excess Constitutional Fund Income), received in such period are sufficient to pay interest at the rate of 3¼% per annum and that in no event shall the rate of interest exceed 3½% per annum, and provided further that the interest coupon maturing June 1, 1940 shall provide for payment of interest for a period of 6½ months commencing November 16, 1939. The 3¼% Bonds are more fully described in Appendix B attached hereto.

C. Republic of Panama 3% External Sinking Fund Bonds, due May 1, 1987.

These Bonds (hereinafter referred to as the "3% Bonds") will be issued, pursuant to authority of Law No. 66 of 1938 and Decree No. 7 of 1940, in a principal amount not to exceed \$1,046,500 in exchange for Arrears Certificates as provided in Article III hereof, under a Fiscal Agency Contract (hereinafter referred to as "3% Contract"). The Republic will pledge its full faith and credit to the payment of principal, interest and sinking fund on the 3% Bonds and will covenant that the Total Treaty Payment and Constitutional Fund Income, when and as released from the prior liens thereon as stated in this Plan, shall be applicable to interest and retirement of any 3% Bonds then outstanding. The 3% Bonds are more fully described in Appendix C attached hereto.

ARTICLE III

Offer of Exchange of Bonds and Payment of Accrued Unpaid Interest

The Republic hereby offers to the holders and registered owners of its 5% Bonds, subject to this Plan being declared effective as provided in Article V hereof, the right to exchange such bonds for an equal principal amount of new 3¼% Bonds, and, at the time of such exchange, to receive payment, in currency of the United States of America, in respect of unpaid matured interest coupons on the 5% Bonds to and including November 15, 1939, such interest payment to be computed at the rate of 4% per annum instead of the coupon rate of 5% and to be in the aggregate amounts set forth in the following tabulation; the issue of the 3¼% Bonds being subject further to assent to the Plan and Agreement by all of the holders and registered owners of the 5% Bonds, in the manner provided in Article IV hereof.

<u>5% Bonds</u>	<u>Aggregate Cash Payment per \$1000 Bond in Respect of Accrued Unpaid Interest Adjusted to Rate of 4% per Annum</u>
With interest coupon dated November 15, 1936 and all subsequent coupons attached	\$140.00
With interest coupon dated May 15, 1933, endorsed \$16.78 paid, and all subsequent coupons attached, except coupon dated May 15, 1936.....	243.22

Note: The payment of the aforesaid amounts shall be made by the Depositary upon detachment of the respective coupons from the 5% Bonds and surrender thereof by the Depositary to the Fiscal Agent for the 5% Bonds for collection of the amounts so provided. Section 17(f) of the Deposit Agreement authorizes the Depositary to deduct from these payments the sum of \$1.25 per \$1,000 Bond and to pay the same to the Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York, N. Y., as a contribution for its services to the holders of 5% Bonds. Instructions to this effect will be contained in the letter of acceptance and transmittal, referred to in Article IV hereof.

Holders and registered owners of the 5% Bonds by assenting to this Plan and Agreement will thereby, on behalf of themselves and all subsequent holders of Certificates of Deposit, evidencing the deposit of such Bonds in acceptance of the terms of the Plan, agree to accept therefor the 3¼% Bonds and the payment in cash in respect of accrued unpaid interest herein provided, in full satisfaction of all claims in respect of said 5% Bonds under the 1928 Contract.

In the event that the Plan is declared effective upon the assent of less than all of the 5% Bonds.

In order to make the benefits of the Plan available to assenting holders of the 5% Bonds, the Republic may declare the Plan effective if holders or registered owners of less than all, but at least 80%, of the outstanding 5% Bonds assent to the Plan and Agreement. In such event, the new 3¼% Bonds will not be issued immediately, but in lieu thereof the deposited 5% Bonds will be stamped to evidence acceptance by the Depositors of the conditions of the Plan and returned to them; in conjunction with and upon such return of said stamped 5% Bonds, the holders thereof shall receive payment, in currency of the United States of America, in respect of unpaid matured interest coupons on the 5% Bonds to and including November 15, 1939, such interest payment to be computed at the rate of 4% per annum instead of the coupon rate of 5% and to be in the aggregate amounts specified in the tabulation above. The terms and conditions of the Agreement providing for the stamping and return of the assented 5% Bonds are set forth in Sections 7B to 12, inclusive, of the Deposit Agreement, attached hereto as Appendix D, which provide briefly as follows:

- (1) The interest coupon dated May 15, 1940 and subsequent coupons will be detached from said stamped 5% Bonds by the Depositary and held by it for collection, and new coupons will be attached representing semi-annual payments by way of interest at the rate of 3¼% per annum from November 15, 1939 to December 1, 1994; for each \$14,141.88 excess of the Constitutional Fund Income over \$200,000 in any twelve months' period ending October 31st

the interest payment on the next succeeding June 1st interest payment date shall be increased by the amount of \$1.25 per \$1000 bond, representing an increase of one-eighth of 1% per annum, provided that the pledged revenues (excluding such excess Constitutional Fund Income), received in such period are sufficient to pay interest at the rate of 3¼% per annum and that in no event shall the rate of interest exceed 3½% per annum.

- (2) After provision has been made for annual interest on the stamped 5% Bonds, the balance of the monies provided for the service thereof will be set aside annually on each December 1st as and for a Sinking Fund to effect the eventual retirement of the stamped 5% Bonds, and will be applied to the purchase of such Bonds in the manner set forth in Section 12C of the Deposit Agreement.
- (3) The security will consist of the following, subject only to a prior pledge in favor of the Series B Bonds:
 - (a) All amounts collected under the 1928 Contract for the deposited 5% Bonds, only the amounts collected for interest being pledged in favor of the Series B Bonds.
 - (b) The New Treaty Payment.
 - (c) The amount by which \$200,000 exceeds the Constitutional Fund Income in any year ended October 31st, which amount the Republic agrees to pay, as more fully set forth in Article VIII hereof.
- (4) At such time as all of the outstanding 5% Bonds shall have assented to the Plan or the retirement of the unassented 5% Bonds shall have been duly provided for, the stamped 5% Bonds shall be exchanged for an equal principal amount of new 3¼% Bonds.

The \$4,000,000 Series B Bonds will be issued as contemplated in Article II hereof and will be secured as follows so long as the 5% Bonds remain outstanding:

(a) By their pro-rata share of the first charge on (1) the Original Treaty Payment, and (2) the Constitutional Fund Income as contemplated in Article Twenty-sixth of the 1928 Contract. Such pro-rata share will be an amount which bears the same ratio to the total amount pledged as \$4,000,000 bears to \$16,000,000 which was the total principal amount authorized for issue under the 1928 Contract. (b) By a first and prior charge on the New Treaty Payment. (c) By a first and prior charge on the amount by which \$200,000 exceeds the Constitutional Fund Income in any year ending October 31st, which amount the Republic agrees to pay, as more fully set forth in Article VIII hereof. (d) By the subordination by the holders of stamped 5% Bonds in favor of the Series B Bonds of monies paid annually to the Depository by the Fiscal Agent under the 1928 Contract as interest on the 5% Bonds assented to the Plan.

In the event the Plan is declared effective upon the assent of less than all of the holders of the 5% Bonds, the holders who do not so assent will nevertheless receive payment, in currency of the United States of America, in respect of unpaid matured interest coupons thereon to and including November 15, 1939, such interest payment to be computed at the rate of 4% per annum instead of the coupon rate of 5% and to be made upon surrender of such coupons to the Fiscal Agent for the 5% Bonds for cancellation.

The total amount of accrued unpaid interest at the coupon rate to and including November 15, 1939 on the outstanding \$11,313,500 of 5% Bonds amounted to \$2,102,864.83. The payment herein provided for unpaid matured interest coupons, computed at the rate of 4% per annum, will require the sum of \$1,674,362.33, whereas, as set forth in Article VI hereof, the total available funds at December 1, 1939 together with the cash balance with the Fiscal Agent for the 5% Bonds amount to only \$1,457,494.63, after giving effect to waiver by the Republic of certain claims for reimbursement in favor of holders of 5% Bonds who accept the payments herein provided in accordance with the terms hereof. Consequently, the Republic, upon declaring the Plan effective, will make available from the unpledged New Treaty Payments (which for the years 1934 to 1939, inclusive, aggregated \$1,080,000) the sum of \$220,000 to be applied to such interest payments.

Offer to be made in satisfaction of Arrears Certificates.

The Arrears Certificates constitute an external obligation of the Republic and, although the satisfaction thereof is not provided for by this Plan and Agreement, the Republic has determined that within a reasonable time after consummation of the offer to be made under the Plan to holders of the 5% Bonds and the refunding of the 5½% Bonds, it will make a separate offer to the holders of Arrears Certificates of the right to exchange such Certificates at their face amount for an approximately equal principal amount of the new 3% Bonds referred to in Article II hereof. Holders by surrendering their Arrears Certificates in acceptance of such offer of exchange will thereby waive all claims for interest on such Arrears Certificates.

The offer of exchange when made by the Republic will be in the form of a notice published in a newspaper printed in the English language and of general circulation in the Borough of Manhattan, City of New York, New York and will set forth the time and place at which such exchange may be effected and the terms thereof.

ARTICLE IV

Method of Assenting to Plan

The solicitation of assents to this Plan is being made by the Republic. Messrs. Glore, Forgan & Co. and Hornblower & Weeks have agreed with the Republic, as stated in Article X hereof, to use their best efforts to assist the Republic in bringing the Plan to a successful conclusion. Holders of 5% Bonds assenting to the Plan will not be required to pay any part of the expenses of the Plan either in the event the Plan is declared effective or in the event the Plan is abandoned. In the event the Plan is declared effective, all expenses will be paid by the Republic; in the event the Plan is abandoned certain expenses will be paid by Messrs. Glore, Forgan & Co. and Hornblower & Weeks, and the balance will be paid by the Republic.

Holders of the Republic of Panama Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, due May 15, 1963 may assent to the Plan by depositing their Bonds, with coupons attached as hereinbelow specified, at the office of the Bank of the Manhattan Company, 40 Wall Street, New York, N. Y., Depository, accompanied by the letter of acceptance and transmittal. By such deposit, the depositor will become a party to the Deposit Agreement annexed hereto as Appendix D, reference to which is hereby made. Each depositor will receive a Certificate or Certificates of Deposit of the Republic of either or both of the following series, designated as such to indicate the amount of cash payment to be made in respect of such unpaid matured interest coupons on deposited 5% Bonds upon the Plan being declared effective.

Securities to Be Deposited	Series of Certificates of Deposit to Be Issued
5% Bond with November 15, 1936 and all subsequent interest coupons attached	Series A
5% Bond with interest coupon dated May 15, 1933 endorsed \$16.78 paid (per \$1,000 Bond) and all subsequent coupons attached, except coupon dated May 15, 1936	Series B
Note: Prior to depositing their 5% Bonds, holders (who have not previously done so) should (1) collect the \$16.78 per \$1,000 Bond payable on the May 15, 1933 coupon by presentation of the Bonds to The National City Bank of New York, 55 Wall Street, New York, N. Y., Fiscal Agent, and (2) collect the \$20.00 per \$1,000 Bond payable for the May 15, 1936 coupon by surrender of same to said Fiscal Agent for payment in accordance with the offer of the Republic relative thereto.	

The Certificates of Deposit of the respective series will specify the principal amount of Bonds so deposited. The Certificates of Deposit of each series will be issued in registered form, transferable only on the books of the Republic kept by the Depository as agent. On request at the time of deposit, the Republic through the Depository, will reimburse depositors for all ordinary expenses of forwarding their Bonds for deposit, including cost of postal registration and insurance, but not for war-risk insurance.

Assents to the Plan made in the manner described herein will constitute an irrevocable agreement to all of the terms of this Plan and Agreement between the holders of the 5% Bonds as to which such assent has been given, all holders of Certificates of Deposit issued under the Plan and Agreement, the Depository and the Republic, unless such assents are revoked or the Plan abandoned in the manner and upon the conditions described in Articles XII and V hereof, respectively.

The Plan contemplates that the Certificates of Deposit, the Series B Bonds and the 3¼% Bonds and the stamped 5% Bonds will be registered under the Securities Act of 1933, as amended, and all references in this Plan to the "Registration Statement" relate to such statement filed by the Republic with the Securities and Exchange Commission, Washington, D. C. Application will be made for the registration of the Certificates of Deposit, Series A and B, on the New York Stock Exchange pursuant to the Securities Exchange Act of 1934, and coincidentally therewith application will be made for their listing on said Exchange. The Plan further contemplates that in the event it is declared effective similar application will be made for registration and for listing on the New York Stock Exchange of the Series B Bonds, and the 3¼% Bonds or the stamped 5% Bonds, as the case may be.

The Republic reserves the right in its discretion to accept deposit of any 5% Bond under this Plan and Agreement in specific instances in forms other than those specified in this Article IV, and in such way or ways as it shall determine.

ARTICLE V

Manner of Declaring Plan Effective or of Abandoning It

The Republic may declare the Plan effective upon the following conditions; (1) whenever the holders of at least 80% of the \$11,313,500 principal amount of 5% Bonds shall have assented to the

Plan and Agreement, and (2) provided that firm commitments for the sale of the \$4,000,000 principal amount of Series B Bonds shall have been obtained by the Republic. The arrangements contemplated for the sale of the Series B Bonds are more fully set forth in Article X hereof.

The Plan shall become effective when so declared by the Republic on or before October 25, 1940 upon notice of such declaration made in the manner provided in Article XIII of this Plan. If the Plan is declared effective, depositors of 5% Bonds will receive at the time specified in the aforesaid notice and upon surrender of their Certificates of Deposit properly endorsed for transfer new 3¼% Bonds plus the cash payment specified for the respective Series of Certificates of Deposit or in lieu thereof the return of their deposited 5% Bonds, stamped to evidence acceptance of the Plan and Agreement, together with a similar cash payment, as more fully described in Article III hereof.

Holders of 5% Bonds who do not assent to the Plan will not thereby impair their legal rights to receive payment of principal and interest when due, in accordance with the terms and provisions of the 1928 Contract and the Supplementary Agreement. Funds now available and to be made available by the Republic upon the Plan being declared effective will be sufficient to make payment only at the rate of 4% per annum for unpaid matured interest coupons to and including November 15, 1939, upon surrender of such coupons to the Fiscal Agent for the 5% Bonds for cancellation, as set forth in Article III hereof. Moreover, the pro-rata share of available pledged revenues, consisting of the Original Treaty Payment and Constitutional Fund Income (at the current rate of return) does not offer the prospect of providing the non-assenting holder of the 5% Bonds payments in the way of interest in excess of 3% per annum, and offers no prospect for retirement of the non-assented 5% Bonds through the sinking fund or at maturity. There is no provision in the 1928 Contract for the acceleration of the maturity of the 5% Bonds if there is a default in the covenant; such default now exists and, in all probability, will continue indefinitely unless cleared through the assent of all the holders of 5% Bonds to the Plan.

The Plan may be abandoned by the Republic at any time prior to its being declared effective, by giving notice of such abandonment in the manner provided in Article XIII of this Plan. The Plan shall be abandoned if it shall not have been declared effective by the Republic on or before October 25, 1940, or such later date or dates to which the Agreement dated October 25, 1939 between the Republic and its Financial Advisers may reasonably be extended, in which event such extension of the period of the Plan shall be established by notice in the manner provided in Article XIII and shall not be deemed a material modification of the Plan within the meaning of Article XII hereof. Upon any such abandonment, all assents to the Plan will be automatically revoked and all 5% Bonds theretofore deposited under the Plan and Agreement will be returned to the holders of the Certificates of Deposit issued in respect thereof without expense to them upon the surrender of such Certificates of Deposit to the Depository, properly endorsed for transfer.

ARTICLE VI

Estimated Cash Requirements of the Plan and Sources of Funds

The Plan requires approximately \$5,350,000 for its consummation as indicated by the following tabulation, which sets forth the sources of the funds and their application to the purposes of the Plan. There is included as a source of funds, the present balance of the Original Treaty Payments received by the Republic in respect of the years 1934 to 1939 inclusive, which has been retained by the Fiscal Agent pursuant to instructions by the Republic which contemplate that the application of this sum in accordance with the terms of the Plan will be in the best interests of the holders of the 5% Bonds.

In the years 1934 to 1937, inclusive, the Republic advanced, from funds obtained by it for the purpose, a total of \$254,795.12 to the Trustee for the 5½% Bonds, to maintain the service on such Bonds, on the condition that it would be reimbursed out of the Original Treaty Payments for the respective years in which such advances were made. Furthermore, in connection with (1) the payments made in 1934 and 1935 under the Service Readjustment Plan and (2) the offer to purchase the May 15, 1936 interest coupons on the 5% Bonds at the rate of 4%, the Republic advanced a total of \$605,552.34. Thus, the aggregate claims of the Republic in respect of the aforesaid advances amount to \$860,347.46, which the Republic has determined it is entitled to recover out of the \$1,500,000 of Original Treaty Payments accumulated for the years 1934 to 1939, inclusive. Accordingly, the Republic has presented to its Fiscal Agent claims for reimbursement of the aforesaid \$860,347.46, but upon the Plan being declared effective, the Republic will waive such claims for reimbursement in favor of the holders of the 5% Bonds who accept the payments provided in Article III of the Plan in respect of unpaid matured interest coupons. The following tabulation in showing application of the entire amount of the Original Treaty Payment for the years 1934 to 1939, inclusive, to the purposes of the Plan, therefore, gives effect to the proposed waiver by the Republic of its aforesaid claims for reimbursement.

SOURCES OF FUNDS UNDER THE PLAN

Funds available at December 1, 1939 for the service of external loans of the Republic:		
Original Treaty Payments received in respect of years 1934-1939 inclusive, and presently subject to claims of the Republic for reimbursement of \$860,347.46 as stated above	\$1,500,000.00	
Less: Amount applied towards payment of December 1, 1939 interest coupons of the 5½% Bonds	71,727.13	
	\$1,428,272.87	
Cash balance with Fiscal Agent for 5% Bonds after termination of the Service Readjustment Plan on December 5, 1939		29,221.76
Funds to be made available by the Republic and by the sale of Series B Bonds:		
Amount to be paid by the Republic in accordance with Article III hereof		220,000.00
Proceeds from the sale of \$4,000,000 principal amount of Series B Bonds in accordance with Article X hereof	\$4,000,000.00	
Less: Fees, costs and expenses of the Republic in connection with the Plan and incidental to this refunding:		
Fee of Financial Advisers to be paid in accordance with Article X hereof	229,702.50	
Costs and expenses, including fees of counsel for the Republic, fees of the Depositary, etc., as estimated in Item 48 of the Registration Statement	86,900.00	
	3,683,397.50	
Net proceeds from sale of Series B Bonds		3,683,397.50
Total Funds to be made Available		\$5,360,892.13

ESTIMATED CASH REQUIREMENTS OF THE PLAN

For payment in respect of unpaid matured interest coupons on 5% Bonds to and including November 15, 1939, in accordance with Article III hereof		\$1,674 362.33
For redemption of the 5½% Bonds:		
Principal amount	\$3,603,000.00	
Redemption premium—2%	72,060.00	
	3,675,060.00	
Total Estimated Cash Requirements		\$5,349,422.33
Balance of Funds over Cash Requirements		\$ 11,469.80

After meeting the cash requirements of the Plan set forth above, including any unforeseen costs and expenses not included in the estimate, the Republic will apply the balance of the funds to the Sinking Fund for the 3¼% Bonds, or the stamped 5% Bonds, as the case may be.

In connection with the amount of accumulated funds for the service of the external loans, it is to be noted that all Constitutional Fund Income available to November 30, 1939 was applied toward payment of interest on December 1, 1939 on the 5½% Bonds. Interest on the 5½% Bonds subsequent to December 1, 1939, and until the redemption thereof, will be paid out of the Original Treaty Payments and Constitutional Fund Income received by the Republic after that date, in accordance with the lien of said 5½% Bonds, and thus will not constitute a part of the cash required to refund the 5½% Bonds.

Notwithstanding the fact that the 3¼% Bonds are to be dated as of December 1, 1939, interest thereon, or on the stamped 5% Bonds, will commence as of November 16, 1939 (payments in respect of unpaid accrued interest to and including November 15, 1939 being made pursuant to Article III hereof); such interest payment will be met out of the income pledged thereto as set forth in Articles II and III hereof and will not constitute a cash requirement of the Plan.

The retirement of the 5½% Bonds provided for in the Plan upon and subject to the Plan being declared effective, will be by payment of the principal amount, the redemption premium thereon, and the interest thereon to date of redemption in currency of the United States of America, notwithstanding the fact that the 5½% Bonds contain a provision commonly known as a "Gold Clause". The Trust Indenture, dated June 1, 1923, relating to the 5½% Bonds, provides in Article Eleventh thereof, that said Indenture and all the provisions thereof, as well as the Bonds secured thereby, shall be construed and enforced under and in accordance with the laws of the State of New York, United States of America. Said Trust Indenture was executed prior to the approval on June 5, 1933, of Public Resolution No. 10 of the 73rd Congress of the United States, which is applicable to the obligations of said Indenture and which provides in part as follows: "Every obligation heretofore or

hereafter incurred, whether or not any such provision is contained therein or made with respect thereto, shall be discharged upon payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender for public and private debts”.

ARTICLE VII

Annual Payments Under the Treaties Between the United States of America and the Republic of Panama

The Republic derives a substantial annual income under two Treaties with the United States of America. The first Treaty, designated as the “Convention of November 16, 1903 between the United States and the Republic of Panama for the construction of a ship canal to connect the waters of the Atlantic and Pacific Oceans”, (hereinafter referred to as the “Treaty of 1903”) provided in Article XIV thereof as follows:

“ARTICLE XIV

As the price or compensation for the rights, powers and privileges granted in this convention by the Republic of Panama to the United States, the Government of the United States agrees to pay to the Republic of Panama the sum of ten million dollars (\$10,000,000) in gold coin of the United States on the exchange of the ratification of this convention and also an annual payment during the life of this convention of two hundred and fifty thousand dollars (\$250,000) in like gold coin, beginning nine years after the date aforesaid.”

Of the payment of \$10,000,000 the Republic applied \$4,000,000 to the construction of public works and placed the remaining \$6,000,000 into a fund authorized by Article 138 of the Constitution of the Republic and designated as the “Constitutional Fund of the Republic of Panama”. This fund is more fully described in Article VIII of this Plan.

The annual payment of \$250,000 (herein referred to as the “Original Treaty Payment”) has been pledged to secure the service on the present external debt of the Republic as more fully set forth in Article I of this Plan.

The relations between the two nations in subsequent years and the experience gained in the administration by the United States of the Canal Zone, indicated the desirability of redefining and clarifying certain terms and provisions of the Treaty of 1903. On March 2, 1936 a new Treaty was signed which provided additional concessions, rights and privileges for both nations and was finally ratified on July 25, 1939. In consideration of the concessions granted by the Republic, the United States agreed to make a total annual payment of 430,000 Balboas; Article VII of the new Treaty providing,

“ARTICLE VII

Beginning with the annuity payable in 1934 the payments under Article XIV of the Convention of November 18, 1903, between the United States of America and the Republic of Panama shall be four hundred and thirty thousand Balboas (B/430,000.00) as defined by the agreement embodied in an exchange of notes of this date. The United States of America may discharge its obligation with respect to any such payment, upon payment in any coin or currency, provided the amount so paid is the equivalent of four hundred and thirty thousand Balboas (B/430,000.00) as so defined.”

The exchange of notes referred to in Article VII consisted of the following note of March 2, 1936 and its acknowledgment and confirmation by the Panamanian Treaty Commission on the same date:

Department of State,
March 2, 1936.

“The Honorable Doctor Ricardo J. Alfaro,
The Honorable Doctor Marciso Garay,
Members of the Panamanian Treaty Commission,
Washington, D. C.

Sirs: I have the honor to refer to our conversations with respect to the effect upon the Monetary Agreement of June 20, 1904, between the United States of America and the Republic of Panama as modified by the exchanges of notes of March 26-April 2, 1930, and of May 28-June 6, 1931, of the action taken by the President of the United States of America in his Proclamation of January 31, 1934, reducing the weight of the gold dollar of the United States of America.

It has been recognized that, as a result of this action, the provision of the Monetary Agreement that the monetary unit of the Republic of Panama should be a gold Balboa of the weight of one gram, 672 milligrams, nine-tenths fine, is no longer consistent with the necessary condition of the Agreement that the standard unit of value of the United States of America, the dollar, and the standard unit of value of the Republic of Panama, the Balboa, should continue at a parity at the rate of one dollar for one Balboa. It has also been recognized that in the Republic of Panama and in the Canal Zone silver Balboas and fractional currency of the Republic are circulating together with United States currency at the rate of one Balboa for one dollar.

For these reasons, it is desirable that the existing Monetary Agreement, as modified, be further modified to make provision for the reduction of the weight of the gold Balboa so that the legal standard units of value of the Republic of Panama and of the United States of America shall be equal. Accordingly, for the purpose of Article VII of the General Treaty signed today, the Balboa shall be regarded as defined to consist of 987½ milligrams of gold of 0.900 fineness.

It is understood that the reduction in the weight of the gold Balboa shall not necessitate an alteration of the weight of the silver coins of the Republic of Panama, but that these shall continue to be of the same size, weight, and fineness as at present.

Notwithstanding any language contained in the existing Monetary Agreement, as modified, which has been interpreted or might be interpreted as limiting the number of coins of any denomination to be issued by the Republic of Panama within the total amount of coins of all denominations, it is now understood and agreed that the Monetary Agreement, as modified, shall not be considered as contemplating any such limitation, so that, as long as such total amount is not exceeded, that total amount may be apportioned among the coins of the various denominations referred to in the Agreement as may seem fitting to the Government of the Republic of Panama.

As a further modification of the existing Monetary Agreement, it is agreed that the Government of the United States of America shall not be required to accept Panamanian silver currency for the payment of tolls for the use of the Panama Canal.

I may say that the above understandings and agreements are acceptable to my Government, and that upon receipt of a note confirming them on behalf of the Government of the Republic of Panama, the Government of the United States of America will consider as further modified in accordance therewith the Monetary Agreement of June 20, 1904, as modified.

Accept, Sirs, the renewed assurances of my highest consideration.

CORDELL HULL"

The Monetary Agreement of June 20, 1904 between the Republic and the United States provides, briefly, that (1) the monetary unit of the Republic shall be a gold coin of the same weight and fineness as the United States dollar, (2) United States gold currency shall be legal tender in the Republic as equivalent to the currency of the Republic, (3) the Republic may issue silver coins under certain limitations, (4) the Republic shall create a Reserve Fund to secure the legal parity of its coinage with the gold standard, (5) the Republic shall cause its coinage to be executed at United States mints, (6) the gold and silver coin of the Republic shall be legal tender in the Canal Zone.

This Monetary Agreement is embodied in an exchange of letters dated June 20, 1904, March 26-April 2, 1930, May 28-June 6, 1931, and March 2, 1936 (set forth above), copies of which are filed with the Registration Statement as Exhibit C-1 thereto.

ARTICLE VIII

Constitutional Fund of the Republic of Panama

The Constitutional Fund was established in 1904 pursuant to the authority of Article 138 of the Constitution of the Republic which provides as follows:

"In order to guarantee to posterity a part of the pecuniary benefits which are received from the negotiation for the opening of the interoceanic canal, the sum of six million dollars is reserved which will be invested in securities which produce a fixed annual revenue. The law will regulate this investment."

The sum of \$6,000,000 comprising the Fund was received by the Republic from the United States of America under the terms of the Treaty of 1903, as set forth in Article VII hereof.

The Fund is administered by The Chase National Bank of the City of New York, New York, (hereinafter in this Article referred to as the "Bank") as successor Fiscal Agent of the Republic, pursuant to a Fiscal Agency Agreement, dated October 21, 1937 filed with the Registration Statement as Exhibit C-2 thereto. Said Agreement, among other things, provides:

"Any balance of cash principal shall be invested and reinvested from time to time by the Bank in first mortgages on real estate in New York City which shall at the time of any such investment or reinvestment be eligible for the investment of trust funds under the laws of the State of New York and provided that the net rents from such property, as reasonably estimated by the Bank for the 12 months' period immediately succeeding the making of said investment shall be not less than the amount required for the payment of the first year's interest on such first mortgage. In determining the amount of the net rents for this purpose the Bank shall be entitled to rely upon the books of the owner and/or upon an affidavit from the owner with respect thereto."

The Fund at present consists of cash, first mortgages, notes, real estate and other property as shown in the following tabulation. All real estate securing the first mortgages and all of the real estate held by the Fund is located in the City of New York:

SUMMARY OF CONSTITUTIONAL FUND

Classification of Mortgages	As of November 30, 1939		As of November 30, 1938	
	No. of Mortgages	Principal Amount	No. of Mortgages	Principal Amount
Class No. 1				
Mortgages having no defaults	60	\$2,769,773.82	50	\$2,365,686.32
Class No. 2				
Mortgages with defaults (other than those foreclosed or under Assignment of Rents)	15	773,900.00	25	1,196,200.00
Class No. 3				
Mortgages on properties, title to which is in the name of "Fifty Central Park West Corporation"	16	1,001,300.00	16	1,001,300.00
"Second Park West Corporation"	9	584,000.00	3	258,500.00
Class No. 4				
Mortgages on properties, rents of which have been assigned to "Fifty Central Park West Corporation"	4	355,000.00	4	355,000.00
Class No. 5				
Mortgages on properties, rents of which have been assigned to "Republic of Panama"	2	196,000.00	3	251,000.00
Class No. 6				
Mortgages under foreclosure or Deeds Pending	1	70,000.00	6	340,500.00
Total	<u>107</u>	<u>\$5,749,973.82</u>	<u>107</u>	<u>\$5,768,186.32</u>
Note of "Fifty Central Park West Corporation" . . . . .	..	7,500.00	..	7,500.00
Cash held in Principal Account . . . . .	..	242,526.18	..	224,313.68
Total Constitutional Fund	<u>107</u>	<u>\$6,000,000.00</u>	<u>107</u>	<u>\$6,000,000.00</u>

Note: The two corporations referred to in the above tabulation were created for the purpose of holding certain properties heretofore acquired by or for the account of the Republic in connection with the enforcement of mortgages constituting a part of the Constitutional Fund and such properties are held subject to the aforesaid Fiscal Agency Agreement of October 21, 1937.

The principal amounts at which the mortgages comprising the Fund are stated in the foregoing tabulation do not purport to represent their present realizable value.

The mortgages in the foregoing classifications of the Fund bear various contractual rates of interest and in the case of certain mortgages the original contractual rates have been reduced by subsequent agreement between the Republic and the mortgagors. On November 30, 1939, the average of such contractual rates in effect, and the average rate of interest received during the preceding twelve months' period on the mortgages in the respective classifications, were as follows:

Classification of Mortgages as Stated in the Preceding Tabulation	Average Contractual Rate of Interest in Effect on the Mortgages in the Respective Classifications on November 30, 1939	Average Rate of Interest Received in the 12 Months' Period Ended Nov. 30, 1939 on the Mortgages in the Respective Classifications on that date
Class 1	4.62%	4.58%
Class 2	4.26%	3.79%
Class 3	4.88%	—0— %
Class 4	5.24%	4.23%
Class 5	5.68%	2.65%
Class 6	5.50%	3.71%
Total—107 Mortgages	<u>4.73%</u>	<u>3.11%</u>

Note: The foregoing paragraph was not included in the Plan as promulgated but has been included herein as additional information.

The principal of the Constitutional Fund is not subject to pledge, but the income therefrom has been pledged to secure the 5½% Bonds and the 5% Bonds as set forth in Article I hereof. Also, the Plan contemplates that the Constitutional Fund Income will be pledged to secure the 3¼% Bonds, as more fully described in Appendices A and B attached hereto, and will be further pledged to secure the 3% Bonds, when and as released from prior liens thereon, as set forth in Appendix C attached hereto.

The net income of the Constitutional Fund, after deducting all costs, expenses and disbursements incurred in the administration of the property of the Fund, including the fees of the Fiscal Agent and its predecessor, for the ten years ended November 30, 1939 have been as follows:

Years ended November 30, 1930.....	\$317,880.92
1931.....	302,882.87
1932.....	297,589.94
1933.....	210,702.25
1934.....	193,269.99
1935.....	191,595.07
1936.....	209,877.27
1937.....	227,080.05
1938.....	183,685.42
1939.....	183,266.51

The Republic, in its Agreement with its Financial Advisers, dated October 25, 1939, which is more fully described in Article X hereof, has agreed, and in the Supplementary Agreement relating to the Series B Bonds and in the Fiscal Agency Contract relating to the 3¼% Bonds the Republic will covenant, that if, during the period said Series B Bonds are secured by a lien on the Constitutional Fund Income and so long as any 3¼% Bonds are outstanding, the Constitutional Fund Income in any twelve months' period ending October 31st, is less than \$200,000, the Republic will remit to the Fiscal Agents of said Bonds, on or before the next following 15th day of November a sum equivalent to the difference between \$200,000 and the total Constitutional Fund Income for such twelve months' period.

ARTICLE IX

The Depository

Pursuant to the terms and provisions of the Deposit Agreement, dated January 31, 1940, the BANK OF THE MANHATTAN COMPANY, 40 WALL STREET, NEW YORK, N. Y. (commonly referred to in the Plan and Agreement as the "Depository") has agreed to act as depository for the 5% Bonds. A copy of the Plan and Agreement has been filed, and any modifications thereof or amendments thereto will be filed, with said Depository.

There are no business or professional relations between the Depository and the Republic except those arising from the fact that the Depository is acting as such. Under the Deposit Agreement, the Depository is only liable for the exercise of its best judgment and good faith.

The Deposit Agreement provides that the Depository shall be reimbursed for its costs, charges, expenses and any taxes which the Depository may be called upon to pay in connection with the consummation of the Plan, and shall be compensated for its services by the Republic of Panama in the event the Plan is declared effective or by Messrs. Glone, Forgan & Co. and Hornblower & Weeks in the event the Plan is abandoned; no lien on the deposited securities is to be created to assure payment of the aforesaid compensation and expenses.

The Deposit Agreement also provides that the Depository, and any of its officers, directors, or agents may be or become depositors and may deposit 5% Bonds under said Agreement, and shall in such event be entitled to all the benefits and rights conferred upon depositors under any provisions thereof or of the Plan with the same effect as if the Depository were not acting as such.

In the event that the Plan is declared effective upon the deposit of less than all of the Bonds outstanding, Section 7B of the Deposit Agreement provides that the Depository shall detach from the deposited Bonds the coupons for May 15, 1940 and subsequent interest payments to be held for the purposes stated in Sections 9 and 10 of said Agreement, to which reference is hereby made. In the same event, on May 15, 1940 or as soon thereafter as the Plan is declared effective, and on each such succeeding November 15th and May 15th, the Depository shall present such coupons to the Fiscal Agent for the 5% Bonds for the collection of any amounts then due on account of their share, pro-rata with the holders of any bonds which do not assent to the Plan and Agreement, in the revenues pledged under the 1928 Contract, against the notation on such coupons of said payment, or by such other method of evidencing payment as shall be acceptable to said Fiscal Agent and to the Depository, and, acting as agent for the Republic, shall apply said amounts and such further amounts as it may receive from the security for the stamped 5% Bonds to payments by way of interest and sinking fund on the stamped 5% Bonds as provided in Section 12 of the Deposit Agreement, subject, however, to the prior charge as provided in Section 9 of the Deposit Agreement in favor of the Series B Bonds.

ARTICLE X

Agreement Between Republic and Financial Advisers

The Republic has entered into an Agreement dated October 25, 1939 with Messrs. Glore, Forgan & Co., 38 Wall Street, New York, N. Y., and Messrs. Hornblower & Weeks, 40 Wall Street, New York, N. Y., whereby said firms are to act in the capacity of Financial Advisers and further, in the event the Plan is declared effective, subject to certain conditions hereinafter set forth, to act as Bankers for the purchase of \$4,000,000 principal amount of Series B Bonds. Said Agreement has been filed with the Registration Statement as Exhibit B-1 thereto and to which reference is hereby made for a full and complete statement of its terms and provisions.

The Agreement embodies in outline this Plan as a sincere effort on the part of the Republic to find a fair adjustment of the outstanding External Debt in all the circumstances and states that, for the future, the service of the readjusted debt under the Plan should be derived from the Constitutional Fund Income and from the Total Treaty Payment. In addition, however, the Republic has agreed to provide the necessary amount from its internal revenues (a) to complete the service for interest and amortization on the \$1,046,500 principal amount of 3% Bonds to be issued in exchange for the Arrears Certificates and (b) in the event that the income from the Constitutional Fund is less than \$200,000 in any year to make up any deficiency therein.

The Agreement further provides that the Republic will, at the same time it files the Plan with the Securities and Exchange Commission, address a communication to the Secretary of State of the United States of America enclosing a copy of the Plan and informing the Secretary of State that simultaneously with (a) the issue of formal published notice that the Plan has become effective in accordance with its terms and (b) delivery of and payment for the \$4,000,000 principal amount of Series B Bonds, it will deliver to the Secretary of State irrevocable instructions to pay to and upon the order of The Chase National Bank of the City of New York, or its successor, as Fiscal Agent of the Republic, the Total Treaty Payment so long as any of the External Loan Bonds of the Republic issued or to be issued under the Plan remain outstanding and unpaid. Coincidentally therewith the Republic will issue irrevocable instructions to its Fiscal Agent to pay to and upon the order of the respective Fiscal Agents for the Bonds or the paying agents therefor, pursuant to the terms of the Plan, the Total Treaty Payment and Constitutional Fund Income when and as received by said Fiscal Agent.

Messrs. Glore, Forgan & Co. and Hornblower & Weeks agree (a) to use their best efforts to assist the Republic in bringing the Plan to a successful conclusion, including the preparation of the Registration Statement and otherwise complying with the Federal Securities Act of 1933, as amended, the Federal Securities Exchange Act of 1934 and the Securities Laws of the various States; (b) that in full compensation for their past and future services in connection with the Plan they will accept a fee of 1½% of the \$15,313,500 principal amount of the Bonds issuable under the Plan, which fee will amount to \$229,702.50 and shall be paid as part of the expenses of putting the Plan into effect; (c) that in the event the Plan is not declared effective they will pay certain expenses in connection with the issuance of the Plan estimated not to exceed \$12,380 provided the Republic pays certain other expenses estimated to amount to \$21,100, all in accordance with a schedule of the specified items of expense set forth in the Agreement and (d) that in the event the Plan is declared effective the Republic shall pay all of the expenses, estimated to amount to \$86,900, incurred and to be incurred in connection with the issuance and consummation of the Plan.

The Agreement further provides that upon determination by the Republic and its Financial Advisers jointly that sufficient holders of the 5% Bonds have assented to the Plan and Agreement, which determination shall in no event be made unless at least 80% of \$11,313,500 principal amount of 5% Bonds shall have so assented, the Republic will file a post-effective amendment to its Registration Statement under the Federal Securities Act of 1933 covering the sale of the \$4,000,000 principal amount of Series B Bonds based upon an Underwriting Contract to be entered into between the Republic and Messrs. Glore, Forgan & Co. and Hornblower & Weeks and such associated Underwriters as they may select. The Underwriting Contract, form of which is to be submitted with the post-effective amendment, will thereafter be executed, provided there are no conditions in the financial markets which in the opinion of the underwriters would make it impossible to market the Series B Bonds successfully and to assure that the proceeds to the Republic will be at least the principal amount thereof (the interest rate in no event to exceed 4½% per annum). In the event the Series B Bonds are sold privately, Messrs. Glore, Forgan & Co. and Hornblower & Weeks agree that the underwriting contract shall stipulate that the spread between the price to be received by the Republic and the selling price to be obtained by the Bankers shall be 1% (\$40,000) and, if a public offering is made, such spread shall not exceed 3% (\$120,000).

ARTICLE XI

Detachment and Collection of Substituted Coupons

The Service Readjustment Plan of the Republic, dated November 23, 1933, provided that Substituted Coupons would be affixed to the 5% Bonds assented to that Plan, in respect of and upon detachment and surrender of the interest coupons which matured in the years 1934 and 1935. Said Substituted Coupons entitle the holder thereof to receive a cash payment of \$16.67 and an Arrears Certificate of a face amount of \$33.33 per \$1,000 principal amount of the 5% Bonds to which they were affixed, in respect of each of the aforementioned two years.

The Service Readjustment Plan was terminated on December 5, 1939 on which date there was a substantial number of such Substituted Coupons outstanding and the holders thereof are hereby notified that the Depositary will not accept Substituted Coupons with the deposit of 5% Bonds and that the payments to be made pursuant to Article III of this Plan in respect of unpaid matured coupons are not applicable to Substituted Coupons.

Holders of Substituted Coupons are directed to detach and surrender them to The National City Bank of New York, as Agent, at its head office in the Borough of Manhattan, City of New York, for the collection of the payment of cash and Arrears Certificates therein specified.

ARTICLE XII

Modification of the Plan

The Republic reserves the right to modify or amend the Plan (and conform the Deposit Agreement with any such modification or amendments of the Plan) prior to its having been declared effective except the Republic shall not make any change as to the interest rate, the maturity, and the security of the 3¼% Bonds, the stamped Bonds and the 3% Bonds, and the payments to be made on account of past due interest to November 15, 1939, and the Republic shall not create any lien or charge on the deposited 5% Bonds. With the exceptions here noted, if any such modification or amendment adopted by the Republic does not in its judgment, affect materially the rights and benefits of holders of the Certificates of Deposit adversely, it shall become effective as to all such holders upon filing by the Republic with the Depositary and without notice. If such modification does materially affect the rights and benefits of the holders of Certificates of Deposit adversely, a notice of the adoption and filing of such modification shall be given in the manner provided in Article XIII of this Plan. At any time within 20 days after the first publication of such notice (but not at any time before the beginning of said 20 day period or after the termination of said 20 day period) holders of the Certificates of Deposit to whom such notice is addressed, and only such holders, may revoke their assents and without expense to them withdraw such deposited Bonds represented by such Certificates of Deposit by surrender of the subject Certificates of Deposit in negotiable form to the Depositary with appropriate notice in writing, and shall thereupon cease to have any rights hereunder. Holders of such Certificates of Deposit who do not so revoke their assent within said period of 20 days shall be deemed to have consented to such modification or amendment of the Plan, and such holders and their 5% Bonds theretofore subject to the Plan shall be irrevocably bound thereby to the same extent as if such modification or amendment had been part of the Plan prior to their assents thereto.

ARTICLE XIII

Notices Under the Plan

All notices under the provisions of this Plan or of the Deposit Agreement attached hereto as Appendix D, shall be given by mailing the same, postage prepaid, to each registered holder of a Certificate of Deposit at his address as the same shall appear on the books of the Republic kept by the Depositary as agent, and in addition such notices shall be published at least once in a newspaper printed in the English language, published and of general circulation in the Borough of Manhattan, City of New York, New York. Any such notice so published and mailed shall be taken and construed as though personally served on all depositors as of the date of publication thereof, whether such depositors actually receive such notice or not.

January 31, 1940.

REPUBLIC OF PANAMA

By E. FERNANDEZ JAEN
Secretario de Hacienda y Tesoro

APPENDIX A

Republic of Panama Thirty-two Year $\frac{1}{2}$ % External Secured Refunding Bonds, Series B, due April 1, 1972.

Fiscal Agent

The National City Bank of New York.

Amount Authorized and to be Issued

\$4,000,000.

To Be Dated

As of April 1, 1940.

To Be Due

April 1, 1972.

Denomination

The Bonds are to be coupons bonds in the denomination of \$1,000, registerable as to principal.

Interest

At such rate not exceeding $4\frac{1}{2}$ % per annum as is required to assure that the proceeds to the Republic from the sale of the Series B Bonds will be at least the principal amount thereof; interest payable April 1 and October 1.

Payment of Principal and Interest

Principal and interest are to be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, in New York City at the offices of the Fiscal Agent of the Loan, without deduction from either principal or interest for or on account of any present or future taxes or duties imposed or levied by or within the Republic of Panama or any political subdivision or taxing authority thereof.

Security

The Series B Bonds will be the irrevocable obligations of the Republic and to the payment of principal, and interest thereon, as well as amortization charges, there will be pledged the good faith and credit of the Republic. The Series B Bonds will be issued under a Supplementary Agreement to the Fiscal Agency Contract of June 22, 1928, as provided in Article Twenty-sixth of said Fiscal Agency Contract. Provision will be made in the Supplementary Agreement for further security for the Series B Bonds substantially as follows:

(1) *When all of the Series A Bonds have been retired or provision for their retirement has been made*, the Series B Bonds will be secured by a first and prior charge and lien on the Total Treaty Payment of 430,000 Balboas (each Balboa to contain $987\frac{1}{2}$ milligrams of gold of 0.900 fineness), receivable by the Republic, subject to the prior lien on the Original Treaty Payment in favor of the $5\frac{1}{2}$ % Bonds until they are retired, as they are to be with the proceeds of the issue of the Series B Bonds.

(2) *So long as the Series A Bonds remain outstanding or provision for their retirement has not been made*, the Series B Bonds will be secured as follows:

(a) By a first and prior charge and lien on 25% of the Original Treaty Payment and on 25% of the Constitutional Fund Income, subject only to the prior lien of the $5\frac{1}{2}$ % Bonds, which are to be retired out of the proceeds of the issue of the Series B Bonds.

(b) A first and prior charge and lien on the annual amount by which the Total Treaty Payment receivable from the Government of the United States of America exceeds the Original Treaty Payment, being the New Treaty Payment.

(c) A first and prior charge and lien on the amount by which \$200,000 exceeds the income from the Constitutional Fund in any twelve months period ending October 31st, which amount the Republic agrees to provide.

(d) A first and prior charge and lien on any and all monies collected by the Bank of the Manhattan Company, 40 Wall Street, New York, N. Y., or its successor, as Depositary under a Deposit Agreement, dated January 31, 1940, between the Republic and the said Bank, upon interest coupons detached by the said Depositary from such of the Series A Bonds as may have been deposited under the said Deposit Agreement.

In each calendar year, the amounts received by the Fiscal Agent of the Loan for the service of the Series B Bonds will be applied in full in such year in the order enumerated above, so that no part of the amount described in paragraph (d) above will be used in such year for the service of the Series B Bonds unless the amounts described in paragraphs (a), (b) and (c) above, are insufficient to meet in full the \$240,000 annual service charge; and in like manner the amount described in paragraph (c) above will be used only to the extent that the amounts described in paragraphs (a)

and (b) above are so insufficient and the amount described in paragraph (b) above will be used only to the extent that the amount described in paragraph (a) above is so insufficient. The Series B Bonds will not share in the first lien on certain internal revenues of the Republic provided in paragraphs A, B, C and D of Article Sixteenth in the 1928 Contract for the service of the 5% Bonds.

The Republic will issue irrevocable instructions in a communication to the Secretary of State of the United States, to be acknowledged, copies of which communications will be attached to the Supplementary Agreement, to pay to The Chase National Bank of the City of New York, Fiscal Agent of the Republic, or to its successor, the Total Treaty Payment so long as any of the Series B Bonds, the Series A Bonds and the Bonds of any external loan hereafter issued by the Republic in exchange for or to refund said Series A Bonds are outstanding and unpaid. The Republic will issue irrevocable instructions to the Fiscal Agent of the Republic in a communication to be acknowledged, copies of which communications will be attached to the Supplementary Agreement, to pay over to the Fiscal Agent of the Loan the Total Treaty Payment received from the United States of America when all of the Series A Bonds have been retired or provision for their retirement has been made. However, *so long as the Series A Bonds remain outstanding, or provision for their retirement has not been made*, the Fiscal Agent of the Republic will be irrevocably instructed to pay over to the Fiscal Agent of the Loan, not later than March 15th in each year, from the Total Treaty Payment, as received from the United States of America, the following amounts:

(a) The Original Treaty Payment of \$250,000, of which 75% will be applied to the service of the Series A Bonds and 25% to the service of the Series B Bonds.

(b) The difference between the sum of \$250,000 and the Total Treaty Payment received by the Fiscal Agent of the Republic from the United States, being the New Treaty Payment, to be applied to the service of the Series B Bonds.

The Constitutional Fund Income will be paid over monthly as received by the Fiscal Agent of the Republic to the Fiscal Agent of the Loan, of which 75% will be applied to the service of the Series A Bonds and 25% to the service of the Series B Bonds.

There will be no provision for the acceleration of the maturity of the Series B Bonds if there is a default in the covenant.

Sinking Fund

As and for a sinking fund for the redemption of the Series B Bonds at or prior to maturity the following provisions will be made:

(1) *During the period when the Series B Bonds are secured by a first lien on the Total Treaty Payment*, the Fiscal Agent of the Loan will set aside the sum of \$240,000 as a fixed annual service charge for the Series B Bonds. From this annual sum the Fiscal Agent of the Loan on March 15th of each year will first set aside the amount required for the interest payments due on the next succeeding April first and October first on the outstanding Series B Bonds. Said Fiscal Agent will thereupon set aside as and for a sinking fund for the Series B Bonds the balance of said \$240,000 and such balance shall constitute the sinking fund installment for that year. The Fiscal Agent will apply said sinking fund installment, prior to the next succeeding August 15th to the purchase of Series B Bonds, at public or private sale at prices not in excess of the then current sinking fund redemption price plus accrued interest, if available at such prices. In the event that on such 15th day of August, the monies in said sinking fund shall not have been exhausted by such purchases at public or private sale, the Fiscal Agent of the Loan will apply the balance of the said monies remaining in the sinking fund so far as practicable to the redemption of Series B Bonds to be selected by lot in such manner as it may deem fair, for redemption on the next October 1st interest payment date, at 102% of the principal amount thereof to and including October 1, 1944, and thereafter at the principal amount thereof, plus accrued interest to date of redemption, upon at least 30 and not more than 90 days published notice.

(2) *So long as any of the 5% Bonds remain outstanding or their retirement is not duly provided for*, the Republic will cause to be applied toward the annual service charge of \$240,000 for the Series B Bonds the pledged and assigned revenues above described and in the order set forth. Out of said pledged and assigned revenues the Fiscal Agent of the Loan will set aside on March 15th in each calendar year, or as soon thereafter as may be practicable, the said annual service charge of \$240,000 to be applied to the payment of interest on the outstanding Series B Bonds and to constitute the sinking fund installment to be applied in the manner set forth in (1) above.

Redemption

The Republic reserves the right, at its option, to redeem all of the outstanding Series B Bonds on any semi-annual interest date prior to maturity at the redemption price of 102½% of the principal amount upon at least thirty (30) days and not more than ninety (90) days published notice.

APPENDIX B

Republic of Panama Fifty-five Year $3\frac{1}{4}\%$ External Secured Refunding Bonds, due December 1, 1994.

Fiscal Agent

The National City Bank of New York.

Amount Authorized and to be Issued

Not to exceed \$11,313,500.

To be Dated

As of December 1, 1939.

To be Due

December 1, 1994.

Denominations

The Bonds are to be coupon bonds in denominations of \$500 and \$1,000, registerable as to principal.

Interest

Interest payable June 1 and December 1 at the rate of $3\frac{1}{4}\%$ per annum, provided, however, that for each \$14,141.88 that the Constitutional Fund Income is in excess of \$200,000 in any twelve months' period ending October 31st the interest payment on the next succeeding June 1st interest payment date will be increased by the amount of \$1.25 per \$1000 bond (representing an increase of one-eighth of 1% per annum) provided that the pledged revenues (excluding such excess Constitutional Fund Income), received in such period are sufficient to pay interest at the rate of $3\frac{1}{4}\%$ per annum and that in no event will the rate of interest exceed $3\frac{1}{2}\%$ per annum, and provided further that the interest coupon maturing June 1, 1940 will provide for payment of interest for a period of $6\frac{1}{2}$ months commencing November 16, 1939.

Payment of Principal and Interest

Principal and interest are to be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, in New York City at the offices of the Fiscal Agent of the Loan, without deduction from either principal or interest for or on account of any present or future taxes or duties imposed or levied by or within the Republic of Panama or any political subdivision or taxing authority thereof.

Security

The Bonds will be the irrevocable obligations of the Republic, to the payment of principal, interest and sinking fund of which will be pledged the good faith and credit of the Republic and will be further secured by:

(1) a first charge and lien on the Constitutional Fund Income; and

(2) a second charge and lien on the Total Treaty Payment subject only to the \$240,000 annual service charge of the Series B Bonds until they are retired, or their retirement is duly provided for.

The Republic guarantees that the Constitutional Fund Income will not fall below \$200,000 in any 12 months' period ending October 31st, and agrees to pay to the Fiscal Agent of the Loan not later than November 15th following any such 12 months' period, the amount by which the Constitutional Fund Income falls below \$200,000 in such period.

The Republic will give irrevocable instructions to the Secretary of State of the United States in a communication to be acknowledged, copies of which communications will be attached to the Fiscal Agency Contract to pay to the Fiscal Agent of the Republic the Total Treaty Payment so long as any of the $3\frac{1}{4}\%$ Bonds remain outstanding. The Republic by irrevocable instructions will direct the Fiscal Agent of the Republic to pay over to the Fiscal Agent for the $3\frac{1}{4}\%$ Bonds from the time that such Bonds are issued until all of them have been retired, or their retirement duly provided for, the Constitutional Fund Income monthly after it is received by said Fiscal Agent of the Republic; said instructions to the Fiscal Agent of the Republic also will direct said Fiscal Agent after all of the

Series B Bonds have been retired, or their retirement duly provided for, to pay over to the Fiscal Agent for the 3¼% Bonds, after said Bonds are issued and until they are retired, the Total Treaty Payment. While the Series B Bonds are outstanding and their retirement has not been duly provided for, the Republic will direct the Fiscal Agent for said Series B Bonds to pay over the excess of the Total Treaty Payment not required for the service of the Series B Bonds to the Fiscal Agent for the 3¼% Bonds for the service thereof.

Sinking Fund

On November 15th in each year the Fiscal Agent of the Loan, after having provided from the service monies pledged to the 3¼% Bonds the amount necessary to pay the semi-annual interest due on June 1 and December 1 in such year, will apply the entire balance of such service monies as and for the Sinking Fund for the 3¼% Bonds. Such Sinking Fund payments will be applied by said Fiscal Agent to the purchase of the 3¼% Bonds at public or private sale at prices not in excess of the principal amount thereof, if available at such prices. In the event that on the next succeeding fifteenth day of April, Sinking Fund monies in hand shall not have been exhausted by such purchases, then the Fiscal Agent will apply the balance remaining in the Sinking Fund so far as practicable to the redemption of 3¼% Bonds, selected by lot, in such manner as the Fiscal Agent of the Loan deems fair, at the principal amount thereof, on the next succeeding June first interest payment date upon at least 30 and not more than 45 days notice. The Republic reserves the right at any time to increase the monies in the Sinking Fund and by providing the funds therefor from sources other than the pledged revenues at least 60 days prior to such June first interest date.

Redemption

The 3¼% Bonds may be redeemed at the option of the Republic as a whole on any semi-annual interest date, upon at least 30 and not more than 90 days' published notice, at the principal amount thereof.

APPENDIX C
Republic of Panama 3% External Secured Sinking Fund Bonds,
due May 1, 1987.

Fiscal Agent

The National City Bank of New York.

Amount Authorized and to be Issued

\$1,046,500.

To be Dated

As of May 1, 1940.

To be Due

May 1, 1987.

Denominations

The Bonds are to be coupon bonds in denominations of \$50, \$100, \$500 and \$1,000, and Bonds of the lower denominations are to be changeable for Bonds of either or both of the denominations of \$500 and \$1,000 when surrendered in aggregate principal amounts equivalent to such larger denomination.

Interest

Interest payable May 1 and November 1 at the rate of 3% per annum.

Payment of Principal and Interest

Principal and interest are to be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, in New York City at the offices of the Fiscal Agent of the Loan, without deduction from either principal or interest for or on account of any present or future taxes or duties imposed or levied by or within the Republic of Panama or any political subdivision or taxing authority thereof.

Security

The 3% Bonds will be the irrevocable obligations of the Republic and to the payment of principal, interest and Sinking Fund thereof, there will be pledged the good faith and credit of the Republic. As further security for such payment, the Republic will charge and pledge in favor of the Bonds the Total Treaty Payment of 430,000 Balboas (each Balboa to contain 987½ milligrams of gold of 0.900 fineness) and the interest, income and revenue of all investments constituting the principal of the Constitutional Fund; the aforesaid revenues being fully charged and pledged with priority in favor of the 5% Bonds, the Series B Bonds and the 3¼% Bonds, the lien and pledge to be created is to take effect only when all of the aforesaid issues of bonds of the Republic have been retired, or their retirement provided for. The Republic will give irrevocable instructions to the Secretary of State of the United States in a communication to be acknowledged, and to the Fiscal Agent of the Republic in the City of New York in a communication to be acknowledged, with respect to the said pledge and charge in favor of the 3% Bonds and will direct the said Fiscal Agent of the Republic to pay to the Fiscal Agent of the Loan so soon as all the said issues of Bonds hereinbefore mentioned have been retired, or their retirement provided for, so long as any of the 3% Bonds and their interest coupons remain outstanding and unpaid, the full amount of the revenues thus pledged.

Sinking Fund

As and for the service of the 3% Bonds, the Republic will pay to the Fiscal Agent of the Loan on October 15, 1940 and on each succeeding April 15th and October 15th until all of the 3% Bonds are retired, the sum of \$20,930. After providing the amount required to pay the interest falling due on the next succeeding interest payment date, said Fiscal Agent will set aside the balance as and for a Sinking Fund to be applied to the purchase of Bonds at prices not in excess of the principal amount thereof, if available at such prices. If, on the 15th day of March in any year, there shall remain in the Sinking Fund monies not exhausted by such purchases, said Fiscal Agent will apply such balance so far as practicable to the redemption of 3% Bonds, selected by lot, in such manner as said Fiscal Agent deems fair, at the principal amount thereof on the next succeeding interest payment date upon at least thirty days' published notice.

Redemption

The 3% Bonds may be redeemed at the option of the Republic as a whole or in part on any semi-annual interest date, upon at least 30 and not more than 90 days' published notice, at the principal amount thereof.

APPENDIX D

DEPOSIT AGREEMENT

This Deposit Agreement, dated January 31, 1940 (hereinafter referred to as the "Agreement"), between the Republic of Panama (hereinafter referred to as the "Republic"), party of the first part; the Bank of the Manhattan Company (hereinafter referred to as the "Depositary"), party of the second part; and such holders and registered owners of the Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, due May 15, 1963, of the Republic of Panama (hereinafter referred to as the "5% Bonds" or the "Bonds"), as shall become parties hereto in the manner hereinafter provided, and the holders from time to time of the Certificates of Deposit issued and to be issued under this Agreement (all of whom are hereinafter sometimes referred to as the "Depositors"), parties of the third part,

WITNESSETH, THAT:

WHEREAS, the Republic has proposed and promulgated a Plan, entitled "Plan for the Readjustment of the External Debt of the Republic of Panama", dated January 31, 1940 (hereinafter referred to as the "Plan"), to which this Agreement is attached as "Appendix D", and which is hereby incorporated as a part of this Agreement with the same effect as if embodied herein, proposing, among other things, that the holders and registered owners of the Bonds consent to the exchange or stamping of said Bonds, on the terms and conditions set forth in said Plan, or to the return thereof in the event said Plan is not declared effective, as in said Plan provided; and

WHEREAS, the Republic desires, as contemplated in the Plan, to provide by this Agreement a method for the approval and acceptance of the Plan by the holders and registered owners of the Bonds, and for the consummation of the Plan if the same shall be declared effective in accordance with its terms; and

WHEREAS, the Depositors desire (i) to assent to the Plan, (ii) to authorize the Republic to take the action proposed in the Plan, and (iii) to make all the waivers, agreements, assignments, authorizations and directions on their part to be made as described and on the terms set forth herein and in the Plan;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, the parties hereto do hereby severally agree, and each Depositor agrees with each other Depositor and with the Republic and the Depositary, as follows:

Manner of Deposit

SECTION 1. All holders or registered owners of the Bonds may become parties hereto by depositing with the Depositary their Bonds with coupons attached as provided in Article III of the Plan, and if in registered form with duly executed assignments in blank, and with such evidence of ownership as the Depositary may require. If the Plan is declared effective, such holders or registered owners may continue thereafter in like manner to deposit their Bonds with such coupons attached as the Republic and the Depositary may require. However, if the Plan is not declared effective prior to October 25, 1940, no further deposits of the Bonds will be accepted, the Plan will be abandoned and the Bonds will be returned to the holders of the respective Certificates of Deposit in the manner provided in Section 14 hereof, unless the Agreement dated October 25, 1939 between the Republic and its Financial Advisers is extended to some reasonably later date, in which event such extension of the period of the Plan shall be established by notice in the manner provided in Section 19 hereof and shall not be deemed a material modification of the Plan within the meaning of Section 13 hereof. If a Certificate of Deposit is to be issued in a name other than that of the holder or registered owner of the Bonds deposited, any transfer tax stamps which may be required by law must be affixed by the Depositor at the time of deposit. The deposit of a Bond hereunder or the acceptance of a Certificate of Deposit issued hereunder shall have the same force and effect as if the Depositor had in fact executed this Agreement. The Depositary, as agent of the Republic, and with its approval as to specific instances, may permit the holders or registered owners of any of the Bonds to become parties to this Agreement and Depositors hereunder by signing counterparts of this Agreement or in such other way or ways as the Republic in its discretion shall determine.

Certificates of Deposit

SECTION 2. Every Depositor making a deposit of Bonds stamped assented to the Service Readjustment Plan of November 23, 1933 shall be entitled to receive from the Depositary a Certificate or Certificates of Deposit, designated as Series A, substantially in the form hereto annexed and marked "Exhibit I"; and every Depositor making a deposit of Bonds not stamped assented to said Service Readjustment Plan shall be entitled to receive from the Depositary a Certificate or Certificates of Deposit, designated as Series B, substantially in the form hereto annexed and marked "Exhibit II".

All Depositors of Bonds by deposit of the same hereunder in exchange for Certificates of Deposit, and all transferees of such Certificates by receiving the same, thereby assent to the Plan, and authorize the Republic to take the action proposed in the Plan, and thereby irrevocably make all the waivers, agreements, assignments, authorizations and directions on their part to be made as described in and on the terms set forth in the Plan, and become parties to this Agreement and are bound by all of its provisions, and agree that so long as the Bonds represented by the Certificates held by them are deposited hereunder, they will take no action on the same inconsistent with the Plan.

Transfer of Certificates

SECTION 3. Any Certificate of Deposit issued hereunder and all rights and interests represented thereby shall be transferable, subject to the terms of this Agreement, only on the books of the Republic kept by the Depositary as its agent, upon the surrender thereof, properly endorsed for transfer, accompanied by any transfer tax stamps which may be required by law, by the registered holder thereof in person, or by his attorney thereunto duly authorized, at the office of the Depositary, and with such evidence of ownership as the Depositary may require. Upon such surrender a new Certificate, registered in the name of the transferee on the books of the Republic kept by the Depositary as agent, shall be issued in the same form as the form of the Certificate so surrendered.

Neither the Republic nor the Depositary, nor any agent of either of the aforesaid, shall be bound to take notice of, or shall in any wise be affected by, any trust respecting the title to or ownership of any Certificate of Deposit, or the interest represented thereby, but they shall be entitled to treat the registered owner thereof or, when presented properly endorsed in blank, the bearer thereof, as the absolute owner thereof for all purposes, unaffected by any notice or claim of notice to the contrary.

The deposit of Bonds in accordance with the terms of this Agreement shall not constitute an assignment or transfer of such Bonds, but title thereto shall remain in the Depositors, unless and until the Republic shall make delivery of new bonds, pursuant to its declaration making the Plan effective as provided in Section 7A or Section 8 of this Agreement and in Article V of the Plan.

Each holder of a Certificate of Deposit agrees that any transfer of the same shall operate as an assignment by the transferor of all his right, title and interest in and to or in respect of the deposited Bonds represented by such Certificate of Deposit.

Closing of Transfer Books

SECTION 4. The Republic may from time to time cause the transfer books for the Certificates of Deposit to be closed for such period or periods as it may deem expedient. In lieu of closing said transfer books the Republic may fix a day and hour as the time for determining registered owners of Certificates of Deposit for any purpose.

Upon the termination of this Agreement for whatsoever cause, the Republic may, upon notice as provided in Section 19 hereof, terminate the right to transfer the Certificates of Deposit.

Extension of Time for Receiving Deposits

SECTION 5. The Republic, in its discretion, may, before or after the Plan has become effective, extend the time for receiving deposits, or authorize deposit at a later date, within the limitations set forth in Section 1 hereof, and by notice in writing to the Depositary.

Lost Certificates

SECTION 6. In case any Certificate of Deposit issued hereunder shall be mutilated, destroyed, lost or stolen, there may be issued a new Certificate of like tenor representing the same amount of Bonds, in exchange and substitution for the Certificate mutilated, destroyed, lost or stolen, upon the delivery of such mutilated Certificate or upon furnishing to the Republic, through its agent the Depositary, proof satisfactory to the Depositary of the destruction, loss or theft of such Certificate, and upon furnishing the Republic and the Depositary indemnity satisfactory to them against any loss or damage for so doing.

Declaring Plan Effective

SECTION 7. The Republic may at any time in its discretion declare the Plan effective, upon the conditions provided in Article V thereof, and in such event shall promptly give notice to that effect in writing and by publication, as provided in Section 19 hereof, to each holder of a Certificate of Deposit, and such notice shall specify whether the Plan has been declared effective in accordance with Paragraph A or with Paragraph B of this Section.

A. In the event that the Plan is declared effective upon the deposit of all of the Bonds outstanding or for the retirement of which provision shall have been made, the Depositary shall surrender all of the deposited Bonds to the Fiscal Agent for the 5% Bonds for cancellation thereof

and release of the lien pledged to the security thereof, against the delivery to the Depositary by said Fiscal Agent of an equal principal amount of Republic of Panama Fifty-Five Year 3¼% External Secured Refunding Bonds, due December 1, 1994, with June 1, 1940 and all subsequent coupons attached (hereinafter referred to as the "3¼% Bonds"), and upon payment to the Depositary of the funds necessary to make the cash payments provided for in Article III of the Plan. The Depositary shall not take title to said 3¼% Bonds but shall hold them for the holders of the Certificates of Deposit issued hereunder, and shall deliver said Bonds to the holders of the Certificates of Deposit upon surrender thereof to the Depositary so that each holder of a Certificate of Deposit will receive 3¼% Bonds in the same principal amount as the deposited 5% Bonds for which the Certificate of Deposit was issued.

At the time that the Plan is declared effective the Republic will provide the Fiscal Agent for the 5% Bonds with sufficient funds to make the cash payments of accrued unpaid interest on said Bonds to and including November 15, 1939 at the rate of 4% per annum as provided in Article III of the Plan. The Republic shall direct and cause said Fiscal Agent for the 5% Bonds to make such cash payments to the Depositary upon surrender by it of the coupons representing such accrued unpaid interest which it shall detach from the deposited Bonds for such purpose. The Depositary shall then pay over to or on the order of the holders of the Certificates of Deposit upon surrender thereof the cash payments to which such Certificates of Deposit will be entitled under Article III of the Plan. By accepting such cash payments and the 3¼% Bonds each Depositor waives and releases any and all claims of the 5% Bonds under the Fiscal Agency Contract of June 22, 1928 (hereinafter referred to as the "1928 Contract").

B. In the event that the Plan is declared effective upon the deposit of less than all of the Bonds outstanding and for the retirement of which provision shall not have been made, the Depositary shall detach from the deposited Bonds the coupons for the May 15, 1940 and subsequent interest payments, to be held for the purposes stated in Sections 9 and 10 hereof, and shall deliver to the holders of the Certificates of Deposit upon surrender thereof the Bonds against which said Certificates were issued, stamped in the form set out in Exhibit III hereto, (hereinafter referred to as the "stamped 5% Bonds" or the "stamped Bonds"), and with new coupons representing semi-annual payments by way of interest at the rate of 3¼% per annum from November 15, 1939 to December 1, 1994, such coupons to be in the form set out in Exhibit IV hereto. Thereafter, with respect to the stamped Bonds, the Depositary shall act as agent of the Republic with the duties and compensation herein set forth.

The Depositary shall also collect from the Fiscal Agent for the 5% Bonds the funds for the cash payments referred to in Article III of the Plan by detaching coupons to and including November 15, 1939 and presenting them for such cash payments which shall be in full satisfaction of all accrued unpaid interest; and the Depositary shall make such cash payments in the amount and manner provided in said Article III of the Plan upon surrender of the Certificates of Deposit.

The Depositary shall continue to receive the deposit of 5% Bonds after the Plan is declared effective; upon such deposit of 5% Bonds, the Depositary shall detach therefrom all coupons maturing after the date of deposit, to be held for the purposes stated in Sections 9 and 10 hereof, and shall return to the holders thereof their respective Bonds, stamped in the form set out in Exhibit III hereto, and with new coupons representing semi-annual payments by way of interest at the rate of 3¼% per annum from the interest payment date preceding such deposit to December 1, 1994, such coupons also to be in the form set out in Exhibit IV hereto.

C. Each Depositor hereby covenants and agrees that, in the event the Plan is declared effective, he will accept the 3¼% Bonds, or stamped Bonds, and cash payments provided in Article III of the Plan, in accordance with the foregoing and subject to all the terms hereof and of the Plan.

Subsequent Issuance of 3¼% Bonds

SECTION 8. In the event that, after the Plan has been declared effective in accordance with Section 7B of this Agreement, all of the holders of the Bonds not then deposited thereafter become parties to this Agreement, or such Bonds are retired by any means, or provision duly made for their retirement, each Depositor, for himself and for all future holders of the stamped 5% Bonds, covenants and agrees to surrender said Bonds with all coupons not then due attached to the Fiscal Agent for the 5% Bonds in exchange for an equal principal amount of 3¼% Bonds with all coupons not then due attached to be then issued by the Republic. The Republic shall notify, by publication only, in the manner provided in Section 19 hereof, all holders of stamped 5% Bonds that on and after a designated date such stamped Bonds shall cease to bear interest and upon surrender thereof to the Fiscal Agent of the 5% Bonds shall be exchangeable for an equal principal amount of the new 3¼% Bonds. On the date provided in the notice from the Republic to the assenting holders, the Depositary shall deliver to the Fiscal Agent for the 5% Bonds all detached 5% coupons held by the Depositary and shall also deliver to said Fiscal Agent a release on behalf of the holders of all stamped 5% Bonds of all of the obligations of the Republic under the 1928 Contract with respect to said 5% Bonds and of the liens pledged to the security thereof.

Specific Agreements to New Terms

SECTION 9. Specifically, and without limiting the generality of the waivers, agreements, assignments, authorizations and directions in this Agreement given, each holder and registered owner of 5% Bonds covenants and agrees irrevocably, by the deposit of Bonds hereunder, or by otherwise assenting to this Plan and Agreement, as herein provided, for himself and for all subsequent holders of Certificates of Deposit and for all subsequent holders of stamped Bonds, to the provisions hereof and of the Plan and to the acts to be taken by the Depositary thereunder, and particularly agrees:

A. In the event described in Section 7A hereof, to the surrender by the Depositary of the deposited Bonds with coupons attached as provided in Article IV of the Plan in exchange for an equal principal amount of 3¼% Bonds with all coupons payable on and after June 1, 1940, and to the collection of the cash payments referred to in said Section 7A by the Depositary in full satisfaction of accrued unpaid interest to November 15, 1939;

B. In the event described in Section 7B hereof, to the detachment from the deposited Bonds by the Depositary of all coupons maturing on and after May 15, 1940, to be held by the Depositary for the purposes referred to in Section 10 hereof, and to the acceptance of the returned Bonds stamped as therein provided; and to the collection of cash payments by the Depositary in satisfaction of accrued unpaid interest to November 15, 1939;

C. To a pledge of the interest on the stamped Bonds collected under the 1928 Contract, whether represented by coupons or otherwise, in each year in favor of the annual service charges for each twelve month period beginning April 1, 1940, on the Republic of Panama Thirty-two Year % External Secured Refunding Bonds, Series B, due April 1, 1972 (hereinafter referred to as the "Series B Bonds"). The Depositary shall not pay over to the Fiscal Agent of the Series B Bonds any part of the pledged annual interest under the 1928 Contract on the deposited Bonds, represented by the detached coupons or otherwise and collected by the Depositary as provided in Section 10 hereof, unless and until the Fiscal Agent of the Series B Bonds shall make written demand on the Depositary for such pledged interest money, or any part thereof, for the service of the Series B Bonds within said annual period and for any and all payments made by the Depositary in compliance with such written demand it shall be fully released and discharged. All interest monies not required during any year for the annual service charges on said Series B Bonds shall be applied by the Depositary for payments by way of interest at the rate of 3¼% per annum or more on the stamped Bonds and for the sinking fund for the stamped Bonds provided in Section 12 hereof; and

D. In the event described in Section 8 hereof, to the surrender of the stamped Bonds in exchange for an equal principal amount of 3¼% Bonds as therein provided, in lieu of all rights which otherwise might be enforced on the 5% Bonds and notwithstanding that such Bonds may have been called for redemption under the 1928 Contract, to the giving of a release by the Depositary on the behalf of all holders and owners of stamped 5% Bonds of all their claims under the 1928 Contract, and to the surrender by the Depositary of all coupons detached from the 5% Bonds by said Depositary to the Fiscal Agent of the 5% Bonds for cancellation.

Use of Detached Coupons

SECTION 10. The Depositary shall hold the coupons maturing subsequent to November 15, 1939 detached from the deposited 5% Bonds pursuant to Section 7B hereof for the following purposes:

A. On May 15, 1940, and on each succeeding November 15th and May 15th, the Depositary shall present such coupons to the Fiscal Agent of the 5% Bonds for the collection of any amounts then due on account of their share, pro-rata with the holders of any bonds which do not assent to the Plan and Agreement, in the revenues pledged under the 1928 Contract, against the notation on such coupons of said payment, or by such other method of evidencing payment as shall be acceptable to said Fiscal Agent and to the Depositary, and shall apply said amounts to payments by way of interest and sinking fund on the stamped Bonds, as provided in Section 12 hereof, subject, however, to the prior charge as provided in Section 9C of this Agreement in favor of the Series B Bonds.

B. In the event that there remain outstanding any stamped Bonds after all detached coupons shall have been collected, the Depositary shall continue to collect the interest payable on the principal amount of said stamped Bonds, and shall apply the interest money so collected in the same manner as the money collected on the coupons, as set forth in Sections 9 and 12 hereof.

Security Under 1928 Contract Not Impaired

SECTION 11. The stamping of the deposited Bonds, the detachment of the 5% coupons therefrom and the holding thereof separate from the Bonds themselves is agreed to by the Depositors on the understanding, and the Republic hereby agrees, that such stamping, detachment and holding shall not in any way impair the security provided by the Republic for the payment of principal and interest on said deposited 5% Bonds in the 1928 Contract and shall not in any way affect the validity of said coupons or said Bonds or the obligation of the Republic to pay the same.

Provisions for Stamped Bonds

SECTION 12. The security, payment and sinking fund provisions of the stamped Bonds shall be as follows:

A. Security for Service of Stamped Bonds. As a guarantee and security for the payment of all sums which may at any time become due and payable on account of either principal, interest or amortization of the 5% Bonds the Republic has heretofore, to wit, in the 1928 Contract, charged, allocated and pledged, certain security; and the Republic does now hereby charge, allocate and pledge, in favor of the stamped 5% Bonds, certain further security. The security for said stamped 5% Bonds shall be as follows:

(i) All of the payments to which said deposited and stamped 5% Bonds are entitled under the 1928 Contract and which are collected by the Depository, subject, however, to a prior pledge in favor of the Series B Bonds of the interest payments, as provided in Section 9C hereof.

(ii) A charge on the New Treaty Payments, subject only to the lien in favor of the Series B Bonds.

(iii) A charge on any sums of money paid by the Republic to the Fiscal Agent of the Series B Bonds pursuant to the guarantee of the Republic that the annual income of the Constitutional Fund of the Republic shall not fall below \$200,000, subject only to the lien in favor of the Series B Bonds.

The Republic covenants and agrees to give irrevocable instructions directing the Fiscal Agent of the Series B Bonds to pay over to the Depository for the service of the stamped Bonds all of the security above described which is not required in any year for the annual service pledge of \$240,000 on said Series B Bonds.

B. Payment of Interest. Payment by way of interest from the sources of revenue pledged shall be made semi-annually on June 1 and December 1, 1940 to and including December 1, 1994, at the rate of $3\frac{1}{4}\%$ per annum, except that the first interest period shall be from November 15, 1939 to June 1, 1940; provided, however, that for each \$14,141.88 excess of the Constitutional Fund Income over \$200,000 in any twelve months' period ending October 31st the interest payment on the next succeeding June 1st interest payment date shall be increased by the amount of \$1.25 per \$1000 bond, representing an increase of one-eighth of 1% per annum, provided that the pledged revenues (excluding such excess Constitutional Fund Income), received in such period are sufficient to pay interest at the rate of $3\frac{1}{4}\%$ per annum and that in no event shall the rate of interest exceed $3\frac{1}{2}\%$ per annum.

C. Operation of Sinking Fund. The Depository shall set aside on the first day of December, 1940, and on the first day of December in each year thereafter, as and for a Sinking Fund, the entire balance of all the monies received for the service of the stamped Bonds by said Depository for the period of the twelve months then ended, after payment of the semi-annual interest which shall have become due and payable on such date and on the preceding first day of June and after setting aside a sum equal to the amount of any increased interest payable on the next succeeding first day of June as provided in paragraph B of this Section. Such Sinking Fund monies shall be applied by the Depository to the creation of a Sinking Fund by (1) the purchase of stamped Bonds at public or private sale at prices not in excess of the principal amount thereof and accrued interest (at $3\frac{1}{4}\%$), if available at such prices, and (2) to the extent that on the 15th day of March in any year beginning with March 15, 1941 such monies in the Sinking Fund shall not have been exhausted by the aforesaid purchases, the Depository shall apply the balance so remaining, so far as practicable, to the purchase by call of the stamped Bonds on the next succeeding June 1st interest payment date, as herein provided. Each Depositor, on behalf of himself and all future owners of stamped Bonds, agrees with the Depository that the Depository shall have the right, in effecting purchases under (2) above, to select by lot and call for purchase stamped Bonds at the principal amount thereof and accrued interest (at $3\frac{1}{4}\%$) on such designated June 1st interest payment date, upon at least 30 and not more than 45 days' published notice, and each such holder or owner of stamped Bonds agrees to sell his stamped Bonds so selected and called for purchase and to pay any transfer tax which may be imposed; such notice of call shall be published at least once in a newspaper printed in the English language, published and of general circulation in the Borough of Manhattan, City of New York, and shall call upon such holders and owners of the stamped Bonds to surrender the same, with all unmatured interest coupons (the $3\frac{1}{4}\%$ coupons) attached, at the head office of the Depository in the Borough of Manhattan, City of New York for purchase at the price payable as above set forth, and shall give notice, also, that the payments by way of interest on such stamped Bonds shall cease from and after such designated date. All stamped Bonds purchased for the Sinking Fund as herein provided shall be held by the Depository, and the Depository shall continue to collect detached coupons previously attached to said purchased stamped Bonds and the monies so received by the Depository shall constitute a part of the monies for the service of the stamped Bonds. When all of the outstanding 5% Bonds, whether or not they be stamped, shall have been retired, or provision for their retirement shall have been made, the Depository shall deliver all Bonds held by the Depository to the Fiscal Agent for the 5% Bonds for cancellation.

D. **Medium of Payment.** Principal and interest on said stamped Bonds are to be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, in New York City at the offices of the Depository, without deduction from either principal or interest for or on account of any present or future taxes or duties imposed or levied by or within the Republic or any political subdivision or taxing authority thereof.

E. **Waiver of 1963 Maturity Date.** Each Depositor, on behalf of himself and all future owners of stamped Bonds, agrees, in consideration of the covenant of the Republic to provide the additional security set forth in this Section, to waive the maturity date of May 15, 1963 provided in the 1928 Contract, provided that this waiver is made for the benefit of the Plan and shall not prevent the taking of any action by the holders of the stamped Bonds which may be necessary to preserve the pro-rata share of such holders in the security provided in Article Sixteenth of the 1928 Contract after May 15, 1963.

F. **Lost Bonds.** In case any stamped Bond shall become mutilated or be destroyed, lost or stolen, the Republic will issue a new 5% Bond of like denomination in exchange for such mutilated Bond or in substitution for such destroyed, lost or stolen Bond, as provided in Articles Seventh and Eighth of the 1928 Contract. In any such case the applicant for a substituted Bond shall furnish to the Republic, to the Fiscal Agent of the 5% Bonds, and to the Depository, evidence to their satisfaction, in their discretion, of the ownership of such stamped Bond, and of the destruction, loss or theft of any destroyed, lost or stolen stamped Bond, and also such security or indemnity as may be required by the Republic, the Fiscal Agent of the 5% Bonds, and the Depository. The Republic shall not issue a new 5% Bond under such circumstances unless the Fiscal Agent of the 5% Bonds shall authenticate and deliver such new 5% Bond to the Depository. The Depository, before delivering such new Bond to the applicant, shall stamp it and detach the coupons attached to such Bond and substitute therefor any unmaturing 3¼% coupons as provided in Section 7B hereof.

G. **Semi-annual Statement.** Within thirty days after the close of each six months' period, ending April 1 and October 1 respectively, in each year, the Depository shall render to the Republic a statement of account covering such period, setting forth in reasonable detail all receipts and all payments and expenses made or incurred by the Depository during the said period, together with a computation of the sum due to the Depository as hereinafter provided, as compensation for its services rendered for such period.

H. **Compensation and Expenses.** The Republic will pay to the Depository, from time to time, as compensation for its services in connection with the stamped Bonds, in addition to its fees for other duties as Depository, a sum equivalent to five (5) cents per coupon in respect to all interest coupons as paid, and a sum equivalent to one dollar and twenty-five cents (\$1.25) on each stamped Bond purchased in the manner provided in Section 12C hereof. The Republic will also promptly pay or cause to be paid to the Depository all other sums due and payable for, or in connection with, the service of the stamped Bonds, including, among other things, any and all expenses, incurred or paid by the Depository for printing and advertising necessary or proper at any time under this Agreement, the cost of exchange and remittance of funds and insurance thereon, brokerage charges, postage, cable, telegraph and telephone charges, charges of legal counsel and all other reasonable or usual expenditures.

Modification of, or Amendment to, Plan

SECTION 13. With the exceptions noted in Article XII of the Plan, statements of any modification of or amendment to the Plan shall be filed with the Depository by the Republic, and if any such modification or amendment adopted by the Republic does not in its judgment affect materially the rights and benefits of Depositors adversely, it shall, upon such filing and without notice, become effective as to all Depositors. If such modification does materially affect the right and benefits of Depositors adversely, a notice of the adoption and filing of such modification shall be given in the manner provided in Section 19 hereof. Any Depositor may at any time within twenty days commencing on the day of the first publication of such notice (but not at any time before the beginning of said twenty day period or after the termination of said twenty day period) withdraw from this Agreement upon surrender of his Certificate of Deposit in negotiable form to the Depository, and thereupon he shall be entitled to the deposited Bonds represented by such Certificates of Deposit. Depositors who do not so withdraw prior to the expiration of said period of twenty days shall be conclusively and finally deemed for all purposes irrevocably bound and concluded by any such modifications.

Withdrawals from Plan and Agreement

SECTION 14. No Depositor shall be entitled to withdraw from this Agreement prior to October 25, 1940 or such later date to which the Agreement dated October 25, 1939 between the Republic and its Financial Advisers may reasonably be extended upon notice to the Depositor as provided in Section 19 hereof, except in the case of abandonment of the Plan, or in the case of the revocation of assent by such Depositor upon a modification or amendment of the Plan as provided in Section 13 hereof. However, any extension of the Plan and Agreement beyond October 25, 1940 shall not be deemed a material modification of such Plan and Agreement within the meaning of Section 13 hereof.

Upon abandonment of the Plan, all Depositors, or upon such modification or amendment the Depositors so revoking their assents, will be entitled, upon surrender of their Certificates of Deposit in negotiable form, to receive without expense to them, the Bonds represented by their Certificates of Deposit.

Depositary

Section 15. The Bank of the Manhattan Company, at No. 40 Wall Street, New York, N. Y., is hereby appointed Depositary by the Republic. The Depositary in agreement with the Republic may appoint agents in such place or places as they may deem desirable.

Section 16. The Depositary shall, as agent, keep books at its office in the name of the Republic as principal and shall record in such books the names and addresses (as furnished) of all persons to whom Certificates of Deposit are issued by the Republic through said Depositary as agent, and shall likewise record in such books all transfers of Certificates of Deposit made by said Depositary as agent for the Republic.

Liability of Depositary

Section 17. The Depositary, for itself and its successors, agrees to act as Depositary under this Agreement, but only upon the terms and conditions hereof, including the following, all of which shall bind the Republic, the Depositors, and the Depositary:

(a) Except as otherwise provided in Sections 7 to 12 hereof, the Depositary shall not be under any duty or obligation, while in possession of any of the Bonds deposited hereunder, to present any of the Bonds for payment or to take any action to endeavor to enforce the collection or payment thereof or of interest thereon, or to enforce any Indenture securing the same.

(b) The Depositary shall not be responsible in any manner whatever for any of the representations or recitals contained herein or in the Plan or in any circular, letter, or other communication issued or statement made hereunder or in connection herewith, or for the validity or genuineness of any Bond.

(c) No statement, explanation or suggestion contained in any notice or circular which may be issued or advertised or otherwise distributed by the Depositary or by the Republic is intended or is to be accepted as a representation or warranty by the Depositary.

(d) The Depositary shall not be liable to anyone for any act or omission of any agent or employee selected in good faith, nor for anything under or in connection with this Agreement other than its own wilful misfeasance.

(e) The Depositary, by the execution and delivery of this Agreement, assumes no obligation, legal or equitable, express or implied, to any holder or registered owner of any Bond who shall not deposit the same hereunder, or to any person whomsoever, other than the registered owners of Certificates of Deposit issued in accordance with the terms of this Agreement or the holders or registered owners of Bonds stamped as provided in Section 7B hereof.

(f) Neither the Depositary nor the Depositors shall be liable for any costs, charges, or expenses whatever in connection with the deposit of Bonds or the operation of the Plan, other than a contribution of \$1.25 per \$1,000 Bond to be deducted by the Depositary from the amounts receivable by the Depositors pursuant to Article III of the Plan and paid to the Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York, N. Y., for its services to the holders of the 5% Bonds. The Depositary shall look to the Republic for the reimbursement of its costs, charges, expenses, and any taxes which the Depositary may be called upon to pay in connection with the consummation of the Plan, and for compensation for its services hereunder, all of which the Republic agrees to pay to the Depositary upon request, except that in case of abandonment of the Plan Messrs. Glore, Forgan & Co. and Messrs. Hornblower & Weeks have agreed to reimburse the Depositary.

(g) The Depositary may advise with counsel (who may be counsel for the Republic) and the opinion of counsel shall be full protection and justification of the Depositary for anything done or omitted or sought to be done by them in accordance with such opinion; and the Depositary shall be entitled to rely and act upon instructions of the Republic, if given over the signature of an officer of the Republic, or a signature purporting to be such signature.

(h) The Depositary shall not by the deposit of Bonds hereunder obtain any title to the Bonds so deposited, or any interest therein or obligation in respect thereto, other than as in the Plan and Agreement provided.

(i) The Depositary and any of its officers, directors, or agents may be or become Depositors and may deposit Bonds hereunder, and shall in such event be entitled to all the benefits and rights conferred upon Depositors under any provisions hereof or of the Plan with the same effect as if the Depositary were not acting as such hereunder.

(j) The Depositary may engage in or be interested in any financial or other transaction with the Republic and may act as agent for the Republic or as trustee in respect of any bonds or other securities of the Republic.

(k) The Depositary may at any time, upon giving reasonable written notice to the Republic, resign as Depositary, in which event, however, the Depositary shall turn over to its successor as Depositary all Bonds, coupons, funds, or records held by the Depositary pursuant to this Agreement. The Republic shall promptly appoint such successor Depositary which shall be a trust company or a bank duly authorized to perform trust functions, located in the City of New York and having capital, surplus and undivided profits of at least \$5,000,000. Notice of resignation of the Depositary and of the appointment of a successor Depositary shall be given by the Republic in the manner provided in Section 19 hereof.

Release and Discharge of Depositary

Section 18. Each Depositor, by the surrender in accordance with this Agreement of his Certificate of Deposit and the acceptance of the new bonds and cash provided for in the Plan, or the return of the deposited Bonds (unstamped) represented by his Certificate of Deposit, releases and discharges the Depositary from all liability and accountability of every kind, character and description whatsoever in connection with the deposit of the Bonds.

Notices

Section 19. All notices to the Depositors under this Agreement shall be given by mail, postage prepaid, addressed to the Depositors at their respective addresses as the same appear on the books of the Republic kept by the Depositary as agent, and in addition such notice shall be published at least once in a newspaper printed in the English language, published and of general circulation in the Borough of Manhattan, City of New York. Any such notice so published and mailed shall be taken and construed as though personally served upon all Depositors as of the date of the mailing thereof, whether such Depositors actually receive such notice or not.

Miscellaneous

Section 20. The Republic, any national autonomous enterprise thereof, the Fiscal Agent of the Republic, and the Fiscal Agent for the Bonds may be or become Depositors and may deposit Bonds hereunder, and shall in such event be entitled to all the benefits and rights conferred upon Depositors under any provisions hereof or of the Plan.

Section 21. This Agreement and all the provisions herein contained shall extend to and be obligatory upon the parties hereto, and their and each of their survivors, heirs, executors, administrators, successors, and assigns.

Disposition of Securities Remaining With Depositary

Section 22. If, on a date one year after the date on which the Plan is (1) declared effective, the Depositary shall hold new bonds and cash in respect of Certificates of Deposit then outstanding, or (2) declared abandoned, the Depositary shall hold deposited Bonds represented by Certificates of Deposit then outstanding, the Depositary shall deliver such new bonds and cash, or deposited Bonds, as the case may be, to the Fiscal Agent of the Republic in the City of New York, which shall thereafter hold the subject securities and cash for the account of the registered owners of such Certificates of Deposit, and the Depositary shall be as fully discharged from all liability to the holders of such Certificates of Deposit as if it had delivered the new bonds and cash, or returned the deposited Bonds to such holders upon surrender of such Certificates of Deposit.

Section 23. This Agreement may be executed in several counterparts and all of such counterparts shall be taken together as forming one Agreement.

IN WITNESS WHEREOF the Republic of Panama and the Bank of the Manhattan Company have caused this Agreement to be duly executed by their respective officers and officials, and the Depositors have become parties hereto by depositing their Bonds hereunder, all as of the day and year first above written.

REPUBLIC OF PANAMA

By: JORGE E. BOYD

*Ambassador Extraordinary and
Plenipotentiary of the
Republic of Panama*

BANK OF THE MANHATTAN COMPANY

By: C. ALISON SCULLY
Vice President

EXHIBIT I

Certificate of Deposit No.
Series A

\$.....

CERTIFICATE OF DEPOSIT, SERIES A,

for

REPUBLIC OF PANAMA THIRTY-FIVE YEAR

5% EXTERNAL SECURED SINKING FUND GOLD BONDS,

Series A, Due May 15, 1963.

THIS IS TO CERTIFY that..... or predecessor in interest, has deposited Dollars principal amount of the Republic of Panama Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, due May 15, 1963, with November 15, 1936 and all subsequent interest coupons attached, stamped assented to the Service Readjustment Plan of November 23, 1933, under the Deposit Agreement dated as of January 31, 1940, executed by the Republic of Panama and the Bank of the Manhattan Company (hereinafter referred to as the "Depositary"), all in accordance with the Plan for the Readjustment of the External Debt of the Republic of Panama (hereinafter referred to as the "Plan") dated January 31, 1940. An original copy of the Plan, to which is annexed as Appendix D an original copy of the above-mentioned Deposit Agreement, is lodged with and may be inspected at the principal office of the Depositary, 40 Wall Street, New York, New York, and the holder hereof has assented to and is bound by the provisions of said Plan and Deposit Agreement with the same force and effect as if he had signed the said Deposit Agreement, and has made all the waivers, agreements, assignments, authorizations and directions on his part to be made as described in and on the terms set forth in the Plan and Agreement.

If and when the Plan shall be declared effective in accordance with its terms, the registered owner hereof shall be entitled upon the surrender of this Certificate, duly endorsed as required, at the office of the Bank of the Manhattan Company, or of any successor Depositary appointed as provided in said Deposit Agreement, to receive Republic of Panama Fifty-five Year 3¼% Secured Refunding Bonds, due December 1, 1994, of an equal principal amount, or, until such 3¼% Bonds are issuable under the Plan, to have returned to him the Bonds so deposited, stamped and with 3¼% coupons attached, as in said Plan provided, together in either case with a cash payment of \$140.00 per \$1,000 principal amount of Bonds deposited representing unpaid accrued interest to November 15, 1939 computed at 4% per annum. Section 17(f) of the Deposit Agreement authorizes the Depositary to deduct from the above cash payment a contribution of \$1.25 per \$1,000 Bond and to pay the same to the Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York, N. Y., for its services to the holders of 5% Bonds.

If and when the Plan shall be abandoned in accordance with the provisions thereof, or if the holder of this Certificate shall revoke his assent to the Plan after notification from the Republic of Panama of a modification or amendment to the Plan in accordance with the provisions of Article XII thereof, the registered owner hereof shall be entitled, upon the surrender to the Depositary of this Certificate, duly endorsed as required, to receive the Bond or Bonds so deposited. In the event that the registered owner hereof does not, within twenty days after the first notice of any such modification or amendment given in the manner provided in Article XIII of the Plan, revoke his assent and withdraw the Bonds hereby represented by surrender of this Certificate of Deposit in negotiable form, with appropriate notice in writing, to the Depositary, he shall be deemed to have consented to such modification or amendment and will be bound thereby as if the same had been part of the Plan prior to his assent thereto.

This Certificate of Deposit, and all rights and interests evidenced hereby, are transferable, subject to the terms and conditions of said Deposit Agreement, only on the books of the Republic of Panama kept by the Depositary as agent, upon the surrender hereof, properly endorsed for transfer, by the registered owner in person, or by his attorney thereunto duly authorized, and upon the payment of any transfer taxes required by law, at the office of the Depositary. This Certificate is issued subject to the condition, and every registered owner hereof consents and agrees, that title to this Certificate when properly endorsed, and all rights and interests evidenced thereby, shall be transferable by delivery with the same effect as in the case of a negotiable instrument; but the Depositary and the

Republic of Panama may treat the registered owner hereof or, when presented properly endorsed in blank, the bearer hereof, as the absolute owner of all rights and interests represented hereby and shall not be affected by any notice to the contrary.

Each registered owner, assignee and holder of this Certificate of Deposit agrees that so long as the Bond or Bonds represented hereby are deposited under the aforesaid Plan and Deposit Agreement, he will take no action inconsistent with the carrying out of the Plan.

The Bonds received by the undersigned upon the issue of this Certificate and Certificates of similar tenor will, pending delivery thereof, be segregated from the property of the Republic of Panama and the Depositary in such manner that no persons other than the registered owners of such Certificates shall have any right, title or interest therein.

Each holder of this Certificate of Deposit agrees that, by the surrender in accordance with the above mentioned Deposit Agreement of this Certificate of Deposit and the acceptance of the Bond or Bonds represented hereby and the cash herein provided for, he will release and discharge the Depositary from all liability and accountability of every kind, character and description with respect to the deposit of Bonds under the aforesaid Deposit Agreement.

Dated, 1940.

THE REPUBLIC OF PANAMA

By BANK OF THE MANHATTAN COMPANY
Depositary.

.....
*Authorized Officer
of Depositary.*

EXHIBIT II

Certificate of Deposit No.

\$.....

Series B

CERTIFICATE OF DEPOSIT, SERIES B,

for

**REPUBLIC OF PANAMA THIRTY- FIVE YEAR
5% EXTERNAL SECURED SINKING FUND GOLD BONDS,
Series A, Due May 15, 1963.**

THIS IS TO CERTIFY thator predecessor in interest, has deposited Dollars principal amount of the Republic of Panama Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, due May 15, 1963, with interest coupon dated May 15, 1933 endorsed \$16.78 paid (per \$1000 Bond) and all subsequent coupons attached except coupon dated May 15, 1936, not stamped assented to the Service Readjustment Plan of November 23, 1933, under the Deposit Agreement dated as of January 31, 1940, executed by the Republic of Panama and the Bank of the Manhattan Company (hereinafter referred to as the "Depository"), all in accordance with the Plan for the Readjustment of the External Debt of the Republic of Panama (hereinafter referred to as the "Plan") dated January 31, 1940. An original copy of the Plan, to which is annexed as Appendix D an original copy of the above-mentioned Deposit Agreement, is lodged with and may be inspected at the principal office of the Depository, 40 Wall Street, New York, New York, and the holder hereof has assented to and is bound by the provisions of said Plan and Deposit Agreement with the same force and effect as if he had signed the said Deposit Agreement, and has made all the waivers, agreements, assignments, authorizations and directions on his part to be made as described in and on the terms set forth in the Plan and Agreement.

If and when the Plan shall be declared effective in accordance with its terms, the registered owner hereof shall be entitled upon the surrender of this Certificate, duly endorsed as required, at the office of the Bank of the Manhattan Company, or of any successor Depository appointed as provided in said Deposit Agreement, to receive Republic of Panama Fifty-five Year 3¼% Secured Refunding Bonds, due December 1, 1994, of an equal principal amount, or, until such 3¼% Bonds are issuable under the Plan, to have returned to him the Bonds so deposited, stamped and with 3¼% coupons attached, as in said Plan provided, together in either case with a cash payment of \$243.22 per \$1,000 principal amount of Bonds deposited representing unpaid accrued interest to November 15, 1939 computed at 4% per annum. Section 17(f) of the Deposit Agreement authorizes the Depository to deduct from the above cash payment a contribution of \$1.25 per \$1,000 Bond and to pay the same to the Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York, N. Y., for its services to the holders of 5% Bonds.

[Commencing with the third paragraph of each Certificate, the remaining paragraphs of this Certificate of Deposit and of the Series A Certificate will be identical.]

EXHIBIT III

Legend to Be Overprinted Upon Face of the "Stamped Bonds"

This Bond has been deposited under the Plan for the Readjustment of the External Debt of the Republic of Panama, dated January 31, 1940, and the Deposit Agreement, dated January 31, 1940, to which Plan and Deposit Agreement the holder or registered owner hereof has assented; and the Depository under such Plan is authorized to collect all of the interest monies to which this Bond would otherwise be entitled for application of said monies as in said Plan and Agreement provided. This Bond evidences the right of the holder or registered owner hereof to the payment of the principal amount of this Bond, in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, on or before December 1, 1994, as in said Plan and Agreement provided; and the attached coupon sheet evidences the right of the holder or registered owner hereof to payments by way of interest to be made by the Depository from such funds as it may receive for the purpose under said Plan and Deposit Agreement. All present and future holders of the within Bond are bound by the provisions of said Plan and Agreement, a copy of which is on file with the Bank of the Manhattan Company, New York, N. Y., as Depository.

EXHIBIT IV

Coupon Sheet to Be Attached to "Stamped Bonds"

Republic of Panama Thirty-Five Year 5% External Secured Sinking Fund Gold Bonds, Series A, Stamped Under Deposit Agreement of January 31, 1940.

(Denomination of Bond)

No..... \$.....

The Bank of the Manhattan Company, as Depository under the Plan for the Readjustment of the External Debt of the Republic of Panama, dated January 31, 1940 and the Deposit Agreement, dated January 31, 1940, for and on behalf of the Republic of Panama and the holder of the stamped Republic of Panama Thirty-Five Year 5% External Secured Sinking Fund Gold Bond, Series A, due May 15, 1963, of the denomination and serial number stated above, agrees to make payment from and only from the monies received by it under said Plan and Deposit Agreement for the benefit of the holders of said stamped Bonds in the amounts stated in the coupons affixed hereto, at the principal office of the Bank of the Manhattan Company at 40 Wall Street, New York, N. Y., the amounts stated in said coupons in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, on the dates specified in the respective coupons, or as soon thereafter as the monies therefor are received as hereinbefore provided, against the due presentation of said coupons for such payment.

(Form of Coupon for \$1,000 Bond for June 1, 1940)

No. 1 \$17.60

On the first day of June, 1940, unless the Bond herein mentioned shall have been retired, or provision made for its retirement, the Bank of the Manhattan Company will pay the bearer at its head office, in the Borough of Manhattan, City of New York, United States of America, from and only from such funds received by it for the purpose, pursuant to the Plan and Agreement to which the Bond herein mentioned is subject, SEVENTEEN and 60/100 Dollars in any coin or currency of the United States of America, which at the time of payment is legal tender for public and private debts, being payment by way of six and one-half months' interest on Bond No.....

BANK OF THE MANHATTAN COMPANY

By.....
Authorized Officer

(Form of Coupon for \$1,000 Bond for June 1, 1941 and subsequent June 1, interest payment dates)

No..... \$16.25

On the first day of June, 19...., unless the Bond herein mentioned shall have been retired, or provision made for its retirement, the Bank of the Manhattan Company will pay the bearer at its head office, in the Borough of Manhattan, City of New York, United States of America, from and only from such funds received by it for the purpose, pursuant to the Plan and Agreement to which the Bond herein mentioned is subject, SIXTEEN and 25/100 Dollars (and such additional amount as may have been authorized for payment in accordance with Section 12B of the Deposit Agreement and

received by the Depositary for that purpose) in any coin or currency of the United States of America, which at the time of payment is legal tender for public and private debts, being payment by way of six months' interest on Bond No.....

BANK OF THE MANHATTAN COMPANY

By.....
Authorized Officer

(Form of December 1, Coupon for \$1,000 Bond)

No..... \$16.25

On the first day of December, 19.., unless the Bond herein mentioned shall have been retired, or provision made for its retirement, the Bank of the Manhattan Company will pay the bearer at its head office, in the Borough of Manhattan, City of New York, United States of America, from and only from such funds received by it for the purpose, pursuant to the Plan and Agreement to which the Bond herein mentioned is subject, SIXTEEN and 25/100 Dollars in any coin or currency of the United States of America, which at the time of payment is legal tender for public and private debts, being payment by way of six months' interest on Bond No.

BANK OF THE MANHATTAN COMPANY

By.....
Authorized Officer

REPUBLIC OF PANAMA

Location and Population

The Republic of Panama, including the Canal Zone comprises the Isthmus and forms the connecting link between North and South America. Panama is bounded on the North by the Caribbean Sea, on the East by Colombia, on the South by the Pacific Ocean and on the West by Costa Rica. Excluding the Canal Zone, its area is approximately 32,400 square miles and its population on December 31, 1937 was estimated at 548,000. Two mountain chains traverse the Republic. There are a number of valleys and plains which afford good pasturage for cattle and in which all the products of the tropical zone can be raised. The mountain chains are covered with extensive forests. The climate varies from the tropical heat of the coastal regions to the refreshing coolness of the interior plateaus. The climate is equable, the average temperature being approximately 80 degrees F. on the Atlantic and Pacific coasts, while in the higher altitudes the average temperature is about 66 degrees F. The summer and dry season is from January to April, while the winter and rainy season extends over the remainder of the year, the heaviest rains occurring during the months of October and November. On the Atlantic coast the average rainfall is 140 inches, on the Pacific coast 60 inches and in the interior 93 inches. The northern coast of Panama is reached by many steamship lines to Cristobal, the port at the Atlantic entrance to the Canal Zone. Panama City, the capital, is reached by steamers to Balboa, the Pacific port of the Canal Zone. Panama City is three miles distant from Balboa, and has a population estimated at 82,827 on December 31, 1937. The Republic also is connected with cities in North and South America by the regular services of Pan-American Airways and Pan-American Grace Airways. It is also served by the Scadta Line, the Cia de Transporte Aero, Isthmian Airways and the Mexican Line.

Agriculture, Industry and Trade

The soil of the Republic is of marked fertility and climatic conditions induce a luxuriant growth of tropical vegetation. Only a small part of the area is under cultivation. The principal industry is the raising of bananas, but the acreage devoted to the production of the fruit has been decreasing on the Atlantic coast on account of the blight (or "Panama disease"). Cacao, sugar cane, rice, corn and many vegetables and fruits are grown in various parts of the Republic. The forests contain an abundance of cabinet, dye and building woods. Balata and rubber, tagua nuts and nispero are exported. The output of Balata and rubber is obtained principally from trees scattered naturally throughout the forests. It is estimated that there are approximately 500,000 head of cattle in the Republic and hides are among the exports. Mining is carried on in various localities, chiefly in Darien and in the Province of Veraguas. Gold mining has become more active in recent years. Magnesium and other mineral deposits including silver, aluminum, lead, copper, coal and asbestos have been located but are not being worked. Coral and sponges are found on both the Atlantic and Pacific coasts and pearls are obtained from the Pearl Islands in Panama Bay, while fishing for the tortoise-shell turtle is active on the San Blas coast.

Manufacturing is confined mainly to sugar mills, breweries, shoe and clothing factories whose production is intended for local use.

Transportation facilities in 1937 consisted of approximately 230 miles of railway line, including the Panama Railroad Company, owned by the United States Government, which operates a line connecting Cristobal on the Atlantic coast with Balboa on the Pacific coast and furnishing facilities to the adjacent cities of Colon and Panama City. The Republic owns and operates about 50 miles of railroad in the Province of Chiriqui and the United Fruit Company operates about 150 miles of line in the Province of Bocas del Toro. According to estimates made in 1937 there were 977 miles of roads and highways, including those in the Canal Zone and approximately 11,749 automobiles were registered.

Canal Zone

This is a strip of land extending for a distance of 5 miles on either side of the Panama Canal, the use and occupancy of which is granted to the United States in perpetuity by the Treaties of 1903 and 1936 between the Republic and the United States. The area of the Zone is approximately 553 square miles, with a civil population on June 30, 1938 of 29,063, of whom 7,146 were employed by the Canal Zone Administration and by the Panama Railroad. The situation of the Canal Zone in relation to the Republic is of considerable commercial value to the latter. As the result of the war in Europe, the United States Government has commenced the construction of a second set of locks as a defense measure and is increasing considerably the military establishment in the Zone. This has tended to offset the serious loss of tourist business resulting from the war and has given employment to large numbers of citizens of Panama. Business conditions in the Republic currently are considered to be generally satisfactory.

Form of Government

Panama was a part of the Republic of Colombia for a period of 82 years from 1821 to 1903, when it declared its separation from Colombia and became an independent Republic. On November 22, 1940, the National Assembly enacted a new Constitution to replace the Constitution of 1903 under which the Republic had previously been constituted. By Decree No. 141 of November 26, 1940 a national plebiscite was called for December 15, 1940 to ratify or reject the new Constitution. The Board of Elections announced thereafter that the new Constitution had been approved by a large majority and accordingly, on January 2, 1940, the President of the Republic in a public ceremony proclaimed the new Constitution to be in effect and, together with other officers of the Government, took the prescribed oath of office.

The Constitution of 1940 provides that the form of government shall be republican, democratic and unitary. The legislative power continues to be vested in a National Assembly to be elected by popular vote for a period of six years (instead of four years) in the proportion of one Deputy for every 20,000 inhabitants (instead of 15,000 inhabitants). At the same time two substitutes (instead of one) are elected to take the place of Deputies in case of their absence, disability or death. The National Assembly will convene each odd numbered year commencing January 2, 1941 for a period of four months. Under the 1903 Constitution the National Assembly convened every even numbered year on September 1 for a period of three months. The present National Assembly was in session from September 1, 1940 until November 30, 1940 and was re-convened January 2, 1941 for a period of four months. Under the terms of the new Constitution, the National Assembly as now constituted will continue in office until January 1, 1947.

The Constitution of 1940 also provides that the Executive Power is to be exercised by the President of the Republic to be elected for a term of six years (instead of four years) by popular vote of all citizens over 21 years of age. Neither the President nor his "Designates" (Designados) may be elected for the term immediately following their own. The President and his "Designates" (Designados) must be born in Panama and be at least 35 years of age. There is no Vice-President but the National Assembly within ten days of convening elects three "Designates" who take the place of the President in their respective order in the event of his absence, disability or death. The President of Panama, Dr. Arnulfo Arias, took office under the 1903 Constitution on October 1, 1940 and under the terms of the 1940 Constitution will serve until February 14, 1947.

The Cabinet is appointed by the President and consists of the following officers: Minister of Government and Justice, Minister of Foreign Relations, Minister of Finance and the Treasury, Minister of Public Instruction, Minister of Agriculture and Public Works, and Minister of Commerce, Labor and Industry. The Comptroller General is appointed by the President with the approval of the National Assembly for a period of six years and may not be suspended or removed from office except for reasons specified by law.

The Judiciary consists of a Supreme Court of 5 judges and their "substitutes" (appointed by the President once every two years for a term of 10 years), a Superior Court, several Circuit Courts and a number of Municipal Courts. The judges of the Superior and Circuit Courts are appointed by the Supreme Court and the Municipal judges by the Circuit Courts.

There is no Army but there is a well organized National Police Corps numbering about 1,000 officers and men.

The Republic is divided into 9 Provinces which are sub-divided into Municipalities. The Provinces are administered by Governors appointed by the President of the Republic and by Provincial Assemblies elected by direct popular vote, while the Municipalities are administered by Municipal Councils elected by the Provincial Assemblies and by Mayors appointed by the Governors of the Provinces.

The Constitution of 1940 prohibits the immigration into the Republic of persons of the black race whose language of origin is not Spanish, of persons of the yellow race and of races originating in India, Asia Minor and North Africa. The Constitution also denies Panamanian nationality to persons born in the Republic of parents whose immigration is now prohibited but the President is permitted to make exceptions in certain specified conditions. The Constitution of 1940 (Article 153) also permits the State to provide public utility services, to regulate the rates charged by private companies engaged in such enterprises and to fix prices of articles of prime necessity whenever public interest may require such action, as well as to "intervene in the supervision and coordination of industries and companies" as may be prescribed by law. The Constitution also permits the creation and establishment by law of official or semi-official banks (Article 167) under the supervision of the State. The Constitution also permits the establishment by law (Article 164) as a revenue measure of official monopolies for the importation of articles not produced within the country as well as for the purchase and distribution of natural products of the country which are not handled advantage-

ously for the community. In such cases it is provided that any legal or natural person damaged by the establishment of such monopoly shall be indemnified prior to the establishment thereof.

The Republic maintains diplomatic and consular representatives in most foreign countries. It has not participated in any war since the date of its establishment as an independent Republic in 1903. The Treaty of 1936 with the United States provides that in the case of an international conflagration or the existence of any threat of aggression which would endanger the security of the Republic or the neutrality or security of the Panama Canal, the Governments of the United States and of the Republic will take such measures of prevention or defense as they may consider necessary for the protection of their common interests. The Treaty also provides that the United States will continue the maintenance of the Panama Canal for the encouragement and use of inter-oceanic commerce and the two Governments declare "their willingness to cooperate, as far as is feasible for them to do so, for the purpose of insuring the full and perpetual enjoyment of the benefits of all kinds which the Canal shall afford the two nations that made possible its construction, as well as all other nations interested in world trade".

Foreign Trade

Imports to the Republic are substantially in excess of exports. To a considerable extent this is due to the fact that the merchants of the Republic import a substantial amount of goods intended to be sold to visiting tourists, to residents of the Canal Zone, to the crews of ships passing through the Canal and to the United States armed forces on duty at the Canal Zone. This situation makes a reliable estimate of the Republic's balance of international payments impossible to obtain. Furthermore, the United States dollar is the only currency circulating in the Republic with the exception of fractional silver coins of the Republic, limited in amount, under the terms of the Monetary Agreement of June 20, 1904 with the United States. The Treaty of 1936 contains special provisions designed to protect the trade of the Republic from the competition of retail stores operated in the Canal Zone and to ensure to the Republic the benefit, so far as possible, of such trade as may result from the traffic through the Canal. There is a certain volume of "re-export" business carried on. Total figures of exports, imports and re-exports for the years 1935-1939 inclusive were as follows in Balboas (equivalent to U. S. Dollars):

<u>Years</u>	<u>Exports</u>	<u>Imports</u>	<u>Re-Exports</u>
1935.....	B. 4,149,395	B. 15,635,293	B. 3,472,720
1936.....	4,158,406	18,989,846	3,400,773
1937.....	4,069,727	21,828,175	4,549,468
1938.....	3,743,968	17,951,454	3,924,598
1939.....	3,487,378	20,463,765	3,487,378

In the period 1930-1939, the total value of exports was 35,309,715 Balboas and of imports 158,418,919 Balboas. The countries with which the major part of such foreign trade is conducted and the value of imports therefrom and exports thereto for the ten years ended December 31, 1939 are as follows:

**Imports and Exports by
Republic of Panama
Total for Years 1930 to 1939, Inclusive**

	<u>Imports</u>	<u>Exports</u>
United States	B. 88,936,696	B. 30,566,640
Japan	14,506,929	11,420
England	10,769,779	866,073
Germany	8,474,262	649,701
China	7,224,412	3,173
France	5,025,072	113,086
Canal Zone	2,982,492	851,120
Holland	2,031,301	84,831
Italy	1,394,261	14,641
Cuba	1,306,950	10,287
Belgium	1,163,717	.....
Norway	974,038	.....
Chile	926,144	.....

The imports and exports, classified by major items, in the years 1936-1939 inclusive were as follows in Balboas (equivalent to U. S. Dollars).

Imports

<u>Classification</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>1939</u>
Animal Food Products.....	B. 2,010,498	B. 2,153,196	B. 1,920,105	B. 1,855,298
Vegetable Food Products.....	1,605,592	1,881,929	1,516,751	1,432,935
Chemical Manufactures	1,694,592	1,679,226	1,326,021	1,539,393
Textile Manufactures	4,739,000	5,066,687	3,821,565	4,389,877
Metallurgical Manufactures	1,264,403	1,627,118	1,345,884	2,390,704
Machines, Tools and Transport Materials.	1,956,457	2,827,373	2,138,886	2,581,430
Miscellaneous	5,719,304	6,592,646	5,882,242	6,274,128
Total	<u>B. 18,989,846</u>	<u>B. 21,828,175</u>	<u>B. 17,951,454</u>	<u>B. 20,463,765</u>

Exports

<u>Classification</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>1939</u>
Gold, silver, copper, etc., in bars.....	B. 453,037	B. 189,849	B. 167,624	B. 119,260
Timber, rubber, ivory nuts, etc.....	16,370	21,571	25,233	
Pearls, tortoise-shell, mother-of-pearl shell, etc.	46,917	53,631	26,612	
Cattle, hogs, dry hides, etc.....	224,724	236,923	236,369	
Bananas, cocoa, coconuts, etc.....	3,269,027	3,483,311	3,273,952	3,083,355
Ready-made clothing, etc.....	56,997	8,248	12,107	
Gold, silver and nickel in coins.....	91,334	76,194	2,071	
Total	<u>B. 4,158,406</u>	<u>B. 4,069,727</u>	<u>B. 3,743,968</u>	<u>B. 3,487,378</u>

Governmental Receipts and Expenditures

The receipts classified by sources and the expenditures classified by purpose for the fiscal year ended December 31, 1939 and the next preceding fiscal year were as follows:

Statement of Receipts

	<u>Fiscal Years Ended December 31,</u>		
	<u>1939</u>	<u>1938</u>	<u>1937</u>
Import Duties			
Article taxed with Ad Valorem and Specific Tariff:			
1.—Tobacco and Cigarettes	B/. 458,911.21	B/. 462,682.81	B/. 455,072.88
2.—Foreign Liquors	302,068.53	277,248.95	298,671.98
3.—Meats, etc.	866,507.71	866,885.34	891,364.02
4.—Lard, Tallow and Animal Grease.....	79,578.49	60,938.28	67,596.73
5.—Machinery	36,872.20	27,358.60	26,726.91
6.—Writing Machines, Calculators, etc....	7,782.88	6,689.99	7,183.14
7.—Radios, Phonographs and Records....	20,758.56	23,906.68	25,563.35
8.—Refrigerators	12,658.83	13,718.95	17,049.76
9.—Automobiles and Parts.....	115,997.31	121,323.10	139,855.58
10.—Oil, Greases, Mineral, Vegetal.....	164,436.04	203,466.41	160,361.11
11.—Rubber Goods (excluding Tires).....	5,614.89	4,869.49	5,864.11
12.—Wood and Metal Furniture.....	24,116.73	31,785.23	35,489.28
13.—Chemical Products	88,187.48	84,961.32	83,065.40
14.—Perfumery	—	—	605.63
15.—Mineral Waters	645.65	1,207.23	1,142.00
16.—Construction Materials	206,146.81	179,098.08	218,521.45
17.—Silk Man Goods, Genuine or Artificial.	—	953.38	1,344.66
18.—Cotton Goods	185,501.81	170,658.32	158,759.90
19.—Linen Goods	8,752.91	10,849.09	6,032.30
20.—Woolen Goods	25,335.21	19,618.67	19,066.63
21.—Shoes, Men, Women and Children....	94,155.47	102,633.16	88,888.98
22.—Ready Made Clothing, Men, Women and Children	19,686.09	14,332.25	21,950.26
23.—Writing Paper and Printing Material.	39,142.11	61,391.23	58,774.75
24.—Gems, Fancy Stones and Jewelry.....	654.61	710.59	500.16
25.—Tableware, China	7,026.00	25,131.68	25,936.35
26.—Fodder and Fertilizers.....	579.90	1,607.91	1,979.30
27.—Matches	29,135.91	25,497.71	38,550.88
28.—Unclassified Articles	312,853.89	281,572.59	365,246.73
29.—Parcel Post	96,545.60	82,976.97	102,289.15
30.—Consular Fees	974,743.65	891,088.19	864,154.32
	<u>4,184,396.48</u>	<u>4,055,162.20</u>	<u>4,187,607.70</u>
Carried Forward	<u>4,184,396.48</u>	<u>4,055,162.20</u>	<u>4,187,607.70</u>

Statement of Receipts—Continued

	Fiscal Years Ended December 31,		
	1939	1938	1937
Brought Forward	B/. 4,184,396.48	B/. 4,055,162.20	B/. 4,187,607.70
Export Duties on Exports			
31.—Bananas	107,326.41	129,022.96	118,553.24
32.—Minerals	1,114.66	2,034.75	2,070.74
33.—Miscellaneous	4,393.78	4,141.87	6,019.78
	<hr/> 112,834.85	<hr/> 135,199.58	<hr/> 126,643.76
Bonded Warehouses			
Revenue from:			
34.—Consular Fees	32,785.56	33,191.73	28,942.62
35.—Re-export Tax	1,666.56	1,830.77	1,702.30
	<hr/> 34,452.12	<hr/> 35,022.50	<hr/> 30,644.92
Internal Revenue			
36.—Sugar Production	—	75.00	4,607.07
37.—Manufacture of Beer	293,017.16	300,459.76	253,630.94
38.—Manufacture of Liquors	76,314.37	75,278.14	81,142.93
39.—Retail Liquors Tax	483,910.50	471,498.76	462,388.57
40.—Wholesale Liquor Tax	2,486.77	2,755.70	1,740.00
41.—Stamps for National Liquors	378,642.43	360,784.06	384,973.26
42.—Internal Revenue Stamps	79,144.94	72,446.12	77,536.22
43.—Stamped Paper	47,478.77	44,628.85	39,354.65
44.—Theatre Tickets Stamps	27,754.37	27,222.74	23,919.67
45.—Miscellaneous National Stamps	178,879.30	93,650.23	86,633.20
46.—Slaughter Tax	252,133.30	260,726.29	269,125.88
47.—Property Registry	44,800.73	56,831.93	46,969.20
48.—Civil Registry	7,812.90	3,126.25	3,063.75
49.—Tax on Inheritances and Contributions	38,134.07	31,570.51	22,447.14
50.—Tax on Banks and Exchange Houses	10,742.84	15,360.00	14,620.00
51.—Tax on Patent and Trademarks	8,927.84	9,136.73	8,980.92
52.—Tax on Property and Ships	635,890.78	425,334.04	390,077.44
53.—Tax on Excavations of Sands	2,444.26	6,238.40	6,750.39
54.—Commercial Patents	244.40	—	—
55.—Salt Production	15.85	—	—
56.—Personal Subsidiary Tax	33,378.77	—	—
	<hr/> 2,602,153.51	<hr/> 2,257,123.51	<hr/> 2,177,961.23
National Services			
57.—Lighthouse Fees	1,163.60	1,396.25	1,383.85
58.—Postal Service	140,245.77	185,327.22	143,511.41
59.—Telegraph Service	61,098.85	47,244.20	44,740.75
60.—Fiscal Wharves	22,063.85	26,812.35	32,515.01
61.—Public Markets	118,053.18	113,336.30	95,018.67
62.—Official Weighing of Cattle	11,192.60	10,688.60	12,090.82
63.—Water Works Service	32,387.75	25,194.92	22,377.67
	<hr/> 386,205.60	<hr/> 409,999.84	<hr/> 351,638.18
Public Domain Receipts			
64.—Sale of National Land	21,970.23	65,561.10	41,514.28
65.—National Property Leases	77,569.29	44,408.30	43,429.27
66.—Canal Annuities	430,000.00	—	—
67.—Interest on Constitutional Fund	169,892.30	189,131.37	229,176.37
68.—Canal Annuities in Arrears	2,150,000.00	—	—
	<hr/> 2,849,431.82	<hr/> 299,100.77	<hr/> 314,119.92
Sundry Receipts			
69.—Miscellaneous Revenue	244,771.33	174,191.25	274,835.09
70.—Deposits	29,665.36	32,408.84	58,224.60
71.—Income Tax	323,622.96	304,594.30	281,127.24
72.—Tax on Gambling Houses	107,132.42	111,916.25	122,378.05
73.—Tax on Unclaimed Deposits	—	4,323.44	—
	<hr/> 705,192.07	<hr/> 627,434.08	<hr/> 736,564.98
Carried Forward	<hr/> 10,874,666.45	<hr/> 7,819,042.48	<hr/> 7,925,180.69

Statement of Receipts—Continued

	Fiscal Years Ended December 31,		
	1939	1938	1937
Brought Forward	B/. 10,874,666.45	B/. 7,819,042.48	B/. 7,925,180.69
Roads Section			
74.—Gasoline Tax	613,853.62	586,286.28	531,551.18
75.—Miscellaneous Receipts	11,474.52	100,655.30	44,139.36
76.—Loan from Banco Nacional	—	200,000.00	—
	<u>625,328.14</u>	<u>892,941.58</u>	<u>575,690.54</u>
Beneficence Section			
77.—Receipts from National Lottery	977,847.05	1,009,192.30	1,006,092.08
78.—Miscellaneous Receipts	228,151.14	239,538.41	212,597.27
	<u>1,205,998.19</u>	<u>1,248,730.71</u>	<u>1,218,689.35</u>
Special Receipts			
79.—Loan from Banco Nacional	—	150,000.00	—
80.—Product from Olympic Bonds Loan	—	26,916.75	200,750.00
81.—Reimbursements	12,295.27	11,456.66	47,685.88
82.—Pension Fund	281,666.90	170,593.13	186,268.80
83.—Miscellaneous	49,224.44	361.57	137.63
	<u>343,186.61</u>	<u>359,328.11</u>	<u>434,842.31</u>
Total Receipts	<u>13,049,179.39</u>	<u>10,320,042.88</u>	<u>10,154,402.89</u>

Statement of Expenditures

1.—Department of Government and Justice			
a) Legislative Power	B/. 63,591.50	B/. 101,022.26	B/. 94,665.44
b) Executive Power	51,211.75	52,287.64	55,864.34
c) Department Administration	35,654.55	23,121.17	24,585.10
d) Governors, Mayors and Corrigidors	134,438.79	139,989.09	130,857.47
e) Public and Civil Registry, National Archives and Notaries	59,602.76	63,971.88	63,131.81
f) National Police, Jails and Bands	1,410,070.18	1,399,170.61	1,292,188.91
g) Courts of Justice	204,432.63	208,546.72	205,230.56
h) Miscellaneous Department Expenses	127,093.99	134,824.97	176,797.94
	<u>2,086,096.15</u>	<u>2,122,934.34</u>	<u>2,043,321.57</u>
2.—Department of Foreign Relations			
a) Department Administration	35,860.50	46,527.10	52,489.92
b) Diplomatic and Consular Service	283,117.18	253,243.62	219,786.24
c) Post and Telegraph	453,004.96	415,081.10	372,026.21
d) Miscellaneous Department Expenses	5,632.31	30,257.81	84,356.01
	<u>777,614.95</u>	<u>745,109.63</u>	<u>728,658.38</u>
3.—Department of Finance and Treasury			
a) Department Administration	105,796.83	154,362.71	143,138.44
b) Comptroller's Office	76,309.87	70,693.66	62,499.44
c) Customs Service	178,301.19	116,011.61	110,747.19
d) Internal Revenue	320,107.20	241,834.01	218,375.99
e) Land Purchases and Revenue Collected and Returned	61,663.07	160,183.19	168,134.39
f) Contribution to Fire Department and Municipalities	59,672.50	78,216.43	73,165.75
g) National Printing Plant	67,269.69	79,972.98	88,720.81
h) Unforeseen Expenses for all Departments	50,249.86	24,295.75	39,685.36
i) Miscellaneous Department Expenses	98,229.89	41,057.41	52,566.59
	<u>1,017,600.20</u>	<u>966,627.75</u>	<u>957,033.96</u>
Carried Forward	<u>3,881,311.30</u>	<u>3,834,671.72</u>	<u>3,729,013.91</u>

Statement of Expenditures—Continued

	Fiscal Years Ended December 31,		
	1939	1938	1937
Brought Forward	B/. 3,881,311.30	B/. 3,834,671.72	B/. 3,729,013.91
4.—Department of Commerce and Industries			
a) Department Administration	10,794.64	9,300.00	9,300.00
b) Labor Bureau	6,000.00	4,800.00	4,800.00
c) Bureau of Commerce and Industries	5,840.00	4,800.00	4,800.00
d) Bureau of Statistics	18,243.68	16,235.56	19,218.94
e) Tourist Bureau	11,644.98	8,019.62	16,351.95
f) Miscellaneous Department Expenses	6,270.30	5,990.36	5,085.19
	<u>58,793.60</u>	<u>49,145.54</u>	<u>59,556.08</u>
5.—Department of Education and Agriculture			
a) Department Administration	22,589.89	24,585.27	23,775.22
b) General Inspection	—	57,905.17	59,027.16
c) Secondary and University Instruction	527,871.39	432,514.01	326,041.03
d) Primary Instruction	1,507,837.81	1,465,433.97	1,323,220.52
e) Department of Agriculture	125,279.93	99,995.62	80,472.84
f) Scholarship Abroad	27,702.30	28,475.00	36,594.80
g) Miscellaneous Department Expenses	19,454.36	18,171.99	18,128.99
	<u>2,230,735.68</u>	<u>2,127,081.03</u>	<u>1,867,260.56</u>
6.—Department of Hygiene, Beneficence and Public Works			
a) Department Administration	23,533.78	25,055.78	24,736.37
b) Public Works	976,033.82	1,159,340.50	1,499,865.97
c) Light, Telephone and Water Service	125,413.48	228,428.38	213,352.75
d) Hygiene and Beneficence	28,402.30	24,435.33	24,204.18
e) Hospitals, Dispensaries and Asylums	905,070.68	857,239.67	838,476.96
f) Sanitary Division	209,670.62	319,791.23	200,622.18
g) Construction and Maintenance of National Roads	678,593.98	1,140,494.09	767,488.61
	<u>2,946,718.66</u>	<u>3,754,784.98</u>	<u>3,568,747.02</u>
7.—Sundry Expenses			
a) Pension Fund	263,924.18	231,168.05	202,336.48
b) Unclassified Special Expenses	6,382.41	87,427.99	96,919.19
	<u>270,306.59</u>	<u>318,596.04</u>	<u>299,255.67</u>
8.—National Public Debt			
a) External Debt			
1. Amortization	—	40,500.00	77,000.00
2. Interest	296,866.77	100,602.61	203,486.25
3. Other expenses	8,032.31	5,240.81	13,528.72
	<u>304,899.08</u>	<u>146,343.42</u>	<u>294,014.97</u>
b) Internal Debt			
1. Amortization	495,772.19	333,878.03	472,825.13
2. Interest	64,848.17	70,886.97	71,331.51
3. Floating Debt	570,943.56	—	—
	<u>1,131,563.92</u>	<u>404,765.00</u>	<u>544,158.64</u>
Total Expenditures	<u>10,824,328.83</u>	<u>10,635,387.73</u>	<u>10,362,006.85</u>

DESCRIPTION OF OUTSTANDING EXTERNAL LOANS

Republic of Panama Thirty-Year 5½% External Secured Sinking Fund Gold Bonds, dated June 1, 1923, due June 1, 1953.

The 5½% Bonds were issued under a Trust Indenture, dated June 1, 1923, between the Republic and the Guaranty Trust Company, New York, N. Y., Trustee, in the principal amount of \$4,500,000, of which \$3,432,500 now are outstanding. It is intended that the 5½% Bonds will be refunded by the issue and sale of the Series B Bonds, to which this Prospectus relates; giving effect thereto the 5½% Bonds will be called for redemption on June 1, 1941 at the current redemption price of 102% of the principal amount thereof.

Republic of Panama Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, due May 15, 1963.

The 5% Bonds were issued under a Fiscal Agency Contract, dated June 22, 1928, (herein referred to as the "1928 Contract") from the Republic to The National City Bank of New York, New York, N. Y., as Fiscal Agent of the Loan.

Wherever reference is made hereinbelow to the provisions of any article or paragraph, such reference shall be understood to pertain to the article or paragraph, similarly numbered, of the aforesaid 1928 Contract. The particular provision or article is incorporated by reference at the point where notation thereof is made and the statements made with respect of such provision or article are qualified in their entirety by the reference.

The 1928 Contract, provides for cumulative semi-annual payments to a sinking fund, estimated sufficient to retire entire issue on or before maturity by call by lot at principal amount. (Article Twelfth.) The interest and sinking fund payments have been in default since May 15, 1933 as set forth herein under the caption "Certain Historical Information Concerning the External Debt," to which reference is hereby made. The 5% Bonds are subject to redemption at the option of the Republic as a whole on any interest date on 30 days' notice at 102% on or prior to May 15, 1933, at 101% on or prior to May 15, 1938, and at 100% thereafter. (Article Ninth.)

The 5% Bonds are the irrevocable obligations of the Republic, to the payment of the principal, and interest thereon, as well as amortization charges, there is pledged the good faith and credit of the Republic. As a further guaranty and security for the payment of the principal, interest and amortization of the 5% Bonds the Republic, charged, allocated and pledged each and all of the income and revenues of the Republic which may at any time arise or accrue from the following sources:

- (A) A first and prior charge on the revenues derived from the Retail Liquor Tax.
- (B) A first and prior charge on the net revenue from the operation of the National Railway from Chiriqui to Rabo de Puerco or Puerto Armuelles and of the wharf at the latter port.
- (C) A first charge on the net income from Export Duties.
- (D) A first charge on the proceeds of the Stamp Tax.
- (E) A second charge on the annual Treaty Payments of \$250,000 receivable from the Government United States under the Treaty of November 18, 1903, subject only to the lien for payments for the account of the 5½% Bonds, so long as said 5½% Bonds may be outstanding and not called for redemption. In respect of this pledge of the annual Treaty Payments of \$250,000, the 1928 Contract contains the undertaking of the Republic to take all necessary and proper steps to assure the prompt and periodic delivery thereof, or so much thereof as is not required in satisfaction of the prior lien thereon, by the Fiscal Agent of the Republic to the Fiscal Agent of the Loan.
- (F) A second charge on the net interest, income and revenue of all investments constituting the principal of the Constitutional Fund, subject only to the prior charge in favor of the 5½% Bonds, so long as said 5½% Bonds may be outstanding and not called for redemption. The Republic, by the terms of the 1928 Contract, conferred upon the Fiscal Agent of the Loan exclusive authority to receive from the Fiscal Agent of the Republic all of said income from the Constitutional Fund, subject to the prior lien in favor of the 5½% Bonds. (Article Sixteenth.)

The 1928 Contract contains the covenant of the Republic that, so long as the 5% Bonds remain outstanding and unpaid, it will continue to maintain and collect the taxes above mentioned (A, C and D) at rates which shall not be less productive than the rates under the laws existing. (Article Eighteenth.)

The 1928 Contract contains the further covenant that, if, in any consecutive twelve months the revenues actually accruing to the Republic from taxes or other sources of income then charged in favor of this Loan and available thereto shall not have equalled 120% of the total sum required at the time for the service of the Loan (whether the principal sum then be \$12,000,000 or \$16,000,000 or otherwise) including interest, amortization charges, etc., the Republic, at the request of the Fiscal

Agent of the Loan, will immediately charge, allocate and pledge, in a sum sufficient to cover such deficiency and/or the probability of the recurrence of a like deficit, revenues accruing to it from other sources satisfactory to the Fiscal Agent of the Loan so that at no time shall the revenues from sources pledged or charged for the service of the Loan be less than 120% of the amount actually required for such service. (Article Nineteenth.)

Notwithstanding the pledges aforesaid, the Republic failed to apply the internal revenues pledged specifically to the service of the 5% Bonds because of an internal financial stringency and because of a substantial reduction in these specific revenues. The circumstances of the default, including the difficulties surrounding the aforesaid annual Treaty Payment of \$250,000, which resulted in its unavailability from February 26, 1934 until July 25, 1939, are more fully described herein under the caption "Certain Historical Information Concerning the External Debt," as aforesaid.

There is no provision in the 1928 Contract permitting the substitution of any property for the security aforementioned.

Article Twenty-sixth of the 1928 Contract provides that:

"As soon as it shall be possible in accordance with the terms of Act No. 5 of 1928, to issue the remaining \$4,000,000 of this Loan for the purpose of the refunding of the Republic of Panama Thirty-Year 5½% External Secured Sinking Fund Gold Bonds due June 1, 1953, authorized in Law No. 4 of 1923 (which remaining \$4,000,000 shall constitute Series B of this Loan), a supplementary agreement shall be had between the Republic and the Fiscal Agent of the Loan, wherein shall be stipulated the rate of interest to be paid, the denominations of the bonds to be issued, the period of time for which said bonds shall run, the rate and terms of amortization, the additional security therefor, if any, and the compensation of the Fiscal Agent of the Loan, whereupon all bonds duly issued for the purpose of carrying out the provisions of said law, including said Series B, shall be entitled to all of the security enumerated in this Agreement being on terms of full equality in all respects with the bonds of the present issue, Series A, except as may be otherwise stipulated."

DESCRIPTION OF OUTSTANDING INTERNAL DEBT

Title and Interest Rate	Date	Maturity or if no fixed maturity then date by which sinking fund calculated to retire issue)	Principal Amount Original Issue	Amount Outstanding December 31, 1939
1. Debt to United States of America, for improvements in Cities of Panama and Colon.....2%	July 1, 1907	July 1, 1957	\$3,276,250.00	\$1,007,426.71
2. Loan from United Fruit Company .....3%	February 1, 1923	1944	B 150,000.00	B 28,000.00
3. Loan from National City Bank (Panama Branch) .6%	September 30, 1930	1943	B 1,000,000.00	B 240,000.00
4. Loan from Panama Brewing and Refrigerating Company .....6%	December 22, 1922	1945	B 260,000.00	B 69,000.00
5. Treasury Conversion Bonds .....6%	April 5, 1933	1943	B 1,139,160.00	B 506,240.00
6. Olympic Bonds .....6%	May 19, 1937	1942	B 600,000.00	B 446,280.01

1. Debt to United States of America for improvement in Cities of Panama and Colon.

By a contract dated July 1, 1907, between the Republic of Panama and the Isthmian Canal Commission, acting for the United States of America, it was agreed that the amount which had been or would be expended by the United States for the installation and maintenance of a system of water works and sewers and the construction and maintenance of streets in the Cities of Panama and Colon was \$3,276,250, which amount the United States was to reimburse itself over a period of fifty years, at the rate of \$65,525 per year, from the collection of water rents from consumers in those Cities and any balance to be paid by the Republic. By a contract dated September 30, 1910, between the same parties, it was agreed that the amount due the United States on account of said improvements was \$1,913,683.26 on July 1, 1910 and that said sum together with subsequent maintenance costs should be repaid with interest at 2% per annum by the collection by the United States of the water rents and quarterly payments of any deficiencies in the water rents by the Republic so that the debt would be repaid in 47 years from July 1, 1910.

2. *Loan from United Fruit Company.*

This loan was made on February 1, 1923 in the amount of B. 150,000 and under the contract it was to bear interest at 6% per annum and be repaid within 15 years. In 1933 it was verbally agreed between the parties that the Republic would pay the principal at rate of B. 500 per month plus interest at 3% until repayment of the loan. This loan is unsecured.

3. *Loan from National City Bank of New York (Panama Branch).*

This loan was made on September 30, 1930 in the amount of B.1,000,000 and under the contract it was to bear interest at 7% per annum. In 1933 it was agreed between the parties that the Republic would pay the principal at the rate of B. 5,000 per month plus interest at 6% until repayment of the loan. This loan is secured by pledge of the Panama Property Tax (urban and rural) and the Slaughter House Tax.

4. *Loan from Panama Brewing and Refrigerating Co.*

This loan was originally made on December 22, 1922 in the amount of B. 200,000 and under the contract it was to bear interest at 6% per annum and be repaid within 10 years. On December 31, 1931, the Republic still owed the sum of B. 65,000 and a new agreement was signed on that date whereby the Company loaned the Government B. 60,000 additional, making a total of B. 125,000. Maturity of the loan was fixed at December 31, 1938, interest was fixed at 6% per annum and the Government agreed to repay the loan at the rate of B. 1,666.66 per month. In 1933 it was verbally agreed that the payments be reduced to B. 1,000 per month plus interest at 6%. This loan is unsecured.

5. *Treasury Conversion Bonds.*

Decree No. 65 of April 5, 1933 authorized the issuance of these bonds in the principal amount of B. 2,200,000 of which B. 1,139,160 were issued maturing in 1943. It was provided that retirement of the bonds shall be effected each three months by purchase thereof in the market or by drawing by lot at principal amount so as to retire all outstanding bonds within a period of ten years. The bonds are the direct obligations of the Republic and are not secured by any lien.

INDEBTEDNESS GUARANTEED

Indebtedness guaranteed by the Republic of Panama consisted of four external issues of Mortgage Bonds of the National Bank, outstanding June 30, 1940, in the amount of B/. 584,500. These are more fully described below.

National Bank of Panama

The National Bank of Panama was established in 1904 and its present organization and operation are regulated by Law 3 of February 7, 1923. In accordance therewith the Bank is autonomous but subject to the inspection of the Executive Power. A contingent guarantee of its liabilities by the Nation is provided. The Manager and five directors are appointed by the Government which is the sole owner of all of the outstanding stock of the Bank in the amount of B/. 1,000,000. Following is the balance sheet of the National Bank at June 30, 1940:

Assets:

Cash	B/. 474,490.13
Due from Foreign Bank and Correspondents	17,593.00
Due from Local Bank and Correspondents	1,177,319.14
Mortgage Loans	2,649,390.87
Loans with Personal Guarantees	1,968,170.36
Loans secured by Bonds and Stocks	142,366.40
Real Estate	402,461.46
Bonds of Government of Panama	15,681.62
Other Bonds and Stocks	993,508.19
Accounts Receivable, Prepaid Expenses, etc.	245,621.31
Total Assets	<hr/> B/. 8,086,603.18

Liabilities:

Paid-in Capital	B/. 1,000,000.00
Reserve Fund	1,631,244.88
Owed to Banks and Correspondents	20,601.09
Demand Deposits	3,305,143.90
Time Deposits	1,427,336.41
Interest Payable	83,777.42
Accounts Payable	33,999.48
National Bank of Panama Guaranteed Sinking Fund 6½% Gold Bonds, Series A, B, C and D	584,500.00
Total Liabilities	<hr/> B/. 8,086,603.18

Details of the four Mortgage Bonds issues of the National Bank at June 30, 1940 are as follows:

Title	Issued	Redeemed through Sinking Fund	In Possession of Bank	Outstand- ing
National Bank of Panama Guaranteed Sinking Fund 6½% Gold Bonds, Series A, due 1946 (Note 1)	\$1,000,000	\$302,500	\$601,000	\$ 96,500
National Bank of Panama Guaranteed Sinking Fund 6½% Gold Bonds, Series B, due 1947 (Note 1)	\$1,000,000	\$250,000	\$628,000	\$122,000
National Bank of Panama Guaranteed Sinking Fund 6½% Gold Bonds, Series C, due 1948 (Note 2)	\$1,000,000	\$822,000	\$ 2,000	\$176,000
National Bank of Panama Guaranteed Sinking Fund 6½% Gold Bonds, Series D, due 1949 (Note 3)	\$1,000,000	\$807,000	\$ 3,000	\$190,000

Note 1. The January 1, 1933 and subsequent coupons as well as the sinking fund on the Series A Bonds are in default. The November 1, 1932 and subsequent coupons as well as the sinking fund on the Series B Bonds are in default. The Management of the National Bank has been authorized to discuss with The Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York, N. Y., an offer to the holders of Series A and B Bonds in settlement of the existing default but such offer had not been made at the date of filing of the Registration Statement.

Note 2. On the Series C Bonds, all unpaid interest coupons from April 1, 1932 to April 1, 1936 inclusive, were paid in July 1936, at the rate of 4%. Interest due October 1, 1936 and subsequently, paid promptly at maturity dates at rate of 4% per annum.

Note 3. On the Series D Bonds, all unpaid interest coupons from August 1, 1932 to February 1, 1936 inclusive were paid in July 1936, at the rate of 4% per annum. Interest due August 1, 1936 and subsequently, paid promptly at maturity dates at rate of 4% per annum.

All four of the above series of Mortgage Bonds are direct obligations of the National Bank, guaranteed as to principal, interest and sinking fund by the Republic by endorsement. Series A and B are further secured, in accordance with Article 5 of Law 35 of 1935, by the capital of the Bank and by mortgages executed in favor of the Bank, of an aggregate principal amount equal to not less than 140% of the principal amount of Series A and Series B Bonds outstanding at the time. The security provisions for the Series C and D bonds are similar except that they provide that the value of mortgages in favor of the Bank securing the Bonds of these two series shall be 110% of the amount of bonds outstanding.

The National Bank has deposited \$632,000 principal amount of the 5% Bonds in assent to the Plan.

All of the 5% Bonds and all of the National Bank of Panama Guaranteed Bonds shown above as held by the National Bank of Panama were acquired during the period such Bonds were in default.

ADDITIONAL MISCELLANEOUS OR CONTINGENT LIABILITIES

Additional miscellaneous or contingent liabilities of the Republic, as of June 30, 1940, may be summarized as follows:

1. Loans of National Bank to ten different municipalities guaranteed by the Government.....	B/. 38,945.60
2. Loans of National Bank to Chiriqui Railroad, guaranteed by the Government, as of June 30, 1940. Contract No. 5 of October 5, 1936 Unpaid balance	25,411.17
3. Guarantee of deposits in Caja de Ahorros (Savings Bank) as of June 30, 1940. Time deposits up to 30 days.....	1,490,337.33
Time deposits beyond 30 days.....	32,588.00
Total	B/. 1,587,282.10

Law 7 of 1935 established pensions for certain classes of Government employees under specified conditions. A contribution of 2½% of the employees salary was authorized to be deducted and the Government was authorized to appropriate \$7,000 monthly, both amounts to be deposited in the Banco Nacional in a special account on which the Government will draw to meet subsequent expenses for pensions authorized to be paid. The contingent liability of the Government in this connection cannot be estimated.

The Caja de Ahorros (Savings Bank) was established in accordance with Law 34 of 1932, Decree 54 of 1934 and Decree 27 of 1939. Its capital consists of 150,000 Balboas supplied by the Government. It is operated by an Administrator and a Board of Directors consisting of the Manager of the Banco Nacional, the Controller General of the Republic and the President of the Business Association. The certified balance sheet at June 30, 1940, was as follows:

Assets:	
Loans on chattel mortgages, bonds and stocks.....	B/. 1,097,567.99
Due from local bank and correspondents.....	594,072.30
Furniture and fixtures.....	2,410.95
Other bonds and stocks.....	52,100.00
Accounts receivable and prepaid expenses.....	3,780.21
	<u>B/. 1,749,931.45</u>
Liabilities:	
Time deposits up to 30 days by individuals.....	B/. 1,490,337.33
Time deposits beyond 30 days by individuals.....	32,588.00
Accounts payable and prepaid interest.....	3,453.94
Owed to banks and correspondents.....	12,366.56
Capital.....	150,000.00
Surplus.....	61,185.62
Total.....	<u>B/. 1,749,931.45</u>

The Caja de Ahorros has deposited \$183,000 principal amount of 5% Bonds in assent to the Plan.

The National Chiriqui Railroad (Ferrocarril Nacional de Chiriqui) is entirely owned by the Republic and is operated as a national autonomous enterprise. At June 30, 1940, the certified balance sheet showed the following principal items:

Assets:	
Fixed Assets.....	B/. 5,468,538.11
Requisitions for Investments and Improvement.....	154,773.53
Current Assets.....	146,792.82
Miscellaneous Assets.....	1,020.00
Suspense Accounts.....	316,883.55
Profit and Loss Deficit.....	223,142.45
Total assets.....	<u>B/. 6,311,150.46</u>
Liabilities:	
Appropriation of National Funds.....	B/. 5,628,254.54
Debt to Banco Nacional.....	25,411.17
Debt to E. Halphen & Co. Inc.....	37,000.00
Current Liabilities.....	47,389.48
Reserves for Retirement and Depreciation.....	573,095.27
Total Liabilities.....	<u>B/. 6,311,150.46</u>

LEGAL PROCEEDINGS

The Republic is advised by its Financial Advisers that attorneys said to represent holders of \$28,000 principal amount of the 5½% Bonds (to be refunded under the Plan) have notified the Financial Advisers that their clients claim and will demand payment of such bonds in gold equivalent and that the attorneys intend to take all necessary legal steps to enforce such contention.

THE NAME AND ADDRESS OF THE ISSUER'S AUTHORIZED AGENT IN THE UNITED STATES

His Excellency Carlos N. Brin, Ambassador Extraordinary and Plenipotentiary of the Republic of Panama, Washington, D. C.

ADDITIONAL INFORMATION CONTAINED IN THE REGISTRATION STATEMENT

Further information concerning these securities, the Republic of Panama and the Plan for the readjustment of the External Debt is to be found in the Registration Statement on file with the Securities and Exchange Commission, Washington, D. C. The Registration Statement may be inspected by anyone at the office of the Commission, without charge, and copies of all or any part of it may be obtained upon payment of the Commission's charge for copying.

REPUBLIC OF PANAMA

By ENRIQUE LINARES, JR.

Ministro de Hacienda y Tesoro

EXHIBIT A TO PROSPECTUS

(Translation)

Embajada de Panama,
Washington, D. C.
March , 1941.

To the Honorable Cordell Hull,
Secretary of State,
Washington, D. C.

Sir:

I have the honor, in the name and on behalf of the Republic of Panama, to advise Your Excellency that the Republic of Panama has declared effective this day, the Plan for the Readjustment of the External Debt of the Republic of Panama, to which Plan reference was made in this Embassy's Note of March 14, 1940, to Your Excellency. Approximately 76% of the outstanding \$11,313,500 principal amount of Republic of Panama Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, due May 15, 1963 (hereinafter called the "5% Bonds"), have been deposited in acceptance thereof, and, as provided by the Plan, such deposited 5% Bonds will be returned to the holders thereof, stamped to evidence their assent to said Plan and the accompanying Deposit Agreement, until such time as all of the 5% Bonds have been deposited, or provision is made for their retirement. Consequently, the Republic of Panama Fifty-five Year 3¼% External Secured Refunding Bonds, due December 1, 1994 (hereinafter called the "3¼% Bonds"), provided for in the Plan and referred to in this Embassy's Note of March 14, 1940, to Your Excellency, will not be issued until such time as all of the 5% Bonds not heretofore deposited shall have been presented for stamping to evidence assent to the Plan, or their retirement duly provided for, whereupon the 3¼% Bonds will be issued in exchange for the stamped 5% Bonds upon surrender thereof for cancellation.

The Republic of Panama, as contemplated in the Plan, has made provision for the retirement, on or before June 1, 1941, of its Thirty Year 5½% External Secured Sinking Fund Gold Bonds, due June 1, 1953, (hereinafter called the "5½% Bonds"), through application of the proceeds from the sale of \$4,000,000 principal amount of Republic of Panama Twenty-six Year 3½% External Secured Refunding Bonds, Series B, due March 15, 1967 (hereinafter called the "Series B Bonds"). The Series B Bonds will be issued pursuant to a Supplementary Agreement, dated as of March 15, 1941, between the Republic of Panama and The National City Bank of New York, a copy of which is herewith submitted; the 3¼% Bonds are to be issued pursuant to a Fiscal Agency Contract, dated as of December 1, 1939, between the Republic of Panama and The National City Bank of New York, a copy of which is also herewith submitted. In addition, the Republic of Panama will issue not exceeding \$1,046,500 principal amount of 3% External Sinking Fund Bonds, due May 1, 1987, (hereinafter called the "3% Bonds"), for the purpose set forth in said Plan; the 3% Bonds will be issued pursuant to a Fiscal Agency Contract dated as of May 1, 1940 between the Republic of Panama and The National City Bank of New York, a copy of which is herewith submitted.

Pursuant to the covenants in the Fiscal Agency Contract of June 22, 1928 between the Republic of Panama and The National City Bank of New York, Fiscal Agent, the 5% Bonds are secured, subject only to the prior lien of the 5½% Bonds which are to be retired from the proceeds of the Series B Bonds as hereinbefore mentioned, by the pledge of the annual payment of \$250,000 in gold coin of the United States which, in accordance with Article XIV of the "Convention between the United States and the Republic of Panama for the Construction of a Ship Canal to Connect the Waters of the Atlantic and Pacific Oceans", ratified and proclaimed on February 26, 1904, the United States of America had agreed to pay to the Republic of Panama on February 26 in each year subject only to the prior lien of the 5½% Bonds. This annual payment is hereinafter and in the Plan referred to as the "Original Treaty Payment". The said Convention of February 26, 1904, was amended and supplemented by a General Treaty between the United States of America and the Republic of Panama, signed on March 2, 1936, ratified on July 25, 1939 and proclaimed on July 27, 1939, under Article VII of which the United States of America has agreed to pay to the Republic of Panama on February 26 in each year, the sum of 430,000 Balboas (each Balboa to contain 987½ milligrams of gold of 0.900 fineness), the United States of America to discharge its obligation with respect to such payment in United States dollars, provided the amount so paid is the equivalent of four hundred thirty thousand Balboas (B/430,000) as above described, and as provided by Article VII of the said Treaty and as embodied in agreements of March 2, 1936, between the Secretary of State of the United States of America and the members of the Panamanian Treaty Commission. This full annual amount of 430,000 Balboas (each Balboa to contain 987½ milligrams of gold of 0.900 fineness) is hereinafter and in the Plan referred to as the "Total Treaty Payment". The annual

amount by which the Total Treaty Payment exceeds the Original Treaty Payment is hereinafter and in the Plan referred to as the "New Treaty Payment". Therefore, the Original Treaty Payment will continue to be charged, pledged and allocated to the service of the 5% Bonds, so long as they remain outstanding, subject, however, to sharing such security with the Series B Bonds in accordance with the terms and provisions of the aforesaid Supplementary Agreement. As additional security for the annual service of the Series B Bonds, the Republic of Panama has given thereto a first lien upon the New Treaty Payment which is unencumbered and available for pledge. The Republic has given a second lien on the New Treaty Payment for the service of the stamped 5% Bonds. When and if the 3¼% Bonds are issued, the Series B Bonds will have a first lien and the 3¼% Bonds a second lien on the Total Treaty Payment, the latter to become a first lien upon the retirement of the Series B Bonds. The 3% Bonds will have a lien on the Total Treaty Payment to take effect when the stamped 5% Bonds, the Series B Bonds and the 3¼% Bonds have been fully retired. Accordingly, the Republic of Panama requests and hereby irrevocably directs Your Excellency's Government to pay over the Original Treaty Payment and the New Treaty Payment, in the separate amounts above computed, on February 26 in each year to The National City Bank of New York, Fiscal Agent of said Loans, or to any duly authorized successor Fiscal Agent, for application to the annual service of the external loans of the Republic of Panama in the manner provided in the aforementioned Fiscal Agency Contracts, until the Republic of Panama shall furnish Your Excellency's Government with a certificate which may be countersigned by The National City Bank of New York (or any duly authorized successor Fiscal Agent) as Fiscal Agent for the 5% Bonds, stamped and unstamped, the Series B Bonds, the 3¼% Bonds (when issued) and the 3% Bonds, such certificate to be to the effect that the principal and interest of each of said issues of bonds has been fully paid and said bonds retired.

You may accept the instructions herein contained as terminating and superseding those contained in the communication dated June 8, 1923 to Your Excellency's Government relating to the 5½% Bonds.

In view of the fact that the carrying out of the Plan for the Readjustment of the External Debt is dependent on the irrevocable pledges of the Original Treaty Payment, the New Treaty Payment, and the Total Treaty Payment, I venture to hope that Your Excellency will give me a prompt favorable reply to the points raised in this note.

Accept, Excellency, the renewed assurance of my highest consideration.

.....
Ambassador Extraordinary and
Plenipotentiary of the Republic
of Panama

EXHIBIT B TO PROSPECTUS

(Translation)

REPUBLICA DE PANAMA
Secretaria de Hacienda y Tesoro

de Marzo de 1941

The Chase National Bank of the City of New York
18 Pine Street
New York, N. Y.

Dear Sirs:

I wish to inform you that the Republic of Panama has declared effective, on March 28, 1941 the Plan for the Readjustment of the External Debt to which Plan reference was made in the letter of February 21, 1940 from the Secretario de Hacienda y Tesoro to you. The Republic on this date has made full provision for the redemption and retirement of all of its Thirty-five Year 5½% External Sinking Fund Gold Bonds dated June 1, 1923, due June 1, 1953, and, accordingly, the Guaranty Trust Company of New York, as Trustee for said Bonds will deliver to you a Certificate to the effect that the Trust Indenture dated June 1, 1923, between the Republic and the Guaranty Trust Company relating to said Bonds, has been fully satisfied.

In connection with declaring the Plan effective, the Republic of Panama has determined that the annual service of its external loans, which are secured by pledge of the Original Treaty Payment and the New Treaty Payment, as defined in the Plan, will be facilitated by the direct payment thereof to the Fiscal Agent for the respective loans by the Government of the United States and in pursuance thereof the Republic of Panama instructed its Ambassador to address to the Secretary of State of the United States a communication to effectuate such arrangement. I enclose herewith and direct your attention to a copy of the aforesaid communication, dated March 28, 1941, and to a copy of the acknowledgment thereof by the Secretary of State of the United States dated March 28, 1941, which you may accept as superseding and cancelling our previous instructions under the agreement of October 21, 1937 and of our letter of February 21, 1940, insofar as such instructions relate to the Original Treaty Payment and the New Treaty Payment.

In order that the understanding between the Republic of Panama and you may be complete I hereby reaffirm our previous instructions relating to the net interest, income and revenue of the principal of the Fund (hereinafter called the "Constitutional Fund"), contained in the aforesaid letter of February 21, 1940, which after giving effect to determination of the exact terms for the Republic of Panama Twenty-six Year 3½% External Secured Refunding Bonds, Series B, Due March 15, 1967, (hereinafter called the "Series B Bonds"), are as follows:

You hereby are authorized and irrevocably directed in the name of the Republic of Panama to pay over monthly the net interest, income and revenue of the Constitutional Fund to The National City Bank of New York or any duly authorized successor Fiscal Agent, (a) as Fiscal Agent for the Republic of Panama Thirty-five Year 5% External Secured Sinking Fund Gold Bonds, Series A, (hereinafter called the "5% Bonds") and for the Series B Bonds to be applied in accordance with the Fiscal Agency Contract of June 22, 1928 and the Supplementary Agreement thereto dated as of March 15, 1941, until notice of the retirement of the 5% Bonds is given as hereinafter provided, (b) thereafter as Fiscal Agent for the Republic of Panama Fifty-five Year 3¼% External Secured Refunding Bonds, Due December 1, 1994 (to be issued) until notice of the retirement of the said Bonds is given as hereinafter provided, and (c) thereafter as Fiscal Agent for the Republic of Panama 3% External Secured Sinking Fund Bonds, Due May 1, 1987 (to be issued) until notice of the retirement of the said Bonds is given as hereinafter provided; notice of the retirement of each of the aforesaid issues of bonds shall be furnished to you by a certificate to that effect issued by the Fiscal Agent of each of the respective issues of bonds.

I shall appreciate your acknowledgment and confirmation of the irrevocable instructions herein contained and of the receipt by you of the Certificate from the Guaranty Trust Company of New York, hereinbefore mentioned.

IN WITNESS WHEREOF, I have caused to be affixed the official seal of the Republic of Panama, and in whose name and pursuant to authority duly conferred upon me by Law 5 of 1928, Law 66 of 1938 and Decree 7 of 1940, Law 21 of 1941 and Decree 25 of 1941 of the Ministry of Finance and Treasury, I have issued these irrevocable authorizations and instructions.

Yours very truly,

Minister of Finance and Treasury