Republic of Panama
Superintendency of Banks

RULE No. 005-2011[1]
(dated 20 September 2011)

"Whereby a new Rule updating Corporate Governance provisions was issued"

THE BOARD OF DIRECTORS
In use of its legal powers, and

WHEREAS:

Due to the issuance of Decree Law 2 of 22 February 2008, the Executive Branch systematically ordered in the form of a Sole Text the Decree Law 9 of 1998 and all its amendments, which was approved by means of Executive Decree 52 of 30 April 2008, hereinafter referred to as the Banking Law;

Pursuant to number 2 of article 5 of the Banking Law, one of the objectives of this Superintendency is to strengthen and foster auspicious conditions to the development of the Republic of Panama as an international financial/banking center;

According to number 5 of article 11 of the Banking Law, it is the duty of this Superintendency to establish, within the administrative sphere, the interpretation and reach of the legal provisions or regulations on banking matters;

According to the provisions set forth in number 1 of article 11 of the Banking Law, one of the technical duties of the board of directors is to approve general standards for the identification, regulation, and consolidated supervision of banks and banking groups;

Article 55 of the Banking Law establishes that Banks are required to comply with Corporate Governance regulations issued by the Superintendency;

This Rule, in regards to the foundations of good corporate governance, the board responsibilities and structures of the board of directors and the relationship between the board of directors and the top management establish the guidelines that will serve banks to be structured appropriately according to sound and safe best banking practices; which are also taken as reference at the moment the Superintendency of Banks conducts risk assessments to each bank;

By this Rule the Superintendency of Banks, when asking banks the existence of a clear internal control framework, will provide to this institution an adequate supervisory tool to request banks an appropriate internal control environment. Also, a clear framework will contribute to provide explicit guidance to the board of directors and bank management on their responsibilities, in order to reduce operating risks;

In the working sessions of this Board of Directors, was mentioned the need and convenience of establishing the parameters and guidelines to optimize corporate governance within banks.

RULES:

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[1] This Rule rescinds Rule 4-2001 dated 5 September 2001, as of its entry into force on 1 January 2012. The proviso of Article 11 was amended by Rule 4-2012 dated 19 June 2012. Subparagraph d, paragraph 7, Article 2 was amended by Rule 5-2014. See Resolution SBP-JD-0036-2012.

ARTICLE 1. SCOPE OF APPLICATION. The provisions of this Rule shall be applicable to all state-owned, general license and international license banks. Also, it shall be applicable to all bank holding groups as established in article 27.

In case of state-owned banks, the provisions of this Rule will be applicable to the extent that they are not contrary to the legal and regulatory provisions prevailing in said institutions.

In case of (1) bank branches of foreign banks and (2) international license banks which the Superintendency is host supervisor, compliance of this Rule could be evidenced when relevant, by an annual certification submitted by their parent companies or responsible regional office, stating that the bank has the structures, organization and controls to ensure a corporate governance complying with best banking practices. If the Superintendency determines that these banks do not have the above structures, organization and controls, the former will require its due compliance. If the Superintendency considers that home regulations of these banks established within Panama are, on the Superintendency's best judgment, lacking in good corporate governance practices, the Superintendency will require full compliance with the provisions of this Rule. This will be without prejudice that the information requested by this Superintendency is at its disposal.

ARTICLE 2[2]. DEFINITIONS. For the purposes of this Rule, the following terms shall be understood as follows:

a. **Corporate Governance.** The set of rules guiding the relationship between bank's Top Management, its Board of Directors, shareholders, and/or bank holding groups and other stakeholders, in order to provide the structure whereby the strategic objectives of the enterprise and the means to attain these objectives are set, and to determine the monitoring system.

b. **Other Stakeholders.** Are the persons, groups or entities that, because of their relationship with the bank, whether as customers, employees, regulators, suppliers and others, may have interest on the bank or on any group, or on the interests the bank has and/or might have influence on its activity.

c. **Top Management or Senior Management.** It shall be understood as top management or senior management the top executive officer (hereinafter referred to as general manager, executive vice president, executive chief officer or any other name), as well as the second senior executive (such as general deputy manager or any other name) and other managers and employees performing key duties which must report directly to senior executives or managers.

d. **Independent Director.** Independent director shall be understood to be that member of the board of directors of the bank that:

    1. During the last five years, he/she is not and has not been employed by the bank, neither by a corporation that is a member to its banking group thereof nor by any of its non-banking affiliates.
    2. He/she is not and has not been involved with a consulting or advising company to the bank, neither to any entity that is member to its banking group thereof nor to any of its non-banking affiliates.

[2] Amended by Rule 5-2014. See Resolution SBP-JD-0036-2012.

3. He/she is not and has not been involved with an important customer of the bank, neither to any entity that is member to its banking group thereof nor to any of its non-banking affiliates. For the purposes of this number, not an important customer is the one that, due to his natural person condition, is a bank consumer as is defined on article 199 (1) of the Banking Law.
4. He/she is not and has not been involved with a relevant supplier to the bank, neither to any entity that is member to its banking group thereof nor to any of its non-banking affiliates. For the purposes of this number, is not a relevant supplier the one whose sales to the bank are under 5% of his/her total sales.
5. He/she has no freelance contract with the bank, with any entity that is member to its banking group thereof nor to any of its non-banking affiliates or with any member of top management.
6. He/she is not employed as company executive where any senior officer of the bank, of any entity that is member to its banking group thereof nor any of its non-banking affiliates, serves the board of directors of said company.
7. Is not a relative, up to the fourth degree of consanguinity or second degree of affinity, of a person that (1) is or has been employed during the last two years as an executive officer of the bank, of any entity that is a member of its banking group, or of any of its nonbanking affiliates; or (2) is or has been during the last two years, a member of the board of directors of the bank, of any entity that is a member of its banking group, or of any of its nonbanking affiliates.
8. He/she is or has not been, during the last two years, affiliated or employed by the current or last year auditor of the bank, of any entity that is member to its banking group thereof nor of any of its non-banking affiliates.
9. He/she is not, directly or indirectly, owner of shares issued by the banks, by any entity that is member to its banking group thereof nor by any of its non-banking affiliates, in same proportion or higher than 1% of the total issued and outstanding shares with rights to vote.

ARTICLE 3. MINIMUM REQUIREMENTS FOR CORPORATE GOVERNANCE. Good corporate governance for banks shall include as minimum:

a. Documents stating clearly the corporate values, strategic objectives, codes of conducts, and other appropriate behavior standards.
b. Documents stating clearly compliance with the provisions stated above and its due communication towards all levels of the organization.
c. A balanced corporate strategy, in regard to which global fulfillment of the bank and the contribution of each level of the corporate governance structure could be measured.
d. A clear assignment of responsibilities and authorities entitled for decisions-making, incorporating the necessary individual qualifications to fulfill those and a hierarchical line of required approvals in all corporate governance structure levels up to the board of directors.
e. Setting up of a mechanism for interaction and cooperation between the board of directors, top management, and internal and external auditors.
f. Appropriate control system including risk management duties independent from the business lines and other balance and counterbalance.
g. Prior approval, follow up and special supervision of risk exposures, particularly with regard to credit facilities granted under best banking practices, where conflicts of interest exist.

h. Documents containing approved policies on recruitment, orientation, continuous and up-to-date training of staff, financial and administrative benefits.

i. Existence of adequate information flow both from the inside of the organization to the public, ensuring transparency of corporate governance system, at least in the following areas:

   I. Board of directors structure (size, membership, qualifications, and committees) as well as internal rules to the board of directors and its promulgation towards shareholders.
   II. General administrative structure (responsibilities, hierarchical lines, qualifications, and experience).
   III. Basic organizational structure (business line structure, bank's legal structure, comptroller corporation and banking group).
   IV. Nature and extension of transactions with related parties and members to the banking group.

j. Direct supervisory system for each component of hierarchical levels within the organizational structure to the component immediately inferior hierarchically speaking, including the functions that are not involved with bank's daily management.

k. External audits not involved with the top management and the board of directors.

l. Internal audits not involved with the top management.

ARTICLE 4. DEFINITION OF THE INTERNAL CONTROL SYSTEM. The internal control system is the set of prevention, verification, and assessment policies, principles, rules, procedures, and mechanisms set by the Board of Directors, Top Management or senior management aimed to provide a reasonable degree of security in regards to achieving the following objectives:

a. To improve operations efficiency and effectiveness.
b. To prevent and mitigate occurrence of fraud, both from inside or outside the bank subject to the scope of application of this Rule.
c. To conduct an appropriate risk management.
d. To increase reliability on the information provided by the bank.
e. In strict sense, to comply appropriately with the Law and other regulations applicable to the bank.

ARTICLE 5. PRINCIPLES OF THE INTERNAL CONTROL SYSTEM. The principles of the internal control system constitute the bases and indispensable and basic conditions that ensure the effectiveness of the system according to the nature of authorized operations, its own functions and characteristics and are applied to each one of the same.

Banks when designing, implementing and modifying their internal control system must include these principles, document them with relevant support and make them available to the Superintendency.

a. **Self-control.** It is the capacity of all and each one of the employees of the organization, independently of their hierarchical level, to assess and control their job, detect deviations and make corrections while working and fulfilling their functions, as well as to improve their tasks and responsibilities.

b. **Self-regulation.** It is the capacity of the organization to develop inside and to apply methods, norms and procedures allowing development, implementation and improvement of the internal control system within the applicable legal regulations.

c. **Self-management**. It is the capacity of the organization of effectively interpreting, coordinating, executing, and evaluating their performance.

Based on the above principles, the internal control system establishes the actions, policies, methods, procedures and mechanisms to prevent, controlling, evaluating and continuously improving the entity that will allow it to have a reasonable security on achieving its objectives and managing risks that may involve the entity, complying with regulatory framework.

ARTICLE 6. PERSONS RESPONSIBLE FOR THE INTERNAL CONTROL SYSTEM. The persons responsible for the internal control system are the board of directors and top management. The participation and responsibility of each one of them shall be clearly stated in the organizational and duties manual, policies and procedures, risk control and other regulations of similar nature established by the entity.

ARTICLE 7. MINIMUM REQUIREMENTS OF THE INTERNAL CONTROL SYSTEM. All banks shall apply an appropriate internal control system fitted to the nature, complexity, and the risks inherent to their business, which must be periodically updated and adapted to the changes and needs of their surroundings. The internal control system shall hold, as minimum, the following:

a. **Controlling Environment.** An organizational and administrative system corresponding to the establishment of an appropriate organizational and administrative structure defining clearly the obligations, responsibilities, and the degree of dependency and existing interrelation between the operational and administrative areas which shall be contained in the corresponding organizational and duties manual. This system shall consider an appropriate segregation of activities attributed to the members of the institutions so as to avoid, among others, conflict of interest, as well as to foresee the means to minimize and adequately control areas identified as of potential conflict.

b. **Risk Assessment.** A risk control system which corresponds to the mechanisms set in the Bank for the identification, control, and management of risks to be faced by the bank, by the consolidated organization and by its banking group. This system shall refer to external as well as internal risks of the Bank and will include the permanent assessment of mechanisms and control activities and also the required corrective actions or improvements depending on the case.

c. **Controlling Activities.** A monitoring system based on policies, procedures, and controls, whether preventive, finding, corrective, manual, computerized, managerial or directive, executed throughout the organization to follow up the activities developed, in order to be able to assess whether the institutional objectives are being reached, if the limits set and the applicable laws and regulations are being complied with and to ensure that any expectations and significant detours can be promptly informed to the top management and the board of directors, and to be corrected as the case might be.

d. **Information and Communication.** A system that will allow the identification, collection, generation, processing, and disclosing of reliable and timely information with regards to matters such as finance, operations, administration and compliance, and market information on relevant events and conditions for decision making, and concerning mechanisms assigned to prepare and exchange the information, whether internally or externally, necessary to develop, manage, verify, and control the operations, banking activities and bank's resources. This system shall also include actions to be taken in order to communicate the responsibilities concerning to the different hierarchical levels and to the personnel regarding the control of their activities, as well as to submit information to the regulatory entities about Bank's operations and about the development of the control system.

e. **Computer Systems.** Policies and procedures for the use of information systems ensuring their well-functioning, operational availability for business continuity, including security measures and contingency plans to preserve the confidentiality and integrity of information transmitted and/or stored in databases.

f. **Monitoring.** It is the process conducted to verify the quality of internal control performance appraisal through time. It is made by continuous supervision conducted by chiefs or leaders of each area or process as their usual responsibility towards internal control.

g. **Independent Assessments.** Are the permanent follow-up procedures, such as the self-assessment of each area, which provide an important feedback; also, it is necessary to carry out assessments to be focused directly on the internal control system effectiveness, which must be conducted by persons totally independent from the process, such as internal or external auditors, as an indispensable requirement to ensure their impartiality and objectivity.

ARTICLE 8. INTERNAL AUDIT AND MONITORING OF THE INTERNAL CONTROL SYSTEM. Internal audit is based on the criterions of independence and objectivity of assurance and consultancy, conceived to add value and improve the operations of an organization, aimed to meet its objectives, providing a systematic and ordered focus to assess and improve the efficiency of risk management, control and governance processes.

Banks shall have an internal audit area to meet the duties established in article 9 of this Rule. Also, they must ensure to establishing the minimum parameters to guarantee internal audit's professional and smoothly execution of their job in accordance with international standards and best practices.

The internal audit unit of the bank is responsible for the permanent evaluation and monitoring of the internal control system. Internal audit's duty will depend administratively on the board of directors, through its Audit Committee, which shall meet regularly, will be operationally independent and shall have the powers required to evaluate compliance of risks management policies where the bank is exposed, both as an individual and as a consolidated organization, that could lessen the success of bank's objectives.

In case of branches and subsidiaries of foreign banks holding a general or an international license, the internal audit task could be conducted by the internal audit unit of its parent company abroad or of the corresponding regional office. If the Superintendency, on its own judgment, determines that this task is insufficient, the former will request the branch or subsidiary of foreign banks holding general or international license full compliance with the provisions set forth in this Rule.

In addition to the reports that the internal audit unit shall file within its continual and permanent tasks on situations related to the internal control in the institution, this unit shall file directly with the board of directors or through the audit committee and top management, at least each semester, reports on the global situation of the internal controls, containing at least:

a. The conclusions of tests carried out.
b. The recommendations on eventual deficiencies by means of a chronogram for their redress.
c. A report from the responsible persons in charge for the corresponding areas with reference to the deficiencies found in previous audits and the measures effectively adopted for their redress.

For their part, external auditors shall evaluate, at least once a year, the internal control system of the bank. These audits must be carried out pursuant to the provisions issued by the Superintendency and the International Standards on Auditing (ISA).

ARTICLE 9. INTERNAL AUDIT DUTIES. Besides the duties set forth in article 8, the internal audit unit shall hold, as minimum, the following duties:

a. To develop and carry out an annual working plan based on the entity's objectives and risks and pursuant to the policies implemented by the board of directors or its equivalent.
b. To establish policies and procedures to guide the internal audit activity.
c. To periodically inform, directly to the board of directors or through the audit committee, compliance with the internal and external annual audit plan.
d. To inform directly to the board of directors or through the audit committee on the status of findings informed to top management.
e. To ensure that there is a reporting validation process within the bank before filing those to the Superintendency of Banks.
f. To assess the sufficiency and validity of adopted internal control systems whereby the entity's relevant transactions are involved with, complying with the specific rules, procedures and regulations governing this matter.
g. To maintain at the Superintdency's disposal the reports and paperwork filed about the audits that were conducted.
h. To evaluate compliance with the procedures and policies to identify, at least, credit, legal, liquidity, market, operational, and compliance risks or other risks inherent to this activity.
i. To evaluate the effectiveness and compliance with procedures and policies in regards to risks above, including any transaction that because of their nature are presented as off-balance transactions, as well as to file improvement recommendations, as applicable.
j. To recommend the concerning corrective measures with the identified internal control system deficiencies and reported by any unit within the bank.

ARTICLE 10. PROFILE OF THE PERSON RESPONSIBLE FOR THE INTERNAL AUDIT UNIT. The person responsible for the internal audit unit must meet the following requirements:

a. University degree in related field or experience equivalent to that of the university degree.
b. Knowledge of Internal Audit Standards issued by the Institute of Internal Auditors and the International Financial Reporting Standards (IFRS) or the United States Generally Accepted Accounting Principles (US-GAAP), as applicable.
c. To have experience in the financial sector.

ARTICLE 11[3]. THE BOARD OF DIRECTORS. The board of directors of the bank shall be integrated by at least seven (7) natural persons, who shall possess the knowledge or experience relevant to the operations and/or the risks inherent to the banking activities. Most of the directors shall be individuals: (a) without participation in the daily administrative management of the bank or (b) whose condition of director would not present any material, business or ethical conflicts or conflicts of interest. Consequently, the minority of members of the board of directors may be comprised of the general manager, operation chief executive, financial chief executive or their equivalent, none of whom shall chair. At least two members of the board of directors must be independent directors.

Directors participating within a specific committee of the board of directors shall possess a specialized knowledge or experience in the corresponding area.

The board of directors shall meet at least once (1) every three months and the subjects discussed during these meetings must be duly and well recorded in the Minutes Book of the organization.

In those board of directors meetings in which participating directors are at the same time bank officials, for the board of directors to meet shall be necessary, in addition to the quorum, the majority of present directors who are not bank officials.

TRANSITORY PROVISO. Banks will have up to 1st July 2012 to incorporate to their board of directors the first independent director and up to 1st July 2013 to incorporate the second independent director.

ARTICLE 12. CORPORATE GOVERNANCE MANAGEMENT GUIDANCE. The bank shall establish, through the concerning agent, the following:

a. Board of directors' structure pursuant to article 11 of this Rule and frequency of meetings.
b. Orientation process to new members of the board of directors.
c. Advance access to relevant information for decision making according to the summons' agenda.
d. Attendance required for the board of directors' meetings.
e. Criterions on confidentiality and transparency of information.
f. Formality when holding meetings and decision-making tasks.

ARTICLE 13. RESPONSIBILITIES OF THE BOARD OF DIRECTORS. The board of directors shall have the following responsibilities and duties:

a. To promote the security and soundness of the bank.
b. To understand the regulatory framework and oversee that the bank has an effective relationship with its regulators.
c. To establish an effective corporate governance structure, including an internal control system that will contribute to the effective internal supervision of the bank and its subsidiaries.
d. To oversee that the overall working conditions are appropriate for the performance of the tasks assigned to each hierarchical level involved with the corporate governance structure.
e. To promote, together with top management, highly ethical and integrity standards.
f. To establish an organizational culture showing and remarking to all employees why the internal control process is important, the role of each one of them within the bank and to be fully integrated to such.

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3 The proviso was amended by Article 1 of Rule 4-2012 dated 19 June 2012.

g. To approve and frequently review the business strategies and other important policies to the bank.
h. To learn and understand the main risks exposures of the Bank, setting reasonable limits and procedures for such risks and to ensure that top management adopts the measures required for their identification, assessment, supervision and control.
i. To keep the Superintendency informed about the situations, events, and problems affecting or that may affect the bank and the specific actions to face and/or correct the deficiencies identified.
j. To be duly informed and ensure its access to all the information required on the conditions and administrative policies for decision making, in the exercise of their executive and supervisory duties.
k. To approve the organizational structure and to ensure that the top management checks the effectiveness of the internal control system.
l. To choose and evaluate the general manager and the personnel responsible for the external audit duties, except when the shareholders' meeting attributes to itself said responsibility.
m. To choose and evaluate the general manager or person responsible for the internal audit duties.
n. To approve and review at least once (1) a year the objectives and procedures of the internal control system, as well as organizational and duties manuals, policies and procedures manuals, risk control manuals and other bank's manuals where these are stipulated, as well as the incentives, penalties and corrective measures encouraging the adequate execution of the internal control system and systematically check their compliance.
o. To approve internal and external audit programs, and to review bank's unaudited financial statements at least once (1) every three months.
p. To oversee compliance with the provisions set forth in Rules issued by this Superintendency in regards to accuracy, reliability and integrity of information contained within the financial statements.
q. To ensure the existence of systems that will ease compliance with Rules issued by this Superintendency in regards to transparency of information of bank's products and services.

ARTICLE 14. CORPORATE GOVERNANCE PERFORMANCE APPRAISAL OF THE BOARD OF DIRECTORS. To support the performance of their duties, the board of directors of every bank, must conduct periodic evaluations and, at least, once (1) every three years to their own practices and corporate governance procedures. To meet this requirement, they could be assisted by corporate governance external advisors.

ARTICLE 15. INCOMPATIBILITIES OF THE BOARD OF DIRECTORS. Banks shall establish within their corporate governance norms, that none of their directors could:

a. Demand or accept, for themselves of for third parties, any payment or other benefits because of their decisions for themselves or for third parties.
b. Pursue the completion of personal interests with their own decisions, neither to use for their personal benefit the business opportunities concerning to the bank.
c. Participate in the consideration of issues, or to vote in those, under circumstances that could lead to potential conflict of interests. In these cases they shall inform to the other members of the board of directors of their impediment, if not, the board of directors shall invite them to refrain from participating.

ARTICLE 16. AUDIT COMMITTEE. The board of directors of the banks shall constitute an internal audit committee, who will ensure the fulfillment of the duties stated in article 17 of this Rule.

The audit committee shall be integrated by members of the board of directors without participation in the daily management of the Bank. The members of the audit committee shall possess the required knowledge and experience for the adequate compliance of their duties.

The audit committee shall meet with the frequency set by its own internal work regulations, which shall be at least every two (2) months. The internal auditor, the general manager and other employees or invitees considered pertinent by the audit committee shall participate in these meetings. Decisions made during the audit committee meetings must be recorded in a Minutes Book which shall be at the disposition of the Superintendency.

The audit committee shall prepare its own internal work regulations, which must be approved by the board of directors and shall hold the policies and procedures for the achievement of its duties. The aforementioned regulations will be in adequacy to the provisions issued by this Superintendency, including this Rule, and will state, among other aspects, the frequency of their meetings as well as the information that shall be submitted to the board of directors.

ARTICLE 17. AUDIT COMMITTEE DUTIES. The audit committee has the duty to keep informed the board of directors on the following subjects:

a. The supervision of the correct execution of the internal control system and due compliance with the internal and external audit programs, through internal policies and procedures for the detection of problems with control and internal administration; as well as of the corrective measures implemented based on the evaluations conducted by the internal audit unit, the external auditors and this Superintendency.
b. The assessment of the internal audit unit's and the external auditors' performance, in order to ensure that they correspond to the bank's needs.
c. The permanent coordination with the internal audit unit and with the external auditors on items related to the effectiveness and efficiency of the internal control system.
d. To ensure compliance with the appropriate accounting policies and revision of financial statements.
e. To ask for timely and frequently explanations about the financial reports and complementary documents before their disclosure.
f. To oversee that the different business and operation areas of the bank set reliable internal controls.
g. To oversee compliance with the bank's code of conduct, applicable laws, standards and regulations.
h. To recommend to the board of directors on hiring and/or dismissing external auditors.
i. To oversee that the external auditors have the necessary independence, autonomy, quality, and hierarchy to act objectively and effectively.
j. To oversee that the internal auditors have the necessary independence, autonomy, quality, and hierarchy to act objectively and effectively.
k. To review and approve the external audit general plan before starting the audit.
l. To analyze and discuss the nature and scope of the internal audit general plan.
m. To review the interim and audited financial statements to ensure compliance with appropriate accounting policies.
n. To supervise internal audit duties in order to determine its independence and objectivity towards the activities subject to audit.

ARTICLE 18. OTHER COMMITTEES. According to the bank's profile, the board of directors may create other committees besides the ones this Superintendency has asked for in a specific regulation. For these effects, it is recommended the creation of at least the following supporting committees, each of them must have their own regulations:

a. Compliance Committee
b. Corporate Governance Committee

Notwithstanding the above, the Superintendency may ask to any bank to have one or both committees, or other committees, depending, in any case, on the bank's risk profile.

ARTICLE 19. HUMAN RESOURCES POLICY. The human resources policy stated by the board of directors shall consider the recruitment and promotion of the staff based on equal opportunities, aptitude and professional merits. This policy shall also promote staff's professional and personal improvement.

Also, the policy shall adopt effective measures to ensure, at least, the following aspects:

a. To ensure access of information about key issues concerning to employees that may affect the bank's performance.
b. Organizational climate continuous improvement.
c. To implement processes and performance appraisal systems.
d. To implement measures to ensure prevention of risks derived from lack of professionalism or dishonesty.
e. To promote best behavior among employees.
f. To implement compensation and benefits policies.
g. To commit in developing competencies, skills, aptitudes and suitability of their employees.
h. To add the principles of justice, equity and transparency.

ARTICLE 20. TOP MANAGEMENT'S RESPONSIBILITIES. Top Management will be responsible for:

a. Implementing the strategies and policies already approved by the board of directors.
b. Ensuring the well-functioning and effectiveness of an effective internal control system.
c. Supplying to the different administration and operative levels of the bank the necessary resources for the smooth operation of the internal control system.
d. Ensuring the well-functioning and effectiveness of the processes that will allow the identification and management of risks taken by the bank when performing its activities and operations.
e. Maintaining an organizational structure whereby the responsibility, authority and hierarchy are clearly stated.
f. Developing processes to identify, measure, check, and control the risks taken by the bank.

ARTICLE 21. RECRUITMENT, PAYMENT, QUALIFICATION, AND TRAINING POLICIES. The bank must prepare long-term policies on recruitment and payment for the members of the board of directors, top management, executives, and other employees, holding, at least, the following aspects:

a. Requirements regarding qualification, knowledge or experience within the recruitment procedure.
b. Incompatibilities and prohibitions due to potential conflict of interests.
c. Succession plans for top management members.
d. Continuous orientation and training.
e. Guidelines on payment policies.

f. Guidelines to receive gifts or presents or any other type of rewards given by customers or suppliers.
g. Code of ethics whereby is stated the principles and general values that will rule their acting as well as behavior standards that must be observed by all employees, which must be periodically reviewed and updated.

ARTICLE 22. POLICIES ON BANK-CUSTOMER RELATIONSHIPS. The policy the bank will prepare in regards to the bank-customer relationship must contain, at least, the following aspects:

a. To comply with the legal and regulatory provisions in regards to transparency of information.
b. To disclose the applicable rates for services which were agreed upon between the client and the bank.
c. Management guidelines when there are transactions that may represent a potential conflict of interests to the customer.
d. Confidentiality of customer's information.
e. Guidelines to assist customer's claims or enquiries.

ARTICLE 23. INFORMATION TO THE SHAREHOLDERS. The board of directors must be transparent about furnishing information to the shareholders for the proper decision-making at their meetings.

ARTICLE 24. POLICIES ON TRANSACTIONS WITH RELATED PARTIES. The bank must have policies for the application of criterions or methodologies to agree the prices on the transactions to be contracted with related parties. Also, the bank must have guidelines for transaction management that may represent a conflict of interest between the bank or any company of its banking group with related parties.

ARTICLE 25. DISCLOSURE AND ACCESS TO INFORMATION. In order to promote transparency and reliability when furnishing and accessing information, banks must disclose updated information regarding their business profile and organizational structure, whether in their website or any other means.

ARTICLE 26. CODE OF CONDUCT AND CONFLICT OF INTERESTS. Banks shall have a code of conduct which will have guidelines referring to, at least, the following items:

a. Conflict of interests.
b. Transactions with related parties.
c. Handling of classified information.
d. Gifts, presents and cash and/or in kind donations.
e. Discrimination in the jobsite.
f. Environmental protection.
g. Sexual harassment prevention.
h. Prevention of drug and/or illegal substances abuse.
i. Right to privacy.
j. Fraud management and prevention.
k. Disciplinary measures.

ARTICLE 27. CORPORATE GOVERNANCE REQUIREMENTS TO BANK HOLDING COMPANIES. Bank holding companies of banks whose home supervisor is this Superintendency of Banks, shall maintain a corporate governance structure that will guarantee the strategic orientation of the banking group, the effective control of the board of directors, and the responsibility of the board of directors towards the group and shareholders. To these effects, the board of directors of the bank holding companies must ensure that the appropriate and best practices in regards to corporate governance are set within the group level and, consequently, the board of directors will have the following responsibilities:

a. To establish the internal control policies, principles, norms, and procedures to guarantee an appropriate risk management throughout the group level.
b. To ensure that there is due transparency in regards to truthfulness, reliability and integrity of the group's financial information and operations.
c. To oversee the group's financial health.
d. To maintain at the disposal of this Superintendency, upon its request, the information about the bank holding company's operations or activities.
e. To develop and implement appropriate policies about dealing with conflict of interests throughout the group level.
f. To adopt appropriate procedures to conduct transactions with related parties to the group.
g. To oversee that the group's companies have, at all times, corporate governance structure pursuant to the provisions in the law and applicable regulations.

ARTICLE 28. SANCTIONS FOR NON-COMPLIANCE OF THE RULE. Non-compliance with the provisions stated in the above articles will be sanctioned in accordance with the provisions stated in article 186 of the Banking Law.

ARTICLE 29. REPEAL. With the enactment of this Rule, the Rule 4-2001 of 5 September 2011 shall be repealed.

ARTICLE 30. ENACTMENT. This Rule shall become effective from 1 January 2012.

Given in the city of Panama, on the twentieth (20th) of September, two thousand eleven (2011).

LET IT BE KNOWN, PUBLISHED AND ENFORCED.

THE CHAIRMAN, **THE SECRETARY,**

Arturo Gerbaud De La Guardia Felix B. Maduro