Republic of Panama
Superintendency of Banks

RULE No. 7-2015
(dated 9 June 2015)

"Warning Signs Catalog for the Detection of Suspicious Transactions related to Money Laundering, the Financing of Terrorism and Financing the Proliferation of Weapons of Mass Destruction"

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

WHEREAS:

Due to the issuance of Decree Law 2 dated 22 February 2008, the Executive Branch reedited Decree Law 9 dated 26 February 1998 and all its amendments as a consolidated text, and that this text was approved by means of Executive Decree 52 dated 30 April 2008, hereinafter referred to as the Banking Law;

Pursuant to paragraph 1 of Article 5 of the Banking Law, safeguarding the soundness and efficiency of the banking system is an objective of the Superintendency of Banks;

Pursuant to paragraph 2 of Article 5 of the Banking Law, strengthening and fostering favorable conditions for the development of the Republic of Panama as an international financial center is an objective of the Superintendency of Banks;

Pursuant to paragraph 5 of Article 11 of the Banking Law, establishing the administrative interpretation and scope of the legal provisions and regulations on banking matters is a duty of the Board of Directors;

By means of Rule 12-2005 the Superintendency of Banks established the guidelines for preventing the misuse of banking and trust services;

Article 11 of Rule 12-2005 established that by means of an annexed Special Rule, the Superintendency of Banks would periodically update a guide of examples of transactions that need to be closely examined by each Bank and trust company to determine, along with other analytical elements, whether they constitute suspicious transactions that could be related to money laundering and/or the financing of terrorism;

The Financial Action Task Force's (FATF) Recommendations establish that if a financial institution suspects or has reasonable ground to suspect that funds are the proceeds of a criminal activity or are related to the financing of terrorism, the financial institution must be required by law to immediately report its suspicious to the Financial Intelligence Unit, which in our case is the Financial Analysis Unit (FAU);

The Financial Analysis Unit for the Prevention of Money Laundering and The financing of terrorism (FAU) issued Administrative Resolution AL-01-2015 dated 23 January 2015, whereby it provides, among other things, that regulated entities must adopt the Warning Signs Manual that was issued to improve the functions of Supervisory and Control Organisms and the quality of Suspicious Transactions Reports;

By means of Law 23 dated 27 April 2015, the measures for preventing money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction were adopted;

Pursuant to Article 22 of Law 23 of 2015 the Superintendency of Banks is responsible for supervising banks; trust companies and any other activities these companies may engage in; financial companies; leasing companies; factoring companies; issuers or processors of debit, credit and prepaid cards, whether natural or legal entitys; and entities issuing payment instruments and electronic money, in order to prevent money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction;

According to the provisions of Law 23 of 2015 for the prevention of money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction, the Superintendency of Banks will be responsible for supervising and regulating other regulated entities, besides banks and trust companies, that were already under its supervision in order to prevent money laundering;

Article 54 of Law 23 of 2015 provides that regulated entities must directly advise the Financial Analysis Unit (FAU) of any event, transaction or operation that may be related to the Crimes of Money Laundering, The financing of terrorism or Financing the Proliferation of Weapons of Mass Destruction, regardless of the amount that cannot be vetted;

During its working sessions, the Board of Directors determined it necessary and advisable to update the Guide for Suspicious Transactions for Banks and Trust Companies based on the Warning Signs Manual issued by the Financial Analysis Unit, based on the recommendations of the various Supervisory and Control Organisms.

RESOLVES:

ARTICLE 1. SCOPE OF APPLICATION. The provisions of this Rule shall be applied to the following regulated entities:

a. Banks and/or banking groups, as defined by the Superintendency of Banks;

b. Trust companies;

c. Finance companies;

d. Financial leasing companies;

e. Factoring companies;

f. Issuers or processors of debit, credit and pre-paid cards, whether individuals or legal entities, including those issuing and operating their own cards;

g. Entities issuing payment instruments and electronic money; and

h. Other corporate services conducted by trust companies.

Regulated entities in subparagraphs c, d, e, f, g and h are responsible for only those warning signs related to activities conducted by them.

ARTICLE 2. WARNING SIGNS CATALOG. The warning signs catalog below is adopted. This catalog contains the behaviors of customers, employees and companies, as well as the characteristics of certain financial transactions, that may lead to detecting a suspicious transaction related to Money Laundering, The financing of terrorism and Financing the Proliferation of Weapons of Mass Destruction that is not necessarily listed herein.

Regulated entities must carefully examine the transactions and/or operations mentioned herein, taking into consideration other signs, factors and criteria, in order to determine, whether they are suspicious transactions related to the risk of money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction.

ARTICLE 3. WARNING SIGNS RELATED TO CUSTOMER BEHAVIOR. Regulated entities must pay close attention to the following behaviors or actions adopted by customers:

1. The customer refuses to or avoids providing current or historical information concerning his economic activity, credit or financial capacity when performing a transaction.

2. The customer does not want to receive his statements of account by mail and either does not pick them up or does so sporadically.

3. The customer insists the transaction be conducted extremely quickly avoiding any formality, without justifying the urgency.

4. When conducting a transaction, the customer avoids providing information on the origin and/or source of the funds or the purpose of the transaction.

5. The customer offers to pay commissions for the requested services, without legal or logical justification.

6. The customer rejects or tries to bribe or threaten bank employees to not fully process the paperwork or to accept false financial information.

7. When the customer is asked for information, he is nervous, has doubts about his answers and/or has to consult data he has written down.

8. The customer frequently goes with the same person to make cash transactions.

9. People appearing frequently to make cash transactions on the same account.

10. The customer, classified as a Politically Exposed Person (PEP), tries to avoid the proper and full procedure for documentation in opening an account or does not properly justify the source of money connected with him.

11. The customer requests that no job reference on previous or current employment be included in his file.

12. The customer whose stated occupation does not correspond to his level or type of activity (example: a university student or unemployed person receives or sends large amounts of money by wire transfer or withdraws the maximum amount of cash in different places around the country).

13. The customer that, according to public information, has a presumed connection to money laundering, drug smuggling, terrorism, government corruption, fraud or other related crimes.

14. The applicant for accounts or business relationships is included in domestic or international lists on money laundering and the financing of terrorism, or of fugitives, criminals, terrorists or people wanted by the authorities.

15. Nonprofit organizations that transfer money among themselves and share the same address and managers or staff.

16. The customer that has high-risk business in high-risk zones where the financial entity has no branch offices.

17. The same address for customers involved in cash transactions or check deposits, particularly when the address belongs to a business or to an address abroad or uses post office boxes.

18. The customer submits unusual, tampered or illegible identification documents, making them difficult to verify.

19. The customer submits incomplete documentation.

20. When conducting financial transactions, the customer seems to be directed by another person, especially when he appears to have no knowledge of the details of the transaction.

21. The customer is an officer or top executive of a public entity and is making significant changes to his lifestyle without any reasonable justification.

22. The customer frequently sends or receives money transfers from or to territories or countries classified as “non-cooperative” by the Financial Action Task Force (FATF) without any apparent economic justification or when those transactions are not consistent with the customer’s historical business behavior.

23. The customer that has known liquidity deficiencies but suddenly, and without explanation, reactivates the cash flow in his accounts, products and business relationships.

24. The customer with significant changes in his companies’ financial movements that are not consistent with the industry’s general behavior.

25. The customer justifies his equity increases or financial transactions by stating he won a prize or sold or transferred an item to a third party, without there being a record or official sales slip verifying payment.

26. The customer who, over a short period of time, justifies his income by several lottery or gambling prizes or income from gambling, with little market recognition.

27. The customer has an abrupt increase in equity and justifies it by alleged prizes from abroad, but rapidly transfers the funds without justification.

28. The customer has no equity, economic, business, industrial or financial background or history.

29. The customer shows an unusual lack of concern for the risks assumed and of the transaction commissions or other costs.

30. The customer opens bank accounts in the name of close relatives, without justification.

31. Bank accounts where the owner tries to register a third party as an authorized manager without a clear connection or reason to do so.

32. On calling for verification, the phone number provided by the customer is disconnected or incorrect.

33. The customer opening several joint accounts with the same person, without apparent justification.

34. Customers using the same address, phone number, P.O. box or email address without justification.

35. The customer that requests to be placed on the list of bank clients who habitually make cash transactions for reporting purposes, without proper justification.

36. The customer that frequently requests increases in the limit for reporting transactions.

37. The customer that forces or tries to force a bank employee to not report or file a transaction.

ARTICLE 4. WARNING SIGNS RELATED TO LEGAL ENTITIES. Regulated entities must pay special attention to the following behaviors or action of legal entities:

1. A legal entity without equity, economic, business, industrial or financial background or history.

2. A legal entity whose financial statements show very different results compared to those companies in the same industry and with the same economic activities.

3. A legal entity submitting non-operating income greater than operating income.

4. A foreign legal entity without branch offices in our country, sending ACH payments or deposits (in US dollars) to foreign employees domiciled in our country and working for that legal entity without proper justification.

5. A legal entity with equity or partners coming from territories or countries classified as non-cooperative by the Financial Action Task Force (FATF).

ARTICLE 5. WARNING SIGNS RELATED TO EMPLOYEE OR EXECUTIVE BEHAVIOR. Regulated entities must pay special attention to the following behavior or actions of its employees or executives:

1. Executives or employees repeatedly omitting obligatory preventative or due diligence actions.

2. Executives or employees using or enable their home address for receiving customer documentation.

3. Executives or employees using the nature of their duties to engage in customer transactions or operations personally, in their own name or through their own accounts, without reasonable justification.

4. Employees showing a sudden, favorable change in their economic lifestyle or who conduct financial and investment transactions which do not correspond to their income (from their work or other known sources), without clear and reasonable justification.

5. Employees reluctant to take vacations, to accept changes in their activities or to accept promotions that imply not performing the same duties, without clear and reasonable justification.

6. Employees who are often absent from their workplace, remain in the office after business hours or go to work outside of the normal schedule without justification.

7. Employees avoiding certain internal or approval controls established for certain transactions, financial products or services.

8. Employees who frequently process transactions with exceptions for certain customer.

9. Employees who often make mistakes or discrepancies and who provide insufficient or inadequate explanations.

10. Employees who often omit verifying the identity of a person or do not verify the information with the records provided in the entity’s database or formats, as required by their job functions.

11. Employees, mainly business advisors, who often serve the same customer or user while pretending they do not know them, or prevent other coworkers from serving certain customers.

12. Employees who insist on having meetings with customers in places outside the office to make business or financial transactions for the customer, without justification.

13. Employees who have failed to report or have hidden information on unusual transactions or unjustified changes in a customer’s behavior to the Compliance Officer.

14. Employees, mainly business advisors, who serve certain customers in a preferential, exclusive and continuous manner or exempt them from certain controls, saying they are known customers referred by another entity that advises them on all of their business, or other similar arguments.

15. Employees who constantly receive gifts, invitations, gratuities and other presents from certain customers or users, without clear or reasonable justification or without being authorized by the entity's codes of conduct.

ARTICLE 6. WARNING SIGNS RELATED TO CASH TRANSACTIONS, WIRE TRANSFERS AND REMITTANCES. Regulated entities must pay special attention to cash transactions, wire transfers and remittances with some unusual characteristics:

1. Remittances with the following characteristics:

    a. Remittances made immediately after cash deposits.

    b. Remittances from an account that had received an unusually large amount of money from an entity granting consumer loans or coming from abroad.

    c. Remittances drawn on an account just before it is closed.

    d. International remittances from several senders to a common beneficiary.

    e. Consecutive international remittances for equal or similar amounts to the same country.

    f. International remittances for the same account, on the same date, to the same city or country, paid to the order of different persons apparently unknown to each other, without proper justification.

    g. Numerous international remittances to the same country by one or more senders, when the amount is below but very close to the established limit for controlling cash transactions.

    h. International remittances to different people apparently unknown to each other, but who have the same phone number in the same country or beneficiary, without proper justification.

    i. Receipt of transfers and immediate purchase of monetary instruments for payment to third parties.

2. Cash transfers with the following characteristics:

    a. Cash deposits and withdrawals from the account of a company that usually pays by check.

    b. Substantial increase in cash deposits or currency transactions without financial justification and particularly in situations in which those amounts are quickly transferred to entities not easily associated with the customer.

    c. Small cash deposits in many accounts, which added together, are a considerable amount of money, without proper justification.

    d. Use of large amounts of money in small bills for business transactions, without justification.

    e. Repeated cash withdrawals for "payment to individuals" or "miscellaneous payments" just under the registration threshold

    f. Cash transfers from and to other countries with cash payment instructions.

    g. Frequent exchange of small bills for high denomination notes and vice versa

h. Business or trust accounts showing substantial cash deposits without proper justification.

i. Cash deposits in foreign currency made to the same account without proper justification.

j. Deposits and withdrawals of large amounts of money by means of transfers through countries whose economic activity, in the opinion of the intermediary bank, does not justify the amount and frequency of the transactions.

3. Wire transfers with the following characteristics:

a. Wire transfers paid with multiple bank checks or other payment instruments (possibly drawn in amounts under the registration threshold).

b. Wire transfers without apparent business reason or consistency with the customer's usual business.

c. Wire transfers requested by a customer and remitted to himself or to one other person in different countries and over a short period of time, without proper justification.

d. Wire transfers made to several persons for whom common data is detected, without proper justification.

e. Wire transfers for which it is evident that the sender or beneficiary is receiving instructions from an unidentified third party. (When the customer is not sure of data requested).

f. Wire transfers to or from an individual where the information on the originator or the person on whose behalf the transaction is conducted is not provided with the wire transfer when the input of that information is expected.

ARTICLE 7. WARNING SIGNS RELATED TO BANKS, TRUST COMPANIES AND OTHER FINANCIAL ENTITIES. Banks and trust companies must pay special attention to transactions or operations with the following characteristics:

1. An account whose volume and frequency of transactions, such as withdrawals, check deposits, payment orders or other instruments, do not conform to the size or nature of the business.

2. An account receiving usual and relevant deposits that remain without movement for periods, without proper reason. These accounts are later used to create an apparently legitimate bank history through which other fraudulent activities may be conducted.

3. The same person opens many accounts where he makes many small deposits that, together, do not correspond to the customer's expected income.

4. An account with large volumes of cash deposits, checks, payment orders, wire transfers and other negotiable instruments not related to real income or the type of business conducted by the customer.

5. An account held by the one person depositing small amounts of money that, when added together, do not conform to the accountholder's expected and/or declared income.

6. An account receiving funds from activities or businesses, but whose movements and rotation speed are unusual, are outside standard parameters or are not related to the economic situation being experienced by the business in the market where the accountholder has his account. For example, individuals who argue that the large amounts of money moved in the account come from certain crops,

when in fact the product is depressed in the domestic or international market, or otherwise argues that a lack of account movement is due to a bad market situation when it is not.

7. An account of an inactive business on which the accountholder nonetheless makes frequent bureau of exchange operations and purchases consignment instruments in foreign currency without proper justification.

8. High volume of check deposits for small amounts, drawn abroad and unrelated to the purpose declared for handling the account.

9. Deposits made in several accounts, generally in amounts under the reporting limit, that afterwards are consolidated in another account and transferred abroad.

10. Use of many personal and business accounts or accounts held by nonprofit or charitable organizations to collect funds or then channel them, immediately or after a short period of time, to a small number or foreign beneficiaries.

11. An account showing frequent and large cash deposits in small bills for a business that usually does not handle significant amounts of cash.

12. An account where funds from casinos and slot machines are handled, from which it is impossible to obtain evidence that they operate within valid legal regulations or evidence of the volume of funds that they handle.

13. Significant cash deposits to the account of an entity that usually receives deposits by check or other payment instruments.

14. Withdrawals of large amounts of cash from a business account not usually associated with cash transactions.

15. Frequent large cash deposits after customer service hours, avoiding direct contact with the finance entity's staff.

16. Non-business personal accounts used for depositing and handling funds from business or industrial activities.

17. Constant and significant deposits with mutilated, moldy, dirty bills or notes marked with strange symbols.

18. Frequent deposits and withdrawals from an account that are just under the amount established by law for reporting, or many deposits under the maximum amount made in an automatic teller machine.

19. Deposits made on the same day through different branch offices of the same bank and/or various transactions conducted the same day in the same branch office of a finance entity, but apparently trying to use different accounts.

20. Companies acting as remittance agents for remittances to foreign holders residing in the country, mixing funds from business accounts with those of personal accounts held by the main shareholder, without a logical business justification.

21. Structuring deposits through various branch offices of the same financial entity or by a group of individuals going to the same branch office at the same time.

22. Checks drawn on accounts of public entities frequently deposited in private accounts and immediately withdrawn or transferred, without proper justification.

23. Accounts opened by a legal entity or organization with the same registration address or domicile as other legal entities or organizations without a reasonable explanation.

24. An account opened on behalf of a legal entity involved in association or foundation activities whose objectives or partners are associated with the claims or demands of a terrorist organization or other illegal activity related to money laundering, when the account shows a movement of funds that is higher than the expected income.

25. The infrastructure of companies is generally limited to an office or residence that apparently does not conform to the amounts handled in accounts and the activity conducted by the company.

26. Accounts having exaggerated increases in the volume of funds handled after having gone through difficult financial times, without apparent justification.

27. Frequent wire transfers of money to border areas of the country without justification.

28. Companies that do not purchase or have expenses but only withdraw cash from their accounts.

29. Opening various checking accounts under one or more names, with the same person authorized to draw or write checks.

30. An account in which various persons act as authorized signatories, but among whom there does not seem to be a personal or business relationship.

31. The checking account applicant insists on being served or shows that he prefers to be served by a particular business advisor, bank manager or official.

32. A person considered a Politically Exposed Person (PEP) registers or tries to be registered as a person authorized to handle one or various checking accounts held by third parties, without a clear and justified relationship.

33. A person registered as an authorized signatory to handle various checking accounts held by different people or companies, without any apparent justification.

34. A person or entity frequently closing and opening new savings accounts in the same bank or in other banks of the market, without apparent justification.

35. Checking accounts registering only deposits for some time, accumulating a considerable balance, and then having the moneys withdrawn in a single day or short period of time.

36. The customer engaged in exports, whose account movement, payments or remittances come from countries other than those to which he is exporting.

37. A customer making cash deposits aimed at conducting a long-term transaction, immediately followed by a request to canceling the position and transferring the benefits out of the account.

38. A customer that, without apparent reason, maintains various accounts under the same name or on behalf of relatives or companies, with a great number of transfers to third parties.

39. Deposit accounts used, without apparent reason, to consolidate funds handled in other accounts held by the same customer within the entity or directly or indirectly linked to him, to later transfer the funds and/or purchase monetary instruments.

40. A customer suddenly paying a problematic loan, without any explanation on the origin of the money.

41. Loans secured with equity cancelled early, without reasonable justification of the origin of funds to do that.

42. A line of credit for significant amounts of money not proportionate to the modest size and market presence of the business.

43. Companies with economic problems that suddenly pay off the full amount of their debts.

44. Credit cards with high volumes of monthly consumption and with immediate full payment not conforming to the cardholder's economic profile and income.

45. Loans paid through automatic payments from deposit or investment accounts not related to the customer's profile.

46. Loans secured with deposit certificates or other investment instruments, without proper justification.

47. Customers frequently depositing or paying with large amounts of money wrapped in paper strips from other Banks.

48. Loans secured by third parties that apparently do not have any relationship to the customer.

49. Loans secured with property in which the disbursement will be made in another jurisdiction.

50. Lack of withdrawal of funds against deposited checks by a customer operating a retail business and providing the service of buying checks. This suggests that such a customer has another source of funds.

51. A small number of deposits using considerable quantities of checks, but rarely withdrawing funds for daily operations.

ARTICLE 8. PATTERN CHANGES WHEN CONDUCTING SOME TRANSACTIONS. Regulated entities must pay special attention to the following pattern changes to transactions conducted by their customers:

1. Sudden and inconsistent changes in transactions and ways of handling money.

2. Important changes to cash remittance patterns between correspondent banks.

3. Increases in the amount of cash handled without increasing the number of transactions that were reported.

4. Important movements of high denomination notes not related to the Bank's location.

5. Large increases in the use of small bills and the resulting decrease in the use of high denomination notes, without transaction reports being registered.

6. Rapid increases in the size and frequency of cash deposits without a similar decrease in non-cash deposits.

ARTICLE 9. TRANSACTIONS RELATED TO THE FINANCING OF TERRORISM. Regulated entities must pay special attention to the following transactions related to the financing of terrorism:

1. For nonprofit or charitable organizations, bank transactions that do not seem to have a logical economic purpose or where there seems not to be a link between the activity declared by the organization and the other parties involved in the transaction.

2. An account opened on behalf of an entity, a foundation, an association or an investment fund, showing funds movement above the normal or usual income level, without an economic or legal justification based on the customer's profile.

3. Deposits of small amounts from a third party on one day or over a short period of time to the account of a nonprofit organization.

4. Accounts opened on behalf of foreign exchange bureaus in which wire transfers and/or structured deposits are received.

ARTICLE 10. TRANSACTIONS RELATED TO ARBITRAGE AND AUTOMATIC TELLER MACHINES (ATM). Regulated entities must pay special attention to the following transactions related to arbitrage and automatic teller machines:

1. Opening bank accounts whose customers request various debit cards to make withdrawals through automatic teller machines (ATM) in other countries, and to make these transactions repeatedly, receiving an economic benefit for any difference showed between the price in which the currency is purchased with the one making the deposits and the base value in which dollars are liquidated when the withdrawal is made through automatic teller machines.

2. Multiple cash deposits made in a day, using one or more automatic teller machines (ATM).

3. Conducting consecutive transactions whose sum is at or above ten thousand balboas (B/.10,000.00), for example, cash withdrawal for the amount of nine thousand five hundred balboas (B/.9,500.00) at the bank and five hundred balboas (B/.500.00) through the automatic teller machine (ATM) on the same or consecutive days.

4. Accounts showing several deposits under the maximum amount, made through an automatic teller machine.

ARTICLE 11. This Rule rescinds Special Rule 12-2005E dated 14 December 2005.

ARTICLE 12. ENACTMENT. This Rule shall become effective as of its promulgation.

Given in the city of Panama on the ninth (9th) day of June, two thousand fifteen (2015).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN, **THE SECRETARY,**

L. J. Montague Belanger Luis Alberto La Rocca