

**Republic of Panama
Superintendency of Banks of Panama**

RULE No. 3-2025
(April 8, 2025)

“By means of which Agreement No. 4-2010 on the External Audit of Banks is amended”

THE BOARD OF DIRECTORS
in the exercise of its legal powers and,

WHEREAS:

Pursuant to Decree Law No. 2 of February 22, 2008, the Executive Branch prepared a Consolidated Text of Decree Law No. 9 of 1998 and all its amendments, approved by Executive Decree No. 52 of April 30, 2008, hereinafter referred to as the Banking Law.

Pursuant to paragraphs 1 and 3 of Article 5 of the Banking Law, the objectives of the Superintendency of Banks include ensuring the soundness and efficiency of the financial system, as well as promoting public confidence in the banking system.

Pursuant to paragraphs 5 and 7 of Article 11 of the Banking Law, the technical powers of the Board of Directors include determining, within the administrative sphere, the interpretation and scope of legal or regulatory provisions on banking matters, as well as establishing accounting requirements related to the financial information that banks must provide.

In accordance with the provisions of Articles 81 and 82 of the Banking Law, each bank must appoint, within the first three months of its fiscal year and at its own expense, external auditors, whose duty will be to submit an independent audit report stating the true and reasonable state of the bank's financial position, financial performance, and cash flows, and whether the financial statements comply with the accounting, technical, and prudential standards established by the Superintendency of Banks;

In accordance with the provisions of Article 84 of the Banking Law, the Superintendency of Banks shall have the power to reject audit reports that have been prepared in violation of the Banking Law and the accounting, technical, and prudential standards it establishes.

In accordance with the provisions of Article 86 of the Banking Law, the Superintendency is empowered to request documents and reports about its operations and activities from any bank, any company in the banking group, share owners or non-bank affiliates.

Pursuant to Article 87 of the Banking Law, banks holding a general or international license must submit their respective financial statements to the Superintendency concerning their operations carried out in or from the Republic of Panama, as applicable. Such financial statements must bear the signature of the legal representative or general attorney of the bank and must be audited and submitted in accordance with the technical standards established by Superintendency.

By means of Rule No. 4-2010 dated August 10, 2010, and its amendments, the provisions on the external audit of banks were updated.

During working sessions of this Board of Directors, the need and convenience of updating the provisions of Rule No. 4-2010 have been identified.

RESOLVES:

ARTICLE 1. Article 3 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 3. QUALITY MANAGEMENT SYSTEMS OF THE EXTERNAL AUDITOR. In the contract executed between the reporting entities and the external audit firms, such firms must represent and warrant that they have a quality management system that provides reasonable assurance that the auditor and its personnel comply with legal and regulatory requirements, including compliance with the International Standard on Quality Management (ISQM 1), and that the reports issued are appropriate for the circumstances of the reporting entities.

Documents evidencing compliance with ISQM 1 must be available throughout the period during which the service is provided. Documentation of the risk assessment of controls and the results of the tests performed, as required by ISQM 1 — including the conclusion for the immediately preceding year by the audit firm providing the service — must be available to the Superintendency of Banks.

ARTICLE 2. Article 5 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 5. BASIC CHARACTERISTICS OF THE EXTERNAL AUDIT. The external audit program shall provide the board of directors of the reporting entities and their shareholders, in a competent and independent manner, with information and evaluations on the reporting entity's internal controls, the accuracy and reliability of the recording of events that significantly or materially affect the reporting entity, its transactions, and reasonable assurance regarding the integrity of the institution's financial statements. Such financial statements shall be prepared in accordance with:

- a. The Corporate Governance Rule;
- b. International Financial Reporting Standards (IFRS); and
- c. Prudential and technical standards issued by the Superintendency of Banks.

Specifically, and without prejudice to all duties, obligations, functions, and powers arising from the nature and regulations applicable to the profession, external auditors shall assess the capacity of the accounting, managerial information, and internal control systems to:

1. Identify, measure, and adequately control the financial information risks assumed by the regulated entity.
2. Provide the reporting entity management with relevant and timely information enabling effective managerial oversight.
3. Produce reliable and trustworthy reports and data required by the Superintendency of Banks.

ARTICLE 3. Article 6 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 6. QUALITY OF THE EXTERNAL AUDIT. Reporting entities must engage external auditors who adhere to the highest standards of auditing and ethics, in accordance with the framework established by the International Standards on Auditing (ISA). Reporting entities must ensure that the external audit firm engaged has a quality management system that complies with the International Standard of Quality Management (ISQM) 1.

Accordingly, reporting entities must clearly disclose in the notes to the financial statements the accounting policies applied in areas of specific interest to the

Superintendency, such as asset and liability valuation, provisioning, revenue recognition, consolidation, among others. Reporting entities are also required to provide their external auditors with all information and documentation needed to efficiently perform the external audit service.

ARTICLE 4. Article 7 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 7. GENERAL AUDIT PLAN. Before beginning fieldwork, the reporting entity shall request the auditor to submit a general audit plan, which shall be forwarded with a copy to the Superintendency of Banks. This plan shall specify, at a minimum:

1. Start date of external audit activities.
2. Scope and approach of the audit, including group audits.
3. Methodology for internal control assessment and audit risk determination.
4. Procedures for reviewing key risks, including credit, market, liquidity, and operational risks, in accordance with current regulations.
5. Procedures for reviewing other accounts, including those off the statement of financial position and disclosures.
6. Procedures for evaluating the technology environment, including relevant applications and service organizations.
7. Procedures to determine compliance with the Banking Law and its regulations.
8. Professional profile of audit team members, detailing academic level, professional standing, experience, and tenure auditing the regulated entity or any entity of the banking group.
9. Procedures for quality management that the audit firm will apply for, review, and supervision of the audit work.
10. Reports to be issued by the external auditors.
11. Report submission deadlines;
12. Consent of external auditors to be available for meetings with the Superintendency of Banks, the board of directors of the regulated entity, and the audit committee, at any stage of the audit.

The reporting entity is responsible for enforcing compliance with the audit plan, through its audit committee, which must review and approve the plan. After the audit, the committee shall meet with the external auditor to review compliance with the plan and adherence to applicable international auditing standards and any scope extensions required by the Superintendency of Banks.

PARAGRAPH 1. Once the general audit plan has been submitted, and following the meetings referenced in item 12 above, the Superintendency may determine that the audit scope should be expanded. In such cases, the regulated entity shall make, at its own expense, any necessary adjustments to the engagement, including those required when the audit must go beyond the scope required by ISA, including the issuance of special reports.

PARAGRAPH 2. If during the audit or subsequent review of working papers, the Superintendency finds that the audit plan was not followed, or that the audit was not conducted in accordance with professional standards, or if independence violations are identified, the Superintendency may carry out specific financial audit procedures or request the regulated entity to hire third parties to supplement the audit work.

PARAGRAPH 3. If, after reviewing the audited financial statements, audit reports, special reports requested by the Superintendency, or the working papers supporting such work and reports, the Superintendency considers that they fail to comply with the International Standards on Auditing or with the regulations issued by this authority, it shall refer the matter to the Technical Accounting Board, including any issues related to ethical and independence standards applicable to external audit firms in the Republic of Panama.

ARTICLE 5. Article 8 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 6. Article 9 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 9. SPECIAL REPORTS. The board of directors of reporting entities, through their audit committees, shall request their external auditors, within the deadline established for the submission of the audited financial statements, to submit, in separate documents and with a copy to the Superintendency of Banks, reports prepared by such auditors when, during the course of the external audit, they notice the existence of matters related to the following:

1. Findings of alleged significant activities that pose a risk to the operations of the reporting entity.
2. Questionable transactions with affiliated companies, related parties, or other members of the banking group to which the reporting entity belongs.
3. Evidence of misuse of privileged information.
4. Recommendations previously made by external auditors of the reporting entity that have not been implemented.
5. Instances of fraud, suspected fraud, or material accounting or financial errors observed during the audit as per ISA 240 on the Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
6. Instances of noncompliance with laws and regulations, as per ISA 250 on Consideration of Laws and Regulations in an Audit of Financial Statements.
7. Any other irregular acts or suspected fraud detected during the external audit, including irregular actions by management, directors, or shareholders.
8. Reports required to address additional matters requested by the Superintendency, pursuant to Article 7, paragraph 1.

Additionally, regulated entities shall remain available and submit to the Superintendency of Banks, upon request, copies of the following documents:

- a. Audit engagement letter between the regulated entity and the audit firm;
- b. External audit plan.
- c. Evidence of communication between the external auditor and the board of directors or audit committee of the regulated entity.
- d. Minutes of audit committee meetings.
- e. Discrepancies between the external auditor and management regarding the application of IFRS;
- f. Management letters, through which the auditor communicates observations and recommendations on internal control and other deficiencies and irregularities.
- g. Management representation letter issued by the regulated entity to the external auditor.
- h. Adjusted and unadjusted audit difference sheets.
- i. Any other special report issued by the external auditor on a specific topic.
- j. Other documents as determined by the Superintendency.

The board of directors, together with the audit committee of the reporting entity, must be made aware of all reports submitted by the external auditors and adopt the necessary corrective measures, which shall be recorded in the board meeting minutes.

ARTICLE 7. Article 10 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 10. MINIMUM REQUIREMENTS OF REPORTING ENTITIES TOWARD THEIR EXTERNAL AUDITOR. Reporting entities shall require their external auditors to assume at least the following responsibilities:

1. To issue an independent opinion on whether the financial statements reasonably present the financial position, financial performance, and cash flows

- of the reporting entity in accordance with IFRS as issued by the International Accounting Standards Board.
2. To apply the auditing standards referenced in Rule No. 6-2012.
 3. To observe the Professional Code of Ethics applicable to external audit firms in the Republic of Panama, the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (IFAC), and Law 280 of 2021 regulating the profession of Certified Public Accountants.
 4. To communicate in writing to the audit committee and the Superintendency the occurrence of any acts or alleged material or significant irregularities detected in the reporting entity, which must be documented in the minutes of the audit committee.
 5. To prepare the special reports referenced in the preceding Article 9.

ARTICLE 8. Article 11 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 11. WORKING PAPERS. The external audit contract shall stipulate that the external audit firm must keep, in complete and proper condition, the working papers in physical or digitalized form, as evidence of the work performed, for a minimum period of five (5) years from the date of issuance of the last report related to each audit.

Reporting entities shall ensure that the external audit contract includes an authorization for the auditors to make available to the Superintendency of Banks, upon request, the working papers, audit program, and any other supporting documentation relevant for supervisory purposes.

ARTICLE 9. Article 13 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 13. INDEPENDENCE OF CERTIFIED PUBLIC ACCOUNTING FIRMS. Reporting entities may not engage any Certified Public Accountant or accounting firm as external auditor if the firm itself or any of its partners or audit team members assigned to the reporting entity is subject to any of the following conflicts of interest, without prejudice to others that may be established by the Superintendency of Banks:

1. Having held or currently holding positions at the audited bank, its affiliates, subsidiaries, or other entities within its banking group during the last two audited fiscal periods.
2. Holding, directly or through third parties, interests or economic ties with the audited bank's business or its banking group, with shareholders holding 5% or more of the share capital, or with members of the board of directors of the audited bank or its banking group.
3. Acting as a securities broker for the regulated entity.
4. Being a debtor of the audited bank or entities within its banking group if the loans were granted under more favorable terms than those offered to other clients, or if the loan is classified as substandard or higher risk under Rule No. 4-2013.
5. Providing other advisory services to the reporting entity that involve active participation in management decision-making or compromising the external auditor's independence in issuing an objective and professional opinion.
6. Receiving services from the audited reporting entity under more favorable conditions than those normally available to its clients.

Additionally, external auditors engaged by reporting entities must comply with the independence requirements set forth in the International Standards on Auditing (ISA), the IFAC Code of Ethics for Professional Accountants, and the Professional Code of Ethics applicable to accountants and audit firms in the Republic of Panama.

ARTICLE 10. Article 14 of Rule No. 4-2010 of August 10, 2010, shall read as follows:

ARTICLE 14. ROTATION OF EXTERNAL AUDIT TEAMS. Reporting entities shall require their external auditors to rotate the audit engagement team, including managers, directors, and partners, at least every five (5) years. The rotation shall also apply to specialized personnel involved in the audit (e.g., tax, IT auditors). Any member of the audit firm who spends 10 or more hours working on the audit engagement shall be considered part of the audit team and subject to rotation rules. This rotation does not necessarily entail changing the audit firm engaged by the reporting entity.

At the time of the rotation, only one member of the previous audit team may remain for an additional year. That individual may not be the partner previously assigned to the reporting entity.

From the rotation date, audit team members may only be reinstated after (a) three (3) years in the case of managers, directors, and partners, and (b) two (2) years for the remaining audit staff.

During the aforementioned period, external auditors must ensure that rotated audit team members do not participate in the audit of the reporting entity, perform quality control reviews, respond to queries from the engagement team or the reporting entity regarding technical or specific matters, transactions, events, or otherwise influence the outcome.

ARTICLE 11. The provisions of this Rule shall become effective upon its promulgation.

Issued in Panama City, on the eighth (8th) day of the month of April, two thousand twenty-five (2025).

FOR COMMUNICATION, PUBLICATION, AND ENFORCEMENT.

THE CHAIRPERSON,

(signed)
Rafael Guardia

THE SECRETARY,

(signed)
Adriana Raquel Carles