



May 24, 2007
Circular No. 031-2007

General Manager
Panama City

Reference: 2006 Audited Financial Statements
General Resolution No. 1-2007

Dear General Manager:

The Audited Financial Statements corresponding to the 2006 fiscal year closing, submitted by various banks of the marketplace, have revealed inconsistencies with several provisions and prudential standards dictated by the Board of Directors of this Superintendency, specifically in Agreements No. 6-2000 and 7-2000, which regulate the rating of loans and investments and the constitution of provisions.

While it is true that by means of Agreement No. 4-99 of May 11, 1999, this Superintendency regulated the submittal of the banks' financial statements, adopting as technical accounting norms those issued by the Committee of International Accounting Standards, the US-GAAP and the AICPA's Auditing Standards, the highest international financial standards set by the Basel Committee (BCBS), the Financial Action Task Force (FATF), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) point out that it is the main and exclusive responsibility of the regulators and supervisors to maintain the robustness, stability and efficiency of the regulated institutions and that, for reasons of public interest, the prudential rules issued by the Regulatory Bodies trump over any other standard of any nature or origin.

In the past and through Circular No. 1-2006 of January 3, 2006, this Superintendency reiterated this position to its regulated banks and to the external auditors, clarifying that it would not deem as an infringement of Agreement 4-99 the cases wherein the banks do not adjust to the IFIS in those aspects that exhibit differences with the prudential standards. What we state in this Circular seems to not have been heeded by some banks and by their external auditors.

On this matter, the Superintendency of Banks of Panama does not accept any discussion or opposition, as this responsibility has been assigned to it exclusively by Decree Law No. 9 of February 26, 1998. It is a responsibility it cannot and does not want to share with the regulated banks or with their external auditors.

Let it be clearly understood that, pursuant to the provisions of Article 60 of Decree Law No. 9 of February 26, 1998, it is the banks' responsibility to contract auditing firms that comply with this

Superintendency's provisions, so as to be able to submit financial statements that are complete, reasonable and that portray the **true and correct** state of the Bank's operations, in exact observance of said provisions. Failing this, the Superintendency will have to apply Article 61 of the aforementioned Decree Law.

Finally, we are attaching a copy of General Resolution No. 001-2007 of May 17, 2007, whereby it is ratified in an indubitable manner, that the prudential standards issued by this Superintendency of Banks trump over any other accounting standard of any origin applied to the banking business.

We are grateful to the Manager for giving the staff under his charge the pertinent instructions for the observance of this circular.

Without anything else in particular, we undersign.

Attentively,

Olegario Barrelier
Superintendent

Attachment: What we announced.