

RULE NO. 004-2010¹
dated 10 August 2010

“Whereby the provisions on External Audits to Banks are updated”

The Board of Directors of the Superintendency of Banks,

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 modifications, which was approved by means of Executive Decree 52 of 30 April 2008, hereinafter referred to as the Banking Law;

In accordance with number 3 of article 5 of the Banking Law, it is the objective of the Superintendency of Banks to promote public trust in the Banking System;

In accordance with number 7 of article 11 of the Banking Law, it is the duty of the Board of Directors of the Superintendency of Banks to establish the accounting requirements related to the financial information that banks must provide;

In accordance with number 8 of article 11 of the Banking Law, it is the duty of the Board of Directors of the Superintendency of Banks to establish the general standards that banks must follow in their accounting processes;

According to number 14 of article 16 of the Banking Law, the Superintendent of Banks has the duty of establishing prevention programs to allow full cognizance of the financial condition of a bank, as well as the verification of the truthfulness of the information remitted by banks to the Superintendency of Banks;

According to number 19 of article 16 of the Banking Law, the Superintendent of Banks has the duty to ensure that banks provide to their customers with information that will assure the utmost transparency in their operations;

According to what is provided in article 86 of the Banking Law, the Superintendency is empowered to request from any bank, from any firm in the banking group, from bank holding companies or from non-banking affiliates the documentation and reports regarding their operations and activities;

According to article 87 of the Banking Law, the general and international license banks must submit to the Superintendency their corresponding audited Financial Statements complying with the accounting, technical, and prudential standards issued by the Superintendency, with respect to their operations in or from the Republic of Panama, where appropriate. The documentation so submitted will be signed by the legal

¹ This Rule rescinds Rule 1-2002 dated 1 March 2002 and Rule 6-2005 dated 13 July 2005. Amended by Rule 9-2010 dated 14 December 2010. See General Resolution 1-2011. Amended by Rule 3-2015 dated 24 March 2015.

representative or, in its defect, by a properly and legally empowered agent of the bank for this purpose;

In accordance with article 81 of the Banking Law, each bank must, annually within the first three months of its fiscal year, designate at its expense external auditors who must be certified public accounts, specialized, and with sufficient experience, in the Superintendent's judgment, and professionally capable, whose duties will be to remit report to the shareholders or partners of each Panamanian bank or to the Head Office of a foreign bank, or State-owned Banks; and in said report such auditors will prove whether, to their judgment, the financial statements are complete, reasonable and show the real and accurate condition of the bank's operations;

Pursuant article 444 of the Commercial Code, directors are individually and severally liable for the good accounting management;

In the working sessions of this Board of Directors was mentioned the necessity and convenience of adapting a general guidelines framework for external audits to banks.

RESOLVES:

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

- a. State-owned banks,
- b. General license banks,
- c. International license banks, and
- d. Bank holding companies to which this Superintendent of Banks is home supervisor.

All the above are hereinafter referred to as regulated parties, unless when necessary for other use.

ARTICLE 2. RESPONSIBILITY OF THE BOARD OF DIRECTORS OF THE REGULATED PARTIES. The directors of the regulated parties are responsible for the good accounting management, as they must ensure there are appropriate systems and procedures both for financial statements issued by regulated parties and the complementary information on which the external auditor proves his judgment, as well as the special reports required by the Banking Law, be these issued and submitted accurately and reliably.

Directors shall be responsible for ensuring that the requirements of the systems and procedures mentioned above were strictly complied with and proving so.

Directors are also responsible for the omission of information, which substantially and adversely affects the regulated parties, in the reports or financial statements submitted to the Superintendent.

Likewise, they are responsible for ensuring that the external audit general plan is coherent and appropriate to comply with the financial information aspects related to relevant and risky areas to the banking business of the institution as provided for in the Corporate Governance Rule issued by this Superintendent of Banks.

The foregoing is without undermining the individual responsibilities that correspond to the managerial and departmental levels by implementing the policies of the entity.

ARTICLE 3. EXTERNAL AUDIT QUALITY CONTROL SYSTEMS. In the contract signed between the regulated parties and the external auditors firm, the latter shall represent and ensure that they have implemented quality control systems to provide reasonable safety to the auditor and that its staff complies with the legal and statutory requirements, and that the reports issued are suitable to the conditions of the regulated parties. These documents shall be available during the whole period in which the external audit firm provides the service.

ARTICLE 4. AUDIT COMMITTEE. The board of directors of the regulated parties, in accordance with the provisions of this Rule, shall form an audit committee composed of directors not involved in the daily management of the regulated party, as established in the Corporate Governance Rule issued by this Superintendency, which shall ensure compliance with the functions outlined in the Rule.

In the event of foreign bank branches, this may be proved, where appropriate, through an annual certification issued by the president of the home office audit committee, where is proven that the home office has the structures and is duly organized as an audit committee and its functions and duties include monitoring and supervision of the branch abroad.

ARTICLE 5. BASIC CHARACTERISTICS OF EXTERNAL AUDITING. The external audit program shall provide the board of directors of the regulated parties and their shareholders, efficiently and independently, with the information and assessment of internal controls of the regulated party, the accuracy and reliability of the recording of facts that significantly or substantially affect the transactions performed by the latter, and a reasonable assurance of the integrity of financial statements of the entity, same to be prepared as prescribed in:

- a. The Corporate Governance Rule;
- b. The International Financial Reporting Standards (IFRS) or the United States Generally Accepted Accounting Principles (US-GAAP), as appropriate, and
- c. The prudential and technical standards issued by the Superintendency of Banks.

Specifically, and without prejudice to any duties, obligations, functions, and powers arising from the nature and regulations related to the profession, external auditors shall assess the capacity of the accounting systems and management information and internal controls to:

1. Identify, measure, and adequately control the risks taken by the regulated party.
2. Provide to the regulated parties' top management with relevant and timely information to efficiently carry out managerial duties.
3. Issue reports and reliable and faithful data that the Superintendency of Banks may request.

ARTICLE 6. QUALITY OF EXTERNAL AUDIT. The regulated parties shall contract external audits to be fit to the highest audit and ethical standards, under the financial information reference framework provided by the International Financial Reporting

Standards (IFRS) or the United States Generally Accepted Auditing Standards (US-GAAS), as appropriate.

For this purpose, regulated parties shall state clearly in the notes to financial statements the accounting policies followed or used in areas of specific interest to the supervisor, such as: valuation of assets and liabilities, provisions, revenue recognition, consolidation, among others. Similarly, the regulated parties are required to provide their external auditors with all information and documentation the latter require to fulfill their function efficiently.

Also, external auditors are responsible for certifying in their audits that the regulated party complies with the accounting policies referred to above.

ARTICLE 7. GENERAL AUDIT PLAN. Before the on-site audit starts, the regulated party shall request the auditor a general audit plan where is specified, as minimum, the following:

1. External audit starting date.
2. Audit scope and approach.
3. Methodology to assess the internal control system, audit risk assessment.
4. Procedures to review credit, market, and operating risks according to the valid regulations.
5. Procedures to review the remaining accounts of the basic financial statements.
6. Procedures to assess the computer system.
7. Procedure used to determine the degree of compliance with the Banking Law and its implementing rules.
8. Professional profile of the audit team members, specifying their experience, professional level, periods auditing the regulated party or any entity in the banking group.
9. Procedure to be applied by the auditing firm for quality control, review, and supervision of audit work.
10. Reports to be issued by the external auditors.
11. Deadline for the reports submittal.
12. Concurrence of external auditors to be available to attend working meetings with the Superintendency of Banks, the board of directors of the regulated party, and the audit committee.

It is the duty of the regulated party to demand the audit committee full compliance with the audit plan that shall be reviewed and approved by the former. Also, when the audit is finished, the committee should meet with the external auditor to review compliance with the audit plan and its adherence to the International Financial Reporting Standards (IFRS) or the United States Generally Accepted Accounting Standards (US-GAAP), as appropriate.

ARTICLE 8². EXTERNAL AUDITORS CONTRACTING NOTICE. The board of directors of the regulated party or the general manager shall appoint, within the first three months of its fiscal year, the external auditors firm that will be used during the new fiscal period. The regulated party shall inform to the Superintendency the name of the appointed external auditors firm, which shall be made within seven (7) calendar days after those were appointed.

² Amended by Rule 9-2010 dated 14 December 2010.

Also, the regulated party shall send to the Superintendency of Banks, within sixty (60) days prior the commencement of the annual audit a written document with the detailed information of the members of the audit team, as well as any modification to the team, for the purposes set out in this article.

To ensure the competence of the audit firms and the quality of their work, the regulated parties shall request them a proof of quality control as well as their independence policies. These evidences shall be submitted to the Superintendency at the contracting notice.

The information referred to above may also be submitted to the Superintendency by the external audit firm prior agreement with the audited regulated party. The external auditors firm may submit the above requested information related to a regulated party or, in the same letter, related to several regulated parties to which the audit service is provided³.

ARTICLE 9³. SPECIAL REPORTS. When during the course of the external audit, the auditors find acts or events related to the issues delineated below, the board of directors of regulated entities shall request their external auditors prepare and submit reports on these matters as separate documents, with copies to the Superintendency, within the period established for the submittal of their audited financial statements. The relevant issues are:

1. Findings of alleged significant activities jeopardizing the operations of the regulated entity.
2. Questionable transactions with affiliated companies, related parties or within the banking group to which the regulated party belongs.
3. Evidence of misuse of privileged information.
4. Compliance with the recommendations made previously by the external auditors of the regulated entity.
5. When any act or irregular situation is detected during the course of the external audit.

Additionally, the regulated parties shall make available and shall submit to the Superintendency of Banks, when so required, a copy of the following documents:

- a. Letter of the Auditing Agreement entered into by and between the regulated entity and the auditing firm;
- b. External audit plan;
- c. Evidence of communication between the external auditor and the board of directors or auditing committee of the regulated entity;
- d. Meeting minutes of the auditing committee;
- e. Differences between the external auditor and top management on the implementation of IFRS or US-GAAP, as applicable;
- f. Letters to top management of the bank in which the auditor submits remarks and recommendations on internal control;
- g. Representation letter issued by the regulated entity, addressed to the external auditor;
- h. The record of auditing differences;
- i. Any other special report issued by the external auditor on a particular matter;
- j. Other documents that may be requested by the Superintendency.

³ Amended by Article 1 of Rule 3-2015 dated 24 March 2015.

The board of directors and the auditing committee of the regulated party must take cognizance of all reports issued by the external auditors and take the necessary corrective measures, documenting them in the Minutes of the meetings of the board of directors.

ARTICLE 10. REGULATED PARTIES MINIMUM REQUIREMENTS TOWARDS THE EXTERNAL AUDITOR. The regulated parties shall demand to their external auditor the following minimum responsibilities:

1. To issue an independent opinion on whether or not the financial statements reasonably show the financial condition of the regulated parties, the result of their operations, and cash flows in accordance with the accounting principles under which they have applied.
2. To apply the audit standards referred to in Rule 4-99.
3. To comply with the Code of Professional Ethics addressed in Chapter V of Law 57 of 1st September 1978 and the Code of Ethics of Public Accountants issued by the International Federation of Accountants (IFAC) or the ethical standards issued by the American Institute of Certified Public Accountants (AICPA), as appropriate.
4. To inform in writing to the audit committee the occurrence, of any act or alleged physical or relevant irregularities that have been detected in the bank, which must be recorded in the meeting minutes issued by the audit committee.
5. To prepare the special reports referred to in article 9 above.

ARTICLE 11. WORKING PAPERS. The external audit contract shall provide that the audit firm should retain in its possession, integrally and in good condition, the working papers in hardcopy or electronically, as evidence of the work done, for a minimum period of 5 years from the date of issuance of the last report in connection with each revision.

The regulated parties shall ensure that within the external audit contract is included an authorization for the auditors to make available to the Superintendency of Banks, at its request, the working papers, audit program, and any other relevant documentary support for the purposes of banking supervision.

ARTICLE 12. REPORTS ISSUED BY THE SUPERINTENDENCY. The regulated parties shall share the Supervision Reports issued by the Superintendency of Banks with their external auditors, on condition of confidentiality expressly agreed in writing.

ARTICLE 13. INDEPENDENCE OF THE CERTIFIED PUBLIC ACCOUNTANTS FIRMS. The regulated parties should not contract, as external auditor, no certified public accountant or firm of certified public accountants in which the firm itself or any of its associates or members of the audit team assigned to the regulated party incurs in incompatible activities listed below, without undermining others that could be set forth by the Superintendency of Banks, later:

1. To have been employed or been an actual employee in the audited bank, its affiliates, subsidiaries or entities that are part of the banking group throughout the last two audited fiscal years.
2. To possess either directly or through third parties, economic interests or ties with the audited bank or banking group whereof the bank is a party of, with shareholders holding equal or higher shares at 5% of stock capital or with the members of the board of directors of the audited bank or banking group.
3. To act as stock exchange broker to the regulated party.

4. To be a debtor of the audited bank or of the members of the banking group, if the credits have been granted on more favorable terms than the rest of the customers or if the loan is classified in a sub-normal or higher risk category as established in Rule 6-2000.
5. To provide other professional advising services to the audited bank leading to an active participation in the management decision-making or compromising the independence of the external auditor to render his opinion objectively and professionally.
6. To receive services from the audited regulated party on more favorable conditions than the usual ones to the rest of the customers.

Additionally, the external auditor contracted by the regulated parties must meet the Independence requirements set out in the International Standards on Auditing (ISA) or the United States Generally Accepted Auditing Standards (US-GAAS), as appropriate, the Code of Ethics of Public Accountants issued by the International Federation of Accountants (IFAC) or the ethical standards issued by the American Institute of Certified Public Accountants (AICPA), as appropriate.

ARTICLE 14⁴. ROTATION OF THE EXTERNAL AUDITING TEAM. The regulated entities shall require their external auditors to rotate at least once every five (5) years, including managers and partners. The rotation also includes expert staff members used in audits (tax, systems and other auditors). This rotation does not necessarily imply changing the external auditing firm hired by the regulated entity.

Only one member of the auditing team that had been assigned to the regulated entity will be permitted to remain on the team, and then for only one additional year. The person remaining for the additional year may not be the auditing firm partner responsible for auditing the regulated entity.

The members of the auditing team that were rotated out may be reinstated to the team once (a) three (3) years, for managers and partners, and (b) two (2) years, for the rest of the auditing team staff, have elapsed from the date of rotation.

During the timeframe mentioned in the previous paragraph, the external auditor must ensure that the members of the previous auditing team do not participate in the audit of the regulated entity, nor perform quality control for the job, nor receive inquiries from the auditing team or the regulated entity on technical or specific questions on the industry, transactions or events, nor directly influence the result of the audit.

ARTICLE 15. BANKING GROUPS. In cases where banking groups to which the Superintendency is the home supervisor, those shall be audited by the same external audit firm or associated or affiliated firms; therefore, the external audit service provision contract shall include all entities that make up the banking group.

The Superintendency reserves the right to object any of the associated or affiliated external auditors to these in one or many specific jurisdictions.

Nevertheless, in exceptional and duly sustained cases, the regulated party may request waivers to the Superintendency regarding the application of the provisions of this article.

⁴ Amended by Article 2 of Rule 3-2015 dated 24 March 2015.

ARTICLE 16. REPLACEMENT OF EXTERNAL AUDITOR. In cases of replacement of the external auditor, the regulated party shall render a report to the Superintendency of Banks, informing the reasons for its decision, within five (5) days after the formalization of that replacement.

In these cases, the Superintendency may meet with the replaced external auditor in order to know his views on the matter.

ARTICLE 17. SANCTIONS. Failure to comply with the preceding articles shall be punished in accordance with the provisions of Title IV of Banking Law.

ARTICLE 18. This Rule repeals in its entirety the Rule No. 1-2002 of 1 March 2002 and Rule No. 6-2005 of 13 July 2005.

ARTICLE 19. This Rule shall take effect from the fiscal periods beginning on 1 September 2010 onwards.

Given in the city of Panama on the tenth (10th) day of August, two thousand ten (2010).