

TRANSLATION

Republic of Panama Superintendency of Banks

RULE No. 5-2015¹
(dated 26 May 2015)

“Prevention of the Misuse of Services provided by other Regulated Entities under the supervision of the Superintendency of Banks”

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;

Article 112 of the Banking Law provides that banks and other entities supervised by the Superintendency are obligated to establish policies and procedures and internal control structures to prevent their services being used improperly for criminal purposes in money laundering, the financing of terrorism and other crimes that are related or similar in nature or origin;

Article 113 of the Banking Law establishes that banks and other entities supervised by the Superintendency will submit the information required by law, decrees and other regulations in force in the Republic of Panama for the prevention of money laundering, the financing of terrorism and other crimes that are related or similar in nature or origin. Furthermore, they are obligated to submit this information to the Superintendency whenever it may so require;

According to Article 114 of the Banking Law, Banks and other entities supervised by the Superintendency will adopt policies, practices and procedures that will allow them to know and identify their clients and their employees with the greatest certainty possible. The Superintendency is authorized to develop the relevant standards, in conformity with policies and regulations in force in the country;

By means of Law 41 dated 2 October 2000, amended by Law 1 dated 5 January 2004, a chapter entitled “Money Laundering” was added to Title XII of the Criminal Code. Article 1 of this chapter criminalizes money laundering;

By means of Law 50 dated 2 July 2003, acts of terrorism and the financing of terrorism are defined as separate and specific offenses in the Criminal Code and the corresponding sanctions were established;

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

Article 19 of Law 23 of 2015 designates, among others, the Superintendency of Banks as a supervisory body;

Paragraph 7 of Article 20 of Law 23 of 2015 establishes that among the duties of the supervisory bodies are issuing guidance on regulatory enforcement and feedback to regulated financial and

¹ Amended by Rule 8-2017 dated 19 September 2019 and Rule 7-2019 dated 2 July 2019..

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nonfinancial entities and for activities subject to supervision that are performed by professionals, as well as issuing procedures for identifying the final beneficiaries of legal entities and other legal structures;

Pursuant to Article 22 of Law 23 of 2015 and in order to prevent money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction, the Superintendency of Banks must supervise banks; trust companies and any other activity these companies carry out; finance companies; financial leasing companies; factoring companies; issuers and processors of prepaid cards, debit cards and credit cards – whether individuals or legal entities – and issuers of payment instruments and electronic money;

According to the provisions of Law 23 of 2015 on the prevention of money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction, the Superintendency of Banks shall be authorized to supervise and regulate other regulated entities besides banks and trust companies (which are already under its supervision) on the prevention of money laundering;

During its working sessions, the Board of Directors determined it necessary and advisable to establish guidelines on money laundering to be adopted by the new entities to be regulated and supervised by the Superintendency, in order to establish the measures that must be taken by these entities to prevent the misuse of the services they provide in Panama.

RESOLVES:

ARTICLE 1². SCOPE OF APPLICATION. SCOPE OF APPLICATION. Pursuant to the provisions of Article 22 of Law 23 of 2015, which adopts the measures for preventing money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction, the Superintendency of Banks shall be responsible for regulating and supervising new reporting entities on these matters. The provisions herein will be applied to the following reporting entities:

1. Finance companies;
2. Financial leasing companies;
3. Factoring companies;
4. Issuers and processors of prepaid cards, debit cards and credit cards, whether individuals or legal entities, including those issuing and operating their own cards, except for banks that already have a regulation on this matter;
5. Issuers of Payment instruments and electronic money;
6. Other corporate services conducted by trust companies;
7. Banco de Desarrollo Agropecuario (Agricultural Development Bank);
8. Banco Hipotecario Nacional (National Mortgage Bank);
9. Home savings and loan corporations.

ARTICLE 2. PREVENTION OF MONEY LAUNDERING, THE FINANCING OF TERRORISM AND FINANCING THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION. Regulated entities must take the necessary measures to prevent their operations and/or transactions being conducted with funds or on funds resulting from activities related to money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction crimes. For this, they are required to comply with the terms established herein and with the legal provisions related to this matter.

ARTICLE 3. CONCEPT OF CUSTOMER. Pursuant to the provisions of paragraph 6 of Article 4 of Law 23 of 2015, a customer will be understood to be any individual or legal entity that regularly or occasionally establishes, maintains or has maintained a contractual or business relationship for supplying any product or service related to his or its activity.

² Amended by Rule 8-2017 dated 19 September 2017 and by Article 1 of Rule 7-2019 dated 2 July 2019.

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ARTICLE 4. CUSTOMER DUE DILIGENCE. In their operations, regulated entities must maintain due diligence on their individual clients and their resources subject to the contractual relationship, whether occasional or permanent and regardless of the amount of the transaction, as well as keeping it updated. Furthermore, regulated entities shall pay special attention when conducting transactions over ten thousand balboas (B/.10,000.00), when they detect unusual operations and when there is any suspicion of money laundering, the financing of terrorism or financing the proliferation of weapons of mass destruction, as well as when the entity has doubts about the veracity or adequacy of the information on the customer's and/or final beneficiary's identification.

Regulated entities must identify and verify the identity of the customer, requesting and reviewing reliable documents, data or information from independent sources. The mechanisms for customer and final beneficiary identification, verification and documentation will depend on the regulated entity's risk profile, taking into consideration the types of customers, products and services offered, the intermediaries used, the distribution or marketing channels used by the entity and the geographic location of its facilities, its customers and the final beneficiaries.

Possible existing variables may increase or decrease the potential risk posed, impacting the level of due diligence measures. In the event there is greater risk, regulated entities shall take tougher measures and when there is lower risk, regulated entities may adopt simplified due diligence measures, as long as there is an appropriate risk analysis.

PROVISO. Depending on the risk profile of each regulated entity, the Superintendency of Banks may establish different amounts for which regulated entities must pay special attention when conducting due diligence.

ARTICLE 5. MINIMUM DUE DILIGENCE REQUIREMENTS. Minimum due diligence measures applied to customers, whether individuals or legal entities, and their resources consist of the following:

1. Preparing the customer's profile;
2. Keeping documentation and monitoring their customers' financial transactions;
3. Monitoring individual customers conducting transactions over ten thousand balboas (B/.10,000.00);
4. Reviewing, at least every six (6) months, their customers' operations, both habitual and cash transactions over ten thousand balboas (B/.10,000.00), in order to determine if they follow the criteria for habitual operations established by the entity;
5. Paying special attention and taking pertinent measures for those high-risk customers, including those identified as Politically Exposed Persons (PEPs).

ARTICLE 6. CUSTOMER PROFILE FOR INDIVIDUALS. Regulated entities shall prepare a customer profile on individuals, using a form designed by the entity which will contain written information and documents supporting that information. The customer profile shall contain, as a minimum, the following information and documentation:

1. **Customer identification:** The customer's full name, profession, occupation, citizenship, domicile and a suitable personal identification document.

For the purposes of the suitable personal identification document, the personal identification card, or an official personal identification card application form while the document is being processed, will be requested to Panamanian citizens. The passport will also be acceptable when the Panamanian citizen is residing abroad.

When the customer is a foreigner, he must present his passport. To meet this requirement, it will only be necessary to keep a copy of the page(s) where the customer's photograph, signature and general information appears and the page bearing the entry stamp. Foreigners that have obtained residence in Panama may be also be identified by the personal identification card issued by the Electoral Court of Panama.

In both cases, the document must be valid when submitted.

People in our country holding a permanent resident status as a refugee or asylee may be identified by means of the ID card issued by the National Immigration Service.

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2. **Customer recommendations or references:** This requirement can be met by one (1) banking reference. In the event the customer cannot provide a banking reference, he may meet this requirement by obtaining one (1) personal reference or one (1) business reference provided by companies, suppliers or information agencies, e.g. the report issued by the Panamanian Credit Association (APC, for its acronym in Spanish).
3. **Source and origin of funds:** Source and origin of funds are understood to be written proof of the origin of the funds used to make payments during the contractual relationship.
4. **Customer financial profile:** The financial profile will be understood to be the result of the joint analysis of the socioeconomic and demographic characteristics and variables submitted by the customer and verified by the entity when entering into the relationship, which must be augmented by updated and historical information. For such purposes, the customer could present a job letter, social security tab, paycheck stub or any other legal or contractual documentation verifying the customer's income.

Furthermore, the entity will take reasonable measures at the beginning and during the contractual relationship to verify the origin of funds, frequency of movements and whether the customer will make payments in cash, quasi-cash, checks or wire transfers, in order to establish the habitual behavior the customer will maintain with the regulated entity.

5. **Customer transactional profile:** It will be understood to be the comparison between the expected financial profile and the frequency and capacity of the customer's actual transactions during one or more periods.

ARTICLE 7. CUSTOMER PROFILE FOR LEGAL ENTITIES. Regulated entities under the supervision of the Superintendency must prepare a customer profile for legal entities using a form designed by the entity containing written information and documents supporting that information. As a minimum, the customer profile shall contain the following information and documentation:

1. **Customer identification:** Legal entity's full name, tax identification number (RUC, for its acronym in Spanish), domicile and telephone numbers.
2. **Customer recommendations or references:** This requirement can be met by one (1) banking reference. In the event the customer cannot provide a banking reference, it may meet this requirement by obtaining one (1) personal reference or one (1) business reference provided by companies, suppliers or information agencies, e.g. the report issued by the Panamanian Credit Association (APC, for its acronym in Spanish).
3. **Certifications verifying the incorporation and existence of the legal entity.** The requirement to obtain certifications verifying the incorporation and existence of the legal entity shall be met as follows:
 - a. Copy of the articles of incorporation for a Panamanian legal entity or its equivalent for a foreign legal entity.
 - b. For a Panamanian legal entity, an original or copy of the certificate from the Public Registry, or information extracted by the customer or regulated entity from the Public Registry database verifying the existence of and information on the legal entity.
 - c. For a foreign legal entity, the documents equivalent to that of the provisions of paragraph 2 verifying the incorporation and existence of the foreign legal entity shall be submitted.
4. **Identification of dignitaries, directors, agents and legal representatives.** Regulated entities must identify their dignitaries, directors, agents and legal representatives. For these purposes, a copy of the personal identification document of the chairman and/or legal representative, as the case may be, secretary, persons appointed as signatories and legal agents of that legal entity will be required.
5. **Identification of the final beneficiary:** The regulated entities shall take reasonable measures to identify the final beneficiary using relevant information obtained from

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reliable sources. For such purposes, the regulated entities shall understand the nature of the customer's business as well as its ownership and controlling structures.

To identify the final beneficiary of corporations, regulated entities shall take the necessary steps to identify shareholders holding a percentage equal to or greater than ten percent (10%) of the issued shares of the respective corporation. Corporations listed in the stock market, public enterprises and banks are exempt from the final beneficiary identification requirement.

In the case of legal entities such as foundations, non-profit organizations or others whose final beneficiaries cannot be identified by shareholding, the regulated entity shall ensure it obtains a certificate, certification or affidavit, duly signed by the representatives or authorized persons, identifying the final beneficiary or beneficiaries holding a percentage equal to or greater than ten percent (10%).

When the regulated entity has been unable to identify the final beneficiary, the regulated entity shall refrain from initiating or continuing the business relationship or conducting the transaction as long as doubt persists on the identity of the customer or final beneficiary.

6. **Source and origin of resources:** Source and origin of resources refer to the written documentation on the origin of funds used to make payments during the contractual relationship.
7. **Customer financial profile:** The financial profile shall be understood to be the result of the joint analysis of the socioeconomic and demographic characteristics and variables submitted by the customer and verified by the entity when entering into the relationship, which shall be augmented by updated and historical information. For such purposes, the customer can present audited financial statements, an income tax return or any other legal or contractual documentation verifying the customer's income.

Furthermore, the entity shall take reasonable measures at the beginning and during the contractual relationship to verify the origin of funds, frequency of movements and whether the customer will make payments in cash, quasi-cash, checks or wire transfers, in order to establish the habitual behavior the customer will maintain with the regulated entity.

8. **Customer transactional profile:** It will be understood to be the comparison between the customer's financial profile and the frequency and capacity of the actual transactions during one or more periods.

ARTICLE 8. RECORDKEEPING AND MONITORING. The regulated entities shall maintain all documentation and follow up on all transactions conducted by the customer during the contractual relationship, for the purpose of identifying unusual transactions. The regulated entities shall have tools to detect patterns of anomalous or suspicious activity in all relationships they have with customers.

ARTICLE 9. POLITICALLY EXPOSED PERSONS. The regulated entities shall adopt enhanced or reinforced customer and/or final beneficiary due diligence measures for both nationals and foreigners classified as politically exposed persons, and pay special attention and take appropriate measures for these customers.

Pursuant to the provisions in Paragraph 18 of Article 4 of Law 23 of 2015, politically exposed persons (PEP) are national or foreign individuals serving or having served in prominent high level public functions in a state or international organization. As examples, these can include Heads of State or government; high-prolife politicians; high government, judicial or military officials; senior executives of state-owned corporations; and public officials holding elected office, among others in decision-making positions or having the power to control public institutions. "Persons who meet or have been entrusted with a prominent function by an international organization" refers to any member of senior management, i.e. directors, deputy directors and members of the Board of Directors or equivalent functions.

A person shall be considered PEP from the time of his appointment until his removal from office and for an additional period of no less than two (2) years or more than five (5) years following the cessation of the duties and obligations for which he was initially classified as PEP.

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When a customer is considered a high-profile customer, the regulated entities shall establish appropriate risk management systems and conduct deeper due diligence, including the following:

1. Having tools that will permit conducting relevant actions to determine whether the customer or final beneficiary are politically exposed persons.
2. Obtaining management approval to enter into (or to continue, in the case of existing customers) business relationships with those customers, as applicable;
3. Identifying the PEP's financial and transactional profile, specifically regarding his equity and source of funding, as applicable; and
4. Conducting intensified continuous monitoring of transactions throughout the entire business relationship.

The regulated entities shall apply these due diligence measures for close relatives of politically exposed persons, i.e. spouse, parents, siblings and children, as well as for people known for their close relationship with a politically exposed person.

ARTICLE 10. HIGH-RISK CUSTOMER DUE DILIGENCE. Regulated entities must adopt enhanced or reinforced customer and/or final beneficiary due diligence measures when customers are classified as high-risk customers, as well as taking the relevant measures for these customers.

For customers classified as high-risk customers, regulated entities must establish appropriate risk management systems and conduct deeper due diligence, including the following:

1. Obtaining management approval for establishing (or continuing, in the case of existing customers) a business relationship with those customers, as applicable;
2. Conducting continuous and intensified monitoring of transactions during the entire contractual relationship.

ARTICLE 11. CASH AND QUASI-CASH TRANSACTIONS REPORTS. The regulated entities shall report the following transactions or operations, conducted in or from the Republic of Panama, as well as any other additional information related to these transactions, using the forms established by the Financial Analysis Unit:

1. Cash or quasi-cash credits or payments for an amount greater than ten thousand balboas (B/.10,000.00);
2. Individual cash or quasi-cash credits or payments for an amount less than ten thousand balboas (B/.10,000.00) when they total more than ten thousand balboas (B/.10,000.00) at the end of the workweek. In these cases, the regulated entity will report the transaction with its cumulative value at the end of the workweek by the means provided by the Superintendency of Banks. The reporting entity shall maintain the documents establishing the timely and accurate delivery of data contained in the reports referred to herein in its files and at the disposal of the Superintendency of Banks;
3. All loans disbursed in cash or quasi-cash exceeding ten thousand balboas (B/.10,000.00) granted by the entity to the same customer, if applicable;
4. Successive loan disbursements in cash or quasi-cash granted by the entity to the same customer within the same workweek, even though the individual transactions are below ten thousand balboas (B/.10,000.00), when, taken together, they amount to ten thousand balboas (B/.10,000.00) or more.

ARTICLE 12. RECORDKEEPING AND UPDATING. The regulated entities shall maintain all information and documentation obtained during the due diligence process updated. They shall also keep, by any means authorized by Law and for a period of no less than five (5) years counted from the termination of the contractual relationship with the customer, a signed copy of the due diligence forms for both individuals and legal entities, a copy of the documents obtained from the due diligence process, the documents supporting the operation or transaction and any other document that will permit the reconstruction of the customers' individual operation or transaction, if necessary.

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ARTICLE 13. KNOW YOUR CUSTOMER AND/OR FINAL BENEFICIARY POLICY MANUAL.

The regulated entities shall have a compliance policies, procedures and internal control manual, approved by the Board of Directors, to conduct the “know your customer and/or final beneficiary” policy. This manual must be periodically updated. These policies and procedures shall be adapted to the degree of complexity of their activities and may cover different types of customers, based on the potential for illicit activities related to the operations or transactions of those customers.

ARTICLE 14. KNOW YOUR EMPLOYEE POLICY. The regulated entities shall appropriately select their employees and supervise their behavior, especially of those performing duties related to customer service, money receipt and control of information. Furthermore, the regulated entities shall establish an employee profile that must be updated while the labor relationship lasts.

Employees must be trained to understand the risks to which they are exposed, the controls mitigating those risks and the personal and institutional impact of their actions.

ARTICLE 15. OBLIGATION TO TRAIN EMPLOYEES. The regulated entities shall provide continuous and specific training to the employees discharging functions related to customer and supplier service, communication and management, transactions processing, product and service design, and the staff working in sensitive areas such as compliance, risk, human resources, technology and internal auditing. This training shall permit them to have updated information on the different classifications, cases and regulations related to Money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction.

This training shall be held at least once a year, in order to maintain new and existing staff updated on the internal policies, procedures and controls to prevent the misuse of the services the regulated companies provide, as well as on the different illicit methods used for money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction. This training shall also include procedures adopted by entities to comply with the provisions contained herein.

Regulated entities must keep a record attesting to the training provided to their employees.

ARTICLE 16. SUSPICIOUS OPERATIONS. Regulated entities shall directly inform the Financial Analysis Unit of any suspected event, transaction or operation that may be related to or connected with money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction crimes, regardless of the amount, when the transaction cannot be vetted, as well as any control failure.

The person responsible for compliance shall conduct an internal analysis of unusual and/or suspicious operations resulting from comparisons between the customer’s profile and/or the regulated entities’ monitoring systems.

When, during the course of their activities, the regulated parties are aware of operations classified as suspicious operations that cannot be vetted, they shall comply with the following actions:

1. Create a log containing all information on the operation. The information shall contain the data of the contractual relationship originating the operation and the date(s), amount(s) and type(s) of operation(s). This log must include the succinct remarks of the employee detecting the unusual operation;
2. Notify the person responsible for compliance of the suspicious operation. The person responsible for Compliance shall order a review of the operation to confirm its status as a suspicious operation and will include succinct and relevant remarks;
3. Notify the Financial Analysis Unit for the Prevention of Money Laundering and the financing of terrorism (UAF, for its acronym in Spanish) of the suspicious operation, using the reports established for that purpose. The notification shall be made by the person responsible for Compliance within fifteen (15) calendar days following the detection of the suspicious event, transaction or operation. Nevertheless, regulated entities can request an additional fifteen (15) calendar days in which to submit supporting documentation when there is any complication in gathering the information.
4. To Register the date and the form for notification of to the Financial Analysis Unit for the Prevention of Money Laundering and The financing of terrorism (UAF), as well as the date and number of the reply issued by the UAF, in the log; and,
5. Update the file in the case of suspicious operations.

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6. Create a record of transactions that were investigated by the regulated entity, regardless of whether these resulted in a suspicious transactions report.

ARTICLE 17. EXAMPLES OF SUSPICIOUS OPERATIONS. The Superintendency of Banks will issue a Rule establishing a guide of examples of operations that require close attention by the regulated entities to determine, along with other analytical elements, whether they constitute suspicious operations that could be related to money laundering and/or the financing of terrorism.

ARTICLE 18. COMPLIANCE FUNCTION. The regulated entities shall appoint one or more senior executives within their organizations to perform Compliance duties. These persons shall be responsible for overseeing the implementation of a compliance program that pertains to the set of policies and procedures guiding financial entity employees to conform to the current legal and internal policy provisions on the prevention of money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction.

The person responsible for Compliance shall issue the reports related to the prevention of money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction requested by the Financial Analysis Unit. This person shall also serve as the liaison with the Superintendency of Banks and the Financial Analysis Unit.

Regulated entities consolidating their operations with banks for which the Superintendency is the supervisor may rely on the bank's compliance structure.

ARTICLE 19. NOTIFICATION TO THE FINANCIAL ANALYSIS UNIT (UAF). The Superintendency of Banks shall notify the Financial Analysis Unit (UAF) of any suspicious operations it becomes aware of during the course of the examinations of the regulated entities, without exempting the regulated entity from the obligation to do so.

ARTICLE 20. PROTECTION OF EMPLOYEES, DIRECTORS AND AGENTS. Pursuant to the provisions of Article 1 herein, regulated entities subject to supervision shall adopt appropriate measures to maintain confidentiality on the identity of employees, directors or agents that have made any communication or report to the internal bodies responsible for prevention within the regulated entities.

ARTICLE 21: PENALTIES DUE TO NON-COMPLIANCE. Without prejudice to the penalties prescribed in Law 23 of 2015, which adopts the measures for preventing money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction, failure to comply with the provisions herein will be punishable by the Superintendent with a penalty of from five thousand balboas (B/.5,000.00) to one million balboas (B/.1,000,000.00), according to the seriousness of the offense or recidivism.

ARTICLE 22. ENACTMENT. This Rule shall become effective upon its promulgation

Given in the city of Panama on the twenty-sixth (26th) day of May, two thousand fifteen (2015).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN,

THE SECRETARY,

L. J. Montague Belanger

Luis Alberto La Rocca