



Superintendencia
de Bancos de Panamá

**GUIDELINES ON THE RESPONSIBILITIES OF
THE BOARDS OF DIRECTORS OF BANKS
AND BANK HOLDING COMPANIES**

THIRD EDITION

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FOREWORD

The financial intermediation conducted by the banks of the market and the protection of funds entrusted to them by depositors, make the proper management of corporate governance principles of vital importance to the proper functioning of the Panamanian financial system.

It is therefore important to have legal, regulatory, and institutional foundations that will help maintain the general public's trust in our banking system. A clear allocation of responsibilities and authorities must exist for the adoption of decisions, and as a mechanism for the interaction and cooperation between the bank's shareholders, its board of directors, its top management, and its internal and external auditors.

Clear guidelines will allow the board of directors of each bank and bank holding company to establish the entity's objectives, determine the means to achieve them and supervise their compliance, acting jointly with other control bodies.

To the above ends, and taking into consideration the provisions of the Banking Law and the Rules and Resolutions issued by the institution since its establishment in 1998 to February 2021, the Regulations Division of the Superintendency of Banks of Panama has issued the "Guidelines on the Responsibilities of the Boards of Directors of Banks and Bank Holding Companies."

This guide was prepared for the purpose of providing banks and other stakeholders a reference tool that permits them to review, in a single document, the articles of the current banking regulations that assign direct responsibilities to directors and the boards of directors of banks and bank holding companies. This guide does not replace or obviate the responsibilities of these bodies for comprehensively complying with each one of the provisions stipulated in the Banking Law and the regulations that further develop it, and all other applicable laws.

This compilation of provisions will be kept up to date on our website <http://www.superbancos.gob.pa/>, adding new rules and amendments to current rules related to the responsibilities of the members of the boards of directors of banks and bank holding companies as they arise.

Last, but not least, this tool should be considered a non-comprehensive practical guide to the responsibilities of the members of the boards of directors of banks and bank holding companies.

THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND ITS IMPACT ON BEST CORPORATE GOVERNANCE PRACTICES

By: Regulations Division

Good corporate governance in every bank must be focused on safeguarding the interest of all parties involved, taking into consideration various aspects related to the bank's own risk, internal control, auditing, top management, human resources, among others, for it to work smoothly, but with certainty.

The members of the boards of directors of banks are responsible for controlling managerial results, offering appropriate returns to shareholders and vouching the entity meets the applicable legislation, in addition to their inherent commitment of leading the bank's corporate strategy, in such a way that its implementation is the most appropriate to the risks taken by the entity and, at the same time, in full observance of achieving a balance between the requirements the bank must face and avoiding conflicts of interest that harm their management, both individually and jointly.

Moreover, the board of directors is responsible for overseeing a strong risk governance framework – which should include a strong risk culture, a well-developed and articulated risk appetite, well-defined responsibilities, and appropriate control duties.

In connection with the above, the members of the board of directors must lead by example in their commitment to integrity and *compliance with the laws*, among other aspects inherent to their role, not only from a legal point of view, but they must also perform their duties with a high degree of morality, both personally and jointly.

Without a doubt, good corporate governance is essential for the proper functioning of the banking system and the economy, thus, companies that are vigilant of their governance usually obtain higher profits and have better returns.

Definitively, each bank must maintain a functional corporate governance structure that ensures the strategic direction of the banking group, the effective control of the board of directors and board's responsibility towards its group, its shareholders, and its depositors.

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BANKING LAW

ARTICLE 107. DISQUALIFICATION OF BANK DIRECTORS AND BANK MANAGERS. Without prejudice to the provisions in the Commercial Code and other legislation in force, any person who holds the position of director or officer or holds a management position in a bank, will cease his/her job and be disqualified from performing in those positions in any bank, if any of the following should occur:

1. The person is declared bankrupt or involved in insolvency proceedings.
2. The person is found guilty of crimes against property or the legal authority.
3. The person is found guilty of grievous mismanagement of the affairs of the bank, as determined by the Board of Directors of the Superintendency.

The disqualification will remain in force until that person has been reinstated by the Board of Directors of the Superintendency.

ARTICLE 108. DISQUALIFICATION FROM ACTING AS A DIRECTOR, OFFICER OR MANAGER OF A BANK. Any person who was a director or officer of a bank at the time of its compulsory liquidation, or that participated in the management of a bank and has been found responsible for actions leading to the compulsory liquidation of the bank, may not act as a director or officer or participate in the management of another bank.

ARTICLE 109¹. NOTIFICATION OF LEGAL PROCEEDINGS TO THE SUPERINTENDENCY. Banks will notify the Superintendency of any civil or criminal proceedings against the bank, as well as all civil or criminal proceedings against any of its directors or high-level management related to the performance of banking activities or to intentional crimes.

Notification will take place within fifteen days after the bank has been notified of the complaint. The Superintendency may require pertinent information or clarification at any time.

Lack of compliance with these provisions will be penalized by the Superintendency as established in this Decree Law.

BANKING RULES

RULE 10-2000²
(dated 15 December 2000)

“Compliance Officer”

¹ *References: Rule 5-2005 “Notification of Judicial Processes.” Circular 005-2002 dated 14 February 2002.*

² *This Rule repeals Rule 8-2000 dated 23 August 2000.*

ARTICLE 2. COMPLIANCE OFFICER. The Banks will appoint one or more persons, denominated “Compliance Officer”, at the executive level inside their organization who will be responsible for the oversight of the implementation and handling of the compliance program.

The Compliance Officer will not simultaneously hold positions within the bank or in other companies that are incompatible with his functions under this Rule, regardless of whether they are part of the Economic Group to which the Bank belongs.

The Board of Directors and the General Management of each Bank must ascribe sufficient authority, hierarchy and independence to the Compliance Officer with respect to the other employees of the Bank to allow him to implement and manage the enforcement program, as well as execute effective remedial measures.

Each Bank will create the administrative structure required to support the Compliance Officer in accordance with the nature and volume of his/her activities.

The functions to which this Article refers will include the banking branches and subsidiaries of the Bank established both in Panama and abroad.

PROVISO 1: The Compliance Officers for the branches of Foreign Banks with General or International Licenses can be appointed pursuant to the criteria of their Parent Bank’s legislation.

PROVISO 2: Notwithstanding what is set forth in this Agreement, any bank employee can inform the Compliance Officer of irregularities in the observance of the legal and regulatory provisions in force or the entity’s policies or procedures related to the Bank’s compliance program.

RULE 1-2003
(dated 12 March 2003)

“Prudent and adequate controls for operations with Related Parties”

ARTICLE 1. General License Banks shall establish, within their credit policies, the amounts or levels of credit granted to Related Parties and/or investment in debentures pledged by these Related Parties, which require approval by the Board of Directors, the Credit Committee and the Bank’s Management, respectively.

ARTICLE 3. Loans granted to Related Parties by Microfinance Banks shall be approved by their Boards of Directors.

RULE 2-2003³

(dated 12 March 2003)

“Microfinance Banks”

ARTICLE 10. LOANS TO RELATED PARTIES. Loans granted by Microfinance Banks to Related Parties shall be approved by the Bank’s Board of Directors and shall have real collateral covering 100% of the loan. The provisions of Rule 2-99 shall apply. Microfinance Banks shall comply with concentration limits pursuant to Decree Law 9 of 1998.

RULE 4-2008⁴

(dated 24 July 2008)

“Whereby Rule 9-2006 of November 2006 is rescinded and new provisions on legal liquidity compliance are provided”

ARTICLE 2. RESPONSIBILITIES OF THE BOARD OF DIRECTORS. The Board of Directors of the bank will be responsible for approving the strategy, policies and basic practices and reviewing them at least once a year. The Board of Directors shall also ensure that top management records the strategy as policies, rules, and procedures, including control and information systems. The reports submitted to the Board of Directors and Top Management for liquidity risk follow-up and control must be made available to the Superintendency of Banks of Panama.

RULE 3-2009⁵

(dated 12 May 2009)

“Whereby the provisions on Transfers of Acquired Real Estate are updated”

ARTICLE 2. SALE POLICY. The Boards of Directors of all banks shall issue a policy on the sale of real property acquired in any way as payment for unpaid loans. This policy shall always be at the disposal of this Superintendency.

³ This rule was amended by Rule 6-2003 dated 29 September 2003 and Rule 4-2013 dated 28 May 2013.

⁴ This rule repeals Rule 9-2006 dated 22 November 2006. Article 17 was amended by Rule 9-2008 dated 29 December 2008 and Rule 10-2009 dated 18 December 2009. Article 10 was amended by Rule 2-2011 dated 13 January 2011. See Resolution SBP-GJD-0003-2014. Article 17 was amended by Rule 6-2015. Article 2 was amended and Article 3 was repealed by Rule 9-2018 dated 26 June 2018. Article 20 was amended by Rule 14-2019 dated 17 December 2019.

⁵ This rule repeals Rule 1-2000 dated 16 February 2000, Rule 8-2002 dated 2 October 2002, Rule 4-2005 dated 31 January 2005, and Rule 3-2006 dated 12 May 2006.

RULE 6-2009⁶
(dated 24 June 2009)

“Whereby the standards for Limits to Risk Concentration in Economic Groups and Related Parties are established”

ARTICLE 4: RESPONSIBILITIES OF THE BOARD OF DIRECTORS IN CONCENTRATION RISK MANAGEMENT. It is a responsibility of the Board of Directors of each bank subject to this Agreement to adopt policies, controls, and procedures manuals to ensure that:

1. The material concentration exposure on an individual or on anyone that forms an economic group with that person, as well as concentrations on related parties of THE BANK, on- and off-balance sheet, are adequately monitored and controlled by Management.
2. The Board of Directors of THE BANK periodically reviews the material exposure on individuals and related parties.
3. The transactions with related parties of THE BANK that exceed the levels for which Management has authority will be sent to the Board of Directors for its approval or rejection; Members having a conflict of interest on the transaction will not participate in the decision.
4. The entity has systems that allow it to obtain the information needed to identify, measure, and monitor concentration risk.

RULE 1-2010
(dated 19 January 2010)

“Whereby the guidelines on integrity and accuracy of the information contained in Financial Statements are established”

ARTICLE 2. ACCURACY AND INTEGRITY OF THE INFORMATION CONTAINED IN FINANCIAL STATEMENTS. It is the responsibility of the Board of Directors and the Top Management of the bank to guarantee the accuracy, trustworthiness, and integrity of the Financial Statements, which shall impartially and reasonably represent the Bank’s financial position and performance in all substantive aspects, in strict compliance with the International Financial Reporting Standards (IFRS) or the Generally Accepted Accounting Principles in the U.S. (US-GAAP) as well as the technical and prudential standards that the Superintendency may establish. To that end, the Bank shall establish accounting and internal control procedures that provide for the retention of sufficient documentation to support the contents of the Financial Statements.

⁶ This rule rescinds Rules 1, 2, 7, 8, 9, and 10 of 1999 and all of their amendments. This rule was amended by Rule 5-2013 dated 13 August 2013, Rule 5-2016 dated 13 May 2016, and Rule 10-2019 dated 24 September 2019.

ARTICLE 3. SWORN STATEMENT (AFFIDAVIT). In addition to the requirements for the submittal of the Financial Statements in article 87 of the Banking Law, this Superintendency will require that these statements be sent together with sworn statements (affidavits) made by the President of the Board of Directors, the General Manager and the top Financial Executive of the Bank certifying the following:

- a. The signatories have reviewed the issued Financial Statements.
- b. The information contained in the Financial Statements is accurate, complete in all substantive aspects and considers all important facts that must be disclosed by virtue of the Banking Law, current regulations and the disclosure principles contained in the applicable accounting standards.
- c. In their opinion, the Financial Statements and any other financial information included in them reasonably represent the bank's financial condition, operating results, and cash flow in all financial aspects for the corresponding period.
- d. The signatories informed the Board of Directors that the Bank's internal control system is well established, that it functions effectively and complies with the requirements of Rule 4-2001 dated 5 September 2001, and that these Statements are recorded in the corresponding meeting minutes of the Board of Directors.
- e. Each of the signatories has advised the external auditors of the existence or lack of significant changes to the bank's risk policies and internal controls, or any other circumstances that may significantly affect such controls after their assessment date, including corrective actions for important deficiencies or weaknesses within the bank.

These Affidavits may be submitted in one or in separate documents, and the signature of each grantor shall be made or duly recognized before a notary public.

Branches of Foreign Banks shall comply with this article. However, the Sworn Statement shall be signed by a General Representative, the General Manager, and the senior Financial Executive of the branch.

Notwithstanding the aforementioned, the Superintendency may, at its discretion and based on a well-documented request, grant an extension of up to thirty (30) days after the Financial Statements were submitted for the remittance of the Affidavit.

RULE 2-2010⁷
(dated 4 February 2010)

⁷ This rule repeals Rule 11-2005 dated 23 November 2005. This rule was amended by Rule 6-2010 dated 9 November 2010.

“Whereby provisions on Banks Ratings are issued”

ARTICLE 4⁸. HIRING A CREDIT RATING AGENCY. After approval by the Board of Directors, the bank shall inform the Superintendency in writing of the name of the Credit Rating Agency that will be hired. This Agency shall comply with all the requirements in this Rule.

For those banks that choose a local credit rating, the contract signed with the Credit Rating Agency will require the prior authorization of the Superintendency. This contract shall have, as a minimum, the following elements:

1. **Initial Rating:** The contract shall establish that the initial rating will be carried out within the one-hundred and eighty (180) days after the closure of the previous fiscal year.
2. **Frequency of Updates:** The contract shall require annual updates within one hundred and fifty (150) days after the closure of the previous fiscal year. The information used to prepare the initial rating and the updates shall be as close as possible to the issuance date.
3. **Preliminary Report:** The contract shall establish that the Credit Rating Agency will issue a preliminary report for every assessment made of the bank. This preliminary report will be provided to the bank for its review and observations, and the bank will have ten (10) working days to comment. Any disagreement presented by the bank shall be resolved between the bank and the Credit Rating Agency.
4. **Exceptional Reviews.** The contract shall establish that should the Rating Agency emit an exceptional review, the bank shall have two (2) working days to comment. During those two (2) days, the Bank may request that the Superintendency take cognizance of any discrepancy that may arise and meet with the parties to conciliate their differences. Exceptional Reviews will be understood as those not considered initial or updates as defined in paragraphs 1 and 2 of this Article.
5. **Independent Opinion.** The contract shall establish that when disclosing the rating, the Credit Rating Agency, will indicate that the rating expresses an independent opinion regarding the evaluated entity’s capacity to manage risks.
6. **Final Report.** The contract will establish that the Credit Rating Agency will issue a final report of the rating awarded. The bank may publish this rating as long as it has taken the corrective actions ordered by the Superintendency, if any.
7. **Updated Information.** The contract shall establish that the information used for the initial rating and the updates shall be as close as possible to the final report’s date.

⁸ Amended by Article 1 of Rule 6-2010 dated 9 November 2010.

8. **Notification of the Superintendency.** The Contract shall establish that prior to its publication, the Credit Rating Agency will notify the Superintendency of any relevant fact that could affect the Bank's rating.

The Superintendency of Banks reserves the right to reject the contract when it does not comply with the guidelines in this article.

RULE 4-2010⁹
(dated 10 August 2010)

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

ARTICLE 2. RESPONSIBILITY OF THE BOARD OF DIRECTORS OF THE REGULATED PARTIES. The directors of the regulated parties are responsible for good accounting management. Consequently, they must ensure there are appropriate structures and procedures in place for the accurate and reliable submission of the financial statements issued by regulated parties and the complementary information on which the external auditor bases its judgment, as well as the special reports required by the Banking Law.

Directors shall be responsible for ensuring that the requirements of the structures and procedures mentioned above are strictly complied with and properly documented.

Directors are also responsible for the omission of information that substantially and adversely affects the regulated parties from the reports and financial statements submitted to the Superintendency.

They are also responsible for ensuring that the general plan for external auditing is coherent and appropriate for compliance with the financial information requirements for the areas of greatest significance and risk in the banking business of the entity, as required by the Corporate Governance Rule issued by this Superintendency of Banks.

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

ARTICLE 4. AUDIT COMMITTEE. In accordance with this Rule, the boards of directors of the regulated parties shall form an audit committee composed of directors not involved in the daily management of the regulated party. This committee will follow the guidelines of the Corporate Governance Rule issued by this Superintendency and ensure compliance with the functions outlined therein.

⁹ *This rule repeals Rule 1-2002 dated 1 March 2002 and Rule 6-2005 dated 13 July 2005. This rule was amended by Rule 9-2010 dated 14 December 2010 and Rule 3-2015 dated 24 March 2015.*

Branch offices of foreign banks may comply with this requirement by means of an annual certification issued by the president of the home office audit committee, certifying that the home office has the structures and organization of an audit committee and its functions and duties include monitoring and supervising the overseas branch.

ARTICLE 8¹⁰. EXTERNAL AUDITORS CONTRACTING NOTICE. During the first three months of the entity's fiscal year, the board of directors of the regulated party or the general manager shall designate the external auditing firm that will perform the external audit for the entity's fiscal period. The regulated party will notify the Superintendency of the name of the designated external auditing firm within seven (7) calendar days after its designation.

In addition, for the purposes of this article and within sixty (60) days prior the commencement of the annual external audit, the regulated party shall send the Superintendency of Banks a detailed list of the members of the audit team and any modification to the team.

To ensure the competence of the audit firms and the quality of their work, the regulated parties will request the audit firm provide proof of quality control as well as its independence policies. This information shall be submitted to the Superintendency of Banks with the contracting notice.

The information referred to above may also be submitted to the Superintendency by the external auditing firm prior to signing an Agreement with the regulated party to be audited. The external auditing firm may communicate under one cover the information requested above for one or more regulated parties to which they provide auditing services.

ARTICLE 9¹¹. 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.

¹⁰ This article was amended by Rule 9-2010 dated 14 December 2010.

¹¹ This article was amended by Rule 3-2015 dated 24 March 2015.

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 party;
- d. Meeting minutes of 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.

The board of directors and the auditing committee of the regulated entity 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.

RULE 8-2010¹²

(dated 1 December 2010)

“Whereby the provisions on Comprehensive Risk Management are provided”

ARTICLE 6. RESPONSIBILITIES OF THE BOARD OF DIRECTORS. The board of directors is responsible for compliance with all provisions of the preceding article. In addition, it is also responsible for:

- a. Establishing an acceptable risk profile for the bank. This requires a knowledge and understanding of the risks to which the bank is exposed.
- b. Appointing the members of the Risk Committee.

¹² This rule was amended by Rule 9-2017 dated 7 November 2017.

- c. Approving the necessary resources for the proper performance of comprehensive risk management and the appropriate infrastructure, methodology and staff.
- d. Assessing and approving business plans, taking into consideration the associated risks.
- e. Ensuring that the bank maintains a capital adequacy level consistent with its risk profile.
- f. Approving risk-limiting policies, procedures and structure for the operational and business areas of the bank.
- g. The board of directors and top management of the bank should grant to the risk management unit the necessary authority, hierarchy and independence from the other bank employees, and veto power over decisions related to the bank's comprehensive risk.

ARTICLE 7. BOARD OF DIRECTORS COMPLIANCE CERTIFICATION. The bank shall send an annual certification signed by the chairman and the secretary of the board of directors to the Superintendency certifying the following:

- a. That the board of directors understands the standards in this rule and the board's responsibilities.
- b. That the bank has a comprehensive risk management program following the criteria in this rule and appropriate for the size and complexity of its operations and services.
- c. That the board of directors has been provided the information from top management and the reports of the audit committee, risk committee, and external auditors related to comprehensive risk management, and that the corrective actions are documented in the associated Minutes of the Board.

This certification may be presented in a collective or individual document and the signatures must be notarized. This certification should be signed and submitted within sixty (60) days following the fiscal year closure.

For banks that are branches of foreign banks, the compliance statement required by this Article can be satisfied by an annual certification from the risk management unit of its parent company and will be submitted to the Superintendency of Banks within the period prescribed in the preceding paragraph.

ARTICLE 9. RISK COMMITTEE. The board of directors of banks must form a risk committee responsible to it and whose main duties will be determining the objectives and policies for comprehensive risk management as well as the risk exposure limits approved by the board of directors. Additionally, it will have the duties specified in article 10 of this Rule.

The risk committee shall meet at least every three (3) months to achieve its goals and the proceedings of each of the meetings must be documented in detail in the respective minutes, together with the reports that fairly reflect the discussions and decisions made. Other electronic means may be used, as long as they have the same legal validity to all effects.

The risk committee must be comprised of at least two board members, one of whom must be a member of the audit committee. The person in charge of the risk management unit, the persons responsible for the business areas and any other officer appointed by the board of directors will be part of the committee.

For organizational reasons, a bank may request a full or partial waiver of compliance with this article from the Superintendent. The Superintendent will evaluate each individual case and will decide what action the bank is to take, but, in any case, the duties of the risk committee must be covered by a body responsible for risk management. Banks must have a risk management unit.

RULE 5 -2011¹³
(dated 20 September 2011)

“Whereby a new Rule updating Corporate Governance provisions was issued”

ARTICLE 6. PERSONS RESPONSIBLE FOR THE INTERNAL CONTROL SYSTEM. The persons responsible for the internal control system are the board of directors and top management. The participation and responsibility of each one of them shall be clearly stated in the manuals on organization and duties, policies and procedures and risk control, and other regulations of similar nature established by the entity.

ARTICLE 11¹⁴. THE BOARD OF DIRECTORS. The board of directors of the bank shall consist of at least seven (7) individuals, who shall possess the knowledge or experience relevant to the operations and/or the risks inherent in banking activities. Most of the directors shall be individuals: (a) without participation in the daily administrative management of the bank or (b) whose condition of director would not present any material, business or ethical conflicts or conflicts of interest. Consequently, the minority of the members of the board of directors may include the general manager, operations manager, financial manager or their equivalent, none of whom shall be the chairman. At least two members of the board of directors must be independent directors.

Directors sitting on a specific committee of the board of directors shall possess specialized knowledge or experience in the corresponding area.

The board of directors shall meet at least once (1) every three months and the subjects discussed during these meetings must be documented in full detail in the Proceedings of the organization.

¹³ This rule repeals Rule 4-2001 dated 5 September 2001. This rule was amended by Rule 4-2012 dated 19 June 2012, Rule 5-2014 and Rule 8-2019 dated 13 August 2019

¹⁴ This Rule was amended by the Transitory Proviso of Article 1 of Rule 4-2012 dated 19 June 2012.

In those board of directors' meetings in which participating directors are at the same time bank officers, in addition to the required quorum, the majority of the directors participating must not be bank officers.

TRANSITORY PROVISIO. Banks will have until 1 October 2012 to incorporate the first independent director to their board of directors and until 1 July 2013 to incorporate the second independent director.

ARTICLE 11-A¹⁵. APPOINTMENT OF MEMBERS TO THE BOARD OF DIRECTORS. Pursuant to the provisions of Law 56 dated 11 July 2017 and Executive Decree 241-A dated 11 July 2018 that regulates it, banks must appoint women to at least thirty percent (30%) of the total positions on their board of directors. For this purpose, the bank must make the appointment taking into consideration the timetable included in Article 3 of Law 56 of 2017.

When appointing, the bank must take into consideration the professional experience, career (trajectory), merits and other characteristics established within the bank's corporate governance policies and manuals.

The Superintendency of Banks will monitor the provisions herein through compliance surveys by means of which banks will also describe the reasons for any failure to meet the minimum percentage composition of the board of directors established in Law 56 of 2017 and its regulations. The information herein will be submitted on an annual basis in the format and on the date the Superintendency may establish.

The provisions herein will not apply to branch offices of foreign banks and international license banks to whom the Superintendency acts as host supervisor.

ARTICLE 13. RESPONSIBILITIES OF THE BOARD OF DIRECTORS. The board of directors shall have the following responsibilities and duties:

- a. To promote the security and soundness of the bank.
- b. To understand the regulatory framework and ensure that the bank has an effective relationship with its regulators.
- c. To establish an effective corporate governance structure, including an internal control system that will contribute to the effective internal supervision of the bank and its subsidiaries.
- d. To ensure that the overall working conditions are appropriate for the performance of the tasks assigned to each hierarchical level involved in the corporate governance structure.
- e. To promote high standards of ethics and integrity together with top management.

¹⁵ This article was added by means of Article 1 of Rule 8-2019 dated 13 August 2019.

- f. To establish an organizational culture that exemplifies and emphasizes to all employees the importance of the internal control process, the role of each employee in the bank and the need to be fully integrated into the organization.
- g. To approve and periodically review the business strategies and other important policies of the bank.
- h. To learn and understand the main risk exposures of the Bank, setting reasonable limits and procedures for such risks, and to ensure that top management adopts the measures required for their identification, assessment, oversight and control.
- i. To keep the Superintendency informed on situations, events, and problems affecting, or that could significantly affect the bank, and the specific actions required to confront and/or correct the deficiencies identified.
- j. To be fully informed and ensure the board's access to all the information required on the administrative conditions and policies for decision-making in the exercise of their executive and supervisory duties.
- k. To approve the organizational and functional structure of the internal control system and to ensure that top management checks its effectiveness.
- l. To choose and evaluate the general manager and the personnel responsible for external audits, except when the shareholders' meeting ascribes this responsibility to itself.
- m. To choose and evaluate the manager or person responsible for internal audits.
- n. To approve and review, at least once (1) a year, the objectives and procedures of the internal control system, as well as organizational and duty manuals, policy and procedures manuals, risk control manuals and other bank manuals reflecting these issues, as well as the incentives, penalties and corrective measures encouraging the adequate functioning of the internal control system, and to systematically verify their compliance.
- o. To approve internal and external audit programs, and to review the bank's unaudited financial statements at least once (1) every three months.
- p. To oversee compliance with the provisions in Rules issued by this Superintendency on the accuracy, reliability and integrity of the information contained in the financial statements.
- q. To ensure the existence of structures that will facilitate compliance with Rules issued by this Superintendency on the transparency of information on bank products and services.

ARTICLE 14. CORPORATE GOVERNANCE PERFORMANCE APPRAISAL OF THE BOARD OF DIRECTORS. To support the performance of their duties, the board of directors of every bank must conduct periodic evaluations, at least once (1) every three years, of its own corporate governance practices and procedures. To meet this requirement, they may be assisted by external advisors on corporate governance.

ARTICLE 15. INCOMPATIBILITIES OF THE BOARD OF DIRECTORS. Banks shall establish within their corporate governance rules, that none of their directors can:

- a. Demand or accept, for themselves or for third parties, any payment or other benefit because of their decisions.
- b. Pursue personal interests in their decisions or use the bank's business opportunities for their personal benefit.
- c. Participate in the consideration of issues or vote on issues in circumstances that could lead to potential conflicts of interest. In these cases, they shall inform the other members of the board of directors of their impediment. Should they not do so the board of directors should invite them to refrain from participating.

ARTICLE 16. AUDIT COMMITTEE. The boards of directors of banks shall establish an internal audit committee that will ensure the fulfillment of the duties stated in article 17 of this Rule.

This audit committee shall be integrated by members of the board of directors who do not participate in the daily management of the Bank. The members of the audit committee shall possess the required knowledge and experience for adequate compliance with their duties.

The audit committee shall meet with the frequency set in its internal work regulations, but at least every two (2) months. The internal auditor, the general manager and other employees or invitees considered pertinent by the audit committee shall participate in these meetings. Decisions made during the audit committee meetings must be recorded in Minutes available to the Superintendency.

The audit committee shall prepare its own internal work regulations, which must be approved by the board of directors and shall contain the policies and procedures for the accomplishment of its duties. These regulations will conform to the provisions issued by this Superintendency, including this Rule, and will state, among other features, the frequency of their meetings as well as the information that shall be submitted to the board of directors.

ARTICLE 18. OTHER COMMITTEES. Depending on the bank's profile, the board of directors may create other committees besides the ones this Superintendency has asked for in a specific regulation. To this effect, the creation of at least the following supporting committees, each with its own regulations, is recommended:

- a. Compliance Committee

b. Corporate Governance Committee

Notwithstanding the above, the Superintendency may require any bank to have one or both committees, depending, in any case, on the bank's risk profile.

ARTICLE 19. HUMAN RESOURCES POLICY. The human resources policy established by the board of directors shall consider the recruitment and promotion of staff based on equal opportunity, aptitude, and professional merit. This policy shall also promote the professional and personal improvement of the staff.

Also, the policy shall adopt effective measures to ensure, as a minimum, the following features:

- a. Ensure access to information on key issues concerning employees that may affect the bank's performance.
- b. Continual improvement of the labor environment.
- c. Implement processes and systems of performance appraisal.
- d. Implement measures to ensure prevention of risks derived from lack of professionalism or dishonesty.
- e. Promote best behavior among employees.
- f. Implement compensation and benefits policies.
- g. Be committed to developing competencies, skills, aptitudes, and suitability of employees.
- h. Incorporate principles of justice, equity, and transparency.

ARTICLE 23. INFORMATION FOR SHAREHOLDERS. The board of directors must be transparent in furnishing information to the shareholders for proper decision-making at their meetings.

ARTICLE 27. CORPORATE GOVERNANCE REQUIREMENTS FOR BANK HOLDING COMPANIES. Bank holding companies of banks whose home supervisor is this Superintendency of Banks shall maintain a corporate governance structure that will guarantee the strategic orientation of the banking group, the effective control of the board of directors, and the responsibility of the board of directors towards the group and its shareholders. To this effect, the boards of directors of bank holding companies must ensure that appropriate and best practices of corporate governance are established at group level. Consequently, the board of directors will have the following responsibilities:

- a. To establish the internal control policies, principles, norms, and procedures to guarantee appropriate risk management at group level.

- b. To ensure that there is due transparency with regard to the truthfulness, reliability and integrity of the group's financial information and operations.
- c. To oversee the group's financial health.
- d. To maintain the information on the bank holding company's operations and activities available at the Superintendency's request.
- e. To develop and implement appropriate policies on dealing with conflicts of interest at group level.
- f. To adopt appropriate procedures for transactions with the group's related parties.
- g. To ensure that the group's companies have, at all times, corporate governance structures complying with the provisions of Law and applicable regulations.

RULE 6-2011¹⁶
(dated 6 December 2011)

“Whereby the guidelines on E-banking and Related Risk Management are established”

ARTICLE 4: RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND TOP MANAGEMENT OF THE BANK. The board of directors and the top management of the bank shall be responsible for establishing and implementing an effective risk management system, especially for the risks involved in e-banking activities, including as a minimum:

1. The establishment of specific responsibilities, policies and controls for the ongoing analysis and management of these risks, including the establishment of a Responsible Unit and management by the Risks Committee.
2. The verification and approval of the basic aspects of the risk control process and the security of the bank's electronic channels.
3. The establishment of a comprehensive and continuous due diligence and supervision process for the handling of the bank's relationship with its external service providers and connections in general to third parties assisting or complementing e-banking.

ARTICLE 5: ADEQUATE E-BANKING STRUCTURE. The board of directors or top management of each bank must ensure that the bank's operations manual incorporates the necessary procedures, policies, and internal controls to maintain an adequate administrative and operating structure for providing e-banking services, including particularly the following:

¹⁶ This rule repeals Rule 5-2003 dated 12 June 2003. This rule was amended by Rule 9-2014 dated 23 September 2014.

1. Nature of banking transactions and operations offered.
 2. Transactions or operations registration system.
 3. Effective mechanisms for the supervision of risk associated with e-banking activities (e.g. operational, technological, security risks, etc.) including, at a minimum, the establishment of policies and controls to manage such risks.
 4. Effective mechanisms for evaluating threats, vulnerabilities and associated effects to the information files related to the process of e-banking.
 5. Effective mechanisms for managing e-banking security threats and providing feedback to risk management.
 6. Policies and procedures to be applied in case of potential internal and external security threats to e-banking, both to prevent them and to take the necessary actions when they occur.
 7. Policies and procedures to be applied in case of internal and external security breaches to e-banking, including actions to be taken.
 8. Policies and procedures including security mechanisms which include business continuity and disaster recovery plans.
 9. Due diligence and vigilance mechanisms to manage outsourcing relationships related to e-banking services.
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RULE 2-2012¹⁷
(dated 18 April 2012)

“Whereby Contracting Nonbanking Correspondents for the provision of certain services on behalf of banks is regulated”

ARTICLE 6. BANK RESPONSIBILITIES. The implementation of the bank’s policy to operate through nonbanking correspondents will rest with the bank’s board of directors, as will the approval of the operating model to provide services and operations through this channel, as described in Article 10 of this Rule.

Banks operating through nonbanking correspondents will be fully liable to their clients and users for the operations and services provided.

¹⁷ This rule was amended by Rule 11-2015 dated 18 August 2015.

Claims filed by banking consumers will be governed by the provisions of Title VI of the Banking Law and its enabling regulations.

The bank must take the necessary steps to ensure that the nonbanking correspondent protects privileged information belonging to both the bank and its clients, in order to prevent such information from being intentionally or unintentionally revealed to third parties that by Law are not authorized to receive it.

ARTICLE 10. OPERATING MODEL. The board of directors of the bank must approve the operating model that will be used for the provision of certain services and operations on its behalf through nonbanking correspondents. The model must include administrative, control, security, technology and communication procedures that will guarantee an adequate performance of the operations and provision of services to the public, and must include, as a minimum, the following:

1. To establish policies for the profile and recruitment of nonbanking correspondents including personal characteristics, type of business, physical conditions of the establishment, functioning, hours of operation, and training for the adequate provision of the services that will be contracted.
2. To establish policies, procedures, and internal controls to prevent the improper use of the banking services offered through nonbanking correspondents.
3. To establish policies, procedures, and controls for the management of risks associated with the provision of services through nonbanking correspondents.
4. To establish a contingency plan for the resumption of operations after a failure in the bank's systems related to the nonbanking correspondents' services.
5. To establish, pursuant to the provisions contained in the Rule on Transparency of Information for the use of banking products and services, appropriate means of dissemination to inform clients and the general public of the location and services provided through nonbanking correspondents, the security measures that must be taken to use them, the necessary data to permit identification of authorized nonbanking correspondents, and the fees that will be charged for those services.
6. To establish mechanisms by which the clients or users can file claims or complaints related to operations or services rendered through a nonbanking correspondent.
7. To ensure that the technology systems and controls used by nonbanking correspondents guarantee and comply with the principles for the security of transmission and handling of information, in order to ensure the integrity, trustworthiness, confidentiality and availability of information.
8. Definition of users' access and identification passwords, as well as the description of the process implemented by the bank for the client's identification and approval to make transfer of funds, remittance of checks, withdrawals, balance inquiries, issuance

of statements of account, and outlays of credits through the nonbanking correspondent.

9. To establish a maximum limit regarding the amount, frequency, number of allowed transactions per client or user, and type of transaction made with nonbanking correspondents over a specific period of time.
10. To permanently monitor the nonbanking correspondent's compliance with its obligations including a periodic check of the operations made by each one of the nonbanking correspondents.
11. To prepare a nonbanking correspondents' operating manual which must include, as a minimum, the basic concepts and description of banking operations and services that are authorized to be carried out; the limits set up by the bank with regard to the number of transactions per client and maximum amounts; steps to follow in handling operations and providing services through the relevant technology; technical specifications of the necessary equipment to be operated, and a quick troubleshooting guide and telephone numbers to use in case of emergencies or operating failure.
12. The description of equipment, software or applications to be used, the technical diagram for the submission and reception of information between the nonbanking correspondents and the bank's servers, the procedure for recording and maintaining the information on the transactions made, and any other documentation needed to understand the functioning of the computer and security systems.

RULE 3-2012
(dated 22 May 2012)

“Whereby the Guidelines for Managing Information Technology Risks are provided”

ARTICLE 5. RESPONSIBILITIES OF THE BOARD OF DIRECTORS. The board of directors of the bank is responsible for:

1. Approving the IT strategic plan and the business continuity plan.
2. Overseeing the determination of and compliance with the organizational structures, policies, and procedures necessary for managing IT and its related risks in accordance with the size, nature, and complexity of the operations carried out by the bank.
3. Ensuring that IT governance is appropriately managed as part of corporate governance.
4. Ensuring periodic audits for the continuous assessment, review and monitoring of IT functions and operations.
5. Approving IT investment priorities pursuant to business objectives.

RULE 6-2012¹⁸

(dated 18 December 2012)

“Whereby a new Rule amending the provisions on the application of technical accounting standards for banks established in Panama is issued”

ARTICLE 6. RESPONSIBILITY OF THE BOARD OF DIRECTORS. In addition to the responsibilities indicated in article 2 of Rule 1-2010 dated 19 January 2010, whereby the guidelines for the integrity and accuracy of the information contained in the Financial Statements is established, it will be the responsibility of the board of directors to ensure that top management complies with this Rule.

RULE 4-2013¹⁹

(dated 28 May 2013)

“Whereby provisions on credit risk management inherent in credit portfolio and off-balance sheet transactions are established”

ARTICLE 5. RESPONSIBILITIES OF THE BOARD OF DIRECTORS. The board of directors is responsible for ensuring the bank has an appropriate, effective, feasible and fully documented framework for credit risk management and loan administration. This framework shall contain policies, manuals, and procedures and will be known as the structured and integrated risk and loan administration system. For compliance with this provision, the board of directors will have the following responsibilities:

1. To approve credit strategies, policies, and practices, and review them at least once a year or every time there are important events or situations linked to this risk. These policies must consider the credit risk assumed in all operations, both individually and as aggregated credit portfolios for economic groups, products, economic sectors, or any other classification relevant to the target markets and client profiles defined and approved within the strategy.
2. To approve credit risk exposure tolerance, providing credit limits for clients, market segments and products.
3. To approve an organizational structure appropriate for its size and business sophistication, clearly setting the responsibilities, as well as the levels of authority and interrelationship of each area involved in credit risk management.

¹⁸ This rule was amended by Rule 9-2019 dated 24 September 2019.

¹⁹ This rule repeals Rule 6-2000 dated 28 June 2000 and all its amendments. This rule repeals Rule 6-2002 dated 12 August 2002 and Article 7 of Rule 2-2003. This rule was amended by Rule 8-2014 dated 16 September 2014 and Rule 11-2019 dated 1 October 2019.

4. To ensure that top management is trained to manage the credit risk operations of the bank and that these transactions are made following the strategy, policies, and approved level of tolerance of risk.
5. To ensure that the staff incentive policy is aligned with the bank's credit risk strategy and does not weaken the credit processes.
6. To supervise the credit risk level assumed by the bank, ensuring it is proportional to capital funds.
7. To approve the introduction of new products, segments or activities in the credit portfolio and off-balance sheet transactions generating credit risk.
8. To follow up on exposures with related parties and economic groups and ensure that internal auditing reviews that information.
9. To approve exceptions to internal policies and established limits proposed by top management and/or the person having been delegated that responsibility.
10. To request and approve corrective strategies when the Risk Committee, the Credit Committee or Internal Auditing submit information warning of real or potential damages to credit portfolio quality.
11. To ensure that the bank correctly applies the accounting and regulatory standards regarding credit risk management.
12. To establish a system for the delegation of authority for approving credit transactions and the authority necessary for their monitoring, recovery, and collection.
13. To create a credit committee within the corporate governance system, pursuant to the provisions of this Rule.

RULE 7-2014²⁰
(dated 12 August 2014)

“Whereby Standards for the Consolidated Supervision of Banking Groups are provided”

ARTICLE 3. CORPORATE GOVERNANCE REQUIREMENTS FOR BANKING GROUPS. The banking groups that fall under the home supervision of the Superintendency must maintain a functional corporate governance structure that ensures the banking group's strategic orientation and the board of directors' effective control of and responsibility to the group and its shareholders. For that purpose, the board of directors of bank holding companies must ensure that best and appropriate

²⁰ This rule was amended by Rule 2-2016 dated 23 February 2016.

corporate governance practices are in place. Good corporate governance for the banking group shall include, as a minimum:

1. Documents clearly establishing corporate values, strategic objectives and codes of conduct.
2. Documents showing compliance with the above provisions and their communication to all levels within the organization.
3. A balanced corporate strategy which can be used to evaluate the current overall performance of the banking group and the contribution made by each of the members of the banking group.
4. A clear designation of responsibilities and decision-making authority.
5. Appropriate control systems, to include risk management duties independent of the business lines and other checks and balances.
6. Independent external audits.

ARTICLE 4. RESPONSIBILITIES OF THE MEMBERS OF THE BOARD OF DIRECTORS OF BANK HOLDING COMPANIES SUBJECT TO THIS RULE. The board of directors of the bank holding company will have the following responsibilities:

1. To establish an effective corporate governance structure, including an internal control system that contributes to an efficient internal supervision to the banking group and all of its subsidiaries, as well as unregulated parties.
2. To establish policies, principles, standards, and procedures conducive to maintaining appropriate banking group-level risk management, as well as being aware of and understanding the risks to which the group is exposed.
3. To protect the banking group's financial health.
4. To develop and implement appropriate policies for banking group-level conflict management.
5. To establish policies for conducting transactions with group-related parties.
6. To understand, approve and periodically review business strategies and risk levels acceptable to the banking group.
7. To implement a planning system that ensures capital adequacy and appropriate coverage for risks faced by the banking group.

8. To exercise appropriate control and monitoring of the regulated and unregulated parties that are members of the banking group, respecting their legal independence and their corporate governance responsibilities.
9. To duly document and have access to any information on administrative conditions and policies necessary for making decisions within the exercise of their executive and oversight duties.
10. To ensure adequate transparency with regard to the truthfulness, reliability and integrity of the bank's financial information and operations.
11. To understand the regulatory environment and to ensure that the banking group, its subsidiaries, and member entities maintain an effective relationship with their regulators.
12. To maintain the Superintendency informed on situations, events or issues that significantly affect or might affect the banking group and the specific actions to deal with and/or remedy identified weaknesses.
13. To maintain information on its operations or activities at the Superintendency's disposal, when required.
14. To ensure that employment, pay and compensation policies established by the members of the banking group are consistent with prudent risk management and appropriate compliance with the legal frameworks of the jurisdictions where they operate.
15. To monitor compliance with corporate policies on banking group-level consolidated concentration exposures.
16. To delegate coordination of the consolidated external audit to a group auditing committee.

ARTICLE 6. AUDIT COMMITTEE. The banking group for which the Superintendency is home supervisory must form an audit committee which shall be responsible for the permanent evaluation and monitoring of the group's audits. This committee shall be administratively dependent on the board of directors of the bank holding company and must be endowed with the powers necessary to evaluate compliance with the policies on management of risks to which it is exposed.

The audit committee of the bank holding company shall consist of members of the board of directors of that bank holding company. Senior executives of the holding company's banks or financial companies and invitees the committee deems relevant may also attend the meetings of the committee. The members of the audit committee must have the knowledge and experience necessary to appropriately perform their duties.

The audit committee must meet regularly as established in its internal work regulations, but not less than once every three (3) months. The decisions taken during the meetings of the audit committee must be recorded in meeting minutes that must be at the disposal of the Superintendency.

ARTICLE 23. RISK TOLERANCE BY BANKING GROUPS. Banking groups must establish group risk tolerance levels that must be approved by the board of directors of the bank holding company. These risk tolerance levels must be known and understood by the board of directors of the bank holding company and by the top managements and senior officers in the banking group.

Banking groups must have a group-wide compliance review and monitoring system for these tolerance levels and must meet the following conditions:

1. To make a careful assessment before entering into a new business, in order to ensure that they properly recognize and control the risks of the new business for the banking group.
2. To have policies and procedures in place for making decisions on outsourcing operations and services, including a careful assessment of their risks. Outsourcing operations and services do not imply delegation of responsibilities and must not create impediments or difficulties for the proper management of risk by the banking group or for the Superintendency's supervision.
3. To have a system in place to measure their risks in a prudent manner and a system for reporting these risks to the board of directors of the bank holding company in a timely, clear manner and with the frequency needed to ensure an appropriate awareness of these risks.
4. To conduct normal and stress scenario risk simulations at group level for all types of risks at least once a year, or more often should the risk levels or changing conditions so warrant.
5. To have an effective system for managing and reporting risk concentrations at group level and intra-group transactions and exposures.
6. To adequately monitor risks generated by operations conducted by the group's nonbanking entities.
7. To adequately monitor risks generated by operations conducted with entities and parties related to the banking group.

ARTICLE 24. BOARD OF DIRECTORS' COMPLIANCE CERTIFICATE. On an annual basis, and within ninety (90) calendar days following the company's fiscal closure, the board of directors of the bank holding company must submit a certificate signed by the chairman and secretary to the Superintendency certifying that:

1. The board of directors knows the standards covered herein.

2. The group has a comprehensive risk management system that complies with the criteria established herein and is appropriate for the size and complexity of its operations and services.
3. The board of directors is aware of the information related to their comprehensive risk management. This information must be furnished by the areas responsible for that management in the banking group, the internal and external auditors. The corrective measures adopted are recorded in the relevant meeting minutes.

ARTICLE 33. INTEGRITY AND TRUTHFULNESS OF THE BANKING GROUP'S FINANCIAL STATEMENTS.

It is the responsibility of the board of directors of the bank holding company of the banking group to ensure the truthfulness, reliability and integrity of the consolidated financial statements, which must objectively and reasonably represent the financial position and performance of the banking group in all its substantive aspects, in strict accordance with the International Financial Reporting Standards (IFRS). For those purposes, the banking group must establish accounting and internal control procedures that maintain sufficient documentation to support the contents of the financial statements.

ARTICLE 34. AFFIDAVIT. Consolidated financial statements and the report described in Article 35 must be accompanied by the appropriate sworn statements of the chairman of the board of directors and the senior financial executive of the bank holding company of the banking group, certifying that:

1. The signatories have reviewed the consolidated financial statements that were issued.
2. The information contained in the consolidated financial statements is true, complete in all substantive aspects and covers all important facts that must be disclosed according to the Banking Law, current regulations and the disclosure principles contained in the applicable accounting standards.
3. In the opinion of the chairman and the senior financial executive, the consolidated financial statements and any other financial information included therein, reasonably reflect the financial condition, operations and cash flow of the banking group for the relevant period in all substantive aspects.
4. The signatories have informed the board of directors that the internal control systems of the banking group are in place and working properly.
5. Each one of the signatories has revealed to external auditors the existence or lack of relevant changes to the risk policies and internal controls of the banking group, or any other factors that might significantly affect these controls after the date of their evaluation, including developing corrective actions for significant deficiencies or weaknesses within the banking group.

These affidavits may be submitted by the chairman and senior financial executive in one document or in separate documents, and the signature of each declarant must be affixed or acknowledged before a notary public.

ARTICLE 35. REPORT OF THE BOARD OF DIRECTORS OF THE BANKING GROUP HOLDING COMPANY.

The board of directors of the bank holding company shall submit a report on its compliance with the global and risk concentration limits established herein to the Superintendency within ninety (90) calendar days of the closure of each fiscal period. This report must follow the format provided by the Superintendency.

ARTICLE 36. TRANSPARENCY. The board of directors of the bank holding company must submit an annual report to the Superintendency containing corporate information on risk management and financial management of the banking group.

RULE 10-2015²¹
(dated 27 July 2015)

“To prevent the misuse of Banking and Trust Services”

ARTICLE 3²². MANUAL FOR THE PREVENTION OF MONEY LAUNDERING. Banks and trust companies must have a Manual for the Prevention of Money Laundering duly approved by the Board of Directors. This manual must contain the policies, mechanisms and procedures established by the bank or trust company to prevent their operations being conducted with proceeds of these activities. The policies adopted in the Manual must permit the efficient and timely functioning of the bank’s or trust company’s system for the prevention of money laundering and must translate into rules of conduct and procedures of mandatory compliance for the entity and its shareholders.

The Manual must be disseminated to all of the bank’s or trust company’s staff and must be continuously updated.

The updates made to the Manual must be presented to the Prevention of Money Laundering Committee, which will provide preliminary approval. The changes must be ratified and approved by the Board of Directors at least once a year.

The Manual must be submitted to the Superintendency of Banks with the appropriate updates. In the event there are no updates, the bank or trust company will submit a certification signed by the Chairman or Secretary of the Board of Directors or by the Chairman of the Prevention of Money Laundering Committee indicating the Manual for the Prevention of Money Laundering has not been updated in the last twelve (12) months. The approval of the certification must be recorded in the Committee’s minutes.

²¹ This rule was amended by Rule 1-2017 dated 14 February 2017, Rule 13-2018 dated 27 November 2018, Rule 2-2019 dated 11 April 2019, and Rule 4-2020 dated 7 May 2020.

²² This article was amended by Article 1 of Rule 1-2017 dated 14 February 2017.

ARTICLE 4²³. COMPOSITION OF THE PREVENTION OF MONEY LAUNDERING COMMITTEE IN BANKS.

Banks must create a Prevention of Money Laundering Committee which will report directly to the Bank's Board of Directors and must be composed of at least two (2) members of the board of directors, the general manager, and the senior executives of Risk, Compliance, Business, Operations and Internal Auditing. The Committee will have among its duties the approval of the plan and coordination of the activities related to the prevention of money laundering; they must also be aware of the work conducted and operations analyzed by the Compliance Officer, such as the implementation, progress and control of the compliance program.

The Committee must draft its internal regulations, duly approved by the Board of Directors, which must contain the policies and procedures to comply with its duties, as well as the frequency with which the Committee will meet, which must be at least every two (2) months. The decisions adopted by the Committee must be recorded in minutes, which must be at the disposal of the Superintendency of Banks.

PROVISO: For branch offices of foreign banks subject to the Superintendency's host supervision that cannot meet the provisions herein because their organizational structure does not have the physical presence of the members of their board of directors in the country, the Committee will be composed of, as a minimum, the general manager and the senior executives of Risk, Compliance, Business, Operations and Internal Auditing.

ARTICLE 11²⁴. METHOD FOR CUSTOMER RISK CLASSIFICATION. Every regulated entity must design and adopt a method for customer risk classification that must contain, as a minimum, the following elements:

1. General concept;
2. Minimum criteria or variables for analyzing the customer's risk profile;
3. Description of customer risk classification and categories;
4. Definition of models for establishing the customer's risk profile;
5. Design and description of risk matrixes;
6. Definition of a procedure for updating the customer risk classification containing the authorization process for changing a customer's risk classification. If the customer risk assessment is determined by an automated monitoring tool, the established procedure must ensure that all data on the changes made to the customer's risk profile are retained in the system.

The methodology for customer risk classification and its updates must be approved by the Prevention of Money Laundering Committee and submitted to the Superintendency of Banks

²³ This article was amended by Article 2 of Rule 1-2017 dated 14 February 2017.

²⁴ This article was amended by Article 5 of Rule 1-2017 dated 14 February 2017.

annually to be verified. In the event there are no updates, the bank or trust company must submit a certification signed by the Chairman or Secretary of the Board of Directors or by the Chairman of the Prevention of Money Laundering Committee indicating the methodology has not been updated in the last twelve (12) months. The approval of the certification must be recorded in the Committee's minutes.

The Superintendency of Banks will verify that the methodology for customer risk classification is reasonable in accordance with the volume and nature of the operations conducted by the regulated entity, as well as the risk profile of the customer the entity is serving. In those cases where it is determined that the method for classification is insufficient or inappropriate, the Superintendency may ask the regulated entity to take the relevant measures to remedy or clarify them within a period the Superintendency will establish.

ARTICLE 19²⁵. BANK AND TRUST COMPANY RISK ASSESSMENT. Money laundering risk management must be an integral part of the bank's and trust company's risk assessment. This assessment process must be conducted by the Risk Unit along with the Prevention of Money Laundering Unit and must be approved by the board of directors of the entity.

The risk assessment process must be reviewed at least once every twelve (12) months and the results obtained must be presented to the board of directors. The management must define corrective action plans to remedy proven weaknesses, describing the actions, responsible persons and timeframe for their remedy. The minutes of the board of directors must include the mechanisms approved for the verification of their compliance. This risk assessment must be submitted to the Superintendency of Banks annually.

ARTICLE 26. KNOW YOUR CUSTOMER AND/OR FINAL BENEFICIARY POLICY MANUAL. Banks and trust companies must have a compliance policies, procedures and internal controls manual, approved by the Board of Directors and with the prior approval of the Prevention of Money Laundering Committee, to conduct the "know your customer and/or final beneficiary" policy, which must be reviewed on an annual basis and updated whenever necessary. These policies and procedures will be adjusted to the degree of complexity of the bank's or trust company's activities and may cover different customer categories based on the potential for illegal activity related to operations or transactions made by those customers.

ARTICLE 38²⁶. BANKING GROUPS. The holding company of banking groups to which the Superintendency of Banks is the home supervisor must ensure that they comprehensively manage group-level money laundering risk, as well as assessing the potential risks associated with the activities identified by their branch offices, affiliated companies and subsidiaries when so required. Furthermore, they must have policies and procedures that will allow them to determine the customer's risk exposure in other branch offices, affiliated companies or subsidiaries belonging to the same economic group.

²⁵ This article was amended by Article 10 of Rule 1-2017 dated 14 February 2017.

²⁶ This article was amended by Article 16 of Rule 1-2017 dated 14 February 2017 and it was amended by Article 4 of Rule 13-2018 dated 27 November 2018.

The Superintendency will have access to customer identification that will permit it to comply with this provision regarding the banking group's institutions that conduct operations directly with the bank. The Superintendency of Banks must ensure that the banking group applies rules and procedures equivalent to those adopted by the bank, especially with regard to customer due diligence measures.

For the purposes of the provisions in this Article and according to the guidelines established by FATF, the banking groups subject to the consolidated supervision of the Superintendency must develop corporate policies and procedures for the system to prevent money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction, including:

- a. Group-level policies and procedures for risk management and for the prevention of money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction;
- b. Policies and procedures for the exchange of information within the group for the purposes of preventing money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction.

These policies and procedures must include, but are not limited to, the exchange of information, the analysis of unusual operations and suspicious transactions reports. To this end, the branch offices, affiliated companies, subsidiaries and non-banking entities related to the banking group itself, must receive this type of information when it is relevant and pertinent for an appropriate risk management.

This exchange of information within the banking group is not considered a disclosure of information to third parties and therefore does not contravene the provisions of Article 56 of Law 23 of 2015;

- c. The criteria necessary to be adopted by the members of the banking group to guarantee the highest standards when hiring employees and appointing directors and managers;
- d. Training programs on the prevention of money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction.

The type and scope of the aforementioned policies and procedures must take into consideration the risks of money laundering, the financing of terrorism and financing the proliferation of weapons of mass destruction and be consistent with the sophistication of operations and/or services offered, as well as the size of the banking group.

RULE 11-2017
(dated 26 December 2017)

“Whereby the guidelines for Derivatives Operations are established”

ARTICLE 3. CORPORATE GOVERNANCE. The Board of Directors of the bank conducting operations with derivatives and structured products must assume, at a minimum, the following responsibilities:

1. Approve the precise objectives the entity seeks in trading derivatives, as well as establishing the role derivatives play in the overall strategy of the bank's business, distinguishing between:
 - a. Its own positions for the purpose of obtaining benefits in the short term;
 - b. Derivatives positions for the purpose of obtaining coverage for a determined risk;
 - c. Derivatives positions as counterparty to client positions, where the entity takes the contrary position, taking some type of risk;
 - d. Investment positions in structured products which include implicit or explicit derivatives;
2. Approve the bank's policies and manuals on managing derivatives and structured products, including a risk profile consistent with the bank's strategy. The job position manual must establish the specifics of the various duties and the relevant coordination tasks among those duties;
3. Ensure that the internal regulations on derivatives and structured products and the policies on limits are effectively incorporated into daily practices at the bank and that there is no independent internal control permitting this incorporation;
4. Authorize the use or investment in new derivatives and structured products and establish prudential limits, ensuring that the systems essential to support the new operations and sufficient technical capacity within the different functional areas are in place before implementation;
5. Approve the organizational structure for managing derivatives and structured products, including an effective and independent internal control system with enough [top management] support to perform its duties and the necessary independence from the business areas;
6. Know and understand the bank's risk exposure in trading with derivatives and structured products.

The top management of banks trading with derivatives must assume, as a minimum, the following responsibilities:

1. Develop and propose policies for managing derivatives and structured products;

2. Implement strategies and policies approved by the Board of Directors on derivative instruments and structured products;
3. Understand the risk levels taken by the bank in trading with derivatives and structured products;
4. Maintain an organizational structure for managing derivatives and structured products clearly assigning responsibilities, authority and hierarchy;
5. Establish procedures ensuring the appropriate and timely flow of information on exposures to derivatives and structured products among the different departments involved;
6. Ensure objectives, procedures and controls are functioning, effective and complied with in managing derivatives and structured products;
7. Guarantee the establishment of training and updating programs for the staff involved in managing derivatives and structured policies;
8. At market closing each day, the information on the position in the different contracts, on income and losses, both in valuations and in traded positions, and on the estimated risk taken according to the different types of risks and their compliance with defined tolerance levels, must be made available to top management.

The auditing or internal control department of each bank is responsible for checking and monitoring compliance with all of the requirements established herein.

ARTICLE 10. REQUIREMENTS RELATED TO THE VALUATION PROCESS. Banks must establish and maintain appropriate systems and controls that ensure prudent and reliable valuation estimates. These systems and controls will include the following elements, as a minimum:

1. Documented policies and procedures on the valuation process containing a clear description of the responsibilities of the different departments participating in this process and the sources of market information used to conduct the valuation, as well as an analysis of the adequacy of each of them, the frequency of independent valuations, the temporary sequence of closing prices, the procedures for adjusting the valuations, the procedures for verification at the end of the month and the procedures for verification to be established for specific purposes;
2. The department responsible for the valuation process must be independent of the trading units. Additionally, the submittal of required information for the derivatives valuation, as well as the valuation results, must be submitted through direct channels, independent of the trading areas. This information channel must include the Assets and Liabilities Committee and the Risk Committee;

3. Banks must apply the estimate method chosen to all cases. To the extent possible, it is important to check whether the results obtained by a certain method are significantly different from those obtained by other traders, because international accounting standards give preference to generally-used methods;
4. The models used, both for valuation and risk measurement, must be subject to regular examination in order to determine the reliability of the results;
5. The models developed by the banks themselves must be designed by a unit independent of the trading tables and must be approved by the entity indicated by the board of directors. Banks must implement formal procedures to review and control future model modifications. There must be a registration and a file of the models used, and of the reviews conducted. The file must include, as a minimum, the following: mathematical specification of the model, the assumptions used, the sources of information used to estimate model parameters and examples clearly showing how model results are obtained.

ARTICLE 13. SYSTEM OF LIMITS. The activity with derivatives must be subject to limits not dependent on the nature of the derivative. These limits must be consistent with the bank's measurement of risk, the entity's risk strategy and the risk tolerance defined by the board of directors. Limits should be determined for market, liquidity, counterparty and concentration risk. These limits must be approved by the board of directors and consistently applied.

The main limits to be considered are:

1. Those determined by the maximum intraday exposure and the next-day exposure for each business unit;
2. The limits for the set of derivatives activities;
3. The limits for valuation losses;
4. The limits for aggregate losses in a determined period of time for each business unit and for all units together;
5. The limits for counterparty risk;
6. The limits for concentration risks differentiated by instruments, markets and counterparty.

ARTICLE 15. APPROVAL FOR EXCEEDING ESTABLISHED LIMITS. The approval for exceeding limits must be an exceptional option that must be based on a previously approved procedure. Furthermore, there must be a new limit imposed above the limit being exceeded. The continued approval for exceeding limits is a bad practice that must be rejected.

RULE 2-2018²⁷
(dated 23 January 2018)

“Whereby the provisions on liquidity risk management and the liquidity coverage ratio are established”

ARTICLE 4. DEVELOPING A LIQUIDITY RISK MANAGEMENT STRATEGY. Top management is responsible for developing and applying a liquidity risk management strategy in accordance with the bank’s risk tolerance. This strategy should include specific policies for liquidity management, such as:

1. The composition and expiration of assets and liabilities;
2. The diversity and stability of funding sources;
3. The liquidity management approach in different currencies, countries, business lines and legal entities;
4. The intraday liquidity management approach;
5. The assumptions on asset liquidity and their ability to be traded in the market;
6. The liquidity needs under normal conditions and the repercussions on liquidity during liquidity stress scenarios, whether the origin is internal, systemic or both.

The board of directors of the bank will be responsible for approving the strategy, policies and key practices and reviewing them at least once a year. Similarly, the board of directors of the bank must ensure that top management implements the strategy through policies, regulations and procedures, as well as including the information and control systems.

ARTICLE 6. STRUCTURE, RESPONSIBILITY AND CONTROLS. Top management must determine the structure, responsibilities and controls for liquidity risk management and must monitor the liquidity positions of all legal entities, branch offices and affiliated entities within the jurisdictions where the bank has operations, and to clearly include these elements in the bank’s liquidity policies. The degree of centralization or decentralization of the bank’s liquidity risk management must take into account any legal, regulatory or operational restriction to the transfer of funds.

For bank holding companies whose structure includes banking and nonbanking entities, the group’s top management must be aware of the different liquidity risk characteristics of the entity itself, both related to the business nature and the regulatory context.

The group’s top management must be able to continuously monitor the liquidity risks of the whole group and each of its entities, to adopt processes ensuring that the group’s top management

²⁷ This rule was amended by Rule 4-2018 dated 3 April 2018.

actively monitors and rapidly responds to all of the important events that happen within the group, informing the board of directors in a timely manner, when applicable.

ARTICLE 9. MONITORING MARKET TRENDS. Top management must closely monitor market trends and potential events that might pose substantial, unprecedented, and complex problems to liquidity risk management, to introduce changes to the liquidity strategy in a timely manner. Additionally, top management must comply with the following tasks:

1. To define procedures and specific approvals for permitting exceptions to the policies and limits, including reinforcement procedures and follow-up measures to be adopted after accepting determined exceptions to limits;
2. To ensure the effectiveness and adequacy of the bank's stress tests, contingent funding plans and the portfolio of liquid assets that define the liquidity position;

The board of directors must review periodic reports on the bank's liquidity position and be immediately informed of new or increasing liquidity issues including, among others:

1. Increasing funding costs and greater concentration thereof;
2. Increasing liquidity deficit;
3. Exhausting alternative liquidity funds;
4. Significant and/or persistent cases exceeding limits;
5. A significant reduction in unencumbered high-quality liquid assets;
6. Changes in external market conditions that tend to indicate future difficulties.

The board of directors must ensure that top management adopts corrective measures to remedy these problems in a timely manner.

ARTICLE 21. INFORMATION SYSTEM. The bank must have a reliable information system for risk management, designed to facilitate timely and prospective information on the bank's liquidity position to the board of directors, top management, and other suitable staff.

The bank must ensure that its information system has the following components:

1. The capacity to calculate liquidity position in all currencies in which the bank has operations, including the affiliated entities/branch offices in all of the jurisdictions where the bank has a presence, as well as in the banking group as a whole;
2. The capacity to include all liquidity risk sources, as well as those made by new activities;
3. The capacity to offer frequent, detailed information during stress scenarios.

To efficiently manage and monitor its net funding needs, the bank must be able to calculate intraday liquidity positions, with greater accuracy when the projections include the nearest time horizons and with less accuracy when the projections are more distant. The information management system must be used in the daily liquidity risk management to monitor compliance with the policies, procedures and limits set up by the bank.

Top management must agree to a set of information criteria to facilitate liquidity risk monitoring, specifying the scope, form, and frequency of this notification to the board of directors, the Assets and Liabilities Committee and the parties responsible for reporting. In addition, top management must compare current liquidity risk exposures to the established limits, in order to identify any emerging stress and moderate any overrun of the limits, which must be notified.

ARTICLE 37. FREQUENCY OF CALCULATION AND REPORTING OF THE SHORT-TERM LIQUIDITY COVERAGE RATIO. For the purposes of providing information to the Superintendency of Banks, the short-term liquidity coverage ratio will be calculated at the end of the month and the reporting with the relevant data and calculations will be adapted to the criteria and procedures the Superintendency of Banks may determine.

Given that the liquidity ratio must be satisfied on a daily basis, an entity failing to comply with the ratio must immediately inform the Superintendency and provide a substantiated explanation for the non-compliance.

However, the board of directors of the Superintendency may periodically vary the frequency with which the short-term liquidity ratio must be calculated and reported.

The Superintendent may request the calculation and reporting of the short-term liquidity coverage ratio from any bank at any time the bank's risk profile makes it advisable.

RULE 3-2018²⁸
(dated 30 January 2018)

“Whereby the provisions for capital requirements for financial instruments registered in the trading book are established”

ARTICLE 4²⁹. MARKET RISK MANAGEMENT. Banks must update fair value daily for all trading book instruments.

Banks must have clearly defined policies, procedures, and documented practices for determining which instruments to include in or to exclude from the trading book for purposes of calculating their regulatory capital.

²⁸ This rule repeals Rule 7-2000 dated 19 July 2000 and its amendments and Rule 5-2001 dated 3 December 2001. This rule was amended by Rule 6-2019 dated 28 May 2019.

²⁹ This article was amended by Article 3 of Rule 6-2019 dated 28 May 2019.

A bank's internal control functions must analyze the instruments both in and out of the trading book to assess whether these instruments are being properly classified initially.

Compliance with the policies and procedures must be fully documented and subject to periodic internal audit and the results must be available for supervisory review.

Financial instruments in the trading book must be subject to clearly defined policies and procedures approved by the board of directors. These policies and procedures must address, as a minimum, the issues listed below:

1. The activities the bank considers trading or hedging of included instruments and that, therefore, are in its trading portfolio for regulatory capital purposes;
2. The trading strategy (including the expected holding horizon and potential reactions if this limit is exceeded) for each book or instrument in the trading book;
3. Setting limits and continuously evaluating their adequacy;
4. The process for keeping the board of directors and top management informed as part of the entity's holistic risk management process;
5. In the case of financial instruments in the trading book valued by a model, the bank must, as a minimum:
 - a. Identify the relevant risks for the instruments in the trading book;
 - b. Have valuation methodologies that must be explicitly described in the relevant valuation manuals, so that the valuations can be replicated following the manual's instructions. In particular, provide a detailed description of the databases used and, in general, the sources of information, the assumptions and the estimation methods, as appropriate, of the parameters necessary to use the model;
 - c. Determine in which way the risks of method-valued financial instruments can be easily covered or the position in the financial instrument can be rapidly liquidated.

ARTICLE 5. RESTRICTIONS ON MOVING INSTRUMENTS BETWEEN BOOKS. There are strict limitations on the ability of banks to move instruments between the trading book and the categorized portfolios in the banking book on their own after the instrument's initial designation. The Superintendency of Banks will only permit the transfers in extraordinary circumstances, at the substantiated request of top management and with the requirement to make the transfer public. Market events, changes in the liquidity of a financial instrument, or a change of trading intent alone are not valid reasons for re-designating an instrument to a different book.

The request from top management mentioned above must have the approval of the board of directors and be duly documented in the meeting minutes, a copy or summary of which will be attached to the trading book re-designation request.

ARTICLE 6. RESPONSIBILITY OF THE BOARD OF DIRECTORS. The bank must identify and appropriately manage the market risks they face. In this sense, it will be the primary responsibility of the board of directors and top management to establish policies and procedures to identify and appropriately manage these risks. This responsibility includes meeting the provisions herein and, particularly, the approval, in its case, of the internal models and limitation policies proposed by the risk unit.

RULE 7-2018
(dated 30 January 2018)

“Whereby the provisions on country risk management are prescribed”

ARTICLE 4. BOARD OF DIRECTORS RESPONSIBILITY. The Board of Directors is responsible for ensuring that the reporting entity has an appropriate, efficient, viable and duly documented framework for country risk management, in accordance with the Rule on comprehensive risk management issued by the Superintendency. The framework for country risk management must match the reporting entity’s risk profile, risk appetite and systemic importance.

The Board of Directors must ensure the existence of appropriate internal controls to protect the integrity of country risk management. The board of directors will approve any exceptions to the established internal policies and procedures and will supervise the level of country risk taken by the reporting entity to ensure it is proportional to its regulatory capital funds and other significant variables.

The Board of Directors will be responsible for ensuring that the different areas of the entity adopt the necessary measures to manage country risk. Similarly, the board of directors must approve the country risk management manuals and ensure that they are updated at least once (1) every year.

The Board of Directors must make sure that stress tests exist and are applied at least once (1) a year and that the reporting entity has contingency plans that are effective and appropriate for its country risk profile.

ARTICLE 5. TOP MANAGEMENT RESPONSIBILITY. Top management is responsible for implementing a strategy for country risk management, as well as the policies and procedures approved by the Board of Directors to manage this risk.

ARTICLE 6. RISK COMMITTEE. The Risk Committee of the reporting entity must manage country risk following the guidelines provided in the Rule on comprehensive risk management issued by the Superintendency.

PROVISO: If the bank holding company of a banking group does not have a Corporate Risk Committee, the Board of Directors will determine to which group committee this duty will be assigned. The members of this committee must have the necessary knowledge and experience to properly fulfil its duties.

ARTICLE 7. RISK MANAGEMENT UNIT RESPONSIBILITY. Pursuant to the provisions of the Rule on comprehensive risk management and the Rule on consolidated supervision of banking groups, both issued by the Superintendency, the risk management unit will have country risk management as one of its duties. In addition to the responsibility established in the abovementioned Rules, the unit must:

1. Design country risk management policies along with the Risk Committee, simultaneously informing the general manager or his/her equivalent;
2. Follow up on meeting the country risk exposure limits and sub-limits and informing the Board of Directors of the results;
3. Design and submit the country risk management methodologies for the approval of the Risk Committee;
4. Implement the country risk management methodology, along with top management and all other areas involved in managing assets or resources subject to country risk;
5. Design an information system based on objective and timely reports and submit it to the Risk Committee for approval. This system must reflect the levels of country risk exposure and compliance with the limits set, as well as the provisions for country risk determined by the reporting entity.
6. Develop and maintain a stress-testing methodology to identify country risk effects.

ARTICLE 9. COUNTRY RISK EXPOSURE. [The following items] are subject to country risk:

1. Assets, risk contingencies and derivatives trading resulting from transactions with individuals or legal entities domiciled abroad.
2. Assets, risk contingencies and derivatives trading resulting from transactions with individuals or legal entities domiciled in Panama whose main source of payment comes from abroad.
3. Assets, risk contingencies and derivatives trading resulting from transactions with individuals or legal entities domiciled in Panama, when these have collateral registered abroad, as long as that collateral has been decisive for loan approval.

The following operations will be considered in measuring country exposure:

- Allocations

- Loans and repo operations
- Securities investment
- Derivative financial instruments
- Irrevocable contingencies
- Any other the Superintendency may determine

Transactions conducted by reporting entities that are backed up by collateral issued by the International Monetary Fund (IMF), the International Bank for Reconstruction and Development, the International Development Association (IDA), the International Finance Corporation (IFC), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the Asian Development Bank (ADB), the African Development Bank (AFDB), the International Fund for Agricultural Development (IFAD), the Development Bank for Latin America (CAF) or any other multilateral development organizations approved by the Superintendency will not be subject to country risk, as long as the collateral covers the country risk as defined herein. . Additionally, the financial structures provided by these multilateral organizations that, in the Superintendency's opinion, mitigate this risk will not be subject to country risk.

PROVISO: For bank holding companies whose (banking) subsidiaries abroad consolidate operations in Panama, the provisions herein will be applicable, as long as the country source of repayment and/or domicile of the debtor are other than the subsidiary's country.

ARTICLE 12. EXPOSURE LIMITS BY COUNTRY. Pursuant to the conditions of the Rule on comprehensive risk management, the reporting entity's Board of Directors will approve the limit structure for country risk management. The limits must avoid the reporting entity having excessive concentrations with a given country that may risk its solvency or business viability. To this end, limits by country and sub-limits by product, counterparty, term of operations or other relevant dimensions must be set. These limits must be established based on the regulatory capital funds and other relevant variables.

ARTICLE 17. STRESS TESTING. Reporting entities must conduct stress testing at least once a year.

Stress testing will be conducted based on the methodology developed by reporting entities. Therefore, several extreme but plausible scenarios must be simulated, including, as a minimum:

1. Deterioration of the main macroeconomic variables, such as GDP, Unemployment rate and/or Fiscal deficit, among others.
2. The worsening of the contagion effect between countries.
3. Restrictions in capital markets and financial systems liquidity.
4. Alterations in the relationship between market and credit risks.
5. Negative events in funding sources available abroad.

The results obtained must be informed to the Board of Directors of the reporting entity, must be duly documented, and be considered when reviewing management policies, procedures and country risk exposure limits. Depending on the results, the reporting entities must evaluate the specific measures to take for each case. These measures must be written down in the contingency plan and will determine the increase in provisions produced as a result of changes in the risk classification of each country and the impact on capital adequacy.

The analysis should also take into consideration the reporting entity's sources of funding and liquidity, particularly when the reporting entity has significant funding concentrations in some countries.

RULE 11-2018³⁰
(dated 11 September 2018)

“Whereby new provisions on Operational Risk are prescribed”

ARTICLE 5. MANAGEMENT STRATEGY. Banks must develop a strategy for operational risk management. Thus, it is important that the strategy define or identify the appropriate resources in trained staff, processes, information systems and the entire environment necessary for operational risk management.

To achieve that, the bank must establish a methodology that will allow for the identification, measurement, mitigation, monitoring, control, and reporting of this risk.

Considering that potential market changes affect the bank's economic and operational environment, and, furthermore, that all areas of the financial entity produce potential operational risks, the strategy and therefore the methodology must be reviewed on an annual basis, and must have the approval and support of the Board of Directors.

Top management must establish the procedures that ensure an appropriate flow, quality, and opportunity of the information among the business units and all the persons involved in the operations implying risks for the bank.

ARTICLE 16. BOARD OF DIRECTORS. The Board of Directors of the bank is responsible for guaranteeing an appropriate environment for operational risk management, as well as fostering an internal environment that facilitates its development. Among their specific responsibilities are:

1. Approve the operational risk management policies and the relevant methodology;
2. Approve business continuity plans that permit the entity to react effectively to adverse situations;

³⁰ This rule was amended by Rule 3-2019 dated 30 April 2019. It became effective 31 December 2019 and its enactment repealed Rule 7-2011 dated 20 December 2011 and all of its amendments.

3. Approve the necessary resources for the development of an appropriate operational risk management process, in order to have the necessary infrastructure, methodology and staff;
 4. Ensure that the risk committee complies with the operational risk duties assigned to it;
 5. Know the exposures and the main operational risk principles taken by the bank;
 6. Know the required regulatory capital for operational risk and its effect within the bank;
 7. Ensure that the bank has an effective operational risk management and that it is within the established tolerance limits;
 8. Require periodic reports from the risk committee on operational risk exposure levels, their implications and mitigation plans;
 9. Ensure that the matters discussed and the decisions made on operational risk management are fully documented in the board of directors meeting minutes.
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RULE 12-2019
(dated 15 October 2019)

“Whereby provisions for the investment portfolio are prescribed”

ARTICLE 4. RESPONSIBILITIES OF THE BOARD OF DIRECTORS. The board of directors is responsible for approving and frequently reviewing the strategy on positioning and investment portfolio management and the policies and relevant processes for the identification, measurement, evaluation, monitor, disclosure and control or mitigation of risks to which the entity is exposed because of the investments. The board of directors must:

1. Approve and oversee the appropriate implementation of the objectives, strategies, policies, standards, procedures, and measures for investment portfolio management. This essentially requires the identification, measurement, analysis, monitor, control, report and disclosure of risks, proportionate to the nature, relevance and sophistication of the investments in securities, whether or not they are quantifiable;
2. Approve the risk appetite for the investment portfolio according to the different types of instruments, risk rating, concentrations by issuer, concentrations by geographic location and economic sector, markets where the securities are traded, term, expiration, currency, maximum realized and unrealized losses, market risk exposures and all other characteristics of expected revenue and investment risk;
3. Approve red flags and internal exposure limits matching the established risk appetite, [both] overall and for each security category;

4. Establish the responsibility for the risk committee and the risk management unit;
5. Review the established objectives, strategies, policies, standards, procedures and actions at least once a year, and adjust them to significant environmental or in-house changes;
6. Oversee the appropriate implementation of an information system that permits the identification, collection and processing of useful information for investment risk management and to help the decision-making of the board of directors and of the other areas and committees related to investment portfolio management;
7. Approve the general guidelines for the remuneration and rewards policy for the experts involved in investment portfolio management that do not encourage risk taking other than those related to the risk appetite established by the board of directors;
8. Promote compliance with the laws and regulations related to investment portfolios;
9. Approve recruitment procedures for the experts responsible for investment portfolio risk management, [including] the minimum requirements in technical skills, suitability, knowledge and professional expertise;
10. Approve policies, procedures and budget for an ongoing program of training and knowledge update for the professionals involved in investment portfolio risk management;
11. When the issues contained herein are addressed or discussed during the board of directors meetings, a detailed breakdown of the discussion will be recorded in the meeting minutes;
12. Approve the annual report containing the main facets and results of the investment portfolio.

ARTICLE 5. RESPONSIBILITIES OF TOP MANAGEMENT. The top management is responsible for implementing risk management pursuant to that approved by the board of directors. The responsibilities of top management are listed below:

1. Ensure the consistency between the investment portfolio decisions and the risk tolerance levels;
2. Establish review programs for the risk management unit and the business units regarding the achievement of objectives, procedures and controls of the investment portfolio, as well as exposure limits and risk tolerance levels;
3. Ensure that the budget of the risk management unit is adequate for the performance of its duties;

4. Ensure the existence of appropriate data storage, processing and management systems,
5. Ensure training and updating programs are established for the risk management unit staff and any other personnel participating in operations involving investment portfolio risks for the bank;
6. Establish procedures that ensure the appropriate flow, quality and timeliness of information between the business units and the risk management unit, and for any other personnel involved in securities investment;
7. Create and promote an organizational culture of risk management of securities investments and establish the proper practices for internal control, including standards of conduct, integrity, and ethics for all employees.

ARTICLE 7. RESPONSIBILITIES OF THE RISK MANAGEMENT UNIT. Pursuant to the provisions of the Rule on comprehensive risk management, the risk management unit has among its duties managing investment portfolio risks.

In addition to the responsibilities stipulated by the aforementioned Rule, the risk management unit must:

1. Submit a suitable structure for investment portfolio risk management to the board of directors through the risk committee, appointing the coordinators or persons responsible for the different functional units for the management of those risks;
2. Design and implement methods and tools for measuring investment portfolio risk, consistent with the degree of sophistication and the volume of financial instruments;
3. Ensure that the areas responsible supply the necessary information that will be used in the methods and tools for measuring investment portfolio risk;
4. Ensure that any deficiency detected in the quality, timeliness and integrity of information utilized by the risk management unit is reported to the areas responsible for their preparation and control;
5. Continuously evaluate the models and tools for measuring investment portfolio risk; the results must be reported to the risk committee;
6. Monitor the investment portfolio risk exposures and compare these exposures to the limits approved by the board of directors. Additionally, [the unit] should continuously evaluate the adequacy and performance of controls and limits over time;
7. Make proposals regarding the corrections that may be implemented as a result of deviations from the established tolerance levels;

8. Collect and report the historical evolution of investment portfolio risks taken by the entity in regards to the established tolerance levels;
9. Provide an opinion on the investment portfolio risks for new financial instruments, new trading markets and new hedging instruments prior to their acceptance;
10. Research and document the causes of deviations from the established limits and inform the risk committee, manager or administrator and the person responsible for internal auditing in a timely manner;
11. The duties and requirements established by the risk committee.

ARTICLE 10. RECORDING, CLASSIFICATION AND MEASUREMENT OF THE INVESTMENT PORTFOLIO.

Securities investments will be recorded, classified, and measured according to the current International Financial Reporting Standards (IRFS), based on the established business models and the nature of the contractual cash flows of each instrument.

For securities that are capital instruments, the entity will classify assets according to the business model chosen for its management and the feasibility of measuring them at fair value.

For instruments without periodic listings in a liquid market and valued with models, as well as derivatives whose underlying assets are not frequently listed in a liquid market, the Superintendency will evaluate their classification, recording and value during the supervisory process and, if necessary, make the observations it deems advisable for the bank to make the relevant corrections.

The reclassification of the investment portfolio must be substantiated to the Superintendency of Banks through a report explaining and describing the grounds for changing the business model. The report must be approved by the board of directors and documented in the meeting minutes. A copy of these minutes will be attached to the substantiated request for reclassification.

The Superintendency of Banks may require the reclassification of the investment portfolio if it determines the conditions established herein or in other prudential regulations provided by the Superintendency have not been met.

For the purposes of prudential reclassification of the capital requirements estimates, the unclassified values of the trading book will be part of the banking book, as defined by the Rule on “Capital requirements for financial instruments in the trading book.”

ARTICLE 12. REQUIREMENTS THAT CREDIT RATING SYSTEMS MUST MEET. The requirements that credit rating systems must meet are:

1. There must be an appropriate methodology that permits the credit rating for all types of customers;
2. Any customer with a credit exposure must have an updated credit rating;

3. The historical and current credit ratings of a customer must be kept in the credit file and stored in a historical database as relevant information;
4. The level of detail in the system must be consistent with the information available, in order to optimize the ability to segment it into homogeneous risk groups;
5. The rating systems established for different borrower segments must match each other. Coherence must be set through the probabilities of default, which must be equally considered for borrowers belonging to different portfolios but with the same credit rating;
6. The ratings established must be robust. Small changes in risk factors should not cause major rating changes;
7. The risk factors that are used as the basis for ratings must be appropriately delimited before being accepted. [Risk factors] must not be changed hastily due to the discovery of “facts” not covered by the model;
8. The probability of default should be a good indicator to predict the frequency of default for each risk group (rating) established. A systematic divergence between observed frequencies and estimated probabilities should lead to the system’s review;
9. Observed default frequencies should maintain the same priority as default probabilities assigned to each of the ratings;
10. Customer ratings must be validated by a unit other than the one that assigned it;
11. The credit rating system must be subject to controls within the scope of operational risk. Especially:
 - a. Verification that the information used belongs to the design established;
 - b. Validation of risk factors and their discriminant capacity;
 - c. Default probabilities and observed default frequencies;
 - d. Coherence of rating transition matrixes;
 - e. Deficiencies in the system implementation process within the organization;
 - f. Errors not purged from databases;
 - g. Absence of an internal approval process by the board of directors for credit rating systems;

- h. Lack of credibility;
- i. Excessive sophistication;
- j. A minimum annual frequency for updated financial information for companies.

The guidelines provided herein will be applicable to securities investments and loan portfolios.

The banks using ratings issued by well-known external risk rating agencies for the investment portfolio must conduct an evaluation of the applied rating methods, to make sure that the methodologies and input used are robust and meet all of the requirements established herein. Additionally, the existence of this evaluation with all of the characteristics analyzed, as well as the approval by the board of directors, must be documented in a report.

SBP GENERAL RESOLUTIONS

GENERAL RESOLUTION SBP-RG-0002-2014

(dated 11 August 2014)

“Whereby the guidelines for inspection reports (Findings and Recommendations Matrix) and subsequent action and tracking by the bank are provided”

ARTICLE 1. “FINDINGS AND RECOMMENDATIONS MATRIX”. As a result of bank inspections conducted on banks, the Superintendency issues a report known as the “Findings and Recommendations Matrix” with the findings, recommendations and non-compliances determined in each inspection. This report shall be addressed to the chairman of the bank’s board of directors, with a copy to the general manager.

For this purpose, recommendations shall be understood as the proposals for corrective action arising from the findings. They are addressed to the board of directors and top management of the bank, who shall be responsible for assigning a deadline for their correction, which will depend on the specifics of the corrective actions. An effective follow-up on the compliance and degree of attention given to the recommendations will be conducted using the “Findings and Recommendations Matrix.”

This document was edited by the Regulations Division of the Superintendency of Banks of Panama