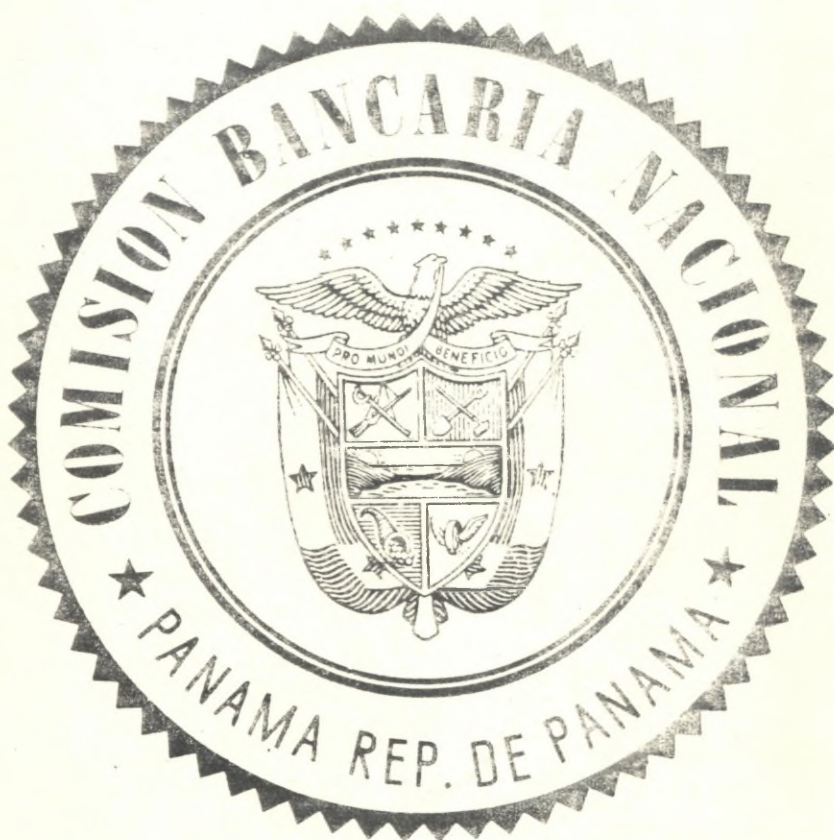




República de Panamá

Ministerio de Planificación y Política Económica



WHAT IS AN INTERNATIONAL BANKING CENTER AND
WHY DO BANKS GO THERE?*

A financial center is a central market place for financial services. It is a node or point of concentration in an international network that provides one or more of the following:

- convenience and low communication costs
- a stable jurisdiction in which private property rights are honored.

Because of the benefits of concentration, only a handful of centers can exist at one time. At the present time, the three most important centers are New York, London, and Tokyo. What is noteworthy is that all three are centers of large domestic financial systems as well as international centers.

Offshore financial centers, of which Panama is one, differ from these three major centers in that international business far outweighs domestic business. In the case of the Cayman Islands, for example, there are virtually no domestic activities. Switzerland occupies a middle ground,

* Lessard, Donald (MIT) and Tschoegl, Adrian, University of Michigan. Panama's International Banking Center: Where does it and and What Can Be Done to Insure its Continued Viability and Increase its Contributions to the Panamanian Economy?. September 26, 1984. Revised, November 1, 1984.

with a sizeable domestic sector, but a much larger international presence.

In many centers, the government establishes separate regulatory regimes for activities involving domestic residents and foreigners. Almost by definition, an offshore banking center provides a free trade zone for financial transactions with minimal taxes and regulations for transactions involving non-residents. Generally, transactions with residents are more highly taxed and regulated.

These activities that take place in an offshore banking sector can be characterized along two dimensions: the market segment (s) that they serve and the nature of the activities themselves. While several different definitions of these segments are possible, the banks that comprise the Panamanian Center operate in five major market segments: interbank -- the taking and placing of offshore deposits among banks and the performance of other services required by banks operating internationally; offshore individuals -- taking deposits and managing investments of non-Panamanians; international trade and corporate -- the financing of international trade and of multinational firms; public sector -- the financing of Latin American governments; and domestic Panamanian banking -- primarily for individuals and small to medium - sized corporations.

The activities aimed at various segments that take place in an offshore banking center are many and include booking, deposit taking, cross-border lending, regional headquarters, trade servicing, retail banking, corporate finance, and money market operations.

Booking refers to the legal recording of loans and deposits. Strictly speaking, booking occurs within a single multinational bank, but it forms part of the interbank segment since it is of value to banks operating internationally and often gives rise to true interbank activities such as funding or deposit trading. This does not necessarily mean that any economic activity actually takes place where the booking is done. Frequently the loans are made or the deposits are taken elsewhere, but are placed on the books of an institution domiciled in the center. Even the books themselves may physically be located elsewhere. All that matters is that for tax and regulatory purposes they be treated as being in the jurisdiction of record. Whether actual processing occurs then depends on the cost of maintaining and supervising staff there, compared to other locations.

In order to create a "brain center" as well as a booking center, Panama has tried to insure that all the banks to whom it grants licenses actually maintain staff there. But this does not mean that the booking activity extends to loan processing as well. For some banks it does, but for others it does not. Furthermore, processing may involve only clerical activities. Actual decision-making may still take place elsewhere.

With deposit taking, individuals or corporations deposit funds with banks based in Panama. The typical purpose will be to take advantage of Panama's favorable tax laws as well as its secrecy provisions.

Deposit taking leads naturally to the provision of more sophisticated investment vehicles and services.

Panama has recently enacted a new Trust law.

Cross-border lending refers to the use of a center as a base from which to make loans to governments and firms throughout the region.

The type of regional management activities a bank locates in a center depends on the nature of its strategy and operations in the region. A bank with branches in many countries in the region may choose to locate an area headquarters in a location convenient to its more distant field operations. A bank without such a network may also station calling officers in a central location and have them visit clients from it. Key considerations are the costs of maintaining staff, especially expatriates, and the quality of the communications facilities, especially aviation links.

A number of the major U.S. banks with an extensive branch network of branches in Central and Latin America and a number of other banks without such a network, including U.S.-based banks as well as Asian and European ones, view Panama as essentially acceptable in terms of cost.

Banking services in support of trade include trade finance and processing of documentary credits. Thus the demand for this service is related to the establishment in Panama of regional warehouse for distribution, or a manufacturing or assembly site. A number of Asian companies are using the Colon Free Zone as a regional distribution center, giving rise to a demand for bank services.

Foreign banks engage in local retail activities depending to a great extent on historical accident. One source of such activity is the presence of emigrants from the home country. This is commonly referred to as ethnic banking. The banks take advantage of their preferred access to these communities deriving from commonalities of language and culture, and the ability to provide special services such as the transfer of remittances. The U.S. banks operating in the former Canal Zone represent a particular case of such activity, and there are other examples involving other nationalities. Frequently such specialized retail banking leads foreign banks into becoming one more domestic retail bank as the population they serve assimilates and as they grow beyond the confines of the niche.

Banks also go abroad to follow their corporate clients. Because they already know these clients, they can extend credit to them or service their operational needs at a lower cost than their competitors. The motivation for foreign banks to locate multinational corporate banking activities in Panama is based on the same factors that influence the choice of Panama as a regional headquarters for a bank or its corporate clients.

Panama offers advantages in attracting banks' own regional liaison and management functions in those banks without a network of branches in Central and Latin America may chose to maintain at least some contact from a central location, such as Panama. This appears to be the case for Asian and European banks which are still in the process of establishing their international branch networks.

Finally, if there are many banks operating in a center, both taking deposits and originating loans, each will tend to face daily imbalances between the supply of and demand for funds. This can provide a basis for interbank trading and eventually a money market in instruments such as certificates of deposit and bankers acceptances.

In deciding to locate in Panama, a bank will examine the menu of activities just discussed, and evaluate them in the light of its own situation, and the behavior of other banks. For some banks, one activity by itself, be it ethnic banking, deposit taking, or regional headquarters will be sufficient to justify a presence. For others, it will require the combination of activities and complementarities between them to warrant a presence.

Panama's Status as a Banking Center

Panama is widely known as one of the most important financial centers of the Americas. More than 100 large banks from all over the world operate there, of which at least 25 are from Latin America. U.S. banks established themselves in the area at an early date. The International Banking Corporation of New York (now Citibank), for example, opened an office in Panama City in 1904.

Foreign banks did not arrive in any numbers until the 1960's. Most came to take advantage of Panama's tax haven status. By 1965 there were 16 proper branches, and 250 "brass plate" banks in the city. The latter simply represented legal fictions and conducted no banking. The present banking structure dates from 1970 when a new law

established strict criteria for obtaining a license. All but two of the 250 "brass plate" banks failed the test.

A banking or financial center represents a node in the international financial network. Therefore, the importance of a center can be judged to a large extent by the nature and number of its links with other financial centers.

In 1970, Panama had connections only with New York and California. By 1980, Panama had also established connections with London, three European centers, Canada, and Tokyo, indicating its much greater integration into the international financial system. This is consistent with the earlier evidence on the increased market share of European and Japanese banks. The total number of foreign banks with representation in Panama has increased fivefold.

The financial centers which have moved most dramatically in the rankings of all centers were located in the Far East. This points out the importance to a center's success of the success of the region or market it serves.

Panama's Competitiveness as an International Banking Center

As noted above, a banking center must offer certain conditions including institutional stability, freedom from transfer restrictions, and taxes, and, ideally a convenient location -- both geographically and culturally. Further, since only a few centers can coexist, it must offer some distinctive advantage in this regard. Panama's most important attributes as host for an international banking center are:

- 1) the absence of currency risk due to the use of the U.S. dollar as currency;
- 2) absence of taxes on offshore transactions;
- 3) an attractive (unrestricted) regulatory framework for offshore banking;
- 4) and locational advantages including an attractive pool of local labor coupled with flexibility with respect to the employment of and absence of restrictions on foreign nationals.

The Dollar Standard

A key factor leading to the emergence of Panama as a financial center is its use of the dollar and, consequently, its lack of discretionary monetary policy and consequent transfer risk. The dollar standard was adopted in the Monetary Convention of 1904, a treaty between Panama and the United States to facilitate the operations of the Canal Commission, and has remained in place since then. The official currency, the Balboa, is linked to the U.S. dollar and the dollar is legal tender in Panama. For reasons of economy and practicality, U.S. currency came to furnish most of Panama's circulating medium. This arrangement has continued to this day, though Panama does issue fractional coins.

Taxation

Panama follows the territorial principle in its taxation. Income earned on international activities is exempt from taxation. Further, interest income on all type of deposits, including those by foreign banks in banks with general licenses is also exempt from tax. Nor do there are

any "backdoor" taxes such as requirements that banks hold reserves against offshore deposits or lend to the government at concessionary rates. While most offshore centers do not tax offshore earnings, some do.

In terms of annual license fees, Panama is particularly generous charging US\$25,000 and US\$15,000 for a General License and International (Offshore) License, respectively. No license fee is charged for a Representative License.

Regulation

The Banking Commission. In 1970 the Panamanian government promulgated Cabinet Decree No. 238 which reformed the banking system and established the National Banking Commission. The new law charged the Commission with ensuring the soundness and efficiency of the banking system and fostering conditions favorable to the development of Panama as an international financial center.

Though originally an agency of the Ministry of Finance and Treasury, the National Banking Commission is now an adjunct of the Ministry of Planning and Economic Policy. The Commission has seven members. Three are from the official sector: The Minister of Planning and Economic Policy (Chairman), the Minister of Finance and Treasury, and the General Manager of the National Bank. The Executive Branch appoints four members, of which three are from the private sector and must be bank representatives of Panamanian nationality selected from a list of candidates proposed by the Banking Association. The fourth is freely chosen and may not be a bank official. The Commissioners

decide on most matters by a simple majority vote, though some decisions by law require a higher majority. The three appointed Commissioners from the private sector hold office for three years.

Licenses. The Commission issues three types of banking licenses: general, international, and representative. The class of license a bank receives determines which legal provisions will apply to it. In this way the Commission can pursue its two objectives. In principle, banks which wish to do business in Panama and accept domestic deposits are subject to stricter provisions. Those which wish to operate only in the international market are permitted a wider latitude in order to enable Panama to compete with other centers for the banks' presence.

One should not, however, construe the bifurcation of the law as necessarily protecting the domestic market while being open with respect to international operations. The number of domestic banks with general licenses, that can also conduct international operations, has quintupled since 1970, and the number of foreign banks has almost quadrupled. Furthermore, a number of foreign banks which have general licenses in effect operate almost entirely in the international market. On the other hand, the Commission does not grant a license to any bank that request one, and has turned down as many foreign applications as it has accepted.

Capital Requirements and Required Reserves. Banks are required to have a minimum paid-up capital of US\$1 million. Branches of foreign banks must have an "assigned capital" for the branch that is equivalent to the amount

that a subsidiary would have to maintain. In addition to the minimum capital, all banks must also maintain a capital reserve fund which, together with its capital, must not fall below four percent of domestic earning assets.

Under the law, the National Banking Commission is authorized to vary the required legal reserve on local deposits, between 5 and 25 percent of total local deposits, differentiating if it chooses to do so, between different categories of deposits. Currently, the requirements are 12 percent on local sight deposits and 6 percent on local time deposits. Foreign deposits and interbank deposits are not subject to the requirement. Vault cash must make up at least 30 percent of the reserves. The remainder may be in the form of sight (i.e., non-interest bearing) deposits with the Banco Nacional de Panama, short-term sight deposits with other banks up to a fixed maximum, panamanian government treasury bills and other assets authorized by the Commission. In addition, all banks must hold assets in Panama equivalent to 85 percent of their local deposits.

The required legal reserves on local deposits assure bank liquidity, protect depositors, and provide the government with a means for restraining credit expansion.

A final prudential provision which may be unique to Panama is the requirement that all banks with a general license (other than the official banks) have a stand-by credit in US dollars in an amount of 10 percent of the bank's local earning assets. The credit must be granted by a foreign bank, or in the case of a branch or subsidiary of a foreign bank, it may be by its head office, subject to the National Banking Commission's approval.

Banks are to draw on the credit if they experience liquidity difficulties, or if the Banking Commission chooses to require them to do so, should more than 10 percent of the local deposits used or invested in Panama be withdrawn from the national banking system. In addition, the Banking Commission may, by law, organize a special short-term credit for any bank which is unable to obtain or renew its stand-by credit, or which has exhausted it.

It does so by requiring that all other banks contribute to the special credit pro-rata with respect to their own stand-by credits. The stand-by credit scheme thus functions as a limited lender of last resort scheme for individual banks and for the banking system in a situation where the country does not have a central bank.

Interest Rate Ceilings and Credit Allocation. The interest rate charged on both domestic and international loans and credit facilities are free of ceilings (with the exception of certain agricultural loans subject to special subsidies). However, the National Banking Commission may impose regulations on domestic loan rates if five members so vote. There are no ceilings on the interest rates banks may pay for international and interbank deposits, or domestic time deposits in excess of US\$10,000.

However, the law forbids the payment of interest on local sight deposits, and requires that local passbook saving deposits in savings banks have a 1 percent interest rate advantage over similar deposits in commercial banks. Currently the rates on such deposits are set at 5 1/2 and 4 1/2 percent respectively.

There is only one explicit provision to channel credit: the requirement that banks lend for mortgages in Panama an amount equal to at least 50 percent of the amount of their local savings deposits.

There is a scheme, the Fondo Especial de Compensación e Intereses (FECI), for the subsidization of the interest expense of loans for agriculture. The fund receives its money from a one percentage point addition to the interest rate charged on domestic consumer and commercial loans. The National Banking Commission administers the fund.

Bank Secrecy. The National Banking Commission is forbidden, by law, from investigating the personal affairs of any bank client. It may not reveal any information it obtains to any person or authority except under court order, and it may publish statistical data submitted to it in reports only in consolidated form.

In addition, Law No. 18 of 1959 authorizes banks and other credit institutions to operate coded bank or securities accounts. The institutions must observe secrecy with respect to the existence and amounts in the accounts, and the identities of the owners. Banks may reveal information concerning these matters only in connection with criminal proceedings. Banks may not even report the amount of interest paid each depositor, but only global amounts.

Although subsidiaries and branches of certain foreign banks may not, because of their home country regulation, offer such accounts, all other banks do, and

find them a useful marketing tool.

Locational Advantages and Labor Availability

Panama's cultural and geographical proximity to Central and South America, while being in the same time zone as New York, have made it a convenient location for customers and banks. The availability of low cost bilingual staff, and highly efficient ancillary services coupled with an absence of binding restrictions on the employment of foreigners, have all helped contribute to its emergence as a banking center.

By law, 90 percent of the employees in each foreign bank must be Panamanian nationals. This requirement is not a problem for the banking system in general, and offshore enterprises, such as banks with international licenses and companies in the Colon Free Zone, as well as assembly plants (maquiladoras) are allowed ample flexibility and special arrangements.



BANKING LAW
OF PANAMA

COURTESY TRANSLATION OF THE
OFFICIAL TEXT IN THE SPANISH
LANGUAGE

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CABINET DECREE NUMBER 238

(July 2, 1970)

Whereby the banking system is amended and the National Banking Commission is established.

The Provisional Board of Government

Decrees:

PRELIMINARY TITLE

CHAPTER I

Scope of its Application and Definitions.

Article 1) — This Cabinet Decree shall apply to Banks organized in accordance with Panamanian laws engaged in banking business in Panama, or abroad and to Banks organized abroad engaged in banking business in Panama.

Paragraph: Only juridical persons may engage in the banking business.

"THE PRECEDENT PARAGRAPH WAS DECLARED UNCONSTITUTIONAL BY SUPREME COURT DECISION DATED DECEMBER 28, 1977".

Article 2) — For the purposes of this Cabinet Decree, the terms hereinafter set forth, shall have the following meaning:

a) "Bank": Every juridical person engaged in the banking business, other than the Savings and Loan Associations authorized according to the laws;

b) "Banking Business": Primarily the act of obtaining financial resources from the public through the acceptance of demand or time deposits of money or through any other means authorized by the pertinent law; and the use, on account and risk of the bank, of such resources for loans, investments, or any other transactions authorized by law or banking practices.

c) "Establishment": Any office, branch or agency of a Bank conducting all of any of the banking activities or businesses;

d) "Commission": The National Banking Commission;

e) "Commissioners": The Members of the National Banking Commission;

f) "Demand Deposits": All those payable on demand;
g) "Time Deposits": All those which are not payable on demand. They are divided into two categories: Fixed Time Deposits and Savings Deposits;

h) "Local Deposits".

1. Deposits payable to natural persons residing in Panama;

2. Deposits payable to juridical persons organized in accordance with Panamanian laws and which earn taxable income in Panama, excepting only from this definition juridical persons whose income is derived from sources outside of the national territory; and

3. Deposits payable to foreign juridical persons with branches qualified to operate in Panama and whose deposits are in fact under the control of the Panamanian branch;

i) "Foreign Deposits": All those which are not "local deposits";

j) "Unsecured Credit Facilities": Those granted without real collateral or, if collateral is furnished the value thereof is lower than the sum owed;

k) "Assigned Capital": That part of the paid-in capital stock which any bank organized under foreign laws, attributes, assigns or pledges to its banking business in Panama, through its Panamanian branch;

l) "Productive Assets": The loans and investments placed economically in the Republic of Panama;

m) "Capital Reserve": That which is created from funds originating from profits made or from other sources, which are accumulated in order to strengthen the financial condition of the Bank;

n) "Representative Office": Those established to act as representatives of Banks, but which do not engage in banking business on their own account;

o) "Mortgage Bank": A Bank whose portfolio of loans consists of at least seventy five (75%) percent of mortgage loans with a term of not less than five (5) years;

p) "Contingent Credit": That which is granted to Banks engaged in banking business in Panama, by another Bank outside of Panama or in the case of Branches or Agencies of foreign Banks, by their Home Office. This credit must be granted in accordance with the terms and conditions established by the Commission;

q) "Interest": The sum or sums which in any form or under any other name are collected or paid for the use of money.

TITLE I

National Banking Commission

CHAPTER 1

General Provisions

Article 3) — The National Banking Commission is created and assigned to the Ministry of Planning and Economic Policy.

Article 4) — The Commission shall have the following objectives, aside from those assigned by this Cabinet Decree:

a) To insure that the solidity and efficiency of the Banking System is maintained so as to promote monetary and credit conditions conducive to the stability and sustained growth of the national economy.

b) To strengthen and promote the proper conditions for the development of Panama as an international financial center.

CHAPTER II

Organization

Article 5) — The Commission shall be composed of seven (7) members with a right to speak and vote, as follows:

a) The Minister of Planning and Economic Policy who will preside over it;

b) The Finance and Treasury Minister

c) The General Manager of the National Bank of Panama (Banco Nacional de Panamá).

d) Three (3) representatives of the Banks, who must be Panamanian citizens, domiciled in the Republic and Bank officials.

They shall be appointed by the Executive Body from a list of three (3) names to be submitted by the Panama Banking Association, and

e) One member appointed by the Executive Body who cannot be a Bank director, officer or employee.

Article 6) — The Commission shall have a Technical Secretariat that shall be headed by a Secretary and shall be staffed by the personnel deemed necessary to discharge its duties. The Secretary shall attend the meeting of the Commission with a right to speak only.

The personnel, the records, the files and property of the Technical Secretariat of the National Banking Commission shall be transferred to the Ministry of Planning and Economic Policy.

Article 7) — The alternates of Minister of Planning and Economic Policy, the Finance and Treasury Minister and the General Manager of the National Bank of Panama shall be the Economic Planning and Policy Vice Minister, the Finance and Treasury Vice-Minister and the General Manager of the Savings Bank, respectively.

Article 8) — Each representative of the Banks shall have an alternate appointed in the same manner as his principal.

Article 9) — The Commissioner appointed according with paragraph (e) of Article 5 shall have an alternate appointed in the same manner as his principal.

Article 10) — The Commissioners as well as their respective alternates, shall be appointed for a period of three (3) years by the Executive Body and with ad-honorem status.

Transitory Paragraph: The terms of the first Commissioners proposed by the Banking Association of Panama and their alternates will be of 1, 2 and 3 years respectively,

so that the terms of a Commissioner and his alternate ends each year. The term which corresponds to each one of them will be determined by casting lots at the first meeting of the Commission.

Article 11) — The Commissioners may be removed only by the Executive Body at the request of five (5) Commissioners, if any of the following circumstances occur:

a) They are permanently disabled to discharge their duties;

b) They are declared bankrupt or are found in an evident state of insolvency;

c) They are condemned for crime against property or public faith or;

d) They no longer meet the requirements which were established for their appointment. In case of removal of any of the appointed Commissioners, the vacancy shall be filled by his alternate until a new principal be chosen and appointed for the remainder of the term of the removed Commissioner.

Article 12) — In case of temporary and permanent absences and until such time as a new appointment is made, the Commissioners shall be replaced by their respective alternates.

Article 13) — The Commissioners referred to in Paragraph d) of Article 5 shall be disqualified from acting when the Bank of which they are Officers is involved in the issues to be considered by the Commission.

Article 14) — The functions of the Commission, in addition to those other specifically assigned in this Cabinet Decree, are the following:

a) To meet at least every two months and, also whenever convened by the President of the Commission or at the request of at least three commissioners;

b) To decide on such matters as are submitted by the President, the Secretary or any of the members of the Commission;

c) To issue the resolutions referred to by this Cabinet Decree;

d) To assist the Executive Branch in regulating the provisions of this Cabinet Decree and to establish its own internal by laws, subject to the approval of the Executive Body;

e) To recommend to the Executive Body the appointment of the subordinate personnel which the Commission may need to properly discharge its functions; and

f) To determine, within the administrative sphere, the interpretation and scope of legal provisions on banking matters.

Article 15) — The decisions of the Commission shall be adopted by an absolute majority, except in those cases especially covered by this Cabinet Decree.

The presence of at least five (5) commissioners shall be required to constitute quorum.

TITLE II

The Banking System

CHAPTER I

Qualification

Article 16) — Except for the Official Banks, no person shall engage in banking business without previously having obtained the proper authorization from the Commission, through the issuance of the respective license.

Three (3) types of licenses shall be issued, to wit:

General License: Which shall be issued to Banks organized under Panamanian laws and to authorized branches of Banks organized under foreign laws to engage in banking business both within or outside of Panama;

International License: Which shall be issued to Banks organized in accordance with Panamanian laws and to authorized branches of banks organized under foreign

laws to conduct, exclusively, from an office established in Panama, transactions which are completed, accomplished or are intended to take effect outside of Panama.

License of Representation: Which shall be issued to the Banks organized in accordance to foreign laws to establish exclusively representative offices in Panama.

Paragraph: The Commission shall extend to every Bank currently operating in the Republic and which is duly authorized by the Commission, the license appropriate to its activities according to those mentioned in the preceding paragraphs.

Article 17) — At the time this Cabinet Decree becomes into effect, the licenses to engage in banking business which are in force at such time will be considered valid for a period of up to one (1) year, a term that may be extended for an additional year when, in the judgment of the Commission, there exist justifiable causes therefor. Within this period, the holders of the aforementioned licenses must comply with the provisions of Article 30 and 31, in order that they be issued a license in accordance with the present Cabinet Decree. Notwithstanding the foregoing, the banks organized in accordance with Panamanian laws, the 75% of the stock or shares of which, at least, are owned by natural persons who are citizens of Panama or foreigners with more than five (5) years of residence in Panama, will have a period of five (5) years, within which they must comply with the provisions of the aforementioned Articles 30 and 31 of this Cabinet Decree.

Article 18) — With the exception of national institutions or associations which are exclusively engaged in humanitarian or charitable activities, no person who is not an authorized Bank shall use in its name, corporate name, description or denomination, in invoice headings, letter paper, notices, announcements or in any other form, the word "bank" or derivatives thereof, in any language, which may lead to believe that it is engaging in banking business.

Paragraph: Notaries are forbidden to authorize public documents or copies thereof, acts, statements or instruments proper to their office and to authenticate signatures which violate the provisions of this article. The Public Registry Office is forbidden likewise, as far as its recordings are concerned. At the time this Cabinet Decree becomes effective, companies already registered, organized according to Panamanian laws, or qualified to do business in the Republic, and whose denomination or corporate name violates the provision of this Article, shall have a period of 90 days within which to dissolve voluntarily, secure a license from the Commission to engage in banking business, or amend their charter to change their denomination or corporated name. Once this period has expired, the Commission shall so notify the Director General of the Public Registry so that he will proceed to add a marginal note in the registration of any company which may have not complied with what has been hereinabove provided, to the effect that the said company has been dissolved as a matter of law, or its authorization to conduct business in Panama has been revoked, depending on whether it is a Panamanian or a foreign company.

Article 19) — Whenever it is known or there are reasonable grounds to believe that a natural or juridical person is engaging in banking business in violation of the provisions of this Cabinet Decree, the Commission shall be empowered to examine their books, accounts and documents in order to determine whether it has violated or is violating any provision of this Cabinet Decree. Refusal to exhibit these books, accounts and documents, shall lead to presume that it is engaging in banking business without the required license, in which case the Commission shall be empowered to so inform the Public Registry Office in order that the marginal notation referred to in the previous Article may be entered and the appropriate penalty is imposed.

Article 20) — In the case of new banks which are to be organized in accordance with Panamanian laws, the

Commission will issue a temporary permit, for a term of ninety (90) days for the sole purpose that the organization of the company using the word "bank", or any of its derivatives might be recorded in the Public Registry Office while the issuance of the respective license is being processed. If the period expires, and all the requirements for the issuance of the license have not been met, the Commission shall so inform the Director General of the Public Registry so that the marginal note referred to in Article 18 may be made.

Article 21) — The license to engage in banking business must be requested in writing from the Commission, enclosing:

a) An authenticated copy of the Charter and By-Laws with their respective amendments if there are any. If these documents are written in a foreign language, the corresponding translation made by a legally authorized translator must also be enclosed.

b) A copy of the Financial Statement, with a closing date within the ninety (90) days prior to the date of the request, duly certified by a firm of certified public accountants.

c) A certified check to cover the costs of the investigation referred to in Article 23 of this Cabinet Decree in favor of the National Treasury for the sum of B/.500.00 in the case of a bank organized according to the laws of Panama, and for the sum of B/.1,000.00 in the case of a bank organized under a foreign laws.

d) Any other requirement established by the law or the Commission.

Article 22) — In any case in which the Commission notifies the Director General of the Public Registry to make the marginal note mentioned in Articles 18, 19 and 20, the Commission shall publish such notification for three (3) consecutive days in one daily newspaper with wide circulation throughout the Republic, and once in the Official Gazette.

Article 23) — When an application for a license is under consideration by the Commission, the Commission, will conduct or order to be conducted the investigation it may deem necessary, so as to ascertain the authenticity of the documents filed, the financial status and the background of the applicant, the reputation and experience of its officers, the adequacy of its capital, and any other data which may be necessary for the proper enforcement of this Cabinet Decree.

Article 24) — Within ninety (90) days after receiving the application, the Commission by means of a resolution, must issue or refuse to issue the license, serving notice of said resolution on the applicant.

Article 25) — In order that they may never be without representation, the banks organized under foreign laws must appoint at least two (2) general attorneys-in-fact, both of whom must be natural persons with residence in Panama and one of whom, at least, must be a citizen of Panama.

Article 26) — The Commission shall revoke the license of any bank for any of the following reasons:

- 1) It has ceased to engage in banking business; or
- 2) It does not begin operations within the six (6) months following the issuance of the license. The Commission may also, by a resolution adopted by a majority vote of five (5) commissioners, revoke said license when a bank does not comply with any of the provisions of this Cabinet Decree. Before revoking the license, the Commission shall serve notice on the Bank advising it its intention to revoke, giving it the pertinent reasons to do so, and the Bank shall have a term of twenty-one (21) calendar, days, beginning on the day it was served notice, to explain the reasons why it considers that its license should not be revoked, attaching to such explanation the evidence available before the action, which it deems applicable. Once said term expires, the pertinent decision shall be issued by the Commission by means of a resolution.

Article 27) — Once the resolution whereby a license is revoked becomes final, the Commission shall immediately proceed as follows:

1) Communicate the measure to the Director General of the Public Registry, so that the corresponding marginal note may be made, and

2) Publish the resolution in a newspaper of wide circulation for three (3) consecutive days and once in the Official Gazette.

Article 28) — No bank may open a new establishment without previous notice to the Commission. When a bank deems that it is necessary to close or to transfer an existing establishment, it must obtain previous authorization from the Commission, merely to enable the Commission to be able to oversee that the closing is performed in an orderly fashion and in a such manner that interests of the depositors of said establishment are protected.

Article 29) — No bank engaging in banking business in Panama may merge or consolidate, nor sell all or part of the assets it possesses in Panama, when such an action is equivalent to a merger or a consolidation, without prior authorization from the Commission.

CHAPTER II

Capital

Article 30) — Every bank engaging in banking business in Panama must have a paid-in capital or an assigned capital, as the case may be of not less than one million Balboas (B/.1,000,000.00). The paid in or assigned capital must consist of assets free from encumbrances, kept at all moments within the Republic of Panama.

Paragraph 1. Every bank organized according to Panamanian laws and which engages exclusively in banking business outside of Panama, must maintain at all time in Panama, in assets free from encumbrances, of such types as the Commission authorizes, a sum of not less than Two-Hundred and Fifty Thousand Balboas (B/.250,-

000.00), in order to guarantee that its obligations will be fully met.

Paragraph 2. Every bank organized according to Panamanian laws, a seventy-five percent (75%) at least, of its shares is owned by natural persons who are citizens of Panama, or foreigners with more than five (5) years of continuous residence in Panama, may start operations with a paid-in capital of Two-Hundred and Fifty Thousand Balboas (B/.250,000.00). This capital must be increased periodically up to the minimum capital required referred to in this Article, within a maximum period of ten (10) years.

a) Forty Thousand balboas (B/.40,000.00) per year during the first five (5) years; and

b) Seventy-five thousand balboas (B/.75.000.00) per year during the last five (5) years.

The balance, if there is any, must be capitalized before the above mentioned term expires.

Article 31) — Every bank engaging in banking business in Panama must maintain a capital reserve, so that its paid-in or assigned capital, as the case may be, plus said capital reserve, is at no time less than the percentage that from its productive assets is set forth by the National Banking Commission.

The paid in or assigned capital plus the capital shall not be at any time, less than four percent (4%) of the productive assets.

No bank shall declare, credit or pay dividends nor distribute or transfer any part of its profits without first accumulating the reserves referred to in this article.

Article 32) — Every bank shall maintain assets within Panama equivalent to a percentage of its local deposits. Said Percentage shall be determined by the Commission, according to the national economic and financial conditions. It shall be the same for all banks, and must not exceed one hundred percent (100%) of such deposits.

Paragraph: Upon this Cabinet Decree becoming effective and until the Commission determines otherwise, the percentage referred to in this Article shall be eighty five percent (85%).

Article 33) — Banks, other than Mortgage Banks, operating within the country, which receive local savings deposits, shall be bound to invest within a term of not less than ten (10) years, in housing mortgage loans, in the Republic of Panama, a minimum of 50% of such deposits; or to invest in interest earning mortgage, warrants, certificates or bonds issued by the National Mortgage Bank of the Republic of Panama.

The Commission shall determine periodically, in consultation with the Ministry of Housing, the portion of the 50% which will be invested in housing loans for social interest, or in warrants, certificates or bonds earning interest, issued by the National Mortgage Bank.

The Commission shall establish the terms and conditions under which the non-mortgage banks shall adjust their operations to the provisions of this article.

Paragraph: Banks are forbidden to invest their savings deposits in their own mortgage certificates, bonds or securities.

CHAPTER III

Contingent Credits

Article 34) — Every bank, in order to maintain its license, must be the beneficiary of a contingent credit in dollars of the United States of America, granted by a foreign bank, or by its own Head Office abroad in the case of branches of foreign banks (approved by the Commission), for an amount of not less than ten (10%) percent of the total of its productive assets as of December 31st or the previous 30 June, as the case may be. The Commission may, nevertheless, demand a revision at any other date. The terms and conditions of this credit shall be established by the Commission.

When for any reason, any bank of the system cannot obtain or renew the stand-by credit referred to in Articles 34 and 35, the Commission shall be empowered to enter into negotiations with the bank in question and the other banks of the National Banking System regarding the granting of a special short-term credit by the latter in favor of the former, this credit shall be distributed proportionally among the other banks of the system according to the minimum amount of the contingent credit to which each of them is bound. Before receiving such a special credit, the bank in question must prove that it has not been able to obtain or renew the aforementioned contingent credit.

Article 35) — The contingent credit shall be utilized by the beneficiary bank upon withdrawal from the national banking system within a period of six (6) months, of sums in excess of ten percent (10%) of the total of its deposits employed or invested in Panama. In such a case, the Commission may require the banks to use such credits, total or partially, and to maintain the proceeds thereof within Panamá. Each bank, at its free discretion, shall determine the use of the funds thus obtained.

When any bank of the system encounters itself with liquidity difficulties due to a decrease in its deposits, the Commission shall be empowered to enter into negotiations with the bank in question and the other banks of the national banking system regarding the granting of a special short-term credit by the latter in favor of the former. This credit shall be distributed proportionally among all the other banks of the system, according to the minimum amount of the contingent credit to which each one of them is bound.

Before being able to receive such a special credit, the bank in question must exhaust its own contingent credit.

CHAPTER IV

Legal Reserve

Article 36) — Every bank must maintain a legal reserve consisting of cash assets, of not less than five (5) and not more than twenty-five (25) per cent of the total amount of its local deposits. Within such minimum and maximum, the legal reserve shall be fixed periodically by the Commission, by written notice thereof shall be given to each bank.

Article 37) — Not less than 30% of the legal reserve must consist of currency of legal tender in Panama, maintained by each bank in its own possession.

The excess may consist in demand deposits in Banco Nacional de Panama or in National Treasury Bills, which shall not earn more than three percent (3%) interest per year with maturity of not more than ninety (90) days. Such deposits shall be subject to verification by the Commission.

Paragraph 1: At the time this Cabinet Decree becomes into effect and until the Commission determines otherwise, the legal reserve shall be twelve per cent (12%) for demand deposits and six per cent (6%) for time deposits and the minimum percentage of this legal reserve which must consist of currency of legal tender in Panama shall be thirty (30%) per cent.

Paragraph 2: The banks shall have thirty (30) days, beginning on the effective date of this Cabinet Decree, to comply with the provisions of this article.

Paragraph 3: The Commission may authorize that the excess up to seventy percent (70%) may consist of other assets, provided that said authorization is adopted by the affirmative vote of five (5) of its members. Said assets must have sufficient liquidity so as to serve the purposes of the legal reserve.

Article 38) — The legal reserve shall be uniform for all banks, but the Commission may fix different legal reserve for the different types of deposits.

Article 39) — The banks must file a report with the Commission, promptly in the form and as periodically as the Commission may prescribe, in order to assure proper compliance with the provisions of this Chapter.

Article 40) — The Commission shall give any bank which ceases to comply with the provisions of this Chapter, three (3) working days notice to correct this deficiency. Once said term has expired, if the deficiency has not been corrected the Commission shall impose a fine equivalent to two percent (2%) of the amount of the deficiency in the legal reserve, and shall grant the bank fifteen (15) calendar days to correct such deficiency.

Article 41) — Non-compliance after the expiration of the fifteen (15) days referred to in the previous article, or repeated violations of the provisions of this Chapter shall give the Commission the power to revoke the license or to follow the procedure established in Chapter XI, in so far as it is applicable.

CHAPTER V

Banking Liquidity

Article 42) — Every bank which engages in banking business in Panama must always maintain a minimum balance of liquid assets, equivalent to the percentage of the gross total of its deposits as may be determined from time to time by the Commission. Said percentage shall not exceed thirty-five percent (35%), except in the case of mortgage banks for which it shall not exceed twelve percent (12%). With this exception, the percentage shall be the same for all banks.

Paragraph: If a bank which operates within Panama receives credits or deposits from its Head Office, Branch, Subsidiary or Affiliated Company outside of Panama, such credits or deposits shall be excluded from the gross total of its deposits for the purpose of figuring the percentage of liquidity.

Article 43) — The changes in the percentage of liquidity must be complied with within the term indicated by the Commission, which shall not be less than thirty (30) calendar days. Upon this Cabinet Decree becoming effective and until the Commission determines otherwise, the percentage of liquidity applicable shall be of ten percent (10%) for mortgage banks and thirty percent (30%) for all other banks. Banks presently authorized to operate shall have a period of ninety (90) days, as of the date this Cabinet Decree becomes effective, to comply with said percentages of liquidity.

Article 44) — For the purposes of the previous articles, the assets hereinafter specified shall be considered liquid, provided they are free from all liens or encumbrances and are freely transferable:

- a) Gold or currency of legal tender in Panama;
- b) Net balances in the Clearing House in the Republic of Panama;
- c) Net balance in any bank in Panama, payable on demand or within a term of not more than 186 days and obligations payable in Panama on demand or within a term of not more than 186 days;
- d) National Treasury Bills or other securities issued by the State with a maturity of not more than one year;
- e) Net balances in any banks abroad approved by the Commission payable on demand or within a term of not more than 186 days and in currencies which, in the judgment of the Commission, are freely convertible and transferable, up to a maximum of 30% of the required percentage of liquidity.
- f) Unmatured bills of exchange bearing at least the signatures of two substantially solvent persons, as drawer and acceptor, and payable within 186 days in any place and currency approved by the Commission, in accordance with the requirements of paragraph e);
- g) Treasury bonds issued by a foreign government or international financial organizations in accordance with

the requirements established in paragraph e) of this article, up to a maximum of 5% of the required percentage of liquidity.

h) Other assets which this Commission may authorize by a majority vote of five (5) of its members.

Paragraph: Subject to the above mentioned percentage limitations and to the other requirements provided for by this Cabinet Decree, the distribution among the different types of liquid assets referred to in this article, shall remain at the discretion of each bank.

Article 45) — Violations of the provisions of this chapter, shall be sanctioned by the Commission with a fine of not less than B/.1,000.00 and not more than B/.10,000.00.

Article 46) — It shall be assumed that a bank has violated the provisions of this chapter and the previous chapter if it has not furnished within the required period the documents and reports requested by the Commission in order to ascertain compliance with the provisions of Articles 36, 37, 42 and 43.

CHAPTER VI

Banking Interest,

Article 47) — The provisions of Law No. 4 of 1935 shall not be applicable to banks authorized in accordance to the present Cabinet Decree. Whenever it may be necessary to accomplish the objectives mentioned in Article 4, the Commission may by means of a resolution adopted by a favorable vote of five (5) of its members, fix the maximum rate of interest which, directly or indirectly, may be charged by the bank on the local loans or credits they grant, that is to say, those economically invested or utilized within the Republic of Panama. Interest shall be computed on balances owed.

Article 48) — Any bank may pay whatever interest it deems fit on its foreign deposits and on the local time deposits. Nevertheless, in order to establish a difference

in the rate of interest which may be paid on local "savings deposits" by mortgage banks in comparison to the other banks, the Commission shall, by means of a resolution adopted by an affirmative vote of five (5) of its members, fix the maximum rate of interest payable by the former and the latter, with a minimum differential of not less than one percent (1%) in favor of the mortgage banks, in connection with the aforementioned "local savings deposits". No interests may be paid on local demand deposits.

Paragraph: For the purposes of this article, the Commission shall determine the maximum amount, below which a time deposit shall be considered a "savings deposit".

Article 49) — The violations of the provisions of this chapter shall be sanctioned by the Commission with a fine of not less than B/.1,000.00 and not more than B/.10,000.00, without affecting the obligation to return the interest charged in excess.

CHAPTER VII

Documents and Reports

Article 50) — Within the three (3) months following the close of each fiscal year, banks organized in Panamá with regards to all of their operations, and organized abroad with regards to the operations of their Panamanian establishments, must file with the Commission the corresponding balance sheet and profit-and-loss statements, signed by the Legal Representative or by one of the Bank's General Attorney-in-fact. The Financial Statements mentioned in this article shall be filed and audited in the manner prescribed by the Commission.

Article 51) — The banks shall exhibit throughout the year, in a prominent place of each one of their establishments in Panama, a copy of their last audited Balance Sheet, and shall publish it in a newspaper of wide circulation in the Republic within three (3) months following the close of each fiscal year.

CHAPTER VIII

Prohibitions and Limitations

Article 52) — No bank shall declare, credit or pay any dividends, nor distribute or transfer all or part of its profits, until having totally amortized or created sufficient reserves to amortize all deferred expenses, including their preliminary expenses organization expenses, commissions paid on the sale of shares, brokerage fees, losses incurred and any other expenses not represented in the Bank's tangible assets, or while there exists a loss of capital.

Article 53) — Banks are forbidden to grant loans or credits, to any one, natural or juridical person, or to grant any collateral or incur in any other obligation in favor of such a person, the total of which exceeds at any given moment five percent (5%) of the bank's deposits, capital and reserves. The limitation provided for in this article shall not be applicable to transactions which:

1) Consist in the negotiation of:

a) Bills of exchange drawn or promissory notes issued in good faith as a consequence of an underlying transaction having a collateral security, or secured bankers acceptances or by

b) Other commercial paper, which the Commission may authorize and which are owned by the person who negotiates same with the bank, by means or a blank endorsement without recourse.

2) Are secured either by bank "avals" or collateral deposits or by collateral fully secured for its total value which has ascertainable market value or otherwise has a value as collateral according to a bona fide determination made by an officer of such bank, of at least fifteen percent (15%) over the amount of the obligations secured thereby.

3) Represent loans to the State, its autonomous or semi-autonomous institutions or Municipalities or are guaranteed by the Nation or any foreign State approved by the Commission.

Article 54) — Banks are forbidden to:

1) Grant or obtain loans or credits with their own shares as collateral

2) Grant loans or credits without collateral, in excess of fifteen percent (15%) of their capital and capital reserves in favor of:

a) One or more of its directors, whether these are granted to them jointly or severally;

b) Any juridical person of which one or more of its directors is a director or officer or a guarantor of the loan or credit facility;

c) Any juridical person, or association of individuals in which the bank, or one or more of its directors or officers have individually or jointly a majority interest.

3) Grant loans or credits without collateral or without having a third party as guarantor, to any of its employees, for an amount in excess of the salaries, wages and other yearly emoluments earned by the said employee.

Article 55) — When applying the prohibitions specified in Articles 53 and 54, the Commission may determine if the interests of a group of natural or juridical persons are interrelated in such manner that they should be considered as a single person. Nevertheless, it shall not be deemed that the bank has violated the provisions of these articles even though the debts of the group does exceed applicable limits at the moment of their computation, provided that the bank adopts the necessary measures to correct the excess within the period of time fixed by the Commission.

Article 56) — Banks are forbidden to acquire or possess shares or interest in any other types of enterprises, except in trust, for more than twenty five percent (25%) of the bank's paid-in or assigned capital plus its capital reserve. Exception is made of the interest or shares which the bank acquires in payment of sums owed thereto, in which case they must be liquidated at the earliest opportunity consistent with the economic interests of the bank,

as judged by the Commission, which may set a term for this purpose.

Article 57) — The provision of the previous article does not forbid the purchase or sale of shares at the request and for the account of a client.

It neither forbids, upon the previous authorization obtained from the Commission, the acquisition or sale of shares of any corporation organized for the purpose of insuring bank deposits, promoting the development of a money or securities market in Panama, or improving the financing facilities for economic development.

Article 58) — Banks are forbidden to buy, acquire or rent for themselves, real estate properties, except in the following cases:

a) When it is necessary for their operational requirements or for housing or recreational needs of their personnel:

b) When acquiring land in order to promote land or housing developments for sale, provided that the sale is effected in accordance with the provisions of Article 56;

c) Under exceptional circumstances and with the prior authorization from the Commission.

- Paragraph: Nevertheless the banks that have accepted real estate properties as collateral, may however in case of default, acquire such properties in order to sell them at the earliest opportunity, consistent with the economic interests of the bank, in the judgment of the Commission.

Article 59) — Any bank that, prior to the date this Cabinet Decree become effective, has participated in any transaction incompatible with the provisions of this Chapter, shall, within three (3) months following said date, file with the Commission a report of such transactions and within the three (3) following years liquidate them totally, unless the Commission grants extensions due to exceptional circumstances.

Article 60) — Banks are forbidden to receive deposits while they are in a state of insolvency, they are forbidden likewise to receive any other type of assets

from any person who has not been previously advised by the bank of said state of bankruptcy. No official, director or officer who has, or should have knowledge of said bankruptcy, shall accept or authorize receipt of deposits or any other assets in violation of the provisions of this Article.

Article 61) — The violations or the provisions of this chapter shall be punished by the Commission with fines of not less than one thousand balboas (B/.1,000.00), and not more than ten thousand balboas (B/.10,000.00).

CHAPTER IX

Banking Inspection

Article 62) — All banks must file with the Commission in the manner prescribed thereby:

1) At the latest on the twentieth (20th) day of each month, a statement showing the assets and liabilities of their establishments in Panama at the close of their operations on the last working day of the previous month and

2) Before the last working day of the month following the quarters which end on March 31, June 30, September 30 and December 31, a statement containing an analysis of the credit facilities and other assets at the disposal of their establishments in Panama at the close of operations of each quarter.

Paragraph: Notwithstanding the above the Commission is authorized to request any bank or any enterprise operating in Panama in which the bank has a majority interest or effective control, any documents and reports concerning the operations and activities of its establishments.

Article 63) — When the reports furnished pursuant to the previous article, are of a confidential nature in accordance with Article 74, the Commission may only publish consolidated data with overall figures.

Article 64) — At least every two (2) years, the Commission must conduct one or more inspections of each bank, to determine if its financial situation is solvent and if in the course of its operation it has complied with the provisions of this Cabinet Decree. Such inspections will include all establishments and enterprises in Panama in which the banks have a majority interest or effective control. The total cost of the inspection and its incidental expenses shall be paid by the bank.

Article 65) — When requested in writing, every bank shall be obliged to show the inspector, authorized by the Commission for such a purpose, the accounting books, minutes, cash currency securities owned by the bank, documents and vouchers, as well as the reports and documents relative to its operations.

Nevertheless, in order to protect the interests of the bank's clients and the confidentiality that its operations require, the examination by the Commission's Inspectors may not include any type of deposit accounts, nor the securities in custody, nor the safe-deposit boxes, nor the documents derived from credit transactions which clients maintain with the bank, unless there is a judicial order issued in accordance with Article 89 of the Code of Commerce.

Article 66) — Every refusal of a bank to submit to the inspection provided for in the previous article, shall be punished by the Commission with a fine not to exceed one thousand balboas (B/.1,000.00), without prejudice to the application of the provisions of Article 26 of this Cabinet Decree. If any of the documents or reports furnished turn out to be false in any respect, the bank shall be punished by the Commission with a fine of not less than one thousand balboas (B/.1,000.00) and not more than ten thousand balboas (B/.10,000.00), without prejudice of the applicable penal sanctions.

Article 67) — If in the judgment of the Commission, the inspection proves that the operations of the bank are conducted in an illegal or negligent manner, or that its

capital has suffered loss, or that it lacks solvency, the Commission shall require the bank to immediately adopt the necessary measure indicated to that effect, to correct the deficiencies, and may designate a person of proper training and experience to advise the bank concerning the measure that it should take to correct the deficiency determining the compensation the bank shall pay him.

Article 68) — Each bank shall designate annually, at its own expenses, certified public accountants who in the judgment of the Commission are professionally qualified, whose duty shall be to render a report concerning the fiscal year, to the shareholders or partners of each bank organized under the laws of Panama, and to the Head Office, in case of banks organized under foreign laws; and in the report said accountants shall certify if, in their opinion the Balance Sheet and the Profit-and-Loss Statement are complete, accurate, and show the true and correct state of the bank's operations. The reports of the certified public accountants shall be read, together with the bank's board of directors report, at the annual meeting of the shareholders or partners of each bank organized under the laws of Panama, and shall be forwarded to the Head Office of each bank organized under foreign laws. A copy of the report shall be filed with the Commission.

Article 69) — If the bank does not make the appointment referred to in the previous article, the Commission shall make it, determining therefor the compensation to which the certified public accountants thus designated, shall be entitled. Said compensation shall be paid by the bank.

Article 70) — No certified public accountant or firm of certified public accountants may act as auditor of a bank, if said public accountant or any member or employee of the firm is or has been an employee, director or officer, or is or becomes a shareholder or partner of said bank.

Article 71) — Without prejudice to the provisions of the Commercial Code or any other laws in force, every person who is a director or officer of a bank, and all other

persons to whom its administration is entrusted, shall cease in their functions:

1) If they are declared in bankruptcy or find themselves in insolvency proceedings; or

2) If they are condemned for any offense against property or public faith.

Said persons may never again hold such offices or functions in any bank, without the Commission's express authorization.

Article 72) — No person who has been a director or officer, or who has participated in the administration of a bank which has been compulsorily liquidated may, without the Commission's express authorization, act as director or officer or participate in the Administration of another bank.

Article 73) — The Commission shall be immediately notified of any civil or criminal action filed, because of a violation of any provision of this Cabinet Decree, committed by a bank or any other person.

Article 74) — The Commission is forbidden to conduct or order investigations concerning the private affairs of any bank's clients. The information obtained by the Commission in the exercise of its functions may not be revealed to any person or authority, except if judicially requested in accordance with the legal provisions in force or if they were consolidated data in terms of global figures. The violation of this stipulation shall be sanctioned in accordance with the provisions of Article 101 of this Cabinet Decree.

Paragraph: The Commission may not publish any information acquired pursuant to this Cabinet Decree, unless it has previously obtained the consent in writing of the bank or client concerned.

Article 75) — The Official Banks remain in every instance subject to the inspection and supervision of the office of the Comptroller General of the Republic, in accordance with the provisions of the Constitution and the

law. Therefore, the provisions of Articles 64 and 68 of the present Cabinet Decree shall not be applicable to the Official Banks.

CHAPTER X

Voluntary Liquidation

Article 76) — In order to proceed to its liquidation or dissolution, every bank must obtain previous authorization from the Commission, which shall grant it when the bank is solvent, that is to say, when the bank possesses sufficient liquid assets to reimburse its depositors and to pay its creditors.

Article 77) — Once the authorization is granted, the bank will immediately cease operations and its powers are limited to those which are necessary to carry out its liquidation, collect its credits, reimburse its depositors, pay its creditors and to settle its businesses.

Article 78) — Within thirty (30) days following the authorization, the bank must mail to each depositor, creditor, interested party in funds held by the Bank as trustee, leaseholder of safe-deposit box, or depositor of assets in custody, a notice of liquidation which shall include whatever information the Commission may specify. Said notice shall also be posted in a visible place of each of the bank's establishments and shall be published in the manner indicated by the Commission.

Article 79) — The authorization to liquidate will not prejudice the rights of the depositors or creditors to receive the total amount of their credits, nor the rights of the owners of funds or other assets to have them totally reimbursed. All legitimate credits of the bank's creditors and depositors must be paid, and all funds and other assets which the bank holds in any other capacity, shall be reimbursed to their owners within the period of time fixed by the Commission upon authorizing the liquidation.

Article 80) — No distribution of assets can be made to the shareholders or partners, until having pre-

viously satisfied all the depositors and creditors, according to the liquidation plan approved by the Commission.

In connection with credits under litigation, the Bank shall deliver to whomever may be appointed therefore by the Commission, an amount sufficient to cover such credits; and he shall hold it in his possession until thereon decided by law.

Article 81) — Upon completion of the liquidation, if there remains unclaimed funds or credits, the bank shall deliver to whom the Commission designates, the necessary sum to satisfy them. The unclaimed assets and securities shall similarly be delivered to whom the Commission designates, along with the corresponding certified inventory. The funds thus deposited will be transferred to the State at the end of five (5) years. Furthermore, the assets and securities may be sold by its depositary, with the prior authorization of the Commission, at the end of the first year, and the proceeds of their sale shall be transferred to the State at the end of the fifth year, if they remain unclaimed by their proprietors.

Paragraph: The provisions of this article will be interpreted without prejudice to the right granted by Article 103.

Article 82) — During the cause of the voluntary liquidation, the receivers must:

- 1) Furnish the Commission as regularly as it may determine, the reports it may request concerning the process of liquidation; and.

- 2) Inform the Commission immediately should they become aware that the marketable assets shall be insufficient to reimburse the depositors and to pay the creditors.

CHAPTER XI

Intervention, Reorganization and Compulsory Liquidation

Article 83) — The Commission, by means of a motivated resolution approved by the vote of five (5) of its

members, may intervene a bank, taking possession of its assets and assuming its administration in accordance with the provisions of Article 85, in any of the following cases:

a) If its capital or capital reserve has suffered loss or lacks solidity;

b) If it conducts its operation in a illegal, negligent or fraudulent manner;

c) If it, can not continue its operations soundly;

d) If once requested, it refuses to show the accounting records for operations carried out, or has in some way hindered the inspection of the bank;

e) If the assets of the bank are not sufficient to satisfy the total of its liabilities;

f) If the Commission deems it convenient, because the voluntary liquidation has been unduly delayed.

Article 84) — Upon intervening, the Commission will order a notice stating so to be placed in the bank's offices, indicating the hour in which the intervention became effective, which in no case may be prior to the posting of the notice

Article 85) — When the Commission resolves to intervene a bank, it shall appoint the interventor or interventors it deems necessary, in order to exercise exclusively, the administration and control of the bank, with the powers the Commission may determine, and which shall include the following:

a) Suspend or limit the payment of its obligations;

b) Employ the necessary auxiliary personnel;

c) Execute any document on behalf of the bank;

d) File, defend or prosecute on its behalf, any action or proceeding to which it might be a party.

Once the intervention has been carried out, the interventor or interventors shall make an inventory of the assets and liabilities and file a copy thereof with the Commission, which will make it available to the interested parties who may so request it.

Article 86) — The resolution by which the intervention of a bank is ordered implies the authority to order its reorganization, request its compulsory liquidation or to desist from the intervention, for which purpose the Commission shall have sixty (60) calendar days from the date on which the notices mentioned in Article 84 are posted, or if the appeal referred to in the following article is filed, than sixty (60) days after judgment thereon is rendered.

Article 87) — The resolution by which the intervention of the Bank is ordered, may be proceeded against only by means of a contentious-administrative recourse of full jurisdiction, ("recurso contencioso administrativo de plena jurisdicción"). The term within which to file such an appeal shall be a maximum of thirty (30) working days, from the date on which the notice referred to in Article 84 is posted.

The Court may not suspend provisionally, in any case, the effects of the intervention decreed, but in order for the Commission to order the reorganization or to request the compulsory liquidation of the bank in question it shall be necessary for the Court to have decided on the pending appeal.

Article 88) — When the Commission intervenes a bank, all prescription of limitations relative to any of the bank's rights or causes of action, and the terms relative to lawsuit and proceedings to which the bank is a party, shall be suspended for up to six (6) months.

Article 89) — If within the term specified in Article 86, the Commission should decide that the reorganization of the bank is in order, after hearing the opinion of the bank in question, it shall draw up a reorganization and shall publish it during three (3) consecutive days in a daily newspaper of general circulation in the Republic.

Article 90) — No bank asset shall be subject to attachment, embargo or withholding while the bank is intervened or in process of reorganization.

Article 91) — If so authorized therefor by the Commission the interventors may be able to obtain loans in the name of the Bank and offer the properties thereof as a guarantee for such loans.

Article 92) — All necessary expenses caused by the intervention, the reorganization or the liquidation, shall be paid from the bank's assets.

Article 93) — No reorganization plan shall be drawn up unless it meets the following requirements:

a) That it be feasible and equitable to all the depositors, creditors, shareholders or partners, as the case may be;

b) That it provides for the dismissal of any director, official or employee responsible for the situation which make the reorganization necessary, because of his negligent, fraudulent or illegal actions;

c) That any anticipated merger or consolidation meet the requirements of this Cabinet Decree and other legal provisions in force.

Article 94) — Whenever circumstances arise during the process of the reorganization, which make the plan unfair or its execution inconvenient, the Commission may modify it, or request the liquidation of the bank as hereinafter provided.

Article 95) — If the Commission decides that the liquidation of a bank is in order, it shall serve personal notice thereof upon its legal representative and notify its shareholders or partners, depositors and creditors, by publishing the resolution to said effect during three (3) consecutive days in a newspaper of general circulation, and will request the dissolution and liquidation of the bank to the competent court according to the legal provisions in force.

Article 96) — Once the liquidation is requested, the Commission shall see that a notice of the petition for liquidation is sent by mail to each depositor, creditor, leaseholder of safe-deposit box or bailor of assets, to the address which appears in the books of the bank. A copy of this no-

tice shall be posted in a visible place of the establishments of the bank. This notice should include a statement indicating the sum which, according to the books of the banks, appears as a credit balance of the depositors or creditor.

Article 97) — The safe-deposit boxes the contents of which have not been withdrawn thirty (30) days after the date of the judicial resolutions by which the liquidation is decreed, shall be opened by the competent Court and its contents as well as the unclaimed assets which are held by the bank shall be subject to the procedure provided for in Article 81.

CHAPTER XII

Various Provisions

Article 98) — The classification of each bank provided for in Article 1010 of the Fiscal Code, shall be made by the Commission according to the criteria that it will establish therefor.

Article 99) — By priorly informing the public to such effect, the Commission shall establish the days on which the Bank cannot carry out business for the public; such days do not have to coincide necessarily with the holidays.

Article 100) — The Commission shall determine the days of the week and hours during which the banks shall be open to the public. The Commission, for causes it deems justifiable, may authorize exceptions to the general rule.

Article 101) — Any person who furnishes information in violation of this Cabinet Decree, or who violates any of the prohibitions established in it for which no specific punishment is provided for shall be subject to a fine from B/.500.00 to B/.1,000.00, imposed by the Commission, without prejudice to the applicable criminal and civil liabilities.

Article 102) — Every bank must advise the Commission with regards to any assets, funds and securities held by it which remain inactive for five (5) years and which belong to persons whose whereabouts are unknown. The

Commission, after ascertaining this fact, shall order its net value to be transferred to the National Treasury.

Article 103) — The State will be obliged to return to its owner the funds mentioned in the previous article, if they are claimed within ten (10) years after the date on which they have been transferred to the State, but the restitution will be made without charging interest.

Article 104) — Without prejudice to the provisions of the Fiscal Code, all the establishments of a bank in Panama, shall be considered as one bank, for the purposes of this Cabinet Decree.

TITLE III

Final Provisions

Article 105) With the exception provided for in Article 87, resolutions passed by the Commission shall only be subject, within the administrative jurisdiction, to a petition for reconsideration filed before the commission itself by the interested party within five (5) working days from the date of notification.

Article 106) — In every case of voluntary or compulsory liquidation of a bank, the obligations of said bank, including the deposits must be satisfied according to the order of priority established by the laws in force. Notwithstanding, in case the special credit referred to in article 35 has been granted to the Bank to be liquidated, this credit shall have priority over any other of the bank's obligations.

As far as the deposits are concerned, the priority among them will be as follows:

a) Local deposits of natural or juridical persons residents in the territory under the jurisdiction of Panamanian authorities will be paid first.

b) Once the reimbursement of the local deposits is completed, the deposits which have physically entered the territory of the Republic of Panama and the bank's patrimony belonging to persons domiciled outside of Panama,

shall then be considered and returned, as it may be possible; and

c) If there remains a balance after these reimbursements, it shall be distributed among the owners of foreign deposits that have not physically entered the territory of Panama.

Article 107) — The banks already intervened and in process of liquidation on the date this Cabinet Decree becomes effective shall be governed by Law 101 of July 8, 1941, and other provisions which modify it or complement it.

Article 108) — The bank wishing to adopt a fiscal period different from the calendar year and have been so authorized by the Finance and Treasury, shall so notify the Commission.

Article 109) — Only the provisions contained in Chapters V, VII, VIII and IX of Title II shall be applicable to the official banks, provided these provisions are not in conflict with the laws concerning said banks.

Notwithstanding the foregoing, Chapters IV and VI and Articles 99 and 100 of Chapter XII shall in any case apply to the Official Banks.

Article 110) — This Cabinet Decree completely revokes Law 101 of July 8, 1941 and all other legal provisions inconsistent therewith.

Article 111) — This Cabinet Decree shall become effective on the date of its publication in the Official Gazette. Let it be communicated and published.

Given in the city of Panama, on the second day of the month of July of the year one thousand nine-hundred and seventy.

The President of the Provisional Board of Government,

DEMETRIO B. LAKAS

Member of the Provisional Board of Government,

Lic. ARTURO SUCRE P.

The Minister of Foreign Relations,

JUAN ANTONIO TACK

The Minister of Finance and Treasury

("Ministro de Hacienda y Tesoro")

JOSE A. DE LA ROSA

The Minister of Education, In Charge,

NIDIA M. DE QUINTERO

The Minister of Public Works, In Charge,

DEMOSTENES VERGARA

The Minister of Agriculture and Livestock,

CARLOS E. LANDAU

The Minister of Commerce and Industries,

FERNANDO MANFREDO

The Minister of Labor and Social Welfare,

ROMULO ESCOBAR BETHANCOURT

The Minister of Health,

JOSE RENAN ESQUIVEL

The Minister of the Presidency,

JUAN MATERNO VASQUEZ

LAW NUMBER 18
(of January 28th, 1959)

Whereby regulations are enacted on coded bank accounts.

THE NATIONAL ASSEMBLY OF PANAMA

Decrees:

Article 1) — Banking enterprises and other credit institutions legally established in the territory of the Republic may operate coded current or deposit accounts, which shall be governed by the pertinent provisions of the Code of Commerce, as amended by the within Law.

Article 2) — The coded banking account is a contract whereby a person, whether natural or juridical maintains on deposit with a bank cash, or securities or a credit, and such bank agrees to meet the orders of payment of said depositor up to the amounts of cash delivery of securities that he may have deposited, or of the credit granted to him; and to observe strict secrecy as to the existence of the account, its balance and the identity of the depositor.

The interests which under the provisions of a bank account contract may be earned by the depositor are on integral part of the account for all legal purposes.

Article 3) — It is not necessary that the name of the drawer appear on the checks and payment orders drawn against coded current bank accounts or on orders for delivery of securities. The bank shall be required to pay such checks and orders of payment provided that the usual signature previously furnished by the committent and the number assigned to the account appear thereon.

Article 4) — Managers, officers and other employees of banking institutions, whether national or foreign, who reveal or disclose to persons alien to the institution and to the handing of these accounts any information with reference to the existence, balance or identity of the committent of a coded bank account shall be punished with imprisonment of from thirty (30) days to six (6) months,

lines of from one thousand (B/.1.000.00) to ten thousand balboas (B/.10.000.00), or both.

Article 5) — The information on coded current bank accounts referred to in the preceding article may be revealed by managers and other employees of banking institutions to investigating officers, judges and magistrates who hear criminal proceedings, and who shall hold the information in strict reserve in the event that such information is no conductive to clarifying the punishable facts under investigation.

In the cases in which public functionaries, whether of a judicial or administrative category, other than those mentioned in this article, request from banking institutions any information or the attachment or embargo of coded bank accounts, including probate proceedings, the bank shall not furnish the information, nor withhold the funds or securities deposited in coded accounts, and shall reply to the request stating that it is not possible to furnish any information, even in the cases where there exist the account or the funds or securities covered by the request.

Article 6) — The managers, officers and other functionaries of banking enterprises handling coded current bank accounts shall be subject to the penalties provided for in Article 4 of the within law, even in the cases in which they disclose information on said accounts to officials or employees of the Legislative Organ, the Executive Organ, the Ministry of Finance and Treasury, the Independent Agencies of the State, the Office of the Comptroller General of the Republic, or the Judicial Organ, other than in the exceptions relative to criminal proceedings stipulated in the preceding article.

Article 7) — The provisions of Article 17 of Law 101 of 1941), as amended by Law 47 of 1954, shall not apply to coded bank accounts.

Article 8) — Banking institutions which by law are required to report to the Department of Internal Revenue of the Ministry of Finance and Treasusy on the amounts

of interest paid to depositors of coded accounts, shall do so globally, that is, without specifying the amount paid to each depositor.

Article 9) — In the event of the demise of one of the persons authorized to draw against a joint account, the survivors may continue drawing against same.

Paragraph: A joint account is that against which more than one person may draw.

Article 10) — The power to withdraw funds from coded bank accounts does not cease upon the demise of the grantor of such power.

Article 11) — All provisions contrary to the within Law hereby repealed.

Article 12) — This Law shall become effective upon its publication in the Oficial Gazette.

Issued in Panama, on the twenty-sixth day of the month of January, one thousand nine hundred and fifty nine.

The President,

(Sgd.) ELIGIO CRESPO V.

The Secretary General

(Sgd.) FRANCISCO BRAVO

REPUBLIC OF PANAMA. NATIONAL EXECUTIVE ORGAN. —

Presidential Palace. Panama, January 28th, 1959. Be it Executed and Published.

(Sgd.) ERNESTO DE LA GUARDIA Jr.

The Minister of Finance and Treasury,

(Sgd.) FERNANDO ELETA A.

AGREEMENT No. 4 - 81

**THE NATIONAL BANKING COMMISSION,
in use of its legal faculties,**

CONSIDERING:

That it is function and responsibility of the National Banking Commission to ensure that the establishment of banks in Panama contributes to the stability and efficiency of the banking system and to the strengthening and promotion of Panama as an International Financial Centre, in accordance with the provisions of Article 4 of Cabinet Decree No.238 of 2 july 1970.

That in order to fullfill such function and responsibility, the National Banking Commission must establish the requirements and conditions for the granting of bank licences, according to the provisions conforming to Paragraph d, Article 21, of Cabinet Decree No. 238 of 2 july 1970; and, that during the meetings of the National Banking Commission it has been observed the need to settle the requirements and conditions mentioned in the above paragraph.

AGREES:

Article 1) — The establishment of the following BASIC CRITERIA FOR ANALYSIS AND MINIMUM REQUIREMENTS FOR THE GRANTING OF BANKING LICENSES is agreed:

I. — Financial Situation:

A. Stability and Soundness: The petitioning bank or its promoter must not have undergone repeated and severe financial problems. On the contrary, the bank's history must reflect the gradual and constant achievement of new and better levels of financial capability.

B. Importance and Strength: The petitioning bank must have a real and well-know prestige and recognition in its field of origin and development. The total amount of assets shall be of at least FIVE HUNDRED MILLION U.S. DOLLARS (U.S. \$500,000,000.00) in the case of General or International Licence applications and of ONE THOUSAND MILLION U.S. DOLLARS (U.S. 100,000,000,00) in the case of Representation Licence applications.

II. Experience:

The petitioning bank or its promoter must be experienced in the operations for which it applied for license. The management of banking operations must be efficient and/ or innovative in comparison with that of other bank in the same market or those established in Panama. It is important for Panama's International Financial Centre to count on banks whose experience and capacity stimulate serious competition for the offering of improved banking services.

III. Contribution to the development of the Banking and Financial Services of Panama's International Financial Centre:

The petitioning bank or its promoter must be able to efficiently conduct operations that contribute to the improvement, expansion or diversification of the banking and financial services offered by Panama's International Financial Centre or to the development of specific areas and goals of the national economy (housing, agriculture and cattle-raising, fishing, investment, etc.). The resolution granting the License may consecrate the commitments acquired by the petitioning bank in this respect, which commitments shall be of mandatory fulfillment.

IV. Administrative Structure and Policy:

A) The establishment of branch offices, to the extent that they may represent a greater commitment and responsibility on the part of the Head Office, will be preferred to that of subsidiaries.

B) The petitioning bank or its promotor shall try to maintain its Panamanian establishment the greatest amount possible of decision making power, in order to ensure that financial operations, both local and foreign are sufficiently autonomous and agile as to reaffirm and strengthen Panama as an International Financial Centre.

V. National Composition of Capital:

Participation of Panamanian banks (those which have at least 75% of national capital) in the development of Panama's International Financial Centre, as well as the distribution of its benefits, is desirable for national economic growth and development..

Therefore, the application of the criteria for analysis and the requirments set forth in the above matters shall be enforced, in the case of Panamanian banks, in a different and

more flexible manner, in order to promote and favour the participation of national capital in Panama's International in Paragraph B of Part I shall not apply to Panamanian banks. In any case, the effective participation of Panamanian promoters with solid financial capacity in the bank's organization and the considerable banking experience of personnel must be proven.

VI. Geographical Representation:

Adequate participation and representation, through its banks, from all geographic regions and countries, in Panama's International Centre is desirable for the development and strengthening of such Centre, as well as for its effective internationalization. Adequate representation or participation of a country or geographical region may be extended in relation to that country or region's importance within the context of the world's economy.

Therefore, under equal conditions as far as adjustment to the established criteria is concerned, the petitions from banks of countries or geographical areas not adequately represented within Panama's International Financial Centre shall receive special consideration in relation to petitions from banks whose countries or geographical regions of origin and development are already represented in Panamá.

VII. Latin American and Caribbean Representation:

In order to allow and favour the participation of banks from Latin American and Caribbean countries in Panamá's International Financial Centre, the total assets requirements established under Paragraph B of Part I shall not be applicable to petitions for Licenses coming from such countries, provided that it is the case of such countries' official banks or one of their three main banks in terms of total assets.

VIII. Reputation:

Any bank presenting a petition to operate in or from Panama under any license, must possess and excellent reputation or integrity, understanding as such, inter alia, its good faith in business transactions, the fulfillment of promises made, the clarity of its operations, the acceptance of responsibility for its acts and for those of its employees and the offer of cooperation with Panama's International Financial Centre.

IX. Licence Compatibility:

Petitions for licenses presented by banks already established in Panama, to extend or diversify their operations

through the granting of an additional license or a change of the first one, shall be considered provided that the requirements for the new license being requested are complied with. Nevertheless, the same juridical person already having a Representative License may not hold another Banking License at the same time.

X. Management Personnel and Shareholders:

The criteria established in the above points apply not only to the bank as an institution, but also, and to any pertinent extent, to the bank's shareholders, members, managers and personnel.

XI. Documents:

In order to prove and ensure the due fulfillment of the provisions of the above points, the petitioning bank must present the following documents:

a) Documents describing:

1. The Bank's short, middle and long term goals.
2. Economic and financial outlook of the whole institution, including the Head Office, affiliates, branch offices and subsidiaries, as well as the other corporations in which the Bank or its shareholders have major participation.
3. The experience (of not less than five years), qualifications and reputation of the persons who will assume the Bank's representation and direction.
4. Experience in general local, international or representation banking operations, according to the type of License being requested.
5. Commitments underway for the hiring of Panamanian personnel and for the opening of offices in several regions of the country, in the case of General Licenses; and
6. The type of operations the bank intends to carry out locally or internationally, as well as its ability and experience in such operations.

B. Feasibility studies, and

C. Any additional information which may be required for its purpose.

Article 2: This Agreement shall enter into forces as of its approval.

Done in the City of Panama, on the twenty day of the month of January, nineteen hundred and eighty-one.

The Secretary

(Sgd.) Mario de Diego Jr.
Executive Director
National Banking Commission

The President

(Sgd.) Ernesto Pérez Balladares
President of the N.B.C.

**GUIDES FOR
THE OBTENTION
OF BANKING LICENSES
IN PANAMA**



INTRODUCTION

Among the most significant contributions for the orderly development of Panama as an important international financial center was the issuance of Cabinet Decree N° 238, also known simply as the Banking Law. Approximately 80% of all the Banks established in Panama at the present time came into the country after its date of issuance (1970). (Please see list attached at the end of this booklet).

The Law, which was widely consulted with the private Banking Sector, created a well structured set of rules and regulations that offers plenty of flexibility and incentives to International Banking Institutions to come to Panama to carry on part of their operations while at the same time it offers the necessary protection to the users of the system. In other words, the Law which introduces the concepts of Banking liquidity, Legal Reserves, Contingency Credits, and Banking Inspections and Interventions, maintains at the same time a very delicate balance between a system against irresponsible banking practices.

Even though, there were already some Banks established in Panama when the new Banking Law was promulgated, the requirements for the obtainment of Banking Licenses are so strict now that such a careful screening process is a good guarantee to the system of the self-policing type of controls that are normally present in the most prestigious banking institutions which do not need special legislation to maintain the most ethical standards of conduct.

Due to the absence of a Central Bank in Panama, another very important contribution of Cabinet Decree N° 238 was the creation of the Banking Commission. The objectives of the Commission as stated in the Law are:

- a. "To insure that the solidity and efficiency of the Banking System is maintained so as to promote monetary and credit conditions conducive to the stability and sustained growth of the national economy.
- b. To strengthen and promote the proper conditions for the development of Panama as an international financial center". (Please see article 4).

The Commission is composed of seven members (The Minister of Planning and Economic Policy who will preside over it; the Finance and Treasury Minister; the General Manager of the National Bank of Panama; Three (3) Representatives from the Private Banking Sector who must be Panamanian citizens, domiciled in the Republic and Bank officials; and one member appointed by the Executive Board of the government, who can not be a Bank director, officer or employee (Please see Article 3 through 15 of the Law).

The Banking sector of the economy of Panama has become so important to the Gross National Product (it employs around 8,000 people) that the Banking Commission has been increasing in its importance accordingly. It works in close collaboration with the Banking Association (Composed of almost all of the representatives of the Private Banks established in Panama) and among one of the most important responsibilities is the prerogative to approve or deny application for new Banking Licenses. The Commission is also staffed with accountants, economists and lawyers and is headed by an Executive Director appointed by the Executive Body of the Government. The Commission is also in charge of making inspections, approving certain transactions and in general terms supervising the smooth functioning of the whole Banking System.

OTHER IMPORTANT FACTORS THAT HAVE CONTRIBUTED TO THE GROWTH OF PANAMA AS AN IMPORTANT BANKING CENTER

It is a well known fact that the Free circulation of the U.S. Dollar and the corresponding absence of exchange controls has helped Panama to develop as an important financial center.

Even though the official currency of Panama is the "Balboa", which is at par in value with the US Dollar, Panama does not print paper currency. Only a year after it's independence, Panama issued a Law which declared the U.S. Dollar legal currency within the country. (Law N° 84 of 1904).

Panama has never imposed controls for the import or export of any type of currency. Remittance of funds abroad are only subject to certain withholding taxes when the funds come from operations that are taxable within the country and only the income produced from operations made within the territory of Panama is subject to income Tax (Please see section of income tax).

The withholding tax is enforced by assigning the responsibility of it's payment to the party making the remittance abroad but there are no controles whatsoever on the remittance itself. For banking purposes, funds are transferred by "wire" and interest on time deposit, for clients of the Banks are not subje~~tc~~ to income tax. Banks holding an international license do not pay income tax at all. The same applies to General licensed Banks on that part of their income earned on loans to residents of other countries.

Commercial, Financial, and Cultural centers feed upon themselves to create better conditions in which to operate. Such self-improvement in turn, transform those places into more attractive locations for the new-comers. Panama is no exception. The presence of so many high executive personnel from Banks and other internationally oriented companies, that are always in need of good housing created a construction boom that now provides an even wider range of choices of condominiums and homes for new personnel. New restaurants also offer a different variety of foods from Japanese and Chinese to French and Panamanian.

Panamanian professionals are also becoming more competitive in financial operations, as students move into the Banking Profession looking for opportunities for self-improvement. Panamanian accountants, attorneys, economists and secretaries, most of them bilingual already represent more than 97% of the total labor force being employed in the Banking Sector. Panama's privileged geographical position is enhanced by a good communications system which is constantly improving. Within the last ten years a new and modern airport was finished. Direct dialing by telephone to almost any country in the world is available and well known international courier companies have prospered overnight.

The stability which Panama has enjoyed throughout its history for reasons that might be too complex to attribute to any simple explanation have also helped to attract multinational companies to come to Panama to conduct their international business. Also the presence of a major contingency of United States military personnel in the Canal area whom together with Panamanian Defense Force help safeguard the Panama Canal, give some foregin investors a great sence of security.

As a last and very important consideration that I would like to present in this introduction is the realization that once a sector of the economy of any country has become so important within such country as the Banking Sector has become in Panama, it is fair to assume that the internal conditions which created the appropriate environment in whic such sector has flourished will tend to remain the same and perhaps even improve. Politicians, from major Political Parties, the Military, the Professionals, the Labor Unions, are all in agreement with fact that the Banking Sector has to be protected as a golden cup because it creates or generates so many sources of employment for Panamanians. Thus, prestigious banks are always welcome.

GUIDE FOR SUBMITTING
BANKING LICENSE APPLICATION
BEFORE THE NATIONAL BANKING COMMISSION
GUIDE FOR THE OBTENTION OF BANKING LICENSES

The obtention of banking licenses from the National Banking Commission is subject to a twostep procedure as follows:

A. TEMPORARY PERMIT:

The Banking Commission shall proceed to consider the granting of a Temporary Permit upon presentation of the following documentation:

1. Application: Submitting of petition on official paper requesting authorization by the National Banking Commission to record in the Public Registry, documents pertaining to the organization of the corporation or its qualification to operate in Panama.
2. Articles of Incorporation and By-laws: In the case of corporations to be organized under national legislation, applications must be accompanied by a copy of the applicant Bank's articles of incorporation and bylaws. In the case of banking corporations organized under foreign legislation, an authenticated copy of the deed containing the applicant's articles of incorporation and by-laws must also be submitted.
3. Authorization by the Board of Directors: The minutes, extract of minutes or secretary's certificate of the Meeting of the Board of Directors or the financial promoter or promoters attesting that the applicant has sufficient economic backing, has been authorized to conduct a banking business outside its country and has been assigned the necessary capital to conduct banking activities in Panama.
4. Certification by Monetary, Taxing or Regulatory Authorities of the Financial Promoter or Promoters: Temporary Permit applications must, likewise, be accompanied by certification issued by the regulatory authority of the financial promoter or promoters, stating that they are duly recorded and authorized to conduct a banking business in their midst and that according to the laws of their respective countries, there is no legal

impediment whatsoever to their providing the necessary capital to operate in Panama.

5. Name and Address of Financial Promoter or Promoters: Petitions submitted and documentation provided must contain detailed and accurate information regarding domicile, address and nationality of financial promoter or promoters, as well as Board of Directors and Officers of the corporation or corporations interested in obtaining the banking license being applied for.
6. Curriculum Vitae of the Board of Directors: Background and experience of the managing, administrative, officer and executive personnel in charge of the new bank, must be included. Such document must specify source of commercial and personal banking references of each member of the Board of Directors, as well as their present mailing address.
7. Percentage of Participation of Financial Promoter or Promoters: In the event of the applicant being organized under national legislation, the initial percentage of participation of the financial promoter or promoters in the paid-up capital of the bank in project, must be specified. In the case of banks to be organized as branches of foreign banks, the amount of capital assigned to the bank in Panama, must also be specified.
8. Legal Representation: In applications from banks organized under foreign legislation, the name of the two persons designated as the Bank's General Attorneys, must be indicated. Both such persons must be residents of Panama and at least one of them must be a Panamanian citizen. In the case of banks organized under national legislation, the drafting of their articles of incorporation must indicate the name of the person to act as legal representative of the bank in project.
9. Contingency Credit: A certification by the Main Office or by a foreign bank evidencing subject to approval of the banking license, its agreement to grant Contingency Credit to the applicant bank under the terms and conditions in force, must be attached.
10. Balance Statement Audited by C.P.A.: Balance statements must reflect the economic situation of the financial promoter or promoters in periods extending not beyond ninety (90) days prior to the date of application for Temporary Permit. The applicant Bank must have a total volume of assets of at least

Five Hundred Million United States Dollars
(US\$500,000,000.00) in the case of General or International License applications and of One Billion United States Dollars (US\$1,000,000,000.00) in the case of Representative License applications. This requirement shall not apply to Panamanian Banks (those in which at least seventy five per cent (75%) is national capital), or to Banks of Latin American and Caribbean countries in the case of the official Banks or of one of the three most important Banks—in terms of total assets— of such countries. Likewise, a certification of the corresponding body marking of record that the firm of Certified Public Accountants countersigning such Statement as an acting firm, acknowledged as satisfactory in its midst.

11. Annual Publications or Reports: Jointly with the Temporary Permit application, annual reports containing information the Bank's history, its organization, changes in corporate name mergers or consolidations made, results of operations through time, number of banking offices (branches, representative offices and Agencies in connection with other financial institutions, number of offices it has and places in which it operates, both locally and commercially.
12. Projected Activities to be Developed: The Temporary Permit application must be accompanied by a description of the plans which the Bank hopes to develop upon obtaining the License. (Bank's objectives on a short, medium and long range basis).
13. Feasibility Study or Profile: Applicant banks must submit a study establishing projections of the Bank's objectives (Profile Study).
General License applications from banks organized under national legislation, must be accompanied by a much more profound feasibility study, establishing Bank's techniques, organizational duties and future earning power.
14. Research Expenses: Applicants must provide the amount of \$500.00 or \$1,000.00, according to whether they are organized under national or foreign legislation, respectively, by Certified Checks in such amount, to cover research expenses.
15. Translation and Authentications: Documents from abroad must be duly authenticated; and those written in a foreign language, must be duly translated into Spanish.

B. FINAL LICENSE:

Having obtained the Temporary Permit for a ninety (90) day period, for the sole purpose of recording in the Public Registry any documents pertaining to the corporation's organization or qualification, Final License applications must be submitted within such period, by petition on official paper accompanied by the following documentation:

1. Copy of the applicant's Articles of Incorporation or qualification.
2. Certification by Banco Nacional de Panamá (National Bank of Panama), making of record that the applicant maintains an amount of Five Hundred Thousand Dollars (US\$500,000.00) or One Million Dollars (US\$1,000,000.00), in the case of International or General Licenses, respectively, as restricted deposits at the disposal of the National Banking Commission.
3. Commitments in process for the hiring of Panamanian personnel, and the opening of offices in different regions of the country, in the case of General License applications.
4. Any additional information requested for such purpose.

A General License having been granted, approved banks are free to dispose of the deposit consigned as capital for the Bank to begin operating. Such Banks must operate in offices located on the ground floor, open tellers to the public, hire their own qualified personnel, and include in the Building's directory the Bank's correct name and location. Likewise, they must display at the Bank's entrance, in clear and visible letters, the Bank's name.

International Licensed Banks must maintain, at all times, an amount of Five Hundred Thousand Dollars (US\$500,000.00) as Security Deposit by way of deposits at sight Banco Nacional de Panama or Banking Security Bonds, consigned with this institution.

Representative License Banks are only authorized to operate "REPRESENTATIVE OFFICES", requiring a representative or manager in charge. These offices' activities are limited to establishing contacts. In other words, they shall act as a link between the Bank which they represent and third parties aiming at developing the operations of the Main Office which they represent, including both active (granting of loans) and passive (accepting of deposits) operations.

The fact of a representative office conducting banking operations in Panama for the account of third parties, in particular the accepting of deposits, shall be reason enough for cancelling their license.

The use of Representative Offices with the corporate name of the Main Office which they represent, must always be accompanied by the expression "Representative Office".