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PANAMA TRUST LAW



PANAMA ♦ SWITZERLAND ♦ CYPRUS ♦ BVI ♦ SEYCHELLES ♦ BELIZE ♦ UKRAINE

LAW NO. 1 OF JANUARY 5, 1984 whereby Trusts are regulated in the Republic of Panama and other measures are adopted.

THE COUNCIL OF THE NATIONAL LEGISLATURE DECREES:

Article 1

Trust is a legal act by virtue of which a person called the Settlor transfers title to real or personal property to a person called the Trustee or Fiduciary for its administration or disposal in favour of a Beneficiary, who may also be the Settlor.

Public Entities of the State may retain title to real or personal property placed in their trust and may act as Trustees for same for the development of their purposes, by virtue of a declaration made in compliance with the formalities of this law.

Article 2

A Trust may be constituted with assets of any form or nature, present or future. Assets may be added to a Trust by the Settlor or by a third party, after the creation of the Trust, subject to the acceptance of the Trustee.

Article 3

A Trust may be constituted over specific assets or over all or part of any patrimony.

Article 4

The will to constitute a Trust must be expressly declared and be so done in writing. Consequently, a verbal, presumed or implied Trust shall not be valid as such.

Article 5

A Trust may be constituted for whatsoever purposes that do not contravene morality, the laws or public order.



Article 6

A Trust may be pure and simple or subject to condition or a specified period of time.

Article 7

A Trust shall be considered irrevocable unless expressly stated to the contrary in the Trust Deed.

Article 8

All Trusts shall be considered subject to an Administrative Honorarium, unless it is expressly stated in the Trust Deed that the Trustee is not to be compensated for his services.

The remuneration to the Trustee shall be indicated in the Trust Deed and, in its defect, it shall be equal to that which is usually paid in the domicile where the Trust is constituted.

Article 9

The Trust Deed shall contain:

1. The complete and clear designation of the Settlor, the Trustee and the Beneficiary. When future Beneficiaries or different classes of Beneficiaries are contemplated, sufficient circumstances shall be expressed for their identification.
2. Sufficient designation of substitute Trustees or Beneficiaries, should there be any such.
3. The description of the assets or patrimony or share of same over which the Trust is constituted.
4. The express declaration of the will to constitute a Trust.
5. The faculties and obligations of the Trustee.
6. The prohibitions and limitations imposed on the Trustee in the exercise of the Trust.
7. The rules of accumulation, distributions or disposition of the assets, revenues and profits of the assets of the Trust.



8. The place in which the Trust is constituted and the date of Constitution.

9. The designation of a Resident Agent in the Republic of Panama who shall be a practicing Attorney or law firm, who shall authenticate the Trust Deed.

10. The domicile of the Trust in the Republic of Panama.

11. The express declaration that the Trust is constituted in accordance with the laws of the Republic of Panama.

The Trust Deed may also contain such clauses as the Settlor or the Trustee might wish to include and which are not contrary to the morality, the laws or Public order.

When the Trust is constituted by means of a private document, the signature of the Settlor and the Trustee, or of their Attorneys-in-Fact for its constitution, shall be authenticated by a Notary Public.

Article 10

An "intro-vivos" Trust may be constituted by means of either a Public Deed (recorded) or a private document.

In those instances in which a Trust is to become effective after the death of the Settlor, it shall be constituted by means of a Testament (Will). It may also be constituted by means of a private instrument, without the formalities of a Testament, in those cases in which the Trustee is a person authorized to exercise the business of a trusteeship.

Article 11

A Trust involving Real Estate property within the Republic of Panama shall be constituted by means of a Public Deed (recorded).

Article 12

Any Trust constituted without the respective formalities established in Articles 9, 10 and 11 of this Law shall be null and void.



Likewise, any Trust without an object or cause or with an object or cause of an illicit nature, or which has been constituted by an incompetent person shall be null and void.

The nullity of one or more clauses of the Trust instrument shall not invalidate the Trust, unless as a consequence of such nullity the execution of the Trust becomes impossible.

Article 13

A Trust constituted upon Real Estate property within the Republic of Panama shall only affect third parties, in respect of said property, as of that date forward in which the Trust Deed is recorded in the Public Registry.

In all other cases, the Trust shall affect third parties only as of that date forward in which the signatures of the Settlor and the Trustee, or of their Attorney-in-Fact, shall have been authenticated by a Panamanian Public Notary.

Article 14

The transfer of Real Estate property situated within the Republic of Panama and which has been given in Trust, shall be accomplished by means of its registration in the Public Registry in the name of the Trustee.

Article 15

The assets of a Trust shall constitute a patrimony separate from the personal assets of the Trustee for all legal effect, and they shall not be subject to attachment or embargo, excepting for liabilities incurred or damages caused in the execution of the Trust, or by third parties when such assets have been transferred or attached by fraud and in a manner prejudicial to their rights.

In consequence, the Trustee shall pay separately those taxes, assessments or other levies occasioned by the assets of the Trust.

Paragraph: In those Trusts in which the "Caja de Ahorros" (Panamanian National Savings Bank) is the Trustee and the Beneficiaries are minors, the assets held in Trust and their revenues, in addition to not being subject to attachment or embargo, shall not be subject

to prosecution, except when so decreed by means of a final sentence or non-appealable judgment.

Article 16

The Settlor may appoint substitutes to the Beneficiary, be they successive or not. In the case of Revocable Trust, the Beneficiary may be replaced or new Beneficiaries may be appointed, at any time, by the Settlor or by a person duly authorised by him to make the replacement or appointment, following the same formalities with which the Trust Deed was constituted.

Article 17

From the revenues to State Banks produced by the funds held in Trust, a percentage authorised by the Comision Bancaria (National Banking Commission) shall be paid to the Electoral Court, which shall utilise such funds for the inscription of the political parties, and this Electoral Court shall take the pertinent measures to effect such inscription during the second semester of 1983.

Article 18

The designation of one or more Beneficiaries not yet existing or of a class of determinable Beneficiaries shall cause effects if and when one or more of them come to exist or be determined during the duration of the Trust.

Article 19

Natural and juridical persons may act as Trustees. Those persons in the Public Sector may transfer or retain assets in Trust, subject to declaration made under the formalities of this law.

Article 20

The Settlor may appoint one or more Trustees. Unless otherwise stated in the Trust Deed, should two Trustees be appointed, they shall act jointly and, should more than two be appointed, they shall act by majority rule.

Article 21

In the Trust Deed the Settlor may appoint one or more substitutes to replace the Trustee. In the case of a Revocable Trust, the Trustee may be replaced or new Trustees may be appointed at any time by the Settlor or by the person duly authorised by him to make the replacement or appointment, with the same formalities with which the Trust Deed was created.

Article 22

In the event of death, supervening incapacity, removal or resignation of the Trustee, and if no substitute has been appointed, the competent Judge may appoint a replacement at the request of the Trustee, the Settlor or, in the absence of the latter at the request of the Beneficiary or Beneficiaries or of the Public Ministry if the Beneficiary or Beneficiaries should be minors or incompetent, and shall authorise the transfer of the assets subject of the Trust to the substitute so appointed.

Such petition shall be formulated within a period of no more than three years from the date when the Trustee has ceased to act as such.

If this petition has not been formulated at the end of the period, the Trust shall be terminated.

Article 23

The person designated to act as Trustee shall not be under obligation to accept the appointment.

The obligations of the Trustee shall begin from the moment when he accepts the appointment in writing.

Article 24

The Trustee may resign from his appointment when expressly authorised to do so by the Trust Deed.



In the absence of such express authorisation, he may resign with the approval of the Judge, by reason of just cause; but such resignation shall be effective only from the date on which a new substitute Trustee has been appointed and this substitute has accepted the appointment.

In this instance, the matter shall be subject to the conditions of Article 21.

Article 25

The Trustee shall have all the rights of action inherent in ownership, but shall be subject to the aims and objects of the Trust and to the conditions and obligations imposed by the Law and the Trust Deed.

Article 26

The Trustee shall dispose of the assets of the Trust in accordance with the conditions established in the Trust Deed.

Article 27

The Trustee shall be responsible for the loss or deterioration of the assets of the Trust resulting from his not having exercised in the execution of said Trust the care of a "good father".

The Trust Deed may establish limitations to the responsibility of the Trustee; but, under no circumstances, shall those limitations exempt the Trustee from the responsibility for losses or damages caused by gross negligence or fraud.

In the event of there being more than one Trustee, they shall be solitarily responsible for the execution of the Trust, unless otherwise stated in the Trust Deed.

Article 28

The Trustee shall render an accounting of his action in accordance with that which is established in the Trust Deed, and in the absence of a regulation in same to that effect, to the Settlor or to the existent Beneficiaries, at least once a year and at the termination of the Trust.



If said accounting should not be challenged within the period established in the Trust Deed, or, in the absence of a stated period, within ninety days after receipt, the accounting shall be considered to have received tacit approval.

Once the accounting has been approved, either expressly or tacitly, the Trustee shall be free of any responsibility to the Settlor and to the present and future Beneficiaries for all the acts that have occurred during the period of the accounting and the Trust Deed. Nevertheless, such approval shall not exempt the Trustee from responsibility for damages caused by his negligence or fraud in the administration of the Trust.

Article 29

The Trustee shall not be under obligation to give special guarantee of good administration for the benefit of the Settlor or Beneficiary, unless it is so stated in the Trust Deed.

This disposition shall not be in any way prejudicial to those guarantees required of those persons authorised to engage in the business of Trusts Administration.

Any person to whom the execution of a Trust might cause damage may request of the Judge to order the Trustee to constitute a guarantee as a precautionary measure.

Article 30

The Trustee may be removed by judicial action through a summary proceeding:

1. When his interests are incompatible with the interests of the Beneficiary or of those of the Settlor
2. When he fails to administer the assets of the Trust with the diligence of a "good father of a family".
3. If he should be convicted for an offence against property or public faith.
4. From the moment he becomes incompetent or disabled to execute the Trust.
5. In case of his insolvency, bankruptcy or insolvency or bankruptcy proceedings, or in case of administrative intervention when he is a person authorised to engage in the business of Trusts administration.

Article 31

The Settlor, the Beneficiary or Beneficiaries and the Representative of the Public Ministry may ask for the removal of the Trustee by judicial action, in defence of Beneficiaries who are minors or incompetent, or in the interests of morality or of the Law.

Article 32

In the event that the Trustee should be replaced by a substitute the assets of the Trust shall be transferred to the substitute by the outgoing Trustee, or in the absence of such transfer, by means of a resolution of the Judge, by his sole judgment and without the necessity of distribution, once documentary proof of the corresponding circumstances is presented.

The same procedure shall be applied in case of dissolution when a legal entity has been acting as Trustee.

Article 33

A Trust shall be extinguished:

1. Upon the fulfillment of the ends for which it was created.
2. When the fulfillment of those ends becomes impossible.
3. Upon the resignation or death of the Beneficiary in the absence of a substitute Beneficiary.
4. In the event of total loss or extinction of the assets of the Trust. When the designation of sole Beneficiary and sole Trustee are merged in the same person.
5. For any reason or cause established in the Trust Deed or in this Law.

Article 34

Upon extinction of a Trust in the absence of a Beneficiary entitled to receive the assets subject of the Trust, and in the absence of a provision in the Trust Deed in regard to their disposition under such circumstances, the Trustee shall transfer such assets to the National Treasury in accordance with the Law and the regulations issued to that effect.

This accomplished, the Trustee shall submit a final accounting for the approval of the competent Judge.

Article 35

The act of constitution, modification, or extinction of a Trust, and likewise the acts of transfer, transmittal or mortgaging of the assets given in Trust and the income from such

assets or any other act relating to them, shall be totally exempt from taxes, contributions, levies or any other fiscal burden, provided the Trust relates to:

Assets located in foreign territory.

1. Monies deposited by natural or juridical persons, when the income from such monies is not derived from sources within the Republic of Panama or is not subject to Panamanian taxes; or
2. Shares or securities of any kind, issued by companies whose income does not derive from Panamanian sources, even when such monies, shares or securities are deposited in the Republic of Panama.

First Explanatory Paragraph: The aforesaid exemptions shall not apply in those cases in which the assets, monies, shares or securities aforementioned in paragraphs 1, 2 and 3 are used in operations not exempt from taxes, contributions, levies or other fiscal charges in the Republic of Panama, except when they are invested in housing, housing development projects or for the development of industrial parks or urban projects in the Republic of Panama, in which instance the profit derived from such investments shall be exempt from income taxes.

Second Explanatory Paragraph: Notwithstanding the dispositions in this Article, all Trusts shall be subject to a yearly charge of one hundred balboas (B/.100.00), payable at the time of constitution of the Trust and, thereafter, within the first three months following each anniversary of said constitution.

The late payment of the aforesaid tax shall occasion a surcharge of twenty balboas (B/.20.00) for each year in arrears and shall cause the suspension of the effects of the Trust while it is in arrears. At the end of three years in arrears the Trust shall be fully and legally extinguished.

The persons authorised to engage in the business of trust management shall collect the yearly tax and keep a numbered registry in which the payment of same shall be recorded and they shall deliver to the Ministry of Finance and Treasure the sums as soon as collected and shall render to this Ministry a monthly sworn declaration.

Article 36

Until such time as the Law which is to govern in such respect has been dictated, the Executive Organ, through the Ministry of Planning and Economic Policy, shall regulate the



practice of the business of trust management in respect to the requirements, granting of the license, guarantees, sanctions and any other conditions whatsoever to which the trust companies, insurance companies, banks, lawyers and other natural or juridical persons who regularly and professionally practice the business of trust management must submit.

The National Banking Commission shall supervise and watch over the adequate functioning of the business of trust management in accordance with the legal dispositions in force that regulate it.

A special Commission designated by the Executive Organ on the basis of the candidates proposed by the organizations and that shall be composed by two representatives from the Panamanian Bar Association, two from the National Banking Commission, two from the Panamanian Insurance Association, one from the National Bank of Panama and one from the “Caja de Ahorros”, shall elaborate, with a period of not more than six months starting on the date of its convocation, a Project Law that shall regulate the business of trust management. The Commission shall be convened by the Executive Organ to be constituted, at the latest, within a period of ninety days after the promulgation of this law.

First Explanatory Paragraph: The State Banks may engage in the business of trust management without having to obtain a license or furnish guarantees. Those guarantees required of the natural or juridical persons engaged regularly and professionally in the business of trust management shall be placed at the disposal of the National Banking Commission and shall be deposited with the National Bank of Panama or the “Caja de Ahorros”.

Second Explanatory Paragraph: Those natural or juridical persons currently engaged in the business of trust management shall have a maximum period of two years from the date when the regulation determined by the Ministry of Planning and Economic Policy begins to be in force, to comply with it. If, after the expiration of this period, the requirements stated by the respective regulations have not been fulfilled, those persons shall not be able to continue to engage in the business of trust management.

Article 37

The Trustee and his representative or employees, those entities of the State authorised by the law to make inspections or examine documents relating to trust operations, and their respective functionaries, as well as those persons who intervene in such operations by



reason of their profession or occupation, shall be obliged to maintain secret all such information and to comply with the legal dispositions in force in this regard in the Republic of Panama.

The violation of this provision shall be sanctioned with a prison sentence of up to six months and a fine of up to fifty thousand balboas (B/.50,000.00).

The provisions of this Article shall not affect that information required to be revealed to official authorities and those inspections that such authorities shall effect in the manner established by the Law.

Article 38

Those Trusts created in accordance with the laws of the Republic of Panama shall be governed by Panamanian law. Nevertheless, they may submit for their execution to a foreign law if so directed in the trust instrument.

The Trust, and likewise its assets, may be transferred or submitted to the laws or jurisdictions of another country, in accordance with provisions to that effect in the trust instrument.

Article 39

Those Trusts created before this Law takes effect shall be governed by the laws in force at the time of the creation of the Trust; but they may submit to the present law at any time by means of a declaration in writing by the Settlor, the Trustee and the Beneficiary.

Article 40

Those Trusts created in accordance with a foreign law may submit to the Panamanian law provided that the Settlor and the Trustee or the Trustee alone, if so authorized by the Trust instrument, make declaration of such intent, submitting to the fundamental requirements and to the formalities established in this law for the creation of the Trust.



Article 41

Any kind of controversy or dispute in regard to which there is no special procedure stated in this Law shall be resolved by means of a summary judgment.

The Trust Deed may establish that any controversy arising from the Trust shall be resolved by arbitration, and also the procedure the arbitrators shall be subject to.

In the absence of such stated procedure, the applicable norms in the Juridical Code shall be applied.

Article 42

Law 17 of February 20, 1941 pertaining to Trusts is hereby revoked and repealed.

Article 43

This Law shall become effective upon its promulgation and publication in the Official Gazette.

EXECUTIVE DECREE No. 16 whereby the Trust Business is regulated in Panama.

THE PRESIDENT OF THE REPUBLIC, in the exercise of its legal powers, WHEREAS:

By Law 1 of January 5, 1984, trusts are regulated in Panama and other dispositions are adopted, and Pursuant to the provisions of Article 36 of Law 1, of January 5, 1984, the Executive Branch of the Government, through the Ministry of Planning and Economic Policy, is charged with regulating the exercise of trust businesses.

DECREES

FIRST: The exercise of trust business is regulated.

SECOND: The following regulations are approved.

TITLE 1
PRELIMINARY DISPOSITIONS

CHAPTER 1
ON THE SCOPE OF APPLICATION AND DEFINITIONS

Article 1

These regulations shall apply to all natural or juridical persons conducting professionally or customarily a trust business, in or from the Republic of Panama, with the exception of official banks.

Article 2

For the application of the present Regulations, it is understood by:

Trust: The juridical act by virtue of which the person known as settlor transfers his property to a person known as trustee in order for the latter to administer and dispose of the same in favour of a fideicommissary or beneficiary, who may be the settlor himself.

Settlor: The natural or juridical person who sets up the trust.

Trustee: The natural or juridical person to whom the property is transferred in order for the settlor's will to be carried out.

Fideicommissary or beneficiary: The natural or juridical person in whose favour the trust is established.

Trust Company: Banks, insurance companies, attorneys and any natural or juridical person conducting a trust business professionally or customarily, by authorisation from the Commission.

Commission: The National Banking Commission.



Article 3

The Commission, on the basis of the legal dispositions in force, shall supervise and ensure the proper operation of trust business, in accordance with the Law and the present Regulations.

TITLE II ON TRUST LEGISLATION

CHAPTER 1 ON AUTHORIZATIONS

Article 4

In order for a trust company to exercise a trust business, the same must obtain prior authorization from the Commission, who shall grant the same by issuing the corresponding trust license, upon compliance with the requirements established by the present Regulations. The provisions of the present Article are without prejudice to the obtainment of the corresponding commercial license.

Article 5

Any natural person intending to act as a trust company in or from Panama, must submit an application therefore to the Commission, through an attorney, accompanied by the following documents:

1. Curriculum Vitae and other documents accrediting to the professional qualifications of the persons who shall manage the company.
2. Personal and commercial references.
3. Duly audited financial statements.
4. Personal background and police record.
5. Affidavit of not having been disqualified for the exercise of commerce.
6. Certification issued by a Certified Public Accountant, noting that the requirement established by Article 14 of the present Regulations has been met.
7. Certified or Cashier's check in the amount of ONE THOUSAND DOLLARS (US\$1,000.00) to cover investigation expenses incurred by the Commission.
8. Project of activities to be carried out.
9. Any other document required by the Commission.



Article 6

Any juridical person intending to act as trust company in or from Panama, must submit an application therefore to the Commission, through an attorney, accompanied by the following documents:

1. Authenticated copy of its Articles of Incorporation and amendments thereto, with the corresponding certificate of corporate existence from the Public Registry.
2. Curriculum Vitae and other documents accrediting the professional qualifications and experience of directors, officers, managers and other persons who shall manage the company.
3. Personal and commercial references of stockholders, directors and officers, who shall manage the company.
4. Sworn Affidavit of not having been disqualified for the exercise of commerce.
5. Certification issued by a Certified Public Accountant, indicating the names of the stockholders and their respective share in the company.
6. Audited financial statements.
7. Certification issued by a Certified Public Accountant noting that the requirement established by Article 14 of the present Regulations, has been met. Certified or Cashier's check in the amount of ONE THOUSAND DOLLARS (US\$1,000.00) to cover investigation expenses incurred by the Commission.
8. Project of activities to be carried out.
9. Any other document required by the Commission.
1. In the case of corporations being organized for the purpose of acting as trust companies in or from Panama, the License Application, submitted through an Attorney, will be accompanied by a Draft to its Articles of Incorporation. In such cases, the requirement established by sub-paragraphs b), c) ch) and d) of this Article shall apply with respect to future stockholders, directors, officers and managers, and the Certification required by sub-paragraph f) must not be submitted in advance.

Article 7

Upon receiving a trust license application the Commission shall undertake or cause to be undertaken such investigations as it may deem necessary and shall request any additional information as it may deem fit, in order to prove the authenticity of documents filed, applicant's financial situation and background, adequacy of its capital and to provide any other elements of judgment.



All applications for Trust Licenses shall be revealed to the general public by notice to be published three times, at applicant's expense, in a national newspaper of broad circulation. Copy of this notice shall be posted for three consecutive days at the offices of the Commission in a place accessible to the public.

Unless otherwise provided in Paragraph 2 of this Article, the Commission shall count on a ninety day period to rule on the License application.

Proviso 1

In the case of corporations to be organized, once their application is approved, the notarial protocolisation and registration in the Public Registry of their Articles of Incorporation shall be ordered, at applicant's expense, upon which the Commission shall issue the respective Trust License to the corporation so organized.

Proviso 2

If, within thirty days following the last publication as established by the present Article, any objections should be filed before the Trust Licence application, the period granted to the Commission to rule on the application shall be counted as of the date of such publication. The Commission shall fix the procedure to prosecute these objections.

Article 8

Natural or juridical persons who are able to prove, before the Commission within a one hundred and eighty day period counted as of the promulgation of the present regulations that they conduct a trust business, shall be authorized to continue operating such business and shall count of a two year period, counted as of the promulgation of the present Regulations, to abide by the same. Upon such period elapsing without the requirements specified therein being fulfilled, the Commission shall order such persons to cease operations and shall notify its decision to the Ministry of Commerce & Industries. In the case of juridical persons, such notice shall also be served upon the General Director of the Public Registry so that he may proceed to cancel the registration thereof. (Please note that this article is not in effect any more as the time already elapsed).

Article 9

As of the effectiveness of the present Decree, only such persons as are authorized by the Commission may use the word trust or any other words deriving therefrom in any language, or any other expression implying that a trust business is being conducted thereby in its trade name, corporate object, description, corporate title, stationery, letterheads, advertisements or publications. Corporations organized under Panamanian legislation prior to the effectiveness of the present Decree, may keep the word trust or any words deriving there from, in its trade name. However, if such corporations should dedicate themselves to acting as trust companies in or from Panama, they must meet the requirements established by the present Regulations.

Corporations operating in Panama may indicate in their corporate objects that they conduct trust activities, provided that such activity is not carried out professionally or customarily. Corporations not operating in or from Panama as trust companies may include the conducting of trust activities in their corporate objects, provided that all the documents mentioned in the foregoing article and in its corporate objects, should state that such activities are not covered by license or other authorization on the part of any Panamanian authority, which circumstance must be expressly indicated to the Settlers.

Article 10

Notaries are forbidden to issue deeds or copies thereof, minutes, statements or any other instruments incidental to their trade and to authenticate signatures in contravention with the foregoing article.

The same restriction is applicable to the Public Registry regarding its registrations.

Article 11

Companies which, upon these Regulations going into effect, should fail to show that they conduct a trust business and whose trade name or corporate title does not adjust to the dispositions of Article Nine, shall count on a one hundred eighty day period to enter into voluntary dissolution, apply for a trust license or amend their Articles of Incorporation in order to change their trade name or corporate title. Once such period has elapsed, without such companies proceeding as established herein, the Commission shall order, by resolution, the dissolution or disqualification thereof, depending on whether they are

national or foreign companies, and shall notify the Public Registry thereof in order for the corresponding marginal note to be made in the registration of the same. Such notice shall also be served upon the Ministry of Commerce & Industries, in order for the latter to proceed to cancel the respective commercial license. The Commission shall publish the resolution as referred to in the present Article in a newspaper of general circulation throughout the Republic for three consecutive days, and once in the Official Gazette.

Article 12

Trusts companies shall keep a numbered record of any trusts conducted thereby.

For the purposes of payment of the annual tax as referred to in the second paragraph of Article 35 of Law 1, of 1984, an affidavit by the trust company indicating the code number corresponding to the respective trust, shall suffice.

Article 13

Any amendment to the Articles of Incorporation of trust companies shall require prior approval by the Commission.

CHAPTER II ON SECURITY

Article 14

Any company conducting a trust business in or from Panama, must have available to the Commission at all times a security in the amount of TWO HUNDRED AND FIFTY THOUSAND DOLLARS (US\$250,000.00) for the proper fulfilment and enforcement of its obligations. This security must be set up as cash deposits, government bonds, insurance company policies, banking securities or checks drawn or certified by local banks. At least TEN PER CENT (10%) of the security must consist of deposits with the National Bank of Panama or the Caja de Ahorros.

Article 15

Corporations being authorised to act as trust companies, must issue any shares representing its capital stock in nominative form. Transfers of shares shall require prior



approval by the Commission. The Commission may exempt corporations making public offer of their shares and certain other companies who are able to prove having sufficiently justified reasons therefore, from this obligation.

CHAPTER III ON REPORTS AND INSPECTION

Article 16

Trust companies shall, within three months counted as of the closing of each fiscal year, submit their corresponding Balance, and Profit and Loss Statements, duly audited by Certified Public Accountants professionally qualified therefore, as determined by the Commission.

Article 17

The Commission is empowered to conduct or order such inspections as it may deem convenient, in order to prove that the statutes ruling the exercise of trust businesses are being duly complied with.

Article 18

In the event of the Commission considering that a trust company is exercising the trust business in a manner detrimental to the interests of the public or its clients, or in violation of the ruling statutes or regulations of trust businesses, the same may require action to be taken by such company in order for the violations to be remedied or, depending on the seriousness of the offence, suspend or cancel its license.

The Commission may also order the intervention of a trust company by taking possession of its property and assuming its administration under such terms as established in Articles 83 and up of Cabinet Decree No. 238 of 1970.



CHAPTER IV ON TRUST SECRECY

Article 19

The obligation to keep trust secrecy is maintained regardless of the trust being terminated, the professional or labor relation being ended or the trust license being cancelled.

Article 20

Any information obtained by the Commission and other Government entities authorized by Law to conduct inspections or collect documents pertaining to trust operations and their respective officers may not be revealed to any person or authority, unless such information is judicially required.

Article 21

Information shall only be given upon request by judicial authorities whenever the corresponding exhibitory action is decreed in proceedings commenced within the territory of the Republic. Judicial officers must keep any information obtained in strict confidentiality, whenever such information is not conducive to solving the litigation in question, and shall not agree to any request for withdrawing of documents from the court records.

Article 22

Any person providing information in violation of the trust secrecy, as provided in Article 37 of Law 1, of 1984, and by the dispositions of the present Regulations, shall be sanctioned with up to six months imprisonment or a FIFTY THOUSAND DOLLARS (US\$50,000.00) fine.

CHAPTER V ON THE CANCELLATION OF TRUST LICENCES

Article 23

The Commission shall cancel licenses upon request by the trustee himself or whenever it should so decide, upon the latter incurring in any of the following causes for cancellation:

1. Ceasing to exercise the trust business for one year or more;
2. Failing to begin operations within one year following the granting of such license;
3. Whenever by executed judicial judgment the trustee is condemned for not carrying out the purpose of the trust and not complying with the conditions or obligations imposed thereto by the laws regulating trusts.
4. Whenever the trustee is disqualified from the exercise of commerce.
5. In the event of bankruptcy or dissolution of the corporation.
6. Upon violation of the prohibitions established in the present Regulations, or default of any of the dispositions contained therein.

Proviso

If on account of cancellation of the Trust License, a substitute Trustee should have to be appointed, the procedure established by Article 32 or Law 1, of 1984, shall apply.

Article 24

Any trust company wishing to cease operating as a trust business must file a trust licence cancellation petition before the Commission, through an attorney, accompanied by the following documents:

- Affidavit attesting to its compliance with the trust agreements;
- Authenticated copy of the judicial resolution approving the resignation;

The resignation to its position, in the event of the trust instrument authorizing the trustee to resign; ch. In the cases of sub-paragraphs b and c, whenever there are trusts which have not yet been terminated or are still pending execution, an acceptance, in writing, by the new trustee, must also be submitted.

Article 25

Upon the petition for cancellation being submitted in due form, the Commission shall count on a thirty calendar day period to issue a resolution cancelling such license.



Article 26

The provisions of Article 9 of these Regulations, shall apply to juridical persons whose trust license is cancelled.

CHAPTER VI SUNDRY DISPOSITIONS

Article 27

Trust companies which do not conduct the trust business on an exclusive basis, must maintain, regarding all matters, separate accounting records for their trust and other departments.

Article 28

Unless otherwise provided by the settlor, trust companies are prevented from:

a. Investing any property given in trust in:

- Shares of the trust company and in other assets of its property.
- Shares or property of companies in which they should have an interest or in which their directors or officers should act as partners, directors, officers, advisors or counselors, except in the case of shares of a corporation registered with the National Securities and Exchange Commission of Panama or shares offered to the public by authorization from the equivalent ruling authority abroad, upon prior authorization by the National Banking Commission.
- Grant loans, with funds deriving from the trust, to officers, directors, stockholders, employees, subsidiaries, affiliates or related companies.
- Acquire for its own account or through third parties, any property given in trust.

Article 29

Resolutions issued by the Commission shall be notified in accordance with the dispositions of the Law 1, of August 22, 1916, admitting only of appeal for reconsideration in executive action, to be filed within five working days, counted as of the serving of such notice.

The Commission shall count on a sixty day period to decide upon such appeal.



Article 30

Violations of the prohibitions established in the present Regulations and default of any of the dispositions contained therein shall be sanctioned with a fine of up to FIFTY THOUSAND DOLLARS (US\$50,000.00) depending on the seriousness of the infraction.

Article 31

Whenever there is a knowledge or well founded reason to believe that a person is exercising the trust business in violation of the provisions of the present Regulations, the Commission shall be empowered to examine its books, accounts and documents in order to determine if it has infringed upon or is infringing upon any disposition of the present Regulations. Such infringement having been proved, the Commission shall punish the infringer.

Any refusal to submit the documents referred to in the foregoing article shall be construed as an assumption of the fact that the trust business is being exercised without authorization.

Recurrence of this type of violation shall empower the Commission to apply to the office of a government attorney for the disqualification of the infringer for the exercise of commerce.

Article 32

Any person conducting operations indicating or insinuating the existence of any kind of link with a trust company authorized by the Commission without such company's consent, shall be sanctioned with a fine imposed by the Commission. In the case of recurrence, the Commission shall proceed in accordance with the provisions of the final paragraph of the foregoing article.

Article 33

Any sanctions imposed by the Commission are independent of the corresponding criminal and civil liability.



Article 34

Judicial officers shall inform the Commission of the proceedings in which trust companies may be involved as defendants. Likewise, they shall forward a copy of any judgments pronounced in such proceedings.

Article 35

The Commission shall adopt its decisions pursuant to the dispositions of Chapter II of Cabinet Decree No. 238 of July 2, 1970.

THIRD: This Executive Decree shall go into effect as of the promulgation thereof.

For more information or advice, please contact



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