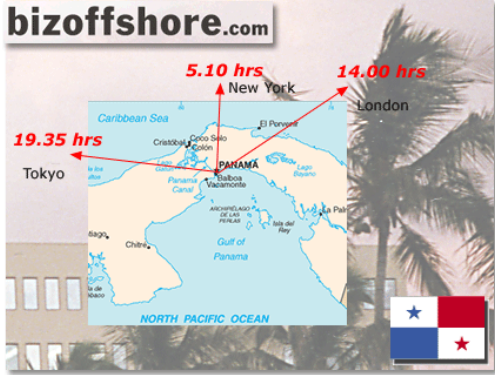


Panama

<p>Panama is one of the oldest offshore financial centres in the world and despite some economic and political instability in the past, has remained a popular location. Panama is known for its large offshore operations, which include thousands of international business companies and financial institutions that lend primarily in Latin America. The largest part of the financial sector is the banking system, which consisted of 70 commercial banks as of February 2004. These included two state banks, 39 locally-registered banks (which operate primarily within Panama), and 29 international banks (which primarily serve foreign clients). The banking sector employs around 10,000 people and contributes about 8% of Panama's GDP.</p>	
<p><u>Current Time</u> (World Time Server)</p>	<p>Country Motto Pro Mundi Beneficio: “ For the benefit of the World”</p>

Overview

The Republic of Panama lies in Central America between the Caribbean Sea and the North Pacific Ocean. There are land borders of 225 km with Columbia (on the west) and 330 km with Costa Rica (on the east). The Panama Canal links the North Atlantic Ocean via the Caribbean Sea with the North Pacific Ocean. It is of major strategic importance particularly to the US because of the Panama Canal.

Panama is one of the oldest offshore financial centres in the world and despite some economic and political instability in the past, has remained a popular location. Panama is known for its large offshore operations, which include thousands of international business companies and financial institutions that lend primarily in Latin America. The largest part of the financial sector is the banking system, which consisted of 70 commercial banks as of February 2004. These included two state banks, 39 locally-registered banks (which operate primarily within Panama), and 29 international banks (which primarily serve foreign clients). The banking sector employs around 10,000 people and contributes about 8% of Panama's GDP.

Compared to other Latin American countries, Panama's equity market is small and illiquid, with a market capitalization of US\$3.2 billion or 38 per cent of 2003 GDP. Banks and insurance companies dominate listings. Institutional investors are largely absent from the equity market.

The insurance industry largely serves the domestic market. There are 18 insurance companies (August 2004), including five foreign subsidiaries, and 11 re-insurers.

Online News Sources

The Bulletin: www.bulletinpa.com

The Panama News: www.thepanamanews.com

Business Environment

Companies are governed by the Commercial Code which has been developed largely from the corporation law of Delaware, USA. The most common investment vehicle for offshore companies is the Corporation (Sociedad Anonima). A foreign company may register a subsidiary operation in Panama. Foundations and trusts are also used as vehicles by offshore investors for the protection of assets.

Panama has a modern and innovative banking system. There is no central bank. The Superintendence of Banks is responsible for banking sector regulation. Banks may be licensed under a general license, an international license or as a representative office. Banks are required to establish a physical presence in Panama by maintaining an office with local staff for each of the licensing types. Eligibility for a general license is open to both local and foreign ownership. All offices of foreign banks must be subject to consolidated supervision by their home country supervisor. General license banks may conduct business with both residents and non-residents. International license banks may only do business with non-residents.

In an assessment of the country's banking sector in October 2001 the International Monetary Fund found that Panama's banking system meets most international standards since the passage of the 1998 banking law. Panama's regulatory authorities have issued and is applying regulations include the requirement that banks and financial groups adopt internationally-accepted standards for accounting and auditing, the introduction of a new capital adequacy framework in line with the Basel capital framework, impose limits on loans and investments with related parties and single obligors, and improve internal risk management procedures for liquidity, interest rate and country risk. 'Though Panama is characterized as an offshore financial centre, the substantial majority of banking activities are carried out by general license banks, which are unrestricted in their ability to transact with residents and non-residents,' the IMF noted. General license banks hold 82% of assets compared to 18% for international license banks. International license banks are restricted to business with non-residents. The insurance, securities and other non-bank financial sectors were not included as part of the assessment because they are small in relation to the banking system, the IMF stated.

The securities, insurance and other non-bank sectors are significantly smaller compared to the banking sector. A new securities law was passed in July 1999, creating the National Securities Commission (SC) as an autonomous regulatory agency for the investment sector. The insurance sector is supervised by the Superintendence of Insurance, a bureau of the ministry of commerce and industry. The ministry of commerce and industry also has responsibility for finance companies which specialise in consumer lending. At the end of 1999, there were 152 finance companies, with total assets of US\$900 million. Thirteen finance companies are subsidiaries of banks and subject to supervision by the Superintendence of Banks.

In May 2000, the Financial Stability Forum published its list of offshore financial centres according to three groupings. The FSF placed Panama along with 24 others in Group III, the lowest ranking group. The FSF's actions prompted the IMF review of offshore centres and Panama to review its system of regulation. Panama was also blacklisted by the Financial Action Task Force as being 'unco-operative' in fighting money laundering and after recent efforts to improve its financial system regulation, the country was removed from the list in June 2001.

Taxes

Taxation in Panama is governed by the Fiscal Code. Taxes are levied at both national and municipal levels. The concept of territoriality is applied, meaning that only operations carried out in Panama itself are taxable. Funds may be freely transferred in and out of the country, regardless of the purpose.

Capital gains upon the disposal assets within Panama are generally taxed as income. Panama has abolished inheritance taxes but gift tax is still in force.

Withholding taxes are in force at the following rates: 10% on dividends (20% for bearer shares), 15% on interest, and 15% on royalties. Panama has not signed double tax treaties with any other country.

Stock Exchange

The Panama Stock Exchange (Bolsa de Valores de Panama (BVP)) has been an important part of the development of Panama's role as a regional financial center since its creation in 1990. Its shareholder base is made up of the main local banks, including Banco Nacional de Panamá (National Bank of Panama) as well as commercial, insurance and industrial corporations and concerns, businessmen, professionals and stockbrokers. The National Securities Commission regulates and supervises the capital markets sector.

The exchange is the only dollar-based securities market in the region. The main corporate candidates for listing are the many companies of Central America and the northern countries of South America that have strong balance sheets but are too small to issue shares in New York. Trading turnover has increased over the years from US\$3.3million in 1990 to US\$1.343 million in 2004, with 95 stocks listed. The majority of trading is in corporate and governmental debt instruments. In November 2004 the BVP index stood at 127 compared to 109.07 at the end of 2003.

Key Contacts

Superintendency of Banks
Avenida Samuel Lewis , Torre HSBC. - Pisos 1,2,8,9,17,18
Apartado Postal 0832-2397 WTC, Panamá,
Rep. de Panamá
Tel.: 206-7800 / 206-7900

Bolsa de Valores de Panama S.A.
Ave, Federico Boydy Calle 49
Bolsa de Valores of Panama Building
Panama
Republic of Panama
Tel: (507) 269 -1966
Fax: (507) 269-2457
Internet: www.panabolsa.com

Key Facts

Country Information: Republic of Panama
Population: 3,039,150 million (July 2005 est.). Capital: Ciudad de Panamá (Panama City). The official language is Spanish. The other main language is Creole English. The country is a presidential democratic republic, divided into nine provinces and one territory.
Currency: US dollar
Legal System: based on civil law system; judicial review of legislative acts in the Supreme Court of Justice; accepts compulsory ICJ jurisdiction, with reservations.

Government

The president and the two vice-presidents are elected on one ballot for a five year term in a general election. Members of the 77-seat Asamblea Legislativa (Legislative Assembly) are elected for a five-year term in single-seat and multi-seat constituencies. Chief of State: President Martin TORRIJOS Espino (since 1 September 2004); First Vice President Samuel LEWIS Navarro (since 1 September 2004); Second Vice President Ruben AROSEMENA Valdes (since 1 September 2004); note - the president is both the chief of state and head of government.
Head of Government: President Martin TORRIJOS Espino (since 1 September 2004); First Vice President Samuel LEWIS Navarro (since 1 September 2004); Second Vice President Ruben AROSEMENA Valdes (since 1 September 2004); note - the president is both the chief of state and head of government
Cabinet: Cabinet appointed by the president

Politics

Elections were last held on 2 May 2004 (next to be held 3 May 2009). Martín Torrijos Espino of the Partido Revolucionario Democrática was elected as president with 47.4% of the vote. For the Legislative Assembly the Partido Revolucionario Democrática (PRD) won 37.8% of the vote and 41 seats. The Partido Arnulfista (PA) won 17 seats (19.2% of the vote), the Partido Solidaridad Solidaridad 9 seats (15.7%), the Movimiento Liberal Republicano Nacionalista Molirena four seats (8.6%), the Cambio Democrático (CD) three seats (7.4%), the Partido Popular (PP) one seat (6%) and the Partido Liberal Nacional (PLN) three seats (5.2%).

Economy

Panama's dollarised economy rests primarily on a well-developed services sector that accounts for four-fifths of GDP. Services include operating the Panama Canal, banking, the Colon Free Zone, insurance, container ports, flagship registry, and tourism. Agriculture accounts for 5% of GDP and includes bananas and other fruit, corn, sugar, rice, coffee, shrimp, timber, vegetables, livestock. A slump in Colon Free Zone and agricultural exports, the global slowdown, and the withdrawal of US military forces held back economic growth in 2000-03; growth picked up in 2004 led by export-oriented services and a construction boom stimulated by tax incentives. The government has been backing tax reforms, reform of the social security program, new regional trade agreements, and development of tourism. Unemployment remains high. (Source: CIA World Factbook).

Gross Domestic Product (2004): 6% real GDP. US\$20.57 billion nominal.

Inflation Rate (2004): 1.4%

Labour Force (2004): Unemployment: 12.6%

Government Accounts: revenues: \$3.095 billion; expenditures: \$3.737 billion, including capital expenditures of \$471 million (2004 est.)

Time Zone: GMT minus five hours.

Financial Year: Calendar Year

Public Holidays (2005)

1 January (New year's day); 10 January (Martyrs' day); 8 February (Carnival); 25 March (Good Friday); 2 May (Labour day); 1 November (Kid's day); 2 November (Day of the dead); 3 November (Separation from Colombia); 15 August (Panama City Holiday) 3 November (Columbia Separation Day); 10 November (First cry of Independence from Villa de los Santos); 28 November (Independence from Spain); 8 December (Mother's day); 24 December (Christmas eve celebrated in the afternoon only); 25 December (Christmas); 26 December (Christmas Holiday) 31 December (New year's eve celebrated in the afternoon only).

Restaurant Guide

We recommend:

Fusion

Radisson Decapolis Hotel
Panama city
Tel. (507) 215 –5000

Angel Restaurante

Via Argentina, Al Cangrejo
Tel (507) 263-6868