

PART I - INTRODUCTION

A. Title, Objective and Elements

1. Title

Philippine Business Bank, Inc. Revised Compliance Manual, as Amended.

This Revised Compliance Manual was developed pursuant to BSP Circular No. 747 dated February 6, 2012, which amended the entirety of Section X180 of the Manual of Regulations for Banks (MORB) and mandated all banks to develop and implement a robust, dynamically-responsive and distinctly-appropriate compliance system that actively promotes the safety and soundness of the Philippine banking system, and appoint a Chief Compliance Officer to oversee the design and promote the effective implementation of such compliance system. On August 22, 2017, Section X 180 was further amended by BSP Circular No. 972 which further requires BSP-supervised financial institutions (BSFIs) to identify and mitigate risks that may erode their franchise value as a result of their failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities. This Revised Compliance Manual, as amended, also defined the responsibilities of the Board of Directors and Senior Management on compliance, the status, authority and independence of the compliance function; the duties and responsibilities of the Chief Compliance Officer, and the roles of officers and staff on compliance function; and established the policy of the Bank on cross-border compliance issues and outsourcing of compliance risk assessment and testing.

The Philippine Business Bank, Inc. adopts this Revised Compliance Manual, as amended, to put in place its own culture of compliance that is suitable to its needs and requirements, anticipate, reinforce and strengthen its compliance with existing laws, rules and standards and to give the Chief Compliance Officer a better appreciation of his role in contributing to the maintenance of a sound and stable bank.

2. Objective

To develop and implement a compliance system that will provide reasonable assurance that the Bank and its employees comply with relevant banking and corporate laws, regulations, rules and standards in order to promote safe and sound banking operations.

3. Elements

3.1. A written Compliance Manual approved by the Board of Directors that:

- i. Reflects and describes the Compliance Program of Philippine Business Bank, Inc. (PBB) that is distinct and separate from the Risk Management and Internal Audit Programs.
- ii. Enables the Bank to identify laws, regulations, rules and standards applicable to its operations, analyze the corresponding risks of non-compliance and prioritize compliance risks.
- iii. Provides for periodic compliance testing of applicable legal, regulatory and policy requirements.
- iv. Defines the responsibilities of the Board of Directors and Senior Management on compliance.
- v. Defines the functions of the compliance office, its status, authority, and relationship with other units of the Bank.
- vi. Defines the duties and responsibilities of the Chief Compliance Officer, Compliance Coordinators and other personnel involved in the compliance function.
- vii. Consistently ensures the integrity and accuracy of documentary submissions by the Bank.
- viii. Will be reviewed and updated at least annually to incorporate new/changes in laws, regulations, rules and standards and to be approved by the Board of Directors.

3.2. A constructive working relationship with various regulatory agencies wherein the Chief Compliance Officer and his authorized representative/s may consult, whenever necessary, such regulatory agency for clarification of specific provisions of laws and regulations.

3.3. A clear and open communication process within the Bank to educate/orient employees and address compliance matters.

3.4. Continuous monitoring and assessment of the Compliance Program.

B. Cross-border Compliance Issues

§X180.5 of the Manual of Regulations for Banks (MORB) requires that the compliance function for institutions that conduct business in other jurisdictions should be structured to ensure that local compliance concerns are satisfactorily addressed within the framework of the compliance policy for the organization as a whole. As there are significant differences in legislative and regulatory frameworks across countries or from jurisdiction to jurisdiction, compliance issues specific to each jurisdiction should be coordinated within the structure of the institution's group-wide compliance policy. The organization and structure of the compliance function and its responsibilities should be in accordance with local legal and regulatory requirements.

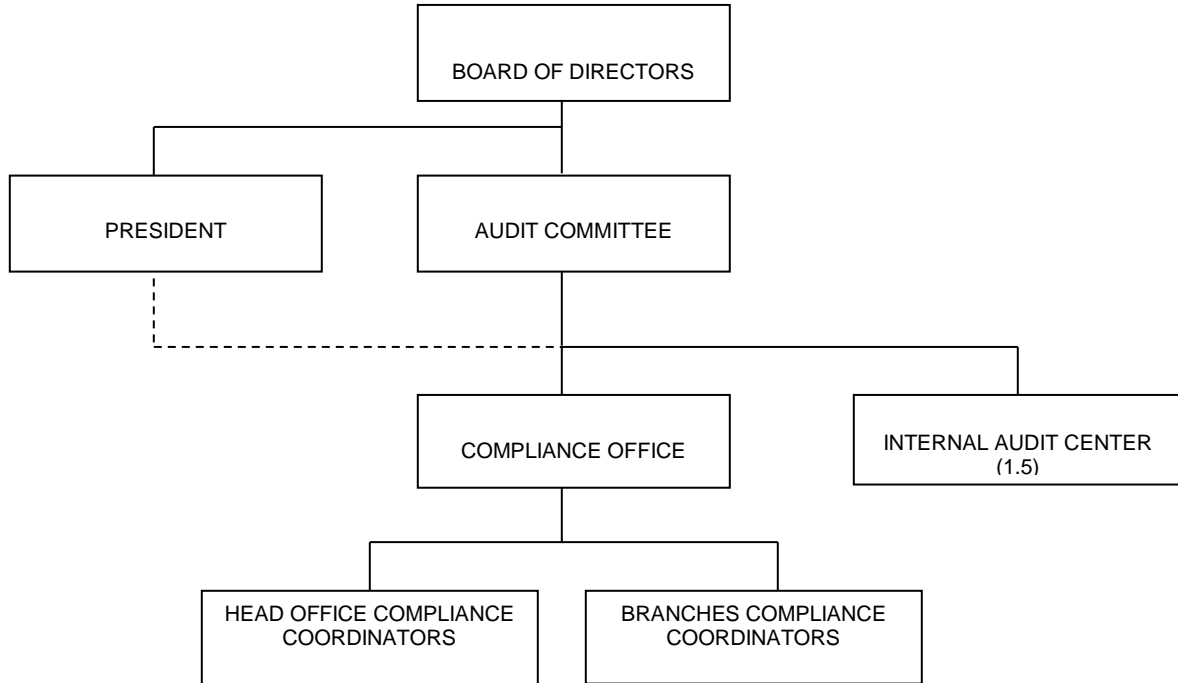
C. Outsourcing of Compliance Risk Assessment and Testing

§X180.6 allows the outsourcing of review, assessment and testing of the compliance program to qualified third parties but subject to appropriate oversight by the Chief Compliance Officer and that a copy of the outsourcing agreement stating the duties and responsibilities as well as rights and obligations of the contracting parties, duly approved by the Board of Directors is submitted to the appropriate BSP Supervising and Examining Department at least 30 days prior to its execution to enable review of its compliance with existing regulations on outsourcing of banking functions.

PART II - COMPLIANCE RISK MANAGEMENT SYSTEM

A. Compliance Organizational Structure

1. Functional Organizational Chart



Notes:

The Compliance Organizational Structure defines the bank-wide functional relationships in the exercise of the compliance responsibility. The Chief Compliance Officer reports administratively to the President and functionally to the Audit Committee and exercises functional supervision over the designated Compliance Coordinators of the various units relative to the compliance functions being performed/handled by them.

This is distinct and separate from the Table of Organization defining the structure of the Compliance Office headed by the Chief Compliance Officer.

1.1. In addition to their regular duties, the Compliance Coordinators also perform compliance functions in their respective units.

- 1.2. The designated Compliance Coordinators are mostly officers of the respective units and have direct reporting line to the Compliance Office for the compliance function.
- 1.3. For Head Office units, Compliance Coordinators are designated by their Unit Heads and concurred in by the Chief Compliance Officer.

Copies of the designation letters and the corresponding duties and responsibilities duly acknowledged by the Compliance Coordinators are provided to Human Resources Group to form part of their respective Job Descriptions.

- 1.4. For branches, the Branch Operations Officers (BOO) are automatically designated as the Compliance Coordinators and as such, the duties and responsibilities of Compliance Coordinators are added to their Job Description.
- 1.5. The Compliance Program operates as part of the Bank's internal control and parallel to Audit Program, thus, Internal Audit Center is part of the Compliance Functional Organizational Structure. It is tasked to review and validate implementation of the Compliance Program.
- 1.6. Compliance function is the “responsibility and shared accountability of all Personnel, Officers and the Board of Directors.” Hence, the responsibility for ensuring compliance with laws, rules and standards within the unit rests with the line manager, his officers and staff. Each personnel shall perform his role to achieve full compliance. The Chief Compliance Officer through the designated personnel will serve as coordinator, adviser and overseer of the compliance process within the unit.
- 1.7. For compliance continuity, the concerned Unit/Division/Group Head shall fill up immediately the vacancies in the Compliance Coordinators’ rank by designating the chosen candidate, subject to the concurrence by the Chief Compliance Officer.

2. Responsibilities of the Board of Directors and Senior Management on Compliance

The Board of Directors ensures that an appropriate compliance program is defined and adopted by the Bank and that compliance issues are resolved expeditiously. For this purpose, it shall task the Audit Committee to oversee the implementation of the compliance program. The Audit Committee shall review and approve the performance and compensation of the Chief Compliance Officer (CCO) as well as the budget of the compliance function.

The Senior Management through the Chief Compliance Officer is responsible for: (i) establishing a compliance program, (ii) ensuring that it is adhered to, (iii) periodically reporting to the Audit Committee and/or Board of Directors on matters that affect the design and implementation of such compliance program, including material breaches thereon, (iv) addressing promptly such material breaches of the compliance program and (v) assessing its effectiveness and appropriateness.

3. Compliance Function

3.1 Definition

Compliance Function is an independent function that defines, advises on, monitors and reports on the Bank's compliance risks. It shall facilitate effective management of compliance risk by: (a) advising the Board of Directors and Senior Management on relevant laws, rules and standards, including keeping them informed on developments in the area; (b) apprising the Bank's personnel on compliance issues, and acting as contact point with the Bank for compliance queries from its personnel; (c) establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, code of conduct and practice guidelines, (d) identifying, documenting and assessing the compliance risks associated with the Bank's business activities, including new products and business units; (e) assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments; (f) monitoring and testing compliance by performing sufficient and representative compliance testing; and (g) maintaining a constructive working relationship with the BSP and other regulatory agencies.

For all intent and purposes, the compliance function shall focus on identifying and mitigating risks (e.g., legal or regulatory sanctions, material financial loss, or loss to reputation) that may erode the franchise value of the Bank as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and code of conduct, or inability to manage conflict of interest, treat customers fairly and money laundering and terrorist financing activities.

3.2 Status

a. Independence

- i. The compliance function shall be independent from the business activities of the Bank.
- ii. It shall be provided with sufficient resources to carry out its responsibilities on its own initiative in all units where compliance risks exist.
- iii. It shall have the right to conduct investigation and be free to report to Senior Management, Audit Committee and/or the Board of Directors material breaches of the Compliance Program and/or laws, rules and standards, without fear of retaliation or disfavor from Management or other affected parties.
- iv. It shall have access to all operational areas as well as any records or files necessary to enable it to carry out its duties and responsibilities.

b. Authority

To carry out its Compliance responsibilities effectively, the Compliance Office:

- i. May enter all areas of the Bank and have access to any documents and records considered necessary for the performance of its responsibilities; and
- ii. Shall have the right to require any member of the Management and Staff to promptly supply information and/or explanations as may be needed to carry out its functions.

The Chief Compliance Officer shall have the right to attend as observer any meeting as he/she deems appropriate where compliance risk exists.

c. Reporting Lines

The Chief Compliance Officer shall functionally and administratively be under the direct supervision of the Board of Directors (through the Audit Committee) and the President, respectively.

d. Relationship with Other Units of the Bank

In addition to the specific collaboration, Compliance Office, Legal Services Group, Internal Audit Center and Enterprise Risk Management Group shall exert effort to ensure good coordination and continued cooperation.

Compliance Office shall seek legal and interpretative advice from the Legal Services Group on banking and corporate laws compliance matters, in particular through regular bilateral meetings. As necessary, the Legal Services Group may arrange for consultation with external experts. The Chief Compliance Officer retains primary responsibility for relations with the regulatory agencies and is involved in responding to external compliance-related inquiries.

To the same extent as other systems of the Bank, the Compliance System shall be subject to periodic review by the Internal Audit Center.

3.3 Functions of the Compliance Office

- a. Prepares the Bank's Compliance Program, updates the same and, in coordination with concerned units of the Bank, ensures adherence to Bank's policies and procedures, relevant banking laws, rules and regulations of the BSP, SEC, PDIC, BIR and other regulating agencies. Assists concerned units identify compliance risks and analyzes the corresponding sanctions for non-compliance;
- b. Oversees and coordinates the implementation of the Bank's Compliance Program;
- c. Conducts on site/off site compliance testing on pre-selected units of the bank;
- d. Ensures designation of Unit Compliance Coordinator (UCC) by the respective group heads; provides concerned units with checklists of regulatory and reportorial requirements of BSP, PDIC, BIR and other regulatory agencies to serve as their guide in ensuring compliance thereto; coordinates with the Bank's Legal Services Group on legal issues;
- e. Reviews and evaluates the self-testing reports submitted by the Unit Compliance Coordinators;

- f. Provides advisory services to officers and staff on compliance matters; likewise, provides the front-line staff and officers a clear understanding of banking laws, policies and regulations of the BSP and other regulatory agencies through written policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
- g. Consults when necessary, with appropriate department of the BSP, PDIC, SEC, BIR and other regulatory agencies regarding the interpretation of certain provisions of laws or regulations, and Anti-Money Laundering Council for the proper implementation of the requirements of the Anti-Money Laundering Act, as amended, on covered and suspicious transactions and freezing of accounts;
- h. Ensures submission of Covered Transaction Reports (CTR) and Suspicious Transaction Reports (STR) on a bank-wide basis to the AMLC within the prescribed period (five (5) working days) from occurrence thereof;
- i. Conducts preliminary evaluation of suspicious transaction reports and convene the Anti-Money Laundering Committee of the Bank for the final determination of the grounds for reporting to the AMLC, if necessary;
- j. Provides the Board and/or its appropriate committee with reports concerning the Bank's state of compliance with rules and regulations of BSP and other regulatory bodies;
- k. Ensures dissemination of banking laws, rules and regulations; and
- l. Maintains constructive relationship with the BSP and other regulatory agency.

3.4. Duties and Responsibilities and Qualifications of the Chief Compliance Officer (CCO)

The CCO is the lead senior officer of the Bank for the purpose of administering the compliance program and interacting with BSP, on compliance-related issues. The principal function of the CCO is to oversee, the design of the compliance risk management system, which shall contain basic elements prescribed under Subsection X180.1 of the MORB, promote its effective implementation and address breaches that may arise. The CCO reports functionally to the Board of Directors through the Audit Committee. He shall have the following responsibilities, among others:

- a. Ensures that the compliance risk management system is designed to specifically identify and mitigate compliance risks, which may erode the franchise value of the Bank;
- b. Supervises the compliance function and ensures that it shall have formal status within the Bank, which shall be established by a charter duly approved by the Board of Directors that defines the compliance function's standing, authority and independence, and addresses the following issues:
 - i. Measures to ensure the independence of the compliance function from the business activities of the Bank;
 - ii. The organizational structure and responsibilities of the unit or department administering the compliance program;
 - iii. The relationship of the compliance unit/department with other functions or units of the organization, including the delineation of responsibilities and lines of cooperation;
 - iv. Its right to obtain access to information necessary to carry out its responsibilities;
 - v. Its right to conduct investigations of possible breaches of the compliance policy;
 - vi. Its formal reporting relationships to senior management, the Board of Directors, and the appropriate board-level Committee; and
 - vii. It's right of direct access to the Board of Directors and to the appropriate level Committee.
- c. Ensures that that the Compliance Charter is communicated throughout the Bank;
- d. Ensures the timeliness, integrity and accuracy of all documentary submissions to the BSP and other regulatory agencies. For this purpose, the Bank shall develop a combination of manual and intranet-based regulatory reports monitoring system (RRMS) for periodic and transactional reports as well as submission of applications for authority to engage in specific banking transaction/activity, establishment of banking offices, among others and their supporting documents. These systems will be covered by separate implementing guidelines.

- e. Manages the Compliance Program of the Bank; and
- f. Liaises with the Regulatory Agencies i.e. BSP, SEC and PDIC.

Because of his enormous responsibilities, the Chief Compliance Officer shall have the following minimum qualifications:

- a. With sufficient experience in compliance or internal audit function in a senior officer capacity in a universal/commercial bank or thrift bank with complex operations;
- b. Has extensive knowledge in banking operations, particularly in:
 - i. Branch operations;
 - ii. Credit/lending operations;
 - iii. Treasury/investment operations;
 - iv. Trade finance operations;
 - v. Foreign exchange/FCDU operations
 - vi. Trust Operations; and
 - vii. Clearing operations;

banking laws, rules and regulations; Anti-Money Laundering Act (AMLA), as amended, its Revised Implementing Rules and Regulations as well as the BSP regulations on AMLA (R.A. 9160), as amended; local and national tax laws, particularly on income and real estate taxes; accounting standards, particularly those that govern the financial accounts of the Bank; US FATCA Regulations; SEC regulations pertaining to securities transactions; Data Privacy Act; basic corporate governance principles; and risk management frameworks on credit, market and operations (including IT risk governance);

- c. Proficient in English writing, particularly reports, policies and procedures and manuals;¹ and
- d. Has attended seminars and/or trainings relevant to corporate governance, compliance, risk management and internal audit functions.

¹ Required but not preferred.

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- 3.5. Duties and Responsibilities of Deputy Chief Compliance Officer – General Compliance
- a. Assists the Chief Compliance Officer in the proper implementation of the Bank’s Compliance Program, particularly on the conduct of compliance testing, reporting of exceptions, monitoring and evaluation of compliance issues:
 - i. Reviews the periodic compliance testing reports being submitted by the Compliance Coordinators;
 - ii. Assesses the risks level of each exception reported by the Compliance Coordinators;
 - iii. Prepares Consolidated Monthly Compliance Testing Report on unresolved findings (with corresponding justification and/or corrective actions to be taken to be taken to prevent recurrence) to be signed by the Compliance Officer and to be submitted to the Audit Committee, the President and Chairman of the Bank’s Board of Directors.
 - iv. Coordinates and monitors corrective actions to be taken on findings/ issues covered by the Compliance Testing Reports, Internal Audit Reports and BSP Examination Reports with the concerned units to ensure non-recurrence thereof.
 - b. Checks regulatory issuances from the regulator’s websites, i.e. BSP, PDIC, SEC, BIR, etc. to be disseminated to all concerned units of the Bank for their information/guidance and compliance:
 - i. Issues clarifications, after the same have been cleared with the Chief Compliance Officer, regarding a particular regulatory issuance that may affect the bank operations;
 - c. Assists the Chief Compliance Officer in the proper handling of the BSP visitations and on-site examinations, particularly in:
 - i. Disseminating to the concerned units the requirements of the Examination Team;
 - ii. Receiving and collating the visitation and on-site examination requirements from concerned units; and

- iii. Following-up and encoding of concerned units' replies to BSP advance findings and final report of examination for review by the Chief Compliance Officer.
- d. Prepares Report on Crimes and Losses and undertakes its submission to the BSP after the same has been duly signed by the Chief Compliance Officer;
- e. Acts as OIC of the Compliance Office in the absence of the Chief Compliance Officer.

3.6. Duties and Responsibilities of Compliance Officers

For FATCA/Responsible Officer

- a. Acts as Responsible Officer for FATCA compliance;
 - i. Ensures establishment of compliance program that includes policies, procedures and processes sufficient to comply with FATCA rules;
 - ii. Ensures proper implementation of FATCA compliance program; and
 - iii. Reviews the sufficiency of the Bank's compliance program.
- b. Prepares the required periodic certifications subject to the approval of the Senior Management and ensures submission to the IRS or to the Bureau of Internal Revenue (BIR);
- c. Respond to Internal Revenue Services (IRS) inquiries; and
- d. Provides the Board of Directors and Senior Management with periodic report on status of Bank's compliance with the FATCA regulations.

For Anti-Money Laundering and Terrorist Financing

- a. Acts as Assistant Anti-Money Laundering/Terrorist Financing ML/TF Officer of the Bank:
 - i. Assists the Anti-Money Laundering/Terrorist Financing ML/TF and FATCA Compliance Officer in the following:
 - Preparation of any proposed updates and/or amendments on the MLPP.

- Monitoring the implementation of the MLPP of the Bank i.e:
 - ✓ Ensuring compliance of the Bank with the KYC, reporting and record keeping provisions of the AMLA, as amended; and
 - ✓ Review reports of suspicious/unusual transactions received from the AML /TF Investigations Officer for appropriate disposition.
- b. Reviews independent validation on the results of the compliance testing done by AML/TF Reports Officer.

For Corporate Governance

- a. Assists the Chief Compliance Officer in the preparation, update and implementation of the Corporate Governance Manual of the Bank and ensures timely submission of the same to the SEC;
- b. Reviews the various board committee charters, particularly on the composition/membership of the committees, ensuring that they are complete and comply with the regulatory requirements;
- c. Ensures timely dissemination of new issuances by the BSP, SEC and other regulatory agencies to concerned units of the Bank on matters affecting corporate governance;
- d. Prepares comments on the draft exposures of proposed regulations affecting corporate governance by the regulators for evaluation/ review by the Chief Compliance Officer;
- e. Prepares and ensures submission of the Annual Corporate Governance Report (ACGR) to the SEC; and
- f. Assists the Corporate Governance Committee in the conduct of self-assessment by the Members of the Board of Directors, Board Committees and Senior Management every January of each year, particularly in the distribution of the Self-Assessment Forms to the Members of the Board of Directors, Board Committees and Senior Management and in the preparation of summary of the results of such self-assessment.

3.7. Duties and Responsibilities of the Associated Person

The Associated Person shall be responsible for maintaining a system to supervise the activities of all persons employed by the Bank who are directly or indirectly involved in the conduct of its securities business. He oversees compliance of the Bank with SEC Rules and Regulations and PDEX and Trading Participants' internal rules and procedures at all times, including those of its officers, Registered Personnel and other employees involved in its securities business. In particular, the Associated Person shall:

- a. Have a general knowledge of the operations of the Bank as Broker Dealer without necessarily engaging or actively participating in the day-to-day operations of the Bank;
- b. Develop procedures, and monitor on a daily basis, compliance with financial resource requirements for Broker Dealer/Trading Participant under existing SEC regulations;
- c. Supervise and provide trainings to other employees, agents, salesmen, officers, directors, clerks, stockholders of the Bank in compliance with the Securities Regulation Code and the rules and regulations adapted thereon;
- d. Notify discontinuation of employment of a salesman or associated person and the reasons therefore, by filing SEC Form 28-T to the SEC not later than thirty (30) days after such discontinuation of employment, with copy thereof to be provided to the PDEX;
- e. Receive all SEC/PDEX notices and ensure compliance with the requirements of such notice; oversee compliance with legislative and other regulatory requirements;
- f. Ensure that all salesmen of the Bank are registered with the SEC and that the Commission is notified when any salesman is no longer employed by the Bank;
- g. Promptly report to Senior Management all occurrences of material breach by the Bank or its officers and staff with the legal or regulatory requirements as well as with the Bank's own policies and procedures on securities trading and keep and maintain a logbook/record of such reports, with appropriate notations of action taken thereon by the trading unit. The logbook/record shall be kept updated both with respect to its contents and its registration with the SEC.

- h. In the event of any breach or error arising in respect of any trades entered into by the Trading Unit, assist the concerned authorized personnel to take necessary actions to rectify the breach or to eliminate the error;
- i. Prepares, initials/signs and files with the SEC not later than fifteen (15) days after the end of each calendar quarter, a compliance report on the Bank's compliance and/or non-compliance with the provisions of the Securities Regulations Code and its implementing rules and regulations;
- j. Prepares, initials/signs and files with PDEX not later than five (5) days after the end of each reference month, a Monthly Certification Report on the Bank's compliance with Rule 3.3.1 of the PDEX Rules for Fixed Income Securities.

3.8. Duties and Responsibilities of the AML/TF Officers

For Investigation

- a. Monitors and investigates transactions and accounts for potentially suspicious transactions/activities identified/flagged by the AML system and escalated by the concerned units;
- b. Responsible for the appropriate collection and analysis of documents to assist in identifying unusual transaction patterns through research via available Bank systems and commercial databases, as well as the internet; and
- c. Responsible for the preparation of suspicious transaction report pertaining to the result of investigation conducted.

For Reports

- a. Cascades to the AML/TF Investigations Officer any escalated suspicious transactions/activities generated by the AML system and/or reported by branches/head office reporting units;
- b. Monitors the disposition/management of alert reports generated by Bae60 AML System to ensure STRs are submitted within the regulatory period;
- c. Assesses and reviews proposed Suspicious Transaction Reports (STRs) submitted by concerned units, if any, relative to the alert reports;

- d. Coordinates corrections, if any, with the concerned unit; receives corrected/amended STR; submits the same to the Chief Compliance Officer for final review and/or approval, in accordance with the MLPP;
- e. Prepares quarterly management reports and other related reports as needed; and
- f. Conducts periodic compliance review of the consolidated CTRs/ STRs.

3.9. Duties and Responsibilities of the Compliance Specialist

Applicable to Senior Compliance Specialist, General Compliance

- a. Assists the Deputy Chief Compliance Officer-General Compliance in the planning of compliance testing.
 - i. Conducts preliminary risk assessment on all units of the Bank to determine the order of priority for compliance testing;
- b. Performs compliance testing and acts as lead compliance specialist;
- c. Prepares and/or reviews compliance testing reports; and
- d. Monitors the taking of corrective actions on compliance findings.

Applicable to Compliance Specialist, General Compliance

- a. Participates in the planning process for compliance testing;
- b. Conducts testing of head offices units'/branches' compliance with laws, regulations, rules and other regulatory requirements in accordance with the compliance testing plan and acts as lead compliance specialist, if necessary;
- c. Prepares and/or reviews compliance testing reports; and
- d. Monitors the taking of corrective actions on compliance findings.

Applicable to Compliance Specialist, AMLTF

- a. Consolidate the bank-wide CTRs thru the AML system; validates consolidated report against the AMLC-provided CSV Validation Program and submit the same electronically to the AMLC within the prescribed period.
- b. Coordinate with concerned bank employees in the gathering and collection of supporting documents and information to assist the AML/TF Investigations Officer in assessing if the escalated alert or red flag has reasonable basis in filing an STR.
- c. Assist in the investigation process.
- d. Assist in the preparation of investigation reports.
- e. Maintains files pertaining to the investigations conducted as well as soft copies of CTRs and STRs submitted to AMLC.
- f. Log, monitor and updates the (1) CTR Transmission, (2) Investigation and (3) STR registry.
- g. Assist the AML/TF Reports Officer in the timely monitoring of red flags.
- h. Assist the AML/TF Reports Office in the preparation and/or filing of Suspicious timely monitoring of red flags.

Applicable to Compliance Specialist, FATCA

- a. Assists the Responsible Officer in ensuring the establishment of compliance program that includes policies, procedures and processes sufficient to comply with FATCA rules;
- b. Facilitate the submission of the required periodic certifications required by the IRS or to the Bureau of Internal Revenue (BIR) in coordination with BOCG;
- c. Assists the Responsible Officer in responding to Internal Revenue Services (IRS) inquiries; and

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- d. Assists the Responsible Officer in providing the Board of Directors and Senior Management with periodic report on status of Bank's compliance with the FATCA regulations.

3.10. Duties and Responsibilities of the Compliance Coordinator

- a. Assists the Chief Compliance Officer in the implementation of the Compliance Manual in their respective units;
- b. Assists the Chief Compliance Officer in the dissemination of laws, regulations, rules, standards and other regulatory requirements in their respective units;
- c. Reviews, assesses and performs testing of the respective unit's compliance to laws, regulations, rules and other regulatory requirements;
- d. Submit duly-approved findings to the Compliance Office through the Compliance Coordinators Reporting System (CCRS);
- e. Conducts and/or monitors the taking of corrective actions on compliance findings;
- f. Provides an active advisory service to the personnel in their respective unit pertaining to laws, regulations, rules, standards and other regulatory requirements;
- g. Develops relationship with other Compliance Coordinators; and
- h. Promotes best practices.

3.11. Roles of Officers and Staff of the Bank

Compliance risk management is the "responsibility and shared accountability of all staff, officers and board of directors."² Hence, the responsibility for ensuring compliance with laws, rules and standards within the unit rests with the line manager, his officers and staff. Each personnel shall perform his roles to achieve full compliance of the unit.

² Per Section X180 of the MORB

1. Each employee is personally responsible for familiarizing one's self with all the laws, regulations, rules and standards applicable/related to his work assignment. Thus, he shall be provided with a copy all the laws, regulations, rules and standards that govern the transactions of his unit. For this purpose, the Bank shall make a library of these laws, regulations, rules and standards through web-server for easy and wider access. He shall likewise be given sufficient training on all areas of operations within his unit to enable him to perform his assigned tasks and contribute to the overall compliance of the Bank;
2. Performance in compliance function is included in the Performance Evaluation Report. Thus, any show cause order issued by the Compliance Office to any officer and/or staff for violations of this Compliance Manual shall be considered by the Human Resource Group in assessing the overall performance of said officer and staff.

4. Compliance Charter

The Compliance Charter (**Annex 1**) sets forth the guiding principles in the management of Compliance Function in Philippine Business Bank, Inc. (PBB). The Bank and its Board of Directors, Officers and Staff are committed in ensuring that business activities shall be conducted in accordance with all applicable laws, rules and regulations and high ethical standards.

B. Compliance Program

1. Identification of compliance risks.

Compliance Office identifies the compliance risks that each operating unit is faced with as well as the necessary measures to mitigate the effect of such risks to the Bank.

Compliance risk is defined as a risk that may erode the franchise value of the Bank as a result of its failure to comply with the laws, rules, related self-regulatory organization standards and codes of conducts or inability to manage conflict of interest, treat customers fairly and/or money laundering and terrorist financing activities.

For this purpose Compliance Office shall provide all operating and other concerned units with the list of laws, rules, regulations and practices that are applicable to their respective operations for their guidance. This list shall be officially called Form 1 – Compliance Risk Assessment Matrix (**Annexes 2A to 2X**). This Form 1 shall also serve as working paper of

the Compliance Coordinators and the Compliance Office when conducting compliance testing procedures.

Initially, the Bank has identified its compliance risks as follows:

- a. Operational Risk – is the risk of loss resulting from inadequate or failed internal processes, people or from external events. This risk also includes the IT and Information Security risk which is associated with the use, ownership, operation, involvement, influence and adoption of Information Technology within an enterprise or organization.

If not properly managed, operational risk may result to internal/external fraud, violations on employment practices and workplace safety, damage to physical assets, business disruption and systems failures, leak of sensitive or confidential information and errors in the execution, delivery and process management.

- b. Money laundering and/or terrorist financing risk – is the risk associated with the violations of the Anti-Money Laundering Act (AMLA) and/or combating financing of terrorism. Exposure to this risk may result to material monetary sanctions/penalties, imprisonment of personnel and criminal liability on the Bank's directors or trustees.
- c. Credit Risk – is the risk of default on a debt due to borrower's failure (inability or unwillingness) to make required payments. Aside from the impact on the Bank's earnings and capital on the defaulted debts, exposure on credit risk also results to the disruption of the Bank's cash flows and increased collection costs.
- d. Market Risk – is the risk of loss in on and off balance-sheet positions arising from adverse movements in the market prices of the Bank's investments. These losses, if not properly managed, exposes the Bank to not meeting its set target income and financial loss due to decrease in the value of its investments.
- e. Pre-Settlement Risk – is the risk that one party of a contract will fail to meet the terms of the contract and default before the contract's settlement date. Exposure on this type of risk can lead to additional cost on the replacement of securities or currencies and failure by the Bank to meet its contractual obligation to other parties.

- f. Liquidity Risk – is the risk that the Bank could not meet its short-term debt obligations or cater the client’s demand for withdrawals as a result of the Bank’s inability to properly manage its cash flows and have adequate available alternative fund sources. Exposure of the Bank to this risk may result to higher costs (due to penalties and interest) and bank run.
- g. Interest Rate Risk – is the risk that investment value will change due to a change in the absolute level of interest rate in the spread between two rates in the shape of the yield curve or in any other interest rate relationship. If not properly managed, it may result to assets and liabilities mismatched (e.g. interest rate expense is higher than interest income) and financial loss due to decrease in the value of the Bank’s investments.
- h. Strategic Risk – is the risk of failure to develop, implement and monitor institutional strategies and direction due to poor business decisions, substandard execution of decisions, inadequate resource allocations and failure to respond well to changes in the business environment. Aside from its effect on the earnings of the Bank, this risk also exposes the Bank’s overall viability and growth prospects.
- i. Reputational/Consumer Protection Risk – is a risk resulting from negative publicity, misdeeds of personnel, internal or external failures, legal action from clients/counterparties and regulatory sanctions. If not properly managed, exposure on this risk may lead to loss of client confidence or difficulty in convincing clients or prospective clients to avail the Bank’s products or continue doing business with the Bank.
- j. Legal Risk/Risk on Regulatory Sanction – is the risk of the Bank to reputational or financial loss (cost of lawsuits and other legal proceedings) resulting from its non-awareness or misunderstanding on the way the banking or corporate laws should be applied.

Risk on regulatory sanction is the exposure of the Bank to regulatory fines, sanctions and penalties caused by its non-compliance with the regulator’s mandated rules, regulations, practices and standards.

2. Assessment of risks

After the identification of the relevant laws, regulations, rules and standards and the compliance risks (**Annex 2Y**) to which the different units are exposed to, the risks of non-compliance shall be assessed as follows:

RISK LEVELS

a. High Risk

- i. Strong concern, even one exception is vital, that should be acted upon immediately;
- ii. Unsound and unsafe banking practices that may result in material loss or damage, or abnormal risk or danger to the safety, stability, liquidity or solvency of the Bank, to the depositors, creditors, investors, stockholders or to BSP;
- iii. Those, which may be classified as major offenses by BSP;
- iv. Ceiling or limitations on any asset, liability and capital account affecting solvency, liquidity, profitability and capital adequacy and other statutory requirements;
- v. Transactions subject to severe administrative and substantial financial sanctions (may involve denial of BSP credit facilities, prohibition from making new loans/investments, declaring cash dividends, suspension from opening of new branches, other non-monetary sanctions and severe sanctions such as imprisonment of the directors/officers, among others); or
- vi. Category A Reports.

b. Low Risk

- i. Limited or little concern but should be acted upon soonest;
- ii. Procedural lapses that can be remedied immediately and do not have material impact on the solvency, liquidity and profitability of the Bank and with lesser financial and administrative sanctions;

- iii. Category B Reports;
- iv. Submission of other reports to BSP, PDIC, etc. other than those categorized above;
or
- v. Those, which after assessment, are not classified as High Risk.

A list of sanctions/penalties on identified specific provisions of relevant laws, regulations, rules and standards is prepared for this purpose (**Annex 3**).

3. Periodic compliance testing and reporting of exceptions

- a. A compliance-testing process is adopted in each unit. The Compliance Coordinator conducts testing of transactions/processes to determine observance and compliance with specific provisions of the laws, regulations, rules and standards, including the AMLA, as amended, its RIRR, and the UARR.

The compliance testing process shall also include testing of reports prepared by all units of the Bank, including those submitted to the BSP and AMLC to determine and ensure integrity and accuracy of such reports.

If no exception is noted, a Certification (*sample format - Annex 4*) jointly signed by the Compliance Coordinator and the Unit/Branch Head to the effect that the applicable laws, regulations, rules and standards are complied with, shall be submitted to Compliance Office every end of quarter.

- b. Exceptions or violations shall be referred to the concerned officer and/or Unit/Branch Head for justification and/or resolution. A Compliance Testing Report (**Annex 5**) shall be prepared monthly on unresolved findings with corresponding justification and/or corrective actions taken or to be taken to prevent recurrence. This shall be signed jointly by the Compliance Coordinator and the Branch/Unit Head.
- c. Submission of Annexes 4 and 5 to the Compliance Office shall be through the Compliance Coordinators Reporting System (CCRS). See **Annex 6** for the guidelines. In the case of branches, Region Heads shall have access to the System for monitoring purposes.
- d. The Internal Audit Center shall validate the findings contained in the submitted Compliance Testing Reports during the conduct of regular audit. Thus, validation of the Compliance Testing Reports shall be part of the Bank's Audit program.

- e. Whenever necessary, the Compliance Office may conduct its own compliance validation, such as when the Internal Audit Center cannot immediately conduct its regular audit due to current audit engagements/loads.

The Compliance Office shall also conduct its own independent compliance testing on pre-selected branches/units to determine their observance and compliance with specific provisions of the laws, regulations, rules and standards, including the AMLA, as amended, its RIRR, and the UARR.

- f. Compliance Testing Reports, Internal Audit Reports and BSP Reports of Examination shall be reviewed by the Compliance Office. Corrective actions shall be coordinated with units concerned and continuously monitored.
- g. The Board of Directors and/or Audit Committee shall be advised by the Senior Management through the Compliance Office, on a regular basis of any material breaches on the Compliance Program, laws, regulations, rules and standards and/or the general status of the Bank's level of compliance therewith (*quarterly report format – Annex 7*).

4. Annual updating

- a. The Compliance Program shall be reviewed and updated annually.
- b. The annual updating process takes into consideration, among others, new laws, regulations, rules and standards and updates, if any, and shall be the basis in the prioritization of compliance/business risks and corresponding testing procedures and frequency.

5. Approval

The Compliance Office shall submit to the President the Compliance Manual for review and pre-clearance and to the Internal Audit Committee for endorsement to the Board of Directors for approval. Thereafter, a certification shall be executed by the President and Chief Compliance Officer and submitted to the appropriate BSP Supervision and Examination Department within the period prescribed by regulations. A copy of the Compliance Manual shall likewise be submitted to the SEC.

Amendments to the Manual shall have the same approval and submission processes.

C. Relationship with Regulatory Agencies

1. Compliance Office consults the regulatory agencies for clarifications on specific provisions of laws, regulations, rules and standards and discusses compliance concerns/issues.
2. Compliance Office coordinates the BSP findings contained in Reports of Examination with the concerned units of the Bank and monitors the taking of corrective actions thereon through the Compliance Coordinators.

D. Compliance Training and Communication Process

1. This Revised Compliance Manual shall be discussed with all employees through meetings and/or trainings and to the new employees during the New Employees Orientation Course as well as the participants of the Supervisory/Officers Development Program to increase level of awareness.
2. On an on-going basis, Compliance Coordinators and concerned personnel shall be oriented through periodic meetings or briefings and training sessions on existing or on any new development in the regulatory environment. The Compliance Coordinators, in turn, give briefings to the personnel of their respective units. Attendance rosters are monitored periodically to ensure proper participation.
3. Regulatory requirements as well as new/changes in laws, regulations and rules shall be disseminated to all units' Compliance Coordinators, officers and staff either through e-mail or timely distribution of copies of these regulatory issuances and other reference materials.
4. A clear and open communication channel shall be maintained starting from the Board of Directors and the Audit Committee to the Senior Management, Junior Officers, Compliance Coordinators and all other personnel.

The communication shall flow downward to the organization when disseminating compliance information and upward when elevating compliance issues or concerns.

5. A Compliance Library, which shall serve as a repository of all relevant banking and corporate laws, regulations, rules and standards shall be maintained by Compliance Office through the Bank's Website to ensure its availability and easy access to the widest extent in the organization.

6. All written communications to and from regulatory agencies shall be handled and monitored by Compliance Office.

E. Monitoring and Assessment

1. The Compliance Manual shall be monitored and assessed by Compliance Office in consultation with the Compliance Coordinators, on a regular basis to ensure that an effective compliance system is in place at all times. The Compliance Risk Assessment Matrix and various reports (Exception Report, BSP ROE and Audit Report) shall be used for this purpose.
2. Depending on the seriousness or importance of the laws, regulations, rules and standards being tested, the risk level and corresponding testing frequency shall be determined. Among the factors to consider include but not limited to importance given by the regulators, degree of sanctions and general view or position of the banking industry.
3. Compliance findings shall be referred to the concerned officer and/or Unit/Branch Head for justification and/or appropriate corrective actions. A compliance testing report jointly signed by the Compliance Coordinator and Unit/Branch Head shall be submitted monthly to respective Area Heads and Group Heads with copy thereof to be furnished to BBG and Compliance Office (for branches) and Compliance Office (for Head Office Units).
4. Internal Audit Center shall include in its regular audit program the test-checking of findings contained in the submitted Compliance Testing Reports.
5. Compliance Office shall:
 - a. Coordinate with units concerned through the Compliance Coordinators the implementation of new laws and regulations or updating and revisions to existing policies due to changes in regulations.
 - b. Perform periodic assessment/review of identified risk areas, selected regulatory reports and established compliance-related policies and procedures and coordinates results with concerned units for correction/amendment.
 - c. Review the BSP ROE, MB Directives, Compliance Testing Reports and Audit Reports and coordinates to the concerned unit the steps/actions taken or to be taken to correct the violations noted and to prevent recurrence thereof.

- d. Whenever necessary, conduct its own compliance validation, such as when the Internal Audit Center cannot immediately conduct regular audit to validate the findings contained in the Compliance Testing Report due to current audit engagements/loads.
- e. Also conduct its own independent compliance testing on pre-selected branches/units to determine their observance and compliance with specific provisions of the laws, regulations, rules and standards, including the AMLA, as amended, its RIRR, and the UARR and shall be guided by the Compliance Testing Guidelines as shown in **Annex 8**;

F. POLICIES AND PROCEDURES

1. Identifying the basic banking and corporate laws, regulations, rules and standards that the Bank and its employees are required to observe/comply.
2. Disseminating regulatory requirements as well as new/changes in laws, regulations and rules to all concerned units' Compliance Coordinators, officers and staff either thru e-mail or timely distribution of copies of these regulatory issuances and other reference materials.
3. Maintaining a Compliance Library, which shall serve as repository of all relevant banking and corporate laws, regulations, rules and standards. The Bank's WebServer shall be used for this purpose to ensure its availability and easy access to the widest extent in the organization.
4. Acting as the liaison for regulatory agencies and chief compliance officers of other banks and as such, shall act as the recipient of all correspondences. All written communications to and from regulatory agencies shall be handled and monitored by Compliance Office.
5. Providing assistance in the preparation of responses to correspondences and monitors the prompt submission to the regulatory agencies.
6. Coordinating with units concerned the implementation of new laws and regulations or updating and revisions to existing policies due to changes in regulations.
7. Consulting with the regulatory agencies to clarify on specific provisions of laws, regulations, rules and standards.
8. Ensures timely and accurate documentary submissions to the regulators.

PROCEDURES:

- a. Identification of banking laws, regulations, rules and standards.

The General Compliance Unit of the Compliance Office shall prepare a detailed list of banking/corporate laws, regulations, rules and standards that are applicable for each unit of the Bank which shall be part of this Manual for easy reference (see Annexes 2A - 2X).

- b. Dissemination of New Regulatory Issuances.

- i. New regulatory issuances/banking and other laws applicable to the Bank shall be downloaded by a Compliance Specialist of the General Compliance Unit from the regulators' website.
- ii. The Compliance Specialist shall check the BSP's and other regulators' website daily for new postings of Circulars and Memoranda for downloading and printing.
- iii. The downloaded regulations/laws shall be disseminated immediately to all units of the Bank via e-mail through the designated Compliance Coordinator, if any, or the Unit Head, if none, and immediately uploaded to the Compliance Library. The e-mail shall contain at least the following:

- Regulatory Issuance number
- Subject
- Date of the memo
- Level of Importance
- Date of Issue
- Summary
- Deliverables
- Affected Units

- c. Updating of Compliance Library.

The designated Compliance specialist shall immediately upload the new regulatory issuances downloaded from the regulator's website to keep the Compliance Library updated.

- d. The Compliance Office shall liaise with the regulators for and in behalf of the Bank. The Chief Compliance Officer shall be designated as one of the recipients of electronic and regular correspondences from the regulators, particularly from the Bangko Sentral Ng Pilipinas (BSP).
- e. As liaison office, the Compliance Office shall provide assistance in the drafting of replies to correspondences received from the regulators to ensure appropriateness.
- f. Compliance Office shall ensure proper implementation of new regulations that are applicable to the Bank. Hence, it shall coordinate with the concerned units (including the Systems and Methods Center) for the drafting of the implementing guidelines, if necessary.
- g. The Compliance may occasionally confer with the regulators for the proper interpretation of a new or existing regulation. For this purpose, the Chief Compliance Officer may draft and sign the letter. An inquiry may also be in the form of an electronic mail.
- h. The Compliance Office shall monitor prompt submission of replies/reports and other documents to the regulatory agencies. Sends e-mail-reminder through the Regulatory Reports Monitoring System (RRMS)³ based on the call dates shown in **Annex 9**.

Procedure

Concerned Personnel

- i. Coordinates with his/her Unit Head the e-mail reminder he/she received through the RRMS on the report or letter-reply due for submission to the regulatory agency as stated in the e-mail.
- ii. Provides copy of the proof of receipt of the report/letter-reply submitted to the regulatory agency to the Compliance Office on the following banking day after submission.

³ The RRMS shall be covered by a separate implementing guidelines. (See **Annex 13**)

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Unit Head

- i. Instructs the concerned personnel to ensure the report/letter-reply due for submission is prepared and submitted to the concerned regulatory agency within the prescribed timeline.
- ii. Ensures copy of the proof of receipt of the report/s/letter-reply is provided to the Compliance Office to avoid follow-up.

Concerned Personnel

- i. Prepares/drafts the report/reply to regulatory letter for review and approval by the designated reviewing officer and the Unit Head, respectively.
- ii. Submits reports to the intended receiving regulatory agencies in accordance with the deadlines as shown in **Annex 9**; have the letters-reply delivered to the intended recipients via courier or in-house messenger.

9. Periodic Compliance Testing and Reporting of Exceptions

POLICY GUIDELINES:

- a. Based on the Compliance/Business Risk Assessment Matrix (Form 1), the Compliance Coordinator conducts testing of transactions/processes to determine observance and compliance to specific provisions of the laws, regulations, rules and standards. Compliance testing and reporting procedures and guidelines are shown in **Annex 10**.
- b. The Compliance/Business Risk Assessment Matrices and the guidelines/procedures shall be updated and/or revised annually to include new laws, rules regulations and standards/business risks.
- c. Compliance findings are referred to the concerned officer for justification and/or resolution. A Compliance Testing Report (**Annex 5**) is prepared monthly on unresolved findings with corresponding justification and/or corrective actions to be taken to prevent recurrence. This is jointly signed by the Compliance Coordinator and the Branch/Unit Head.
- d. Submission of Annex 5 to the Compliance Office shall be through the Compliance Coordinators Reporting System (CCRS). In the case of branches, Region Heads shall have access to the System for monitoring purposes.

- e. Validation of findings noted by the Compliance Coordinators is part of the Bank's Audit Program. Internal Audit Center tests-check the findings contained in the submitted Compliance Testing Reports during the regular audit.
- f. Compliance Office reviews the Compliance Testing Reports. Corrective actions are coordinated with units concerned and continuously monitored (**Monitoring Sheet Format – Annex 11**).
- g. A Certification (**Annex 4**), jointly signed with the Unit/Branch Head, to the effect that the applicable laws, regulations, etc. are complied with, is submitted to Compliance Office every end of quarter through the CCRS.
- h. As part of compliance testing procedures, Compliance Office prepares the Statutory Requirement Report (**Sample Report Format - Annex 7B**) on a quarterly basis. This covers ceilings or limitations on asset, liability and capital accounts and other statutory requirements to support the general status on compliance report submitted to the Audit Committee under Annex 7A of this Manual.
- i. The Board of Directors and/or the Audit Committee are advised of any material breach of the Compliance Program, laws, rules and regulations and the corrective actions taken thereon, on a regular basis using the report format shown in **Annex 7A**.

PROCEDURES:

- a. Compliance Coordinator
 - i. Conducts testing of transactions/processes to determine observance and compliance to specific provisions of the laws, regulations, rules and standards.
 - ii. Refers compliance findings to the concerned officer for justification and/or resolution and elevation to Unit/Branch Head.
 - iii. Prepares a monthly Compliance Testing Report on unresolved findings with corresponding justification and/or corrective actions to be taken to prevent recurrence. This is signed by the Compliance Coordinator and the Unit/Branch Head and submitted to respective Area/Group Heads, with copy thereof to be furnished to BBG and Compliance Office (for Branches) and Compliance Office (for Head Office Units).

- iv. Prepares a Certification, jointly signed with the Unit/Branch Head, to the effect that the applicable laws, regulations, rules and practices are complied with, for submission to the Compliance Office every end of quarter.

b. Internal Audit

- i. Internal Audit Center validates the findings contained in the submitted Compliance Testing Reports during the conduct of regular audit.
- ii. Compliance Office-Compliance Function

Monitors submission, checks and reviews Compliance Testing Reports submitted monthly.

- Coordinates and monitors corrective actions with units concerned.
- Reviews the quarterly Statutory Requirement prepared by the Compliance Office.
- Advises the Board of Directors and/or Audit Committee of any material breaches of the Compliance Program, laws, regulations, rules and standards and the corrective actions taken or to be taken, on a regular basis. A copy of such report shall be furnished to the Senior Management for their information and appropriate action.

10. Penalty/Performance Rating

Bank officers and employees, responsible for non-compliance with any of the provisions of this Compliance Manual will be sanctioned in accordance with the Bank's Code of Conduct, particularly Article VIII, Section 7. Compliance Coordinators who failed to report material breaches of laws, regulations, rules and standards shall also be sanctioned under the above provision of the Bank's Code of Conduct.

Notwithstanding the above-cited penalty provision, compliance with this Manual shall also form part of the employee's performance rating.