



PNB

You first.



Eight Elements of PNB Effective Compliance Framework

AGENDA



1

Overview

2

8 Elements of an Effective Compliance Framework

- Executive Level Oversight
- Compliance Structure
- Policies and Procedures
- Monitoring and Assessment
- MIS and Reporting
- Training
- Compliance Testing and Review
- Working Closely with Regulators

3

Conclusion-What we did right in 2016-1H2017?

Moving Ahead thru Compliance...

Overview



- Over the past 10 years, banks has to reassess its compliance, ethics, governance & risk management practices.
- Recent cases highlights the risk of cyber-attacks to institutions worldwide
- Exposed the need to strengthen the nation's anti-money laundering law
- However it is more important for financial institutions to bolster there compliance framework, ethics and corporate governance.



I. Executive Level Oversight

I. Executive Level Oversight



The BOARD should ensure a Compliance Program is defined for the Bank.

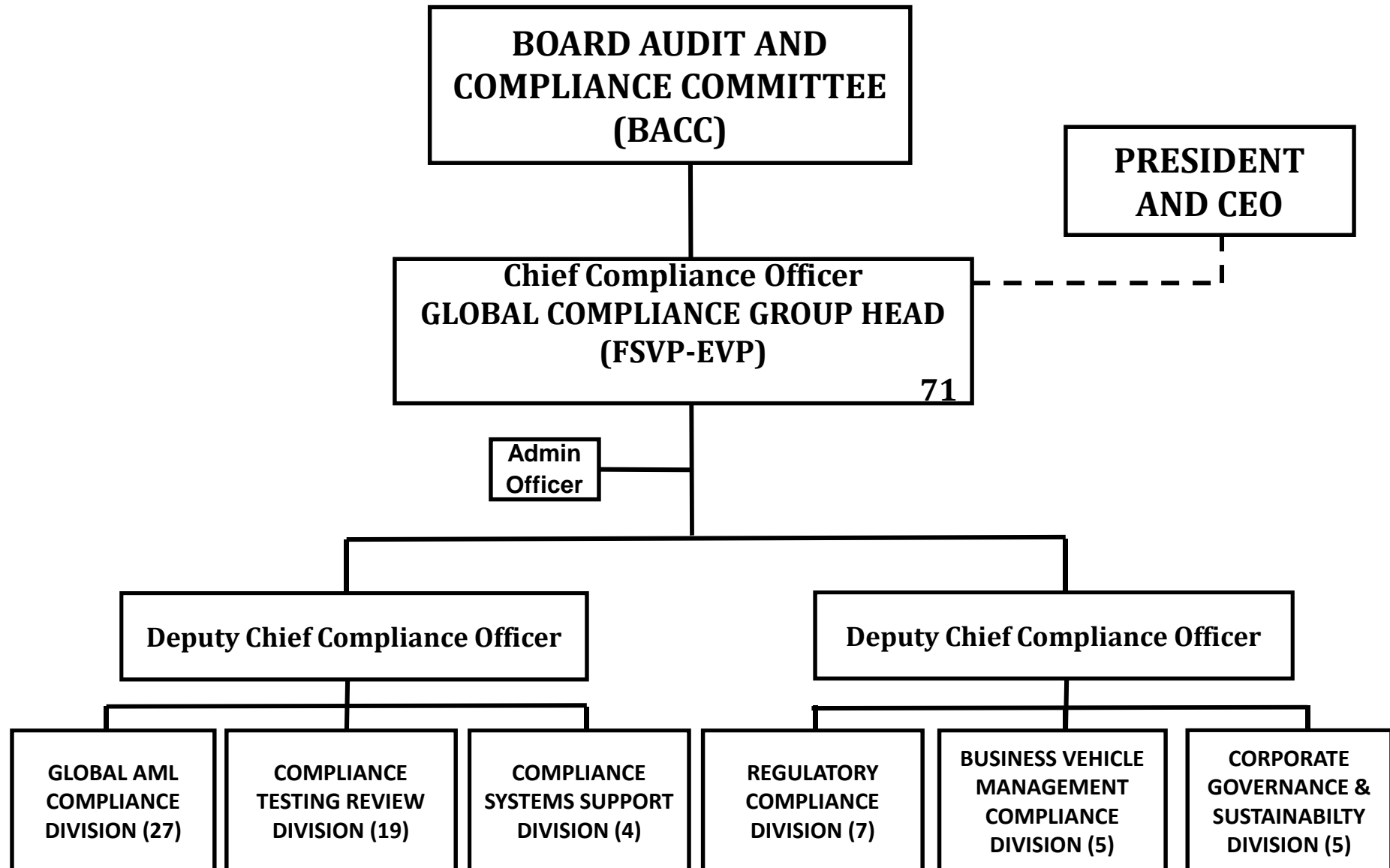


Senior Management must be responsible for establishing and ensuring that the Compliance Program is observed.



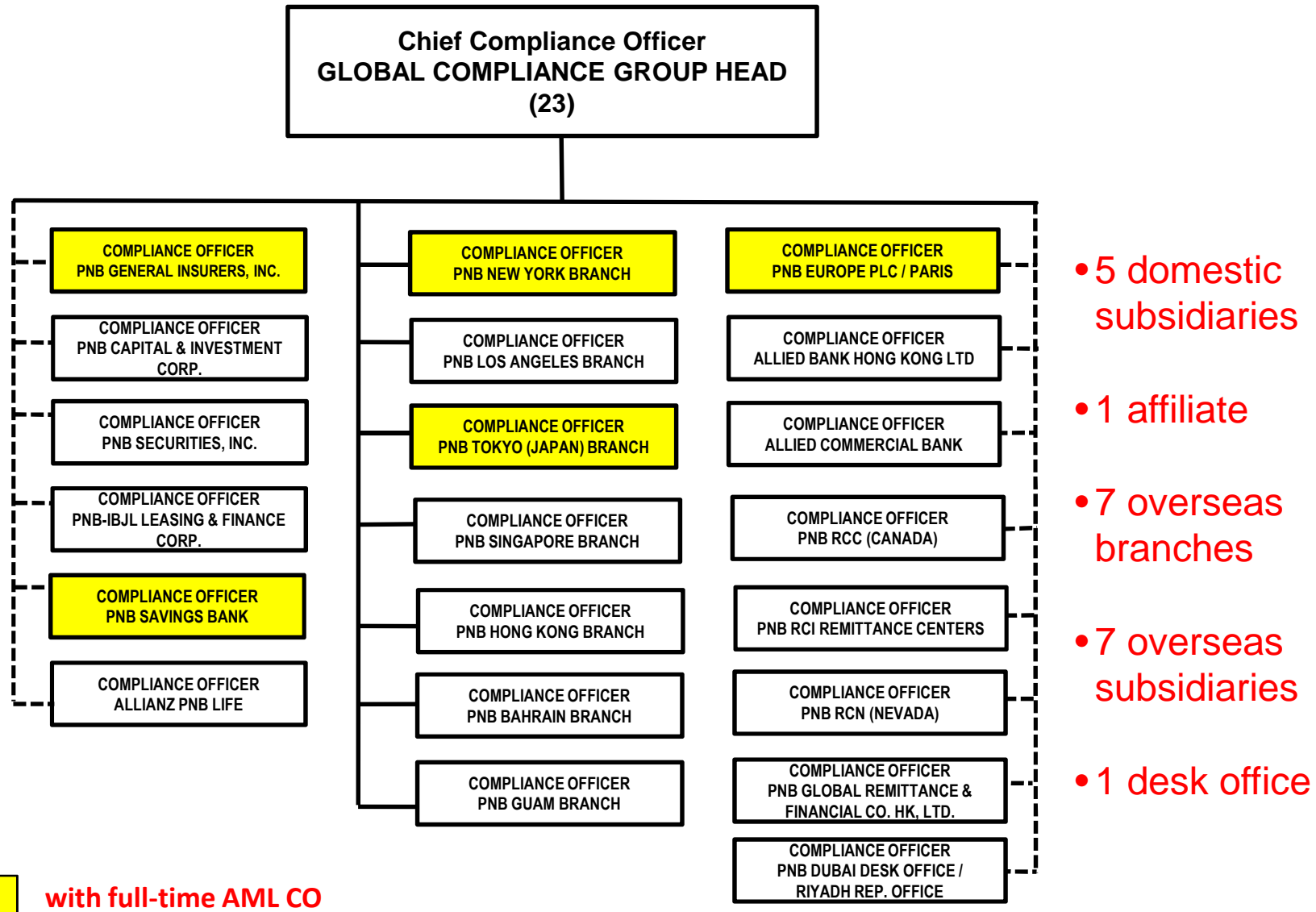
Chief Compliance Officer is the lead Senior Officer for Compliance.

Organizational Structure



Global Compliance Group

COs Direct/Matrix Reporting to CCO



II. Compliance Structure

Hierarchy of Control

"Compliance culture is embedded across all levels"



ROLE

TOOLS

Supervision & Sanctions

Exam & MB Directives

External Independent Audit

AFS & Mgmt Letter

Ultimate Oversight & Policy Approvals

**PNB Board
(15)**

Board Committee Reports/Minutes

Independent Oversight & Monitoring

**BACC, ROC, CORGOV, BORC
(4)**

Monthly Reports/
Audit Reports/MIS

Independent Group Oversight of Programs

**ARC (3)
GCG, RMG & IAG**

MIS/Bulletins/
Testing/Audit

Ultimate Line CO Seniors Directly Responsible

**Senior Management Team
(24)**

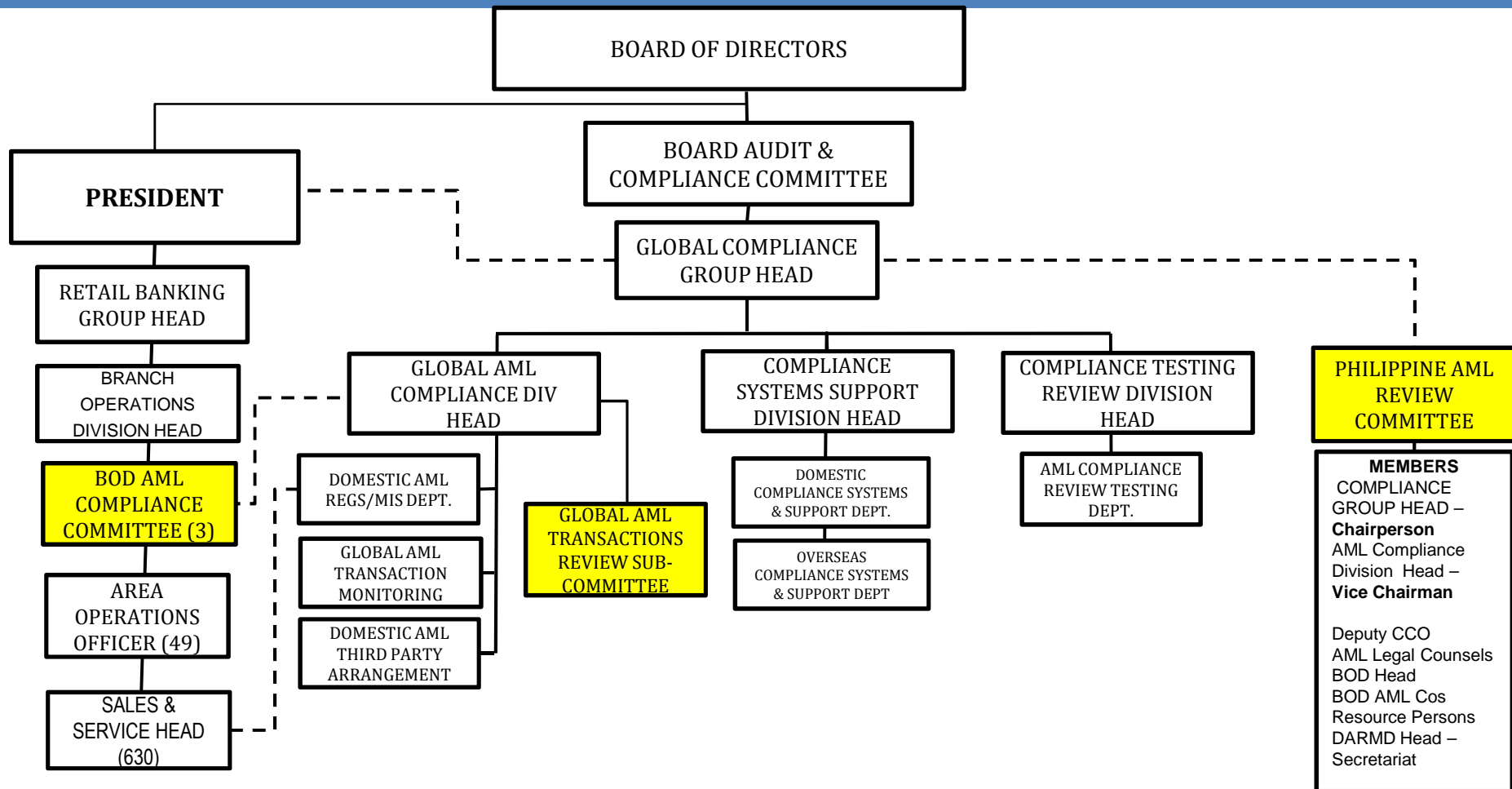
Approval of Quarterly Certifications & Regulatory Reports

Line CO Partners Assess, Monitor & Escalate: QC Preparation

**Compliance Officer /Compliance Designate (743)
Management Compliance Committees (5)**

Daily/Weekly MIS & Monthly Committee Minutes

AML Compliance Framework Management Committees



The Bank has Management Compliance Committees for complex units that require closer supervision. (eg. Branch Operations Division AML Compliance Committee, Philippine AML Review Committee, Global AML Transactions Review Sub-Committee)

III. Policies and Procedures

Policies and Procedures



- The Bank should have **updated policies and procedures** embracing the compliance framework, the corporate governance guidelines, including new, existing and changes in the laws, rules and regulations issued by regulators.
- Policies and procedures can be in the form of:



Compliance Manuals

- Provide compliance framework used as reference by Bank employees
- Include Compliance Programs: AML/CFT, MLPP, RPT, Corporate Governance, AML Cybercrime, 3rd Party Remittance Arrangement, FATCA, Consumer Protection,



Compliance Bulletins

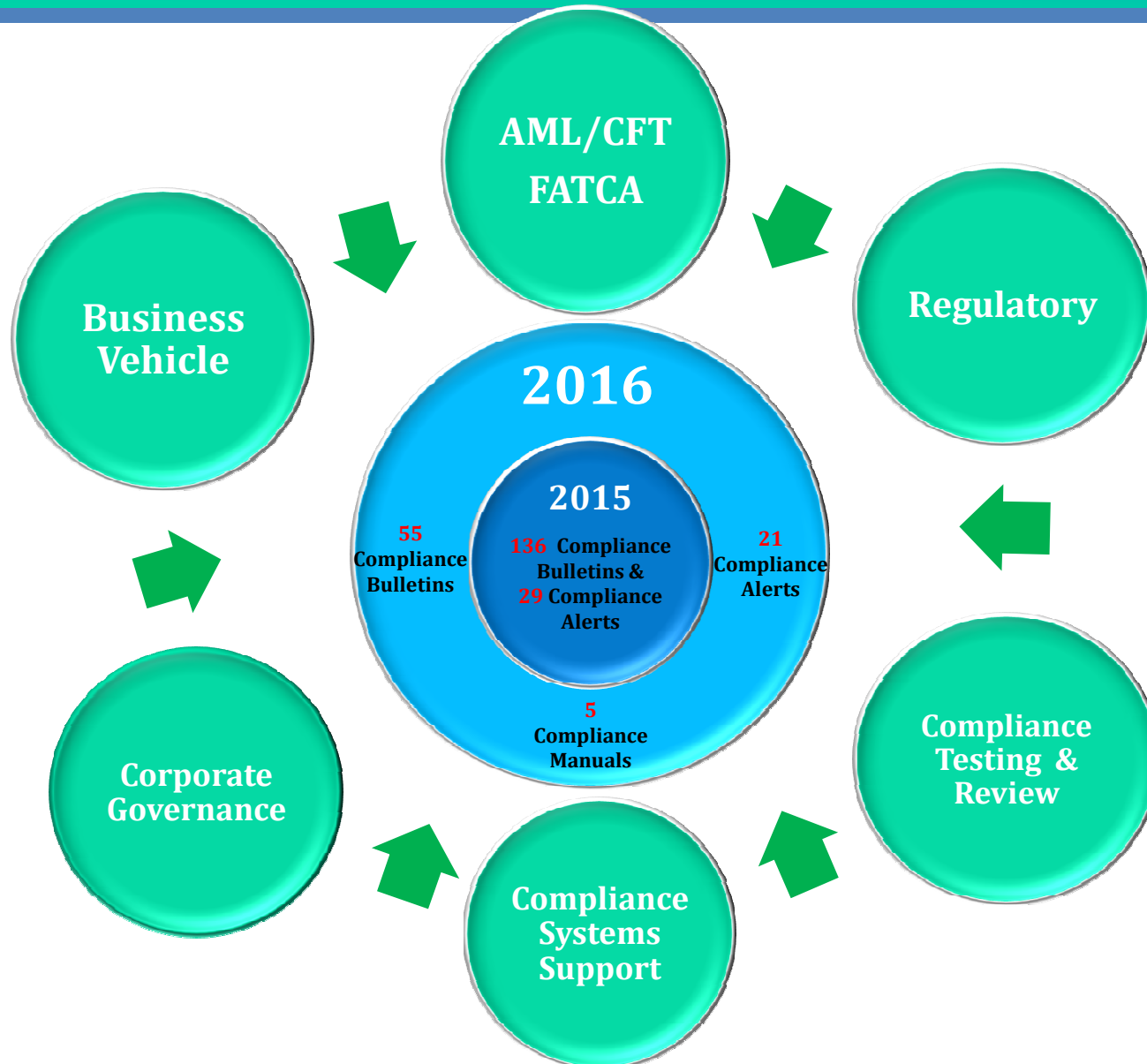
- Issued on interim basis to cover new laws, rules and regulations, IRRs, policies and procedures and updated corporate standards



Compliance Alerts

- Advisories to restrain and caution bank units regarding individuals and entities subject of regulatory investigation and/or sanction.

Compliance Bulletins and Alerts

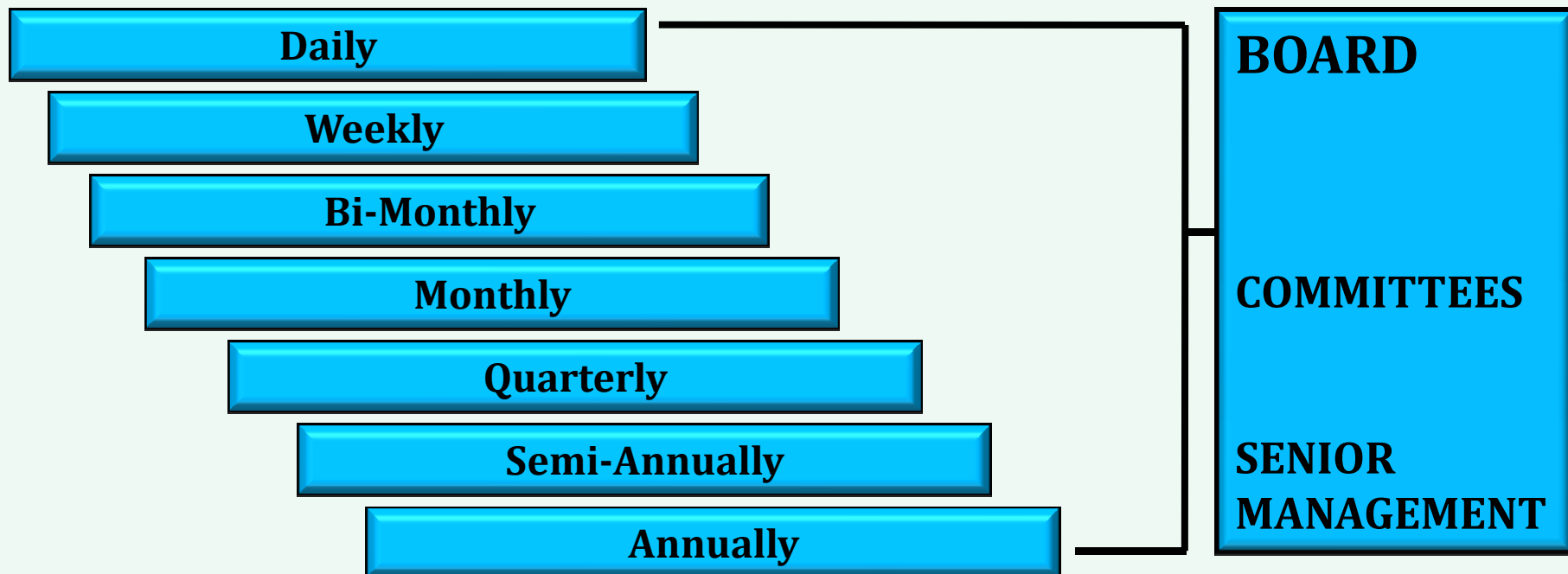


IV. MIS and Reporting

Banks must design regular reports to ensure tracking of:

- 1) critical issues and management concerns,
- 2) corrective actions are complete and timely; and
- 3) accurate flow of information among different units, branches and legal entities

Frequency of Reports



MIS and Reporting



Frequency	Report Type
Daily	<ol style="list-style-type: none">1. CIF Management Deficiency Report2. Run-to-Run System Control Totals3. Daily National News Alert4. Large Transaction Report5. Covered Transaction Report6. CTR Exception Report7. Incoming Remittances from Swift MT103 tiered threshold
Weekly	<ol style="list-style-type: none">1. Compliance Officers' Production Report2. Phil AML Review Committee Meeting3. Transaction Monitoring (Profiles) Reviews and EDDs4. AML Review of CTRs and STRs5. New Regulations notifications to Group Heads/Directors6. Overseas Offices Conference Calls
Bi-Monthly	<ol style="list-style-type: none">1. STR Reviews2. AML transaction monitoring reports

MIS and Reporting



Frequency	Report Type
Monthly	<ol style="list-style-type: none">1. Compliance Package to BACC/Board2. CTR – STR Analysis Review3. Philippine AML Review Committee4. Status of Freeze Orders5. AMLC Requests for KYC Documents/Transaction Records6. Compliance Awareness and AML Training Program7. Compliance Bulletins Issued8. FATCA Activities and Updates9. Domestic AML Transaction Profiles Review Reports10. Compliance Committee Meeting Highlights (Overseas Offices)11. Compliance Systems Projects and Monitoring Reports12. Compliance Testing Review Reports – Domestic and Overseas13. AML Cases Special Report14. Regulatory Examination Progress Reports15. External Auditor Reports16. Regulatory Compliance Reports17. Business Vehicle Compliance Meetings/Conference Calls

MIS and Reporting



Frequency	Report Type
Quarterly	<ol style="list-style-type: none">1. AML Risk Assessment2. AML Compliance Certification3. Regulatory Compliance Certification and CCSAs4. OFAC-SDN File Matching Report5. High Risk Customers Accounts and Transaction Review6. PEP Accounts and Transaction Review
Semi-Annual	<ol style="list-style-type: none">1. AML Monitoring Profiles Review2. CTR Testings3. RCL-STR Review
Annual	<ol style="list-style-type: none">1. AML/CFT Policy Guidelines and MLPP Manuals2. FATCA Compliance Manual3. RPT Compliance Manual4. Corporate Governance Manual5. Third-Party Remittance Arrangement Manual6. AML Cybercrime Compliance Manual7. Consumer Protection Compliance Program8. Remittance Agents Compliance Program9. AML Risk Assessment by Legal Vehicle10. Compliance Testing Review Schedule11. AML Training Plan12. Global Compliance Group Accomplishment Report

V. Monitoring and Assessment

Monitoring and Assessment



The Bank should have **continuous monitoring** and **assessment** of the compliance program.

The Bank must have a **strategic compliance plan** with the objective to:

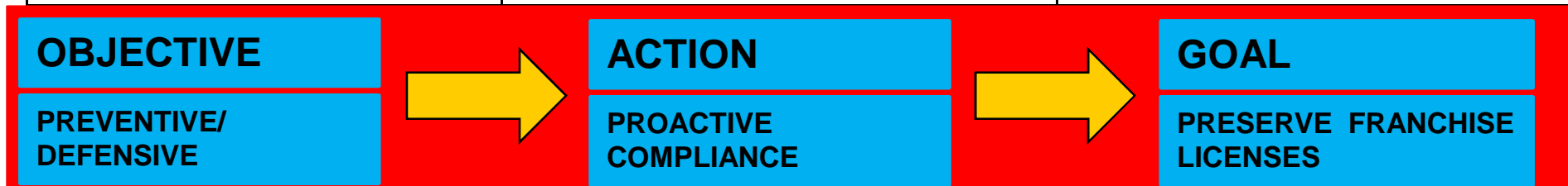
- sustain & upgrade existing policies/procedures and practices
- take proactive actions by strengthening succession planning, risk rating systems compliance test scripts & AML investigation processes
- with the ultimate goal **to preserve franchise licenses** achieved through standardization of manuals, compliance testing programs and compliance package across all businesses.



Three-Year Compliance Strategic Plan



Y1	Y2	Y3
<u>SUSTAIN / UPGRADE</u>	<u>STRENGTHEN</u>	<u>STANDARDIZE</u>
Manuals	Succession Planning	Manuals across businesses
Compliance Bulletins	Compliance Training Programs	Compliance Testing programs
AML , CorGov, Compliance & Control Risk Assessment	Risk Rating Systems	Compliance & AML Package per entity / branch
Certification Process / Self-Assessment Programs	Compliance Test Scripts / Methodology	Automation of Compliance Testing Programs
AML Transaction Monitoring Policies and Procedures	AML Investigation Processes	CTR/STR/MIS Report format across businesses
AML Electronic Monitoring Interface data controls	Full automation of AML Monitoring Interface	AML Electronic Monitoring parameters across businesses



VI. Training

Training



- A successful framework involves the training of staff **at all levels and across departments and Board** to maintain a sound compliance program.
- The bank should make all personnel aware of the banking laws and regulations that affect their areas of responsibilities and should provide training regarding bank's policies and procedures for those areas.
- Training could be primarily in the form of formal lectures or classroom training, briefings, customized modules or focused workshops/sessions or survey questionnaires or web-based.
- New hires are required to attend Compliance Awareness and AML Training prior to assumption of duties while existing employees are required to attend periodic AML continuing education and compliance partnership training programs.



VII. Compliance Testing and Review

Compliance Testing and Review



- **Independent testing** should be conducted to verify that compliance-risk mitigation controls are in place and functioning as intended throughout the organization.
- In conducting a compliance review and testing, **consideration should be given to issues such as:**
 - potential exposure to regulatory penalties
 - internal & external audit examination findings
 - compliance testing and review results
 - new laws and amendments to regulations
 - other areas that require focus to include personnel turnover, operational processes, system enhancements, new product offerings, and recent market developments
- Independent reviewers of the Bank are **Compliance Group, Risk Management Group and Internal Audit Group.**



Compliance vs. Risk vs. Internal Audit



Compliance Program	Risk Program	Internal Audit Program
<i>Chief Compliance Officer (CCO)</i>	<i>Chief Risk Officer (CRO)</i>	<i>Chief Audit Executive (CAE)</i>
<p>Mitigates business risk that may erode the franchise value of the Bank.</p> <p>Intangible risk (risk to reputation)</p>	<p>Covers financial risks arising from balance sheet exposures of the Bank</p> <p>Tangible risk</p>	<p>Review on an ex-post basis whether prescribed guidelines of the Bank were followed in administering transactions, handling procedures, making decisions & undertaking related activities.</p>
Pro-active	Pro-active	Re-active

VIII. Working Closely with Regulators

Working Closely with Regulators



Banks are expected to always work closely with the regulators through:

- timely submission of regulatory reports
- active participation in technical working groups among regulatory bodies and banking organizations
- provide feedback on draft policies, circulars, IRRs issued by regulators
- full cooperation with enforcement regulatory bodies and government agencies for on-going investigations



The Bank must initiate new policies and procedures to align with international best practices.

What we did right?



Key Elements	2016-1 st Half 2017 Major Enhancements
Executive Level Oversight	<ul style="list-style-type: none">• Created Management Committees for complex business and support groups
Policies and Procedures	<ul style="list-style-type: none">• Developed at least 5 modified compliance programs for inherent high risk products and services
MIS and Controls	<ul style="list-style-type: none">• Prepared monthly comprehensive compliance package for Board and Senior Management• Implemented Annual Risk Assessment across business legal vehicles
Training	<ul style="list-style-type: none">• Trained Compliance Officers/Compliance Designates to be empowered to effectively carry out compliance duties and responsibilities
Compliance Reviews and Testing	<ul style="list-style-type: none">• Relied on competent and independent reviewers comprised of auditors, branch Area Operations Officers, compliance officers/compliance designates and risk overseers.
Working with Regulatory Bodies and Enforcement Agencies	<ul style="list-style-type: none">• Ensured timely submission of reports and actively participated in technical working groups among regulatory bodies and banking organizations

In Compliance, the only permanent thing is CHANGE



**Moving AHEAD
thru Compliance...**

Moving AHEAD thru Compliance



For the Bank

- PRESERVE FRANCHISE LICENSES
- Generate new business initiatives ...PROFITS
- All resources focus on revenue generating activities to become among the top profitable Bank



For the Stockholders

- Protect and increase share value
- Good corporate image of strong compliance culture



For the Customers

- Build stronger relationship
- Attract new quality customers & protect attrition of good loyal customers



For the Employees

- Belonging to the best bank



For the Regulators

- Promote best practice

Thank You!



PNB



4th Century of Excellence
1916 - 2016

You first.