



Compliance Management Framework 2020

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- Introduction

Al Khaleej Bank adopts this Compliance Manual 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 Compliance Officer a better appreciation of his role in contributing to the maintenance of a sound and stable bank.

- Concept of compliance function:

It is the unit that ensures a financial institution complies with applicable laws, regulations and rules, and it plays an essential role in helping to preserve the integrity and reputation of the bank.

The compliance department's ultimate goal is to ensure that a bank does not cross the lines drawn by legislators, regulators or its board of directors.. Common tasks include monitoring the bank's activities and controls and identifying and analyzing risk areas. This may include assessing and testing the adequacy of the bank's policies and equipment, such as security and risk assessment tools. The compliance team may also design and implement solutions to address any identified risks, develop compliance programs for new regulations, and oversee employee training programs.

- Risk of non-compliance:

Are the risks that result in some losses on the bank and result in the penalties imposed on it by the competent authorities, which reflects on its reputation as a result of its failure to adhere to the laws, regulations and behavioral and moral values that apply to all banking activities.

- Objective

To develop and implement a compliance program 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.

1/ Elements of the Compliance Program:

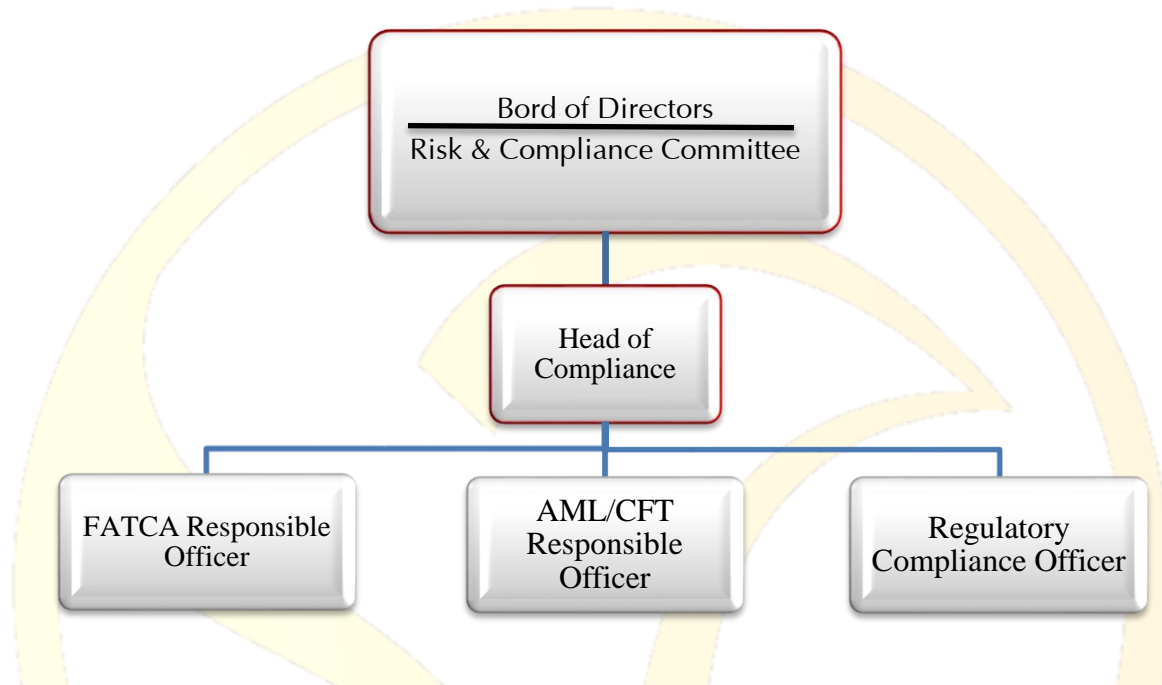
- 1) A written Compliance Manual approved by the Board of Directors that:
 - i. Reflects and describes the Compliance Program of Al Khaleej Bank that is distinct and separate from the Risk Management and Internal Audit Programs.
 - ii. Enables the Bank to identify laws, regulations, rules and standards 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 Compliance Officer, Compliance Coordinators and other personnel involved in the compliance function.
 - vii. 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.
2. A clear and open communication process within the Bank to educate/orient employees and address compliance matters.
3. Continuous monitoring and assessment of the Compliance Program.

2/ Compliance rules:

- a) The supervisory, control, monetary and regulatory systems and legislations in force on the banking system and institutions operating in the field of securities and related circulars and instructions, the application of provisions and the anti-money laundering and terrorist financing system, the counterfeiting system, instructions and instructions related to banking operations and securities.
- b) Regulations and instructions issued by the competent government agencies.

- c) Foreign Accounts Tax Compliance Act (FATCA).
- d) Basel Committee Core principles.

Compliance Organizational Structure



1. Responsibilities of the Board of Directors 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 Head of Compliance as well as the budget of the compliance function.

2. Responsibilities of the Senior Management on Compliance

The Senior Management through the Head of Compliance is responsible for:

- (i) establishing a compliance program,
- (ii) ensuring that it is adhered to,
- (iii) periodically reporting to the Risk and Compliance 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.
- (v) Assessing its effectiveness and appropriateness.

3. Compliance Function

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.

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, Risk and Compliance 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 Head of Compliance shall have the right to attend as observer any meeting as he/she deems appropriate where compliance risk exists.

c. Reporting Lines:

The Head of Compliance shall functionally and administratively be under the direct supervision of the Board of Directors (through the Risk & Compliance Committee).

d. Relationship with Other Departments of the Bank:

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

Compliance Office shall seek legal and interpretative advice from the Legal Services on banking and corporate laws compliance matters, in particular through regular bilateral meetings. As necessary, the Legal Services may arrange for consultation with external experts. The Head of Compliance 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.

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. 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. 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 through written policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
- e. Consults when necessary, with appropriate department regarding the interpretation of certain provisions of laws or regulations, and Anti-Money Laundering for the proper implementation of the requirements of the Anti-Money Laundering Act, as amended, on covered and suspicious transactions and freezing of accounts;
- f. Ensures submission of Suspicious Transaction Reports (STR) on a bank-wide basis to the FIU within the prescribed period.

- g. Conducts preliminary evaluation of suspicious transaction reports for the final determination of the grounds for reporting to the FIU, if necessary;
- h. Provides the Board and/or its appropriate committee with reports concerning the Bank's state of compliance with rules and regulations of CBOS and other regulatory bodies;
- i. Ensures dissemination of banking laws, rules and regulations; and
- j. Maintains constructive relationship with the CBOS and other regulatory agency.

4/ Duties and Responsibilities and Qualifications of the Head of Compliance

The Head of Compliance is the lead senior officer of the Bank for the purpose of administering the compliance program and interacting with CBOS, on compliance-related issues. The principal function of the Head of Compliance is to oversee, the design of the compliance risk management system, which shall contain basic elements prescribed, promote its effective implementation and address breaches that may arise. The Head of Compliance reports functionally to the Board of Directors through the Risk & Compliance Committee. He shall have the following responsibilities:

- a. Ensures that the compliance risk management system is designed to specifically identify and mitigate compliance risks,
- 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. Obtain access to information necessary to carry out its responsibilities;
 - v. 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. Direct access to the Board of Directors and to the appropriate level

Committee.

- c. Ensures that the Compliance Charter is communicated throughout the Bank;
- d. Ensures the timeliness, integrity and accuracy of all documentary submissions to the CBOS and other regulatory agencies.
- e. Manages the Compliance Program of the Bank.

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

- a. With sufficient experience in compliance or internal audit function in a senior officer capacity in a commercial bank.
- b. Has extensive knowledge in all banking operations
- c. Proficient in English writing, particularly reports, policies and procedures and manuals; and
- d. Has attended seminars and/or trainings relevant to corporate governance, compliance, risk management and internal audit functions.

5/ Duties and Responsibilities of FATCA/ responsible Officer

- f. 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.
- g. Prepares the required periodic certifications subject to the approval of the Senior Management and ensures submission to the IRS.
- h. Respond to Internal Revenue Services (IRS) inquiries; and
- i. Provides the Board of Directors and Senior Management with periodic report on status of Bank's compliance with the FATCA regulations.

6/ Duties and Responsibilities for Anti-Money Laundering and Terrorist Financing responsible Officer

- 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 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.

7/ Duties and Responsibilities Regulatory Compliance Officer

- a. 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;
- b. Ensures timely dissemination of new issuances by the CBOS, and other regulatory agencies to concerned units of the Bank.
- c. Prepares comments on the draft exposures of proposed regulations affecting corporate governance by the regulators for evaluation/review by the Head of Compliance.

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.

2. 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.

3. Approval

The Head of Compliance shall submit to the GM the Compliance Manual for review and pre-clearance and to the Risk & Compliance Committee for endorsement to the Board of Directors for approval.

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

4. Compliance Training and Communication Process

- a. 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.
- b. 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.
- c. 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.
- d. A clear and open communication channel shall be maintained starting from the Board of Directors and the Risk & Compliance Committee to the Senior Management, Junior Officers, Compliance Coordinators and all other personnel.
- e. The communication shall flow downward to the organization when disseminating compliance information and upward when elevating compliance issues or concerns.
- f. 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.
- g. All written communications to and from regulatory agencies shall be handled and monitored by Compliance Office.

5. Monitoring and Assessment

1. The Compliance Manual shall be monitored and assessed by Compliance Office on a regular basis to ensure that an effective compliance system is in place at all times. The Compliance Risk Assessment report and various reports 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. Internal Audit Department shall include in its regular audit program the test-checking of findings contained in the submitted Compliance Testing Reports.
4. Compliance Office shall:
 - a. Coordinate with units concerned 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 CBOS 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.