7. The Chief Compliance Officer (CCO)

7.1. To ensure adherence to corporate principles and best practices, there shall be a designated Compliance Officer who shall hold the position of at least a Vice President or its equivalent. He shall have direct reporting responsibilities to the Chairman of the Board thru the Board Audit and Compliance Committee (BACC).

7.2. He shall perform the following duties:

7.2.1. Monitor compliance by the Bank with the provisions and requirements of this Revised Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board thru the BACC and recommend the adoption of measures to prevent a repetition of the violation. The Compliance Officer shall likewise refer the matter to the Administrative Board or the Corporate Governance/Nomination/Remuneration Committee, as the case maybe, to determine the administrative liability and imposition of penalty, if any, against the responsible parties in accordance with the Bank's Code of Conduct;

7.2.2. Appear before the Securities and Exchange Commission when summoned in relation to the Bank's compliance with this Revised Manual;

7.2.3. Oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise. The CCO shall be responsible for ensuring the integrity and accuracy of all documentary submissions to BSP;

7.2.4. Provide appropriate guidance and direction to the bank on the development, implementation and maintenance of the compliance program; and

7.2.5. In charge in monitoring the bank compliance with the provisions and requirements of the Corporate Governance Manual and relevant banking rules and regulations as well as keeping the Directors updated regarding any related statutory changes.

8. The External Auditor

8.1. An External Auditor shall ensure the establishment and maintenance of an environment of good corporate governance as reflected in the financial records and reports of the Bank;

The Board, after consultations with the Board Audit and Compliance Committee, shall recommend to the stockholders an External Auditor duly accredited by SEC;

The External Auditor as appointed by the stockholders shall undertake an independent audit of the Bank, and shall provide an objective assurance regarding the manner under which the financial statements are prepared and presented to the stockholders;

8.2. The External Auditor of the Bank shall not at the same time provide internal audit services to the Bank. Non-audit work may be given to the External Auditor provided it does not conflict with his duties as an independent auditor or does not pose a threat to his independence;

8.3. If the External Auditor resigns, is dismissed or ceases to perform his services, the reason/s and the date of effectivity of such action shall be reported in the Bank's annual and current reports. The report shall include a discussion of any disagreement between him and the bank on accounting principles or practices, financial statement disclosures or audit procedures which the former auditor and the Bank failed to resolve satisfactorily;

8.4. If the External Auditor believes that any statements made in the Bank's annual report, information statement or any report filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall properlypresent his views in said reports;

8.5. The Bank's External Auditor shall be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency;

8.6. Form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework based on an evaluation of the conclusions drawn from the audit evidence obtained; and express that opinion clearly through a written report that also describes the basis for the opinion;

8.7. The External Auditor shall identify and assess the risks of material misstatement in the bank's financial statements, taking into consideration the bank's operations, control environment and its components as well as the bank's financial reporting systems. The assessment shall also take into account qualitative aspects of the bank's accounting practices, including indicators of possible biases in management's judgments. The External Auditor should, likewise, assess and communicate to the Board Audit and Compliance Committee the results of its assessment on the capability of bank management, the strength of the bank's control environment, and the adequacy of the bank's accounting/information systems to comply with financial and prudential reporting responsibilities;

8.8. The External Auditor shall conclude whether it has obtained reasonable assurance that the financial statements, as a whole, are free from material misstatement, whether due to fraud or error. That conclusion shall include an evaluation of the following:

8.8.1. Whether sufficient appropriate audit evidence has been obtained;
8.8.2. Whether uncorrected misstatements are material, individually or in aggregate; and
8.8.3. Compliance with the applicable framework.

If material error or fraud is discovered, the external auditor shall immediately bring such information to the attention of the Board Audit and Compliance Committee. Moreover, the external auditor shall report to the BSP such material error or fraud and other matters as prescribed under existing regulations.

8.9. The External Auditor shall evaluate the requirements of the applicable financial reporting framework:

8.9.1. The financial statements adequately disclose the significant accounting policies selected and applied;

8.9.2. The accounting policies selected and applied are appropriate and consistent with the applicable financial reporting framework;

8.9.3. The accounting estimates made by management are reasonable;

8.9.4. The methodologies, assumptions and valuation practices including provisioning for loan losses are appropriate and consistent with the applicable financial reporting framework;

8.9.5. The information presented in the financial statements are relevant, reliable, comparable and understandable;

8.9.6. The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and

8.9.7. The terminologies used in the financial statements, including the title of each financial statement, are appropriate.

8.10. In carrying out the audit of a bank's financial statements, the external auditor recognizes that the bank has characteristics that generally distinguish them from most other business enterprises, and which the external auditor takes into account in assessing the level of inherent risk:

8.10.1. The BSP requires external auditors to assess bank's compliance with certain BSP rules and regulations as prescribed under the existing regulations. In this respect, the BSP requires external auditors to directly report to the BSP material breaches in said rules and regulations such as but not limited to capital adequacy ratio and loans and other risk assets review and classification. While the provisioning requirements under the prescribed financial reporting framework and BSP rules and regulations may differ, external auditors are expected to look into the soundness of the assumptions and methodologies used under both regimes. In addition, external auditors should also look into the adequacy and propriety of documentation of significant differences between the valuations used for financial reporting purposes and for regulatory purposes;

8.10.2. External auditors should also assess the adequacy and propriety of disclosures on related party transactions. The external auditors should exercise sound judgment on whether mere compliance with disclosure requirements prescribed under the applicable financial reporting framework already provide sufficient information to make a conclusion on whether the transactions are done at arm's length terms;

8.11. While the external auditor has the sole responsibility for the audit report and for determining the nature, timing and extent of audit procedures, much of the work of internal auditing can be useful to the external auditor in the audit of the financial statements. The external auditor, therefore, as part of the audit assesses the internal audit function insofar as the external auditor believes that it will be relevant in determining the nature, timing and extent of the external audit procedures;

8.12. Judgment permeates the external auditor's work. The auditor uses professional judgment in areas such as:

8.12.1. Assessing inherent and control risk and the risk of material misstatement due to fraud or error;
8.12.2. Deciding upon the nature, timing and extent of the audit procedures;
8.12.3. Evaluating the results of those procedures; and
8.12.4. Assessing the reasonableness of the judgments and estimates made by management in preparing the financial statements.

8.13. External audits performed in accordance with auditing and ethics standards are an important element in enhancing market confidence. This is particularly the case with respect to valuations of financial instruments, including disclosures about the valuation methodologies, and the extent of off-balance sheet risks to which bank is exposed. Auditors play an important role in encouraging consistent and meaningful disclosures about valuation processes;

8.14. The external auditor should maintain an attitude of professional skepticism throughout the planning and performance of the audit, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Specific areas where professional skepticism is particularly important include, among others, fair value measurements, related party relationships and transactions, going concern assessments, and in auditing significant unusual or highly complex transactions.

The external auditor should consider the supervisory issues raised by the BSP especially in its assessment of the going concern assumption, particularly in the evaluation of the liquidity and solvency of the bank;

8.15. The external auditor should promote a two-way communication with those charged with the governance of the bank. The subject of the communication may include the following:

8.15.1. The responsibilities of the external auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
8.15.2. Information relevant to the external audit; and
8.15.3. Timely observation arising from the external audit that is significant and relevant to the bank's financial reporting process, including inappropriate accounting treatment that may result in tax violation.

8.16. The external auditor should document its discussion with the bank's board of directors and the Board Audit and Compliance Committee. Where there are differences between BSP regulations and the applicable financial reporting framework, as when there is more than one option allowed, discussions on the treatment adopted in the financial statements should be duly minuted. The external auditors are nonetheless, expected to recommend compliance with BSP-prescribed accounting treatment particularly when such is likewise acceptable under the applicable financial reporting framework;

8.17. The external auditor is expected to charge only reasonable audit fees. In determining reasonable fees the following may be considered:

8.17.1. Expected hours needed to complete the scope of work envisioned in the audit plan;
8.17.2. Complexity of the activities and structure of the bank;
8.17.3. Level of internal audit assistance;
8.17.4. Level of fees being charged by other audit firms; and
8.17.5. Quality of audit services.

The external auditor ensures that the audit fees will be set at an amount that will not in any way compromise the quality of the audit.

8.18. The external audit team is expected to be composed of members whose collective skills and competence are commensurate with the size and complexity of operations of the bank.

9. The Internal Auditor

9.1. The Head of the internal audit function must have an unassailable integrity, relevant education/experience/training, and has an understanding of the risk exposures of the bank, as well as competence to audit all areas of its operations. He must also possess the following qualifications:

9.1.1. The Head of the internal audit function must be a Certified Public Accountant (CPA) or a Certified Internal Auditor (CIA) and must have at least five (5) year experiences in the regular internal or external audit as auditor-in-charge, senior auditor or audit manager. He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required.

9.2. Duties and responsibilities of the head of the internal audit function or the Chief Audit Executive:

9.2.1. To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity;

9.2.2. To be accountable to the board of directors or audit committee on all matters related to the performance of its mandate as provided in the internal audit charter.

9.2.3. To ensure that the internal audit function complies with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics.