

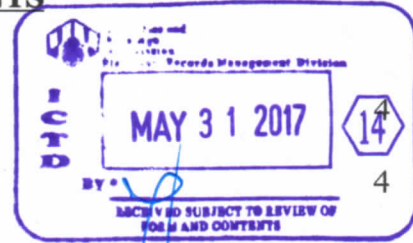


# MANUAL ON CORPORATE GOVERNANCE

(as Amended April 2017)

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## **I – INTRODUCTION**

**Corporate Governance** is the Bank's manual of procedures, systems and processes that governs the performance of the Board of Directors and Management of the Bank and their respective duties and responsibilities to the stockholders and other stakeholders which include, among others, its customers, employees, suppliers, financiers, government and the community in which it operates.<sup>1</sup>

This Manual shall be known as “Manual on Corporate Governance of Citystate Savings Bank, Inc.”.

It shall serve as guide<sup>2</sup> for the Bank and its affiliates in the implementation of the Bangko Sentral ng Pilipinas (BSP) Circular No. 749 and 757 “Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions”, Circular No. 793 “Amendment to Align the Familial Restriction Applicable to ‘Independent Director’ with Existing Provision of the Securities Regulation Code (SRC)”, BSP Memorandum No. 2013-002 “Guidelines in Assessing the Quality of Corporate Governance in BSP-Supervised Financial Institutions”, Circular No. 895 “Guidelines on Related Party Transactions”, Securities and Exchange Commission (SEC) Memorandum Circular No. 6 s2009 “Revised Code of Corporate Governance” as amended by SEC Memorandum Circular No. 9 s2014 superseded by SEC Memorandum Circular No. 19 s2016 “Code of Corporate Governance for Publicly-Listed Companies”, applicable provisions in the BSP Manual of Regulations for Banks (MORB) and other relevant references.

The Board of Directors, Management, Officers and Staff of the Bank hereby commit themselves to the principles and practices contained in the Manual and acknowledge that the same will guide them in the development and achievement of the Bank's corporate goals.

To enjoin Bank-wide compliance, this Manual is available in the Bank's Compliance Office for easy access of all employees, officers and directors of the Bank. This is also posted in the Bank's website for ready access by all stakeholders of the Bank.

## **II- OBJECTIVE**

This Manual shall institutionalize the principles of good corporate governance in the entire organization.

The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

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<sup>1</sup> SEC Memo Cir. No. 9, s2014

<sup>2</sup> SEC Memo Cir. No. 6, s2009

### **III- GOVERNANCE STRUCTURE**

#### **A. BOARD OF DIRECTORS**

Compliance with the principle of good corporate governance shall start with the Board of Directors.

It shall be the Board's responsibility to foster the long-term success of the Corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

##### **1. Composition of the Board<sup>3</sup>**

- a. Pursuant to Sec. 15 of R.A. 8791 "The General Banking Law of 2000", there shall be at least five (5), and a maximum of fifteen (15) members of the Board. The Board shall determine the appropriate number of its members to ensure that the number is commensurate with the size and complexity of the Bank's operations.

To the extent practicable, the members of the Board shall be selected from a broad pool of qualified candidates. External databases of professional search firms (e.g. Institute of Corporate Directors) as well as recommendations from shareholders and existing directors shall be used for possible candidates as director. A sufficient number of qualified non-executive members shall be elected to promote the independence of the Board from the views of Senior Management. Non-executive members of the Board shall refer to those who are not part of the day to day management of banking operations and shall include the independent directors.

The Board's composition should reflect an appropriate mix with regards to skill representation, board experience, tenure, gender, age, and geographic experience. Other considerations are personal qualities, communication capabilities, ability and commitment to devote appropriate time to properly discharge the task, professional reputation and community standing and alignment of the quality of directors with the Bank's strategic directions. The Bank may compile a board profile when considering candidates to the Board (i.e., identify the professional skills and personal characteristics present on the current Board; identify the missing skills and characteristics; and nominate individuals who could fill the possible gaps).

- b. At least twenty percent (20%) but not less than two (2) members of the Board shall be independent directors: provided that any fractional result from applying the required minimum proportion, i.e., 20 percent (20%), shall be rounded-up to the nearest whole number.
- c. Non-Filipino citizens may become members of the Board to the extent of the foreign participation in the equity of the Bank: provided, pursuant to Section 23 of the Corporation Code of the Philippines (BP Big. 68), a majority of the directors must be residents of the Philippines.

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<sup>3</sup> Sec. 1 BSP Cir. No. 749

## 2. Power, Responsibilities and Duties of the Board<sup>4</sup>

### ***a. Powers of the Board***

The corporate powers of the Bank shall be exercised, its business conducted and all its property controlled and held, by its Board. The powers of the Board as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank.

### ***b. General Responsibility of the Board***

The position of a Bank director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner.

The Board is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the Board is also responsible for monitoring and overseeing the performance of Senior Management as the latter manages the day to day affairs of the Bank.

It is the Board's responsibility to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.<sup>5</sup>

### ***c. Specific Duties and Responsibilities of the Board***

To ensure a high standard of best practice for the Bank, its stockholders and other stakeholders<sup>6</sup>, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

1. Install a process of selection to ensure a mix of competent directors and officers;
2. Determine the Corporation's purpose, its vision and mission and strategies to carry out its objectives;
3. Ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices;
4. Identify the Corporation's major and other stakeholders and formulate a clear policy on communicating or relating with them through an effective investor relations program;
5. Adopt a system of internal checks and balances;
6. Identify key risk areas and key performance indicators and monitor these factors with due diligence;
7. Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted; and
8. Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulation.

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<sup>4</sup> Sec. 1 BSP Cir. No. 749

<sup>5</sup> SEC Memo Cir. 9, s2014

<sup>6</sup> SEC Memo Cir. 9, s2014

### **3. Stockholders' Rights and Protection of Minority Stockholders' Interests<sup>7</sup>**

a. *The Board shall respect the rights of the stockholders as provided for in the Corporation Code, namely:*

1. Right to vote on all matters that require their consent or approval;
2. Right to inspect books and records of the Bank;
3. Right to information;
4. Right to dividends; and
5. Appraisal right.

b. *Stockholders' Participation*

The Board shall be transparent and fair in the conduct of the annual and special stockholders' meetings of the Bank. The Bank shall encourage the stockholders to personally attend such meetings. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-Laws, the exercise of the right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

c. *Voting Right*

1. Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
2. Cumulative voting shall be used in the election of directors.
3. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

d. *Voting Procedures<sup>8</sup>*

Pursuant to the by-laws of the corporation, in all regular and special stockholders' meeting, the presence of shareholders who represent a majority of the outstanding capital stock entitled to vote shall constitute a quorum and all decisions made by the majority shall be final, unless the law requires a higher number of votes.

On the election the member of the Board of Directors, the nominees receiving the highest number of votes shall be declared under Section 24 of the Corporation Code of the Philippines, Likewise, the nominee for external auditor with the highest number of votes shall be declared elected as such.

Counting of votes will be done via raising of hands. Affirmative votes are counted separately, the negative votes and lastly the abstention votes, if any. The Corporate Secretary is authorized to supervise/count the vote to be cast.

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<sup>7</sup> SEC Memo Cir. 6, s2009

<sup>8</sup> 2016 CSBI SEC Form 20-IS

*e. Pre-emptive Right*

All stockholders shall have pre-emptive rights, unless the same is denied in the articles of incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the Corporation. The Articles of Incorporation shall lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.

*f. Power of Inspection*

Unless otherwise restricted by law, all shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

*g. Right to Information*

1. The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the company's shares, dealings with the company, relationships among directors and key officers, and the aggregate compensation of directors and officers.
2. The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.
3. The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

*h. Right to Dividends*

1. Shareholders shall have the right to receive dividends subject to the discretion of the Board.
2. The company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for



probable contingencies. Provided, however, that any declaration of dividends shall be governed by the rules and regulations promulgated by the Bangko Sentral ng Pilipinas. The Bank shall comply with the following requirements: a). minimum capitalization and networth to risk assets ratio; b). legal reserves; c). liquidity floor, and d). FCDU cover.

*i. Appraisal Right*

The shareholders' shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
3. In case of merger or consolidation.

*j. It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.*

*k. Dissenters Right of Appraisal<sup>9</sup>*

The procedure to be followed in exercising the appraisal right shall be in accordance with Sections 81 to 86 of the Corporation Code.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which vote was taken for payment of the fair value of his shares: Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

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<sup>9</sup> 2016 CSBI SEC Form 20-IS

If within a period of sixty (60) days after the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: and Provided, further, that upon payment by the corporation of the agreed awarded price, the stockholder shall forthwith transfer his shares to the corporation.

#### **4. Board Meetings and Quorum Requirements**

- a. The directors shall act only as a Board, and the individual directors shall have no power as such. A majority of the Board shall constitute a quorum for the transaction of business and the vote of a majority of the quorum of the Board shall always be needed to decide any action. It shall meet regularly to properly discharge its functions. It shall also ensure that independent views in Board meetings shall be given full consideration and all such meetings shall be duly minuted.<sup>10</sup>
- b. The members of the Board should attend its regular and special meetings in person or through teleconferencing. Independent directors should always attend Board meetings.<sup>11</sup>
- c. The meetings of the Board may be conducted through modern technologies such as, but not limited to, teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: Provided, that every member of the Board shall participate in at least fifty percent (50%) and shall physically attend at least twenty five percent (25%) of all Board meetings every year: Provided, further, that in the case of a director who is unable to physically attend or participate in Board meetings via teleconferencing or video conferencing, the corporate secretary shall execute a notarized certification attesting that said director was given the agenda materials prior to the meeting and that his/her comments/decisions thereon were submitted for deliberation/discussion and were taken up in the actual Board meeting, and that the submission of said certification shall be considered compliance with the required fifty percent (50%) minimum attendance in Board meetings.<sup>12</sup>
- d. As far as practicable, materials for the Board meeting should be provided within two (2) banking days before the meeting.<sup>13</sup>

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<sup>10</sup> Sec. 2 BSP Cir. No. 749

<sup>11</sup> SEC Memo Cir. No. 6, s2009

<sup>12</sup> Sec. 1 BSP Cir. No. 749; MORB Sec. x141.1

<sup>13</sup> Art. III, Sec. 5 of CSBI Amended By-Laws

- e. The Bank shall submit to SEC, on or before January 5 of the following year, an advisement letter on the directors' attendance in Board meetings and update the pertinent portion of the Annual Corporate Governance Report (ACGR).<sup>14</sup>

## B. DIRECTORS

### 1. *Qualification of a Director*<sup>15</sup>

- a. Holder of at least one (1) share of stock of the Corporation ;
- b. He shall be at least a college graduate or have at least 5 years' experience in managing the business to substitute for such formal education;
- c. He shall be at least twenty five (25) years old;
- d. He must be fit & proper for the position, possessing integrity/ probity, competence, education, diligence, experience/training;<sup>16</sup>
- e. He shall be assiduous;
- f. Possesses all the qualifications and none of the disqualifications of a Director at the time of his election or re-election as required under pertinent regulations;
- g. A member in good standing in relevant industry, business or professional organizations;
- h. Must have attended a special seminar on corporate governance for Board of Directors conducted by an accredited training provider of the SEC and Bangko Sentral ng Pilipinas (BSP).<sup>17</sup>

### 2. *Independent Director*<sup>18</sup>

In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities.

An independent director shall refer to a person who –

- a. is not or has not been an officer or employee of the Bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;
- b. is not a director or officer of the related companies of the Bank's majority stockholder;
- c. is not a stockholder owning more than two percent (2%) or with shares of stock sufficient to elect one (1) seat in the Board, or in any of its related companies or any of its majority corporate or substantial shareholders;
- d. is not a relative, legitimate or common-law of any director, officer or any of its substantial shareholders or any stockholder holding shares of stock sufficient to elect one (1) seat in the Board or any of its related companies. For this

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<sup>14</sup> SEC Memo Cir. No. 1, s2014

<sup>15</sup> Sec. 1 BSP Cir. No. 749; MORB Sec. x141.2

<sup>16</sup> BSP Cir. No. 889

<sup>17</sup> MORB Sec. x141.2

<sup>18</sup>Sec. 1 BSP Cir. No. 749, as amended by BSP Cir. No. 757 and 793 /Sec. 38 SRC IRR

- purpose, relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law;
- e. is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders; and
  - f. is not retained as professional adviser, consultant, agent or counsel of the Bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm within the last two (2) years; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the Bank or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

A regular director who resigns or whose term ends on the day of the election shall only qualify for nomination and election as an Independent Director after a two (2) year "cooling-off period". Persons appointed as Chairman "Emeritus", "Ex-Officio" Directors/Officers or members of any Executive Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities shall be subject to a one (1) year "cooling-off period" prior to his qualification as an Independent Director.<sup>19</sup>

### *3. Limit of Independent Director<sup>20</sup>*

- a. There shall be no limit in the number of covered companies that a person may be elected as Independent Director (ID), except in business conglomerates where an Independent Director can be elected to only three (3) companies of the conglomerate, i.e. parent company, subsidiary or affiliate;
- b. Pursuant to SEC Memorandum Circular No. 4, Series of 2017, Independent Director (ID) shall serve for a maximum cumulative term of nine (9) years. After which, the Independent Director shall be perpetually barred from re-election as such in the same company, but may continue to qualify as non-independent director. In the instance that the company wants to retain an Independent Director (ID) who served for nine (9) years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting. Independent Director elected 2012 is covered of the said SEC Memorandum Circular.<sup>21</sup>

### *4. Duties and Responsibilities of a Director<sup>22</sup>*

- a. Remain fit and proper for the position for the duration of his term;

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<sup>19</sup> SEC Memo Cir. No. 9, s2009

<sup>20</sup> SEC Memo Cir. No. 9, s2011, as included in Sec. 1 BSP Cir. No. 749

<sup>21</sup> SEC Memo Cir. No. 4, s2017

<sup>22</sup> Sec. 2 BSP Cir. No. 749

- b. Conduct fair business transactions with the Bank and to ensure that personal interest does not bias Board decisions;
- c. Act honestly and in good faith, with loyalty and in the best interest of the Bank, its stockholders and other stakeholders, regardless of the amount of their Stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public;
- d. Devote time and attention necessary to properly discharge their duties and responsibilities;
- e. Act judiciously;
- f. Contribute significantly to the decision-making process of the Board;
- g. Exercise independent judgment;
- h. Have a working knowledge of the statutory and regulatory requirements affecting the Bank, including the content of its articles of incorporation and by-laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies;
- i. Observe confidentiality;
- j. Have working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the requirements of the other regulatory agencies.
- k. Ensure the continuing soundness, effectiveness and adequacy of the Corporations control environment.

#### 5. *Election of Director*<sup>23</sup>

The directors shall be elected by the vote of the holders of common stock of the Bank in accordance with Section 24 of the Corporation Code or pertinent applicable law at the annual meeting of the stockholders.

#### Nomination Procedure<sup>24</sup>

1. Any stockholder may submit nominations for directorial positions to the Nominations Committee.
2. The nominating stockholder shall submit his proposed nomination in writing to the Nominations Committee, together with the biodata, acceptance and conformity of the would-be nominee. In the case of a nominee for the position of an independent director, the would-be nominee is also required to submit a Certification that he has all the qualifications and none of the disqualifications to become an independent director.
3. The Nominations Committee and the Corporate Governance and Compensation Committee then jointly screen the nominations of directors prior to the submission of the Definitive Information Statement and come up with a Final List of Candidates.
4. Only nominees whose names appear in the Final List of Candidates shall be eligible for election as director.

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<sup>23</sup> Art. III Sec. 2 of CSBI Amended By-Laws; Sec. 24 of the Corporation Code

<sup>24</sup> 2016 CSBI SEC Form 20-IS

6. *Confirmation of Election of Director*<sup>25</sup>

- a. The election of director of the Bank shall be subject to confirmation by the Monetary Board. Confirmation by the Monetary Board shall not be required in the following cases:
  1. Re-election of a director in the same bank or election of the same director in another bank, Quasi Bank, Non-Bank Financial Institution with authority or trust corporation within a banking group; and
  2. Re-election of an independent director in the same bank or election of the same director in another bank, Quasi Bank, Non-Bank Financial Institution with authority or trust corporation within a banking group.

Provided, that the director concerned has been previously confirmed or his/her re-election requires the same level of confirming authority as provided: provided, further, that said director has continuous service within the same bank or banking group.

- b. The election shall be deemed to have been confirmed by BSP, if after sixty (60) banking days from receipt of the complete required reports, no advice against said election has been received by the Bank.
- c. A director whose election was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the board of directors of the bank, even if he/she has assumed the position to which he/she was elected, pursuant to Section 16 of R.A. No. 8791.<sup>26</sup>

7. *Disqualification of a Director*<sup>27</sup>

Without prejudice to specific provisions of law prescribing disqualifications for directors, the following are disqualified from becoming directors:

a. Permanent Disqualification

1. Any person finally convicted judicially of an offense involving moral turpitude or fraudulent act or transgressions;
2. Any person finally found by the Commission or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law

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<sup>25</sup> BSP Cir. No. 758

<sup>26</sup> BSP Cir. No. 887

<sup>27</sup> MORB Sec. x143

administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas;

3. Any person judicially declared to be insolvent, spendthrift or incapacitated to contract;
4. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and
5. Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.

b. Temporary Disqualification

1. Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists;
2. Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all meetings, both regular and special, of the Board of directors during his incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding election;
3. Dismissal/termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity;
4. Being under preventive suspension by the Corporation;
5. If the independent director becomes an officer or employee of the same corporation he shall be automatically disqualified from being an independent director;
6. Conviction that has not yet become final referred to in the grounds for the disqualification of directors.
7. Directors/Officers of closed banks pending clearance
8. Failure to attend seminar on corporate governance.
9. With derogatory records with the NBI, court, police, Interpol & monetary authorities of other countries.

8. *Disqualification Procedures*<sup>28</sup>

- a. The Board and Management shall be responsible for determining the existence of the ground for disqualification of a director/officer or employee and for reporting the same to Bangko Sentral ng Pilipinas. While the Bank may conduct its own investigation and impose appropriate sanction/s as are allowable, this shall be without prejudice to the authority of the Monetary Board to disqualify

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<sup>28</sup> BSP MORB Sec. X143.3

a director/officer/employee from being elected/appointed as director/officer. Grounds for disqualification made known to the Bank, shall be reported to Bangko Sentral ng Pilipinas within seventy-two (72) hours from knowledge thereof.

- b. On the basis of knowledge and evidence on the existence of any of the grounds for disqualification mentioned in BSP Manual of Regulations for Bank, the director or officer concerned shall be notified in writing either by personal service or through registered mail with registry return receipt card at his/her last known address by BSP of the existence of the ground for his/her disqualification and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an explanation on why he should not be disqualified and included in the watchlisted file, together with the evidence in support of his/her position. BSP may allow an extension on meritorious ground.
- c. The Board shall be immediately informed of cases of disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following Board meeting. Within seventy two (72) hours thereafter, the corporate secretary shall report to the BSP Governor the action taken by the Board on the director/officer involved.

9. *Removal Procedure of a Director*<sup>29</sup>

- a. A director may be removed from office by a vote of the stockholders holding or representing at least two-thirds (2/3) of the outstanding capital stock.
- b. The removal shall take place either at the regular stockholder's meeting or at a special meeting called for the purpose, and in either case, after previous notice to stockholders of the intention to propose such removal at the meeting.
- c. The Corporate Secretary shall call a special meeting, on order of the President or on the written demand of the stockholders representing or holding at least a majority of the outstanding capital stock for the purpose of removal of a director.
- d. Should the Corporate Secretary fail or refuse to call the special meeting upon such demand or fail or refuse to give the notice, or if there is no secretary, the call for the meeting shall be addressed directly to the stockholders by any stockholder signing the demand. Notice of the time and place of such meeting, as well as of the intention to propose such removal, must be given by publication or by written notice prescribed in the Corporation Code of the Philippines. Removal may be with or without cause: provided that removal without cause may not be used to deprive minority stockholders the right of representation to which they may be entitled under Section 24 of the Corporation Code of the Philippines.
- e. A director removed from office is not eligible to seek re-election and/or be reappointed to the Board unless a written consent is obtained from stockholders holding or representing at least two thirds (2/3) of the outstanding capital stock.

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<sup>29</sup> Sec. 28 of the Corporation Code of the Philippines



*10. Vacancies in the Board<sup>30</sup>*

Any vacancy in the Board of Directors may be filled by the majority vote of all remaining members, if still constituting a quorum. If the vote of the remaining members shall result in a tie, the vote of the Chairman of the Board shall carry to break the tie. A Director elected to fill such vacancy shall be elected for the unexpired term of his predecessor in office.

Any vacancy in the Board of Directors by reason of removal or increase in the number of directors constituting the Board of Directors shall be filled by election at a regular or special meeting of the stockholders called for that purpose.

*11. Interlocking Directorship<sup>31</sup>*

There shall be no concurrent directorship between banks or between a Bank and a Quasi-Banks (QB) or non-bank financial Institution (NBFI), except as may be authorized by the Monetary Board.

Without the need for prior approval of the Monetary Board, concurrent directorships between entities not involving an investment house shall be allowed in the following cases:

- a. Banks not belonging to the same category: Provided, that not more than one (1) Bank shall have quasi-banking functions;
  - b. A Bank and a Non-Bank Financial Institution (NBFI);
  - c. A Bank with-out quasi-banking functions and a Quasi-Bank; and
  - d. A Bank and one (1) or more of its subsidiary Bank/s, QB/s, and NBFI/s.
- For the purpose of the foregoing, a husband and his wife shall be considered as one (1) person.

*12. Interlocking Directorship and Officership<sup>32</sup>*

Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorship and officership between Banks or between a Bank and a QB or an NBFI.

Without the need for prior approval of the Monetary Board, concurrent directorship and officership between a Bank and one (1) or more of its subsidiary Bank/s, QB/s, and NBFI/s, other than investment house/s, shall be allowed.

*13. Multiple Board Seats<sup>33</sup>*

- a. The Board may adopt guidelines on the number of directorships that its members can hold in other corporations. The Board shall take into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities and the limitations on concurrent directorship

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<sup>30</sup> Sec. 29 of the Corporation Code of the Philippines; Art. III Sec. 9 CSBI Amended By-Laws

<sup>31</sup> BSP MORB X145

<sup>32</sup> BSP MORB X145

<sup>33</sup> SEC Memo Cir. No. 6, s2009

between banks or between a bank and a quasi-bank under existing regulations.

- b. The President and other executive directors may be covered by a lower indicative limit for membership in other boards. A similar limit may apply to independent or non-executive directors who, at the same time, serve as full-time executives in other corporations. In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities of the boards they serve shall not be compromised.

#### *14. Reportorial Requirements<sup>34</sup>*

- a. Certifications Required

All first-time directors shall be furnished with a copy of the general responsibility and specific duties and responsibilities of the Board and of a director upon election.

The Bank must submit to BSP, within twenty (20) banking days from date of election, a certification under oath of the directors concerned that they have received copies of such general responsibility and specific duties and responsibilities and that they fully understand and accept the same.

The Bank must also submit to BSP a certification under oath of the director/officer with rank of senior vice president and above, and officers whose appointment requires prior Monetary Board approval, that he has all the prescribed qualifications and none of the disqualifications within twenty (20) banking days from the date of election/re-election of the directors/meeting of the Board in which the officers are appointed/promoted.

- b. Bio-Data<sup>35</sup>

The Bank shall submit to BSP a bio-data with ID picture of the (i) directors/officers with rank of SVP and above (ii) officers below the rank of SVP requiring a different set of minimum qualifications or (iii) officers whose appointment requires prior Monetary Board approval upon every election/re-election/appointment/promotion in a prescribed form, within ten (10) banking days from date of election/re-election of the directors/meeting of the Board in which the officers are appointed/promoted.

The bio-data shall be updated and submitted (i) in case of change of name due to change in civil status and change of residential address, within twenty (20) banking days from the date of change occurred and (ii) in cases of requests for prior Monetary Board approval of interlocks.

For other officers below the rank of SVP, the Bank shall not be required to submit their bio-data to BSP. The Bank shall keep a complete record of the

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<sup>34</sup> MORB X141.9, Sec. 6 BSP Cir. NO. 749, Sec. 2 BSP Cir. No. 758 and BSP Cir. No. 887

<sup>35</sup> Sec. 6 BSP Cir. No. 758 & BSP Circular No. 887

bio-data of all its directors and officers and shall maintain a system of updating said records which shall be made available during on-site examination or when required by the BSP for submission for offsite verification.

c. Notarized Authorization Form to Query in BSP Watch list File<sup>36</sup>

For first-time directors/officers with rank of SVP and above within a particular bank/banking group whose election/appointment requires confirmation/ prior approval of Monetary Board, a duly notarized “Authorization Form For Querying The Bangko Sentral Watch list Files For Screening Applicants And Confirming Appointments Of Directors And Officials” shall be submitted within twenty (20) banking days from date of election/re-election of the directors/meeting of the Board in which the officers are appointed/promoted.

The said authorization must be obtained on an individual basis.

d. List of incumbent Directors/Officers<sup>37</sup>

A duly notarized list of the incumbent members of the Board and officers shall be submitted to BSP within twenty (20) banking day from the annual election of the Board.

e. Certification by an Independent Director<sup>38</sup>

In the case of Independent Directors, the bio-data shall be accompanied by a certification under oath from the director that he is an independent director as defined under the regulations and that all the information supplied are true and correct.

f. Certificate of Attendance<sup>39</sup>

The Bank shall submit the Certificate of Attendance of key officers and members of the Board in a program on corporate governance conducted by training providers duly accredited by SEC within ten (10) days from the completion of the program.

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<sup>36</sup> Sec. 5 BSP Cir. No. 758

<sup>37</sup> MORB Sec. x144, as amended by BSP Cir. No. 758/887

<sup>38</sup> MORB Sec. x144, as amended by BSP Cir. No. 758/887

<sup>39</sup> SEC Memo Cir. No. 20, s2013, as amended by SEC Memo Cir. No. 2, S2015

### **C. CHAIRMAN OF THE BOARD, VICE-CHAIRMAN, PRESIDENT AND THE CORPORATE SECRETARY**

The role of the Chairman/Vice-Chairman of the Board and the President shall, as much as practicable, be separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board. Their respective powers and duties are delineated in the Bank's By-Laws.<sup>40</sup>

#### *a. Chairman of the Board*

While the specific powers, duties and responsibilities of the Chairman of the Board are embodied in the Bank's By-Laws, the following are his/her general duties and responsibilities:

1. To provide leadership in the Board of Directors. The Chairman of the Board shall ensure effective functioning of the Board, including maintaining a relationship of trust with Board members.<sup>41</sup>
2. To ensure that the Board takes an informed decision. The Chairman of the Board shall ensure the sound decision-making process and he/she should encourage and promote critical decisions and ensure that dissenting views can be expressed and discussed within the decision-making process.

#### *b. Vice Chairman*

The Vice-Chairman shall likewise be elected by the Board of Directors from their own number. He shall be vested with all the powers and authorities of, and required to perform all of the duties of the Chairman of the Board during the absence or incapacity of the latter for any cause, and he shall also perform such other duties as the Board of Directors may from time to time assign to him.<sup>42</sup>

#### *c. President*

The President, on the other hand, shall be the Chief Executive Officer (CEO) of the Bank. He shall have the primary responsibility of carrying out the policies and implementing strategies in order to meet the objectives approved by the Board. He is ultimately responsible for managing and implementing the Bank's business strategies and day-to-day operations. His detailed powers, duties and responsibilities are outlined in the Bank's By-Laws.<sup>43</sup>

#### *d. Corporate Secretary*

Based on the bank's By-Laws, the Corporate Secretary shall have the following duties:

1. To keep accurate minutes of all meetings of the stockholders and of the Board and attend to the giving of all notices required under the By-Laws to be given;
2. To be the custodian of the corporate seal, stock certificate books, stock and transfer books, records, documents and paper of the Bank, prepare

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<sup>40</sup>SEC Memo. Cir. 6, s2009

<sup>41</sup>Sec. 3 BSP Cir. No. 749

<sup>42</sup>Art. IV Sec. 5b of CSBI Amended By Laws

<sup>43</sup>Art. IV Sec. 5d of CSBI Amended By Laws

- ballots for the annual election and keep a complete and up-to-date list of stockholders and their address;
3. To perform such other duties as may be assigned to him from time to time by the Board, Chairman or President and such other duties incidental to his office;
  4. To sign with the President all contracts, deeds, license and other instrument when so ordered by the President or by the Board; and
  5. To prepare such reports and statements required by the Board and/or the Chairman or the President.

In addition to the foregoing, the Corporate Secretary shall also have the following responsibilities:<sup>44</sup>

1. Safe keep and preserve the integrity of the meeting of the Board committees, as well as other official records of the Bank;
2. Be loyal to the mission, vision and objectives of the Bank;
3. Work fairly and objectively with the Board, management, stockholders and other stakeholders;<sup>45</sup>
4. Have appropriate administrative and interpersonal skills;
5. If he is not at the same time the Bank's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
6. Have working knowledge of the operations of the Bank;
7. Inform members of the Board, in accordance with the By-Laws

#### **D. BOARD COMMITTEES**

To aid in complying with the principles of good governance, the Board shall constitute Committees.

##### *1. Executive Committee (ExCom)*

This committee regularly reviews and approves credit proposal within its limits. It recommends additional conditions and requirements on loan applications for Board approval. It may also act, by majority vote of all its member-directors, on such other specific matters within the competence of the Board as may be delegated to it in the Bank's By-Laws or by a majority vote of the Board except for matters exclusive to the Board. The Executive Committee shall include at least three (3) members of the Board to be appointed by the Board.

##### General Responsibilities:

The executive Committee by a majority vote of all its members, and subject to such limitations as the Board may prescribed, is empowered to perform the following actions:

- a. Approve and/or implement any or all corporate acts within the competence of the board except those acts expressly reserved by the Corporation Code for the board of directors.
- b. Review and approve bank-wide credit strategy, profile and performance.

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<sup>44</sup> SEC Memo. Cir. 6, S2009

<sup>45</sup> SEC Memo Cir. 9, s2014

- c. Approve the credit risk taking-activities of the bank based on the regulations of established approving authorities and reviews and endorses credit-granting activities.

2. *Audit Committee (AuditCom)*

The audit committee shall be composed of five (5) members of the Board, two (2) of whom shall be independent directors, preferably with accounting and finance experience. Each member shall have adequate understanding at least or competence at most of the company's financial management systems and environment.

Duties and Responsibilities:

- a. Check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.
- b. Perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management.
- c. Pre-approve all audit plans, scope and frequency one (1) month before the conduct of external audit.
- d. Perform direct interface functions with the internal and external auditors.
- e. Provide oversight of the bank's internal and external auditors.
- f. Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following in relation to this reform:
  1. A definitive timetable within which the accounting system of the Corporation will be 100% International Accounting Standard (IAS) compliant.
  2. An accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.
- g. Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the company through a step-by-step procedures and policies handbook that will be used by the entire organization.
- h. Monitor and evaluate the adequacy and effectiveness of the bank's internal control system.
- i. Recommend to the board of directors the appointment of the bank's internal auditor and the independent external auditor.

3. *Risk Oversight Committee (ROC)*

The Risk Oversight Committee shall be composed of at least three members of the Board of Directors determined by the Board, one of whom should be an independent director.

Duties and Responsibilities:

- a. The committee shall ensure that the corporation is taking appropriate measures to properly balance risks and rewards in the areas of credit, operations and technology. The committee shall periodically review and approve the

corporation's risk management framework, including the development of effective policies, processes and procedures.

- b. The committee shall review information relating to compliance with both external regulations and internal policies.
- c. The committee shall work with the Audit committee of the corporation's Board of Directors to ensure that any and all audit related deficiencies identified in any audit or order are properly addressed and that the Audit Committee is informed of management's progress in responding to any audit or order.

4. *Corporate Governance Committee (CorpGovCom)*

The Corporate Governance Committee shall be comprised of not less than three (3) members of the Board and shall include at least one (1) independent director. All members of the Committee shall have adequate understanding at least, or competence at most, of CSBI's operations and environment.

Duties and Responsibilities:

- a. Recommend to the Board of Directors the director nominees for election by the Bank's shareholders, including those nominees that are recommended by shareholders in accordance with the procedures set forth in the Bank's By-Laws.
- b. Recommend to the Board of Directors persons to fill vacancies on the Board of Directors
- c. Recommend to the Board of Directors committee appointments, removal of Directors from committees or from the Board of Directors, rotation of committee members and Chairs and committee structure and operation.
- d. Recommend to the Board of Directors changes in the Bank's corporate governance policies and procedures, including changes to the Manual of Corporate Governance.
- e. Monitor compliance with the Manual on Corporate Governance.
- f. Annually review and update if necessary this charter for consideration by the Board of Directors.
- g. Annually evaluate the performance and function of the Corporate Governance Committee.
- h. Report the matters considered and actions taken by the Corporate Governance Committee to the Board of Directors.
- i. It shall oversee the implementation of the Bank's Compliance Program and the performance of Compliance Office, as follows:
  - 1. Review, at least annually, the Bank Compliance Program in accordance with existing regulatory requirements;
  - 2. Monitor the implementation of the Bank's Compliance Program and ensure that compliance issues are resolved expeditiously;
  - 3. Monitor the Bank's compliance with the applicable laws, regulations and rules of regulatory agencies and recommend to the Board appropriate actions based on the review of the reports submitted to/by Compliance Office; and
  - 4. Review the regular reports submitted by Compliance Office as well as reports on significant issues, general status of Bank's level of compliance, relevant regulations, updates and other compliance matters.

5. *Nomination Committee (NomCom)*

The Board shall create a Nomination Committee which shall have at least three (3) voting Directors and one (1) non-voting Member in the person of the Head of Human Resources and Development Department.

- a. It shall pre-screen and shortlist all candidates nominated to become a member of the board of directors in accordance with the following qualifications and disqualifications.
- b. In consultation with the executive or management committee/s, re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.
- c. The Nomination Committee shall consider the following guidelines in the determination of the number of directorships for the Board:
  1. The nature of the business of the Corporations which he is a director;
  2. Age of the director;
  3. Number of directorships/active memberships and officerships in other corporations or organizations; and
  4. Possible conflict of interest.
- d. The optimum number shall be related to the capacity of a director to perform his duties diligently in general.
- e. The Chief Executive Officer and other executive directors shall submit themselves to a low indicative limit on membership in other corporate Boards. The same low limit shall apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence shall not be compromised.

6. *Compensation and Remuneration Committee*

The Compensation or Remuneration Committee shall be composed of at least three (3) members whom shall be a regular director.

Duties and Responsibilities:

- a. Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy and control environment.
- b. Designate amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the company successfully.
- c. Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers.
- d. Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their



existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.

- e. Disallow any director to decide his or her own remuneration.
- f. Provide in the Corporation's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year.
- g. Review (if any) of the existing Human Resources Development or Personnel Handbook, to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.
- h. Or, in the absence of such Personnel Handbook, cause the development of such, covering the same parameters of governance stated above.

7. *Related Party Transactions Committee (RPTCom)*

The Related Party Transactions Committee as a Board level committee with specific objectives and/or purpose to exercise appropriate oversight and implement effective control systems for managing all related party transactions that these are done on an arm's length basis. There is hereby constituted a board-level Related Party Transactions Committee composed of at least three (3) Board of Directors, two (2) of which must be an Independent Director including the Chairperson.

Duties and Responsibilities:

- a. Review and evaluate all related party transactions including the on-going basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified and monitored and subsequent changes in relationships with counterparties are captured.
- b. Evaluate and determine all material RPTs to make sure that these transactions are not undertaken on more favorable economic terms (such as: price, fees, interest rates, tenor or collateral requirements) and no corporate or business resources of the bank are misappropriate or misapplied.
- c. Determine any potential reputational risk issues that may arise as a result of or in connection with the transactions; In evaluating RPT's, the RPTCom shall take into account and identify the following:
  - 1. The related party's relationship to the bank and interest in the transaction;
  - 2. The material facts of the proposed RPT, including the aggregate value of such transactions;
  - 3. The Benefits to the bank proposed RPTs;
  - 4. The availability of other sources of comparable products or services;
  - 5. An assessment of whether the proposed RPT is on terms and conditions the bank shall have an effective price and must exercise due diligence.
- d. Ensure that transactions with RP (including write-off of exposures) are subject to periodic independent review or audit process.

- e. Ensure that all appropriate disclosure is made and shall include information on the approach to managing material conflicts of interest that are inconsistent with the policies.
- f. Report to the BOD on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- g. Oversee the implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs, including the periodic review of RPT policies the periodic review of RPT policies and procedures.

8. *Trust Committee (TrustCom)*

Trust Committee is to assist the Board of Directors in fulfilling its oversight responsibilities over the bank's fiduciary activities by ensuring an appropriate degree of independence between the activities of the bank and its trust department.<sup>46</sup> Consistent with this function, the Trust Committee is responsible in overseeing the fiduciary activities of the Trust Department. The Trust Committee shall composed of at least five (5) members including 1) President or any senior officer of the bank and 2) the Trust Officer. The remaining committee members, including the Chairperson are any of the following, Non-executive directors or Independent Directors who are not part of the Audit Committee and those considered as qualified "Independent Professionals".

Duties and responsibilities:

- a. Ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices;
- b. Ensure that policies and procedures that translate the Board's objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective;
- c. Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities;
- d. Adopt an appropriate organizational structure/staffing pattern and operating budgets that shall be enable the Trust Department to effectively carry out its functions;
- e. Oversee and evaluate performance of the Trust Officer;
- f. Conduct regular meetings at least once every quarter;
- g. Report regularly to the BOD on matters arising from fiduciary activities.

9. *Information Technology Steering Committee (ITSC)*<sup>47</sup>

The Information Technology Steering Committee ("ITSC") is a Committee appointed by the Board of Directors, performs the functions outlined in this Charter, for each of the Bank's departments and branches that have operation requiring oversight by the Committee. The Information Technology Steering Committee composed of at least three (3) members of the Board of Directors.

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<sup>46</sup> BSP Cir. No. 766

<sup>47</sup> BSP Cir. No. 808

Duties and Responsibilities:

ITSC shall recommend to the Board the information technology strategy and its implementation, together with relevant policies. To facilitate its oversight, the Committee will receive information from management (and external advisors) in relation to the following matters. These matters are not exhaustive and may change from time to time. As this Committee is a new Committee of the Board it will adopt a phased approach to implementing its oversight of the areas below. During its initial year, focus will be on Technology Strategy and Innovation.

- a. Technology Strategy and Innovation
- b. Technology Operating Model and Governance
- c. Technology Investment Oversight
- d. Technology Operating Performance
- e. Technology Risk and Security

The ITSC will refer to the Audit Committee or Risk Committee any matters that have come to the attention of the ITSC that are relevant for nothing or consideration, or which should be dealt with by, the Audit Committee or Risk Committee.

**E. MANAGEMENT COMMITTEE**

Senior Management, headed by the President, consists of a core group of senior officers responsible for overseeing the Bank's day-to-day operations. They have the necessary skills to manage businesses under their supervision, as well as impose appropriate control over key individuals in these areas. They contribute to good governance by supervising line managers in specific business areas consistent with Board-approved policies and procedures. To assist Management in overseeing the Bank's day-to-day operations, increase efficiency and provide greater focus on various key areas of operations. The following Management Committee Level have been created by the Board:

*1. Anti-Money Laundering Committee (AMLACom)*

A Management Level Committee tasked to assist the Board in fulfilling its oversight responsibility over the Bank's AML Compliance management to make sure that the bank complies with the provisions of the AMLA, as amended, its Revised Implementing Rules and Regulations (RIRR), and BSP regulations.

Duties and Responsibilities:

- a. The Committee shall responsible for ensuring the continuous monitoring of activities which partake of, or may lead to, money laundering activities, and shall report the same to the Anti-Money laundering Council, or to other agencies, whenever proper and necessary.
- b. The Committee shall develop and recommend internal guidelines and policies in establishing anti-money laundering measures in furtherance of the anti-money laundering laws and regulations of the Philippines, as may be established by competent authorities and/or agencies, as the case may be.
- c. The Committee was established:
  1. To exercise oversight function on Bank's compliance with the Anti-Money Laundering Act, as well as regulations of the BSP, AMLC, and other regulatory bodies and agencies.

2. To evaluate / investigate and determine the eligibility of transactions reported as suspicious prior to submission of the report to AMLC.
3. To formulate, together with the Chief Compliance Officer, anti-money laundering prevention programs and policies.
4. To ensure, together with the Chief compliance Officer, that the Anti-Money Laundering Manual is reviewed and updated at least once a year.
5. Provide policy direction in the implementation of the AMLA and other applicable laws, rules and regulations.
6. Propose to the Board, for implementation of such measures as may be inherent, necessary, implied incidental and justified under the Anti-Money Laundering Manual in counteracting and preventing money laundering, subject to such limitations as provided for by law.
7. Maintain and monitor the capability of the Bank's AMLC computerized system, pursuant to requirements of Subsection X805.3.a of the MORB, requiring an electronic monitoring system for money laundering.
8. Propose to the Board, for implementation of any administrative sanctions for the violation of employees or officers of the Bank of any laws, rules, regulations, orders or resolutions issued by the BSP, AMLC or any other authorized agency, or for violation of any bank rules or regulations.
9. Receive, deliberate and take the appropriate action in respect of any request from the BSP and/or the AMLC. However, the Committee may refuse to comply with any such request, advice or directive where the action sought therein contravene the provisions of existing laws and regulations.

## 2. *Asset and Liability Committee (ALCO)*

This committee is tasked to manage the Bank's asset and liability consistent with the Bank's liquidity, capital adequacy, growth, risk tolerance & appetite and profitability goals. This committee as a management committee with specific objectives and/or purpose to assist the Board of Directors on their course of actions and non-actions.

### Duties and Responsibilities:

- a. Review policy/ies affecting the Bank's Asset/Liability Management Policy, general policy relating to liquidity, interest rate risk management, capital management, investments, hedging and the use of derivatives, and other policies and procedures relating to asset and liability management as may be consistent with the ALM Policy prior to submission to the Executive Committee and/or ultimately to the Board of the Directors for approval.
- b. Propose the respective Department and/or Unit the adoption, amendment, or modification of policy/ies on Asset/Liability Management Policy; Investment Policy; Liquidity Policy; Management Policy; Capital Policy; and other related asset/liability accounts, including contingent accounts.
- c. Conduct review of the Bank's policies on Asset/Liability Management Policy; Investment Management Policy; Liquidity Policy; Liability

- Management Policy; Foreign Exchange Policy; Interest Rate risk Policy; Capital Policy; and other related asset/liability accounts, including contingent accounts at least once every two years.
- d. Review all changes in Department Manuals of member Units or Department prior to the approval of the Board Directors.
  - e. Adopt, amend, or modify the foregoing Charter subject to the approval of the Board of Directors.
  - f. Adopt, amend, or modify its Internal Rules of Procedure.
  - g. Call or invite other Bank personnel in issues or matters affecting the Bank's general policy relating to liquidity, interest rate risk management, capital management, investments, hedging and the use of derivatives, and other policies and procedures relating to asset and liability management as may be consistent with the ALM Policy.
  - h. Resolve conflicts, procedural issues, or disputes involving member officer, departments and/or units engaged in the initiation, processing, monitoring or supervision, collection, remedial and recovery of non-performing loans policies of the Bank. Provided, any unresolved conflicts, procedural issues, or disputes shall be elevated to the Executive Committee.
3. *Credit Committee (CreCom)*
- This committee regularly reviews and approves credit proposals within the authority and limits provided by the Board to decide on consumer or commercial loan proposals. This management level committee has its specific objectives and/or purpose to implement policies of the Bank on the initiation, processing, monitoring or supervision, collection of all outstanding loans, plus the remedial and recovery of non-performing loans.

Duties and Responsibilities:

- a. Review credit policy/ies of the Bank affecting the initiation, processing, monitoring or supervision, collection, remedial and recovery of non-performing loans of the Bank proposed or initiated by member Departments or Units prior to submission to the submission to the Executive Committee and/or ultimately to the Board of the Directors.
- b. Conduct mandatory review of credit policy/ies affecting the initiation, processing, monitoring or supervision, collection, remedial and recovery of non-performing loans of the Bank once every two (2) calendar years.
- c. Review all changes in Department Manuals of member Units or Department prior to the approval of the Board of Directors.
- d. Adopt, amend, or modify the foregoing charter subject to the endorsement of Executive Committee and subsequent approval of the Board of Directors.
- e. Adopt, amend, or modify its Internal Rules of Procedure.
- f. Propose to the respective Department and/or Unit concerned the adoption, amendment, or modification of policy/ies covering the initiation, processing, monitoring, or supervision, collection, remedial and recovery of non-performing loans of the Bank.
- g. Call or invite resource persons to give insight to address issues or matters affecting the initiation, processing, monitoring or supervision, collection, remedial and recovery of non-performing loans of the Bank. and
- h. Resolved conflicts, procedural issues, or disputes involving member Office, Departments and/or Units engaged in the initiation, processing, monitoring or supervision, collection, remedial and recovery of non-performing loans

policies of the Bank. Provided, any unresolved conflicts, procedural issues, or disputes shall be elevated to the Executive Committee.

4. *Management Committee (ManCom)*

Management Level Committee with specific objectives and/or purposes to serve as the intermediate clearing house on all policies and procedures of the Bank on deposit generation and lending activities, asset and liability management, and all other aspect of banking within the parameters or limits granted by the Board of Directors.

Duties and Responsibilities:

- a. Review policy/ies submitted for approval of the Board of Directors endorsed by the Credit Committee, Asset-Liability Committee, AMLA Committee, Operations Committee, and Loan Committee, Discipline Committee, and other management level committees, affecting all policies or management guidelines, manuals or reports to any supervisory agencies of the government;
- b. Adopt, amend, or modify its Internal Rules of Procedure;
- c. Propose to the respective Department and/or Unit the adoption, amendment, or modification of all policy statements or established practice of the Bank;
- d. Call or invite Bank other personnel in issues or matters affecting all policy statements of the Bank;
- e. Resolve conflicts, procedural issues, or disputes raised by any or all of the management level committees;
- f. All other matters that may be assigned by the Board of Directors.
- g. Minutes of Meeting of ALCO, CRECOM, AMLACOM, OPCOM, LOANCOM, DISCOM, and other management level committees shall be confirmed by the Management Committee "MANCOM".
- h. Approved Policies & Procedures including the Minutes of the Management Committee "MANCOM" shall be confirmed by the Board of Directors.

5. *Operations Committee (OpCom)*

Management level committee which is in charge of monitoring operational flow of all departments, offices and units of the bank which all members of its committee shall report to the Chairman of the Committee or in his/her absence to the Vice Chairman of the Committee who shall preside the quorum.

Duties and Responsibilities:

- a. Approval of Policies and Procedures and received reports endorsed by the committees;
- b. Ensure that policies and procedures are in place and continue to be relevant, comprehensive, and effective;
- c. Oversee and provide guidance to the activities of each respective departments, units, and office.
- d. Resolve conflicts, procedural issues, or disputes involving member office, departments and or units engaged in processing, monitoring or supervision.

6. *Promotions Committee (PromCom)*

PromCom is a standing senior Management Committee which reports to the Compensation and Remuneration Committee thru the President. The primary purpose of this committee is to assist the board in fulfilling its responsibility with respect to overseeing the promotions, career growth, salary and rank distortion of Bank's personnel.

Duties and responsibilities:

- a. To validate, oversee, set standards, and screen the promotions of bank personnel prior to its endorsement to the President, and if necessary, to the Board for approval;
- b. To come up with guidelines on salary adjustment, assessment if the salary is aligned with the industry and to establish salary bracketing per rank so as to address salary distortion;
- c. To recommend manpower budget and monitor manpower expenses on a semestral basis;
- d. To decline or defer the promotions if the committee deems necessary.

7. *Discipline Committee (DisCom)*

Discipline Committee is a management level committee with specific objectives and/or purposes to implement employee-discipline policies of the Bank. This Charter shall apply to all employees of the bank, regardless of their status, except those Board Appointed Officers. Provided, these rules shall apply to officers holding concurrent positions requiring Board Appointment. The rules herein provided shall be in full force and effect unless expressly repealed by subsequent policy enactments.

Duties and Responsibilities:

- a. Adjudicatory Authority of the Personnel Discipline Committee – The Discipline Committee, sitting en banc, shall have exclusive authority to hear, receive evidence and decide with finality the following cases or complaints, to wit:
  1. Gross Violations of the Company's Code of Discipline or any relevant Company policy committed by any employee which under the Code of Discipline or is punishable by dismissal;
  2. Violations committed by any or all of the members of Discipline Committee;
  3. Violations of Anti-Sexual Harassment Policy; and
  4. Appeal from the Decision of the Divisions
- b. Administrative Authority of the Discipline Committee – The Discipline Committee, sitting en banc, shall have exclusive administrative power to:
  1. Enact or Amend the Charter or the Rules of Procedure of the Committee;
  2. Delegate the power to hear complaints or incidents as mentioned in Section 4, sub-paragraphs (a) (b) and (c);
  3. Create or designate special investigating officer or committee as the exigencies arise;
  4. Perform such other matters related to employee rights and privileges as maybe assigned by the Board or the President or the Chief Executive Officer of the Bank.

8. *Loan Committee (LoanCom)*

Loan Committee is the management level committee of the bank that analyzes and subsequently approves or rejects any loan that the initial loan officer does not have the authority to approve. This committee ensures that the loan meets standard lending policy and criteria. The committee can agree to fund and disburse the loan with a binding commitment.

Duties and Responsibilities:

- a. Review of all credit proposals from the Account Management Department and Branch Banking Group or authorized individual account officers, which are subject to the approval of the EXCOM or the BOARD as the case may be.
- b. Formulation and/or review of credit policies and procedures.
- c. Strict implementation of all credit policies and procedures.
- d. Approval of operating policies and procedures with regard to the Bank's credit and lending operation provided the same are within the bank's General Credit Policies approved by the Board of Directors.
- e. Review of past due accounts and items in litigation on a monthly basis.

**F. OFFICERS**

The By-Laws enumerated the various officers of the Bank and defined their respective duties and responsibilities. Other officers may be appointed and their duties defined by the Board as the exigencies of the service may require.

Each officer shall contribute his share in the pursuit of good corporate governance. His service shall be characterized by honesty and integrity, diligence and dedication, efficiency and effectiveness, loyalty and fidelity, adherence to sound banking practices and the rule of law, as well as fairness and equity to all depositors and clients constituting the banking public; his peers and colleagues in the Bank and the banking community, the Board and senior officers, and the public in general.

1. Qualifications of an Officer<sup>48</sup>

An officer shall have the following minimum qualifications:

- a. He shall be at least twenty-one (21) years of age; and
- b. He shall be at least a college graduate, or have at least five (5) years' experience in banking or trust operations or related activities or in a field related to his position and responsibilities, or have undergone training in banking or trust operations acceptable to the BSP.

Provided, however, that the trust officer who shall be appointed shall possess any of the following:

- a. at least five (5) years of actual experience in trust operations;
- b. at least three (3) years of actual experience in trust operations and must have:
  - 1) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or

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<sup>48</sup> MORB Sec. x142.2



- 2) completed a relevant global or local professional certification program; or
- c. at least five (5) years of actual experience as an officer of a bank and must have:
  - 1) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
  - 2) completed a relevant global or local professional certification program;
- c. He must be fit and proper for the position he is being proposed/appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to function such as knowledge and experience, skills and diligence.<sup>49</sup>

In assessing an officer's integrity/probity, consideration shall be given to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.<sup>50</sup>

An appointed officer has the burden to prove that he possesses all the minimum qualifications and none of the disqualifications by submitting the regulatory documentary requirements. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/ her failure to establish his/her qualifications for the position and results to his/her removal therefrom.<sup>51</sup>

## 2. Duties and Responsibilities of an Officers<sup>52</sup>

Duties and responsibilities of officers shall include among others the following:

- a. To set the tone of good governance from the top.

Bank officers shall promote the good governance practices within the Bank by ensuring that policies on governance as approved by the Board are consistently adopted across the Bank.

- a. To oversee the day-to-day management of the Bank.

Bank officers shall ensure that Bank's activities and operations are consistent with the Bank's strategic objectives, risk strategy, corporate values and policies as approved by the Board. They shall establish a bankwide characterized by strategically aligned and mutually reinforcing performance standards across the organization.

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<sup>49</sup>Sec. 2 BSP Cir. No. 889

<sup>50</sup> Sec. 2 BSP Cir. No. 889

<sup>51</sup> BSP Circular No. 887

<sup>52</sup>Sec. 4 BSP Cir. No. 749

- c. To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.

Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each Bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the Board for the performance of the Bank.

- d. To promote and strengthen checks and balances systems in the Bank.

Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, risk management, compliance and external audit functions.

Management should formulate an effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all stockholders and other stakeholders

### 3. Disqualifications of an Officers<sup>53</sup>

a. The disqualifications for directors mentioned in the Disqualification of Directors (Part III B 7) shall likewise apply to officers, except those stated in items “b.2)” and “b.7)”.

b. The spouses or relatives within the second degree of consanguinity or affinity are prohibited from holding officership positions across the following functional categories within the Bank:

- 1) Decision making and Senior Management function, e.g., chairman, president, chief executive officer, chief operating officer, general manager, and chief financial officer other than the treasurer or controller;
- 2) Treasury function, e.g., Treasurer and Vice President – Treasury;
- 3) Recordkeeping and financial reporting functions, e.g., controller and chief accountant;
- 4) Safekeeping of assets, e.g., chief cashier;
- 5) Risk management function, e.g., chief risk officer;
- 6) Compliance function, e.g., compliance officer; and
- 7) Internal audit function, e.g., internal auditor.

The spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or extension office of the Bank or their respective equivalent positions is disqualified from holding or being appointed to any of said positions in the same branch or extension office.

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<sup>53</sup> MORB Sec. x143.2

c. Any appointive or elective official, whether full time or part time, except in cases where such service is incident to financial assistance provided by the government or government owned or -controlled corporations (GOCCs) or in cases allowed under existing law.

d. Except as may otherwise be allowed under Commonwealth Act No. 108, otherwise known as “The Anti-Dummy Law”, as amended, foreigners cannot be officers or employees of the Bank.

4. Interlocking of an Officer<sup>54</sup>

A concurrent officership in different financial institutions may present more serious problems of self-dealing and conflict of interest. Multiple positions may result in poor governance or unfair competitive advantage. Considering the full-time nature of officer positions, the difficulties of serving two (2) offices at the same time, and the need for effective and efficient management, the following rules shall be observed:

As a general rule, there shall be no concurrent officerships, including secondments, between banks or, between a bank and a QB or an NBFIs. For this purpose, secondment shall refer to the transfer/detachment of a person from his regular organization for temporary assignment elsewhere where the seconded employee remains the employee of the home employer although his salaries and other remuneration may be borne by the host organization.

However, subject to prior approval of the Monetary Board, concurrent officerships, including secondments, may be allowed in the following cases:

- a. Between a bank and not more than two (2) of its subsidiary bank/s, QB/s, and NBFIs/s, other than investment house/s; or
- b. Between a bank and not more than two (2) of its subsidiary QB/s and NBFIs/s; or
- c. Between two (2) banks, or between a bank and a QB or an NBFIs, other than an investment house: Provided, That at least twenty percent (20%) of the equity of each of the banks, QBs or NBFIs is owned by a holding company or a bank/QB and the interlocking arrangement is necessary for the holding company or the bank/QB to provide technical expertise or managerial assistance to its subsidiaries/affiliates.

Aforementioned concurrent officerships may be allowed, subject to the following conditions:

1. that the positions do not involve any functional conflict of interests;
2. that any officer holding the positions of president, chief executive officer, chief operating officer or chief financial officer or their equivalent may not be concurrently appointed to any of said positions or their equivalent;
3. that the officer involved, or his spouse or any of his relatives within the first degree of consanguinity or affinity or by legal adoption, or a corporation, association or firm wholly- or majority-owned or controlled by such officer or his relatives

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<sup>54</sup> MORB Sec. x145

- enumerated above, does not own in his/its own capacity more than twenty percent (20%) of the subscribed capital stock of the entities in which the Bank has equity investments; and
4. that where any of the positions involved is held on full-time basis, adequate justification shall be submitted to the Monetary Board; or
  - d. Concurrent officership positions in the same capacity which do not involve management functions, i.e., internal auditor, corporate secretary, assistant corporate secretary and security officer, between a bank and one or more of its subsidiary QB/s and NBFI/s, or between bank/s, QB/s and NBFI/s, other than investment house/s: Provided, That at least twenty percent (20%) of the equity of each of the banks, QBs and NBFIs is owned by a holding company or by any of the banks/QBs within the group.
  - e. Concurrent officership positions as corporate secretary or assistant corporate secretary between bank/s, QB/s and NBFI/s, other than investment house/s, outside of those covered under item no. 4 above, provided, that proof of disclosure to and consent from all of the involved financial institutions, on the concurrent officership positions, shall be submitted to BSP.<sup>55</sup>
5. Confirmation of Appointment of an Officer<sup>56</sup>

The appointment of officers with rank of Senior Vice President (SVP) & up of the Bank shall be subject to confirmation by the Monetary Board.

Confirmation by the Monetary Board shall not be required in cases of promotion, other than to that which requires (i) prior Monetary Board approval or (ii) a different set of minimum qualifications or (iii) a different level of confirming authority as provided, in the same bank or appointment/transfer to another bank, QB, NBFI with trust authority or trust authority or trust corporation within a banking group, Provided that: the officer concerned has been previously confirmed or in the case of a compliance officer or trust officer who will be promoted to the rank of SVP or above (or equivalent rank), previously approved by the Monetary Board, his/her promotion/transfer requires the same level of confirming authority as provided: provided, further, that said officer has had continuous service within the same bank or banking group.

The appointment shall be deemed to have been confirmed by BSP, if after sixty (60) banking days from receipt of the complete required reports. No advice against said appointment has been received by the Bank.

An officer whose appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the board of directors of the bank, even if he /

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<sup>55</sup> BSP Cir. No. 851

<sup>56</sup> BSP Cir. No. 758

she has assumed the position to which he /she was appointed, pursuant to Section 16 of R.A. No. 8791.

## G. COMPLIANCE SYSTEM<sup>57</sup>

### 1. Compliance Program

The Board shall ensure that a Compliance Program is defined for the Bank and that compliance issues are resolved expeditiously.

- a. The Compliance Program shall be distinguished from the Risk Program and the Internal Audit Program.
- b. The Compliance Program shall take into account the size and complexity of operations of the Bank. It must clearly identify the avenues through which business risks may occur and correspondingly, compliance of the Bank in order to mitigate said business risks shall be institutionalized.
- c. An appropriate organizational structure must be in place to manage the Compliance Program. The compliance function shall be manned by full-time officers/ staff either embedded in operating departments, or in a department operating on its own. Coordination with the respective department heads shall be the responsibility of the Compliance Officer.
- d. In addition to the organizational structure, the duties and responsibilities of the Compliance Officer and other personnel involved in the compliance function must be defined explicitly.
- e. A compliance system which does not consistently ensure the integrity and the accuracy of documentary submissions shall be deemed as a basis to assess a bank as involved in unsafe and unsound practices.

The President and the Compliance Officer shall execute an affidavit, under oath, that the compliance system has been approved by the Board and that the Compliance Program reflects said approved system.

The program shall be updated at least annually to incorporate changing responses to evolving internal and external conditions.

### 2. Chief Compliance Officer

The Bank shall appoint a full-time Chief Compliance Officer to manage the Compliance Program. Given the importance of the compliance function, the Chief Compliance Officer is a senior officer functionally reporting to the Board. Such appointment/designation shall require prior approval of the Monetary Board.

The Chief Compliance Officer is the lead senior officer for purposes of administering the Compliance Program and interacting with the regulatory agencies on compliance-related issues. The principal function of the Chief Compliance Officer is to oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise. He shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to BSP.

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<sup>57</sup> BSP Cir. No. 747

In relation to Corporate Governance, the Chief Compliance Officer shall have the following duties and responsibilities<sup>58</sup>:

- a. Monitor compliance with the provisions and requirements of this Manual;
- b. Appear before the Securities and Exchange Commission upon summon on similar matters that need to be clarified by the same;
- c. Determine violation/s of the Manual and recommend penalty/sanction for violation thereof for further review and approval of the Board;

The Chief Compliance Officer may perform other functions such as:

- a. Identify, monitor and control compliance risks;
- b. Oversee and coordinate the implementation of the existing compliance program approved by the Board of Directors in line with the rules and regulations promulgated by the Bangko Sentral ng Pilipinas;
- c. Develop, initiate, maintain and revise policies and procedures for the general operation of the Compliance Program and its related activities;
- d. Collaborate with Management to identify, address and integrate significant legislative or regulatory compliance requirement into business activities;
- e. Monitor compliance activities on an institution-wide basis, and as necessary, coordinate compliance activities of other departments to remain abreast of the status of all compliance activities;
- f. Ensure that alleged violations of rules, regulations, policies, procedures and standards of conduct are properly addressed on a timely basis.
- g. Provide reports on a regular basis and as directed or requested, to keep the Board and Senior Management informed of the operation and progress of compliance efforts; and
- h. Act as independent review and evaluation body to ensure that compliance issues/concerns within the organization are being appropriately evaluated, investigated and resolved.

The appointment of the Chief Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C. All correspondence relative to his functions as such shall be addressed to said officer.

## **H. RISK MANAGEMENT<sup>59</sup>**

### **1. Risk Management Function**

Overall risk management function provides an oversight of the management of risks inherent in the institution's activities.

Per BSP Circular No. 749, Series of 2012 –“Guidelines in Strengthening Corporate Governance in BSP supervised FIs”–the risk management function is generally responsible for:

- a. Identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;

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<sup>58</sup> SEC Memo Cir. 6, S2009

<sup>59</sup> Sec. 5 BSP Cir. No. 749

- b. Monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the bank's internal capital adequacy assessment on an on-going basis;
- c. Monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and,
- d. Reporting on a regular basis to the Board of Directors of the results of risk assessment and monitoring.

2. Chief Risk Officer

The Bank shall appoint a Chief Risk Officer (CRO) who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times as such, albeit the CRO may report to the President or Senior Management, he shall have direct access to Board and the Risk Oversight Committee without any impediment. In this regard, the Board shall confirm the performance ratings given by President or Senior Management to the CRO.

The CRO shall have sufficient stature, authority and seniority within the Bank. This will be assessed based on the ability of the CRO to influence decisions that affect the Bank's exposure to risk. The CRO shall have the ability, without compromising his independence, to engage in discussions with the Board, President and other Senior Management on key risk issues and to access such information as he deems necessary to form his or her judgment. The CRO shall meet with the Board/Risk Oversight Committee on a regular basis and such meetings shall be duly minuted and adequately documented.

CROs shall be appointed and replaced with prior approval of the Board. In cases, when the CRO will be replaced, the Bank shall report the same to BSP and SEC within five (5) days from the time it has been approved by the Board.

**I. INTERNAL CONTROL AND INDEPENDENT ASSURANCE**

The minimum internal control mechanisms for Management's operational responsibility shall center on the President being ultimately accountable for the Bank's organizational and procedural controls. The Bank should have an effective system of internal control that will ensure the integrity of its financial reports and protection of its assets for the benefit of all stockholders and other stakeholders.<sup>60</sup>

The Bank shall have in place an independent internal audit function through which it's Board, Senior Management and Stockholders shall be provided with an independent and reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.

1. Internal Auditor

- a. The Corporation shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors,

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<sup>60</sup> SEC Memo Cir. 9 , s2014

through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.

- b. The Internal Auditor shall report to the Audit Committee.
- c. The minimum internal control mechanisms for management's operational responsibility shall center on the President / CEO, being ultimately accountable for the Corporation's organizational and procedural controls.
- d. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

3. External Auditor

- a. An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the company, an external auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.
- b. The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the company's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.
- c. The external auditor of the company shall not at the same time provide the services of an internal auditor to the same client. The Corporation shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.
- d. The company's external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.
- e. If an external auditor believes that the statements made in the company's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

## **J. CODE OF DISCIPLINE<sup>61</sup>**

The Bank is committed in conducting business honestly, legally, and with the highest sense of integrity. Every employee is expected at all times and in all circumstances to uphold the standard of compliant and ethical behavior. The Code of Discipline imposes a duty to all employees to know and comply with the letter and spirit of all company policies, regulations, and requirements related to their work. While the Code neither presents a rule that answers every question nor addresses every specific situation, the same nonetheless provides guidance on everyone's responsibilities to the company and colleagues. It is therefore each and everyone's duty to understand the general policies and those which specifically apply to his or her area of responsibility and to conduct business accordingly. Those who supervise personnel are expected and in fact obliged to take efforts to ensure that they understood and follow

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<sup>61</sup> CSBI Employees Handbook and Code of Discipline



company policies. All employees are expected to know that anyone who violates the Company Policies or fails to comply with the standards set forth in the Code of Discipline shall be subjected to disciplinary actions in which proper penalties, including dismissal, may be imposed.

The Code of Discipline includes the following provisions:

- a. Discussion on the disciplinary process.
- b. General policies to establish a professional working environment and secure a favorable reputation for the Bank.
- c. Corrective measures for unacceptable behavior or failure to comply with the Bank's rules, policies and procedures.
- d. Schedule of penalties for attendance and punctuality, attire requirements, conduct and behavior, dishonesty, health, safety and security, reporting of violations, and information security.

The Code of Discipline also includes provisions on management of personal finances, conflict of interest, anti-sexual harassment, non-disclosure of information, and insider information.

## **K. DISCLOSURE AND TRANSPARENCY**

The essence of corporate governance is transparency. It is therefore essential that all material information about the Bank which could adversely affect its viability or the interests of the stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

*The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the SEC for the interest of its stockholders and other stakeholders.*<sup>62</sup>

Likewise, the minimum information required to be posted on the company's website, arranged under SEC-recommended topic headings, shall be retained for a period of five (5) years. Any items in the required website template prescribed by the SEC could be added or removed any time as the need arises.<sup>63</sup>

1. Remuneration Policy<sup>64</sup>

The Bank aims to provide the Board and its officers & staff with an industry-competitive compensation package to attract, motivate and retain highly qualified personnel.

The salary scales of its officers and staff are generally based on their positions and ranks. These are reviewed annually and adjusted as needed, based on their performance. The Bank also grant fixed bonuses in accordance with the law. The Board sees to it that this strategy is regularly reviewed. This ensure that the policy commensurate with the corporate and individual performance and benchmarked.

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<sup>62</sup> SEC Memo Cir. No. 9, s2014

<sup>63</sup>SEC Memo Cir. No. 11, s2014

<sup>64</sup> 2016 CSBI Annual Report

Each director receives a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of the Bank's overall strategy.

2. Whistle-blowing Policy

The Bank requires all its employee to directly report any renowned impropriety or malpractice committed by a co-employee to their department heads or directly to the Human Resources Department or Internal Audit Department Head for investigation, the concealment or non-reporting of which is considered as an impropriety or malpractice in itself. The policy likewise requires the protection of informants, i.e., employees reporting such incidents in good faith from any form of harassment and thus considers any attempt to determine their identities as a breach of confidentiality subject to disciplinary sanctions.

3. Related Party Transactions Policy

The Bank has a Related party Transactions Policy that provides specific guidelines and procedures to ensure that dealings with related parties are made in the regular course of business in an arm's-length basis and upon terms not less favorable to the Bank than those offered to others that Bank's resources are not misused.

4. Insider Trading Policy

Reporting insiders are required to disclose their and their associates' initial beneficial ownership in the Bank's shares and any changes thereof within two (2) trading days after their election/appointment in office and from date of said changes, respectively. They are likewise prohibited from buying and selling Bank's shares upon obtaining material non-public information up to two (2) trading days after such information is disclosed.

5. Conflict of Interest Policy

This Policy ensure that the Bank's interests are duly protected, it requires all employees to make sure that their personal interests do not conflict with the duties which the bank perform for its clients and those of their affiliates. This policy prohibits employees from engaging into certain conflict of interest and directives to disclose procedures in case of possible conflict of interest scenarios.

## **L. COMMUNICATION PROCESS**

- a. This manual shall be available for inspection by any stockholder of the Corporation at reasonable hours on business days.
- b. All directors, executives and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

## **M. TRAINING PROCESS**

- a. If necessary, funds shall be allocated by the President / CEO for the purpose of conducting an orientation program or workshop to operationalize this Manual.

- b. A director shall, before assuming as such, be required to attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institute.

#### **N. REPORTORIAL OR DISCLOSURE SYSTEM OF COMPANY'S CORPORATE GOVERNANCE POLICIES**

- a. The reports or disclosures required under this Manual shall be prepared and submitted to the Commission by the responsible Committee or officer through the Corporation's Compliance Officer;
- b. All material information, i.e., anything that could potentially affect share price, shall be publicly disclosed. Such information shall include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership;
- c. Other information that shall always be disclosed includes remuneration (including stock options) of all directors and senior management corporate strategy, and off balance sheet transactions;
- d. All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report;
- e. The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the stakeholders;
- f. An employee is prohibited to communicate material non-public information about the bank to any person, unless the bank is ready to simultaneously disclose the material non-public information to the Philippine Stock Exchange. This rule does not apply if the disclosure is made to:
  - 1. A person who is bound by duty to maintain trust and confidence to the bank such as but not limited to its auditors, legal counsels, investment bankers, financial advisers; and
  - 2. A person who agrees in writing to maintain in strict confidence the disclosed material information and will not take advantage of it for his personal gain.

Selective disclosure of material non-public information to securities analysts, institutional investors or other third parties who do not fall within the exceptions above-mentioned, ahead of the general public, shall be deemed a violation of this rule.

Management shall establish and implement internal control that will ensure that its directors, officers, employees and any other person who is privy to the material non-public information shall comply with the requirement of this rule.

#### **O. MONITORING AND ASSESSMENT**

Each Committee shall report regularly to the Board of Directors.

- a. The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided on this Manual.

- b. This Manual shall be subject to annually review unless the same frequency is amended by the Board.
- c. All business processes and practices being performed within any department or business unit of Citystate Savings Bank, Inc. that are not consistent with any portion of this manual shall be revoked unless upgraded to the compliant extent.

**P. PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL**

- a. To strictly observe and implement the provisions of this manual, the following penalties shall be imposed, after notice and hearing, on the company's directors, officers, and staff of the Bank, in case of violation of any of the provision of this Manual:
  - 1. In case of **first violation**, the subject person shall be reprimanded.
  - 2. Suspension from office shall be imposed in case of **second violation**. The duration of the suspension shall depend on the gravity of the violation.
  - 3. **For third violation**, the maximum penalty of removal from office shall be imposed.
- b. The commission of a third violation of this manual by any member of the board shall be a sufficient cause for removal from directorship.
- c. The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board thru the President / CEO the imposable penalty for such violation, for further review and approval of the Board.

Pursuant to the requirement of the Securities and Exchange Commission, this Manual on Corporate Governance is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Pasig on May 26, 2017.

**SIGNATURES:**

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**Irish Janne B. Escio**  
Chief Compliance Officer

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**Dominic Alfred A. Cabangon**  
Chairman of the Board