



CHINA BANK SAVINGS

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MANUAL ON CORPORATE GOVERNANCE (Revised 2022)

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I. INTRODUCTION

This Manual shall serve as guide / reference of China Bank Savings, Inc. (the Bank) in complying with, but not limited to the following:

- a. SEC Memo No. 6 Series of 2009 re: Revised Code of Corporate Governance
- b. BSP Circular No. 969 re: Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions
- c. Relevant provisions of the Manual of Regulations for Banks (MORB), as amended.

The Board of Directors, Management, Officers and Staff of China Bank Savings, Inc. hereby formally commit to the principles and best practices contained in this Manual, and acknowledge that the same shall continue to guide the attainment of our corporate goals.

II. OBJECTIVES

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

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

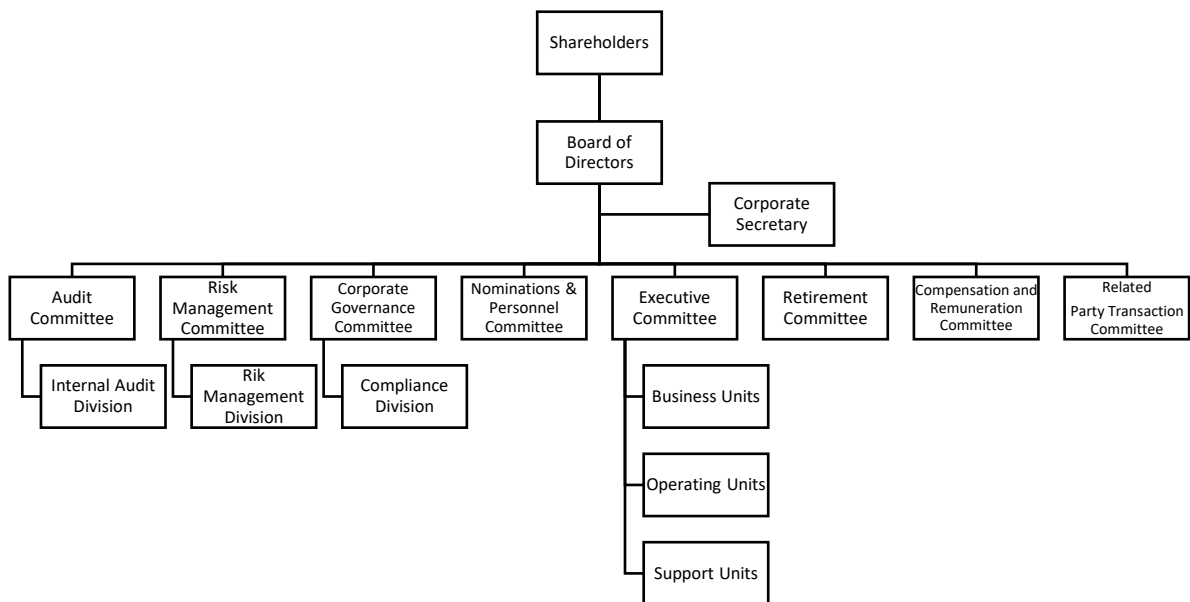
The Bank adheres to the following basic principles of good governance:

- a. Transparency or the availability of information through expansion of public disclosure requirements.
- b. Accountability involves providing adequate incentives and instilling in the business environment the discipline to act in the best interest of the Bank.
- c. Fairness or equity implies that the rights of all concerned parties are protected. Directors should not only promote the interest of the stockholders but also that of other stakeholders such as depositors, investors, borrowers and the banking public in general.
- d. Integrity or Bank's strict adherence to a moral code, reflected in transparent honesty and complete harmony in what one thinks, says and does.

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III. CORPORATE GOVERNANCE STRUCTURE

The Board of Directors is at the core of China Bank Savings corporate governance structure, wherein the board represents our shareholders.



As part of China Bank Savings’ adherence to the rule on transparency in corporate governance, it shall create a Corporate Governance Structure (CGS), showing the Bank’s line of accountability as regards corporate governance. The same shall be reviewed and updated periodically, or as the need arises by the Corporate Governance Officer and shall form part of the annual report.

IV. COMPOSITION OF THE ORGANIZATION

A. Board of Directors

1. Composition of the Board

To the extent practicable, the members of the Board of Directors shall be selected from a broad pool of qualified candidates. Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors to promote the independent oversight of management by the board of directors.¹

The non-executive directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

1.1 Limits on Membership

¹ *Manual of Regulations for Banks (MORB), Section 132.b*

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1.1.1 Limit on Numbers

- a. The Board shall be composed of at least five (5) but not more than fifteen (15) members elected by the stockholders, where at least one-third (1/3) but not less than two (2) members of the Board shall be independent directors: *Provided*, That any fractional result from applying the said requirement, shall be rounded up to the nearest whole number or such number as to constitute at least one-third of the members of the Board, whichever is higher.²
- b. In case of merger, the number of directors may be increased up to the total number of the members of the Board of Directors of the merging/ consolidating bank, provided for in their respective Articles of Incorporation, but in no case to exceed twenty-one (21). The Board shall determine the appropriate number of its members to ensure that the number thereof is commensurate with the size and complexity of the Bank's operations.³

1.1.2 Limitation on Nationality of Directors

Non-Filipino citizens may become members of the Board of Directors of the Bank to the extent of the foreign participation in the equity of the Bank. *Provided*, That pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68) a majority of the directors must be residents of the Philippines.⁴

1.2 Definition of Directors⁵

Directors shall include:

- 1.2.1 Directors who are named as such in the articles of incorporation;
- 1.2.2 Directors duly elected in subsequent meetings of the stockholders; and
- 1.2.3 Those elected to fill vacancies in the Board of Directors.

1.3 Independent and Non-Executive Directors

The Bank, in selecting independent directors and non-executive directors, must consider the number and types of entities where the candidate is likewise elected as such, to ensure that he will be able to devote sufficient time to effectively carry-out his duties and responsibilities. *Provided*, That the rules and regulations of the

² MORB Section 132.a and c (Composition of the board of directors)

³ MORB Section 132.a (Composition of the board of directors)

⁴ MORB Section 132.d (Composition of the board of directors)

⁵ MORB Section 132.b (Qualifications of a director)

Securities and Exchange Commission (SEC) governing public and listed companies on the maximum number of companies of the conglomerate in which as individual can serve as independent director shall apply to independent directors of all types of banks.

The policy on limitation of independent directorship is discussed further in item 1.3.4 below.

1.3.1 Definition of Independent Director⁶

Must be an owner of at least one (1) share of stock of the Bank.

“Independent Director” is defined as a person who, apart from his fees and shareholdings, is independent of management and the controlling shareholder and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director of the Bank, and includes, among others, any person who -

- a. is not or was not a director, officer, or employee of the Bank, its subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment;
- b. is not or was not a director, officer, or employee of the Bank’s substantial stockholders and their related companies for the last three (3) years counted from the date of his election/appointment;
- c. is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the Bank, or in any of its related companies or of its majority corporate shareholders;
- d. is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the Bank or any of its related companies or of any of its substantial stockholders;
- 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;
- f. is not or was not retained as professional adviser, consultant, agent or counsel of the Bank, any of its related companies or any of its substantial

⁶ MORB, Section 131.g (Definition of terms)

shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;

- g. is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the BSFI 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;
- h. was not appointed in the Bank, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;
- i. is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders; and
- j. is not employed as an executive officer of another company where any of the Bank's executives serve as directors.

1.3.2 Definition of Terms

The foregoing terms and phrases used in items (a) to (j) of 1.3.1 above shall have the following meaning:

- a. **Parent** shall refer to a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries;
- b. **Subsidiary** shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.
- c. **Affiliate** is a juridical person that directly or indirectly, through one (1) or more intermediaries, is controlled by, or is under common control with the bank or its affiliates.

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- d. **Related interests** as defined under Sections 12 and 13 of R.A. No. 8791 shall mean individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common law, and two (2) or more corporations owned or controlled by a single individual or by the same family group or the same group of persons.
- e. **Control** of an enterprise exists when there is:
 - i. Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
 - ii. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
 - iii. Power to appoint or remove the majority of the members of the Board of Directors or equivalent governing body; or
 - iv. Power to cast the majority votes at meetings of the Board of Directors or equivalent governing body; or
 - v. Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of twenty percent (20%) or more of a class of voting shares of a company.

Should the Bank choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the Bank shall submit a written commitment that (a) shares owned or held are exclusively for investment purposes; (b) the Bank stockholder will not serve on the Board of Directors and will not nominate any candidate to serve on the Board of Directors or otherwise seek board representation; (c) the Bank stockholder will have only limited contacts with Bank management that are customary for interested shareholders; (d) the Bank stockholder will engage only in normal and customary transactions with the enterprise; and (e) the Bank will not pledge the shares acquired to secure a loan with any institution.

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- f. **Related company** shall refer to another company which is:
 - i. Its parent or holding company;
 - ii. Its subsidiary or affiliate; or
 - iii. A corporation where the Bank or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the Board of Directors or a partnership where such majority stockholder is a partner.

- g. **Stockholder** shall refer to any stockholder of record in the books of the bank the Bank, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholding in the Bank, individual and/or collectively with the stockholdings of: (1) his spouse and/or relative within the first degree by consanguinity of affinity or legal adoption; (2) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (3) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the Bank.

- h. **Substantial or major shareholder** shall refer to a person, or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the Board of Directors of a Bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

- i. **Close family members** shall refer to persons related to the Bank's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the Bank's DOS.

- j. **Majority stockholder or majority shareholder** shall refer to a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a bank.

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1.3.3 Lead Independent Director⁷

- a. In case the Chairman is not an independent director and if the roles of the Chairman and the CEO are combined⁸ and to avoid the possible abuse of power and authority, and potential conflict of interest, the Board shall appoint among the independent directors a strong “lead director”. The Lead Independent Director shall have sufficient authority to lead the Board in cases where management has clear conflict of interest.

The Board should ensure that the Lead Independent Director can function in an environment that allows him to effectively challenge the CEO as circumstances may warrant.

b. Functions of Lead Independent Director

- i. Serves as an intermediary between the Chairman and the other directors when necessary;
- ii. Convenes and chairs meeting of the independent directors and/or non-executive directors without the presence of the executive directors;
- iii. Contributes to the performance evaluation of the Chairman, as required; and
- iv. Lead the independent directors at board meetings in raising queries and pursuing matters.

1.3.4 Term Limits for Independent Directors⁹

- a. An independent director may only serve as such for a maximum cumulative term of nine (9) years.
- b. After which, the independent director shall be perpetually barred from serving as independent director in the same Bank, but may continue to serve as regular director. The maximum cumulative term for independent directors shall be reckoned from 2012.¹⁰
- c. In accordance with SEC rules, in case the Bank wants to retain an ID who has served for more than nine (9) years, the Bank is required to provide

⁷ MORB, Section 132.b (Chairperson of the board of directors)

⁸ MORB, Section 132.b The exception to allow the Chairman to be the CEO shall be approved by the Monetary Board

⁹ MORB Section 132.b.2 (Independent and non-executive directors)

¹⁰ BSP Circular No. 1129 (Amendment to Corporate Governance Guidelines)

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the Commission with meritorious justifications for the re-election and to seek the shareholders' approval during the annual stockholders' meeting.

- d. It shall be the responsibility of the Corporate Secretary to ensure that the above-mentioned requirements for an independent director are complied with during nomination/election.

1.3.5 Limit on Directorship of Independent Director and Non-Executive Directors ¹¹

There shall be no limit in the number of covered companies a person may be elected as non-executive director or independent director, except in conglomerates where an ID can only be elected up to five (5) listed companies within the conglomerate. Each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement.

1.3.6 Termination/Cessation of Independent Director/s ¹²

- a. Independent directorship shall only be terminated or ceased in case the independent director voluntarily resigns as such, his office was terminated for a cause (such as disqualification), and for other reasons based on existing rules and regulations.
- b. Such resignation, disqualification or cessation from independent directorship shall be reported to the Securities and Exchange Commission within five (5) days from such resignation, disqualification or cessation, by the Office of the Corporate Secretary.
- c. The vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination Committee, otherwise, said vacancies shall be filled by the stockholders in a regular or special meeting called for that purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

1.4 Definition of Executive Director ¹³

A director who has executive responsibility of day-to-day operations of a part or the whole of the organization.

1.5 Definition of Non-Executive Director

¹¹ MORB Section 132.b.1 (Independent and non-executive directors)

¹² SEC Memo Cir 16, s2002

¹³ SEC Memo Cir 24 s2019, Introduction, item no. 5 on Definition of Terms

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1.5.1 A director who has no executive responsibility and does not perform any work related to the operations of the corporation.

1.5.2 Non-executive members of the Board of Directors shall refer to those who are not part of the day to day management of banking operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.¹⁴

1.6 Chairman of the Board of Directors¹⁵

1.6.1 The roles of the Chairman may include, among others the following:

- a. To provide leadership in the Board of Directors. The chairperson of the Board shall ensure effective functioning of the Board, including maintaining a relationship of trust with Board members.
- b. To make certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
- c. To ensure that the Board takes an informed decision. The chairperson of the Board shall ensure sound decisions making process and he should encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed within the decision-making process.

In relation to the above, he shall guarantee that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;

- d. Facilitate discussion on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- e. Ensure that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- f. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors;

¹⁴ MORB, Section 131.i

¹⁵ MORB, Section 132

- g. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

1.6.2 Qualifications of the Chairman of the Board¹⁶

In order to promote check and balance, the Chairman should be:

- a. A non-executive director or an independent director;
- b. Must not have served as Chief Executive Officer of the Bank for the past three (3) years.

1.6.3 Separation of Duties of the Chairman and Chief Executive Officer¹⁷

The roles of the Chairman and CEO should be separated to foster appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board.

To carry out item 1.6.1 above, the roles of the Chairman of the Board and the Chief Executive Officer are segregated, with a clear division of duties and responsibilities.

Only in exceptional cases and subject to the approval of the Monetary Board may the position of the Chairman and CEO is allowed. In this, case a lead Independent Director shall be appointed.¹⁸ Policies governing the Lead Independent Director are discussed in section IV.A item 1.3.3 above.

1.7 Chief Executive Officer

1.7.1 Duties of the Chief Executive Officer¹⁹

In accordance with the amended By-laws, the President shall be the Chief Executive Officer of the Bank, and with the following roles, duties and responsibilities:

- a. Determines the corporation's strategic direction and formulates and implements its strategic plan on the direction of the business;

¹⁶ MORB, Section 132.b

¹⁷ SEC Memo Cir 24 s2019, Recommendation no. 5.5

¹⁸ MORB, Section 132.b

¹⁹ SEC Memo Cir 24 s2019, Recommendation no. 5.5

- b. Communicates and implements the corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
- c. Oversees the operations of the corporation and manages human and financial resources in accordance with the strategic plan;
- d. Has a good working knowledge of the corporation's industry and market and keeps up-to-date with its core business purpose;
- e. Directs, evaluates and guides the work of the key officers of the corporation;
- f. Manages the corporation's resources prudently and ensures a proper balance of the same;
- g. Provides the Board with timely information and interfaces between the Board and employees;
- h. Builds the corporate culture and motivates the employees of the corporation; and
- i. Serves the link between internal operations and external.

1.8 Nomination and Election of Directors

- 1.8.1 The nomination of Directors shall be governed by the policies to be issued by the Office of the Corporate Secretary and shall form part of this manual as an Annex. See **Annex 1** for the updated Nomination Rules of the Bank.
- 1.8.2 The said rules shall determine the reasonable time within which nomination in writing may be submitted using the prescribed form either to any of the members of the Nominations Committee, the Corporate Governance Committee or the Office of the Corporate Secretary.
- 1.8.3 Any shareholder of record, including a minority shareholder, who is entitled to a notice and to vote during the Annual Stockholders' Meeting, is qualified to nominate or be nominated.
- 1.8.4 The Committee/s shall pre-screen the qualifications and/or supporting papers, prepare a final list of candidates containing all relevant information about the nominees, and indicate the nominees for independent directors, if any.

1.9 Vacancies in the Board

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1.9.1 In accordance with the Bank's By-Laws, vacancies in the Board of Directors may be filled by election or appointment made by the remaining directors, if still constituting a quorum, or otherwise said vacancy shall be filled by the stockholders in a regular or special meeting called for the purpose.²⁰

1.9.2 The person so elected to fill a vacancy shall hold office only for the unexpired term of his predecessor in office. Whether any such vacancy shall or shall not be filled, shall be left to the discretion of the Board of Directors.

1.9.3 The Board of Directors may use professional search firms or other external sources of candidates when searching for candidates for the Board.

1.10 Retirement of the Board Members

In order to promote dynamism and to avoid perpetuation of power, the Bank shall determine a policy it shall adopt on retirement for directors and officers as part of the succession plan. The said policy shall form part of this Manual, as approved by the Board of Directors.

2. Powers/Responsibilities, Duties and Functions of the Board of Directors

The duty of care and loyalty are the two key elements of the fiduciary duty of the Board. The duty of care requires the members of the Board to act on a fully informed basis, in good faith, with due diligence and care while the duty of loyalty is where the board members should act in the best interest of the Bank and all its stakeholder, such as the depositors, creditors, employees and regulators.

2.1 Powers and Authority of the Board of Directors

The corporate powers of China Bank Savings, Inc. shall be exercised, its business conducted and all its property shall be controlled and held by its Board of Directors. The powers of the Board of Directors 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.

2.2 Primary Responsibilities of the Board of Directors

2.2.1 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.

²⁰ Amended By-Laws, Article IV, Section 8

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2.2.2 The Board of directors is primarily responsible for defining the Bank's vision and mission, approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the Board of Directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution.

2.2.3 The Board should oversee the development of and approve the Bank's business objectives and strategy, and monitor their implementation, in order to sustain the Bank's long term viability and strength.

2.3 Specific Duties and Responsibilities of the Board of Directors²¹

2.3.1 **To define the Bank's corporate culture and values.** It shall establish a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard the Board shall:

- a. Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the Bank as well as the corresponding disciplinary actions and sanctions.

The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.

- b. Consistently conduct the affairs of the Bank with a high degree of integrity and play a lead role in establishing the Bank's corporate culture and values.

The Board shall establish, actively promote, and communicate a culture of strong governance in the Bank, through adopted policies and displayed practices.

The Board shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.

- c. Oversee the integrity, independence, and effectiveness of Bank's policies and procedures on Whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about

²¹ MORB, Section 132

illegal, unethical or questionable practices directly to the Board or to any independent unit.

Policy shall set on how the concerns are to be investigated and addressed, either by internal control, an objective external party, senior management and/or the Board itself. It shall prevent the use of the facilities of the Bank in the furtherance of criminal and other improper or illegal activities, not limited to financial misreporting, money laundering, fraud, bribery or corruption.

2.3.2 To approve Bank's objectives and strategies and in overseeing management's implementation thereof.

The Board shall:

- a. Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
- b. Approve the Bank's business plans, taking into account the bank's long-term financial interests, level of risk tolerance and ability to manage risk effectively. In this respect, the Board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed.
- c. Actively engage in the affairs of the Bank and keep up with material changes in the Bank's business and regulatory environment as well as act in a timely manner to protect the long term interest of the Bank.
- d. Approve and oversee the implementation of policies governing major areas of banking operations. The Board shall regularly review these policies, as well as evaluate control functions (e.g. internal audit, risk management and compliance) with senior management to determine areas for improvements, as well as to promptly identify and address significant risk areas and issues on all major business activities, e.g., investments, loans, asset and liability management, trust, business planning and budgeting. The Board shall accordingly define the Bank's level of risk tolerance in respect of said activities. A mechanism to ensure compliance with said policies shall also be provided.

The Board shall set out matters and authorities reserved to it for decision, which include, among others major capital expenditures, equity investments and divestments. The Board shall also establish the limits of the discretionary powers of each officer, committee, subcommittee and such other groups for purposes of lending, investing or any other financial undertaking that exposes the Bank to significant risks.

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In relation to the above, the powers of the Board are set out in Section 3, Article IV of the Bank's By-laws.

2.3.3 The Board shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentive policies for personnel.

In this regard, the Board shall:

- a. Oversee selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the Bank's business, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the Bank.
- b. Approve and oversee the implementation of performance standards shall as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the Bank and promote good performance, convey acceptable risk taking behavior, and reinforce the Bank's operating and risk culture.
- c. Oversee the performance of senior management and heads of control functions:
 - i. The Board shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
 - ii. The Board shall hold members of the senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the Board's performance expectations. The expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances.
 - iii. The Board shall regularly meet with senior management to engage in discussions, questions, and critically review the reports and information provided by the latter.
 - iv. Non-executive Board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transaction committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk functions.

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- d. Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the Board shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.
- e. Ensure that personnel's expertise and knowledge remain relevant. The Board shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.
- f. Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Bank at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

2.3.4 The Board shall be responsible for approving and overseeing implementation of the Bank's corporate governance framework.

In this regard, the Board shall:

- a. Define appropriate governance structure and practices for its own work and ensure that such practices are followed and periodically reviewed:
 - i. The Board shall structure itself in a way, including in terms of size, frequency of meetings, so as to promote efficiency, critical discussion of issues and thorough review of matters. The Board shall meet regularly to properly discharge its functions and likewise have discussions on values, conduct, and behaviors.
 - ii. The Board shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board-level committees would depend on the size of the bank and the board, the Bank's complexity of operations, as well as Board of Directors' long-term strategies and risk tolerance.

The discussions on various board-level committees are in Section IV.E of this Manual.

- iii. The Board of Directors shall regularly review the structure, size and composition of the Board and Board-level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the Board of Directors and Board-level committees shall be

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adopted which shall include, but not limited to, benchmark and peer group analysis.

The result of the assessment shall form part of the ongoing improvement efforts of the Board of Directors.

- iv. The Board shall adopt policies aimed at ensuring that the members of the Board of Directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Bank's operations. Please refer to Section IV.A.4 for policies on multiple Board seats.
- v. The Board shall ensure that individual members of the Board and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the bank's performance, financial condition and risk exposures. All members of the board shall have reasonable access to any information about the Bank at all times. The Board shall ensure that adequate and appropriate information flows internally and to the public.

Towards this end and aligned with the Bank's commitment on transparency, policies are in Section VI.H of this Manual.

- vi. The Board of Directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the Chief Executive Officer, the individual directors, and the bank itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his performance in the board and board-level committees.
- vii. The Board shall maintain appropriate records (e.g. minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The Board shall also ensure that independent views in meetings of the Board of Directors shall be given full consideration and all such meetings shall be duly minuted.

The Minutes are taken and kept by the Office of the Corporate Secretary.

- b. Develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The Board of Directors shall ensure that the policy is consistent with the long-term interest of the

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Bank, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.

- c. Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
- d. Conduct and maintain the affairs of the Bank within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice.
- e. Maintain and periodically update, organizational rules, by-laws, or other similar documents setting out its obligation, rights, responsibilities and key activities.

The Board shall ensure that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.

- f. Oversee the development, approve, and monitor implementation of corporate governance policies. The Board shall ensure that these policies are followed and periodically reviewed for ongoing improvement.
- g. Approve an overarching policy on the handling of Related Party Transactions (RPTs) to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard, the Board shall:
 - i. Approve all material RPTs, those that cross the materiality threshold and write-off material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in terms and conditions of RPTs shall also be approved by the Board of Directors.

All final decisions of the Board on material RPTs, including important facts about the nature, terms, conditions, original, outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders' meetings and duly reflected in the minutes of Board and stockholders' meetings.

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- ii. Delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of Directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the Board. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
- iii. Establish an effective system to:
 - Determine, identify and monitor related parties and RPTs;
 - Continuously review and evaluate existing relationships between and among businesses and counterparties; and
 - Identify, measure, monitor and control risks arising from RPTs.

The system should be able to define related parties' extent of relationship with the Bank; assess situations in which a non-related party (with whom a Bank has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors.

The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation.

The overarching policy and the system shall be made available to the BSP and audit functions for review. Any change in the policies and procedures shall be approved by the Board.

- iv. Maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Bank is well-insulated from any going concern issue of related parties.
- v. Oversee the integrity, independence, and effectiveness of the policies and procedures for Whistleblowing. The Board should ensure that senior management addresses legitimate issues on RPT that are raised. The Board should take responsibility for ensuring that staff members who raise concerns are protected from detrimental treatment or reprisals.

Since the Bank is a subsidiary or affiliate of a non-Bangko Sentral regulated parent company, the Board shall:

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- 1) Define and approve policies and clear strategies for the establishment of new structures (e.g. subsidiaries/affiliate of the Bank). The Board shall also report to the BSP any plan to create additional group structures.
- 2) Understand the roles, relationship or interactions of each entity in the group with one another and with the parent company. The Board shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the Bank's capital, risk profile and funding under normal and contingent circumstances.

2.3.5 The Board shall be responsible for approving the Bank's risk governance framework and overseeing management's implementation thereof.

In this regard, the Board shall:

- a. Define the Bank's risk appetite, where the Board shall take into account the business environment, regulatory landscape, and the Bank's long term interest and ability to manage risk.
- b. Approve and oversee adherence to the risk appetite statement (RAS), risk policy and risk limits.
- c. Oversee the development of, approve and oversee the implementation of policies and procedures relating to the management of risks throughout the Bank.

Additional Duties and Responsibilities of the Board on Information Technology Risk Management (ITRM).²²

- i. The Board is ultimately responsible for understanding the IT risks confronted by the Bank and ensuring that they are properly managed, which shall include the approval of the design of the ITRM system that suits the Bank's business strategy.
- ii. The Board may delegate to an IT steering committee or its equivalent the IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of the desired results.
- iii. The Board shall approve the IT strategic plan that is aligned with the institution's business strategy that is focused on long term goals covering 3 to 5-year horizon and should be sufficiently supplemented

²²MORB, Section 148

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by tactical IT plans. It should be reviewed and updated regularly for new risks or opportunities to maximize the value of IT to the institution.

- iv. In order to maintain confidentiality, integrity, and availability of computer systems for reliable and timely information, the Bank should have a comprehensive information security program and the Board shall approve the same.
- v. The Board should appoint an independent information security officer (ISO) who will be responsible and accountable for the organization-wide IS program. The ISO should report directly to the Board or senior management and have sufficient independence to perform his mandate.

Additional Duties and Responsibilities of the Board on Sound Credit Risk Management Practices²³

- i. The Board shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of the Bank.
- ii. The Board shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in the Bank's products and activities on a consistent and continuing basis. An independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board-level committee for appropriate action.
- iii. The Board should approve the credit risk management structure that clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in different phases of the credit risk management process. Moreover, the Board shall ensure that the key functions are considered; that independence and control oversight functions are effective to avoid or address any potential conflict of interest.
- iv. Set out clear criteria involving decisions to finance high E&S risk sectors during the said term horizons. The criteria shall consider the long-term financial interest of the bank and its role in contributing to the sustainable goals and growth of the economy.²⁴

²³ MORB, Section 143

²⁴ BSP Circular No. 1128 (Environment and Social Risk Mgmt. Framework)

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- v. Ensure comprehensive discussion of credit related E&S risks of the bank as well as deviations from strategic objectives and targets set.

Additional Duties and Responsibilities of the Board with regard to the Operational Risk Management²⁵

Apart from the establishment of a comprehensive and effective operational risk management framework (as part of the enterprise-wide risk management system), the Board shall:

- i. Ensure that it is aware of and understand the nature and complexity of the major operational risks in the Bank's business and operating environment, including risks arising from transaction or relationships with third parties, vendors, suppliers, including outsourced service providers, and clients of the services provided. This should include understanding of both the financial and non-financial impact of operational risk to which the Bank is exposed to;
- ii. Approve the operational risk management framework which shall form part of the Bank's enterprise-wide risk management system and shall cover all business lines and functions of the Bank, including outsourced services and services provided to external parties.

The operational risk management framework should include an enterprise-wide definition of operational risk consistent with the definition under Section 146, governance, and reporting structures including the roles and responsibilities of all personnel, feedback mechanism, as well as standards and tools for operational risk management.

In this regard, the Board shall:

- 1) Define the operational risk management strategy and ensure that it is aligned with the Bank's overall business objectives. Relative to this, the Board should set and provide clear guidance on the Bank's operational risk appetite (i.e. the level of operational risk the Bank is willing to take and able to manage in pursuit of its business objectives as well as the type of risks that are not acceptable to the Board and management), which should consider all material risk exposures as well as the Bank's financial condition and strategic direction;
- 2) Approve appropriate thresholds or limits to ensure that the level of operational risk is maintained within tolerance and at prudent levels and supported by adequate capital. Relative to this, the

²⁵ MORB, Section 146

Board shall approve policy on resolving limit breaches which should cover escalation procedures for approving or investigating breaches, approving authorities, and requirements in reporting to the appropriate level of management or the Board;

- 3) Ensure that operational risk is appropriately considered in the capital adequacy assessment process;
- 4) Ensure that it receives adequate information on material developments in the operational risk profile of the Bank, including pertinent information on the current and emerging operational risk exposures and vulnerabilities as well as information on the effectiveness of the operational risk management framework.

The Board must challenge the quality and comprehensiveness of operational risk information it receives. It should also be satisfied with the reliability of the said information and the monitoring system for operational risk;

- 5) Ensure that business objectives, risk appetite, the operational risk management framework, and the respective roles and responsibilities of personnel and officers at all levels in terms of implementing the operational risk management framework, are properly disseminated, clearly communicated / discussed, and understood by personnel concerned;
- 6) Provide senior management with clear guidance and direction regarding the principles underlying the operational risk management framework. The Board shall ensure that senior management appropriately implements policies, processes and procedures, and provides feedback on the operational risk management process. In this regard, the Board shall establish a feedback and reporting system that will allow employees to raise their concerns without fear of negative consequences; and
- 7) Ensure that the operational risk management framework is subject to effective and comprehensive independent review, on a periodic basis, by operationally independent, appropriately trained, and competent staff to ensure that it remains commensurate with the Bank's risk profile and continues to be adequate and effective in managing operational risk. The review should consider changes in business and operating environment, systems, business activity or volume of transactions, quality of control environment, effectiveness of risk management or

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mitigation strategies, loss experience, and the frequency, volume or nature of breaches in limits or any policy.

- iii. Provide adequate oversight on all outsourcing activities and ensure effective management of risks arising from these activities. In this regard, the Board of Directors shall approve a framework governing outsourcing activities, which includes a system to evaluate the risk and materiality of all existing and prospective outsourcing engagements and the policies that apply to such arrangements;
- iv. Ensure observance of expectations and requirements prescribed under relevant laws, rules and regulations, industry set standards, and policies on internal control, internal audit, and disclosure;
- v. Promote a culture of high standards of ethical behavior. The board shall adopt a code of ethical behaviors with corresponding disciplinary actions for non-compliance, which should cover, among others, guidance and protocols on conflicts of interest situations, safeguarding of confidential information, and use of sensitive information. The Board should likewise institute tools, methodologies, and practices in order to ensure compliance and adherence to the standards by all employees including the senior officers and the Board itself. In this regard, employees should be required to acknowledge in writing that they have read, understood, and will observe the code of conduct.
- vi. Ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. Moreover, the Board shall ensure that employees and officers in all areas of operations have a high degree of integrity.

For this purpose, the Board shall approve appropriate hiring and selection policies and processes, adopt a continuing professional development program, and institutionalize a framework for continuing assessment of fitness and propriety of employees. These policies, processes and programs should reinforce the conduct and values being promoted in the organization.

Further, the Board shall oversee the design and implementation of remuneration policies. It shall ensure that the remuneration policies do not encourage excessive risk-taking or provide incentives to people to perform contrary to the desired risk management values. It shall also ensure that remuneration policies are appropriate and

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aligned with the Bank's long-term strategic direction and risk appetite, as well as with relevant legal or regulatory requirements.

- vii. Ensure that all units in the organization have adequate resources, including personnel complement, duly supported by appropriate technological systems that is commensurate to the activities being undertaken; and
- viii. Oversee implementation of a sound business continuity management framework. The Board should create and promote an organizational culture that places high priority on business continuity. This shall include providing sufficient financial and human resources associated with the Bank's business continuity initiatives.
- ix. Ensure that E&S risks are integrated in the operational risk management framework. For this purpose, the identified potential sources of operational risk exposures of a bank shall include climate change, failure of climate change mitigation and adaptation strategies or initiatives, and other E&S risks such as, among others, water crises, natural disasters, incidents related to pollution, and waste management, as well as those affecting customer and employee safety.²⁶
- x. Ensure that the bank's policies and procedures include the extent of the bank's engagement with its counterparties, including suppliers and outsourced service providers, with regard to the adoption of sustainability principles, in accordance with its strategy.
- xi. Establish an efficient process to facilitate timely recruitment and selection of personnel from a broad pool of candidates with appropriate educational backgrounds, skills, experience, character, integrity and competencies to fulfill their duties and responsibilities. This shall be done through the Bank's Human Resources Group, which shall include:
 - (1) Adoption of a risk focused screening process - by the Management through the development of a risk-focused approach for the pre-employment background checking, employing an appropriate level of screening based on factors like the position, reputation risk implication, and responsibilities associated with a particular position. The sensitivity of the position and authorities give to the certain positions, including those in the branches, or the access level of individual employee may warrant additional background screening procedures, such as but not limited to: verification of

²⁶ *BSP Circular No. 1128 (Environment and Social Risk Mgmt. Framework)*

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character references, criminal records, psychological evaluation, past employment, credentials, and professional qualifications. These will enable the Bank to sufficiently understand the applicant's personal background, character and susceptibility to collusion, fraud, or illegal activities.

(2) Screening the applicants against the Bangko Sentral records - Part of the background screening procedures, the Human Resource Department of the BSFI shall require all those who passed the initial stages of pre-employment screening to accomplish the Authorization Form for Querying (AFQ) the BSP records. Any information gathered from the BSP records shall be considered in the decision to consider the fitness and propriety of the applicant for the position. Screening the applicants against the records of the BSP shall only be part and shall not be the sole source of information for the pre-employment screening.

(3) Alignment with organization culture - Management shall also ensure that the BSFI's culture, values and expectations on behaviour are compatible with those of its employees so that there is unity of direction and purpose.²⁷

xii. Establish effective performance management framework that will ensure that personnel's performance is at par with the standards set by the Board/Senior Management. Results of performance evaluation should be linked to other human resource activities such as training and development, remuneration and succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of personnel in carrying out their respective duties and responsibilities. The Board shall likewise establish effective mechanism that leverages on existing controls or reports to facilitate assessment of continuing fitness and propriety of personnel, taking into account factors that may affect the performance of an individual.

d. Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line defense. In this regard:²⁸

i. The Board shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have

²⁷ BSP Circular No. 1112 (Amendments to Operational Risk Mgmt.)

²⁸ MORB, Section 132.e.4 (Specific duties and responsibilities)

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adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.

- ii. The Board shall ensure that non-executive board members meet regularly, the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and Risk Management Committees, in the absence of senior management.

Additional Duties and Responsibilities of the Board with regard to the Reputational Risk Management²⁹

- i. The Board shall establish the “tone at the top” and provide adequate oversight on matters relating to the Bank’s strategic direction, key policies, and risk appetite, and overall governance framework.
- ii. The Board shall ensure that the Bank’s reputational risk management system is embedded in its enterprise risk management strategy.
- iii. The Board shall approve the Bank’s reputational risk management framework and ensure that it provides an effective and efficient system for identifying, measuring, monitoring and controlling reputational risk.
- iv. The Board shall also ensure that the reputational risk management system is periodically reviewed by an independent and competent party to provide assurance that the controls in place to manage reputational risks are operating as intended.

Additional Duties and Responsibilities of the Board with regard to the Compliance Framework³⁰

The board of directors shall ensure that Bank personnel and affiliated parties adhere to the pre-defined compliance standards. Senior management, through the CCO, should periodically report to the Board of Directors or its designated committee matters that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved by the board of directors. However, any material breaches of the compliance program shall be reported to and promptly addressed by the CCO within the mechanisms defined by the compliance manual.

²⁹ BSP Circular No. 1114 (Guidelines on Reputational Risk Mgmt.)

³⁰ BSP Circular No. 1129 (Amendments to Corporate Governance Guidelines)

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2.3.6 Interlocking Directorships³¹

Bank are expected to have an effective governance process in place to ensure that the benefits of having directors or officers with interlocking positions in other entities are optimized, that the concerned directors or officers devote sufficient time and attention necessary to effectively carry out their duties and responsibilities, and that excessive concentration of economic power, unfair competitive advantage, abusive practices, and conflict of interest situations are prevented, in this regard, the Board shall:

- a. Approve policy on having directors or officers with interlocking positions in other entities, which shall cover, among others, the following:
 - ii. Cases and the corresponding rationale when the Bank shall allow/appoint directors or officers to have/with interlocking positions in other entities; the sectors or industries of the entities where the directors or officers may assume other positions; interlocking positions that may be held by directors or officers: and limit on the number of entities where the director or officer may hold interlocking positions. Provided, that the limit to be set shall be consistent with item b' of Qualifications of a director under Sec. 132;
 - iii. Measures to avoid excessive concentration of economic power, unfair competitive advantage and abusive practices. The policy shall also include the measures in handling conflict of interest situations;
 - iv. Requirement to obtain approval from the Board of Directors or the appropriate authority designated in the Bank prior to acceptance of interlocking directorship/officership positions in other entities;
 - v. Requirement to obtain proof of disclosure to and consent from all the involved entities on interlocking officership positions held outside the banking group/conglomerate; and
 - vi. Courses of action in case conflict of interest arise or when the performance of the director or officer has been affected by the interlocking positions held.
- b. Ensure effective governance process on the selection and appointment of directors and/or officers who are holding interlocking positions in other entities and in approving the acceptance of directors/officers of interlocking positions in other entities. The governance process shall cover continuous assessment of potential conflict of interest in the entities involved as well as the interlocking positions held.

³¹ *BSP Circular No. 1129 (Amendments to Corporate Governance Guidelines)*

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- c. Ensure that directors and/or officers holding interlocking positions in other entities effectively carry out their duties and responsibilities in the Bank. It shall be the responsibility of the Board of Directors to conduct a periodic performance evaluation of the concerned directors and officers measured against agreed upon standards for the position. The board of directors shall immediately take appropriate action should the results of performance evaluation reflect that the performance of the function in the Bank has been adversely affected by the interlocking positions held by the director and/or officer.
- d. Ensure that the control functions (i.e., risk management, compliance and internal audit) cover the assessment of adherence to internal policies and regulatory expectations on interlocking positions held by the directors and/or officers. For the interlocking positions held by heads of control functions, the assessment shall be performed by the Board of Directors or Board-level committee to whom they functionally report to.

2.4 Additional Duties and Responsibilities of the Board of Directors

- 2.4.1 To establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Bank. The CEO shall exercise oversight responsibility over this program.
- 2.4.2 Establish and maintain an alternative dispute resolution system in the corporation that can amicably settle conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including the regulatory authorities.
- 2.4.3 To approve and recommend for the ratification of the stockholders, after it has been recommended by the Audit Committee, an external auditor duly accredited by the BSP and/or by the Securities and Exchange Commission who shall undertake an independent audit of the corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders.

The responsibilities of the Board of Directors and management are in no way diminished by the existence of a system for the supervision of FIs by BSP or by a requirement for the FI's financial statements to be audited by an external auditor.³²

- 2.4.4 The following are additional duties and responsibilities of the Board on Compliance Risk:³³

³² BSP Memorandum No. M – 2014-011, 14 March 2014, Section II.1.c,5

³³ MORB, Section 161

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- a. To ensure that it is assisted in its duties by appointing a Chief Compliance Officer who should have a rank of Senior Vice President or an equivalent position with adequate status and authority in the corporation. The Chief Compliance Officer should not be a member of the Board and should annually attend training on corporate governance.³⁴
- b. To ensure that the compliance program is defined for the Bank and compliance issues are resolved expeditiously. In this regard, the Compliance Committee shall oversee the Compliance Program.
- c. To ensure that personnel and affiliated parties adhere to the pre- defined compliance standards (which rest collectively with the senior management) of which the Chief Compliance Officer is the lead operating officer on compliance.

2.4.5 The Board of Directors of the Bank including senior management shall be liable for the acts performed and representation made by sales and marketing personnel in their official capacity.³⁵

Notwithstanding the above, the Board and senior management may file a necessary case or action against the erring sales and marketing personnel.

2.4.6 The following are additional responsibilities of the Board in relation to the control, independent oversight and checks and balances systems, including the financial statements in accordance with BSP Memorandum No. M-2014-011 dated 14 March 2014:

- a. Establish adequate governance structures and control processes for areas of exposures that may pose significant risk to a financial institution such as fair value measurement and financial instruments.

The Board's oversight responsibilities for the financial institution's use of fair value accounting include:

- i. Reviewing and approving written policies related to fair valuations;
- ii. Continuing review of significant valuation model performance for issues escalated for resolution and all significant changes to valuation policies;
- iii. Ensuring adequate resources are devoted to the valuation process;

³⁴ SEC Memo No. 24 S2019, Recommendation 1.6

³⁵ MORB, Section 612

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- iv. Articulating the financial institution’s tolerance for exposures subject to valuation uncertainty and monitoring compliance with the Board’s overall policy settings at an aggregate firm wide level;
 - v. Ensuring independence in the valuation process between risk taking and control units;
 - vi. Ensuring appropriate internal and external audit coverage of fair valuations and related processes and controls;
 - vii. Ensuring consistent application of accounting standards and disclosures within the applicable accounting framework;
 - viii. Ensuring the identification of significant differences, if any, between the valuations used for financial reporting purposes and for regulatory purposes.
- b. Ensure appropriate management information systems are established;
 - c. Ensure that the interests of stakeholders are adequately protected;
 - d. Ensure that Consumer Protection practices are embedded in the Bank’s Operations:³⁶
 - i. The Board and senior management are responsible for the development of the Bank’s consumer protection strategy and in establishing an effective oversight over the Bank’s protection program.
 - ii. The Board is primarily responsible for the approval and oversight in the implementation of the consumer protection policies.
 - iii. The Board is responsible for the development and maintenance of a sound Consumer Protection Risk Management System that is integrated into the overall framework for the entire product and service life-cycle.

3. Reportorial Requirements

3.1 Transmission of the Duties and Responsibilities of a Director

³⁶ *MORB, Section 1001*

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3.1.1 The Office of the Corporate Secretary (OCS) shall furnish all first time directors of the Bank, upon their election with a copy of the general and specific duties and responsibilities of the Board of Directors and as an individual director.

3.2.2 The director/s concerned shall acknowledge receipt of the copies of such general and specific duties and responsibilities and shall certify that he/she fully understand the same.

3.2.3 The OCS shall keep on file copies of the certification under oath the acknowledgment receipt thereof.

3.2 Bio-Data of Directors³⁷

3.2.1 Banks shall submit to the appropriate department of the BSP an ID of their directors who are subject to confirmation based on existing rules; and within twenty (20) banking days from the date of election/re-election of the directors/meeting of the Board of Directors in which the officers are appointed/promoted, in accordance with Appendix 7 of the MORB.

3.2.2 Updating of the Bio-Data

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

3.3 List of Incumbent Directors³⁸

The OCS shall submit to the BSP a list of the incumbent members of the Board of Directors (format based on Appendix 98b) within twenty (20) banking days from the annual election of the Board as provided in the by-laws.

3.4 Certification by an Independent Director

In the case of independent directors, the bio-data shall be accompanied by a certification under oath from the director concerned using Appendix 98, that he/she is an independent director as defined under existing laws, rules and regulations³⁹

4 Multiple Board Seats/ Interlocking/Concurrent Directorship⁴⁰

4.1 Interlocking directorships are allowed except in cases involving banks belonging to the same category. In this respect, interlocking directorships in banks belonging to

³⁷ MORB, Section 137

³⁸ MORB, Section 137

³⁹ MORB, Section 137

⁴⁰ BSP Circular No. 1129 (Amendments to Corporate Governance Guidelines)

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the same category shall only be allowed if the banks: (i) are part of the same banking group; or (ii) have different business models and are serving different markets or clients.

4.2 Interlocking directorships and officerships are allowed provided that the positions do not pose conflict of interests. For this purpose, the appointment should be consistent with the policy adopted by the Bank.

4.3 BSP allows interlocking directorship and officership between a bank and an investment house subject to the requirements of BSP and other applicable laws and regulations. Provided, however, that interlocking officerships between a bank and an investment house may only be allowed where the majority or all of the equity of the investment house is owned by the bank

B. Directors

1. Specific Duties and Responsibilities of a Director ⁴¹

The position of a director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders. These stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The members of the Board of Directors should exercise their duty of care and duty of loyalty to the Bank.

1.1 **To remain fit and proper for the position for the duration of his term.** A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat Board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

1.2 **To conduct fair business transactions with the Bank and to ensure that personal interest does not bias Board decisions.** Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality.

⁴¹ MORB, Section 132

- 1.3 **To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.** A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.
- 1.4 **To devote time and attention necessary to properly discharge their duties and responsibilities.** Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the Board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the Board.
- 1.5 **To act judiciously.** Before deciding on any matter brought before the Board, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.
- 1.6 **To contribute significantly to the decision-making process of the Board.** Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such Board.
- 1.7 **To exercise independent judgment.** A director should view each problem/ situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks will be beneficial to the institution.
- 1.8 **To have a working knowledge of the statutory and regulatory requirements affecting the institution, 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.** A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.
- 1.9 **To observe confidentiality.** Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the Board.

2. Qualifications of Directors ⁴²

A director should have the following minimum qualifications:

⁴² MORB Section 132

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- 2.1 He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/ financial literacy/ training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; sufficiency of time to fully carry out responsibilities; and concurrent positions in the same bank and interlocking positions in other entities that may pose conflict of interest.⁴³

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and standards of any regulatory body, professional body, clearing house or exchange, or government and of its instrumentalities / agencies.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 138 (*Persons disqualified to become directors*) of the MORB. A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using the Appendix 98 as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the Board of Directors.

The members of the Board of Directors shall possess the foregoing qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

- 2.2 He must have attended a special seminar on corporate governance for Board of Directors. A director shall submit to the BSP a certification of compliance with the BSP-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance: *Provided*, That the following persons are exempted from complying with the aforementioned requirement:

2.2.1 Filipino citizens with recognized stature, influence and reputation in the banking community, including directors of publicly listed companies in the Philippines and whose business practices stand as testimonies to good corporate governance.

2.2.2 Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies; or

⁴³ *BSP Circular No. 1129 (Amendments to Corporate Governance Guidelines)*

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2.2.3 Former Chief Justices and Associate Justices of the Philippine Supreme Court.

Provided, further, that this exemption shall not apply to the annual training requirements for the members of the Board.

3. Disqualification of Directors

The following are the grounds for the disqualification of a director:

3.1 Permanently disqualified⁴⁴

Directors/officers/employees permanently disqualified by the BSP Monetary Board from holding a director position:

- 3.1.1 Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. 22, violation of anti-graft and corrupt practices act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees). The disqualification on violation of anti-graft and corrupt practices shall apply to government employees appointed for directorship position.
- 3.1.2 Persons who have been convicted by final judgment of the court sentencing them to serve maximum term of imprisonment of more than six (6) years;
- 3.1.3 Persons who have been convicted by final judgment of the court for violation of banking laws, rules and regulations.
- 3.1.4 Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;
- 3.1.5 Directors, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board.
- 3.1.6 Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; or
- 3.1.7 Directors and officers of banks, quasi-banks and trust entities or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another

⁴⁴ MORB, Section 138.a

government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

3.2 Temporarily Disqualified ⁴⁵

Directors/officers/employees disqualified by the BSP Monetary Board from holding a director position for a specific/indefinite period of time. Included are:

- 3.2.1 Persons who refuse to fully disclose the extent of their business interest or any material information to the appropriate supervising and examining department when required pursuant to a provision of law or of a circular, memorandum or rule or regulation of the BSP. This disqualification shall be in effect as long as the refusal persists;
- 3.2.2 Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during their incumbency, and directors who failed to physically attend for whatever reasons in at least twenty-five percent (25%) of all Board meetings in any year, except that when a notarized certification executed by the Corporate Secretary has been submitted attesting that said directors were given the agenda materials prior to the meeting and that their comments/ decisions thereon were submitted for deliberation/ discussion and were taken up in the actual Board meeting, said directors shall be considered present in the Board meeting. This disqualification applies only for purpose of the immediately succeeding election;
- 3.2.3 Persons who are delinquent in the payment of their obligations as defined hereunder.
 - a. Delinquency in the payment of obligations means that an obligation of a person with a bank where he/she is a director or officer, or at least two obligations with other banks/financial institution, under different credit lines or loan contracts, are past due pursuant to Sec. 304 of the MORB;
 - b. Obligations shall include all borrowings from a bank/quasi bank obtained by:
 - i. A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorser, or surety for loans from the Bank;

⁴⁵ MORB, Section 138.b

- ii. The spouse or child under the parental authority of the director or officer;
- iii. Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer;
- iv. A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
- v. A corporation, association or firm wholly owned or majority of the capital of which is owned by any or a group of persons, mentioned in the foregoing Items (i), (ii) and (iv);

This disqualification shall be in effect as long as the delinquency persists.

3.2.4 Persons who have been convicted by a court for offenses involving dishonesty or breach of trust such as, but not limited to estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of anti-graft and corrupt practices act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), or violation of banking laws, rules and regulations or those sentenced to serve a maximum term of imprisonment of more than six years but whose conviction has not yet become final and executory;

Note: The disqualification on violation of anti-graft and corrupt practices shall apply to government employees appointed for directorship position.

3.2.5 Directors and officers of closed banks pending their clearance by the Monetary Board;

3.2.6 Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate supervising and examining department of such directors' election/reelection;

3.2.7 Directors who failed to attend the special seminar for Board of Directors required under item "a(2)" of Section 132 (*Qualification of a director*) of the MORB. This disqualification applies until the director concerned had attended such seminar;

3.2.8 Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of

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involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time they were officially advised by the appropriate department of SES of their disqualification;

3.2.9 Those under preventive suspension;

3.2.10 Persons with derogatory records as certified by, or on the official files of, the Judiciary, National Bureau of Investigation, Philippine National Police, quasijudicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any laws, rules and regulations that would adversely affect the integrity of the director/officer or the ability to effectively discharge his duties. This disqualification applies until they have cleared themselves of the alleged irregularities/violations or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated;

3.2.11 Directors and officers of banks, quasi-banks and trust entities found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;

3.2.12 Directors and officers of banks found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;

3.2.13 Directors and officers of banks, quasi-banks and trust entities found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid;

C. Board and Committee Meetings

The director should attend and actively participate in all meetings of the Board, Committees, and Shareholders in person or through tele-/videoconferencing in accordance with the rules and regulations, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so.

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In Board and Committee meetings, the director should review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

5. Schedule of Board Meetings

In accordance with the Bank's By-Laws, the Board shall meet at least once a month to attend to matters that may require its approval. Special Board meetings may be called for to deliberate and assess corporate proposals or business issues that require Board approval.

6. Place of Board Meetings

In accordance with the Bank's by-laws, Board Meetings shall be held at the principal office of the Corporation or at such other places as may be determined by the Board of Directors. All such meetings shall, however be held only within the Philippines.

7. Conduct of Meetings, Attendance and Quorum Requirement

a. Full Board of Directors meetings

- i. Board members are encouraged to attend board meetings regularly. They are expected to prepare and participate in these meeting and to act judiciously, in good faith, and in the best interest of the bank, the shareholders/stakeholders.
- ii. In cases where a decision is to be arrived at by the Board, as a matter of policy, decisions should be made only upon quorum of 2/3 members of the board present, unless a different voting requirement is required by existing laws, rules and regulations.
- iii. If a member of the Board cannot attend personally, subject to existing rules, he/she may participate in meetings through teleconference or videoconferencing.

In relation to the above, meetings of the Board of Directors may be conducted through modern technologies such as, but not limited to, teleconferencing and videoconferencing 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 the absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board of Directors during his/her incumbency is a ground for disqualification.⁴⁶

⁴⁶ MORB, Section 132.a (Board of directors meeting)

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3.1.4 Except for most compelling reasons, an independent director should always be in attendance in every meeting, recognizing the significant role of an ID in the board decisions. Unless otherwise provided in the by-laws, his absence shall not affect the quorum.

3.1.5 At the end of each fiscal year, the OCS shall execute a Sworn Certification about the directors' record of attendance in Board meetings. It may be submitted through SEC Form 17-C or in a separate filing.

3.2 Board-level Committee Meetings⁴⁷

3.2.1 Board-level committees shall meet in accordance with their respective charters. Participation of committee members may likewise be in person or through modern technologies: *Provided*, That attendance and participation of members in committee members shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the Board of Directors.

3.2.2 Quorum

A majority of the members of the Committee shall constitute a quorum and every decision of at least a majority of the Committee members present at a meeting at which there is a quorum shall be valid, unless a specific number of votes is required by existing laws and regulations.

8. Board Materials

In general, board papers are provided to the directors five (5) days before the meeting.

9. Definition of Specific Actions by the Board and its Committees

Ratify - When the Board and any of its committees ratifies an action, it means approving an action which originally or initially did not bind the Bank because the person who has acted for the Bank lacked the authority.

Thus an act or agreement that was signed or executed without the confirmation of the Board is not enforceable or valid until it was ratified by the Board.

Approve – When an action is approved, it refers to giving a favorable decision on item/s presented to it for decision.

Note – When the Board noted an action presented to it, it means that they have clearly understood the information provided or given them. Moreover, they are also signifying a commitment that whatever action is to be taken or done, they shall implement the same.

⁴⁷ *MORB, Section 132.b (Board of directors meeting)*

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Confirm – When the board confirms an action made by a board committee or the management committee, it means to strengthen the said act.

D. Confirmation of the Election / Appointment of Directors⁴⁸

1. Confirmation Requirement

- 1.1 The election/appointment of directors of the Bank shall be subject to confirmation by the Monetary Board. It shall be the responsibility of the OCS to secure Monetary Board confirmation for duly elected directors of the bank.
- 1.2 The Bank through the OCS shall report to the appropriate department of the Supervisory and Examination Sector of the BSP any succeeding resignation, retirement, or replacement of directors within twenty (20) banking days after such resignation/retirement/replacement.
- 1.3 Election/appointment of directors/officers shall be deemed to have been confirmed by the BSP, if after sixty (60) banking days from its receipt of the required report, no advice against said election/appointment has been received by the Bank.
- 1.4 The appointment of the officers below the rank of Senior Vice President (SVP) other than the Treasurer, Trust officer, and Heads of internal audit, risk management, and compliance functions regardless of rank shall be subject neither to the Monetary Board approval nor BSP confirmation.
- 1.5 However, the confirmation of the director is no longer required in the following cases:
 - 1.5.1 Re-election of a director (as a director) in the same Bank or election of the same director in another bank, QB, trust corporation, and NBFIs with trust authority within a banking group;
 - 1.5.2 Re-election of an independent directors (as an independent director or not) in the same Bank or election of the same director (as an independent or not) in another bank, QB, trust corporation, or NBFIs with trust authority within a banking group;

2. Documentary Requirements for the Confirmation

- 2.1 The documentary requirements for the confirmation of the election of directors are shown in Appendix 98 of the MORB.

⁴⁸ MORB, Section 137

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- 2.2 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.
- 2.3 A director/officer whose election/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 has assumed the position to which he was elected / appointed.

E. Board Committees

The Board of Directors may delegate some of its functions, but not its responsibilities, to Board-level committees.

1. Creation of Committees

The Board of Directors shall constitute, at a minimum, the following committees:⁴⁹

- 1.1 Audit Committee
- 1.2 Risk Management Committee
- 1.3 Corporate Governance Committee, and
- 1.4 Related Party Transaction Committee

The existence of the above-mentioned committees does not preclude the Bank from creating additional committees that shall aid the Board in the discharge of its governance functions, as follows:

- 1.5 Executive Committee
- 1.6 Nominations Committee
- 1.7 Compensation or Remuneration Committee
- 1.8 Retirement Committee

2. Committee Charters

- 2.1 The Board shall approve, review, and update, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures.
- 2.2 Said documents shall articulate how the committee will report to the full Board of Directors, what is expected of the committee members, and tenure limits for serving on the committee.
- 2.3 In case of conflict between the approved committee charter and provisions of this Manual, the most recently approved document shall prevail.

⁴⁹ *By-Laws of the Bank, MORB Section 133*

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3. Tenure Limit for Serving in a Committee

The Board shall consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

In this regard, a director who has been a member of a board-level committee for at least five (5) years shall be rotated, as necessary.

4. Members in Committees

The Board of Directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the Board of Directors, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the Board of Directors, shall appoint independent directors and non-executive members of the Board to the greatest extent possible. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Management and Corporate Governance, Related Party Transaction committees, without prior approval of the Monetary Board.⁵⁰

The Board of Directors shall have the power to remove and replace members of and fill vacancies in the Board-level committees, as necessary and in compliance with laws, rules and regulations.

5. Minutes of Meetings

The Board of Directors shall ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfilment of its responsibilities and facilitate the assessment of the effective performance of its functions.

6. Performance Evaluation

The Board shall conduct an annual review of the performance of the committees through a self-assessment. The results thereof shall be reported to the Board through the Corporate Governance Committee.

⁵⁰ *MORB Section 133*

7. Deadlock Resolution

In cases where there is deadlock on matters for resolution of the Committee, the same shall be elevated to the Board of Directors for its decision and resolution. For this purpose, the Corporate Secretary shall include in the agenda of the Board of Directors in its next meeting the matters which need to be decided upon or resolved by the Board of Directors in view of the deadlock.

8. Audit Committee

Without prejudice to its own charter, the following guidelines shall govern the Audit Committee of the Bank:

8.1 Functions of the Audit Committee

The Audit Committee primarily oversees all matters pertaining to audit – the Bank’s internal audit function and performance, the integrity of the Bank’s financial statements, and the Bank’s accounting processes in general, among other things.

The Audit Committee is responsible for overseeing the senior management’s activities in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Audit Committee provides oversight of the Bank’s financial reporting and control, and internal and external audit functions.

The Committee also plays an important role in empowering and elevating the status of internal audit activity throughout the organization as provider of quality and significant assurance and consulting services that adds value to the Bank’s governance, risk management, and internal control processes.

8.2 Composition of the Audit Committee⁵¹

8.2.1 The audit committee shall be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairman, should be independent directors. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance that is commensurate with the size, complexity of operations and risk appetite of the Bank.

⁵¹ *MORB, Section 133*

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To the greatest extent possible, the audit committee shall be composed of a sufficient number of independent and non-executive board members.

8.2.2 Restrictions in the Audit Committee Membership

- a. The Chairman of the Committee should not be the chairman of the Board or any other committees.
- b. The Chief Executive Officer, Chief Financial Officer and/or Treasurer or officers holding equivalent positions, shall not be appointed as members of the audit committee.
- c. No member of the Audit Committee, shall be concurrently designated as a member of the Trust Investment Committee⁵²

8.2.3 The Board has the power to re-organize committee membership, thus, in case of vacancy the Board of Directors may appoint the replacement in accordance with the Bank's By-Laws.

8.3 Authority of the Audit Committee⁵³

The audit committee shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. The audit committee shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.

8.4 Duties and Responsibilities

The Audit Committee has the following duties and responsibilities, among others:

8.4.1 On Internal Audit Charter

Recommend the approval of the Internal Audit (IA) Charter, which formally defines the role of Internal Audit and the audit plan as well as oversee the implementation of the IA Charter;

8.4.2 On Internal Control

- a. Through the Internal Audit Division, monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, integrity of

⁵² MORB, Section 412.b

⁵³ MORB, Section 133.b.6 (Audit Committee)

financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the company's financial data, and (d) ensure compliance with applicable laws and regulations;

- b. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.⁵⁴
- c. Shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management.

8.4.3 On Internal Audit Function and Chief Audit Executive

It shall be responsible for the setting up of the internal audit department and for the appointment, fees of the internal auditor as well as the appointment, dismissal and re-appointment of the independent external auditor⁵⁵ who shall both report directly to the Audit Committee. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.⁵⁶

8.4.4 External Auditor

- a. Recommend to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders;
- b. The appointment, dismissal and re-appointment of the external auditor shall be based on fair and transparent criteria, such as:⁵⁷
 - i. Core values, culture and high regard for excellence in audit quality,
 - ii. Technical competence and expertise of auditing staff,
 - iii. Independence,
 - iv. Effectiveness of audit process, and

⁵⁴ MORB, Section 133.b.2

⁵⁵ Section II.1.a Audit Committee of BSP Memo No. M-2014-011

⁵⁶ MORB, Section 133.b.3

⁵⁷ Section II.1.a Audit Committee of BSP Memo No. M-2014-011

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- v. Reliability and relevance of the external auditor's reports.
- c. Organize an internal audit department, and recommend the appointment of the Chief Audit Executive (CAE), an independent internal auditor and the terms and conditions of its engagement and removal. At least once per year, review the performance of the Chief Audit Executive and concur with the annual compensation and salary adjustment.

In relation to the above, report to the Board the annual performance appraisal of the head of the internal audit function and recommend for approval of the Board the annual remuneration of the head of the internal audit function and key internal auditors⁵⁸; and

- d. Establish and identify the reporting line of the Internal Auditor to enable him properly fulfill his duties and responsibilities. For this purpose, he should directly report to the Audit Committee;

8.4.5 On Financial Reporting and Financial Statements

- a. Assist the Board in the performance of its oversight responsibility for the financial reporting process, practices, and system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations.

In addition to the above, the Audit Committee shall be responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework.⁵⁹

It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, rules and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.

- b. Review and approve the Interim and annual financial statements before their submission to the Board, with particular focus on the following matters:
 - i. Any change/s in accounting policies and practices
 - ii. Areas where a significant amount of judgment has been exercised

⁵⁸ MORB, Section 133.b.3 (Internal Control Framework, Audit Committee)

⁵⁹ MORB, Section 133.b.1 (Internal Control Framework, Audit Committee)

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- iii. Significant adjustments resulting from the audit
 - iv. Going concern assumptions
 - v. Compliance with accounting standards
 - vi. Compliance with tax, legal and regulatory requirements
- c. Shall provide oversight over the institutions financial reporting policies, practices and control and internal and external audit functions.⁶⁰

8.4.6 On Management's Risk Management Activities

- a. Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Bank. This function shall include regular receipt from Management of Information on risk exposures and risk management activities; and
- b. Reviews and monitors Management's responsiveness to the Internal Auditor's findings and recommendations.

8.4.7 On Internal Audit Plan

Review and approve the annual internal audit plan including all major changes thereafter, to ensure its conformity with the objectives of the Bank. The plan shall include the audit scope, resources and budget necessary to implement it.

8.4.8 On Compliance

Coordinate, monitor, and facilitate compliance with laws, rules and regulations.

8.4.9 On Whistleblowing

The committee shall establish and maintain mechanisms by which officers and staff, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

⁶⁰ *MORB Section 133.b.1*

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8.5 Responsibilities on Internal and External Audits ⁶¹

8.5.1 Perform oversight functions over the corporation's internal and external auditors. It ensures the independence of internal and external auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

With regard to access to records, the external auditor is allowed to have read-only access to the BSP Reports of Examination (ROE).

8.5.2 Prior to the commencement of audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.

8.5.3 Review the reports submitted by the internal and external auditors by reviewing the disposition of the recommendation in the External Auditor's management letter.

8.5.4 It shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors; ⁶²

8.5.5 Evaluate and determine the non-audit work, if any, of the external auditor, and periodically review the non-audit fees paid to the external auditor in relation to the total fees paid to him and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the corporation's annual report and Corporate Governance Report;

8.5.6 Review the effectiveness of the internal audit function, including compliance with The Institute of Auditors' International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards.

In assessing the effectiveness of the external auditor's work, the Audit Committee should closely coordinate with the external auditor during all phases of the external audit engagement, as follows:

- a. It should discuss and agree to the terms of the engagement letter issued by the external auditor prior to the approval of the engagement.

⁶¹ *Institute of Internal Auditors' Model Audit Committee Charter*

⁶² *MORB, Section 133.b.5*

Where relevant, the engagement letter should reflect changes in circumstances relevant to the external audit.

- b. It should obtain an understanding of the score and audit approach which shall be adopted by the external auditor for purposes of meeting the FI's financial reporting requirements;
- c. It should ascertain and take steps to address the major areas of concern identified by the external auditor during the course of its audit. These issues may cover significant accounting estimates, valuation methodologies and accounting policies adopted;
- d. It should review management representation letters before these are transmitted to the external auditor to ensure that items in the letter are complete and appropriate;
- e. It should assess the extent of corporation provided by the FI's management during the conduct of the external audit; and
- f. It should understand and duly assess the external auditor's opinion regarding the capacity of FI management and the adequacy of accounting/information system to comply with financial and prudential reporting responsibilities.

8.5.7 Meet separately with the Head of internal audit/external auditors to discuss any matter that the committee or internal/external audit and such meetings shall be duly minuted.

8.5.8 Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationship between the auditors and Bank, including non-audit services, and discussing the relationships with the auditors.

8.5.9 Communication with the External Auditor ⁶³

In order to reinforce the Audit Committee's effectiveness in performing its key role in strengthening corporate governance, the Audit Committee shall maintain effective communication channels with the external auditor through regular and structure dialogues in the course of the external audit.

Such communication should focus on the key accounting or auditing issues that, in the external auditor's judgment, give rise to a greater risk of material misstatement of the financial reports, as well as other external audit concerns of the Audit Committee. Internal and external auditors should be allowed and encouraged to attend the meeting of the Audit Committee.

⁶³ *BSP Memo No. M-2014-011, Section II.1.a Audit Committee,*

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During regular meetings of the Audit Committee, matters that may be raised include audit findings that would impact on the FI's compliance with regulatory requirements, disclosures and other accounting concerns.

8.6 Additional functions of the Audit Committee

8.6.1 Regularly review and monitor the external auditor's technical competence, independence, objectivity and overall effectiveness of the external audit process.

8.6.2 Determination of Audit Fees⁶⁴

- a. The Audit Committee is required to set the compensation of the external auditor in relation to the scope of its duties.
- b. Reasonableness of the Audit Fees

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

- i. Expected hours needed to complete the scope of work envisioned in the audit plan;
- ii. Complexity of the activities and structure of the company;
- iii. Level of internal audit assistance;
- iv. Level of fees being charged by other audit firms; and
- v. Quality of audit service

8.6.3 Establish a system that addresses, in a timely and effective manner any findings of fraud or error on the financial statements.

8.6.4 Continually engage the external auditor on matters concerning audit quality.

8.6.5 If the external auditor resigns or communicates an intention to resign, the Audit Committee should follow up on the reasons/explanations giving rise to such resignation and consider whether it needs to take any action in response to those reasons.

8.6.6 To meet with the Board at least every quarter without the presence of the CEO or other management team members and periodically meets with the head of internal audit.

⁶⁴ *BSP Memorandum No. M-2014-01, 14 March 2014, Section II.2.1, 8-9*

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8.7 Responsibilities over Internal Audit Outsourcing⁶⁵

- 8.7.1 The Audit Committee shall approve the terms and conditions for outsourcing internal audit services; and
- 8.7.2 The Audit Committee shall be responsible for the selection and overseeing the performance of the internal audit service provider.

In particular, the Audit Committee shall be responsible for:

- a. Ensuring the independence of the internal audit service provider;
- b. Reporting to the Board on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit;
- c. Ensuring that the internal audit service provider comply with sound internal auditing standards such as the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;
- d. Ensuring that the audit plan is aligned with the overall plan strategy and budget of the bank and is based on robust risk assessment; and
- e. Ensuring that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

8.8 Reporting Responsibilities

- 8.8.1 Provide an open avenue of communication between internal audit, the external auditors, and the Board of Directors.
- 8.8.2 Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- 8.8.3 Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.

⁶⁵ MORB, Section 162, Internal Control Framework, Audit Committee

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9. Risk Management Committee⁶⁶

The Risk Management Committee shall be responsible for the oversight of the Bank's enterprise risk management system to ensure its functionality and effectiveness.

It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

9.1 Composition of the Risk Management Committee

9.1.1 Risk Management Committee shall be composed of at least three (3) members of the Board of Directors, the majority of whom should be independent director including the Chairman. The Chairman should not be the Chairman of the Board or of any other committee.

9.1.2 Qualifications of the members of the Risk Management Committee

The members of the Risk Management Committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. At least one must have relevant thorough knowledge and experience on risk and risk management.

9.1.3 Authority and Access to Independent Expert

- a. The Committee shall have the authority to investigate any matter within its duties and responsibilities under the law, rules, circulars, memorandum and/or this Charter, full access to and cooperation from management and other units of the Bank, with full discretion to invite any officer or employee to its meetings.
- b. The Committee shall have adequate resources to enable it to effectively discharge its functions
- c. Whenever appropriate, the Committee shall have access to independent experts to assist it in discharging its responsibilities, particularly in relation to proposed strategic transaction.

9.2 General Responsibilities of the Risk Management Committee⁶⁷

9.2.1 Advise the Board on the Bank's current and future risk appetite levels and risk tolerance limits;

⁶⁶ MORB, Section 133

⁶⁷ MORB, Section 133

9.2.2 It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached;

9.2.3 Oversee the state of risk culture of the Bank; and

9.2.4 Require the Chief Risk Officer and the Bank's Risk Management Group to communicate formally and informally any material information relative to the discharge of its function to the Committee.

9.3 Core Responsibilities of the Risk Management Committee:

9.3.1 **Oversee the risk management framework** – The Risk Management Committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

9.3.2 **Identify and evaluate exposures** – the Risk Management Committee shall assess the profitability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are most likely to occur and are costly when they happen.

9.3.3 **Develop risk management strategies** –the Risk Management Committee shall develop a formal written risk management program which shall contain and define the following: (a) common language or register of risks, (b) well defined risk management goals, objectives and oversight, (c) uniform strategies for managing and controlling the major risks. (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures.

The committee shall identify practical strategies to reduce the chance of harm and failure, or minimize losses if the risk becomes real.

9.3.4 **Oversee the implementation of the risk management plan** – the Risk Management Committee shall conduct regular discussions on the Bank's current and residual risk exposure based on regular risk management reports, and assesses how the concerned units or offices are addressing and managing these risks.

In view of the above, shall provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Bank. This function includes regularly receiving information on risk exposures and risk management activities from Management; and

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Report to the Board on a monthly basis, or as deemed necessary, the company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

- 9.3.5 **Review and revise the plan as needed** – the Risk Management Committee shall oversee and evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. It shall revisit strategies, look for emerging or changing material exposures, and stay abreast of significant developments that seriously affect the likelihood of harm or loss. It shall report regularly to the Board of Directors, or as deemed necessary, the Bank's over-all risk exposure, the actions taken to reduce the risks, and recommends further action or plans as necessary.
- 9.3.6 **Oversee adherence to risk appetite** – The Committee shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management among others.
- 9.3.7 **Review the Bank's risk appetite** – at least annually the Committee shall review the Bank's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the company.
- 9.3.8 **Oversee the risk management function** – The Committee shall be responsible for the appointment/selection, remuneration and dismissal of the Chief Risk Officer. It shall ensure that the risk management function has adequate resources and effectively oversee the risk taking activities of the Bank.
- 9.3.9 **Provide necessary assistance to Corporate Governance Committee** – The Committee shall provide assistance in overseeing the design and operation of the remuneration and other incentives by examining whether incentives provided by the remuneration system taken into consideration risk, capital, and likelihood and timing of earnings.

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10. Corporate Governance Committee ⁶⁸

This Committee is tasked to assist the Board of Directors in fulfilling its corporate governance responsibilities by ensuring compliance with and proper observance of corporate governance laws, rules, principles and best practices.

10.1 Composition of the Corporate Governance Committee

The Committee shall be composed of at least three (3) members of the Board of Directors, all of whom shall be independent directors including the chairperson.

10.2 Duties and Responsibilities

The Committee has the following duties and responsibilities:

10.2.1 Corporate Governance Framework and Policies

- a. Oversee the implementation of the corporate governance framework and periodically review the said framework to ensure that it remains appropriate in light of material changes to Bank's size, complexity and business strategy, as well as its business and regulatory environment;
- b. Adopt corporate governance policies and ensures that these are reviewed and evaluated regularly and consistently implemented in form and in substance.

10.2.2 Nomination and Election

- a. Oversee the nomination process for members of the Board of Directors and for positions requiring appointment by the Board of Directors.
- b. Determine the nomination and election process for the company's directors and has the special duty of defining the general profile of Board members that the company may need and ensure appropriate knowledge, competencies and expertise that complement the existing skills of the Board;
- c. Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.

⁶⁸ MORB, Section 133

- d. Recommend to the Board of Directors matters pertaining to the assignment to board committees, as well as succession plan for the members of the Board of Directors and senior management.

10.2.3 Education Program

- a. Oversee the continuing education program for the Board of Directors by ensuring allocation of sufficient time, budget and other resources, and draw on external expertise as needed.
- b. The Committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for first time directors and annual continuing education for directors.

For the above purpose, the orientation program for first time directors shall be for at least eight (8) hours, while the annual continuing training shall be at least four (4) hours. The training program should cover topics relevant in carrying out their duties and responsibilities as directors.

- c. Propose and plan relevant training for the members of the Board. In relation thereto, it shall make recommendations to the Board regarding the continuing education of directors, assignment to Board Committees, succession plan for the Board members and senior officers, and their remuneration commensurate with corporate and individual performance.

10.2.4 Performance Evaluation of the Board and Committees

- a. Oversee the periodic evaluation (may be conducted through the use of self-assessments) of contribution and performance (e.g. competence, candor, attendance, preparedness and participation) of the Board of Directors, board-level committees, and senior management.
- b. Ensure that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement.
- c. Adopt internal guidelines that shall address the competing time commitments that are faced when directors serve on multiple boards.

10.2.5 Compensation of the Directors

- a. Oversee the design and operation of the remuneration and other incentives policy.

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- b. Together with the Compensation and Remuneration Committee, the Corporate Governance Committee shall establish a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the Bank's culture and strategy as well as the business environment in which it operates.
- c. The Committee shall ensure that the remuneration and other incentives policy is aligned with operating and risk culture as well as with the strategic and financial interest of the Bank, promotes good performance and conveys acceptable risk-taking behavior defined under its Code of Ethics, and complies with legal and regulatory requirements.
- d. The Committee shall work closely with the Bank's Risk Oversight Committee in evaluating the incentives created by the remuneration system.
- e. The Committee shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes to ensure that it operates and achieves the objectives as intended.

10.2.6 Decide the manner by which the Board of Directors' performance shall be evaluated, and propose an objective performance criteria approved by the Board. Such performance indicators shall address how the Board has enhanced long-term shareholder's value.

11. Related Party Transaction Committee⁶⁹

The Committee shall be responsible for the evaluation on an ongoing basis of the existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured.

11.1 Composition of the Related Party Transaction Committee

The Committee shall be composed of at least three (3) independent, non-executive directors, all of whom shall be independent directors.

In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The Chief Compliance Officer or the Chief Audit Executive may sit as resource persons in the said Committee.

⁶⁹ MORB Section 133

11.2 Duties and Responsibilities

- 11.2.1 The Committee shall be responsible in ensuring that the RPT policy is reviewed annually or whenever necessary. Any changes therein shall be approved by the Board of Directors through the RPT Committee.
- 11.2.2 The Committee shall determine the Material Interests or the amount of significant transactions that could pose material risk to the Bank. For this purpose, materiality threshold values for various transactions (i.e., as may be applicable, but not limited to them) have been set for concerned Bank units. The RPT Materiality Threshold summary can be accessed thru the Compliance Public Folder, and shall be promptly updated whenever necessary.

The amount may be changed based on the discretion of the Board.

11.2.3 Review of Material RPTs

- a. Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the Board and regulators/supervisors.
- b. The Committee shall also be responsible in evaluating or reviewing all material RPTs as defined in the existing policies of the Bank.
- c. The Committee shall evaluate the terms and conditions of the facility or the transaction, ensuring that it is conducted at arm's length basis, or shall be upon economic terms not less favourable to the Bank than those offered to others and that no business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transaction.
- d. In determining that a transaction is at arm's length or not undertaken on more favourable economic terms for the related party, it shall consider the pricing, commission, interest rates, fee, tenor, collateral requirement, timing of transactions, economic benefit, etc.

In the evaluation, the Committee shall take into account, among others, the following:

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- i. The related party's relationship to the Bank and interest in the transaction;
- ii. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- iii. The benefits to the bank of the proposed RPT;
- iv. The availability of other sources of comparable products or services; and
- v. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The price discovery mechanism is in place and exercise due diligence in determining a fair price for RPTS.

11.2.4 Ensure that appropriate disclosure is made, and/or information is provided to regulatory agencies regarding the Bank exposures, and policies on conflicts of interest or potential conflicts of interest with the information on the approach to managing material conflicts of interest that are inconsistent with such policies and conflicts that could arise as a result of the Bank's affiliation or transactions with other related parties.

11.2.5 Report to the Board of Directors 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.

11.2.6 Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.

11.2.7 Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

12. Executive Committee

12.1 Composition of the Executive Committee

12.1.1 The Committee shall be composed of five (5) members of the Board of Directors. The membership may be reduced to a number not less than five or increased to such number as the Board of Directors may deem necessary.

12.1.2 The Board of Directors shall have the power at any time to remove and replace the members of, and fill vacancies in, the Executive Committee.

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12.2 Duties and Responsibilities

12.2.1 The Executive Committee, when the Board of Directors is not in session, shall have and may exercise the powers of the Board in the management of the business and affairs of the Corporation, except with respect to:

- a. Approval of any action for which stockholders' approval is also required;
- b. The filling of vacancies in the Board of Directors;
- c. The amendment or repeal of the By-Laws or the adoption of new By-Laws;
- d. The amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable;
- e. A distribution of cash dividend to the stockholders; and
- f. Such other matters as may be specifically excluded or limited by the Board of Directors and/or by laws or regulations.

13. Nominations Committee

13.1 Composition of the Nominations Committee

The Nominations Committee shall be composed of at least three (3) members of the Board of Directors, two (2) of whom shall be independent directors.

13.2 Duties and Functions

13.2.1 Its primary task is to review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval.

With regard to the nominees to the Board, the Committee is also tasked to identify the quality of the directors nominated aligned with the Bank's strategic directions.

13.2.2 It shall promulgate the guidelines or criteria to govern the conduct of the nomination, and the same shall be properly disclosed in the Bank's information or proxy statement or such other reports required to be submitted to the SEC.

In relation to the above, determine the nomination and election process for the company's directors and has the special duty of defining the general profile of board members that the company may need and ensuring

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appropriate knowledge, competences and expertise that complement the existing skills of the Board.

- 13.2.3 The nomination of director, more particularly of independent director, shall be conducted by the Committee prior to a stockholders' meeting. All nominations or recommendation shall be signed by the nominating stockholders together with the acceptance and conformity of the nominees.
- 13.2.4 The Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters that meet at least the minimum requirement of SEC and to facilitate its task to effectively review the qualifications of the nominees for directors, more specifically for independent director/s.
- 13.2.5 After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for directors, more particularly for independent directors, as required under Rule 38 of 2015 SRC IRR, which list shall be made available to the SEC and to all stockholders through the filing and distribution of the Information Statement or Proxy Statement, in accordance with the SRC Rule 17.1 (b) or the SRC or SRC Rule 20, respectively, or in such other reports the company is required to submit to the SEC. The name of the person or group of persons who recommended the nomination of the independent director/s shall be identified in such report including any relationship with the nominee.
- 13.2.6 Only nominees whose names appear on the Final List of Candidates shall be eligible for election as directors, more specifically for Independent Directors. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting, except in the unlikely event that a particular nominee/s make/s a last minute withdrawal of his/their acceptance and conformity, become/s incapacitated or otherwise no longer available for any reason whatsoever.
- 13.2.7 Assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.

14. Compensation and Remuneration Committee

The Committee provides oversight over the remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Bank's culture, strategy and control environment.

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14.1 Composition of the Compensation or Remuneration Committee

The Compensation or Remuneration Committee shall be composed of at least three (3) members, one of whom shall be an independent director.

14.2 Duties and Responsibilities

14.2.1 Establish a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the Bank's culture and strategy as well as the business environment in which it operates.

14.2.2 Review and approve amount of remuneration, which shall be at a sufficient level to attract and retain directors and all personnel who are needed to manage the Bank successfully.

14.2.3 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.

14.2.4 Disallow any director to decide his or her own remuneration.

14.2.5 Provide in the Bank'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.

14.2.6 Review (if any) the existing Human Resources Division 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.

Or in the absence of such Personnel Handbook, cause the development of such, covering the same parameters of governance stated above.

15. Retirement Committee

15.1 Composition

The Committee shall be composed of five (5) members of the Board of Directors.

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The members of the Committee shall be approved by the Board on the recommendation of the Corporate Governance Committee. Committee members may be replaced by the Board.

15.2 Meetings

The Committee shall meet at one time each calendar year, unless warranted by an exigency.

15.3 Responsibilities

15.3.1 Oversee the appointment and replacement of the trustee or investment manager for the funds of the employee retirement benefit plans (including savings plans) of the Company as may be deemed appropriate.

15.3.2 Review the funding strategies being utilized for such funds based on professional analysis by outside actuaries, if one has been engaged, and other experts within or outside the China Bank group, as may be deemed appropriate.

15.3.3 Review policies relating to investments for such employee retirement benefit plan fund assets.

15.3.4 Oversee the activities of any committees, group or division or individuals in directing the investment of such employee retirement benefit plan fund assets.

15.3.5 Report regularly to the Board of Directors of the Company and perform such other non- fiduciary functions as may be assigned to it from time to time by the Board or its Chairman.

15.3.6 Form and delegate authority to subcommittees when appropriate.

15.3.7 Undertake an annual performance evaluation of the activities of the Committee, including the Committee's responsibilities as set forth above.

F. Board and Committee Evaluation Process

The Board shall conduct an annual review of its performance, including the evaluation of the performance of the committees to be conducted through self-assessment. The results thereof shall be reported to the Board through the Corporate Governance Committee.

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G. Remuneration and Other Incentives

1. Remuneration and Incentive Policy

The Board of Directors shall approve remuneration and other incentives policy that is appropriate and consistent with the Bank's operating and risk culture, long-term business and risk appetite, performance and control environment.

The said policy shall cover all employees and should be designed to encourage good performance that supports the interest of the Bank and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking.

2. Design of Remuneration

The following shall be considered in the design of the remuneration and other incentives policy:

2.1 The remuneration and incentives package shall take into account the employee position, role, responsibilities and activities in the Bank. It shall also consider the risks that the employees take on behalf of the Bank. Thus, it should be sensitive to prospective risk and risk outcomes that have been realized and considers the overall performance of the Bank.

2.2 Remuneration and incentive pay-out schedule should be sensitive to the time-horizon of risk. The policy may include provision that defer payment until risk outcomes are better known or provisions under which remunerations and incentives may be reduced or reversed. If new facts emerge showing that the remuneration and incentives paid was based on erroneous assumptions, such as misreporting, or if it is discovered that the employee has failed to comply with internal policies or legal requirements.

2.3 Remuneration of employees in risk control function (i.e., Internal Audit, Compliance, and Risk Management Functions) shall be based on the achievement of their objectives and shall be independent of the business lines which they oversee.

3. Directors' Fees

A Per Diem, as may be determined from time to time by stockholders owning or representing a majority of the subscribed capital stock at any regular or special meeting, shall be paid to each Director for attendance at any meeting of the Board of Directors for each day of session; Provided, however, that nothing herein contained shall be construed to preclude any Director from serving in any other capacity and receiving compensation therefore.

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H. Corporate Secretary

1. The Corporate Secretary is an officer of the Bank, a Filipino citizen and resident of the Philippines and should not be a member of the Board.

The Corporate Secretary is primarily responsible to the corporation and its shareholders and not to the Chairman or President of the Company.

2. Among others, he has the following responsibilities:
 - 2.1 Assist the Board and the Board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agenda for those meetings;
 - 2.2 Safekeep and preserve the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the corporation;
 - 2.3 Keep abreast on relevant laws, rules and regulations, all governance issuances, relevant industry;
 - 2.4 Work fairly and objectively with Board, Management, stockholders and other stakeholders;
 - 2.5 Advise on the establishment of Board committees and their terms of reference.
 - 2.6 Inform the members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five working days in advance and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
 - 2.7 Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so;
 - 2.8 Perform required administrative functions;
 - 2.9 Oversee the drafting of the by-laws and ensure that they conform with regulatory requirements; and
 - 2.10 Perform such other duties and responsibilities as may be provided by the Securities and Exchange Commission.

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I. Officers

The selection of Bank Officers shall be in accordance with the qualifications and disqualifications set by the Bank and the prevailing BSP regulations.

1. Qualifications of an Officer

- 1.1 An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following shall be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.
- 1.2 In assessing an officer's integrity/probity, consideration shall be given by the Bank 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.
- 1.3 The appointed officer has the burden to prove that he possess all the foregoing qualifications and none of the disqualifications mentioned under Section 138 of the MORB.
- 1.4 An officer shall submit to the BSP the required certifications and other documentary proof of the qualifications using as guide Appendix 98 of the MORB, within twenty (20) banking days from the date of meeting of the Board in which the officer was appointed/promoted. 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.

2. Duties and Responsibilities of Officers on Corporate Governance⁷⁰

- 2.1 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 of Directors are consistently adopted across the Bank.
- 2.2 To oversee the day-to-day management of the Bank. Bank officers shall ensure that Bank's activities and operations are consistent with bank's strategic objectives, risk strategy, corporate values and policies as approved by the Board of Directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the Bank.

⁷⁰ MORB, Section 134

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- 2.3 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 of Directors for the performance of the Bank.
- 2.4 To promote and strengthen check and balance systems in the Bank. Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their function. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.
3. Bio-Data of Officers ⁷¹
- 3.1 Banks shall submit to the appropriate department of the BSP a bio-data with ID of their:
- 3.1.1 Officers who are subject to confirmation based on existing rules;
- 3.1.2 Officers below the rank of SVP requiring a different set of minimum qualifications, upon every election/re-election/appointment/promotion in a prescribed form and for first time directors/officers within a particular bank/banking group whose election/appointment required MB/SES Committee confirmation, the duly notarized authorization form (as prescribed by the BSP under Appendix 76) within twenty (20) banking days from the date of election/re-election of the directors/meeting of the Board of Directors in which the officers are appointed/promoted, in accordance with Appendix 6 of the MORB.
- 3.2 Updating of the Bio-Data
- 3.2.1 The bio-data shall be updated and submitted in cases of change of name due to change in civil status and change of residential address, within twenty (20) banking days from the date the change occurred, and in cases of requests for prior Monetary Board approval of interlocks.
- 3.2.2 Officers below the rank of SVP other than the Treasurer, trust officer, and heads of internal audit, risk management, and compliance functions (regardless of rank), the Bank shall not be required to submit their bio-data to the BSP.

⁷¹ MORB, Section 137

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4. List of Officers⁷²

- 4.1 The Bank is required to submit to the Central Point of Contact – BSP a duly notarized list of incumbent officers (president or equivalent rank, down the line, following the prescribed BSP format, within twenty (20) banking days from the annual election of the Board of Directors.
- 4.2 The responsibility of submission is with the Bank’s Office of the Corporate Secretary, however, the list shall be prepared by the Human Resources Division.

5. Disqualification of Officers⁷³

- 5.1 An officer who is elected or appointed but who does not possess all the qualifications under existing rules of the BSP MORB Section 132 and 134 and/or has any of disqualifications mentioned under Section 138 shall not be confirmed by the confirming authority of the BSP and shall be removed from office even if he/she assumed the position to which he/she was elected or appointed, in accordance with the established procedures on termination of an employee with a cause.
- 5.2 In case of officers who have been confirmed already by the confirming authority of the BSP, but was found to possess any of the disqualifications enumerated in the MORB shall be subject to the disqualification procedures.
- 5.3 Except as may be authorized by the Monetary Board or the Governor, spouse of relative within the second degree of consanguinity or affinity of any person holding the position of Chairman, President, Executive Vice President or any position of equivalent rank, General Manager, Treasurer, Chief Cashier or Chief Accountant is disqualified from holding or being elected or appointed to any of said positions in the same bank/quasi-bank; and the spouse or relative within the second degree of consanguinity or affinity of any person holding the position of Manager, Cashier, or Accountant of a branch or office of a bank/quasi-bank/trust entity is disqualified from holding or being appointed to any of said positions in the same branch or office.
- 5.4 Except as may otherwise be allowed under C.A no. 108, otherwise known as “The Anti-Dummy Law”, as amended, foreigners cannot be officers or employees of banks.

⁷⁴

V. Code of Conduct

1. The Bank must establish a set of Personnel Policies and Code of Conduct to be strictly observed by all employees of the Bank. It should form part of the Employee Handbook which a copy should be distributed to all employees for their information. Any updates thereto shall also be

⁷² MORB, Section 137

⁷³ MORB, Section 138

⁷⁴ MORB, Section 138.e (Persons disqualified to become officers)

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distributed to all employees and should be duly acknowledged. This Handbook shall be with the employee for the whole duration of his stay in the Bank and must be surrendered upon his resignation / retirement.

2. All officers and employees of the Bank hold a position of trust. In this regard he/she must avoid situations where his / her personal interest may conflict or appear to conflict with the interest of the Bank or its customers. In case of conflict, the interest of the Bank should prevail.

VI. Compliance System and Internal Control

A. Internal Control Framework ⁷⁵

1. Definition of Internal Control

Internal control is a process designed and effected by the Board of Directors, senior management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, rules, supervisory requirements, and the organization's policies and procedures.

2. Components of Internal Control

The Bank's internal control framework shall embody the following:

- 2.1 Management oversight and control culture
- 2.2 Risk recognition and assessment
- 2.3 Control activities
- 2.4 Information and communication; and
- 2.5 Monitoring activities and correcting deficiencies

3. Control Activities ⁷⁶

Bank control activities shall form part of the daily activities and all levels of personnel in the Bank. This shall involve establishment of control policies and procedures, and verification that these are being complied with.

Control activities is every business level shall include the following:

- 3.1 Top and functional level reviews;
- 3.2 Checking compliance with exposure limits and follow-up on non-compliance;

⁷⁵ MORB Section 162

⁷⁶ MORB Section 162

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- 3.3 A system of approvals and authorizations (to include the approval process for new products and services; and
 - 3.4 A system of verification and reconciliation.
4. Senior Management's Responsibility over Internal Control
- 4.1. Senior management shall be responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness of inter controls on a periodic basis;
 - 4.2. Management shall develop a process that identifies, measures, monitors and controls risk that are inherent to the operations of the Bank;
 - 4.3. Maintain an organizational structure that clearly assigns responsibility, authority and reporting relationships;
 - 4.4. Ensure that delegated responsibilities are effectively carried out;
 - 4.5. Implement internal control policies and ensure that activities are conducted by qualified personnel with the necessary experience and competence;
 - 4.6. Ensure that bank personnel undertake continuing professional development and that there is an appropriate balance in the skills and resources of the front office, back office, and control functions;
 - 4.7. Management shall promptly inform the internal audit function of the significant changes in the bank's risk management system, policies and processes.

B. Compliance Function⁷⁷

- 1. The Bank's Compliance function acts a second line of defense, aside from Risk Management. It has a formal status, as established by a Charter, defining its function, standing, authority and independence, which includes its right to obtain access to information necessary to carry out its responsibilities, conduct of investigation on possible breaches of the compliance policy.

The compliance function is under the Compliance Office of the Bank with direct reporting line to the Board or the Corporate Governance Committee.

The Compliance Function facilitates effective management of compliance risk by:

- a. Advising the Board and senior management on relevant laws, rules and standards, including keeping them informed on development in the area;

⁷⁷ MORB, Section 161

- b. Apprising the Bank's personnel on compliance issues, and acting as a contact point within the Bank for compliance queries;
- c. Establishing written guidance to staff on appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
- d. Identifying, documenting and assessing the compliance risk associated with the Bank's business activities, including new products and business units;
- e. Assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments;
- f. Monitoring and testing compliance by performing sufficient and representative compliance testing; and
- g. Maintain constructive working relationship with the BSP.

Additional Compliance Function with regard to the Reputational Risk Management⁷⁸

The Compliance Function shall ensure that a robust compliance system is in place to ascertain that the Bank conducts business in accordance with relevant laws, rules, regulations and internal policies. It shall identify areas which are likely to lead to incidents or violations that can undermine the institution's reputation.

2. Chief Compliance Officer (CCO) ⁷⁹

2.1 Qualifications of a CCO

- 2.1.1 He must be fit and proper for the position of an officer based on the fit proper rules of the BSP 146, which consideration shall include but not limited to: integrity/probity, education, training and possession of competencies relevant to the function;
- 2.1.2 He must have the necessary knowledge, skill, experience and professional background on banking, financial industry or compliance.
- 2.1.3 He should have understanding of relevant laws, rules and regulations and their potential impact on the Bank's operations.

⁷⁸ BSP Circular No. 1114

⁷⁹ MORB, Section 161

In this regard, he should be up-to-date with the developments in laws, rules, regulations and standards maintained through continuous training.

1.1.4 He has the burden to prove that he possess all the minimum qualifications and none of the disqualifications by submitting the proof of qualifications to the BSP using the list in Appendix 98 as guide.

2.1.5 Non-submission of the complete document requirements within the prescribed deadline shall be construed as his failure to establish his qualifications for the position and shall result to his removal.

2.2 Appointment

2.2.1 Banks are required to appoint a full-time CCO to manage the compliance program. Taking into consideration the importance of the compliance function, the CCO shall be a senior officer functionally reporting to the Bank's Board of Directors through the appropriate board-level Committee. Such designation shall require prior approval of the Monetary Board.⁸⁰

2.2.2 It shall be the responsibility of the Office of the Corporate Secretary to secure the said BSP approval in the form of a letter request within a reasonable period after the Bank's board approval of the appointment of the CCO.

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

3. Duties and Responsibilities of Compliance Office

3.1 Report matters that affect the design and implementation of the compliance program to the Board or Compliance Committee;

3.2 Seek the approval of the Board for the Compliance Program and amendments thereto; and

3.3 Report promptly breaches of compliance program to the Board or Compliance Committee and to promptly address these breaches.

The CCO shall have the following additional duties:

3.4 Ensure proper on boarding of new directors (i.e. orientation on the company's business, charter, articles of incorporation and by-laws, among others;

⁸⁰ MORB, Section 161

- 3.5 Monitor, review, evaluate and ensure the compliance by the Bank, its officers and directors with the relevant laws, the Code of CG for PLCs, rules and regulations and all governance issuances of regulatory agencies;
- 3.6 Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;
- 3.7 Ensures the integrity and accuracy all documentary submissions to regulators;
- 3.8 Appear before the Commission when summoned in relation to compliance with the Code of CG for PLCs; and
- 3.9 Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- 3.10 Identifies possible areas of compliance issues and works towards the resolution of the same;
- 3.11 Ensures the attendance of Board members and key officers to relevant trainings;
- 3.12 Perform such other duties and responsibilities as may be provided by the SEC; and
- 3.13 In accordance with Section 161 of the MORB, the CCO shall also perform the following duties:
 - 3.13.1 Act as the lead senior officer for purposes of administering the compliance program and interacting with the BSP on compliance-related issues.
 - 3.13.2 Oversee the design of the appropriate compliance system, promote its effective implementation and address breaches that may arise.
 - 3.13.3 Ensure the integrity and accuracy of all documentary submission to the BSP.

C. Audit Function

- 1. Internal Auditor or the Chief Audit Executive (CAE)
 - 1.1 Appointment, Reappointment and Removal of the CAE
 - 1.1.1 The head of the internal audit function shall be appointed/re-appointed or replaced with prior approval of the Board.
 - 1.1.2 In cases when the CAE will be replaced, the Bank shall report the same and the corresponding reason for replacement to the appropriate supervising

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department of the BSP within five (5) days from the time it has been approved by the Board of Directors.

1.2 Duties and Responsibilities of the CAE ⁸¹

- 1.2.1 To review, at least annually, the internal audit charter and present it to the senior management and the Audit Committee for approval.
- 1.2.2 To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity.
- 1.2.3 To be accountable to the Board of Directors or audit committee on all matters related to the performance of its mandate as provided in the internal audit charter. The CAE shall submit a report to the Audit Committee or Board on the status of accomplishment of the internal audit unit, including findings noted during the conduct of internal audit as well as status of compliance of concerned departments or units.
- 1.2.4 To ensure that the internal audit function complies with sound internal auditing standards such as the Institute of Internal Auditors' International Standards on Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics.
- 1.2.5 To develop a risk-based-audit plan, including policies and procedures based on robust risk assessment to determine the priorities of the internal audit activity, consistent with the organization's goals, including inputs from the Board of Directors, Audit Committee and senior management and ensure that such plan is comprehensive and adequately covers regulatory matters. The CAE shall also ensure that the audit plan, including any revisions thereto, shall be approved by the Audit Committee.
- 1.2.6 To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate. In this regard, the CAE shall periodically assess and monitor the skill-set of the internal audit function and ensure that there is an adequate development program for the internal audit staff that shall enable them to meet the growing technical complexity of banking operations.

Moreover, to communicate internal audit activity's plan, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval.

⁸¹ MORB Section 163

- 1.2.7 To spearhead the performance of the internal audit activity to ensure it adds value to the organization
- 1.2.8 To report periodically to the Audit Committee on the internal audit activity's performance relative to its plan;
- 1.2.9 To present the findings and reformations to the Audit Committee and give advice to senior management and the Board on how to improve internal processes.
- 1.2.10 In addition to those mentioned in the job description of the CAE, he/she is the highest person in the Bank responsible for internal audit activities or to perform the audit function.

1.3 Independence of the Internal Auditor ⁸²

- 1.3.1 The by-laws/Internal Audit Charter shall provide for the position of internal auditor together with the authority, accountability, duties and responsibilities, scope and objectives of internal auditing. It shall be the responsibility of the OCS to ensure that this is complied with.
- 1.3.2 The CAE shall report directly to the Board of Directors or to an audit committee composed of directors who do not hold executive positions in the Bank.
- 1.3.3 The internal auditor shall not install nor develop procedures, prepare records or engage in other activities which he normally reviews or appraises.

1.4 Qualification Standards of an Internal Auditor ⁸³

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

- 1.4.1 The internal auditor must be a Certified Public Accountant (CPA).
- 1.4.2 Must have at least five (5) years of experience in the regular audit (internal or external) of a TB, national Coop Bank or, at least three (3) years of experience in the regular audit (internal or external) of a UB or KB as auditor in charge, senior auditor or audit manager.

⁸² MORB, Section 163

⁸³ MORB Section 163

1.4.3 He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required to face up to the increasing complexity and diversity of the institution's operations.

1.5 Code of Ethics and Internal Auditing Standards

The internal auditor should conform with the Code of Professional Ethics for CPAs and ensure compliance with sound internal auditing standards, such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (e-mail: standards@theiia.org; Web: <http://www.theiia.org>.) and other supplemental standards issued by regulatory authorities/government agencies. The Standards address independence and objectivity, professional proficiency, scope of work, performance of audit work, management of internal audit, quality assurance reviews, communication and monitoring of results.

2. Internal Audit⁸⁴

An effective and efficient internal audit function constitutes the third line of defense in the system of internal control.

Internal audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of an organization, which helps management and the Board of Directors in protecting the bank and its reputation.

In addition, Internal Audit helps the Bank in monitoring and guides the implementation of policies and to accomplish the Bank's objective by bringing a systematic, disciplined approach.

The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit shall be conducted in frequencies commensurate with the assessment levels of risk in specific banking areas.

2.1 Permanency of Internal Audit Function

The Bank shall have a permanent internal audit function. In case of CBS under China Bank's group structure, in accordance with the BSP rule, may establish its own internal audit or centrally by the parent bank.

⁸⁴ *MORB, Section 163*

2.2 Functions of Internal Audit

Among others, internal audit shall have the following functions:

- 2.2.1 Provide an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in:
 - a. Promoting the right values and ethics;
 - i. Ensuring effective performance management and accounting in the organization;
 - ii. Communicating risk and control information; and
 - iii. Coordinating the activities and information among the Board, external and internal auditors, and Management.
- 2.2.2 Perform regular and special audit as contained in the annual audit plan and/or based on the Bank's risk assessments;
- 2.2.3 Perform consulting and advisory services related to governance and control as appropriate for the Bank;
- 2.2.4 Perform compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the Bank;
- 2.2.5 Review, audit and assess the efficiency and effectiveness of the internal control system of all areas of the Bank;
- 2.2.6 Evaluate operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried;
- 2.2.7 Evaluate specific operations at the request of the Board or Management, as appropriate; and
- 2.2.8 Monitor and evaluate governance process.

2.3 Internal Audit Function in Group Structures

In case of CBS belonging to China Bank Group, but has its own internal audit function, the said IA shall be accountable to its own Board of Directors and shall likewise

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report to the Chief Audit Executive of the parent bank within a reasonable period and frequency prescribed by the Board of China Bank.

2.4 Professional Competence and Ethics of the Internal Audit ⁸⁵

2.4.1 The internal audit function shall be comprised of professional and competent individuals who collectively have the knowledge and experience necessary in the conduct of an effective internal audit on all areas of Bank's operations. The skill set of the internal audit staff shall be complemented with appropriate audit methodologies and tools as well as sufficient knowledge of auditing techniques in the conduct of audit activities.

2.4.2 All internal audit personnel shall act with integrity in carrying out their duties and responsibilities. They should respect the confidentiality of information acquired in the course of the performance of their duties and should not use it for personal gain or malicious actions.

2.4.3 IA personnel shall avoid conflicts of interest. Internally-recruited internal auditors shall not engage in auditing activities for which they have had previous responsibility before a one-year "cooling off" period has elapsed.

2.4.4 The IA personnel shall adhere at all times to the Bank's Code of Ethics as well as to an established code of ethics for internal auditors such as that of the Institute of Internal Auditors.

2.5 Independence and Objectivity of the Internal Audit Function ⁸⁶

2.5.1 The function of Internal Audit must be independent of the activities audited and from day-to-day internal control process. It must be free to report audit results, findings, opinions, appraisals and other information through clear reporting line to the Board of Directors or audit committee. It shall have authority to directly access and communicate with any officer or employee, to examine any activity or entity of the Bank, as well as to access any records, files or data whenever relevant to the exercise of its assignment.

2.5.2 If independence or objectivity of internal audit function is impaired, in fact or appearance, the details of the impairment must be disclosed to the audit committee. Impairment to organizational independence and individual objectivity may include, but is not limited to, personnel conflict of interest, scope limitations, restrictions on access to records, personnel and properties, and resource limitations, such as funding.

⁸⁵ MORB, Section 163

⁸⁶ MORB, Section 163

- 2.5.3 The internal audit function shall inform senior management of the results of its audits and assessment. Senior management may consult the internal auditor on matters related to risks and internal controls without tainting the latter's independence. *Provided*, That the IA shall not be involved in the development or implementation of policies and procedures, preparation of reports or execution of activities that fall within the scope of his review.
- 1.5.4 Staff of the internal audit shall be periodically rotated, whenever practicable, and without jeopardizing competence and expertise to avoid unwarranted effects of continuously performing similar tasks or routine jobs that may affect the internal auditor's judgment and objectivity.
- 2.5.5 The Audit Committee or senior management should take all necessary measures to provide the appropriate resources and staffing that would enable internal audit to achieve its objectives.
- 2.6 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.
- 2.7 The scope of internal audit function:⁸⁷

All processes, systems, units and activities, including outsourced services shall fall within the overall scope of the internal audit function.

The scope of internal audit shall cover, among others, the following:

- 2.7.1 Evaluation of adequacy, efficiency and effectiveness of internal control, risk management and governance system in the context of current and potential future risk;
- 2.7.2 Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services;
- 2.7.3 Review of the systems and procedures of safeguarding the Bank's physical and information assets;
- 2.7.4 Review of compliance of trading activities with relevant laws, rules and regulations; and

⁸⁷ MORB, Section 163

- 2.7.5 Review of the compliance system and the implementation of established policies and procedures.
- 2.7.6 Review of areas of interest to regulators such as, among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions, liquidity level; regulatory and internal reporting.
- 2.8 Establish a follow-up process to monitor and ensure that engagement recommendations and management actions have been effectively implemented or that senior management has been apprised of and has accepted the risks of not taking action. The status reports shall summarize unresolved findings/exceptions, recommendations, corrective actions, officers responsible and implementation dates.
- 2.9 The internal auditors shall have free and full access to all functions company's records/files, accounts, properties, and personnel relevant to the internal audit activity with strict accountability for confidentiality and safeguarding of information obtained.
- 2.10 The Chief Audit Executive shall render to the Audit Committee and senior management an annual report on the internal audit division's activities, purpose, authority, responsibility, and performance relative to audit plans and strategies approved by the Audit Committee.
- 2.11 Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluation, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 2.12 The Chief Audit Executive shall coordinate with other control and monitoring Units (e.g. Risk Management Group, Compliance Unit, Legal Division, Human Resources Division, and Information Security Office) on activities and issues that are considered important and pose potential risks to the Bank.
- 2.13 The Chief Audit Executive shall establish a quality assurance program which assures the effectiveness and efficiency of the internal auditing activities and identifies opportunities for improvement. Furthermore, he/she shall communicate the status of internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

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- 2.14 Internal Auditors should evaluate significant new or changing Bank's operations, functions, processes, services and systems coincident with their development, implementation and expansion to ensure adequacy and effectiveness of security and control.
- 2.15 Internal Audit should assist the Bank in the investigation and evaluation of significant suspected fraudulent activities within the organization and notify management and the Audit Committee of the results.
- 2.16 Internal Auditors should consider the scope of work of the external auditors/service providers and regulators, as appropriate, for the purpose of providing optimal audit coverage to the Bank at a reasonable cost.
- 2.17 Internal Audit should report significant risk exposures, control and governance issues, and other matters needed or requested by the Board through the Audit Committee.
- 2.18 Internal Audit should maintain professional workforce which collectively have sufficient knowledge, skills, experience, and professional qualifications/certifications to meet the requirements of regulations and its Charter.

3. Outsourcing of Internal Audit Activities⁸⁸

The Bank may outsource internal audit activities except for areas covered by existing statutes on deposit secrecy. Outsourcing of internal audit activities shall however, be done on a limited basis to have access to certain areas of expertise that are not available to the internal audit function or to address resource constraints. *Provided, That:* the internal audit activity shall not be outsourced to the bank's own external auditor/audit firm not to internal audit service provider that was previously engaged by the Bank in the same area intended to be covered by the internal audit activity that will be outsourced, without a one-year "cooling off" period. *Provided, further,* that the Head of the Bank's internal audit function shall ensure that the knowledge or inputs from the outsourced experts shall be assimilated into the bank to the greatest extent possible.

4. Internal Audit Charter

The Bank shall have an internal audit charter approved by the Board. The said Charter shall be periodically reviewed by the CAE and any changes thereto shall be approved by the Board.

The Charter shall establish, among others the following:

⁸⁸ *MORB, Section 163*

- 4.1 Purpose, stature and authority, and responsibilities of the internal audit function as well as its relations with other control functions in the bank. The charter shall recognize the authority of the internal audit function, to initiate direct communication with any bank personnel; to examine any activity or entity; and to access any records, files, data and physical properties of the bank, in performing its duties and responsibilities;
 - 4.2 Standards of independence, objectivity, professional competence and due professional care, and professional ethics;
 - 4.3 Guidelines or criteria for outsourcing internal audit activities to external experts;
 - 4.4 Guidelines for consulting or advisory service that may be provided by the Internal audit function;
 - 4.5 Responsibilities and accountabilities of the CAE;
 - 4.6 Requirement to comply with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/ government agencies, as well as with relevant code of ethics; and
 - 4.7 Guidelines for coordination with the external auditor and supervisory authority.
5. External Auditor
 - 5.1 Appointment of the External Auditor
 - 5.1.1 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.
 - 5.1.2 The Bank in selecting, appointing, re-appointing or dismissing its External Auditor including fees of the external auditor should be recommended by the Audit Committee, approved by the Board and ratified by the shareholders. The External Auditor appointed should be part of the SEC and/or BSP list of accredited External Auditors.
 - 5.2 Non-Audit Work and Conflict of Interest
 - 5.2.1 The external auditor of the Bank shall not at the same time provide internal audit services. The Bank shall ensure that other non-audit work to be given to the external auditor shall not be in conflict with the functions of the external auditor, or does not pose a threat to his independence.

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5.2.2 The Bank shall disclose the nature of the non-audit services performed by its external auditor in the Annual Report.

5.3 Cessation of Service of the External Auditor

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the Bank's annual and current reports. The report shall include a discussion of any disagreement between him and the corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the bank failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Bank to the external auditor before its submission.

5.4 Views of the External Auditor on the Annual Report and Other Disclosures

If an external auditor believes that the statements made in the Bank's annual report, information statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

5.5 Rotation of the External Auditor

The Bank's external auditor shall be rotated or the signing partner shall be changed every five (5) years or earlier.

D. Risk Management Function ⁸⁹

The risk management function is one of the Bank's second line of defense, apart from Compliance, and shall be under the Risk Management Group (RMG) of the Bank.

The RMG shall report directly to the Risk Management Committee or the Board, as applicable. The personnel under the RMG should collectively have knowledge and technical skills commensurate with business activities and risk exposures of the Bank.

1. General Responsibilities of the Risk Management Group

The risk management function is generally responsible for:

- 1.1 Overseeing the risk-taking activities across the Bank as well as in evaluating whether these remain consistent with the Bank's risk appetite and strategic decision;
- 1.2 Ensuring that the risk governance framework remains appropriate relative to the complexity of risk taking activities of the Bank;

⁸⁹ MORB, Section 142

- 1.3 Assisting management in meeting its responsibility to understand and manage risk exposures and ensure the development and consistent implementation of risk policies, processes, and procedures throughout the Bank;
- 1.4 Defining a risk management strategy;
- 1.5 Identifying and analyzing key risks exposure and assessing and measuring the extent of risk exposure of the bank and its trust operations, to include risk exposures on economic, environmental, social and governance factors and the achievement of the Bank strategic objective;
- 1.6 Monitoring the risk exposure 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;
- 1.7 Evaluating, categorizing, monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies and parameters on risk tolerance and the effectiveness of the corresponding risk mitigation measure.

This shall include developing a risk mitigation plan for the most important risks to the Bank, as defined by the risk management strategy;

- 1.8 Establishing a risk register with clearly defined, prioritized and residual risks;
- 1.9 Communicating and reporting significant risk exposures, including strategic, compliance, operations, financial and reputation risks, control issues and risk mitigation plan on a regular basis to senior management, Risk Oversight Committee and to the Board of Directors of the results of assessment and monitoring.

Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the development in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the bank's activities; and

- 1.10 Monitoring and evaluating the effectiveness of the Bank's risk management processes.

2. Chief Risk Officer (CRO)⁹⁰

2.1 Qualifications of the Chief Risk Officer

⁹⁰ MORB, Section 142

- 2.1.1 The CRO should have the knowledge and skills necessary to oversee the Bank's risk management activities. To be assessed based on the ability of the CRO to influence decisions that affect the Bank's exposure to risk.
- 2.1.2 He should have the ability to interpret and articulate risk in a clear and understandable manner.
- 2.1.3 He can engage in a constructive dialogue with the Board, CEO, and other senior management on key risk issues, without compromising his independence.

2.2 Appointment of the Chief Risk Officer

- 2.2.1 The Bank shall appoint a CRO, or any equivalent position, who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions.
- 2.2.2 The CRO shall be appointed with prior approval of the Board of Directors.

2.3 Independence of the Chief Risk Officer

The independence of the CRO shall be displayed in practice at all times as such, albeit the CRO may report to the President or senior management, shall have direct access to the Board of Directors and the risk management committee without any impediment. In this regard, the Board shall confirm the performance ratings given by the President or senior management to the CRO.

2.4 Status and Authority of the Chief Risk Officer

- 2.4.1 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.
- 2.4.2 The CRO shall have the ability, without compromising his independence, to engage in discussions with the Board of Directors, chief executive officer 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 of Directors / risk management committee on a regular basis and such meetings shall be duly minuted and adequately documented.

2.5 Replacement of the Chief Risk Officer

- 2.5.1 The CRO shall be replaced with prior approval of the Board of Directors. In case when the CRO will be replaced, the Bank shall report the same to the SES of the BSP within five (5) days from the time it has been approved by the Board of Directors.

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2.5.2 The reporting of the CRO's replacement shall be handled by the Office of the Corporate Secretary.

2.6 Duties and Responsibilities of the Chief Risk Officer⁹¹

2.6.1 The CRO shall be responsible for overseeing the risk management function and shall support the Board in the development of the risk appetite and risk appetite statement of the Bank and for translating the risk appetite into risk limits structure.

2.6.2 He shall be responsible to propose enhancements to risk management policies, process, and systems to ensure that the Bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

2.7 The CRO has the following functions, among others:

2.7.1 To supervise the Enterprise Risk Management (ERM) process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;

2.7.2 To communicate the top risks and the status of implementation of risk management strategies and action plans to the Risk Oversight Committee;

2.7.3 To collaborate with the CEO in updating and making recommendation to the Risk Oversight Committee;

2.7.4 To suggest ERM policies and related guidance, as may be needed; and

2.7.5 To provide insights on the following:

- a. Risk management processes are performing as intended;
- b. Risk measures reported are continuously reviewed by risk owners for effectiveness; and
- c. Established risk policies and procedures are being complied with.

There should be a clear communication between the Risk Oversight Committee and the CRO.

⁹¹ MORB, Section 142

E. Communication Process

1. This Manual shall be available for inspection by any stockholder of the Bank at reasonable hours on business days.
2. All directors, executives, division 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. They must read this Manual and understand the rules herein discussed.
3. An adequate number of printed copies of this Manual must be reproduced under the supervision of Compliance Office, with a minimum of at least one (1) hard copy of the Manual per department or Soft copy of this manual shall be posted on the Compliance Portal of the iConnect for easy reference.

F. Training Process

1. Orientation Program
 - 1.1 The Bank shall allocate funds for the purpose of conducting an orientation program or workshop to operationalize this Manual.
 - 1.2 A new director shall, within a period of six (6) months from the date of his election, shall be required to attend a special seminar on corporate governance which shall be conducted by a BSP accredited private or government institute.
 - 1.3 The required/mandated SEC topics for the new director's first training are enumerated in item 2.2 below.
2. Continuing Education Program for the Directors and Key Officers⁹²
 - 2.1 At least annually, as part of the continuing education program for the directors, they are required to attend a program on corporate governance conducted by a training provider duly accredited by the Securities and Exchange Commission.
 - 2.2 Moreover, in accordance with SEC Memo No. 13 Series of 2014, the Basic Course Outline of the Training provided, should include among others, the following:
 - 2.2.1 Basic Course
 - a. Framework for Financial Statement Reporting
 - b. Principal Financial Statements and Their Uses

⁹² MORB, Section 133

- c. What Decision-Makers Need to Know about the Principal Financial Statements (e.g. Statement of Comprehensive Income, Balance Sheet, Cash Flow Statement, and Statement of Change in Equity)
- d. What Board of Directors and Management Need to Know About Accounting Principles
 - Income Statement, Balance Sheet & Statement of Cash Flows
 - Financial Statement Analysis
 - What to Spot in Financial Statements
 - Issue Spotting
 - What should Be Included in Performance Dashboards
 - Pointers to Ensure that Recording, Processing & Reporting Data Do Not Result in Material Misstatement of Financial Statements
 - Pointers to Avoid material Weaknesses in Internal Controls
 - Financial Policies for Fraud Prevention that Decision-Makers Should Have
 - What Decision-Makers Need to Know About the External Auditor’s Opinion
 - Understanding Basic Concepts in Making Business Decisions
 - What Decision-Makers Can Get From Reading Financial Statements

2.2.2 Advance Course

Which will cover among others, provisions of the Philippine Financial Reporting Standard Standards that are relevant to the company’s specific industry.

2.3 In relation to items 2.1 & 2.2 above, it shall be the responsibility of the Compliance Office to ensure that only accredited SEC training providers are engaged by the Bank to conduct the required annual training.

2.4 Submission of the Training Certificates

Within ten (10) days from the training date, the Bank through its Corporate Secretary shall submit to the Commission the Training Certificates.

The External Training Provider is required to release the Certificates of Attendance within three (3) days from the conclusion of the training.

3. Seminars through Videoconference

3.1 Directors and Key Officers who are unable to physically attend a scheduled CG training may participate through videoconference subject to the following conditions:

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3.1.1 The accredited training provider or the company conducting the in-house training shall advise the Commission if there are directors or key officers who will participate through videoconference at least two (2) weeks before the scheduled training.

3.1.2 The accredited training provider shall assume the following responsibilities:

- a. To safeguard the integrity of the training/seminar via videoconferencing;
- b. To record and properly document the training seminar;
- c. To store for safekeeping the recording; and
- d. To forward to the Commission a copy of the recording

3.1.3 The Commission shall have the option to observe and monitor the conduct of the said training program.

G. Reportorial or Disclosure System of Bank's Corporate Governance Policies

1. The reports or disclosures required under this Manual shall be prepared and submitted to Philippine Stock Exchange (PSE), Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas, as the case may be in accordance with existing regulations, by the responsible committee or officer or through the Bank's Chief Compliance Officer.
2. All material information, i.e., anything that could potentially affect share price and volume shall be publicly disclosed. Such information shall include earnings results, acquisition or disposal of assets, off balance sheet transactions, board changes, RPTs, shareholdings of directors, direct and indirect remuneration of members of the Board and Management, and changes to ownership.
3. 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.
4. All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report.
5. The Directors and Officers shall commit at all times to fully disclose to the Bank material information dealings in the company's shares by the said directors and officers within five (5) business days.⁹³ It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submission to the Commission for the interest of its stockholders and other stakeholders.
6. The Bank shall observe disclosure on the acquisition or disposal of significant assets, among others, the rationale, effect on operations and approval at board meetings with independent directors present to establish transparency. In this regard, should the Bank

⁹³ SEC Memo Cir 24 s2019 Recommendation 8.2

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be the offeree, the Board shall appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

H. Transparency

The Board should be transparent and fair in the conduct of the annual and special stockholders meetings of the Bank. The stockholders shall be encouraged to personally attend such meetings by sending the Notice of Annual and Special Shareholders'/Members' Meeting with sufficient and relevant information at least 21 days before the meeting.⁹⁴ In case they cannot come, the OCS should apprise them of their right to appoint a proxy.

1. Shareholder's Benefit

The Bank recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore the following provisions are issued for the guidance of all internal and external parties concerned, as governance covenant between the Bank and all its investors.

2. Investors' Rights and Protection

2.1 Rights of Investors/Minority Interests. The Board shall be committed to respect the following rights of the stockholders:

2.1.1 Voting Right

2.1.2 Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.

2.1.3 Cumulative voting shall be used in the election of directors.

2.1.4 A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

3. PSE's Revised Disclosure Rules

3.1 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 Bank. 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.

⁹⁴ SEC Memo Cir 24 s2019 Recommendation 13.2

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3.2 Power of Inspection

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.

3.3 Right to Information

3.3.1 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 Bank's shares, dealings with the Bank, relationships among directors and key officers, and the aggregate compensation of directors and officers.

3.3.2 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.

3.3.3 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".

3.4 Right to Dividends

3.4.1 Shareholders shall have the right to receive dividends subject to the discretion of the Board.

3.4.2 The Bank 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 Bank 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 Bank, such as when there is a need for special reserve for probable contingencies.

3.5 Appraisal Right

3.5.1 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

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Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

- a. 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;
- b. 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
- c. In case of merger or consolidation.
- d. 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.

4. Policy on Insider Trading

4.1 Definition of Insider trading

Insider Trading is defined as the buying or selling of a security by someone who has access to material, non-public information about the security.

The term can be both legal and illegal conduct. The legal version is when corporate insiders (see section 4.2 below for the definition of insider), like directors, officers, and employees buy and sell stock of their own companies and reports the same to the exchange in compliance with existing regulations 180, such as those under Section 27 – Insider's Duty to Disclose When Trading of the Securities Regulation Code (SRC).

The illegal conduct is the buying and selling of security in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material, non-public information about the security. Insider trading violations may also include "tipping" such information, securities trading by the person "tipped," and securities trading by those who misappropriate such information.

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4.2 Definition of Insider

"Insider" means: (a) the issuer; (b) a director or officer (or person performing similar functions) of, or a person controlling the issuer; (c) a person whose relationship or former relationship to the issuer gives or gave him access to material information about the issuer or the security that is not generally available to the public; (d) a government employee, or director, or officer of an exchange, clearing agency and/or self-regulatory organization who has access to material information about an issuer or a security that is not generally available to the public; or (e) a person who learns such information by a communication from any of the foregoing insiders.

4.3 Definition of Material Non-Public Information⁹⁵

An information is "material non-public" if: (a) It has not been generally disclosed to the public and would likely affect the market price of the security after being disseminated to the public and the lapse of a reasonable time for the market to absorb the information; or (b) would be considered by a reasonable person important under the circumstances in determining his course of action whether to buy, sell or hold a security.

4.4 Prohibition Against "Tipping" / Communicating Material Non-Public Information

It shall be unlawful for any insider to communicate material non-public information about the issuer or the security to any person who, by virtue of the communication, becomes an insider as defined in Subsection 3.8, where the insider communicating the information knows or has reason to believe that such person will likely buy or sell a security of the issuer while in possession of such information.⁹⁶

4.5 Transactions on the Basis of Material, Non-Public Information

If a person shall become aware of a potential tender offer before the tender offer has been publicly announced, such person shall not buy or sell, directly or indirectly, the securities of the target company until the tender offer shall have been publicly announced. Such buying or selling shall constitute insider trading under Section 27.4 of the Code.⁹⁷

4.6 Penalty for Illegal Conduct of Insider Trading

The Bank, the Board and Senior Management do not tolerate illegal insider trading conduct. This policy is clearly stated in Table 6.7 – Conflict of Interest, Code of Ethics, which we quote:

⁹⁵ *Securities Regulation Code, Section 27.2*

⁹⁶ *Securities Regulation Code, Section 27.3*

⁹⁷ *Securities Regulation Code, 2015 IRR, Rule 19 – Tender Officers*

	VIOLATIONS		PENALTIES	
		1st Offense	2nd Offense	3rd Offense
Engaging, directly or indirectly, in financial transactions as a result of , or primarily relying upon, “insider information”	Written Reprimand / Suspension	Suspension / Dismissal	Dismissal	

I. Monitoring and Assessment

1. Each Committee shall report regularly to the Board of Directors.
2. The Compliance Officer shall establish an evaluation or self-rating system to determine and measure the performance of the Board and Management in compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided under Section M of this Manual.
3. The establishment of such evaluation system, including the features thereof, shall be disclosed in the Bank's annual report (SEC Form 17–A) or in such form of report that is applicable to the Bank. The adoption of such performance evaluation system must be covered by a Board approval.
4. This Manual shall be subject to annual review unless the same frequency is amended by the Board.
5. All business processes and practices being performed within any department or business unit of the Bank that are not consistent with any portion of this manual shall be revoked, following due process and proper investigation, or shall be required to comply with the requirements under this Manual.

J. Group Structure ⁹⁸

1. Preparation of the Group Structure
 - 1.1 The Bank shall develop a group structure or conglomerate map showing all entities in the group where the Bank belongs either as parent, subsidiary or affiliate. It shall be the responsibility of Compliance Office to prepare the required group structure.
 - 1.2 The group structure or conglomerate map is also a requirement of the SEC under SEC Bulletin No. 1 Series of 2012. Thus, the same shall also be disclosed in the Bank's Annual Report as required.

⁹⁸*MORB Section 133 (Responsibilities of directors)*

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2. Reporting of the Group Structure

The group structure shall be updated annually and submitted to the Central Point of Contact of the BSP by the Corporate Governance Officer, within thirty (30) calendar days after end of every calendar year.

K. Related Party Transactions

1. Policy

- 1.1 The Bank recognizes that Related Party Transactions (RPTs) may give rise to a conflict of interest. In this regard, The Bank, through its Board of Directors shall ensure that transactions with related parties are reviewed to make sure that such are conducted at arm's length or shall be upon terms not less favorable to the Bank than those offered to others and that corporate or business resources of the Bank are not misappropriated or misapplied.
- 1.2 The BOD has deemed it proper for the RPT Committee to review and ensure that RPTs are duly ratified by the Stockholders during the Annual Stockholders' Meeting.
- 1.3 Related Party shall cover the Bank's subsidiaries, affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct/indirect control over or that exerts direct/indirect control over the Bank; the Bank's directors; officers; stockholders and related interests (DOSRI), and their close family members as well as corresponding persons in affiliated companies.⁹⁹
- 1.4 Significant transactions shall refer to dealings that could pose material risk to the Bank. CBS has set materiality threshold values for various transactions (i.e., as may be applicable, but not limited to them), for each concerned unit. The RPT Materiality Threshold is summarized in the RPT Manual, and shall be promptly updated whenever necessary. The amount may be changed subject to the approval of the Bank's Board of Directors.
- 1.5 Related Parties shall be treated like ordinary counterparties/client of the Bank. There shall be no special rates and prices to be offered or granted to such parties.
- 1.6 Any director of the Bank who has an interest in the transaction shall not participate in the deliberation and shall abstain in the approval of the related party transaction

⁹⁹ MORB Section 341

2. Significant Transaction Report

- 2.1 The Bank is required to submit significant transaction report between entities in the group involving any-BSP regulated entity, within twenty (20) calendar days after end of the reference quarter.
- 2.2 All other policies or operating manual on Significant Transactions or RPTs, which shall be a supplement to this Manual. In case of conflict in policies, the latest approved policy shall prevail.

L. Penalties for Non-Compliance with the Manual

1. Strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Bank's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:
 - 1.1 In case of **first violation**, the subject person shall be reprimanded.
 - 1.2 Suspension from office shall be imposed in case of **second violation**. The duration of the suspension shall depend on the gravity of the violation.
 - 1.3 **For third violation**, the maximum penalty of removal from office shall be imposed.
2. The commission of a third violation of this Manual by any member of the Board of the Bank or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.
3. The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

VII. SUSTAINABILITY, ENVIRONMENT, SOCIAL AND NON-FINANCIAL INFORMATION

China Bank Savings, Inc. believes that the best barometer for success is the fulfilment of its responsibilities not just to its shareholders, but to its customers, employees, communities, and the environment as well.

Bank's disclosure of its economic, environment, social and governance (EESG) policies and practices in the Annual Report is its testimony on adherence to sustainability best practices.

For purposes of enhancing transparency, the Bank shall include in its Annual Report non-financial information, such as EESG as its way of responding to the sustainability challenges to shareholders and other stakeholders.

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Consistent with the expectations set out under Sec. 132 to promote the long-term financial interest of the Bank and ensure that it has beneficial influence on the economy, the **Board of Directors** shall:¹⁰⁰

- a. Institutionalize the adoption of sustainability principles, including those covering E&S risk areas in the bank, by incorporating the same in the corporate governance and risk management frameworks as well as in the bank's strategic objectives and operations, risk strategy, risk appetite and risk management policies and procedures. Moreover, the board shall:
 1. Set strategic E&S objectives covering short, medium, and long-term horizons;
 2. Approve the risk appetite on specific risk areas that the bank is willing and capable to manage, results of stress testing exercises, and assessment of the timing and channels through which E&S risks may materialize; and
 3. Ensure that material E&S risks are considered in the Internal Capital Adequacy Assessment Process (ICAAP) or internal capital planning process.
- b. Promote a culture that fosters environmentally and socially responsible business decisions. The Board shall ensure that sustainability implications are considered in the overall decision-making process;
- c. Approve the bank's ESRMS that is commensurate with the bank's size, nature, and complexity of operations and oversee its implementation. The Board shall ensure that the ESRMS is aligned with internationally recognized principles, standards and global practices and forms part of the enterprise-wide risk management (ERM) system;
- d. Ensure that sustainability objectives and policies are clearly communicated across the institution, and to its investors, clients and other stakeholders;
- e. Adopt an effective organizational structure to ensure attainment and continuing relevance of the bank's sustainability objectives. The Board or the designated board-level or management committee shall monitor the bank's progress in attaining sustainability objectives;
- f. Monitor the progress of the bank in meeting its E&S strategic objectives and targets and ensure that issues in meeting the same are addressed;
- g. Institutionalize a capacity building program for the Board of Directors, all levels of management, and personnel to equip the bank in identifying, measuring, monitoring, and controlling E&S risks. The board of directors shall likewise ensure that key personnel shall possess adequate knowledge, skills, and expertise necessary to perform their work;

¹⁰⁰ *BSP Circular No. 1128 (Sustainability Finance Framework)*

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- h. Ensure that adequate resources are available to attain the bank's sustainability objectives. The Board shall ensure that the members of the board, senior management and personnel are regularly apprised of the developments on sustainability standards and practices;
- i. Adopt an effective communication strategy to inform both internal and external stakeholders of the bank's E&S strategic objectives and targets; and
- j. Ensure that the sustainability agenda is integrated in the bank's performance appraisal system.

Internal Audit and Compliance Function. The audit and compliance functions shall incorporate in their respective programs the assessment of adherence to policies related to the management of E&S risks and evaluation of the robustness and continuing relevance of said policies. The internal audit function shall also review the bank's adherence to international sustainability standards and principles as well as relevant laws and regulations.

-End-

(Original Signed)

DIR. RICARDO R. CHUA
Chairman of the Board
China Bank Savings, Inc.

(Original Signed)

ATTY. CORAZON T. LLAGAS
Chief Compliance Officer
China Bank Savings, Inc.

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**China Bank Savings, Inc.
Nomination Process¹
(With Fit and Proper Rule/Guide for the Assessment of the Nominee)**

A. Nomination

Any shareholder of record, including a minority shareholder, who is entitled to a notice and to vote during the Annual Stockholders' Meeting, is qualified to nominate or be nominated.²

B. Form and Content

1. All nominations shall be in writing duly signed by the nominating stockholders or their representatives duly authorized in writing, with the written acceptance and conformity of the nominee.³
2. The nomination must indicate whether the nominee is intended to be independent director and shall contain the nominee's age, educational attainment, and full disclosure of work and/or business experience and/or affiliations. Please see **Annex 1** for the Nomination Form.

C. Endorsement to Board Committee

Nominations⁴ shall be submitted to the Nominations Committee and/or the Corporate Governance Committee through any member or to the Corporate Secretary.

D. Pre-Screening

1. The Nominations and/or Corporate Governance Committee shall pre-screen⁵ the qualifications of the nominees on the basis of the nomination and/or supporting papers⁶. Ensuring that the nominee's qualities are aligned with the Bank's strategic direction.⁷
2. The nominee must be fit and proper for the position of a director⁸
 - 2.1 Whether a person is fit and proper for the position of a director, the following matters must be considered by the Committee:
 - a. Skills are sufficient to lead and/or assist the Bank in accomplishing its vision and corporate goals;

¹Based on the 2018 Nomination Rules of China Bank, issued by the OCS.

²CBC-CG Manual, 2018, p.13

³Revised IRR of the SRC, Rule 38.8.2

⁴The Nomination shall be done using the prescribed template from the Nomination Rules.

⁵The Committee shall put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent director/s. Rule 38.8.3 of the Revised IRR of the SRC (2015)

⁶Such as but not limited to the Bio-data of the Nominee [BSP template], Nomination Form, Certification by the Independent Director [for IDs].

⁷Revised CBC Nominations Committee Charter (2017)

⁸MORB, X142.3(2017) - Duties and responsibilities of officers) Qualifications of a director.

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- b. Integrity/probity, physical/mental fitness; relevant education/ financial literacy/training;

In assessing a director's integrity/ probity, consideration shall be given to the director's market reputation, observed conduct and behaviour, 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.

- c. Possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and
- d. Sufficiency of time to fully carry out responsibilities.

2.2 Qualifications of an Independent Director

- a. The list of qualifications and disqualifications of an Independent Director are provided in **Annex 2** hereof.
- b. Some Board-level Committees require that an Independent Director should sit as a member and/or that it should be composed entirely of Independent Directors. Each of this committee may require certain skills or educational background. The attached **Annex 3** summarized these qualifications on a per Committee basis.

3. Board Diversity

The Committee in assessing the nominee shall consider the Bank's policy on diversity to ensure optimal mix in the members of the Board. Please refer to **Annex 4** for the Diversity Policy.

E. Use of A Search Firm

In accordance with the Bank's CG Manual, The Board of Directors may use professional search firms or other external sources of candidates when searching for candidates for the Board.

F. List of Candidates

1. If there is not enough nominees for directors and/or IDs, the Nominations and/or Corporate Governance Committees, jointly or separately, as may be agreed upon among the members, may by majority vote nominate such number of nominees for the said position and include them in the final list for the Stockholders' Meeting.
2. The Committees shall prepare a final list of candidates containing all relevant information about the nominees (indicate the nominees for Independent Director).

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3. Only nominees whose name appears on the Final List of Candidates shall be eligible for election as Independent Director/s. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual stockholders' meeting.⁹

⁹Rule 38.8.5, Revised IRR of the SRC (2015).

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Annex 1
Annex to the Nomination Process
Nomination Form

NOMINATION FORM

PLEASE CHECK PROPER BOX

- Nominee for Independent Director *
- Not nominee for Independent Director

NAME OF NOMINEE *

CITIZENSHIP : _____ AGE : _____ DATE OF BIRTH : _____
(MM/DD/YYYY)

PLACE OF BIRTH : _____ NAME OF SPOUSE : _____

RESIDENTIAL ADDRESS : _____ TEL. NO. : _____ CBL. NO. : _____

OFFICE ADDRESS : _____ TEL. NO. : _____

EDUCATIONAL BACKGROUND/ATTAINMENT #: (Please attach separate sheet, if necessary)

FULL DISCLOSURE OF WORK AND/OR BUSINESS EXPERIENCE: (Please attach separate sheet, if necessary)

DIRECTORSHIP/POSITION IN OTHER CORPORATIONS/ASSOCIATIONS: (Please attach separate sheet, if necessary)

PSE-LISTED COMPANIES :

OTHER COMPANIES :

STOCKHOLDINGS/SECURITY OWNERSHIP:

DIRECT :

INDIRECT:

CONVICTION, IF ANY, OF AN OFFENSE, JUDICIAL OR ADMINISTRATIVE, OR JUDICIAL DECLARATION OF BEING INSOLVENT, BREACH OF FIDELITY OR INCAPACITATED TO CONTRACT, IF APPLICABLE, PLEASE STATE:

PARTICULARS & NATURE OF OFFENSE	COURT/BODY	DATE COMPLAINT/ INFORMATION WAS FILED

CONFORMITY & ACCEPTANCE:

_____ SIGNATURE	_____ SIGNATURE
_____ PRINTED NAME OF NOMINEE	_____ PRINTED NAME OF NOMINATOR-STOCKHOLDER OR AUTHORIZED REPRESENTATIVE *
_____ DATE SUBMITTED	_____ RELATION TO NOMINEE

NOTE: Please see reverse side to be signed and certified by nominee for Independent Director

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CERTIFICATION ¹
(Nominee for Independent Director)

As a nominee for independent Director of China Banking Corporation, I hereby certify that I have all the qualifications and none of the disqualifications as provided for in SEC Memorandum Circular No. 16, Series of 2002, Section 38 of the Securities Regulation Code and its Amended Implementing Rules and Regulations, Section XI-41 of the Manual of Regulations for Banks, and those required/implicit under The General Banking Law (R.A. No. 8791).

IN WITNESS WHEREOF, I have hereunto signed this certification in _____ this ____ day of _____, 2018.

Signature of Nominee for Independent Director

Republic of the Philippines)
City of _____) S.S.

SUBSCRIBED AND SWORN to before me this ____ day of _____, 2018 in _____, affiant exhibiting to me his/her _____ issued on _____ in _____.

Notary Public

Doc No. _____;
Page No. _____;
Book No. _____;
Series of 2018.

- ¹ - must be an owner of at least one (1) share of stock of the Bank (Sec. 23, The Corporation Code); must be fit and proper for the position of a director, and must have attended a seminar on corporate governance for board of directors (Subsection XI42.3 (a), MORR).
- ² - "Independent Director" is defined by SEC Memorandum Circulars Nos. 19 (Series of 2016) or the Code of Corporate Governance for Publicly Listed Companies (COCG for PLCs), 16 (Series of 2002); Sec. 38 of The Securities Regulation Code (SRC), and its Amended Implementing Rules and Regulations (AIRR); Sec. 15 of The General Banking Law; and Section XI41 of the Manual of Regulations for Banks (MORR) as amended by Bangko Sentral ng Pilipinas (BSP) Circular No. 560, as a person who, apart from his fees and shareholdings, is independent of management and the controlling shareholder and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with or influence his exercise of independent judgment in carrying out his responsibilities as a director of the Bank; and includes, among others, any person who:
 - i. is not, or has not been a senior officer or employee of the Bank unless there has been a change in the controlling ownership of the company (Recommendation 5.2, COCG for PLCs);
 - ii. is not or has not been a director, an officer or employee of the Bank, its subsidiaries, associates or affiliates or related interests in the three (3) years immediately preceding his election (Subsection XI41.1 (g), MORR; Recommendation 5.2, COCG for PLCs), and is not a director or officer or employee of substantial stockholders and their related companies in the three (3) years counted from the date of his election/appointment or holding more than two percent (2%) of the outstanding shares of stock or holding shares of stocks sufficient to elect one (1) seat in the Board of Directors of the Bank or its majority corporate shareholders (Subsection XI41.1 (g), MORR);
 - iii. has not been appointed in the Bank, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his election/appointment (Recommendation 5.2, COCG for PLCs; Subsection XI41.1 (g), MORR);
 - iv. does not own more than two percent (2%) of the shares of the Bank and/or its related companies or any of its substantial shareholders (Rule 38.2, AIRR of the SRC);
 - v. is not a close family member of any director, officer, or stockholder holding shares of stock sufficient to elect one (1) seat in the Board of the Bank or any of its related companies or any of its substantial stockholders (Subsection XI41.1 (g), MORR);
 - vi. is not acting as a nominee or representative of any director or substantial shareholder of the Bank, or any of its related companies or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement (Subsection XI41.1 (g), MORR; Rule 38.2, AIRR of the SRC);
 - vii. has not been employed in any executive capacity by the Bank, any of its related companies and/or any of its substantial shareholders within the last two (2) years (Rule 38.2, AIRR of the SRC);
 - viii. is not retained as professional adviser, consultant, agent or counsel by the Bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election (Subsection XI41.1 (g), MORR);
 - ix. has not been engaged and does not engage in any transaction with the Bank and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons or through a firm of which he is a partner and/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 (Subsection XI41.1 (g), MORR);
 - x. is not or has not been convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Securities Regulation Code, committed within five (5) years prior to the date of his election (Rule 38.3, AIRR of the SRC);
 - xi. as non-executive director, should not concurrently serve as director to more than five (5) publicly listed companies (Recommendation 4.2, COCG for PLCs; Subsection XI42.3(b), MORR);
 - xii. is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders (Recommendation 5.2, COCG for PLCs; Subsection XI41.1 (g), MORR); and,
 - xiii. is not employed as an executive officer of another company where any of the covered company's executives serve as directors (Recommendation 5.2, COCG for PLCs; Subsection XI41.1 (g), MORR).
- ³ - nominee must be at least a college graduate or have five (5) years of experience in business (SEC Memorandum Circular No.16, Series of 2002).
- ⁴ - nominator must attach a copy of pertinent Board or Partnership Resolution if a corporation or partnership stockholder is making the nomination, or a Special Power of Attorney if an individual stockholder is making the nomination through representative.
- ⁵ - nominee for independent director must certify under oath that he complies with all the qualifications required of an independent director and does not possess any of the disqualifications thereof (Subsection XI48.2, in relation to Subsection XI41.1 (g), MORR).

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QUALIFICATIONS OF AN INDEPENDENT DIRECTOR²⁰

2018 Rules Governing the Nomination and Election of Independent Directors¹¹	
	Educational Background. At least a college graduate or 5 years of experience in business.
	Stock Ownership. Own at least 1 share of stock of the Bank.
	Fit and Proper. Must be fit and proper ¹² for the position of a director.
	Corporate Governance Training. Must have attended a seminar on corporate governance for board of directors.
	Not an Employee. Is not, or has not been a senior officer or employee of the Bank unless there has been a change in the controlling ownership of the company. Not an Employee for the past 3 years. Not an officer or employee of the Bank, its subsidiaries, or affiliates or related interests in the 3 years immediately preceding his election (MORB). <i>Note: Per SRC, nominee should not have been employed in any executive capacity by the Bank, any of its related companies and/or any of its substantial shareholders within the last 2 years.</i>
	Not Related to Substantial Stockholder. Not a director or officer or employee of substantial stockholders and their related companies in the 3 years counted from the date of election/appointment or holding more than 2% of the outstanding shares of stocks or holding shares of stocks sufficient to elect 1 seat in the Board of the Bank or its majority shareholders.
	Not an Adviser to the Board. Has not been appointed in the Bank, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his election.
	Shareholdings not exceeding 2%. Does not own more than two percent (2%) of the shares of the Bank and/or its related companies or any of its substantial shareholders.
	Not a Close Family of DOS. Is not a close family member of any director, officer, or stockholder holding shares of stock sufficient to elect one (1) seat in the Board of the Bank or any of its related companies or any of its substantial stockholders.
	Not a Nominee. Is not acting as a nominee or representative of any director or substantial shareholder of the Bank, or any of its related companies or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement.
	Not a Consultant, etc. for the past 3 years. Is not retained as professional adviser, consultant,

¹⁰ Nominator must attach a copy of pertinent Board or Partnership Resolution if a corporation or partnership stockholder is making the nomination, or a Special Power of Attorney if an individual stockholder is making the nomination through representative.

Nominee must certify under oath that he complies with all the qualifications required of an independent director and does not possess any of the disqualifications thereof.

¹¹ Based on the related provisions stipulated under the following:

- Manual of Regulations for Banks (MORB)
- SEC Memorandum Circular No. 19 / Code of CG for Publicly Listed Companies
- Securities Regulation Code (SRC)

¹² Whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/ financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

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	agent or counsel by the Bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past 3 years counted from the date of his election.
	<i>Transactions w/ the Bank.</i> Has not been/does not engage in any transaction with the Bank and/or its related companies and/or substantial shareholders, whether by himself and/or with other persons or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, <u>other than</u> transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.
	<i>No Criminal Record.</i> Is not or has not been convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the SRC, committed within five (5) years prior to the date of his election.
	<i>Not a Director for 5 PLCs.</i> As non-executive director, should not concurrently serve as director to more than 5 publicly listed companies.
	<i>Not a Recipient of Funding.</i> Is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders.
	Is not employed as an executive officer of another company where any of the covered company's executives serve as directors.

PERMANENT DISQUALIFICATIONS ¹³

	Judicially declared insolvent, spendthrift, or incapacitated to contract.
	Permanently enjoined (by reason of misconduct) by a final order of SEC, BSP or any administrative body from acting / taking on specific capacities.
Has been convicted by final judgement of a court:	
	<i>For offenses involving dishonesty or breach of trust.</i>
	<i>For violation of banking laws, rules and regulations.</i>
	<i>For violation of the SRC & Corporation Code</i>
	<i>Sentencing him/her to serve a maximum term of imprisonment of more than six (6) years.</i>
Found by Monetary Board to be:	
	<i>Culpable for a bank's closure.</i>
	<i>Administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed. ¹⁴</i>
Other Disqualifications set forth in the MORB	

¹³Based on BSP's Regulation on Fit and Proper Rules

¹⁴in which the findings of Monetary Board or another government agency has become final and executory.

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Committee Memberships for Independent Directors ¹⁵	
	<p><u>Corporate Governance Committee</u> Range of expertise / experience to effectively oversee the implementation of corporate governance framework and ensure that it remains appropriate in light of the Bank's business and regulatory environments</p>
	<p><u>Audit Committee</u> Accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank, to manage matters pertaining to internal and external control systems</p>
	<p><u>Compliance Committee</u> Range of expertise / experience to meritoriously monitor the Bank's compliance with established rules and regulations and mitigate risks that may erode the franchise value of the Bank</p>
	<p><u>Risk Oversight Committee</u> Range of expertise / experience as well as adequate knowledge on risk management issues and practices to facilitate the execution of the Bank's risk management plan and strategies</p>
	<p><u>Nominations Committee</u> Range of expertise / experience and objectivity to review and evaluate the qualifications of all persons nominated for the Board and other appointments that require Board approval</p>
	<p><u>Compensation or Remuneration Committee</u> Range of expertise / experience to provide oversight over the remuneration of senior management and other key personnel and ensure that compensation is consistent with the Bank's culture, strategy and control environment</p>
	<p><u>Related Party Transaction Committee</u> Range of expertise / experience as well as adequate knowledge of the Bank's risks concerning related party transactions to ensure that they are conducted at arm's length.</p>

¹⁵An elected Independent Director should have the required skills and experience to hold a position in, and carry out the duties of the committees where he may be appointed to, in accordance with the respective charters.

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Policy on Board Diversity

Diversity in the Composition of the Board¹⁶

The Board should be composed of directors with a collective working knowledge, experience or expertise that is relevant to the Bank's industry/sector. The Board should always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfil its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

To ensure diversity, the Board shall consider age, educational background, business experience in banking or related industry, competence, knowledge, skills and to include ethnicity, culture, skills as the case may be.

To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. A sufficient number of qualified non-executive members if not a majority of non-executive directors shall be elected to promote and help secure the objective independence of the board from the views of senior management in judgment of corporate affairs and to substantiate proper checks and balances.¹⁷

The membership of the Board may be a combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision making process.

The non-executive directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

The Board in ensuring diversity has identified the required skills and mix of qualifications of directors. Each nominee's qualification is reviewed by the Nominations Committee in accordance with its Charter.

Below are the diversity objectives of the Board to ensure optimal mix.

1. At least one (1) female Independent Director.
2. At least fifty percent (50%) of the members of the Board are with background or experience in Banking or Finance.
3. At least fifty percent (50%) of the member of the Board are with background or experience in Management and/or Business Administration.
4. At least fifty percent are with sufficient background or training in Anti-Money Laundering and Credit Transactions

¹⁶ Recommendation 1.1 SEC Memo No. 9 S2016, Code of CG for PLCs

¹⁷ Manual of Regulations for Banks (MORB), Section X141.1b; Recommendation 1.2 SEC Memo No. 16 S2016

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY) S.S.

SECRETARY'S CERTIFICATE

I, **Atty. ARTURO JOSE M. CONSTANTINO III**, of legal age, with office address at 2/F CBS Building, 314 Sen. Gil Puyat Ave., Makati City, Philippines, after having been duly sworn to in accordance with law, hereby certify that:

I am the duly appointed Corporate Secretary of **CHINA BANK SAVINGS, INC.**, (the "Corporation"), a thrift banking corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at CBS Building, 314 Sen. Gil Puyat Ave., Makati City, Philippines;

As Corporate Secretary, I have possession of the records of the Corporation, including the minutes of the meetings of the Board of Directors, Executive Committee and other Board-approved Committees;

During the regular meeting of the Board of Directors of the Corporation held on **19 May 2022**, via virtual meeting (MS Teams Platform) at which meeting a quorum was present and acting throughout, the following resolution was duly passed and approved:

**RATIFICATION OF ALL RESOLUTIONS
PASSED AND APPROVED BY THE
CORPORATE GOVERNANCE
COMMITTEE DURING ITS MEETING
VIA MS TEAMS PLATFORM ON 21
APRIL 2022**

Board Resolution No. 06-05.17.2022-09

RESOLVED, AS IT IS HEREBY RESOLVED, and pursuant to the approved Memorandum dated 19 May 2022 of the undersigned, that the Board **ratify** as it hereby **ratifies** all **CGCom** resolutions passed and approved during meeting held on **21 April 2022**:

x x x

"Resolution No. CGC #03-04.21.2022-03

RESOLVED, AS IT IS HEREBY RESOLVED, that the Committee **approve**, as it hereby **approves**, the **Proposed Revisions/Inclusions to the Manual on Corporate Governance**, as contained in the Memorandum dated 21 April 2022 of Compliance Division headed by **Atty. Corazon T. Liagas, Chief Compliance Officer**.

x x x

The above resolution is still in full force and effect and has not been revoked.


IN WITNESS WHEREOF, I hereby affix my signature on this
 MAY 20 2022 at Makati City.


Atty. ARTURO JOSE M. CONSTANTINO III
Corporate Secretary

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SUBSCRIBED AND SWORN TO before me this MAY 20 2022 at
Makati City, affiant having exhibiting to me his government issued Passport ID No.
P1283873B issued by DFA Manila valid until March 29, 2029.

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Series of 2022


ATTY. NOEL BANTING
Notary Public since June 30, 2022
Appointment No. 106 [2020-2021]
Roll No. 47096 IDP No. GB446
PTR No. 8852732 01/04/22 Makati
MCLE Compliance No. VI-0014089
169 H.V. De la Costa St., Makati City

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