



# CORPORATE GOVERNANCE POLICY

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Department:	<i>Administration</i>
Committee Review:	<i>Board of Directors</i>
Board Approved:	March 2018
Last Review Date:	March 2018
Next Revision Date:	March 2019
Individual Responsible for Maintaining/Updating:	Corporate Secretary

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## Policy Statement

The Corporate Governance Policy ("Policy") describes the principles and practices that the California Bank of Commerce ("Bank") Board of Directors will follow in carrying out the Bank's corporate governance responsibilities. In this Policy, the terms "Corporation" and "CBC" each refer to California Bank of Commerce. This policy is intended to be functionally sound and appropriate for the Bank's size, complexity and risk profile.

This Policy supplements the Corporation's Bylaws and charters of the Board's Committees and will be reviewed and approved periodically by the Board of Directors. Suggestions for changes in the Policy should be discussed with the Chairman of the Board ("Chairman"). Material changes in this Policy require prior approval by an affirmative vote by a majority of the Board of Directors.

### **California BanCorp**

California BanCorp, a one Bank Holding Company (the "Holding Company") has been formed and is the holding of 100% of the outstanding shares of the Bank. The previous shareholders of the Bank are now shareholders of the Holding Company. It is the intent of the Board of the Holding Company and the Board of the Bank that the terms of the Corporate Governance Policy be fully applicable to both Boards and both Corporations. The words "Bank", "Corporation" and/or "Board" shall mean California Bank of Commerce and its Board and California BanCorp and its Board as may be applicable or appropriate to accomplish this intent.

### **Role of the Board**

Directors are primarily responsible for providing oversight. This includes defining and enforcing the standards of accountability for management in the interests of shareholders. Examples include:

- Setting corporate goals and objectives;
- Establishing the appropriate policies;
- Monitoring management effectiveness, including the Board's ability to plan and execute strategies; and,
- Holding management accountable for its results.

The following are the principal duties of a Director:

- a. To select, appoint, monitor, evaluate, compensate, counsel, and if necessary, replace, executive management of the Bank, including the Chief Executive Officer;
- b. Hiring employees that are appropriate for the Bank's size, complexity and the risk appetite of the Bank;
- c. Re-evaluating the management team structure when new initiatives and product lines are contemplated or new markets are entered;
- d. To ensure management succession;
- e. To assist management with and to approve the development of the strategic plans and business plans for CBC. To accomplish this, Directors should be able to:
  - Stay informed about CBC and its business, including its risk profile;
  - Understand and question the assumptions upon which such plans are built;
  - Reach an independent judgment as to the probability that the plans can be realized;
  - Participate in the discussion of the Board and, as applicable, its Committees;
  - Review and approve CBC's financial objectives, plans and budgets, including significant expenditures;
  - Review and approve material transactions outside the ordinary course of business;
  - Monitor actual corporate performance, comparing goals to achievements and monitoring CBC's safety and soundness;
  - Adopting policies to achieve objectives in a legal and sound manner;

- Ensuring that the Bank meets the credit needs of its community;
  - Avoiding preferential transactions;
  - Review operating results on a regular basis to evaluate if CBC is being properly managed; and,
  - Review CBC's performance in relation to the performance of peer banks;
- f. To assist, as appropriate, in business development for CBC including providing qualified referrals, actively participating in other sales or marketing efforts on behalf of CBC, advocating for CBC within its target market and local community, and conducting banking business at CBC, to the extent prudent in connection with the Board's fiduciary duties;
  - g. To establish and approve policies and procedures designed to ensure ethical behavior and compliance with laws and regulations, auditing and accounting principles, and CBC's own governing documents;
  - h. To establish Director compensation;
  - i. To assess its own effectiveness in fulfilling these and other Board responsibilities;
  - j. To approve stock option grants and stock awards under CBC's stock plans;
  - k. To establish the "risk appetite" of the Bank that the Board of Directors is willing to assume in order to achieve its objectives, taking into consideration the Bank's capital, income and management expertise;
  - l. Staying informed about the Bank in its totality;
  - m. To maintain regular attendance at Board and Committee meetings (See Attendance); and,
  - n. To perform other functions that are the Board's responsibility under applicable laws and regulations or that are assigned to the Board by CBC policy or other governing documents.

### ***Membership on Other Boards***

While it is not possible to establish a single standard regarding the number of boards on which each Director may sit, in order to help assure that Directors have sufficient time to devote to their responsibilities, non-employee directors should generally serve on no more than a total of three (3) other public company boards, none of which are to be another financial institution unless, as described in the Bylaws of the Corporation, the Board determines that the relationship with the other financial institution will not compromise CBC's business plan or strategic focus.<sup>1</sup>

Employee Directors should generally serve on no more than a total of two (2) other public company boards, none of which are to be another financial institution, unless otherwise approved by affirmative vote by a majority of the Board.

Directors must exercise a duty of loyalty and care to the Bank when fulfilling their responsibilities. This entails the Directors administering the affairs of the Bank with candor, honesty and integrity. Directors must not advance their own personal or business interests over those of the Bank. Directors should exercise sound business judgement and exercise the same degree of care as a prudent person. The interests of the Bank should be paramount.

### ***Board Composition***

#### **Size of Board**

The Bylaws of the Corporation provide that the authorized number of directors shall be no less than nine and no more than seventeen<sup>2, 3</sup>.

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<sup>1</sup> Bylaws of California Bank of Commerce, Section 2.4

<sup>2</sup> Ibid., Section 2.2

<sup>3</sup> For as long as CBC participates in SBLF, two seats are to be reserved, setting the upper limit at 15.

The Board may by resolution by majority of the full Board or by resolution of a majority of shareholders set the exact number of board members in accordance with the Corporation's Bylaws<sup>4</sup>. The actual number of directors at any time will depend upon the following:

- a. Resignations, retirements, death, and the availability of qualified candidates;
- b. Assuring that the Board is small enough to engage in active discussions and decision making;
- c. Assuring that the Board has sufficient numbers to support its business development needs including community outreach;
- d. Assuring that the Board has a sufficient number of directors to fulfill committee assignments and to provide the appropriate mix of continuity, experience, skills and diversity of the Board and its Committees to perform their responsibilities in light of regulatory requirements and current business needs; and,

The Corporation's Bylaws do not require a majority of directors to be independent. It is the Board's objective, however, that a substantial majority of the directors shall be independent.

At least annually, (and whenever an individual is considered for election as a director), management will collect information from the Corporation's records, and as appropriate, from individual directors, to conduct an analysis of each current or prospective director's eligibility to be classified as "independent" per the appropriate regulations that govern the Corporation including but not limited to applicable rules and regulations issued by the Securities and Exchange Commission.

### **Stock Ownership**

By owning stock, Board members and executives are better able to advance CBC's shareholder interests. Accordingly, Directors are required to own shares of CALB (including restricted stock) or hold stock options. Periodically, the Board of Directors will consider a minimum stock ownership threshold requirement for the members of the Board of Directors.

Directors may, from time to time, be asked to participate in additional capital offerings. Directors who are unable to participate must inform the Chairman as soon as is reasonably possible.

### **Retirement Age**

Directors who will reach the age of 75 by the end of their current term may not be nominated to serve an additional term, unless otherwise permitted to by an affirmative vote of the majority of the remaining Directors.

### **Change of Employment or Relocation**

Directors are requested to keep the Chairman informed of significant changes in their primary professional responsibilities.

Directors who relocate their primary personal residence to a business region not served by CBC must offer to resign from the Board. After review of the Director's future service on the Board, if it is then determined that the Director's continued service is beneficial to the Corporation, the Board may by affirmative majority vote, reject the Director's offer to resign.

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<sup>4</sup> Bylaws of California Bank of Commerce, Section 2.2

## Filling Vacancies

Per the Bylaws of the Corporation, Director Vacancies (not created by the removal of a Director<sup>5</sup>) may be filled by affirmative vote of the remaining Directors or by the sole remaining Director and hold office until his successor is elected at an annual or special shareholder's meeting.<sup>6</sup> In accordance with this Policy, it will be the responsibility of the Chairman of the Board, from time to time, and whenever a board seat vacancy occurs, to consult with the Board to determine whether CBC wishes to add new director(s). Before deciding to add new directors, the board will first satisfy itself that there is a legitimate need to be filled.

The shareholders may elect a director at any time to fill any vacancy not filled by the Directors.<sup>7</sup>

## Review of Membership

At least annually, each Director will participate in a formal evaluation of the performance and effectiveness of:

- a. The Board as a whole;
- b. Each Committee on which the Director serves; and,
- c. A self-assessment

## Board Effectiveness

Periodically, generally annually, the Board will assess its effectiveness, developing tool(s) that will provide for continuous improvement and learning.

## *Selection and Election of Directors*

### Identification of Candidates for Nomination

Per Section 2.3 of Corporation's Bylaws, nomination for election of members of the Board of Directors may be made by the Board of Directors or any stockholder of the Corporation entitled to vote for the election of directors. Section 2.3 also addresses notice requirements, content and timing.

The Board will strive to be thoroughgoing in its selection of new director candidates. New candidates identified for possible nomination will first be presented to the Chairman of the Board. The Chairman will be responsible for establishing an orderly due diligence process, appropriate to the situation at hand. He may, at his discretion delegate his responsibility to the Nominating Committee.

Each candidate's credentials will be reviewed to assure that a candidate is appropriately qualified and enhances the composition of the current Board. The Board is encouraged to make a formal nomination of a new director candidate only after the following due diligence prerequisites have been satisfied:

- a. The requirements of the *Filling Vacancies* paragraph of this Policy have been satisfied;
- b. The Chairman or delegate committee has clarified to the satisfaction of the Board any unique need that must be satisfied by the new director, if any, such as accounting or investment skills, etc.;
- c. The Chairman or delegate committee has clarified to the satisfaction of the Board the business development and/or capital raising potential it seeks in a new candidate;

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<sup>5</sup> Bylaws of California Bank of Commerce, Section 2.6

<sup>6</sup> *Ibid.*, Section 2.7

<sup>7</sup> *Ibid.*, Section 2.7

- d. The Chairman or delegate committee has clarified to the satisfaction of the Board any other qualifications to be met, such as committee involvement, community involvement, the candidate's spheres of contact or influence, etc.;
- e. All Directors have been given an opportunity to meet with the candidate;
- f. The Chairman or delegate committee has satisfied itself as to any other appropriate due diligence;
- g. All other candidates have been similarly vetted; and,
- h. The Board and Management are satisfied that any regulatory requirements relating to the addition of director(s) are satisfied.

As consideration of new director candidate(s) proceeds, the Chairman will strive to insure that all Directors have the benefit of all pertinent information pertaining to the candidate(s) and are kept informed of progress being made to determine the candidate's eligibility for membership on the board.

### **Qualifications of Directors**

The Committee and the Board shall take the following factors into consideration for candidates as well as for annual nominations:

- a. **Regulatory Requirements:** that the Board has directors who meet the applicable criteria for Committee or Board membership, as required;
- b. **Independence:** that at least a majority of the Board will be independent directors;
- c. **Overall Board Composition:** that the Board's overall composition will be considered in light of current and future needs;
- d. **Business Development:** that the candidate's ability to provide qualified introductions that are appropriate to CBC's business model and strategic direction will be considered; and,
- e. **Other Criteria:** whether the candidates have the qualities expected of all directors, including integrity, judgment, acumen, and the time and ability to make a constructive contribution to the Board.

### **Board and Committee Meetings**

#### **Attendance**

Board members are expected to attend all scheduled meetings of the Board and each committee of which they are a member. Directors are required to attend 80% of the scheduled Board meetings in any given year. Directors are encouraged to attend scheduled Board meetings in person.

If a Director is absent from more than 25% of the scheduled Board meetings in a given year, the Director must offer to resign from the Board. The Board will decide the matter whether to accept the offer by the second regular meeting following the date the offer to resign was received.

Generally, in person attendance is preferred for Committee meetings; however, each Committee is to periodically determine if teleconference attendance is an equivalent substitution to attendance in person. For example, due to its specific scheduling requirements, Directors Loan Committee is encouraged to meet telephonically, while Audit Committee is encouraged to meet in person.

Board members are encouraged to attend CBC's annual meeting of shareholders.

## **Director Compensation**

Recommendations regarding changes in director compensation should be presented by the Compensation Committee and approved or disapproved by the Board following a full and frank discussion of the matter. The Compensation Committee may from time to time request an annual report from management or outside consultants regarding the general range of director compensation currently in effect at other financial institutions of comparable age and size.

At least annually, the Compensation Committee will report to the full Board, the Directors' Compensation Plan for review and ratification by affirmative vote by a majority of the Board.

The Board believes that it is appropriate to compensate directors to a meaningful degree through a number of different compensation components including options to purchase CALB common stock, restricted stock and unrestricted shares awards, and other forms of equity compensation. The Board finds that such compensation assists CBC in attracting and retaining quality directors and further develops the alignment of director interests with shareholders' interests.

## **Committees**

The Loan Committee, Asset-Liability Committee, and the Audit Committee are required by the Bylaws of the Corporation; additional Committees (e.g., the Compensation Committee and Nominating Committee) including ad hoc Committees may be designated. The Board Chairman designates each Committee Chairman who with the Committee members is subject to approval by affirmative vote by a majority of the Board.<sup>8</sup>

Rotation of committee duties is not required.

## **Charters**

Each designated Committee is expected to establish a charter documenting at a minimum the committees' frequency of meetings, board independence and relationship with management. While the Bylaws permit Committees to consist of two or more members, for practical purposes, Committees are to consist of at least three (3) independent Directors such that the independent Directors remain the majority of the membership. Charters are to be reviewed periodically and by the Board of Directors.

## **Role of Committee Chair and Members**

### ***Committee Chair***

Each Committee Charter should outline the specific duties required of the Committee Chair and members. The following are the general duties that apply to all Committee Chairs:

- a. Making sure that Committee members receive its materials, including an agenda, well enough in advance to permit the required review and evaluation;
- b. Encouraging open discussion and deliberation of agenda items and other matters, as appropriate;
- c. Managing the meeting process to maintain proper order and focused discussion for those items presented for Committee consideration;
- d. Working to bring about positive relationships and needed compromises or consensus among Committee members;
- e. Overseeing the preparation of Committee reports, minutes, etc., and their timely delivery to the Board; and,

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<sup>8</sup> Ibid, Section 2.19-2.19.2

- f. Maintaining close communications with Management and outside resources, such as legal counsel or auditors.

### ***Committee Membership***

Effective Committees require the dedicated efforts of members, who are willing and able to review meeting materials, ask questions and seek explanations of problems, understand audits, loan packages, or other materials unique to their Committee, exercise independent judgment and be loyal to CBC's interests.

As a general matter, the Board will seek to staff its Committees in conformity with the following guidelines:

- a. Committee Chairs will be appointed pursuant to the requirements stipulated in the Bylaws<sup>9</sup>;
- b. The Board will insure adequate independent Director oversight of Committees;
- c. The Board will seek overall Committee composition that matches individual Director's skills to the respective Committee's duties;
- d. Nominations for Committee membership will first be passed by the Chairman. The Chairman will consult with the respective Committee Chairs as to the identified need to be filled. The Chairman will make a recommendation to the Board as to any procedure to be used or action taken;
- e. All Committee memberships will be approved by affirmative vote, first, by the Board and then by the respective Committee, generally at regularly scheduled meetings;
- f. Generally, Directors are to serve on no more than two Committees so as to be able to provide enough time and energy to each Committee's assignments. Exceptions may be permitted upon the recommendation of the Chairman and the respective Committee Chair and are subject to approval by affirmative vote by a majority of the Board. However, compensation for Committee service will be limited to two (2) Committees;
- g. From time to time, the Chairman will review with the Committee Chairs the composition of the Committees in light of the Bylaws, this policy, the Director resources available and each Committee's respective needs. Recommendations as to membership on a particular Committee may be brought to the Board by either the Chairman or by the respective Committee Chair; and,
- h. At the invitation of the respective Committee Chair, non-member Director(s) may attend Committee meetings, but are not to vote on Committee matters.

Each Committee member should satisfy the following minimum qualifications:

- a. **Relevant Skills:** that they should have the relevant experience or skills within the respective committee's scope;
- b. **Constructive Participation:** that they should have a history of actively and constructively participating in Board meetings; and,
- c. **Commitment:** that they should have the energy, time and commitment to carry out special committee assignments.

The effectiveness of Board Committees will depend upon the level of management and staff support made available to it, so such requisite resources should be clearly documented in the respective Committee's Charter. Deficiencies in or suggestions for improvement in management and staff support should be promptly communicated to the Chairman and CEO.

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<sup>9</sup> Ibid., Section 2.19.2

Generally, non-Director members of management are not to be members of any Board Committee. However, exceptions may be made with the prior approval of the CEO and Chairman. While non-Director Committee members may be counted for purposes of attendance and quorum, they may not vote on Committee matters.

The Chairman of the Board is an ex officio member of each Committee and is permitted to participate and vote on any matter coming before any Committee. The Chairman may at his or her discretion, audit any Committee.