[BSP CIRCULAR NO. 283, May 17, 2001]

BOARD OF DIRECTORS OF BANKS/QUASI-BANKS/TRUST ENTITY

Pursuant to Monetary Board Resolution No. 713 dated 10 May 2001, the provisions of the Manual of Regulations for banks and for non-bank financial institutions are hereby amended, as follows:

SECTION 1. Subsecs. X141.3 and 4141Q.3 are hereby added to the respective Manual of Regulations, to read as follows:

"POWERS AND AUTHORITY OF THE BOARD OF DIRECTORS

The corporate powers of a bank/quasi-bank/trust entity 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 act for the bank/ quasi-bank/trust entity in accordance with their best judgment.

SECTION 2. Subsecs. X141.4 and 4141Q.4 are hereby added to the Manual of Regulations to read as follows:

"GENERAL RESPONSIBILITY OF THE BOARD OF DIRECTORS

The position of a bank/quasi-bank/trust entity director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders e.g. The bank/quasi-bank/trust entity itself, its stockholders, its depositors and other creditors, its management and employees, and the public at large). These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner."

The board of directors is primarily responsible for the corporate governance of the bank/quasi-bank/trust entity. To ensure good governance of the bank/quasi-bank/trust entity, the board of directors should establish strategic objectives, policies and procedures that will guide and direct the activities of the bank/quasi-bank/trust entity and the means to attain the same as well as the mechanism for monitoring management's performance. While the management of the day-to-day affairs of the institution is the responsibility of the management team, the board of directors is, however, responsible for monitoring and overseeing management action.

SECTION 3. Subsecs. X141.4 and 4141 Q.4 are hereby added to the Manual of Regulations to read as follows:

"SPECIFIC DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS:

1. To select and appoint officers who are qualified to administrer the bank/quasi -bank/trust entity affairs effectively and soundly and to establish adequate selection process for all personnel. It is the primary responsibility of the board of directors to appoint competent management team at all times. The board of directors should apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution's business, either current or planned, should be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the board's choice should share its general operating philosophy and vision for the institution. The board of directors shall establish an appropriate compensation package for all personnel which shall be consistent with the interest of all stakeholders.

2. To establish objectives and draw up a business strategy for achieving them. Consistent with the institution's objectives. The board should ensure that performance against plan is regularly reviewed, with corrective action taken as needed.

3. To conduct the affairs of the institution with high degree of integrity. Since reputation is a very valuable asset, it is in the institution's best interest that in dealings with the public, it observes a high standard of integrity. The board of directors should prescribe corporate values, codes of conduct and other standards of appropriate behavior for itself, the senior management and other employees. Among others, activities and transactions that could result or potentially result in conflict of interest, personal gain at the expense of the institution, or unethical conduct shall be strictly prohibited. It should provide policies that will prevent the use of the facilities of the bank/quasi-bank/trust entity in furtherance of criminal and other illegal activites.

4. To establish and ensure compliance with sound written policies. The board should adopt written policies on all major business activities, i.e., investments, loans, assets and liability management, business planning and budgeting. A mechanism to ensure compliance with said policies shall also be provided.

5. To prescribe a clear assignment of responsibilities and decision-making authorities, incorporating a hierarchy of required approvals from individuals to the board of directors. The board should establish in writing the limits of the discretionary powers of each officer, committee, sub-committee and such other group for the purpose of lending, investing or committing the bank/quasi-bank/trust entity to any financial undertaking or exposure to risk at any time. The board should have a schedule of matters and authorities reserved to it for decision, such as: major capital expenditures, equity investments and divestments.

6. To effectively supervise the bank's/quasi-bank's/trust entities affairs. The board of directors should establish a system of checks and balances which applies in the first instance to the board itself. Among the members of the board, an effective system of checks and balances must exist. The system should also provide a mechanism for effective check and control by the board over the chief executive officer and key managers and by the latter over the line officers of the bank/quasi-bank/trust entity.

7. To monitor, assess and control the performance of management. The board

shall put in place an appropriate reporting system so that it is provided with relevant and timely information to be able to effectively assess the performance of management. For this purpose, it may constitute a governance committee.

8. To adopt and maintain adequate risk management policy. The board of directors shall be responsible for the formulation and maintenance of written policies and procedures relating to the management of risks throughout the institution. The risk management policy shall include:

- a comprehensive risk management approach;
- a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
- a dear delineation of lines of responsibilities for managing risk;
- an adequate system for measuring risk; and
- effective internal controls and a comprehensive risk-reporting process.

The board may constitute a committee for this purpose.

9. To constitute the following committees (optional for banks with net worth of less than P20 million but mandatory if a subsidiary of other banks);

a. Audit committee, which shall be comprised of independent board members, preferably, with accounting and finance experience- the audit committee provides oversight of the institution's internal and external auditors. It shall be responsible for the setting-up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.

b. Nomination committee - the nomination committee shall be composed of at least three (3) members of the board of directors, preferably all independent members. It shall 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.

10. To meet regularly. To properly discharge its functions, the board of directors shall meet regularly. Independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.

11. To keep the individual members of the board and the shareholders informed. It is the duty of the board to present to all its members and to the shareholders a balanced and understandable assessment of the bank's/quasi-bank's/trust entity's performance and financial condition. It should also provide appropriate information that flows internally and to the public. All members of the board shall have reasonable access to any information about the institution.

12. To ensure that the bank/quasi-bank/trust entity have beneficial influence on the economy. The board has a continuing responsibility to provide those services and facilities which will be supportive of the national economy.

13. To assess at least annually its performance and effectiveness as a body, as welt as its various committees, the chief executive officer and the bank itself. The