



CORPORATE GOVERNANCE PRINCIPLES

October 2023

Document Control

Document Information

	Information
File Name	Corporate Governance Principles
Policy Level	Corporate Governance Policy
Document Owner	Board
Document Author	Company Secretary
Last Saved Date	31/10/2023

Document History

Version	Issue Date	Changes
5.0	Oct 2003	Revision
6.0	Apr 2008	Revision
7.0	May 2015	Revision
8.0	3/3/2017	Revision
8.1	13/7/2017	References to BSP Subsidiaries and Joint Venture Partners
8.2	21/3/2021	Update to comply with ASX Listing Rules
9.0	31/10/2023	Revision

Document Approvals

Name	Signature	Date
Board Risk & Compliance Committee (BRCC)	Meeting Minute	13/7/2017
BSP Board	Meeting Minute	21/7/2017
Due Diligence Committee	Meeting Minute	26/3/2021
Board Audit and Compliance Committee (BACC)	Meeting Minute	21/11/2023
BSP Board	Meeting Minute	22/11/2023

Table of Contents

1. INTRODUCTION	4
1.1 Mandate	4
1.2 Link to other Documents	4
2. OVERVIEW	4
2.1 Background	4
2.2 Objectives	4
2.3 Definition	5
2.4 Scope	5
2.5 Policy Statement	5
3. REQUIREMENTS OF THE POLICY	5
3.1 Principles	5
4. OPERATIONS OF THE POLICY	5
4.1 The role of the Board	5
4.2 Board Committees	6
4.3 Management Committees	8
4.4 Board Composition	8
4.5 Board Operations	9
4.6 Board's relationship with Management	10
4.7 Engagement with Shareholders	10
4.8 External Auditor	11
4.9 Internal Audit	11
4.10 Compliance	12
4.11 Risk Management	12
4.12 Local Advisory Boards (LAB)	13
4.13 Ethical Behaviour	14
4.14 Remuneration	14
4.15 Exceptions to this Policy	15
5. MAINTENANCE OF THIS POLICY	15

CORPORATE GOVERNANCE PRINCIPLES

1. INTRODUCTION

1.1 Mandate

The Board confers authority to Management to protect the reputation of BSP by significantly reducing the risk of non-compliance with BSP's internal and external obligations, and to promote honesty and integrity through the efficient management of operational risk.

1.2 Link to other Documents

1.2.1 Compliance with this Policy is a component of the Compliance Risk Management Framework.

1.2.2 This Policy should be read together with the Constitution of BSP Financial Group Limited and other related documents including the:

- (i) Board Charter;
- (ii) Board Audit & Compliance Committee Charter;
- (iii) Board Risk Committee Charter;
- (iv) Remuneration & Nominations Committee Charter;
- (v) Disclosure Committee Charter; and
- (vi) Fit & Proper Person Policy.

1.2.3 This Policy also aligns with prudential standards relating to corporate governance that are issued by the regulators in the various countries in which it operates (collectively, "Prudential Standards"). These Prudential Standards currently include: -

- (i) Bank of Papua New Guinea Banking Prudential Standard BPS300: Corporate Governance;
- (ii) Reserve Bank of Fiji Prudential Supervision Policy Statement No:1 Minimum Requirements for Corporate Governance of Licensed Entities;
- (iii) Central Bank of Samoa Prudential Statement 1: Governance and Risk Management;
- (iv) National Reserve Bank of Tonga Prudential Statement No. 9: Governance;
- (v) Financial Supervisory Commission of the Cook Islands Banking Prudential Statement BPS09 Governance and Risk Management;
- (vi) Reserve Bank of Vanuatu International Bank Prudential Guideline No. 10 Management of Financial Institutions: Fit & Proper Requirements;
- (vii) Central Bank of Solomon Islands Prudential Guideline No. 14 on Corporate Governance.

2. OVERVIEW

2.1 Background

2.1.1 BSP Financial Group Limited as a licenced financial institution is subject to various regulatory requirements regarding reporting and governance under respective legislations which include the Papua New Guinea *Companies Act 1997*, the *Banks and Financial Institutions Act 2000*, the *Anti-Money Laundering and Counter Terrorist Financing Act 2015*, the *Australian Corporations Act (Cth) 2001* and other applicable laws and regulations (collectively, "the Legislations").

2.1.2 As a publicly listed company, BSP Financial Group Limited is also subject to various disclosure, reporting and governance requirements under the PNGX Listing Rules and Australian Securities Exchange Listing Rules (collectively, "the Listing Rules").

2.2 Objectives

This Policy aims to provide a framework that helps to ensure that BSP deals fairly and openly with all its stakeholders – shareholders, customers and staff alike.

2.3 Definition

2.3.1 All terms and abbreviations are defined within the Policy.

2.3.2 Unless otherwise specified, the term “BSP” refers to all operations, branches, subsidiary companies and joint ventures (where BSP holds the controlling interest) making up BSP Financial Group Limited.

2.4 Scope

2.4.1 This Policy applies to BSP and all its branches, subsidiaries, and joint ventures (where BSP holds the controlling interest). In the event it is a requirement of a local regulator that a branch, subsidiary, or joint venture have its own corporate governance principles, that document can be endorsed by the local advisory board (if applicable), or board of the subsidiary or joint venture and approved by the board of BSP Financial Group Limited (“Group Board”).

2.4.2 BSP acknowledges that its subsidiaries, and joint ventures may also be subject to other various prudential standards and legislations depending on the nature of the business. Where there is an inconsistency between this Policy and the governing prudential standard or legislation, this Policy applies to extent applicable.

2.5 Policy Statement

2.5.1 This Policy outlines the corporate governance principles adopted by the Group Board. BSP has adopted an approach to corporate governance that is underpinned by its core values of Integrity, Professionalism, Leadership, Quality, People, Teamwork and Community. This approach is supported by a comprehensive governance framework that includes this Policy. BSP remains committed to developing and maintaining a standard of corporate governance that seeks to match global practice.

3. REQUIREMENTS OF THE POLICY

3.1 Principles

The following principles are the underlying intentions from which mandatory requirements are derived:

- (a) Compliance with regulatory governance and reporting requirements under the applicable Legislations;
- (b) Compliance with disclosure, reporting and governance requirements under the Listing Rules;
- (c) Business process have governance, management oversight and internal controls. Processes must provide assurance that accountabilities are established, communicated and understood; and
- (d) Controls have appropriate level of assurance.

4. OPERATIONS OF THE POLICY

4.1 The role of the Board

4.1.1 The Board reports to the shareholders and is responsible for the overall corporate governance and performance of BSP including its strategic direction, establishing goals for management and monitoring the achievement of those goals with a view to optimising Group performance and increasing shareholder value.

4.1.2 The functions of the Board are set out in the Board Charter and include:

- (i) setting the overall strategy of BSP, covering operations, finance, dividend, compliance and risk management;
- (ii) appointing the Group Chief Executive Officer of BSP (Group **CEO**) and setting an appropriate remuneration package;
- (iii) appointing the Company Secretary of BSP and setting an appropriate remuneration package;

- (iv) approving and endorsing appropriate policy settings for management;
- (v) reviewing Board composition and performance;
- (vi) reviewing the performance of senior management;
- (vii) approving a strategic plan, and an annual budget, for BSP and monitoring results on a regular basis;
- (viii) ensuring that appropriate risk management systems are in place, and are operating to protect BSP's financial position and assets;
- (ix) ensuring that BSP complies with the law and relevant regulations, and conforms with the highest standards of financial and ethical behaviour;
- (x) approving acquisitions and disposals material to the business;
- (xi) establishing and delegating authority levels;
- (xii) reviewing and recommending Directors' remuneration;
- (xiii) selecting, and recommending to shareholders, the appointment of external auditors; and
- (xiv) approving financial statements.

4.1.3 The Board may delegate some of these functions to its committees while retaining oversight.

4.2 Board Committees

To assist in the execution of its responsibilities, the Board has established board committees comprising mainly of Non-Executive Directors. Each committee has a formal charter approved by the Board. Committee members are chosen for the skills, experience and other qualities they bring to the committee. At the next Board meeting following each committee meeting, the Board is given a report by the chair of the respective committee.

4.2.1 Board Audit & Compliance Committee (BACC)

- 4.2.1.1 The BACC is comprised of at least 3 Non-Executive Directors, majority of whom should be independent, and who are duly appointed by the Board. The chair of the BACC must be one of the independent Directors, other than the Chair of the Board. Each member should be capable of making a valuable contribution to the BACC and membership is reviewed annually by the Board.
- 4.2.1.2 The BACC has been established to assist the Board in fulfilling its oversight responsibilities in respect of the audit and financial reporting process and compliance management.
- 4.2.1.3 The responsibilities of the BACC are detailed in the BACC Charter and include reviewing and monitoring:
 - (i) the integrity of BSP's financial statements and their independent audit;
 - (ii) the financial reporting principles and policies, controls and procedures;
 - (iii) BSP's internal audit process;
 - (iv) the effectiveness of internal controls;
 - (v) the controls and effectiveness of BSP's compliance obligations;
 - (vi) the systems for ensuring operational efficiency and cost control;
 - (vii) the systems for approval and monitoring of expenditure including capital expenditure; and
 - (viii) the processes for monitoring compliance with laws and regulations (in all jurisdictions wherein BSP operates) and the implementation of Board decisions by management
- 4.2.1.4 In the course of fulfilling its mandate, the BACC meets with both the internal and external auditors without management present.

4.2.2 Board Risk Committee (BRC)

- 4.2.2.1 The BRC is comprised of at least 3 Non-Executive Directors, a majority of whom should be independent, and who are duly appointed by the Board. The chair of the BRC must be one of the independent Directors, other than the Chair of the Board. Each member should be capable of making a valuable contribution to the BRC and membership is reviewed annually by the Board.
- 4.2.2.2 The BRC has been established to assist the Board in fulfilling its oversight responsibilities in respect of risk monitoring and management.

- 4.2.2.3 The responsibilities of the BRC is detailed in the BRC Charter and includes:
- (i) reviewing and monitoring the principles, policies, strategies, processes and control frameworks for the management of risk (such as credit, market, liquidity, operational, cyber security, legal, reputational and other risks that may arise);
 - (ii) reviewing BSP's risk profile and risk management strategy at least annually to be satisfied it is sound and that BSP is operating with due regard to the Group Risk Appetite Statement;
 - (iii) recommending BSP's risk appetite statement; and
 - (iv) reviewing any material incident involving fraud or a breakdown of BSP's risk controls;
- 4.2.2.4 In performing its duties, the BRC will maintain effective working relationships with the Board, executive and senior management, and risk management functions.

4.2.3 Remuneration & Nominations Committee (RNC)

- 4.2.3.1 The RNC is comprised of at least 3 Non-Executive Directors, the majority of whom should be independent, and who are duly appointed by the Board. An Executive Director or CEO cannot be a member of the RNC. The chair of the RNC must be one of the independent Directors, other than the Chair of the Board. Each member should be capable of making a valuable contribution to the RNC, and membership is reviewed annually by the BSP Board.
- 4.2.3.2 The RNC has been established to assist the Board in fulfilling its oversight responsibilities concerning Board and executive management selection, appointment, review and remuneration.
- 4.2.3.3 The responsibilities of the RNC are detailed in the RNC Charter and include;
- (i) overseeing the selection and appointment of the Group CEO and recommending an appropriate remuneration and benefits package to the Board;
 - (ii) reviewing and recommending to the Board corporate objectives and key responsible areas relevant to the remuneration and performance of the Group CEO;
 - (iii) overseeing the selection and appointment of Directors for recommendation to the Board, and subsequently to the shareholders;
 - (iv) determining and reviewing appropriate remuneration and benefits of Directors for recommendation to the Board, and subsequently to the shareholders;
 - (v) ensuring that the Board itself maintains an appropriate mix of skills, experience and diversity necessary to fulfil its responsibilities to shareholders while maintaining a world class corporate governance regime;
 - (vi) oversee the Board performance review; tenure, and succession planning;
 - (vii) In conjunction with the GCEO:
 - (a) evaluating the performance of, and identifying and maintaining a clear succession plan for executive management, while ensuring an appropriate mix of skills experience and diversity to achieve corporate goals and objectives; and
 - (b) determining and reviewing appropriate remuneration and benefits for executive management for recommendation to the Board.
 - (viii) appraising the performance of Group CEO and executive management on an annual basis and recommending bonus payments for Board approval;
 - (ix) reviewing and providing recommendations to the Board regarding BSP remuneration policies and assessing their effectiveness in compliance with laws, regulations and prudential standards within the respective jurisdictions.
 - (x) reviewing and recommending short-term incentive plans (STI) and long-term incentive plans (LTI) for Board approval.

4.2.4 Disclosure Committee (DC)

The DC comprises of one Non-Executive Director, the Group CEO, Group Chief Financial Officer, Group Chief Risk Officer and Company Secretary of BSP Financial Group Limited. The responsibilities of the DC are outlined in the DC Charter. The DC administers the Continuous Disclosure Policy and oversees and manages BSP's disclosure obligations under the Listing Rules. While it carries out the Board's disclosure obligations under the Listing Rules, the DC is considered a management committee due to its composition.

4.3 Management Committees

4.3.1 To carry out and implement objectives issued by the Board Committees, the following management committees have been established:

- (i) Executive Committee (EXCO);
- (ii) Group Asset & Liability Committee (GALCO);
- (iii) Operational Risk Committee (ORC);
- (iv) Credit Committee (CC);
- (v) Management Audit & Compliance Committee (MACC);
- (vi) Restructure Committee; and
- (vii) Fit & Proper Person Committee.

4.3.2 These committees are governed by their respective charters and comprise of executive and senior management.

4.4 Board Composition

4.4.1 The maximum number of Directors, as prescribed by the Constitution and approved by shareholders is 10, with majority of the Directors to be independent. The Group CEO who is also a Director, is not considered to be independent by reason of being an executive of BSP. The Board tests independence of its members using the following criteria:

- (i) the Director is not an executive of BSP;
- (ii) the Director is not a substantial shareholder of BSP or otherwise associated directly with a substantial shareholder of BSP (substantial shareholder is currently defined as more than 15%);
- (iii) the Director has not within the last 3 years been a material consultant, or a principal of a material professional adviser, to BSP or a group member, or an employee materially associated with the service provided;
- (iv) the Director is not a material supplier to, or customer of, BSP or other groupmember or a material consultant to BSP or other group member or an employee; materially associated with the material supplier or customer;
- (v) the Director has no material contractual relationship with BSP or other a related entity other than as a Director of BSP; and
- (vi) the Director is free from any interest and any business or other relationship which could,or could reasonable be perceived to, materially interfere with the Director's ability to act in the best interests of BSP.

4.4.2 Independent Directors are required to review their independence annually and materiality will be assessed on a case-by-case basis. BSP regards a Director as independent if he or she is free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of BSP and its shareholders generally.

4.4.3 The Chair of the Board is elected by the Directors. The Chair's role includes:

- (i) ensuring new Directors participate in an appropriate induction program and are fully aware of their duties and responsibilities;
- (ii) providing effective leadership on BSP's strategy;
- (iii) presenting the views of the Board to the public;
- (iv) ensuring the Board meets regularly throughout the year;
- (v) setting the agenda of the meetings and maintaining proper conduct during meetings; and
- (vi) reviewing the performance of Non-Executive Directors.

4.4.4 The Board accepts that it has a responsibility to shareholders to ensure that it maintains an appropriate mix of skills, experience and diversity within its membership. Consequently, the Board gives careful consideration to setting criteria for new appointments it may recommend to shareholders in accordance with the Constitution. It

has delegated the initial screening process involved to the RNC which may seek independent advice on possible new candidates for Directorships. All Directors must be satisfied that the best candidate has been selected.

- 4.4.5 BSP has a board skills matrix, which sets out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership. These skills include Risk Management, Regulatory/ Government Policy, Business & Financial acumen, experience as a Non-Executive Director, remuneration and corporate governance among others.
- 4.4.6 Prior to commencing as a Director, a nominees of the Board or shareholders, must meet the “Fit and Proper Person” criteria established by the central banks and other regulatory bodies in areas where BSP operates.
- 4.4.7 Upon joining the Board, new Directors are provided with an induction pack and undertake a comprehensive induction program. Directors are also invited to participate in BSP’s Director Professional Development Program. This program aims to provide Directors with opportunities to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.
- 4.4.8 The Board recognises that in certain circumstances individual Directors may need to seek independent professional advice, at the expense of BSP, on matters arising in the course of their duties. Any Director seeking such advice is required to give prior notice to the Chairman of his or her intention to seek independent professional advice, and any advice so received must also be made available to other Directors.

4.5 Board Operations

4.5.1 Board and Committee Meetings

Scheduled meetings of the Board and Committees are held regularly during the year. The Board also meets on other occasions to deal with matters requiring attention. Meetings provide regular opportunities for the Board to assess BSP’s management of key areas such as finance, operations, strategy and risk. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Directors at least one week in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the decision making process.

4.5.2 Board Performance Review

BSP has a process for periodically evaluating the performance of the Board, its Committees and individual Directors. The RNC oversees this process and also regularly reviews the approach taken by the Board regarding this. The Board uses this as an avenue to measure its own performance in meeting its responsibilities. This approach stems from the Board being cognisant of the need:

- (i) to continually identify areas for improvement;
- (ii) to ensure that it meets the highest standards of corporate governance; and
- (iii) for the Board and each Director to make an appropriate contribution to BSP’s objective of providing value to all its stakeholders.

4.5.3 Disclosures by Directors

- 4.5.3.1 Prior to appointment as a Director, nominee candidates are required to provide information to the Board for it to assess their independence, against the criteria set out in Section 4.4.1.
- 4.5.3.2 This information is assessed by the Board to determine whether on balance the relationship could, or could reasonably be perceived to, materially interfere with the exercise of the Director’s responsibilities, with materiality assessed on a case-by-case basis.
- 4.5.3.3 The Board is cognisant of the need to avoid conflicts of interest and has in place policies and procedures for the reporting of any matter which may give rise to a conflict between the interests of a Director and those of BSP. These include the requirement for ongoing disclosure of changes in interests and the regular maintenance of interest registers.
- 4.5.3.4 The respective regulators where BSP operates also set prudential limits on loans to “associated/ related persons

and BSP fully conforms to these requirements.

4.5.3.5 As part of reporting and disclosure obligations, a brief background, summary of interests and tenure for Directors of BSP Financial Group Limited is disclosed in each annual report.

4.6 Board's relationship with Management

4.6.1 The Group CEO oversees management of the business with assistance from senior executives and other officers and employees to whom the management function has been properly delegated.

4.6.2 The Board is responsible for defining the limits to management's responsibilities and approving the corporate objectives for which the Group CEO is responsible.

4.6.3 All Directors have unrestricted access to BSP records and information and receive regular detailed financial and operational reports to enable them to carry out their duties. Members of the executive and senior management make regular presentations to the Board and Committees on their areas of responsibility. The Chair and the other Non-Executive Directors have the opportunity to meet with the Group CEO and the management team for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors

4.6.4 Non-executive Directors meet on their own periodically to review the performance and management processes of BSP.

4.7 Engagement with Shareholders

4.7.1 Shareholder Communications

4.7.1.1 BSP commits to dealing fairly, transparently and openly with both current and prospective shareholders using available channels and technologies and has in place a Shareholder Communications Policy. Shareholders have the option to send and receive communications from BSP and its share registry electronically. BSP commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries.

4.7.1.2 BSP's framework for communicating with shareholders is to concisely and accurately communicate:

- (i) the BSP strategy;
- (ii) how BSP implements that strategy; and
- (iii) the financial results consequent upon the strategy and its implementation.

4.7.1.3 BSP uses shareholder forums such as the Annual General Meeting, and group meetings with larger shareholders, within disclosure policies, to communicate financial performance and strategies.

4.7.2 Annual General Meeting (AGM)

4.7.2.1 The shareholders of BSP are responsible for voting on the election of Directors at the Annual General Meeting (**AGM**) in accordance with the Constitution. All Directors, apart from Executive Directors, are subject to re-election by rotation no more than every 3 years.

4.7.2.2 Shareholders are provided with all material information about potential and existing Directors prior to the making a decision on whether or not to elect a potential Director or to re-elect an existing Director to the Board. Specifically, the following details about prospective or existing Directors are outlined in the notice of meeting material provided to shareholders when a resolution to elect or re-elect a Director is proposed:

- (i) biographical details;
- (ii) details of other material directorships; and
- (iii) any material adverse information or interest.

4.7.2.3 The AGM also provides shareholders with the opportunity to express their views on matters concerning BSP and to vote on other items of business for resolution by shareholders.

4.7.3 Market Disclosure

4.7.3.1 BSP's continuous disclosure regime is fundamental to the rights of shareholders to receive information

concerning their securities. BSP has adopted a Continuous Disclosure Policy which outlines the practices and procedures BSP has adopted to ensure it complies with the continuous disclosure obligations under the Listing Rules. Each Director, employee and contractor of BSP must comply with the Continuous Disclosure Policy. Certain features of the continuous disclosure policy are also outlined in BSP's Shareholder Communication Policy.

4.7.3.2 Market announcements are posted to BSP's website immediately after release to the stock exchanges. Where BSP provides financial results' briefings to analysts or media, these briefings are published on the website as soon as possible after they are released on the stock exchanges. In any event, no material information which has not been previously released to the market is covered in such briefings.

4.7.3.3 BSP's insider trading rules are important adjuncts to the continuous disclosure regime in ensuring that shareholders are given fair access to material information regarding securities. BSP seeks to limit the opportunity for insider trading in its own securities through its Securities Dealing Policy, which details the dealing rules and restrictions that applying to its employees and Directors.

4.8 External Auditor

4.8.1 The BACC is responsible for making recommendations to the Board on appointment and terms of engagement of BSP's external auditor. The selection is made from appropriately qualified companies in accordance with prudential requirements. The Board submits the name of the recommended appointee to shareholders for ratification. For BSP Financial Group Limited, the signing partner in the external audit firm must be rotated at least every 5 years, in line with the Bank of Papua New Guinea's Prudential Standard No. 7/2005 – External Auditors.

4.8.2 The BACC annually reviews the performance of the external auditors and makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the while ensuring their independence is in line with prudential requirements.

4.8.3 There is a review of the external auditor's proposed audit scope and approach, to ensure there are no unjustified restrictions. Meetings are held separately with the external auditor to discuss any matters that the BACC or the external auditor believe, should be discussed privately. The external auditor attends meetings of the BACC at which the external audit and half yearly review are agenda items.

4.8.4 The BACC ensures that significant findings and recommendations made by the external auditor are received and discussed promptly, and that management responds to recommendations by the external auditor in a timely manner.

4.8.5 Any retention of the duly appointed external audit firm by BSP to provide specialist consultancy services must be in line with applicable Prudential Standards.

4.8.6 The external auditor is invited to the AGM of shareholders and is available to answer relevant question from shareholders.

4.8.7 The Prudential Standards provide for a tri-partite meeting between the regulator, the external auditor, and BSP, if required.

4.9 Internal Audit

4.9.1 BSP maintains an independent internal audit function, governed by the Internal Audit Charter, with direct reporting lines to the BACC and functional reporting to Group CEO. The BACC approves, on the recommendation of management, the appointment of the Head of Group Internal Audit. The BACC meets regularly with the Head of Group Internal Audit.

4.9.2 Reviews are undertaken of the scope of the work of the internal audit functions to ensure no unjustified restrictions or limitations have been placed upon the Internal Audit Business Unit. The BACC also reviews the qualifications of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors.

4.9.3 The BACC meets separately with the internal auditors to discuss any matters that the Committee, or the internal auditors, believe should be discussed privately. The internal auditors have direct access to the BACC and to the

full Board. The BACC ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on a timely basis.

4.9.4 Internal Audit meets with the external auditor half yearly, to review the scope and findings of internal audit's annual audit plan, and the extent of the external audit plan, having regard to internal audit's findings.

4.10 Compliance

4.10.1 The BACC reviews the effectiveness of the systems for monitoring compliance with all legal, statutory and regulatory obligations, and the Constitution of BSP. It also reviews the results of management's investigation and follow-up (including disciplinary action) of any non-compliance.

4.10.2 The BACC obtains regular updates from management, and BSP's legal and compliance officers, regarding compliance matters, and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

4.10.3 Reviews of the findings of any examinations by regulatory/ supervisory agencies are undertaken and the Chair of the BACC has the right to approach a regulator directly in the event of a prudential issue arising.

4.11 Risk Management

4.11.1 BSP's risk management activities are aligned towards the achievement of BSP's goals, objectives and strategic plans. The BRC, in consultation with management, determines BSP's appetite and tolerance of risk and recommends this to the Board for approval. The Group Risk Appetite Statement and risk tolerance level benchmarks are used in the risk identification, analysis and risk evaluation processes.

4.11.2 The Board through the BRC reviews the risk management framework at least annually.

4.11.3 BSP distinguishes the following as major risk areas:

- (i) **Credit Risk** - The potential for financial loss where a customer or counterparty fails to meet their financial obligation to BSP.
- (ii) **Market Risk** - The potential financial loss arising from the BSP's activities in financial, including foreign exchange, markets. More detailed commentary on financial risk management is provided in the Notes to the published financial accounts.
- (iii) **Liquidity Risk** – The risk of failure to adequately meet cash demand in the short term without incurring financial losses.
- (iv) **Interest Rate Risk** - Risk to earnings from movement in interest rates.
- (v) **Operational Risk** - The risk of loss resulting from inadequate or failed systems, internal processes, people, or from external events, including legal and compliance risk, and reputation risk. Although this is monitored by the Operational Risk Committee, operational risk is managed at Business Unit level and BSP has an incident management system in place to address breaches.
- (vi) **Compliance and Anti-Money Laundering Risk** - The risk of loss or penalties imposed by a regulator for noncompliance with regulations, prudential standards and policies.
- (vii) **IT Risk** - The current and potential threat to earnings, capital or reputation because of a failure of information systems managed, maintained and operated by the Bank.
- (viii) **Cyber Risk** - The risk of targeted hacking, leakage/theft of customer confidential information, unauthorized financial transactions, and random attacks including malware, phishing and ransomware.

4.11.4 The Credit Committee monitors credit risk. The GALCO monitors market risk, interest risk and liquidity risk. The MACC monitors compliance and anti-money laundering risk while the ORC monitors operational risk, IT risk and cyber risk.

4.11.5 The BRC and the Board will review the highest tier of risks within these risk registers.

4.11.6 BSP's risk management policy ensures that BSP has in place acceptable limits for the risks identified by BSP's employees. The risk management approach encompasses the following:

- (i) defining the types of risks that will be addressed by each functional or policy area (i.e. credit risk, interest risk, liquidity risk, operational risk, etc.)
- (ii) ensuring that mechanisms for managing (identifying, measuring, and controlling) risk are implemented and maintained to provide for organization-wide risk management;
- (iii) developing information systems to provide early warning, or immediate alert, of events or situations that may occur, or already exist, that could create one or more types of risk for the Group;
- (iv) creating and maintaining risk management tools including those requested by the Board, such as policies, procedures, risk registers, controls and independent testing, management and training, and planning;
- (v) instituting and reviewing risk measurement techniques that Directors and Management may use to establish the Group's processes relating to risk tolerance, risk identification, risk supervision or controls, and risk monitoring;
- (vi) developing processes for those areas that represent potential risks; and
- (vii) establishing appropriate management reporting systems regarding these risks so individual managers are provided with a sufficient level of detail to adequately manage and control the Group's risk exposures.

4.11.7 The Board accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in BSP's activities. Therefore responsibility for overall risk management in BSP is vested with the Board. However every employee has a responsibility to ensure business practices are in line with the acceptable risk limits.

4.11.8 There is a formal system of financial and operational delegations from the Board to the Group CEO, and from the CEO to executive and senior management. These delegations reflect BSP's risk appetite, and are cascaded down to line managers who have skills and experience to exercise them judiciously.

4.11.9 The Board defines the accountabilities (including delegated approval / control authorities/limits) and reporting / monitoring requirements for the risk management process. The severity of risks identified in the risk identification, analysis and evaluation processes, and noted in the risk registers, determines the approval/control authorities/limits. The Board undertakes an annual review of the BSP's Enterprise Wide Risks.

4.11.10 The Board has adopted guidelines, with the help of management analysis, covering the maximum loss exposure BSP is able and willing to assume. These guidelines are detailed in BSP's Risk Appetite Statement, which is reviewed annually and approved by the Board. The Board has also delegated to the BRC responsibility for overview of loss control and for overseeing the risk management function.

4.11.11 To this end BSP has established separate Credit Inspection functions and Operational Risk functions, both governed by Board approved Charters, which have reporting lines to the BRC and regularly present reports at the BRC meetings.

4.11.12 The BRC and BACC are responsible for providing regular reports and recommendations to the Board on the risk management and compliance activities of BSP, especially relating to risk issues that are outside of the authority of BSP's EXCO to approve.

4.11.13 BSP's EXCO is responsible for deliberating on risk management issues which are outside of the delegated authorities/ limits of the Credit Committee, GALCO, ORC, MACC and executive management, with escalation of these issues to the BRC, BACC, or the Board itself, if needed.

4.12 Local Advisory Boards (LAB)

4.12.1 Some Prudential Standards in jurisdictions where BSP operates may require the establishment of a Local Advisory Board (LAB) for all foreign banks with local Branch operations, and whose Board of Directors is based outside of the country.

4.12.2 The purpose of the Local Advisory Board, in that regard and in accordance with the relevant prudential standard is where appropriate, to provide advice and guidance to the Head of BSP's operations/ Country

Manager on:

- (i) the respective country's regulatory and supervisory environment, national development objectives and BSP's potential role, initiatives and participation in it; and
- (ii) community matters including cultural, economic and social norms and needs and the provision of financial services that are of mutual benefit to banks and the community.

4.12.3 If required, the LAB may have its own approved Charter detailing its full role and responsibilities. Nominees, of the LAB, must meet the "Fit and Proper Person" criteria established by the relevant regulatory authority before they can take their place on the LAB.

4.13 Ethical Behaviour

4.13.1 BSP acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking Group business. To this end, the Board has adopted a:

- (i) Code of Conduct for both Directors and members of the executive management of BSP which requires that each Director, and relevant employees, acknowledges in writing annually that they have read, understood and agree to abide by the Code; and
- (ii) Corporate Mission, Objectives and Core Values Statement, which establishes principles to guide all employees in the day to day performance of their individual functions within BSP.

4.13.2 To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board further stipulates that senior management periodically undertake an appropriate communication program to reinforce both the Code and Core Value Statements. All Directors are encouraged to maintain membership of an appropriate Directors Association to keep abreast of current trends in Director's duties, responsibilities and corporate governance issues.

4.13.3 BSP is committed to a culture in which it is safe and acceptable for employees, customers and suppliers to raise concerns about poor or unacceptable practices, irregularities, corruption, fraud and misconduct.

4.13.4 BSP has adopted a Fraud & Whistleblower Policy that is designed to support and encourage staff to report in good faith matters such as:

- (i) unacceptable practices;
- (ii) irregularities or conduct which is an offence or a breach of laws (actions and decisions against the laws including non-compliance);
- (iii) corruption;
- (iv) fraud;
- (v) misrepresentation of facts;
- (vi) decisions made & actions taken outside established BSP policies & procedures;
- (vii) sexual harassment;
- (viii) abuse of Delegated Authorities;
- (ix) misuse of BSP assets;
- (x) disclosures related to miscarriages of justice;
- (xi) health and safety risks, including risks to the public as well as other employees;
- (xii) damage to the environment;
- (xiii) other unethical conduct;
- (xiv) failure to comply with appropriate professional standards;
- (xv) abuse of power, or use of BSP's powers and authority for any unauthorised purpose or personal gain; and
- (xvi) breach of statutory codes of practice.

4.14 Remuneration

- 4.14.1 The BSP remuneration policy for senior management is comprised of a fixed component and an at risk component that is a combination of short term rewards and long term incentives. The remuneration packages of executive management and the Group CEO are approved by the RNC with details provided by the RNC to the Board.
- 4.14.2 Fixed remuneration of senior management is reviewed at the time of contract renewal taking into account the nature of the role, the pay position relative to comparable market pay levels, and individual and business performance.
- 4.14.3 For Directors, the maximum aggregate amount of fees that can be paid to Non-Executive Directors is determined by shareholders at the AGMs in accordance with the Constitution. Fees are intended to remunerate Non-Executive Directors for time spent on the Board and Board Committee matters, including review and preparation time, meeting attendance, visits to BSP operations and travel.
- 4.14.4 Details of remuneration for Directors, Group CEO and executive management for each reporting period are provided in the annual report.

4.15 Exceptions to this Policy

Any exceptions or deviations from this Policy must be approved by the Board Audit & Compliance Committee.

5. MAINTENANCE OF THIS POLICY

- 5.1 Approved versions of this Policy will be published on BSP's Intranet and website and is available to all stakeholders.
- 5.2 The Board through the Company Secretary will communicate any material amendments to this Policy to all relevant stakeholders.
- 5.3 The Company Secretary will review this policy every 2 years to ensure it remains current and up to date.
- 5.4 This Policy is reviewed every 2 years or more frequently following major changes to legislation or business operations.
- 5.5 All Business Units must ensure this Policy is adhered to, either through relevant guidelines, work instructions, processes and procedures.
- 5.6 Any contraventions of this Policy or known or suspected instances of non-compliance must be escalated and reported to the Company Secretary.