



A wholly owned subsidiary of BSP Papua New Guinea

Registered Office: Level 12 Suva Central Building, Cnr of Renwick Rd & Pratt Street, Suva, Fiji Islands.
Postal Address: Private Mail Bag Suva Fiji Islands, Telephone (+679) 321 4412, Fax (+679) 321 4422

Market Announcement to South Pacific Stock Exchange

“SPX LISTING RULES REQUIREMENT - ANNEXURE P”

About BSP Convertible Notes Limited (BSP CN Fiji):

BSP Convertible Notes Limited (BSP CN Fiji) is a wholly owned subsidiary of Bank of South Pacific Limited (BSP). BSP is a Papua New Guinea based full service Bank with representation in many major Pacific economies. BSP is listed on the Port Moresby Stock Exchange (PNGX) and has a B- credit rating from Standard & Poors. BSP Convertible Notes Limited (BSP CN Fiji) is a special purpose vehicle incorporated in Fiji with limited powers under its Memorandum and Articles. It is listed in the South Pacific Stock Exchange (SPX) in Fiji as **BCN**.



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30 April 2020

“SPX LISTING RULES REQUIREMENT - ANNEXURE P”

As per Rule 51.2(xix) of the South Pacific Stock Exchange Listing Rules, Annexure P: Annual Compliance Report on Corporate Governance is attached below.

Bank of South Pacific Limited's 2019 Annual Report can be accessed on the link:-

http://www.bsp.com.pg/Investor-Relations/Investor-Resources--Stock-Information/annual-report/BSP-Annual-Report-2019_biz_edited-210420-smallest.pdf



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Haroon Ali
DIRECTOR

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Annexure P: Annual Compliance Report on Corporate Governance

Name of Listed Entity: BSP Convertible Notes Limited, (holding Company - Bank of South Pacific Limited)

For the Financial Year ended on: 31 December 2019

Principle	Requirement	Compliance Status (Please provide details)
1. Establish clear responsibilities for board oversight	Separation of duties: Clear separation of duties between Board and Senior Management.	<p>The roles and responsibilities of the BSP Board and the BSPCN Board are defined in the respective Board Charters.</p> <p>This document also details the matters reserved for the Board and matters that have been delegated to management with oversight by the Board.</p>
	Board Charter: Adopt a Board charter detailing functions and responsibilities of the Board.	<p>The roles and responsibilities of the Board are defined in the respective Board Charters.</p> <p>The BSP Board, with the support of its Committees, is responsible to the Shareholders for the overall performance of BSP, including its strategic direction; establishing goals for management; and monitoring the achievement of those goals with a view to optimising BSP performance and increasing shareholder value. A number of these responsibilities have been delegated by the Board to various Committees.</p>
2. Constitute an effective Board	Board Composition: Balanced Board Composition with Executive and Non-Executive directors of which 1/3 rd of total number of directors to be independent directors.	<p>The Corporate Governance Principles affirm that the majority of the Board should be independent. The BSP Board has nine Directors, with eight Non - Executive all of whom (including the Chairman) are considered by the Board to be independent; and the Chief Executive Officer who is not considered to be independent by reason of being an Executive of BSP.</p> <p>The BSPCN Board has 3 Directors, including 1 Independent Board Director – Mr. Kevin McCarthy.</p>
	Gender Diversity: Do you have a policy for promoting gender diversity at Board level and have you achieved your policy goals?	<p>While BSP's Corporate Governance Principles provides that the Board must ensure it maintains an appropriate mix of skills and experience without gender bias. BSP has not adopted a standalone Board diversity policy.</p>

		<p>Currently there are 10 directors of which two (2) are female directors and the Company Secretary is also a female on the BSP Board.</p> <p>The Company Secretary on the BSPCN Board is a female.</p>
	Nomination Committee: Selection, approval, renewal and succession of Directors to be conducted by Nomination Committee in accordance with Articles of Association of the Company and Fit and Proper Policy of Reserve Bank.	<p>The Remuneration and Nomination Committee assists BSP in fulfilling its oversight responsibilities regarding the remuneration, succession and recruitment of Directors, Executives and other BSP employees. The RNC is comprised of three Non-Executive Directors. The Chairman of the Remuneration and Nomination Committee is an independent Director, other than the Chairman of the Board.</p> <p>The Directors and Company Secretary of BSPCN are appointed by the Board upon confirmation after successful due diligence by SPX.</p>
	Board Evaluation: Process of evaluation of performance of the Board, its Committees and individual directors. Evaluation to be linked to key performance indicators of the listed entity.	<p>BSP has a process for periodically evaluating the performance of the Board, its Committees and individual Directors.</p> <p>The Remuneration and Nomination Committee reviews at least annually the processes by which the Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment of the Board as a whole to include an assessment of the contribution of each individual Director. The Board is cognisant of the need to continually identify areas for improvement; to ensure that it meets the highest standards of corporate governance; and for the Board and each Director to make an appropriate contribution to the Group's objective of providing value to all its stakeholders. The performance review is facilitated annually by an external consultant.</p>
	Directors Training: Directors' training and induction procedure to be in place to allow new directors to participate fully and effectively.	<p>On joining the Board, new Directors are provided with an Appointment Letter setting out the terms of the appointment, a Board induction pack and are required to undertake a comprehensive induction program. In particular, the Appointment Letter specifies the term of appointment, expectations in relation to time commitment, the Director's</p>

		remuneration arrangements, the Director's disclosure and confidentiality obligations, the Director's indemnity entitlements, and BSP's key corporate governance policies.
	<p>Board Sub-committees:</p> <p>Board must have sub-committees which must at a minimum include -</p> <ul style="list-style-type: none"> • Audit Committee; • Risk Management Committee; and • Nomination Committee/Recruitment Committee. 	BSPCN being a special purpose Company does not have any Board Sub-Committees, however BSP has four Committees of the Board whose functions and powers are governed by their respective Charters. These Committees are the Board Audit Committee (BAC), Board Risk and Compliance Committee (BRCC), the Remuneration and Nomination Committee (RNC) and the Disclosure Committee.
3. Appointment of Chief Executive Officer/Managing Director	CEO: To appoint a suitably qualified and competent Chief Executive Officer/Managing Director	The RNC assists BSP in fulfilling its oversight responsibilities regarding the Remuneration, Succession and Recruitment of Directors, Executives and other BSP employees. The responsibilities of the RNC are to oversee the selection and appointment of a Chief Executive Officer and setting of an appropriate remuneration and benefits package for recommendation to the full Board.
4. Appointment of a Board and Company Secretary	<p>Company Secretary:</p> <p>Board to appoint a suitably qualified and competent Company Secretary, who is accountable to the Board, through Chair, for all compliance and governance issues.</p>	The Company Secretary, through the Chairman, is directly accountable to the Board for the proper functioning of the Board. The appointment is based on qualification and experience. The Company Secretary may only be appointed or removed by the Board.
5. Timely and balanced disclosure	<p>Annual Reports:</p> <p>Timely and accurate disclosures are made in Annual reports as per Rule 51 of Listing Rules.</p>	The Group's continuous disclosure regime is fundamental to the rights of Shareholders to receive information concerning their securities. All requirements under Rule 51 of the SPX Listing Rules have been complied with in the BSP Annual Report.
	<p>Payment to Directors and Senior management:</p> <p>Sufficient information to be provided to shareholders on remuneration paid to</p>	The Remuneration and Nomination Committee assists BSP in fulfilling its oversight responsibilities regarding the remuneration, succession and recruitment of Directors, Executives and other BSP employees.

	Directors and Senior management.	The remuneration paid to the Directors of BSP is stated on page 77 of the BSP Annual Report.
	Continuous Disclosure: General disclosures or company announcements to be made in a timely manner. The disclosures should be factual without omitting material information and to be expressed in a clear and objective manner to shareholders.	<p>The BSP Board has established a new disclosure committee comprising of the Chairman (or in his absence another Non-Executive Director), the CEO, the Chief Financial Officer of BSP, the Chief Risk Officer and the Company Secretary (Disclosure Committee). The Chairman of the Disclosure Committee is the most senior Director present. The Disclosure Committee is responsible for, among other things:-</p> <p>(a) approving the release of any announcement to PNGX, other than:</p> <p>(i) an announcement that relates to a matter which is both material and strategically important, which will require approval by the Board; or</p> <p>(ii) procedural matters such as notice of changes to equity securities or directors' holdings, which will require approval by the Disclosure Officer.</p> <p>At all times, BSP and BSPCN have released market announcements on the SPX platform within the required timeframe.</p>
6. Promote ethical and responsible decision-making	<p>Code of Conduct:</p> <p>To establish a minimum Code of Conduct of the listed entity applicable to directors, senior management and employees and conduct regular trainings on the same.</p>	<p>BSP acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking BSP business. To this end, the Board has adopted:</p> <ul style="list-style-type: none"> • a Code of Conduct for both Directors and members of the Executive Management Team of the Group and stipulated that each Director comply with the Code; and • a 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 the Group. <p>BSP's Code of Conduct for Employees and Directors is available at www.bsp.com.pg in the Investor Relations section.</p>

7. Register of Interests	<p>Conflicts of Interest:</p> <p>Transactions with related parties resulting in conflict of interest are disclosed and a register is maintained for this purpose.</p>	<p>Directors are determined to be independent if they are judged to be free from any material or other business relationship with BSP and BSPCN that would compromise their independence. Prior to the appointment, Directors are required to provide information to the Board for it to assess their independence. In assessing the independence of Directors, the Board considers a number of criteria including:</p> <ul style="list-style-type: none"> • the Director is not an executive of the Group; • the Director is not a substantial shareholder of BSP or otherwise associated directly with a substantial shareholder of BSP; • the Director has not within the last three years been a material consultant or a principal of a material professional adviser to BSP, or an employee materially associated with a service provider; • the Director is not a material supplier to BSP, or a material consultant to BSP, or an employee materially associated with a material supplier or customer; • the Director has no material contractual relationship with BSP other than as a Director of BSP; • the Director is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of BSP. <p>This information is assessed by the Board to determine whether the relationship could, or could reasonably be perceived to, materially interfere with the exercise of the Director's responsibilities. Materiality is assessed on a case-by-case basis.</p>
8. Respect the rights of shareholders	<p>Communication with shareholders:</p> <p>To design communication strategy to promote effective communication with shareholders and encourage their participation. Examples: Communication through</p>	<p>BSP commits to dealing fairly, transparently and openly with both current and prospective Shareholders using available channels and technologies to communicate widely and promptly. BSP commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries. BSP's Shareholder Communication Policy is built around compliance with disclosure obligations and aspiring to be at the forefront of best practice in disclosure. The framework</p>

	Annual Reports, Annual General Meetings, or any other means of electronic communication.	<p>for communicating with Shareholders is to concisely and accurately communicate:</p> <ul style="list-style-type: none"> • the BSP strategy; • how we implement that strategy; and • the financial results consequent upon our strategy and its implementation.
	<p>Website:</p> <p>To create and maintain a Website of the listed entity to communicate effectively with shareholders and other stakeholders. All matters of importance to be updated regularly on the Website.</p>	<p>The Group uses shareholder forums such as the Annual General Meeting, and quarterly investor briefings, within disclosure policies, to communicate financial performance and strategies.</p> <p>BSP's Shareholder Communication Policy is available at www.bsp.com.pg in the Investor Relations section.</p> <p>Shareholders can access BSP's financial reports, market announcements, corporate governance policies and various other shareholder resources from the "Investor Relations" tab of its website at www.bsp.com.pg.</p> <p>Shareholders can also access details of BSP's history, business and structure from the "About Us" tab of the website.</p>
	<p>Grievance Redressal Mechanism:</p> <p>To establish a Grievance Redressal Mechanism for Shareholders to address shareholders complaints and grievances.</p>	<p>All complaints and grievances can be reported to the Manager Customer Care at BSP. The BSP website provides the email address of Customer care for contact for any such matters on customercare@bsp.com.fj.</p>
	<p>Shareholders' Complaints:</p> <p>To provide the number of shareholders' complaints received and attended to during the year. Provide reasons if any complaint is unresolved or unattended.</p>	<p>No complaints have been received by BSPCN Shareholders during the financial year.</p>

	<p>Corporate Sustainability:</p> <p>To adopt a business approach that creates long-term shareholder value by embracing opportunities, managing risks, maximising profits and minimising negative social, economic, and environmental impacts.</p>	<p>BSP identifies and manages its material exposures to economic, environmental and social sustainability risks within its risk management framework. In particular, BSP has a separate Social and Environmental Management Systems Policy which identifies and manages these risks. This policy applies to all Directors and employees of BSP. Under the Social and Environmental Management Systems Policy, BSP has adopted performance standards, completes due diligence and risk assessments, and undertakes incident and grievance reporting. BSP will not support or assist any project that causes or is likely to breach social or environmental regulation in the countries in which it operates.</p>
9. Accountability and audit	<p>Internal Audit:</p> <p>To appoint an internal auditor or an alternative mechanism to achieve the objectives of risk management, control and governance.</p>	<p>BSP has an internal audit function. The BACC approves, on the recommendation of management, the appointment of the Head of Internal Audit. The Committee meets regularly with the Head of Internal Audit. Reviews are undertaken of the scope of the work of the internal audit function 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. 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 auditor has direct access to the BACC and to the full Board. The Committee 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.</p>
	<p>External Audit:</p> <p>To appoint an external auditor who reports directly to the Board Audit Committee.</p>	<p>The BACC is responsible for making recommendations to the Board on the appointment and terms of engagement of BSP's external auditors. The selection is made from appropriately qualified auditors in accordance with the Board policy.</p>

		<p>The Board submits the name of the external auditors to Shareholders for ratification on an annual basis. The Committee reviews annually the performance of the external auditors and, where appropriate, makes recommendations to the Board regarding the continuation or otherwise of their appointment, while ensuring their independence is in line with Board policy.</p> <p>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 auditors to discuss any matters that the Committee or the external auditors 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. The Committee ensures that significant findings and recommendations made by the external auditors are received and discussed promptly, and that management responds to recommendations by the external auditors in a timely manner.</p> <p>The duly appointed external audit firm may not be engaged by BSP to provide specialist advisory or consultancy services to a bank while that same auditor/audit firm is engaged for services to conduct BSP's annual audit and related services. Services related to the preparation of a bank's corporate tax return are not prohibited. The external auditor is invited to the Annual General Meeting of Shareholders and is available to answer relevant questions from Shareholders.</p> <p>BSP Group's external audit firm is currently PricewaterhouseCoopers (PwC) that also conducts external audit for BSPCN.</p>
	<p>Rotation of External Auditor:</p> <p>To appoint the external auditor for a fixed term requiring senior partner of the audit firm to rotate</p>	<p>In line with the policy of the Bank of Papua New Guinea and other Central Banks where BSP operates including RBF in Fiji, the signing partner in the external audit firm must be rotated at least every 5 years. The Officers of PwC are rotated every year.</p>

	once in every three or less financial years.	
	<p>Audit Committee:</p> <p>To establish an Audit Committee comprising of at least 3 members of which majority are independent and Chair is not Chair of the Board.</p>	<p>The BACC assists the Board to discharge its responsibilities of oversight and governance in relation to financial and audit matters. The responsibilities of the BACC include monitoring:</p> <ul style="list-style-type: none"> • the integrity of BSP's financial statements and their independent audit; • the financial reporting principles and policies, controls and procedures; • BSP's internal audit process; • the effectiveness of internal controls; • monitor the controls and effectiveness of BSP's compliance obligations; • the systems for ensuring operational efficiency and cost control; • the systems for approval and monitoring of expenditure including capital expenditure; and • review and monitor the processes for monitoring compliance with laws and regulations (both in PNG and in overseas jurisdictions, where BSP operates) and the implementation of Board decisions by management. <p>Membership of the BACC is formed amongst the Non-Executive Directors, excluding the Chairman. The BACC must have a minimum of three Non- Executive Directors, the majority of whom must be independent. The Board may also appoint to the BACC additional individuals who are not executives or members of the Board who have specialised skills to assist the BACC. The chairman of the BACC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman).</p>
10. Risk Management	<p>Risk Management Policy:</p> <p>To establish a Risk Management Policy to address risk oversight, risk management and internal control. The Policy to clearly define</p>	<p>The Group's Risk Management activities are aligned to the achievement of the Group's Objectives, Goals and Strategy. The Board, in consultation with the Executive Committee, determines the Group's risk appetite and risk tolerance and this is expressed in the Group Risk Appetite Statement.</p>

	<p>the roles and responsibilities of the Board, Audit committee, management and internal audit function.</p>	<p>These benchmarks are used in the risk identification, analysis and risk evaluation processes.</p> <p>The Board or a Committee reviews the risk management framework at least annually.</p> <p>BSP recognises the following major risks:</p> <p>Credit Risk: The potential for financial loss where a customer or counter party fails to meet its financial obligation to the Group.</p> <p>IT Risk: The current and potential threat to earnings, capital or reputation as a result of a failure of information systems managed, maintained and operated by the Bank.</p> <p>Market Risk: The potential financial loss arising from the Group's activities in financial, including foreign exchange, markets.</p> <p>Liquidity Risk: The risk of failure to adequately meet cash demand in the short term.</p> <p>Interest Risk: Risk to earnings from movement in interest rates.</p> <p>Compliance Risk: The risk of loss or penalties imposed by a regulator for non-compliance with regulations, prudential standards and policies.</p> <p>Operational Risk: The risk of loss resulting from inadequate or failed internal processes, people, or from external events, including legal.</p> <p>Risk Management Roles and Responsibilities</p> <p>The Board accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in the Group's activities. Therefore, responsibility for overall risk management in BSP is vested with the Board.</p> <p>There is a formal system of financial and operational delegations from the Board to the Chief Executive Officer, and from the Chief Executive Officer to the General Managers. These delegations reflect the Group's risk appetite, and are cascaded down to managers who have skills and experience to exercise them judiciously.</p>
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		<p>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 SBU Risk Registers, is used to determine the approval/control authorities/limits. The Board undertakes an annual review of the Group's Enterprise Risks.</p> <p>The Board has adopted guidelines, with the help of management analysis, covering the maximum loss exposure the Group is able and willing to assume.</p> <p>These guidelines are detailed in the Group's Risk Appetite Statement and Risk Policy and Procedures Manual which have been 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. The BRC is responsible for receiving reports and providing regular updates and recommendations to the Board on the risk management activities of the Group, especially relating to risk issues that are outside of the authority of the Group's Executive Committee and other delegated Committees to approve.</p>
	<p>Whistle Blower Policy:</p> <p>As part of risk management strategy, establish a Whistle Blower Policy by creating a mechanism of reporting concerns of unethical behavior, actual or suspected fraud or violation of the listed entity's code of conduct or ethics policy, SPX Rules or Companies Act. [Refer Rule 68 of the Listing Rules]</p>	<p>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. The Group has adopted a whistle-blowing policy that is designed to support and encourage staff to report in good faith matters such as:</p> <ul style="list-style-type: none"> • unacceptable practices; • irregularities or conduct which is an offence or a breach of laws of the countries in which BSP operates in (actions and decisions against the laws of relevant countries including non-compliance); • corruption; • fraud; • misrepresentation of facts;

		<ul style="list-style-type: none">• decisions made and actions taken outside established BSP policies & procedures;• sexual harassment;• abuse of Delegated Authorities;• misuse of Group assets;• disclosures related to miscarriages of justice;• health and safety risks, including risks to the public as well as other employees;• damage to the environment• other unethical conduct;• failure to comply with appropriate professional standards;• abuse of power, or use of the Group's powers and authority for any unauthorised purpose or personal gain; and• breach of statutory codes of practice.
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