

Corporate Governance Statement

BSP Financial Group Limited¹'s approach to corporate governance is underpinned by our core values of Integrity, Leadership, People, Professionalism, Quality, Teamwork and Community. This approach is supported by a comprehensive framework of corporate governance principles and policies that are available on the Company's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/corporate-governance-principles/>.

The BSP Board has demonstrated its commitment to developing and maintaining a standard of corporate governance that seeks to match global practice. The Board ensures that it complies with the requirements of the Papua New Guinea *Companies Act 1997*, Australian *Corporations Act 2001 (Cth)*, *PNGX Listing Rules*, and more recently, the *ASX Listing Rules* and the *ASX Corporate Governance Principles and Recommendations (4th Edition)*.

BSP also complies with the various Prudential Standards, Statements or Guidelines dealing with corporate governance issued by the regulators/central banks in the countries within which BSP operates and currently include:

- The Bank of Papua New Guinea (BPNG) Banking Prudential Standard BPS 300: Corporate Governance (issued under Section 27 of the *Banks and Financial Institutions Act 2000*);
- The Reserve Bank of Fiji Banking Supervision Policy Statement No. 11: Governance (Oct 2007);
- The National Reserve Bank of Tonga Prudential Statement No. 9 (revised 2014): Governance;
- The Financial Supervisory Commission of the Cook Islands Banking Prudential Statement BPS09: Governance Risk Management (June 2019);
- The Central Bank of Samoa Prudential Statement 1 (January 2021);
- The Reserve Bank of Vanuatu International Bank Prudential Guideline No. 10 Management of Financial Institutions: Fit & Proper Requirements; and
- The Central Bank of Solomon Islands Prudential Guideline No. 14 on Corporate Governance (July 2019).

The Board, management and staff of BSP are very much aware of their responsibilities to the people of Papua New Guinea and the various countries in which BSP operates. The Board has adopted a statement of Corporate Governance Principles that outlines the approach BSP has adopted to corporate governance. These Corporate Governance Principles provide a framework that helps to ensure that BSP deals fairly and openly with all its stakeholders – regulators, shareholders, customers and staff alike.

This Corporate Governance Statement has been approved by the Board and is current as at 22 April 2022.

BOARD OVERSIGHT

Roles and Responsibilities of the Board

The roles and responsibilities of the Board are defined in the Board Charter which is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/board-charter/>. This document also details the matters reserved for the Board and matters that have been delegated to management with oversight by the Board.

The 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 optimizing BSP's performance and increasing shareholder value.

The key functions of the Board are:

- setting overall strategy of BSP, including operating, financial, dividends, and risk management;
- appointing Directors and setting appropriate remuneration packages;
- appointing the Group Chief Executive Officer and setting an appropriate remuneration package;

¹ In this Corporate Governance Statement, a reference to 'BSP', 'BSP Group', 'the Bank', 'the Company', 'the Group', 'our', 'us', and 'we' is to BSP Financial Group Limited ARBN: 649 704 656 (ASX: BFL | PNGX: BSP) and its subsidiaries unless it clearly means just BSP Financial Group Limited.

- appointing General Managers and setting appropriate remuneration packages;
- appointing the Company Secretary and setting an appropriate remuneration package;
- endorsing appropriate policy settings for management;
- reviewing Board composition and performance;
- reviewing the performance of management;
- approving an annual strategic plan and an annual budget for BSP and monitoring results on a regular basis;
- ensuring that appropriate risk management systems are in place, and are operating to protect BSP's financial position and assets;
- ensuring that BSP complies with the law and relevant regulations, and conforms with the highest standards of financial and ethical behavior;
- approving acquisitions and disposals material to the business;
- establishing authority levels;
- setting Directors' remuneration via the Remuneration and Nominations Committee;
- selecting, with the assistance of the Board Audit & Compliance Committee, and recommending to Shareholders, the appointment of external auditors; and
- approving financial statements.

A number of these responsibilities have been delegated by the Board to its various Committees. The Committees and their responsibilities are detailed in the Board Committees section of this Statement.

The Board has delegated to management responsibility for:

- developing the annual operating and capital expenditure budgets for Board approval, and monitoring performance against these budgets;
- developing and implementing strategies within the framework approved by the Board, and providing the Board with recommendations on key strategic issues;
- appointing management below the level of General Manager and preparing and maintaining succession plans for these senior roles;
- developing and maintaining effective risk management policies and procedures; and
- keeping the Board and the markets fully informed of material developments.

Composition

The maximum number of Directors prescribed by the Company's Constitution and approved by the Shareholders is ten. As at 31 December 2021, there are ten Directors and their details are set out below:

Director	Date of appointment	Length of Service (as at 31 December 2021)	Status
Sir Kostas Constantinou, OBE	April 2009	12 years 8 months	Non-Executive, Independent
Robin Fleming, CSM	June 2013	8 years 6 months	Executive, Non-Independent
Ernest Gangloff*	September 2013	8 years 3 months	Non-Executive, Independent
Arthur Sam	July 2016	5 years 5 months	Non-Executive, Independent
Faamausili Dr. Matagialofi Lua'iufi	December 2016	5 years	Non-Executive, Independent
Stuart Davis	August 2017	4 years 4 months	Non-Executive, Independent
Robert Bradshaw	September 2017	4 years 3 months	Non-Executive, Independent
Priscilla Kevin	April 2020	1 year 8 months	Non-Executive, Independent
Frank Bouraga	December 2020	1 year	Non-Executive, Independent
Symon Brewis-Weston	April 2021	8 months	Non-Executive, Independent

* As at 22nd April 2022, Ernest Gangloff resigned as a Director and was replaced by Patricia Taureka-Seruvatu.

Full biographies of each Director, including respective details regarding their background, qualifications and experience are available on BSP's website at <https://www.bsp.com.pg/about-us/board-of-directors/>.

Independence and Conflict of Interest

Directors of BSP are meticulous in handling situations where there could potentially be conflicts of interest, by declaring their interest in advance, and absenting themselves from any consideration of matters where a conflict might arise. BSP's Corporate Governance Principles require Directors to disclose any new directorships and equity interests at each Board Meeting. The Company Secretary maintains a running register of each Director's interests, reinforcing BSP's Corporate Governance Principles and ASX Recommendation 2.4 that majority of the Board should be independent.

Directors are determined to be independent if they are judged to be free from any material or other business relationship with BSP that would compromise their independence.

Prior to appointment, Directors are required to provide information to the Board for it to assess their independence. In assessing the independence of Directors, the Board will consider a number of criteria including:

- 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.

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. Materiality is assessed on a case-by-case basis.

As noted earlier, the Board is cognisant of the need to avoid conflicts of interest and it 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 arrangements are designed to ensure that the independence and integrity of the Board are maintained.

BSP in the ordinary course of business conducts transactions with Directors, their spouses, parents and children and/or parties which any of them control. These transactions include loans, deposits, and foreign currency transactions. Such transactions are carried out on commercial terms at market rates and do not require shareholder approval under Papua New Guinea Company Law. Where they involve loans, procedures follow BSP's standard credit approval and review processes which do not have any involvement of Directors, and BSP holds security in accordance with its standard procedures. As a result, BSP considers that Directors are able to maintain their independence even where a Director is a party to a transaction of this kind because they would not have been involved in the approval process for that transaction.

BSP fully complies with the requirements of the BPNG Prudential Standard 4/2003 – Limits on Loans to Related Parties and details of Related Party Transactions are summarised in Financial Note 35 of our 2021 Annual Report while Directors' Information on pages 122 - 123 of the 2021 Annual Report provides details of the Directors' Interests.

Chairman

BSP's Board Charter dictates that amongst others, the Chairman should be an independent Non-Executive Director, elected by the Directors and not have been a former executive officer of the BSP or the CEO in the last 3 years.

The Chairman holds the position for a maximum of six consecutive years unless in exceptional circumstances and with approval of the prudential regulator.

The role includes:

- ensuring all new Board members are fully aware of their duties and responsibilities;
- providing effective leadership on BSP's strategy;

- presenting the views of the Board to the public;
- ensuring the Board meets regularly throughout the year, and that minutes are taken and recorded accurately;
- setting the agenda of meetings and maintaining proper conduct during meetings; and
- reviewing the performance of Non-Executive Directors.

Company Secretary

The Company Secretary through the Chairman, is directly accountable to the Board for proper functioning of the Board. Each Director may seek the advice of the Company Secretary. Under the Constitution, the Company Secretary may only be appointed or removed by the Board

Key responsibilities of the Company Secretary include:

- Finalizing the agenda for each Board and Committee meeting in conjunction with the respective Chairman;
- Ensuring the timely completion and circulation of board and committee papers ahead of scheduled meetings;
- Collation of the Board meeting minutes, capturing key discussion points and resolutions for review and approval at the next Board meeting.
- Advising the Board of relevant statutory matters and ensuring compliance of the same;
- Maintaining a record of Directors' dealings in securities, declarations of interests and potential conflicts;
- Assisting with arranging Director induction and professional development

The Company Secretary plays a pivotal role in carrying out the administrative function of the Board and is one of the Board's main liaison with Management and external stakeholders.

BOARD COMMITTEES

Meetings and Attendance

During 2021, four Committees of the Board were in operation whose functions and powers were governed by their respective charters. These Committees were the Board Audit and Compliance Committee (BACC), Board Risk Committee (BRC), the Remuneration and Nomination Committee (RNC) and the Disclosure Committee (DC).

Scheduled meetings of the Board are held at least seven times a year, and the Board meets on other occasions as necessary to deal with matters requiring attention. Meetings of the Committees are scheduled regularly during the year, aligning with Board meeting dates. The Board has a policy of rotating its meetings between locations both in Papua New Guinea and abroad where BSP has a significant presence. On these occasions, the Board also visits company operations and meets with local management and key customers.

The Chairman, in consultation with the Group Chief Executive Officer and Company Secretary, determines meeting agendas. Meetings provide regular opportunities for the Board to assess BSP's management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Board members 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.

The names, relevant qualifications and experience of Committee members can be viewed on BSP's website at <https://www.bsp.com.pg/about-us/board-of-directors/>. Membership of the Committees and a record of attendance at Committee meetings during 2021 are detailed in the table below, while remuneration details are provided in the 2021 Annual Report under Financial Note 36 - Directors' and Executive Remuneration.

Directors	Board	BACC	BRC	RNC	DC
Sir Kostas G. Constantinou, OBE	6/7	-	-	-	*
Robin Fleming ¹	7/7	6/6	6/6	7/7	*
Geoffrey Robb ²	1/7	1/6	1/6	-	-
Ernest Gangloff	7/7	6/6	6/6	-	-
Arthur Sam	7/7	6/6	6/6	-	-
Stuart Davis	7/7	6/6	6/6	-	-
Frank Bouraga	7/7	6/6	-	-	-
Symon Brewis-Weston ³	6/7	5/6	5/6	-	-

Priscilla Kevin	7/7	-	6/6	7/7	-
Robert Bradshaw	7/7	-	-	7/7	-
Faamausili Dr. Matagialofi Lua'iufi	7/7	-	-	7/7	-

Independent Committee Members (ICMs)

Daniel Siagur-Khaisir ⁴	-	4/6	-	-	-
Vele Rupa ⁵	-	-	3/6	-	-
Gertrude Tamade ⁶	-	1/6	-	-	-
Charles Lee ⁷	-	-	2/6	-	-

¹ Robin Fleming whilst a Director is considered as part of Management during Committee meetings.

² Geoffrey Robb retired as a Director on 12 April 2021 and as a member of both the BACC and BRC.

³ Symon Brewis-Weston was appointed as a Director and as a member of both BACC and BRC to replace Geoffrey Robb on 13 April 2021.

⁴ Daniel Siaguru-Khaisir was appointed by the Board on 25 May 2021 as an ICM of the BACC for Board development purposes.

⁵ Vele Rupa was appointed by the Board on 25 May 2021 as an ICM of the BRC for Board development purposes.

⁶ Gertrude Tamade was appointed by the Board on 25 May 2021 as an ICM of the BACC for Board development purpose, and resigned on 30 July 2021.

⁷ Charles Lee's tenure as an ICM on the BRC ceased on 5 May 2021.

*The Disclosure Committee comprises of the Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer and Company Secretary. It is not required to meet regularly but as and when required to review and approve any disclosures to Market in compliance with the respective Listing Rules of both PNGX and the ASX.

Except for the Disclosure Committee, Sir Kostas G. Constantinou is not a member of any other Committee.

Committee members are chosen for the skills, experience and other qualities they bring to the respective Committees. At the next Board meeting following each Committee meeting, the Chairman of the respective Committees gives the Committee's report to the Board.

Board Audit & Compliance Committee (BACC)

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:

- 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;
- 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
- 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.

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 specialized 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).

The BACC must meet at least four times annually and special meetings may be convened as required. Minutes of all BACC meetings must be recorded and tabled at the subsequent BACC meeting. The BACC regularly reports to the Board at the earliest possible Board meeting after each BACC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

The BACC Charter is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/board-audit-compliance-committee-charter/>.

Board Risk Committee (BRC)

The BRC assists the Board to discharge its responsibilities of oversight and governance in relation to the implementation of

BSP's risk management framework. The responsibilities of the BRC are to:

- review and monitor the principles, policies, strategies, processes and control frameworks for the management of risk (such as credit risk, market risk, liquidity risk, operational risk, cyber security, reputational risk and other risks that may arise including COVID-19);
- oversee BSP's risk profile and risk management strategy, and recommend BSP's risk appetite statement.

Membership of the BRC is formed amongst the Non-Executive Directors, excluding the Chairman. The BRC must have a minimum of three Non-Executive Directors, the majority of whom must be independent. The Board may also appoint to the BRC additional individuals who are not executives or members of the Board who have specialized skills to assist the BRC. The chairman of the BRC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman).

The BRC must meet at least four times annually and special meetings may be convened as required. Minutes of all BRC meetings must be recorded and tabled at the subsequent BRC meeting. The BRC regularly reports to the Board at the earliest possible Board meeting after each BRC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

The BRC Charter is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/board-risk-committee-charter/>.

Remuneration and Nomination Committee (RNC)

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;
- to determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders;
- in conjunction with the Chief Executive Officer, to identify and maintain a clear succession plan for the Executive Management Team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly;
- to ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfill its responsibilities to shareholders while maintaining a world class Corporate Governance regime; and
- Board succession planning and recommendation to the Board for appointment of new directors.

The RNC is comprised of three Non-Executive Directors. The Chairman of the Remuneration and Nomination Committee must be one of the independent Directors, other than the Chairman of the Board.

The RNC must meet at least once annually and special meetings may be convened as required. Minutes of all RNC meetings must be recorded and tabled at the subsequent RNC meeting. The RNC regularly reports to the Board at the earliest possible Board meeting after each RNC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

The RNC Charter is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/remuneration-nominations-committee-charter/>.

Disclosure Committee (DC)

Established by the Board, the DC comprises of the Chairman (or in his/her absence, another Non-Executive Director), the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Chief Risk Officer and the Company Secretary. The chairman of the Disclosure Committee is the most senior Director present. The members of the DC may vary from time to time, but will consist of at least a Non-Executive Director, two Executive Employees (not including the Company Secretary) and the Company Secretary.

The Disclosure Committee is responsible for, among other things:

- (a) approving the release of any announcement to PNGX, ASX and SPX other than:
 - (i) an announcement that relates to a matter which is both material and strategically important, which will require approval by the Board; or

- (ii) procedural matters such as notice of changes to equity securities or directors' holdings, which will require approval by the Disclosure Officer;
- (b) considering whether BSP is obliged or is required to respond to a market rumour or media speculation; and
- (c) overseeing the Disclosure Officer's administration of the Continuous Disclosure Policy.

Unlike other Committees, the DC is not required to have scheduled meetings throughout the year but meets regularly whenever a market disclosure is required.

The Disclosure Charter is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/disclosure-committee-charter/>.

Each Committee member should be capable of making a valuable contribution to the respective Committee and membership is reviewed annually by the Board, with this forming part of the Board's annual performance review.

Board Skills Matrix

BSP has a Board skills matrix that was developed following a Board assessment undertaken in 2019. Results of this assessment is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/bsp-skills-assessment-report/>. Skills that form part of this matrix include Risk Management, Regulatory/ Government Policy, Business and Financial acumen, experience as a Non-Executive Director, Remuneration and Corporate Governance.

Since 2019, subsequent appointments to fill vacancies have been made giving regard to this matrix and in doing so, the Board ensures it has a broad range of skills, experience and expertise that enables it to meet its objectives. The Board accepts that it has a responsibility to Shareholders to ensure that it maintains an appropriate mix of skills and experience (without gender bias) within its membership.

REMUNERATION

Director Appointment, Election and Re-election

Under the Constitution, at each Annual General Meeting (AGM) one-third of the BSP's Directors, in addition to any Director appointed during the year, excluding the Group Chief Executive Officer, must offer themselves for re-election by the Shareholders.

A Director is normally appointed for an initial term of three years. At the end of the term of three years, the Director will become eligible for reappointment by the Shareholders for a further term of three years and, if not reappointed, retires automatically. A Director is normally not permitted to hold office for a period exceeding three terms of three years or nine years, whichever is the lesser.

The Board gives careful consideration to setting criteria for new Director appointments it may recommend to Shareholders in accordance with the Constitution and BSP's Fit & Proper Policy. It has delegated the initial screening process involved to the RNC, which in accordance with the RNC Charter, may seek independent advice on possible new candidates for Directorships. All Directors must be satisfied that the best candidate has been selected.

BSP undertakes appropriate checks before appointing a person as a Director or offering them to Shareholders as a candidate for election and has appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in notices of meeting provided to Shareholders. This includes a brief background of the Director and details of any other material directorships the Director may have.

For initial election, BSP provides a statement that the Director has satisfied the 'fit and proper person' assessment by BPNG. For re-election, a statement concerning the term of the office currently served by the Director is included. If the Board considers a Director to be independent, it states so in its recommendation in the Notice of Meeting.

Nominees of the Board and/or Shareholders must meet the 'fit and proper person' criteria outlined in BPNG Banking Prudential Standard BPS310: Fit and Proper Requirements before they can take their place on the Board. This includes an assessment of the person's:

- Honesty, integrity reputation, good character and fairness;
- Education, competence, capacity, capability; and
- Financial soundness

The Board has undertaken a renewal and succession planning process in recent years with the aim of maintaining a proactive and effective Board in line with the directions of the BSP Group.

A copy of BSP's Fit & Proper Policy is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/policies/fit-and-proper-policy/>.

Director Induction and Professional Development

BSP has a program for inducting new Directors and providing appropriate professional development opportunities for Directors that are managed by the RNC.

On joining the Board, new Directors are provided with an Appointment Letter setting out the terms of the appointment, a Board induction pack and undertake a comprehensive induction program. The Appointment Letter specifies the term of appointment, BSP's expectations in relation to time commitment and Committee work, the Director's remuneration arrangements, the Director's disclosure and confidentiality obligations, the Director's insurance and indemnity entitlements, and compliance with BSP's key corporate governance policies. The induction program involves a one-on-one meeting with the Board Chairman, respective Committee Chairs and with Senior Management to help new Directors develop an understanding of BSP's history, culture and operations. As part of the induction pack, new Directors receive copies of BSP's key corporate governance policies and the annual Board and Committee calendar.

Director development is encouraged by the Board as part of its efforts to remain robust and cognizant. Whilst Directors are free to identify and advise of courses that are of interest to them, the RNC provides regular updates to the Board regarding which courses are available or currently being offered. Should a Director wish to undertake a particular course as part of his/her development, BSP covers the associated costs. Director development sessions are also held regularly and scheduled with Committee meetings.

New Directors are encouraged to undertake the Australian Institute of Company Directors' Effective Directors course.

Review of Board Performance

Consistent with ASX Recommendation 1.6, BSP has a process for periodically evaluating the performance of the Board, its Committees and individual Directors. The last Board Performance Review was done in 2021.

This review is done annually with oversight from the RNC 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 aware 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.

This performance review is facilitated by an external consultant.

Senior Management

Like Directors, BSP's Senior Management also enter into employment contracts with BSP which set out key information such as their terms of employment, position, duties, reporting lines, remuneration and termination arrangements. A copy of their job profile is also provided for their reference.

The Board with the assistance of the RNC sets the performance targets for the Group Chief Executive Officer and other members of Executive and Senior Management under BSP's employee incentive arrangements set out in their respective employment contracts. Summarized details of these employee incentive arrangements are outlined in pages 50 – 58 of BSP's 2021 Annual Report. These incentive arrangements are administered by the RNC with performance against the relevant targets is assessed periodically throughout the year and a formal evaluation is undertaken annually with the last assessment undertaken in 2021.

Gender Diversity

BSP currently has ten directors, two of whom are women. BSP's objective and consistent with the reference to the gender diversity objectives of the S&P / ASX 300 Index made in the ASX Recommendation is to have at least 30% of its board comprising female directors by 31 December 2023.

A summary of the gender spread within the organization for Management and Staff across the Group as at 31 December 2021 is set out below:

Category	Female	Male	Total
Board	2	8	10
Executive Management ¹	4	10	14
Senior Management ²	35	51	86
Middle Management	367	289	656
Branch Management	25	39	64
Customer Service Officers	381	344	725
Foundation	1357	1546	2903
Specialist & Support Staff	12	9	21
Total (excluding Board)	2181	2288	4469

¹ Executive Management in this case refers to all of the Group Chief Executive Officer's direct reports excluding his Executive Assistant. This includes General Managers of each of BSP's Strategic Business Units and General Managers of the subsidiaries incorporated in Papua New Guinea. The Company Secretary while accountable to the Board also operationally reports to the Group Chief Executive Officer.

² Senior Management in this case refers to all Heads of Business Units and direct reports of those identified as Executive Management.

The Board remains committed in promoting gender diversity across all levels of the Company and a copy of BSP's Diversity Policy is available on the Company's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/policies/group-equality-diversity-inclusion-policy/>.

A Balanced Approach

BSP believes in the fair remuneration of all its employees from Directors through to management and staff and its approach is reflective of the value and confidence BSP places on each of these individuals. As its Senior Management team is responsible for driving the Company's vision, reporting to the Board and ensuring operational excellence, competitive remuneration packages are used to retain and attract the best talent available.

Remuneration for Non-Executive Directors is assessed giving regard to a number of factors including the current fee cap and performance and contribution of each individual Non-Executive Director, with all these benchmarked against that of similar industry participants.

The Remuneration Report in pages 48-58 of BSP's 2021 Annual Report gives a summary of the remuneration policy adopted by BSP.

RISK MANAGEMENT & COMPLIANCE

Approach to Risk Management

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, which is reflected in the Group Risk Appetite Statement. These benchmarks are used in the risk identification, analysis and risk evaluation processes.

The Board has delegated to the BRC the responsibility of annually reviewing the risk management framework. This framework requires ongoing risk identification and management across all areas and functions within the Group. It is a

requirement that the Executive Committee annually review the top Group enterprise wide risks and present the report and remediation plan to BRC for recommending to the Board for approval. This review allows the Group to reassess the top inherent risks in the business and provides Senior Management the opportunity review processes to ensure adequate controls and resources are in place to manage these risks. It also provides the Board a high level view of the risks threatening the business objectives of BSP Group. Further, the process creates a level of risk awareness within the management team and Board. The last review was undertaken in 2021.

BSP recognises the following major risks:

- **Credit Risk:** The potential for financial loss where a customer or counter party fails to meet its financial obligation to the Group.
- **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.
- **Market Risk:** The potential financial loss arising from the Group's activities in financial, including foreign exchange, markets.
- **Liquidity Risk:** The risk of failure to adequately meet cash demand in the short term.
- **Interest Risk:** Risk to earnings from movement in interest rates.
- **Compliance and Anti-Money Laundering Risk:** The risk of loss or penalties imposed by a regulator for non-compliance with regulations, prudential standards and policies.
- **Operational Risk:** The risk of loss resulting from inadequate or failed internal processes, people, or from external events, including legal.
- **Cyber Risk:** Targeted hacking, leakage/theft of customer confidential information, unauthorised financial transactions, and random attacks including malware, phishing and ransomware.

The Credit Committee monitors credit risk. The Group Asset & Liability Committee monitors market risk, interest risk, and liquidity risk, and operational risk is monitored by the Operational Risk Committee.

Compliance and Anti-Money Laundering (AML) is monitored by the Compliance and AML Business Unit, including the maintenance of a risk register system that has been implemented across the Group. The Executive Committee and the Board overview the highest tier of risks within these risk registers.

The Group's Risk Management Policy ensures that the Group has in place acceptable limits for the risks identified by employees. The risk management approach encompasses the following:

- defining the types of risks that will be addressed by each functional or policy area (i.e. credit risk, interest rate risk, liquidity risk, operational risk, information security)
- ensuring that mechanisms for managing (identifying, measuring, and controlling) risk are implemented and maintained to provide for organization-wide risk management;
- 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;
- 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;
- instituting and reviewing risk measurement techniques that Directors and management may use to establish the Group's risk tolerance, risk identification approaches, risk supervision or controls, and risk monitoring processes;
- developing processes for those areas that represent potential risks; and
- 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.

Risk Management Roles and Responsibilities

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. However, every employee from Executive Management to the newest recruit has a responsibility and a part to play in the process.

There is a formal system of financial and operational delegations from the Board to the Group Chief Executive Officer, and from the Group Chief Executive Officer to the General Managers. These delegations reflect the Group's risk appetite, and cascade down to managers who have skills and experience to exercise them judiciously.

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 Strategic Business Unit Risk Registers, is used to determine the approval/control authorities/limits. The Board undertakes an annual review of the Group's Enterprise Risks.

The Board has adopted guidelines, with the help of management analysis, covering the maximum loss exposure the Group is able and willing to assume. 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.

Financial Statements and Corporate Reports

The BACC reviews the half-year and full-year financial statements to determine whether they are complete and consistent with the information known to Committee members and to assess whether the financial statements reflect appropriate accounting principles. In particular it:

- pays attention to complex and/or unusual transactions;
- focuses on judgmental areas, for example those involving valuation of assets and liabilities; provisions; litigation reserves; and other commitments and contingencies;
- meets with management and the external auditors to review the financial statements and the results of the audit; and
- satisfies itself as to the accuracy of the financial accounts, and signs off on the financial accounts of BSP before they are submitted to the Board.

BSP does not release its half-year accounts unless they have been reviewed by the external auditors and full-year financial statements unless they have been audited by the external auditors and approved by both the BACC and the Board.

All other market announcements and corporate reports are reviewed and approved by the DC prior to lodgment with the respective stock exchanges. The DC's approval for its release is then ratified by the Board at the next Board meeting.

Management Assurance

The Board is provided with regular reports about BSP's financial condition and its operating performance. Annually, the Group Chief Executive Officer and the Group Chief Financial Officer certify to the Board that:

- in their opinion, the financial records of the Group have been properly maintained;
- in their opinion, the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BSP; and
- their opinions above have been formed on the basis of a sound system of risk management and internal control applying to BSP, which is operating effectively.

Additionally all General Managers and Country Heads provide bi-annual statements attesting that;

- they have assessed and documented the risks and internal control procedures in their Strategic Business Unit;
- they have identified any changes in business, operations and computer systems and the risks that may arise from those changes;
- the risk management and internal compliance and control systems are appropriate and operating efficiently and effectively; and
- any weaknesses in the risk management and internal compliance and control systems have been identified and remedial action taken.

Board Access to Information and Advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports to enable them to carry out their duties.

The General Managers of each PNG Strategic Business Unit, Heads of Subsidiaries and Country Managers make regular presentations to the Board on their areas of responsibility.

The Chairman and the other Non-Executive Directors have the opportunity to meet with the Chief Executive Officer, General Managers, Heads of Subsidiaries and Country Managers for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

The Board recognizes 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 advice so received is made available to other Directors. Any Director seeking such advice is required to give prior notice to the Chairman of his or her intention to seek independent professional advice.

External Audit

The BACC is responsible for making recommendations to the Board on appointment and terms of engagement of BSP's external auditors. The selection is made from appropriately qualified auditors in accordance with Board policy.

The Board submits the name of the external auditors to Shareholders for ratification on an annual basis. In line with the Prudential Standard of the BPNG, the signing partner in the external audit firm must be rotated every five years.

The BACC reviews annually the performance of the external auditors and, where appropriate, makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the BPNG's Prudential Standard No. 7/2005 - External Auditors, while ensuring their independence is in line with Board policy.

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 BACC or the external auditors believe should be discussed privately. The external auditor attends meetings of the BACC at which the external audit, half yearly and annual reviews 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.

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 BSPs 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. BSP's external audit firm is currently PricewaterhouseCoopers (PwC) and representatives of PwC will attend the next Annual General Meeting in May 2022 and be available to answer shareholder questions regarding the audit.

Internal Audit

BSP has an internal audit function. The BACC approves, on the recommendation of management, the appointment of the Head of Internal Audit, who functionally reports to the BACC. The BACC 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 scope of work carried out by the Internal Audit function stems from the annual Internal Audit Plan which the BACC reviews and approves. 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 BACC, or the internal auditors, believe should be discussed privately. The Head of Internal Audit has 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.

Compliance

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

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

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

Environmental and Social Governance

While we believe we currently do not have any material exposure to environmental or social sustainability risks, BSP in its daily operations lends monies to businesses that may be exposed to such risks. To ensure compliance, BSP has in place a Social & Environmental Management System to ensure these businesses comply with social and environmental laws and regulations.

CULTURE & VALUES

Core Values

BSP's comprehensive corporate governance framework is underpinned by its core values:

- Integrity – we are honest, committed, trustworthy and reliable in our dealings with our customers and each other.
- Leadership – we inspire, we change and we live our values and lead by example.
- People – we respect and value our people and our customers.
- Professionalism – we commit ourselves to continual self-development to achieve standards of excellence in our performance.
- Quality – we are committed to excellence whilst striving for continuous improvement in products and services.
- Teamwork – we work with and for each other; we progress together.
- Community – we respect, value and support the communities in which we operate

This is encompassed in the Group's Statement of Vision, Mission and Values, which is approved by the Board and acts as a guide for all employees in the day-to-day performance of their individual functions within the Group. This Statement is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/policies/statement-of-vision-mission-and-values/>.

Code of Conduct

Aside from this, 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 a Group-wide Code of Conduct for Directors, Senior Management and all staff whilst further stipulating that each Director comply with the Code. To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board encourages Senior Management to periodically issue staff communications to reinforce both the Code and Core Values Statements. All Directors are encouraged to maintain membership of an appropriate Directors' Association to keep abreast of current trends in Directors' duties, responsibilities and corporate governance issues. Training on the Code is carried out annually across the Group and all Directors, Management and Staff are required to submit declarations attesting understanding of and compliance with the Code.

Reports of breaches of the Code are provided to Senior Management and noted at the BRC meetings and a copy of the Code of Conduct is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/code-of-conduct/>.

Whistleblowing

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 Fraud and Whistleblower Policy that is designed to support and encourage staff to report in good faith matters such as:

- 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;
- 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.

Similar to the Code of Conduct, breaches or material incidents reported under the Fraud and Whistleblower Policy are reported during BRC meetings. A copy of BSP's Fraud and Whistleblower Policy is available on its website at <https://www.bsp.com.pg/investor-relations/corporate-governance/policies/fraud-whistleblower-policy/>.

Anti-Bribery and Corruption

BSP recognizes that acts of bribery and corruption are detrimental to the growth and prosperity of our business, individuals and organisations we affiliate with and the communities that we operate in. As a business, BSP is very mindful of the consequences of bribery and corruption, which may result in both financial and reputational loss alongside imposition of regulatory sanctions. BSP's Anti-Bribery and Anti-Corruption Policy reinforces the zero tolerance approach by the organisation against bribery and corruption.

Compliance with the policy by management and staff remains closely monitored with regular updates on breaches or material incidents reported under the policy provided to management and the BRC.

A copy of the Anti-Bribery and Anti-Corruption Policy is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/policies/anti-bribery-and-anti-corruption-policy/>.

Restrictions on trading

Directors and management of the Group are subject to trading restrictions set out in the Papua New Guinea *Capital Market Act 2015* for buying, selling or subscribing for securities in the Group if they are in possession of inside information. This includes information, which is not generally available, and, if it were generally available, a reasonable person would expect to have a material effect on the price or value of the securities of the Group.

Further, Directors and management may only trade in the securities of the Group, subject to the foregoing insider trading restrictions, during each of the trading windows specified in BSP's Securities Dealing Policy. Senior Management is required to request approval from the Group Chief Executive Officer ahead of trading, who in turn will keep the Chairman of the Board apprised of management activities. Directors are also subject to similar restrictions and must seek approval from the Chairman prior to conducting any trades. Other actions such as hedging, margin lending and speculative short term trading are also prohibited under the policy.

A copy of the Securities Dealing Policy is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/policies/securities-dealing-policy/>.

MARKET DISCLOSURES

The Group's continuous disclosure regime is fundamental to the rights of Shareholders to receive information concerning their securities. An important aspect of the Group's shareholder communication policy is to comply with the continuous disclosure regime and to implement a best practice disclosure policy. BSP has adopted a Continuous Disclosure Policy, which is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/policies/continuous-disclosure-policy/>.

The Board has delegated the responsibility of reviewing and approving market announcements to the DC. Following approval by the DC, market announcements are issued to the respective exchanges for release to market. Ordinarily, these announcements would be reviewed and approved by the Board ahead of issue and release. However in instances where an urgent or unexpected matter arises that warrants immediate disclosure, the DC reviews and approves for release with other Board members notified accordingly following release. Formal ratification of DC approval takes place at the next Board meeting.

After confirmation of release to the market, all market announcements are immediately posted to BSP's website. As at 31 December 2021, all market announcements made by BSP since 2018 are currently available on the website. Where BSP provides financial results' briefings to analysts or the media, these briefings are published on its website as soon as possible after the event. In any event, no material information, which has not been previously released to the market, is covered in such briefings. The material upon which the briefing is based (such as slides or presentations) is released to the market prior to the briefing.

The Group'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 Continuous Disclosure Policy Securities Dealing Policy.

STAKEHOLDER ENGAGEMENT

BSP commits to dealing fairly, transparently and openly with both current and prospective Shareholders using available channels and technologies to communicate widely and promptly. Information about the Company including its overview, history, board and management and corporate governance documents are available on its website at <https://www.bsp.com.pg/about-us/> while documents related to corporate governance including all of BSP's charters and policies can be found at <https://www.bsp.com.pg/investor-relations/corporate-governance/>.

BSP commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries. Our Shareholder Communications Policy focuses on compliance with disclosure obligations whilst aspiring to be at the forefront of best practice in disclosure. Our approach for communicating with Shareholders is to communicate concisely and accurately:

- the BSP strategy;
- how we implement that strategy; and
- the financial results consequent upon our strategy and its implementation.

To facilitate effective communication between BSP and its Shareholders, potential investors, analysts and other financial markets participants, BSP conducts periodic market briefings which including half and full year results announcements and attendance at conferences. Stakeholders are given access to BSP Directors and Senior Management at these events, and the presentation material provided at these events are released as announcements to the market prior to commencement and subsequently uploaded to BSP's website.

A copy of BSP'S Shareholder Communications Policy is available on BSP's website at <https://www.bsp.com.pg/investor-relations/corporate-governance/policies/shareholder-communications-policy/>.

The Company's Annual General Meeting (AGM) is another shareholder forum used to communicate financial performance and strategies, in line with disclosure policies. BSP gives great consideration to its shareholders and hosts its AGM at a central location that is accessible and can cater for large audiences. Due to the covid-19 pandemic AGMs for the past 2 years were delivered virtually with technology available. Despite this, efforts were made to ensure shareholders could participate, and a meeting guide with sufficient information on how to join, vote and participate accompanied the notice of meeting.

BSP does not comply with ASX Recommendation 6.4 because to do so would be contrary to the requirements of the PNG *Companies Act 1997*. The PNG Companies Act provides, in summary as follows:

- a) Section 105 and Schedule 2 of the Companies Act requires voting at a meeting of shareholders to be by voice or show of hands (as determined by the Chairman), unless a poll is demanded;
- b) A poll may be determined at a meeting of shareholders by not less than five shareholders entitled to vote at the meeting or by shareholders representing not less than 10% of the total voting rights of all shareholders entitled to vote at the meeting.

It is noted that the thresholds at which shareholders may demand a poll are low and provide assurance to shareholders wishing to invoke the “one security one vote” principle and wishing to have substantial resolutions decided by a poll.

BSP gives Shareholders the option to send and receive communications from BSP and its share registries electronically.