



**BOARD RISK and
COMPLIANCE COMMITTEE
CHARTER**

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BANK OF SOUTH PACIFIC LIMITED

BOARD RISK AND COMPLIANCE COMMITTEE CHARTER

POLICY STATEMENT

It is the policy of the Bank of South Pacific Limited and its subsidiaries (“BSP” or the “Group”) to maintain and fully support the Board Risk and Compliance Committee as an independent appraisal function to:

- Review and monitor all of the risk management activities in all of the operational areas of the BSP Group.
- Review whether such activities/ operations are in compliance with overall BSP policies, procedures and properly approved plans and objectives plus monitor the effectiveness of risk controls that are in place.
- Review the Group’s compliance with key prudential, statutory, monetary authority, and other regulatory body requirements.

1. Overall Purpose / Objectives

The Board Risk and Compliance Committee ("BRCC" or “the committee”) of Bank of South Pacific Limited ("BSP or the Group") will assist the directors in discharging the Board’s responsibilities of oversight and governance in relation to the implementation of the BSP’s risk management frameworks & for the management of the BSP’s compliance obligations.

The responsibilities of the BRCC are to review and monitor the following:

- the principles, policies, strategies, processes and control frameworks for the management of risk (i.e. Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Reputational Risk and other risks);
- oversee the risk profile, the Risk Management Strategy and approve BSP’s Group Risk Appetite Statement;
- 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.

In performing its duties, the BRCC will maintain effective working relationships with the Board, senior executive management, and risk management functions. To perform his or her role effectively, each committee member will obtain an understanding of the

detailed responsibilities of committee membership as well as the Group's business, operations, and risks (including banking, insurance and stockbroking risks).

2. Authority

The Committee reports to the Board.

The Board authorises the BRCC, within the scope of its responsibilities and charter, to:

- Seek any information or explanation it requires from external parties and/ or any employee (and all employees are directed to co-operate with any request made by the BRCC).
- Obtain outside legal or other professional advice as necessary to assist the committee.
- Ensure the attendance of BSP officers at scheduled committee meetings as deemed appropriate.

Access

The Committee has free and unrestricted access to all records and staff of the BSP Group and has the right to seek explanations and additional information from management and auditors.

3. Organisation

Membership

1. Members of the Committee will be formed from amongst the non-executive Directors, excluding the Chairman. The Committee shall have a minimum of three non-executive Directors, the majority of whom must be independent. The Board may appoint to the Committee additional non-executive non-Directors with specialised skills to assist the Committee.
2. Membership will be reviewed annually by the BSP Board.
3. Each member must be capable of making a valuable contribution to the committee. Each member must have a working familiarity with risk management practices.
4. The Chairman of the Committee will be an appropriately experienced independent non-executive Director, other than the Chairman of the Group Board (or other Board Committees) and will be appointed by the Group Board.
5. A quorum for any meeting must be a minimum of two (2) members.

6. The secretary of the Committee shall be a representative from the BSP Group Company Secretariat or such other person as nominated by the Committee.
7. The effect of ceasing to be a director of the Board is the automatic termination of appointment as a member of the Committee, unless otherwise approved by the Board.
8. The Audit Committee Chair will be a member of the Risk Committee and vice versa to ensure relevant information flows between these committees

Meetings and Attendance

9. Routine Committee meetings shall be attended by Chief Executive Officer/ Managing Director, Group Chief Risk Officer, Group Chief Financial Officer, Group Chief Operations Officer, Chief Credit Officer (PNG), General Manager, Treasury, Head of Group Operational Risk, Head of Compliance and AML, Head of Information Security, Head of Information Technology, Chief Financial Officer (PNG), Head of Group Internal Audit, and Manager Credit Inspection. Any other company directors, members of management, risk management units, internal audit, and/or parties external to the BSP may be invited to attend any meeting of the committee or part thereof.
10. There shall be a minimum of 4 meetings per annum, with the schedules for such meetings established in conjunction with the establishment of Board Meeting schedules.
11. Special meetings may be convened as required. Risk management units, internal audit, and or the external auditors may request the committee Chairman to convene a meeting if they consider that it is necessary.
12. Should the Committee Chair be absent from the meeting, the members of the committee present at the meeting have the authority to choose one of their members to chair that particular meeting.
13. The Agenda and supporting papers will be delivered to the committee members in advance of the meeting. At the discretion of the chair of the meeting, additional papers may be tabled for discussion at the meeting.
14. The Agenda will normally comprise reports/ presentations by Operational Risk & Compliance, Credit Risk, Treasury & Market Risk, Information Security, Credit Inspection, and external auditors.

15. With respect to risk governance, receive reports from major subsidiary Operational Risk Committees, on a basis as the Committee determines within the BSP Group and respond to issues raised as appropriate.
16. The proceedings of all meetings will be minuted and after adoption by the Committee, tabled at the subsequent BRCC Meeting. The committee through its Chairman, will report to the Board, at the earliest possible Board meeting after each committee meeting, any matters that should be brought to the attention of the Board and any recommendations requiring Board approval and/or action.

Voting

Any matters requiring decision generally will be decided by consensus, or if a consensus is not achievable, then by a majority of votes of members present.

Conflicts of Interest

Committee members and invitees will be invited to disclose conflicts of interest at the commencement of each meeting. Directors are required to disclose their interest to the Company Secretary, in accordance with the law and BSP Group's principals of corporate governance, who will maintain a register for all disclosures. Where members or invitees are deemed to have a real or perceived conflict of interest, they will be excused from committee discussions on the issue where a conflict exists.

4. Roles and Responsibilities

The Committee will:

Risk Management

1. Review the BSP group enterprise risk management framework for identifying, monitoring and managing significant business risks, credit risks, market risks, liquidity risks, operational risks, financial risks, information security risks and reputational risks across the BSP Group and consider whether the enterprise risk management framework and internal controls effectively identify areas of potential material risk. This includes Compliance Risk and Legal Risk, as well.
2. Provide regular reports and recommendations to the Board on the risk management activities of the BSP, especially relating to risk issues that are outside of the authority of the BSP's Executive Committee, Group Asset & Liability Committee and/or Credit Committee to approve.
3. The BSP's Board is responsible for taking appropriate action and monitoring Risks rated HIGH. All risks that fall into this category are to be immediately escalated to the Board, through the Board Risk and Compliance Committee, for

deliberation. The BRCC will investigate the risk event and provide a report with its recommendations to the Board. Risks within these parameters could result in a loss to the BSP of K3,000,000 or more, in a single loss event.

4. Review and approve limits and conditions that apply to credit risk approval authority delegated to the Group Chief Risk Officer by the Board.
5. Gain an understanding of the current areas of highest business and financial risk to the BSP, and the systems and controls established by management in terms of delegations approved by the Board to monitor and manage those risks. Half yearly review of the BSP's top risks taken from the SBU Risk Registers/ Dashboards.
6. Review and recommend the Group Risk Appetite Statement to the Board for approval.
7. Make recommendations to the Board concerning the Group's current and future risk appetite, risk management strategy and particular risks or risk management practices;
8. Oversight of stress testing of the Group risk portfolio including both scenario analysis and sensitivity analysis
9. Review reports from management concerning Anti Money Laundering/ Counter Terrorism Financing and Sanction external obligations and internal policies, in order to monitor them and, if thought fit, approve them;
10. Review the performance, objectivity, independence and effectiveness of the risk management functions.
11. Meet separately with the risk management functions to discuss any matters that the committee believe should be discussed privately.
12. Ensure that significant findings and recommendations made by the risk management committees are received and discussed on a timely basis.
13. Ensure that management responds to recommendations by the risk management committees, and in a timely manner.

Credit Inspection

14. Review and approve the annual Credit Inspection Plan to ensure it covers all material credit & counterparty risks.
15. Review the scope of work activities of the Credit Inspection function and ensure no unjustified restrictions or limitations are made.

16. Review the qualifications of Credit Inspection personnel and concur in the appointment, replacement, reassignment or dismissal of the Manager, Credit Inspection.
17. Review the performance, objectivity, independence and effectiveness of the Credit Inspection function.
18. Meet separately with the Credit Inspectors to discuss any matters that the committee or the Credit Inspectors believe should be discussed privately.
19. Ensure that significant findings and recommendations made by the Credit Inspectors are received and discussed on a timely basis.
20. Ensure that management responds to recommendations by the Credit Inspectors, and in a timely manner.

Internal Audit

21. Internal Audit is responsible for reviewing the internal risk and control framework (including the compliance framework) and to report upon the effectiveness of these frameworks to the Committee

External Audit

22. Meet separately with the external auditors to discuss any matters that the committee or the external auditors believe should be discussed privately.
23. Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.
24. Ensure that management responds to recommendations by the external auditors and in a timely manner.

Compliance with Laws and Regulations

25. Review the effectiveness of the system for monitoring compliance with all legal, prudential and regulatory obligations, the constitution of the BSP and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
26. Obtain regular updates from management, the Compliance & AML Unit and BSP's Head of Legal Services regarding compliance with significant statutory requirements.

27. Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
28. Review the findings of any examinations by regulatory agencies.
29. The Chairman of the BRCC shall have the right to approach a regulator directly in the event of a prudential issue with such regulator arising.

Reporting Responsibilities

30. Regularly update the Board about committee activities and make appropriate recommendations.
31. Ensure the Board is aware of matters in a timely manner, which may significantly impact the financial condition or affairs of the business.

Other Responsibilities

32. Perform other oversight functions as delegated and or requested by the Board.
33. If necessary, institute special investigations and, if appropriate, hire special counsellor experts to assist.
34. Evaluate the committee's own performance on a regular basis.

AMENDMENTS TO THIS CHARTER

The Chairman of the Board Risk and Compliance Committee shall be responsible for reviewing this document on a two year basis to keep it up to date and consistent with the Committee's authority, objectives and responsibility and recommend any proposed amendments to the Board for approval.
