

Bank of South Pacific
Limited
Independent Board
Governance &
Performance Review

May 2016



1. Introduction

Introduction

The characteristics of a solid board are:

- a strong Chair that manages the CEO and runs the board meetings effectively and efficiently;
- efficient board processes and robust corporate governance;
- representation of all shareholder interests with integrity;
- the appropriate balance of skills and knowledge; and
- focus on strategy development and implementation

Introduction

Highly Effective Boards have the characteristics of a solid board plus:

- culture of continuous improvement in all areas of board performance;
- robust challenge of management assumptions;
- ongoing re-evaluation of strategy in a constantly changing environment;
- strong and continual focus on management's implementation of strategic initiatives, challenging where necessary; and
- succession plan for the chair, committee chairs, directors and key executives.

Introduction

The Independent Board Governance and Performance Review (IBGRP) process included:

- one-on-one interviews with select directors;
- report to the Board on strengths, areas for improvement and recommendations on how to address those areas for improvement; and
- report to shareholders on the results of the review

Introduction

Methodology

The IBGPR examined and evaluated the following areas:

- governance;
- board process;
- board dynamics;
- BARCC and RNC performance;
- strategy creation and implementation; and
- succession planning

Introduction

- Beginning in 2010 the BSP Board has commissioned Strategic Momentum Group (SMG) to provide the BSP Board with an annual Independent Board Governance & Performance Review (IBGPR).
- The objectives of the IBGPRs are:
 - for the Board to adopt a culture of continuous improvement;
 - have an independent assessment of the gaps between the performance of the BSP Board and best practice; and
 - have an independent expert provide recommendations on how to bridge the gaps

2016 IBGPR Results

Update Since 2016 AGM

- Westpac South Pacific Island Business acquisition substantially completed
- Investigation of other growth opportunities;
- Excellent 2015 financial result and;
- Impending implementation of new Prudential Standard BPS 300.

BGPR 2016 Report

Show Year-by-Year progress in the areas of board governance and performance

- Excellent = Best Practice
 - Anything less than excellent, I'll discuss what's needed to become best practice

Board Process

Board Pack

2010 Unsatisfactory

2014 Excellent

2015 Excellent

2016 Excellent

Why:

- excellent CEO Report;
- more focus on strategy

Continues to be a strength of the Board

Board Process (cont.)

Board and Committee Minutes

2010 Unsatisfactory

2014 Good

2015 Good

2016 Good

- Why
 - Accuracy
 - committee minutes are distributed on time
- Needed to become excellent -
 - draft board minutes distributed to the directors within 3 business days

Board Process (cont.)

Board Meetings

2010 Average

2014 Good

2015 Very Good

2016 Very Good

- Why

- much more focus on strategy

- Needed to become excellent

- more director participation in board discussions

Board Dynamics

2010 Good

2014 Very Good

2015 Excellent

2016 Excellent

– Why

– respectful; professional; good collaboration; manages conflict

– Next Step to keep Excellent rating

– induction of new directors

– understanding of director's cognitive strengths and blind spots more director participation in board discussions

BARCC

2010 Satisfactory

2013 Satisfactory

2015 Very Good

2016 Excellent

– Why

- increase focus on non-financial risks;
- internal auditor reports to the committee chair

RNC

2011 Unsatisfactory

2013 Unsatisfactory

2015 Good

2016 Good

- Needed to become Excellent
 - succession plan for directors/Chair/committee chairs
 - pro-active in filling key vacancies

Relationship with the Executive

2010 Average

2014 Excellent

2015 Excellent

2016 Excellent

– Why

- mutual respect
- free flow of information
- transparency

continues to be a strength of the board

Director Skills

2010 Below Average

2014 Good

2015 Good

2016 Good

- Needed to become excellent -
 - internal director mentoring program
 - specialised technical workshops
 - complete the A.I.C.D. International Directors Course

Strategy

2010 Below Average

2014 Good

2015 Very Good

2016 Excellent

– Why

- Board focus on strategy has improved significantly
- strategy workshop with executives annually
- robust oversight of strategy implementation

This critical area has become a strength of the board

Governance

2010 Below Average

2014 Good

2015 Very Good

2016 Good

– Why?

- CEO has a clear and transparent Succession Plan for key executives;
- board has adopted the new Prudential Standards;
- BPS300 on Corporate Governance.

– Needed to become excellent

- succession plan for directors/chair/committee chairs

Summary

Comparison of 2010, 2014, 2015 & 2016

<i>ITEM</i>	<i>2010</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
<i>BOARD PACK</i>	<i>UNSATISFACTORY</i>	<i>EXCELLENT</i>	<i>EXCELLENT</i>	<i>EXCELLENT</i>
<i>MINUTES</i>	<i>UNSATISFACTORY</i>	<i>GOOD</i>	<i>GOOD</i>	<i>GOOD</i>
<i>BOARD MEETINGS</i>	<i>AVERAGE</i>	<i>GOOD</i>	<i>VERY GOOD</i>	<i>VERY GOOD</i>
<i>BOARD DYNAMICS</i>	<i>GOOD</i>	<i>VERY GOOD</i>	<i>EXCELLENT</i>	<i>EXCELLENT</i>
<i>BARCC</i>	<i>SATISFACTORY</i>	<i>SATISFACTORY (2013)</i>	<i>VERY GOOD</i>	<i>EXCELLENT</i>
<i>RNC</i>	<i>UNSATISFACTORY</i>	<i>UNSATISFACTORY (2013)</i>	<i>GOOD</i>	<i>GOOD</i>
<i>RELATIONSHIP WITH EXECUTIVE</i>	<i>AVERAGE</i>	<i>EXCELLENT</i>	<i>EXCELLENT</i>	<i>EXCELLENT</i>
<i>DIRECTOR SKILLS</i>	<i>BELOW AVERAGE</i>	<i>GOOD</i>	<i>GOOD</i>	<i>GOOD</i>
<i>STRATEGY</i>	<i>BELOW AVERAGE</i>	<i>GOOD</i>	<i>VERY GOOD</i>	<i>EXCELLENT</i>
<i>GOVERNANCE</i>	<i>BELOW AVERAGE</i>	<i>GOOD</i>	<i>VERY GOOD</i>	<i>GOOD</i>

5. Conclusions



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