



BOARD AUDIT RISK and COMPLIANCE COMMITTEE CHARTER

VERSION 7

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BANK OF SOUTH PACIFIC LIMITED BOARD AUDIT RISK AND COMPLIANCE COMMITTEE CHARTER

POLICY STATEMENT

It is the policy of the Bank of South Pacific Limited to maintain and fully support the Board Audit Risk and Compliance Committee as an independent appraisal function to:

- Review and monitor all of the audit and risk management activities and operations of all areas of the Bank and its subsidiary company, BSP Capital Ltd ('the bank').
- Review whether such activities /operations are in compliance with overall Bank policies, procedures and properly approved plans and objectives plus monitor the effectiveness of internal controls and effectiveness of risk controls that are in place.
- Review and monitor the bank's compliance with key prudential, statutory, monetary authority, and other regulatory body requirements.
- Overview the functions and processes of loss control in the Bank.

1. Overall Purpose / Objectives

The Board Audit Risk and Compliance Committee ("BARCC" or "the committee") of Bank of South Pacific Limited ("BSP or the bank") will assist the bank's Board in fulfilling its oversight responsibilities.

"Bank of South Pacific Ltd" has the meaning of all of its PNG and overseas branches/ business units, as well as its subsidiary company, BSP Capital Ltd.

The responsibilities of the BARCC are to review and monitor the following processes:

- Integrity of the financial statements and the financial reporting and audit process,
- external auditor's qualifications, performance and independence,
- performance of the internal audit function of the Bank,
- the systems of internal control and management of all risks,
- the systems for ensuring operational efficiency and cost control,

- the systems for approval and monitoring of expenditure including capital expenditure,
- the processes for monitoring compliance with laws and regulations (both in PNG and overseas) and the implementation of Board decisions by management.
- implementation of Board decisions by management,

and making recommendations to the Board for the: -

- appointment of the external auditor,
- annual internal audit plan and its ongoing review.

In performing its duties, the BARCC will maintain effective working relationships with the Board, senior management, and the internal and external auditors of its banking and stockbroking operations. 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 Bank's business, operations, and risks (both banking and stockbroking).

2. Authority

The Board authorises the BARCC, within the scope of its responsibilities, to:

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

3. Organisation

Membership

1. The Committee will comprise of three non-executive Directors, majority of whom shall be independent, duly appointed by the BSP Board.
2. Membership will be reviewed annually by the BSP Board.
3. Each member should be capable of making a valuable contribution to the committee.
4. The Chairman of the Committee will be one of the independent Directors, other than the Chairman of the Board.

5. A quorum for any meeting will be two (2) members.
6. The secretary of the Committee shall be the Corporate Secretary or such other person as nominated by the Committee.

Attendance at Meetings

7. Routine Committee meetings shall be attended by Manager, Audit and Risk, General Manager, Credit and Risk and Chief Financial Officer. Other members of Audit and Risk may attend routine committee meetings to present their audit/ risk reports or as observers.
8. External auditors shall be invited to make presentations to the Committee as appropriate, and this will generally be presentations relating to their annual audit and half yearly review.
9. There shall be a minimum of 6 meetings per annum, with the schedules for such meetings established in conjunction with the establishment of Board Meeting schedules.
10. Special meetings may be convened as required. Internal audit and or the external auditors may request the committee Chairman to convene a meeting if they consider that it is necessary.
11. The proceedings of all meetings will be minuted and after adoption by the Committee, tabled at the subsequent Board Meeting.

4. Roles and Responsibilities

The Committee will:

Internal Control

1. Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal controls (policies and procedures) and ensuring that all employees have an understanding of their roles and responsibilities.
2. Monitoring that management is regularly reviewing its internal controls and revising Policies and Procedures where necessary. Half yearly review by way of the Business Unit's Responsibility Statements of Internal Controls.
3. Consider how management is held to account for the security of fixed assets, including computer systems and applications, and the contingency plans for

processing financial information in the event of a systems breakdown. Monitoring of the annual review of the bank's Business Continuity Plans.

4. Gain an understanding of whether internal control recommendations made by internal and or external auditors have been implemented by management. Reports to be provided to each committee meeting by internal audit

Risk Management

5. Provide regular reports and recommendations to the Board on the risk management activities of the Bank, especially relating to risk issues that are outside of the authority of the Bank's Executive Committee to approve.
6. The Bank's Board is responsible for taking appropriate action and monitoring Risks rated HIGH with a value of 20 and above. All risks that fall into this category are to be immediately escalated to the Board, through the Board Audit Risk and Compliance Committee, for deliberation. The BARCC 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 Bank of K1,000,000 or more, in a single loss event.
7. Gain an understanding of the current areas of highest business and financial risk to the Bank, 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 bank's top 20 risks taken from the SBU Risk Registers.

Financial Reporting

a) *General*

8. Consider with the internal and external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues and review management risk reduction policies and practices implemented as a response to individual instances detected.
9. Review significant accounting and reporting issues, including professional and regulatory pronouncements, and understand their impact on the financial statements.
10. Inquire of management and the internal and external auditors about significant risks and exposures and the plans to minimise such risks.
11. Review any legal matters, which could significantly impact the financial statements.

b) *Annual Financial Statements*

12. Review the annual financial statements and determine whether they are complete and consistent with the information known to committee members and assess whether the financial statements reflect appropriate accounting principles.
13. Pay particular attention to complex and/or unusual transactions.
14. Focus on judgmental areas, for example those involving valuation of assets and liabilities; provisions; litigation reserves; and other commitments and contingencies.
15. Meet with management and the external auditors to review the financial statements and the results of the audit.
16. Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the bank and its operations.
17. Satisfy itself as to the accuracy of the financial accounts, reconcile to management accounts presented to the committee, and sign off on the financial accounts of the bank before they are submitted to the Board.

c) *Preliminary Announcements, Interim Financial Statements, Briefings and Press Releases*

18. Be briefed on how management develops preliminary announcements, interim financial information and public or regulatory authority briefings or press releases; the extent of internal audit involvement; and the extent to which the external auditors review such information.
19. Assess the fairness of the preliminary and interim statements and disclosures; obtain explanations from management and internal and external auditors on whether:
 - actual financial results for the interim period varied significantly from budgeted or projected results.
 - changes in financial ratios and relationships in the interim financial statements are consistent with changes in the bank's operations and financing practices.
 - generally accepted accounting principles have been consistently applied.
 - there are any actual or proposed changes in accounting or financial reporting practices.

- there are any significant or unusual events or transactions.
- the bank's financial and operating controls are functioning effectively.
- the preliminary announcements and interim financial statements contain adequate and appropriate disclosures.

Internal Audit

20. Review the scope of work activities of the internal audit function and ensure no unjustified restrictions or limitations are made.
21. Review the qualifications of internal audit personnel and concur in the appointment, replacement, reassignment or dismissal of the internal auditors.
22. Review the effectiveness of the internal audit function.
23. Meet separately with the internal auditors to discuss any matters that the committee or the internal auditors believe should be discussed privately.
24. Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis.
25. Ensure that management responds to recommendations by the internal auditors.

External Audit

26. Ensure the timely calling of tenders for the provision of external auditing services from appropriately qualified companies in accordance with Board policy.
27. Reviews tender submissions and makes recommendation for appointment to the Board for subsequent recommendation to shareholders.
28. Review the external auditor's proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope.
29. Review annually the performance of external auditors and make recommendation to the Board regarding their continuation during their term of appointment, which should be in line with the Bank of Papua New Guinea Prudential Standard No. 7/2005 – External Auditors, while ensuring their independence and the independence of financial service providers are in line with Board policy.
30. Meet separately with the external auditors to discuss any matters that the committee or the external auditors believe should be discussed privately.

31. Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.
32. Ensure that management responds to recommendations by the external auditors in a timely manner.
33. Ensure the duly appointed external audit firm is not engaged by the Bank to provide specialist consultancy services relating to financial, strategic and/ or taxation matters.
34. Ensure that internal audit meets with the external auditors half yearly, to review the scope and findings of internal audit's annual audit plan, and the extent of the external audit plan, having regards to internal audit's findings.

Compliance with Laws and Regulations

35. Review the effectiveness of the system for monitoring compliance with all legal and regulatory obligations, the constitution of the bank and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
36. Obtain regular updates from management and bank's legal counsel regarding compliance matters.
37. Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
38. Review the findings of any examinations by regulatory agencies.
39. The Chairman of the BARCC shall have the right to approach a regulator directly in the event of a prudential issue with such regulator arising.

Operational Efficiency and Cost Control

40. Ensure that appropriate processes and authorisation limits are established and implemented by management covering all orders, contracts, payments and any other commitments entered into by the Bank.
41. Ensure that all contracts with a value greater than any limit set by the Board are tendered for, that appropriate tendering procedures have been followed by management, and that Board approval has been received before the contracts, which exceed any limit set by the Board, have been signed.
42. Ensure the appropriateness of management procedures for the control of expenditure, including the preparation of annual budgets approved by the Board,

timely production of management accounts showing actual performance against budget, and the follow up of significant variances against budget.

43. Ensure the appropriateness of management procedures for the development of capital expenditure budgets, Board approval processes, expenditure monitoring, cost over runs reporting and justification outcomes (if appropriate).

Reporting Responsibilities

44. Regularly update the Board about committee activities and make appropriate recommendations.
45. 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

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

AMENDMENTS TO THIS CHARTER

The Chairman of the Board Audit Risk and Compliance Committee shall be responsible for reviewing this document on an annual basis and recommending any proposed amendments to the Board for approval.
