



# **CORPORATE GOVERNANCE PRINCIPLES**

**VERSION 6**

# TABLE OF CONTENTS

THE ROLE OF SHAREHOLDERS.....	3
COMMUNICATION WITH SHAREHOLDERS.....	3
THE BOARD OF DIRECTORS .....	4
THE CHAIRMAN OF THE BOARD .....	4
COMPOSITION OF THE BOARD .....	5
BOARD PERFORMANCE REVIEW .....	6
BOARD'S RELATIONSHIP WITH MANAGEMENT .....	6
BOARD COMMITTEES .....	6
AUDIT RISK and COMPLIANCE COMMITTEE.....	7
REMUNERATION and NOMINATION COMMITTEE .....	7
BOARD AND BOARD COMMITTEE MEETINGS .....	8
DISCLOSURES BY DIRECTORS.....	8
PURCHASE/SALE OF SHARES BY DIRECTORS .....	9
PURCHASE AND SALE OF SHARES BY MANAGEMENT .....	9
INDEPENDENT ADVICE TO DIRECTORS .....	10
DIRECTORS' FEES .....	10
EXTERNAL AUDITOR.....	10
INTERNAL AUDIT.....	11
COMPLIANCE .....	12
RISK MANAGEMENT .....	12
ETHICAL BEHAVIOUR.....	14
MARKET DISCLOSURE.....	16
APPENDIX A.....	17

# **BANK OF SOUTH PACIFIC LIMITED**

## **CORPORATE GOVERNANCE PRINCIPLES**

This statement outlines the Corporate Governance Principles adopted by the Board. In the interest of transparency, the Board has stipulated that these principles (as amended from time to time) be reproduced in the Company's Annual Report for the benefit of Shareholders.

### **THE ROLE OF SHAREHOLDERS**

The shareholders of the Company are responsible for voting on the election of Directors at the Annual General Meeting in accordance with the Constitution. All Directors, apart from Executive Directors, are subject to re-election by rotation no later than every three years. The Annual General Meeting also provides shareholders with the opportunity to express their views on matters concerning the Company and to vote on other items of business for resolution by shareholders.

### **COMMUNICATION WITH SHAREHOLDERS**

Bank South Pacific's Code of Conduct requires its employees to act with high standards of integrity, transparency, accountability and equity in all aspects of their employment with the Bank.

With this in mind, Bank South Pacific commits to dealing fairly, transparently and openly with both current and prospective shareholders using available channels and technologies to communicate widely and promptly. The Bank commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries.

Our shareholder communication policy is built around compliance with disclosure obligations and aspiring to be at the forefront of best practice in disclosure. Our framework for communicating with shareholders is to concisely and accurately communicate:

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

The Bank uses shareholder forums such as the Annual General Meeting, and group meetings with larger shareholders, within disclosure policies, to communicate financial performance and strategies.

## **THE BOARD OF DIRECTORS**

The Board, with the support of its Committees, is responsible to the shareholders for the overall corporate governance and performance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of those goals with a view to optimising Company performance and increasing shareholder value.

Key functions of the board include:

- overall strategy of the company, including operating, financing, dividend, and risk management
- appointing the Managing Director and setting an appropriate remuneration package
- 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 a strategic plan, and an annual budget, for the Company and monitoring results on a regular basis
- ensuring that appropriate risk management systems are in place, and are operating to protect the Company's financial position and assets
- ensuring that the Company complies with the law and relevant regulations, and conforms with the highest standards of financial and ethical behaviour
- acquisition and disposals material to the business
- establishing authority levels
- Directors' remuneration via the Remuneration & Nomination Committee
- Selecting, with the assistance of the Audit, Risk and Compliance Committee, and recommending to shareholders, the appointment of external auditors
- approving financial statements

## ***THE CHAIRMAN OF THE BOARD***

The Chairman is elected by the Directors. The Chairman's role includes: -

- ensuring all new Board members participate in an appropriate induction program and are fully aware of their duties and responsibilities
- providing effective leadership on the Company'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
- reviewing the performance of non-executive directors

The Chairman is not permitted to occupy the role of Managing Director.

## **COMPOSITION OF THE BOARD**

The maximum number of Directors, as prescribed by the Constitution approved by shareholders, is 10. The Board is currently comprised of 9 non-executive Directors, including the Chairman, and one executive Director, the Managing Director. A majority of the non-executive Directors must be independent. The Board tests independence of its members using the following criteria:

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- the Director is not an executive of the bank
- the Director is not a substantial shareholder of the bank or otherwise associated directly with a substantial shareholder of the bank (substantial shareholder is currently defined as more than 15%)
- the Director has not within the last 3 years been a material consultant, or a principal of a material professional adviser, to the Bank or a group member, or an employee materially associated with the service provided
- the Director is not a material supplier to, or customer of, the Bank or other group member or a material consultant to the bank or other group member or an employee materially associated with the material supplier or customer
- the Director has no material contractual relationship with the Bank or other group member other than as a Director of the Bank
- the Director is free from any interest and any business or other relationship which could, or could reasonable be perceived to, materially interfere with the Director's ability to act in the best interests of the bank

Independent Board members are required to review their independence annually; materiality will be assessed on a case-by-case basis.

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 and consequently gives careful consideration to setting criteria for new appointments it may recommend to shareholders in accordance with the Company's Constitution. It has delegated the initial screening process involved to its Remuneration and Nomination Committee which, in accordance with its Charter, may seek independent advice on possible new candidates for Directorships. All Directors must be satisfied that the best candidate has been selected.

Nominees of the Board and/ or shareholders must meet the "Fit and Proper Person" criteria established by the Bank of Papua New Guinea before they can take their place on the Board. The Board does not accept that any office bearer and/ or employee of an Institutional shareholder; by virtue only of his/her position within that organization, has an automatic right to be appointed to the Board..

On joining the Board new Directors, will be provided with an orientation program.

## **BOARD PERFORMANCE REVIEW**

The Remuneration and Nomination Committee reviews the processes by which the Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment of the Board as a whole to include an assessment of the contribution of each individual Director.

The Board is cognisant of the need to continually identify areas for improvement; to ensure that it meets the highest standards of corporate governance; and for the Board and each Director to make an appropriate contribution to the Company's objective of providing value to all its stakeholders. The performance review is conducted annually, and may involve assistance from external consultants.

## **BOARD'S RELATIONSHIP WITH MANAGEMENT**

The management of the business of the Company is conducted by and under the supervision of the Managing Director, and by those other officers and employees to whom the management function is properly delegated by the Managing Director.

The Board is responsible for:

- defining the limits to management's responsibilities
- approving the corporate objectives for which the Managing Director is responsible.

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 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 Managing Director and the General Managers for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

Non-executive Directors meet on their own periodically to review the performance and management processes of the Company.

## **BOARD COMMITTEES**

To assist in the execution of its responsibilities, the Board has established two Board Committees, comprised of non-executive Directors only. Each committee has a formal Charter approved by the Board.

Committee members are chosen for the skills, experience and other qualities they bring to the

Committee. At the next Board meeting following each Committee meeting, the Board is given a report by the Chairman of the respective Committee and Minutes of the meeting are tabled.

### ***AUDIT RISK and COMPLIANCE COMMITTEE***

The Audit Risk and Compliance Committee is comprised of three Non-Executive Directors, a majority of whom should be independent, and who are duly appointed by the Board. The Chairman of the Audit Risk and Compliance Committee must be one of the independent Directors, other than the Chairman of the Board. Each member should be capable of making a valuable contribution to the Committee and membership is reviewed annually by the BSP Board.

The key responsibilities of this Committee include:

- integrity of the Financial Statements and the financial reporting and audit process
- external auditor's qualifications, performance and independence
- the system of internal control and management of all risks
- the systems for ensuring operational efficiency and cost control
- the systems for approval and monitoring expenditure including capital expenditure
- the processes for monitoring compliance with laws and regulations (both in Papua New Guinea and overseas)
- 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 the course of fulfilling its mandate, the Committee meets with both the internal and external auditors without management present

### ***REMUNERATION and NOMINATION COMMITTEE***

The Remuneration and Nomination Committee comprises three Non-Executive Directors, the majority of whom should be independent, and who are duly appointed by the Board. The Chairman of the Remuneration and Nomination Committee must be one of the independent Directors, other than the Chairman of the Board. Each member should be capable of making a valuable contribution to the Committee, and membership is reviewed annually by the BSP Board.

The Remuneration and Nomination Committee has been established to assist the Board in fulfilling its oversight responsibilities in respect of Board and Senior Executive Management selection, appointment, review and remuneration.

The key responsibilities of this Committee include;

- to oversee the selection and appointment of a Managing Director and recommend an appropriate remuneration and benefits package to the full Board.

- 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.
- determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders.
- ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfil its responsibilities to shareholders while maintaining a world class Corporate Governance regime.
- receive and endorse positions/titles recommended by the Managing Director from time to time as applying to designated Senior Executive Management positions.
- review the procedures in place to ensure that all new Senior Executive appointees are adequately qualified and experienced, and that proper recruitment procedures are followed.
- review and make recommendations to the Board on the appointment to, and terms and conditions of employment for, all Senior Executive Management positions.
- review and approve all termination arrangements for such Senior Executives.
- review transactions between the Company and any of the Directors or relevant Senior Executives.
- review and make recommendations to the Board on employee remuneration and benefits policies and practices generally.
- engage external consultants as and when deemed appropriate to benchmark remuneration packages for Executives and Senior Management.
- review Board performance, tenure, and succession planning.

## **BOARD AND BOARD COMMITTEE MEETINGS**

Scheduled meetings of the Board are held at least every two months and the Board meets on other occasions to deal with matters requiring attention. Meetings of Board Committees are scheduled regularly during the year. The Board has a policy of regularly rotating its meetings between locations where the Company 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 Managing Director, determines meeting agendas. Meetings provide regular opportunities for the Board to assess Bank South Pacific'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.

## **DISCLOSURES BY DIRECTORS**

Prior to appointment a Director Designate is required to provide information to the Board for it to

assess their independence, in terms of the criteria set out earlier on page 5

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.

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 the Company. These arrangements are designed to ensure that the independence and integrity of the Board are maintained.

The Bank of Papua New Guinea sets prudential limits on loans to "associated persons": Bank South Pacific fully conforms with these requirements.

## **PURCHASE/SALE OF SHARES BY DIRECTORS**

The Board encourages non-executive Directors to own shares in the Company to further link their interests with those of all shareholders. Non-executive Directors are not eligible to participate in any employee share ownership scheme.

Directors are subject to Securities Act 1997 restrictions for buying, selling or subscribing for securities in the Company if they are in possession of inside information, i.e. information which is not generally available and, if the information were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities of the company. Directors should discuss proposed share trades with the Chairman of the Board in advance.

Further, Directors may only trade in the securities of the Company, subject to the foregoing insider trading restrictions, during each of the eight weeks following the announcements of half yearly and yearly results, or the date of issue of a prospectus.

In addition, Directors must not trade in any other entity if inside information on such entity comes to the attention of the Director by virtue of holding office as a Director of the Bank.

## **PURCHASE AND SALE OF SHARES BY MANAGEMENT**

Management of the Company is subject to Securities Act 1997 restrictions for buying, selling or subscribing for securities in the Company if they are in possession of inside information, i.e. information which is not generally available and, if the information were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities of the Company.

Further, management may only trade in the securities of the company, subject to the foregoing insider trading restrictions, during each of the eight weeks following the announcements of half yearly and yearly results, or the date of issue of a prospectus. Management should discuss

proposed share trades with the Managing Director in advance, who in turn will keep the Chairman of the Board apprised of management activities.

In addition management must not trade in any other entity if inside information on such entity comes to the attention of management by virtue of holding office as an officer of the Bank.

In the context of this policy management is defined as **per Appendix A.**

## **INDEPENDENT ADVICE TO DIRECTORS**

The Board recognises that in certain circumstances individual Directors may need to seek independent professional advice, at the expense of the Company, 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.

## **DIRECTORS' FEES**

The maximum aggregate amount of fees that can be paid to non-executive Directors is determined by shareholders at annual general meetings of the Company in accordance with the Constitution. Fees are intended to remunerate non-executive Directors for time spent on Board and Board Committee matters, including review and preparation time, meeting attendance, visits to Company operations and travel. The Chairman and Deputy Chairman spend additional time attending to their special responsibilities.

Annual fees are paid to the following, with the actual fees paid each year being disclosed in the Annual Report: -

- Chairman
- Deputy Chairman
- Non-Executive Director
- Board Committee members – per Committee meeting.

## **EXTERNAL AUDITOR**

The Audit Risk and Compliance Committee is responsible for making recommendations to the Board on appointment and terms of engagement of Bank South Pacific's external auditor. The selection is made from appropriately qualified companies in accordance with Board policy. The Board submits the name of the recommended appointee to shareholders for ratification. In line with the policy of the Bank of Papua New Guinea, the signing partner in the external audit firm must be rotated at least every three years.

The Committee reviews annually the performance of the external auditors and makes

recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the Bank of Papua New Guinea'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 auditor to discuss any matters that the Committee or the external auditor believe, should be discussed privately. The external auditor attends meetings of the Audit Risk and Compliance Committee at which the external audit and half yearly review are agenda items.

The Committee ensures that significant findings and recommendations made by the external auditor are received and discussed promptly, and that management responds to recommendations by the external auditor in a timely manner.

The duly appointed external audit firm may not be engaged by the company to provide specialist consultancy services relating to financial, strategic and/ or taxation matters.

The external auditor is invited to the Annual General Meeting of shareholders and is available to answer relevant question from shareholders.

The Bank of Papua New Guinea's Prudential Standards provide for a tri-partite meeting between BPNG, the external auditor, and the Bank, if required.

## **INTERNAL AUDIT**

The Audit Risk and Compliance Committee approves, on the recommendation of management, the appointment of Manager Audit and Risk. The Committee meets regularly with Manager Audit and Risk.

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 Audit and Risk Department. The Audit Risk and Compliance Committee also reviews the qualifications of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors.

An independent review by an expert consultant is made annually as to the effectiveness of the internal audit and risk function. These reports are presented to the Board Audit Risk and Compliance Committee, and the Board.

The Audit Risk and Compliance Committee meets separately with the internal auditors to discuss any matters that the Committee, or the internal auditors, believe should be discussed privately. The Internal Auditor has direct access to the Audit Risk and Compliance Committee and to the full Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on a timely basis.

Internal Audit meets with the external auditor half yearly, to review the scope and findings of internal audit's annual audit plan, and the extent of the external audit plan, having regard to internal audit's findings.

## **COMPLIANCE**

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

The Committee obtains regular updates from management, and the Bank's legal officers, regarding compliance matters, and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

Reviews of the findings of any examinations by regulatory agencies are undertaken and the Chairman of the Board Audit Risk and Compliance Committee has the right to approach a Regulator directly in the event of a prudential issue arising.

## **RISK MANAGEMENT**

The Bank's Risk Management activities are aligned to the achievement of the Bank's Goals and Strategic Focus Plans. The Board, in consultation with the Executive Committee, determines the Bank's appetite and tolerance of, risk. These benchmarks are used in the risk identification, analysis and risk evaluation processes.

Bank South Pacific distinguishes the following major risk areas:

**Credit Risk** - The potential for financial loss where a customer or counterparty fails to meet their financial obligation to the Bank.

**Market Risk** - The potential financial loss arising from the Bank's activities in financial, including foreign exchange, markets. More detailed commentary on financial risk management is provided in the Notes to the published financial accounts.

**Liquidity Risk** – The risk of failure to adequately meet cash demand in the short term without incurring financial losses.

**Interest Rate Risk** - Risk to earnings from movement in interest rates.

**Operational Risk** - The risk of loss resulting from inadequate or failed internal processes, people, or from external events, including legal and compliance risk, and reputation risk.

The Bank's Asset & Liability Committee monitors market risk, interest rate risk, and liquidity risk, and the Credit Committee monitors credit risk. Operational risk is managed at Business Unit level and a risk register system has been implemented across the Bank. The Executive Committee and the Board will overview the highest tier of risks within these risk registers.

The Bank's risk management policy ensures that the bank has in place acceptable limits for the risks identified by the Bank's 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, etc.).
- ensuring that mechanisms for managing (identifying, measuring, and controlling) risk are implemented and maintained to provide for organisation 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 Bank
- creating and maintaining risk management tools, including those requested by the Board, such as policies, procedures, risk registers, controls and independent testing, personnel management and training, and planning
- instituting and reviewing risk measurement techniques that Directors and management may use to establish the Bank's risk tolerance, risk identification approaches, risk supervision or controls, and risk monitoring processes
- developing processes for those areas that present potential risks.
- 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 Bank's risk exposures

The Board accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in the Bank's activities. Therefore responsibility for overall risk management in Bank South Pacific 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 Managing Director, and from the Managing Director to the General Managers. These delegations reflect the Bank's risk appetite, and are cascaded 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 will review these risk limits annually along with an annual review of the Bank's significant risks.

The Board has adopted guidelines, with the help of management analysis, covering the maximum loss exposure the Bank is able and willing to assume. These guidelines are detailed in

the Bank's Risk Policy and Procedures Manual, which has been externally reviewed and approved by the Board.

The Board has also delegated to the Audit Risk and Compliance Committee responsibility for overview of loss control and for overseeing the risk management function.

The Board Audit Risk and Compliance Committee is responsible for providing 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.

The Bank's Executive Committee is responsible for deliberating on risk management issues which are outside of the delegated authorities/ limits of the Credit Committee, Asset and Liability Committee (ALCO) and General Managers, with escalation of these issues to the Audit Risk and Compliance Committee, and the Board itself, in case of need.

## **ETHICAL BEHAVIOUR**

Bank of South Pacific acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking Company business. To this end, the Board has adopted

- A Code of Conduct for both Directors and members of the Executive Management team of the Company and stipulated that each Director, and relevant employees, acknowledge in writing having read, understood and agreed to abide by such a Code, and
- A Corporate Mission, Objectives and Core Values Statement, which establishes principles to guide all employees in the day to day performance of their individual functions within the Company.

To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board further stipulates that senior management periodically undertake an appropriate communication program to reinforce both the Code and Core Value Statements. All Directors are encouraged to maintain membership of an appropriate Directors Association to keep abreast of current trends in Director's duties, responsibilities and corporate governance issues.

Bank South Pacific 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 Bank has adopted a whistle blowing 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 PNG (actions &

decisions against the laws of PNG including non-compliance);

- corruption;
- fraud;
- misrepresentation of facts;
- decisions made & actions taken outside established BSP policies & procedures;
- sexual harassment;
- abuse of Delegated Authorities;
- misuse of company 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 Bank's powers and authority for any unauthorised purpose or personal gain;
- breach of statutory codes of practice.

Directors and Management of the company are subject to Securities Act 1997 restrictions for buying, selling or subscribing for securities in the Company if they are in possession of inside information, i.e. 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 Company.

Further, Directors and management may only trade in the securities of the Company, subject to the foregoing insider trading restrictions, during each of the eight weeks following the announcements of half yearly and yearly results, or the date of issue of a prospectus. Management should discuss proposed share trades with the Managing Director in advance, who in turn will keep the Chairman of the Board apprised of management activities. Directors should discuss proposed share trades with the Chairman in advance.

In addition, Directors and management must not trade in any other entity if inside information on such entity comes to the attention of the Director, or management, by virtue of holding office as, Director and/ or Officer of the Bank.

## **MARKET DISCLOSURE**

The Bank's continuous disclosure regime is fundamental to the rights of shareholders to receive information concerning their securities. The most important aspect of the Bank's shareholder communication policy is to comply with the continuous disclosure regime, and to implement best practice disclosure policy.

Market announcements are posted to Bank South Pacific's website immediately after release to the market. All market announcements made by the Bank since its listing in August 2003 are currently available on the website.

Where BSP provides briefings to analysts or media, these briefings are published on the 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 Bank'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. Bank South Pacific seeks to limit the opportunity for insider trading in its own securities through its continuous disclosure policies and the dealing rules applying to its employees and Directors.

