



AUDIT AND COMPLIANCE COMMITTEE CHARTER

Document Control

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| 3.0 | 9 July 2019 | Revision: Amend the name from "Board Audit Committee to Board Audit and Compliance Committee" and amended responsibilities |
| 4.0 | 6 October 2021 | Revision: Renaming Bank of South Pacific Limited (BSP) to BSP Financial Group Limited (BFL) and Port Moresby Stock Exchange (POMSOX) to Papua New Guinea's National Stock Exchange (PNGX). |

Document Approval

| Name | Signature | Date |
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Policy statement

It is the policy of BSP Financial Group Limited (BFL) to maintain and fully support the Board Audit and Compliance Committee (BACC) as an independent appraisal function to:

- Review and monitor all of the audit (internal and external) activities in all of the operational areas of BFL;
- Review whether such activities or operations are in compliance with overall BFL Group policies, procedures, and properly approved plans and objectives, and monitor the effectiveness of internal controls that are in place; and
- Review BFL Group's compliance with key prudential, statutory, and other regulatory body requirements.

1. Overall purpose and objectives

The BACC will assist the Directors in discharging the Board's responsibilities of oversight and governance in relation to financial and audit matters. The responsibilities of BACC are to review and monitor the following processes:

- The integrity of BFL Group's financial statements and the independent audit thereof;
- The financial reporting principles and policies, controls, and procedures;
- BFL Group's internal audit processes;
- The effectiveness of internal controls;
- 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 Papua New Guinea and in overseas jurisdictions where BFL operates) and Management's implementation of the Board's decisions.

The BACC will maintain effective working relationships with the Board, Senior Executive Management, Internal Auditors, and External Auditors in performing its duties. Each Committee member will obtain an understanding of the detailed responsibilities of Committee membership, as well as, BFL's business and operations to perform his or her role effectively.

2. Authority

The Committee reports to the Board. The Internal and External Auditors report to the Committee and the Board.

The Board authorises BACC, 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 cooperate with any request made by BACC);
- Obtain outside legal or other professional advice as necessary to assist the Committee; and
- Ensure the attendance of BFL employees at scheduled Committee meetings, as deemed appropriate.

Access

The Committee has unrestricted access to all records and employees of BFL (including Internal Auditor and the External Auditor without Management present) and has the right to seek explanations from Management and auditors.

3. Organisation

Membership

1. Committee members are formed from amongst the Non-Executive Directors excluding the Chairman. The Committee shall have a minimum of three (3) Non-Executive Directors, the majority of whom must be independent. The Board may appoint additional Non-Executive Non Directors with specialised skills to assist the Committee.
2. Memberships are reviewed by the Board annually.

Membership (*continued*)

3. Each member must be capable of making a valuable contribution to the Committee. Each member must have a working familiarity with industry regulations, compliance requirements, general finance, and accounting practices.
4. The Chairman of the Committee will be an appropriately experienced independent Non-Executive Director other than the Chairman of BFL and will be appointed by the 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 BFL 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 Risk Committee Chair will be a member of the BACC and vice versa. This is to ensure that relevant information flows between these Committees.

Meetings and attendance

9. Routine Committee meetings are attended by the Group Chief Executive Officer (GCEO), Group Chief Financial Officer (GCFO), Group Chief Risk Officer (GCRO), Group Chief Operations Officer (GCOO), Group General Manager Compliance (GGMC), Group Head of Internal Audit (GHIA), and Head of Compliance and AML. Any other company directors, members of Management, Internal Audit, Operational Risk, and/or parties external to BFL may be invited to attend any meeting of the Committee or part thereof.
10. External Auditors are invited to make presentations to the Committee, as appropriate, and this will generally be presentations relating to their half-yearly review and annual audit.
11. There shall be a minimum of four (4) meetings per annum, with the schedules for such meetings established in conjunction with the Board Meeting schedules.
12. Special meetings may be convened as required. Internal Auditors and/or the External Auditors may request the Committee Chairman to convene a meeting, if necessary;
13. The members of the Committee present at the meeting have the authority to choose one of their members to chair that particular meeting should the Committee Chairman be absent from the meeting.
14. The agenda and supporting papers are delivered to the Committee members in advance of the meeting. Additional papers may be tabled for discussion at the meeting at the discretion of the Chair of the meeting.
15. The agenda will normally comprise reports/presentations by GCFO, GHIA, GGMC, and External Auditors.
16. With respect to Corporate Governance, the Committee shall receive reports from major subsidiary Audit Committees, on a basis as the Committee determines within BFL Group, and respond to issues raised as appropriate.
17. The proceedings of all meetings will be minuted. Minutes of meetings are adopted by the Committee and tabled at the subsequent BACC meeting. The Committee, through its Chairman, will report to the Board any matters that should be brought to the attention of the Board or any recommendations requiring Board approval and/or action at the earliest possible Board meeting after each Committee meeting.

Voting

Any matter requiring decision is generally decided by a consensus. If a consensus is unachievable, decision is made by a majority of votes of members present.

Conflicts of interest

Committee members and invitees are required 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 BFL's principles of Corporate Governance. The Company Secretary will maintain a register for all disclosures. Members or invitees are excused from the Committee discussions on the issue where a conflict exists where members or invitees are deemed to have a real or perceived conflict of interest.

3. Roles and responsibilities

The Committee will:

Fraud

1. Oversee Management's arrangements for the prevention and deterrence of fraud;
2. Ensure that appropriate action is taken against known perpetrators of fraud; and
3. Challenge Management, Internal Auditors, and External Auditors to ensure that BFL has appropriate anti-fraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

Internal controls

4. 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;
5. Monitor that Management is regularly reviewing its internal controls and revising policies and procedures, where necessary;
6. 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; and
7. Gain an understanding of whether internal control recommendations made by Internal Audit and/or External Auditors have been implemented by Managements. Reports are provided by the Internal Audit at each Committee meeting.

Financial reporting

A. General

8. Consider with the Internal Auditors 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 or incidents 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, Internal Auditors, and External Auditors about significant risks and exposures and the plans to minimise such risks; and
11. Review any legal matters, which could significantly affect the financial statements.

B. Financial statements

12. Review the half-yearly and annual audited 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 principle;
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;

B. Financial statements (continued)

15. Meet with Management and the External Auditors to review the financial statements and the results of the audit; and
16. Be satisfied with the accuracy of the financial accounts, reconcile to Management accounts presented to the Committee, and sign-off on the financial accounts of BFL before the financial statements are submitted to the Board.

C. Preliminary announcements, interim financial statements, briefings, and press releases

17. Assess the fairness of the preliminary statements and disclosures and obtain explanations from Management, Internal Auditors, and/or External Auditors on whether:
 - Actual financial results for the period varied significantly from budgeted or projected results;
 - Changes in financial ratios and relationships in the interim financial statements are consistent with changes in BFL'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;
 - BFL Group's financial and operating controls are functioning effectively; and
 - The preliminary announcements and interim financial statements contain adequate and appropriate disclosures.

Internal audit

18. Review and approve the annual Internal Audit Plan to ensure it covers all material risks;
19. Review the scope of work activities of the Internal Audit function and ensure no unjustified restrictions or limitations are made;
20. Review the qualifications of Internal Audit personnel and concur in the appointment, replacement, reassignment, or dismissal of the GHIA;
21. Review the performance, objectivity, independence, and effectiveness of the Internal Audit function;
22. Meet separately with the Internal Auditors to discuss any matters that the Committee or the Internal Auditors believe should be discussed privately;
23. Ensure that significant findings and recommendations made by the Internal Auditors are received and discussed on a timely basis; and
24. Ensure that Management responds to recommendations by the Internal Auditors in a timely manner.

External audit

25. Ensure the timely calling of tenders for the provision of external auditing services from appropriately qualified companies in accordance with Board policy and prudential regulations;
26. Review tender submissions and make recommendation for appointment to the Board for subsequent recommendation to Shareholders;
27. Review the external auditor's terms of engagement and fees, proposed audit scope and approach, and ensure no unjustified restrictions or limitations have been placed on the scope;
28. Review the performance and effectiveness of External Auditors prior to contract renewal and make recommendation to the Board regarding their continuation during their term of appointment, which should be in line with the prudential requirements/standards of the various jurisdictions that BSP operates within, while ensuring their independence and the independence of financial service providers are in line with Board policy;

External audit (*continued*)

29. Meet separately with the External Auditors to discuss any matters that the Committee or the external auditor's believe should be discussed privately;
30. Ensure that significant findings and recommendations made by the External Auditors are received and discussed on a timely basis; and
31. Ensure that Management responds to recommendations by the External Auditors in a timely manner.

Regulators

32. Ensure that significant findings and recommendations made by the regulators and Central Banks are received and discussed on a timely basis; and
33. Ensure that Management responds to recommendations by the regulators and Central Banks in a timely manner.

Compliance with laws and regulations

34. Review the effectiveness of the system for monitoring changes and compliance with all legal, prudential and regulatory obligations, BFL Constitution, and the results of Management's investigation and follow-up (including disciplinary actions) of any fraudulent acts or non-compliance;
35. Obtain regular updates from Management, the Compliance and AML Unit, and BFL's Head of Legal Services regarding changes and compliance with significant statutory requirements;
36. Review reports from Management concerning Anti-Money Laundering/Counter-Terrorism Financing and Sanctions external obligations and internal policies, in order to monitor them and, if thought fit, approve them;
37. Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements; and
38. The Chairman of the BACC 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

39. 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 BFL;
40. Ensure the appropriateness of Management's 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; and
41. Ensure the appropriateness of Management's procedures for the development of capital expenditure budgets, Board approval processes, expenditure monitoring, cost overruns reporting, and justification outcomes, if appropriate.

Reporting responsibilities

42. Regularly updates to the Board about Committee activities and make appropriate recommendations, and
43. Ensure that the Board is aware of matters in a timely manner, which may significantly affect the financial condition or affairs of the business.

Other responsibilities

44. Ensure that the requirements of Bank of Papua New Guinea (BPNG)'s Prudential Standards 300: Corporate Governance and BSP's Corporate Governance Principles in relation to Papua New Guinea's National Stock Exchange (PNGX) and Australian Stock Exchange (ASX) guidelines are complied with;
45. Perform other oversight functions as delegated and/or requested by the Board;
46. Institute special investigations and, if appropriate, hire special counsellor experts to assist, if necessary; and
47. Evaluate the Committee's own performance on an annual basis.

Reporting on Audit and Compliance Committee performance

The BACC will report to the Board annually, summarising the Committee's activities and recommendations. The report may be delivered during an Audit and Compliance Committee meeting attended by the Board or during a regularly scheduled meeting of the Board. The report should include:

- A summary of the work the Audit and Compliance Committee performed to fully discharge its responsibilities during the preceding year;
- A summary of Management's progress in addressing the results of internal and external audit engagement reports;
- An overall assessment of Management's fraud risk, controls, and compliance processes, including details of any significant emerging risks or legislative changes impacting BSP;
- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended;
- Providing information required, if any, by new or emerging Corporate Governance developments; and
- The Committee may report to the Board at any time regarding any other matter it deems of sufficient importance.

Amendments to this Charter

The Chairman of the BACC shall be responsible for reviewing this document on a two (2) year basis to keep it up to date and consistent with the Committee's authority, objectives and responsibilities, and recommend any proposed amendments to the Board for approval.