

Audit Committee Charter

Palau Investment Bank

Introduction

The Committee will be called the Audit Committee.

It is authorized by the Board of Directors and will serve at the pleasure of the Board of Director.

The Audit Committee has established its own charter under which operates committee's activities.

It is responsibility of the Committee for establishing in writing the committee's functions, responsibilities, and membership qualifications. Depending on its function, the committee may include a mixture of inside directors, outside directors, and management. Committee members are required to have appropriate expertise and independence based on the objective of the committee. The Committee is responsible for reporting regularly to the full Board of Directors, and the proceedings of each committee meeting are to be fully documented.

It is the responsibility of the committee chairman, with the assistance of appropriate members of management, to develop the committee's agenda and deliver materials related to agenda items to committee members in advance of the scheduled committee meeting to allow the members to prepare for discussion of the items at the meeting. Additional material is to be included in the committee members' folders at the meeting, when appropriate.

The Board of Directors and the committee shall have complete access to the Bank's legal, financial and have the power to hire, at the expense of the Bank, independent legal, financial and other advisors, as they may deem necessary or desirable.

Purposes

The purpose of the Audit Committee is to establish and ensure safe and sound management of the Bank while being compliant with laws and regulations of Palau.

Duties and Responsibilities

The Audit Committee's duties include, but are not limited to:

- A. Establishing appropriate accounting procedures and accounting controls, to supervise compliance with such procedures, and to recommend a general meeting of the Board the appointment of internal or external auditors monitor;
- B. Monitoring compliance with this chapter and laws and regulations applicable to the Bank and to report to the Board thereon;
- C. Making recommendations to the Board to engage experts at the expense of the Bank to assist in the fulfillment of the Committee's responsibilities; and deliver opinions on any matters submitted to it by the Board or that it wishes to address.
- D. Serving as an independent and objective body to monitor and assess the Bank's compliance with legal, regulatory and risk assessment requirements, its financial reporting processes and related internal control systems, and the general creation and performance of the Bank's internal audit function;
- E. Working with internal and external auditors to ensure that the Bank has comprehensive audit coverage to meet the risks and demand posed by its current and planned activities;
- F. Ensuring that Senior Management establishes and maintains an adequate and effective internal control system and related processes;
- G. Holding committee meetings with a frequency that facilitates oversight, that is, at least four times a year;
- H. Establishing schedules and agendas for regular meetings with internal auditors, along with external

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auditors when providing oversight;

- I. Carrying out the appointment, termination, compensation, and oversight of the independent public accountant (IPA) or external auditor;
- J. Ensuring external auditors are independent and objective in their findings and consistent with their independence principles and rules, and ensuring that external auditor engagement letters and any related agreements for services do not contain any unsafe and unsound limitation of liability provisions before commencing engagement;
- K. Monitoring the financial reporting processes and overseeing the establishment of policies, procedures and processes that ensure full and accurate disclosure of the Bank's financial condition, including reviewing the significant qualitative aspects of the Bank's accounting practices, including accounting estimates, financial reporting judgments, and financial statement disclosures;
- L. Monitoring management and staff compliance with policies, procedures and processes approved by the Board of Directors, and all related laws, rules, and regulations;
- M. Establishing and maintaining policies, procedures and processes for Bank employees to submit confidential and anonymous concerns to the committee about questionable accounting, internal accounting control, or auditing matters to ensure the timely investigation of complaints received and appropriate documentation retention (also known as whistleblower);
- N. Overseeing compliance of the Bank's internal audit function and recommending improvements of related auditing functions and controls;
- O. Overseeing the audit and other services of the Bank's internal and external auditors to ensure that the Bank maintains comprehensive audit coverage to meet the risks and demands posed by its current and planned activities (including an annual audit by an independent accounting firm) and being directly responsible for the appointment, independence, qualifications, compensation and oversight of the internal and external auditors, who will report directly to the Audit Committee;
- P. Establishing schedules and agendas for regular meetings with internal auditors, along with external auditors when providing oversight;
- Q. Providing an open means of communication among the Bank's outside auditors, accountants, financial and Senior Management, its internal auditors, corporate compliance department and the Board of Directors;
- R. Resolving any significant disagreements between Senior Management and the auditors;
- S. Monitoring, tracking, and holding management accountable for addressing deficiencies that auditors or regulators identify, including (when necessary) providing discipline to ensure effective and timely response by management to correct control weaknesses and violations of law, rule or regulation noted in internal or external audit reports or in examination reports;
- T. Reviewing with Bank management and the external auditor the scope of services, significant accounting policies, and conclusions regarding significant accounting estimates;
- U. Reviewing with Bank management and the external auditor the effectiveness of internal controls over financial reporting, the resolution of related material weaknesses, and the prevention or detection of management overrides or compromises;
- V. Reviewing with Bank management the Bank's compliance with all applicable laws, rules and regulations;
- W. Overseeing the internal audit function.

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- X. Maintaining minutes and other relevant records of audit committee meetings and decisions.
- Y. Meeting with Bank examiners at least once each supervisory cycle to discuss findings of reviews, including conclusions regarding audit; and
- Z. Preparing the Audit Committee Report for inclusion in the Bank's proxy statement for its annual meeting.

Membership

There shall be a Audit Committee consisting of at least three (3) persons appointed by the Board of Directors.

The chairman must meet regulatory standards of accounting or related financial management and compliance expertise. Members must be independent of management and free from any relationship that would interfere with the exercise of independent judgment. In addition, members must be independent of operating personnel who audit policies, procedures, processes, systems, or records. However, operating personnel may attend meetings to provide necessary information. In the event the Bank performs significant transactions with affiliates, audit committee membership is to be independent from the Bank's affiliates

Meeting Minutes

Minutes of each meeting shall be kept. Copies shall be mailed to the board and committee membership within two weeks after a meeting.

It is the policy of the Bank and the responsibility of the Board of Directors and Senior Management to ensure that accurate and concise meeting minutes are properly documented for all meetings of, and actions taken by, the Board of Directors and committees thereof. In general, minutes of Board of Directors and board committee meetings are an essential part of the Bank's records capturing the deliberations and actions of the Board of Directors. Meeting minutes must be complete and accurate, and document the review and discussion of material action items on the agenda, any actions taken, follow-up items to be addressed at subsequent meetings, and any other issues that may arise (including approval of previous meeting minutes and approved policies by the Board of Directors).

Minutes are to record the attendance of each director, other attendees, and directors' votes or abstentions. The record of meetings by the Board of Directors and activities should include all materials distributed to the Board of Directors for informational, oversight, or monitoring purposes. Each director should have the opportunity to review and, if appropriate, modify the minutes before the Board of Directors ratifies them. Minutes are to be timely and presented for approval at the next meeting of the Board of Directors. In addition, the Board of Directors is to ensure that it receives regular reports or minutes from the various committee meetings.

The Board of Directors is to address the level of detail required for minutes and records of meetings of the Board of Directors. Minutes may be subject to discovery during stockholder derivative litigation. Minutes are to include sufficient information to reflect that directors were fully informed about the relevant facts, carefully deliberated the issues, provided credible challenge when necessary, and made decisions based on the best interests of the Bank and its shareholders.

At minimum, these minutes are to reflect the following standards:

1. Adequacy of Management's Reports to the Board of Directors

It is the responsibility of Senior Management to ensure that reports submitted to the Board of Directors are thorough and accurate and cover all aspects of the Bank's operations. Senior Management is to provide such reports to the members of the Board of Directors before regular board or committee meetings to allow adequate time for review before the meetings. In general, these reports are to:

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- A. Document any significant changes to capital, financial performance results, compliance performance, and major business activities, including information technology risks;
- B. Address technology risks for information security, technology audit work, business continuity planning, and technology vendor oversight activities; and

2. Oversight of Management

Minutes are to reflect the Board of Director's discussion and approval of any major strategic or operating decisions and the adoption of major operating policies, procedures and processes. It is the responsibility of Senior Management to obtain board approval before implementing new policies or engaging in new activities.

3. Attendance and Participation

The minutes are to document regular attendance by board members, which should be at least 75% or more of all regularly scheduled board meetings as the benchmark for regular attendance. In addition, minutes are to identify board members who ask questions or make motions, indicating that they are active in the meetings.

4. Performance Evaluations

Minutes are to reflect the Board of Director's election of officers, its review of management performance, and its deliberations regarding salaries and compensation for officers and fees for attorneys, appraisers, directors and others.

5. Compliance with Directives

Minutes are to document how the Bank's internal systems monitor operations and ensure that management's actions are appropriate and conform to policies and directives approved by the Board of Directors.

6. Other Standards

Minutes are to be a complete and accurate representation of meeting discussions, including dissenting opinions or votes, and indicate that the directors studied pertinent documentation and based their decisions upon such documentation. Each director is responsible for having the opportunity to review and, if appropriate, modify the minutes before the Board of Directors ratifies them. However, the Board of Directors is prohibited from altering the minutes to distort facts.

Term

Term of committee member is two years. Member is appointed at the meeting of the Board of Directors.

Officers

The committee shall have a chair, vice chair, and recording secretary who are elected for two-year terms by the membership. Elections will be held at the first meeting of the new membership year.

By-Laws

The committee shall draft and adopt a set of written by-laws at the organizational meeting of the committee. The by-laws govern committee operation. By-laws require a two-thirds vote for adoption or change.

Meeting Frequency

The committee shall be held on a quarterly basis, that is, at least 4 times per year. Written notices of upcoming meetings shall be mailed to members at least seven days before a meeting.

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Recommendations and Reports

Committee recommendations and reports shall be submitted in writing to the board. Documents should include both suggested action and justification for suggestions. The board should respond/react to such recommendations/reports in writing.

Dismissal

Members who are absent without reasonable cause from three successive meetings may be considered to have resigned their seat. The committee may move to fill the position.

Adopted by the Board on 16 August 2018