

Risk Management Committee Charter

Palau Investment Bank

Introduction

The Committee will be called the Risk Management Committee.

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

The Risk Management 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 Risk Management Committee is to establish and ensure safe and sound management and investment of the asset of the Bank while being compliant with laws and regulations of Palau and meeting capital / liquidity requirements.

Duties and Responsibilities

The Risk Management Committee is responsible for reviewing policies, strategies, and oversees the effectiveness of loans and investment activities of the Bank to ensure that:

- A. Investments conform to policies and procedures and support the Bank's interest rate risk, capital and liquidity requirements;
- B. Investments comply with regulatory restrictions and serve legal and legitimate purposes within the Bank's risk tolerance;
- C. Loans are collectable and protect the interests of the Bank's depositors and stockholders;
- D. Sufficient capital and liquidity is maintained for the Bank's operations; and
- E. Additional sources of capital and liquidity are available should the need arise.

The Risk Management Committee is to serve as the primary communication link between the Board of Directors and Senior Management regarding the responsibilities described herein. The Board of Directors is responsible for appointing the Chair of the committee.

The Risk Management Committee's duties set forth in By-Laws are followings;

1. Establishing and monitoring implementation of policies and procedures for the Bank for credit appraisal, loan administration, and asset and liability management, including such matters as underwriting standards, approval of large extensions of credit and all equity investments, requirement

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for collateral for credit, classification of and provisioning for value-impaired assets, pursuit of borrowers and issuers in default, and managing interest rate, market, and country risks;

2. Monitoring compliance with the laws and regulations applicable to credit and other risks and to report to the Board thereon; and
3. Delivering opinions on any matters submitted to it by the Board or that it wishes to address.

In additions to basic primary duties set forth in By-Laws, it is the responsibility of the Risk Management Committee to review and monitor risks, policies and activities by, at minimum:

- A. Oversight of risk management activities of the Bank, including reviewing and approving a sound risk management system commensurate with the Bank's size, complexity, and risk profile;
- B. Helping to define the Bank's risk appetite;
- C. Working with the board to ensure that the Bank's strategic, liquidity, and capital plans are consistent with the Bank's risk appetite statement and that material risks are addressed in the Bank's strategic plan;
- D. Reviewing and approving risk limits;
- E. Ensuring the Bank has appropriate policies, procedures and processes for risk governance, risk management practices, and the risk control infrastructure;
- F. Working with management to establish processes for identifying and reporting risks;
- G. Regularly discussing the Bank's material risks in aggregate and by risk type;
- H. Regularly discussing the effect of the risks to capital, earnings, and liquidity under normal and stressed conditions;
- I. Ensuring the independence of the risk management functions;
- J. Overseeing and directing the work of the Risk Management Officer or equivalents; and
- K. Ensuring effective and timely escalation of material issues to the board and holding management accountable for timely and appropriate corrective action.

The Risk Management Committee is permitted to obtain the assistance of legal counsel, industry experts, and consultants as deemed necessary, and review and reassess the adequacy of these guidelines (including the performance of the committee) on at least an annual basis and recommend any proposed changes to the Board of Directors for approval.

Membership

There shall be a Risk Management Committee consisting of at least three (3) persons appointed by the Board of Directors. Members may be removed and replaced by the Board of Directors at any time and shall serve until their successors are duly elected and qualified.

Meeting Minutes

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Minutes of each meeting shall be duly kept in the Bank's records. Copies shall be mailed to the board and committee membership within two weeks after a meeting.

At the request of the Board of Directors or as the Chair determines necessary, reports of meetings of the Risk Management Committee are to be made to the Board of Directors at its next regularly scheduled meeting accompanied by any recommendations.

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:

- 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

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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 monthly basis. However, the Risk Management Committee may be held as required as often as it determines necessary.

Written notices of upcoming meetings shall be mailed to members at least three business days before a meeting.

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.