FINANCIAL INSTITUTIONS COMMISSION

PRUDENTIAL REGULATION
FIC-PR-01.1

CAPITAL ADEQUACY

Arrangement of Paragraphs

PART I: PRELIMINARY

1: **Short Title** – Capital adequacy.

2: **Authorization** – The Financial Institutions Commission (the "Commission") of the Republic of Palau ("Palau") is authorized to promulgate regulations under 26 PNC §§ 1019 and 10.132 of the Financial Institutions Act (the "Act"). In addition, 26 PNC §§ 1043, 1045 and 1074 establish specific requirements relating to minimum capital and ratios for banks.

3. **Application** – This regulation applies to all Palau banks and the branches of foreign banks licensed by the Commission to conduct financial activities in Palau whose deposits are not insured in accordance with a government sponsored depository insurance program (hereafter collectively referred to as "bank").

4: **Definitions** – Terms used within this regulation are as defined within this regulation, if not defined within this regulation, as defined in 26 PNC § 1002, or as reasonably implied by contextual usage.

1) **"encumbered asset" –** means an asset that is pledged to secure a loan, advance or other debt obligation such that the asset is no longer available to support liabilities to depositors and creditors. For purposes of capital calculations under this regulation, the amount to be deducted is the lesser of (i) the book value of the asset pledged or (ii) the outstanding balance of the loan secured by such asset.

2) **"leverage (equity) capital" –** means Tier 1 capital plus year-to-date earnings or losses (after charges for amortizations, depreciation and fully adequate loan loss provisions) and less any general loan loss provisions; the Leverage Capital Ratio is calculated by dividing Equity Capital by Total Assets.

3) **"loan or investment of capital nature" –** means any loan, advance or other debt obligation extended directly or indirectly to a counter-party, whether secured or not, for the purpose of purchasing, investing in, or financing the holding of shares or other capital instruments issued by the lending bank.

4) **"Tier 1 capital" –** includes permanent shareholders' equity (issued and fully paid-up ordinary shares, non-cumulative perpetual preference shares and assigned capital required to be maintained by the branch of a foreign bank in accordance with 26 PNC § 1043) plus disclosed reserves (additional paid-in share premium plus undistributed profits from prior years) plus minority interests in the equity of consolidated subsidiaries, but excluding goodwill and other intangible assets, loan loss provisions (both general and specific) and all other asset revaluation reserves, future income tax benefits, losses carried forward, and encumbered assets. Assets deducted from Tier 1 capital are also deducted from Total Risk-Weighted Assets. The Tier 1 Risk-Based Capital ("RBC") Ratio is calculated by dividing Tier 1 capital by Total Risk-Weighted Assets.

A capital instrument does not qualify for Tier 1 capital if it is subject to any condition, covenant, term, restriction, or provision that:
(a) restricts the ability of the bank from conducting normal banking operations;
(b) requires dividends or interest payments that are unjustified relative to the financial condition of the bank, or permits early redemption at the option of the holder in the event of financial deterioration;
(c) impairs the ability of the bank to comply with regulatory requirements regarding the disposition of assets or incurrence of additional debt; or
(d) limits the ability of a regulatory authority to take actions to resolve, re-capitalize or re-habilitate a troubled or failing bank.

5) **"Tier 2 capital"** – includes year-to-date earnings[1] (year-to-date losses are to be taken as a deduction from Tier 1 capital), undisclosed reserves, asset revaluation reserves[2] (if allowed and consistent with accepted accounting standards), general loan loss provisions (up to 1.25% of risk-weighted assets), subordinated term debt (up to 50% of Tier 1 capital), and hybrid debt-equity capital instruments. Tier 2 capital may not exceed Tier 1 capital.

To qualify for Tier 2 capital, a hybrid debt-equity instrument must:
(a) be unsecured, subordinated, and fully paid-up;
(b) not be redeemable at discretion of the holder or without prior consent of Commission;
(c) be available to participate in losses without the bank being obliged to cease trading (unlike conventional subordinated debt);
(d) allow debt repayment obligations to be deferred (similar to cumulative preference shares) as when profitability of bank does not support repayments even if the capital instrument may carry an obligation to pay interest that cannot permanently be reduced or waived (unlike dividends on ordinary shareholders' equity).

Cumulative preference shares and mandatory convertible debt instruments having the above characteristics will normally be eligible for Tier 2 capital.

Subordinated term debt includes conventional, unsecured subordinated term debt (also called debt equity or loan capital) which has an original minimum maturity of at least five years. It also includes limited life redeemable preference shares. During the five years immediately preceding maturity, a cumulative discount amortization factor of 20% per annum will be applied to reflect the diminishing value of these instruments as a source of capital strength. Since subordinated debt is normally not available to cover losses, the amount included for capital adequacy calculations is limited to 50% of Tier 1 capital.

6) **"Total Assets" –** means gross assets <u>less</u> goodwill and other intangible assets, future income tax benefits, losses carried forward, and encumbered assets; these items are also excluded from Tier 1 capital.

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[1] Must be net of adequate provisions for taxes, loan and other asset losses and cash dividends declared and unpaid.
[2] Asset revaluation reserves which take the form of latent gains on unrealized equity securities are subject to a discount of 55% on the difference between historic cost book values and current market values.

7) **"Total Risk-Weighted Assets" –** means the total of risk-adjusted assets as calculated and reported in financial returns required to be submitted to the Commission.

8) **"Total Capital" –** means Tier 1 capital plus Tier 2 capital less any investments in and loans to unconsolidated banking and other financial subsidiaries, investments in the capital of other banks and financial institutions licensed to do business in Palau, loans or investments of a capital nature, and in the case of branches of foreign banks, the net amount of any funds due from financial institutions abroad. All assets required to be deducted from Total Capital are also deducted from Total Risk-Weighted Assets (RWA). The Total RBC Ratio is calculated by dividing Total Capital by Total RWA.

PART II: STATEMENT OF POLICY

1: **Purpose** **–** This regulation is intended to ensure that each bank maintains a level of capital, in absolute terms and in relation to total assets, which (i) is adequate to protect the interests of depositors and creditors, (ii) is commensurate with the risk profile and activities of the bank, and (iii) promotes public confidence in the individual bank and in the banking system overall.

2: **Scope** – This regulation applies to the initial capital and to the capital adequacy ratios of all Palau banks and the branches of foreign banks licensed by the Commission to conduct financial activities in Palau, whose deposits are not insured in accordance with a government sponsored depository insurance program.

3: **Responsibility** **–** It is the responsibility of a bank's board of directors to establish and maintain a level of capital that complies at all times with the requirements of 26 PNC, Chapter 10 and this regulation, and is fully adequate for the risk profile and activities of the bank. The capital levels required by this regulation are the minimum levels acceptable for banks that are fundamentally sound, well-managed, and have no material financial or operational weaknesses; higher capital levels may be required for individual banks based on circumstances listed in Part III, paragraph 3.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

1: **Minimum Required Capital** **–** the minimum capital required of an institution to qualify for a license to conduct banking activities in Palau shall be as specified in 26 PNC §§ 1043 and 1045 and listed below for reference; the Commission may, by regulation, increase the minimum capital amounts as necessary to promote and assure safety and soundness, and protection of depositors and creditors.

(a) Domestic banks: for domestic banks, the minimum required capital shall be **–**
- i. US$500,000 if the bank is 100% Palauan owned;
- ii. US$1,000,000 if the bank is less than 100% Palauan owned.

(b) Foreign banks:
- i. for a foreign bank subsidiary, the minimum capital shall be US$2,000,000,

ii for a foreign bank branch, the minimum assigned capital to be maintained in Palau shall be US$2,000,000, and

iii. for a foreign bank branch or a subsidiary, the minimum capital of the parent bank and all subsidiaries shall be not less than US$75,000,000, unless the foreign bank is already licensed in Palau, provided that the bank is (a) in good standing with the United States Federal Deposit Insurance Corporation, or (b) where the bank is not governed by the rules of the FDIC, it remains in good standing with its the home country supervisor and maintains depositor insurance in accordance with its home country government sponsored insurance program.

2: **Minimum Capital Ratios** – all banks shall have at all times capital ratios that are not less than the greater of (i) the minimum ratios specified below or (ii) any higher ratios that may be set by the Commission.

(a) Leverage Capital: the minimum acceptable Leverage Capital Ratio is 5.0%.

(b) Tier 1 Risk-Based Capital: the minimum acceptable Tier 1 RBC ratio is 6.0%.

(c) Total Risk-Based Capital: the minimum acceptable Total RBC ratio is 12.0%.

In determining whether higher ratios will be required, the Commission will consider whether a bank is pursuing or experiencing significant growth; has an inordinate level of risk or inadequate risk management systems, poor asset quality, stability of management, earnings, liquidity; and the criteria set forth below in Part III, paragraph 3.

3: **Basel-II Requirements–** banks will be allowed to utilize the Basel II capital framework upon demonstrating to the Commission that the bank has and maintains necessary internal systems and managerial expertise. Banks will be allowed to use the "Internal Ratings Based" (IRB) method and the "Advanced Measurement Approach" (AMA) to establish capital requirements (Pillar I); however, in no event will a bank be allowed to have a leverage ratio of less than 5.0%, and the adequacy of capital will continue to be subjected to supervisory review (Pillar II) and market discipline (Pillar III). Higher capital levels may be required depending on the risk profile and activities of a bank.

4: **Restriction on Cash Dividends, Redemption of Capital Shares and Distributions of Profits** – a bank shall not declare or pay a cash dividend, or redeem any of its capital shares or other capital instruments, or make any other distribution of its profits if the resulting capital ratios will be less than the minimum capital ratios in Part III, paragraph 1 above. Cash dividends and distributions of profits may only be declared or paid from earnings that have been reviewed and certified by an external auditor; however, interim distributions may be made with the prior written approval of the Commission.

5: **Capital Measures and Categories** – for purposes of evaluating capital adequacy and regulatory responses, the following measures and capital categories shall apply:

(a) Capital measures: the ratios used for measuring capital adequacy are:

- Leverage capital ratio – Tier 1 Capital divided by Total Assets.

- Tier 1 RBC ratio – Tier 1 Capital divided by Total RWA.
- Total RBC ratio – Total Capital divided by Total RWA.

(b) Capital categories: for purposes of supervisory responses and enforcement actions, banks will be grouped into capital adequacy categories as follow:

(1) Well capitalized –

- provisions for loan losses account is fully adequate and funded;
- leverage capital ratio ≥ 8%;
- Tier 1 RBC ratio ≥ 10%;
- Total RBC ratio ≥ 15%;
- not subject to any written agreement, corrective or supervisory order, or capital directive issued by the Commission;
- at least three years have elapsed since commencing banking operations; and
- not pursuing or experiencing rapid growth in deposits, loans or assets.

(2) Adequately capitalized –

- provisions for loan losses account is fully adequate and funded;
- leverage capital ratio 5% < 8%;
- Tier 1 RBC ratio 6% < 10%;
- Total RBC ratio 12% < 15%;
- not subject to any written agreement, corrective or supervisory order, or capital directive issued by the Commission; and
- not "well capitalized" as defined above.

(3) Undercapitalized –

- provisions for loan losses account is inadequate and/or not fully funded;
- leverage capital ratio 4% < 5% (or between 5%-8% and pursuing or experiencing rapid growth);
- Tier 1 RBC ratio 4% < 6%;
- Total RBC ratio 8% < 12%; and
- not in compliance with any capital-related provision of any written agreement, corrective order, or capital directive issued by the Commission.

(4) Significantly undercapitalized –

- provisions for loan losses account is materially inadequate and not fully funded;
- leverage capital ratio 2% < 4% (or between 4%-6% and pursuing or experiencing rapid growth;
- Tier 1 RBC ratio < 4%;
- Total RBC ratio < 8%; and
- not in compliance with any capital-related provision of any written agreement, corrective or supervisory order, or capital directive issued by the Commission.

(5) Critically undercapitalized –

- provisions for loan losses account is severely inadequate and not fully funded;

- leverage capital ratio < 2%
- Tier 1 and Total RBC ratios no longer relevant; and
- not in compliance with any capital-related provision of any written agreement, corrective or supervisory order, or capital directive issued by the Commission.

(c) Re-classifications: if the Commission determines that –
(1) the existing capital of a bank will or is likely to become impaired due to the activities, growth trends, or risk profile of a bank; or
(2) the bank is engaging in unsafe or unsound practices or is conducting its affairs in a manner that threatens the interests of depositors or the general public; or
(3) the bank has not corrected previously identified weaknesses in asset quality, management, earnings, liquidity or sensitivity to market risk; then
the Commission may downgrade a bank from an existing to a lower capital category (e.g. from 'well-capitalized' to 'adequately capitalized') and require the bank to comply with a corrective or supervisory order, or a capital directive.

6: **Criteria for Higher Minimum Ratios –** the Commission may require a bank to achieve and maintain higher minimum ratios if a bank –

1) has been operating less than three years;
2) has sustained, or is expected to sustain, losses resulting in a capital deficiency;
3) has significant exposure to risk, whether credit, market, interest rate, liquidity, operational, legal, or from other non-traditional activities;
4) has a high, or particularly severe, volume of poor quality assets;
5) is growing rapidly, either internally or through acquisitions;
6) may be adversely affected by the activities or condition of its parent holding company, associates or subsidiaries; or
7) has deficiencies in ownership, management, shareholding structure or policies and systems for risk management; or
8) displays other factors related to safety and soundness, solvency or viability which, in the judgment of the Commission, warrants a higher level of capital protection.

7: **Risk Weights –** for on-balance sheet assets, the applicable risk weights are:

0%
- cash (notes and coin) held in the bank's vault and in transit;
- claims, or portions thereof, on, guaranteed by, or fully secured by securities issued by the Republic of Palau (ROP)[3];
- claims, or portions thereof, on, guaranteed by, or fully secured by securities issued by other central governments and central banks denominated and funded in the that nation's currency[4]; and
- claims, or portions thereof, fully secured by cash or pledged deposits in the same bank.

20%
- claims on multilateral development banks (Asia Development Bank, European Investment Bank, or others as may be approved by the Commission) and claims,

[3] For a guarantee to qualify for 0% weighting, it must be affirmed, irrevocable and unconditional.
[4] To qualify for this weighting, the central government and central bank must not be rated lower than the three (3) highest grades by an internationally recognized credit rating institution (i.e. Standard & Poor, Moody's, Fitch, etc.).

or portions thereof, guaranteed by, or collateralized by, securities issued by such banks;

- claims on, and loans, or portions thereof, guaranteed by banks (including cash items in the process of collection) in Palau; and
- claims on, and loans, or portions thereof, guaranteed by, banks incorporated in countries other than Palau with a remaining term to maturity of one year or less[5];.

50%
- loans to individuals fully secured by mortgages on residential property that are or will be occupied by the borrowers or that are rented[6] for residential purposes but excluding any such loans where (i) the loan proceeds have been used by the individual to finance business, investment or other interests/activities, or (ii) the loan is past due 90 days or more for the payment of principal or interest; and
- claims on, and loans, or portions thereof, guaranteed by, local government authorities of Palau.

100%
- claims on the private sector, but excluding qualifying residential mortgage loans as above, unless such loans are past due 90 days or more for the payment of principal or interest, and are not otherwise fully secured by cash on deposit with the lending bank, or guarantees or securities issued by a central bank or government as above;
- premises, plant and equipment and other fixed assets;
- real estate owned and other investments (including non-consolidated investment participations in other companies); and
- all other assets, excluding those deducted from capital.

8: **<u>Credit Conversion Factors</u>** – for <u>off-balance-sheet</u> items, the credit conversion factors below shall apply and must be multiplied by the weights for the corresponding on-balance sheet asset category. The Commission will, in its discretion, allocate particular instruments into categories based on the characteristics of the instrument.

(a)

<u>Factor</u>	<u>Off-balance sheet instrument</u>
100%	Direct credit substitutes[7] (e.g. general guarantees including standby letters of credit used to guarantee loans and securities; and bankers' acceptances and endorsements equivalent to acceptances).
50%	Transaction-related contingent items (e.g. performance and bid bonds, warranties, standby letters of credit tied to specific transactions).
20%	Short-term trade-related contingencies (e.g. documentary credits collateralized by underlying shipments).

[5] To qualify for 20% weighting, the guarantee must be affirmed, irrevocable and unconditional and the bank must not be rated lower than the three (3) highest grades by an internationally recognized credit rating institution.
[6] Exclude loans for speculative development of residential property and loans to companies or persons to finance housing developments.
[7] Include items where the risk of loss is equivalent to a direct claim on the counterparty. If, however, the risk depends on a future event which is independent of the creditworthiness of the counterparty, the items should be subject to a 50% conversion factor.

100%	Sale-and-repurchase agreements and assets sales-with-recourse where credit risk remains with selling bank.
100%	Forward asset purchases, forward deposits and partly-paid shares, and securities which represent commitments with specific draw-downs.
50%	Note issuance facilities and revolving underwriting facilities.
50%	Other commitments (e.g. formal stand-by facilities, credit lines) with a remaining term to maturity of more than one year or otherwise is non-cancellable without notice or other conditions.
0%	Similar commitments with a remaining term to maturity of one year or less, or which can be unconditionally cancelled at any time without notice.

(b) Credit Risk – Forwards, swaps, purchased options and similar contracts: the treatment of forwards, swaps, purchase options, and similar derivative contracts require special attention because banks are not exposed to credit risk for the full face value of their contracts, but only to the potential cost of replacing the cash flow (on contracts showing positive value), if the counterparty defaults. The credit equivalent amounts will depend, inter alia, on the contract maturity, and the volatility of rates and prices for the type of instrument. Instruments traded on exchanges may be excluded where they are subject to daily receipt and payment cash variation margin.

Interest rate contracts – includes single-currency interest rate and basis swaps, forward rate agreements, interest rate futures and options, and similar instruments.

Foreign exchange rate contracts – defined to include cross-country interest rate swaps, forward foreign exchange contracts, currency futures, currency options purchased and similar instruments. Exchange rate contracts with an original maturity not exceeding 14 calendar days may be excluded.

Gold contracts – Gold contracts are treated the same as exchange rate contracts for the purpose of calculating credit risk except that contracts with original maturity not exceeding 14 calendar days are included.

Precious metals (other than gold) contracts – defined to include forwards, swaps, purchased options, and similar derivative contracts that are based on precious metals (e.g. silver, platinum, and palladium); such contracts receive separate treatment.

Other commodities contracts – contracts are treated separately; include forwards, swaps, purchased options, and similar derivative contracts based on energy, agriculture, base metals, and any other non-precious metal commodity contracts.

Equity contracts – includes forwards, swaps, purchased options, and similar contracts based on individual equities or equity indices.

(c) Current exposure method: Banks that engage in any of the instruments defined in paragraph (b) above must calculate the credit equivalent amounts by (i) adding the total replacement cost of all contracts having positive value (obtained by "marking-to-market"), thus capturing the current exposure, and then (ii) adding an amount (called the "add-on") for potential future credit exposure calculated on the basis of the total notional principal amount[8] of its book, split by residual maturity as follows:

Residual Maturity	Interest Rate	Exchange Rate	Equities	Precious Metals	Other Commodities
One year or less	0.0%	1.0%	10.0%	8.0%	10.0%
Over one year, but not more than five years	0.5%	5.0%	12.0%	10.0%	12.0%
Over five years	1.5%	10.0%	15.0%	12.0%	15.0%

Notes to exposure methods:
1. For contracts with multiple exchanges of principal, the conversion factors are to be multiplied by the number of remaining payments in the contract.
2. For contracts structured to settle outstanding exposures after specified payment dates and where the terms are reset such that the market value of the contract is zero on the specified dates, the residual maturity must be set equal to the time until the next reset date. In the case of interest rate contracts with remaining maturities of more than one year and which meet the above criteria, the add-on factor is subject to a floor of 0.5%.
3. Forwards, swaps, purchased options, and similar derivative contracts not covered by any of the columns in this matrix are to be treated as "other commodities".
4. No potential future credit exposure shall be calculated for single currency floating/floating interest rate swaps; the credit exposure on such contracts shall be evaluated solely on the basis of its mark-to-market value.
5. Once credit equivalent amounts have been calculated using either method above, the amounts shall be multiplied (i.e. weighted) by the weight applicable to the corresponding on-balance-sheet asset category.

(d) Bilateral netting: (1) Subject to discretion of the Commission, banks may net transactions if subject to valid and binding bilateral netting agreements, i.e. novation (an agreement under which an obligation of a bank to deliver a specified amount of currency on a given value date to a counterparty is combined with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations) and (2) banks may also net transactions subject to any legally valid form of bilateral netting not covered in (1) above, including other forms of novation. In both cases (1) and (2), a bank must satisfy the Commission that it has:

(i) a netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the bank would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances;

[8] In the event that the stated notional amount is leveraged or enhanced by the structure of the transaction, banks must use the effective notional amount when determining potential future exposures to ensure that the add-ons are based on effective rather than apparent notional amounts.

(ii) written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank's exposure to be such a net amount under:
- the laws where the counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under the laws where the branch is located;
- the law that governs the individual transactions; and
- the law that governs any contract or agreement necessary to effect the netting.

(iii) procedures in place to ensure that legal characteristics of netting arrangements are kept under review in light of possible changes in relevant law.

Contracts containing walk-away clauses are not eligible for netting when calculating capital requirements. A walk-away clause permits a non-defaulting counterparty to make limited payments or no payment even if the defaulter is a net creditor.

Credit exposure on bilaterally netted forward transactions must be calculated as the sum of the net mark-to-market replacement costs, if positive, plus an add-on based on the notional underlying principal. The add-on for netted transactions (A_{Net}) is equal to the weighted average of the gross add-on (A_{Gross})[9] and the gross add-on adjusted by the ratio of net current replacement cost to gross current replacement cost (NGR). This is expressed through the following formula:

$$A_{Net} = 0.4*A_{Gross} + 0.6*NGR*A_{Gross}$$

where NGR = (level of net replacement cost) divided by (level of gross replacement cost for transactions subject to legally enforceable netting agreements[10])

(e) <u>Risk weighting</u>: Credit equivalent amounts must be weighted based on the category of counterparty the same as on-balance sheet items, including weighting for exposures backed by eligible guarantees and collateral (e.g. 0% for cash, guarantees or government securities; 20% for securities issued by multilateral development banks; and 50% for local government guarantees). Cash collateral must be held by the bank and subject to legal right of setoff at all times, and guarantees must be explicit, irrevocable, unconditional and legally enforceable in order to attract the lower weighting factors. In addition, since most counterparties in these markets, particularly for long-term contracts, tend to be first-class names, a 50% weighting may be applied in respect of counterparties which would otherwise attract a 100% weight.

[9] A_{Gross} equals the sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors set out above) of all transactions subject to legally enforceable netting agreements with one counterparty.

[10] The NGR is calculated on an aggregate basis for all transactions that are subject to legally enforceable netting agreements. Under the aggregate approach, net negative current exposures to others, i.e. for each counterparty the net current exposure used in calculating the NGR is the maximum of the net replacement cost or zero. Using the aggregate approach, the NGR is applied individually to each legally enforceable netting agreement so that the credit equivalent amount will be assigned to the appropriate counterparty risk weight category.

(f) Market risk – derivative contracts: market risk for un-hedged positions of derivative contracts is included in the risk-weighted capital ratio by allocating a 100% weight. For foreign exchange rate contracts, banks must apply the weighting factor to the higher of (i) the sum of all long FX positions or (ii) the sum of all short positions.

9: **Capital Restoration Plan –** Any bank which fails to comply with the minimum ratios stated in paragraph 2 above, or with any higher minimum ratios that may be required by the Commission under paragraph 3, shall submit to the Commission a detailed plan to restore capital to adequate and conforming levels. To be acceptable, the plan (i) must state how and when the bank will comply with the required capital ratios, and (ii) must be submitted within 30 days after the end of the calendar quarter in which the breach occurred or within such shorter time as the Commission may require due to the severity of the capital deficiency.

10: **Reporting Requirements** – Each bank shall submit returns in respect of capital adequacy, in the form and frequency as the Commission may prescribe.

PART IV: CORRECTIVE MEASURES

1: **Remedial measures and sanctions** – If a bank, or any director or administrator of a bank, violates any provision of this regulation in a willful, negligent or flagrant manner which results, or is likely to result, in an unsafe or unsound condition for the bank or that threatens the interests of depositors, creditors or the general public, or if a bank, or any director or administrator of a bank, fails to comply with the instructions and reporting requirements in this regulation, the Commission may impose any one or more of the remedial measures or penalties provided in the Act and supporting regulations.

PART V: EFFECTIVE DATE

1: **Effective date** – The effective date of this regulation shall be upon adoption by the Governing Board and subsequent approval by the President of the Republic of Palau, in accordance to the Administrative Procedures Act.

Questions relating to this regulation may be addressed to the Financial Institutions Commission of the Republic of Palau.

Adopted February 20th, 2014

Governing Board
Financial Institutions Commission
Republic of Palau

Approved MARCH 12, 2014

His Excellency Tommy E. Remengesau Jr.
President, Republic of Palau