Financial Statements, Required Supplementary Information, and Supplementary Information

National Development Bank of Palau

(A Component Unit of the Republic of Palau)

Years Ended September 30, 2022 and 2021
with Report of Independent Auditors

Building a better
working world

National Development Bank of Palau
(A Component Unit of the Republic of Palau)

Financial Statements

Years Ended September 30, 2022 and 2021

Contents

Building a better
working world

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Report of Independent Auditors

The Board of Directors
National Development Bank of Palau

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of the business-type activities of National Development Bank of Palau (the Bank), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of National Development Bank of Palau as of September 30, 2022, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Basis for Qualified Opinion

The Bank recorded deferred outflow and inflow resources and net pension liability in its statement of net position at September 30, 2022 of $791,354, $335,191 and $2,594,001, respectively. We were unable to obtain sufficient appropriate audit evidence about the aforementioned amounts as of September 30, 2022 because we were not able to obtain evidence needed from the actuarial valuation yet to be issued by the Republic of Palau Civil Service Pension Plan. As a result, we were unable to determine whether any adjustments to these amounts are necessary.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Report of Other Auditors on the 2021 Financial Statements

The Financial statements of the Bank for the year ended September 30, 2021 were audited by another auditor who expressed an unqualified opinion on those financial statements on October 20, 2022.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11, the Schedule of Proportional Share of the Net Pension Liability on Page 44 and the Schedule of Pension Contributions on Page 45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank's basic financial statements. The Schedules of International Cooperation and Development Fund Loan Agreement Financial Covenant Ratios and Asian Development Bank Grant Agreement Financial Condition Ratio as of September 30, 2022 on pages 46 and 47, respectively, are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedules of International Cooperation and Development Fund Loan Agreement Financial Covenant Ratios and Asian Development Bank Grant Agreement Financial Condition Ratio as of September 30, 2022 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2024, on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control over financial reporting and compliance.

Ernst + Young LLP

April 11, 2024

This Management Discussion and Analysis (MD&A) of the National Development Bank of Palau's (NDBP or the Bank) financial performance and condition for the fiscal year end 2022 is intended to contribute to the reader's better understanding of the Bank's structure and activities. The report should be read in conjunction with the audited financial statements and associated reports.

Note that this report may at times anticipate future events that are based upon current assumptions subject to risk and uncertainties. Actual events may differ materially from these expectations.

Organization of the Bank

The Bank is a corporation established to initiate and promote economic development in the Republic of Palau (ROP) and was created in February 1982 by Public Law Number 1-27 as codified in Title 26 of the Palau National Code Annotated (PNCA), as amended. The Bank is wholly owned by ROP and operates independently under its own Board of Directors. Its main goals are to promote economic development by providing financing for new enterprises, industry, exports and housing.

The President of ROP appoints six of its seven Board members for three-year terms subject to Senate confirmation. The seventh member is the President of the Bank who shall serve as an ex-officio member of the Board. The Board of Directors elects their own officers to the posts of Chairman, Vice Chairman and Secretary/Treasurer annually.

The Bank achieves its mission and goals by relending funds obtained from lenders, donors, and the government. Its financial objective is not to maximize profit but to attain sufficient financial strength to achieve its objectives. Therefore, the Bank functions as a development financial institution and not a commercial or central bank.

The Bank's policies and strategies are implemented through the Bank's President and management. The Bank is organized by four functional areas: Lending, Operation, Finance and Compliance. The NDBP Board of Directors approves the hiring of candidates for the manager of each functional area. The Bank President has the authority over all the other positions of the Bank. Staff levels and funding are determined against strategic, corporate, and budget plans proposed by management and approved by Board. At fully staffed capacity, the Bank has nineteen full time equivalent employees, including the President / CEO.

All Bank operations are conducted from its main office in Ngetkib Village, Airai State. There are no branches, other offices or subsidiaries operating in 2022. Plans for expansion of the Bank's building are set forth in the Bank's Strategic Plan.

Financial Policies

The Bank's financial policies follow accounting principles generally accepted in the United States of America (GAAP) applicable to governmental entities and specifically proprietary funds. Management is required to make estimates, disclosures, and assumptions in preparation of financial statements in conformity with GAAP and actual results may differ from amounts reported during the reporting period. The basis of accounting used is the flow of economic resources measurement focus, which means all assets and liabilities are included within the statement of net assets. The accrual basis of accounting is utilized whereby revenues are recorded when earned and expenses recorded when liabilities are incurred.

All current guarantees are granted under recourse loan purchase agreements. While the Bank offers 90% loan guarantees to local banks, the Bank may also guarantee up to 100% of select home loans from commercial banks to Palauan citizens as in the case of USDA RD.

Other financial policies include ROP's full faith and credit guarantee backing for Bank loans up to $15 million in the aggregate, subject to specific purpose limitations. Maximum Bank external borrowing authorized by ROP is $100 million. The maximum single exposure to a single borrowing entity is 20% of the Bank's unimpaired paid-in capital, earned surpluses and reserves.

Operations

Financial assistance is provided by the Bank for projects involving housing, agriculture, marine resources, commerce, and industry. Authorized financing schemes include guarantees, direct loans, and direct investment. Further, the Bank is required to provide technical assistance services as part of its operations. The Bank's MOU, financial and logistical support with the Palau Small Business Development Center to assist client with such things as creating business plans; the collaboration with Palau SBDC and the Ministry Natural Resources, Environment and Tourism on the Farm Loan Program; and the MOU with the Palau Housing Authority on providing subsidy on the Energy Efficient Homes are efforts towards this responsibility. Information on other financial and technical service providers, including government agencies is also provided for client or applicant consideration. Currently, the Bank's financial activities are limited to projects within ROP. All financial transactions are US dollar denominated.

<u>Guaranteed Loans</u>

Significant financial policies include a 10% reserve requirement for the Bank's commercial guaranteed loans. Currently there are no loans under this program. A reserve of $500,000 is also held at a commercial bank as required by the U.S. Department of Agriculture Rural Development (USDA RD). Popularity is low with these programs as they often take months to receive approval and are stricter in terms and loan covenants. Belau Real Estate program through the Bank of of Guam (BOG) is an addition to our guaranteed loans program. To date, no completed loan packages from BOG have been received by the Bank.

Energy Programs

Energy is one of the national policy directions for Palau with a goal to be 100% renewable energy. In 2022, NDBP began the solar program with Asian Development Bank of a Disaster Resilient Clean Energy Fund of $3,000,000 from the Government of Japan. The funds are used to provide low-cost loans to Palauan homeowners to purchase and install Solar Home Kits on their roofs. As of September 30, 2022, thirteen homes have solar installed and saving on their electricity bills.

Direct loans

In the category of small business loans, the Bank offers customers four programs: Small Business, Microfinance, and Pre-Development Loan. The Bank's Microfinance program and Pre-Development Loan are at 6% interest rate targeting those borrowers who can secure their loan with an assignment of income. No collateral is required, and turnover is intended to be quick. These programs appear to be successful and are popular.

Short term to medium term financing is extended to new or existing businesses to fund short-term working capital and equipment acquisitions. Longer term financing is extended to individuals for housing and business facilities. Rates are fixed depending on the type of financing provided. Posted interest rates range from 3% to 10%. Rates are considered to include the cost of funds, the lending spread to cover the cost of operations, risk component, and a small return for growth purposes. Fees are usually 2% of financing extended. Originating and closing costs are also charged to borrowers. Specific programs offered under direct financing are agriculture, fishing, small business, housing, and business loans.

Direct housing loans are provided in two categories, the first-time homeowner program which offers an 8% interest rate and all other housing loans at a 10% interest rate. A new addition to the homeowner's program is the Housing Development Loan Program (HDLP) which offers 1%, 3% and 6%.

Overview of Financial Performance

A condensed year-to-year comparison of operating activity reflecting the foregoing statements follows:

Statements of Revenues, Expenses and Changes in Net Positions

	2022	2021	$ Change	% Change	2020
Revenues:					
Interest income on loans	$2,244,489	$2,343,827	$(99,338)	-4%	$2,142,335
Loan fees and late charges	130,319	192,016	(61,697)	-32%	202,588
Other	93,876	99,284	(5,408)	-5%	92,629
Total operating revenue	2,468,684	2,635,127	(166,443)	-6%	2,437,552

Statements of Revenues, Expenses and Changes in Net Positions, continued

	2022	2021	$ Change	% Change	2020
Provision for loan losses	(1,864,323)	(365,554)	(1,498,769)	410%	(2,507,873)
Operating Expenses:					
Salaries, wages and fringe benefits	685,060	821,405	(136,345)	-17%	787,315
Training and travel	11,782	8,298	3,484	-42%	46,574
Depreciation	37,198	40,593	(3,395)	-8%	42,525
Other expenses	255,908	218,274	37,634	17%	243,720
Total operating expenses	989,948	1,088,570	(98,622)	-9%	1,120,134
Operating (loss) income	(385,587)	1,181,003	(1,566,590)	-133%	(1,190,455)
Non Operating Revenues (Expenses):					
Grant revenues	---	500,000	(500,000)	0%	1,500,000
Housing Development Subsidy	(41,804)	(200,000)	158,196	-79%	(175,000)
Interest expense and loan fees	(217,081)	(231,085)	14,004	-6%	(314,303)
Other non operating revenues (expenses)	18,490	(28,136)	46,626	-166%	(50,464)
Total non operating (expenses) revenues	(240,395)	40,779	(281,174)	-690%	960,233
Net (loss) income	(625,982)	1,221,782	(1,847,764)	-151%	(230,222)
Capital contribution from ROP	---	3,255,342	(3,255,342)	100%	5,739,306
Change in net assets	(625,982)	4,477,124	(5,103,106)	-114%	5,509,084
Net assets in beginning of year	30,259,322	25,782,198	4,477,124	17%	20,273,114
Net assets at end of year	$29,633,340	$30,259,322	$(625,982)	-2%	$25,782,198

Revenue

Operating revenues include all direct revenues such as interest income and fees on loans and other miscellaneous fees, such as late fees and performance bonds fees. Operating revenues in 2022 decreased by $166,443 or 6% over 2021 largely due to increase in non-performing loans.

Expenses

Operating expenses for 2022 decreased by $98,622 or 9% as compared to 2021. Interest expenses for loan fees decreased by $14,004, a 6% decrease in 2022. Additional long-term debt of $2,000,000 received from the International Corporation and Development Fund (Taiwan – ICDF) in 2022.

Non-operating revenues & expenses

Non-operating expenses was $240,395 compared to an operating revenue of $40,79 in 2021. No grants were received in 2022.

Condensed Statements of Cash Flow

Statement of Cash flows

	2022	2021	$ Change	% Change	2020
Cash flows from operating activities	$ 687,085	$ 1,236,291	$(549,206)	-44%	$1,391,115
Cash flows from capital and related financing activities	521,826	1,432,028	(910,202)	-64%	(1,609,550)
Cash flows used for investing activities	(1,860,776)	(4,536,241)	2,675,465	-59%	(4,073,607)
Cash flow from noncapital financing activities	1,047,180	3,569,451	(2,522,271)	-71%	7,075,651
Net increase in cash and cash equivalents	395,315	1,701,529	(1,306,214)	-77%	2,783,609
Cash and cash equivalents at beginning of year	10,551,897	8,850,368	1,701,529	19%	6,066,759
Cash and cash equivalents at end of year	$10,947,212	$10,551,897	$ 395,315	4%	$8,850,368

The Bank had a net increase in cash of $395,315 or 4% over previous year.

In 2022, the Bank received loan proceeds from Taiwan - ICDF amounting to $2,000,000 and loan repayment of $1.2 million. In 2022, the Bank received $1,071,584 for the solar program with Asian Development Bank. No new funding from the Housing Development Loan Program or Cross Act in 2022.

The Bank had paid out $6.6 million in loan disbursements and $4.7 million in loan repayments.

In 2021, the Bank received $3.3 million for the HDLP program, $500,000 for CROSS ACT program, $3.0 million borrowing funds from Taiwan – ICDF, and loans receivable collections of $7.9 million. The Bank had paid out $10.4 million in loan disbursements and long-term debt repayments of $1.5 million. The loan receivable collections have decreased in 2021 as compared to 2020 due to the increase of non-performing loans.

Condensed Statements of Net Position

Statements of Net Position

	2022	2021	$ Change	% Change	2020
Assets & Deferred Outflows of Resources					
Other current assets	$12,571,612	$11,378,238	$1,193,374	9%	$ 9,318,166
Economic development loans receivable, net	30,353,020	30,349,394	3,626	0%	26,375,326
Capital assets	596,097	630,094	(33,997)	-5%	662,587
Foreclosed real estate	347,188	347,188	---	0%	347,188
Total assets	43,867,917	42,704,914	1,163,003	3%	36,703,267
Deferred outflows of resources	791,354	791,354	---	0%	802,858
Total assets and deferred outflows of resources	$44,659,271	$43,496,268	$1,163,003	3%	$37,506,125
Liabilities, Deferred Inflows of Resources and Net Position					
Loans payable, including ADB grant financing payable to ROP	$11,656,014	$9,832,312	$1,823,703	19%	$ 8,332,825
Pension liability	2,594,001	2,594,001	---	0%	2,428,960
Other liabilities	420,725	455,442	(34,717)	-8%	574,812
Total liabilities	14,670,740	12,881,755	1,788,985	14%	11,336,597
Deferred outflows of resources	355,191	355,191	---	0%	387,330
Total liabilities and deferred inflow of resources	15,025,931	13,236,946	1,788,985	14%	11,723,927
Net Position:					
Net investment in capital assets	596,097	630,094	(33,997)	-5%	662,587
Restricted	1,048,234	2,188,991	(1,140,757)	-52%	2,863,801
Unrestricted	27,989,009	27,440,237	548,772	2%	22,255,810
Total net positions	29,633,340	30,259,322	(625,982)	-2%	25,782,198
Total liabilities, deferred inflows of resources and net position	$44,659,271	$43,496,268	$1,163,004	3%	$37,506,125

Total Assets

The Bank's total assets and deferred outflows of resources for 2022 and 2021 was $44.7 million and $43.5 million, respectively, an increase of 3% or $1.2 million in 2022 as compared to 2021.

Management's Discussion and Analysis, continued

Loss Provisioning

The Bank's provisions for loan losses with a general provision of 3% and specific provisions of 5%, 20%, 50% and 100% depending on the extent loans are past due and the value of security held as collateral. The Bank manages its loans by assigning credit and security risk ratings to each account.

Loans and associated security are rated on a scale ranging from "A thru F" similar to the World Bank system. All loans are individually managed by this system. Loan accounts are required to be reviewed regularly.

Loan loss provision at September 30, 2022 and 2021 amounted to $5,951,581 and $3,831,338, respectively. This is an increase of $2.12 million or 55%. Non-Performing loans continue to increase due to the Covid Pandemic effecting the flow of funds from incoming loan payments.

Loan Portfolio

The Bank's loan portfolio includes new, amended, and renewed loans and line of credits. The Bank's goal during the year remained growth in income and assets while maintaining credit quality. Emphasis was also made towards increasing the agriculture and fishing sectors of the portfolio which were challenging given the less than favorable industry and economic conditions. Simultaneously, emphasis was placed on adjusting the portfolio distribution to reduce exposure and diversify risk.

The total loans outstanding in 2022 and 2021 amounted to $36.3 million and $34.2 million, respectively. This is an increase of $2.1 million or 55%. The outstanding loans by sector are presented in the following table:

	2022		2021		Change	
SECTOR	Amount	% To Total	Amount	% To Total	Amount	Percent
Agriculture	$ 1,419,859	4%	$ 1,533,803	4%	$(113,944)	-7%
Fishing	974,218	3%	875,082	3%	99,136	11%
Commercial	11,079,067	31%	10,750,828	31%	328,239	3%
Housing	22,831,457	62%	21,021,019	62%	1,810,438	9%
Totals	36,304,601	100%	34,180,732	100%	2,123,869	6%
Provision for loan losses	(5,951,581)	-16%	(3,831,338)	-11%	(2,120,244)	55%
Totals	$30,353,020	84%	$30,349,394	89%	$ 3,625	0%

Affiliations

The Bank's membership and partnership affiliations locally and abroad include the Palau Chamber of Commerce, the Risk Management Association, various foreign government agencies, the Association of Development Finance Banks and the Association of Development Finance Institutions in Asia and the Pacific. Benefits received from these associations include information exchanges, professional networking and training opportunities.

Risk Management

Primary risks the Bank faces include Strategic/Operational, Credit, Technology, Economic, Reputation/Political and Climatic/Environmental risks (in no order). The Board of Directors manages these risks with the assistance of management.

Monitoring is conducted primarily through management and external audit reporting. Mandatory reporting to the National Government is also provided during the National budget process and through specific reporting requirements under the Bank's enabling legislation.

The Management's Discussion and Analysis for the year ended September 30, 2021, is set forth in the Bank's report on the audit of financial statements, which is dated October 20, 2022. That Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

Contacting the Bank's Financial Management

This financial report is designed to provide a general overview of the Bank's finances and to demonstrate the Bank's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Chief Financial Officer at the National Development Bank of Palau at PO Box 816, Koror, Republic of Palau 96940, or e-mail sbasilio@ndbp.com or call (680) 587-6327.

National Development Bank of Palau
(A Component Unit of the Republic of Palau)

Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	September 30, 2022	2021
Assets:		
Current assets		
Cash and cash equivalents	$ 9,598,694	$ 8,362,906
Restricted cash and cash equivalents	1,348,518	2,188,991
Economic development loans receivable, net	4,776,087	4,665,388
Accrued interest receivable	798,075	676,876
Other receivables	513,700	63,728
Inventory	263,190	26,323
Prepaid expenses	49,435	59,414
Total current assets	17,347,699	16,043,626
Economic development loans receivable, net	25,576,933	25,684,006
Capital assets, net	596,097	630,094
Foreclosed real estate	347,188	347,188
Total assets	43,867,917	42,704,914
Deferred outflows of resources from pension	791,354	791,354
Total assets and deferred outflows of resources	$ 44,659,271	$ 43,496,268
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities:		
Current liabilities		
Loans payable	$ 854,528	$ 1,026,075
Accounts payable and accrued expenses	175,356	202,705
Interest payable	45,332	49,259
Payable to grantor agencies	162,447	162,447
Deferred revenues	37,590	41,031
Total current liabilities	1,275,253	1,481,517
Loans payable, net of current portion	9,729,902	8,806,237
Payable to Republic of Palau Ministery of Finance	1,071,584	-
Net pension liability	2,594,001	2,594,001
Total liabilities	14,670,740	12,881,755
Deferred inflows of resources from pension	355,191	355,191
Total liabilities and deferred inflows of resources	15,025,931	13,236,946
Commitments and contingencies		
Net position:		
Net investment in capital assets	596,097	630,094
Restricted	1,048,234	2,188,991
Unrestricted	27,989,009	27,440,237
Total net position	29,633,340	30,259,322
Total liabilities, deferred inflows of resources and net position	$ 44,659,271	$ 43,496,268

See accompanying notes.

National Development Bank of Palau
(A Component Unit of the Republic of Palau)

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30, 2022	2021
Operating revenues:		
Interest income on loans	$ 2,244,489	$ 2,343,827
Loan fees and late charges	130,319	192,016
Other	93,876	99,284
Total operating revenues	2,468,684	2,635,127
Provision for loan losses and doubtful accounts	(1,864,323)	(365,554)
Net operating revenues	604,361	2,269,573
Operating expenses:		
General and administrative expenses:		
Salaries, wages and fringe benefits	685,060	821,405
Professional fees	62,488	49,412
Depreciation	37,198	40,593
Repairs and maintenance	31,605	34,213
Dues and subscriptions	27,658	32,576
Supplies, printing, and reproduction	24,827	20,766
Utilities	18,388	12,569
Honorariums and meeting expense	17,338	18,667
Communications	16,526	14,475
Rental	13,200	13,200
Insurance	10,664	8,260
Travel and transportation	8,558	6,776
Training	3,224	1,522
Marketing and advertising	2,866	3,202
Miscellaneous	30,348	10,934
Total general and administrative expenses	989,948	1,088,570
Operating (loss) income, net	(385,587)	1,181,003
Nonoperating revenues (expenses), net:		
Grant revenues	-	500,000
Other income	17,400	2,400
Interest income on interest bearing accounts	7,173	3,381
Interest expense and loan fees	(217,081)	(231,085)
Housing Development Loan Project subsidy expense	(41,804)	(200,000)
Commitment fees	(6,083)	(33,917)
Total nonoperating (expense) revenue, net	(240,395)	40,779
Capital contribution from the Republic of Palau	-	3,255,342
Change in net position	(625,982)	4,477,124
Net position at beginning of year	30,259,322	25,782,198
Net position at end of year	$ 29,633,340	$ 30,259,322

See accompanying notes.

National Development Bank of Palau
(A Component Unit of the Republic of Palau)

Statements of Cash Flows

	Year ended September 30, 2022	Year ended September 30, 2021
Cash flows from operating activities:		
Cash received from customers	$ 2,349,088	$ 2,325,625
Cash payments to employees for services	(780,367)	(762,031)
Cash payments to suppliers for goods and services	(881,636)	(327,303)
Net cash provided by operating activities	687,085	1,236,291
Cash flows from capital and related financing activities:		
Proceeds from loan payable	2,000,000	3,000,000
Repayments of long-term debt	(1,247,882)	(1,500,513)
Interest paid on long-term debt	(221,008)	(225,442)
Commitment fees paid on long-term debt	(6,083)	(33,917)
Acquisition of capital assets	(3,201)	(8,100)
Proceeds from disposal of foreclosed properties	-	200,000
Net cash provided by capital and related financing activities	521,826	1,432,028
Cash flows from investing activities:		
Interest received on interest bearing deposits	7,173	3,381
Loan originations, net	(1,867,949)	(4,539,622)
Net cash used for investing activities	(1,860,776)	(4,536,241)
Cash flows from noncapital financing activities:		
Cash received from the grantor	1,071,584	500,000
Other income received	17,400	2,400
Subsidy paid for Housing Development Loan Project program	(41,804)	(200,000)
Capital contribution from the Republic of Palau	-	3,255,342
Subsidy paid for energy program	-	11,709
Net cash provided by noncapital financing activities	1,047,180	3,569,451
Net increase in cash and cash equivalents	395,315	1,701,529
Cash and cash equivalents at beginning of year	10,551,897	8,850,368
Cash and cash equivalents at end of year	$ 10,947,212	$ 10,551,897

See accompanying notes.

National Development Bank of Palau
(A Component Unit of the Republic of Palau)

Statements of Cash Flows, continued

	Year ended September 30, 2022	2021
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (385,587)	$ 1,181,003
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation	37,198	40,593
Provision for loan losses and doubtful accounts	1,864,323	365,554
Noncash pension cost	-	144,406
(Increase) decrease in assets:		
Accrued interest receivable	(121,199)	(311,380)
Other receivables	(449,972)	1,878
Inventories	(236,867)	-
Prepaid expenses	9,979	(8,024)
Increase in liabilities:		
Accounts payable and other liabilities	(27,349)	(177,739)
Deferred revenues	(3,441)	-
Net cash provided by operating activities	$ 687,085	$ 1,236,291
Supplemental schedule of noncash operating activities:		
Recognition of prepaid expense		
(Decrease) increase in prepaid expenses	$ (3,441)	$ 41,031
(Decrease) increase in deferred revenues	3,441	(41,031)
	$ -	$ -
Supplemental schedule of noncash investing activities:		
Foreclosed property:		
Increase in foreclosed property	$ -	$ 200,000
Decrease in net loans receivable	-	(200,000)
	$ -	$ -

See accompanying notes.

1. Organization

The National Development Bank of Palau (the Bank), a component unit of the Republic of Palau (ROP), was formed on February 24, 1982, under the provisions of Republic of Palau Public Law (RPPL) No. 1-27, as amended by RPPL 3-4, 4-48, 5-37 and 6-18. The law created a wholly-owned government corporation managed by a Board of Directors appointed by the President of ROP with the advice and consent of the Olbiil Era Kelulau (OEK - Palau National Congress). The purpose of the Bank is to be the central financial institution responsible for initiating and promoting economic development within ROP, and the Bank considers all of its net position, except net investment in capital assets, to be restricted for such purposes.

2. Summary of Significant Accounting Policies

The accounting policies of the Bank conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. The Bank utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included within the statements of net position. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

2. Summary of Significant Accounting Policies, Continued

Concentrations of Credit Risk

Financial instruments which potentially subject the Bank to concentrations of credit risk consist principally of cash demand deposits, investments, receivables and loans receivable from related party.

At September 30, 2022 and 2021, the Bank has cash deposits in bank accounts that exceed federal depository insurance limits. The Bank has not experienced any losses on such accounts.

Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net position and of cash flows, the Bank considers all highly liquid investments, with maturities of three months or less when purchased, to be cash and cash equivalents. Time certificates of deposit with initial maturities of greater than three months are separately classified. Restricted and unrestricted cash and cash equivalents and time certificates of deposit maintained in Federal Deposit Insurance Corporation (FDIC) insured banks amounted to $10,266,555 $10,637,291 at September 30, 2022 and 2021, respectively. Of this amount, bank deposits of $750,000 were FDIC insured at September 30, 2022 and 2021. Accordingly, the deposits are exposed to custodial credit risk. The Bank does not require collateralization of its deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

At September 30, 2022, cash balance of $1,048,234 and $300,282, are restricted for Housing Development Loan Project (HDLP) funds (see note 10) and ADB Solar Project funds (see note 8), respectively. At September 30, 2021, cash balance of $2,188,991 are restricted for Housing Development Loan Project (HDLP) funds.

Loans and Allowance for Loan Losses

The Bank grants loans to eligible borrowers, including affiliates, officers and employees, all of which are located in ROP. Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. For the statement of net position presentation purpose, the current portion of loans is determined based on expected principal collections, including those loans that are schedule to mature, within the next twelve months. Actual loan collections in subsequent period may differ significantly due to term extensions that may be in the normal course of business.

2. Summary of Significant Accounting Policies, Continued

Loans and Allowance for Loan Losses, Continued

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

All of the Bank's loans are subject to review for impairment as a part of management's internal asset review process. A loan is considered impaired when, based on current information and events, the borrower is deemed unable to repay the outstanding amount of the obligation under the loan. When a loan is determined to be impaired, a valuation allowance is established based upon the difference between the outstanding amount due under the loan and the amount considered recoverable given the existing financial condition of the borrower and the underlying collateral. Subsequent collections of cash may be applied as a reduction to the principal balance or recorded as income, depending upon management's assessment of the ultimate collectability of the loan.

Inventory

Inventory of grid-connected solar home systems, on-grid and off-grid solar photovoltaic systems, and commemorative coins are stated at the lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. The Bank's policy is to capitalize items in excess of $1,000.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at the lower of the carrying amount of the loan or the fair value of the property at the date of foreclosure less estimated selling costs. Write-downs of the asset at, or prior to, the date of foreclosure are charged to the allowance for losses on loans. Subsequent write downs, income and expense incurred in holding such assets, and gains and losses realized from the sales of such assets, are included in current operations.

2. Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Bank has determined the changes in assumptions, changes in proportion and difference between the Bank's contributions, difference between projected and actual earnings on pension plan investments, and proportionate share of contributions and pension contributions made subsequent to the measurement date qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Bank has determined the changes in assumption, differences between projected and actual earnings on pension plan investments and changes in proportion and difference between the Bank's contributions and proportionate share of contributions qualify for reporting in this category.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and loan guarantees. Such financial instruments are recorded in the financial statements when they become payable.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Bank recognizes a net pension liability for the defined benefit pension plan, which represents the Bank's proportional share of excess total pension liability over the pension plan assets - actuarially calculated - of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

2. Summary of Significant Accounting Policies, Continued

Revenue Recognition

Operating revenues include all direct revenues such as interest and fees on loans and interest on investments.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when principal or interest payments are delinquent ninety days or more, or when, in the opinion of the Bank, there is an indication that the borrower may be unable to meet payments as they become due. Interest income thereafter is recognized only to the extent of cash payments received. Nonaccrual loans approximated $2,031,567 and $914,636 at September 30, 2022 and 2021, respectively.

Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Accumulated sick pay benefits as of September 30, 2022 and 2021 were $78,463 and $74,000, respectively. Accrued leave benefits recorded as part of accounts payable and accrued expenses amounted to $49,113 and $37,120 as of September 30, 2022 and 2021, respectively.

Taxes

Based on enactment of RPPL 1-63, the Bank is exempt from gross revenue and net income taxes.

Net Position

The Bank's net position is classified as follows:

Net investment in capital assets; capital assets, net of accumulated depreciation and related debt.

Restricted:

Nonexpendable - Net position subject to externally imposed stipulations that the Bank maintains them permanently. At September 30, 2022 and 2021, the Bank does not have nonexpendable net position.

Expendable - Net position whose use by the Bank is subject to externally imposed stipulations that can be fulfilled by actions of the Bank pursuant to those stipulations or that expire by the passage of time. At September 30, 2022 and 2021, all of the Bank's restricted net position is expandable.

Unrestricted; the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

2. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 during the year ended September 30, 2022 did not result in a material effect on the accompanying financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. The adoption of GASB Statement No. 91 during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The adoption of GASB Statement No. 97 during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. The adoption of GASB Statement No. 98 during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, as amended.

- Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit.

- Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended*, related to the focus of the government-wide financial statements.

  Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021.

These provisions of GASB Statement No. 99 were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In April 2022, GASB issued Statement No. 99, *Omnibus 2022,* which include guidance that are effective for future periods:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.

- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.

- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.

- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.

- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.

- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2023.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2024.

The Bank is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

3. Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: The Bank contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a defined benefit, cost sharing multi-employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to RPPL No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2.

A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

3. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

The Plan has not issued an actuarial valuation as of September 30, 2021, and as such the total pension liability and related deferred outflow and deferred inflow of resources as of September 30, 2022 remained unchanged from the amounts recorded as of September 31, 2021, which were determined by an actuarial valuation as of September 30, 2020.

Pension Benefits, Continued

Plan Membership. As of October 1, 2019, the valuation date, plan membership consisted of the following:

Inactive members currently receiving benefits	1,629
Inactive members entitled to but not yet receiving benefits	1,252
Active members	3,480
Total members	6,361

Pension Benefits. Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board.

Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

3. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued

In accordance with the directives of RPPL 5-7, the Board adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Plan. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are two percent of each member's average monthly salary for each year of credited total service up to a maximum of thirty years total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve.

The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

Factor	If the Spouse or Beneficiary is:
1.00	21 or more years older than the member
0.95	16 to 20 years older than the member
0.90	11 to 15 years older than the member
0.85	6 to 10 years older than the member
0.80	0 to 5 years younger than the member or 0 to 5 years older than the member
0.75	6 to 10 years younger than the member
0.70	11 to 15 years younger than the member
0.65	16 or more years younger than the member

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit pursuant to RPPL 9-2.

3. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

1/12th per year for the first 3 years before age 60;
plus an additional 1/18th per year for the next 3 years;
plus an additional 1/24th per year for the next 5 years; and
plus an additional 1/50th per year for each year in excess of 11 years.

Upon the death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.

If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

Upon the death of a member or former member before commencement of his normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.

If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

3. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

Contributions. Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau must from time to time contribute additional sums to the Plan in order to keep the Plan on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Plan equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Plan.

The Bank's contributions to the Plan for the years ended September 30, 2022 and 2021 were $29,718 and $29,437, respectively, which were equal to the required contributions for the years then ended.

3. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2020, for the same measurement date, using the following actuarial assumptions:

Actuarial Assumptions

Actuarial Cost Method: Normal costs are calculated under the entry age normal method

Amortization Method: Level dollar, open with remaining amortization period of 30 years

Asset Valuation Method: Market Value of Assets

Long-term Expected Rate of Return: 6.74% per year, net of investment expenses including price inflation

Municipal Bond Index Rate: 2.22%

Year fiduciary net position is projected to be depleted: 2025

Price Inflation: 2.5% per year

Interest on Member Contributions: 5.0% per year

Salary Increase: 3.0% per year

Expenses: $300,000 annually added to normal cost

Mortality: RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years

3. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued

Termination of Employment: 5% for ages 20 to 39; none all other ages

Disability:

Age	Disability
25	0.21%
30	0.18%
35	0.25%
40	0.35%
45	0.50%
50	0.76%
55	1.43%
60	2.12%

Retirement Age: 100% at age 60

Form of Payment: Single: Straight life annuity; Married: 100% joint and survivor

Marriage Assumption: 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.

Duty vs Non-duty related disability: 100% Duty related

Refund of Contributions: 80% of terminated vested members elect a refund of contributions

3. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued

Investment Rate of Return

The long-term expected rate of return on the Bank's investments of 6.74% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class. As of September 30, 2020, the arithmetic real rates of return for each major investment class are as follows:

Asset Class	Target Allocation	Expected Rate of Return
US Large Cap Value Equity	10%	8.70%
US Large Cap Growth Equity	10%	9.13%
Mature Markets Non US Entity	15%	9.19%
Emerging Markets Non US Entity	10%	12.52%
US Core Fixed Income	35%	3.82%
Global Fixed Income	10%	3.40%
Global REIT	10%	8.33%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 2.28% at the current measurement date and 2.85% at the prior measurement date. The discount rate was determined using the current assumed rate of return of 6.74% until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2025. For years on or after 2025, the Municipal Bond Index Rate of 2.22% was used. The Municipal Bond Index Rate from the prior measurement date was 2.81%.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Fund as of September 30, 2022, calculated using the discount rate of 2.28%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.28%) or 1.00% higher (3.28%) from the current rate.

3. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Sensitivity of Net Pension Liability to Changes in the Discount Rate, Continued

1% Decrease 1.28%	Current Single Discount Rate Assumption 2.28%	1% Increase 3.28%
$3,027,241	$2,594,001	$2,236,660

The following presents the net pension liability of the Fund as of September 30, 2020, calculated using the discount rate of 2.28%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.28%) or 1.00% higher (3.28%) from the current rate.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability. At September 30, 2022 and 2021, the Bank reported a liability of $2,594,001 for its proportionate share of the net pension liability. The Bank's proportion of the net pension liability was based on the projection of the Bank's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2021, the Bank's proportion was 0.7532%. The Bank's proportion as of September 30, 2022 is not yet determined as the actuarial valuation yet to be issued by the Republic of Palau Civil Service Pension Plan.

Pension Expense. For the years ended September 30, 2022 and 2021, the Bank recognized pension expense of $97,527 and $173,526, respectively.

		2022		
	Salary and Other Benefits	Pension Expense: Total Contributions	Pension Expense: Others	Total
Personnel and fringe benefits	$587,533	$29,718	$67,809	$685,060

		2021		
	Salary and Other Benefits	Pension Expense: Total Contributions	Pension Expense: Others	Total
Personnel and fringe benefits	$647,879	$29,437	$144,089	$821,405

3. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Sensitivity of Net Pension Liability to Changes in the Discount Rate, continued

Deferred Outflows and Inflows of Resources. At September 30, 2022 and 2021, the Bank reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 87,310	$ 68,618	$ 87,310	$ 68,618
Change of assumptions	556,633	163,055	556,633	163,055
Net difference between projected and actual earnings on pension plan investments	4,847	3,320	4,847	3,320
The Bank's contributions subsequent to measurement date	29,437	---	29,437	---
Changes in proportion and difference between the Bank's contributions and proportionate share of contributions	113,127	120,198	113,127	120,198
	$791,354	$355,191	$791,354	$355,191

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2022 will be recognized in pension expense in future years is presented below:

Year ending September 30,	
2023	$176,939
2024	69,583
2025	73,735
2026	70,480
2027	15,989
Total	$406,726

4. Economic Development Loans and Allowance for Loan Losses

Loans receivable as of September 30, 2022 are comprised of the following:

	Current	Non-current
Loans	$5,061,651	$30,702,950
Less allowance for loan losses	(825,564)	(5,126,017)
	$4,776,087	$25,576,933

Loans receivable as of September 30, 2021 are comprised of the following:

	Current	Non-current
Loans	$5,624,766	$28,555,966
Less allowance for loan losses	(959,378)	(2,871,960)
	$4,665,388	$25,684,006

Major classifications of loans receivable as of September 30, 2022 and 2021 are as follows:

	2022	2021
Housing	$22,831,457	$21,021,019
Commercial	11,079,067	10,750,828
Agriculture	1,419,859	1,533,803
Fishing	974,218	875,082
Loans receivable	36,304,601	34,180,732
Less allowance for loan losses	(5,951,581)	(3,831,338)
	$30,353,020	$30,349,394

Maturity terms of the outstanding loan receivables at September 30, 2022 and 2021 are as follows:

	2022	2021
Fully matured and others	$ 172,492	$ 79,292
1 – 6 months	1,580,695	1,396,278
7 – 18 months	3,607,857	3,330,934
19 months – 3 years	4,090,975	6,060,352
After 3 years	26,852,582	23,313,876
	$36,304,601	$34,180,732

4. Economic Development Loans and Allowance for Loan Losses, continued

An analysis of the change in the allowance for loan losses for the years ended September 30, 2022 and 2021 is as follows:

	2022	2021
Balance – beginning of year	$3,831,338	$3,344,356
Recoveries of loan previously charged-off	255,920	309,850
Provision for loan losses and doubtful accounts	1,864,323	365,554
Loans charged-off	---	(188,422)
Balance - end of year	$5,951,581	$3,831,338

Additionally, in an effort to constructively work with borrowers affected by the COVID-19 pandemic, the Bank initiated temporary programs beginning in March 2020 to allow for deferrals of principal and interest payments from three to twelve months. At September 30, 2022 and 2021, loans totaling of approximately $3.6 million and $6.3 million, respectively, were granted temporary payment deferrals under the programs and are not considered to be trouble debt restructuring.

5. Capital Assets

A summary of capital assets as of September 30, 2022 and 2021, is as follows:

	Estimated Useful Lives	Balance at October 1, 2021	Additions	Deletions	Balance at September 30, 2022
Depreciable assets:					
Leasehold rights	39 - 50 years	$ 585,840	$ ---	$ ---	$ 585,840
Leasehold improvements	5 years	327,327	---	---	327,327
Furniture, fixtures and equipment	2 - 20 years	137,998	3,201	---	141,199
Vehicles	5 years	109,910	---	---	109,910
		1,161,075	3,201	---	1,164,276
Less accumulated depreciation		(530,981)	(37,198)	---	(568,179)
		$ 630,094	$(33,997)	$ ---	$ 596,097

	Estimated Useful Lives	Balance at October 1, 2020	Additions	Deletions	Balance at September 30, 2021
Depreciable assets:					
Leasehold rights	39 - 50 years	$ 585,840	$ ---	$ ---	$ 585,840
Leasehold improvements	5 years	319,227	8,100	---	327,327
Furniture, fixtures and equipment	2 - 20 years	137,998	---	---	137,998
Vehicles	5 years	109,910	---	---	109,910
		1,152,975	8,100	---	1,161,075
Less accumulated depreciation		(490,388)	(40,593)	---	(530,981)
		$ 662,584	$(32,493)	$ ---	$ 630,094

6. Foreclosed Real Estate

A summary of the changes in foreclosed real estate as of September 30, 2022 and 2021 is as follows:

	2022	2021
Balance – beginning of year	$347,188	$347,188
Additions	---	200,000
Disposals	---	(200,000)
Balance - end of year	$347,188	$347,188

Title to foreclosed real estate is in the Bank's name as of September 30, 2022 and 2021. At September 30, 2022 and 2021, foreclosed real estate excludes certain real properties to which the Bank has obtained de-facto ownership but has not obtained clear legal title (see note 12).

7. Loans Payable

Direct Borrowings:

Republic of Palau Social Security Retirement Fund

On August 28, 2003, the Bank entered into a loan with the Republic of Palau Social Security Retirement Fund (the Fund), an affiliated entity and a component unit of ROP. The loan was for $3,000,000 with a subsequent $2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time.

On August 7, 2008, the Bank entered into a new agreement to restructure the existing loan with the Fund. The loan ceiling increased to $6,000,000, which was disbursed in increments of $500,000, bearing interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by Fund's investment consultant, plus 0.5%; provided, however that the interest rate to be charged and paid shall not be less than 4.5% nor more than 7.5% after addition of the 0.5% to the prime rate. Outstanding principal plus all unpaid interest is to be paid semi-annually, on or before June 30 and December 31 of each year, effective June 30, 2011 up to December 31, 2025.

The outstanding balance of the loan was $1,155,884 and $1,730,959 with interest at 4.5% as of September 30, 2022 and 2021, respectively. The loan is collateralized by the full faith and credit of the ROP Government. Also, the loan contains a provision that in an event of default, and at the option of the Fund, all obligations shall immediately become due and payable without further action of any kind.

7. Loans Payable, Continued

Direct Borrowings, Continued:

Mega International Commercial Bank Co., Ltd. (MICB)

On March 5, 2004, the Bank entered into a loan with MICB (formerly the International Commercial Bank of China) for $5,000,000 to be used as capital funds. The note is uncollateralized and is due on July 1, 2024, with interest fixed at 3.5% per annum, payable in semi-annual installments of $142,858, and guaranteed by ROP. Interest is payable semi-annually and commences six months after the advance of proceeds. Annual expected principal repayments are $285,716.

The loan agreement contains a provision that in an event of default, the Lender may by written notice to the Bank cancel the loan agreement and/or the entire loan and other sums payable may be declared to become immediately due and payable and the loan and such other sums shall become due and payable without presentment, demand, protest or notice of any kind (other than the notice specifically required by the loan agreement), all of which are hereby expressly waived by the Bank. The outstanding balance is $571,402 and $857,118 at September 30, 2022 and 2021, respectively.

Republic of Palau

On May 17, 2012, the Bank entered into a $4,000,000 agreement with ROP to finance a loan to the Palau National Communications Corporation (PNCC) for the acquisition of underwater fiber-optic cable for $3,000,000 and for additional Bank lending activities. The note is uncollateralized and is due and payable 120 months after the loan date, with interest fixed at 2.0% per annum. Interest and principal are payable monthly and commences thirty-six months after the advance of proceeds over the remaining period of the loan term. The PNCC fiber-optic project did not proceed and $3,000,000 was returned to ROP on April 5, 2013.

The outstanding balance outstanding at September 30, 2021 of $101,377 was paid off during the year ended September 30, 2022.

On March 31, 2016, the Bank entered into a $5,000,000 agreement with ROP to finance the development of agriculture and aquaculture projects in Palau. ROP is to provide the Bank with up to $500,000 of loan loss coverage for losses incurred by the program applicable to payments five years after the agreement. The note is uncollateralized and is due on March 31, 2036, and with interest based on 6-month LIBOR plus one percent (1%) per annum (effective interest rates were 2.4997% and 1.20288% as of September 30, 2022 and 2021, respectively), interest only payable semi-annually until September 30, 2018 with the first semi-annual principal installment of $142,857 payable on March 31, 2019. Annual expected principal payments are $285,714. The loan agreement does not contain a provision on acceleration clause in an event of default. The outstanding balance is $3,857,144 and $4,142,858 at September 30, 2022 and 2021, respectively.

At September 30, 2022 and 2021, the Bank does not have any unused lines of credit or have any assets pledged as collateral.

7. Loans Payable, Continued

Direct Borrowings, Continued:

International Cooperation and Development Fund (Taiwan ICDF)

On March 30, 2020, ROP and Taiwan ICDF agreed to implement the Women and Youth Entrepreneurs and Micro and Small and Medium Enterprises Re-lending Project. Taiwan ICDF agreed to provide a long-term loan not exceeding $5 million to ROP to on-lend the proceeds of the loan to NDBP for project implementation. The loan is uncollateralized and is due on March 2040, with interest based on Libor plus 1% capped at 4% per annum, payable in semi-annual installments as advised by Taiwan ICDF and guaranteed by ROP. Interest is payable semi-annually and commences six months after the drawdown. Any undrawn loan is subjected to a 0.75% commitment fee. The outstanding balance of the loan is $5,000,000 and $3,000,000 at September 30, 2022. At September 30, 2022, the Bank does not have any unused lines of credit. At September 30, 2022, the Bank is not in compliance with certain financial covenant ratio requirements. No communications have been received by the Bank with regards to any accelerated repayment requirements as April 11, 2024.

Principal payments for subsequent years ending September 30 and applicable interest due, are as follows:

Year ending September 30,	Principal	Interest	Total
2023	$ 854,528	$ 267,959	$ 1,122,487
2024	1,280,891	232,549	1,513,440
2025	1,184,303	200,465	1,384,768
2026	579,832	160,917	740,749
2027	579,832	148,436	728,268
2028 - 2032	2,899,158	555,577	3,454,735
2033 - 2037	2,470,592	245,646	2,716,238
2038 - 2040	735,294	26,239	761,533
	$10,584,430	$1,837,788	$12,422,218

Changes in loans payable for the years ended September 30, 2022 and 2021, are as follows:

	Balance October 1, 2021	Additions	Reductions	Balance September 30, 2022	Due Within One Year
Republic of Palau Social Security Retirement Fund	$1,730,959	$ ---	$(575,075)	$ 1,155,884	$136,039
ROP Government	4,244,235	---	(387,091)	3,857,144	285,714
Mega International Commercial Bank	857,118	---	(285,716)	571,402	285,716
Taiwan ICDP	3,000,000	2,000,000	---	5,000,000	147,059
	$9,832,312	$2,000,000	$(1,247,882)	$10,584,430	$854,528

7. Loans Payable, Continued

	Balance October 1, 2020	Additions	Reductions	Balance September 30, 2021	Due Within One Year
Republic of Palau Social Security Retirement Fund	$2,075,322	$ ---	$(344,363)	$ 1,730,959	$353,352
ROP Government	4,679,506	---	(435,271)	4,244,235	387,007
Mega International Commercial Bank	1,142,834	---	(285,716)	857,118	285,716
Taiwan ICDP	---	3,000,000	---	3,000,000	---
European Investment Bank	435,163	---	(435,163)	---	---
	$8,332,825	$3,000,000	$(1,500,513)	$9,832,312	$1,026,075

8. Payable to Republic of Palau Ministry of Finance

On December 1, 2020, Asian Development Bank entered into a grant agreement (the Grant) with ROP to implement the Disaster Resilient Clean Energy Financing Project (the Project). The Grant has a closing date of April 30, 2024. The Project would be carried out by the ROP Ministry of Finance (MOF) acting through the Bank. Under the Project, $3 million in grant proceeds are to be made available to the Bank to re-lend to eligible borrowers for the purchase and installation of solar home systems and to procure all goods and services in accordance with the grant agreement. The Bank acts as the implementing agency that approves credit worthiness of borrowers, implements compliance with credit process, and ensure full repayment of loans by eligible borrowers and repays the funds back to MOF over a maturity period of eight years without interest. The Bank received $1,071,584 total proceeds as of September 30, 2022, of which $82,860 represent loans outstanding by borrowers, $364,211 in purchased solar system inventories, $324,231 in prepaid costs for the training and installation costs and $300,282 in cash and cash equivalents. The Bank has a remaining balance of approximately $2,000,000 available as of September 30, 2022.

9. Other Long-Term Liability

Changes in the Bank's other long-term liability for the years ended September 30, 2022 and 2021, are as follows:

	Balance October 1, 2021	Additions	Reductions	Balance September 30, 2022	Due Within One Year
Net pension liability	$2,594,001	$ ---	$ ---	$2,594,001	$ ---

	Balance October 1, 2020	Additions	Reductions	Balance September 30, 2021	Due Within One Year
Net pension liability	$2,428,960	$165,041	$ ---	$2,594,001	$ ---

10. Related Party Transactions

The Bank grants loans to affiliates, officers and employees. Loans made to related parties were extended in the normal course of business and at prevailing interest rates. Loans receivable from officers and employees are $1,185,897 and $1,076,457 as of September 30, 2022 and 2021, respectively. Loans receivable from officers and employees and loans receivable from an affiliate are included within economic development loans receivable in the accompanying statements of net position.

On June 12, 2019, RPPL No. 10-36 was passed into law creating the HDLP administered by the National Housing Commission (NHC), financed by MICB through Ministry of Finance (MOF). Palau Housing Authority (PHA) and the Bank are assigned to distribute the proceeds of the loan. On August 28, 2019, NHC, MOF, PHA and the Bank entered into a subsidiary loan agreement. On November 25, 2020, the parties amended the subsidiary loan agreement and agreed to rescind the repayment obligation to MOF in relation to the HDLP. For the years ended September 30, 2022 and 2021, the Bank received $0 and $3,255,342 capital contribution from ROP for the HDLP fund, respectively. For the years ended September 30, 2022 and 2021, the Bank had loan disbursements of approximately $0.24 million and $3.73 million, respectively. At September 30, 2022, cumulative capital contributions totaled $8,994,648 and cumulative loan disbursements totaled $6.68 million.

Pursuant to RPPL-10-56 (the CROSS Act), ROP and the Bank entered into funding agreement for CROSS Act business loans to be lent to qualified borrowers for loan assistance. Funds provided to the Bank shall not be repayable to ROP. The Bank recognized $0 and $500,000 grant revenues for the years ended September 30, 2022 and 2021 related to the CROSS Act, respectively, and disbursed loans totaling $8,706 and $569,473, respectively.

11. Commitments

Internal restrictions

RPPL 4-48, Section 126, as amended by RPPL 5-37, stipulates that the Bank shall maintain a reserve account to be applied to all defaults on commercial loans guaranteed by the Bank. The reserve account shall equal ten percent (10%) of the total amount of all loan guarantees on commercial bank loans, whether or not protected by the full faith and credit of ROP. There were no commercial loan guarantees as of September 30, 2022 and 2021 and accordingly, the Bank has no restricted cash and cash equivalents as of September 30, 2022 and 2021 to comprise this reserve.

The Bank has internally restricted (not reflected as restricted in the Statements of Net Position) cash and cash equivalents held solely for the guarantee of U.S. Department of Agriculture Rural Development (USDA RD) loans in the amount of $552,511 and $551,041 as of September 30, 2022 and 2021, respectively. Additionally, $162,447 and $162,447 of cash received from grantor agencies was internally restricted at September 30, 2022 and 2021, respectively.

11. Commitments, Continued

Loans

At September 30, 2022 and 2021, $18,808,539 and $14,835,062, respectively, of approved loans were undisbursed. Of undisbursed loans as of September 30, 2022 and 2021, $3,557,500 and $9,768,485, respectively, relate to performance bonds on various construction contracts where the Bank acts as the insurer $585,929 and $610,929, respectively, relate to letters of credit. At September 30, 2022 and 2021, no performance bonds have been called.

Leases

On March 20, 2008, the Bank entered into an agreement with the Airai State Public Lands Authority for the lease of land to be used for bank operations and other related business. The term of the lease is fifty years commencing March 20, 2008. On May 27, 2011, the lessor accepted the Bank's right, title and interest on a parcel of land with an appraised value of $73,000, as credit to the lease rent until March 20, 2034. The lease has the option to extend for another forty-nine years expiring on March 19, 2107. The premises will be appraised on the 50th and 70th year of the lease and the lease payments may be increased.

Total future minimum lease payments for subsequent years ending September 30, are as follows:

Years ending September 30,	
2034 - 2038	$ 34,410
2039 - 2043	34,410
2044 - 2048	34,410
2049 - 2053	34,410
2054 - 2058	31,110
Total future minimum payments	$168,870

12. Contingencies

On February 1, 2011, the Bank amended the MOU originally entered into on February 16, 1995 with the USDA RD to provide housing for low and very low-income residents of ROP. Under the agreement, the USDA RD will make loans to the owners and lessees of ROP lands and the Bank will guarantee the repayment of the loan for which the Bank has issued a written guarantee. The Bank has approved guarantees for eighty loans aggregating $2,606,525 at September 30, 2022. Unpaid interest and subsidies related to the loan guarantees as of September 30, 2022 amounted to $78,293 and $1,150,904, respectively, for which the Bank becomes liable once the borrower defaults and a demand notice is issued. As of September 30, 2022, no demand notice has been received by the Bank.

12. Contingencies, Continued

RPPL 5-37 increased the ROP's full faith and credit backing for loans, loan guarantees, and obligations under recourse loan repurchase agreements made by the Bank to $15,000,000. Of this amount, $2,000,000 shall be for residential housing projects and $5,000,000 for the purpose of satisfying requirements for obtaining bank loans.

On December 14, 2018, the Bank won the foreclosure of the delinquent borrower's leasehold property thru a credit bid. The land's ownership is uncertain and has ongoing legal proceedings. On May 24, 2019, the Bank entered into a sublease agreement with a related party which is contingent upon the approval of the sublease agreement by the lessor. The parties agreed that upon the final court order to the effect that the lessor is the fee simple owner of the land, the Bank will assign to the related party and the related party will purchase all of the rights, title and interest of the Bank in and to the Lessor Assignment of Lease and the previous assignor for $1,800,000, deducting all payments made during the lease term. Payment of $200,000 was received from the affiliate in connection with the sublease agreement and has been recorded as a deduction from foreclosed properties in 2021 and was recognized as a component of recovery of previously charged off loan in 2021 (see note 6). As of September 30, 2022, the sublease approval and final court order has not been obtained.

13. Risk Management

The Bank is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Bank has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Required Supplementary Information

National Development Bank of Palau
(A Component Unit of the Republic of Palau)

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability

Last 10 Fiscal Years*

	September 30,							
	2020 Valuation	2019 Valuation	2018 Valuation	2017 Valuation	2016 Valuation	2015 Valuation	2014 Valuation	2013 Valuation
Civil Service Pension Trust Fund (Plan) total net pension liability	$ 344,384,167	$ 308,480,463	$ 250,868,784	$ 259,395,005	$ 249,453,960	$ 215,546,176	$ 204,281,232	$ 182,080,333
The Bank's proportionate share of the net pension liability	$ 2,594,001	$ 2,428,958	$ 1,954,037	$ 1,831,279	$ 1,837,001	$ 1,630,006	$ 1,566,428	$ 1,523,284
The Bank's proportion of the net pension liability	0.753%	0.787%	0.779%	0.706%	0.736%	0.756%	0.767%	0.837%
The Bank's covered employee payroll**	$ 461,950	$ 470,550	$ 456,950	$ 409,000	$ 390,026	$ 366,745	$ 360,465	$ 349,499
The Bank's proportionate share of the net pension liability as a percentage of its covered employee payroll	561.53%	516.20%	427.63%	447.75%	470.99%	444.45%	434.56%	435.85%
Plan fiduciary net position as a percentage of the total pension liability	8.42%	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%	15.84%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

National Development Bank of Palau
(A Component Unit of the Republic of Palau)

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions

Last 10 Fiscal Years*

	September 30,							
	2020 Valuation	2019 Valuation	2018 Valuation	2017 Valuation	2016 Valuation	2015 Valuation	2014 Valuation	2013 Valuation
Actuarially determined contribution	$ 118,666	$ 110,950	$ 134,847	$ 121,283	$ 106,170	$ 82,427	$ 81,456	$ 84,209
Contribution in relation to the actuarially determined contribution	27,717	28,233	27,417	24,540	23,081	21,858	21,226	21,048
Contribution deficiency	$ 90,949	$ 82,717	$ 107,430	$ 96,743	$ 83,089	$ 60,569	$ 60,230	$ 63,161
The Bank's covered-employee payroll**	$ 461,950	$ 470,550	$ 456,950	$ 409,000	$ 390,026	$ 366,745	$ 360,465	$ 349,499
Contribution as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	5.92%	5.96%	5.89%	6.02%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

Supplementary Information

National Development Bank of Palau
(A Component Unit of the Republic of Palau)

Schedule of International Cooperation and Development Fund
Loan Agreement Financial Covenant Ratios

September 30, 2022

1) Percentage of the loans which have been overdue for ninety (90) days or more (Portfolio at Risk ≥ 90 days) should be less than eight percent (8%):

Total delinquent loans ≥ 90 days	$ 5,839,393
Total loan portfolio	$36,304,601
	16%

2) Return on assets ratio is no less than one percent (1%):

Net loss for the year	$(625,982)
Average total assets	$43,286,415
	(1.45)%

National Development Bank of Palau
(A Component Unit of the Republic of Palau)

Schedule of Asian Development Bank Grant Agreement Financial Condition Ratios

September 30, 2022

1) Ratio of equity to total assets of no less than twenty percent (20%):

Total net position	$29,633,340
Total assets	$43,867,917
	68%

2) Ratio of non-performing loans, as defined, to total capital of no more than ten percent (10%):

Total non-performing loans	$ 5,837,393
Total net position	$29,633,340
	20%

3) Ratio of loan loss reserves to non-performing loans of at least ninety percent (90%):

Allowance for loan losses	$ 5,951,581
Total non-performing loans	$ 5,837,393
	102%

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
National Development Bank of Palau

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the National Development Bank of Palau (the Bank), which comprise the statement of net position as of September 30, 2022, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

April 11, 2024