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NATIONAL DEVELOPMENT BANK OF PALAU
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2016

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
National Development Bank of Palau:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Development Bank of Palau (the Bank), a component unit of the Republic of Palau, which comprise the statement of net position as of September 30, 2016, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Development Bank of Palau as of September 30, 2016, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 12 to the financial statements, beginning net position and loan origination fees have been restated for the correction of errors.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 as well as the Schedule of Proportional Share of the Net Pension Liability on page 36 and the Schedule of Pension Contributions on page 37 be presented to supplement the basic financial statements. Such information, 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. This supplementary information is the responsibility of the Bank's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2017 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 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.

Deloitte & Touche LLC

May 15, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2016

This Management Discussion and Analysis (MD&A) of the National Development Bank of Palau's (the Bank) financial performance and condition for the fiscal year ended 2016 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 enterprise, 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 elect their own officers to the posts of Chairman, Vice Chairman and Secretary/Treasurer, to serve the length of their terms.

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 President and management. The Bank is organized in three functional areas: Finance, Lending and Risk & Compliance. The Board of Directors approves the hiring of candidates for the manager of each functional area. The Bank's 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 the Board. At fully staffed capacity, the Bank has seventeen full-time equivalent employees, including the President/Chief Executive Officer (CEO).

All Bank operations are conducted from its main office in Ngetkib Village, Airai State. There were no branches, other offices or subsidiaries operating in 2016. Plans for expansion of the Bank's building are set forth in the Bank's ten-year Strategic Plan.

Economic Outlook

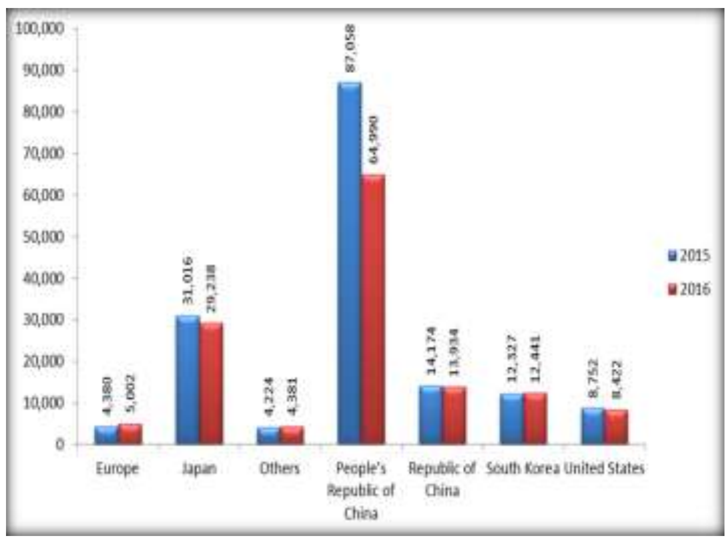
Compared to the 2015 Gross Domestic Product (GDP) at 9.4%, Palau's economy grew by only 2.0% in 2016. This modest growth in the GDP is a result of various circumstances that had a negative impact on the economy, especially to Palau's most critical industry - the tourist industry, as follows:

- The severe drought that occurred during the months of March through May 2016 had a negative impact on growth, affecting both the private and public sector.
- The reduction in charter flights (e.g. Lion Air, Thai Smile, Nok, Trans Asia, Dynamic and Mega) reduced overall visitor arrivals to Palau by 14.5%.
- The government's attempt to limit certain tourist markets, discouraged Chinese visitors, resulting in a significant drop in that market segment.

The effects of the slowdown in the tourist industry can be seen in the collection of Business Gross Receipt Tax (GRT), particularly in the accommodation and food service, where the reported GRT for 2016 fell by 22.9%, from 2015. On the other hand, fisheries and agriculture and forestry experienced a growth of 77.4% and 7.6%, respectively.

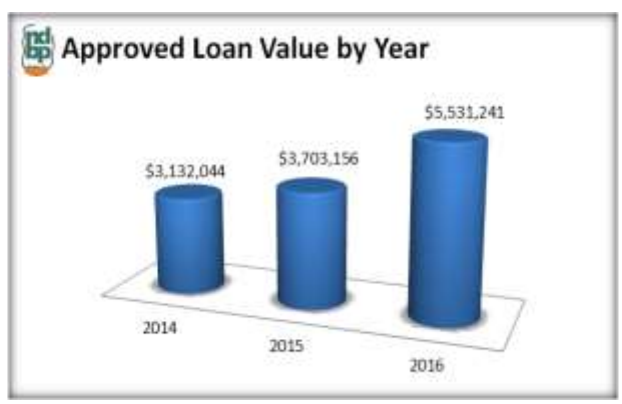
	2015	2016	
Business Gross Receipt Tax			
Accommodation and Food Service	$3,542,023	$2,729,862	-22.9%
Agriculture and Forestry	$26,686	$28,721	7.6%
Construction	$1,101,128	$972,452	-11.7%
Fisheries	$41,589	$73,784	77.4%
Manufacturing	$234,596	$222,655	-5.1%
Mining and Quarrying	$97,726	$106,876	9.4%
Transportation and Storage	$1,206,756	$1,122,291	-7.0%
Wholesales, Retail, and Vehicle Repair	$7,965,646	$7,706,569	-3.3%
Grand Total	**$14,216,150**	**$12,963,210**	**-8.8%**

The tourist industry is the driving force behind the economy of Palau. The Asian Development Bank (ADB) emphasized this point in its member fact sheet, stating that "growth in tourism has driven strong economic performance for the country". The overall tourist arrivals to Palau in 2016 decreased by 14.5%, with the China tourist market leading by 25.3%.



Tourist arrivals are expected to pick-up in the coming year. In addition, the new ADB Outlook report expects Palau's economy to grow by at least 3% in 2017. As Palau continues to develop its infrastructures, while focusing on growing viable industries within its private sector, such as agriculture, aquaculture and manufacturing, it can develop a resilient economy that will allow the country to withstand and prevail over any possible downturn in its tourist industry in the future.

Despite the decreased growth in Palau's tourist industry and the modest growth in the GDP, there has been no significant impact on the Bank's loan portfolio and its operations. For instance, the total amount of loans processed and approved by the Bank in 2016 increased by 49.4%, compared to 2015.



Significant Events

In 2016, a $5,000,000 subsidiary loan agreement, with a variable interest rate, was signed between the Bank and the government of ROP. The purpose of this agreement is to finance the development of sustainable agriculture and aquaculture.

On December 5, 2014, the President of ROP signed Republic of Palau Public Law (RPPL) 9-41 into law, which amends certain provision of Title 26 of the PNCA enabling the Bank to accept and process deposits and other related purposes. This Act requires the Bank to take measures to ensure compliance as follows:

- The supervision of the Financial Institution Commission (FIC); and
- The application of Title 26, Chapter 10 of the PNCA to the operation of the Bank.

Upon the effective date of RPPL 9-41, the Bank shall also take the following measures:

- Plan for and begin accepting savings deposits within two years;
- Start issuing bonds within two years;
- Plan for and begin accepting demand deposits within the next three years;
- Promulgate regulations to carry out the purpose of this Act; and
- Submit reports on October 1, 2015, 2016 and 2017 on the measures taken to carry out the directives as stated, including reports regarding the timeliness for accepting savings and demand deposits and issuing bonds.

Funding for Operations

Historically, the Bank has funded its operations from three main sources: paid-in capital, accumulated retained income and borrowed funds. The most recent paid-in capital received from ROP was $3 million in 2000 to fund a first-time homeowner program. The Bank has relied on accumulated retained income since 2002, and borrowed funds since 2003, to fund loan operations and the Bank's growth. Additional sources of funds pursued during the year included additional long-term borrowings, loan/asset sales and grants. The Bank's Strategic Plan also considers deposit liabilities as a new source of funds in the future.

Borrowed funds currently outstanding are from signed notes with Mega International Commercial Bank (MICB, previously the International Commercial Bank of China), the Republic of Palau Social Security Administration (ROPSSA), the European Investment Bank (EIB) and ROP. All five notes are for long-term intermediary relending funds.

A $750,000 loan from the U.S. Department of Agriculture (USDA) for an Intermediary Relending Program (IRP) loan agreement was signed on March 27, 2013. The Bank is required to match these funds in a revolving fund at the signing of the loan and has done so with an account at the Bank of Hawaii. The USDA IRP funds are to be used to support businesses that have been turned away from other local banks.

The timing and extent to which borrowed funds are utilized for lending activities is determined mainly by cost and availability. ROP loan proceeds represented the least costly funds available at a 2.00% fixed interest rate per annum. The highest borrowed funds interest rate is from EIB at 5.175% per annum.

For grants, the Bank continuously works to secure grants to expand its Energy Loan Programs. New solar equipment was received in 2016.

Funding for Operations, Continued

The Finance section of the Bank is accountable for accounting and financing activities including liquidity management. Liquidity management for the Bank includes segregation of bank accounts and transfers from general accounts to support disbursements. Disbursements are generally planned through the annual budget process. Forward estimates for loan disbursements are provided by loan officers each month. Proceeds from loans to the Bank for intermediary re-lending are requested based on forward estimates and, where necessary, cash flow from operations and non-restricted investments are used if those proceeds are not immediately available. Management is mindful to minimize any additional interest costs in these decisions.

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 the 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 statements of net position. The accrual basis of accounting is utilized whereby revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Significant financial policies of the Bank include a 10% reserve requirement for commercial guaranteed loans. As of September 30, 2016, all commercial guaranteed loans have been paid off. The USDA Rural Development (RD) requirement for their reserve is a fixed amount of $500,000 maintained at a commercial bank. At end of 2016, the current balance on the account is $540,980 which includes fees collected and interest earned.

All current guarantees are granted under recourse. Title 26 of the PNCA states, "The Bank may at its discretion provide loan guarantees to another bank in support of a qualified applicant's commercial loan application. No such loan guarantee shall guarantee more than ninety percent (90%) of the outstanding amount of the loan except in the case of the guarantee of a home loan to a citizen of the Republic." USDA RD guaranteed home loans contingent liability is 100%. The total amount for which the Bank was contingently liable in 2016 for commercial banks and USDA RD home loans was $4 million. The amended Memorandum of Understanding (MOU) with USDA RD provided requirements for accounts allowable for reserves and several procedural covenants.

A Memorandum of Understanding (MOU) was signed on April 1, 2014, between the Bank of Guam (BOG), the Bank and the Palau Housing Authority (PHA) pursuant to the Belau Real Estate Financing Program. Some of the roles and responsibilities for BOG, the Bank and PHA include but are not limited to:

BOG:

- Receive all loan applications;
- Obtain attorney certification that the mortgaged property for each loan can indeed be mortgaged and certify that there are no restrictions or prior liens against the property;
- Obtain a professional appraisal for each loan with a maximum loan to value ratio not to exceed 75%;
- Not exceed $100,000 for each individual borrower;
- Monitor the loan and collect payments;

Financial Policies, Continued

BOG, Continued:

- Exhaust all efforts to collect on all loans as specified in the Bank procedures;
- Interest rate (annual percentage rate): 3% + WSJ prime rate as specified at the time the loan is granted; and
- The loan term shall not exceed 25 years.

The Bank:

- Collect from BOG a non-refundable guaranty fee in the amount of 2% of the loan amount;
- Review and complete the loan package and issue a certificate of guaranty if acceptable within 30 days;
- Be assigned the debt, loan, note, obligation and collateral by BOG once the guaranty is called and BOG has paid up to 80% on the delinquent loan principal only; and
- Have the option to credit bid on any collateral on the loan to protect ROP's interest.

PHA:

- Shall be eligible for this guaranty program for loans up to its legal lending limit under the same terms and conditions as the Bank.

There were no completed loan applications received from BOG as of September 30, 2016.

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. Specific targets for exposure to industry are not formally established but concentrations are monitored on a regular basis. Loan maturities are monitored to match borrowings, operation costs and long outstanding loan commitments. At September 2016, loan maturities remained concentrated in the 15-year range.

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 from the Palau Small Business Development Center (SBDC) to assist clients with creating business plans; collaboration with the Palau SBDC and the Ministry of Natural Resources, Environment and Tourism on the Farm Loan Program; and the MOU with PHA on providing subsidy for 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.

Operations, Continued

Direct Loans

Short 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, lending spread to cover the cost of operations, risk component, and a small return for growth purposes. Our newest program for agriculture loans as of September 30, 2016 had a fixed rate of 3%. 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. In 2016, the Bank approved 192 loan applications totaling $9.7 million which includes renewals, extensions, performance bonds and new loans, of which $7.9 million remains undisbursed at fiscal year end 2016. The majority of the undisbursed loans is for guaranteed performance bonds and term loans/lines of credit of $4.7 and $3.2 million, respectively.

In the category of small business loans, the Bank offers customers four programs: Small Business, WEDAP, Microfinance, and its newest program, the Pre-Development Loan. The Bank's general policy is for all loans to be fully secured, except for Microfinance loans, which are up to $10,000. Microfinance loans are administered like signature loans; however, the Bank may take collateral if it deems necessary for caution. The Bank's Microfinance and Pre-Development Loan programs are small loans for housing or business purposes at a 6% interest rate targeting those borrowers who are able to 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. Specifically, interests in Microfinance loans, which are also available for home projects such as extensions and renovations have been popular. This may be due to the postponement of larger investments by borrowers due to the current sentiment regarding a sluggish economy.

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. Owner contribution to projects is required at 15% of project cost with a maximum amount of $10,000 under the Pre-Development Loan and a loan term not to exceed five years. The purpose of the Pre-Development Loan is to help borrowers pay for plan design, appraisal, title search and all related soft costs associated with packaging loans and cash equity contribution. Eligible purposes for housing loans include new construction, renovation and extension.

Most loan applications are granted for new construction. The Bank has observed more loans being approved under the first-time homeowner program than the standard housing program.

Guaranteed Loans

The Bank offers guarantees either backed by the Bank or ROP to commercial banks and other institutions. Commercial banks, government authorities and the regional development financial institution, the Pacific Island Development Bank, either currently accept or hold guarantees from the Bank. The majority of guarantees outstanding from the Bank are to USDA RD loans. In addition to the USDA RD Section 502 and 504 housing loans guaranteed by the Bank, there are leveraged loans which are co-financed by both the Bank and USDA RD. Popularity is low with these programs as they often take months to receive approval and are stricter in terms and loan covenants. The Belau Real Estate Financing Program through BOG is a new addition to our guaranteed loan program. As of September 30, 2016, no completed loan packages from BOG were received by the Bank.

Operations, Continued

Approval Process

All requests for financing are reviewed by Loan Officers who recommend approval or declination of a loan application based on review of business and other plans, income and credit verifications and collateral. A normal approval cycle from application to approval can be obtained within three months with the exception of small loans approved by the President that can have an approval cycle within three weeks. The use of outside professionals to research land title, provide valuations on collateral, review and certify plans and conduct progress inspections is an integral part of the loan origination but also delays loan approvals. The Bank advocates building codes and requires the use of a recognized code in the design of all construction projects. The Bank utilizes a dual approval process whereby the next higher approval authority reviews loan decisions. The Bank's Board of Directors holds meetings of no less than three times per month to approve loans and review other business. Loan disbursements are made according to progress payments against approved loan purposes. Any deviation requires an amendment to the loan and approval by original approving authorities.

Loan Management

The Bank monitors payment performance and contacts clients on a seven, thirty, sixty and ninety-day schedule with the degree of reporting based on each borrowers' circumstance. Additionally, Loan Officers conduct account reviews and site visits whenever a weakness becomes evident in a loan. Once a loan is determined to be uncollectible by the Loan Officer the loan is placed in non-accrual status. The Collection Officer takes over the account and works with the Bank's attorneys to cure, recover or liquidate the collateral.

Financial Reporting

Financial reporting is made by each of the Bank's three sections to the President/CEO of the Bank, who in turn reports to the Board of Directors on a monthly basis. These reports include financial, loan and risk & compliance information as well as administrative, industry and economic environment information. Monthly reports are provided to the Board of Directors and annual reports are provided to the Bank's lenders and ROP.

Overview of Financial Performance

Change in Net Position

The change in net position decreased from $1,431,121 to $1,010,779 due to a decrease in interest income and an increase in expenses. A condensed year-to-year comparison of operating activity reflecting the foregoing statements follows:

Statements of Revenues, Expenses and Changes in Net Position

	2016	2015 As Restated	$ Change	% Change
Revenues:				
Interest income on loans	$ 1,491,715	$ 1,661,610	$ (169,895)	-10%
Loan fees and late charges	95,428	90,417	5,011	6%
Other	53,510	41,128	12,382	30%
Total operating revenues	1,640,653	1,793,155	(152,502)	-9%
Recovery of loan losses	492,375	411,892	80,483	20%

Overview of Financial Performance, Continued

Statements of Revenues, Expenses and Changes in Net Position, Continued

	2016	2015 As Restated	$ Change	% Change
Operating expenses:				
Salaries, wages and fringe benefits	544,977	436,483	108,494	25%
Training and travel	116,306	59,244	57,062	96%
Depreciation	36,953	42,122	(5,169)	-12%
Other expenses	244,025	216,312	27,713	13%
Total operating expenses	942,261	754,161	188,100	25%
Operating income	1,190,767	1,450,886	(260,119)	-18%
Nonoperating revenues (expenses), net	(179,988)	(19,765)	(160,223)	811%
Change in net position	1,010,779	1,431,121	(420,342)	-29%
Net position at beginning of year	17,478,715	16,047,594	1,431,121	9%
Net position at end of year	$ 18,489,494	$ 17,478,715	$ 1,010,779	6%

A condensed year-to-year comparison of the Statements of Cash Flows follows:

Statements of Cash Flows

	2016	2015 As Restated	$ Change	% Change
Cash flows from operating activities	$ 660,318	$ 1,847,254	$ (1,186,936)	-64%
Cash flows from capital and related financing activities	3,517,938	1,599,229	1,918,709	120%
Cash flows from investing activities	639,932	1,271,222	(631,290)	-50%
Cash flows from noncapital financing activities	(28,919)	(2,210,021)	2,181,102	-99%
Net increase in cash and cash equivalents	4,789,269	2,507,684	2,281,585	91%
Cash and cash equivalents at beginning of year	9,260,235	6,752,551	2,507,684	37%
Cash and cash equivalents at end of year	$ 14,049,504	$ 9,260,235	$ 4,789,269	52%

Revenue

Operating revenues include all direct revenues such as interest income and fees on loans and other miscellaneous fees (i.e. late charges). Interest income for the years ended September 30, 2016 and 2015 was $1,491,715 and $1,661,610, respectively.

Loan Interest Rates

The Bank's interest rates remained fixed according to the type of loan funded. Rates ranged from 3% for our newest agriculture program, 6% for existing agriculture, Microfinance and Pre-Development loans; 8% for fishing, WEDAP and first-time homeowner loans; and 10% for commercial and housing loans. Other accounts in collection continue to be assessed the statutory rate of 9% as required by a court-ordered judgment. At the end of fiscal year 2016, the average yield on the Bank's portfolio was 8.47% versus 8.40% in 2015 as non-performing loans decreased.

Grants

On March 29, 2016, the Bank, under the Abu Dhabi Fund, received 100 solar systems amounting to $1 million. There were thirty-two kits remaining as of September 30, 2016. The program deadline is December 31, 2016.

Overview of Financial Performance, Continued

Expenses

Total operating expenses for 2016 was $942,261 compared to $754,161 in 2015 for an increase of $188,100. The increase is largely due to additional staffing, training as well as professional assistance in preparation for the Bank to take on deposits.

Overview of Financial Condition

The Bank ended the year with total assets and deferred outflows of resources of $34,459,988 versus $29,551,779 in 2015. The increase is largely due to proceeds from a $5 million loan payable.

Governmental Accounting Standards Board (GASB) Statement No. 65 requires that loan origination fees, with the exception of related points, be recognized as revenue in the period received. The Bank restated deferred loan fees of $428,641 for 2015.

The following condensed Statements of Net Position highlights the aforementioned changes in condition with comparative information from prior years.

Statements of Net Position

	2016	2015 As Restated	$ Change	% Change
Economic development loans receivable, net	$ 18,112,014	$ 18,249,508	$ (137,494)	-1%
Capital assets	623,208	631,916	(8,708)	-1%
Other assets	15,525,773	10,517,114	5,008,659	48%
Total assets	34,260,995	29,398,538	4,862,457	17%
Deferred outflows of resources	198,993	153,041	45,952	30%
Total assets and deferred outflows of resources	$ 34,459,988	$ 29,551,579	$ 4,908,409	17%
Loans payable	$ 13,433,219	$ 9,478,214	$ 3,955,005	42%
Net pension liability	1,630,006	1,566,224	63,782	4%
Other liabilities	670,695	818,695	(148,000)	-18%
Total liabilities	15,733,920	11,863,133	3,870,787	33%
Deferred inflows of resources	236,574	209,731	26,843	13%
Total liabilities and deferred inflows of resources	15,970,494	12,072,864	3,897,630	32%
Net position:				
Net investment in capital assets	623,208	631,916	(8,708)	-1%
Restricted	17,866,286	16,846,799	1,019,487	6%
Total net position	18,489,494	17,478,715	1,010,779	6%
Total liabilities, deferred inflows of resources and net position	$ 34,459,988	$ 29,551,579	$ 4,908,409	17%

Loan Portfolio

The Bank's loan portfolio includes new, amended and renewed loans. The Bank approved one hundred and ninety-two loans in 2016 for $9.7 million and one hundred and forty-five loans in 2015 for $6.1 million.

Overview of Financial Condition, Continued

Loan Portfolio, Continued

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 outstanding loans by sector for 2016 and 2015 are presented in the following table:

	2016			2015			CHANGE		
Sector	Number	Amount	Percent	Number	Amount	Percent	Number	Amount	Percent
Agriculture	26	$ 281,106	1.47%	15	$ 277,046	1.38%	11	$ 4,060	1.47%
Fishing	38	278,350	1.46%	35	281,881	1.41%	3	(3,531)	-1.25%
Commercial	105	7,869,329	41.18%	141	7,837,551	39.13%	(36)	31,778	0.41%
Housing	549	10,679,208	55.89%	568	11,634,294	58.08%	(19)	(955,086)	-8.21%
Totals	718	$ 19,107,993	100.00%	759	$ 20,030,772	100.00%	(41)	$ (922,779)	-4.61%

The total number of loans at the end 2016 was seven hundred and eighteen accounts for $19.1 million. In 2015, the total number of loans outstanding was seven hundred and fifty-nine for $20.0 million, which was a decrease of $923 thousand or 4.61% of total outstanding loans in 2016 compared to 2015.

Arrears

The total number of accounts with amounts in arrears at end of 2016 is forty-seven amounting to $79 thousand compared to eighty-five accounts amounting to $625 thousand in 2015. The amount of arrears as a percentage of the value of total outstanding loans is less than 1% for 2016 and 3% for 2015 largely due to a decrease in non-performing loans.

Loans Payable

The Bank entered into a loan agreement with ROP to receive agriculture and aquaculture funding of $5 million. Payments for the first thirty-six months will be interest only. See note 7 to the financial statements for more detailed information on the Bank's loans payable.

Capital Assets

At September 30, 2016 and 2015, the Bank had net investment in capital assets of $623,208 and $631,916, respectively, net of accumulated depreciation where applicable, including leasehold rights, leasehold improvements, furniture, fixtures and equipment and vehicles. See note 5 to the financial statements for more detailed information on the Bank's capital assets.

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 particular order). The Board of Directors manages these risks with the assistance of management.

Risk Management, Continued

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.

Loss Provisioning

The Bank provisions for loan losses with a general provision of 3% and specific provisions of 3%, 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 of "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.

The loan provision for 2016 totaled $995,979 versus $1,781,264 in 2015. The decrease is due to a requirement from the FIC to charge-off loans over 360 days past due.

The Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the Bank's report on the audit of financial statements, which is dated June 24, 2016. That Discussion and Analysis explains the major factors impacting the 2015 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 Comptroller/Chief Financial Officer at the National Development Bank of Palau at P.O. Box 816, Koror, Republic of Palau 96940, or e-mail sbasilio@ndbp.com or call (680) 587-6327.

NATIONAL DEVELOPMENT BANK OF PALAU

Statement of Net Position
September 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets:	
Cash and cash equivalents	$ 14,049,504
Time certificates of deposit	455,004
Economic development loans receivable, net	18,112,014
Accrued interest receivable	98,580
Other receivables	80,011
Inventory	415,326
Prepaid expenses	29,922
Restricted cash and cash equivalents	50,227
Capital assets, net	623,208
Foreclosed real estate	347,199
Total assets	34,260,995
Deferred outflows of resources from pension	198,993
Total assets and deferred outflows of resources	$ 34,459,988
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities:	
Loans payable	$ 13,433,219
Accounts payable and accrued expenses	474,563
Payable to grantor agencies	128,175
Interest payable	67,957
Net pension liability	1,630,006
Total liabilities	15,733,920
Deferred inflows of resources from pension	236,574
Total liabilities and deferred inflows of resources	15,970,494
Commitments and contingencies	
Net position:	
Net investment in capital assets	623,208
Restricted	17,866,286
Total net position	18,489,494
Total liabilities, deferred inflows of resources and net position	$ 34,459,988

See accompanying notes to financial statements.

NATIONAL DEVELOPMENT BANK OF PALAU

Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2016

Operating revenues:	
Interest income on loans	$ 1,491,715
Loan fees and late charges	95,428
Other	53,510
Total operating revenues	1,640,653
Recovery of loan losses and doubtful accounts	492,375
Net operating revenues	2,133,028
Operating expenses:	
General and administrative expenses:	
Salaries, wages and fringe benefits	544,977
Training	89,576
Professional fees	69,222
Depreciation	36,953
Dues and subscriptions	32,228
Communications	30,372
Supplies, printing, and reproduction	27,271
Travel and transportation	26,730
Repairs and maintenance	20,501
Honorariums and meeting expense	18,215
Utilities	12,789
Rental	9,140
Insurance	8,123
Marketing and advertising	6,219
Miscellaneous	9,945
Total general and administrative expenses	942,261
Operating income	1,190,767
Nonoperating revenues (expenses), net:	
Grant revenues	1,107,866
Interest income on interest bearing accounts	10,765
Other income	19,917
Energy Loan Program	(815,700)
Interest expense and loan fees	(394,970)
Energy Efficiency Home Loan Project	(85,600)
Energy Retrofit Program	(22,266)
Total nonoperating revenues (expenses), net	(179,988)
Change in net position	1,010,779
Net position at beginning of year, as restated	17,478,715
Net position at end of year	$ 18,489,494

See accompanying notes to financial statements.

NATIONAL DEVELOPMENT BANK OF PALAU

Statement of Cash Flows
Year Ended September 30, 2016

Cash flows from operating activities:	
Cash received from customers	$ 1,613,802
Cash payments to employees for services	(511,640)
Cash payments to suppliers for goods and services	(441,844)
Net cash provided by operating activities	660,318
Cash flows from capital and related financing activities:	
Proceeds from issuance of long-term debt	5,000,000
Acquisition of capital assets	(28,245)
Repayments of long-term debt	(1,044,995)
Interest paid on long-term debt	(408,822)
Net cash provided by capital and related financing activities	3,517,938
Cash flows from investing activities:	
Net change in time certificates of deposit	(684)
Interest received on interest bearing deposits	10,765
Net change in restricted cash and cash equivalents	(18)
Loan collections, net	629,869
Net cash provided by investing activities	639,932
Cash flows from noncapital financing activities:	
Other income received	19,917
Subsidy paid for energy program	(143,711)
Cash received from grantor	39,995
Cash received from sale of solar system	54,880
Net cash used for noncapital financing activities	(28,919)
Net increase in cash and cash equivalents	4,789,269
Cash and cash equivalents at beginning of year	9,260,235
Cash and cash equivalents at end of year	$ 14,049,504
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 1,190,767
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	36,953
Recovery of loan losses and doubtful accounts	(492,375)
Noncash pension cost	44,673
(Increase) decrease in assets:	
Accrued interest receivable	(29,071)
Other receivables	2,220
Prepaid expenses	786
Decrease in liabilities:	
Accounts payable and other liabilities	(93,635)
Net cash provided by operating activities	$ 660,318
Supplemental schedule of noncash investing activities:	
Increase in inventory	$ 1,000,000
Increase in Energy Loan Program grant revenue	(1,000,000)
	$ -
Subsidy for Energy Loan Program:	
Increase in Energy Loan Program expense	$ 738,422
Decrease in inventory	(738,422)
	$ -

See accompanying notes to financial statements.

(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.

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 statement 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.

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, 2016, the Bank has cash deposits in bank accounts that exceed federal depository insurance limits. The Bank has not experienced any losses on such accounts.

As of September 30, 2016, concentrations of credit risk result from receivables from significant customers and receivable from a related party which represent 19% of total receivables. Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

(2) Summary of Significant Accounting Policies, Continued

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. The Bank does not require collateralization of its bank accounts. Restricted and unrestricted cash and cash equivalents and time certificates of deposit maintained in Federal Deposit Insurance Corporation (FDIC) insured banks amounted to $14,578,256 at September 30, 2016. Of this amount, bank deposits of $750,000 were FDIC insured at September 30, 2016. Accordingly, the deposits are exposed to customdial credit risk. The Bank does not require collateralization of its deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

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. The Bank has restricted $50,227 of cash and cash equivalents as of September 30, 2016 to comprise this reserve. The Bank has internally restricted (not reflected as restricted in the Statement 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 $540,980 as of September 30, 2016. Additionally, $64,974 of cash received from grantor agencies was internally restricted at September 30, 2016.

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 and interest, reduced by an allowance for loan losses.

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.

(2) Summary of Significant Accounting Policies, Continued

Inventory

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

In 2011, the Bank implemented the Energy Loan Program to provide loans to business and housing customers to acquire renewable energy technologies. The Bank received on-grid and off-grid solar photovoltaic systems amounting to $402,819 from the United Nations Development Programme through the ROP Energy Office under the Sustainable Economic Development through Renewable Energy Applications (SEDREA) Program. On March 29, 2016, the Bank received one hundred (100) 1.7 kilowatt (kW) solar systems amounting to $1,000,000 from ROP, through Palau Public Utilities Corporation, under the Abu Dhabi Fund for Development (ADFD) allocated grant. On August 30, 2016, the Bank transferred remaining off-grid solar photovoltaic systems of $113,302 to the ROP Energy Office. Inventory of on-grid solar photovoltaic systems and 1.7 kW solar systems and commemorative coins amounted to $415,326 as of September 30, 2016.

Capital Assets

Capital assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Current 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.

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.

(2) Summary of Significant Accounting Policies, Continued

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.

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.

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 $695,664 at September 30, 2016.

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, 2016 were $52,190.

(2) Summary of Significant Accounting Policies, Continued

Net Position

The Bank's net position is classified as follows:

- Net investment in capital assets; capital assets, net of accumulated depreciation.

- Restricted:

  Nonexpendable - Net position subject to externally imposed stipulations that the Bank maintains them permanently. At September 30, 2016, 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. As described in note 1, the Bank considers all assets, except investments in capital assets, to be restricted for economic development.

- Unrestricted; net position that is not subject to externally imposed stipulations. As the Bank considers all assets, except investments in capital assets, to be restricted for economic development, the Bank does not have unrestricted net position of September 30, 2016.

New Accounting Standards

During the year ended September 30, 2016, the Bank implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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. At September 30, 2016, the Bank had no such off-balance sheet financial instruments.

(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.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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.

Plan Membership. As of September 30, 2015, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,507
Inactive members entitled to but not yet receiving benefits	1,151
Active members	3,120
Total members	5,778

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:

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.

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.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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.

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.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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 contribution to the Plan for the year ended September 30, 2016 was $23,081, which was equal to the required contribution for the year then ended.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2015, for the same measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Investment Income:	7.5% per year, net of investment expenses
Expenses:	$300,000 each year
Inflation:	3.0%
Salary Increase:	3.0% per year
Mortality:	RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years
Termination of Employment:	5% per year prior to age 35; none after age 35

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued

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
Duty vs Non-duty related disability:	100% Duty related
Pre-retirement Beneficiary Benefit Members:	Present value of accrued benefit earned by the member. 100% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses
Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 100% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death. 100% of active workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses

Investment Rate of Return

The long-term expected rate of return on the Bank's investments of 7.5% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of September 30, 2015, the arithmetic real rates of return for each major investment class are as follows:

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Investment Rate of Return, Continued

Asset Class	Target Allocation	Expected Rate of Return
Cash	3%	4.55%
Equity	61%	6.35%
Governmental fixed income	31%	7.75%
Corporate fixed income	5%	4.00%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 3.83%. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2018 for 2015. For years after 2018, a discount rate of 3.87% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index for September, 2015.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Bank, calculated using the discount rate of 3.83%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.83%) or 1.00% higher (4.83%) from the current rate.

1% Decrease 2.83%	Current Single Discount Rate Assumption 3.83%	1% Increase 4.83%
$ 1,884,962	$ 1,630,006	$ 1,418,055

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

Pension Liability. At September 30, 2016, the Bank reported a liability of $1,630,006 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, 2016, the Bank's proportion was 0.7562%.

Pension Expense. For the year ended September 30, 2016, the Bank recognized pension expense of $23,081.

	Balance	Pension Expense	Total
Personnel and fringe benefits	$ 477,223	$ 67,754	$ 544,977

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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

Deferred Outflows and Inflows of Resources. At September 30, 2016, the Bank reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 58,360
Change of assumptions	133,732	66,806
Net difference between projected and actual earnings on pension plan investments	18,491	-
The Bank's contributions subsequent to measurement date	23,081	-
Changes in proportion and difference between the Bank's contributions and proportionate share of contributions	23,689	111,408
	$ 198,993	$ 236,574

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, 2016 will be recognized in pension expense as follows:

Year ending September 30,	
2017	$ (17,049)
2018	$ (17,049)
2019	$ (16,993)
2020	$ (1,813)
2021	$ (4,527)
Thereafter	$ (3,231)

(4) Economic Development Loans and Allowance for Loan Losses

Major classifications of loans receivable as of September 30, 2016 are as follows:

Housing	$ 10,679,208
Commercial	7,869,329
Fishing	278,350
Agriculture	281,106
Loans receivable	19,107,993
Less allowance for loan losses	(995,979)
	$ 18,112,014

(4) Economic Development Loans and Allowance for Loan Losses, Continued

Maturities of the above principal balances subsequent to September 30, 2016, will be as follows:

Fully matured and others	$ 19
1 - 6 months	1,059,515
7 - 18 months	2,027,679
19 months - 3 years	2,310,339
After 3 years	13,710,441
	$ 19,107,993

An analysis of the change in the allowance for loan losses is as follows:

Balance - beginning of year	$ 1,781,264
Recoveries of loan previously charged-off	201,678
Recovery of loan losses	(492,375)
Loans charged-off	(494,588)
Balance - end of year	$ 995,979

(5) Capital Assets

A summary of capital assets as of September 30, 2016, is as follows:

	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
Depreciable assets:					
Leasehold rights	39 - 50 years	$ 493,206	$ -	$ -	$ 493,206
Leasehold improvements	5 years	252,422	27,005	-	279,427
Furniture, fixtures and equipment	2 - 20 years	222,895	1,240	-	224,135
Vehicles	5 years	83,719	-	-	83,719
		1,052,242	28,245	-	1,080,487
Less accumulated depreciation		(420,326)	(36,953)	-	(457,279)
		$ 631,916	$ (8,708)	$ -	$ 623,208

(6) Foreclosed Real Estate

Foreclosed real estate as of September 30, 2016 amounted to $347,199. There are no additions or disposals in fiscal year 2016. Title to foreclosed real estate of $347,199 is in the Bank's name as of September 30, 2016.

(7) Loans Payable

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.

(7) Loans Payable, Continued

On August 7, 2008, the Bank entered into a new loan agreement to restructure the existing loan with the Fund. The loan ceiling increased to $6,000,000 which will be 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 loan was $3,318,617 with interest at 4.5% as of September 30, 2016. The loan is collateralized by the full faith and credit of the ROP Government.

On March 5, 2004, the Bank entered into a loan with Mega International Commercial Bank Co., Ltd. (formerly the International Commercial Bank of China) for $5,000,000 to be used as capital funds for the Bank. 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 balance outstanding is $2,285,698 at September 30, 2016.

On December 5, 2006, the Bank entered into an agreement with the European Investment Bank (EIB) to borrow up to 5,000,000 euros, which will be converted to U.S. dollars at the effective exchange rate upon disbursement. The available credit shall be drawn in tranches upon written request by the Bank. Loan proceeds may be used for purposes of financing 50% of the total cost of projects and portfolio projects of the Bank. The agreement is backed by the full faith and credit of the government of ROP. As of September 30, 2016, the Bank has drawn down two tranches of $3,016,465 and $1,391,285 with interest rates of 5.175% and 3.679%, respectively. Interest and principal are payable semi-annually until September 10, 2021. On December 12, 2011, EIB cancelled the remaining balance of the Bank's credit line of 1,739,427 euros. The balance outstanding at September 30, 2016 is $2,008,753.

On May 17, 2012, the Bank entered into a $4,000,000 loan 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, payable in monthly installments. Interest and principal is 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 balance outstanding at September 30, 2016 is $820,151.

On March 31, 2016, the Bank entered into a $5,000,000 loan 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 losses coverage for losses suffered under the loan 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, payable in semi-annual installments of $142,857 with the first installment payable on the March 31, 2019. Annual expected principal payments are $285,714. The outstanding balance is $5,000,000 at September 30, 2016.

(7) Loans Payable, Continued

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

Year ending September 30,	Principal	Interest	Total
2017	$ 1,118,959	$ 392,457	$ 1,511,416
2018	1,148,368	349,423	1,497,791
2019	1,464,351	303,992	1,768,343
2020	1,495,469	254,268	1,749,737
2021	1,528,311	202,252	1,730,563
2022 - 2026	3,963,267	475,483	4,438,750
2027 - 2031	1,428,570	170,631	1,599,201
2032 - 2036	1,285,924	67,067	1,352,991
	$ 13,433,219	$ 2,215,573	$ 15,648,792

Changes in loans payable for the year ended September 30, 2016, are as follows:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Republic of Palau Social Security Retirement Fund	$ 3,587,578	$ -	$ (268,961)	$ 3,318,617	$ 325,469
ROP Government	955,486	5,000,000	(135,335)	5,820,151	138,066
Mega International Commercial Bank	2,571,414	-	(285,716)	2,285,698	285,716
European Investment Bank	2,363,736	-	(354,983)	2,008,753	369,707
	$ 9,478,214	$ 5,000,000	$ (1,044,995)	$ 13,433,219	$ 1,118,958

(8) 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 $227,271 as of September 30, 2016. Loans receivables from an affiliate amount to $2,219,603 as of September 30, 2016. Loans receivable from officers and employees and loans receivable from an affiliate are included within economic development loans receivable in the accompanying statement of net position.

(9) Commitments

Loans Approved

The Bank approved loans aggregating $9,657,047 in fiscal year 2016. At September 30, 2016, $7,862,728 was undisbursed. Of the undisbursed loans as of September 30, 2016, $4,673,297 relates to performance bonds on various construction contracts where the Bank acts as insurer and $153,574 relates to letters of credit. At September 30, 2016, 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.

(9) Commitments, Continued

Leases, Continued

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

Years ending September 30,	
2017	$ 3,441
2018	3,441
2019	3,441
2020	3,441
2021	3,441
2022 - 2026	17,205
2027 - 2031	17,205
2032 - 2036	29,249
2037 - 2041	34,410
2042 - 2046	34,410
2047 - 2051	34,410
2052 - 2056	34,410
2057 - 2058	10,323
Total future minimum payments	$ 228,827

(10) Contingencies

On February 1, 2011, the Bank amended the MOU originally entered into on February 16, 1995 with the United State Department of Agriculture Rural Development (USDA) to provide housing for low and very low income residents of the Republic of Palau (ROP). Under the agreement, the USDA Rural Development 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 seventy-nine loans aggregating $4,086,000 at September 30, 2016. Unpaid interest and subsidies related to the loan guarantees as of September 30, 2016 amounted to $22,866 and $941,184, respectively, for which the Bank becomes liable once the borrower defaults and a demand notice is issued. As of September 30, 2016, no demand notice has been received by the Bank.

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 loans from a bank.

(11) 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.

(12) Restatement

Beginning net position and loan origination fees as of October 1, 2015 have been restated for the correction of errors as follows:

	As Previously Reported	As Restated
Loan origination fees	$ 428,641	$ -
Beginning net position	$ 17,050,074	$ 17,478,715

NATIONAL DEVELOPMENT BANK OF PALAU

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

	September 30,		
	2015 Valuation	2014 Valuation	2013 Valuation
Civil Service Pension Trust Fund (Plan) total net pension liability	$ 215,546,176	$ 204,281,232	$ 182,080,333
The Bank's proportionate share of the net pension liability	$ 1,630,006	$ 1,566,428	$ 1,523,284
The Bank's proportion of the net pension liability	0.756%	0.767%	0.837%
The Bank's covered employee payroll**	$ 366,745	$ 360,465	$ 349,499
The Bank's proportionate share of the net pension liability as a percentage of its covered employee payroll	444.45%	434.56%	435.85%
Plan fiduciary net position as a percentage of the total pension liability	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.

See accompanying Independent Auditors' Report.

NATIONAL DEVELOPMENT BANK OF PALAU

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	September 30, 2015 Valuation	2014 Valuation	2013 Valuation
Actuarially determined contribution	$ 82,427	$ 81,456	$ 84,209
Contribution in relation to the actuarially determined contribution	21,858	21,226	21,048
Contribution (excess) deficiency	$ 60,569	$ 60,230	$ 63,161
The Bank's covered-employee payroll**	$ 366,745	$ 360,465	$ 349,499
Contribution as a percentage of covered-employee payroll	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.

See accompanying Independent Auditors' Report.