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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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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 statements of net position as of September 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the years 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 opinions on these financial statements based on our audits. We conducted our audits 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 audits 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, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Financial Statement Presentation

As discussed in note 2 to the financial statements, the Bank elected to present an unclassified statement of net position because current assets are not matched with current liabilities.

Risk Related to COVID-19

As discussed in note 13 to the financial statements, the Bank's operations have been affected by the ongoing coronavirus pandemic. As a result of the spread of COVID-19, governments worldwide have implemented actions to restrict travel and economic activities, which may have continuing negative impact to the Bank's business, results of operations and financial position for 2022 and beyond.

Our opinion is not modified with respect to these matters.

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 4 through 11 as well as the Schedule of Proportional Share of the Net Pension Liability on page 39 and the Schedule of Pension Contributions on page 40 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. 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2022on 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 solely 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 the 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.

October 20, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2021

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 September 30, 2021 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 the 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 annually elects their own officers to the posts of Chairman, Vice Chairman and Secretary/Treasurer.

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 three functional areas: Finance, Lending and Risk & Compliance. The Board of Directors approves the hiring of managers of each functional area. The Bank's President has the authority over all 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 2021. Plans for expansion of the Bank's building are set forth in the Bank's ten-year Strategic Plan.

Economic Outlook

Consistent with 2020, 2021 proved to be a challenging year for the Bank, as Palau continued to react to the continued effects of the Covid-19 pandemic and its impact on tourism and the country's economy. There were a number of challenges the Bank and its customers faced, including the impact of border closures both in Palau and other countries on tourism. However, by mid 2021, 90% of Palau's adult population had been fully-vaccinated and the borders were re-opened to travelers that were fully vaccinated and have a negative covid test result. Tourist numbers were expected to grow however, this did not eventuate as flights to Palau were limited and remain limited to United Airline flights to and from Manila and Guam. The lucrative tourism market from Japan, Taiwan, Korea and China was not forthcoming in 2021 due to border restrictions and have no available flights directed to Palau.

As Covid 19 continued to impact Palau's economy, ROP implemented a number of mitigation strategies to assist private sector business and households starting in 2020. These strategies included an unemployment program, a temporary job program and reliefs to private sector businesses through the CROSS Act loan program in coordination with NDBP. These programs remained in place for the fiscal year ended September 30, 2021.

The bank's customers continued to face the impact of the tourism slowdown. The impact on the bank has been somewhat mitigated by the CROSS Act program implemented in 2020, with many borrowers receiving income through government employment. The NDBP Board and management extended interest-payments only, deferral of principal and interest, and loan restructuring for another 12 months.

The Graduate School USA Economic reported that Palau had 3,412 visitors in FY2021 and 6,872 as of July 2022. The Graduate School now anticipates that the number of visitors will not recover until FY2025. This delayed recovery will have a direct impact on the bank's customers and the bank's financials, especially interest income.

The bank continued to provide housing loans to Palauan citizens under the Housing Loan Development Program. A total of 104 loans aggregating to $8,993,849 were approved under this program. The majority of these housing loans are new constructions. The construction sector will continue to be active as these loans are disbursed. The funds provided by the ROP for the Housing Loan Development Program were fully utilized in 2021.

Construction has traditionally had a large impact on the Palauan economy. Construction was strong in 2020, weakened in 2021, and is projected to further decline in 2022 as major projects are completed. This downturn will be more evident in the Commercial/Government sector as major projects are completed, in addition to lag times from new public infrastructure projects coming on the line.

Economic Impact: In 2020, GDP fell by 8.9%, further decreased by 13.1% in FY21, and is projected to further decline by 2.7% in FY22. After many years of low inflation rates in prior years, prices began to rise in 2021, which was mainly due to the fuel prices hike. Inflation is predicted at a rate of 13.7% for 2022. As a result, NDBP expects fewer loan applications, as Palau residents are beginning to tighten their belts.

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 position. 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 U.S. Department of Agriculture Rural Development (USDA RD) program loans.

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 Memorandum of Agreement (MOU), financial and logistical support with the Palau Small Business Development Center (SBDC) to assist client with creating business plans; 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 Bank of Guam (BOG) is a new addition to our guaranteed loans program. To date, no completed loan packages from BOG have been received by the Bank.

<u>Energy Programs</u>

Energy is one of the national policy directions for Palau with a goal to be 100% renewable energy by 2035. In 2021 NDBP began discussions with Asia Development Bank of a Disaster Resilient Clean Energy Fund of $3,000,000 from the Government of Japan. This fund is to be used to provide low-cost loans to Palauan homeowners to purchase and install Solar Home Kits on their roofs. Final negotiations are expected to be completed early financial year 2022.

<u>Direct loans</u>

In the category of small business loans, the Bank offers customers three 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 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.

Operations, Continued

Direct loans, Continued

Short to medium term financing is extended to new or existing businesses to fund short-term working capital and equipment acquisitions. Long 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 program is the HDLP, which offers 1%, 3% and 6%.

Pre-development loans to projects for both business and housing are provided for up to 15% of projects cost with a term not to exceed five years. The maximum amount for commercial and housing is $15,000 and $10,000, respectively. The purpose of the Pre-Development loan is to help borrowers pay for plan design, title search, appraisals and all related soft costs associated with packaging loans and also as equity contribution. Eligible purposes for housing loans include new construction, renovation and extensions.

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

	2021	2020	$ Change	% Change	2019
Revenues:					
Interest Income on loans	$ 2,343,827	$ 2,142,335	$ 201,492	9%	$ 1,890,784
Loan fees and late charges	192,016	202,588	(10,572)	(5%)	183,395
Other	99,284	92,629	6,655	7%	90,674
Total operating revenues	2,635,127	2,437,552	197,575	8%	2,164,853
(Provision for) recovery of loan losses	(365,554)	(2,507,873)	2,142,319	85%	532,566
Net operating revenues	2,269,573	(70,321)	2,339,894	(3327%)	2,697,419
Operating expenses					
Salaries, wages and fringe benefits	821,405	787,315	34,090	4%	706,557
Training, travel and transportation	8,298	46,574	(38,276)	(82%)	88,755
Depreciation	40,593	42,525	(1,932)	(5%)	44,194
Other expenses	218,274	243,720	(25,446)	(10%)	251,610
Total operating expenses	1,088,570	1,120,134	(31,564)	(3%)	1,091,116
Total operating income (loss)	1,181,003	(1,190,455)	2,371,458	(199%)	1,606,303
Nonoperating revenues (expenses)					
Grant revenues	500,000	1,500,000	(1,000,000)	(67)%	-
HDLP subsidy expense	(200,000)	(175,000)	(25,000)	14%	-
Interest expense and loan fees	(231,085)	(314,303)	83,218	(26%)	(407,163)
Other nonoperating revenues (expenses)	(28,136)	(50,464)	22,328	(44%)	66,165
Total nonoperating revenues (expenses)	40,779	960,233	(919,454)	(96%)	(340,998)
Capital contribution from ROP	3,255,342	5,739,306	(2,483,964)	(43%)	-
Change in net position	4,477,124	5,509,084	(1,031,960)	(19%)	1,265,305
Net position in beginning of year	25,782,198	20,273,114	5,509,084	27%	19,007,809
Net position at end of year	$ 30,259,322	$ 25,782,198	$ 4,477,124	17%	$20,273,114

Overview of Financial Performance, Continued

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 bond fees. Operating revenues increased by $197,575 or 9% in 2021 due to increase of interest income by $201,492 during the year. Operating revenues increased by $272,699 or 13% in 2020 due to increase of the Bank's loan portfolio.

Expenses

Operating expenses for 2021 decreased by $31,564 or 3% as compared to 2020. Interest expense and loan fees decreased this year as well by $83,218 or 26%.

Non-operating revenues (expenses)

Non-operating revenues (expenses) decreased by $919,454 or 96% due to decrease of grant revenues for CROSS ACT program by $1,000,000 in 2021.

Cash Flows

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 loans receivable collections have decreased in 2021 due to the increase of non-performing loans.

In 2020, the bank received $5.7 million for the HDLP program and $1.5 million for the CROSS program. A condensed year-to-year comparison of the statements of cash flows follows:

Statements of Cash flows

	2021	2020	$ Change	% Change	2019
Cash flows from operating activities	$ 1,236,291	$ 1,391,115	$ (154,824)	(11%)	$ 1,365,218
Cash flows from capital and related financing activities	1,432,028	(1,609,550)	3,041,578	(189%)	(1,836,721)
Cash flows from investing activities	(4,536,241)	(4,073,607)	(462,634)	11%	(1,895,136)
Cash flow noncapital financing activities	3,569,451	7,075,651	(3,506,200)	(50%)	3,823
Net increase (decrease) in cash and cash equivalents	1,701,529	2,783,609	(1,082,080)	(39%)	(2,362,816)
Cash and cash equivalents at beginning of year	8,850,368	6,066,759	2,783,609	46%	8,429,575
Cash and cash equivalents at end of year	$ 10,551,897	$ 8,850,368	$ 1,701,529	19%	$ 6,066,759

Overview of Financial Condition

The following condensed statements of net position highlight the aforementioned changes in conditions with comparative information from prior years.

Overview of Financial Condition, Continued

Statements of Net Position

	2021	2020	$ Change	% Change	2019
Assets and deferred outflows of resources					
Economic development loans receivable, net	$ 30,349,394	$ 26,375,326	$ 3,974,068	15%	$ 24,335,130
Capital assets, net	630,094	662,587	(32,493)	(5%)	682,664
Other assets	11,725,426	9,665,354	2,060,072	21%	7,407,890
Total assets	42,704,914	36,703,267	6,001,647	16%	32,425,684
Deferred outflows of resources from pension	791,354	802,858	(11,504)	(1%)	509,559
Total assets and deferred outflows of resources	43,496,268	37,506,125	5,990,143	16%	32,935,243
Liabilities, deferred inflows of resources and net position					
Loans payable	9,832,312	8,332,825	1,499,487	18%	9,796,076
Net pension liability	2,594,001	2,428,960	165,041	7%	1,954,037
Other liabilities	455,442	574,812	(119,370)	(21%)	497,834
Total liabilities	12,881,755	11,336,597	1,545,158	14%	12,247,947
Deferred inflows of resources from pension	355,191	387,330	(32,139)	(8%)	414,182
Total liabilities and deferred inflows of resources	13,236,946	11,723,927	1,513,019	13%	12,662,129
Net position:					
Net investment in capital assets	630,094	662,587	(32,493)	(5%)	682,664
Restricted	29,629,228	25,119,611	4,509,617	18%	19,590,450
Total net position	30,259,322	25,782,198	4,477,124	17%	20,273,114
Total liabilities, deferred inflows of resources and net position	$ 43,496,268	$ 37,506,125	$ 5,990,143	16%	$ 32,935,243

Total Assets

The Bank’s total asset and deferred outflows of resources for 2021 and 2020 amounted to $43.5 million and $37.5 million, respectively, an increase of 16% or $5.99 million. The Bank’s total asset and deferred outflows of resources for 2020 and 2019 amounted to $37.5 million and $32.9 million, respectively, an increase of 14% or $4.6 million.

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.

Total loans outstanding in 2021 and 2020 amounted to $34,180,732 and $29,719,682, respectively. This is an increase of $4,461,050 or 15%. The outstanding loans by sector are presented in the following table:

Overview of Financial Condition, Continued

Loan Portfolio, Continued

	2021		2020		Change	
SECTOR	Amount	Percent	Amount	Percent	Amount	Percent
Agriculture	$ 1,533,803	4.49%	$ 1,645,246	5.54%	$ (111,443)	(6.77%)
Fishing	$875,082	2.56%	$827,766	2.79%	$47,316	5.72%
Commercial	10,750,828	31.45%	10,629,046	35.76%	$121,782	1.15%
Housing	21,021,019	61.50%	16,617,624	55.91%	4,403,395	26.50%
Totals	34,180,732	100.00%	29,719,682	100.00%	4,461,050	15.01%
Provision for loan losses	(3,831,338)	(11.21%)	(3,344,356)	(11.25%)	(486,982)	14.56%
Totals	$ 30,349,394	88.79%	$ 26,375,326	88.75%	$ 3,974,068	15.07%

Loss Provisioning

In 2021 and 2020, the Bank's policy for general provision for allowance for loan losses is 5% and specific provisions of 20%, 50%, 75 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.

in late 2020, as a precaution of the ongoing effects of Covid 19 pandemic, NDBP increased it's general provisioning for loan losses with a general provision to 5% (from 3% in 2019) and specific provisions of 20%, 50%, 75% and 100% (from 5%, 20%, 50%, and 100% in 2019).

Loan loss provision at September 30, 2021 and 2020 amounted to $3,831,338 and $3,344,356, respectively. This is an increase of $0.5 million or 15%. Non-Performing loans continues to increase due to the Covid Pandemic effecting the flow of funds from incoming loan payments.

Capital Assets and Long- Term Debt

At September 30, 2021, 2020 and 2019, the Bank had net investment in capital assets of $630,094, $662,587 and $682,664, respectively, net of accumulated depreciation where applicable, including leasehold rights, leasehold improvements, furniture, fixtures and equipment and vehicles. The decrease in 2021 and 2020 is due to depreciation during the period. See note 5 to the financial statements for more detailed information on the Bank's capital assets. $3 million and $0 additions to long- term debt occurred in fiscal year 2021 and 2020. For additional information on long- term debt, please see notes 3 and 7 to the financial statements.

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.

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, 2020 is set forth in the Bank's report on the audit of financial statements, which is dated September 27, 2021. That discussion and Analysis explains the major factors impacting the 2020 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 PO Box 816, Koror, Republic of Palau 96940, or e-mail sbasilio@ndbp.com or call (680) 587-6327.

NATIONAL DEVELOPMENT BANK OF PALAU

Statements of Net Position
September 30, 2021 and 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2021	2020
Assets:		
Cash and cash equivalents	$ 8,362,906	$ 5,986,567
Restricted cash and cash equivalents	2,188,991	2,863,801
Economic development loans receivable, net	30,349,394	26,375,326
Accrued interest receivable	676,876	365,496
Other receivables	63,728	65,606
Inventory	26,323	26,337
Prepaid expenses	59,414	10,359
Capital assets, net	630,094	662,587
Foreclosed real estate	347,188	347,188
Total assets	42,704,914	36,703,267
Deferred outflows of resources from pension	791,354	802,858
Total assets and deferred outflows of resources	$ 43,496,268	$ 37,506,125
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities:		
Loans payable	$ 9,832,312	$ 8,332,825
Accounts payable and accrued expenses	202,705	380,444
Payable to grantor agencies	162,447	150,752
Interest payable	49,259	43,616
Deferred revenues	41,031	-
Net pension liability	2,594,001	2,428,960
Total liabilities	12,881,755	11,336,597
Deferred inflows of resources from pension	355,191	387,330
Total liabilities and deferred inflows of resources	13,236,946	11,723,927
Commitments and contingencies		
Net position:		
Net investment in capital assets	630,094	662,587
Restricted	29,629,228	25,119,611
Total net position	30,259,322	25,782,198
Total liabilities, deferred inflows of resources and net position	$ 43,496,268	$ 37,506,125

See accompanying notes to financial statements.

NATIONAL DEVELOPMENT BANK OF PALAU

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Interest income on loans	$ 2,343,827	$ 2,142,335
Loan fees and late charges	192,016	202,588
Other	99,284	92,629
Total operating revenues	2,635,127	2,437,552
Provision for loan losses and doubtful accounts	(365,554)	(2,507,873)
Net operating revenues	2,269,573	(70,321)
Operating expenses:		
General and administrative expenses:		
Salaries, wages and fringe benefits	821,405	787,315
Professional fees	49,412	32,621
Depreciation	40,593	42,525
Repairs and maintenance	34,213	23,672
Dues and subscriptions	32,576	32,399
Supplies, printing, and reproduction	20,766	24,985
Honorariums and meeting expense	18,667	20,900
Communications	14,475	15,154
Rental	13,200	13,200
Utilities	12,569	16,176
Insurance	8,260	12,628
Travel and transportation	6,776	12,600
Marketing and advertising	3,202	1,980
Training	1,522	33,974
Miscellaneous	10,934	50,005
Total general and administrative expenses	1,088,570	1,120,134
Operating income (loss)	1,181,003	(1,190,455)
Nonoperating revenues (expenses), net:		
Grant revenues	500,000	1,500,000
Interest income on interest bearing accounts	3,381	15,402
Other income	2,400	1,515
Interest expense and loan fees	(231,085)	(314,303)
Housing Development Loan Project subsidy expense	(200,000)	(175,000)
Commitment fees	(33,917)	-
Energy Efficiency Home Loan Project	-	(67,381)
Total nonoperating revenues (expenses), net	40,779	960,233
Capital contribution from the Republic of Palau	3,255,342	5,739,306
Change in net position	4,477,124	5,509,084
Net position at beginning of year	25,782,198	20,273,114
Net position at end of year	$ 30,259,322	$ 25,782,198

See accompanying notes to financial statements.

NATIONAL DEVELOPMENT BANK OF PALAU

Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	$ 2,325,625	$ 2,231,148
Cash payments to employees for services	(762,031)	(688,405)
Cash payments to suppliers for goods and services	(327,303)	(151,628)
Net cash provided by operating activities	1,236,291	1,391,115
Cash flows from capital and related financing activities:		
Proceeds from loan payable	3,000,000	-
Proceeds from disposal of foreclosed properties	200,000	200,011
Acquisition of capital assets	(8,100)	(22,448)
Repayments of long-term debt	(1,500,513)	(1,463,251)
Commitment fees paid on long-term debt	(33,917)	-
Interest paid on long-term debt	(225,442)	(323,862)
Net cash provided by (used for) capital and related financing activities	1,432,028	(1,609,550)
Cash flows from investing activities:		
Net change in time certificates of deposit	-	459,060
Interest received on interest bearing deposits	3,381	15,402
Loan originations, net	(4,539,622)	(4,548,069)
Net cash used for investing activities	(4,536,241)	(4,073,607)
Cash flows from noncapital financing activities:		
Other income received	2,400	1,515
Cash received from the grantor	500,000	1,500,000
Capital contribution from the Republic of Palau	3,255,342	5,739,306
Subsidy paid for energy program	11,709	9,830
Subsidy paid for Housing Development Loan Project program	(200,000)	(175,000)
Net cash provided by noncapital financing activities	3,569,451	7,075,651
Net increase in cash and cash equivalents	1,701,529	2,783,609
Cash and cash equivalents at beginning of year	8,850,368	6,066,759
Cash and cash equivalents at end of year	$ 10,551,897	$ 8,850,368
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 1,181,003	$ (1,190,455)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	40,593	42,525
Provision for loan losses and doubtful accounts	365,554	2,507,873
Noncash pension cost	144,406	154,772
(Increase) decrease in assets:		
Accrued interest receivable	(311,380)	(225,953)
Other receivables	1,878	19,549
Prepaid expenses	(8,024)	6,039
Increase in liabilities:		
Accounts payable and other liabilities	(177,739)	76,765
Net cash provided by operating activities	$ 1,236,291	$ 1,391,115
Supplemental schedule of noncash operating activities:		
Recognition of prepaid expense		
Increase in prepaid expenses	$ 41,031	$ -
Increase in deferred revenues	(41,031)	-
	$ -	$ -
Supplemental schedule of noncash investing activities:		
Foreclosed property:		
Increase in foreclosed property	$ 200,000	$ -
Decrease in net loans receivable	(200,000)	-
	$ -	$ -
Subsidy for Energy Loan Program:		
Increase in Energy Loan Program expense	14	67,439
Decrease in inventory	(14)	(67,439)
	$ -	$ -

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 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.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* requires assets and liabilities of proprietary funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank is a government-owned bank. Banks do not present a classified statement of net position because current assets are not matched with current liabilities. The statements of net position of the Bank present assets and liabilities in order of their relative liquidity, rather than in a classified format.

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.

(2) Summary of Significant Accounting Policies, Continued

Concentrations of Credit Risk, Continued

At September 30, 2021 and 2020, 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, 2020, concentrations of credit risk result from receivables from significant customers and receivable from a related party which represent 15% of total receivables. As of September 30, 2021, the Bank has not noted concentrations of credit risk result from receivables from significant customers and receivable from a related party. 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. 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 $10,637,291 and $8,910,502 at September 30, 2021 and 2020, respectively. Of this amount, bank deposits of $750,000 were FDIC insured at September 30, 2021 and 2020. 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.

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 no restricted cash and cash equivalents as of September 30, 2021 and 2020 to comprise this reserve. There were no commercial loan guarantees as of September 30, 2021 and 2020. 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 $551,041 and $551,009 as of September 30, 2021 and 2020, respectively. Additionally, $162,447 and $150,752 of cash received from grantor agencies was internally restricted at September 30, 2021 and 2020, respectively. The Bank has restricted cash balance of $2,188,991 and $2,863,801 for Housing Development Loan Project (HDLP) funds as of September 30, 2021 and 2020, respectively. Refer to note 9.

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.

(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 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 the 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 $26,323 and $26,337 as of September 30, 2021 and 2020, respectively.

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. Current policy is to capitalize items in excess of $1,000.

(2) Summary of Significant Accounting Policies, Continued

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.

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.

(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 $914,636 and $544,783 at September 30, 2021 and 2020, 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, 2021 and 2020 were $74,000 and $61,000, respectively. Accrued leave benefits recorded as part of accounts payable and accrued expenses amounted to $37,120 and $35,333 as of September 30, 2021 and 2020, respectively.

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, 2021 and 2020, 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, 2021 and 2020.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, the Bank implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

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. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, 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 (1) 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; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) 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. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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. GASB Statement No. 98 will be effective for fiscal year ending September 30, 2022.

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.

(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.

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.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued

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.

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

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued

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:

- $1/12^{th}$ per year for the first 3 years before age 60;
- plus an additional $1/18^{th}$ per year for the next 3 years;
- plus an additional $1/24^{th}$ per year for the next 5 years; and
- plus an additional $1/50^{th}$ 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, 2021 and 2020 were \$29,437 and \$28,035, respectively, which were equal to the required contributions for the years then ended.

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:

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued

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
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

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued

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

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%.

(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

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.

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

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

Pension Liability. At September 30, 2021 and 2020, the Bank reported a liability of $2,594,001 and $2,428,960, respectively, 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 and 2020, the Bank's proportion was 0.7532% and 0.7874%, respectively.

Pension Expense. For the years ended September 30, 2021 and 2020, the Bank recognized pension expense of $173,526 and $182,720, respectively.

	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

	2020			
	Salary and Other Benefits	Pension Expense: Total Contributions	Pension Expense: Others	Total
Personnel and fringe benefits	$ 604,595	$ 28,035	$ 154,685	$ 787,315

Deferred Outflows and Inflows of Resources. At September 30, 2021 and 2020, the Bank reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(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, Continued

	2021		2020	
	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	$ 123,522	$ 94,694
Change of assumptions	556,633	163,055	504,087	221,436
Net difference between projected and actual earnings on pension plan investments	4,847	3,320	6,755	5,766
The Bank's contributions subsequent to measurement date	29,437	-	28,035	-
Changes in proportion and difference between the Bank's contributions and proportionate share of contributions	113,127	120,198	140,459	65,434
	$ 791,354	$ 355,191	$ 802,858	$ 387,330

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, 2021 will be recognized in pension expense in future years is presented below:

Year ending September 30,	
2022	$ 88,080
2023	88,859
2024	69,583
2025	73,735
2026	70,480
Thereafter	15,989
Total	$ 406,726

(4) Economic Development Loans and Allowance for Loan Losses

Major classifications of loans receivable as of September 30, 2021 and 2020 are as follows:

	2021	2020
Housing	$ 21,021,019	$ 16,617,624
Commercial	10,750,828	10,629,046
Agriculture	1,533,803	1,645,246
Fishing	875,082	827,766
Loans receivable	34,180,732	29,719,682
Less allowance for loan losses	(3,831,338)	(3,344,356)
	$ 30,349,394	$ 26,375,326

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

Maturities of the above principal balances subsequent to September 30, 2021, will be as follows:

	2021	2020
Fully matured and others	$ 79,292	$ 168,130
1 - 6 months	1,396,278	1,331,660
7 - 18 months	3,330,934	2,871,066
19 months - 3 years	6,060,352	3,814,799
After 3 years	23,313,876	21,534,027
	$ 34,180,732	$ 29,719,682

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

	2021	2020
Balance - beginning of year	$ 3,344,356	$ 1,409,002
Recoveries of loan previously charged-off	309,850	137,742
Provision for loan losses and doubtful accounts	365,554	2,507,873
Loans charged-off	(188,422)	(710,261)
Balance - end of year	$ 3,831,338	$ 3,344,356

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, 2021 and 2022, loans totaling of approximately $6.3 million and $4.35 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, 2021 and 2020, is as follows:

	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)
		$ 662,587	$ (32,493)	$ -	$ 630,094

	Estimated Useful Lives	Balance at October 1, 2019	Additions	Deletions	Balance at September 30, 2020
Depreciable assets:					
Leasehold rights	39 - 50 years	$ 568,577	$ 17,263	$ -	$ 585,840
Leasehold improvements	5 years	319,227	-	-	319,227
Furniture, fixtures and equipment	2 - 20 years	132,813	5,185	-	137,998
Vehicles	5 years	109,910	-	-	109,910
		1,130,527	22,448	-	1,152,975
Less accumulated depreciation		(447,863)	(42,525)	-	(490,388)
		$ 682,664	$ (20,077)	$ -	$ 662,587

(6) Foreclosed Real Estate

A summary of the changes in foreclosed real estate as of September 30, 2021 and 2020 is as follows:

	2021	2020
Balance at beginning of year	$ 347,188	$ 547,199
Additions	200,000	-
Deletions	(200,000)	(200,011)
Balance at end of year	$ 347,188	$ 347,188

Title to foreclosed real estate is in the Bank's name as of September 30, 2021 and 2020. At September 30, 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 11).

(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 $1,730,959 and $2,075,322 with interest at 4.5% as of September 30, 2021 and 2020, 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.

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.

(7) Loans Payable, Continued

Direct Borrowings, Continued:

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

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 $857,118 and $1,142,834 at September 30, 2021 and 2020, respectively.

European Investment Bank (EIB)

On December 5, 2006, the Bank entered into an agreement with the EIB to borrow up to 5,000,000 euros, which was 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, 2021 and 2020, the Bank has drawn down two tranches of $1,391,285 and $3,016,465 with interest rates of 3.679% and 5.175%, 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 outstanding balance at September 30, 2021 and 2020 is $0 and $435,163, 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 loan agreement contains a provision that in an event of default, ROP may, at its option, declare immediately due and payable without presentation, protest or notice of any kind, all of which are hereby waived, the outstanding principal of and interest on the loan and the note and any other sums payable pursuant hereto or pursuant to any loan document, upon happening of monetary default, nonperformance of agreements, representations and warranties in the loan agreement and false statements.

The outstanding balance outstanding at September 30, 2021 and 2020 is $101,377 and $250,934, respectively.

(7) Loans Payable, Continued

Direct Borrowings, Continued:

Republic of Palau, Continued

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 1.20288% and 3.07200% as of September 30, 2021 and 2020, 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 $4,142,858 and $4,428,572 at September 30, 2021 and 2020, respectively.

At September 30, 2021 and 2020, the Bank does not have any unused lines of credit or have any assets pledged as collateral.

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 $3,000,000 and $0 at September 30, 2021 and 2020, respectively. The Bank has a remaining loan balance of $2,000,000 not drawn as of September 30, 2021.

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

Year ending September 30,	Principal	Interest	Total
2022	$ 1,026,075	$ 208,528	$ 1,234,603
2023	1,094,030	181,071	1,275,101
2024	1,258,048	146,987	1,405,035
2025	1,189,367	116,607	1,305,974
2026	579,832	86,566	666,398
2027 - 2031	2,899,158	325,953	3,225,111
2032 - 2036	1,785,802	93,518	1,879,320
	$ 9,832,312	$ 1,159,230	$ 10,991,542

(7) Loans Payable, Continued

Direct Borrowings, Continued:

Changes in loans payable for the years ended September 30, 2021 and 2020, are as follows:

	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

	Balance October 1, 2019	Additions	Reductions	Balance September 30, 2020	Due Within One Year
Republic of Palau Social Security Retirement Fund	$ 2,402,787	$ -	$ (327,465)	$ 2,075,322	$ 337,251
ROP Government	5,111,818	-	(432,312)	4,679,506	434,863
Mega International Commercial Bank	1,428,550	-	(285,716)	1,142,834	285,716
European Investment Bank	852,921	-	(417,758)	435,163	435,163
	$ 9,796,076	$ -	$ (1,463,251)	$ 8,332,825	$ 1,492,993

(8) Other Long-Term Liability

Changes in the Bank's other long-term liability for the years ended September 30, 2021 and 2020, are as follows:

	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	$ -

	Balance October 1, 2019	Additions	Reductions	Balance September 30, 2020	Due Within One Year
Net pension liability	$ 1,954,037	$ 474,923	$ -	$ 2,428,960	$ -

(9) 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 $1,076,457 and $934,259 as of September 30, 2021 and 2020, respectively. Loans receivables from an affiliate amount to $0 and $1,308,684 as of September 30, 2021 and 2020, 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.

(9) Related Party Transactions, Continued

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, 2021 and 2020, the Bank received $3,255,342 and $5,739,306 capital contribution from ROP for the HDLP fund, respectively. For the year ended September 30, 2021, the Bank has disbursed $3.73 million loans receivables and subsidized $0.20 million in relation to the HDLP. For the year ended September 30, 2020, the Bank has disbursed $2.71 million loans receivables and subsidized $0.17 million in relation to the HDLP.

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 $500,000 and $1,500,000 grant revenues for the years ended September 30, 2021 and 2020 related to the CROSS Act, respectively.

(10) Commitments

Loans Approved

At September 30, 2021 and 2020, $14,835,062 and $9,457,378, respectively, of approved loans was undisbursed. Of undisbursed loans as of September 30, 2021 and 2020, $9,768,485 and $4,918,115, respectively, relate to performance bonds on various construction contracts where the Bank acts as the insurer $610,929 and $223,447, respectively, relate to letters of credit. At September 30, 2021 and 2020, 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 was extended for another forty-nine years expiring on March 19, 2107.

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

Years ending September 30,	
2031 - 2035	$ 14,025
2036 - 2040	34,410
2041 - 2045	34,410
2046 - 2050	34,410
2051 - 2055	34,410
2056 - 2058	17,205
Total future minimum payments	$ 168,870

The premises will be appraised on the 50th and 70th year of the lease and the lease payments may be increased.

(11) 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 seventy-eight loans aggregating $4,039,447 at September 30, 2021. Unpaid interest and subsidies related to the loan guarantees as of September 30, 2021 amounted to $62,514 and $1,081,060, respectively, for which the Bank becomes liable once the borrower defaults and a demand notice is issued. As of September 30, 2021, 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.

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 2020 and was recognized as a component of recovery of previously charged off loan in 2021 and 2019, respectively (see note 6). As of September 30, 2021, the sublease approval and final court order has not been obtained.

(12) 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.

(13) Risks Related to COVID-19

The spread of novel coronavirus (COVID-19) has been and continues to be a complex and rapidly-evolving situation with governments and businesses imposing restrictions and to varying degrees, bans on travel, limitation on gatherings, closures or operating limitations on certain businesses. The extent to which COVID-19 impacts the Bank will depend on numerous evolving factors that are difficult to predict, including duration and magnitude of its impact on unemployment rates and consumer discretionary spending, demand for travel, transient and group business, and government actions.

COVID-19 and its consequences have dramatically reduced travel and demand for the Bank's business and earnings, which has and will continue to affect the Bank's revenue and probability of collection. In addition, the Bank has increased provision for allowance for loan losses to reflect the risks associated with uncertainty of collections.

NATIONAL DEVELOPMENT BANK 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.

See accompanying Independent Auditors' Report.

NATIONAL DEVELOPMENT BANK 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.

See accompanying Independent Auditors' Report.