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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 Matter

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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 as well as the Schedule of Proportional Share of the Net Pension Liability on page 34 and the Schedule of Pension Contributions on page 35 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 12, 2020 on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Deloitte & Touche LLC

May 12, 2020

NATIONAL DEVELOPMENT BANK OF PALAU
Financing the Future of Palau

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2019

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, 2019 is intended to contribute to the reader's better understanding of the Bank's structure and activities. The report should be read in conjunction with the audited financial statements and associated reports.

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

Organization of the Bank

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

The President of ROP appoints six of its seven Board members for three-year terms subject to Senate confirmation. The seventh member is the President of the Bank who shall serve as an ex-officio member of the Board. The Board of Directors annually elects its 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 for each functional area. The Bank's President has 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 the Board. At fully-staffed capacity, the Bank has nineteen full-time equivalent employees, including the President/Chief Executive Officer (CEO).

All Bank operations are conducted from its main office in Ngetkib Village, Airai State. There are no branches, other offices or subsidiaries operating in 2019. Plans for expansion of the Bank's building are set forth in the Bank's ten-year Strategic Plan.

National Development Bank of Palau Building in Ngetkib, Airai State, PO Box 816, Koror Palau 96940.
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Economic Outlook

The overall growth in Palau's economy is projected at 2.9% for fiscal year 2020 due to expanded construction projects, increased consumer spending and resumption of regular scheduled direct flights to and from Japan. Growth will be driven primarily by public sector infrastructure projects funded by both domestic sources and development partners. Consumer spending including major national events such as Oceans 2020 and the upcoming general election will support continued growth.

A number of major public infrastructure projects including various construction projects for the States through the State Stimulus Package grant, improvements to navigation aids, relocation of the new dumpsite, housing construction and the construction of ADAIMDA sites are ongoing and will continue into fiscal year 2020. Other key projects totaling approximately $39 million will commence in the upcoming fiscal year, including Angaur State Port facilities improvement, Koror-Airai road rehabilitation and Peleliu and Angaur Airport improvements.

The opening of the PPR Eco-Villas in 2019 added approximately eleven rooms and the opening of WCTC Plaza Hotel in August 2019, an additional sixty-one rooms became available. While downside risks remain, particularly from the strength of the U.S. dollar and its effect on our competitiveness with other destination markets in the region, continued increase in room capacity, more focused marketing campaigns, and sustained growth in the Asian economies is anticipated to lead a rebound in our tourism industry. Anticipated growth in overall employment and wages coupled with the strong demand for labor associated with increasing construction activities and anticipated increase in social security benefit payments should encourage consumer spending. Additionally, the emerging ICT sector and expanding hotel room capacity is expected to further boost consumer spending.

In the later part of financial year 2019, the Bank signed an agreement with the Republic of Palau National Housing Commission (NHC) to provide loans to first-time home owners (FTHO) and displaced persons to build affordable homes. The government secured funding of $15 million for this project. The program is known as the Housing Development Loan Program (HDLP). These loans are to be at a discounted interest rate. Considerable interest in these loans have been strong.

Update April 2020: The commentary on the Economic Outlook for Palau was written in October 2019 prior to the Covid-19 outbreak. According to the Asian Development Bank news release in April 2020 and due to the Covid -19 outbreak and the subsequent interruption to tourism in Palau, the economy is forecasted to contract by 0.3%.

The first four months of 2020 were favorable with tourist arrivals at 32,255 and growing by close to 30% compared to the previous year. However, with the arrival of the Covid-19 pandemic and the termination of all international flights into Palau, this is having a significant impact on tourism-related businesses. Those impacted businesses will require financial assistance in order to be able to cover fixed costs such as lease/rental payments and physical plant and equipment maintenance as well as paying wages and salaries.

Unemployment is expected to rise for both Palauan and foreign workers. The loss of jobs will be mainly in the tourism sector (e.g. tour operators, hotels, restaurants). The Government has advised that all employees in the public sector will remain employed and salaries paid.

In regard to construction, it is assumed that major projects will continue as planned, including those mentioned previously as well as the One-Stop Shop in Koror and Oceans 2020 conference gym improvements.

Economic Outlook, Continued

The Bank has received requests for financial assistance from customers to:

- defer loan payments for six months
- move to interest only for six months, or
- assist with additional financing to cover operational expenses.

We expect that as the economic slowdown continues, these requests will increase. Interest in the new HDLP is expected to continue.

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 are 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 the 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 Understanding (MOU), financial and logistical support with the Palau Small Business Development Center (SBDC) to assist client with creating business plans; collaboration with the Palau SBDC and the Ministry of Natural Resources, Environment and Tourism on the Farm Loan Program; and the MOU with the Palau Housing Authority on providing subsidy for energy efficient homes are efforts towards this responsibility. Information on other financial and technical service providers including government agencies is also provided for client or applicant consideration. Currently, the Bank's financial activities are limited to projects within ROP. All financial transactions are U.S. 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 USDA RD. Popularity is low with these programs as they often take months to receive approval and are stricter in terms and loan covenants. The Belau Real Estate program through the 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.

Operations, Continued

Energy Programs

Energy is one of the national policy directions for industry under Palau's leadership. The Bank continuously works to secure grants to expand its Energy Program.

Direct Loans

In the category of small business loans, the Bank offers customers four programs: Small Business, WEDAP, Microfinance, and Pre-Development Loan. The Bank's general policy is for all loans to be fully secured; except for Microfinance loans, which are up to $15,000. Microfinance loans are administered like signature loans; however, the Bank may take collateral if it deems it necessary for caution. The Bank's Microfinance and Pre-Development Loan programs are small loans for housing or business purposes at a 6% interest rate targeting those borrowers who are able to secure their loan with an assignment of income. No collateral is required and turnover is intended to be quick. These programs appear to be successful and are popular. Specifically, interests in Microfinance loans, which are also available for home projects such as extensions and renovations, have been popular.

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 components 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 homeowners program is HDLP which offers interest rates of 1%, 3% and 6%. Owner contribution to projects is required at 15% of project costs with a maximum amount of $10,000 under the Pre-Development Loan program and a loan term not to exceed five years. The purpose of the Pre-Development Loan program is to help borrowers pay for plan design, appraisal, title search and all related soft costs associated with packaging loans and cash equity contribution. Eligible purposes for housing loans include new construction, renovation and extension.

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 Position

	2019	2018	$ Change	% Change	2017
Revenues:					
Interest income on loans	$ 1,890,784	$ 1,704,965	$ 185,819	11%	$ 1,611,157
Loan fees and late charges	183,395	157,932	25,463	16%	97,570
Other	90,674	66,508	24,166	36%	28,449
Total operating revenues	2,164,853	1,929,405	235,448	12%	1,737,176
Recovery of (provision for) loan losses and doubtful accounts	532,566	126,826	405,740	320%	(190,930)
Net operating revenues	2,697,419	2,056,231	641,188	31%	1,546,246

Overview of Financial Performance, Continued

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

	2019	2018	$ Change	% Change	2017
Operating expenses:					
Salaries, wages and fringe benefits	706,557	667,750	38,807	6%	598,852
Training and travel and transportation	88,755	101,506	(12,751)	-13%	91,497
Depreciation	44,194	45,420	(1,226)	-3%	40,667
Other expenses	251,610	232,290	19,320	8%	207,603
Total operating expenses	1,091,116	1,046,966	44,150	4%	938,619
Operating income	1,606,303	1,009,265	597,038	59%	607,627
Nonoperating revenues (expenses)	(340,998)	(458,815)	117,817	-26%	(639,762)
Change in net position	1,265,305	550,450	714,855	130%	(32,135)
Net position in beginning of year	19,007,809	18,457,359	550,450	3%	18,489,494
Net position at end of year	$ 20,273,114	$ 19,007,809	$ 1,265,305	7%	$ 18,457,359

Revenue

Operating revenues include all direct revenues such as interest income and fees on loans and other miscellaneous fees, such as late and performance bond fees. Operating revenues in 2019 increased by 12% over 2018 and increased in 2018 by 11% over 2017 largely due to the increase in the Bank's loan portfolio.

Expenses

Operating expenses in 2019 increased by $44,150 or 4% compared to 2018 and increased by $108,347 or 12% in 2018 compared to 2017. The increase is largely due to increases in salaries, wages and fringe benefits, repairs and maintenance, honorariums and meeting expenses and other miscellaneous expenses.

Non-operating Revenues and Expenses

Non-operating revenues and expenses in 2019 include interest expense and loan fees on the Bank’s borrowings of $407,163, $46,239 of interest earned from bank accounts and $19,926 of other income.

Cash Flows

The Bank used 28% or $2,312,545 of its cash in 2019 to fund operations and new loans. A condensed year-to-year comparison of the Statements of Cash Flows follows:

Statements of Cash Flows

	2019	2018	$ Change	% Change	2017
Cash flows from operating activities	$ 1,365,218	$ 957,138	$ 408,080	43%	$ 550,265
Cash flows from capital and related financing activities	(1,836,721)	(1,571,878)	(264,843)	17%	(1,609,957)
Cash flows from investing activities	(1,844,865)	(2,845,670)	1,000,805	-35%	(1,204,063)
Cash flows from noncapital financing activities	3,823	21,283	(17,460)	-82%	32,682
Net decrease in cash and cash equivalents	(2,312,545)	(3,439,127)	1,126,582	-33%	(2,231,073)
Cash and cash equivalents at beginning of year	8,379,304	11,818,431	(3,439,127)	-29%	14,049,504
Cash and cash equivalents at end of year	$ 6,066,759	$ 8,379,304	$ (2,312,545)	-28%	$ 11,818,431

Overview of Financial Condition

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

Statements of Net Position

	2019	2018	$ Change	% Change	2017
Economic development loans receivable, net	$ 24,335,130	$ 22,062,755	$ 2,272,375	10%	$ 19,136,177
Capital assets	682,664	661,791	20,873	3%	675,502
Other assets	7,407,890	9,625,408	(2,217,518)	-23%	13,037,438
Total assets	32,425,684	32,349,954	75,730	0.2%	32,849,117
Deferred outflows of resources from pension	509,559	428,070	81,489	19%	337,651
Total assets and deferred outflows of resources	$ 32,935,243	$ 32,778,024	$ 157,219	0.5%	$ 33,186,768
Loans payable	$ 9,796,076	$ 11,189,624	$ (1,393,548)	-12%	$ 12,340,586
Net pension liability	1,954,037	1,831,279	122,758	7%	1,837,001
Other liabilities	497,834	382,977	114,857	30%	335,778
Total liabilities	12,247,947	13,403,880	(1,155,933)	-9%	14,513,365
Deferred inflows of resources from pension	414,182	366,335	47,847	13%	216,044
Total liabilities and deferred inflows of resources	12,662,129	13,770,215	(1,108,086)	-8%	14,729,409
Net position:					
Net investment in capital assets	682,664	661,791	20,873	3%	675,502
Restricted	19,590,450	18,346,018	1,244,432	7%	17,781,857
Total net position	20,273,114	19,007,809	1,265,305	7%	18,457,359
Total liabilities, deferred inflows of resources and net position	$ 32,935,243	$ 32,778,024	$ 157,219	0.5%	$ 33,186,768

Total Assets

The Bank’s total assets for 2019 and 2018 was $32,425,684 and $32,349,954, respectively, an increase of less than 1% or $75,730. The Bank’s total assets for 2018 was $32,349,954 compared to $32,849,117 for 2017, a decrease of $499,163 or 2% in 2018.

Loan Portfolio

The Bank's loan portfolio includes new, amended and renewed loans, lines of credit and bonds. The Bank approved $15.7 million and $14.8 million of loans in 2019 and 2018, respectively. 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 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 2019 was $25,744,132 and $23,167,055 in 2018, which is an increase of $2,577,077 or 11%. Outstanding loans by sector for 2019 and 2018 are presented in the following table:

	2019		2018		Change	
Sector	Amount	Percent	Amount	Percent	Amount	Percent
Agriculture	$ 1,717,111	6.67%	$ 1,602,271	6.92%	$ 114,840	7.17%
Fishing	457,470	1.78%	415,144	1.79%	42,326	10.20%
Commercial	9,529,582	37.01%	8,923,332	38.52%	606,250	6.79%
Housing	14,039,969	54.54%	12,226,308	52.77%	1,813,661	14.83%
Totals	$ 25,744,132	100.00%	$ 23,167,055	100.00%	$ 2,577,077	11.12%

Overview of Financial Condition, Continued

Capital Assets and Long-Term Debt

At September 30, 2019, 2018 and 2017, the Bank had net investment in capital assets of $682,664, $661,791 and $675,502, respectively, net of accumulated depreciation where applicable, including leasehold rights, leasehold improvements, furniture, fixtures and equipment and vehicles. The increase in 2019 is due to increases in leasehold rights, furniture, fixtures and equipment and vehicles. The decrease in 2018 is due to increases in accumulated depreciation. See note 5 to the financial statements for more detailed information on the Bank's capital assets. No additions to long-term debt occurred in fiscal years 2019 and 2018. 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.

Loss Provisioning

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

The loan provision for 2019 totaled $1,409,002 versus $1,104,300 in 2018, an increase of $304,702. The loan provision for 2018 totaled $1,104,300 versus $891,355 in 2017, an increase of $212,945.

The Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in the Bank's report on the audit of financial statements, which is dated April 29, 2019. That discussion and analysis explains the major factors impacting the 2018 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

Contacting the Bank's Financial Management

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

NATIONAL DEVELOPMENT BANK OF PALAU

Statements of Net Position
September 30, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
Assets:		
Cash and cash equivalents	$ 6,066,759	$ 8,379,304
Time certificates of deposit	459,060	457,494
Economic development loans receivable, net	24,335,130	22,062,755
Accrued interest receivable	139,543	130,786
Other receivables	85,155	83,565
Inventory	93,776	93,845
Prepaid expenses	16,398	22,944
Restricted cash and cash equivalents	-	50,271
Capital assets, net	682,664	661,791
Foreclosed real estate	547,199	407,199
Total assets	32,425,684	32,349,954
Deferred outflows of resources from pension	509,559	428,070
Total assets and deferred outflows of resources	$ 32,935,243	$ 32,778,024
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities:		
Loans payable	$ 9,796,076	$ 11,189,624
Accounts payable and accrued expenses	303,679	141,707
Payable to grantor agencies	140,980	141,826
Interest payable	53,175	99,444
Net pension liability	1,954,037	1,831,279
Total liabilities	12,247,947	13,403,880
Deferred inflows of resources from pension	414,182	366,335
Total liabilities and deferred inflows of resources	12,662,129	13,770,215
Commitments and contingencies		
Net position:		
Net investment in capital assets	682,664	661,791
Restricted	19,590,450	18,346,018
Total net position	20,273,114	19,007,809
Total liabilities, deferred inflows of resources and net position	$ 32,935,243	$ 32,778,024

See accompanying notes to financial statements.

NATIONAL DEVELOPMENT BANK OF PALAU

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues:		
Interest income on loans	$ 1,890,784	$ 1,704,965
Loan fees and late charges	183,395	157,932
Other	90,674	66,508
Total operating revenues	2,164,853	1,929,405
Recovery of loan losses and doubtful accounts	532,566	126,826
Net operating revenues	2,697,419	2,056,231
Operating expenses:		
General and administrative expenses:		
Salaries, wages and fringe benefits	706,557	667,750
Training	64,170	68,536
Depreciation	44,194	45,420
Professional fees	41,135	44,087
Repairs and maintenance	39,959	33,084
Travel and transportation	24,585	32,970
Dues and subscriptions	22,638	43,272
Communications	20,817	26,265
Supplies, printing, and reproduction	21,497	22,743
Honorariums and meeting expense	17,515	13,080
Rental	13,200	13,200
Insurance	10,953	10,803
Marketing and advertising	4,147	3,255
Utilities	2,377	4,440
Miscellaneous	57,372	18,061
Total general and administrative expenses	1,091,116	1,046,966
Operating income	1,606,303	1,009,265
Nonoperating revenues (expenses), net:		
Interest income on interest bearing accounts	46,239	15,455
Other income	19,926	2,320
Grant revenues	-	6,100
Interest expense and loan fees	(407,163)	(416,590)
Energy Loan Program	-	(60,000)
Energy Efficiency Home Loan Project	-	(6,100)
Total nonoperating revenues (expenses), net	(340,998)	(458,815)
Change in net position	1,265,305	550,450
Net position at beginning of year	19,007,809	18,457,359
Net position at end of year	$ 20,273,114	$ 19,007,809

See accompanying notes to financial statements.

NATIONAL DEVELOPMENT BANK OF PALAU

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	$ 2,154,506	$ 1,905,583
Cash payments to employees for services	(662,476)	(691,536)
Cash payments to suppliers for goods and services	(126,812)	(256,909)
Net cash provided by operating activities	1,365,218	957,138
Cash flows from capital and related financing activities:		
Proceeds from disposal of foreclosed properties	75,326	-
Acquisition of capital assets	(65,067)	(31,709)
Repayments of long-term debt	(1,393,548)	(1,150,962)
Interest paid on long-term debt	(453,432)	(389,207)
Net cash used for capital and related financing activities	(1,836,721)	(1,571,878)
Cash flows from investing activities:		
Net change in time certificates of deposit	(1,566)	(1,351)
Interest received on interest bearing deposits	46,239	15,455
Net change in restricted cash and cash equivalents	50,271	(22)
Loan originations, net	(1,939,809)	(2,859,752)
Net cash used for investing activities	(1,844,865)	(2,845,670)
Cash flows from noncapital financing activities:		
Other income received	4,600	2,320
Subsidy paid for energy program	(846)	(33,018)
Cash received from sale of solar system	69	51,981
Net cash provided by noncapital financing activities	3,823	21,283
Net decrease in cash and cash equivalents	(2,312,545)	(3,439,127)
Cash and cash equivalents at beginning of year	8,379,304	11,818,431
Cash and cash equivalents at end of year	$ 6,066,759	$ 8,379,304
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,606,303	$ 1,009,265
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	44,194	45,420
Recovery of loan losses and doubtful accounts	(532,566)	(126,826)
Noncash pension cost	89,116	54,150
(Increase) decrease in assets:		
Accrued interest receivable	(8,757)	(14,690)
Other receivables	(1,590)	(9,132)
Prepaid expenses	6,546	(2,883)
Increase in liabilities:		
Accounts payable and other liabilities	161,972	1,834
Net cash provided by operating activities	$ 1,365,218	$ 957,138
Supplemental schedule of noncash investing activities:		
Increase in foreclosed property	$ 200,000	$ 60,000
Decrease in loans receivable	(200,000)	(60,000)
	$ -	$ -
Subsidy for Energy Loan Program:		
Increase in Energy Loan Program expense	$ 69	$ -
Decrease in inventory	(69)	-
	$ -	$ -

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, 2019 and 2018, 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, 2019 and 2018, concentrations of credit risk result from receivables from significant customers and receivable from a related party which represent 15% and 18% of total receivables, respectively. 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 $6,583,861 and $9,009,471 at September 30, 2019 and 2018, respectively. Of this amount, bank deposits of $750,000 were FDIC insured at September 30, 2019 and 2018. 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 restricted $-0- and $50,271 of cash and cash equivalents as of September 30, 2019 and 2018, respectively, to comprise this reserve. There were no commercial loan guarantees as of September 30, 2019. 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 $545,082 and $543,520 as of September 30, 2019 and 2018, respectively. Additionally, $140,980 and $106,887 of cash received from grantor agencies was internally restricted at September 30, 2019 and 2018, respectively.

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.

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.

(2) Summary of Significant Accounting Policies, Continued

Loans and Allowance for Loan Losses, Continued

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 $93,776 and $93,845 as of September 30, 2019 and 2018, 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.

Foreclosed Real Estate

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

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Pensions

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

Revenue Recognition

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

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition, Continued

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 $865,119 and $159,197 at September 30, 2019 and 2018, 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, 2019 and 2018 were $70,000 and $64,824, 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, 2019 and 2018, 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, 2019 and 2018.

New Accounting Standards

During the year ended September 30, 2019, the Bank implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on the Bank's financial statements, except for GASB Statement No. 88, which resulted in additional disclosures (see note 7).

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies 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. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 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. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

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 September 30, 2017, the valuation date, plan membership consisted of the following:

Inactive members currently receiving benefits	1,576
Inactive members entitled to but not yet receiving benefits	1,162
Active members	3,422
Total members	6,160

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

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.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued

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

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

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

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

- $1/12^{th}$ 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:

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits, Continued

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

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

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.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Contributions, Continued

The Bank's contributions to the Plan for the years ended September 30, 2019 and 2018 were $28,320 and $27,331, 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, 2018, for the same measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Amortization Method:	Level dollar, open with remaining amortization period of 30 years
Asset Valuation Method:	Market Value of Assets
Investment Income:	7.5% per year, net of investment expenses
Inflation:	3.0%
Interest on Member Contributions:	5.0% per year
Salary Increase:	3.0% per year
Expenses:	$300,000 each year
Mortality:	RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years
Termination of Employment:	5% 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

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions, Continued

Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.
Duty vs Non-duty related disability:	100% Duty related
Refund of Contributions:	80% of terminated vested members elect a refund of contributions
Final Average Earnings:	Deferred vested members missing data for their final average earnings are assumed to have earned the average amount of current deferred vested members.
Benefits:	Retirees and beneficiaries missing data for their monthly benefit amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively.

Investment Rate of Return

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

As of September 30, 2018, 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 Equity	20%	8.70%
US Small/Mid Cap Equity	5%	9.13%
International Equity	15%	9.19%
Emerging Markets	10%	12.52%
US Aggregate Fixed Income	35%	3.82
Global Broad Fixed Income	10%	3.40
Global REIT	5%	8.33
	100%	

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Discount Rate

The discount rate used to measure the total pension liability was 4.16% at the current measurement date and 3.62% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2023 for the 2018 measurement date. For years on or after 2023, a discount rate of 4.09% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index Rate.

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, 2018, calculated using the discount rate of 4.16%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.16%) or 1.00% higher (5.16%) from the current rate.

1% Decrease 3.16%	Current Single Discount Rate Assumption 4.16%	1% Increase 5.16%
$ 2,247,290	$ 1,954,037	$ 1,709,476

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

Pension Liability. At September 30, 2019 and 2018, the Bank reported a liability of $1,954,037 and $1,831,279, 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, 2019 and 2018, the Bank's proportion was 0.7789% and 0.7060%, respectively.

Pension Expense. For the years ended September 30, 2019 and 2018, the Bank recognized pension expense of $117,404 and $81,500, respectively.

	2019			
		Pension Expense		
	Salary and Other Benefits	Total Contributions	Others	Total
Personnel and fringe benefits	$ 589,153	$ 28,320	$ 89,084	$ 706,557

	2018			
		Pension Expense		
	Salary and Other Benefits	Total Contributions	Others	Total
Personnel and fringe benefits	$ 586,250	$ 27,331	$ 54,169	$ 667,750

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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

Deferred Outflows and Inflows of Resources. At September 30, 2019 and 2018, the Bank reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 154,094	$ 29,179	$ 168,583	$ 35,792
Change of assumptions	174,712	269,715	214,130	173,481
Net difference between projected and actual earnings on pension plan investments	5,562	8,515	10,082	8,949
The Bank's contributions subsequent to measurement date	28,320	-	27,331	-
Changes in proportion and difference between the Bank's contributions and proportionate share of contributions	146,871	106,773	7,944	148,113
	$ 509,559	$ 414,182	$ 428,070	$ 366,335

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, 2019 will be recognized in pension expense as follows:

Year ending September 30,	
2020	$ 18,299
2021	$ 14,973
2022	$ 16,576
2023	$ 17,255
2024	$ (2,908)
Thereafter	$ 2,862

(4) Economic Development Loans and Allowance for Loan Losses

Major classifications of loans receivable as of September 30, 2019 and 2018 are as follows:

	2019	2018
Housing	$ 14,039,969	$ 12,226,308
Commercial	9,529,582	8,923,332
Agriculture	1,717,111	1,602,271
Fishing	457,470	415,144
Loans receivable	25,744,132	23,167,055
Less allowance for loan losses	(1,409,002)	(1,104,300)
	$ 24,335,130	$ 22,062,755

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

Maturities of the above principal balances subsequent to September 30, 2019, will be as follows:

	2019	2018
Fully matured and others	$ 2,803	$ 7,466
1 - 6 months	1,231,420	1,229,022
7 - 18 months	2,441,678	2,752,370
19 months - 3 years	3,440,267	3,408,530
After 3 years	18,627,964	15,769,667
	$ 25,744,132	$ 23,167,055

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

	2019	2018
Balance - beginning of year	$ 1,104,300	$ 891,355
Recoveries of loan previously charged-off	755,468	530,712
Recovery of loan losses	(332,566)	(126,826)
Loans charged-off	(118,200)	(190,941)
Balance - end of year	$ 1,409,002	$ 1,104,300

(5) Capital Assets

A summary of capital assets as of September 30, 2019 and 2018, is as follows:

	Estimated Useful Lives	Balance at October 1, 2018	Additions	Deletions	Balance at September 30, 2019
Depreciable assets:					
Leasehold rights	39 - 50 years	$ 524,915	$ 43,662	$ -	$ 568,577
Leasehold improvements	5 years	319,227	-	-	319,227
Furniture, fixtures and equipment	2 - 20 years	133,202	5,205	(5,594)	132,813
Vehicles	5 years	113,110	16,200	(19,400)	109,910
		1,090,454	65,067	(24,994)	1,130,527
Less accumulated depreciation		(428,663)	(44,194)	24,994	(447,863)
		$ 661,791	$ 20,873	$ -	$ 682,664

	Estimated Useful Lives	Balance at October 1, 2017	Additions	Deletions	Balance at September 30, 2018
Depreciable assets:					
Leasehold rights	39 - 50 years	$ 493,206	$ 31,709	$ -	$ 524,915
Leasehold improvements	5 years	319,227	-	-	319,227
Furniture, fixtures and equipment	2 - 20 years	247,905	-	(114,703)	133,202
Vehicles	5 years	113,110	-	-	113,110
		1,173,448	31,709	(114,703)	1,090,454
Less accumulated depreciation		(497,946)	(45,420)	114,703	(428,663)
		$ 675,502	$ (13,711)	$ -	$ 661,791

(6) Foreclosed Real Estate

A summary of the changes in foreclosed real estate as of September 30, 2019 and 2018 is as follows:

	2019	2018
Balance at beginning of year	$ 407,199	$ 347,199
Additions	200,000	60,000
Deletions	(60,000)	-
Balance at end of year	$ 547,199	$ 407,199

Title to foreclosed real estate is in the Bank's name as of September 30, 2019 and 2018. At September 30, 2019, 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:

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 $2,402,787 and $2,680,142 with interest at 4.5% as of September 30, 2019 and 2018. 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.

On March 5, 2004, the Bank entered into a loan with Mega International Commercial Bank Co., Ltd. (formerly the International Commercial Bank of China) for $5,000,000 to be used as capital funds. 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:

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 $1,428,550 and $1,714,266 at September 30, 2019 and 2018, respectively.

On December 5, 2006, the Bank entered into an agreement with the European Investment Bank (EIB) to borrow up to 5,000,000 euros, which 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, 2019 and 2018, 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 balance outstanding at September 30, 2019 and 2018 is $852,921 and $1,253,987, respectively.

The loan contains (1) a provision that in an event of default, the timing of repayment of outstanding amounts may become immediately due if: the capital to total assets ratio is not above 20%; nonperforming loans to total loans ratio exceeds 10%; provision for loan losses to nonperforming loans ratio is less than 90%, and (2) a provision that the Bank shall repay the loan or any part thereof, together with accrued interest and other accrued sums immediately, forthwith upon demand by the Lender if:

a. the Bank is fails on due date to repay any part of the loan, to pay interest thereon or to make any other payment to the Lender;

b. the Bank is unable to pay its debts, or makes or seeks to make a composition with its creditors;

c. an order is made or an effective resolution is passed for the winding up of the Bank, or the Bank takes steps towards a substantial reduction in its capital, is declared insolvent or ceases or resolves to cease to carry on the whole or any substantial part of its business or activities;

d. an incumbrancer takes possession of, or a receiver, liquidator, administrator, administrative receiver or similar officer is appointed, whether by a court of competent jurisdiction or by any competent administrative authority or by any person, any part of the business or assets; if any distress, execution, sequestration, or other process is levied or enforced upon the property of the Bank and is not discharged or stayed within 14 days; or if any event occurs which is likely to jeopardize the servicing of the loan or adversely affect any security therefor;

(7) Loans Payable, Continued

Direct Borrowings, Continued:

e. if any other financial indebtedness is either not paid when due, or following any default in relation thereto, is capable of being declared due and payable prior to its scheduled maturity;

f. if the Bank is liable, by reason of any default, to be required to effect immediate prepayment of any loan granted to it by the lender from the resources of the bank or of the European Community.

The outstanding balance at September 30, 2019 and 2018 is $852,921 and $1,253,987, respectively.

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 is payable monthly and commences thirty-six months after the advance of proceeds over the remaining period of the loan term. The PNCC fiber-optic project did not proceed and $3,000,000 was returned to ROP on April 5, 2013. The 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, 2019 and 2018 is $397,532 and $541,229, respectively.

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 3.06438% and 3.44403% as of September 30, 2019 and 2018, 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 $4,714,286 and $5,000,000 at September 30, 2019 and 2018, respectively.

At September 30, 2019 and 2018, the Bank does not have any unused lines of credit or have any assets pledged as collateral.

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

(7) Loans Payable, Continued

Direct Borrowings, Continued:

Year ending September 30,	Principal	Interest	Total
2020	$ 1,495,469	$ 254,268	$ 1,749,737
2021	1,528,311	202,252	1,730,563
2022	1,057,684	155,094	1,212,778
2023	969,261	121,878	1,091,139
2024	982,209	89,256	1,071,465
2025 - 2029	1,882,058	225,790	2,107,848
2030 - 2034	1,428,570	104,716	1,533,286
2035 - 2036	452,514	16,447	468,961
	$ 9,796,076	$ 1,169,701	$ 10,965,777

Changes in loans payable for the years ended September 30, 2019 and 2018, are as follows:

	Balance October 1, 2018	Additions	Reductions	Balance September 30, 2019	Due Within One Year
Republic of Palau Social Security Retirement Fund	$ 2,680,142	$ -	$ (277,355)	$ 2,402,787	$ 359,704
ROP Government	5,541,229	-	(429,411)	5,111,818	432,291
Mega International Commercial Bank	1,714,266	-	(285,716)	1,428,550	285,716
European Investment Bank	1,253,987	-	(401,066)	852,921	417,758
	$ 11,189,624	$ -	$ (1,393,548)	$ 9,796,076	$ 1,495,469

	Balance October 1, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year
Republic of Palau Social Security Retirement Fund	$ 3,019,475	$ -	$ (339,333)	$ 2,680,142	$ 348,159
ROP Government	5,682,083	-	(140,854)	5,541,229	429,410
Mega International Commercial Bank	1,999,982	-	(285,716)	1,714,266	285,716
European Investment Bank	1,639,046	-	(385,059)	1,253,987	401,066
	$ 12,340,586	$ -	$ (1,150,962)	$ 11,189,624	$ 1,464,351

(8) Other Long-Term Liability

Changes in the Bank's other long-term liability for the years ended September 30, 2019 and 2018, are as follows:

	Balance October 1, 2018	Additions	Reductions	Balance September 30, 2019	Due Within One Year
Net pension liability	$ 1,831,279	$ 122,758	$ -	$ 1,954,037	$ -

	Balance October 1, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year
Net pension liability	$ 1,837,001	$ -	$ (5,722)	$ 1,831,279	$ -

(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 $870,405 and $771,808 as of September 30, 2019 and 2018, respectively. Loans receivables from an affiliate amount to $1,535,133 and $1,745,423 as of September 30, 2019 and 2018, 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.

(10) Commitments

Loans Approved

At September 30, 2019 and 2018, $10,537,474 and $8,658,932, respectively, of approved loans was undisbursed. Of the undisbursed loans as of September 30, 2019 and 2018, $5,717,602 and $5,989,958, respectively, relate to performance bonds on various construction contracts where the Bank acts as the insurer and $98,586 and $491,250, respectively, relate to letters of credit. At September 30, 2019 and 2018, 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,	
2030 - 2034	$ 7,143
2035 - 2039	34,410
2040 - 2044	34,410
2045 - 2049	34,410
2050 - 2054	34,410
2055 - 2058	24,087
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-five loans aggregating $3,975,090 at September 30, 2019. Unpaid interest and subsidies related to the loan guarantees as of September 30, 2019 amounted to $40,641 and $1,082,234, respectively, for which the Bank becomes liable once the borrower defaults and a demand notice is issued. As of September 30, 2019, 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. During the year ended September 30, 2019, $200,000 received from the affiliate in connection with the sublease agreement has been recorded as a component of recovery of previously charged off loan (see note 4). As of September 30, 2019, the sublease approval and final court order was not 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) Subsequent Event

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Bank's financial results. Other financial impacts could occur though such potential impact is unknown at this time.

NATIONAL DEVELOPMENT BANK OF PALAU

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

	September 30,					
	2018 Valuation	2017 Valuation	2016 Valuation	2015 Valuation	2014 Valuation	2013 Valuation
Civil Service Pension Trust Fund (Plan) total net pension liability	$ 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	$ 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	0.779%	0.706%	0.736%	0.756%	0.767%	0.837%
The Bank's covered employee payroll**	$ 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	427.63%	447.75%	470.99%	444.45%	434.56%	435.85%
Plan fiduciary net position as a percentage of the total pension liability	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,					
	2018 Valuation	2017 Valuation	2016 Valuation	2015 Valuation	2014 Valuation	2013 Valuation
Actuarially determined contribution	$ 134,847	$ 121,283	$ 106,170	$ 82,427	$ 81,456	$ 84,209
Contribution in relation to the actuarially determined contribution	27,417	24,540	23,081	21,858	21,226	21,048
Contribution (excess) deficiency	$ 107,430	$ 96,743	$ 83,089	$ 60,569	$ 60,230	$ 63,161
The Bank's covered-employee payroll**	$ 456,950	$ 409,000	$ 390,026	$ 366,745	$ 360,465	$ 349,499
Contribution as a percentage of covered-employee payroll	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.