

*Financial Statements and
Required Supplementary Information*

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

*Years ended September 30, 2024 and 2023
with Report of Independent Auditors*



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

Financial Statements and Required Supplementary Information

Years ended September 30, 2024 and 2023

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Report of Independent Auditors

The Board of Directors
National Development Bank of Palau

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the business-type activities of National Development Bank of Palau (the Bank), as of and for the years ended September 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Bank's financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of National Development Bank of Palau as of September 30, 2024 and 2023, and the changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

At September 30, 2024 and 2023, the Bank recorded deferred outflow of resources, deferred inflow of resources and net pension liability in its statements of net position of \$791,354, \$355,191 and \$2,594,001, respectively. We were unable to obtain sufficient appropriate audit evidence about the aforementioned amounts as of September 30, 2024 and 2023 because we were unable to obtain evidence needed from the actuarial valuation yet to be issued by the Republic of Palau Civil Service Pension Plan. As a result, we were unable to determine whether any adjustments to these amounts are necessary.

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9, the Schedule of Proportional Share of the Net Pension Liability on Page 43 and the Schedule of Pension Contributions on Page 44 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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 August 29, 2025, on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control over financial reporting and compliance.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

August 29, 2025

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

Management's Discussion and Analysis

Years ended September 30, 2024 and 2023

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 end 2024 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 housing, and economic development in ROP.

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 serves as an ex-officio member of the Board. The Board of Directors elects their own officers to the posts of Chairman, Vice Chairman and Secretary/Treasurer annually. Specific authorities are delegated by the Board of Directors to the Board Audit Committee and the Board Risk Management Committee.

The Bank operates as a development bank by providing low-cost capital to the private economic sector and lends to projects with development potential rather than pure commercial investment potential. Its financial objective is not to maximize profit but to attain sufficient financial strength to achieve its objectives.

The Bank's policies and strategies are implemented through the Bank's President and management. The Bank is organized into six areas: Personal Banking, Business Banking, Risk Management, Operations, Finance and Compliance/Internal Audit. The NDBP Board of Directors approves the hiring of candidates for manager of each functional area. The Compliance/Internal Audit function reports directly to the Board of Directors, while the Bank President has authority over all other positions of the Bank. Staff levels and funding are determined against strategic, corporate, and budget plans proposed by management and approved by the Board.

All Bank operations are conducted from its main office in Ngetkib Village, Airai State. There are no branches, other offices or subsidiaries operating in 2024.

National Development Bank of Palau
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Management's Discussion and Analysis, continued

Financial Policies

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

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

The Bank provides residential mortgage loans to consumers for the construction, purchase and repair of housing, secured home equity loans for general financing needs. Its business banking services include loans, guarantees and construction bonds to entities primarily in the tourism, agriculture, aquaculture, fishing and construction sectors. The Bank is authorized to provide advice, direct assistance on technical matters and acquire an interest in a proposed venture, and provide financing to the National Government of ROP for any purpose requested by the ROP President and approved by the Olbiil Era Kelulau (OEK). All financial transactions are denominated in US dollars.

Guaranteed Loans

In 2011, the Bank entered into a MOU with the U.S. Department of Agriculture Rural Development (USDA RD) to guarantee housing loans made by USDA RD to Palauan residents. The MOU was terminated in November 2023, but NDBP maintains a reserve of \$500,000 at a commercial bank until the remaining outstanding guaranteed loans have been repaid by the borrowers.

Energy Programs

Energy is one of the national policy directions for Palau with a goal to be 100% renewable energy. In 2021, NDBP entered into a Project Agreement with Asian Development Bank (ADB) funded by a \$3,000,000 grant from Japan Fund for Prosperous and Resilient Asia. The funds are used to provide low-cost loans to Palauan homeowners to purchase and install Solar Home Kits on their roofs to provide disaster and climate change resilient, clean energy with a particular focus on enhancing women's livelihoods.

National Development Bank of Palau
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Management's Discussion and Analysis, continued

Direct loans

Short term to medium term financing is extended to new or existing businesses to fund short-term working capital and equipment acquisitions. Longer term financing is extended to individuals for housing and business facilities. Rates are fixed depending on the type of financing provided. Posted interest rates range from 4.5% 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 the financing extended. Originating and closing costs are also charged to borrowers.

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

	<u>2024</u>	<u>2023</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2022</u>
Revenues:					
Interest income on loans	\$ 2,164,593	\$ 2,090,701	\$ 73,892	4.0%	\$ 2,244,489
Loan fees and late charges	178,920	139,399	39,521	28.0%	130,319
Other	<u>243,113</u>	<u>86,652</u>	<u>156,461</u>	181.0%	<u>93,876</u>
Total operating revenue	<u>2,586,626</u>	<u>2,316,752</u>	<u>269,874</u>	12.0%	<u>2,468,684</u>
Provision for loan losses	508,427	(1,394,250)	1,902,677	-136.0%	(1,864,323)
Operating Expenses:					
Salaries, wages and fringe benefits	798,662	701,077	97,585	14.0%	685,060
Professional fees	136,834	96,039	40,795	42.0%	62,488
Depreciation	87,564	37,950	49,614	131.0%	37,198
Other expenses	<u>338,645</u>	<u>300,157</u>	<u>38,488</u>	13.0%	<u>205,202</u>
Total operating expenses	1,361,705	1,135,223	226,482	20.0%	989,948
Total operating income	1,733,348	(212,721)	1,946,069	-915.0%	(385,587)
Non-Operating Revenues (Expenses):					
Interest income on interest bearing accounts	45,176	43,369	1,807	4.0%	7,173
Housing Development Subsidy	(4,641)	(35,645)	31,004	-87.0%	(41,804)
Interest expense and loan fees	(466,053)	(514,236)	48,183	-9.0%	(217,081)
Other income	<u>7,400</u>	<u>17,400</u>	<u>(10,000)</u>	-0.6%	<u>11,317</u>
Total Non-Operating revenues (expenses)	<u>(418,118)</u>	<u>(489,112)</u>	<u>70,994</u>	-15.0%	<u>(240,395)</u>
Change in net position	1,315,230	(701,833)	2,017,063	-287.0%	(625,982)
Net position at beginning of year	<u>28,931,507</u>	<u>29,633,340</u>	<u>(701,833)</u>	-2.0%	<u>30,259,322</u>
Net position at end of year	<u>\$30,246,737</u>	<u>\$28,931,507</u>	<u>\$1,315,230</u>	5.0%	<u>\$29,633,340</u>

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Management's Discussion and Analysis, continued

Revenue

Operating revenues include all direct interest income on loans and other miscellaneous fees, such as late fees and performance bonds fees. Interest revenues in 2024 increased by \$73,892 or 4%. Loan fees increased from \$139,399 in 2023 to \$178,920 in 2024, a 28% increase.

Expenses

Operating expenses for 2024 increased by \$226,482 or 20% as compared to 2023. Salaries in 2024 was \$798,662, an increase of 14% from 2023. Other operating expenses including depreciation total \$563,043 in 2024.

Non-operating revenues & expenses

Non-operating expenses decreased by \$70,994 largely due to decrease in long term debt interest of \$48,183. Housing development subsidies decreased from \$35,645 in 2023 to \$4,641 in 2024.

Statements of Cash flows

	2024	2023	\$ Change	% Change	2022
Cash flows from operating activities	\$2,075,939	\$ 1,078,068	\$ 997,871	93.0%	\$ 687,085
Cash flows from capital and related financing activities	(1,913,653)	51,239	(1,964,892)	-3835.0%	521,826
Cash flows from investing activities	(3,675,108)	(2,550,259)	(1,124,849)	44.0%	(1,860,776)
Cash flows from non-capital financing activities	(81,875)	(18,245)	(63,630)	349.0%	1,047,180
Net (decrease) increase in cash and cash equivalents	(3,594,697)	(1,439,197)	(2,155,500)	150.0%	395,315
Cash and cash equivalents at beginning of year	9,508,015	10,947,212	(1,439,197)	-13.0%	10,551,897
Cash and cash equivalents at end of year	\$5,913,318	\$ 9,508,015	\$(3,594,697)	-38.0%	\$10,947,212

The Bank had a net decrease in cash of \$3.6 million or 38% over the previous year, largely due to economic loans serviced in the year. No new funds were received in 2024.

Statements of Net Position

	2024	2023	\$ Change	% Change	2022
Assets & Deferred Outflows of Resources					
Cash	\$ 5,913,318	\$ 9,508,015	\$(3,594,697)	-38.0%	\$ 10,947,212
Current assets	1,110,986	1,935,605	(824,619)	-43.0%	1,624,400
Economic development loans receivable, net	35,781,109	31,552,398	4,228,711	13.0%	30,353,020
Capital assets	700,815	607,885	92,930	15.0%	596,097
Lease assets	63,083	64,966	(1,883)	-3.0%	---
Other assets	347,188	347,188	---	0.0%	347,188
Total assets	43,916,499	44,016,057	(99,558)	0.0%	43,867,917
Deferred outflows of resources	791,354	791,354	---	0.0%	791,354
Total assets & deferred outflows of resources	\$44,707,853	\$44,807,411	\$(99,558)	-0.2%	\$44,659,271

National Development Bank of Palau
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Management's Discussion and Analysis, continued

Statements of Net Position, continued

Liabilities, Deferred Inflows of Resources and Net Position

Loans payable	\$10,963,732	\$12,221,455	\$(1,257,723)	-10.0%	\$11,656,014
Pension liability	2,594,001	2,594,001	---	0.0%	2,594,001
Other liabilities	<u>548,192</u>	<u>705,257</u>	<u>(157,065)</u>	-22.0%	<u>420,725</u>
 Total liabilities	 14,105,925	 15,520,713	 (1,414,788)	 -9.0%	 14,670,740
 Deferred outflows of resources	 <u>355,191</u>	 <u>355,191</u>	 <u>---</u>	 0.0%	 <u>355,191</u>
 Total liabilities & deferred inflow of resources	 <u>14,461,116</u>	 <u>15,875,904</u>	 (1,414,788)	 -9.0%	 <u>15,025,931</u>

Net Position

Net investment in capital assets	700,815	607,885	92,930	15.0%	596,097
Restricted	100,005	834,782	(734,777)	-88.0%	1,048,234
Unrestricted	<u>29,445,917</u>	<u>27,488,840</u>	<u>1,957,077</u>	7.0%	<u>27,989,009</u>
 Total Net Positions	 <u>30,246,737</u>	 <u>28,931,507</u>	 <u>1,315,230</u>	 5.0%	 <u>29,633,340</u>

Total Liabilities & Deferred Inflow of Resources & Net Position	<u>\$44,707,853</u>	<u>\$44,807,411</u>	<u>\$(99,558)</u>	-0.2%	<u>\$44,659,271</u>
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Total Assets

The Bank's total assets and deferred outflows of resources for 2024 and 2023 was \$44.7 million and \$44.8 million, respectively, a decrease of \$99.6 thousand or -0.2%.

Loss Provisioning

The Bank's provisions for loan losses with a general provision of 3% to 5% and specific provisions of 10%, 20%, 40%, 60% 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" similarly to the World Bank system. All loans are individually managed by this system. Loan accounts are required to be reviewed regularly.

Loan loss provision at the end of 2024 is \$1.7 million and \$1.9 million in 2023. In 2024, the Bank had charged-off \$2.8 million in bad debts and recovered previously charged-off loans of \$3.1 million.

Loan Portfolio

The Bank's loan portfolio includes new, amended, and renewed loans and lines of credit. The Bank's goal during the year remained asset and net position growth while maintaining credit quality and costs to borrowers.

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Management's Discussion and Analysis, continued

Loan Portfolio, continued

The total loans outstanding at end of 2024 was \$37.5 million and \$33.5 million in 2023, an increase of \$4 million or 12%. The outstanding loans by sector are presented in the following table:

SECTOR	2024		2023		Change	
	Amount	% To Total	Amount	% To Total	Amount	Percent
Agriculture	\$929,532	2%	\$932,451	3%	(\$2,919)	-0%
Fishing	356,059	1%	500,978	1%	(144,919)	-29%
Commercial	7,498,528	20%	7,300,004	22%	198,524	3%
Housing	28,683,667	77%	24,735,493	74%	3,948,174	16%
Totals	37,467,786	100%	33,468,926	100%	3,998,860	12%
Provision for loan losses	(1,686,677)	-5%	(1,916,528)	-6%	(229,851)	-12%
Totals	\$35,781,109	95%	\$31,552,398	94%	\$4,228,711	13%

Affiliations

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

Risk Management

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

Risk Management is monitored by the Board Risk Management Committee, management committees including the Liquidity, Market and Capital Risk Management Committee and the Watchlist Committee, the Chief Risk Officer and internal audit and external audit reporting.

The Management's Discussion and Analysis for the year ended September 30, 2023, is set forth in the Bank's report on the audit of financial statements, which is dated November 27, 2024. That discussion and analysis explains the major factors impacting the 2023 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

Contacting the Bank's Financial Management

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

National Development Bank of Palau
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Statements of Net Position

	September 30,	
	<u>2024</u>	<u>2023</u>
Assets and Deferred Outflows of Resources		
Assets		
Current assets		
Cash and cash equivalents	\$ 5,552,909	\$ 8,329,121
Restricted cash and cash equivalents	360,409	1,178,894
Economic development loans receivable, net	3,510,643	4,253,276
Accrued interest receivable	147,165	635,213
Other receivables	40,119	83,725
Inventory	3,818	26,323
Prepaid expenses	<u>919,884</u>	<u>1,190,344</u>
Total current assets	10,534,947	15,696,896
Economic development loans receivable, net	32,270,466	27,299,122
Capital assets, net	700,815	607,885
Foreclosed real asset	347,188	347,188
Lease asset	<u>63,083</u>	<u>64,966</u>
Total assets	43,916,499	44,016,057
Deferred outflows of resources from pension	<u>791,354</u>	<u>791,354</u>
Total assets and deferred outflows of resources	<u>\$44,707,853</u>	<u>\$44,807,411</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Liabilities		
Current liabilities		
Loans payable	\$ 1,181,108	\$ 1,281,984
Accounts payable and accrued expenses	321,575	348,591
Interest payable	76,500	90,547
Payable to grantor agencies	77,813	162,447
Deferred revenues	<u>---</u>	<u>34,149</u>
	1,656,996	1,917,718
Loans payable, net of current portion	7,264,708	8,421,555
Lease liabilities, net of current portion	72,304	69,523
Payable to Republic of Palau Ministry of Finance	2,517,916	2,517,916
Net pension liability	<u>2,594,001</u>	<u>2,594,001</u>
Total liabilities	14,105,925	15,520,713

See accompanying notes.

National Development Bank of Palau
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Statements of Net Position, continued

Liabilities, Deferred Inflows of Resources and Net Position, continued

	September 30,	
	<u>2024</u>	<u>2023</u>
Deferred inflows of resources from pension	<u>355,191</u>	<u>355,191</u>
Total liabilities and deferred inflows of resources	<u>14,461,116</u>	<u>15,875,904</u>
Net position:		
Net investment in capital assets	700,815	607,885
Restricted	100,005	834,782
Unrestricted	<u>29,445,917</u>	<u>27,488,840</u>
Total net position	<u>30,246,737</u>	<u>28,931,507</u>
Total liabilities, deferred inflows of resources and net position	<u>\$44,707,853</u>	<u>\$44,807,411</u>

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	<u>2024</u>	<u>2023</u>
Operating revenues:		
Interest income on loans	\$2,164,593	\$2,090,701
Loan fees and late charges	178,920	139,399
Other	<u>243,113</u>	<u>86,652</u>
Total operating revenues	2,586,626	2,316,752
Recovery of (provision for) loan losses and doubtful accounts	<u>508,427</u>	<u>(1,394,250)</u>
Net operating revenues	<u>3,095,053</u>	<u>922,502</u>
Operating expenses:		
General and administrative expenses		
Salaries, wages and fringe benefits	798,662	701,077
Professional fees	136,834	96,039
Depreciation and amortization	87,564	37,950
Repairs and maintenance	44,163	40,585
Training	38,070	5,209
Dues and subscriptions	37,326	33,231
Supplies, printing, and reproduction	31,642	35,819
Communications	27,947	16,099
Utilities	24,309	21,742
Rental	22,440	14,570
Insurance	10,894	11,107
Honorarium and meeting expenses	10,119	23,221
Marketing and advertising	8,420	5,602
Travel and transportation	7,095	5,613
Miscellaneous	<u>76,220</u>	<u>87,359</u>
Total general and administrative expenses	<u>1,361,705</u>	<u>1,135,223</u>
Operating income (loss), net	<u>1,733,348</u>	<u>(212,721)</u>

See accompanying notes.

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

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

	Year ended September 30,	
	<u>2024</u>	<u>2023</u>
Non-operating revenues (expenses), net:		
Interest income on interest bearing accounts	45,176	43,369
Other income	7,400	17,400
Interest expense and loan fees	(466,053)	(514,236)
Housing development subsidy	(<u>4,641</u>)	(<u>35,645</u>)
Total non-operating expenses, net	(<u>418,118</u>)	(<u>489,112</u>)
Change in net position	1,315,230	(701,833)
Net position at beginning of year	<u>28,931,507</u>	<u>29,633,340</u>
Net position at end of year	<u>\$30,246,737</u>	<u>\$28,931,507</u>

See accompanying notes.

National Development Bank of Palau
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Statements of Cash Flows

	Year Ended September 30,	
	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Cash received from customers	\$3,118,280	\$ 2,458,014
Cash payments to suppliers for goods and services	(254,289)	(796,594)
Cash payments to employees for services	(<u>788,052</u>)	(<u>583,352</u>)
Net cash provided by operating activities	<u>2,075,939</u>	<u>1,078,068</u>
Cash flows from capital and related financing activities:		
Repayments of long-term debt	(1,257,723)	(880,891)
Interest paid on long-term debt	(477,319)	(466,347)
Acquisition of capital assets	(178,611)	(47,855)
Proceeds from loan payable	<u>---</u>	<u>1,446,332</u>
Net cash (used in) provided by capital and related financing activities	<u>(1,913,653)</u>	<u>51,239</u>
Cash flows from investing activities:		
Interest received on interest bearing deposits	45,176	43,369
Loan originations, net	<u>(3,720,284)</u>	<u>(2,593,628)</u>
Net cash used in investing activities	<u>(3,675,108)</u>	<u>(2,550,259)</u>
Cash flows from non-capital financing activities:		
Net change in payable to grantor agencies	(84,634)	---
Subsidy paid for Housing Development Loan Project program	(4,641)	(35,645)
Other income received	<u>7,400</u>	<u>17,400</u>
Net cash used in non-capital financing activities	<u>(81,875)</u>	<u>(18,245)</u>
Net decrease in cash and cash equivalents	(3,594,697)	(1,439,197)
Cash and cash equivalents at beginning of year	<u>9,508,015</u>	<u>10,947,212</u>
Cash and cash equivalents at end of year	<u>\$5,913,318</u>	<u>\$ 9,508,015</u>

See accompanying notes.

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

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2024</u>	<u>2023</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$1,733,348	\$(212,721)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	87,564	37,950
(Recovery of) provision for loan losses and doubtful accounts	(508,427)	1,394,250
(Increase) decrease in assets:		
Accrued interest receivable	488,048	162,862
Other receivables	43,606	429,975
Inventories	22,505	236,867
Prepaid assets	270,460	(1,140,909)
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	(27,016)	173,235
Deferred revenues	(34,149)	(3,441)
Net cash provided by operating activities	<u>\$2,075,939</u>	<u>\$ 1,078,068</u>

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2024 and 2023

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.

2. Summary of Significant Accounting Policies

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

Accounting Estimates

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

Basis of Accounting

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Concentrations of Credit Risk

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

At September 30, 2024 and 2023, the Bank has cash deposits in bank accounts that exceed federal depository insurance limits. The Bank has not experienced any losses on such accounts.

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

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net position and of cash flows, the Bank considers all highly liquid investments, with maturities of three months or less when purchased, to be cash and cash equivalents. Time certificates of deposit with initial maturities of greater than three months are separately classified. Restricted and unrestricted cash and cash equivalents and time certificates of deposit maintained in Federal Deposit Insurance Corporation (FDIC) insured banks amounted to \$5,912,631 and \$9,507,321 at September 30, 2024 and 2023, respectively. Of this amount, bank deposits of \$618,652 and \$750,000 were covered by FDIC insurance limit at September 30, 2024 and 2023, respectively. Accordingly, the deposits are exposed to custodial credit risk. The Bank does not require collateralization of its deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

At September 30, 2024 and 2023, cash balance of \$100,005 and \$834,782, respectively, are restricted for Housing Development Loan Project (HDLP) funds (see note 11) and \$260,777 and \$351,548, respectively, are restricted for Asian Development Bank (ADB) Solar Project funds (see note 8).

Loans and Allowance for Loan Losses

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Loans and Allowance for Loan Losses, continued

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

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

Inventory

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

Capital Assets

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

Foreclosed Real Estate

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

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

Notes to Financial Statements, continued

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 (addition to net position) until then. The Bank has determined the changes in assumption, differences between projected and actual earnings on pension plan investments and changes in proportion and difference between the Bank's contributions and proportionate share of contributions qualify for reporting in this category.

Off-Balance Sheet Financial Instruments

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

Pensions

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

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

Notes to Financial Statements, continued

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. Non-accrual loans approximated \$298,934 and \$650,303 at September 30, 2024 and 2023, 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, 2024 and 2023 were \$102,828 and \$89,163, respectively. Accrued leave benefits recorded as part of accounts payable and accrued expenses amounted to \$64,847 and \$60,268 as of September 30, 2024 and 2023, respectively.

Taxes

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

Net Position

The Bank's net position is classified as follows:

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

Restricted:

Nonexpendable - Net position subject to externally imposed stipulations that the Bank maintains them permanently. At September 30, 2024 and 2023, the Bank does not have nonexpendable net position.

Expendable - Net position whose use by the Bank is subject to externally imposed stipulations that can be fulfilled by actions of the Bank pursuant to those stipulations or that expire by the passage of time. At September 30, 2024 and 2023, all of the Bank's restricted net position is expendable.

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This statement provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. The provisions of GASB Statement No. 99 that were effective for the year ended September 30, 2024 are related to:

- Modification of guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures.
- Guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The implementation of the aforementioned provisions of GASB Statement No. 99 during the year ended September 30, 2024 did not have an effect on the accompanying financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. The implementation of GASB Statement No. 100 did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for fiscal years ending September 30, 2026.

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

3. Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

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

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

The Plan has not issued an actuarial valuation as of September 30, 2022, and as such the total pension liability and related deferred outflow and deferred inflow of resources as of September 30, 2024 and 2023 remained unchanged from the amounts recorded as of September 31, 2021, which were determined by an actuarial valuation as of September 30, 2020.

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

Notes to Financial Statements, continued

3. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Pension Benefits

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	<u>3,480</u>
Total members	<u>6,361</u>

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.

National Development Bank of Palau
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Notes to Financial Statements, continued

3. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Pension Benefits, continued

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:

<u>Factor</u>	<u>If the Spouse or Beneficiary is:</u>
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.

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

Notes to Financial Statements, continued

3. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Pension Benefits, continued

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

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

Upon the death of a member or former member with eligible survivors before commencement of the member's 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.

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

Notes to Financial Statements, continued

3. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, 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, 2024 and 2023 were \$32,377 and \$30,408, respectively, which were equal to the required contributions for the years then ended.

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

Notes to Financial Statements, continued

3. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Actuarial Assumptions

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

Actuarial 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

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

Notes to Financial Statements, continued

3. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Actuarial Assumptions, continued

Disability:

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

Retirement Age: 100% at age 60

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

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

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

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

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:

National Development Bank of Palau
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Notes to Financial Statements, continued

3. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Actuarial Assumptions, continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
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	<u>10%</u>	8.33%
	<u>100%</u>	

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%.

National Development Bank of Palau
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Notes to Financial Statements, continued

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, 2024 and 2023, 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.

<u>1% Decrease (1.28%)</u>	<u>Current Single Discount Rate Assumption 2.28%</u>	<u>1% Increase (3.28%)</u>
<u>\$3,027,241</u>	<u>\$2,594,001</u>	<u>\$2,236,660</u>

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

Pension Liability. At September 30, 2024 and 2023, the Bank reported a liability of \$2,594,001 for its proportionate share of the net pension liability. The Bank's proportion of the net pension liability was based on the projection of the Bank's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2021, the Bank's proportion was 0.7532%. The Bank's proportion as of September 30, 2024 and 2023 is not yet determined as the actuarial valuation yet to be issued by the Republic of Palau Civil Service Pension Plan.

Pension Expense. For the years ended September 30, 2024 and 2023, the Bank recognized pension expense of \$103,040 and \$98,781, respectively.

	<u>Salary and Other Benefits</u>	<u>2024 Pension Expense</u>		
		<u>Total Contributions</u>	<u>Others</u>	<u>Total</u>
Personnel and fringe benefits	<u>\$695,622</u>	<u>\$32,377</u>	<u>\$70,663</u>	<u>\$798,662</u>
	<u>Salary and Other Benefits</u>	<u>2023 Pension Expense</u>		
		<u>Total Contributions</u>	<u>Others</u>	<u>Total</u>
Personnel and fringe benefits	<u>\$602,296</u>	<u>\$30,408</u>	<u>\$68,373</u>	<u>\$701,077</u>

National Development Bank of Palau
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Notes to Financial Statements, continued

3. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

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, 2024 and 2023, the Bank reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2024		2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 87,310	\$ 68,618	\$ 87,310	\$ 68,618
Change of assumptions	556,633	163,055	556,633	163,055
Net difference between projected and actual earnings on pension plan investments	4,847	3,320	4,847	3,320
The Bank's contributions subsequent to measurement date	29,437	---	29,437	---
Changes in proportion and difference between the Bank's contributions and proportionate share of contributions	<u>113,127</u>	<u>120,198</u>	<u>113,127</u>	<u>120,198</u>
	<u>\$791,354</u>	<u>\$355,191</u>	<u>\$791,354</u>	<u>\$355,191</u>

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, 2024 will be recognized in pension expense in future years is presented below:

Year ending September 30,

2025	\$176,939
2026	69,583
2027	73,735
2028	70,480
2029	<u>15,989</u>
Total	<u>\$406,726</u>

National Development Bank of Palau
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Notes to Financial Statements, continued

4. Economic Development Loans and Allowance for Loan Losses

Loans receivable as of September 30, 2024 are comprised of the following:

	<u>Current</u>	<u>Non-current</u>
Loans	\$3,871,735	\$33,596,051
Less allowance for loan losses	(361,092)	(1,325,585)
	<u>\$3,510,643</u>	<u>\$32,270,466</u>

Loans receivable as of September 30, 2023 are comprised of the following:

	<u>Current</u>	<u>Non-current</u>
Loans	\$4,494,798	\$28,974,128
Less allowance for loan losses	(241,522)	(1,675,006)
	<u>\$4,253,276</u>	<u>\$27,299,122</u>

Major classifications of loans receivable as of September 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Housing	\$28,683,667	\$24,735,493
Commercial	7,498,528	7,300,004
Agriculture	929,532	932,451
Fishing	<u>356,059</u>	<u>500,978</u>
Loans receivable	37,467,786	33,468,926
Less allowance for loan losses	(1,686,677)	(1,916,528)
	<u>\$35,781,109</u>	<u>\$31,552,398</u>

Maturity terms of the outstanding loan receivables at September 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Fully matured and others	\$ 40	\$ 134,672
1 - 6 months	334,284	435,514
7 - 18 months	789,392	2,022,074
19 months -3 years	1,087,004	1,167,147
After 3 years	<u>35,257,066</u>	<u>29,709,519</u>
	<u>\$37,467,786</u>	<u>\$33,468,926</u>

National Development Bank of Palau
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Notes to Financial Statements, continued

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

An analysis of the change in the allowance for loan losses for the years ended September 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Balance - beginning of year	\$1,916,528	\$5,951,581
Recoveries of loan previously charged-off	3,066,588	254,407
Loans charged-off	<u>(2,788,012)</u>	<u>(5,683,710)</u>
Loan recoveries (charge-off), net	278,576	(5,429,303)
(Reversal of) provision for loan losses and doubtful accounts	<u>(508,427)</u>	<u>1,394,250</u>
Balance - end of year	<u>\$1,686,677</u>	<u>\$1,916,528</u>

Of the \$3.067 million of recoveries recorded during the year ended September 30, 2023, \$2.5 million is related to reinstatement of loans previously charged-off instead of loan recoveries through cash collections. Additionally, \$2.2 million of such loan reinstatements is related to loans that were charged-off during the year ended September 30, 2023. Under Bank policy, a loan which has previously been charged-off may be returned to performing status subject to the approval of Board Risk Management Committee given that the Bank and borrower are able to agree to a repayment schedule and the borrower has proven its ability to meet the terms of the repayment schedule for a minimum of six months.

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, 2024 and 2023, loans totaling of \$935,439 and \$1,187,909, respectively, were granted temporary payment deferrals under the programs and are not considered to be Troubled Debt Restructuring (TDR).

National Development Bank of Palau
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Notes to Financial Statements, continued

5. Capital Assets

A summary of capital assets as of September 30, 2024 and 2023, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2023</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance at September 30, 2024</u>
Depreciable assets:						
Leasehold rights	20 - 50 years	\$ 585,840	\$ ---	\$ ---	\$ ---	\$ 585,840
Leasehold improvements	5 years	348,442	62,100	---	(68,999)	341,543
Vehicles	5 years	128,610	33,440	---	---	162,050
Equipment	1 - 5 years	---	78,191	106,560	(28,827)	155,924
Furniture, fixtures and equipment	1 - 20 years	<u>149,239</u>	<u>4,880</u>	<u>(106,560)</u>	<u>---</u>	<u>47,559</u>
		1,212,131	178,611	---	(97,826)	1,292,916
Less accumulated depreciation		<u>(604,246)</u>	<u>(85,681)</u>	<u>---</u>	<u>97,826</u>	<u>(592,101)</u>
		<u>\$ 607,885</u>	<u>\$ 92,930</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 700,815</u>
Lease asset:						
Cost		\$ 66,849	\$ ---	\$ ---	\$ ---	\$ 66,849
Less accumulated amortization		<u>(1,883)</u>	<u>(1,883)</u>	<u>---</u>	<u>---</u>	<u>(3,766)</u>
Lease asset, net		<u>\$ 64,966</u>	<u>\$ (1,883)</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 63,083</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2022</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance at September 30, 2023</u>
Depreciable assets:						
Leasehold rights	39 - 50 years	\$ 585,840	\$ ---	\$ ---	\$ ---	\$ 585,840
Leasehold improvements	5 years	327,327	21,115	---	---	348,442
Furniture, fixtures and equipment	2 - 20 years	141,199	8,040	---	---	149,239
Vehicles	5 years	<u>109,910</u>	<u>18,700</u>	<u>---</u>	<u>---</u>	<u>128,610</u>
		1,164,276	47,855	---	---	1,212,131
Less accumulated depreciation		<u>(568,179)</u>	<u>(36,067)</u>	<u>---</u>	<u>---</u>	<u>(604,246)</u>
		<u>\$ 596,097</u>	<u>\$11,788</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 607,885</u>
Lease asset:						
Cost		\$ ---	\$66,849	---	\$ ---	\$ 66,849
Less accumulated amortization		<u>---</u>	<u>(1,883)</u>	<u>---</u>	<u>---</u>	<u>(1,883)</u>
Lease asset, net		<u>\$ ---</u>	<u>\$64,966</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 64,966</u>

6. Foreclosed Real Estate

Title to foreclosed real estate is in the Bank's name as of September 30, 2024 and 2023. At September 30, 2024 and 2023, 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 13).

National Development Bank of Palau
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Notes to Financial Statements, continued

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 is \$601,276 and \$993,482 with interest at 4.5% as of September 30, 2024 and 2023, 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.

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 \$285,686 at September 30, 2023. The loan was fully paid on June 5, 2024.

National Development Bank of Palau
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Notes to Financial Statements, continued

7. Loans Payable, continued

Direct Borrowings, continued:

Republic of Palau

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 6.4240% and 6.2096% as of September 30, 2024 and 2023, respectively), interest only payable semi-annually until September 30, 2018 with the first semi-annual principal installment of \$142,857 payable on March 31, 2019. Annual expected principal payments are \$285,714. The loan agreement does not contain a provision on acceleration clause in an event of default. The outstanding balance is \$3,285,716 and \$3,571,430 at September 30, 2024 and 2023, respectively.

At September 30, 2024 and 2023, 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 SOFR 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 \$4,558,824 and \$4,852,941 as of September 30, 2024 and 2023, respectively. At September 30, 2024, the Bank does not have any unused lines of credit. At September 30, 2024, the Bank is in compliance with certain financial covenant ratio requirements.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$1,181,108	\$ 359,767	\$ 1,540,875
2026	579,832	326,204	906,036
2027	579,832	298,585	878,417
2028	579,832	271,724	851,556
2029	579,832	243,347	823,179
2030 – 2034	2,899,158	802,905	3,702,063
2035 – 2039	1,899,164	194,901	2,094,065
2040	<u>147,058</u>	<u>752</u>	<u>147,810</u>
	<u>\$8,445,816</u>	<u>\$2,498,185</u>	<u>\$10,944,001</u>

National Development Bank of Palau
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Notes to Financial Statements, continued

7. Loans Payable, continued

Direct Borrowings, continued:

Changes in loans payable for the years ended September 30, 2024 and 2023, are as follows:

	Balance October 1, 2023	Additions	Reductions	Balance September 30, 2024	Due Within One Year
Republic of Palau Social Security Retirement Fund	\$ 993,482	\$ ---	\$(392,206)	\$ 601,276	\$ 601,276
ROP Government	3,571,430	---	(285,714)	3,285,716	285,714
Mega International Commercial Bank	285,686	---	(285,686)	---	---
Taiwan ICDF	<u>4,852,941</u>	<u>---</u>	<u>(294,117)</u>	<u>4,558,824</u>	<u>294,118</u>
	<u>\$9,703,539</u>	<u>\$ ---</u>	<u>\$(1,257,723)</u>	<u>\$8,445,816</u>	<u>\$1,181,108</u>
	Balance October 1, 2022	Additions	Reductions	Balance September 30, 2023	Due Within One Year
Republic of Palau Social Security Retirement Fund	\$ 1,155,884	\$ ---	\$(162,402)	\$ 993,482	\$ 416,466
ROP Government	3,857,144	---	(285,714)	3,571,430	285,714
Mega International Commercial Bank	571,402	---	(285,716)	285,686	285,686
Taiwan ICDF	<u>5,000,000</u>	<u>---</u>	<u>(147,059)</u>	<u>4,852,941</u>	<u>294,118</u>
	<u>\$10,584,430</u>	<u>\$ ---</u>	<u>\$(880,891)</u>	<u>\$9,703,539</u>	<u>\$1,281,984</u>

8. Payable to Republic of Palau Ministry of Finance

On December 1, 2020, the Asian Development Bank entered into a grant agreement (the Grant) with the ROP to implement the Disaster Resilient Clean Energy Financing Project (the Project). The Grant has a closing date of April 30, 2024, which has been extended to April 30, 2026. The Project would be carried out by the ROP Ministry of Finance (MOF) acting through the Bank. Under the Project, \$3 million in grant proceeds are to be made available to the Bank to re-lend to eligible borrowers for the purchase and installation of solar home systems and to procure all goods and services in accordance with the grant agreement. The Bank acts as the implementing agency that approves credit worthiness of borrowers, implements compliance with the credit process, and ensure full repayment of loans by eligible borrowers and repays the funds back to MOF over a maturity period of eight years without interest. The Bank received total proceeds amounting to \$2,517,916 as of September 30, 2024, of which \$1,776,109 was used for training, prepaid solar system equipment and other fees, \$481,403 in installation costs and \$260,404 in cash and cash equivalents. The Bank has a remaining balance of approximately \$480,000 available as of September 30, 2024.

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Notes to Financial Statements, continued

9. Leases

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

On October 1, 2022, the Bank recorded related leased asset and liability of \$66,849 in accordance with GASB 87, *Leases*, which became effective on October 1, 2021. The term included is for the remaining term of 36 years through 2058, excluding the option periods, at a discount rate of 4% which represents the Bank's incremental borrowing cost.

Leased asset at September 30, 2024 and 2023 consists of the following:

<u>Lease Description</u>	<u>Classification</u>	September 30, 2024		
		<u>Gross Balance</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
Ground lease	Land	\$66,849	\$3,766	\$63,083

<u>Lease Description</u>	<u>Classification</u>	September 30, 2023		
		<u>Gross Balance</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
Ground lease	Land	\$66,849	\$1,883	\$64,966

At September 30, 2024, the future lease payments for the aforementioned agreement are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>
2030 – 2034	\$ 3,441
2035 – 2039	34,410
2040 – 2044	34,410
2045 – 2049	34,410
2050 – 2054	34,410
2055 – 2058	<u>24,087</u>
Total future minimum payments	165,168
Interest	(<u>92,864</u>)
Lease liability	\$ <u>72,304</u>

National Development Bank of Palau
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Notes to Financial Statements, continued

10. Other Long-Term Liability

Changes in the Bank's other long-term liability for the years ended September 30, 2024 and 2023, are as follows:

	Balance October 1, 2023	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2024	Due Within One Year
Net pension liability	\$2,594,001	\$ ---	\$ ---	\$2,594,001	\$ ---
	Balance October 1, 2022	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2023	Due Within One Year
Net pension liability	\$2,594,001	\$ ---	\$ ---	\$2,594,001	\$ ---

11. 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 \$1,078,562 and \$787,062 as of September 30, 2024 and 2023, respectively. Loans receivable from officers and employees and loans receivable from an affiliate are included within economic development loans receivable in the accompanying statements of net position.

On June 12, 2019, RPPL No. 10-36 was passed into law creating the HDLP administered by the National Housing Commission (NHC), financed by MICB through Ministry of Finance (MOF). Palau Housing Authority (PHA) and the Bank are assigned to distribute the proceeds of the loan. On August 28, 2019, NHC, MOF, PHA and the Bank entered into a subsidiary loan agreement. On November 25, 2020, the parties amended the subsidiary loan agreement and agreed to rescind the repayment obligation to MOF in relation to the HDLP. For the years ended September 30, 2024 and 2023, the Bank did not receive capital contribution from ROP for the HDLP fund. For the years ended September 30, 2024 and 2023, the Bank had loan disbursements of \$0 and \$213,729 respectively. At September 30, 2024, cumulative capital contributions totaled \$8,994,648 and cumulative loan disbursements totaled \$7,047,169.

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. On August 30, 2022, ROP authorized the Bank to utilize \$500,000 from the CROSS Act to supplement the costs under the ADB DRCEF Program. Funds provided to the Bank shall not be repayable to ROP. The Bank did not recognize any grant revenues and disbursed loans totaling \$44,783 and \$118,364 related to the CROSS Act for the years ended September 30, 2024 and 2023, respectively.

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Notes to Financial Statements, continued

12. Commitments

Internal restrictions

RPPL 4-48, Section 126, as amended by RPPL 5-37, stipulates that the Bank shall maintain a reserve account to be applied to all defaults on commercial loans guaranteed by the Bank. The reserve account shall equal ten percent (10%) of the total amount of all loan guarantees on commercial bank loans, whether or not protected by the full faith and credit of ROP. There were no commercial loan guarantees as of September 30, 2024 and 2023 and accordingly, the Bank has no restricted cash and cash equivalents as of September 30, 2024 and 2023 to comprise this reserve.

The Bank has internally restricted (not reflected as restricted in the Statements of Net Position) cash and cash equivalents held solely for the guarantee of U.S. Department of Agriculture Rural Development (USDA RD) loans in the amount of \$552,606 and \$552,566 as of September 30, 2024 and 2023, respectively. Additionally, \$77,813 and \$162,447 of cash received from grantor agencies were internally restricted at September 30, 2024 and 2023, respectively.

Loans

At September 30, 2024 and 2023, the Bank had \$2,364,284 and \$748,243, respectively, of undisbursed approved loans, and \$33,841 and \$360,469, respectively, of undisbursed letters of credit. Loans recorded by USDA are subject to NDBP guarantee, with balances of \$2,512,107 and \$2,503,051 as of September 30, 2024 and 2023, respectively.

Of approved performance bonds on various construction contracts where the Bank acts as the insurer, unissued bonds amount to \$8,387,846 and \$9,014,983 as of September 30, 2024 and 2023. At September 30, 2024 and 2023, no performance bonds have been called.

13. 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 the ROP lands and the Bank will guarantee the repayment of the loan for which the Bank has issued a written guarantee. This MOU was subsequently terminated on November 6, 2023, but NDBP continues to hold a reserve of \$500,000 at Bank Pacific until all outstanding guaranteed loans are repaid by the borrowers.

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

National Development Bank of Palau
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Notes to Financial Statements, continued

13. Contingencies, continued

On December 14, 2018, the Bank won the foreclosure of a delinquent borrower's leasehold property through a credit bid. The land's ownership is uncertain and is undergoing 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 in 2021. As of September 30, 2024, the sublease approval and final court order has not been obtained.

14. Risk Management

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

Required Supplementary Information

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

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

Last 10 Fiscal Years*

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

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

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

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions

Last 10 Fiscal Years*

	September 30,							
	2020	2019	2018	2017	2016	2015	2014	2013
	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>
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	<u>27,717</u>	<u>28,233</u>	<u>27,417</u>	<u>24,540</u>	<u>23,081</u>	<u>21,858</u>	<u>21,226</u>	<u>21,048</u>
Contribution deficiency	<u>\$ 90,949</u>	<u>\$ 82,717</u>	<u>\$ 107,430</u>	<u>\$ 96,743</u>	<u>\$ 83,089</u>	<u>\$ 60,569</u>	<u>\$ 60,230</u>	<u>\$ 63,161</u>
The Bank's covered-employee payroll**	<u>\$ 461,950</u>	<u>\$ 470,550</u>	<u>\$ 456,950</u>	<u>\$ 409,000</u>	<u>\$ 390,026</u>	<u>\$ 366,745</u>	<u>\$ 360,465</u>	<u>\$ 349,499</u>
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.

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

The Board of Directors
National Development Bank of Palau

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the National Development Bank of Palau (the Bank), which comprise the statement of net position as of September 30, 2024, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 29, 2025.

Internal Control Over Financial Reporting

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

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


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

Compliance and Other Matters

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

Purpose of this Report

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

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script.

August 29, 2025