

PACIFIC ISLANDS DEVELOPMENT BANK

2013

ANNUAL REPORT



VISION

To be a stable and sustainable development finance institution providing access to funds for the economic and social well-being of its members.

MISSION & PURPOSE

To contribute to the acceleration of the process of economic and social development of the member States, individually and collectively, and to promote economic cooperation among them.

Transmittal Letter

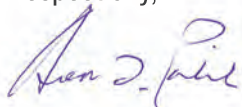
March 31, 2014

Board of Governors
Pacific Islands Development Bank

Dear Governors:

Pursuant to Section 12 of Article 13 of the *Articles of Agreement Establishing the Pacific Islands Development Bank*, and Section 7 of Article II of the Bank's Bylaws, it is my pleasure to transmit, on behalf of the Board of Directors, the Pacific Islands Development Bank's Annual Report for the period ended December 31, 2013.

Respectfully,



Aren B. Palik
President & CEO
Chairman, PIDB Board of Directors

Pacific Islands Development Bank is an Equal Opportunity Lender, Provider, and Employer

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MESSAGE

from the
President & Chairman of the Board of Directors

2013 was the best year yet for Pacific Islands Development Bank. We capped the final year under our current Strategic Plan by achieving record revenue, record profit, and record growth in loans, assets, and stockholders' equity. We also brought loan delinquency back under control and continued to deliver quality customer service and timely loan decisions and processing. This performance was the result of disciplined implementation and execution of our Strategic Plan and the strategic repositioning of the bank over the past decade. Of equal importance, we are well positioned for sustained future growth in a regionally integrating economy.

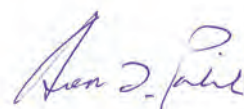
Operationally, the Bank once again recorded strong balance sheet growth with a 25% growth in Loans Receivable, 18% growth in Stockholders' Equity, 14% growth in Total Assets, and 44% growth in Retained Earnings. The bank reached a new milestone, generating \$1.0 million in Gross Revenue and netting \$309,577 in net income. The Net Income represents a Return on Assets of 2.8% and 3.6% Return on Equity. The Bank increased its reserve for loans and lease losses by \$185,000 based on credit review and analysis. The net effect of this provision was reduction in net income by \$185,000. On asset quality, the Bank reduced its delinquency from 20% in 2012 to 5.7%, however; the Bank also cleaned up its portfolio in 2013 by charging off \$187,188 worth of loans. We are making every effort to collect and recover those charged-off loans.

2013 also marked the last year of operation under its current Strategic Plan (2009-2013). A revised Plan covering the period 2014 to 2018 has been prepared for review and adoption by the Board of Governors. The Plan is not only a road map with a list of targets. It is a management model and tool built on exploiting the Bank's strength and unique opportunities to achieving its mission and purpose. Implementation of the strategic initiatives in the Plan will be key and crucial to the Bank's further growth and success.

Without question, the world is facing unprecedented economic and fiscal challenges. Global events and disruptions, as we have learned, directly affect our lives and economies regardless of how far and isolated we are. The Micronesia sub-region remains underdeveloped with its own unique challenges. Global warming and rise in sea level, for example, is threatening the livelihood and survival of our people, and we must make every effort to balance sustainable development with resource conservation and the protection of our environment.

Looking ahead, the next five years holds enormous promise for PIDB, mainly because of its unique and important mission and the commitment and support by its shareholders. Collaborating with member governments and other development partners in the region, we can certainly build upon the economic and social value that we have created across the region. However, in order for PIDB to play a greater role in regional economic development and to ensure its own survival and sustainability, it must address its own internal challenges and impediments to further growth and progress. The Bank's greatest and most immediate challenge continues to be its limited resources and capacity, particularly financial resources and loanable funds. The revised Strategic Plan puts enormous emphasis with specific strategic initiatives and actions on increasing the bank's capacity and financial resources. More importantly, we need not only the commitment and support of our shareholders but also their direct and active engagement in our efforts to increase the bank's capital and funding.

I want to close by expressing my confidence in the future of our Bank and the manner in which we have brought it to this point. I also wish to express my appreciation to you, our shareholders, for your unwavering support. Likewise, I convey our gratitude and appreciation to the Board of Governors, Board of Directors, and management staff for their diligence and dedication.



Aren B. Palik
President & CEO
Chairman, Board of Directors

REPORT

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PART I

General Information

A. 2013 Highlights of Events & Accomplishments

The Bank made tremendous progress in 2013, highlighted by the following key and significant accomplishments:

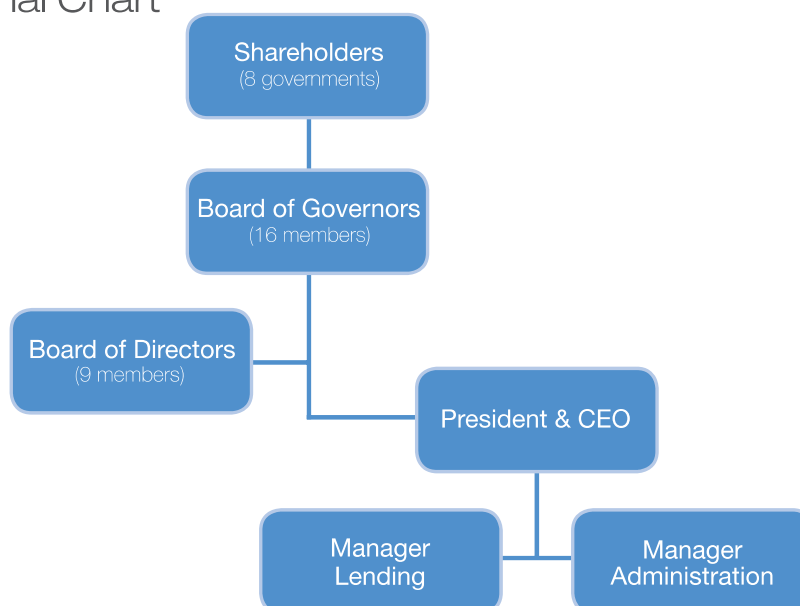
- Marshall Islands infused \$500,000 bringing its total paid-in capital to \$1 million.
- Yap State set a new record and a precedent by infusion and additional \$438,866, increasing its membership capital to \$1.4 million.
- Kosrae State infused another \$80,000, bringing its total capital to \$810,000.
- Achieved all key financial goals and budget for 2013 and exceeded 2012 levels.
- Received a clean “unqualified” audit opinion with no questioned costs.
- Reduced loan delinquency from 20% in 2012 to 5.7%

B. Current Members & Paid-in Capital

The Bank currently has eight (8) members or shareholders. The Table below shows the number of shares owned with corresponding value in 2013 and 2012:

	2013		2012	
Shareholders	# Shares	Value (\$)	# of Shares	Value (\$)
Chuuk	251	251,783	251	251,783
CNMI	1,000	1,000,000	1,000	1,000,000
Guam	1,000	1,000,000	1,000	1,000,000
Kosrae	810	810,000	730	730,000
Marshall Is.	1,000	1,000,000	500	500,000
Palau	1,000	1,000,000	1,000	1,000,000
Pohnpei	1,000	1,000,000	1,000	1,000,000
Yap	1,439	1,438,866	1,000	1,000,000
Total	7,500	\$7,500,649	6,481	\$6,481,783

C. Organizational Chart



D. The Board of Governors

The *Articles of Agreement Establishing the Pacific Islands Development Bank*, as amended, stipulates that each member shall appoint two Governors (one representing the Executive and one representing the Legislative branch) to the Board of Governors. The members of the Board for the period under review are as follows:

Shareholder	Executive Branch Rep.	Legislative Branch Rep.
Chuuk:	Vacant	Vacant
CNMI:	Jude Hofschneider Lt. Governor	Joseph Deleon Guerrero, Chairman Speaker
Guam:	Eddie Calvo Governor	Judith Won Pat Speaker
Kosrae:	Carson Sigrav Lt. Governor	Gibson Siba Speaker
Marshall Is.	Dennis Momotaro Minister of Finance	Donald Capelle Speaker
Palau:	Elbuchel Sadang Minister of Finance	Swenny Ongidobel Delegate, House of Delegates
Pohnpei:	John Ehsa Governor	Thomas Pablo Director of Treasury/Admin.
Yap:	Sebastian Anefal Governor	Henry Falan Speaker

The Board of Governors held its annual regular meeting in Majuro, Marshall Islands in April 2013. Following are key decisions made and actions taken in that meeting:

- Elected Joseph Deleon Guerrero as Board Chairman
- Reviewed the Bank's 2012 Annual Report
- Reviewed the Bank's 2012 Audit Report
- Reviewed the Bank's 2013 Budget and Goals
- Adopted several Board Resolutions
- Discussed and strategized on Bank's Capitalization and Funding
- Discussed bank membership and new associate members
- Decided and directed the Board of Directors and Bank President to revise the Bank's Strategic Plan and present it for review by the Board
- Conducted the President's 2012 performance review and evaluation

E. The Board of Directors

The *Articles of Agreement Establishing the Pacific Islands Development Bank*, as amended, stipulates that the two Governors representing each member shall appoint, subject to the approval of a majority of the Board of Governors, one person to serve as a Director. The Bank President & CEO serves as Chairman of the Board of Directors.

The following individuals served on the Board of Directors during the year under review:

PALAU	CNMI	GUAM
Secill Eldebechel	Diego Benavente	Lourdes Leon Guerrero
Chief of Staff	Former Representative	President & CEO
President's Office	CNMI Legislature	Bank of Guam
KOSRAE	POHNPEI	YAP
Ilai Abraham	Thomas Pablo	John Masiwemai
Former Senator	Director	Senator
Kosrae State Legislature	Treasury/Admin Dept.	Yap State Legislature
MANAGEMENT	MARSHALL ISLANDS	CHUUK
Aren Palik	Alfred Alfred, Jr.	Vacant
President & CEO	Secretary of Finance	
Chairman of the Board	RMI Government	

During the period under review, the Board of Directors held five (5) regular meetings in January, April, July, October, and December. Key decisions made and actions taken by the Board during the period under review include:

- Approved loans over and above the President's lending authority
- Prepared and transmitted 2012 Annual Report to the Board of Governors
- Reviewed 2012 Audit Report result and address findings
- Reviewed and approved the 2014 Budget & Goals
- Quarterly review of bank's performance against budget
- Monitored performance of our investment portfolio and investment advisor
- Quarterly review of the Allowance for Loan Loss reserves
- Periodically reviewed and Bank's policies and procedures
- Prepared the draft Five Year Strategic Plan

F. The Management

The Bank's management team for the period under review comprised of the following:

Name	Position/Title	Date of Hire	Yrs. of Service
Aren Palik	President & CEO	10/22/2002	11 years
Rosa Weilbacher	Manager of Administration	6/1/1999	13 years
Antonio John	Manager of Lending	4/1/2010	3 years

In April 2013, Ms. Charlene Bitlaol was hired as Documentation Specialist. In the same month, Loan Manager Antonio John resigned from the Bank.

G. Professional Service Providers

The Bank utilizes the services of the following professionals during the period under review:

- Investment Consultant – Morgan Stanley
Independent Auditor – Deloitte & Touche LLP
Primary Legal Counsel – Berman O'Conner & Mann