

A low-angle photograph of a bamboo forest. Several thick, yellowish-brown bamboo stalks rise vertically from the bottom left, leaning slightly towards the right. They are adorned with long, slender, green leaves that hang down. The background is a soft, hazy green, suggesting a dense forest. At the bottom of the frame, there is a patch of bright green grass.

# 2009 ANNUAL REPORT

Pacific Islands  
Development Bank





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## Transmittal Letter

April 10, 2010

Board of Governors  
Pacific Islands Development Bank

Dear Governors:

In accordance with 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*, as amended, I have the honor, on behalf of the bank's Board of Directors, to submit the Annual Report of the Pacific Islands Development Bank for the year ended December 31, 2009.

Respectfully,



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

A background image of bamboo stalks and leaves, with a green and yellow color scheme.

# Message

## President and Chairman of the Board of Directors

I am honored to transmit this Report which once again presents another solid year for the Pacific Islands Development Bank with strong operational and financial results. 2009 also marked the first year of implementation of our revised Five Year Strategic Plan covering the period 2009 to 2013. Our performance and results for the year were generally close to our 2009 budget goals as well as our strategic plan targets.

In 2009, we expanded our product lines by implementing the Residential Home Loan and Consumer Loan programs. These programs, consistent with our Strategic Plan, are intended to contribute to improved housing condition, improved health and education of our people and children, and the general improvement in the standard of living of our people. They will also contribute to a diversified loan portfolio, thereby minimizing credit risks and loan concentration, and further strengthen our earnings capacity. With a growing loan portfolio and operation, the Board of Directors, during the year, reviewed and updated our Loan Policy Manual and developed a number of other operational policies and procedures.

On our balance sheet, we registered once again solid growth during the period under review. *Total Assets* increased by 8% to \$7.7 million; *Loans Receivable* grew by 6% to \$5.6 million; *Retained Earnings* significantly rose by 160% to \$346,527; and *Stockholders Equity* grew by 5% to \$6.2 million. During the year, Kosrae State Government infused another \$50,000 in capital, increasing its total paid in capital to \$650,000. We thank the leadership of Kosrae for its continued commitment to the bank, especially under its current budgetary and financial challenges. We remained prudent and proactive in our loan processes and loan collection, resulting in a loan delinquency ratio of 2.1%, down from 2.6% last year. There were no loan charge offs in 2009, but there are a few loans that need to be monitored closely.

On earnings, we increased revenue by 44% to \$666,008, producing a net income of \$213,963, net of an additional \$65,000 provision to loan loss reserves. This is the highest earnings and net income the bank has recorded since its inception. Our net income yielded a Return on Assets of 2.8%; a Return on Equity of 3.4%; and a Net Margin of 32%, all of which represent the highest returns by far. Our total operating expenses was \$387,045, generally at the same level in 2008. As stated, we further increased our allowance for loan loss reserves by \$65,000 to \$200,000, representing 3.5% of outstanding loans.

Notwithstanding our strong performance in 2009, we still have a long and treacherous road ahead and our members are far from achieving their goals of sustainable economic and social development. Globally, there remains turbulence in the financial markets and risks in the global economy. Regionally, we are overwhelmed with the familiar challenges of economic recession, high inflation and unemployment, poor and inadequate infrastructure, high transportation costs and isolation from major commercial markets, and lack of appropriate land and foreign investment laws. Solving our regional problems require regional cooperation and solutions. In recent years, our leaders in the region have worked together, forging a renewed sense and spirit of cooperation. PIDB plays a crucial



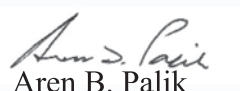


role, pursuant to its mandate, in promoting regional economic cooperation. Our participation, however, have been limited given our available resources and capacity. Our greatest challenge therefore is to increase our working capital and secure additional funds to support and finance our mandate. In that regard, we will intensify our efforts in 2010 and beyond to secure additional capital and funding. As we expand our programs and operation, we must also increase our staffing and reduce the gap in capacity.

Through our active engagement and increasing loan activities in the region, the level of awareness of the bank and its programs and services has also increased dramatically. Correspondingly, loan inquiries and applications have increased, especially with the introduction of our Residential Home Loan and Consumer Loan programs.

In light of its regional mandate, PIDB has also taken a lead role in strengthening the alliance, networking, and collaboration among the development finance institutions in the region, including the FSM Development Bank, National Development Bank of Palau, Commonwealth Development Authority, Guam Economic Development Authority, and the Marshall Islands Development Bank. Last year, PIDB organized an historic meeting of the Executives of these organizations addressing, among others, funding and capitalization of our institutions. We look to further strengthen our alliance and networking in the coming years. Finally, we have been updating the Association of Pacific Island Legislatures (APIL), the creator and founder of the bank, on both our progress and challenges. We need its support as we pursue new members and seek increased capitalization and funding.

In closing, I wish to acknowledge the contributions made by the members of the Board of Governors, Board of Directors, and our staff and commend them for making our remarkable achievements in 2009 possible. I believe that the bank is on the right track and that our continued diligence and perseverance will go a long way in enabling the Bank to fulfill its mission.



Aren B. Palik

President & CEO

Chairman, Board of Directors



## **PART I: ABOUT THE BANK**

### **A. Establishment**

The Pacific Islands Development Bank (PIDB) is a regional development finance institution established on July 5, 1989 by the Association of Pacific Island Legislatures (APIL) to provide financial services and technical assistance to its members.

### **B. Mission & Purpose**

The mission and purpose of the Bank is to contribute to the acceleration of the process of economic and social development of the member States and nations, individually and collectively, and to promote economic cooperation among them. To implement its purpose, the Bank has the following functions:

Promote the investment of public and private capital for development purposes.

Mobilize within and outside the Micronesian region additional financial resources to support and facilitate its programs.

Finance projects and programs contributing to the development of the Bank's members.

Encourage private investment in new projects, enterprises, and activities contributing to economic development and to supplement private investment when private capital is not available on reasonable terms and conditions.

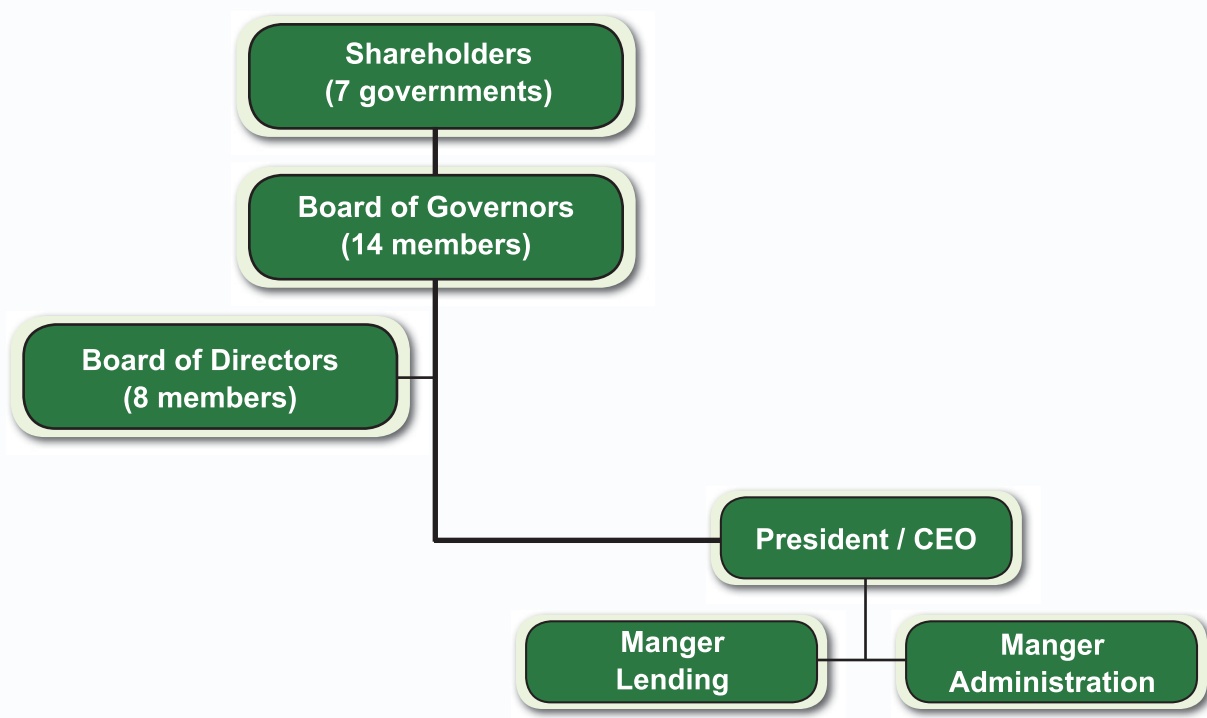
Provide technical assistance for the preparation, financing, and implementation of development plans and projects, public and private, including the study of priorities and the formulation of specific project proposals.

Where appropriate, cooperate with national, regional and international organizations or other entities concerned with the development of member countries and States.

Undertake such other activities and provide such other services that will advance its purpose.



## C. Organizational Chart



## D. The Shareholders

The shareholders of the Bank with number of shares owned and their corresponding values in 2009 and 2008 are as follows:

| Shareholders | 2009<br>Number | Value(\$)          | 2008<br>Number | 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       | 650            | 650,000            | 600            | 600,000            |
| Palau        | 1,000          | 1,000,000          | 1,000          | 1,000,000          |
| Pohnpei      | 1,000          | 1,000,000          | 1,000          | 1,000,000          |
| Yap          | 1,000          | 1,000,000          | 1,000          | 1,000,000          |
| <b>Total</b> | <b>5,901</b>   | <b>\$5,901,783</b> | <b>5,851</b>   | <b>\$5,851,783</b> |



## E. 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:      | Wesley Simina<br>Governor<br>FSM State of Chuuk                | Singkoro Harper<br>Speaker, House of Rep.<br>Chuuk State Legislature      |
| CNMI:       | Benigno Fitial<br>Governor<br>CNMI                             | Diego Benavente<br>Representative<br>CNMI Legislature                     |
| Guam:       | Felix Camacho, Chairman<br>Governor<br>Island of Guam          | Ben Pangelinan<br>Senator<br>Guam Legislature                             |
| Kosrae:     | Robert Weilbacher<br>Governor<br>FSM State of Kosrae           | Ilai Abraham<br>Senator<br>Kosrae State Legislature                       |
| Palau:      | Kerai Mariur, Secretary<br>Vice President<br>Republic of Palau | Secilil Eldebechel<br>Delegate, HOD<br>Palau National Congress            |
| Pohnpei:    | John Ehsa, Vice Chairman<br>Governor<br>FSM State of Pohnpei   | Thomas Pablo<br>Director of Treasury & Admin.<br>Pohnpei State Government |
| Yap:        | Sebastian Anefal<br>Governor<br>FSM State of Yap               | Charles Chieng<br>Speaker<br>Yap State Legislature                        |

During the year, the composition of the Board changed as follows:

| New Member         | Representing             | Replaced           | Date Appointed |
|--------------------|--------------------------|--------------------|----------------|
| Benigno Fitial     | CNMI Executive Branch    | Timothy Villagomez | 4/27/2009      |
| Ben Pangelinan     | Guam Legislative Branch  | Judy Won Pat       | 4/15/2009      |
| Kerai Mariur       | Palau Executive Branch   | Elbuchel Sadang    | 2/5/2009       |
| Secilil Eldebechel | Palau Legislative Branch | Jonathan Isechel   | 2/4/2009       |
| John Ehsa          | Pohnpei Executive Branch | Churchill Edward   | 6/3/2009       |

The Bank conveys its sincere gratitude and appreciation to former Governors Timothy Villagomez, Judy Won Pat, Elbuchel Sadang, Jonathan Isechal, and Churchill Edward for their invaluable contributions. As we bid farewell to our friends, we also congratulate and welcome our new members of the Board of Governors.





## F. 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 President & CEO serves as Chairman of the Board of Directors.

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

|   |  |   |
|---|--|---|
| <b>Palau</b><br><br>Secilil Eldebechel<br>Member<br>House of Delegates      | <b>CNMI</b><br><br>Justo Quitugua<br>Congressman<br>CNMI Legislature                 | <b>Kosrae</b><br><br>Gibson Siba<br>Senator<br>Kosrae State Legislature |
| <b>Pohnpei</b><br><br>Thomas Pablo<br>Director<br>Dept. of Treasury & Admin | <b>Guam</b><br><br>Lourdes Perez<br>Director of Administration<br>Government of Guam | <b>Yap</b><br><br>Michael Gaan<br>Director<br>Dept. of Res. & Dev.      |
| <b>Chuuk</b><br>Vacant  | Aren Palik<br>President & CEO<br>Board Chairman                                      |   |

The Board of Governors approved the nominations of Messrs. Secilil Eldebechel and Michael Gaan at its meeting on April 27, 2009 in Saipan and the nomination of Mr. Thomas Pablo at its meeting on June 22, 2009 in Guam. We express our gratitude and appreciation to former Directors Elbuchel Sadang and Joseph Giliko for their services and enormous contributions, and we congratulate and welcome our new members of the Board of Directors.

## G. 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   | 6              |
| Rosa Weilbacher | Manager, Administration | 6/1/1999     | 9              |
| Aaron Sigrah    | Loan Officer            | 2/5/2007     | 2              |

The Loan Officer, Aaron Sigrah, resigned and left the bank in August 2009 to pursue a different career. The bank expresses its gratitude and appreciation for his contributions and we wish him well on his new job and career.

## PART II: LOAN REPORT

### A. Loan Approvals

In 2009 the bank implemented its Residential Home Loan Program and Consumer Loans with the objective of contributing to improved standard of living through financing of residential home purchases and construction, home improvement, student tuition, health, and purchase of vehicles, and other personal needs. Following is a breakdown of loans approved in 2009 by loan type.

| Approved Loans         |                |                  |                |                    |
|------------------------|----------------|------------------|----------------|--------------------|
| Loan Type              | 2009<br>Number | Amount           | 2008<br>Number | Amount             |
| Commercial Loans       |                |                  |                |                    |
| Agriculture            | 0              | 0                | 0              | 0                  |
| Fisheries              | 0              | 0                | 0              | 0                  |
| Tourism                | 0              | 0                | 1              | 289,091            |
| Manufacturing          | 0              | 0                | 1              | 35,000             |
| Services               | 5              | 315,107          | 4              | 523,013            |
| Commercial             | 0              | 0                | 9              | 1,240,907          |
| Sub-total              | 5              | 315,107          | 15             | 2,088,011          |
| Residential Home Loans | 3              | 287,776          | 0              | -                  |
| Consumer Loans         | 18             | 238,300          | 0              | -                  |
| <b>Total</b>           | <b>26</b>      | <b>\$841,183</b> | <b>15</b>      | <b>\$2,088,011</b> |

### B. Outstanding Loans by Type

| Outstanding Loans      |                |                    |                |                    |
|------------------------|----------------|--------------------|----------------|--------------------|
| Loan Type              | 2009<br>Number | Amount             | 2008<br>Number | Amount             |
| Commercial Loans       |                |                    |                |                    |
| Agriculture            | 1              | 17,962             | 1              | 21,468             |
| Fisheries              | 1              | 78,010             | 1              | 89,030             |
| Tourism                | 7              | 1,262,423          | 2              | 383,987            |
| Manufacturing          | 1              | 26,359             | 1              | 32,330             |
| Services               | 37             | 2,434,669          | 24             | 2,423,016          |
| Commercial             | 8              | 1,378,104          | 23             | 2,450,043          |
| Sub-total              | 55             | 5,197,527          | 52             | 5,399,874          |
| Residential Home Loans | 3              | 285,530            | 0              | -                  |
| Consumer Loans         | 17             | 201,403            | 0              | -                  |
| <b>Total</b>           | <b>75</b>      | <b>\$5,685,460</b> | <b>52</b>      | <b>\$5,399,874</b> |

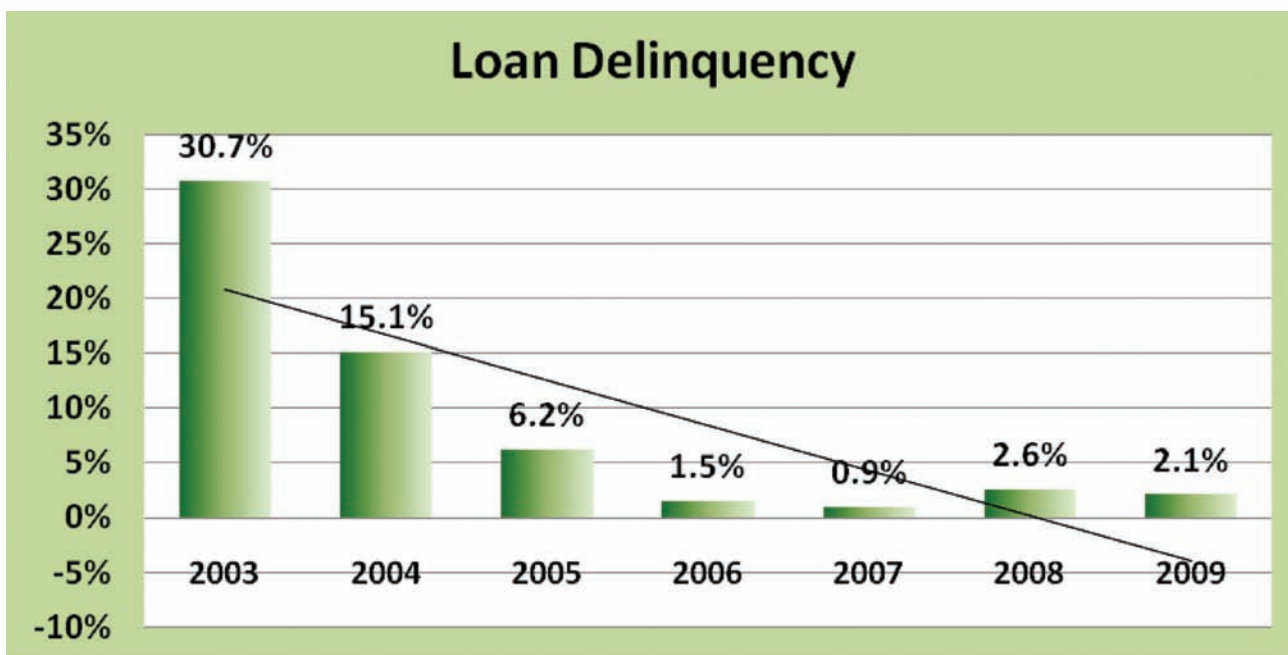




### C. Outstanding Loans by Shareholder

| Outstanding Loans by Shareholder |            |                  |
|----------------------------------|------------|------------------|
| Shareholder                      | # of Loans | Amount           |
| Guam                             | 15         | 1,446,984        |
| Palau                            | 10         | 1,246,581        |
| Pohnpei                          | 17         | 916,344          |
| Yap                              | 4          | 689,212          |
| Kosrae                           | 21         | 675,451          |
| CNMI                             | 6          | 608,224          |
| Chuuk                            | 2          | 102,664          |
| <b>Total</b>                     | <b>75</b>  | <b>5,685,460</b> |

### D. Loan Delinquency & Charge Offs



The bank had no charged off loans in 2009.

## PART III. FINANCIAL REPORT

### A. Performance Against Budget

While most of the financial goals for the year were achieved or exceeded, *Loans Receivable* target was not achieved due primarily to lack of viable business proposals and weak loan market; *Total Assets* was short by \$97k due in part to our inability to draw more funds from the IRP loan as projected and secure the budgeted capital payments from Chuuk and Kosrae. We budgeted \$300,000 in *Common Stock*, however, we collected only \$50,000 from Kosrae.

| Selected Key Items         | 2009<br>Budget | 2009<br>Actual | Variance<br>(\$) |
|----------------------------|----------------|----------------|------------------|
| Loans Receivable           | 6,050,000      | 5,685,460      | -364,540         |
| Marketable Securities      | 1,800,000      | 1,994,291      | 194,291          |
| Total Assets               | 7,807,000      | 7,709,502      | -97,498          |
| Common Stock               | 6,151,000      | 5,901,783      | -249,217         |
| Retained Earnings(Deficit) | 255,000        | 346,527        | 91,527           |
| Gross Revenue              | 583,000        | 666,008        | 83,008           |
| Total Operating Expenses   | 463,000        | 387,045        | -48,955          |
| Provision for Loan Losses  | 25,000         | 65,000         | 40,000           |
| Net Income                 | 122,000        | 213,963        | 91,963           |

### B. Performance Against Previous Year (2008)

Comparing our 2009 performance against the previous year (2008), the Table below shows that exceeded and did better in all categories, a trend that we have continued to enjoy

| Selected Key Items         | 2009<br>Budget | 2009<br>Actual | Variance<br>(\$) |
|----------------------------|----------------|----------------|------------------|
| Loans Receivable           | 5,685,460      | 5,374,057      | 311,403          |
| Marketable Securities      | 1,994,291      | 1,726,141      | 268,150          |
| Total Assets               | 7,709,502      | 7,142,372      | 567,130          |
| Common Stock               | 5,901,783      | 5,851,783      | 50,000           |
| Retained Earnings(Deficit) | 346,527        | 132,564        | 213,963          |
| Gross Revenue              | 666,008        | 464,130        | 201,878          |
| Total Operating Expenses   | 387,045        | 386,118        | 927              |
| Provision for Loan Losses  | 65,000         | 0              | 65,000           |
| Net Income                 | 213,963        | 78,012         | 135,951          |

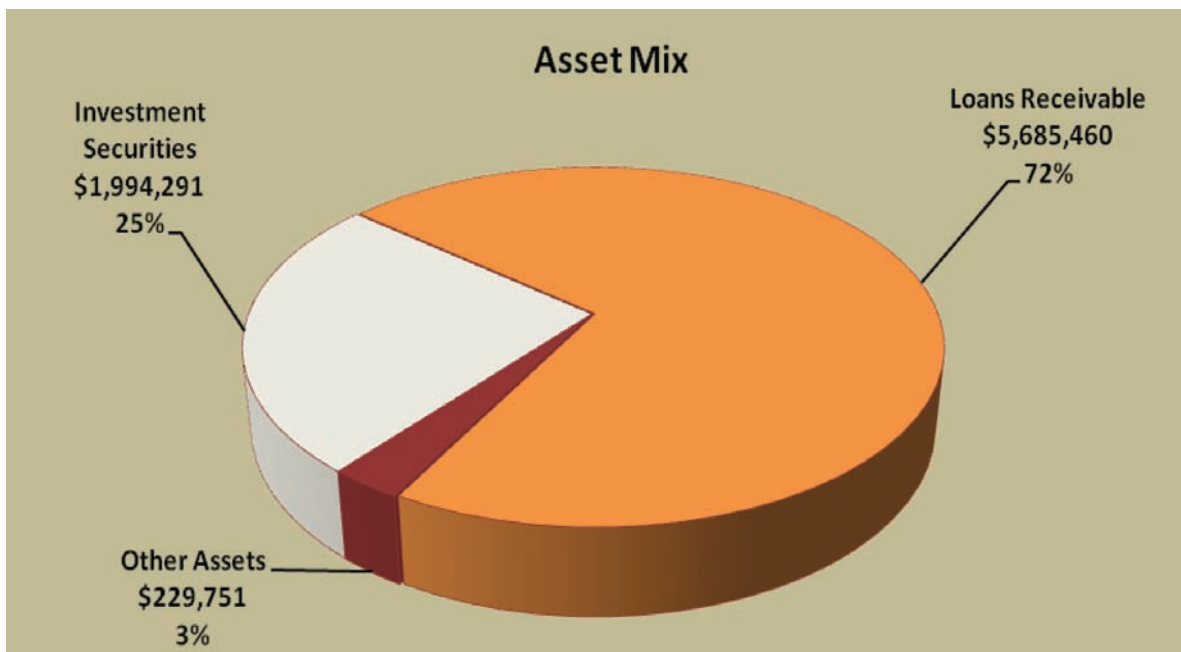
In addition to our financial budget and goals, the bank also had a number of non-financial goals summarized below. These non-financial goals are listed on page 20 of the Bank's 2009 Budget and Goals booklet.

| 2009 Non-Financial Goals                                       |           |
|--|-----------|
| Goals  | Achieved? |
| Implement 2009 Strategic Plan Actions (page 20 of 2009 Budget) | Yes/No    |
| Achieve "Unqualified" Audit                                    | Yes       |
| Maintain a delinquency less than 5%                            | Yes       |
| Zero Loan Charge-offs  | Yes       |

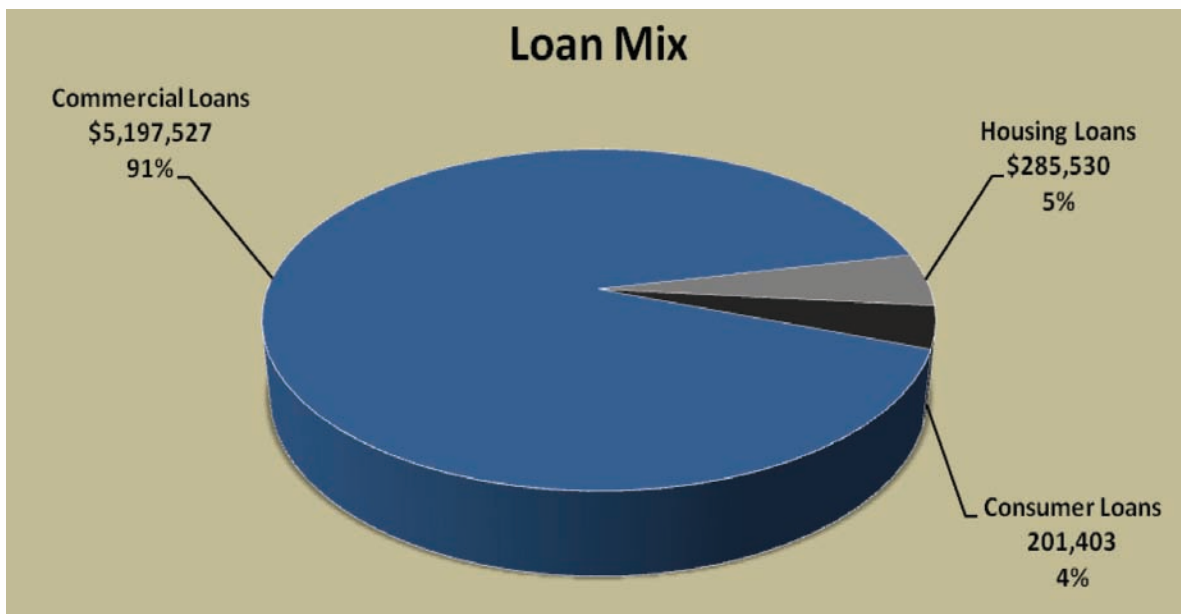




### C. Asset Mix

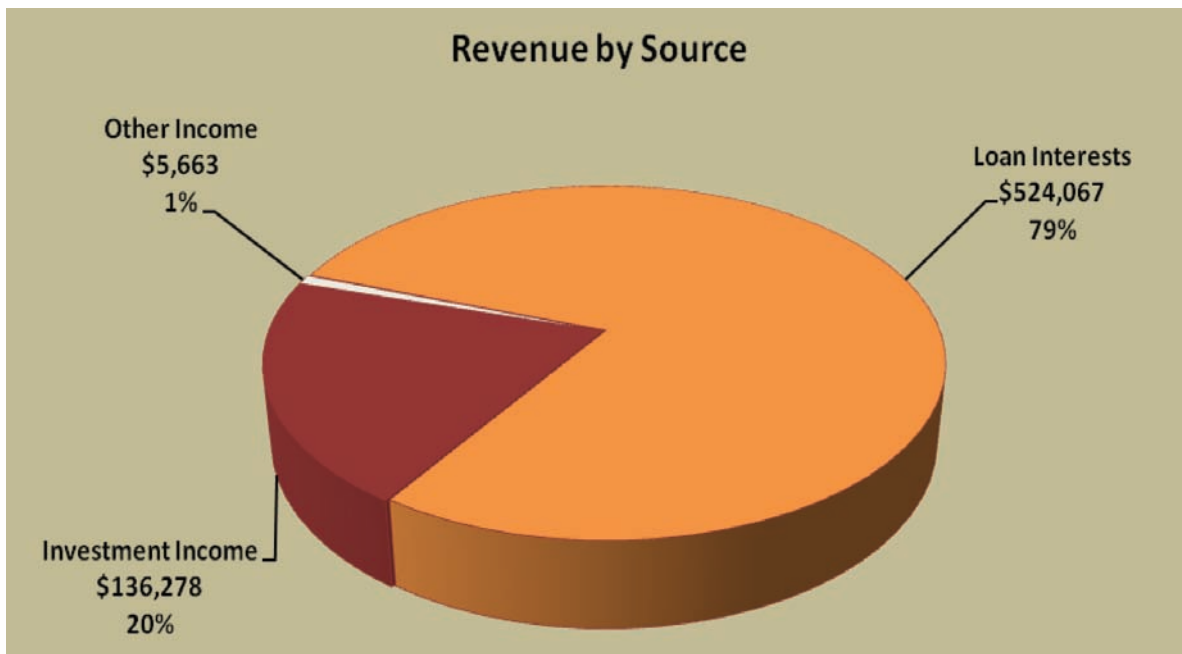


### D. Loan Mix



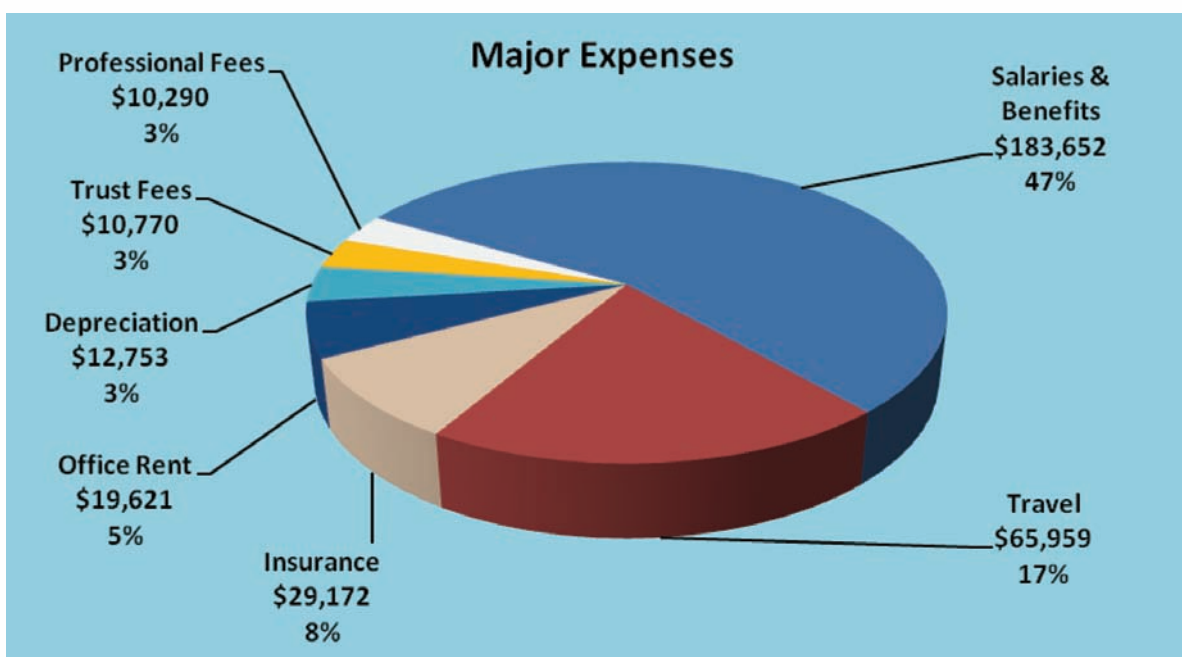


## E. Revenue by Source



## F. Major Expenses

The major expenses below totaling \$332,217 represents 86% of the bank's total operating expenses of \$387,045.

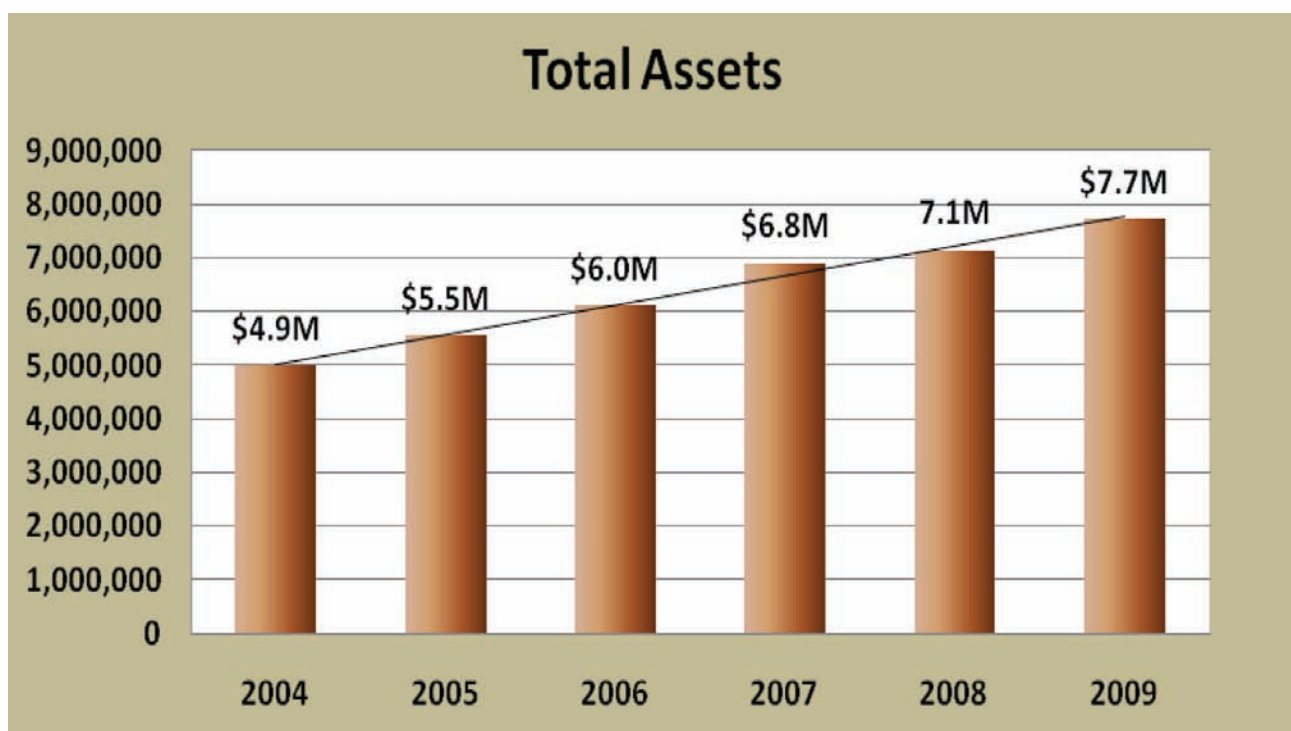




## HISTORICAL PERFORMANCE

The following Table summarizes the historical financial performance of the Bank from 2004 to 2009 on selected key balance sheet and income statement items.

| Selected Indicators        | 2004      | 2005      | 2006      | 2007      | 2008      | 2009      |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total Assets               | 4,981,739 | 5,545,066 | 6,099,391 | 6,899,441 | 7,142,372 | 7,709,502 |
| Loans Receivable           | 2,157,783 | 2,964,690 | 3,622,040 | 4,561,869 | 5,399,874 | 5,685,460 |
| Marketable Securities      | 2,550,181 | 2,326,090 | 2,447,579 | 2,329,935 | 1,827,053 | 1,994,291 |
| Common Stock               | 4,751,783 | 5,251,783 | 5,451,783 | 5,551,783 | 5,851,783 | 5,901,783 |
| Retained Earnings(Deficit) | -109,193  | -82,067   | -109,427  | 54,552    | 132,564   | 346,527   |
| Gross Revenue              | 294,792   | 360,430   | 321,468   | 555,581   | 464,130   | 666,008   |
| Total Operating Expenses   | 247,734   | 276,967   | 293,531   | 353,159   | 386,118   | 387,045   |
| Provision for loan losses  | 27,663    | 56,337    | 55,297    | 38,443    | 0         | 65,000    |
| Net Income (Loss)          | 19,395    | 27,126    | -27,360   | 163,979   | 78,012    | 213,963   |



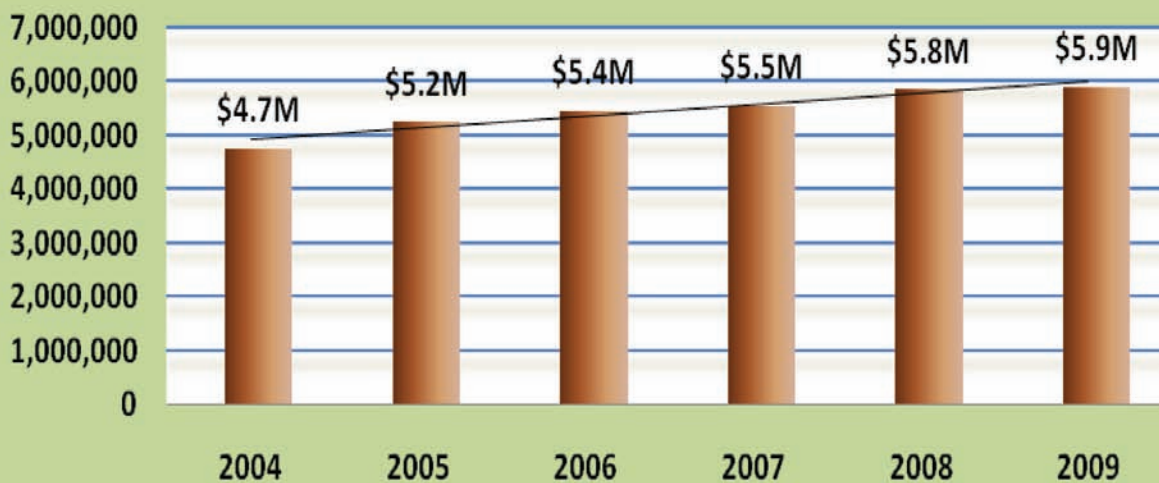


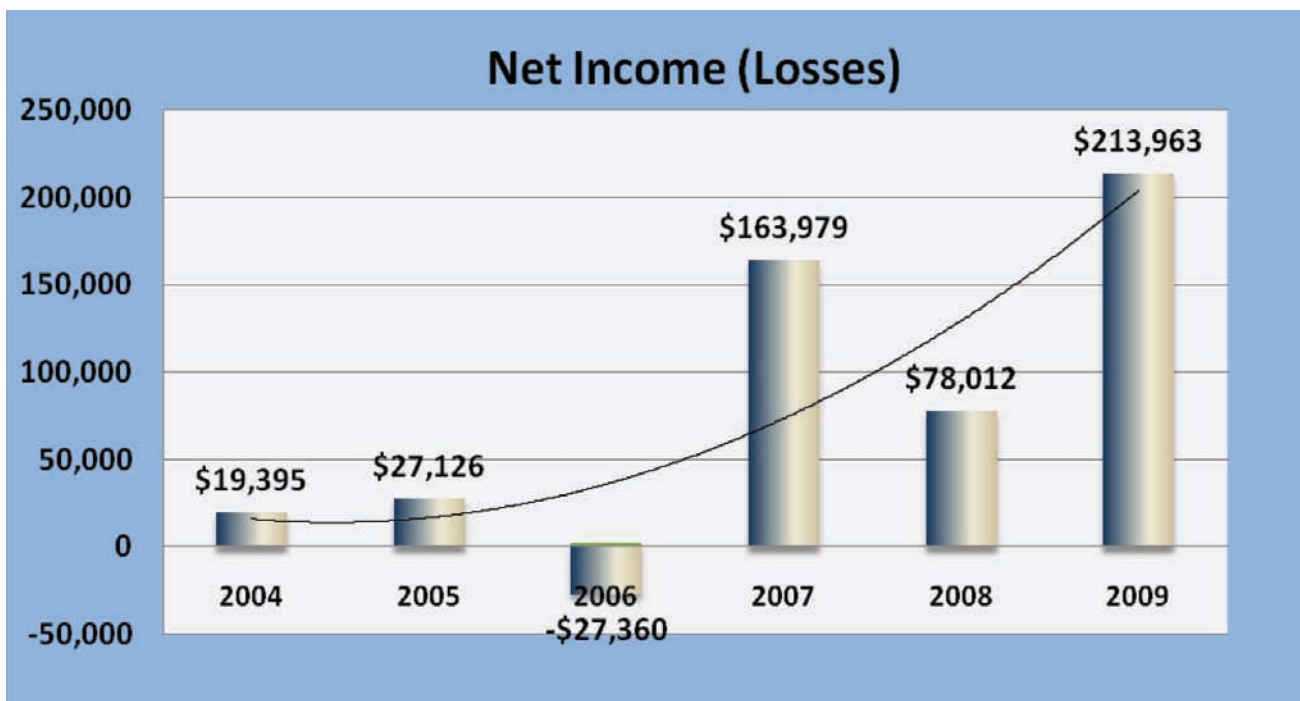
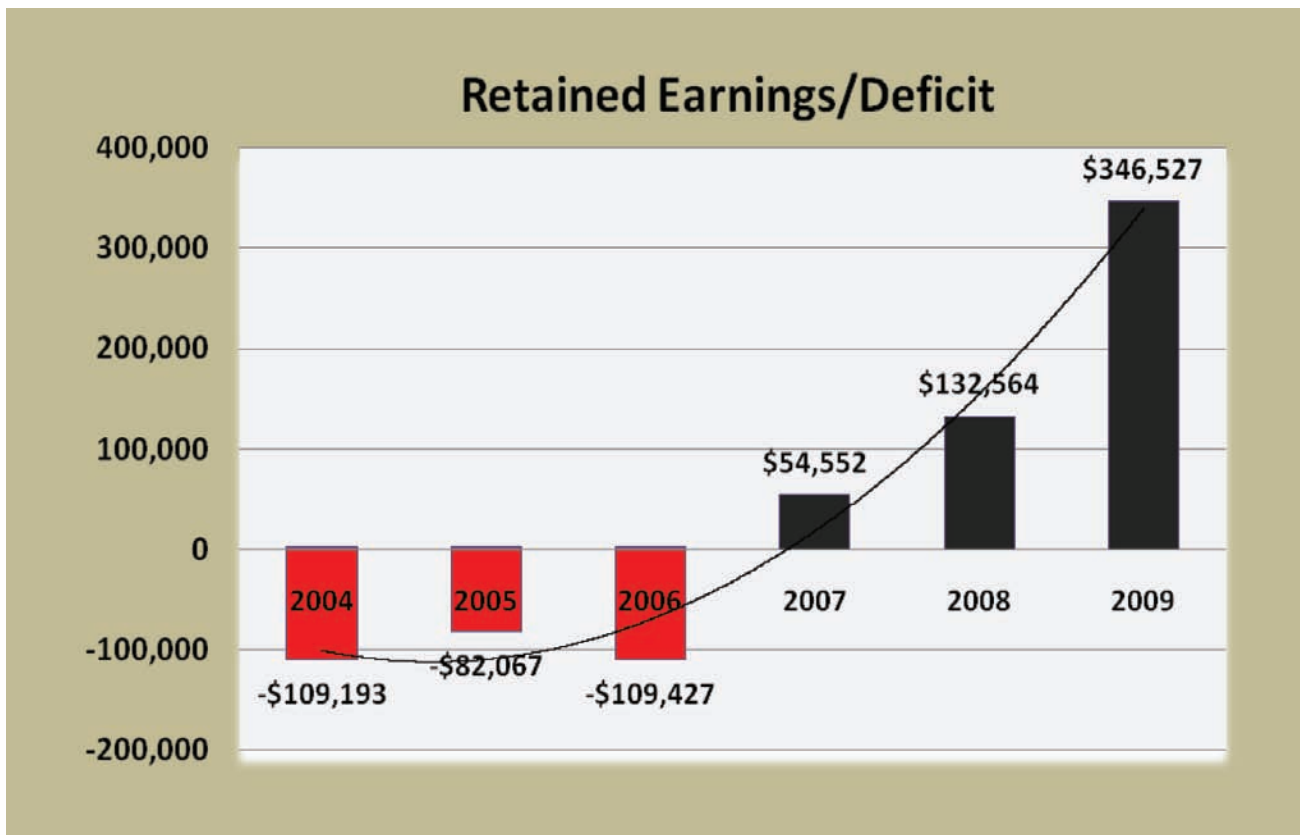


## Loans Receivable



## Capital Stock





## PART V. FINANCIAL RATIOS

| Selected Ratios                | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| <b>GROWTH</b>                  |        |        |        |        |        |        |
| Total Asset Growth             | 12%    | 11%    | 10%    | 13%    | 4%     | 8%     |
| Loans Growth                   | 38%    | 37%    | 22%    | 23%    | 18%    | 6%     |
| Long Term Debt Growth          | 0%     | 12%    | 49%    | 73%    | 3%     | 21%    |
| Net Worth Growth               | 3%     | 11%    | 6%     | 6%     | 4%     | 5%     |
| <b>PROFITABILITY</b>           |        |        |        |        |        |        |
| Return on Assets               | 0.39%  | 0.49%  | -0.45% | 2.38%  | 1.09%  | 2.78%  |
| Return on Equity               | 0.42%  | 0.53%  | -0.51% | 2.87%  | 1.32%  | 3.43%  |
| Net Margin                     | 7%     | 8%     | -9%    | 30%    | 17%    | 32%    |
| <b>LEVERAGE</b>                |        |        |        |        |        |        |
| Net Worth                      | \$4.5M | \$5.0M | \$5.4M | \$5.7M | \$5.9M | \$6.2M |
| Debt/Worth                     | 9%     | 9%     | 13%    | 21%    | 21%    | 24%    |
| Total Liabilities/Total Assets | 8%     | 8%     | 11%    | 17%    | 17%    | 19%    |
| <b>LIQUIDITY</b>               |        |        |        |        |        |        |
| Working Capital                | \$2.6M | \$2.3M | \$2.4M | \$2.4M | \$1.9M | \$2.1M |
| Current Ratio                  | 1,619  | 1,120  | 120    | n/a    | 947    | 1,037  |





## **PART VI.**

### **BOARD ACTIVITIES REPORT**

#### **A. Board of Governors**

During the period under review, the Board of Governors held its annual regular meeting in Saipan in April 2009, and one special meeting in Guam in May 2009. Key decisions made and actions taken by the Board during the period under review include :

- Elected Felix Camacho, John Ehsa, and Kerai Mariur as Chairman, Vice Chairman, and Secretary, respectively;
- Approved the Bank's revised Strategic Plan for period 2009 to 2013;
- Reviewed the bank's corporate structure and strategic direction;
- Received and reviewed the bank's 2008 Annual Report;
- Received and reviewed the bank's 2008 Audit Report;
- Received and reviewed the bank's 2009 Budget and Goals;
- Approved 3 nominations to the Board of Directors;
- Adopted a number of Board Resolutions;
- Issued a number of directives to the Board of Directors and President; and
- Conducted the President's 2008 performance review.

#### **B. Board of Directors**

In 2009, the Board of Directors held three (3) regular meetings and one (1) special meeting. Among others, following are the key activities and decisions made by the Board:

- Drafted and presented 5-Year Strategic Plan to Board of Governors;
- Approved loans over and above the President's lending authority;
- Transmitted the 2008 Annual Report to the Board of Governors;
- Approved and transmitted 2009 Budget & Goals to the Board of Governors;
- Quarterly review of the bank's performance against 2009 budget;
- Monitored performance of our investment portfolio and investment advisor;
- Quarterly review of the Allowance for Loan Loss reserves;
- Reviewed and continually revised bank policies and procedures;
- Worked on membership capital and new membership; and
- Take action on directives issued by the Board of Governors.



## **PART VII: THE BANK'S OUTLOOK**

Over the last five years, the bank has focused internally, placing a high priority in the following areas:

- stabilize the bank and strengthen its balance sheet;
- increase outstanding loans and establish credible lending tract records;
- retire accumulated deficit through improved earnings and profitability;
- establish new policies and procedures and revise existing ones;
- secure current members' equity capital and increase membership;
- diversify and add new products and services;
- increase the awareness of the bank in the region;
- secure additional funding and increase bank capitalization, and
- reassess and set the course for the bank for the ensuing 5 years.

While the bank has been very successful in achieving the above, much remains to be done and we simply cannot rest on our past achievements. One of the tools that we have employed in moving the bank towards meeting its long-term objectives is our strategic planning process and implementation. In 2009, the Board of Governors approved our revised and updated Strategic Plan, clearly outlining our goals and objectives for the next five years.

In today's rapidly changing economic, political, and social environment, it is imperative that we use our Strategic Plan as our road map and guide. The revised Plan aims at achieving the following general goals: (1) increase the bank's resource base including financial, human, and technical resources; (2) manage credit risks and maintain a quality loan portfolio, (3) prudently manage our investment securities and maximize return; (4) diversify and add new products and services; (5) manage our margins by increasing revenue and controlling expenses; and (6) seek and secure additional members. Achieving these goals will enable PIDB to become more engaged with a greater role and impact on regional financing and development.

The outlook for Pacific Islands Development Bank is very exciting, yet demanding and challenging. There are tremendous opportunities that lie ahead and we have positioned the bank to take full advantage of those opportunities and to take the bank to the next plateau. The implementation of our Strategic Plan with yearly adjustment is key and crucial to our future success.





**PACIFIC ISLANDS DEVELOPMENT BANK**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED DECEMBER 31, 2009 AND 2008**





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### **Independent Auditors' Report**

The Board of Governors and the Board of Directors  
Pacific Islands Development Bank:

We have audited the accompanying statements of condition of Pacific Islands Development Bank (the Bank) as of December 31, 2009 and 2008, and the related statements of earnings, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Pacific Islands Development Bank as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

March 15, 2010

# PACIFIC ISLANDS DEVELOPMENT BANK

## Statements of Condition December 31, 2009 and 2008

| <u>ASSETS</u>   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| Cash  | \$ 185,215          | \$ 300,912          |
| Money market funds  | 891,217             | 679,184             |
| Cash and cash equivalents   | 1,076,432           | 980,096             |
| Investment securities   | 1,003,074           | 846,957             |
| Loans receivable, net of an allowance of \$200,000<br>and \$135,000 at December 31, 2009 and 2008, respectively | 5,485,460           | 5,239,057           |
| Interest receivable   | 119,368             | 38,361              |
| Security deposit  | 3,074               | 3,074               |
| Property and equipment, net   | 22,094              | 34,827              |
|   | <u>\$ 7,709,502</u> | <u>\$ 7,142,372</u> |
| <br><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>   |                     |                     |
| Liabilities:  |                     |                     |
| Long-term debt  | \$ 1,474,337        | \$ 1,217,109        |
| Total liabilities   | <u>1,474,337</u>    | <u>1,217,109</u>    |
| Commitments   |                     |                     |
| Stockholders' equity:   |                     |                     |
| Capital stock   | 5,901,783           | 5,851,783           |
| Retained earnings   | 346,527             | 132,564             |
| Accumulated other comprehensive loss  | (13,145)            | (59,084)            |
| Total stockholders' equity  | <u>6,235,165</u>    | <u>5,925,263</u>    |
|   | <u>\$ 7,709,502</u> | <u>\$ 7,142,372</u> |

See accompanying notes to financial statements.

# PACIFIC ISLANDS DEVELOPMENT BANK

## Statements of Earnings Years Ended December 31, 2009 and 2008

|                                      | 2009              | 2008             |
|--------------------------------------|-------------------|------------------|
| Interest income                      | \$ 524,067        | \$ 495,231       |
| Dividend income                      | 37,870            | 62,751           |
| Realized gain (loss) from investment | 98,408            | (105,974)        |
|                                      | <u>660,345</u>    | <u>452,008</u>   |
| Provision for loan losses            | 65,000            | -                |
|                                      | <u>595,345</u>    | <u>452,008</u>   |
| Operating expenses:                  |                   |                  |
| Salaries and related expenses        | 204,436           | 203,831          |
| Conference and travel                | 69,120            | 65,959           |
| Insurance                            | 29,172            | 25,642           |
| Office rental                        | 19,621            | 19,080           |
| Depreciation                         | 12,753            | 13,813           |
| Trust fees                           | 10,770            | 13,208           |
| Professional fees                    | 10,290            | 10,278           |
| Communications                       | 7,522             | 6,089            |
| Board meetings                       | 5,466             | 4,519            |
| Automobile                           | 4,538             | 4,229            |
| Business development and marketing   | 2,789             | 3,761            |
| Office supplies                      | 2,387             | 1,599            |
| Advertisement                        | 1,424             | 750              |
| Legal fees                           | -                 | 405              |
| Miscellaneous                        | 6,757             | 12,955           |
| Total operating expenses             | <u>387,045</u>    | <u>386,118</u>   |
| Operating income                     | <u>208,300</u>    | <u>65,890</u>    |
| Other income:                        |                   |                  |
| Other income                         | 19,222            | 23,142           |
| IRP interest expense                 | (13,559)          | (11,020)         |
| Total other income                   | <u>5,663</u>      | <u>12,122</u>    |
| Net earnings                         | <u>\$ 213,963</u> | <u>\$ 78,012</u> |

See accompanying notes to financial statements.



# PACIFIC ISLANDS DEVELOPMENT BANK

## Statements of Changes in Stockholders' Equity Years Ended December 31, 2009 and 2008

|  | <u>Shares of<br/>Common Stock</u> | <u>Common Stock</u> | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Gain (loss)</u> | <u>Total</u>        |
|--|-----------------------------------|---------------------|------------------------------|--|---------------------|
| Balance at December 31, 2007   | 5,551                             | \$ 5,551,783        | \$ 54,552                    | \$ 104,016   | \$ 5,710,351        |
| Issuance of common stock   | 300                               | 300,000             | -                            | -  | 300,000             |
| Comprehensive income:  |                                   |                     |                              |  |                     |
| Net earnings   | -                                 | -                   | 78,012                       | -  | 78,012              |
| Net unrealized holding losses on<br>available-for-sale securities<br>net of reclassification adjustments | -                                 | -                   | -                            | (163,100)  | (163,100)           |
| Total comprehensive losses   |                                   |                     |                              |  | (85,088)            |
| Balance at December 31, 2008   | 5,851                             | 5,851,783           | 132,564                      | (59,084)   | 5,925,263           |
| Issuance of common stock   | 50                                | 50,000              | -                            | -  | 50,000              |
| Comprehensive income:  |                                   |                     |                              |  |                     |
| Net earnings   | -                                 | -                   | 213,963                      | -  | 213,963             |
| Net unrealized holding gains on<br>available-for-sale securities<br>net of reclassification adjustments  | -                                 | -                   | -                            | 45,939   | 45,939              |
| Total comprehensive income   |                                   |                     |                              |  | 259,902             |
| Balance at December 31, 2009   | <u>5,901</u>                      | <u>\$ 5,901,783</u> | <u>\$ 346,527</u>            | <u>\$ (13,145)</u>   | <u>\$ 6,235,165</u> |

See accompanying notes to financial statements.

# PACIFIC ISLANDS DEVELOPMENT BANK

## Statements of Cash Flows Years Ended December 31, 2009 and 2008

|   | <u>2009</u>                | <u>2008</u>              |
|---|----------------------------|--------------------------|
| Cash flows from operating activities:   |                            |                          |
| Net earnings  | \$ 213,963                 | \$ 78,012                |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                            |                          |
| Depreciation  | 12,753                     | 13,813                   |
| Provision for loan loss   | 65,000                     | -                        |
| Realized (gain) loss on sale of investment securities                               | (98,408)                   | 105,974                  |
| Increase in interest receivables  | <u>(81,007)</u>            | <u>(26,516)</u>          |
| Net cash provided by operating activities   | <u>112,301</u>             | <u>171,283</u>           |
| Cash flows from investing activities:   |                            |                          |
| Decrease in time certificates of deposit  | -                          | 671,604                  |
| Loan originations and repayments, net   | (311,403)                  | (812,188)                |
| Investment securities purchases and sales, net                                      | (11,770)                   | (31,947)                 |
| Additions to property and equipment   | <u>(20)</u>                | <u>(2,056)</u>           |
| Net cash used in investing activities   | <u>(323,193)</u>           | <u>(174,587)</u>         |
| Cash flows from financing activities:   |                            |                          |
| Proceeds from issuance of capital stock   | 50,000                     | 300,000                  |
| Proceeds from note payable  | 273,801                    | 44,808                   |
| Repayment of note payable   | <u>(16,573)</u>            | <u>(16,789)</u>          |
| Net cash provided by financing activities   | <u>307,228</u>             | <u>328,019</u>           |
| Net change in cash and cash equivalents   | 96,336                     | 324,715                  |
| Cash and cash equivalents at beginning of year                                      | <u>980,096</u>             | <u>655,381</u>           |
| Cash and cash equivalents at end of year  | <u><u>\$ 1,076,432</u></u> | <u><u>\$ 980,096</u></u> |
| Supplemental disclosure of cash flow information:                                   |                            |                          |
| Cash paid during the year for:  |                            |                          |
| Interest  | \$ 13,559                  | \$ 11,020                |

See accompanying notes to financial statements.

## **PACIFIC ISLANDS DEVELOPMENT BANK**

Notes to Financial Statements  
December 31, 2009 and 2008

### **(1) Organization and Summary of Significant Accounting Policies**

#### **Organization**

Pacific Islands Development Bank (the Bank) was created on July 5, 1989 to provide financial and technical expertise to persons and businesses within the Pacific Island region.

The accounting and reporting policies of the Bank are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The more significant of the principles used in preparing the financial statements are briefly described below.

In August 2001, the Bank was recognized as a non-profit 501c(3) corporation by the Government of Guam. However, the Bank's characterization of its capital stock has yet to be resolved with Guam authorities. Therefore, the Bank has continued its historic financial statement presentation and has yet to adopt not-for-profit financial reporting as set forth in Statement of Financial Accounting Standards No.'s 116 and 117.

#### **Cash and Cash Equivalents**

For the purposes of the statements of condition and cash flows, cash and cash equivalents is defined as cash on hand, in banks and in money market funds. Time certificates of deposit with initial maturities in excess of ninety days are separately classified.

#### **Investment Securities**

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost, adjusted for premiums and discounts that are recognized in interest income using the straight-line method over the period to maturity. This method does not differ materially from the interest method. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2009 and 2008, the Bank has classified all of its investment securities as available for sale.

#### **Loans Receivable**

Loans receivable are stated at unpaid principal balance. In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they become payable.

## **PACIFIC ISLANDS DEVELOPMENT BANK**

Notes to Financial Statements  
December 31, 2009 and 2008

### **(1) Summary of Significant Accounting Policies, Continued**

#### **Loans Receivable, Continued**

Loans are stated at unpaid principal balance less the allowance for loan losses. The allowance for loan losses is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance. Provisions for losses and recoveries on loans previously charged off are added to the allowance.

#### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation on all property and equipment is computed under the straight-line method over the estimated useful lives of the assets.

#### **Taxation**

The Bank is not subject to taxation within Guam and therefore, no provision for taxes is included within the accompanying financial statements.

#### **Comprehensive Income**

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the statements of condition, such items, along with net income, are components of comprehensive income.

#### **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 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses.

#### **Risks and Uncertainties**

In the normal course of its business, the Bank encounters the three components of economic risks: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or re-price at different speeds, or on a different basis, than its interest-earning assets. Incorporated into interest rate risk is prepayment risk. Prepayment risk is the risk associated with the prepayment of assets, and the write-off of premiums associated with those assets, if any, should interest rates fall significantly. Credit risk is the risk of default, primarily in the Bank's loan portfolio that results from the borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of securities, the value of collateral underlying loans receivable. Credit and market risks can be affected by a concentration of business within the Pacific Island region.



## PACIFIC ISLANDS DEVELOPMENT BANK

### Notes to Financial Statements December 31, 2009 and 2008

#### (1) Summary of Significant Accounting Policies, Continued

##### Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform with the 2009 presentation.

##### Subsequent Events

Management has considered subsequent events through March 15, 2010, upon which the financial statements were available to be issued.

#### (2) Investment Securities

At December 31, 2009 and 2008, all of the Bank's investment securities are maintained by a fund manager with approximately 62% and 51% invested in equity securities, respectively, and 38% and 49% invested in governmental bonds, respectively. During the years ended December 31, 2009 and 2008, the Bank incurred net realized gains and (losses) of \$98,408 and (\$105,974), respectively, from the sale of securities by the fund manager. Net cumulative unrealized losses at December 31, 2009 and 2008 amounted to \$13,145 and \$59,084, respectively.

#### (3) Loans Receivable

The loan portfolio consists of direct loans. The interest rates on these loans are predominately at a fixed rate of 10%. The maturity date of all loans is greater than three years. Loans have been collateralized by various forms of collateral.

In the ordinary course of business, the Bank has entered into transactions with its employees, directors and their affiliates. Such transactions were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers. The aggregate amount of loans outstanding to such related parties at December 31, 2009 and 2008 was \$564,000 and \$486,000, respectively.

Loans receivable are net of an allowance for loan loss reserves of \$200,000 and \$135,000 at December 31, 2009 and 2008, respectively.

#### (4) Long-Term Debt

On October 7, 2003, the Bank was awarded an Intermediary Relending Program (IRP) loan by the U.S. Department of Agriculture in the amount of \$500,000. The loan requires interest only payments for the first three years; thereafter, principal and interest is payable in equal annual installments beginning on October 7, 2007. The loan matures on October 7, 2033. The loan bears a fixed interest rate of one percent per annum. At December 31, 2009 and 2008, outstanding balances were \$450,536 and \$467,109, respectively.

On June 27, 2006, the Bank was awarded supplemental funds of \$750,000 under the same program. The loan requires interest only payments for the first three years; thereafter, principal and interest is payable in equal annual installments beginning on June 27, 2010. The loan matures on June 27, 2036. The loan bears a fixed interest rate of one percent per annum. At both December 31, 2009 and 2008, outstanding balances were \$750,000.

## PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
December 31, 2009 and 2008

### (4) Long-Term Debt, Continued

On September 8, 2008, the Bank was awarded additional supplemental funds of \$750,000 under the same program. The loan requires interest only payments for the first three years; thereafter, principal and interest is payable in equal annual installments beginning on September 8, 2012. The loan matures on September 8, 2038. The loan bears a fixed interest rate of one percent per annum. The Bank has not drawn against this line as of December 31, 2008. At December 31, 2009, outstanding balance was \$273,801 and \$476,199 is available for future drawdowns.

The loans are collateralized by all repayments, interest, fees, investments and other revenues collected or generated from the IRP loans.

The Bank's future maturities of long-term debt are as follows:

#### Year ending December 31,

|            |                     |
|------------|---------------------|
| 2010       | \$ 40,958           |
| 2011       | 41,368              |
| 2012       | 62,525              |
| 2013       | 63,362              |
| 2014       | 64,172              |
| Thereafter | <u>1,201,952</u>    |
|            | <u>\$ 1,474,337</u> |

The Bank is required to match 50% of the IRP loan. Therefore, as of December 31, 2009, cash restricted for this purpose approximated \$1,117,000. The Bank has designated cash in money market funds and investment securities as restricted for this purpose.

### (5) Property and Equipment

A summary of property and equipment as of December 31, 2009 and 2008, is as follows:

| <u>Description</u>             | <u>Estimated Useful Lives</u> | <u>2009</u>      | <u>2008</u>      |
|--------------------------------|-------------------------------|------------------|------------------|
| Office furniture and equipment | 10 years                      | \$ 20,781        | \$ 20,781        |
| Computer equipment             | 5 years                       | 41,554           | 41,554           |
| Vehicles                       | 5 years                       | <u>52,520</u>    | <u>52,500</u>    |
|                                |                               | 114,855          | 114,835          |
| Less accumulated depreciation  |                               | <u>(92,761)</u>  | <u>(80,008)</u>  |
|                                |                               | <u>\$ 22,094</u> | <u>\$ 34,827</u> |

## **PACIFIC ISLANDS DEVELOPMENT BANK**

### **Notes to Financial Statements December 31, 2009 and 2008**

#### **(6) Stockholders' Equity**

Under the "Articles of Agreement Establishing The Pacific Islands Development Bank" (the Articles), each member is to contribute \$1,000,000 for the purchase of shares in the Bank. If all eligible governments participate, equity contributions of \$10,000,000 would result. As of December 31, 2009 and 2008, the Bank has received \$5,901,783 and \$5,851,783 of equity contributions, respectively. Authorized capital stock is 18,000 shares of \$1,000 par value. As of December 31, 2009 and 2008, respectively, 5,901 and 5,851 shares have been issued and are outstanding.

This under capitalization has delayed the Bank in expanding its operating activities. In order for the Bank to engage in operations of the size contemplated, significant capital infusions are required from existing and prospective members.

#### **(7) Commitments**

The Bank has existing loan commitments of \$60,700 as of December 31, 2009.

#### **(8) Leases**

The Bank operates from rented premises under an operating lease agreement that expired on July 31, 2009 with a monthly payment of \$1,590. An amendment was made to extend current term through July 31, 2011 with an increase of monthly rent to \$1,705 per month. Total future minimum payments under this lease approximate \$20,461 and \$11,936 for the years ended December 31, 2010 and 2011, respectively.

#### **(9) Related Party Transactions**

As explained in note 3, the Bank has made certain loans to related parties.

#### **(10) Employee Benefit Plan**

The Bank has a 401(k) Plan whereby substantially all employees participate in the Plan after meeting certain eligibility requirements, namely, completion of one year of continuous employment. Contributions to the Plan are 10% of gross salaries and are 100% vested after three years of service. During the years ended December 31, 2009 and 2008, the Bank contributed \$14,464 and \$14,221, respectively, to the Plan.





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