

2018

ANNUAL REPORT



OUR VISION

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

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Transmittal Letter

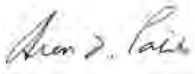
March 31, 2019

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, 2018.

Respectfully,



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

Message from the President & CEO

From a regional perspective, 2018 was an eventful, historical, and memorable year. In November 2018, the Commonwealth of the Northern Mariana Islands was devastated by Super-typhoon Yutu, the strongest typhoon ever to hit CNMI with catastrophic destruction and damages to homes, businesses, and infrastructure. The lives and livelihood of CNMI residents were forever changed and its economy took a major setback. Doing its part, PIDB provided relief to its CNMI borrowers through loan payment deferment, loan restructure and refinance, and adjustments in loan payment for commercial clients whose cash flow was affected by the typhoon. We pray for our brothers and sisters in CNMI and hope for continued progress in its recovery efforts.

Throughout the region, elections were also held in November 2018 with new leadership in Guam, Yap, Kosrae, and Commonwealth of the Northern Mariana Islands. Many of the Bank's Board members were elected to prominent leadership positions. First ever female Governor Lourdes Leon Guerrero was elected Governor of Guam; Henry Falan was elected Governor of Yap State, Carson Sighra was elected Governor of Kosrae State, and Ralph Torres was re-elected Governor of CNMI. Additionally, PIDB Board member Tina Muna Barnes was elected Speaker of the 35th Guam Legislature, Vincent Figir was elected Speaker of the 10th Yap State Legislature, and Rolner Joe was elected Vice Speaker of the 12th Kosrae State Legislature. Given the ownership and corporate structure of PIDB, the political support of leaders throughout the region is crucial to the Bank. Congratulations to our Board members who won in the November 2018 elections.

The Yap State Business Development Loan Program administered by PIDB was fully implemented in 2018 with the entire \$3 million fully disbursed. The objective of this program is to promote private sector growth in Yap with emphasis in tourism, agriculture, and fisheries. We are now servicing and managing the program with intent to expand it through rei-investment and the multiplier effect. We thank the leadership of Yap State not only for selecting PIDB to administer the program, but also for its confidence and commitment to PIDB.

During the period under review, we gained more traction on the residential housing loan program in Kwajalein Atoll/Ebeye. Total investment under the housing program exceeded \$800,000 in 2018 with more loans expected in 2019. With prudent management of the portfolio, all loans funded under the program are current with zero loan delinquency at year end. I am also pleased to report that another \$500,000 has been approved with disbursement expected upon signing of a sub-grantee agreement between PIDB and the RMI government. The agreement provides for annual perpetual funding to expand the residential housing program in Kwajalein/Ebeye. We thank the leadership of Kwajalein Atoll Development Authority (KADA) and the RMI government for their commitment and unwavering support.


In 2018, Pacific Islands Development Bank was selected by the Guam Business Magazine as one of the top 35 Companies in Micronesia. The selection criteria include balance sheet strength and growth, earnings, management, and contributions to economic and social development of the islands/economies in the Micronesia sub-region. Congratulations PIDB!

From an operational standpoint, the Bank once again did very well in 2018. It was by far the best year yet with record performance set in the following key performance indicators:

- *Total Assets increased by 12.8% or \$1.9 million to \$17.4 million.*
- *Loans Receivable increased by 28.5% or \$3.4 million to \$15.3 million.*
- *Stockholders' Equity increased by 17.6% or \$2.1 million to \$14.5 million.*
- *Retained Earnings increased by 70.1% or \$2.1 million to \$5.2 million.*
- *Net Income increased by 92.2% or \$1.0 million to \$2.1 million.*
- *Record Return on Assets of 12.3% and Return on Equity of 14.8%.*
- *Achieved **unqualified** audit opinion with no questioned costs.*
- *Chuuk State made an equity payment of \$25,000, increasing its paid-in membership capital to \$276,783.*

As we close and celebrate the best year yet for the bank, we simply cannot rest on those past achievements. In today's rapidly changing political, economic, and technological environment, both from a global and regional perspective, operating without a Strategic Plan is synonymous with sailing in a vast ocean without a compass. As such, 2018 marked the fifth and final year of operation under its current Strategic Plan (2014-2018). Given the importance of strategic and corporate planning, the Bank revised its Plan for the next 3 years, 2019 to 2021. The planned period has been reduced from five years to three years, a practice that most development banks are now following. The key goals and objectives in the revised Plan are balance sheet growth, improved earnings, and capacity enhancement, especially in financial, human, and technical resources.

In closing, let me take this opportunity to thank our Shareholders, Board of Governors, and Board of Directors for their unwavering support and commitment. I would also like to convey our gratitude and appreciation to our staff for their diligence, dedication, and contributions.



Aren Palik
President & CEO

I. Background & Corporate Information

Establishment

Pacific Islands Development Bank was created on July 5, 1989 through a Resolution approved by the Association of Pacific Island Legislatures (APIL). Its corporate office is in Guam.

Bank's Vision

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

Bank's Mission & Purpose

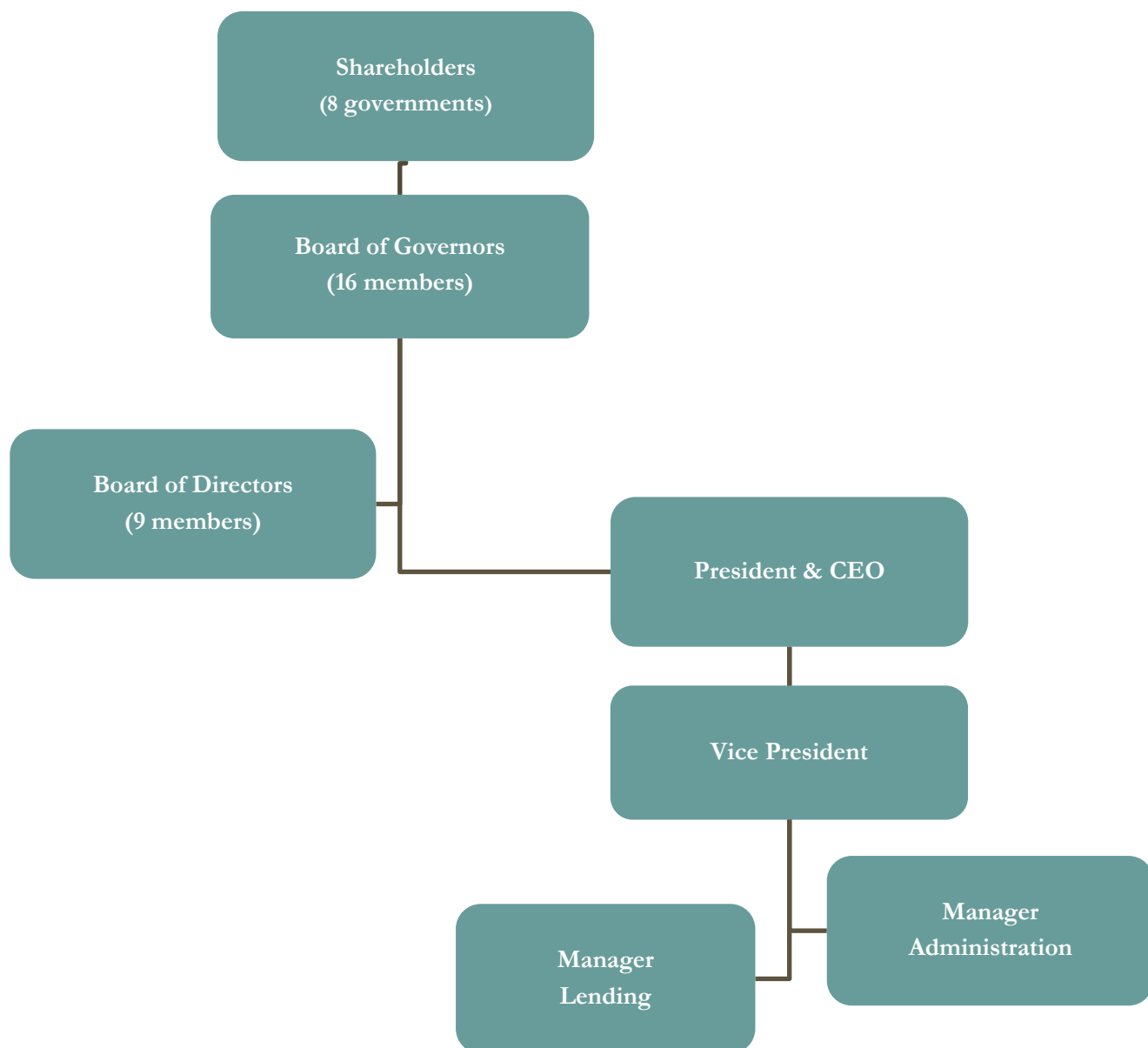
"To contribute to the acceleration of the process of economic and social development of member countries and States, individually and collectively, and to promote economic cooperation among them."

Shareholders & Paid in Capital

Shareholders	2018	
	# Shares	Value
Chuuk	276	276,783
CNMI	1,000	1,000,000
Guam	1,000	1,000,000
Kosrae	820	820,000
Marshall Is.	1,992	1,992,000
Palau	1,000	1,000,000
Pohnpei	1,300	1,300,000
Yap	1,439	1,438,866
Kwajalein Atoll	500	500,000
Total	9,327	\$9,327,649

The initial capital each member pledged and agreed to pay is \$1 million. For the period under review, Chuuk State made an additional capital payment of \$25,000 towards its equity shares in the bank. Management continues to work with individual country members for additional capital funding.

Organizational Chart



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 branch and the other representing the Legislative branch) to the Board of Governors. At its annual meeting, the Board elects new officers for the ensuing year. The members of the Board of Governors and its officers for the period under review are as follows:

Shareholder	Executive Branch Rep.	Legislative Branch Rep.
Chuuk:	Vacant	Vacant
CNMI:	Ralph DLG Torres Governor	Joseph Deleon Guerrero, Vice Chair Congressman
Guam:	Edward Calvo Governor	Vacant
Kosrae:	Carson Sigrah Lt. Governor	Tulensa Palik Speaker
Marshall Is.	Brenson Wase Minister of Finance	Kenneth Kedi, Secretary Speaker
Palau:	Elbuchel Sadang Minister of Finance	Swenny Ongidobel, Chairman Delegate, House of Delegates, OEK
Pohnpei:	Reed Oliver Lt. Governor	Carlos Villazon Budget Officer
Yap:	Tony Ganngiyan Governor	Stanislaus D. Kensof Senator

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 one person to represent that member entity on the Board of Directors. The Board of Directors is authorized by the Board of Governors to exercise all powers of the Bank with the exception of those expressly reserved to the Board of Governors under the Agreement. The Board of Directors meets quarterly with the Bank President and CEO serving as Chairman pursuant to the Bank's *Articles*.

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

Palau	CNMI	Guam
Elbuchel Sadang Minister of Finance Palau National Govt.	Diego Benavente Former Lt. Governor/ Former Speaker	Lourdes Leon Guerrero President & CEO Bank of Guam
Kosrae State	Pohnpei State	Yap State
Robson Henry Retired U.S. Army Veteran U.S. Military.	Christina Elnei Budget Officer Pohnpei State Govt.	John Masiwemai Senator/Chairman, R&D Committee Yap State Legislature
Chuuk State	Marshall Islands	Kwajalein Atoll Development Authority
Vacant	Alfred Alfred, Jr. Member of Parliament RMI Parliament (Nitijela)	Anjojo Kabua III Executive Director Kwajalein Atoll Development Authority
Management		
Aren Palik President/CEO Chairman		

II. 2018 Operational Summary

A. Loan Report

Approved Loans

Loan Type	2018 No. of Loans	Amount	2017 No. of Loans	Amount
Commercial Loans				
Agriculture	0	0	0	0
Fisheries	1	20,168	2	100,000
Tourism	5	3,418,587	4	9,000
Manufacturing	0	0	0	100,000
Services	3	409,000	3	1,010,699
Commercial	2	1,131,492	3	400,000
Sub Total	11	4,979,247	12	1,619,699
Residential Home Loans	11	1,190,679	5	523,109
Consumer Loans	45	409,412	21	794,325
Total	67	6,579,338	38	2,937,133

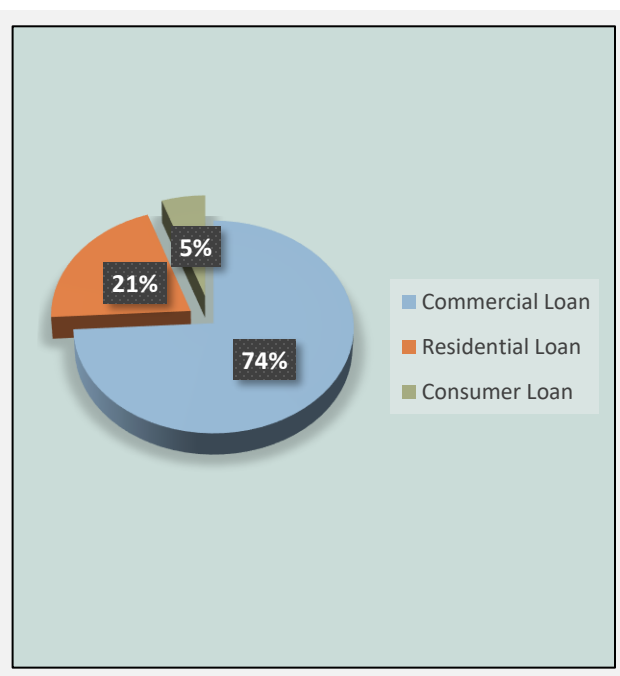
Outstanding Loans by Sector

Loan Type	2018 #	Amount \$	2017 #	Amount \$
Commercial Loans				
Agriculture	0	0	3	627,798
Fisheries	3	621,805	3	159,806
Tourism	15	3,399,644	12	935,006
Manufacturing	0	0	0	265,148
Services	25	2,855,450	42	2,802,532
Commercial	35	4,473,728	26	3,255,590
Sub Total	78	11,350,627	86	8,045,880
Residential Home Loans	46	3,164,653	37	2,873,559
Consumer Loans	135	806,663	163	1,000,070
Total	259	15,321,943	286	11,919,509

Loan Distribution by Shareholder

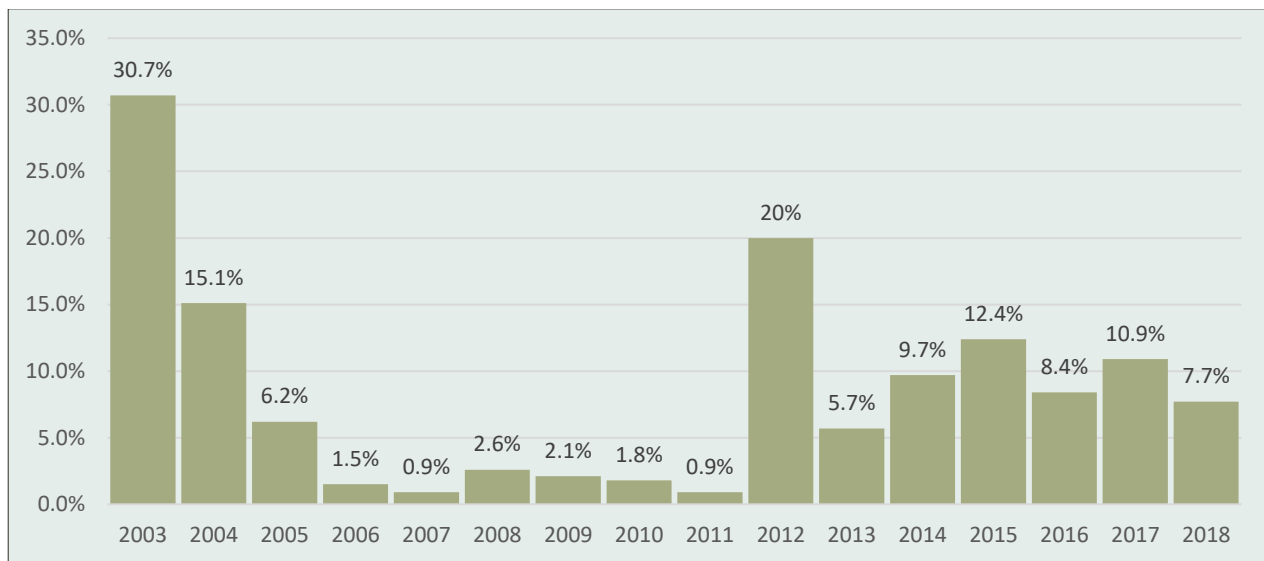
Shareholder	Commercial		Consumer		Housing		Total	
	#	Value	#	Value	#	Value	#	Value
Guam	11	910,420	37	237,190	8	428,308	56	1,575,918
Palau	5	753,068	5	33,404	1	72,571	11	859,043
Pohnpei	2	536,003	16	150,244	6	291,181	24	977,428
Yap	14	4,598,606	45	260,690	5	316,286	64	5,175,582
Kosrae	29	1,008,068	23	81,790	11	247,288	63	1,337,146
CNMI	3	1,099,065	6	24,810	5	351,098	14	1,474,973
Chuuk	1	28,445	0	0	0	0	1	28,445
RMI	13	2,416,952	3	18,535	5	813,621	21	3,249,108
KADA	0	0	0	0	5	644,300	5	644,300
Total	78	11,350,627	135	806,663	46	3,164,653	259	15,321,943

Loan Mix

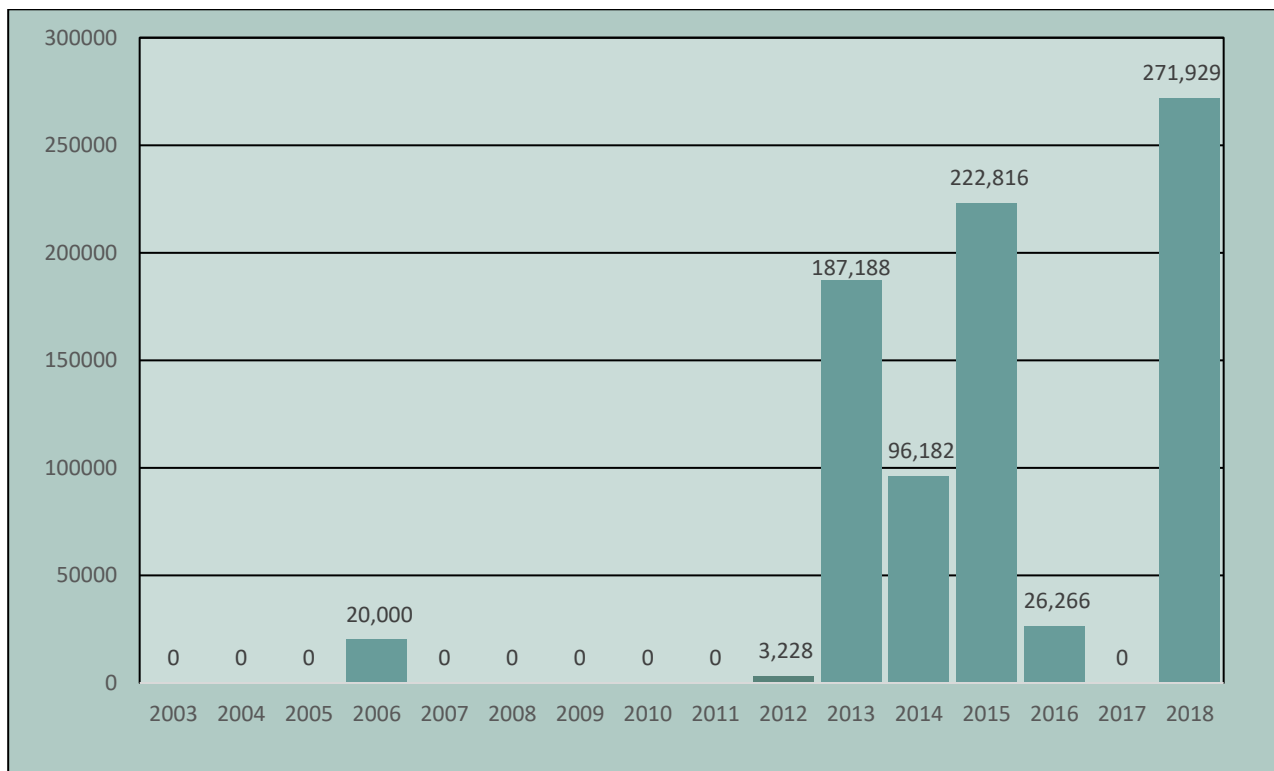


At 12/31/18, 74% or \$11.3 million of total loans was in Commercial Loans; 21% or \$3.1 million in Residential Home Loans; and 5.2% or \$806,663 in Consumer Loans. The Bank's core lending is in Commercial loans, consistent with its core mission and purpose. For the period under review, average Consumer Loan per borrower is \$5,975; average Residential Home Loans is \$68,796; and average Commercial loan per borrower is \$145,520.

Loan Delinquency



Loan Charge Off



B. Financial Report

Performance Against Previous Year (2017)

For the period under review, Loans Receivable increased significantly by about 29% to \$15.3 million. In 2018, there was an increase in Commercial and Residential loans which are contributing factors to the increase in loans receivable in the period under review. Stockholders' Equity grew by 17.6% or \$2.1 million to \$14.5 million due primarily to improvement in the Bank's Retained Earnings and additional equity capital infusion from Pohnpei State, Chuuk State and initial payment from Kwajalein Atoll Development Authority. Total Assets also saw a significant increase of 12.8% or \$1.9 million to \$17.4 million attributed to additional capital infusion of \$2,250,000 by Yap State Government to fund the business development program. Retained Earnings grew by 70.1% to \$5.2 million attributed to a net income of \$2,153,927 for the year. Gross Revenue increased by \$1.6M or 94% due mainly to the contribution from Yap State. Total Operating Expenses increased by \$157,769 or 33.3% as a result of enhanced collection efforts by management in the islands and the increased rent of the new office. Netting expenses from revenue, the Bank realized a Net Income of \$2,153,927 which is significantly higher than the previous year. This is attributed to the \$2,250,000 received from Yap State which was booked as a restricted contribution. The Table below compares the bank's performance in 2018 against the previous year (2017) in selected key areas.

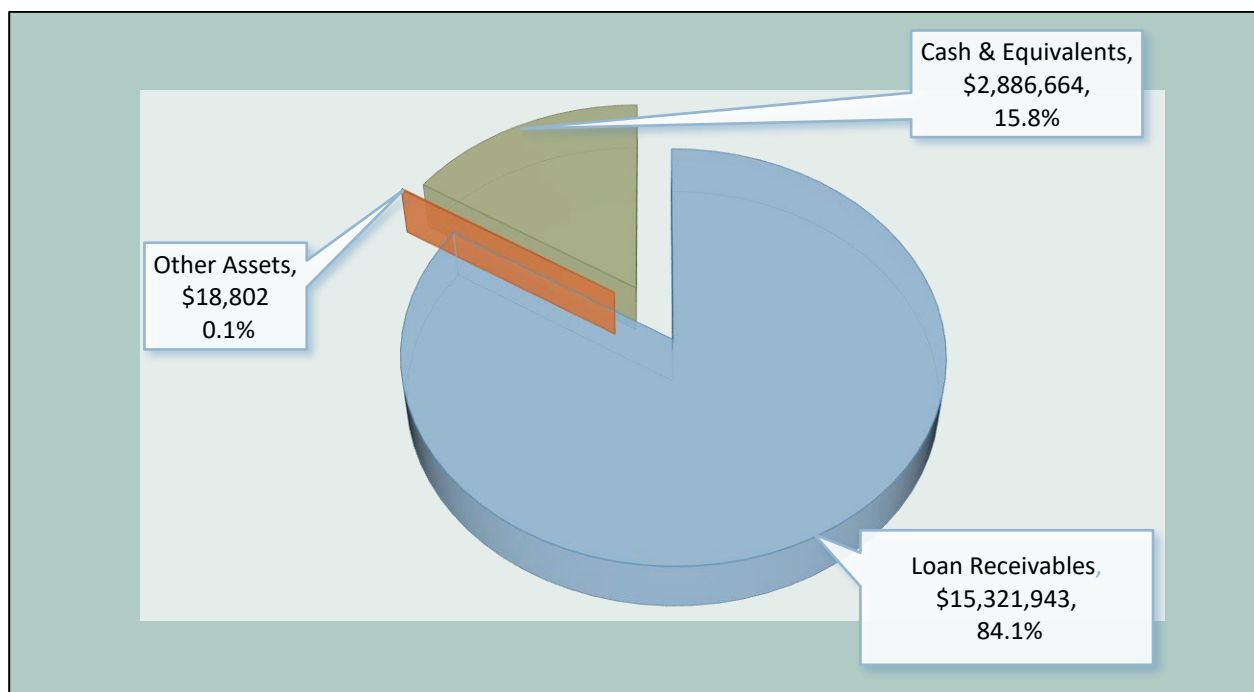
Selected Key Items	2018 Actual	2017 Actual	Variance (\$)	Variance (%)
Loans Receivable	15,321,943	11,919,509	3,402,434	28.5%
Stockholder's Equity	14,552,331	12,373,404	2,178,927	17.6%
Total Assets	17,424,912	15,440,756	1,984,156	12.8%
Retained Earnings	5,224,682	3,070,755	2,153,927	70.1%
Gross Revenue	3,385,475	1,744,328	1,641,147	94%
Total Operating Expenses	631,548 (1)	473,779	157,769	33.3%
Provision for Loan Losses	600,000	150,395 (3)	449,605	298.9%
Net Income (2)	2,153,927	1,120,154	1,033,773	92.3%

(1) Excludes provision for loan losses and interest expense

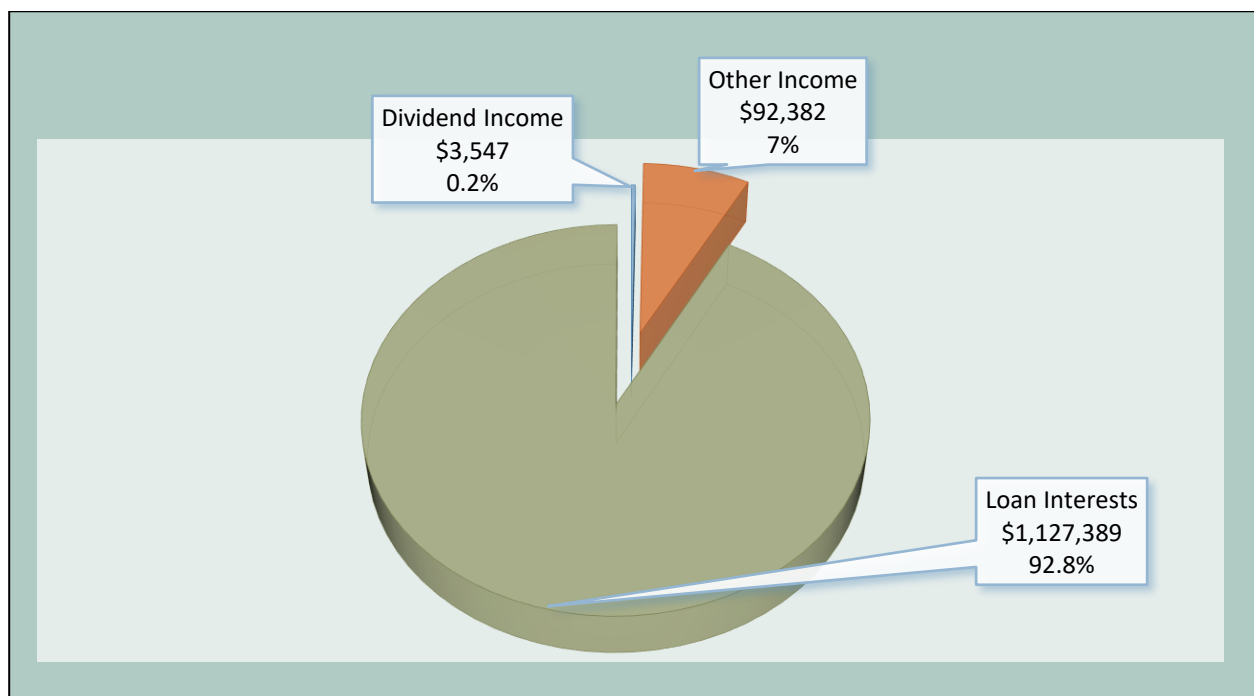
(2) Includes \$2,250,000 funds infused by Yap State govt. for business loan program

(3) Includes provision for interest receivable

Asset Mix

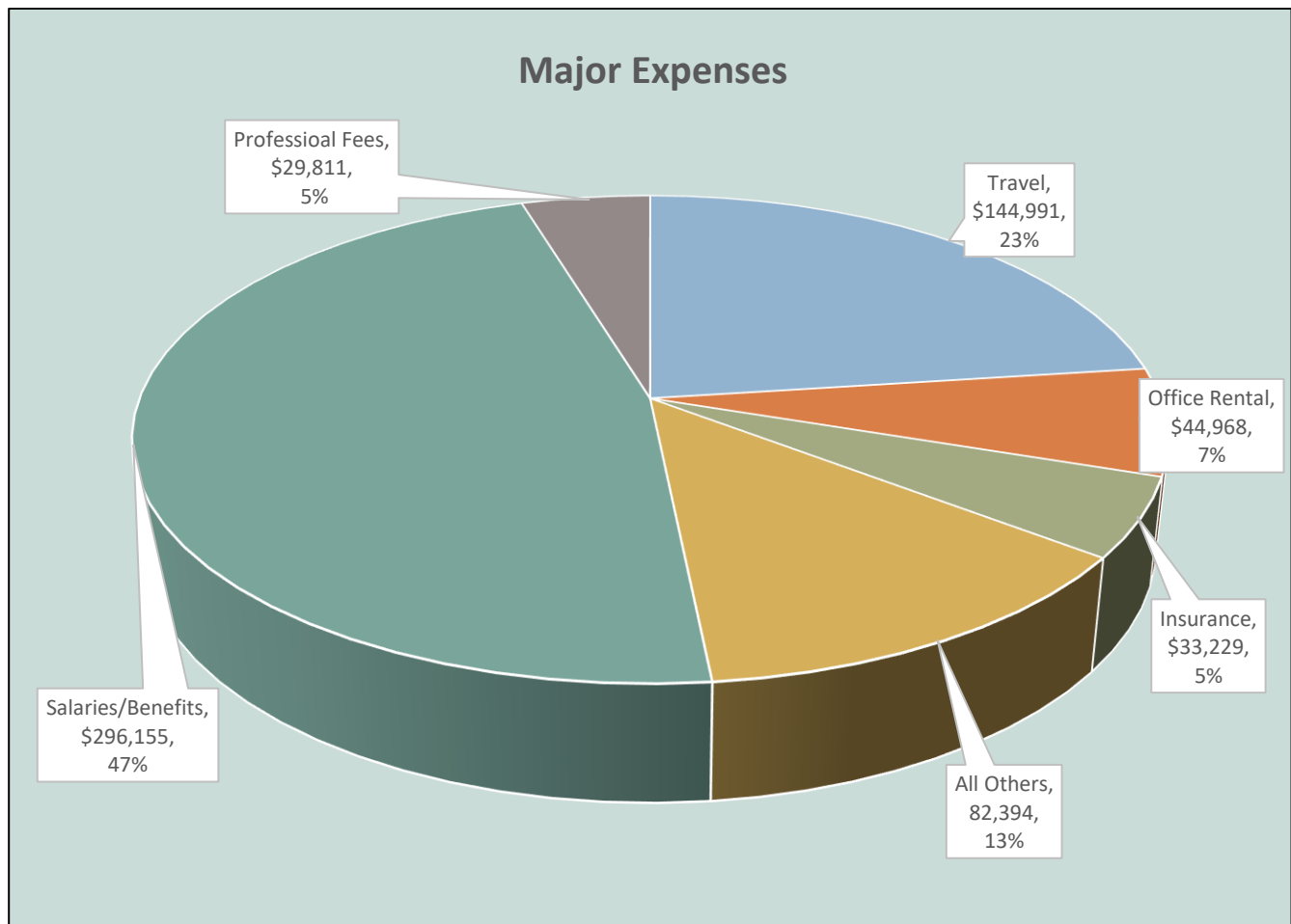


Revenue by Source

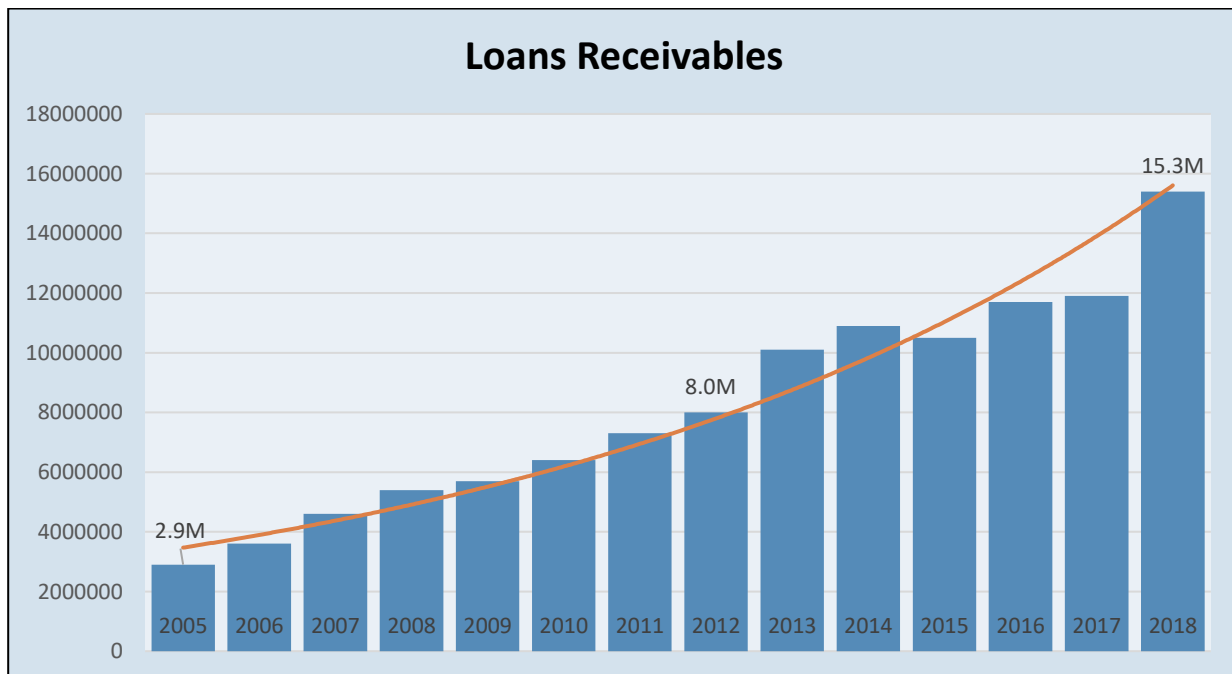
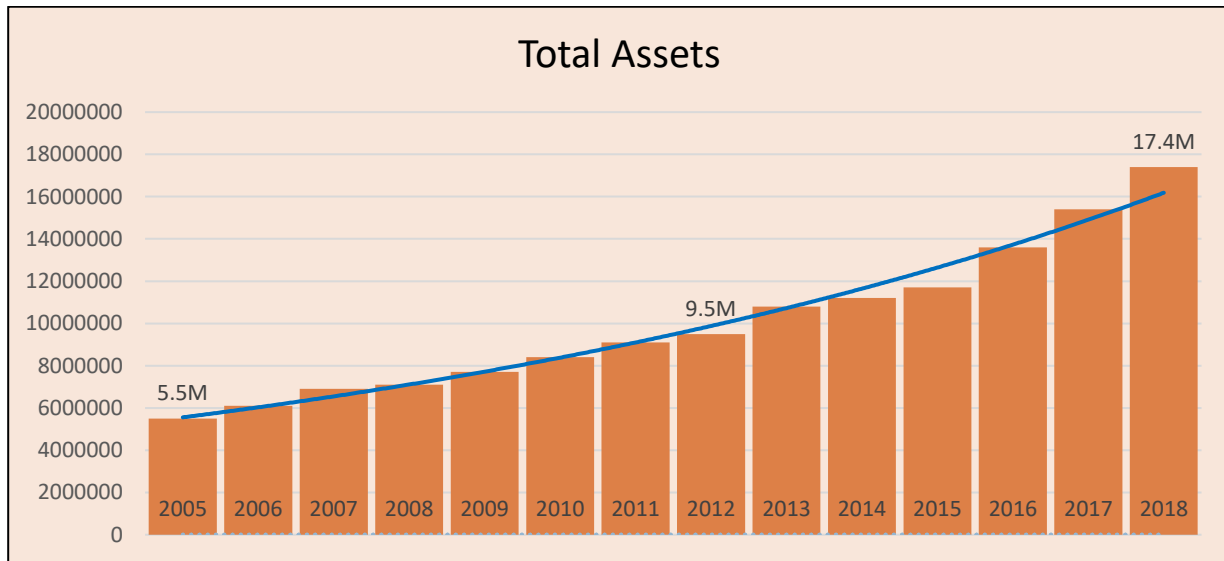


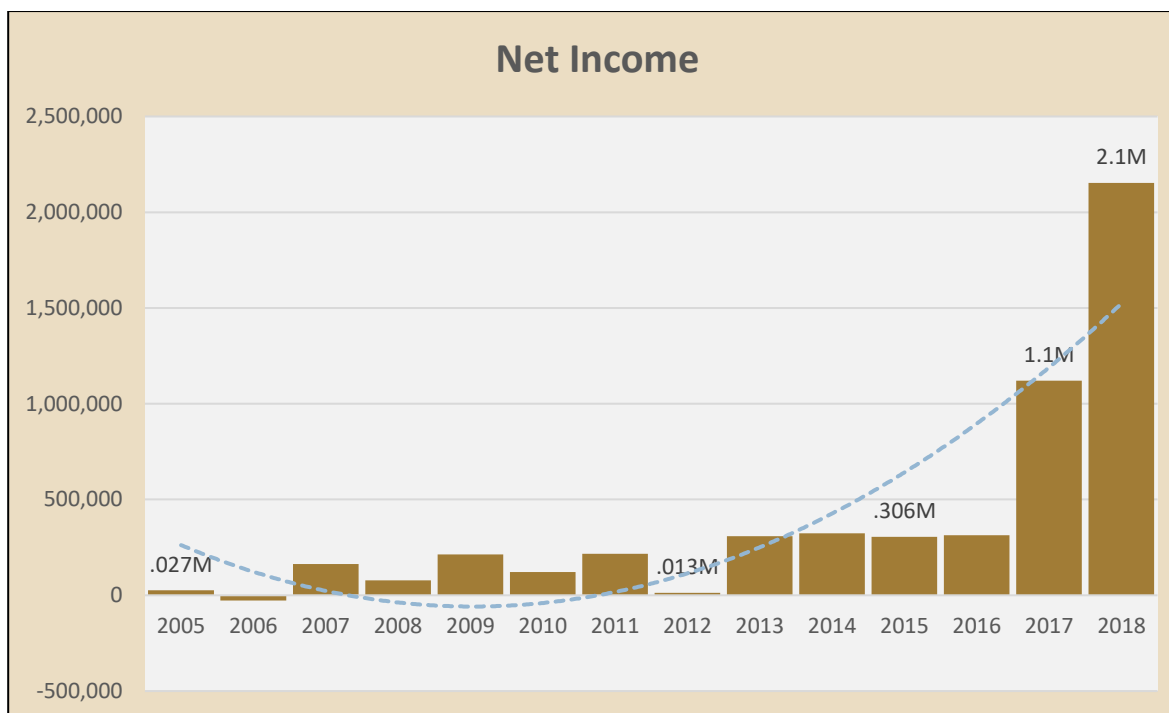
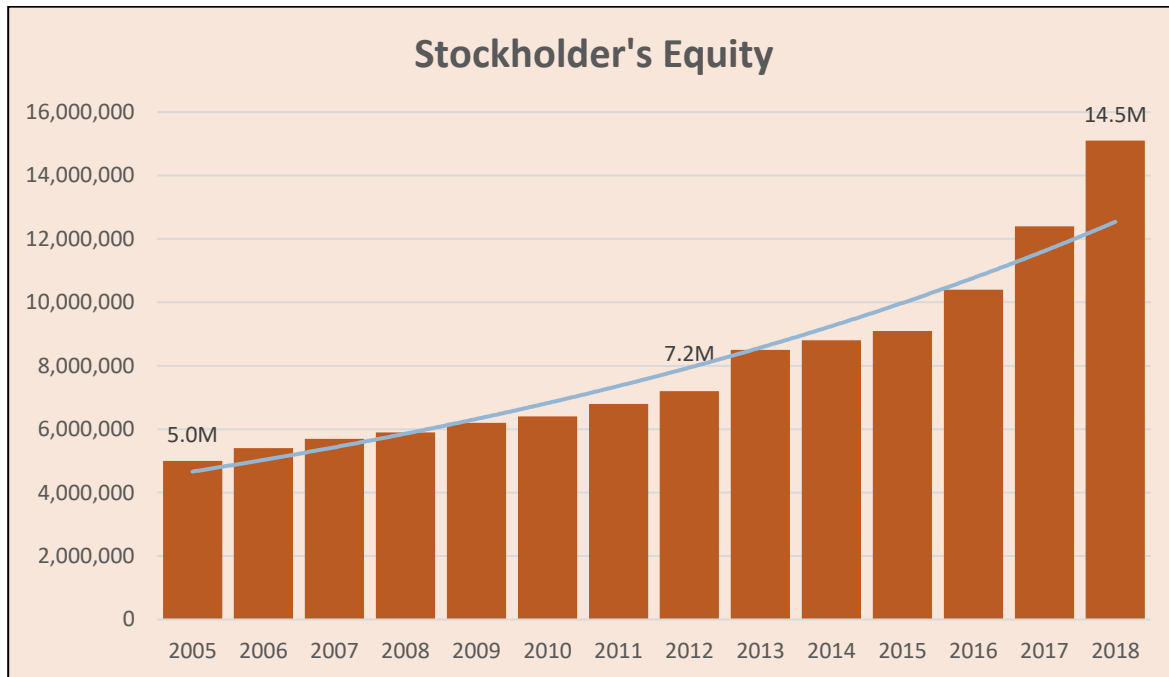
Major Expenses

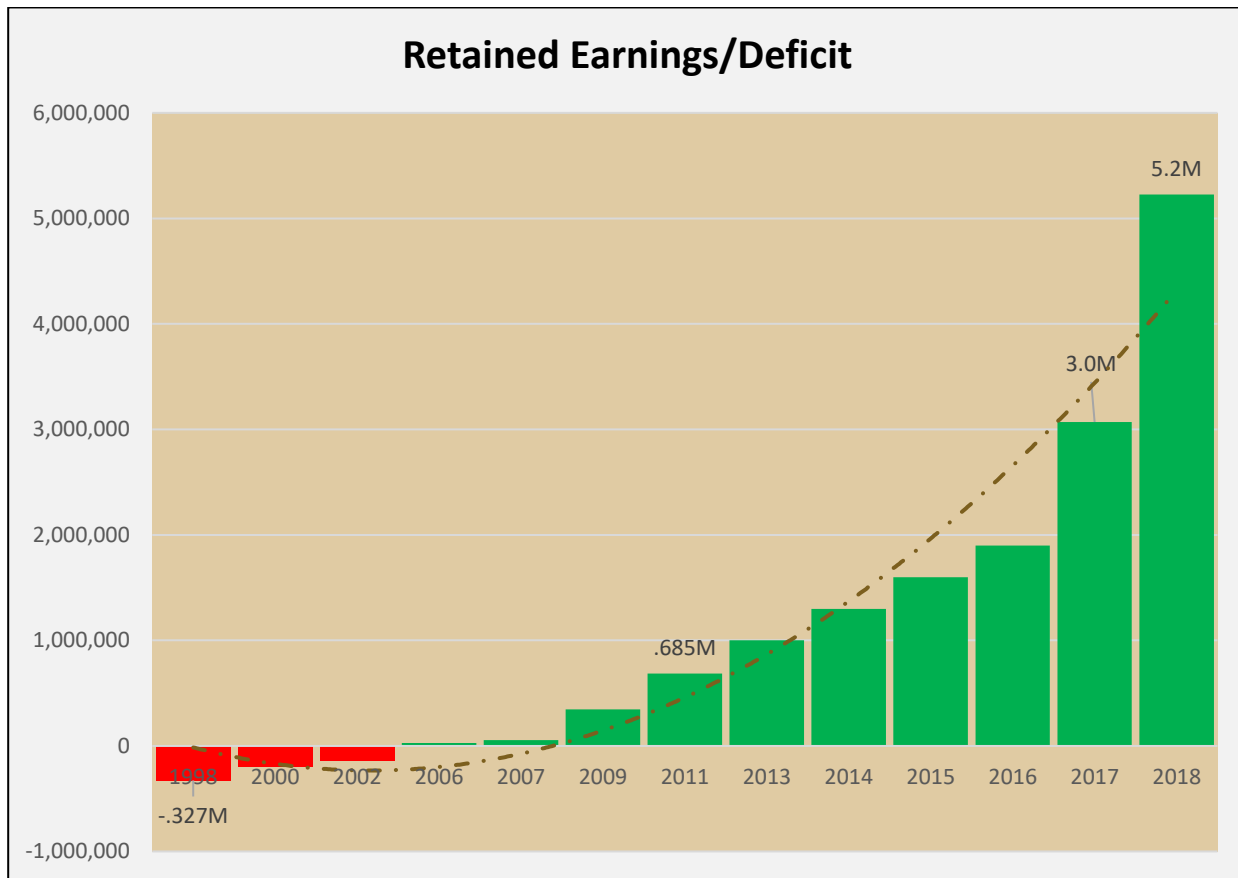
The Bank's operating expenses reflect its operational structure and geographical representation with a 14-member Board of Governors and a 9-member Board of Directors. The Bank's corporate office is currently in Guam with no branch offices yet. Above said, Travel and Communication expenses, are higher comparatively speaking. The annual Provision for Loan Losses is based on the Board of Directors' quarterly review and grading of the bank's loan portfolio and the Auditor's recommendation. Based on such review, the Bank provisioned \$600,000 for 2018. Interest Expense in the amount of \$70,692 was for both the IRP loans and the FSM Development Bank export loan facility. The Table below shows the major expenses of the bank, as a percentage of total operating expenses, during the period under review.



Financial Summary, 2005 – 2018







Selected Financial Ratios

Selected Ratios	2012	2013	2014	2015	2016	2017	2018
GROWTH							
Total Asset Growth	5%	14%	4%	4.2%	16.6%	13.2%	12.8%
Loan Growth	10%	25%	8%	-2.7%	10.7%	1.8%	28.5%
Long Term Debt	0.2%	3%	2%	5.7%	25.1%	-3.9%	-5.3%
Net Worth Growth	6%	18%	4%	3.6%	14.2%	18.4%	17.6%
PROFITABILITY							
Return on Assets	0.13%	2.9%	2.9%	2.6%	2.3%	7.2%	12.3%
Return on Equity	0.18%	3.6%	3.7%	3.3%	3.0%	9.1%	14.8%
Net Margin	2%	30%	34%	32%	34%	107%	63%
LEVERAGE							
Net Worth	7.2M	8.5M	8.9M	9.1M	10.4M	12.3M	14.5M
Debt to Worth	32%	28%	27%	28%	31%	25%	19.5%
Total Liabilities/Total Assets	25%	22%	21%	22%	23%	20%	16%
LIQUIDITY							
Working Capital	\$1.9M	\$1.3M	\$.9M	\$1.3M	\$2.3M	\$3.9M	\$3M
Current Ratio	425	279	127	186	268	312	112

Board Activities During the Year (2018)

A. Board of Governors

1. The Board of Governors met in Pohnpei in April 2018 and took the following actions:
 - Reviewed and approved amendments to the Bank's Articles and Bylaws.
 - Received and reviewed the Bank's 2017 Annual Report and Audit Report.
 - Received the Bank's 2018 Budget and Goals for information.
 - Encouraged the Bank to continue seeking funds from JBIC and ICDF Taiwan and other international donor agencies and organizations.
 - Conducted annual review of President/CEO's performance.
 - Reorganized and elected the following new officers: Governor Swenny Ongidobel as Chairman, Governor Joseph Guerrero as Vice Chairman and Governor Kenneth Kedi as Secretary.

B. Board of Directors

1. Held 4 regular meetings during the year to review bank operation and performance against budget and strategic plan targets; quarterly review of Allowance for Loss reserve account; and took action on loans above the President's lending authority of \$100,000.
2. Prepared and submitted to the Board of Governors 2017 Annual Report and Audit Report.
3. Reviewed and approved budget and goals for the ensuing year (2018).
4. Monitor and assist all efforts to secure additional capital and funding with quarterly review and update.
5. Hired a new Vice President to assist in achieving key goals and objectives and the overall operations of the Bank.
6. Conducted annual performance review of the President/CEO and provided comments to the Board of Governors.

Pacific Islands Development Bank

Financial Statements and Independent Auditors' Report

Years Ended December 31, 2018 and 2017