Pacific Islands Development Bank

2015 Annual Report

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Transmittal Letter

March 31, 2016

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, 2015.

Respectfully,

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

Message from the President

2015 marked the second year of implementation of the Bank's revised Five-Year Strategic Plan covering the period 2014 to 2018. During the year, we focused on growth related initiatives and strategies outlined in the Plan as further outlined in our 2015 Budget & Goals. One of the key initiatives is resource mobilization and capacity enhancement. Increasing and expanding our financial resource base and capacity is critical to fulfilling the Bank's mission and purpose, namely to contribute to the acceleration of economic and social development of member States and countries.

In 2015, Kosrae State infused another $10,000 in additional equity, increasing its paid in capital to $820,000. We thank Kosrae State Government and its leadership for its commitment and continuing efforts to eventually complete its membership dues.

Operationally, I am pleased to report that the Bank once again registered yet another year of strong balance sheet performance and earnings. Following are some of the key accomplishments and highlights of the period under review:

- *Total Assets increased by 4.2%or $471,953 to $11.7 million*
- *Stockholders' Equity increased by 3.6% or $316,165 to $9.1 million*
- *Retained Earnings increased by 23% or $306,165 to $1.6 million*
- *Realized a Net Income of $456,165 before a $150,000 provision to the Loan Loss Reserve*
- *Realized a Return on Assets of 2.6%*
- *Realized a Return on Equity of 3.3%%*
- *Achieved "unqualified" audit opinion with no questioned costs and documentation issue*

As we review our 2015 activities and performance, it is useful to put such results in perspective and proper reference. Starting from page 15 of this Report, is the bank's historical performance in selected performance indicators from 2006 to 2015.

As we close this year and look ahead, we must continue to use our Strategic Plan as our guide and compass. Strategic planning has proven effective in charting our course and ensures organizational success. Our main goals and objective for the next five years, as outlined in the Plan, are as follows: (1) increase the bank's resource base and capacity, (2) effectively manage credit risks, (3) manage and increase return on securities investment, (4) diversify and expand products and services, (5) manage our margins by increasing revenue and controlling expenses; and (6) ensure a prudent operation complying with applicable laws and regulations and internal bank policies and procedures.

Finally, we express our gratitude and thank our Shareholders for their unwavering support and commitment. We also acknowledge and thank the members of our Board of Governors, Board of Directors, and our staff for their diligence and dedication without which our remarkable achievements in 2015 would not have been possible.

Aren Palik
President & CEO

I. Background & Corporate Information

Establishment

Pacific Islands Development Bank was established in July 1989 by the Association of Pacific Island Legislatures. Its corporate office is located 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

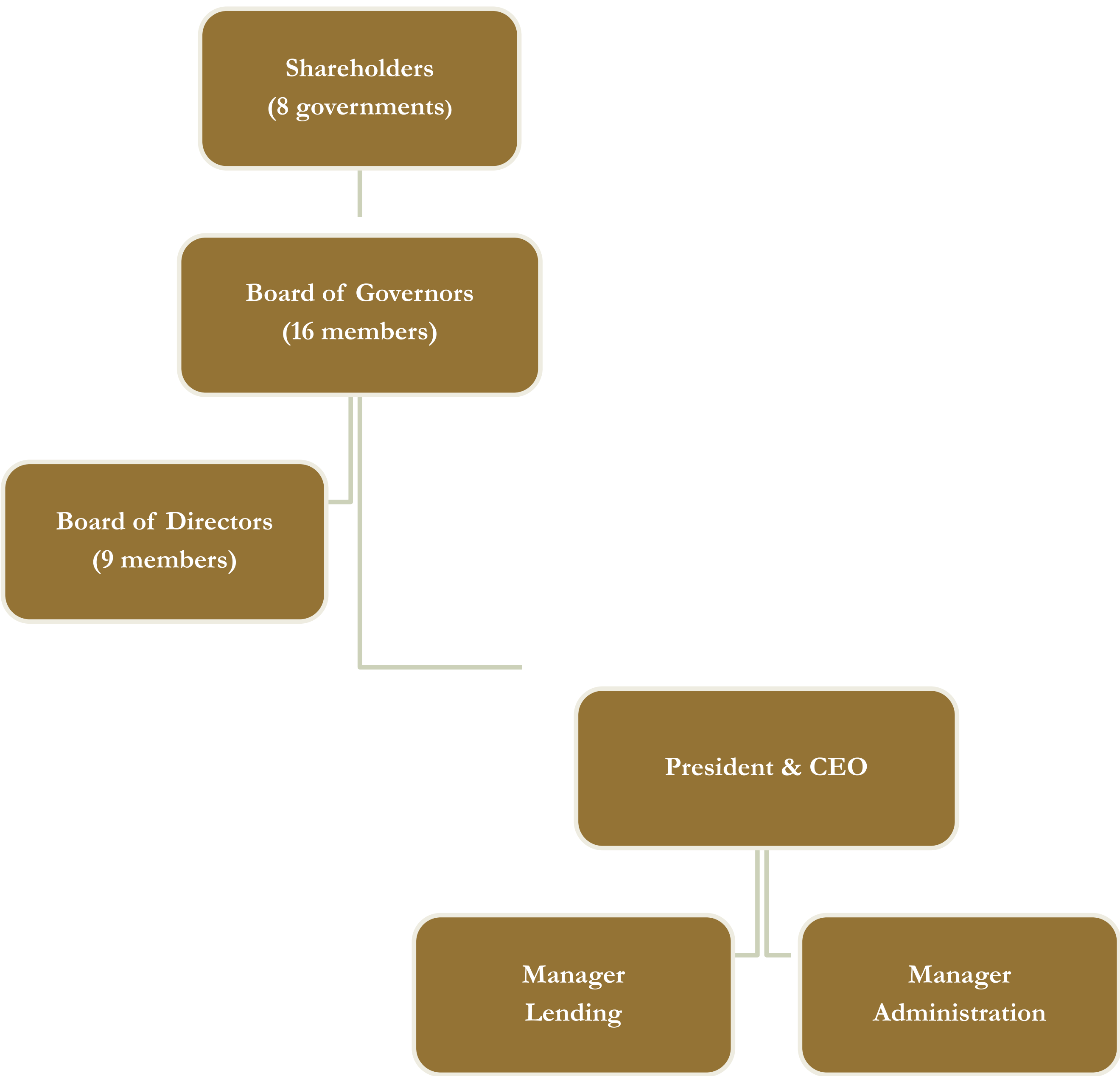
"To contribute to the acceleration of the process of economic and social development of member countries and States, individually and collectively, and to promote economic cooperation among them."

Shareholders & Paid in Capital

	2015	
Shareholders	**# Shares**	**Value**
Chuuk	251	251,783
CNMI	1,000	1,000,000
Guam	1,000	1,000,000
Kosrae	820	820,000
Marshall Is.	1,000	1,000,000
Palau	1,000	1,000,000
Pohnpei	1,000	1,000,000
Yap	1,439	1,438,866
Total	**7,510**	**$7,510,649**

For the period under review, the Bank has 8 Shareholders. Each member entity is required to contribute $1 million in equity capital. Yap State infused an additional $438,866 capital in 2013. Kosrae and Chuuk State have yet to complete its membership payment.

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 and one 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 Lt. Governor	Joseph Deleon Guerrero Speaker
Guam:	Eddie Calvo Governor	**Judith Won Pat, Chairperson** Speaker
Kosrae:	Carson Sigrah Lt. Governor	Tulensa Palik Speaker
Marshall Is.	Jack Ading Minister of Finance	Donald Capelle Speaker
Palau:	Elbuchel Sadang Minister of Finance	Swenny Ongidobel Delegate, House of Delegates
Pohnpei:	John Ehsa Governor	**Brandon Tara, Treasurer** Financial Analyst, Legislature
Yap:	**Tony Ganngiyan, Vice Chair** Governor	Joseph Giliko Vice Speaker

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 represent that member entity on the PIDB Board of Directors. In accordance with the *Articles*, 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**
Elbuchel Sadang Minister of Finance Republic of Palau	Diego Benavente Former Lt. Governor/ Former Speaker	Lourdes Leon Guerrero President & CEO Bank of Guam
Kosrae	**Pohnpei**	**Yap**
Palokoa George Accountant Dept. of Administration	Christina Elnei Acting Director Dept. of Treasury/Admin.	John Masiwemai Senator Yap State Legislature
Management	**Marshall Islands**	**Chuuk**
Aren Palik President/CEO Chairman of the Board	Maybelline Bing Secretary of Finance Republic of Marshall Is.	Vacant

II. Operational Summary

A. Loan Activity Report

Approved Loans

Loan Type	2015 No. of Loans	Amount	2014 No. of Loans	Amount
Commercial Loans				
Agriculture	0	0	1	5,147
Fisheries	1	20,000	3	767,000
Tourism	0	0	0	0
Manufacturing	0	0	1	16,068
Services	12	748,624	14	622,270
Commercial	2	126,839	2	800,000
Sub Total	15	895,477	22	2,210,485
Residential Home Loans	4	249,900	8	506,830
Consumer Loans	60	520,294.03	52	562,924
Total	**79**	**$1,665,671.66**	**82**	**$3,280,239**

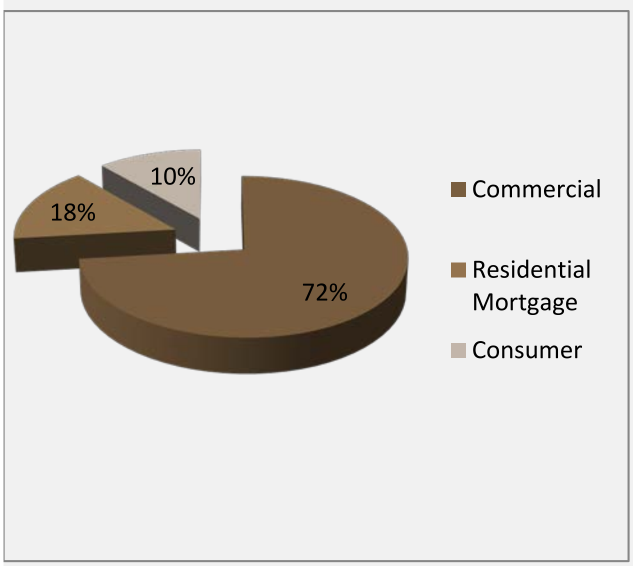
Outstanding Loans by Sector

Loan Type	2015 #	Amount	2014 #	Amount
Commercial Loans				
Agriculture	1	4,551	1	5,147
Fisheries	4	880,388	3	752,638
Tourism	7	897,492	6	1,214,786
Manufacturing	4	363,412	4	395,236
Services	57	4,107,470	54	2,818,343
Commercial	10	1,384,141	13	2,800,303
Sub Total	83	7,637,454	81	7,986,453
Residential Home Loans	26	1,868,348	22	1,684,655
Consumer Loans	156	1,070,125	157	1,244,282
Total	**265**	**10,575,927**	**260**	**$10,915,390**

Loan Distribution by Shareholder

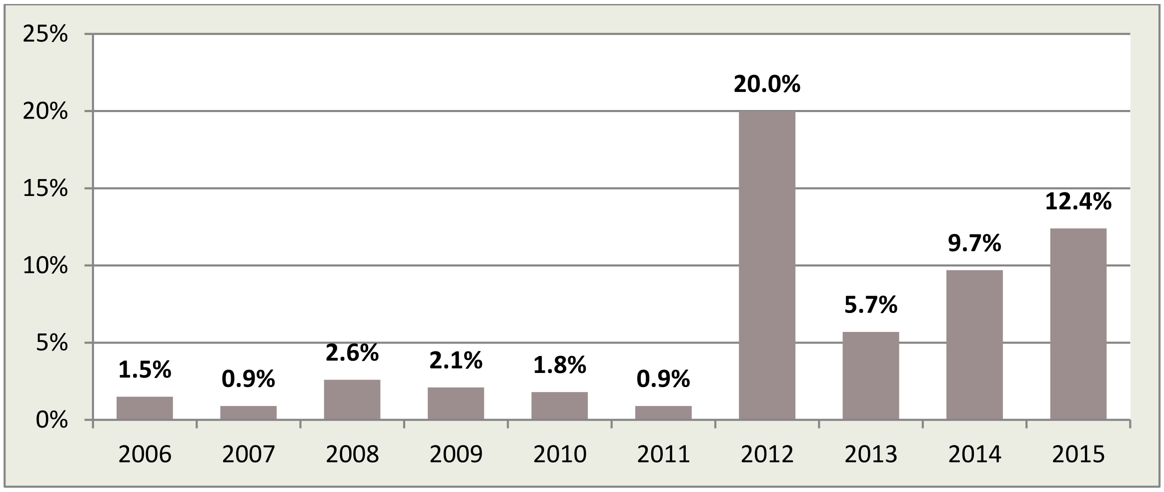
Shareholder	Commercial #	Commercial Value	Consumer #	Consumer Value	Housing #	Housing Value	Total #	Total Value
Guam	6	686,957	45	254,674	2	213,441	53	1,155,072
Palau	7	1,161,710	7	51,658	1	82,223	15	1,295,591
Pohnpei	7	843,840	4	22,892	2	51,312	13	918,044
Yap	14	1,562,822	54	305,164	4	303,015	72	2,171,001
Kosrae	27	697,912	31	262,415	10	281,081	68	1,241,408
CNMI	4	373,919	8	96,703	3	236,493	15	707,115
Chuuk	1	51,500	0	0	0	0	1	51,500
RMI	10	1,796,946	7	74,676	3	563,147	20	2,434,769
FSMDB/Export	7	464,026	0	0	1	137,401	8	601,427
Total	**83**	**$7,639,632**	**156**	**$1,068,182**	**26**	**$1,868,113**	**265**	**$10,575,927**

Loan Mix

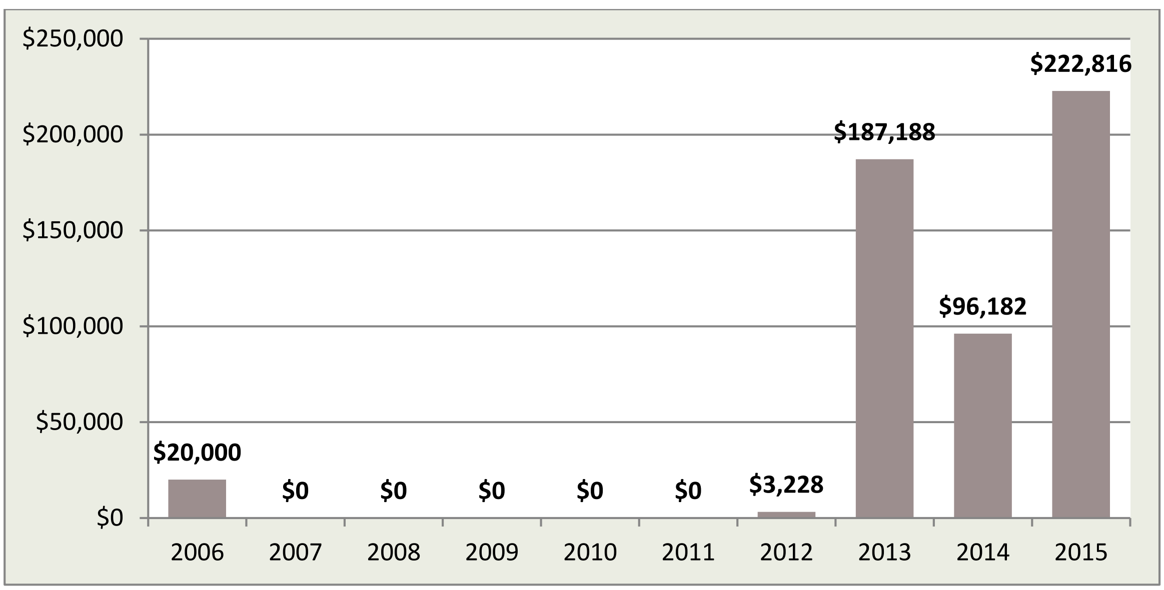


At 12/31/15, 72% or $7,639,632 of Total Loans was in Commercial Loans; 18% or $1,868,113 in Residential Home Loans; and 10% or $1,068,182 in Consumer Loans. The Bank's core lending is in Commercial loans, consistent with its core mission and purpose. For the period under review, average Consumer Loan amount is $6,860; average Residential Home Loans is $69,238; and average Commercial loan amount is $92,558.

Loan Delinquency



Loan Charge Offs



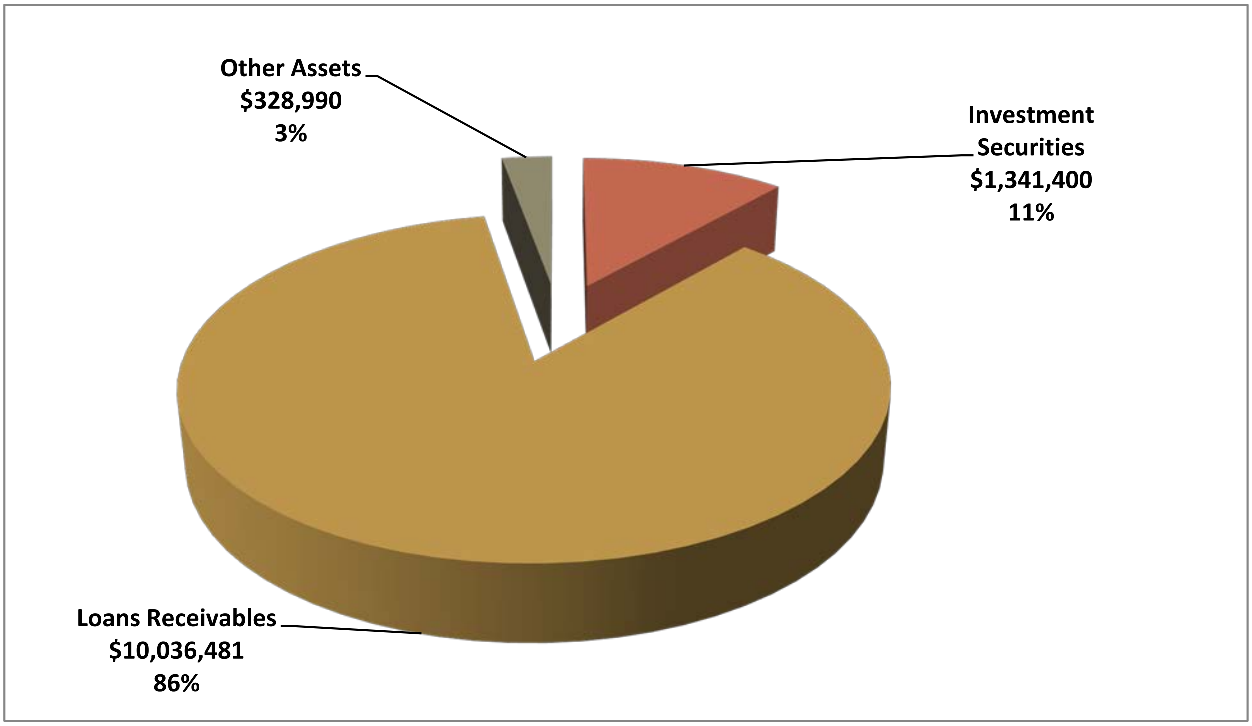
B. Financial Report

Performance Against Previous Year (2014)

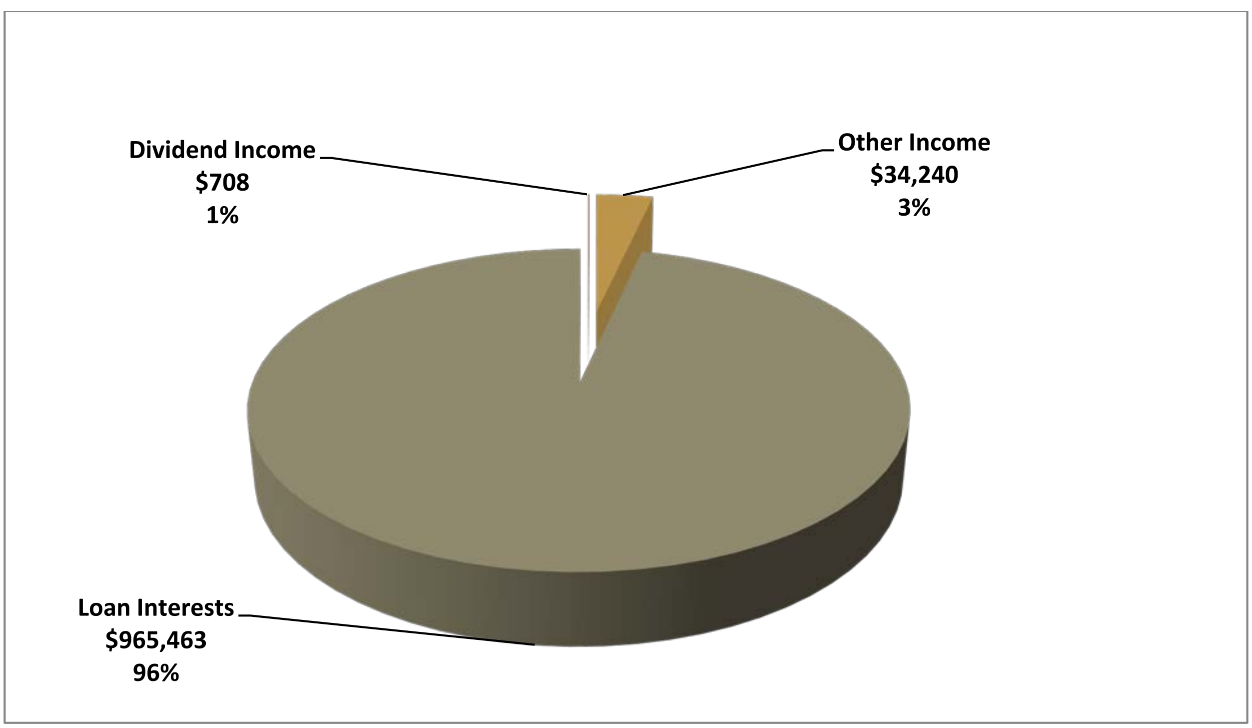
For the period under review, ***Loans Receivable*** declined by 3.1% or $339,340 to $10.5 million. The decline is attributed to lack of bankable and viable projects and limited capital and loanable funds. ***Stockholders' Equity*** grew by 3.6% or $316,165 to $9.1 million due primarily to improvement in the Bank's Retained Earnings and additional equity capital infusion. ***Total Assets*** increased by 4.2% or $471,953 to $11.7 million due mainly improved stock equity performance and the multiplier effect on the loan portfolio. ***Retained Earnings*** grew by $306,154 or 23% to $1.6 million attributed to the net income of $306,165 for the year. ***Gross Revenue*** was flat at 2014 level with Interest Income on loans accounting to over 96% of Total Revenue. ***Total Operating Expenses*** increased by 6.7% or $31,339 attributed increases in Travel, Office Supplies, Interest expense, and payroll expenses. The Bank realized a **Net Income** of $456,165, however, the Board of Directors decided to set aside or reserve $150,000 in ***Provision for Loan Losses*** as a result of review and classification of all loans. This results in an adjusted ***Net Income*** of $306,165 for the year, representing a 2.6% Return on Asset, 3.3% Return on Equity, and 32% Net Margin.

Selected Key Items	2015 Actual	2014 Actual	Variance ($)	Variance (%)
Loans Receivable	10,575,927	10,915,267	-339,340	-3.1%
Stockholders' Equity	9,148,362	8,832,197	316,165	3.6%
Total Assets	11,706,871	11,234,918	471,953	4.2%
Retained Earnings	1,637,713	1,331,548	306,165	23%
Gross Revenue	1,000,411	1,003,885	-3,474	-0.3%
Total Operating Expenses	492,745	461,406	31,339	6.8%
Provision for Loan Losses	150,000	177,000	-27,000	-15.2%
Net Income	306,165	323,439	-17,274	-5.3%

Asset Mix

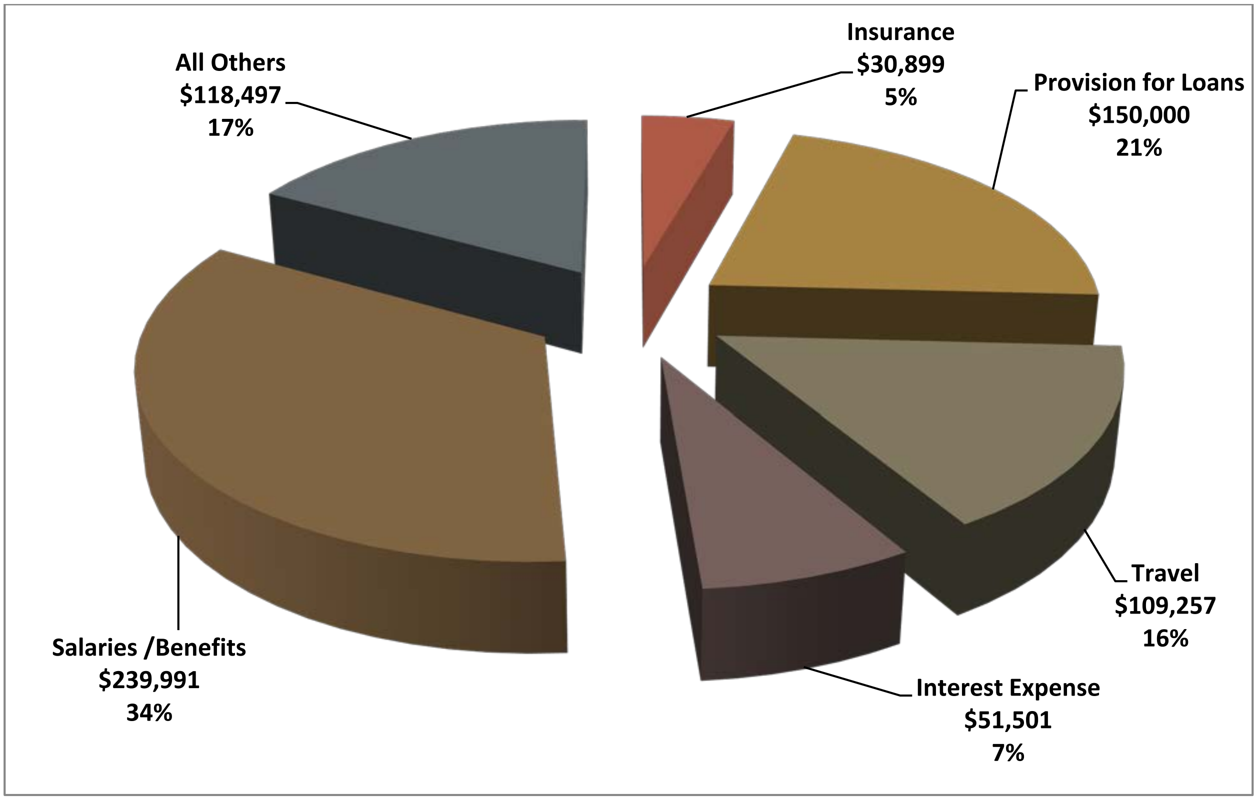


Revenue by Source

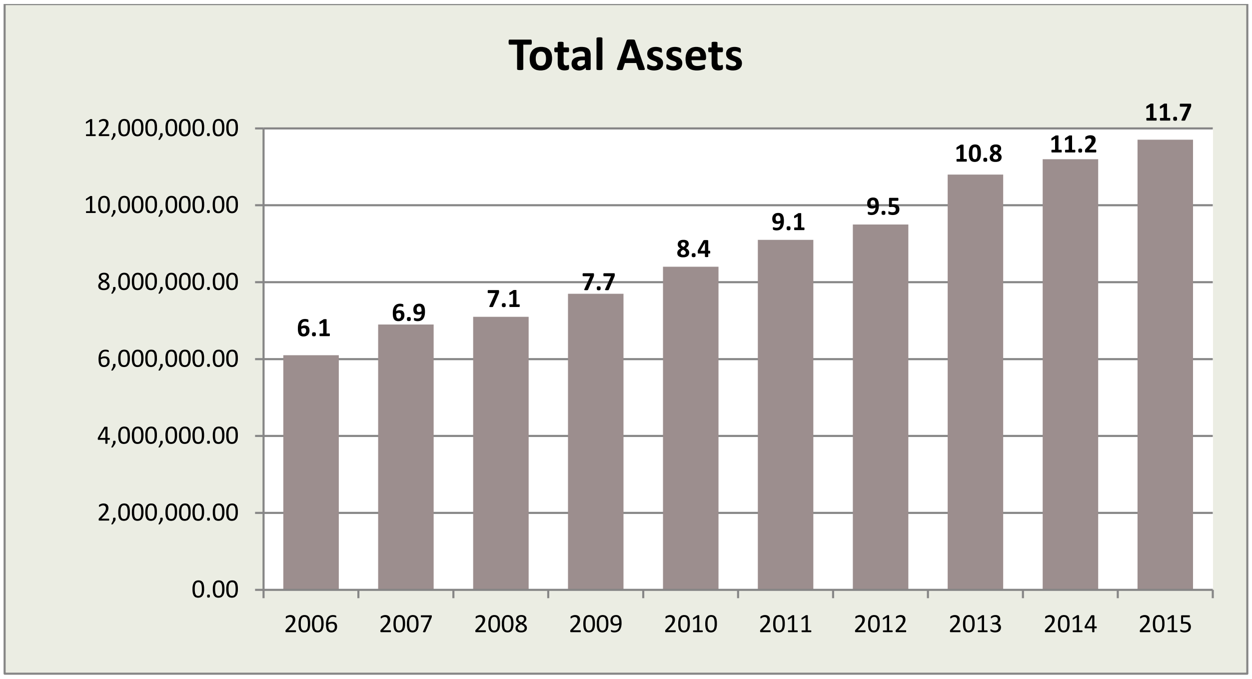


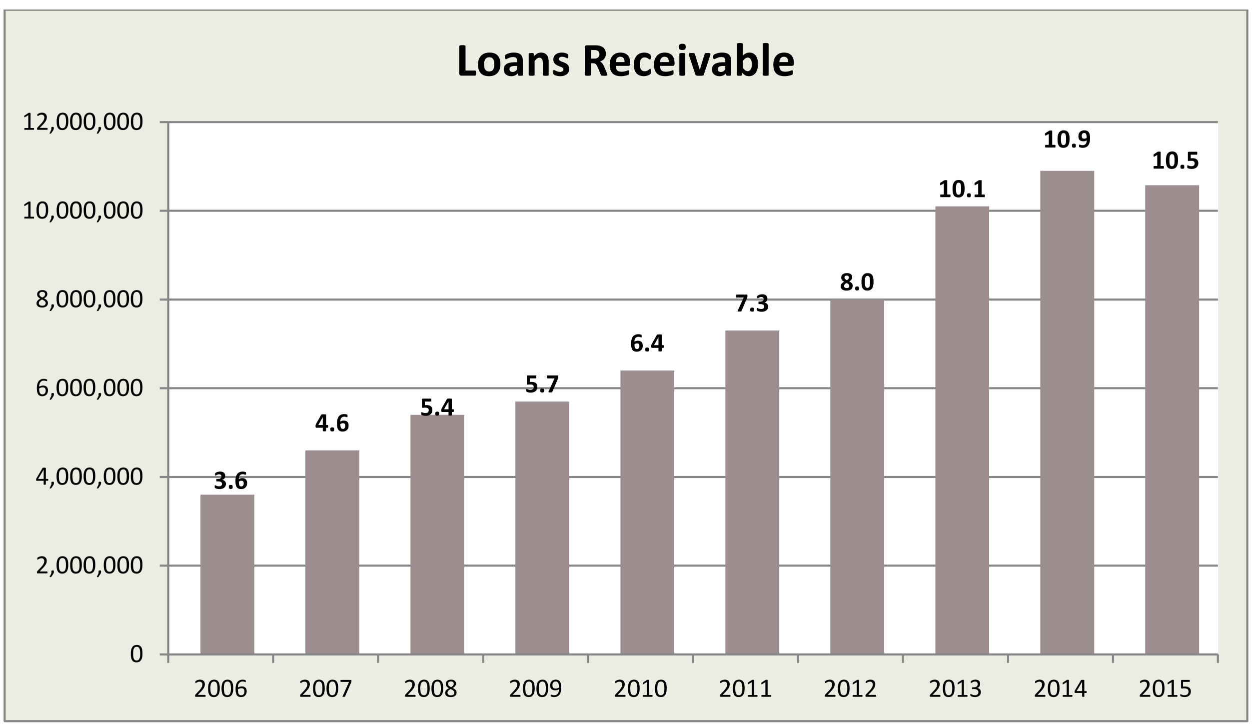
Major Expenses

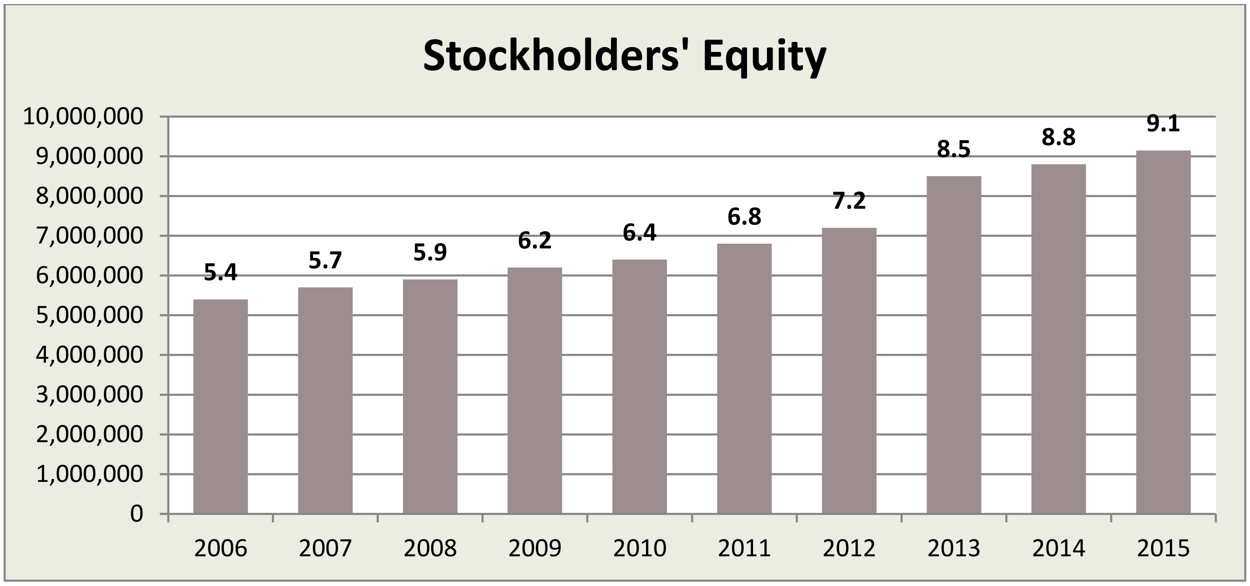
The major expenses of the Bank are highlighted in the Chart below. The Bank's operating expenses reflects its corporate and operational structure. With a 16-member Board of Governors and a 8-member Board of Directors, and given the Bank's operational scope and structure, Travel and Communication expenses, for example, are high. The Provision for Loans is discretionary, based on the Board of Directors' quarterly review and classification of the Bank's loan portfolio. In 2015, based on such review, the Board decided to set aside or provision $150,000. Interest Expense in the amount of $51,501 was for both the IRP loans and the FSM Development Bank export loan facility.

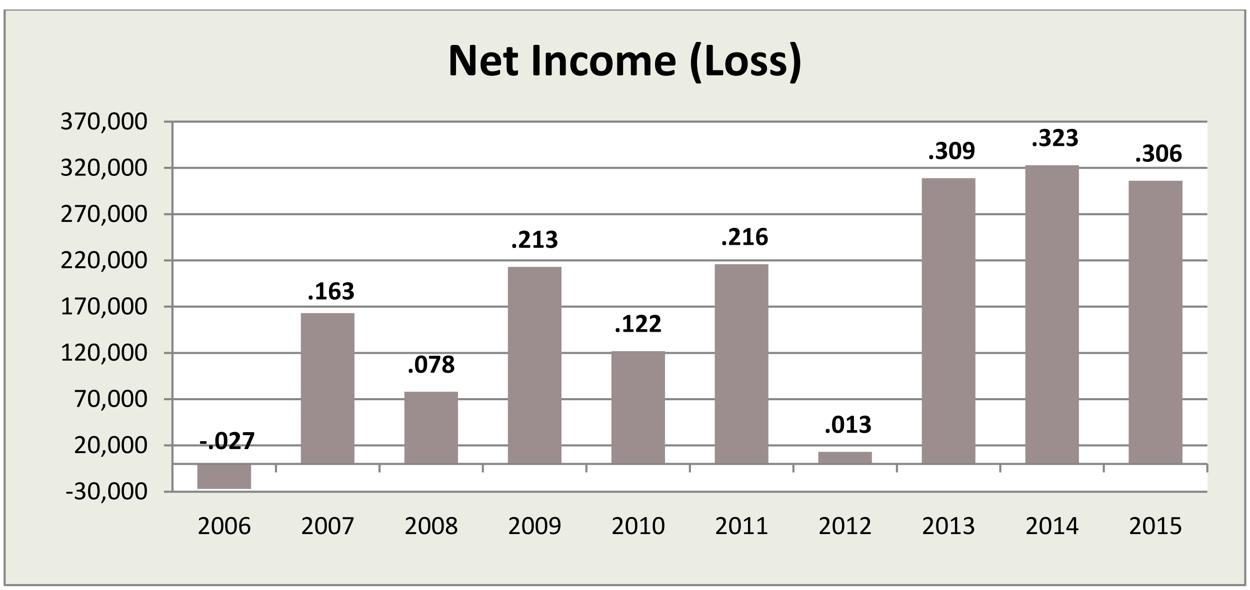


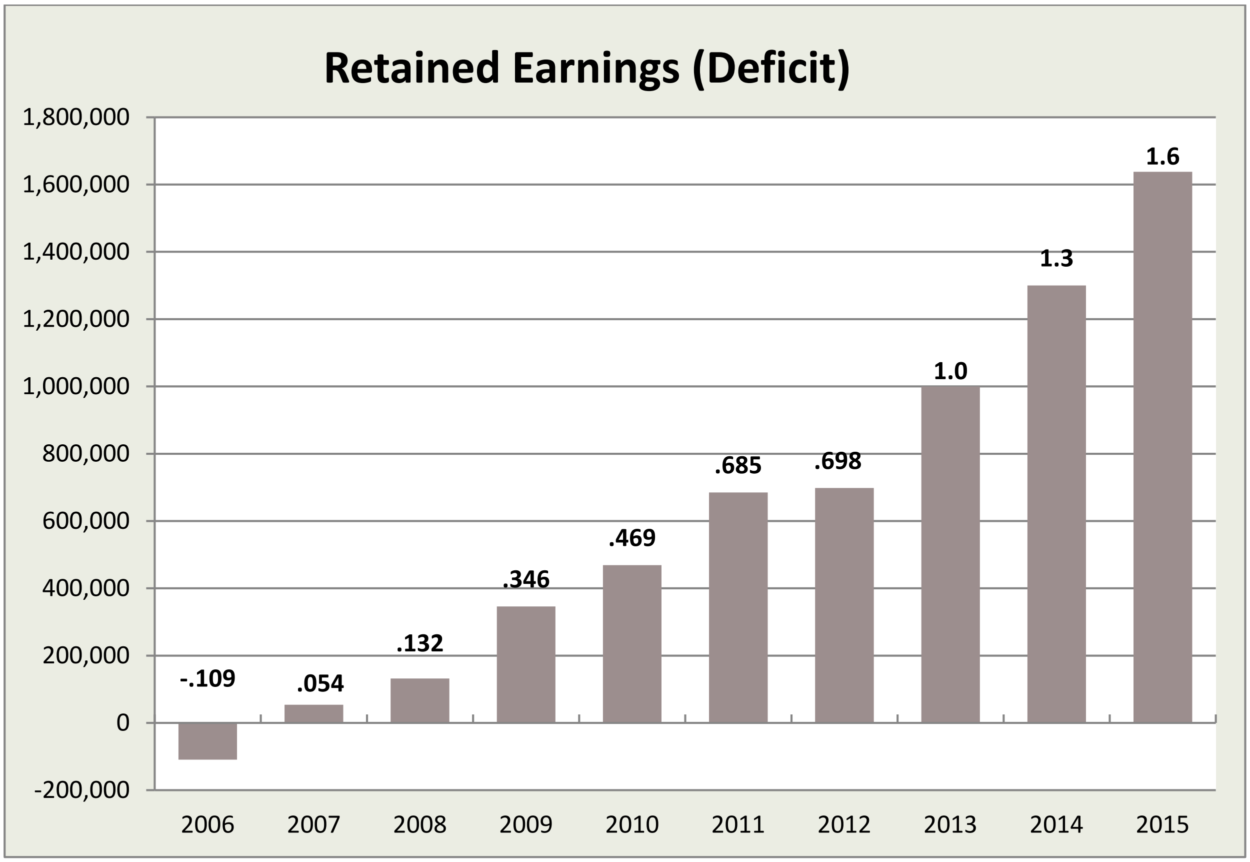
Financial Summary, 2006 – 2015






Stockholders' Equity
10,000,000
9,000,000
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
5.4
5.7
5.9
6.2
6.4
6.8
7.2
8.5
8.8
9.1
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015


Net Income (Loss)
370,000
320,000
270,000
220,000
170,000
120,000
70,000
20,000
-30,000
-.027
.163
.078
.213
.122
.216
.013
.309
.323
.306
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015


Retained Earnings (Deficit)
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
-200,000
-.109
.054
.132
.346
.469
.685
.698
1.0
1.3
1.6
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015

Selected Financial Ratios

Selected Ratios	2010	2011	2012	2013	2014	2015
GROWTH						
Total Asset Growth	9%	8%	5%	14%	4%	4.2%
Loan Growth	12%	15%	10%	25%	8%	-2.7%
Long Term Debt Growth	35%	14%	0.2%	3%	2%	5.7%
Net Worth Growtl	3%	6%	6%	18%	4%	3.6%
PROFITABILITY						
Return on Assets	1.5%	2.4%	0.13%	2.9%	2.9%	2.6%
Return on Equity	1.9%	3.1%	0.18%	3.6%	3.7%	3.3%
Net Margin	20%	30%	2%	30%	34%	32%
LEVERAGE						
Net Worth	$6.4M	$6.8M	$7.2M	$8.5M	$8.9M	$9.1M
Debt to Worth	31%	33%	32%	28%	27%	28%
Total Liabilities/Total Assets	24%	25%	25%	22%	21%	22%
LIQUIDITY						
Working Capital	$2.3M	$2.0M	$1.9M	$1.3M	$.9M	$1.3M
Current Ratio	3,444	2,660	425	279	127	186

Pacific Islands Development Bank

Financial Statements and Independent Auditors' Report

Year Ended December 31, 2015 and 2014

PACIFIC ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2015 AND 2014

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

Independent Auditors' Report

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

We have audited the accompanying financial statements of Pacific Islands Development Bank (the Bank), which comprise the statements of condition as of December 31, 2015 and 2014, and the related statements of income, of changes in stockholders' equity and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Islands Development Bank as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

April 6, 2016

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Condition
December 31, 2015 and 2014

ASSETS	2015	2014
Cash and cash equivalents	$ 1,341,400	$ 653,501
Loans receivable, net	10,036,481	10,311,728
Interest receivable	255,618	232,687
Property and equipment, net	73,372	37,002
	$ 11,706,871	$ 11,234,918
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Other liabilities	$ 25,896	$ 7,276
Long-term debt	2,532,613	2,395,445
Total liabilities	2,558,509	2,402,721
Commitments		
Stockholders' equity:		
Capital stock	7,510,649	7,500,649
Retained earnings	1,637,713	1,331,548
Total stockholders' equity	9,148,362	8,832,197
	$ 11,706,871	$ 11,234,918

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Income
Years Ended December 31, 2015 and 2014

	2015	2014
Loan interest income	$ 965,463	$ 938,291
Other interest and dividend income	708	6,730
	966,171	945,021
Provision for loan losses	150,000	177,000
	816,171	768,021
Operating expenses:		
Salaries and related expenses	239,991	225,908
Conference and travel	109,257	101,674
Insurance	30,899	32,695
Office rental	22,393	23,007
Professional fees	19,594	15,967
Depreciation	13,279	6,659
Office supplies	8,725	4,458
Board meetings	8,316	9,355
Communications	8,163	8,220
Business development and marketing	7,355	5,138
Automobile	4,154	7,126
Education and training	2,023	6,926
Miscellaneous	18,596	14,273
Total operating expenses	492,745	461,406
Operating income	323,426	306,615
Other income (expense):		
Other income	34,240	58,864
Interest expense	(51,501)	(42,040)
Total other (expense) income, net	(17,261)	16,824
Net income	$ 306,165	$ 323,439

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Shares of Common Stock	Common Stock	Retained Earnings	Total
Balance at December 31, 2013	7,500	$ 7,500,649	$ 1,008,109	$ 8,508,758
Net income	-	-	323,439	323,439
Balance at December 31, 2014	7,500	7,500,649	1,331,548	8,832,197
Issuance of common stock	10	10,000	-	10,000
Net income	-	-	306,165	306,165
Balance at December 31, 2015	7,510	$ 7,510,649	$ 1,637,713	$ 9,148,362

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net earnings	$ 306,165	$ 323,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,279	6,659
Provision for loan loss	150,000	177,000
Increase in interest receivable	(22,931)	(52,417)
Increase in other liabilities	18,620	2,694
Net cash provided by operating activities	465,133	457,375
Cash flows from investing activities:		
Loan originations and repayments, net	125,247	(945,317)
Additions to property and equipment	(49,649)	(4,897)
Net cash provided by (used in) investing activities	75,598	(950,214)
Cash flows from financing activities:		
Proceeds from long-term debt	238,000	150,500
Repayment on long-term debt	(100,832)	(104,323)
Proceeds from issuance of capital stock	10,000	-
Net cash provided by financing activities	147,168	46,177
Net change in cash and cash equivalents	687,899	(446,662)
Cash and cash equivalents at beginning of year	653,501	1,100,163
Cash and cash equivalents at end of year	$ 1,341,400	$ 653,501
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 34,322	$ 42,040

See accompanying notes to financial statements.

(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.

Cash and Cash Equivalents

For the purposes of the statements of condition and cash flows, cash and cash equivalents are 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.

Loans

Loans are stated at unpaid principal balance less the allowance for loan losses (the "Allowance"). Interest income is recognized on an accrual basis. Other credit-related fees are recognized as fee income, a component of noninterest income, when earned.

Non-Performing Loans

Generally, loans are placed on non-accrual status upon becoming contractually past due 90 days as to principal or interest (unless loans and leases are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), when terms are renegotiated below market levels, or where substantial doubt about full repayment of principal or interest is evident.

When a loan is placed on non-accrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or cost recovery method until qualifying for return to accrual status. All payments received on non-accrual loans are applied against the principal balance of the loan. A loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan or lease agreement and when doubt about repayment is resolved. At December 31, 2015 and 2014, the Bank has placed one loan in the amount of $289,091 on non-accrual status.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments. Impaired loans include all non-accruing loans, all loans modified in a troubled debt restructuring and loans classified as doubtful (see note 3).

(1) Organization and Summary of Significant Accounting Policies, Continued

Impaired Loans, Continued

When a loan has been identified as being impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral-dependent. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest), an impairment is recognized by establishing or adjusting an existing allocation of the Allowance.

Loans Modified in a Troubled Debt Restructuring (TDRs)

Loans are considered to have been modified in a troubled debt restructuring when, due to a borrower's financial difficulties, the Bank makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. A modification that results in an insignificant delay in contractual cash flows is not considered to be a concession. During the years ended December 31, 2015 and 2014, the Bank granted loan modifications and temporary payment deferments.

Allowance for Loan Losses

The Bank maintains an Allowance adequate to cover management's estimate of probable credit losses as of the balance sheet date. Changes to the level of the Allowance are recognized through charges or credits to provisions for loan losses. Loans that are charged-off reduce the Allowance while recoveries of loans previously charged-off increase the Allowance.

The Bank does not disaggregate its loan portfolio by segments for the purposes of determination of the Allowance. The level of Allowance is generally based on analyses of individual borrowers and historical loss experience supplemented as necessary by credit judgment to address observed changes in trends and conditions, and other relevant environmental and economic factors that may affect the collectability of loans. On a quarterly basis, the Bank performs an analysis of individual loans based on its internal risk rating methodology.

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. Leasehold improvements are depreciated over the term of lease.

Taxation

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

Significant Group Concentration of Credit Risk

All of the Bank's lending activities are with individuals and businesses located within Guam, the Commonwealth of the Northern Mariana Islands, the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. The Bank does not have any significant concentrations in any one industry or customer.

(1) Organization and Summary of Significant Accounting Policies, Continued

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 loan 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.

Subsequent Events

Management has evaluated subsequent events through April 6, 2016, which is the date that the financial statements are available to be issued. There were no material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2015.

(2) Loans Receivable

The loan portfolio consists of direct loans. The interest rates on commercial loans, consumer loans and residential loans are predominately at a fixed rate of 10%, 13% and 7%, respectively. Most commercial and residential loans have been collateralized by various forms of collateral wherein consumer loans are mostly unsecured.

A summary of the balances of loans at December 31, 2015 and 2014 follows:

	2015	2014
Commercial – PIDB direct loan program	$ 5,575,723	$ 5,548,434
Residential loans	1,730,947	1,685,030
Commercial – USDA Intermediary Relending Program (IRP)	1,597,706	2,032,897
Consumer	1,070,125	1,244,950
Commercial – FSMDB import/export	601,426	403,956
Gross loans	10,575,927	10,915,267
Less: allowance for loan losses	(539,446)	(603,539)
Net loans	$ 10,036,481	$ 10,311,728

(2) Loans Receivable, Continued

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, 2015 and 2014 was $396,000 and $222,000, respectively.

(3) Allowance for Loan Losses

A summary of the changes in the allowance for loan losses for the years ended December 31, 2015 and 2014, follows

	2015	2014
Balance at beginning of year	$ 603,539	$ 522,634
Loans charged off	(222,816)	(96,182)
Recoveries of loans previously charged off	8,723	87
Provision for loan losses	150,000	177,000
Balance at end of year	$ 539,446	$ 603,539

Credit Quality Indicators

The Bank uses an internal credit risk rating system that categorizes loans into pass, special mention, substandard or doubtful categories. Credit risk ratings are applied individually to each loan on a quarterly basis.

The following are the definitions of the Bank's credit quality indicators:

Pass: Loans in this category have a high probability of being paid as agreed. The credit carries a level of risk commensurate with the returns provided without placing the Bank in any exposure.

Special Mention: Loans in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for default of loan. Special mention loans are not adversely classified and do not expose the Bank to significant risk to warrant such adverse classification.

Substandard: Loans in this category are inadequately protected by the current worth and paying capacity of the obligors or of the collateral pledged. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank may sustain some losses if the deficiencies are not corrected.

Doubtful: Loans classified in this category have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. Loans classified as Doubtful are considered to be impaired.

(3) Allowance for Loan Losses, Continued

Credit Quality Indicators, Continued

The Bank's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Bank's loans as of December 31, 2015 and 2014:

	Pass	Special mention	Sub-standard	Doubtful	Total
2015					
PIDB direct	$ 4,545,776	$ 526,530	$ 52,182	$ 451,235	$ 5,575,723
Residential	1,519,599	211,348	-	-	1,730,947
IRP	1,169,153	106,886	32,576	289,091	1,597,706
Consumer	897,910	112,120	49,353	10,742	1,070,125
Import/export	467,940	25,677	32,902	74,907	601,426
Total	$ 8,600,378	$ 982,561	$ 167,013	$ 825,975	$ 10,575,927
2014					
PIDB direct	$ 4,131,520	$ 775,054	$ 177,236	$ 464,624	$ 5,548,434
Residential	1,658,910	26,120	-	-	1,685,030
IRP	1,404,770	129,042	138,850	360,235	2,032,897
Consumer	1,073,346	157,796	13,808	-	1,244,950
Import/export	269,500	-	134,456	-	403,956
Total	$ 8,538,046	$ 1,088,012	$ 464,350	$ 824,859	$ 10,915,267

The following presents by class, an aging analysis of the Bank's loan portfolio as of December 31, 2015 and 2014:

	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	Past Due 90 Days or More	Total
2015					
PIDB direct	$ 5,044,746	$ 6,551	$ 63,915	$ 460,511	$ 5,575,723
Residential	1,711,434	19,513	-	-	1,730,947
IRP	1,191,963	60,469	-	345,274	1,597,706
Consumer	957,633	76,322	8,835	27,335	1,070,125
Import/export	355,216	138,402	-	107,808	601,426
Total	$ 9,260,992	$ 301,257	$ 72,750	$ 940,928	$ 10,575,927
2014					
PIDB direct	$ 4,706,828	$ 269,346	$ 67,239	$ 505,021	$ 5,548,434
Residential	1,685,030	-	-	-	1,685,030
IRP	1,592,994	-	-	439,903	2,032,897
Consumer	1,175,791	22,493	28,801	17,865	1,244,950
Import/export	403,956	-	-	-	403,956
Total	$ 9,564,599	$ 291,839	$ 96,040	$ 962,789	$ 10,915,267

(3) Allowance for Loan Losses, Continued

At December 31, 2015 and 2014, impaired loans of $825,975 and $824,859, respectively, represent loans classified as doubtful, with total recorded allowances of $412,988 and $414,430, respectively.

(4) Long-Term Debt

Long-term debt as of December 31, 2015 and 2014, consists of the following:

	2015	2014
A $500,000 Intermediary Relending Program (IRP) loan by the U.S. Department of Agriculture (USDA) on October 7, 2003. Interest fixed at 1% per annum. Interest-only payment for the first three years with twenty-seven equal principal and interest annual installments beginning on October 7, 2007.	$ 347,093	$ 364,671
A $750,000 IRP loan by the USDA on June 27, 2006. Interest fixed at 1% per annum. Interest-only payment for the first three years with twenty-seven equal principal and interest annual installments beginning on June 27, 2010.	598,956	624,547
A $750,000 IRP loan by the USDA on September 8, 2008. Interest fixed at 1% per annum. Interest-only payment for the first three years with twenty-seven equal principal and interest annual installments beginning on September 8, 2012.	649,991	674,989
A $350,000 IRP loan by the USDA on March 7, 2013. Interest fixed at 1% per annum. Interest-only payment for the first three years with twenty-seven equal principal and interest annual installments beginning on March 7, 2017.	271,386	271,386
A $500,000 loan with the FSM Development Bank (FSMDB) on September 16, 2010. Interest fixed at 4% per annum. Interest only payments for first three years, thereafter 40 equal quarterly installments of $15,228.	427,758	459,852
A $1,000,000 loan with FSMDB on March 17, 2015. Interest fixed at 4% per annum. Interest only payments for the first three years, thereafter 40 equal quarterly installments of $30,456. $762,000 available for future drawdowns as of December 31, 2015.	237,429	-
Total	$ 2,532,613	$ 2,395,445

The IRP loans are collateralized by all repayments, interest, fees, investments and other revenues collected or generated from the IRP loans. The FSMDB loan is collateralized by the Bank's general assets under a security agreement.

(4) Long-Term Debt, Continued

At December 31, 2015, future maturities of long-term debt are as follows:

Year ending December 31,	
2016	$ 110,580
2017	124,435
2018	195,809
2019	215,785
2020	215,590
Thereafter	1,670,414
	$ 2,532,613

(5) Property and Equipment

A summary of property and equipment as of December 31, 2015 and 2014, is as follows:

Description	Estimated Useful Lives	2015	2014
Computer and software	5 years	$ 58,462	$ 52,399
Vehicles	5 years	73,229	32,150
Leasehold improvements	3 years	31,041	29,826
Office furniture and equipment	10 years	23,825	21,201
		186,557	135,576
Less accumulated depreciation		(113,185)	(98,574)
		$ 73,372	$ 37,002

(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, 2015 and 2014, the Bank has received $7,510,649 and $7,500,649, respectively, of equity contributions. Authorized capital stock is 18,000 shares of $1,000 par value. As of December 31, 2015 and 2014, 7510 and 7,500 shares, respectively, 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) Leases

The Bank operates from a leased office space with monthly lease payments of $1,682, increased to $1,732 effective July 1, 2015, plus allocation of utility charges, expiring on June 30, 2018. Future commitments under the lease as of December 31, 2015 are $20,784, $20,784 and $10,392 for the years ending December 31, 2016, 2017, and 2018, respectively.

Additionally, the Bank entered into a five-year equipment lease in October 2014. The lease calls for monthly fixed payments of $210 with additional excess-usage charges.

(8) 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, 2015 and 2014, the Bank contributed $16,449 and $12,935, respectively, to the Plan.