(1) Summary of Significant Accounting Policies, Continued

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.

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 loan losses.

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.

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.

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

Management has evaluated subsequent events through March 25, 2014, 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, 2013.

(2) Investment Securities

At December 31, 2012, all of the Bank's investment securities are maintained by fund managers. The Bank closed its investment accounts during the year ended December 31, 2013. During the years ended December 31, 2013 and 2012, the Bank incurred net realized gains (losses) of $93,841 and ($63,838), respectively, from the sale of securities by the fund managers. Net cumulative unrealized gains at December 31, 2012 amounted to $33,021.

The amortized cost and fair value of investment securities, with gross unrealized gains and losses at December 31, 2012, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. treasury notes	$ 144,537	$ 1,182	$ 616	$ 145,103
U.S. government debt securities	120,214	1,169	-	121,383
Domestic bonds	79,805	2,013	21	81,797
	344,556	4,364	637	348,283
Other marketable equity securities	893,120	78,916	49,622	922,414
	$ 1,237,676	$ 83,280	$ 50,259	$ 1,270,697

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2012, follows:

	Amortized Cost	Fair Value
Due within one year	$ 143,304	$ 144,767
Due after one but within five years	166,619	168,094
Due after five but within ten years	34,633	35,422
	344,556	348,283
Other marketable equity securities	893,120	922,414
	$ 1,237,676	$ 1,270,697

(3) 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%, 12%-13% and 7%, respectively. Loans have been collateralized by various forms of collateral.

A summary of the balances of loans at December 31, 2013 and 2012 follows:

	2013	2012
Commercial a PIDB direct	$ 5,115,140	$ 4,326,829
Commercial a USDA Intermediary Relending Program (IRP)	1,853,851	1,822,056
Consumer	1,413,845	1,009,114
Residential mortgages	1,240,210	612,213
Commercial a FSMDB import/export	442,999	276,948
Gross loans	10,066,045	8,047,160
Less: allowance for loan losses	(522,634)	(524,772)
Net loans	$ 9,543,411	$ 7,522,388

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, 2013 and 2012 was $159,000 and $213,000, respectively.

(4) Allowance for Loan Losses

A summary of the changes in the allowance for loan losses for the years ended December 31, 2013 and 2012, follows

	2013	2012
Balance at beginning of year	$ 524,772	$ 340,000
Loans charged-off	(187,188)	(3,228)
Recoveries of loans previously charged off	50	-
Provision for loan losses	185,000	188,000
Balance at end of year	$ 522,634	$ 524,772

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.

7DABMIMUiLC 8PARDAdAB LRMs MBRDA/ 8LGds : PAd Rq S8Ii yRi Id : 8RMRs-

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.

(4) Allowance for Loan Losses, Continued

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.

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, 2013 and 2012:

	Pass	Special mention	Sub-standard	Doubtful	Total
2013					
PIDB direct	$ 4,279,174	$ 295,590	$ 458,177	$ 82,199	$ 5,115,140
IRP	1,245,296	142,276	177,188	289,091	1,853,851
Consumer	1,309,139	104,706	-	-	1,413,845
Residential	1,209,194	31,016	-	-	1,240,210
Import/export	409,539	-	33,460	-	442,999
Total	$ 8,452,342	$ 573,588	$ 668,825	$ 371,290	$ 10,066,045
2012					
PIDB direct	$ 3,747,347	$ 91,894	$ 401,069	$ 86,519	$ 4,326,829
IRP	1,130,694	178,410	105,329	407,623	1,822,056
Consumer	973,446	15,837	13,603	6,228	1,009,114
Residential	612,213	-	-	-	612,213
Import/export	209,872	32,500	-	34,576	276,948
Total	$ 6,673,572	$ 318,641	$ 520,001	$ 534,946	$ 8,047,160

(4) Allowance for Loan Losses, Continued

The following presents by class, an aging analysis of the Bank's loan portfolio as of December 31, 2013 and 2012:

	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	Past Due 90 Days or More	Total
2013					
PIDB direct	$ 5,097,561	$ 17,579	$ -	$ -	$ 5,115,140
IRP	1,461,628	64,823	-	327,400	1,853,851
Consumer	1,277,708	117,615	8,948	9,574	1,413,845
Residential	1,240,210	-	-	-	1,240,210
Import/export	411,948	31,051	-	-	442,999
Total	$ 9,489,055	$ 231,068	$ 8,948	$ 336,974	$ 10,066,045
2012					
PIDB direct	$ 3,455,053	$ 234,149	$ -	$ 637,627	$ 4,326,829
IRP	1,165,821	95,762	61,728	498,745	1,822,056
Consumer	923,299	22,083	43,900	19,832	1,009,114
Residential	612,213	-	-	-	612,213
Import/export	209,872	-	32,500	34,576	276,948
Total	$ 6,366,258	$ 351,994	$ 138,128	$ 1,190,780	$ 8,047,160

At December 31, 2013 and 2012, impaired loans of $371,290 and $534,946, respectively, represent loans classified as doubtful, with total recorded allowances of $185,645 and $347,715, respectively.

(5) Long-Term Debt

Long-term debt as of December 31, 2013 and 2012, consists of the following:

	2013	2012
A $500,000 Intermediary Relending Program (IRP) loan by the U.S. Department of Agriculture (USDA), 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.	$ 382,075	$ 398,485
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.	649,887	675,659

(5) Long-Term Debt, Continued

	2013	2012
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.	699,861	702,238
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. $229,114 available for future drawdowns.	120,886	-
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 equal quarterly installments, through September 15, 2023.	496,559	496,559
Total	$ 2,349,268	$ 2,272,941

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.

At December 31, 2013, future maturities of long-term debt are as follows:

Year ending December 31,	
2014	$ 105,801
2015	109,933
2016	112,434
2017	126,365
2018	129,146
Thereafter	1,765,589
	$ 2,349,268

(6) Property and Equipment

A summary of property and equipment as of December 31, 2013 and 2012, is as follows:

Description	Estimated Useful Lives	2013	2012
Computer equipment	5 years	$ 49,482	$ 46,231
Vehicles	5 years	32,150	32,089
Leasehold improvements	3 years	30,889	30,889
Office furniture and equipment	10 years	19,339	16,560
		131,860	125,769
Less accumulated depreciation		(93,096)	(86,695)
		$ 38,764	$ 39,074

(7) 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, 2013 and 2012, the Bank has received $7,500,649 and $6,481,783 of equity contributions, respectively. Authorized capital stock is 18,000 shares of $1,000 par value. As of December 31, 2013 and 2012, respectively, 7,500 and 6,481 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.

(8) Commitments

At December 31, 2013, undisbursed loan commitments amounted to $35,000.

(9) Leases

The Bank relocated its office and entered into a new lease agreement during 2012. The lease agreement provides the premises rent-free from February 1, 2012 to July 15, 2012 and thereafter monthly leases are $1,682 plus allocation of utility charges. The agreement expires June 30, 2015. Future commitments under the lease as of December 31, 2013 are $20,194 and $10,092 for the years ending December 31, 2014 and 2015, respectively.

(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, 2013 and 2012, the Bank contributed $11,257 and $13,334, respectively, to the Plan.

(11) Fair Value Measurements

The Bank uses fair value measurements to record fair value adjustments to investments and to determine fair value disclosures. In accordance with FASB Accounting Standards Codification (ASC) Topic 820 "*Fair Value Measurements and Disclosures,*" the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. FASB ASC 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment and estimation.

The Bank's investments in available-for-sale securities are stated at fair value. Quoted market prices are used to value investments. The Bank has determined that all of its investments are Level 1 assets. Additionally, the Bank does not have other financial or nonfinancial assets and liabilities that are measured at fair value on a recurring or nonrecurring basis and therefore do not have disclosure requirements under FASB ASC 820.

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