PACIFIC ISLANDS DEVELOPMENT BANK

2012

ANNUAL REPORT

PALAU

CHUUK

YAP

MARSHALL IS.

POHNPEI

KOSRAE

CNMI

GUAM

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:

1. Promote the investment of public and private capital for development purposes.
2. Mobilize within and outside the Micronesian region additional financial resources to support and facilitate its programs.
3. Finance projects and programs contributing to the development of the Bank's members.
4. 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.
5. 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.
6. Where appropriate, cooperate with national, regional and international organizations or other entities concerned with the development of member countries and States.
7. Undertake such other activities and provide such other services that will advance its purpose.

Transmittal Letter

25 March 2013

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, I hereby transmit to the Board of Governors, on behalf of the Board of Directors, the Pacific Islands Development Bank's 2012 Annual Report for the period ended December 31, 2012.

Respectfully,

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

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

Nanbo Guahan Building • 250 Route 4, Suite 205 • Hagatna, Guam 96910
Tel. (671) 477-0047 • Fax (671) 477-0067 • www.pacificidb.com

MESSAGE from the
President & Chairman of the Board of Directors

As a financing institution, Pacific Islands Development Bank (PIDB) is charged with the mandate of contributing to sustainable growth and development leading to improved standard of living in the region. In 2012, PIDB sustained viable performance and resilience amidst limited resources, weak economic growth and continuing financial challenges faced by member governments, challenging and unpredictable operating environment, and a bleak global economy with potential implications to small and underdeveloped countries like ours. The Bank remained a key development partner of member governments, consistently implementing programs and initiatives that help channel growth in three key areas: financing of small and medium size enterprises, financing of housing loans designed to improve standards of living, and financing of consumer loans and scholarships to promote social and personal development.

Given the significantly increased role of PIDB in the region, it is imperative for the Shareholders to do everything in their power to increase the Bank's resources so vitally needed to foster sustainable and inclusive growth. To do this, PIDB members must rebalance their development strategy and growth paradigm toward more reliance on domestic and regional demand. Doing this, our region can also build its own markets and increasingly contribute to global growth, especially on certain viable sectors such as fisheries and tourism.

The demand for PIDB's products and services has continued to grow over the years. It is therefore critical to ensure that we mobilize the resources needed to respond. This is unquestionably the greatest challenge the Bank is facing. In 2012, PIDB was awarded another soft loan of $400,000 from the US Department of Agriculture's Intermediary Relending Program at an interest rate of 1% for a 30-year term; the Republic of the Marshall Islands infused another $250,000 in equity capital; Kosrae State has committed another $55,000 in membership capital; and the Yap State Legislature introduced legislation to appropriate additional funding to PIDB, responding to increased demand and loan activities in Yap. The Bank's Capitalization/Funding Task Force continued to pursue a number of both internal and external funding sources and facilities. PIDB, unlike many development banks in the Pacific, is not engaged in commercial banking and does not take deposits. This effectively limits its ability to leverage on traditional fund sources such as customer deposits and service fees to fund its loan demand and operation. As we seek ways to boosting our resources, we must continue to improve our institutional effectiveness, development results, and operational efficiency. And given our extremely challenging mandate and the limits on our resources, it is essential that we continue to reform ourselves to better respond to the needs and voices of all the stakeholders.

Operationally, 2012 was a very challenging year with limited capital and loanable funds to respond to a growing loan demand. Nevertheless, the Bank once again recorded strong balance sheet growth with a 10% Loan growth, 6.0% increase in Stockholders' Equity, and a 5% growth in Total Assets. On earnings, the Bank realized a net income of $13,063 after provisioning $188,000 for loan loss reserve. With an unrealized gain on investment of $147,694, the comprehensive income for the year was $160,757. In June 2012, the Bank's corporate office was relocated to the new Nanbo Guahan Building in Hagatna, responding to a growing operation and the need for a more secure and professional office with adequate parking for clients and staff.

2012 marked the 4th year of operation under the Bank's Five Year Strategic Plan covering the period 2009 to 2013. The Plan has guided us in the past four years and we have accomplished most of the strategic initiatives and targets set forth in the Plan. It has been proven that strategic planning is vital to any organization's long-term success. A popular cliché goes, "Failure to plan is planning to fail". With that in mind, in 2013, we will be revising/updating our Strategic Plan covering the planned period of 2014 to 2018. The overarching goals and objectives will remain as follows: (1) increase the bank's financial, human, and technical resources, (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) secure new members/shareholders. Our strategies and specific programs and activities, however, will be reassessed and revised to reflect the current operating environment and the future economic, political, and social outlook.

In closing, there was a time when the stability, viability, and survivability of PIDB was questioned after years of poor operational performance, undercapitalization, and lack of commitment and support from some of the original Shareholders. Today, PIDB has not only survived but it has also effectively restructured its balance sheet and strengthened its operation, ensuring the Bank's continued journey. In order for PIDB to respond and deliver on its mission and to play a greater role in the development of the region, proper capitalization and resources must be mobilized. PIDB will continue to be driven by an inspiration and dedication to improving the economic and social conditions of our member islands and the lives of our people.

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

REPORT contents

PART I
General Information

A. 2012 Highlights of Events & Accomplishments

Following are some of key accomplishments and highlight of events during the period under review:

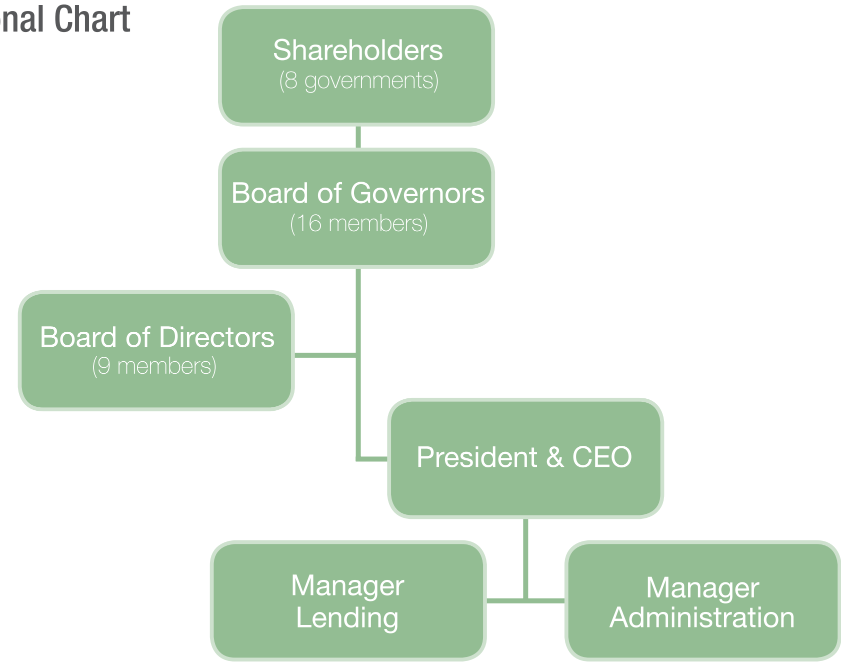
- Republic of the Marshall Islands (RMI) infused $250,000 additional equity capital
- FSM Congress appropriated $25,000 to help Kosrae's membership capital
- Awarded a 4th USDA/IRP loan of $400,000 (total IRP loan now at $2.4M)
- Yap State Legislature introduced a bill to increase its equity capital in PIDB
- Received "unqualified" audit opinion
- Relocated the Bank's corporate office to new Nanbo Guahan Building in Hagatna
- Total Loans grew by 10%
- Stockholders' Equity grew by 6%
- Total Assets grew by 5%
- Reduce operating expenses by 2%
- Increased Loan Loss Reserves by 54% to $524,772 (7%% of outstanding loans)
- Awarded 3 scholarships totaling $3,000

B. PIDB Members & Capitalization

The Shareholders of the Bank with number of shares owned and their corresponding values in 2012 compared to 2011 are as follows:

	2012		2011	
Shareholders	# Shares	Value ($)	# of Shares	Value ($)
Chuuk	251	251,783	251	251,783
CNMI	1,000	1,000,000	1,000	1,000,000
Guam	1,000	1,000,000	1,000	1,000,000
Kosrae	730	730,000	730	730,000
Marshall Is.	500	500,000	250	250,000
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
Total	**6,481**	**$6,481,783**	**6,231**	**$6,231,783**

C. Organizational Chart



D. The Board of Governors

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

Shareholder	Executive Branch Rep.	Legislative Branch Rep.
Chuuk:	Vacant	Vacant
CNMI:	Benigno Fitial Governor	Diego Benavente Representative, CNMI Legislature
Guam:	Eddie Calvo Governor	Judith Won Pat Speaker
Kosrae:	Carson Sigrah Lt. Governor	Lyndon Abraham Speaker
Marshall Is.	Dennis Momotaro Minister of Finance	Donald Capelle Speaker
Palau:	Kerai Mariur, Chairman Vice President	Secilil Eldebechel Delegate, House of Delegates
Pohnpei:	John Ehsa Governor	Thomas Pablo Director of Treasury/Admin.
Yap:	Sebastian Anefal Governor	Henry Falan Speaker

The Board of Governors held its annual regular meeting in the FSM State of Kosrae in April 2012 and the key decisions made and actions taken in that meeting include:

- Elected Kerai Mariur as Board Chairman
- Reviewed the Bank's 2011 Annual Report
- Reviewed the Bank's 2011 Audit Report
- Reviewed the Bank's 2012 Budget and Goals
- Adopted one (1) Board Resolution
- Addressed Bank's Capitalization and Funding
- Addressed membership obligations & and new associate members
- Conducted the President's 2011 performance review and contract

The Board also approved the nomination of Mr. Alfred Alfred, Jr. as RMI member to the Board of Directors through electronic polling.

E. The Board of Directors

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

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

PALAU	CNMI	KOSRAE
Secilil Eldebechel	Diego Benavente	Ilai Abraham
Delegate	Representative	Former Senator
Palau National Congress	CNMI Legislature	Kosrae State Legislature

POHNPEI	GUAM	YAP
Thomas Pablo	Lourdes Leon Guerrero	John Masiwemai
Director	President & CEO	Senator
Dept. of Treasury/Admin	Bank of Guam	Yap State Legislature

CHUUK		RMI
Vacant	Aren Palik	Alfred Alfred, Jr.
	President & CEO	Secretary of Finance
	Chairman of the Board	

The Board of Directors, during the period under review, held four (4) regular meetings in January, April, July, and November 2012. Key decisions made and actions taken by the Board during the period under review include:

- Approved loans over and above the President's lending authority
- Prepared and transmitted 2011 Annual Report to the Board of Governors
- Reviewed 2011 Audit Report result
- Reviewed and approved the 2012 Budget & Goals
- Quarterly review of bank's performance against budget
- Monitored performance of our investment portfolio and investment advisor
- Quarterly review of the Allowance for Loan Loss reserves
- Periodically reviewed and Bank's policies and procedures
- Prepared various Resolutions requested by the Board of Governors
- Selected PIDB scholarship recipients
- Worked on membership capital and new membership.

F. The Management

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

Name	Position/Title	Date of Hire	Yrs. of Service
Aren Palik	President & CEO	10/22/2002	10 years
Rosa Weilbacher	Manager of Administration	6/1/1999	13 years
Antonio John	Manager of Lending	4/1/2010	2 years

G. Professional Service Providers

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

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

PART II
Loan Activity Report

A. 2012 Loan Approval

Loan Type	2012 Number	Amount	2011 Number	Amount
Commercial Loans				
Agriculture	0	0	0	0
Fisheries	0	0	0	0
Tourism	1	651,736	3	525,000
Manufacturing	0	0	0	0
Services	7	1,152,492	12	581,905
Commercial	8	294,650	18	463,729
Sub Total	16	2,098,878	33	1,570,634
Residential Home Loans	1	44,165	3	260,000
Consumer Loans	50	562,363	42	524,423
Total	**67**	**2,705,406**	**78**	**2,355,057**

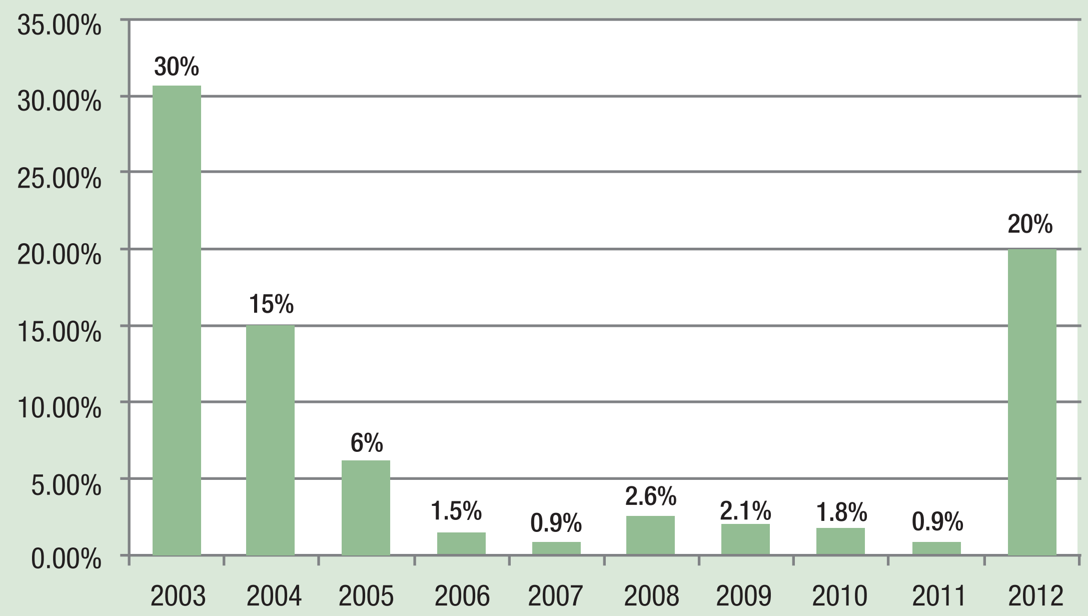
B. Outstanding Loans by Loan Type

Loan Type	2012 Number	Amount	2011 Number	Amount
Commercial Loans				
Agriculture	1	7,215	1	11,753
Fisheries	1	54,996	1	64,885
Tourism	12	1,977,148	10	1,739,306
Manufacturing	1	18,583	1	18,650
Services	39	3,318,822	37	2,923,694
Commercial	26	1,048,934	29	1,148,842
Sub Total	80	6,425,698	79	5,907,130
Residential Home Loans	8	612,200	7	586,339
Consumer Loans	112	1,009,262	88	839,586
Total	**200**	**8,047,160**	**174**	**7,333,055**

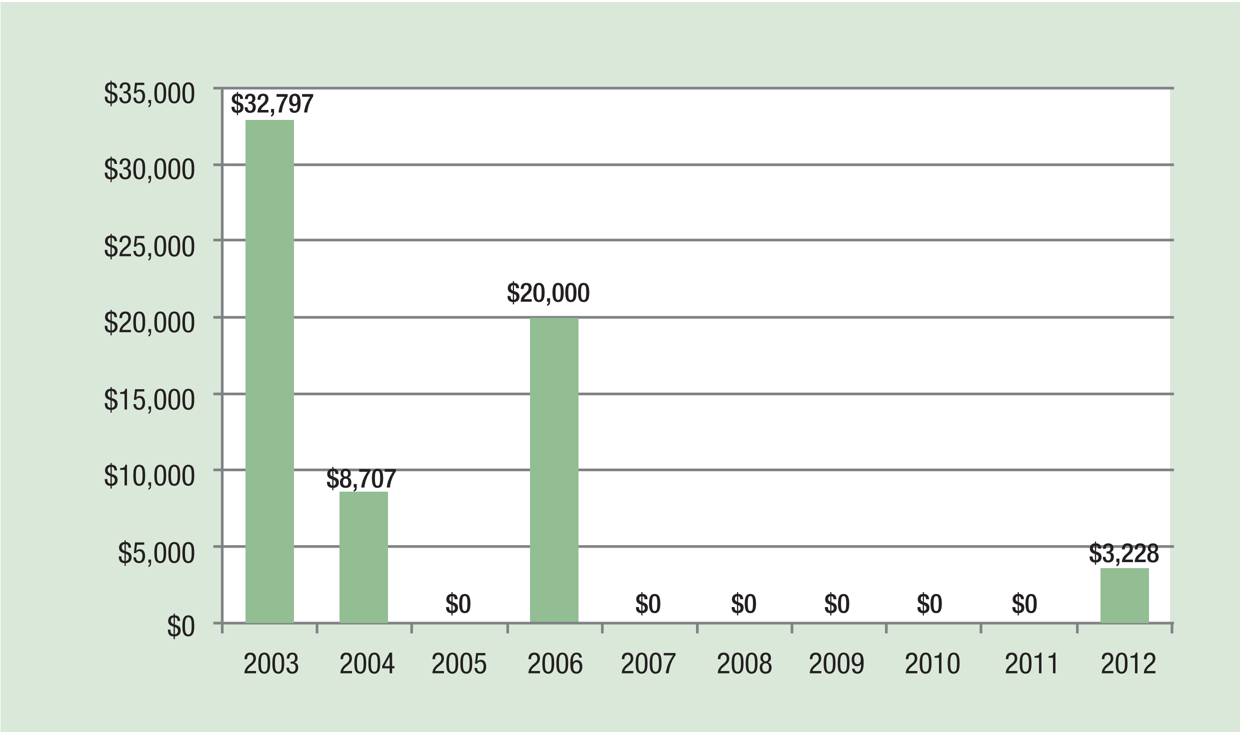
C. Outstanding Loans by Shareholder & Type of Loan

Shareholder	Commercial		Consumer		Housing		Total	
	#	$	#	$	#	$	#	$
Guam	8	930,416	9	70,731	2	234,658	19	1,235,805
Palau	8	1,126,286	3	44,379	1	92,148	12	1,262,813
Pohnpei	13	2,019,457	12	119,250	1	31,099	26	2,169,806
Yap	9	803,301	48	332,841	1	53,213	58	1,189,355
Kosrae	28	752,645	39	432,733	2	66,353	69	1,251,731
CNMI	5	448,995	1	9,328	1	134,729	7	593,052
Chuuk	1	67,655	0	0	0	0	1	67,655
RMI	0	0	0	0	0	0	0	-
FSMDB/Export	8	276,943	0	0	0	0	8	276,943
Total	**80**	**6,425,698**	**112**	**1,009,262**	**8**	**612,200**	**200**	**8,047,160**

D. Loan Delinquency



E. Loan Charge offs



PART III
2012 FINANCIAL REPORT

A. Performance Against Budget

The Table below shows the Bank's performance against its 2012 budget and targets. Loans Receivable was short by $415,840 due primarily to a combination of lack of bankable loans and limited capital. Stockholders' Equity was behind budget by $192,564 attributable to lower equity capital infusion from members and lower net income with corresponding effect on Retained Earnings. Total Assets was short by $236,082 mainly because of lower equity infusion from members than budgeted; late approval and drawdown of the 4th IRP loan; and effect of the low Net Income on Retained Earnings. Retained Earnings was short of budget by $150,368 attributed to a much lower Net Income of $13,063. If the Bank didn't provision $188,000 for loan loss reserves, the Retained Earnings goal would have been achieved. Gross Revenue was $178,820 under budget due essentially to poor performance in our securities investment portfolio and limited capital/funding for more loans, resulting in lower loan interest income than budgeted. Total Operating Expenses was prudently managed resulting in $56,450 lower than budgeted expenses for the year. In light of a growing loan portfolio and based on our credit risk analysis, the Bank provisioned $138,000 over the budgeted amount of $50,000. Finally, Net Income was $225,370 less than the budget/target of $238,433 and this is due mainly to weak earnings (especially on securities investment) and the large provision for loan losses of $188,000.

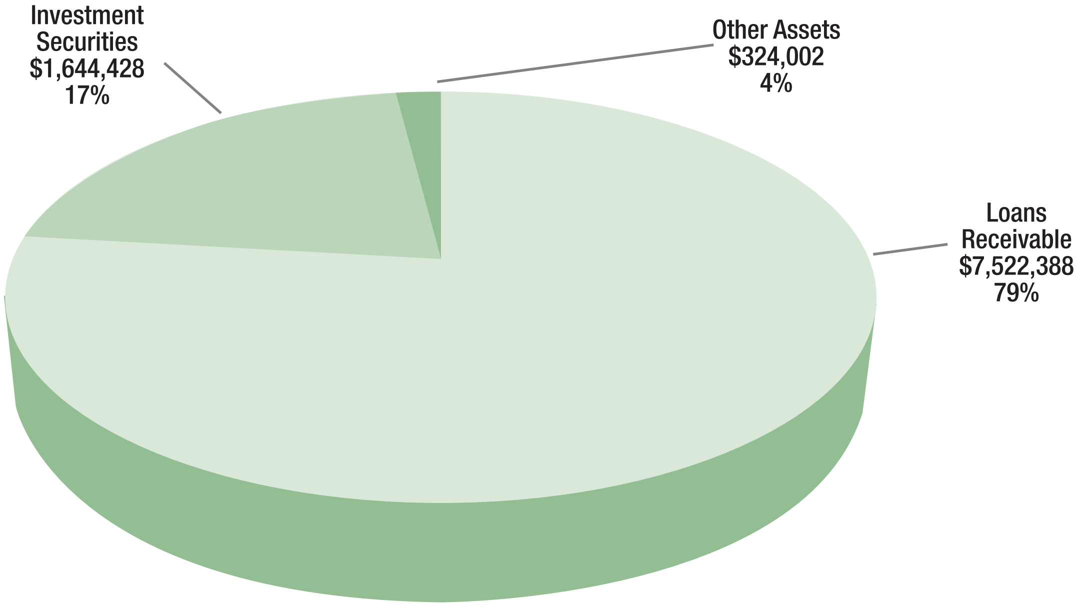
Selected Key Items	2012 Budget	2012 Actual	Variance ($)
Loans Receivable	8,463,000	8,047,160	-415,840
Stockholders' Equity	7,405,900	7,213,336	-192,564
Total Assets	9,726,900	9,490,818	-236,082
Retained Earnings(Deficit)	848,900	698,532	-150,368
Gross Revenue	848,000	669,180	-178,820
Total Operating Expenses	524,567	468,117	-56,450
Provision for Loan Losses	50,000	188,000	138,000
Net Income	238,433	13,063	-225,370

B. Performance Against Previous Year

The Table below compares the bank's 2012 financial performance against 2011 in selected key performance indicators. The bank mostly exceeded and outperformed previous year's performance. Net Income was significantly lower compared to previous year and this is due primarily to the $188,000 in additional provision for loans and lease losses.

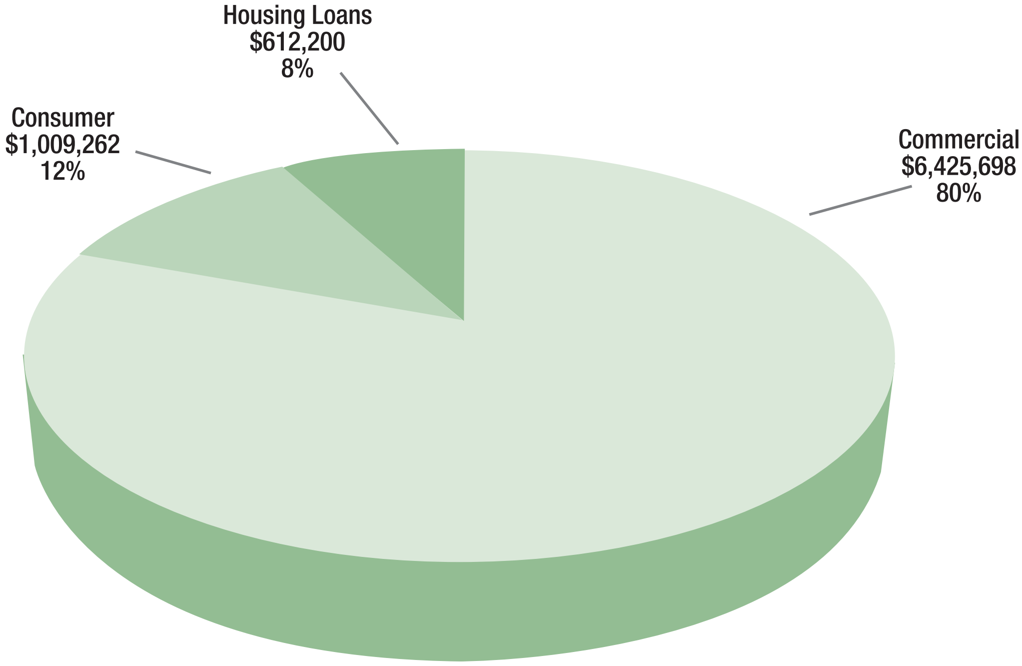
Selected Key Items	2012 Actual	2011 Actual	Variance ($)
Loans Receivable	8,047,160	7,333,055	714,105
Stockholders' Equity	7,213,336	6,802,579	410,757
Total Assets	9,490,818	9,072,397	418,421
Retained Earnings(Deficit)	698,532	685,469	13,063
Gross Revenue	669,180	734,497	-65,317
Total Operating Expenses	468,117	478,270	-10,150
Provision for Loan Losses	188,000	40,000	148,000
Net Income	13,063	216,227	-203,164

C. Asset Mix

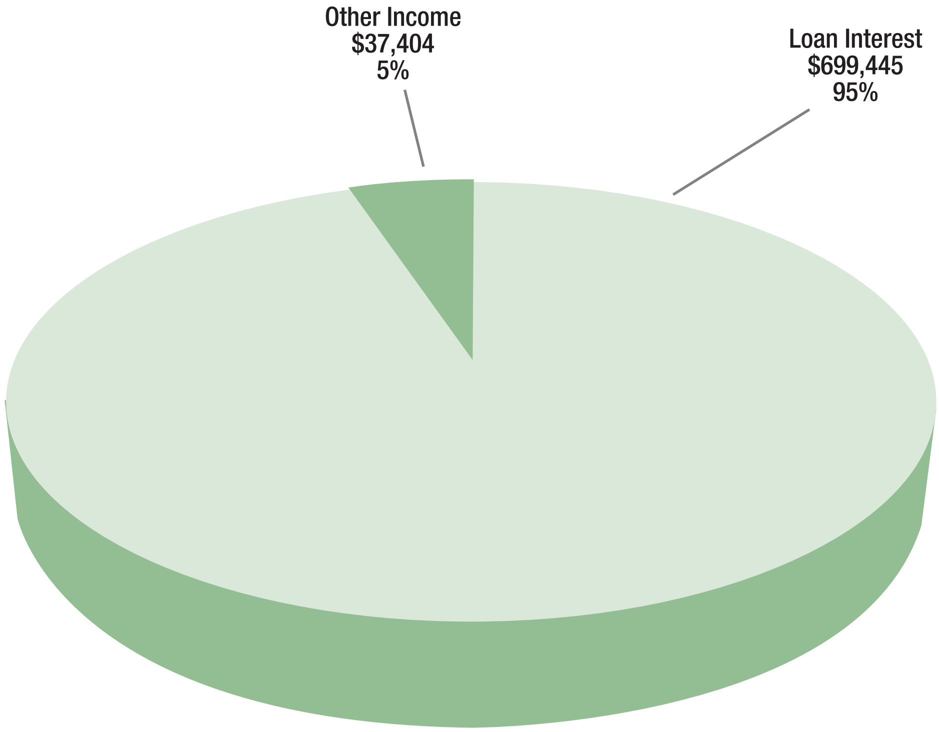


Loans Receivable is net of Loan Loss Reserve of $524,772

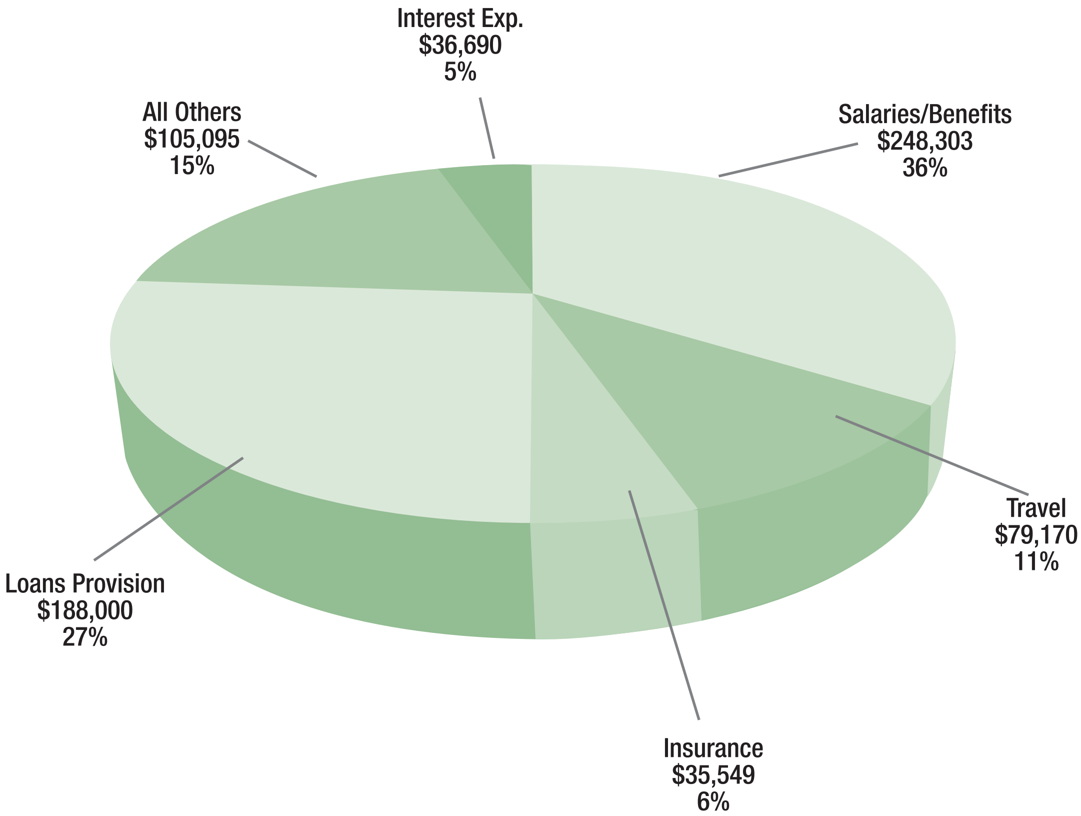
D. Loan Mix



E. Revenue by Source

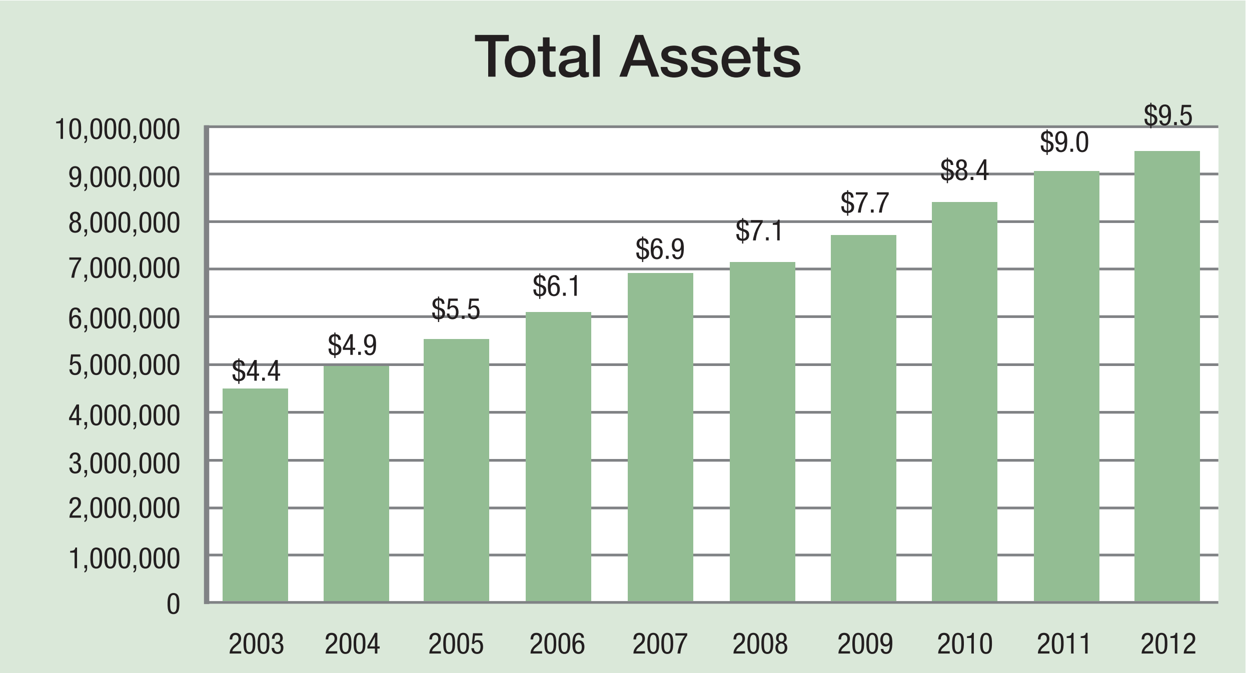


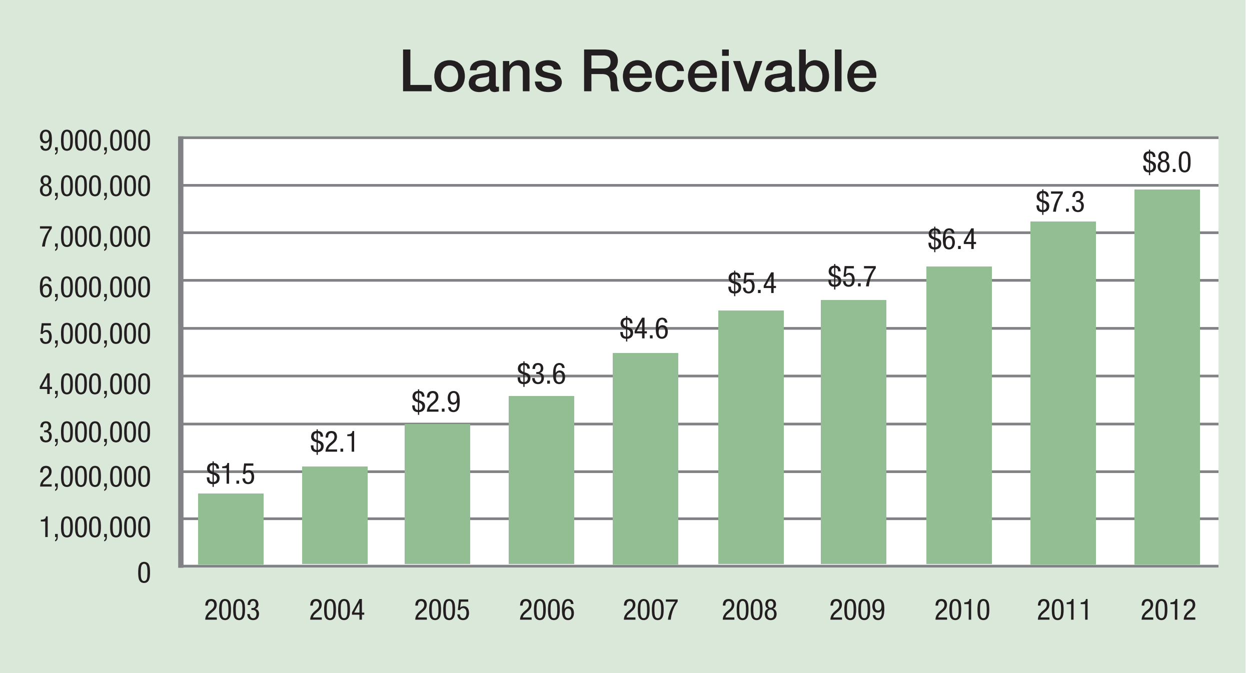
F. Major Expenses

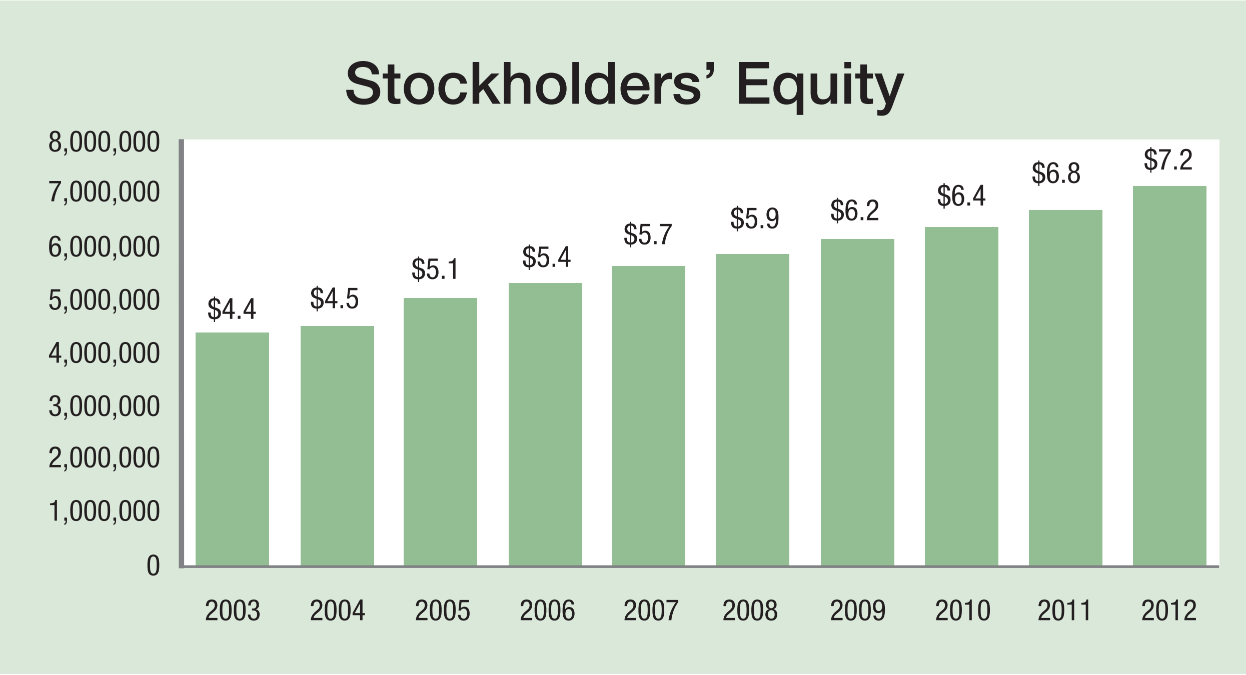


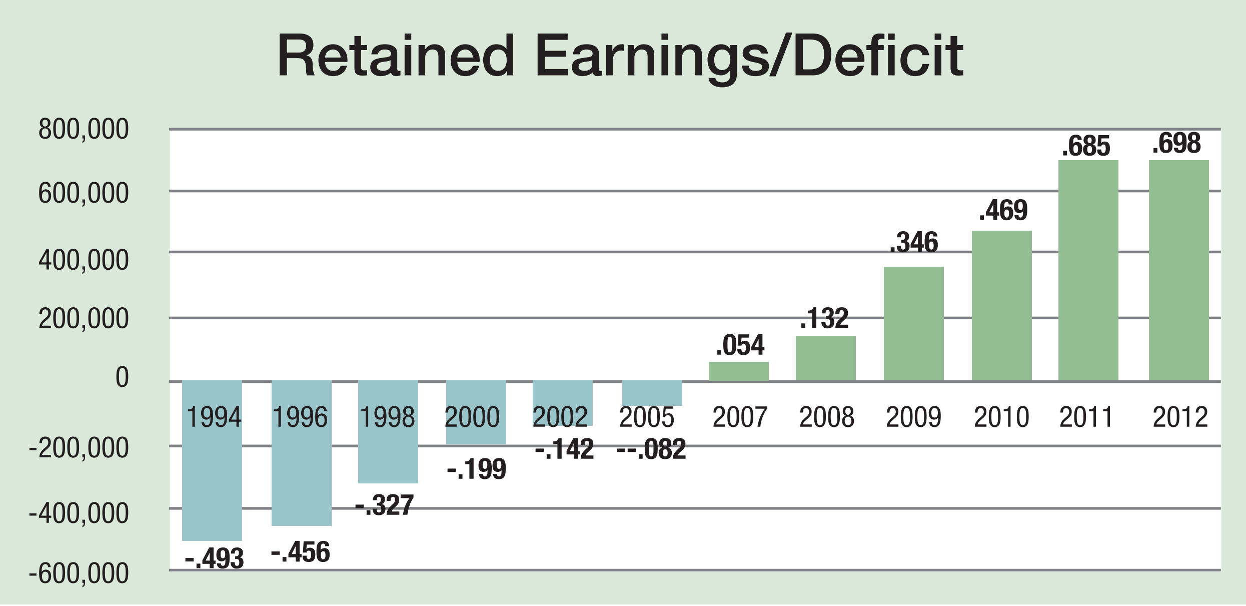
PART IV
HISTORICAL PERFORMANCE

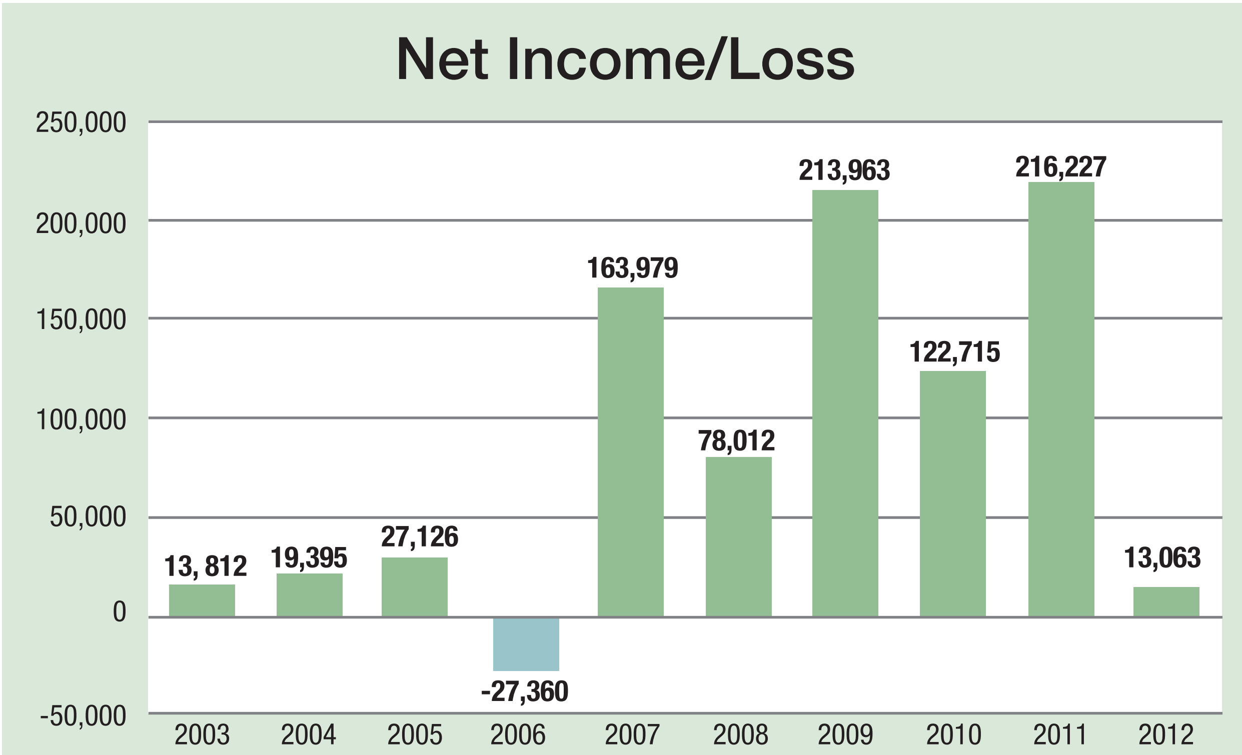
The following graphs show the historical performance of the Bank from 2003 to 2012 on selected key performance indicators.






Stockholders' Equity
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
$4.4
$4.5
$5.1
$5.4
$5.7
$5.9
$6.2
$6.4
$6.8
$7.2
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


Retained Earnings/Deficit
800,000
600,000
400,000
200,000
0
-200,000
-400,000
-600,000
1994
1996
1998
2000
2002
2005
2007
2008
2009
2010
2011
2012
-.493
-.456
-.327
-.199
-.142
--.082
.054
.132
.346
.469
.685
.698


Net Income/Loss
250,000
200,000
150,000
100,000
50,000
0
-50,000
13, 812
19,395
27,126
-27,360
163,979
78,012
213,963
122,715
216,227
13,063
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

PART V
FINANCIAL RATIOS

Selected Ratios	2007	2008	2009	2010	2011	2012
GROWTH						
Total Asset Growth	13%	4%	8%	9%	8%	5%
Loan Growth	23%	18%	6%	12%	15%	10%
Long Term Debt Growth	72%	3%	21%	35%	14%	0.2%
Net Worth Growth	6%	4%	5%	3%	6%	6%
PROFITABILITY						
Return on Assets	2.4%	1.1%	2.8%	1.5%	2.4%	0.13%
Return on Equity	2.9%	1.3%	3.4%	1.9%	3.1%	0.18%
Net Margin	30%	17%	32%	20%	30%	2%
LEVERAGE						
Net Worth	$5.7M	$5.9M	$6.2M	$6.4M	$6.8M	$7.2M
Debt to Worth	21%	21%	24%	31%	33%	32%
Total Liabilities/Total Assets	17%	17%	19%	24%	25%	24%
LIQUIDITY						
Working Capital	$2.4M	1.9M	$2.1M	$2.3M	$2.0M	$1.9M
Current Ratio	n/a	947	1,037	3,444	2,660	425

Need to calculate Current Ratio

PACIFIC ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, and the related statements of comprehensive 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, 2012 and 2011, 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.

Deloitte & Touche LLP

March 25, 2013

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Condition
December 31, 2012 and 2011

ASSETS	2012	2011
Cash	$ 72,686	$ 245,881
Money market funds	373,731	363,178
Cash and cash equivalents	446,417	609,059
Time certificates of deposit	-	150,507
Investment securities	1,270,697	1,190,960
Loans receivable, net of an allowance of $524,772 and $340,000 at December 31, 2012 and 2011, respectively	7,522,388	6,993,055
Interest receivable	198,168	119,173
Prepaid expenses	13,000	-
Security deposit	1,074	1,074
Property and equipment, net	39,074	8,569
	$ 9,490,818	$ 9,072,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Other liabilities	$ 4,541	$ 778
Long-term debt	2,272,941	2,269,040
Total liabilities	2,277,482	2,269,818
Commitments		
Stockholders' equity:		
Capital stock	6,481,783	6,231,783
Retained earnings	698,532	685,469
Accumulated other comprehensive income (loss)	33,021	(114,673)
Total stockholders' equity	7,213,336	6,802,579
	$ 9,490,818	$ 9,072,397

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Comprehensive Income
Years Ended December 31, 2012 and 2011

	2012	2011
Interest income	$ 699,445	$ 639,062
Dividend income	32,859	40,156
Realized (loss) gain from investment	(63,838)	33,884
	668,466	713,102
Provision for loan losses	188,000	40,000
	480,466	673,102
Operating expenses:		
Salaries and related expenses	248,303	239,843
Conference and travel	79,170	82,300
Insurance	35,549	28,912
Office rental	20,873	20,543
Professional fees	16,763	31,779
Trust fees	13,203	15,898
Communications	11,513	8,513
Depreciation	8,247	8,638
Board meetings	6,298	7,037
Business development and marketing	5,732	7,651
Office supplies	4,006	4,112
Automobile	3,736	4,220
Miscellaneous	14,724	18,824
Total operating expenses	468,117	478,270
Operating income	12,349	194,832
Other income:		
Other income	37,404	52,312
Interest expense	(36,690)	(30,917)
Total other income	714	21,395
Net income	13,063	216,227
Other comprehensive income (loss):		
Net unrealized gain (loss) on investment securities	147,694	(133,436)
Comprehensive income	$ 160,757	$ 82,791

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2012 and 2011

	Shares of Common Stock		Common Stock		Retained Earnings		Accumulated Other Comprehensive Income (Loss)		Total
Balance at December 31, 2010	5,951		5,951,783		469,242		18,763		6,439,788
Issuance of common stock	280		280,000		-		-		280,000
Net income	-		-		216,227		-		216,227
Other comprehensive loss	-		-		-		(133,436)		(133,436)
Balance at December 31, 2011	6,231		6,231,783		685,469		(114,673)		6,802,579
Issuance of common stock	250		250,000		-		-		250,000
Net income	-		-		13,063		-		13,063
Other comprehensive income	-		-		-		147,694		147,694
Balance at December 31, 2012	6,481	$	6,481,783	$	698,532	$	33,021	$	7,213,336

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

		2012		2011
Cash flows from operating activities:				
Net earnings	$	13,063	$	216,227
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation		8,247		8,638
Provision for loan loss		188,000		40,000
Realized (loss) gain on sale of investment securities		63,838		(33,884)
Gain on sale of equipment		-		(11,000)
Increase in interest receivables		(78,995)		(30,880)
Increase in prepaid expenses		(13,000)		-
Increase in other liabilities		3,763		100
Net cash provided by operating activities		184,916		189,201
Cash flows from investing activities:				
Decrease in time certificates of deposit		150,507		99,493
Loan originations and repayments, net		(717,333)		(941,248)
Investment securities purchases and sales, net		4,119		(34,073)
Additions to property and equipment		(38,752)		(5,098)
Net cash used in investing activities		(601,459)		(880,926)
Cash flows from financing activities:				
Proceeds from issuance of capital stock		250,000		280,000
Proceeds from long-term debt		75,188		322,898
Repayment on long-term debt		(71,287)		(42,244)
Net cash provided by financing activities		253,901		560,654
Net change in cash and cash equivalents		(162,642)		(131,071)
Cash and cash equivalents at beginning of year		609,059		740,130
Cash and cash equivalents at end of year	$	446,417	$	609,059
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest	$	36,690	$	30,917
Supplemental information relating to noncash investing and financing activities:				
Sale of property through PIDB direct loan	$	-	$	11,000

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2012 and 2011

(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 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.

At December 31, 2012 and 2011, the Bank has classified all of its investment securities as available for sale.

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.

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

Non-Performing Loans, Continued

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, 2012 and 2011, the Bank has not placed any loans 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 4).

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, 2012 and 2011, the Bank granted loan modifications and temporary payment deferments that are not considered to be TDRs.

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.

(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 types of securities that the Bank invests in are included in note 2. 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.

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

Management has evaluated subsequent events through March 25, 2013, 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, 2012 other than the item discussed in note 5.

(2) Investment Securities

At December 31, 2012 and 2011, all of the Bank's investment securities are maintained by fund managers. During the years ended December 31, 2012 and 2011, the Bank incurred net realized (losses) gains of ($63,838) and $33,884, respectively, from the sale of securities by the fund managers. Net cumulative unrealized gains (losses) at December 31, 2012 and 2011 amounted to $33,021 and ($114,673), respectively.

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

	2012			
	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

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. treasury notes	$ 151,753	$ 469	$ 69	$ 152,153
U.S. government agency and debt securities	116,626	181	67	116,740
International bonds	6,198	188	-	6,386
Domestic bonds	82,873	306	139	83,040
	357,450	1,144	275	358,319
Other marketable equity securities	948,183	20,116	135,658	832,641
	$ 1,305,633	$ 21,260	$ 135,933	$ 1,190,960

(2) Investment Securities, Continued

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% and 7%, respectively. Loans have been collateralized by various forms of collateral.

A summary of the balances of loans at December 31, 2012 and 2011 follows:

	2012	2011
Commercial – PIDB direct	$ 4,326,829	$ 3,012,410
Commercial – USDA Intermediary Relending Program (IRP)	1,822,056	2,658,251
Consumer	1,009,114	839,586
Residential mortgages	612,213	586,339
Commercial – FSMDB import/export	276,948	236,469
Gross loans	8,047,160	7,333,055
Less: allowance for loan losses	(524,772)	(340,000)
Net loans	$ 7,522,388	$ 6,993,055

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, 2012 and 2011 was $213,000 and $215,000, respectively.

(4) Allowance for Loan Losses

A summary of the changes in the allowance for loan losses for the years ended December 31, 2012 and 2011, follows

	2012	2011
Balance at beginning of year	$ 340,000	$ 300,000
Loans charged-off, net of recoveries	(3,228)	-
Provision for loan losses	188,000	40,000
Balance at end of year	$ 524,772	$ 340,000

(4) Allowance for Loan Losses, Continued

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.

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, 2012 and 2011:

	Pass	Special mention	Sub-standard	Doubtful	Total
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
2011					
PIDB direct	$ 2,869,371	$ 89,415	$ -	$ 53,624	$ 3,012,410
IRP	1,962,352	282,165	124,643	289,091	2,658,251
Consumer	835,215	4,371	-	-	839,586
Residential	586,339	-	-	-	586,339
Import/export	236,469	-	-	-	236,469
Total	$ 6,489,746	$ 375,951	$ 124,643	$ 342,715	$ 7,333,055

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2012 and 2011

(4) Allowance for Loan Losses, Continued

The following presents by class, an aging analysis of the Bank's loan portfolio as of December 31, 2012 and 2011:

	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	Past Due 90 Days or More	Total
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
2011					
PIDB direct	$ 2,958,786	$ -	$ -	$ 53,624	$ 3,012,410
IRP	2,646,498	-	11,753	-	2,658,251
Consumer	838,358	-	1,228	-	839,586
Residential	586,339	-	-	-	586,339
Import/export	236,469	-	-	-	236,469
Total	$ 7,266,450	$ -	$ 12,981	$ 53,624	$ 7,333,055

At December 31, 2012 and 2011, impaired loans of $534,946 and $342,715, respectively, represent loans classified as doubtful, with total recorded allowances $347,715 and $222,765, respectively.

(5) Long-Term Debt

On October 7, 2003, the Bank was awarded an Intermediary Relending Program (IRP) loan by the U.S. Department of Agriculture (USDA) 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, 2012 and 2011, outstanding balances were $398,485 and $415,592, 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 December 31, 2012 and 2011, outstanding balances were $675,659 and $700,499, respectively.

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. At December 31, 2012 and 2011, outstanding balances were $702,238 and $652,949, respectively, with $21,864 and $97,051, respectively, available for future drawdowns.

(5) Long-Term Debt, Continued

On September 16, 2010, the Bank entered into a $500,000 loan agreement with the FSM Development Bank mainly for relending in the forms of business development loans to FSM citizens on Guam. The loan requires interest only payments for the first three years; thereafter, principal and interest is payable in equal quarterly installments beginning on September 15, 2013. The loan matures on September 15, 2023. The loan bears a fixed interest rate of four percent per annum. At December 31, 2012 and 2011 outstanding balances were $496,559 and $500,000, respectively.

In March 2013, the Bank entered into the fourth IRP loan agreement with USDA for $400,000.

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,	
2013	$ 76,712
2014	105,801
2015	108,152
2016	110,580
2017	113,086
Thereafter	1,758,610
	$ 2,272,941

(6) Property and Equipment

A summary of property and equipment as of December 31, 2012 and 2011, is as follows:

Description	Estimated Useful Lives	2012	2011
Computer equipment	5 years	$ 46,231	$ 44,255
Vehicles	5 years	32,089	32,089
Leasehold improvements	3 years	30,889	-
Office furniture and equipment	10 years	16,560	10,644
		125,769	86,988
Less accumulated depreciation		(86,695)	(78,419)
		$ 39,074	$ 8,569

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2012 and 2011

(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, 2012 and 2011, the Bank has received $6,481,783 and $6,231,783 of equity contributions, respectively. Authorized capital stock is 18,000 shares of $1,000 par value. As of December 31, 2012 and 2011, respectively, 6,481 and 6,231 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

The Bank does not have any undisbursed loan commitments at December 31, 2012.

(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, 2012 are as follows:

Year ending December 31,	
2013	$ 20,184
2014	20,184
2015	10,092
	$ 50,460

(10) Related Party Transactions

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

(11) 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, 2012 and 2011, the Bank contributed $13,334 and $12,991, respectively, to the Plan.

(12) Fair Value Measurements

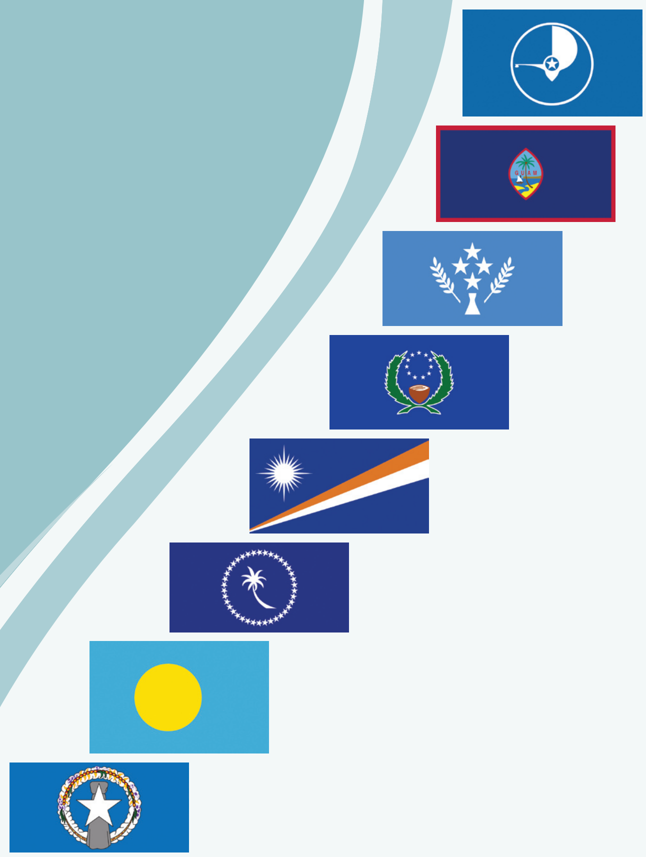
The Bank uses fair value measurements to record fair value adjustments to investments and to determine fair value disclosures. In accordance with FASB Accounting Standards Codification (ASC) Topic 820 "*Fair Value Measurements and Disclosures,*" the fair value of a financial instrument is the price that 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.



PACIFIC ISLANDS DEVELOPMENT BANK
JULY 5, 1989

Nanbo Guahan Building
250 Route 4, Suite 205
Hagatna, Guam 96910

Tel. (671) 477-0047
Fax (671) 477-0067
www.pacificidb.com