2006 ANNUAL REPORT

Pacific Islands Development Bank

Report Contents

Pacific Islands Development Bank

Letter of Transmittal

March 29, 2007

Board of Governors
Pacific Islands Development Bank

Dear Governors:

As required under Section 7 of Article II of the Bank's bylaws, I am honored to transmit, on behalf of the Board of Directors, the Annual Report of the Pacific Islands Development Bank for the year ended December 31, 2006.

Respectfully,

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

Suite 204, GCIC Building • 414 West Soledad Avenue • Hagåtña, Guam 96910
Tel. (671) 477-0047 • Fax: (671) 477-0067 • Website: www.pacificidb.com

Message from the President

Year 2006 marked the 3rd year of operation under the bank's Five Year Strategic Plan covering the period 2004 to 2008. During the year, we remained focused on ***growth*** related initiatives and strategies outlined in the Plan and further amplified in our 2006 budget. We closed the year, again, with a healthy balance sheet growth, particularly in loan balances and equity capital. Of equal importance, we took a couple of proactive and prudent actions that will position the bank for continued growth and improved earnings in 2007 and beyond. These include the transfer of our investment portfolio to a new investment consultant/advisor, and increase in our allowance for loan loss reserve.

Lending. During the period under review, Loan Receivables grew by 22% to $3.6 million, a new record high. With an increasing loan portfolio, we prudently increased our loan loss reserve by $55,297 to $118,000. This amount includes the reserve required under the IRP Note. During the year, the Board of Directors developed and implemented the bank's Allowance for Loan Loss Policy which was employed in determining the appropriate loan loss reserve amount. On loan quality, we reduced our delinquency to 1.5%, down from 6.2% in 2005. In 2006, PIDB was awarded another soft loan of $750,000 from the USDA's Intermediary Relending Program (IRP), increasing our loan funds and working capital.

Financial. The bank's total assets grew by $554,325 or 10% to $6.0 million attributed to additional membership capital from Guam and Kosrae and initial draw down from the IRP loan. Net loans increased by $657,350 or 22% and capital stock grew by 3.8% or $200,000 to $5.4 million. Long-term debt, on the other hand, increased by $208,168 to $668,875 attributed to additional drawdown from the IRP loan to fund approved loans. It is our plan and intention to continue drawing from the IRP loan to fund our loan demand and conserve on our equity capital. During the year, we sold the bank's condominium as it became increasingly costly to maintain it and difficult to rent it out. Finally, we maintained a strong liquidity position with $2.4 million in securities invested in accordance with our revised Investment Policy.

On earnings, operating revenue declined by $26,007 or 8% to $308,136. This is due essentially to a loss on investment of $85,722 realized when we moved our investment securities to a new investment consultant. Total operating expenses increased by a slight amount of $15,523 or 5% to $348,828. As a result, we ended the year with a net loss of $27,360, again, due primarily to the realized loss on investment of $85,722 and provision for loan losses of $55,297. Absent these two expenses, the bank would have ended the year with an estimated net income of $117,000. All other operating expenses were within their budgeted amounts and previous year's level.

Administration. The bank achieved again a clean audit in 2006 with an "unqualified" opinion. In July 2006, we finally launched our official web site: www.pacificidb.com. Anyone in the world may now access information about our bank and our lending program online. In late 2006, the Board of Directors approved the guidelines for the bank's Residential Home Loan Program. The objective of this program is to extend financial assistance to citizens of member islands to construct or purchase new homes or improve their existing homes. This program is scheduled for implementation in the 2nd quarter of 2007.

While much was accomplished in 2006, much remains to be done. Our operating environment remains bleak and our shareholder governments continue to face tremendous financial and economic development challenges. As a regional development bank, we at PIDB are aware of the role we should and can play in promoting economic and social development in the region. We will continue to work hard in cooperation with our member islands as well with our development partners to advance our mission and objectives.

In closing, we express our gratitude and appreciation to our shareholders for their continued support and commitment, and we thank the PIDB Board of Governors, Board of Directors, and bank staff for their dedication, loyalty, and contributions.

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

PART 1: CORPORATE STRUCTURE & ORGANIZATION

A. Establishment

Pacific Islands Development Bank (PIDB) is a regional development finance institution established on July 5, 1989 by the Association of Pacific Island Legislatures (APIL) to provide financial services and technical assistance to its member islands. Initial membership was extended to all APIL member governments with a required equity capital of $1 million each. As of December 31, 2006, the shareholders of the Bank include Commonwealth of the Northern Mariana Islands, Republic of Palau, Island of Guam, and the FSM States of Chuuk, Kosrae, Pohnpei, and Yap. Efforts to secure additional members, particularly Marshall Islands, American Samoa, Hawaii, and Kiribati are on-going.

B. Mission & Purpose

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

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.

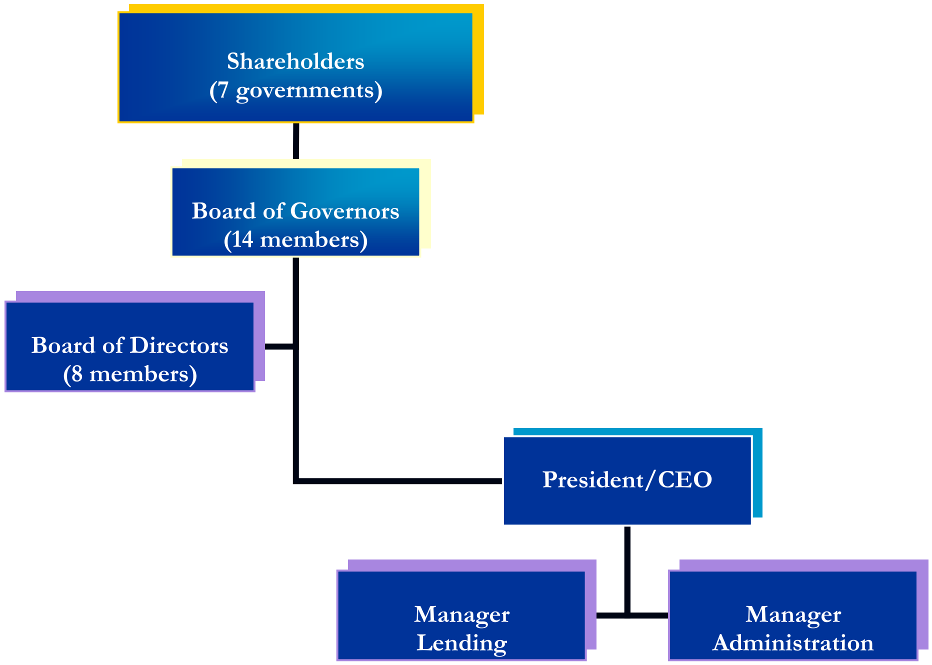
5. Provide technical assistance for the preparation, financing, and implementation of development plans and projects, public and private, including the study of priorities and the formulation of specific project proposals.

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.

C. Organizational Chart

Following is the bank's organizational chart as of December 31, 2006.



D. Shareholders

The authorized capital stock of the Bank is divided into eighteen thousand (18,000) shares with a par value of one thousand dollars ($1,000) each. The initial number of shares to be subscribed by the originally admitted members shall be one thousand (1,000) shares each. The shareholders of the Bank with number of shares owned and their corresponding values in 2006 and 2005 were as follows:

Shareholders	**2006 Number**	**Value($)**	**2005 Number**	**Value($)**
Chuuk	251	$251,783	251	$275,783
CNMI	1,000	1,000,000	1,000	1,000,000
Guam	600	600,000	500	500,000
Kosrae	600	600,000	500	500,000
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	**5,451**	**$5,451,783**	**5,251**	**$5,275,783**

In 2006, the governments of Guam and Kosrae, even with other pressing priorities and limited financial resources, purchased additional shares of common stock in the amount of $100,000 and $100,000 respectively. The bank acknowledges and thanks the leadership of Guam and Kosrae, for their commitment and additional contribution.

Chuuk, on the other hand, has not made any additional purchases since its initial capital contribution. All our efforts with the previous administration were fruitless. We are, regardless, continuing our efforts with the current administration and leadership of Chuuk. The assistance of Governor Wesley Simina and Speaker Singkoro Harper, representing Chuuk on the PIDB Board of Governors, in securing Chuuk's pledged equity is needed.

E. Board of Governors

Under Section 2 of Article 13 of the bank's Articles of Agreement, the Bank shall have a Board of Governors. Each member appoints two Governors, one representing the executive branch and one representing the legislative branch. The members of the Board of Governors for the period under review were as follows:

Shareholder	Executive Branch Rep.	Legislative Branch Rep.
Chuuk:	Wesley Simina Governor FSM State of Chuuk	Singkoro Harper Speaker, House of Rep. Chuuk State Legislature
CNMI:	Timothy Villagomez Lt. Governor CNMI	Joseph Mendiola President of Senate CNMI Legislature
Guam:	Felix Camacho Governor Island of Guam	Mark Forbes Speaker Guam Legislature
Kosrae:	Rensley Sigrah Governor FSM State of Kosrae	Lyndon Jackson Speaker Kosrae State Legislature
Palau:	Elbuchel Sadang Minister of Finance Republic of Palau	William Ngiraikelau Delegate, House of Delegates Palau National Congress
Pohnpei:	Jack Yakana Lt. Governor FSM State of Pohnpei	Finley Perman Director of Treasury Pohnpei State Government
Yap:	Robert Ruecho' Governor FSM State of Yap	John Masiwemai Senator Yap State Legislature

At its meeting in Pohnpei on April 6, 2006, the Board elected William Ngiraikelau, Jack Yakana, and Joseph Mendiola as Chairman, Vice Chairman, and Board Secretary, respectively. The composition of the Board of Governors changed during 2006 as follows:

New Member	Representing	Replacing	Date Appointed
Timothy Villagomez	CNMI Executive Branch	Diego Benavente	March 1, 2006
Joseph Mendiola	CNMI Legislative Brach	Benigno Fitial	January 25, 2006

The bank acknowledges and extends its gratitude and appreciation to former PIDB Governors Diego Benavente and Benigno Fitial for their services and contributions to the bank. We also congratulate and welcome our new Governors Timothy Villagomez and Joseph Mendiola.

F. Board of Directors

Section 6 of Article 13 of the bank's Articles of Agreement, 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. Following were the Directors of the bank during the year in review:

Palau	CNMI	Guam
William Ngiraikelau Delegate Palau National Congress	Justo Quitugua Vice Speaker CNMI Legislature	Lourdes Perez Director of Administration Government of Guam
Kosrae	**Pohnpei**	**Yap**
Gerson Jackson Lt. Governor Kosrae State	Jack Yakana Lt. Governor Pohnpei State	Joseph Giliko Director Department of Resources & Dev.
Management	**Chuuk**	
Aren Palik President/CEO Chairman of the Board	Vacant	

Pursuant to Section 9(c) of Article 13 of the bank's Articles, the President serves as the Chairman of the Board of Directors but shall has no right to vote, except to vote in case of an equal division. He may participate in the meetings of the Board of Governors but shall not vote.

On March 27, 2006, Vice Speaker Justo Quitugua was nominated and subsequently approved by the Board of Governors as CNMI's member on the Board of Directors, replacing former director Maria Lourdes Ada. The bank expresses its gratitude and appreciation to former director Maria Lourdes Ada for her services and invaluable contributions to the bank. The bank also congratulates and welcomes Vice Speaker Quitugua on board.

G. Management

The President of the Bank is responsible for the overall management of the bank. He/she is selected by a vote of not less than two-thirds of the total number of Governors, and may be removed from office by the same number of Governors. He/she also serves as Chairman of the Board of Directors, but has no right to vote, except to vote in case of an equal division. The President is assisted by a Manager of Administration and a Manager of Lending. During the period under review, the bank had the following management staff:

Name	Title
Aren Palik	President/CEO
Rosa Weilbacher	Manager, Administration
Greg Perez	Loan Officer

Trust & Investment Management: In October 2005, the bank solicited proposals and selected Smith Barney Consulting Group to manage the bank's investment portfolio. This was necessary in view of the performance of the bank's trust and investment advisor at that time. In early 2006, the bank moved its investment portfolio to Smith Barney with assets allocated and invested in accordance with the bank's revised Investment Policy.

Legal Services: Given its present size and scope of operation, the Bank presently does not have in-house attorneys. It utilizes the services of external attorneys when needed.

Audit & Accounting Services: Deloitte Touche has been the bank's external auditor. The same company provides accounting and software training and services upon request.

Corporate Office Address & Contact: The bank's corporate office is located in Guam at the following address and contact:

Pacific Islands Development Bank
Suite 204, GCIC Building
414 West Soledad Avenue
Hagatna, Guam 96910
Office Phone: (671) 477-0047
Office Fax: (671) 477-0067
Web site: www.pacificidb.com

PART II: 2006 REPORT ON OPERATION

A. Loan Report

1. Loan Approvals

The Bank approved seventeen (17) loans in 2006 valued at $1,649,745. This represents an increase in loan approval compared to 2005 when 11 loans valued at $1,065,056 were approved. Pursuant to the bank's loan policy, all loans exceeding $35,000 must be referred to the Board of Directors for review and action. Of the 17 approved loans, 8 were approved by the Board with the remaining 9 approved by the President. The table below compares loan approvals by sector in 2006 and 2005.

Loan Approvals

	2006			2005	
Sector	**Number**	**Amount**		**Number**	**Amount**
Agriculture	0	0		0	0
Commercial	1	230,000		4	408,625
Fisheries	0	0		1	19,839
Manufacturing	0	0		0	0
Services	14	1,060,624		4	266,165
Tourism	2	359,121		1	346,000
Others	0	0		1	24,427
Total	**17**	**1,649,745**		**11**	**1,065,056**

2. Outstanding Loans

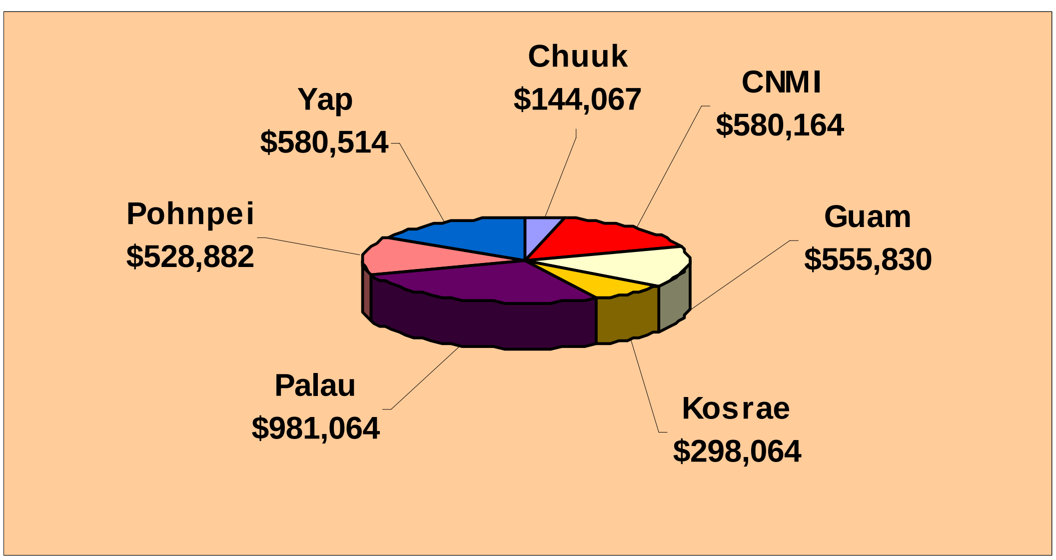
At December 31, 2006, the bank had 44 outstanding loans valued at $3,622,040 compared to 39 loans for $2,964,690 in 2005. The outstanding loan balance is net of the allowance for loan losses and precludes commitments and undisbursed loans. The Commercial and Services sectors continue to dominate our loan portfolio, accounting to over 70% of total loans. In the coming years, the bank will direct more attention and focus on small and medium size projects in the productive sectors such as agriculture, fisheries, manufacturing, and cottage industries.

The table below compares outstanding loans in 2006 and 2005 by sector.

Outstanding Loans by Sector					
	2006			2005	
Sector	**Number**	**Value**		**Number**	**Value**
Agriculture	1	5,538		2	42,607
Commercial	11	1,321,304		11	1,249,981
Fisheries	2	102,787		2	169,839
Manufacturing	0	0		0	0
Services	25	1,395,552		18	818,687
Tourism	5	796,859		4	658,879
Others	0	0		2	24,967
Total	**44**	**3,622,040**		**39**	**2,964,690**

3. Distribution of Loans by Location

The bank's current policy with respect to allocation of loans among its members is based on the amount of capital contributed by each member government. Proceeds from the $1.2 million Intermediary Relending Program (IRP) loan was also allocated based on percentage of capital ownership at the date of distribution. The following chart shows the distribution of outstanding loans among its members.



4. Loan Arrears & Charge-offs

In 2006, the bank registered its lowest delinquency ratio of 1.5%, a marked improvement over last year's delinquency of 6.2%. In relative terms, the bank has continued to improve its delinquency over the past five years. Equally important, we had zero charged-off loans for the second year in a row. The following table highlights the Bank's delinquency ratio over the past 5 years by sector.

Loan Delinquency					
Sector	**2006**	**2005**	**2004**	**2003**	**2002**
Agriculture	0	29,183	0	0	0
Commercial	0	0	327,890	458,345	473,893
Fisheries	0	0	0	0	8,217
Manufacturing	0	0	0	0	0
Services	53,506	29,304	0	26,341	33,109
Tourism	0	124,970	0	0	0
Others	0	0	0	0	8,217
Total in Arrear	53,506	183,457	327,890	484,686	523,436
Total Portfolio	3,662,040	2,964,690	2,157,783	1,575,967	1,148,957
Delinquency Ratio	**1.5%**	**6.2%**	**15.2%**	**30.8%**	**45.6%**

5. Allowance for Loan Loss Reserve

During the period under review, the Board of Directors approved and implemented the bank's Allowance for Loan Loss Reserve Policy. The allowance for loan losses is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. For the period under review, we increased our allowance for loan losses by $55,297, increasing our total reserves to $118,000. In 2005, we also provisioned $56,337 for loan losses. The provision for loan losses is expensed, thereby, resulting in reduction in the bank's net income.

6. Loan Fund Availability Report

The table below shows the net funds available to loan out after subtracting the 15% reserve and outstanding loans and commitments.

	Chuuk	CNMI	Guam	Kosrae	Palau	Pohnpei	Yap	Total
Capital Contributed	251,783	1,000,000	600,000	600,000	1,000,000	1,000,000	1,000,000	5,451,783
Ownership (%)	4.75%	18.34%	11.01%	11.01%	18.34%	18.34%	18.34%	100.13%
Add: IRP Share	63,050	250,300	82,150	103,600	250,300	250,300	250,300	1,250,000
Total Funds Owned	314,833	1,250,300	682,150	703,600	1,250,300	1,250,300	1,250,300	6,701,783
Less: 15% Reserve	47,225	187,545	102,323	105,540	187,545	187,545	187,545	1,005,267
Less: O/S Loans	144,067	580,164	555,830	298,064	981,064	528,882	580,514	3,668,585
Funds Available	**123,541**	**482,591**	**23,998**	**299,996**	**81,691**	**533,873**	**482,241**	**2,027,931**

B. Financial Report

1. 2006 Budget vs. Actual

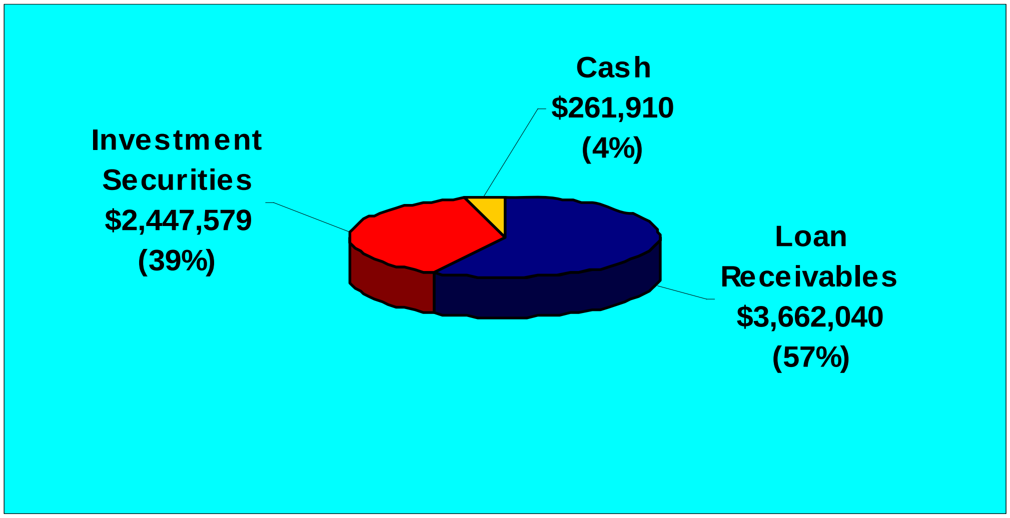
During the period under review, the bank received only $200,000 of the $550,000 budgeted in equity capital from Chuuk, Guam, Kosrae. This, coupled with the fact that we were unable to drawdown more funds from the IRP loan sooner, contributed to our inability to meet our total assets goal of $6.3 million. With respect to earnings, we took two actions that significantly impacted our 2006 revenue and net income. First, we had to realize a loss on investment of $85,722 when we moved our investment securities to a new investment consultant. Second, we prudently increased our allowance for loan losses by provisioning another $55,297 in 2006. This amount comes straight out of our income. Again, these were deliberate and necessary actions taken by the bank. The following table compares actual results against our 2006 budget in selected key items on our balance sheet and profit and loss statement.

Selected Indicators	2006 Budget	2006 Actual	Variance $	Variance %
Total Assets	6,352,357	6,099,391	-252,966	-4.0%
Loan Receivables, net	3,700,000	3,622,040	-77,960	-2.1%
Marketable Securities	2,300,000	2,447,579	147,579	6.4%
IRP Loan Drawdown	605,647	668,875	63,228	10.4%
Capital Stock	5,801,783	5,451,783	-350,000	-6.0%
Retained Earnings(Deficit)	-51,119	-109,827	-58,708	114.8%
Gross Revenue	357,305	321,468	-35,837	-10.0%
Total Operating Expenses (a)	326,357	348,828	22,471	6.9%
Net Income(Loss)	30,948	-27,360	-58,308	-188.4%

(a) Actual amount in 2006 includes a $55,297 provision of losses

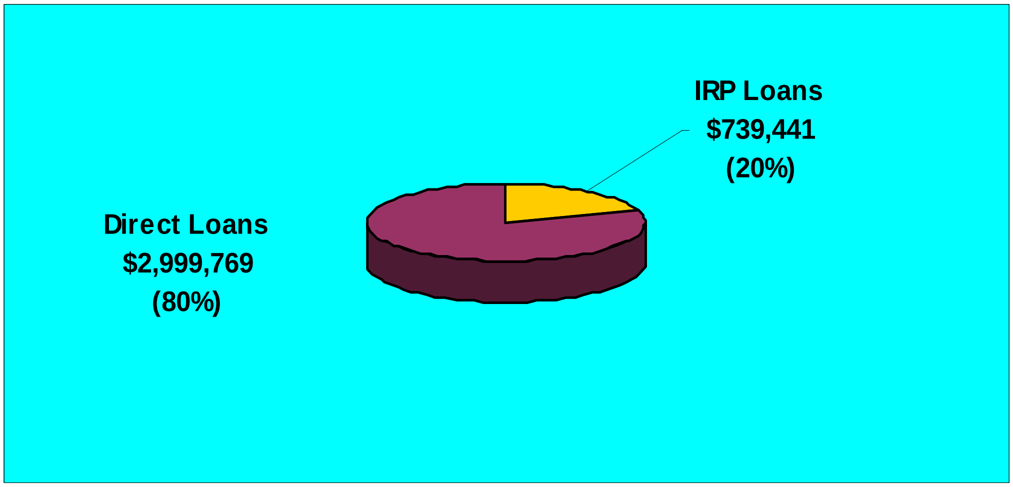
2. Asset Mix

As called for in our Strategic Plan, we have slowly been changing our asset mix over the past three years by increasing our loan portfolio, reallocate our investment securities, reassess other earning assets, and minimize excess cash in our bank account. The chart below shows our main assets as a percentage of total assets for the year ending December 31, 2006.



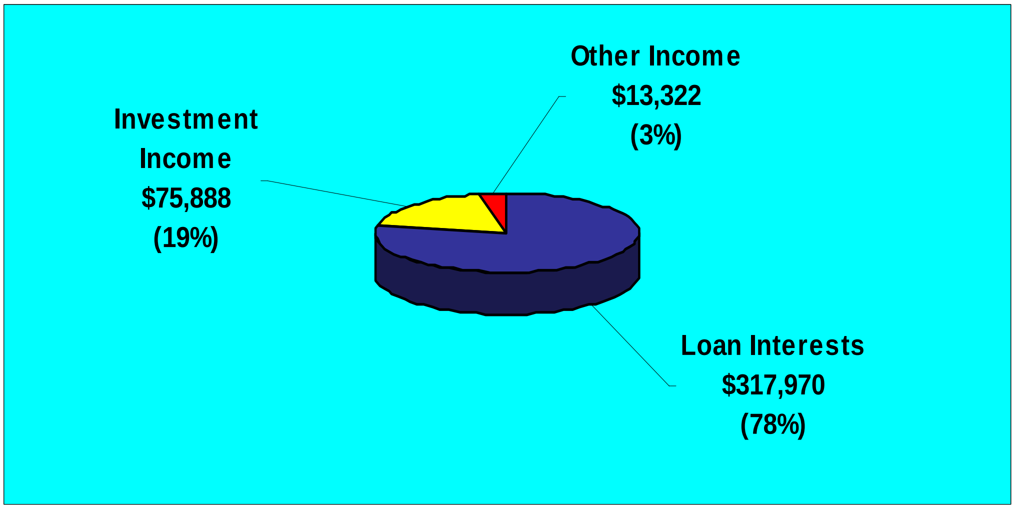
3. Loan Mix

The bank has two types of loans in its portfolio: PIDB Direct Loans and loans booked under the Intermediary Relending Program, commonly referred to as "IRP" loans. Our loan mix in 2006 is shown below.



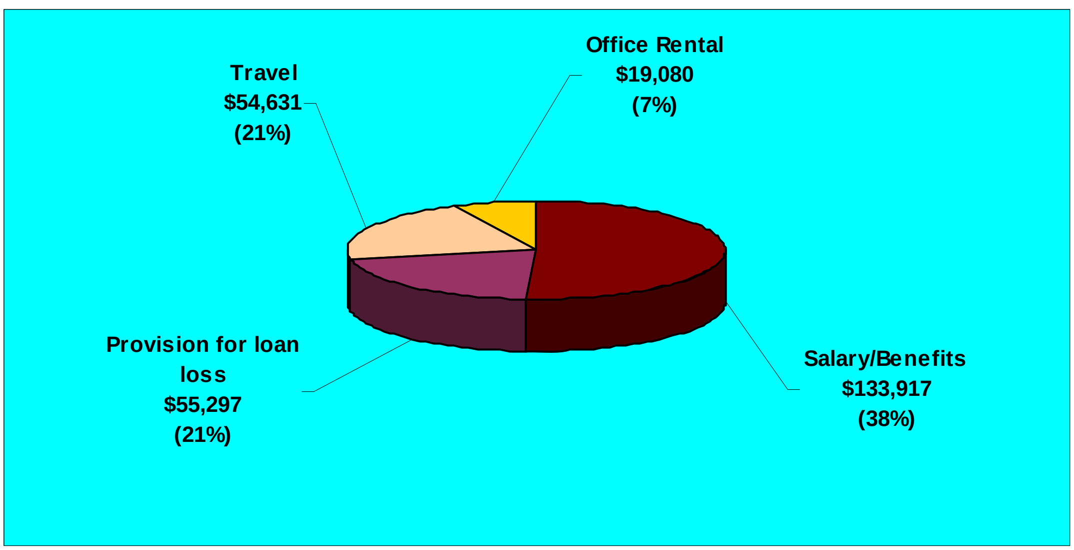
4. Revenue by Source

The table below shows the bank's primary sources of income in 2006. Other income includes loan booking fee, late charges, and rental income from the bank's townhouse.



5. Major Expenses

The following chart shows the major operating expenses of the bank. These four expense items represent 87% of total operating expenses in 2006.



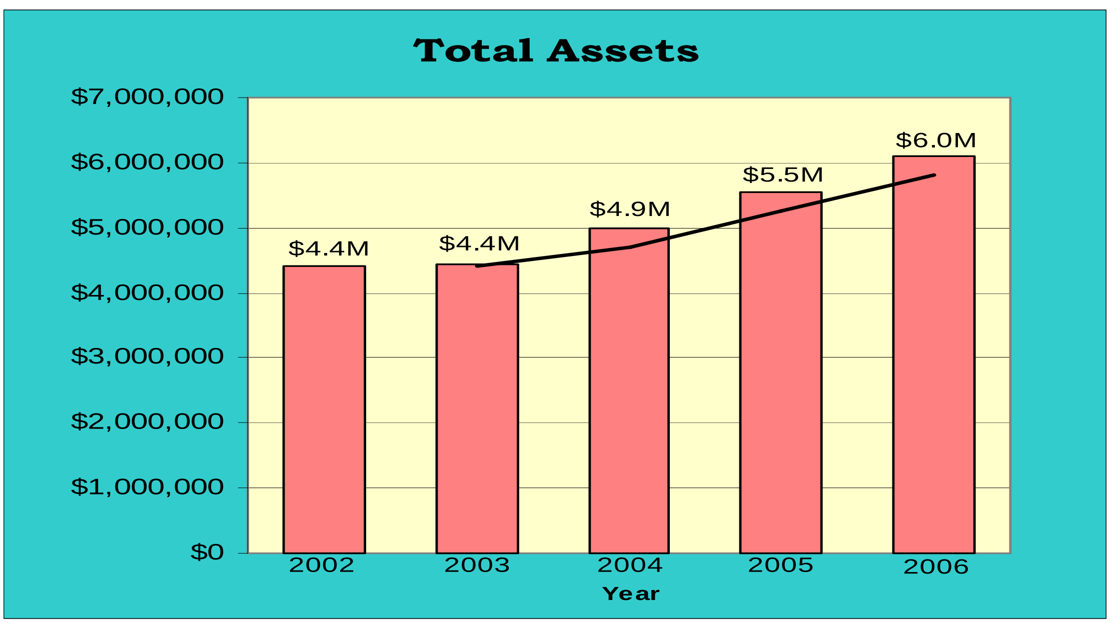
6. Historical Performance

The following table summarizes the historical financial performance of the bank in the last five (5) years on selected key performance indicators.

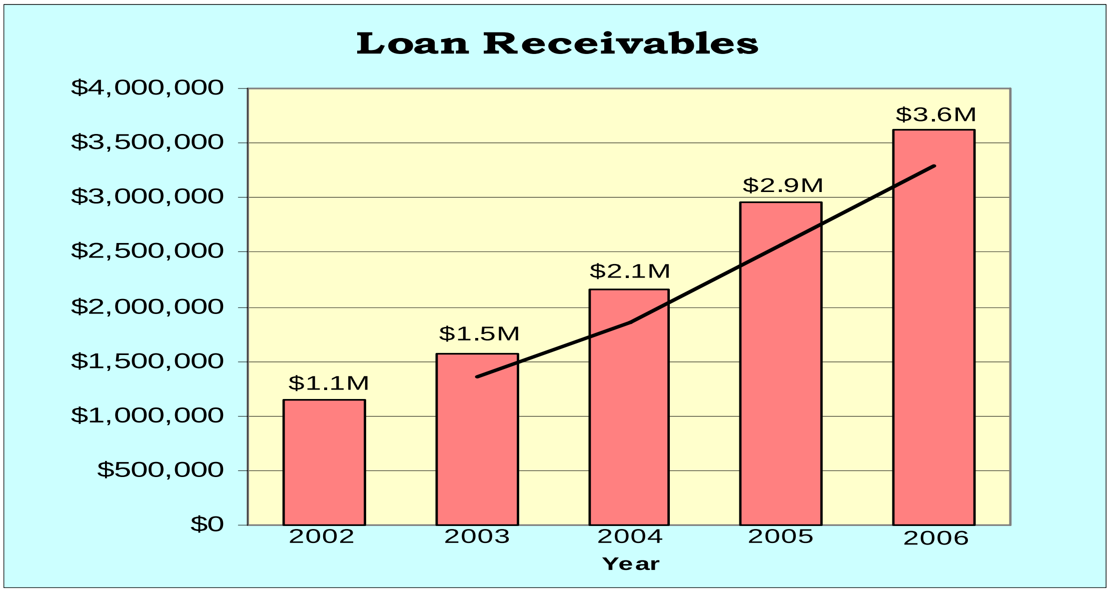
Key Indicators	2002	2003	2004	2005	2006
Total Assets	4,410,834	4,433,254	4,981,739	5,545,066	6,099,391
Loan Receivables, net	1,148,957	1,566,201	2,157,783	2,964,690	3,622,040
Marketable Securities	2,970,521	2,639,536	2,550,181	2,326,090	2,447,579
IRP Loan Drawdown	0	0	410,707	460,707	668,875
Capital Stock	4,651,783	4,651,783	4,751,783	5,251,783	5,451,783
Retained Earnings/Deficit	-142,400	-128,588	-109,193	-82,067	288,112
Operating Revenue	262,536	251,005	269,024	334,143	308,136
Total Operating Expenses	254,386	264,123	272,077	333,304	348,828
Net Income	33,726	13,812	19,395	27,126	-27,360

The following graphs further delineate and track the performance of the bank in those selected key areas over the past five (5) years.

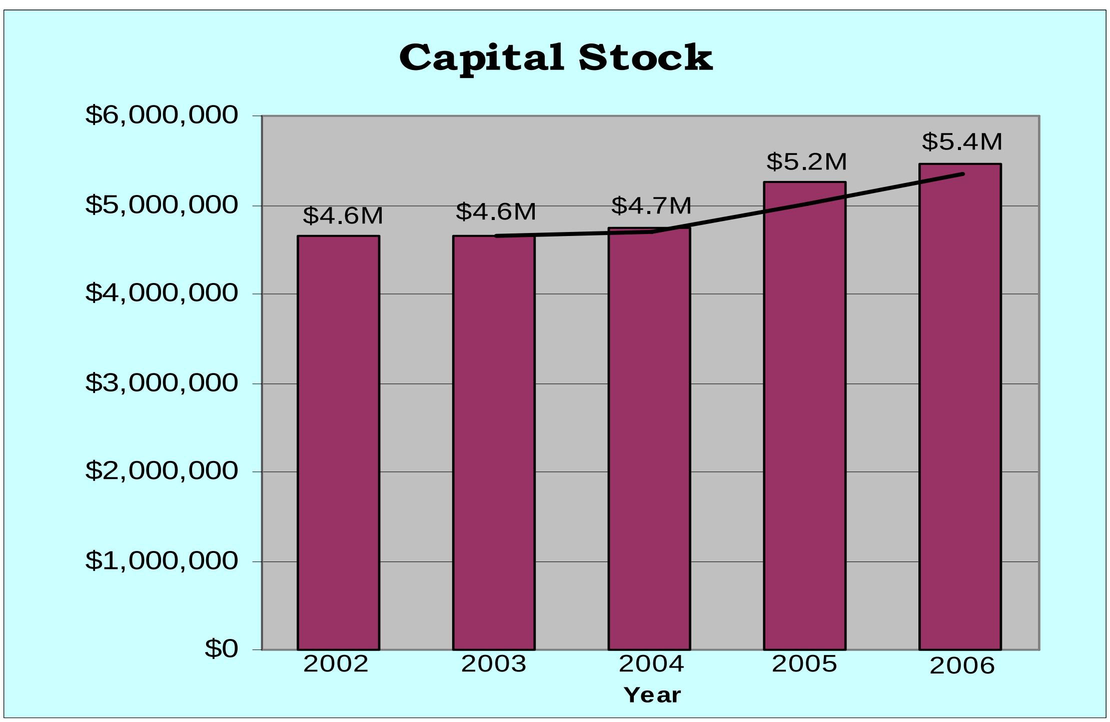
- **Total Assets**



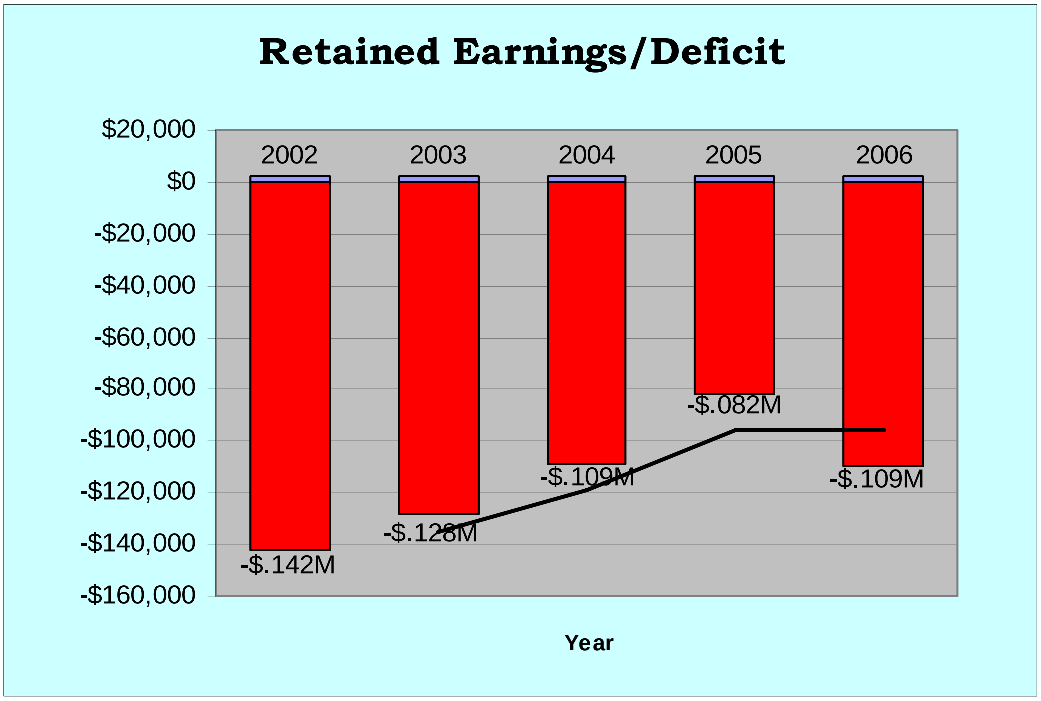
- **Loan Receivables, net**



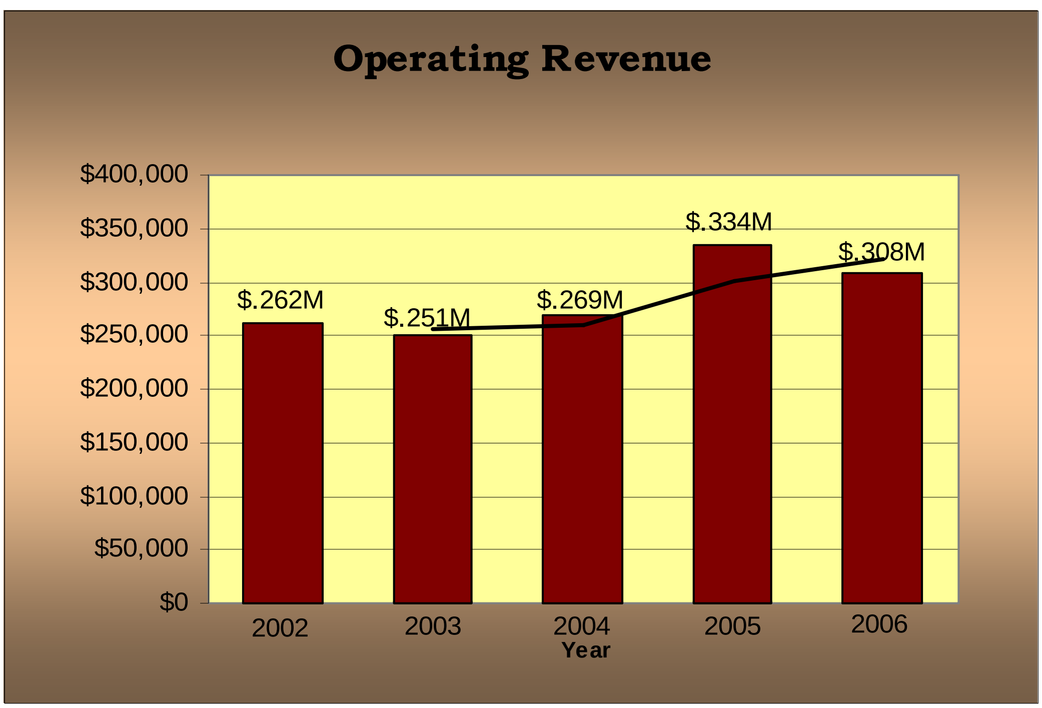
- **Capital Stock**



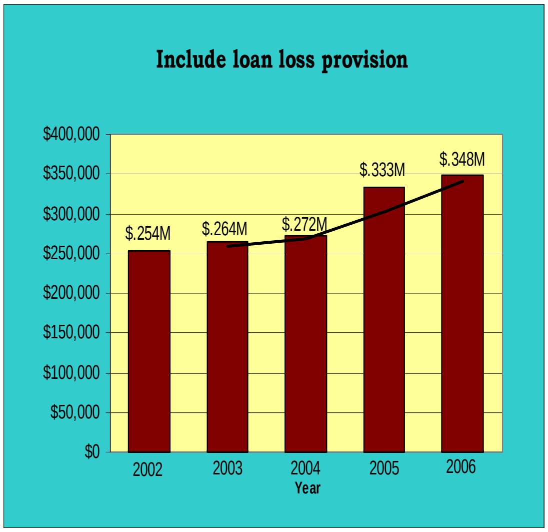
- **Retained Earnings/Deficit**

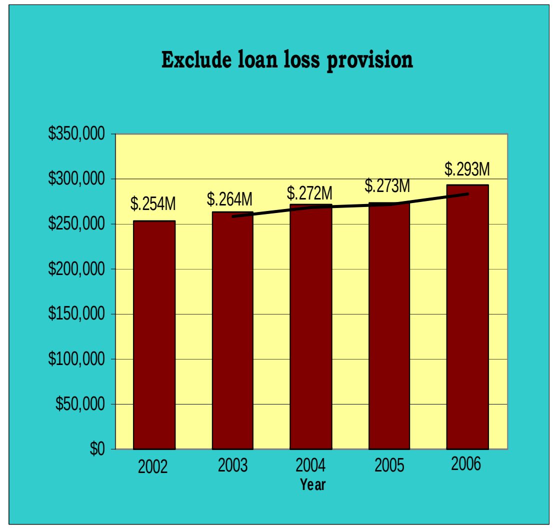


- **Operating Revenue**



- **Operating Expenses**





7. Financial Ratios

The overall financial performance of the bank is summarized under the following financial ratios for the period 2003 to 2006.

Financial Ratios	2003	2004	2005	2006
Growth				
Total Assets Growth	0.51%	12%	11%	10%
Loan Growth	37%	38%	37%	22%
Total Liabilities Growth	0%	0%	12%	49%
Net Worth	0.57%	3%	11%	6%
Revenue	-4%	7%	25%	-8%
Profitability				
Return on Assets	0.31%	0.39%	0.49%	-0.45%
Return on Equity	0.31%	0.42%	0.53%	-0.51%
Net Margin	6%	7%	8%	-9%
Leverage				
Net Worth	4,433,254.00	4,569,392.00	5,082,221.00	5,410,043.00
Debt/Worth	0%	9%	9%	13%
LT Debt/Net Fixed Assets	0%	2%	3%	33%
Total Liabilities/Total Assets	0%	8%	8%	11%
Liquidity				
Working Capital	2,684,200	2,653,690	2,392,730	2,433,565
Current Ratio	n/a	1,619	1,120	120

C. Board Activities Report

A. Board of Governors

The Board of Governors held its annual regular meeting in Pohnpei on April 6, 2006. No special meeting was called during the year. The following actions were taken in the Pohnpei meeting:

- ✓ Elected William Ngiraikelau, Jack Yakana, and Joseph Mendiola as Chairman, Vice Chairman, and Secretary, respectively;
- ✓ Received and reviewed the bank's 2005 Annual Report and the Audit Report;
- ✓ Received and reviewed the bank's 2006 Budget and Goals;
- ✓ Approved Justo Quitugua's nomination to the Board of Directors;
- ✓ Approved the bank's new corporate logo;
- ✓ Passed borrowing Resolution for the Intermediary Relending Program loan; and
- ✓ Conducted the President's annual performance review.

B. Board of Directors

Last year, the Board of Directors held four (4) regular meetings scheduled at the end of each quarter with the last meeting in December to review the 2006 year end results and develop the 2007 budget and goals. General activities of and actions taken by the Board during 2006 include:

- ✓ Reviewed and approved 8 loans over the President's lending authority;
- ✓ Transmitted the 2005 Annual Report to the Board of Governors
- ✓ Transmitted 2006 Budget & Goals to the Board of Governors for information;
- ✓ Quarterly, reviewed and monitored the bank's performance against budget;
- ✓ Reviewed the performance of the bank's investment Consultant/Advisor;
- ✓ Approved the bank's Allowance for Loan Loss Policy;
- ✓ Revised/updated the bank's Travel Policy
- ✓ Approved the guidelines for the Residential Home Loan Program;
- ✓ Facilitated the closing of $750,000 IRP loan;
- ✓ Assisted the President in lobbying for members' capital;
- ✓ Assisted the President in lobbying for new membership; and
- ✓ Approved the bank's 2007 Budget & Goals

PART III: OUTLOOK AND PRIORITIES

The outlook for the bank remains very challenging. Using our 5-Year Strategic Plan as our compass, we have grown and strengthened our balance sheet in the past three years. Having done that, we have also positioned the bank for improved earnings in 2007 and beyond. With improved earnings, a growing and stable balance sheet, and an established track record, we will be in a much better position to negotiate and secure external financing, both direct and leveraged. For year 2007, we will set high goals and standards and we will work diligently to achieve them. Given the fact that the two largest assets in our book are our outstanding loans and investment securities, we will continue to manage them prudently, keeping in mind that they are susceptible to external events and factors that the bank may have little or no control over. At the same time, we will maintain dialogue with our clients and customers and further expand our services.

Our highest priority, clearly, is to grow our balance sheet by securing the remaining membership capital and additional funding from external sources. With increased funding and capitalization, we can and should increase our assistance to our member governments and their agencies including direct financing for infrastructure and capital investment projects. We may also underwrite larger and more sophisticated credits and financing, including loan participation, factoring, bridge financing, equity financing, etc. It will also enable the bank to increase its scholarship program and expand its Residential Home Loan Program.

In the following two years, 2007 and 2008, we will focus and work diligently to (1) secure additional external funding to facilitate and sustain our growth, (2) secure the remaining capital from current members, (3) manage credit risks and maintain a quality loan portfolio, (4) closely monitor our investment securities and expedite drawdown of IRP funds; (5) secure new Associate Members; (6) expand our programs and diversify our products and services, (7) manage our margins by increasing revenue and controlling expenses, and (8) increase staff capability through training and development.

Given the above priorities, the assistance of the Board of Governors and Directors is needed in the following critical areas: (1) assist in securing the remaining equity capital from existing members, (2) assist in securing new and associate members, (3) assist in securing government funding sources and program/fund administration, and (4) initiate operational and structural changes to improve efficiency and effectiveness.

PACIFIC ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2006 AND 2005

Deloitte.

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Independent Auditors' Report

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

We have audited the accompanying statements of condition of Pacific Islands Development Bank (the Bank) as of December 31, 2006 and 2005, and the related statements of earnings (loss), changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Pacific Islands Development Bank as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 24, 2007

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Condition
December 31, 2006 and 2005

ASSETS	2006	2005
Cash	$ 261,910	$ 52,045
Money market funds	1,180,341	1,029,448
Cash and cash equivalents	1,442,251	1,081,493
Investment securities	1,005,328	1,296,642
Loans receivable, net of an allowance of $118,000 and $62,703 at 12/31/06 and 12/31/05, respectively	3,622,040	2,964,690
Other assets	6,459	16,280
Security deposit	2,574	2,574
Property and equipment, net	20,739	183,387
	$ 6,099,391	$ 5,545,066

LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Other payable	$ 1,848	2,138
Long-term debt	687,500	460,707
Total liabilities	689,348	462,845
Commitments		
Stockholders' equity:		
Capital stock	5,451,783	5,251,783
Deficit	(109,427)	(82,067)
Accumulated other comprehensive income (loss)	67,687	(87,495)
Total stockholders' equity	5,410,043	5,082,221
	$ 6,099,391	$ 5,545,066

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Earnings (Loss)
Years Ended December 31, 2006 and 2005

	2006	2005
Interest income	$ 317,970	$ 249,338
Dividend income	75,888	86,093
Realized loss from investment	(85,722)	(1,288)
	308,136	334,143
Operating expenses:		
Salaries and related expenses	133,917	124,917
Provision for loan losses	55,297	56,337
Conference and travel	54,531	56,876
Office rental	19,083	13,098
Insurance	18,147	15,352
Depreciation	12,162	15,052
Trust fees	12,149	11,780
Professional fees	8,776	6,259
Communications	7,747	6,958
Office supplies	2,811	4,602
Advertisement	2,759	1,762
Automobile	2,541	1,991
Scholarship	1,000	-
Board related expense	876	893
Repair and maintenance	638	4,998
Legal fee	460	-
Utility	22	268
Donation	-	300
Miscellaneous	15,912	11,861
Total operating expenses	348,828	333,304
Operating (loss) income	(40,692)	839
Other income (loss):		
USDA grants	-	2,144
Rental	5,400	10,928
Other income	16,658	12,086
(Loss) gain on sale of property and equipment	(3,961)	5,317
IRP interest expense	(4,765)	(4,188)
Total other income	13,332	26,287
Net (loss) earnings	$ (27,360)	$ 27,126

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2006 and 2005

	Shares of Common Stock	Common Stock	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance at December 31, 2004	4,751	$ 4,751,783	$ (109,193)	$ (73,198)	$ 4,569,392
Issuance of common stock	500	500,000	-	-	500,000
Comprehensive income:					
Net earnings	-	-	27,126	-	27,126
Net unrealized holding loss on available-for-sale securities net of reclassification adjustments	-	-	-	(14,297)	(14,297)
Total comprehensive income					12,829
Balance at December 31, 2005	5,251	5,251,783	(82,067)	(87,495)	5,082,221
Issuance of common stock	200	200,000	-	-	200,000
Comprehensive income:					
Net loss	-	-	(27,360)	-	(27,360)
Net unrealized holding gain on available-for-sale securities net of reclassification adjustments	-	-	-	155,182	155,182
Total comprehensive income					127,822
Balance at December 31, 2006	5,451	$ 5,451,783	$ (109,427)	$ 67,687	$ 5,410,043

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Cash Flows
Years Ended December 31, 2006 and 2005

		2006		2005
Cash flows from operating activities:				
Net (loss) earnings	$	(27,360)	$	27,126
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:				
Depreciation		12,162		15,052
Provision for loan loss		55,297		56,337
Loss (gain) on sale of fixed assets		3,961		(5,317)
Realized loss on sale of investment securities		85,722		1,288
Decrease (increase) in other assets		9,821		(5,051)
Increase in security deposit		-		(380)
(Decrease) increase in other payable		(290)		498
Net cash provided by operating activities		139,313		89,553
Cash flows from investing activities:				
Decrease in time certificates of deposit		-		824,000
Loan originations and repayments, net		(712,647)		(863,244)
Purchase of investment securities		(2,605,155)		-
Proceeds from sale of investment securities		2,965,929		413,954
Additions to property and equipment		(3,265)		(32,961)
Proceeds from sale of property and equipment		149,790		5,500
Net cash (used in) provided by investing activities		(205,348)		347,249
Cash flows from financing activities:				
Proceeds from issuance of capital stock		200,000		500,000
Proceeds from note payable		226,793		50,000
Net cash provided by financing activities		426,793		550,000
Net change in cash and cash equivalents		360,758		986,802
Cash and cash equivalents at beginning of year		1,081,493		94,691
Cash and cash equivalents at end of year	$	1,442,251	$	1,081,493

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 as set forth in the Statement of Financial Accounting Standards No.'s 116 and 117.

Cash and Cash Equivalents

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

Investment Securities

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

At December 31, 2006 and 2005, the Bank has classified all of its investment securities as available for sale.

Loans Receivable

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

(1) Summary of Significant Accounting Policies, Continued

Loans Receivable, Continued

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

Property and Equipment

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

Taxation

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

Comprehensive Income

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform with the 2006 presentation.

(2) Investment Securities

At December 31, 2005, investment securities consist of funds held in Federated Government National Mortgage Association Trust Fund, Federated Max-Cap Fund and Federated Automated Government Money Trust maintained with the trust department of a financial institution. Net unrealized losses at December 31, 2005 amounted to $87,495. During the year ended December 31, 2006, the Bank closed all of the investment accounts with this entity and incurred a realized loss of $71,171. All funds were transferred to another Fund Manager. At December 31, 2006, investment securities are maintained by fund managers with approximately 50% invested in equity securities and 50% invested in governmental bonds. The Bank incurred net realized losses of $14,551 from the sale of securities by the Fund Manager. Net unrealized gains at December 31, 2006 amounted to $67,687.

(3) Loans Receivable

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

In the ordinary course of business, the Bank has entered into transactions with its employees, directors and their affiliates. Such transactions were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers. The aggregate amount of loans outstanding to such related parties at December 31, 2006 and 2005 was $549,000 and $478,000, respectively.

Loans receivable are net of an allowance for loan loss reserves of $118,000 and $62,703 at December 31, 2006 and 2005, respectively.

(4) Long-Term Debt

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

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.

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

As of December 31, 2006, the Bank has drawn a total of $687,500 against the two facilities with $562,500 available for future drawdowns.

(4) Long-Term Debt, Continued

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

Year ending December 31,	
2007	$ 18,625
2008	16,294
2009	16,458
2010	22,703
2011	22,931
Thereafter	590,489
	$ 687,500

The Bank is required to match 50% of the IRP loan. Therefore, as of December 31, 2006, cash restricted for this purposes was $330,000. The Bank has designated cash in money market funds as restricted for this purpose.

(5) Property and Equipment

A summary of property and equipment as of December 31, 2006 and 2005, is as follows:

Description	Estimated Useful Lives	2006	2005
Land	-	$ -	$ 50,000
House	40 years	-	155,926
Office furniture and equipment	10 years	32,545	32,545
Computer equipment	5 years	33,871	30,605
Vehicle	5 years	20,500	29,195
		86,916	298,271
Less accumulated depreciation		(66,177)	(114,884)
		$ 20,739	$ 183,387

(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, 2006 and 2005, the Bank has received $5,451,783 and $5,251,783 of equity contributions, respectively. Authorized capital stock is 18,000 shares of $1,000 par value. As of December 31, 2006 and 2005, respectively, 5,451 and 5,251 shares have been issued and are outstanding.

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

(7) Commitment

The Bank has existing loan commitments of $137,000 as of December 31, 2006.

(8) Leases

The Bank operates from rented premises under an operating lease agreement expiring on July 31, 2007 with a monthly lease payment of $1,590. Total future minimum payments under this lease amount to $11,130 for the year ended December 31, 2007.

Additionally, the Bank leased a house to an outside party at $1,350 per month. The house was sold during the year ended December 31, 2006.

(9) Related Party Transactions

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

(10) Employee Benefit Plan

On January 1, 2006, the Bank adopted 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 at the discretion of the Bank and are 100% vested after three years of service. During the year ended December 31, 2006, the Bank contributed $4,670 to the Plan.

PACIFIC ISLANDS DEVELOPMENT BANK

JULY 5, 1989