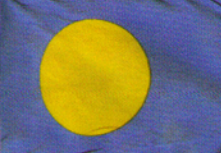


2007 ANNUAL REPORT

Pacific Islands Development Bank



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Pacific Islands Development Bank

Transmittal Letter

March 29, 2008

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, 2007.

Respectfully,

A handwritten signature in blue ink, appearing to read "Aren B. Palik".

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

Message from the President

2007 was a record setting year for the bank. During the year, we remained focused on growth related initiatives and strategies outlined in our Strategic Plan. We achieved our key budget goals and targets for the year resulting in further growth in our balance sheet. Further, we recorded the highest net earnings since inception which effectively eliminated and retired our accumulated deficit which peaked at \$493,000 in 1994. Of equal importance, we recorded a record low delinquency ratio of 0.9% and received an “unqualified” audit opinion with no question costs.

On our balance sheet, Total Assets grew by 13% to \$6.8 million attributed to additional membership capital from Guam and further drawdown against the \$750,000 Intermediary Relending Program (IRP) soft loan. Net Loans Receivable grew by 22% to \$4.4 million. In light of our growing loan portfolio, we prudently increased our reserves for loan losses by \$38,443 to \$135,000. During the year, the Board of Directors followed the Allowance for Loan Loss methodology to determine the adequacy of loan loss reserve. Capital stock also grew by 1.8% or \$100,000 to \$5.5 million.

A strong balance sheet growth normally leads to strong earnings and profitability. Total revenue increased by 73% to \$555,581 which is unusually high. This is due primarily to the one-time loss we realized in 2006 when we moved our investment portfolio to a new investment management consultant. In 2007, we did not have to realize that loss again and our income from securities investment exceeded budget and expectation. Total operating expenses, on the other hand, increased by \$42,774 or 13% to \$391,602, due primarily to the hiring of our Loan Officer. Consequently, we ended the year with a net income of \$163,979, net of \$38,443 additional provision for loan loss reserve.

In this report, we are including a section on the economic and social benefits of our lending program, particularly in terms of employment and tax revenue generated by businesses financed by the bank. This is the first time we are attempting to measure the socio-economic impact of our programs to which we could improvise next year.

Having just recorded our best performance by far, we still have a long way to go. Our operating environment and outlook for the next five years remain very challenging. The effect of record high cost of fuel, weakening value of the dollar and general downturn in the U.S. economy have clearly impacted cost of doing business in the region. In fact, the impact is far greater to us due to our remoteness, lack of a production based economy, and lack of economy of scale. Fiscal challenges and stagnant economic growth continue to overwhelm the PIDB member entities. On a positive note, the planned military expansion in Guam with the relocation of over 8,000 marines and their dependents is expected to bring unprecedented economic expansion to Guam and the region. The bank will position itself to engage fully in this expansion.

PART I: ABOUT THE BANK

A. Establishment

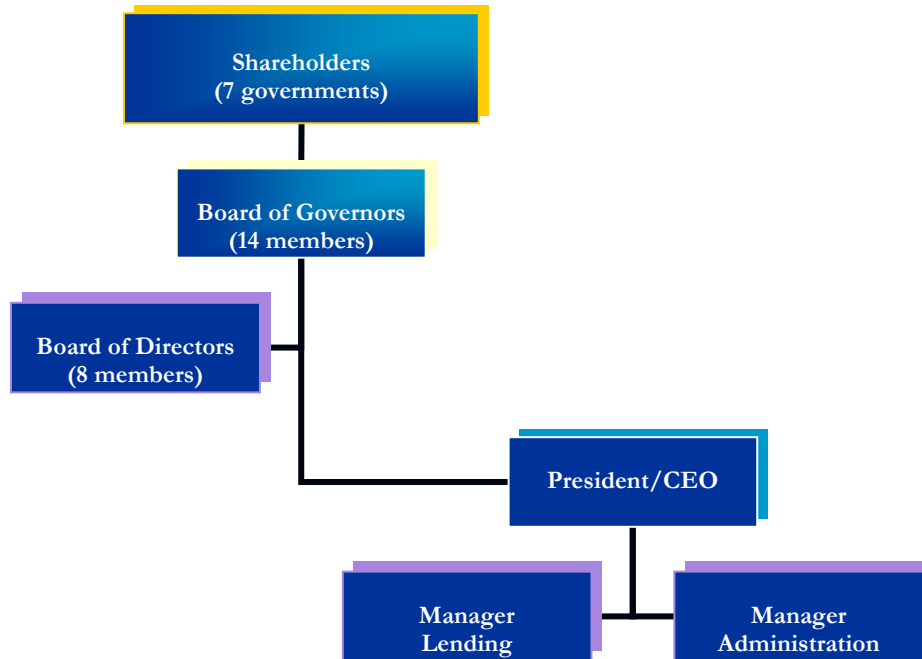
The Pacific Islands Development Bank (PIDB) is a regional development finance institution established on July 5, 1989 by the Association of Pacific Island Legislatures (APIL) to provide financial services and technical assistance to its member islands. As of December 31, 2007, the shareholders of the Bank include the Commonwealth of the Northern Mariana Islands, the Republic of Palau, the Island of Guam, and the FSM States of Chuuk, Kosrae, Pohnpei, and Yap. Efforts to secure the membership of American Samoa and the Republic of the Marshall Islands 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



D. The Shareholders

The shareholders of the Bank with number of shares owned and their corresponding values in 2007 and 2006 were as follows:

Shareholders	2007		2006	
	Number	Value(\$)	Number	Value(\$)
Chuuk	251	\$251,783	251	\$251,783
CNMI	1,000	1,000,000	1,000	1,000,000
Guam	700	700,000	600	600,000
Kosrae	600	600,000	600	600,000
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	5,551	\$5,551,783	5,451	\$5,451,783

E. The Board of Governors

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:	Robert Weilbacher Governor FSM State of Kosrae	Lyndon Jackson Speaker Kosrae State Legislature
Palau:	Elbuchel Sadang Minister of Finance Republic of Palau	William Ngiraikelau Delegate, HOD Palau National Congress
Pohnpei:	Jack Yakana Lt. Governor FSM State of Pohnpei	Finley Perman Director of Treasury Pohnpei State Government
Yap:	Sebastian Anefal Governor FSM State of Yap	Charles Chieng Speaker Yap State Legislature

At its April 7, 2007 meeting in Yap, the Board elected Jack Yakana, Joseph Mendiola, and Sebastian Anefal as Chairman, Vice Chairman, and Board Secretary, respectively.

Governor and Director William Ngiraikelau resigned from the Board in July 2007 and his position remained vacant at year end.

The Bank conveys its gratitude and appreciation for the contributions made by former governors Rensley Sigrah, William Ngiraikelau, Robert Ruecho', and John Masiwemai who were replaced during the year under review. The Bank also congratulates and welcomes our new governors, Robert Weilbacher, Sebastian Anefal, and Charles Chieng.

F. The Board of Directors

The following served on the Board of Directors of the bank during the year in review:

Palau	CNMI	Guam
Elbuchel Sadang Minister of Finance Republic of Palau	Justo Quitugua Vice Speaker CNMI Legislature	Lourdes Perez Director of Administration Government of Guam
Kosrae	Pohnpei	Yap
Gibson Siba Senator Kosrae State Legislature	Jack Yakana Lt. Governor Pohnpei State	Joseph Giliko Senator Yap State Legislature
Management	Chuuk	
Aren Palik President & CEO Chairman of the Board	Vacant	

The Bank expresses its gratitude and appreciation to former directors Gerson Jackson and William Ngiraikelau for their invaluable contributions. The Bank also congratulates and welcomes Gibson Siba and Elbuchel Sadang who replaced them on the Board.

G. The Management

The Bank's corporate office is located in Guam. It presently does not have any branch offices. The President is assisted by a Manager of Administration and a Manager of Lending. Last year, the bank's management team was comprised of the following:

Name	Title
Aren Palik	President &CEO
Rosa Weilbacher	Manager, Administration
Aaron Sigrah	Loan Officer

PART II: LOAN REPORT

A. Loan Approvals

Loan Approvals					
2007			2006		
Sector	Number	Value		Number	Value
Agriculture	1	26,625		0	0
Commercial	5	972,053		1	230,000
Fisheries	2	70,000		0	0
Manufacturing	0	0		0	0
Services	6	840,637		14	1,060,624
Tourism	1	280,666		2	359,121
Others	0	0		0	0
Total	15	\$2,189,981		17	\$1,649,745

Note: 11 loan were approve by the Board; 4 by the President

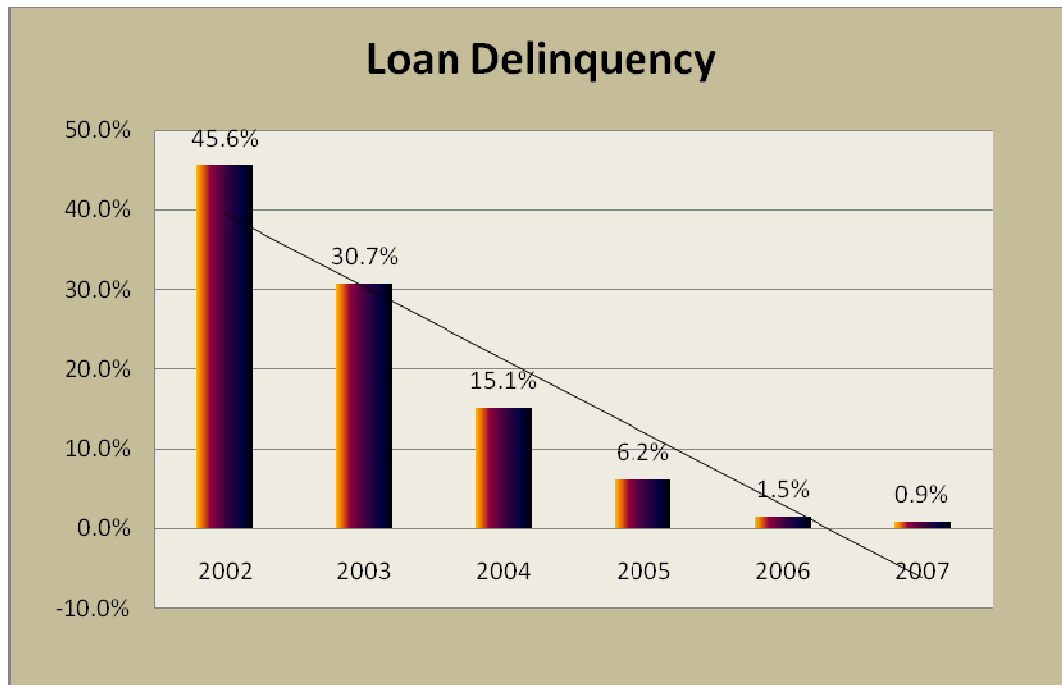
B. Outstanding Loans

Outstanding Loans by Sector					
2007			2006		
Sector	Number	Value		Number	Value
Agriculture	1	24,229		1	5,538
Commercial	20	1,730,052		11	1,321,304
Fisheries	1	101,883		2	102,787
Manufacturing	0	0		0	0
Services	21	2,214,414		25	1,395,552
Tourism	2	356,291		5	796,859
Others	0	0		0	0
Total	45	\$4,426,869		44	\$3,622,040

Note: Outstanding loans preclude reserve for loan losses of \$135,000 and \$118,000 at 12/31/07 and 12/31/06, respectively.

C. Loan Delinquency & Charge Offs

During the period under review, the Bank further improved its delinquency ratio from 1.5% in 2006 to 0.9% in 2007, the lowest since inception. The Bank charged off one (1) loan in the amount of \$19,222.



D. Investment Value by Loans & Equity

	Chuuk	CNMI	Guam	Kosrae	Palau	Pohnpei	Yap	Total
Capital Contributed	251,783	1,000,000	700,000	600,000	1,000,000	1,000,000	1,000,000	5,551,783
Ownership (%)	4.54%	18.01%	12.61%	10.81%	18.01%	18.01%	18.01%	100.0%
Add: IRP Share	<u>63,050</u>	<u>250,300</u>	<u>82,150</u>	<u>103,600</u>	<u>250,300</u>	<u>250,300</u>	<u>250,300</u>	<u>1,250,000</u>
Total Funds Owned	314,833	1,250,300	782,150	703,600	1,250,300	1,250,300	1,250,300	6,801,783
Less: Loan bal.	<u>150,389</u>	<u>580,691</u>	<u>1,133,824</u>	<u>261,346</u>	<u>960,968</u>	<u>838,312</u>	<u>776,560</u>	<u>4,702,090</u>
Loanable Funds	\$164,444	\$669,609	-\$351,674	\$442,254	\$289,332	\$411,988	\$473,740	\$2,099,693

1) IRP (Intermediary Re-lending Program) is the soft loan from the USDA Rural Development

2) Loan balance includes commitments (approved but undisbursed loans)

E. Social-economic Benefits

For the first time, the Bank attempted to measure some of the socio-economic benefits generated from its lending program. The table below shows jobs created and saved, estimated business taxes paid to the governments and annual salary paid to employees.

	<u>Jobs Created</u>	<u>Total Jobs</u>	<u>Estimated Annual Business Taxes</u>	<u>Estimated Annual Salary</u>
Chuuk	2	3	\$ 1,320	\$ 2,500
CNMI	32	65	\$ 36,254	\$ 390,254
Guam	50	106	\$ 265,254	\$1,221,112
Kosrae	25	42	\$ 32,541	\$ 201,685
Palau	42	95	\$ 214,587	\$ 912,245
Pohnpei	41	89	\$ 187,254	\$ 598,849
Yap	37	82	\$ 92,808	\$ 551,040
Total	229	482	\$ 830,018	\$3,877,685

- 1) Jobs created = jobs created as a result of PIDB funding
- 2) Estimated Annual Business Taxes is taken from businesses' quarterly tax filing
- 3) Estimated Annual Salary are also based on information provided by borrowers

F. Scholarships Awarded

<u>Recipient Name</u>	<u>Location</u>	<u>Year Awarded</u>	<u>Field of Study</u>
Hentrick Eveluck	Chuuk	2000, 2002	Business/Finance
Mayleen Elley	Kosrae	2002	Business
Barla Jonas	Kosrae	2002	Accounting
Aaron Peter	Kosrae	2004	Accounting
Myrna A. Nievera	Guam	2002	Business/Economics
Melanie Mendiola	Guam	2002	Business/Accounting
Hermina B. Certeza	Guam	2006	Accounting
Fleming U. Sengebau	Palau	2000	Business
Fernanda Fraser	Palau	2001	Finance/Accounting
Ralph Moses	Palau	2004	Finance/Business
Dean V. Manglona	CNMI	2004	Business
Gergry Erakilur	Yap	2002	Economics
Venessa Sigrah	Yap	2006	Business
Tanya Oscar	Pohnpei	2002	Business Management
Lenster Fredrick	Pohnpei	2004	Accounting

- 1) The scholarship award is \$500 each

PART III. FINANCIAL REPORT

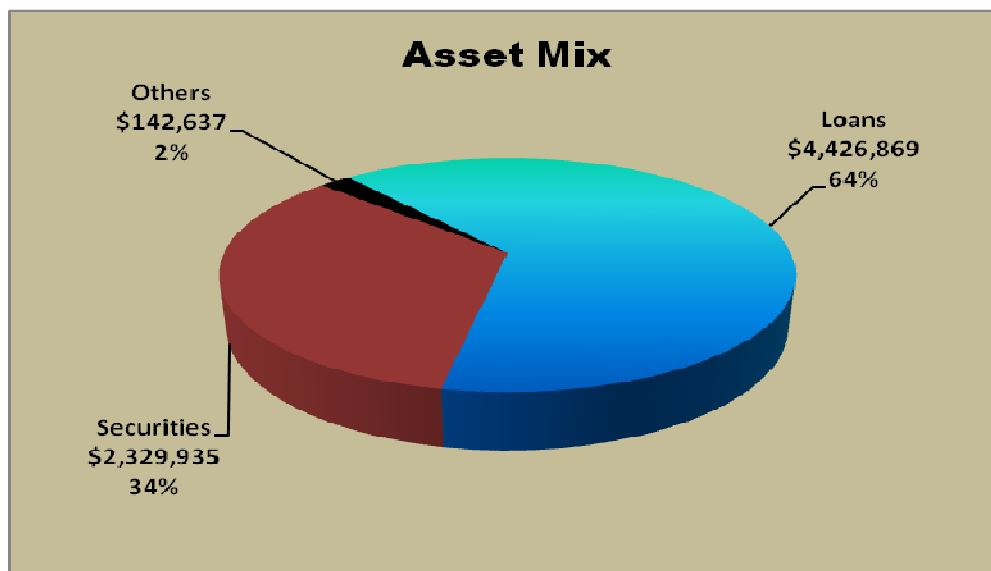
A. 2007 Budget vs. Actual

During the period under review, the Bank achieved most of its financial goals and targets as outlined in the budget. A key financial goal that was not achieved is Capital Stock. A combined \$300,000 in equity infusion from Guam, Kosrae and Chuuk was budgeted, however, only Guam was able to infuse \$100,000, resulting in a variance of \$200,000.

Selected Indicators	2007 Budget	2007 Actual	Variance \$
Total Assets	6,879,127	6,899,441	20,314
Loans Receivable	4,500,000	4,561,869	61,869
Marketable Securities	2,400,000	2,329,935	-70,065
IRP Loan Drawdown	1,032,558	1,189,090	156,532
Capital Stock	5,751,783	5,551,783	-200,000
Retained Earnings (Deficit)	8,786	54,552	45,766
Gross Revenue	484,700	555,581	70,881
Total Operating Expenses	366,487	391,602	25,115
Net Income(Loss)	118,213	163,979	45,766

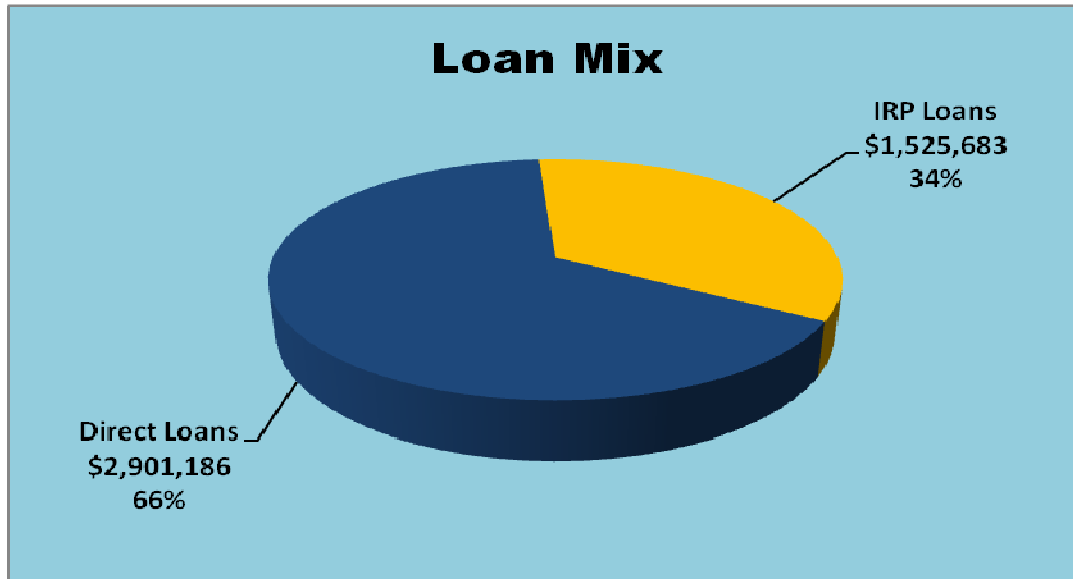
B. Asset Mix

The following chart shows the composition of the Bank's assets. "Other Assets" includes net property and equipment and cash.



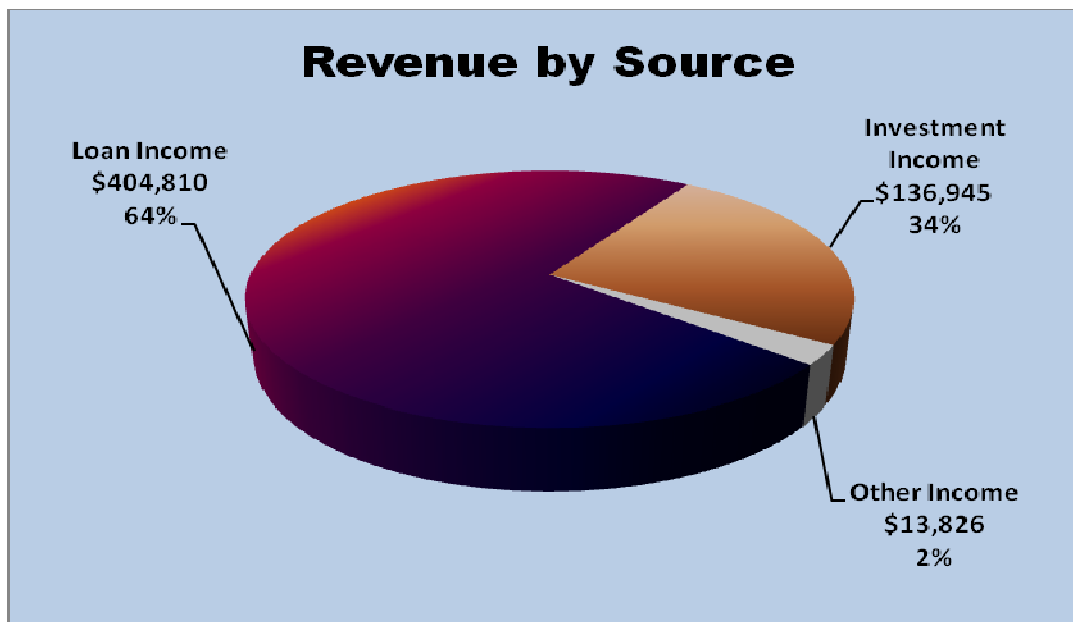
C. Loan Mix

The Bank currently has two types of loans. IRP (Intermediary Relending Program), a soft loan from USDA Rural Development, and Direct loans.



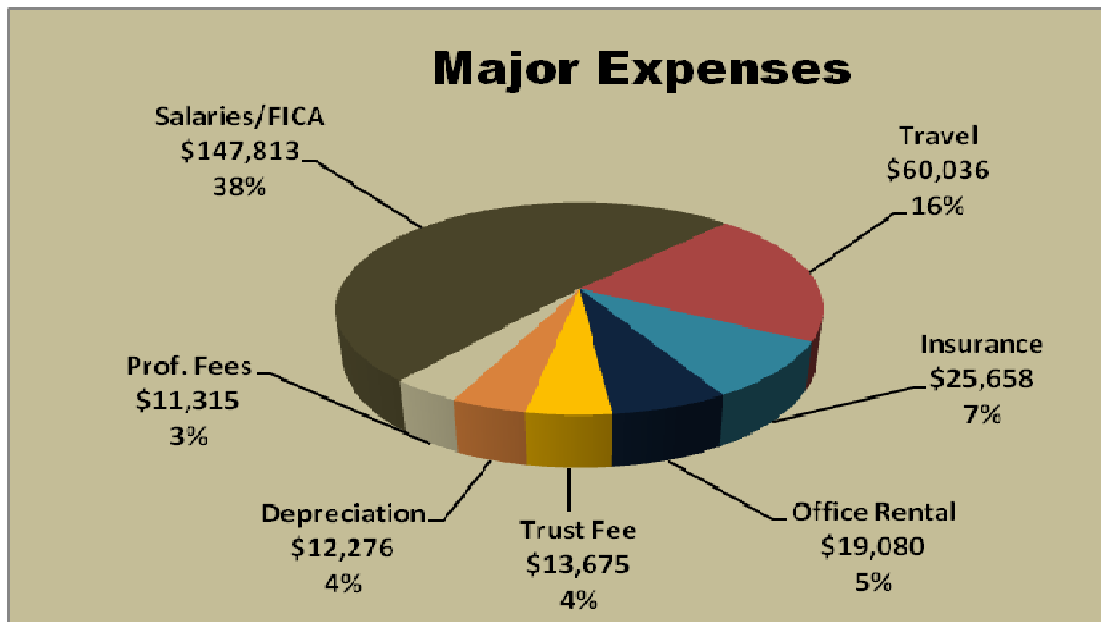
D. Revenue by Source

“Other Income” include loan booking fees, late charges, and loan recoveries.



E. Major Expenses

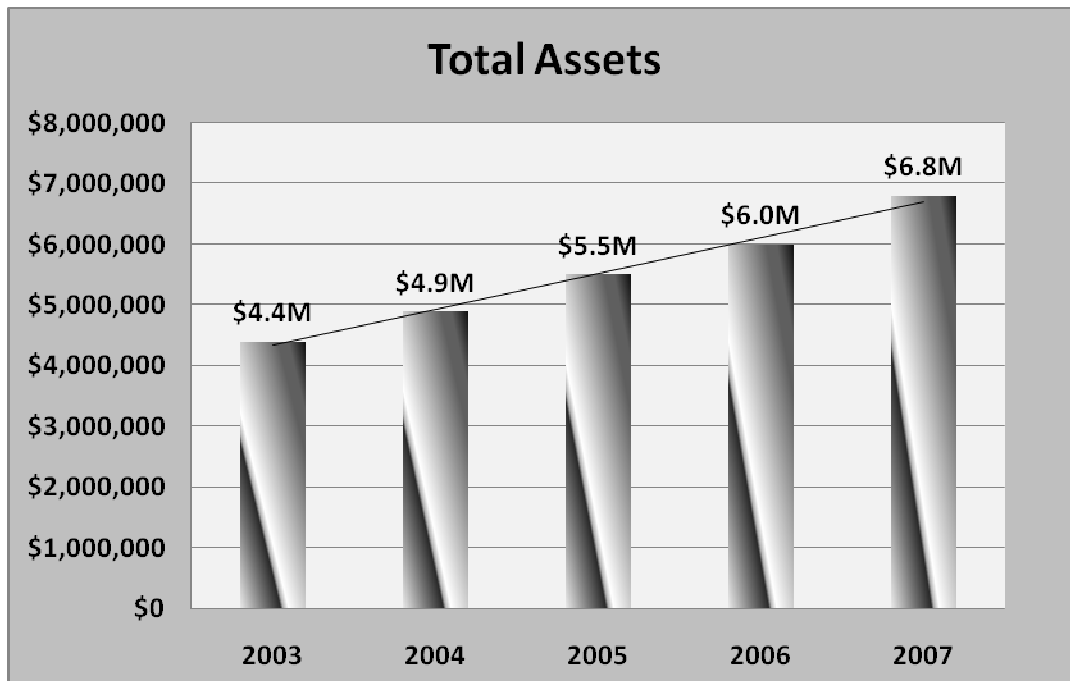
The following chart shows the main expense items in amount and as a percentage of total operating expenses. The seven expense items below represent 77% of total expenses.

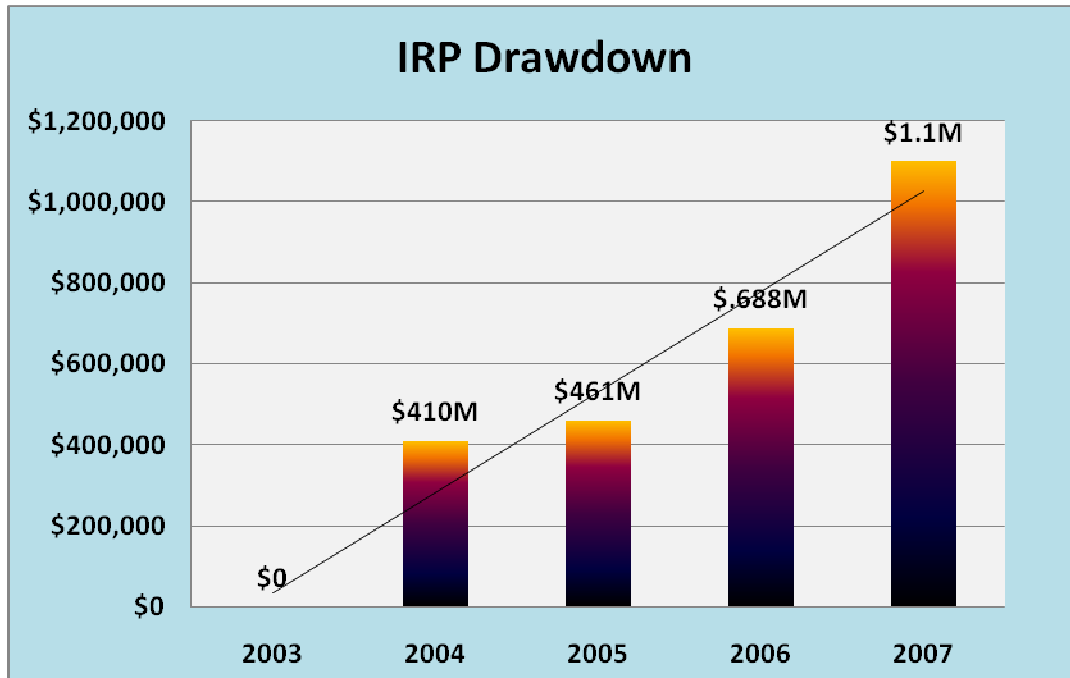
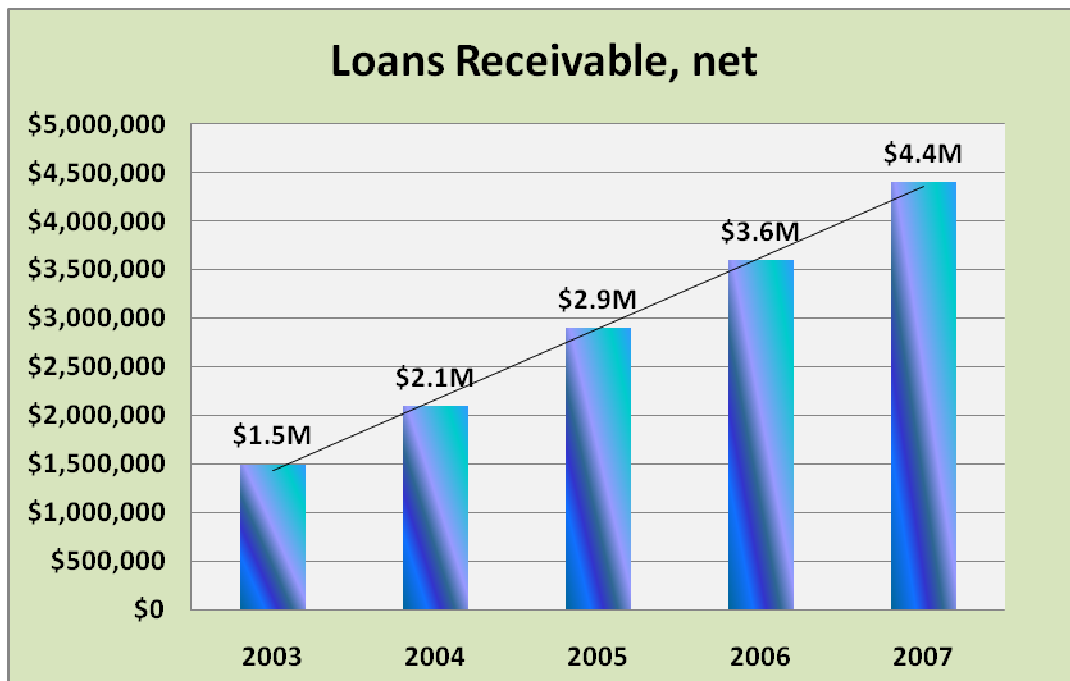


PART IV. HISTORICAL PERFORMANCE

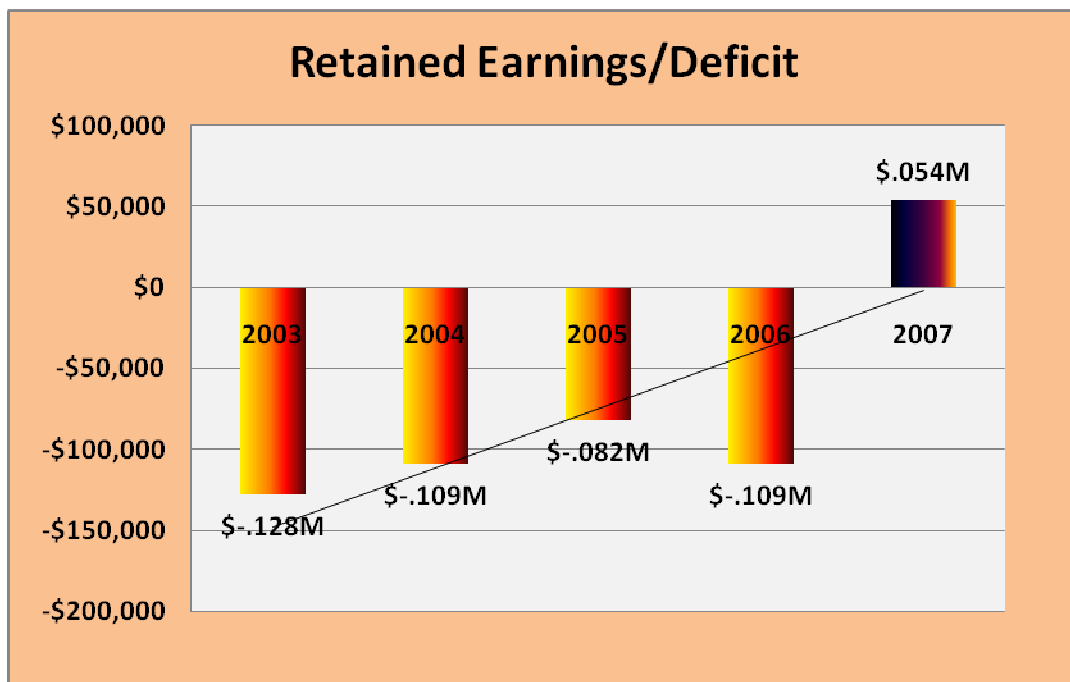
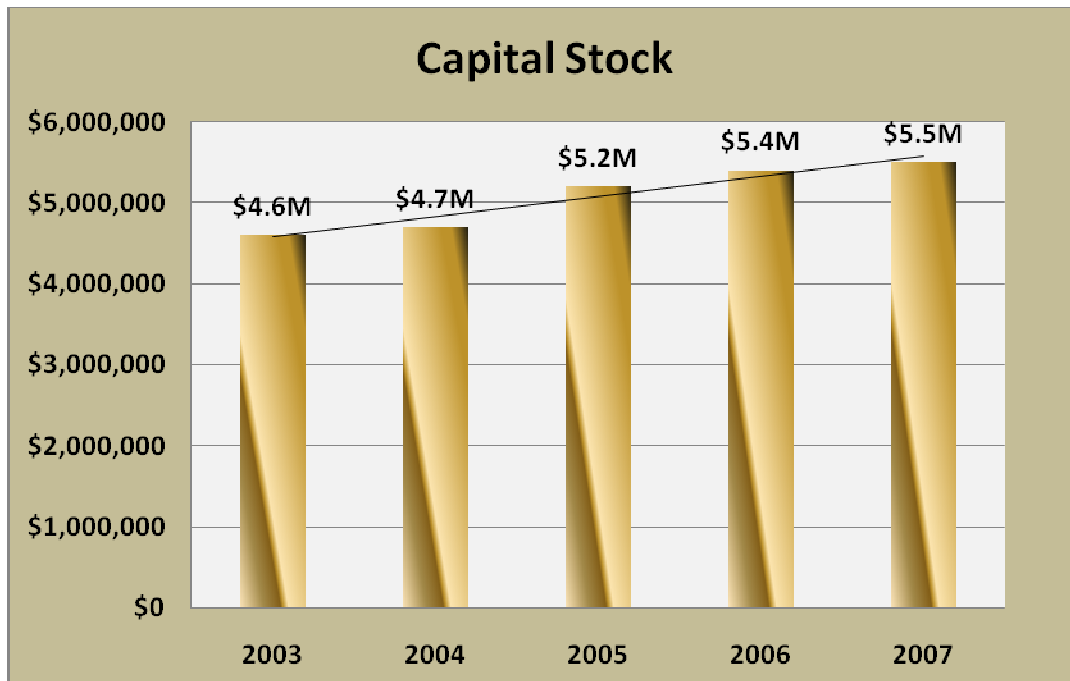
The following table summarizes the historical financial performance of the Bank in the last five years, 2003-2007, on selected key performance indicators.

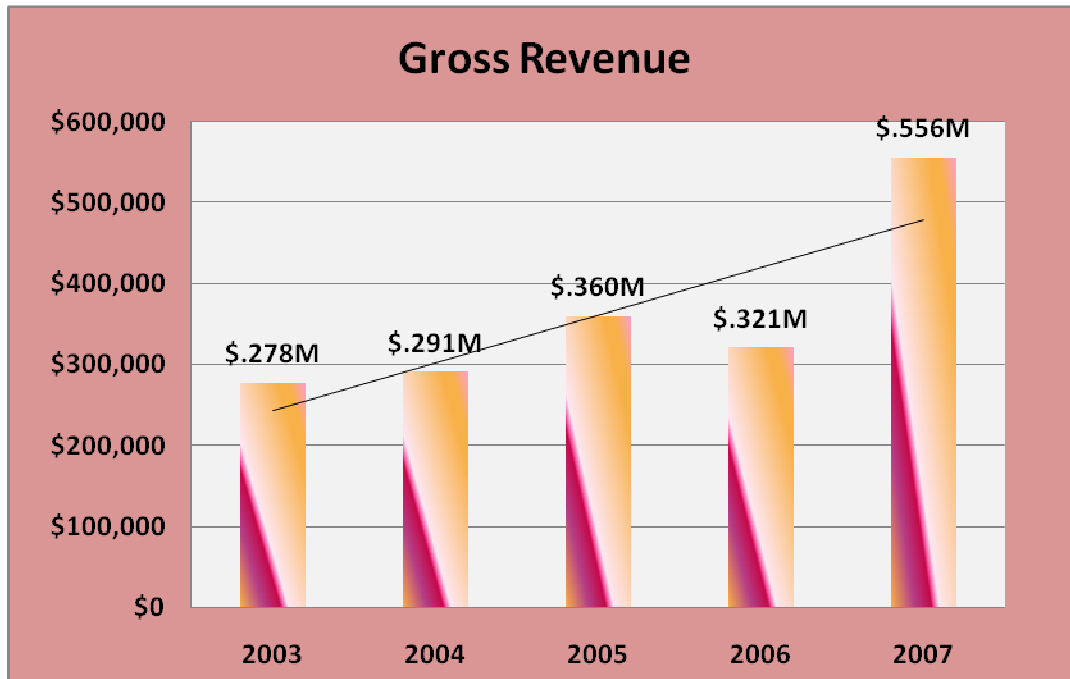
Selected Indicators	2003	2004	2005	2006	2007
Total Assets	4,433,254	4,981,739	5,545,066	6,099,391	6,899,441
Loans Receivable	1,566,201	2,157,783	2,964,690	3,622,040	4,561,869
Marketable Securities	2,639,536	2,550,181	2,326,090	2,447,579	2,329,935
IRP Loan Drawdown	0	410,707	460,707	668,875	1,189,090
Capital Stock	4,651,783	4,751,783	5,251,783	5,451,783	5,551,783
Retained Earnings (Deficit)	-128,588	-109,193	-82,067	-109,427	54,552
Gross Revenue	277,935	291,472	360,430	321,468	555,581
Total Operating Expenses	264,123	272,077	333,304	348,828	391,602
Net Income (Loss)	13,812	19,395	27,126	-27,360	163,979



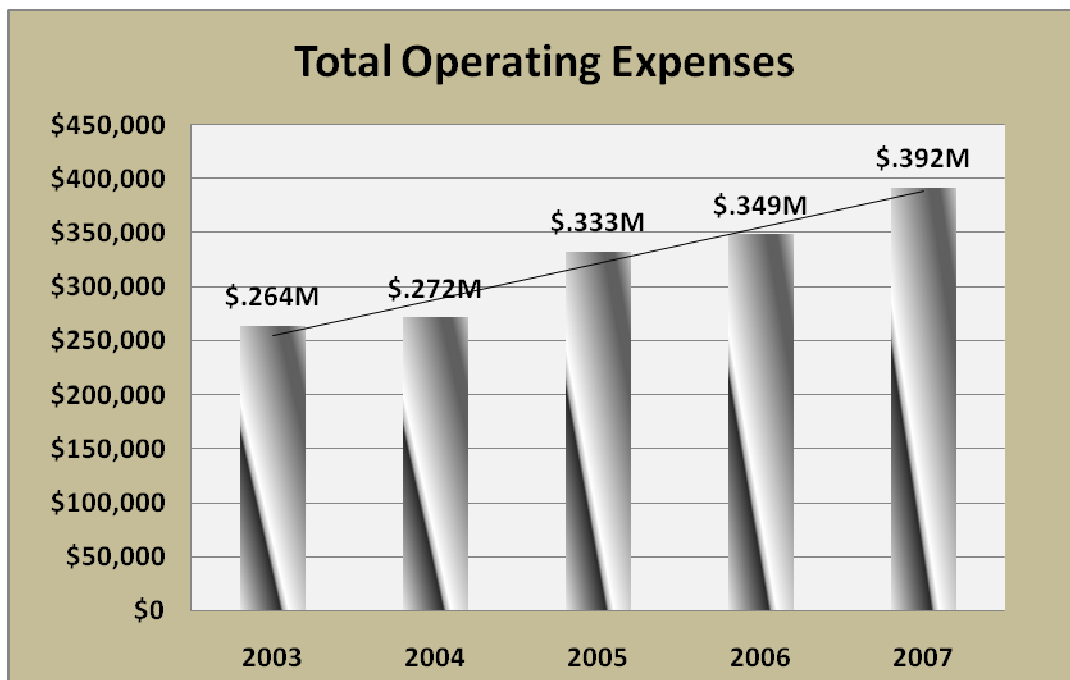


IRP = Intermediary Relending Program, a soft loan from USDA Rural Development awarded to PIDB for relending purposes

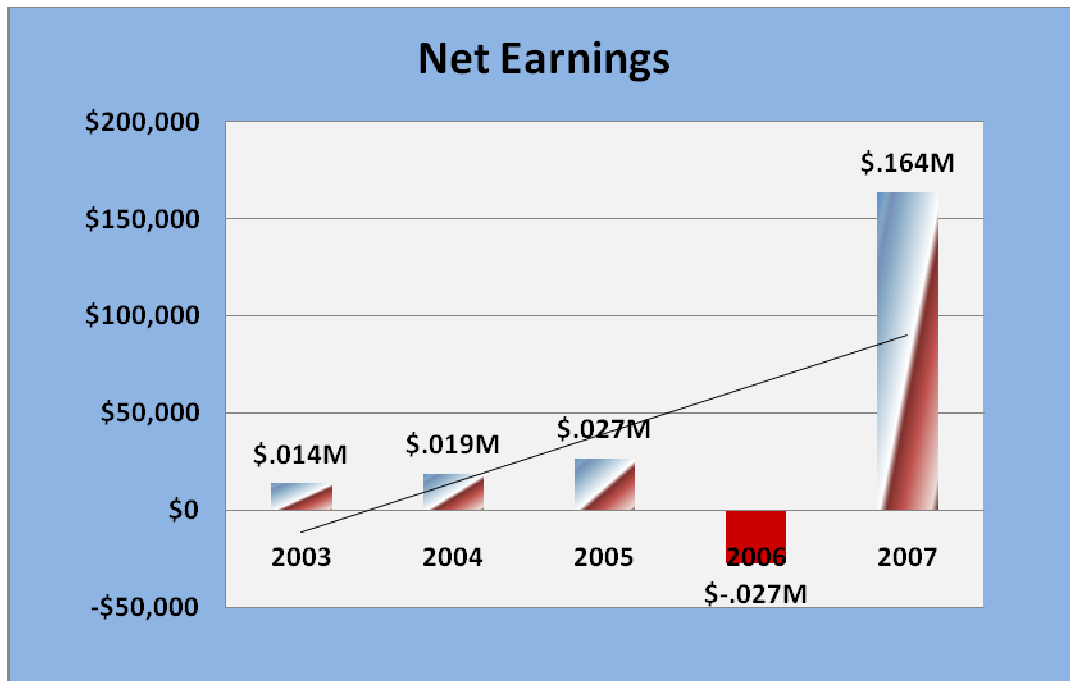




Note: The decline in 2006 was attributed to the realized loss from investment of \$85,722 when the bank moved its investment securities to a new investment management consultant.



Note: Amount includes provision for loan losses of \$38,443 and \$55,297 for 2007 and 2006, respectively.



Note: In 2006, the bank realized a loss of \$85,722 when it moved its investment securities to a new investment management Consultant. The bank also provisioned \$55,297 for loan loss reserve in 2006.

PART V. FINANCIAL RATIOS

The overall financial performance of the Bank is summarized under the following financial ratios for the last five years, 2003 to 2007.

	2003	2004	2005	2006	2007
GROWTH					
Total Asset Growth	0.51%	12%	11%	10%	13%
Loans Growth	35%	38%	37%	22%	23%
Long Term Debt Growth	0%	0%	12%	49%	73%
Net Worth Growth	0.57%	3%	11%	6%	6%
PROFITABILITY					
Return on Assets	0.31%	0.39%	0.49%	-0.45%	2.38%
Return on Equity	0.31%	0.42%	0.53%	-0.51%	2.87%
Net Margin	6%	7%	8%	-9%	34%
LEVERAGE					
Net Worth	\$4.4M	\$4.5M	\$5.0M	\$5.4M	\$5.7M
Debt/Worth	0%	9%	9%	13%	34%
Total Liab./Total Assets	0%	8%	8%	11%	17%
LIQUIDITY					
Working Capital	\$2.6M	\$2.6M	\$2.3M	\$2.4M	\$2.4M
Current Ratio	1,230	1619	1,120	120	n/a

PART VI. BOARD ACTIVITIES REPORT

A. Board of Governors

The Board of Governors held its annual regular meeting in Yap on April 7, 2007. No special meeting was called during the year. The following actions were taken in the Yap meeting:

- ✓ Elected Jack Yakana, Joseph Mendiola, and Sebastian Anefal as Chairman, Vice Chairman, and Secretary, respectively;
- ✓ Received and reviewed the bank's 2006 Annual Report and Audit Report;
- ✓ Received and reviewed the bank's 2007 Budget and Goals;
- ✓ Approved Gibson Siba's nomination to the Board of Directors;
- ✓ Reviewed the bank's Articles and Bylaws and directed the Board of Directors to draft Resolutions re bank structure and board membership;
- ✓ Passed several Resolutions supporting efforts on new membership; and
- ✓ Conducted the President's annual performance review.

B. Board of Directors

In 2007, the Board of Directors held three (3) regular meetings 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 2007 include:

- ✓ Took action on certain Resolutions and decisions of the Board of Governors;
- ✓ Approved 11 loans over and above the President's lending authority;
- ✓ Prepared and submitted the 2006 Annual Report to the Board of Governors
- ✓ Transmitted 2007 Budget & Goals to the Board of Governors for information;
- ✓ Quarterly review of the bank's performance against 2007 budget;
- ✓ Quarterly review of the performance of bank's investment Consultant/Advisor;
- ✓ Quarterly review of loan portfolio as required under the bank's Allowance for Loan Loss Policy and Methodology, and determine adequacy of loan loss reserve
- ✓ Assisted the President in lobbying for members' capital;
- ✓ Assisted the President in lobbying for new membership; and
- ✓ Approved the Bank's 2008 Budget & Goals

PACIFIC ISLANDS DEVELOPMENT BANK

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED DECEMBER 31, 2007 AND 2006

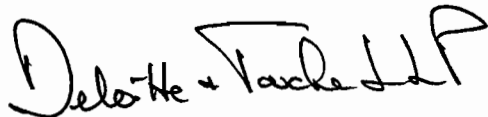
Independent Auditors' Report

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, 2007 and 2006, 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, 2007 and 2006, 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.



March 27, 2008

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Condition December 31, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Cash	\$ 81,134	\$ 261,910
Money market funds	<u>574,247</u>	<u>1,180,341</u>
Cash and cash equivalents	655,381	1,442,251
Time certificates of deposit	671,604	-
Investment securities	1,084,084	1,005,328
Loans receivable, net of an allowance of \$135,000 and \$118,000 at December 31, 2007 and 2006, respectively	4,426,869	3,622,040
Other assets	12,345	6,459
Security deposit	2,574	2,574
Property and equipment, net	<u>46,584</u>	<u>20,739</u>
	<u>\$ 6,899,441</u>	<u>\$ 6,099,391</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Liabilities:		
Other payable	\$ -	1,848
Long-term debt	<u>1,189,090</u>	<u>687,500</u>
Total liabilities	<u>1,189,090</u>	<u>689,348</u>
Commitments		
Stockholders' equity:		
Capital stock	5,551,783	5,451,783
Retained earnings (deficit)	54,552	(109,427)
Accumulated other comprehensive income	<u>104,016</u>	<u>67,687</u>
Total stockholders' equity	<u>5,710,351</u>	<u>5,410,043</u>
	<u>\$ 6,899,441</u>	<u>\$ 6,099,391</u>

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Earnings (Loss) Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Interest income	\$ 404,810	\$ 317,970
Dividend income	76,045	75,888
Realized gain (loss) from investment	<u>60,900</u>	<u>(85,722)</u>
	541,755	308,136
Provision for loan losses	<u>38,443</u>	<u>55,297</u>
	<u>503,312</u>	<u>252,839</u>
Operating expenses:		
Salaries and related expenses	182,148	133,917
Conference and travel	60,036	54,531
Insurance	25,658	18,147
Office rental	19,080	19,083
Trust fees	13,675	12,149
Depreciation	12,276	12,162
Professional fees	11,315	8,776
Communications	7,055	7,747
Automobile	4,300	2,541
Office supplies	3,541	2,811
Advertisement	805	2,759
Donation	756	-
Repair and maintenance	265	638
Board related expense	190	876
Scholarship	-	1,000
Legal fee	-	460
Miscellaneous	<u>12,059</u>	<u>15,934</u>
Total operating expenses	<u>353,159</u>	<u>293,531</u>
Operating income (loss)	<u>150,153</u>	<u>(40,692)</u>
Other income (loss):		
Rental	-	5,400
Other income	21,806	16,658
Loss on disposal of property and equipment	(1,242)	(3,961)
IRP interest expense	<u>(6,738)</u>	<u>(4,765)</u>
Total other income	<u>13,826</u>	<u>13,332</u>
Net earnings (loss)	<u>\$ 163,979</u>	<u>\$ (27,360)</u>

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Changes in Stockholders' Equity Years Ended December 31, 2007 and 2006

	<u>Shares of Common Stock</u>	<u>Common Stock</u>	<u>(Deficit) Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total</u>
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
Issuance of common stock	100	100,000	-	-	100,000
Comprehensive income:					
Net earnings	-	-	163,979	-	163,979
Net unrealized holding gain on available-for-sale securities net of reclassification adjustments	-	-	-	36,329	36,329
Total comprehensive income					200,308
Balance at December 31, 2007	<u>5,551</u>	<u>\$ 5,551,783</u>	<u>\$ 54,552</u>	<u>\$ 104,016</u>	<u>\$ 5,710,351</u>

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Cash Flows Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net earnings (loss)	\$ 163,979	\$ (27,360)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation	12,276	12,162
Provision for loan loss	38,443	55,297
Loss on sale of fixed assets	1,242	3,961
Realized (gain) loss on sale of investment securities	(60,900)	85,722
(Increase) decrease in other assets	(5,886)	9,821
Decrease in other payable	(1,848)	(290)
Net cash provided by operating activities	<u>147,306</u>	<u>139,313</u>
Cash flows from investing activities:		
Increase in time certificates of deposit	(671,604)	-
Loan originations and repayments, net	(843,272)	(712,647)
Proceeds from sale of investment securities, net	18,473	360,774
Additions to property and equipment	(39,363)	(3,265)
Proceeds from sale of property and equipment	-	149,790
Net cash used in investing activities	<u>(1,535,766)</u>	<u>(205,348)</u>
Cash flows from financing activities:		
Proceeds from issuance of capital stock	100,000	200,000
Proceeds from note payable	517,692	226,793
Repayment of note payable	(16,102)	-
Net cash provided by financing activities	<u>601,590</u>	<u>426,793</u>
Net change in cash and cash equivalents	(786,870)	360,758
Cash and cash equivalents at beginning of year	<u>1,442,251</u>	<u>1,081,493</u>
Cash and cash equivalents at end of year	<u><u>\$ 655,381</u></u>	<u><u>\$ 1,442,251</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 6,738	\$ 4,765

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2007 and 2006

(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, 2007 and 2006, 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.

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2007 and 2006

(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 2006 financial statements to conform with the 2007 presentation.

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements December 31, 2007 and 2006

(2) Investment Securities

At December 31, 2007 and 2006, all of the Bank's investment securities are maintained by a fund managers with approximately 63% and 50% invested in equity securities, respectively, and 37% and 50% invested in governmental bonds, respectively. The Bank incurred net realized gains and losses of \$60,900 and \$14,551 from the sale of securities by the Fund Manager, respectively. Additionally, during the year ended December 31, 2006, the Bank realized an additional loss of \$71,171 with the previous Fund Manager. Net cumulative unrealized gains at December 31, 2007 and 2006 amounted to \$104,016 and \$67,687, respectively.

(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, 2007 and 2006 was \$509,000 and \$549,000, respectively.

Loans receivable are net of an allowance for loan loss reserves of \$135,000 and \$118,000 at December 31, 2007 and 2006, 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, 2007, the Bank has drawn a total of \$1,205,192 against the two facilities with \$44,808 available for future drawdowns.

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2007 and 2006

(4) Long-Term Debt, Continued

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

<u>Year ending December 31,</u>	
2008	\$ 16,294
2009	16,458
2010	39,539
2011	39,936
2012	40,337
Thereafter	<u>1,036,526</u>
	\$ <u>1,189,090</u>

The Bank is required to match 50% of the IRP loan. Therefore, as of December 31, 2007, cash restricted for this purposes was approximately \$832,000. The Bank has designated cash in money market funds and time certificates of deposit as restricted for this purpose.

(5) Property and Equipment

A summary of property and equipment as of December 31, 2007 and 2006, is as follows:

<u>Description</u>	<u>Estimated Useful Lives</u>	<u>2007</u>	<u>2006</u>
Office furniture and equipment	10 years	\$ 20,781	\$ 32,545
Computer equipment	5 years	39,498	33,871
Vehicles	5 years	<u>52,500</u>	<u>20,500</u>
		112,779	86,916
Less accumulated depreciation		<u>(66,195)</u>	<u>(66,177)</u>
		\$ <u>46,584</u>	\$ <u>20,739</u>

(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, 2007 and 2006, the Bank has received \$5,551,783 and \$5,451,783 of equity contributions, respectively. Authorized capital stock is 18,000 shares of \$1,000 par value. As of December 31, 2007 and 2006, respectively, 5,551 and 5,451 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.

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2007 and 2006

(7) Commitments

The Bank has existing loan commitments of \$300,700 as of December 31, 2007.

(8) Leases

The Bank operates from rented premises under an operating lease agreement expiring on July 31, 2009 with a monthly lease payment of \$1,590. Total future minimum payments under this lease amount to \$19,080 and \$11,130 for the years ended December 31, 2008 and 2009, respectively.

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 years ended December 31, 2007 and 2006, the Bank contributed \$10,485 and \$4,670 to the Plan.