



Pacific Islands Development Bank

2008

ANNUAL REPORT

Report Contents

Transmittal Letter	1
Message from the President	2
PART I: ABOUT THE BANK	4
A. Establishment	4
B. Mission & Purpose	4
C. Organizational Chart	5
D. The Shareholders	5
E. The Board of Governors	6
F. The Board of Directors	7
G. The Management	8
PART II. LOAN REPORT	9
A. Loan Approvals	9
B. Outstanding Loans by Sector	9
C. Loan Delinquency & Charge-offs	10
D. Socio-economic Benefits	10
PART III. FINANCIAL REPORT	11
A. 2008 Budget vs. Actual	11
B. 2008 Actual vs. 2007 Actual	12
C. Asset Mix	12
D. Loan Mix	13
E. Revenue by Source	13
F. Major Expenses	14
PART IV. HISTORICAL PERFORMANCE	15
PART V. FINANCIAL RATIOS	18
PART VI. BOARD ACTIVITIES REPORT	19
A. Board of Governors	19
B. Board of Directors	19
AUDITED FINANCIAL STATEMENTS	21



Pacific Islands Development Bank

Transmittal Letter

March 15, 2009

Board of Governors
Pacific Islands Development Bank

Dear Governors:

As required under Article II, Section 7 of the bank's *Bylaws* and Article 13, Section 12 of the *Articles of Agreement Establishing the Pacific Islands Development Bank*, 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, 2008.

Respectfully,

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

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

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


2008 will be remembered for the worst financial crisis since the Great Depression of 1929. Caused primarily by the subprime mortgages in the United States, this crisis quickly reached global scope and magnitude during the latter part of 2008, affecting governments, businesses, and individuals alike. For us in the tiny and isolated islands in the West Pacific, the impact of this crisis can be seen and felt, at varying levels, in Koror, Colonia, Hagatna, Weno, Kolonia, Tofol, and Saipan.

For Pacific Islands Development Bank, the first half of 2008 was normal and the bank was on track to achieve its goals and budget for the year. The second half of the year, however, was a complete turnaround with the meltdown in the equity and financial market. Although the governments of industrialized nations have taken measures that will ease credit and inject liquidity into their respective economies, it is anticipated that this crisis will continue in 2009 and possibly beyond. Since August 2008, the PIDB Board of Directors and management have worked closely with our Investment Consultant and Money Managers in monitoring our invested assets and making sure that our portfolio remains diversified and losses are minimized. The impact of this crisis on the value of our investment portfolio and investment earnings is highlighted in this Report.

Against this historic global crisis and a very challenging economic and operating environment, the bank, regardless, made tremendous progress in several key areas of operation. The main highlights and achievements of 2008 are as follows:

- Guam made its final equity payment of \$300,000, completing its \$1 million commitment;
- Total assets grew by 4%;
- Outstanding loans grew by 18%;
- Net profit of \$78,012 resulting in a 1.09% Return on Assets;
- Awarded \$750,000 3rd IRP soft loan from USDA Rural Development;
- Achieved a low delinquency of 2.6% and zero loan charge offs;
- Achieved “Unqualified” audit opinion;
- Further growth in Retained Earnings after retiring our deficit in 2007; and
- Revised and updated the Bank’s 5-year Strategic Plan.

In 2008, Guam made its final equity payment in the amount of \$300,000, bringing its total capital to \$1 million. We applaud and thank the leadership of Guam, especially those serving on our Board, for their commitment and support, especially at a time when Guam is facing tremendous fiscal challenges. We will work diligently to ensure that its commitment and investment in the bank directly benefits the people, businesses, and the government of Guam. We also hope that Kosrae and Chuuk will follow Guam in completing its membership equity, enabling the bank to move quicker towards fulfilling its mandate and mission.



In the next five to ten years, the planned military expansion in Guam will bring unprecedented economic growth and expansion that will benefit not only Guam but its neighboring islands; the Freely Associated States will receive more infrastructure funding from the United States and other countries; the current global financial crisis will have been resolved; and economic and investment environment and condition will be normalized. We must direct our focus and attention to removing the hurdles and impediments to development and position our governments and people to take full advantage of the opportunities the future holds. It is not the time to panic, rather the time to adjust and forge ahead. The role and responsibility of the Pacific Islands Development Bank, especially with respect to credit and financing, will become even more pronounced in the coming years. It is therefore imperative that the bank continues to strengthen its balance sheet, improve earnings, and expand its financial, human, and technical resources and capabilities.

In today's rapidly changing economic, political, and social environment, operating without a Strategic Plan equates to sailing without a compass. In the last four years we have used our Strategic Plan as our compass, and the results have been remarkably clear and we know exactly where our bank is today. Our current Strategic Plan expired in 2008, however, a revised Plan for the next planned period, 2009 to 2013, is now ready for the Board of Governors' review and adoption. The revised Plan aims at the following general goals: (1) increase bank capitalization and financial, human, and technical resources; (2) manage credit risks and maintain a quality loan portfolio, (3) prudently manage our investment securities; (4) diversify our products and services; (5) manage our margins by increasing revenue and controlling expenses; and (6) secure additional members. Achieving these goals will enable our bank to become more engaged and move closer towards fulfilling its purpose and mission of accelerating the economic and social development of member countries and States, individually and collectively.

We convey our gratitude and appreciation to our shareholders for their continued support and commitment, and the Board of Governors, Board of Directors, and staff for working diligently to ensure that the bank is operating and managed prudently.



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



PART I: ABOUT THE BANK

A. Establishment

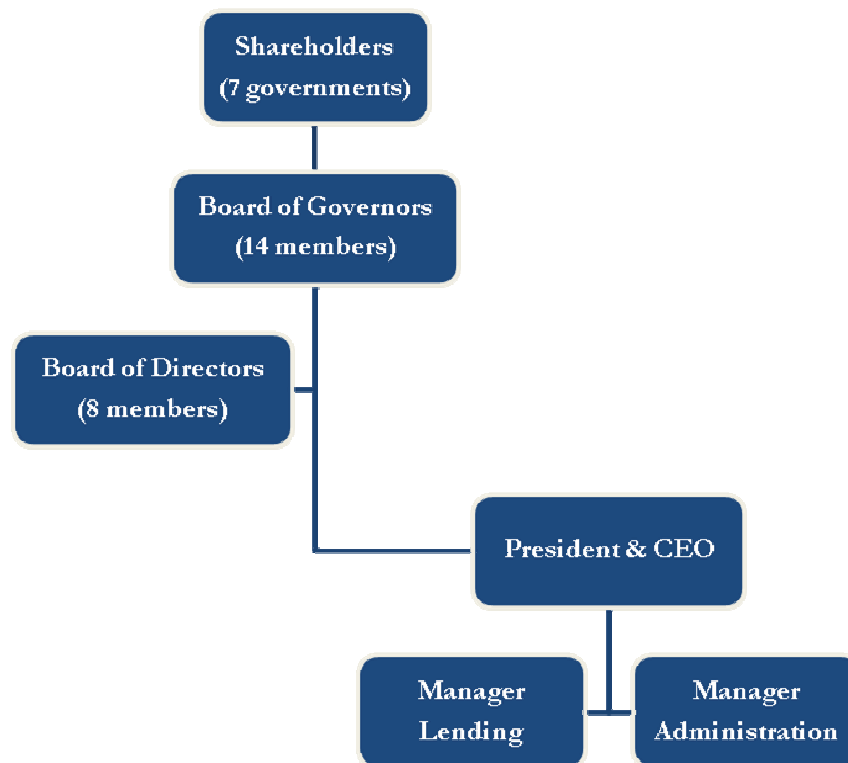
The Pacific Islands Development Bank (PIDB) is a regional development finance institution established on July 5, 1989 by the Association of Pacific Island Legislatures (APIL) to provide financial services and technical assistance to its members. As of December 31, 2008, the shareholders of the Bank include 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 additional membership from the APIL member jurisdictions are ongoing.

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 2008 and 2007 are as follows:

Shareholders	2008		2007	
	Number	Value(\$)	Number	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	700	700,000
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	5,851	\$5,851,783	5,551	\$5,551,783

E. 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:	Wesley Simina Governor FSM State of Chuuk	Singkoro Harper Speaker, House of Rep. Chuuk State Legislature
CNMI:	Timothy Villagomez, Chairman Lt. Governor CNMI	Diego Benavente Congressman CNMI Legislature
Guam:	Felix Camacho Governor Island of Guam	Judith Won Pat Speaker Guam Legislature
Kosrae:	Robert Weilbacher Governor FSM State of Kosrae	Ilai Abraham Senator Kosrae State Legislature
Palau:	Elbuchel Sadang, Secretary Minister of Finance Republic of Palau	Jonathan Isechal Delegate, HOD Palau National Congress
Pohnpei:	Jack Yakana Lt. Governor FSM State of Pohnpei	Finley Perman Director of Treasury & Admin. Pohnpei State Government
Yap:	Sebastian Anefal, Vice Chairma Governor FSM State of Yap	Charles Chieng Speaker Yap State Legislature

During the year, the composition of the Board changed as follows:

New Member	Representing	Replacing	Date Appointed
Diego Benavente	CNMI Legislative Branch	Joseph Mendiola	2/25/2008
Judith Won Pat	Guam Legislative Branch	Mark Forbes	3/17/2008
Ilai Abraham	Kosrae Legislative Branch	Lyndon Jackson	4/11/2008
Jonathan Isechal	Palau Legislative Branch	William Ngiraikelau	5/6/2008
Churchill Edward	Pohnpei Legislative Branch	Jack Yakana	5/15/2008
Thomas Pablo	Pohnpei Legislative Branch	Finley Perman	5/23/2008

The Board and management convey sincere gratitude and appreciation to our outgoing Governors who have contributed enormously to the growth and progress of the Bank. Special recognition and appreciation is extended to Jack Yakana, one of our longest serving Governors and Directors, for many years of dedicated services, especially during the most challenging and formative years of the bank. As we bid farewell to our outgoing friends, we also congratulate and welcome our new Governors.

F. The Board of Directors

Pursuant to the *Articles of Agreement Establishing the Pacific Islands Development Bank*, as amended, 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 following served on the PIDB Board of Directors during the year under review:

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

On June 6, 2008, Churchill Edward, Lt. Governor of Pohnpei State, was nominated to replace Jack Yakana on the Board of Directors. The Board of Governors will act on this nomination at its next duly convened meeting.



G. The Management

The President and CEO of the bank is selected/appointed by the Board of Governors. Consistent with its organizational chart, the President is assisted by a Manager of Administration and Manager of Lending. For the period under review, the bank’s management team comprised of the following:

<u>Name</u>	<u>Title</u>
Aren Palik	President & CEO
Rosa Weilbacher	Manager of Administration
Aaron Sighra	Loan Officer

PART II: LOAN REPORT

A. Loan Approvals

2008 Loan Approvals					
2008			2007		
Sector	Number	Value		Number	Value
Agriculture	0	0		1	26,625
Commercial	9	1,240,907		5	972,053
Fisheries	0	0		2	70,000
Manufacturing	1	35,000		0	0
Services	4	523,013		6	840,637
Tourism	1	289,091		1	280,666
Others	0	0		0	0
Total	15	2,088,011		15	2,189,981

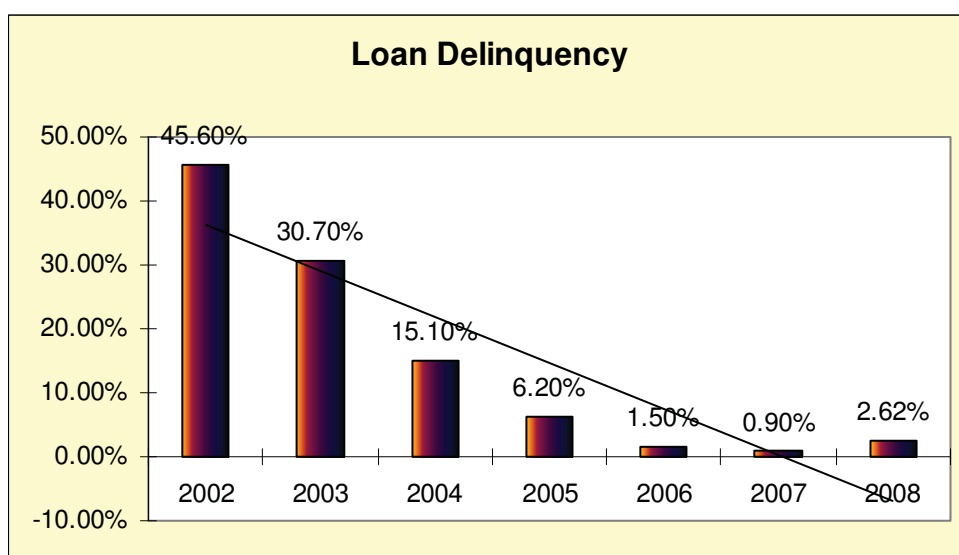
Note: 8 loans were approved by the Board; 7 by the President

B. Outstanding Loans

Outstanding Loans by Sector					
2008			2007		
Sector	Number	Value		Number	Value
Agriculture	1	21,468		1	24,229
Commercial	23	2,450,043		20	1,780,052
Fisheries	1	89,030		1	101,883
Manufacturing	1	32,330		0	0
Services	24	2,423,016		21	2,264,414
Tourism	2	383,987		2	367,216
Others	0	0		0	0
Total	52	5,399,874		45	4,537,794

Note: Outstanding loans preclude reserve for loan losses

C. Loan Delinquency & Loan Charge Offs



Loan Charge Offs. There were no loans charged off in 2008.

D. Socio-Economic Benefits

Beginning in 2007, the Bank has been measuring the socio economic impact of its programs. The table below shows jobs created and saved, estimated business taxes paid to the governments, and annual salary paid to employees for the year 2008. Socio-economic information and data were provided to the bank by the borrowers.

	<u>Jobs Created</u>	<u>Total Jobs</u>	<u>Estimated Annual Business Taxes</u>	<u>Estimated Annual Salary</u>
Chuuk	n/r	n/r	n/r	n/r
CNMI	13	78	\$ 32,678	\$ 231,833
Guam	7	113	\$ 285,789	\$1,158,182
Kosrae	25	67	\$ 48,980	\$ 317,916
Palau	42	137	\$ 226,980	\$ 856,245
Pohnpei	7	96	\$ 198,786	\$ 628,749
Yap	0	82	\$ 88,908	\$ 523,040
Total	94	573	\$ 882,121	\$3,715,965

n/r = no response

PART III. FINANCIAL REPORT

A. 2008 Budget vs. Actual

As shown in the Table below, the Bank did not meet many of its financial goals due essentially to the following: (1) affect of the global financial market crisis on the bank's investment/securities earnings; (2) delayed IRP loan disbursement from USDA/RD; and (3) inability to secure additional equity payments from Chuuk and Kosrae.

Selected Indicators	2008 Budget	2008 Actual	Variance \$
Total Assets	7,684,600	7,142,372	-542,228
Loans Receivable	5,400,000	5,399,874	-126
Marketable Securities	2,350,000	1,827,053	-522,947
IRP Loan Drawdown	1,398,000	1,250,000	-148,000
Capital Stock	5,851,783	5,851,783	0
Retained Earnings	276,539	132,564	-143,975
Gross Revenue	621,000	464,130	-156,870
Total Operating Expenses	399,013	386,118	12,895
Net Income	221,987	78,012	-143,975

In addition to the above financial goals, the Bank's 2008 budget calls for a number of non-financial goals and initiatives, results of which are outlined below.

2008 Non Financial Goals

Goals

Achieved?

- | | |
|--|---------|
| ➤ Achieved "unqualified" audit opinion | Yes |
| ➤ Maintain delinquency less than 5% | Yes |
| ➤ Maintain zero loan charge offs | Yes |
| ➤ Secure additional member equity capital | Yes |
| ➤ Secure a 3 rd IRP soft loan from USDA | Yes |
| ➤ Expand staff capabilities/training | Yes |
| ➤ Update Bank's 5-Year Strategic Plan | Yes |
| ➤ Implement Fund Administration function | Ongoing |
| ➤ Secure RMI & Am. Samoa membership | Ongoing |

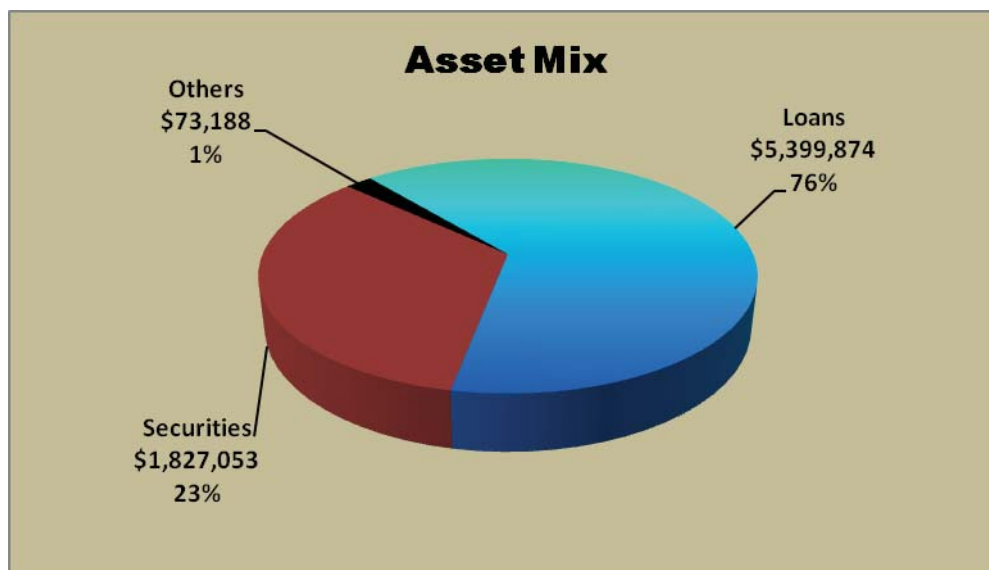
B. 2008 Actual vs. 2007 Actual

Comparing year-to-year, 2008 against 2007, the Bank did fairly well. Marketable Securities decreased by \$502,882 as a result of further draw from investment/securities to fund loan demand and failure to receive additional equity payments from Kosrae and Chuuk. Gross Revenue declined by \$91,451 due essentially to the melt down in the global equity and financial market, negatively affecting the bank's investment earnings.

Selected Indicators	2008 Actual	2007 Actual	Variance \$
Total Assets	7,142,372	6,899,441	242,931
Loans Receivable	5,399,874	4,537,794	862,080
Marketable Securities	1,827,053	2,329,935	-502,882
IRP Loan Drawdown	1,250,000	1,189,090	60,910
Capital Stock	5,851,783	5,551,783	300,000
Retained Earnings	132,564	54,552	78,012
Gross Revenue	464,130	555,581	-91,451
Total Operating Expenses	386,118	391,602	-5,484
Net Income	78,012	163,979	-85,967

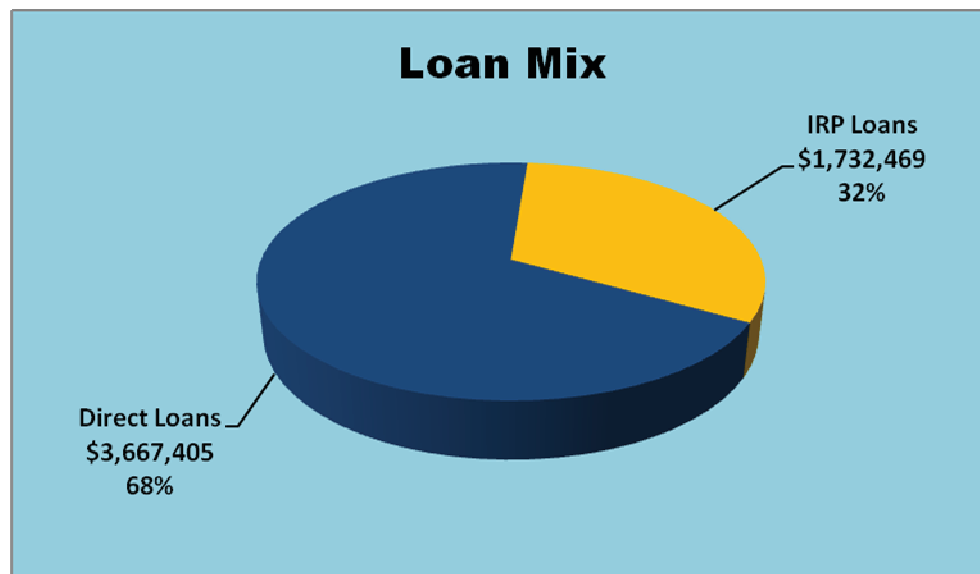
C. Asset Mix

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

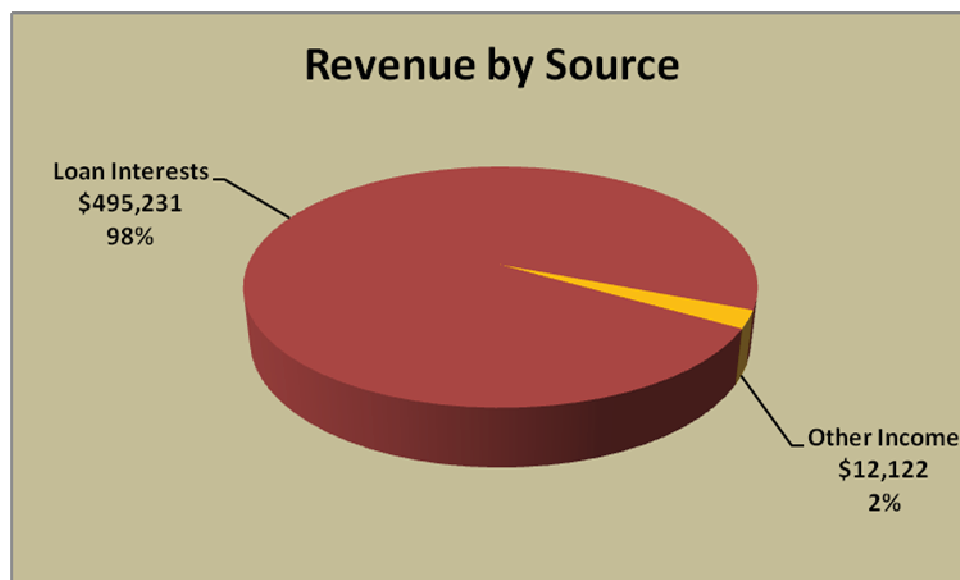


D. Loan Mix

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



E. Revenue by Source

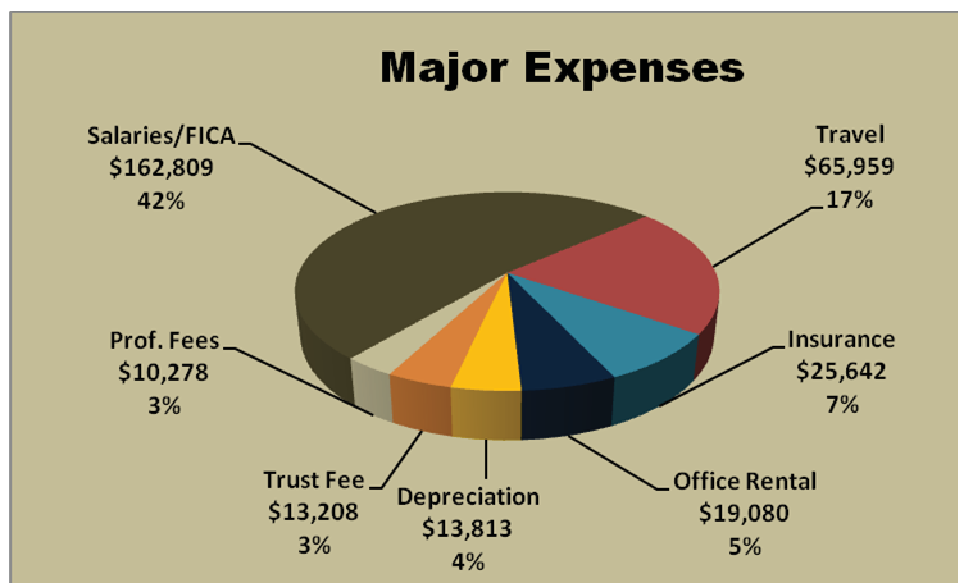


“Other Income” include loan booking fees, late charges, and loan recoveries.



F. Major Expenses

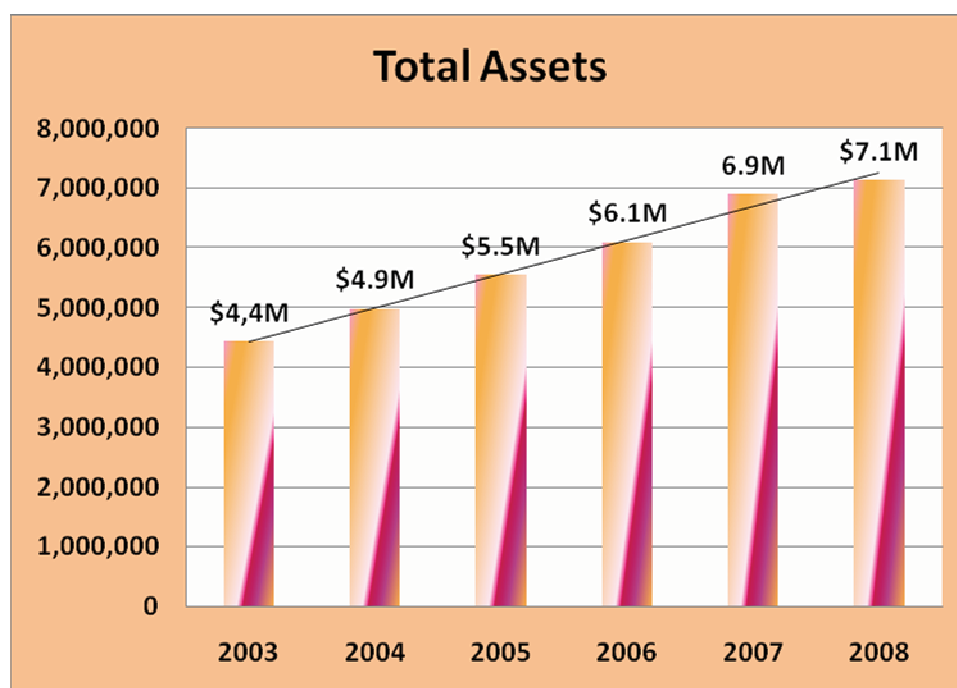
The following chart shows the main expense items in amount and as a percentage of total operating expenses. The seven expense items below represent 81% of total expenses.

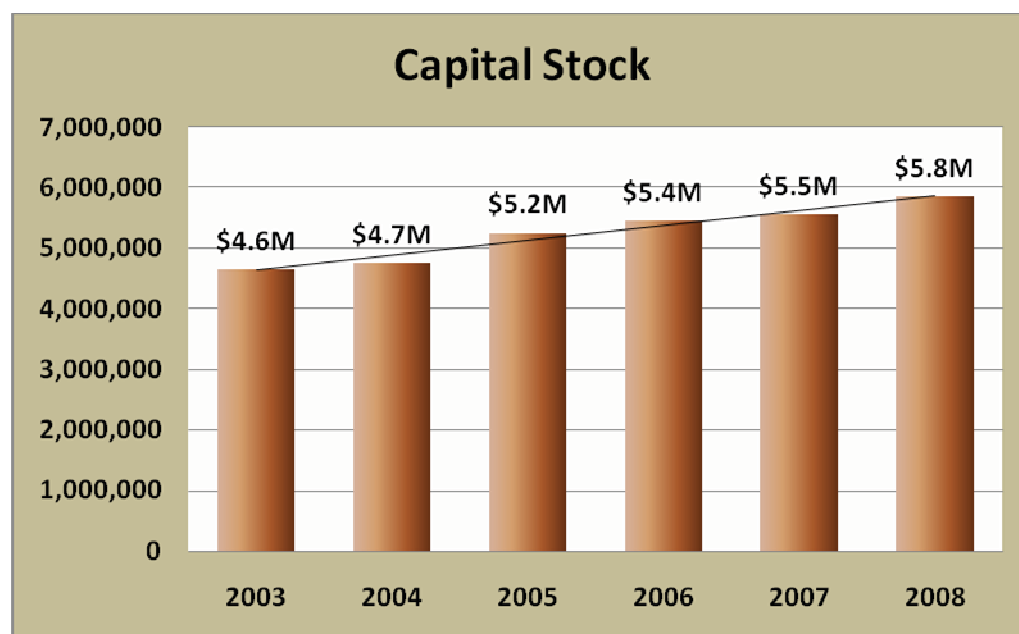
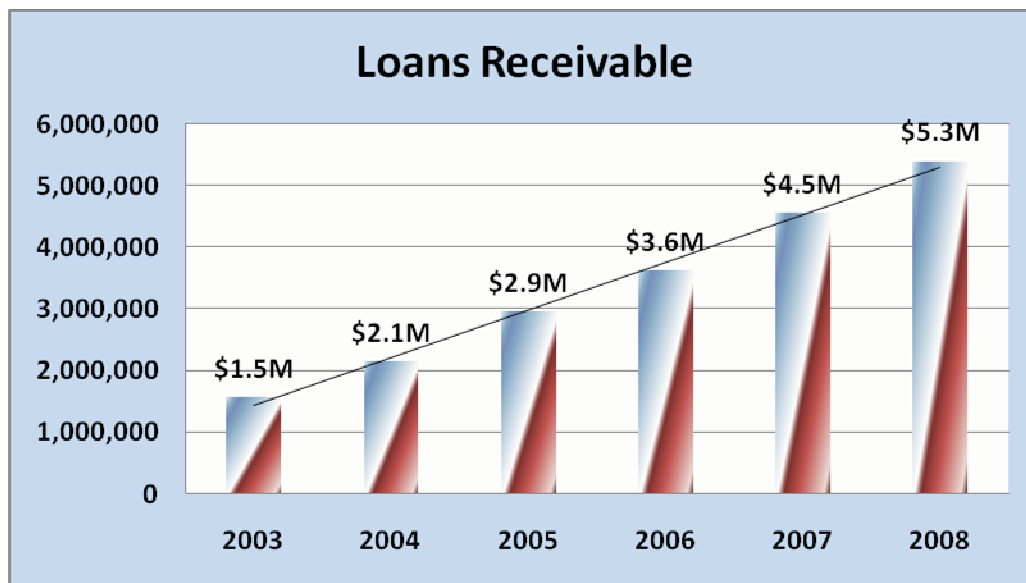


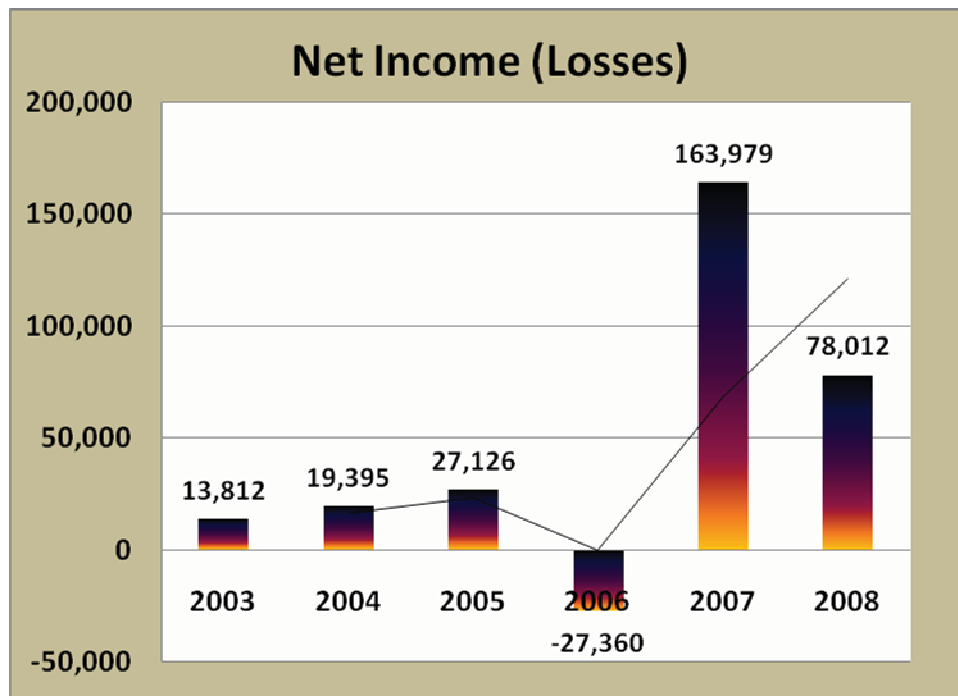
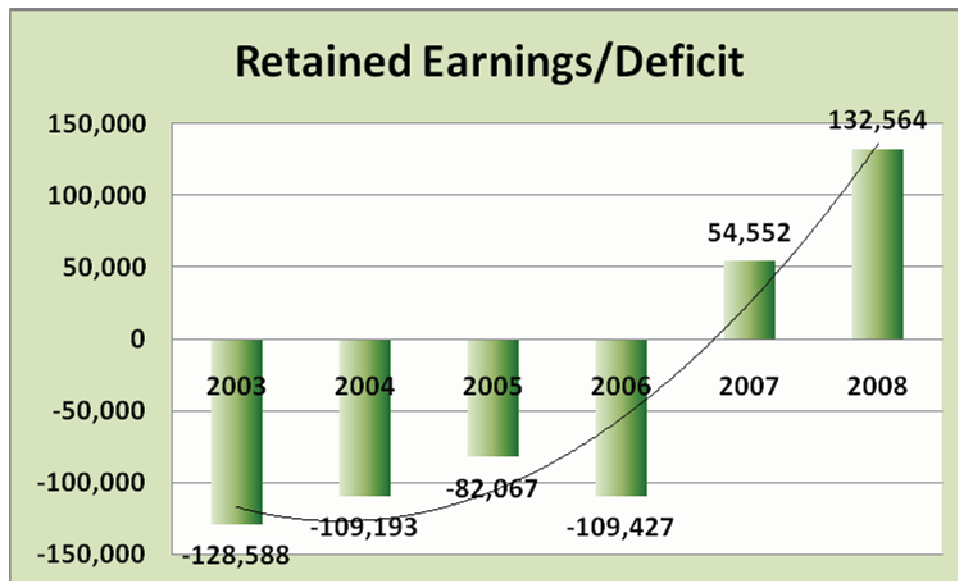
PART IV. HISTORICAL PERFORMANCE

The following Table summarizes the historical financial performance of the Bank from 2003 to 2008 on selected key performance indicators.

Selected Indicators	2003	2004	2005	2006	2007	2008
Total Assets	4,433,254	4,981,739	5,545,066	6,099,391	6,899,441	7,142,372
Loans Receivable	1,566,201	2,157,783	2,964,690	3,622,040	4,561,869	5,399,874
Marketable Securities	2,639,536	2,550,181	2,326,090	2,447,579	2,329,935	1,827,053
IRP Loan Drawdown	0	410,707	460,707	668,875	1,189,090	1,250,000
Common Stock	4,651,783	4,751,783	5,251,783	5,451,783	5,551,783	5,851,783
Retained Earnings(Deficit)	-128,588	-109,193	-82,067	-109,427	54,552	132,564
Gross Revenue	277,935	291,472	360,430	321,468	555,581	464,130
Total Operating Expenses	264,123	272,077	333,304	348,828	391,602	386,118
Net Income (Loss)	13,812	19,395	27,126	-27,360	163,979	78,012







PART V. FINANCIAL RATIOS

Selected Ratios	2003	2004	2005	2006	2007	2008
GROWTH						
Total Asset Growth	0.51%	12%	11%	10%	13%	4%
Loans Growth	35%	38%	37%	22%	23%	18%
Long Term Debt Growth	0%	0%	12%	49%	73%	3%
Net Worth Growth	0.57%	3%	11%	6%	6%	4%
PROFITABILITY						
Return on Assets	0.31%	0.39%	0.49%	-0.45%	2.38%	1.09%
Return on Equity	0.31%	0.42%	0.53%	-0.51%	2.87%	1.32%
Net Margin	6%	7%	8%	-9%	34%	14%
LEVERAGE						
Net Worth	\$4.4M	\$4.5M	\$5.0M	\$5.4M	\$5.7M	\$5.9M
Debt/Worth	0%	9%	9%	13%	21%	21%
Total Liab./Total Assets	0%	8%	8%	11%	17%	17%
LIQUIDITY						
Working Capital	\$2.6M	\$2.6M	\$2.3M	\$2.4M	\$2.4M	\$1.9M
Current Ratio	1,230	1,619	1,120	120	n/a	947



PART VI. BOARD ACTIVITIES REPORT

A. Board of Governors

During the period under review, the Board of Governors held its annual regular meeting in Palau in April 2008. No special meeting was called during the year. The following actions were taken in the Palau meeting:

- ✓ Elected Timothy Villagomez, Sebastian Anefal, and Elbuchel Sadang as Chairman, Vice Chairman, and Secretary, respectively;
- ✓ Received and reviewed the bank's 2007 Annual Report and Audit Report;
- ✓ Received and reviewed the bank's 2008 Budget and Goals;
- ✓ Adopted a number of Board Resolutions
- ✓ Addressed other strategic and long-term issues including the bank's office space

B. Board of Directors

In 2008, the Board of Directors held four (4) regular meetings and no special meetings. Among others, activities of and actions taken by the Board during 2008 include:

- ✓ Took follow-up actions on approved Board of Governors Resolutions;
- ✓ Approved 8 loans over and above the President's lending authority;
- ✓ Transmitted the 2007 Annual Report to the Board of Governors;
- ✓ Approved and transmitted 2008 Budget & Goals to the Board of Governors;
- ✓ Quarterly review of the bank's performance against 2008 budget;
- ✓ Quarterly review of the performance of bank's investment Consultant and money managers in light of the global financial crisis; including portfolio rebalancing;
- ✓ Quarterly review of the Allowance for Loan Loss reserves;
- ✓ Assisted and supported the President in lobbying for members' capital;
- ✓ Assisted and supported the President in lobbying for new membership;
- ✓ Updated PIDB's 5-Year Strategic Plan, now ready for Board of Gov. review; and
- ✓ Reviewed and approved the Bank's 2009 Budget & Goals



PACIFIC ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2008 AND 2007



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 statements of condition of Pacific Islands Development Bank (the Bank) as of December 31, 2008 and 2007, and the related statements of earnings, 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, 2008 and 2007, 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized, with the "D" and "T" being particularly prominent.

April 7, 2009

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Condition December 31, 2008 and 2007

	<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Cash		\$ 300,912	\$ 81,134
Money market funds		679,184	574,247
Cash and cash equivalents		980,096	655,381
Time certificates of deposit		-	671,604
Investment securities		846,957	1,084,084
Loans receivable, net of an allowance of \$135,000 at December 31, 2008 and 2007		5,239,057	4,426,869
Other assets		38,361	12,345
Security deposit		3,074	2,574
Property and equipment, net		34,827	46,584
		<u>\$ 7,142,372</u>	<u>\$ 6,899,441</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Liabilities:			
Long-term debt		\$ 1,217,109	\$ 1,189,090
Total liabilities		<u>1,217,109</u>	<u>1,189,090</u>
Commitments			
Stockholders' equity:			
Capital stock		5,851,783	5,551,783
Retained earnings		132,564	54,552
Accumulated other comprehensive (loss) income		(59,084)	104,016
Total stockholders' equity		<u>5,925,263</u>	<u>5,710,351</u>
		<u>\$ 7,142,372</u>	<u>\$ 6,899,441</u>

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Earnings Years Ended December 31, 2008 and 2007

	2008	2007
Interest income	\$ 495,231	\$ 404,810
Dividend income	62,751	76,045
Realized (loss) gain from investment	(105,974)	60,900
	<u>452,008</u>	<u>541,755</u>
Provision for loan losses	-	38,443
	<u>452,008</u>	<u>503,312</u>
Operating expenses:		
Salaries and related expenses	203,831	182,148
Conference and travel	65,959	60,036
Insurance	25,642	25,658
Office rental	19,080	19,080
Depreciation	13,813	12,276
Trust fees	13,208	13,675
Professional fees	10,278	11,315
Communications	6,089	7,055
Automobile	4,229	4,300
Office supplies	1,599	3,541
Advertisement	750	805
Legal fees	405	-
Miscellaneous	21,235	13,270
Total operating expenses	<u>386,118</u>	<u>353,159</u>
Operating income	<u>65,890</u>	<u>150,153</u>
Other income:		
Other income	23,142	21,806
Loss on disposal of property and equipment	-	(1,242)
IRP interest expense	(11,020)	(6,738)
Total other income	<u>12,122</u>	<u>13,826</u>
Net earnings	<u>\$ 78,012</u>	<u>\$ 163,979</u>

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Changes in Stockholders' Equity Years Ended December 31, 2008 and 2007

	Shares of Common Stock	Common Stock	(Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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	5,551	5,551,783	54,552	104,016	5,710,351
Issuance of common stock	300	300,000	-	-	300,000
Comprehensive income:					
Net earnings	-	-	178,012	-	78,012
Net unrealized holding losses on available-for-sale securities net of reclassification adjustments	-	-	-	(163,100)	(163,100)
Total comprehensive losses					(85,088)
Balance at December 31, 2008	<u>5,851</u>	<u>\$ 5,851,783</u>	<u>\$ 132,564</u>	<u>\$ (59,084)</u>	<u>\$ 5,925,263</u>

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Cash Flows Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net earnings	\$ 78,012	\$ 163,979
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	13,813	12,276
Provision for loan loss	-	38,443
Loss on sale of fixed assets	-	1,242
Realized loss (gain) on sale of investment securities	105,974	(60,900)
Increase in other assets	(26,016)	(5,886)
Increase in security deposit	(500)	-
Decrease in other payable	-	(1,848)
Net cash provided by operating activities	<u>171,283</u>	<u>147,306</u>
Cash flows from investing activities:		
Decrease (increase) in time certificates of deposit	671,604	(671,604)
Loan originations and repayments, net	(812,188)	(843,272)
Investment securities purchases and sales, net	(31,947)	18,473
Additions to property and equipment	<u>(2,056)</u>	<u>(39,363)</u>
Net cash used in investing activities	<u>(174,587)</u>	<u>(1,535,766)</u>
Cash flows from financing activities:		
Proceeds from issuance of capital stock	300,000	100,000
Proceeds from note payable	44,808	517,692
Repayment of note payable	<u>(16,789)</u>	<u>(16,102)</u>
Net cash provided by financing activities	<u>328,019</u>	<u>601,590</u>
Net change in cash and cash equivalents	324,715	(786,870)
Cash and cash equivalents at beginning of year	<u>655,381</u>	<u>1,442,251</u>
Cash and cash equivalents at end of year	<u>\$ 980,096</u>	<u>\$ 655,381</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 11,020	\$ 6,738

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007

(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 2007 financial statements to conform with the 2008 presentation.

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2008 and 2007

(2) Investment Securities

At December 31, 2008 and 2007, all of the Bank's investment securities are maintained by a fund manager with approximately 51% and 63% invested in equity securities, respectively, and 49% and 37% invested in governmental bonds, respectively. The Bank incurred net realized (losses) and gains of (\$105,974) and \$60,900 from the sale of securities by the fund manager, respectively. Net cumulative unrealized (losses) and gains at December 31, 2008 and 2007 amounted to (\$59,084) and \$104,016, 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, 2008 and 2007 was \$486,000 and \$509,000, respectively.

Loans receivable are net of an allowance for loan loss reserves of \$135,000 at December 31, 2008 and 2007.

(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. At December 31, 2008 and 2007, outstanding balances were \$467,109 and \$483,898, 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, 2008 and 2007, outstanding balances were \$750,000 and \$705,192, 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. The Bank has not drawn against this line as of December 31, 2008.

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

PACIFIC ISLANDS DEVELOPMENT BANK

Notes to Financial Statements
December 31, 2008 and 2007

(4) Long-Term Debt, Continued

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

<u>Year ending December 31,</u>	
2009	\$ 16,458
2010	40,958
2011	41,368
2012	41,783
2013	42,202
Thereafter	<u>1,034,340</u>
	\$ <u>1,217,109</u>

The Bank is required to match 50% of the IRP loan. Therefore, as of December 31, 2008, cash restricted for this purpose approximated \$860,000. The Bank has designated cash in money market funds and investment securities as restricted for this purpose.

(5) Property and Equipment

A summary of property and equipment as of December 31, 2008 and 2007, is as follows:

<u>Description</u>	<u>Estimated Useful Lives</u>	<u>2008</u>	<u>2007</u>
Office furniture and equipment	10 years	\$ 20,781	\$ 20,781
Computer equipment	5 years	41,554	39,498
Vehicles	5 years	<u>52,500</u>	<u>52,500</u>
		114,835	112,779
Less accumulated depreciation		<u>(80,008)</u>	<u>(66,195)</u>
		\$ <u>34,827</u>	\$ <u>46,584</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, 2008 and 2007, the Bank has received \$5,851,783 and \$5,551,783 of equity contributions, respectively. Authorized capital stock is 18,000 shares of \$1,000 par value. As of December 31, 2008 and 2007, respectively, 5,851 and 5,551 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, 2008 and 2007

(7) Commitments

The Bank has existing loan commitments of \$106,600 as of December 31, 2008.

(8) Leases

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

(9) Related Party Transactions

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

(10) Employee Benefit Plan

The Bank has a 401(k) Plan whereby substantially all employees participate in the Plan after meeting certain eligibility requirements, namely, completion of one year of continuous employment. Effective January 1, 2007, contributions to the Plan are 10% of gross salaries and are 100% vested after three years of service. During the years ended December 31, 2008 and 2007, the Bank contributed \$14,221 and \$10,485 to the Plan.



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