PACIFIC ISLAND DEVELOPMENT BANK

2010

ANNUAL REPORT

REPORT CONTENTS

Transmittal Letter

March 1, 2011

Board of Governors
Pacific Islands Development Bank

Dear Governors:

In accordance with Section 12 of Article 13 of the *Articles of Agreement Establishing the Pacific Islands Development Bank*, and Section 7 of Article II of the Bank's *Bylaws*, as amended, I have the honor, on behalf of the Board of Directors, to submit the Annual Report of the Pacific Islands Development Bank for the year ended December 31, 2010.

Respectfully,

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

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

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MESSAGE
from the President & Chairman of the Board of Directors

2010 marked the second year of operation under the Bank's revised five year Strategic Plan covering the period 2009 to 2013. Accordingly, our 2010 budget and goals were developed based on our Strategic Plan, current assessment of our operating environment, and realistic budget assumptions.

I am very pleased to report another year of strong balance sheet growth, particularly in total assets, outstanding loans, and stockholders' equity. Following are some of the key accomplishments and highlights of the period under review:

- Total Assets increased by 9% or $719,350 to $8.4 million
- Loans Receivable increased by 12% or $695,340 to $6.3 million
- Realized a net income of $122,715 or 1.5% return on assets
- Increased loan loss reserve by $100,000
- Achieved a low delinquency ratio of 1.8% with zero loan charge offs
- Achieved an "unqualified" audit opinion with no questioned costs
- Executed $500,000 inter-bank loan with FSM Development Bank
- Created a "Capitalization & Funding Task Force" with a clear and important mandate
- Received $50,000 additional capital from Kosrae State Government
- Received $35,000 Rural Business Opportunity Grant from USDA
- Enhanced the bank's Lending Policy and developed new administrative policies

As the Bank registered yet another year of consistent growth and strong performance, there are challenges and impediments that may hinder our future growth and progress if not addressed properly and effectively. Chief and most critical among them is our limited capital and lack of loanable funds. Acknowledging this fact, the Board of Governors, in July 2010, created the **"Capitalization and Funding Task Force"** whose sole task is to seek ways to further capitalize the bank and increase its resources and capacity. As the bank continues to grow, we will continue to monitor and assess the bank's staffing and capacity needs, our delivery channels, and the need for branch offices outside of Guam. Given our increased loan activities and transactions, we will also need to continually upgrade our Loan platform and Accounting software program.

As you review our 2010 activities and performance, I think it is useful to put year 2010 in proper perspective by comparing it to previous years. The **"Historical Performance"** from page 13 shows the bank's performance in certain key performance indicators from 2003 to 2010.

As we move forward, we will continue to use our revised five year Strategic Plan as our compass and guide in pursuit of our overarching goals of: (1) increasing the bank's financial, human, and technical resources, (2) managing credit risks, (3) managing and increasing return on our investment securities, (4) diversifying and expanding our products and services, (5) managing our margins by increasing revenue and controlling expenses; and (6) securing additional members. We have made significant progress over the years and the demand for our products and services has also increased sharply. We will continue to work closely with our member governments, the business communities, and our development partners as we all seek ways and means to develop our island economies and improve the standard of living of our people.

Finally, we take this opportunity to thank our shareholders for their commitment and continued support. We also acknowledge the contributions made by the members of the Board of Governors, Board of Directors, and our staff, and commend them for making our remarkable achievements in 2010 possible.

Thank you for your support and invaluable contributions.

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

PART I
Background & Corporate Information

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. Its corporate office is located in Guam.

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.

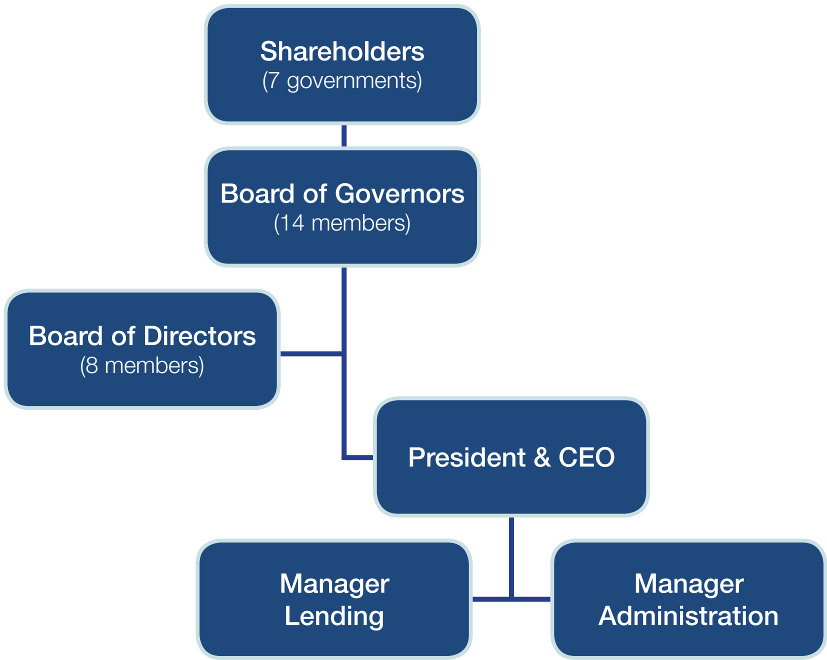
4. Encourage private investment in new projects, enterprises, and activities contributing to economic development and to supplement private investment when private capital is not available on reasonable terms and conditions.

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



C. The Shareholders

The shareholders of the Bank with number of shares owned and their corresponding values in 2010 compared to 2009 are as follows:

Shareholders	2010		2009	
	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	1,000	1,000,000
Kosrae	700	700,000	650	650,000
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	5,951	$5,951,783	5,901	$5,901,783

E. The Board of Governors

The Articles of Agreement Establishing the Pacific Islands DevelopmentBank, 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 Boardfor the period under review are as follows:

Shareholders	Executive Branch Rep.	Legislative Branch Rep.
Chuuk	Wesley Simina Governor FSM State of Chuuk	Singkoro Harper Speaker, House of Rep. Chuuk State Legislature
CNMI	Benigno Fitial Governor CNMI	Diego Benavente Representative CNMI Legislature
Guam	Felix Camacho, Chairman Governor Island of Guam	Vicente Pangelinan Senator Guam Legislature
Kosrae	Robert Weilbacher Governor FSM State of Kosrae	Ilai Abraham Senator Kosrae State Legislature
Palau	Kerai Mariur, Secretary Vice President Republic of Palau	Secilil Eldebechel Delegate, HOD Palau National Congress
Pohnpei	John Ehsa, Vice Chairman Governor FSM State of Pohnpei	Thomas Pablo Director of Treasury & Admin. Pohnpei State Government
Yap	Sebastian Anefal Governor FSM State of Yap	Charles Chieng Speaker Yap State Legislature

The Board of Governors during its special meeting on July 30, 2010, reorganized and elected Governors Sebastian Anefal, John Ehsa, and Kerai Mariur as Chairman, Vice Chairman, and Secretary, respectively.

F. The Board of Directors

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

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

PALAU
Secilil Eldebechel
Member
House of Delegates

CNMI
Diego Benavente
Representative
CNMI Legislature

KOSRAE
Gibson Siba
Senator
Kosrae State Legislature

POHNPEI
Thomas Pablo
Director
Dept. of Treasury/Admin

GUAM
Lourdes Perez
Director of Administration
Government of Guam

YAP
Michael Gaan
Director
Dept. of Res. & Dev.

CHUUK
Vacant

Aren Palik
President & CEO
Chairman of the Board
of the Board

G. The Management

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

Name	Position | Title	Date of Hire	Years of Service
Aren Palik	President/CEO	10/22/2002	8 years
Rosa Weilbacher	Manager of Admin.	6/1/1999	11 years
Antonio John	Manager of Lending	4/1/2010	8 months

Mr. Antonio John was hired in April 2010 as Manager of the bank's lending operation.

PART II
2010 Lending Activities

A. Loan Approvals

APPROVED LOANS

Loan Type	2010 Number	Amount	2009 Number	Amount
Commercial Loans				
Agriculture	0	0	0	0
Fisheries	0	0	0	0
Tourism	0	0	0	0
Manufacturing	0	0	0	0
Services	12	1,098,937	5	315,107
Commercial	2	42,799	0	0
Sub-total	**14**	**1,141,736**	**5**	**315,107**
Residential Home Loans	1	56,800	3	287,776
Consumer Loans	42	426,112	18	238,300
Total	**57**	**1,624,648**	**26**	**841,183**

B. Outstanding Loans by Loan Type

OUTSTANDING LOANS

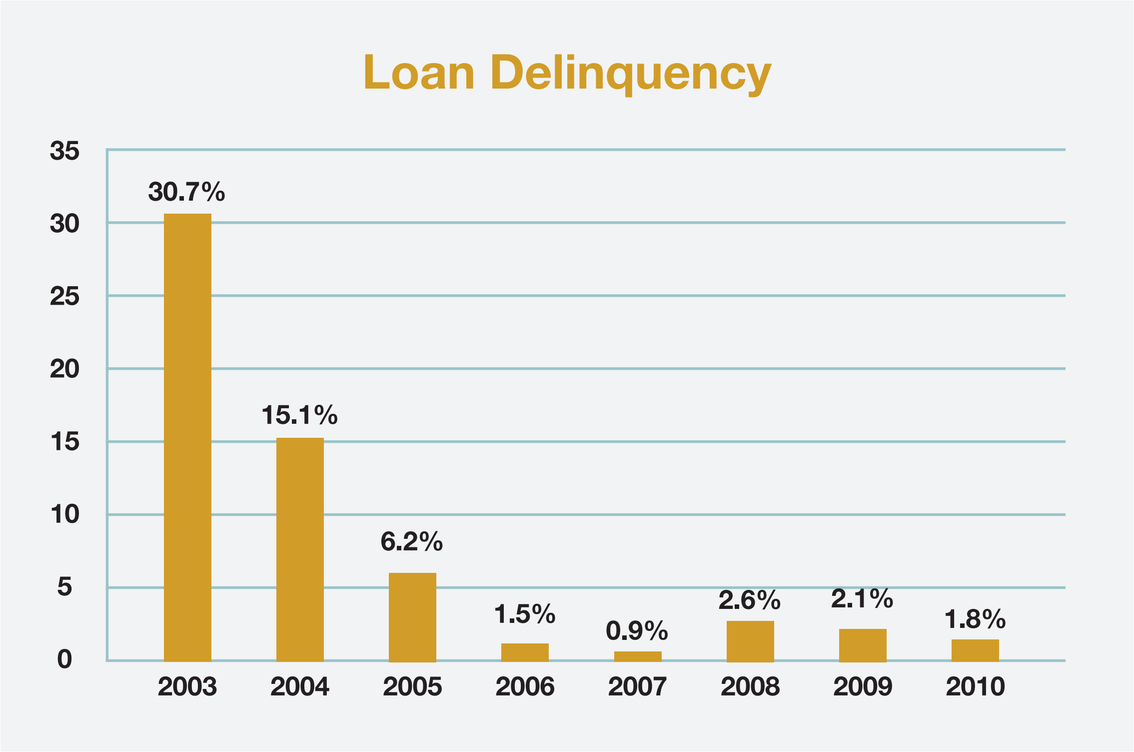
Loan Type	2010 Number	Amount	2009 Number	Amount
Commercial Loans				
Agriculture	1	14,556	1	17,962
Fisheries	1	70,826	1	78,010
Tourism	8	1,218,164	7	1,262,423
Manufacturing	1	20,640	1	26,359
Services	37	2,876,472	37	2,434,669
Commercial	18	1,305,715	8	1,378,104
Sub-total	**66**	**5,506,374**	**55**	**5,197,527**
Residential Home Loans	4	336,681	3	285,530
Consumer Loans	56	537,753	17	201,403
Total	**126**	**6,380,808**	**75**	**5,684,460**

C. Outstanding Loans by Shareholder

OUTSTANDING LOANS BY SHAREHOLDERS

Shareholder	Number of Loans	Amount
Guam	17	1,513,861
Palau	8	1,201,288
Pohnpei	19	822,832
Yap	40	1,282,549
Kosrae	33	765,294
CNMI	8	714,363
Chuuk	1	80,621
Total	**126**	**6,380,808**

D. Loan Delinquency and Charge Offs



The bank has had no charged off loans since 2007.

PART III
2010 Financial Performance

A. Performance Against Budget

Given a very challenging operating environment, most of the key financial goals for the year were achieved and others with minor variances. The Table below shows performance against the budget for 2010.

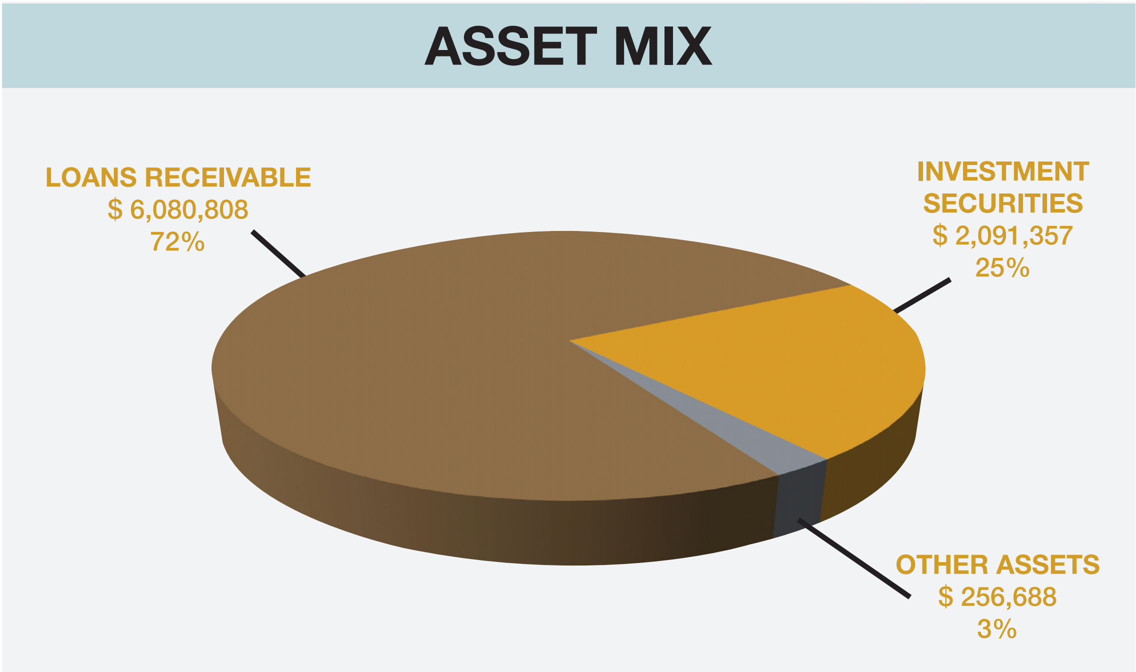
Selected Key Items	2010 Budget	2010 Actual	Variance ($)
Loans Receivable	6,300,000	6,380,807	80,807
Marketable Securities	2,107,847	2,091,357	-16,490
Total Assets	8,392,776	8,428,852	36,076
Stockholders' Equity	6,589,776	6,439,788	-149,988
Retained Earnings(Deficit)	562,993	469,242	-93,751
Gross Revenue	793,800	662,382	-131,418
Total Operating Expenses	459,214	439,667	-19,547
Provision for Loan Losses	100,000	100,000	-0-
Net Income	234,586	122,715	-111,871

B. Performance Against Previous Year (2009)

The Table below compares the bank's 2010 financial performance against 2009. In all key performance indicators, the bank improved compared to the previous year.

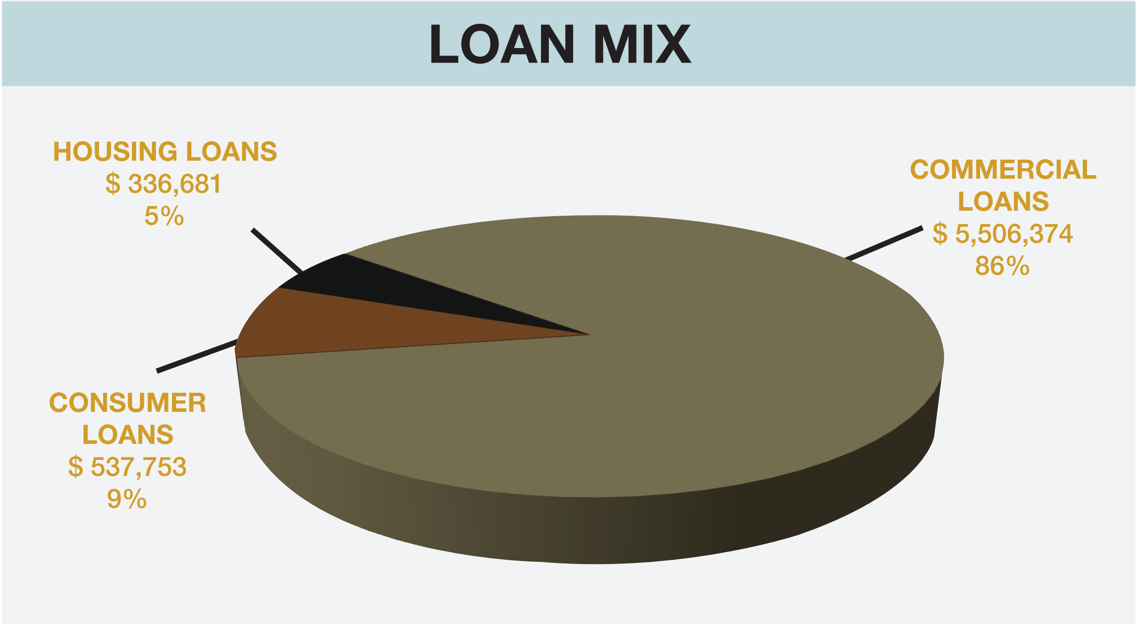
Selected Key Items	2010 Actual	2009 Actual	Variance ($)
Loans Receivable	6,380,807	5,685,460	695,347
Marketable Securities	2,091,357	1,894,291	197,066
Total Assets	8,428,852	7,709,502	719,350
Stockholders' Equity	6,439,788	6,235,165	204,623
Retained Earnings(Deficit)	469,242	346,527	122,715
Gross Revenue	662,382	666,008	-3,626
Total Operating Expenses	439,667	387,045	52,622
Provision for Loan Losses	100,000	65,000	35,000
Net Income	122,715	213,963	-91,248

C. Asset Mix



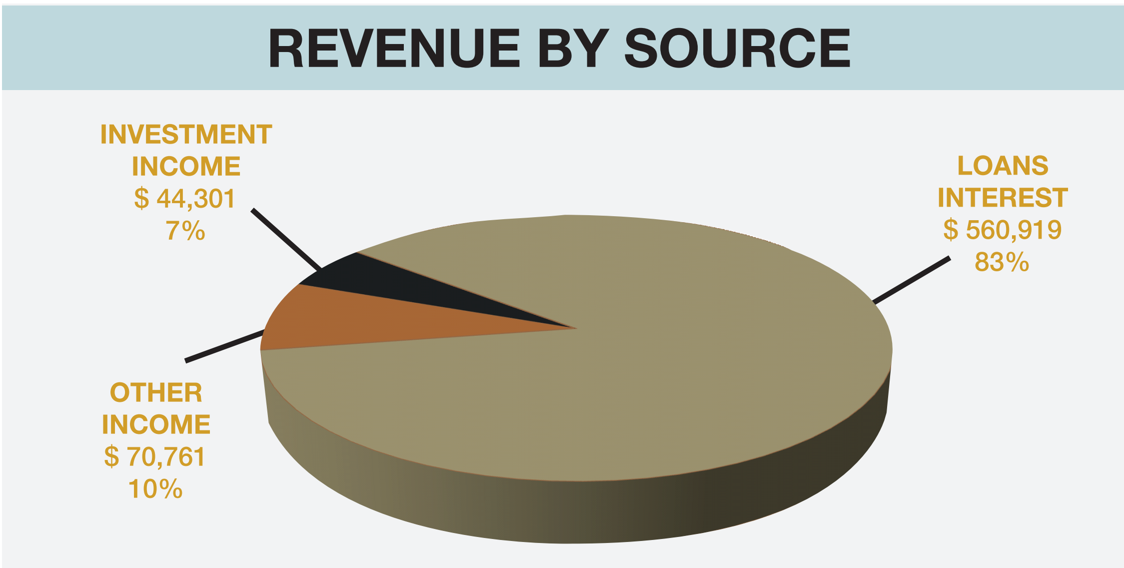
Loans Receivable is net of Loan Loss Reserve of $300,000

D. Loan Mix

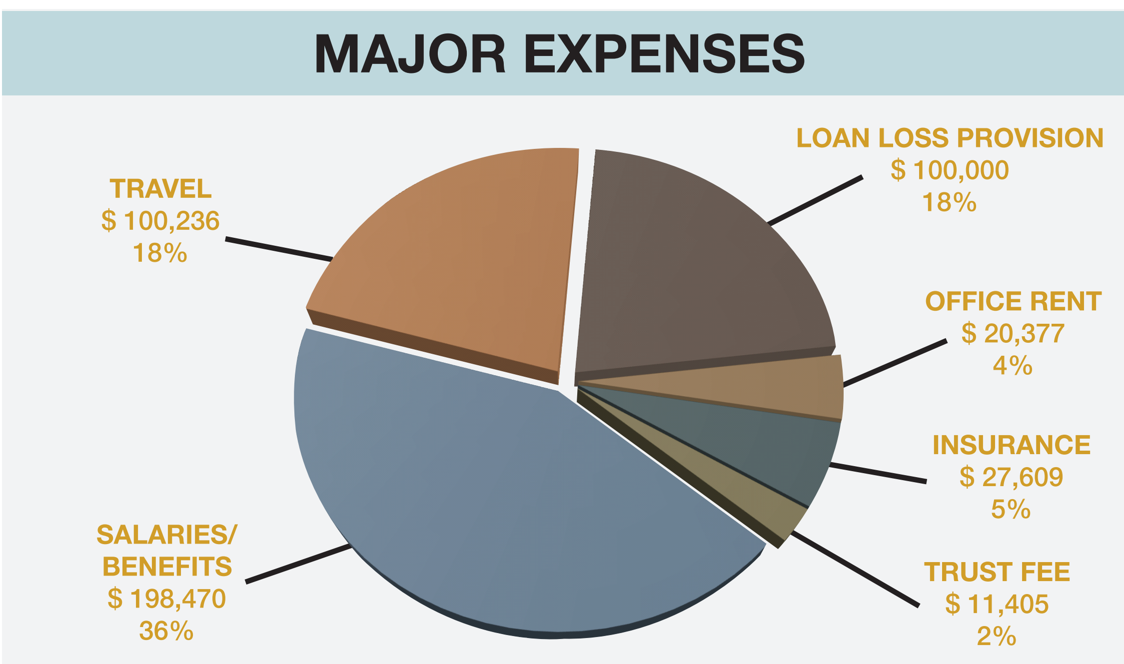


Loan amounts include the Loan Loss Reserve

E. Revenue by Source

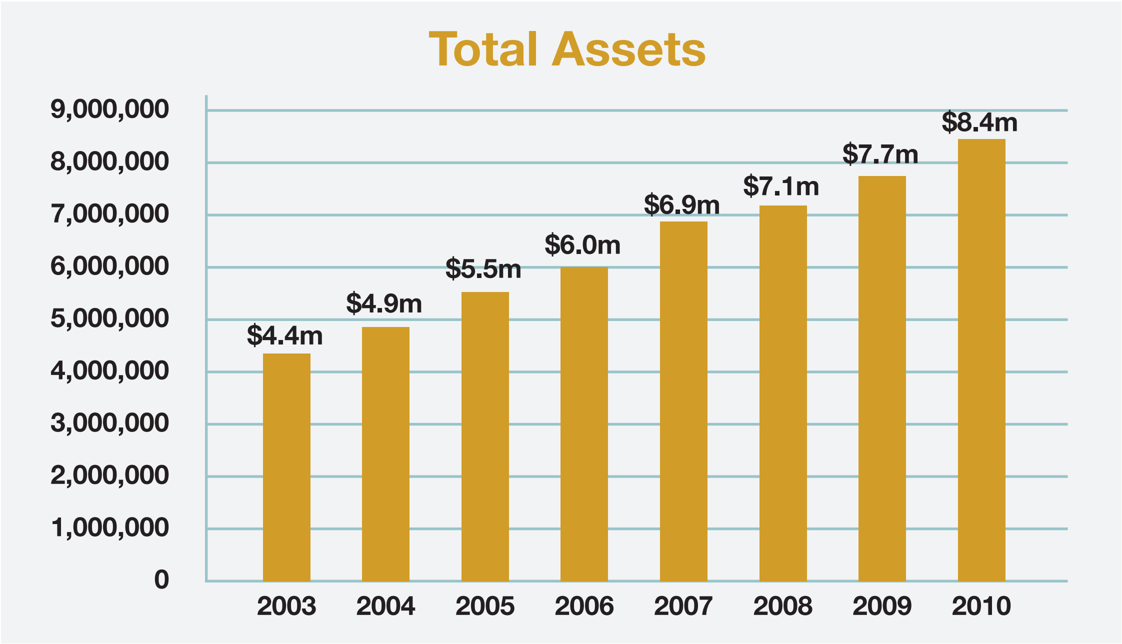


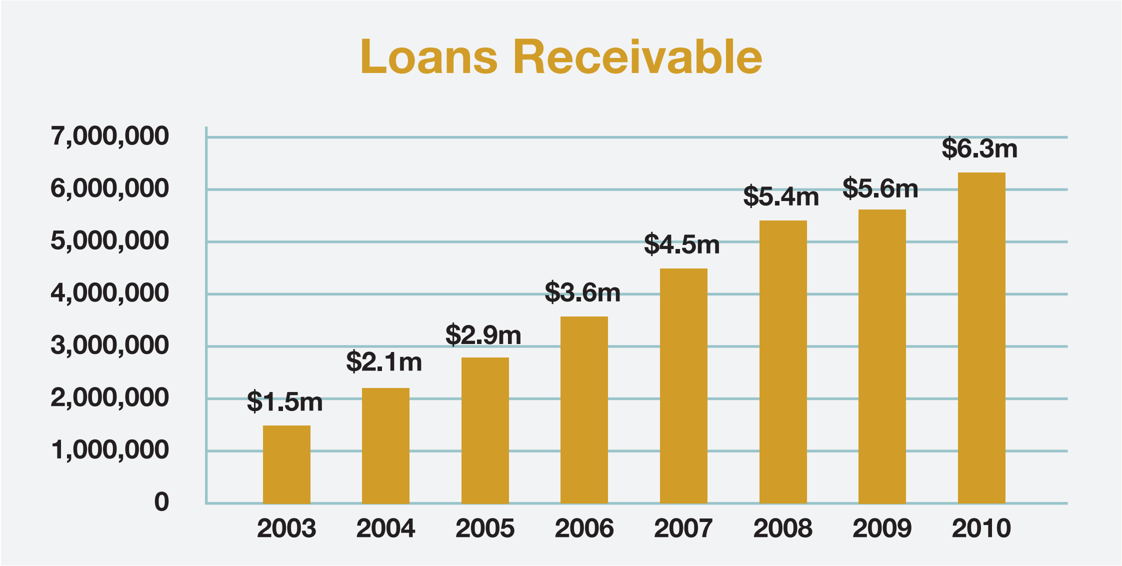
F. Major Expenses

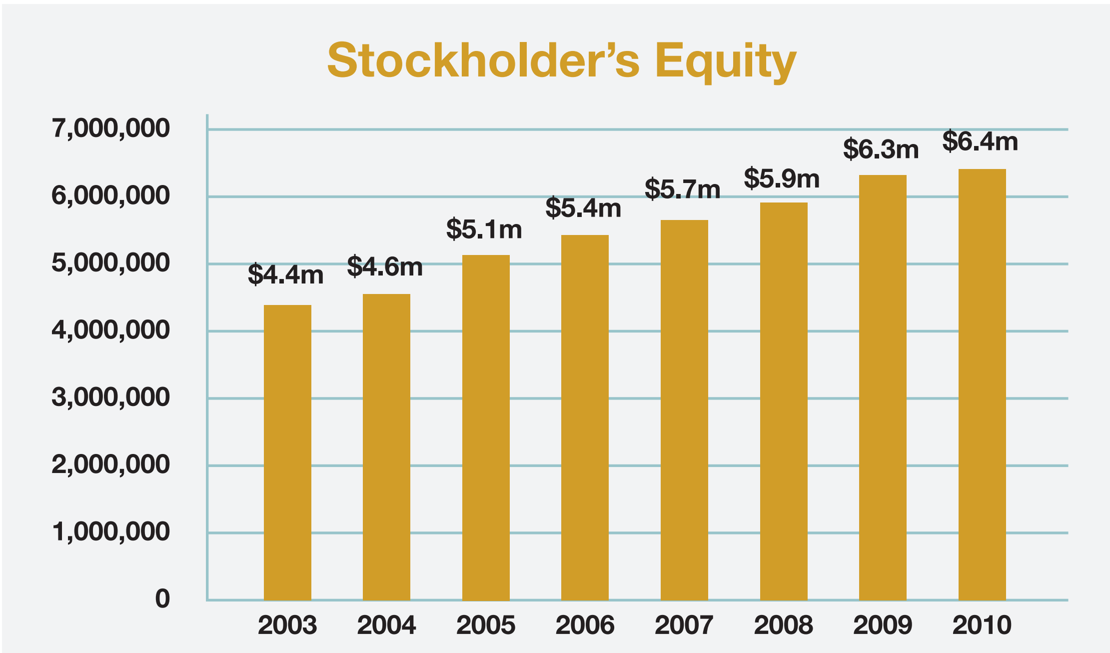


PART IV
Historical Performance

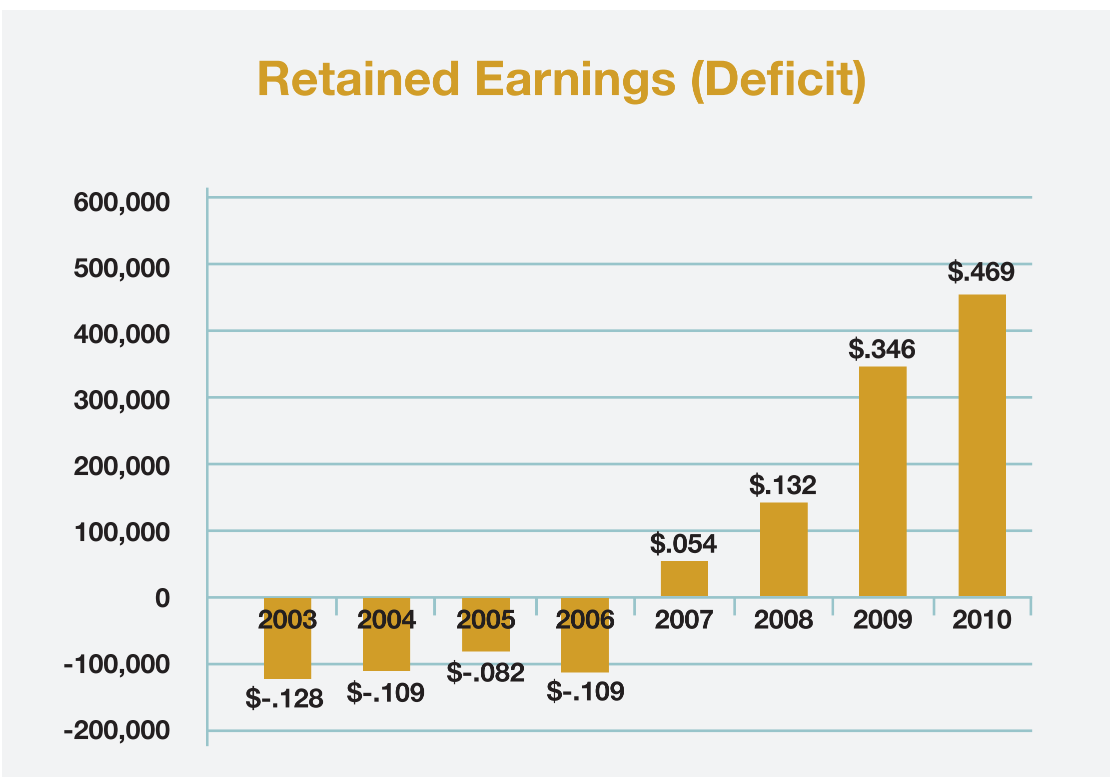
The following graphs show the historical financial performance of the Bank from 2003 to 2010 onselected key balance sheet and income statement items.







Stockholder's Equity
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
$4.4m
$4.6m
$5.1m
$5.4m
$5.7m
$5.9m
$6.3m
$6.4m
2003
2004
2005
2006
2007
2008
2009
2010

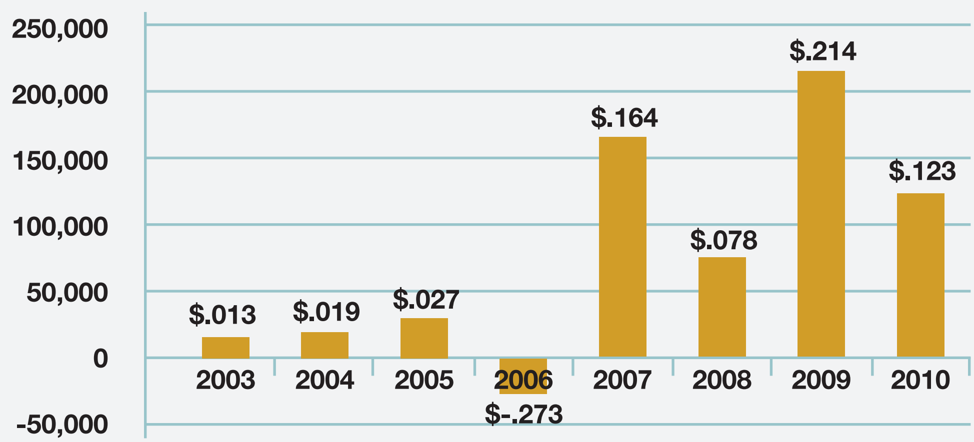


Retained Earnings (Deficit)
600,000
500,000
400,000
300,000
200,000
100,000
0
-100,000
-200,000
$-.128
$-.109
$-.082
$-.109
$.054
$.132
$.346
$.469
2003
2004
2005
2006
2007
2008
2009
2010

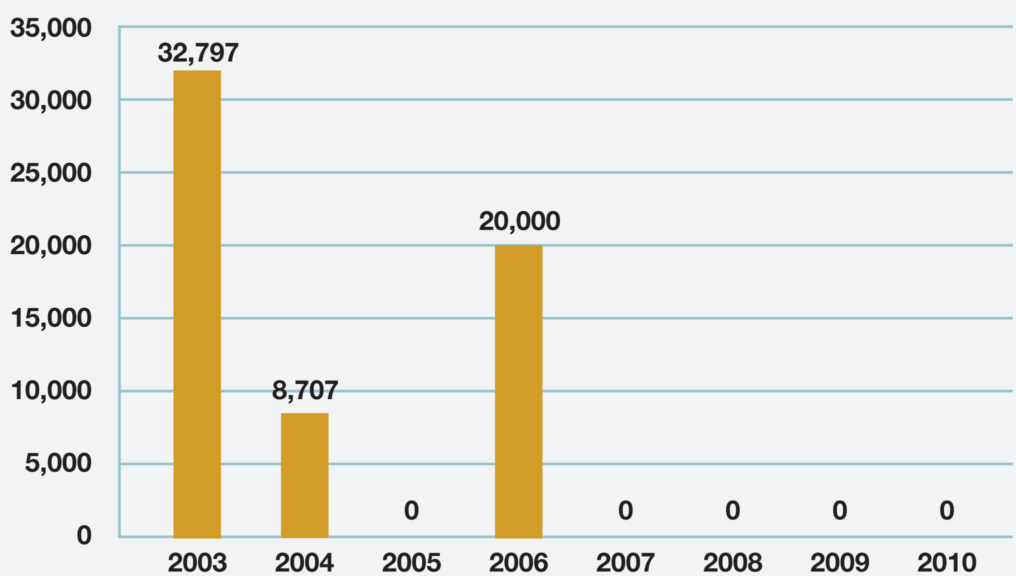

Gross Revenue
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
$.278
$.294
$.360
$.321
$.555
$.464
$.666
$.662
2003
2004
2005
2006
2007
2008
2009
2010


Total Operating Expenses
500,000
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
$.278
$.247
$.277
$.293
$.353
$.386
$.387
$.439
2003
2004
2005
2006
2007
2008
2009
2010

Net Income Losses



Loan Charge Offs



PART V
Financial Ratios

Selected Ratios	2005	2006	2007	2008	2009	2010
GROWTH						
Total Asset Growth	11%	10%	13%	4%	8%	9%
Loans Growth	37%	22%	23%	18%	6%	12%
Long Term Debt Growth	12%	49%	73%	3%	21%	35%
Net Worth Growth	11%	6%	6%	4%	5%	3%
PROFITABILITY						
Return on Assets	0.49%	-0.45%	2.4%	1.1%	2.8%	1.5%
Return on Equity	0.53%	-0.51%	2.9%	1.3%	3.4%	1.9%
Net Margin	8%	-9%	30%	17%	32%	20%
LEVERAGE						
Net Worth	$5.0M	$5.4M	$5.7M	$5.9M	$6.2M	$6.4M
Debt/Worth	9%	13%	21%	21%	24%	31%
Total Liab./Total Assets	8%	11%	17%	17%	19%	24%
LIQUIDITY						
Working Capital	$2.3M	$2.4M	$2.4M	$1.9M	$2.1M	$2.3M
Current Ratio	1,120	120	n/a	947	1,037	3,444

PART VI
Board Activities Report

A. Board of Governors

The Board of Governors held its annual regular meeting in Pohnpei in April 2010 and held one special meeting in Palau in July 2010. Key decisions made and actions taken by the Board during the period under review include:

- Elected Sebastian Anefal, John Ehsa, and Kerai Mariur as Chairman, Vice Chairman, and Secretary, respectively;
- Reviewed the bank's 2009 Annual Report;
- Reviewed the bank's 2009Audit Report;
- Reviewed the bank's 2010 Budget and Goals;
- Approved nominationof Diego Benavente to the Board of Directors;
- Authorized $500,000 soft loan from FSM Development Bank;
- Adopted a number of Board Resolutions;
- Created and activated "Capitalization & Funding Task Force"
- Approved Personnel & Compensation Policy
- Addressed membership obligations & non-payment of shares; and
- Conducted the President's 2009 performance review.

B. Board of Directors

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

- Approved loans over and above the President's lending authority;
- Prepared and transmitted 2009 Annual Report to the Board of Governors;
- Approved 2010 Budget & Goals;
- Quarterly review of bank's performance against budget;
- Monitored performance of our investment advisor and money managers;
- Quarterly review of the Allowance for Loan Loss reserves;
- Reviewed and continually revised bank policies and procedures;
- Prepared various Resolutions requested by the Board of Governors;
- Worked on membership capital and new membership; and
- Collaborate/network with regional development banks and dev. partners.

PACIFIC ISLAND DEVELOPMENT BANK

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2010 AND 2009

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USA
Tel: (671)646-3884
Fax: (671)649-4932
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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, 2010 and 2009, 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, 2010 and 2009, 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 15, 2011

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Condition
December 31, 2010 and 2009

ASSETS	2010	2009
Cash	$ 155,212	$ 185,215
Money market funds	584,918	891,217
Cash and cash equivalents	740,130	1,076,432
Time certificates of deposit	250,000	-
Investment securities	1,256,439	1,003,074
Loans receivable, net of an allowance of $300,000 and $200,000 at December 31, 2010 and 2009, respectively	6,080,808	5,485,460
Interest receivable	88,292	119,368
Security deposit	1,074	3,074
Property and equipment, net	12,109	22,094
	$ 8,428,852	$ 7,709,502
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Other payables	$ 678	$ -
Long-term debt	1,988,386	1,474,337
Total liabilities	1,989,064	1,474,337
Commitments		
Stockholders' equity:		
Capital stock	5,951,783	5,901,783
Retained earnings	469,242	346,527
Accumulated other comprehensive income (loss)	18,763	(13,145)
Total stockholders' equity	6,439,788	6,235,165
	$ 8,428,852	$ 7,709,502

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Earnings
Years Ended December 31, 2010 and 2009

	2010	2009
Interest income	$ 560,920	$ 524,067
Dividend income	11,314	37,870
Realized gain from investment	32,987	98,408
	605,221	660,345
Provision for loan losses	100,000	65,000
	505,221	595,345
Operating expenses:		
Salaries and related expenses	219,653	204,436
Conference and travel	100,236	69,120
Insurance	27,609	29,172
Office rental	20,377	19,621
Trust fees	11,405	10,770
Depreciation	10,053	12,753
Professional fees	9,796	10,290
Communications	9,018	7,522
Board meetings	7,054	5,466
Automobile	4,285	4,538
Business development and marketing	4,171	4,213
Office supplies	3,485	2,387
Miscellaneous	12,525	6,757
Total operating expenses	439,667	387,045
Operating income	65,554	208,300
Other income:		
Other income	70,760	19,222
IRP interest expense	(13,599)	(13,559)
Total other income	57,161	5,663
Net earnings	$ 122,715	$ 213,963

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2010 and 2009

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2008	5,851	$ 5,851,783	$ 132,564	$ (59,084)	$ 5,925,263
Issuance of common stock	50	50,000	-	-	50,000
Comprehensive income:					
Net earnings	-	-	213,963	-	213,963
Net unrealized holding gains on available-for-sale securities net of reclassification adjustments	-	-	-	45,939	45,939
Total comprehensive income					259,902
Balance at December 31, 2009	5,901	5,901,783	346,527	(13,145)	6,235,165
Issuance of common stock	50	50,000	-	-	50,000
Comprehensive income:					
Net earnings	-	-	122,715	-	122,715
Net unrealized holding gains on available-for-sale securities net of reclassification adjustments	-	-	-	31,908	31,908
Total comprehensive income					154,623
Balance at December 31, 2010	5,951	$ 5,951,783	$ 469,242	$ 18,763	$ 6,439,788

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Net earnings	$ 122,715	$ 213,963
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	10,053	12,753
Provision for loan loss	100,000	65,000
Realized gain on sale of investment securities	(32,987)	(98,408)
Decrease (increase) in interest receivables	31,077	(81,007)
Decrease in security deposit	2,000	-
Increase in other payables	678	-
Net cash provided by operating activities	233,536	112,301
Cash flows from investing activities:		
Increase in time certificates of deposit	(250,000)	-
Loan originations and repayments, net	(695,349)	(311,403)
Investment securities purchases and sales, net	(188,470)	(11,770)
Additions to property and equipment	(68)	(20)
Net cash used in investing activities	(1,133,887)	(323,193)
Cash flows from financing activities:		
Proceeds from issuance of capital stock	50,000	50,000
Proceeds from note payable	556,250	273,801
Repayment of note payable	(42,201)	(16,573)
Net cash provided by financing activities	564,049	307,228
Net change in cash and cash equivalents	(336,302)	96,336
Cash and cash equivalents at beginning of year	1,076,432	980,096
Cash and cash equivalents at end of year	$ 740,130	$ 1,076,432
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 13,599	$ 13,559

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.

Cash and Cash Equivalents

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

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost, adjusted for premiums and discounts that are recognized in interest income using the straight-line method over the period to maturity. This method does not differ materially from the interest method. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

At December 31, 2010 and 2009, 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.

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.

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment

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

Taxation

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

Comprehensive Income

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses.

Risks and Uncertainties

In the normal course of its business, the Bank encounters the three components of economic risks: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or re-price at different speeds, or on a different basis, than its interest-earning assets. Incorporated into interest rate risk is prepayment risk. Prepayment risk is the risk associated with the prepayment of assets, and the write-off of premiums associated with those assets, if any, should interest rates fall significantly. Credit risk is the risk of default, primarily in the Bank's loan portfolio that results from the borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of securities, the value of collateral underlying loans receivable. Credit and market risks can be affected by a concentration of business within the Pacific Island region.

Subsequent Events

Management has evaluated subsequent events through March 15, 2011, which is the date that the financial statements are available to be issued. There were no material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2010.

(2) Investment Securities

At December 31, 2010 and 2009, all of the Bank's investment securities are maintained by a fund manager with approximately 73% and 62% invested in equity securities, respectively, and 27% and 38% invested in governmental bonds, respectively. During the years ended December 31, 2010 and 2009, the Bank incurred net realized gains of $32,987 and $98,408, respectively, from the sale of securities by the fund manager. Net cumulative unrealized gains (losses) at December 31, 2010 and 2009 amounted to $18,763 and ($13,145), respectively.

(3) Loans Receivable

The loan portfolio consists of direct loans. The interest rates on commercial loans and consumer loans are predominately at a fixed rate of 10% and 12%, respectively. 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, 2010 and 2009 was $179,000 and $564,000, respectively.

Loans receivable are net of an allowance for loan loss reserves of $300,000 and $200,000 at December 31, 2009 and 2008, 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. At December 31, 2010 and 2009, outstanding balances were $432,591 and $450,536, 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, 2010 and 2009, outstanding balances were $725,744 and $750,000, respectively.

On September 8, 2008, the Bank was awarded additional supplemental funds of $750,000 under the same program. The loan requires interest only payments for the first three years; thereafter, principal and interest is payable in equal annual installments beginning on September 8, 2012. The loan matures on September 8, 2038. The loan bears a fixed interest rate of one percent per annum. At December 31, 2010 and 2009, outstanding balances were $330,051 and $273,801, respectively, with $419,949 and $476,199, respectively, available for future drawdowns.

On September 16, 2010, the Bank entered into a $500,000 loan agreement with the FSM Development Bank mainly for relending in the forms of business development loans to FSM citizens on Guam. The loan requires interest only payments for the first three years; thereafter, principal and interest is payable in equal quarterly installments beginning on September 15, 2013. The loan matures on September 15, 2023. The loan bears a fixed interest rate of four percent per annum. At December 31, 2010 outstanding balance was $500,000. No loans had been extended under this program as of December 31, 2010.

(4) Long-Term Debt, Continued

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

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

Year ending December 31,	
2011	$ 41,368
2012	62,525
2013	76,924
2014	106,014
2015	353,729
Thereafter	1,347,826
	$ 1,988,386

The Bank is required to match 50% of the IRP loan. Therefore, as of December 31, 2010, cash restricted for this purpose approximated $1,132,000. 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, 2010 and 2009, is as follows:

Description	Estimated Useful Lives	2010	2009
Office furniture and equipment	10 years	$ 20,781	$ 20,781
Computer equipment	5 years	41,554	41,554
Vehicles	5 years	52,588	52,520
		114,923	114,855
Less accumulated depreciation		(102,814)	(92,761)
		$ 12,109	$ 22,094

(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, 2010 and 2009, the Bank has received $5,951,783 and $5,901,783 of equity contributions, respectively. Authorized capital stock is 18,000 shares of $1,000 par value. As of December 31, 2010 and 2009, respectively, 5,951 and 5,901 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.

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Notes to Financial Statements
December 31, 2010 and 2009

(7) Commitments

The Bank has existing loan commitments of $24,600 as of December 31, 2010.

(8) Leases

The Bank operates from rented premises under an operating lease agreement that expired on July 31, 2009 with a monthly payment of $1,590. An amendment was made to extend current term through July 31, 2011 with an increase of monthly rent to $1,705 per month. Total future minimum payments under this lease approximate $11,935 for the year ended December 31, 2011.

(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. Contributions to the Plan are 10% of gross salaries and are 100% vested after three years of service. During the years ended December 31, 2010 and 2009, the Bank contributed $12,582 and $14,464, respectively, to the Plan.

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