Pacific Islands Development Bank

2014 Annual Report

Table of Contents

Transmittal Letter

February 28, 2015

Board of Governors
Pacific Islands Development Bank

Dear Governors:

Pursuant to 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*, it is my pleasure to transmit, on behalf of the Board of Directors, the Pacific Islands Development Bank's Annual Report for the period ended December 31, 2014.

Respectfully,

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

Message from the President

The year 2014 marked the beginning and first year of the implementation of the Bank's revised Five-Year Strategic Plan. During the year, we pursued and made progress on a number of initiatives intended to address the key and most crucial challenge of the Bank, namely: increased capacity and resource base, particularly capital and financial resources. The primary focus of the Bank's Strategic Plan covering 2014 to 2018 is essentially on resource mobilization and capitalization.

While the economies of PIDB member islands remain generally weak and stagnant, Guam, Palau, CNMI, and Marshall Islands registered modest growth last year. The Commonwealth of the Northern Mariana Islands continues to see signs of recovery.[1] *Tourism, being one of the key industries and revenue sources for the region, saw increases in tourist arrivals in Palau, Guam and CNMI. With increased tourist arrivals, the governments and private sector need to address the need for additional hotel rooms and support services and infrastructure. The four (4) FSM States of Chuuk, Kosrae, Pohnpei and Yap have seen declining Gross Domestic Product (GDP) in the last 3 years.*[2] *Further, the financial and economic assistance (Sector Grants) provided to the governments of the Federated States of Micronesia and Republic of the Marshall Islands will be terminated in 2023. Efforts are on-going to address both the Sector Grant decrement in 2017 and the eventual termination of financial assistance to FSM and RMI in 2023.*

Against the above background, our operating environment in 2014 continued to be difficult and challenging. Many of our commercial clients experienced reduced business revenue and cash flow problems. Consequently, some of them failed to make their payments on time, resulting in a slight increased loan delinquency for the year. True to our mission and purpose, however, we stood by our troubled borrowers and assisted them with loan restructure and payment deferrals. While these remedial actions are available, Management continues to be prudent in their application.

Despite the tough economic and operating environment, the management team and the Board of Directors worked diligently through the year, managing the operation while pursuing the strategic initiatives outlined in our Strategic Plan. Consequently, I am pleased to report that we once again registered strong balance sheet growth and earnings in 2014. Among others, following are some of the highlights and key accomplishments in 2014.

- *Increased Total Assets by 3%*
- *Increased Loans by8%*

[1] According to Reports and information provided at PIDB Board of Directors meetings.
[2] Based on statistics received from FSM government.

- *Increased Stockholders' Equity by 4%*
- *Increased Retained Earnings by 32%*
- *Realized a record $500,439 in Net Income with $177,000 set aside for Loan Loss Reserve*
- *Realized a Return on Assets of 2.9%*
- *Realized a Return on Equity of 3.7%%*
- *Achieved "unqualified" audit opinion with no questioned costs and documentation issues*

As we closed 2014 with another strong and consistent operational results and performance, we should also look ahead with determination and excitement. Determination as we face the difficult and challenging times ahead, and excitement in turning those challenges into opportunities and success. To do that, we must implement the priority strategic initiatives and programs recommended in our Five Year Strategic Plan. The consistent growth and progress the Bank has made over the past years is a result of effective strategic planning and persistent and timely implementation.

Finally, I would like to thank our Shareholders and development partners for their continued support. I also thank the Board of Directors and Management and staff for contributing to the results and accomplishments in 2014. We look forward to another successful year for the Bank, in fulfilling its mandate.

Aren Palik
President & CEO

I. Background & Corporate Information

Establishment

Pacific Islands Development Bank was established in July 1989 by the Association of Pacific Island Legislatures. Its corporate office is located in Guam.

Bank's Vision

To be a stable and sustainable development finance institution providing access to funds for the economic and social well-being of its members.

Bank's Mission & Purpose

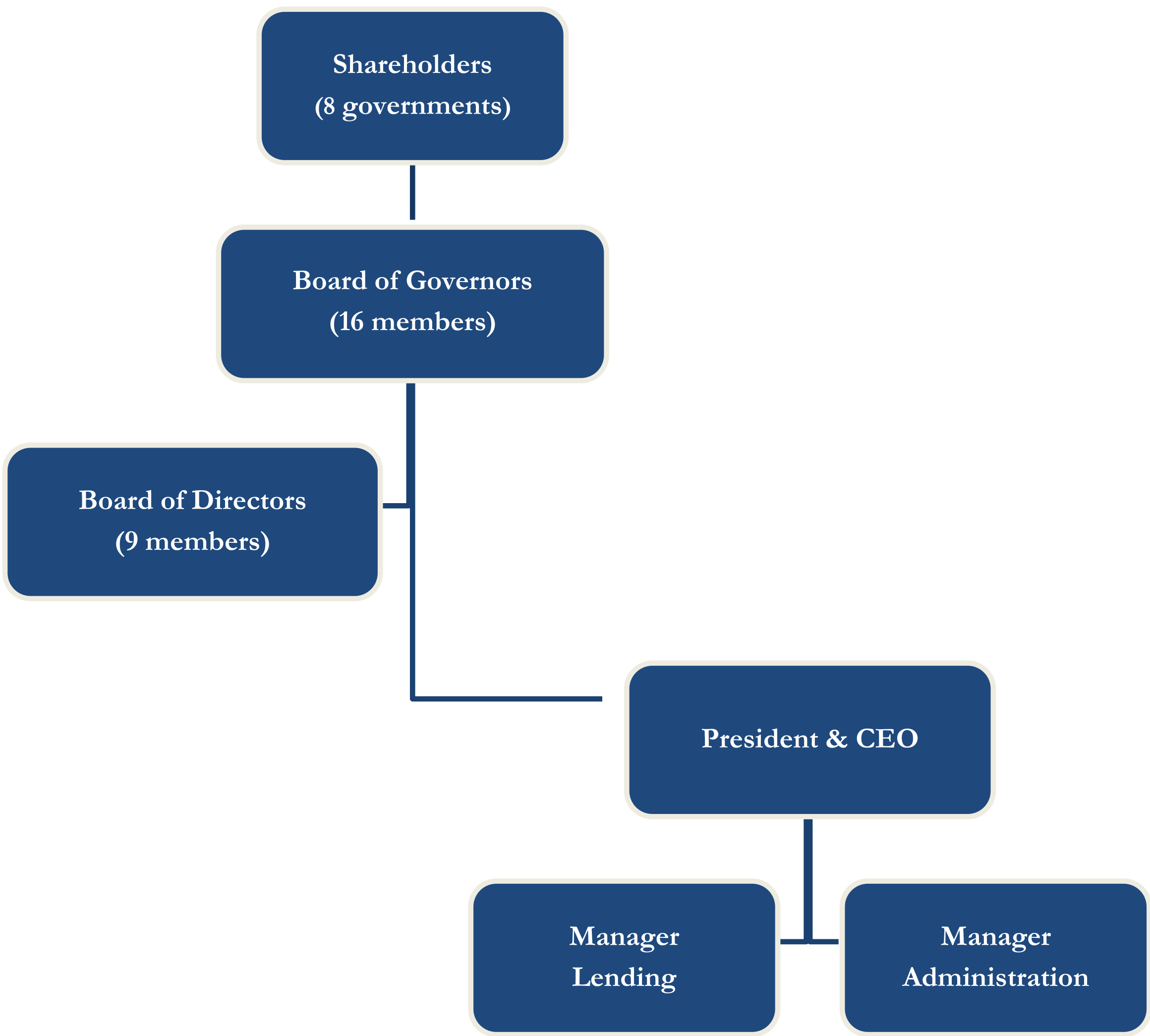
To contribute to the acceleration of the process of economic and social development of member countries and States, individually and collectively, and to promote economic cooperation among them

Shareholders & Paid in Capital

	2014	
Shareholders	**# Shares**	**Value**
Chuuk	251	251,783
CNMI	1,000	1,000,000
Guam	1,000	1,000,000
Kosrae	810	810,000
Marshall Is.	1,000	1,000,000
Palau	1,000	1,000,000
Pohnpei	1,000	1,000,000
Yap	1,439	1,438,866
Total	**7,500**	**$7,500,649**

For the period under review, the Bank has 8 Shareholders. Marshall Islands attained membership in 2011. Each member entity is required to contribute $1 million in equity capital. Yap State infused an additional $438,866 capital in 2013 with other members considering increased capitalization. Kosrae State continues to make annual payments.

Organizational Chart



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. At its annual meeting, the Board elects new officers for the ensuing year. The members of the Board of Governors and its officers for the period under review are as follows:

Shareholder	Executive Branch Rep.	Legislative Branch Rep.
Chuuk:	Vacant	Vacant
CNMI:	Jude Hofschneider Lt. Governor	Joseph Deleon Guerrero Speaker
Guam:	**Eddie Calvo, Vice Chairman** Governor	Judith Won Pat Speaker
Kosrae:	Carson Sigrah Lt. Governor	Gibson Siba Speaker
Marshall Is.	Jack Ading Minister of Finance	**Donald Capelle, Chairman** Speaker
Palau:	Elbuchel Sadang Minister of Finance	Swenny Ongidobel Delegate, House of Delegates
Pohnpei:	John Ehsa Governor	Brandon Tara Financial Analyst, Legislature
Yap:	**Sebastian Anefal, Secretary** Governor	Henry Falan Speaker

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 represent that member entity on the PIDB Board of Directors. In accordance with the *Articles*, the Bank President & CEO serves as Chairman of the Board of Directors.

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

Palau	**CNMI**	**Guam**
Elbuchel Sadang Minister of Finance Republic of Palau	Diego Benavente Former Lt. Governor/ Former Speaker	Lourdes Leon Guerrero President & CEO Bank of Guam
Kosrae	**Pohnpei**	**Yap**
Ilai Abraham Former Senator Kosrae State Legislature	Christina Elnei Acting Director Dept. of Treasury/Admin.	John Masiwemai Senator Yap State Legislature
Management	**Marshall Islands**	**Chuuk**
Aren Palik President/CEO Chairman of the Board	Alfred Alfred, Jr. Secretary of Finance Republic of Marshall Is.	Vacant

II. Operational Summary

A. Loan Activity Report

Approved Loans

Loan Type	2014 #	Amount	2013 #	Amount
Commercial Loans				
Agriculture	1	5,147	1	9,943
Fisheries	3	767,000	0	0
Tourism	0	0	3	699,608
Manufacturing	1	16,068	1	300,000
Services	14	622,270	23	1,284,908
Commercial	2	800,000	2	804,566
Sub Total	22	2,210,485	30	3,099,025
Residential Home Loans	8	506,830	7	691,819
Consumer Loans	52	562,924	93	1,033,405
Total	**82**	**$3,280,239**	**129**	**$4,824,250**

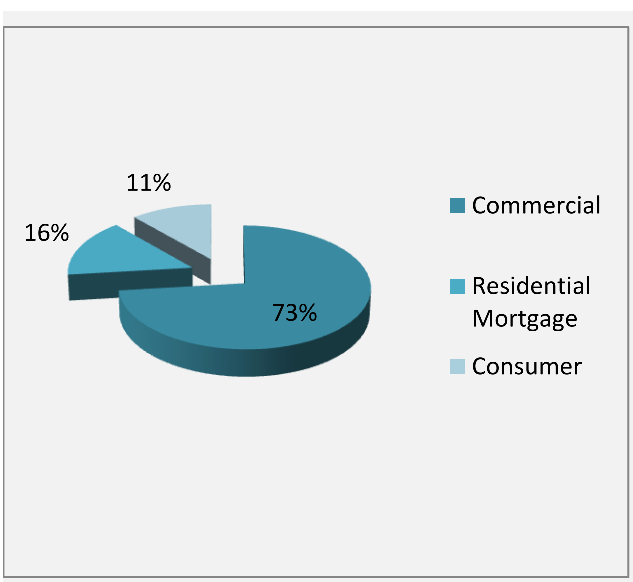
Outstanding Loans by Sector

Loan Type	2014 #	Amount	2013 #	Amount
Commercial Loans				
Agriculture	1	5,147	2	15,230
Fisheries	3	752,638	0	0
Tourism	6	1,214,786	9	2,213,287
Manufacturing	4	395,236	1	293,224
Services	54	2,818,343	57	2,687,444
Commercial	13	2,800,303	10	2,202,805
Sub Total	81	7,986,453	79	7,411,990
Residential Home Loans	22	1,684,655	15	1,240,210
Consumer Loans	157	1,244,282	169	1,413,845
Total	**260**	**$10,915,390**	**263**	**$10,066,045**

Loan Distribution by Shareholder

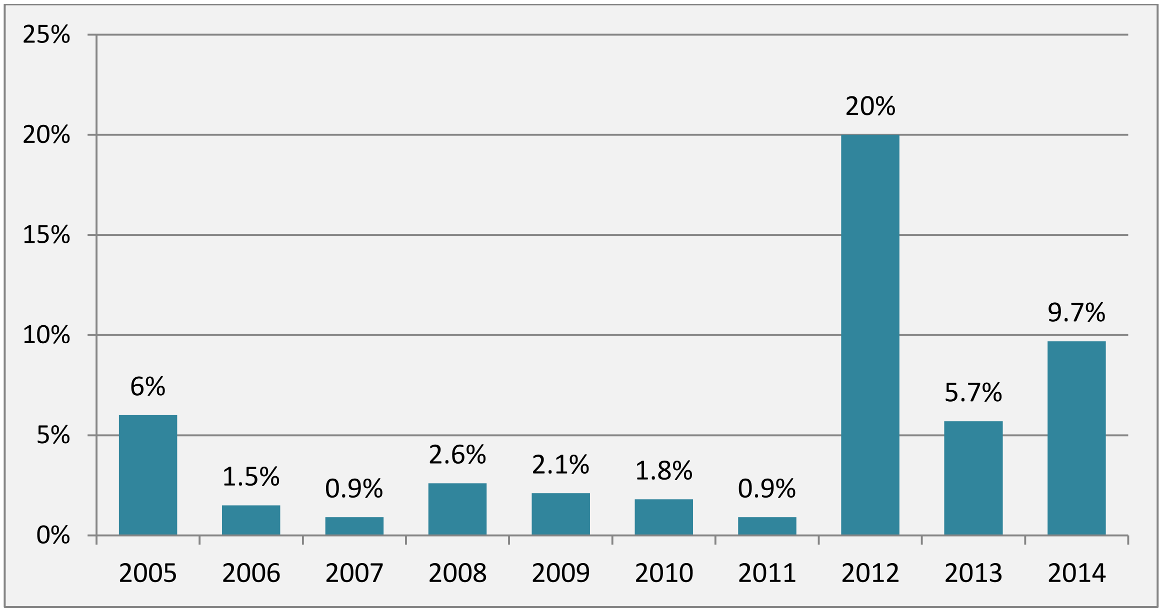
Shareholder	Commercial #	Commercial Value	Consumer #	Consumer Value	Housing #	Housing Value	Total #	Total Value
Guam	7	825,206	22	126,251	2	221,541	31	1,172,998
Palau	6	1,194,871	5	48,697	1	85,719	12	1,329,286
Pohnpei	8	1,147,890	5	40,723	2	53,842	15	1,242,455
Yap	11	1,362,569	68	427,791	4	317,874	83	2,108,233
Kosrae	29	872,744	42	391,587	7	187,736	78	1,452,067
CNMI	4	388,056	7	103,200	3	248,074	14	739,330
Chuuk	1	57,420	0	0	0	0	1	57,420
RMI	8	1,733,741	8	106,033	3	569,869	19	2,409,643
FSMDB/Export	7	403,956	0	0	0	0	7	403,956
Total	**81**	**$7,986,453**	**157**	**$1,244,282**	**22**	**$1,684,655**	**260**	**$10,915,388**

Loan Mix

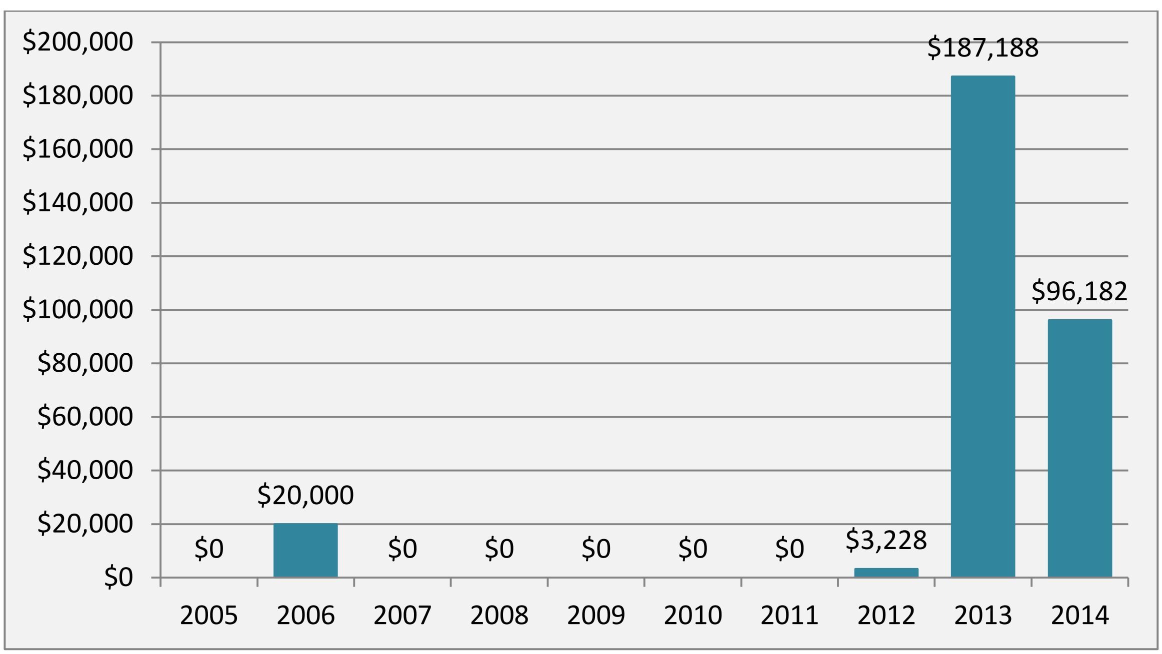


At 12/31/14, 73% or $7,986,453 of Total Loans was in Commercial Loans; 16% or $1,684,655 in Residential Home Loans; and 11% or $1,244,282 in Consumer Loans. The Bank's core lending is in Commercial loans, consistent with its Mission and Purpose which is to promote economic development in the region. For the period under review, Average Consumer loan amount is $7,925; average Residential Home Loans is $76,575; and average Commercial loan amount is $98,598.

Loan Delinquency



Loan Charge Offs



B. Financial Report

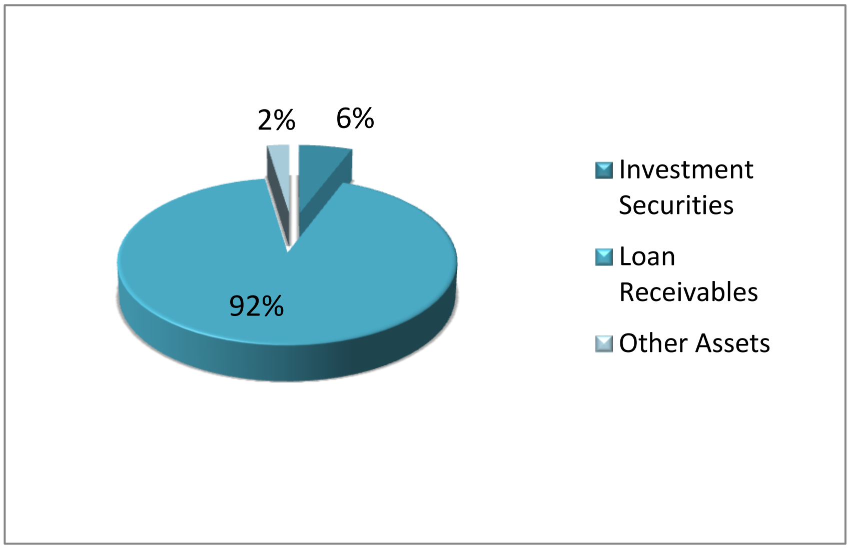
Performance Against Previous Year (2013)

In most key performance indicators, the Bank exceeded its previous year's performance and results. As shown in the Table below, ***Loans Receivable*** increased by 8.4% or $849,222 to $10.9 million. Loan demand remains strong with more applications being filed, however, the Bank's loan operation continues to be hampered and limited due to insufficient capital and loanable funds. ***Stockholders' Equity*** grew by 3.8% or $323,439 to $8.8 million attributed primarily to improvement in the Bank's Retained Earnings. During the period under review, Board and Management continued to work with all members on both outstanding and additional membership equity capital. ***Total Assets*** grew by 3.4% or $372,310 to $11.2 million due mainly to the multiplier effect on the loan portfolio. ***Retained Earnings*** increased by $323,439 or 32% to $1.3 million attributed to the net income of $323,439 for the year. The Bank retired its pre-operating deficit in 2007 and has since been growing its Retained Earnings. ***Gross Revenue*** declined slightly by $29,962 or 2.8% to $$1.0 million. While Interest Income on loans increased by $76,971 or 9%, Realized Gain from Investment was zero compared to the previous year. ***Total Operating Expenses*** was reduced by 7.7% or $38,800 attributed to lower travel and salary expenses. The Bank realized a net income of $500,439 representing a Return on Assets of 4.4%. However, with an increasing loan portfolio, the Board of Directors decided to reserve or set aside $177,000 in ***Provision for Loan Losses***, resulting in a ***Net Income*** of $323,439 for the year.

Selected Key Items	2014 Actual	2013 Actual	Variance ($)	Variance (%)
Loans Receivable	10,915,267	10,066,045	849,222	8.4%
Stockholders' Equity	8,832,197	8,508,758	323,439	3.8%
Total Assets	11,234,918	10,862,608	372,310	3.4%
Retained Earnings	1,331,548	1,008,109	323,439	32%
Gross Revenue	1,003,885	1,033,847	-29,962	-2.8%
Total Operating Expenses[3]	461,406	500,206	-38,800	-7.7%
Provision for Loan Losses	177,000	185,000	8,000	-4.3%
Net Income	323,439	309,577	13,862	4.4%

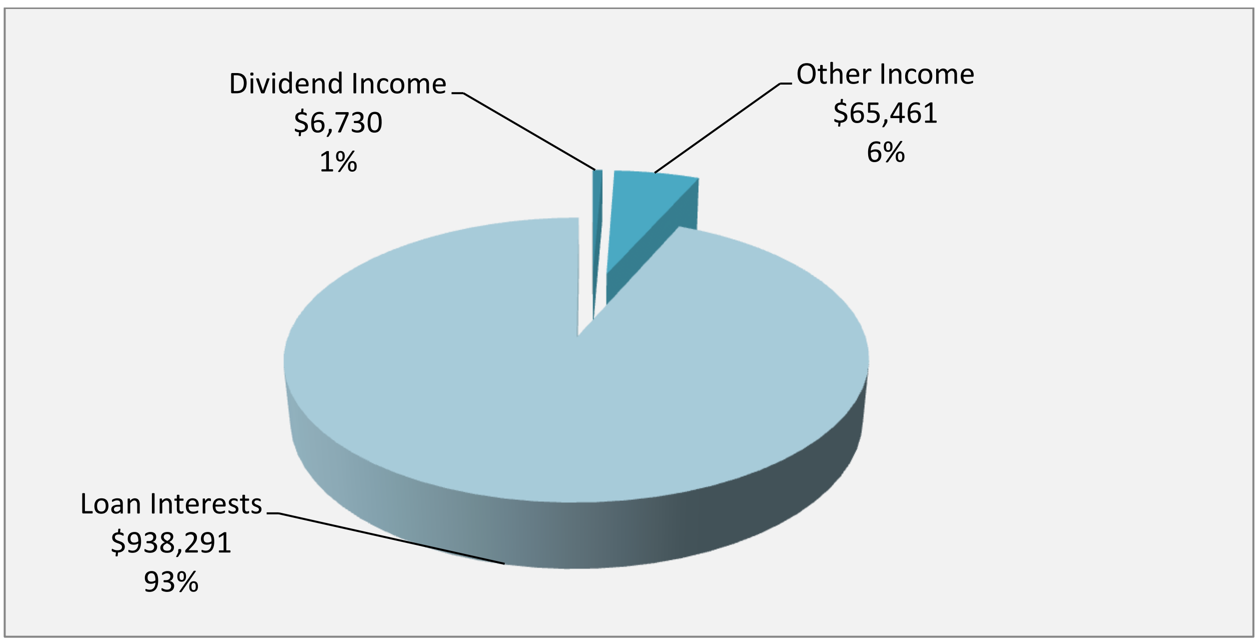
[3] Excludes Interest Expense and Provision for Loan Losses

Asset Mix



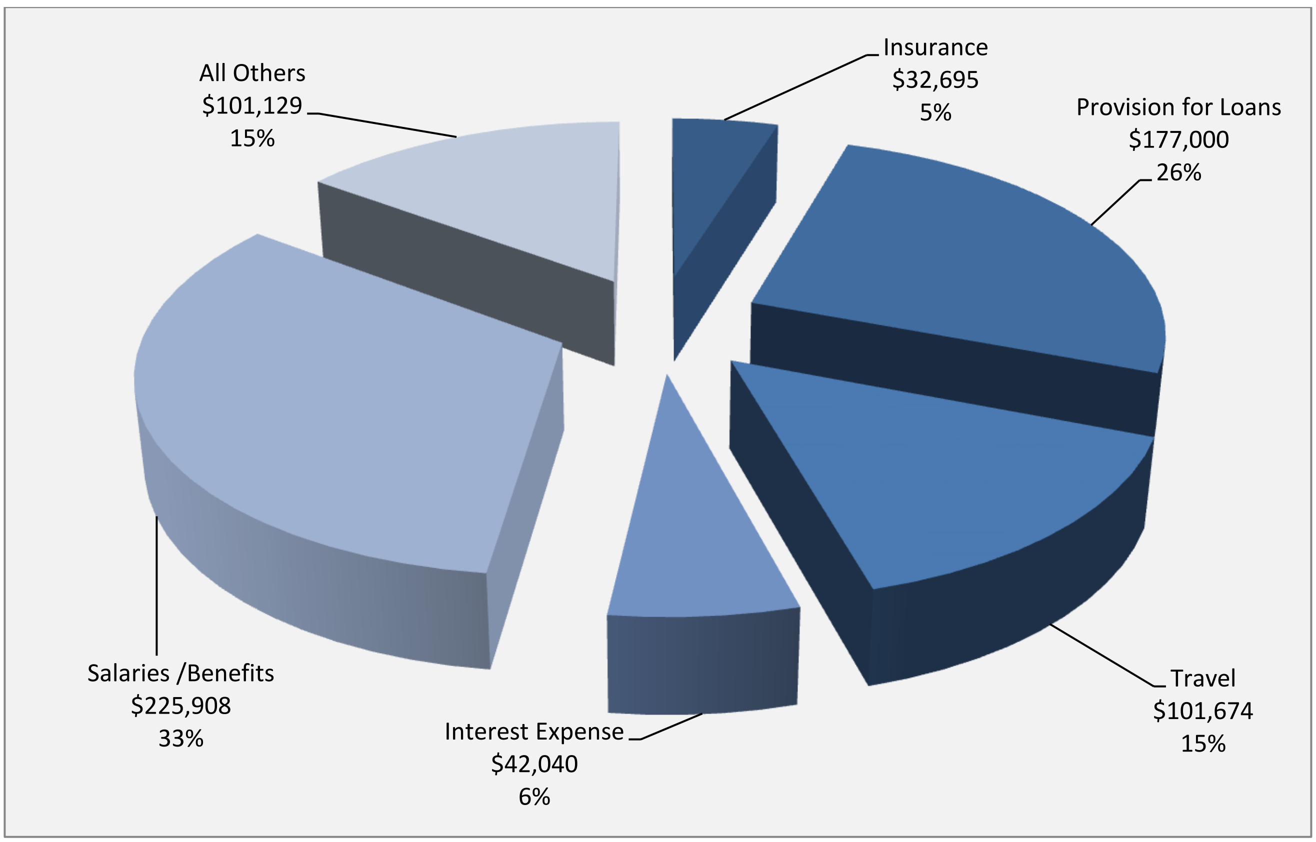
Of the Bank's Total Assets, 92% or $10,311,728 is in Loan Receivables; 6% or $653,501 in Investment Securities; and 2% or $269,689 in Other Assets. This asset mix is consistent with the bank's mission and purpose which is to assist members with development financing. Resource mobilization remains one of the bank's highest priorities.

Revenue by Source

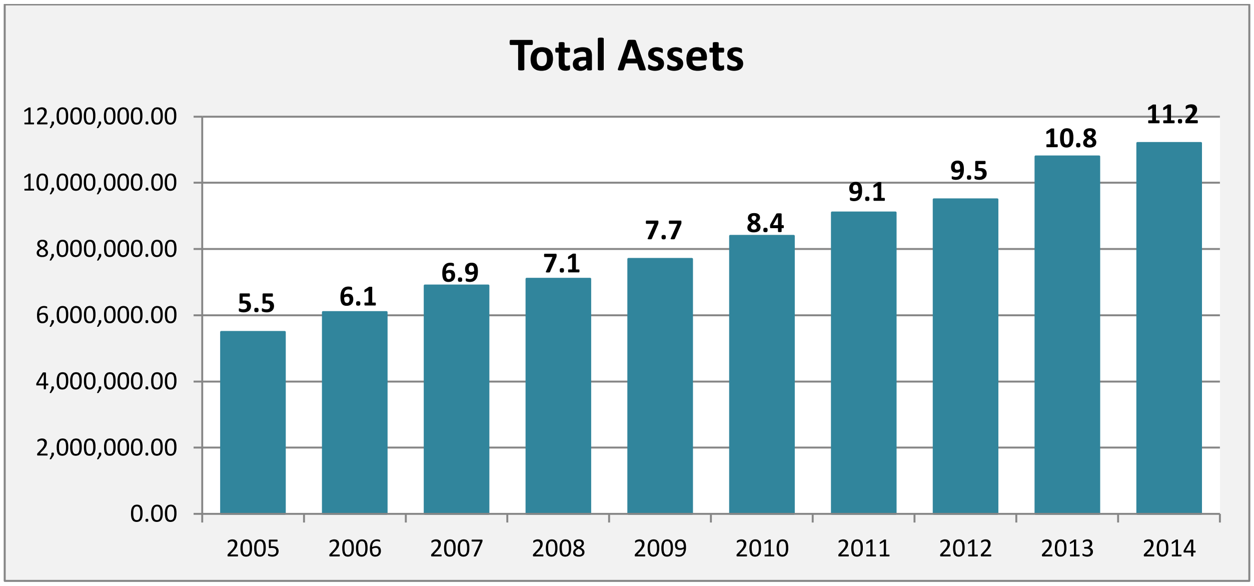


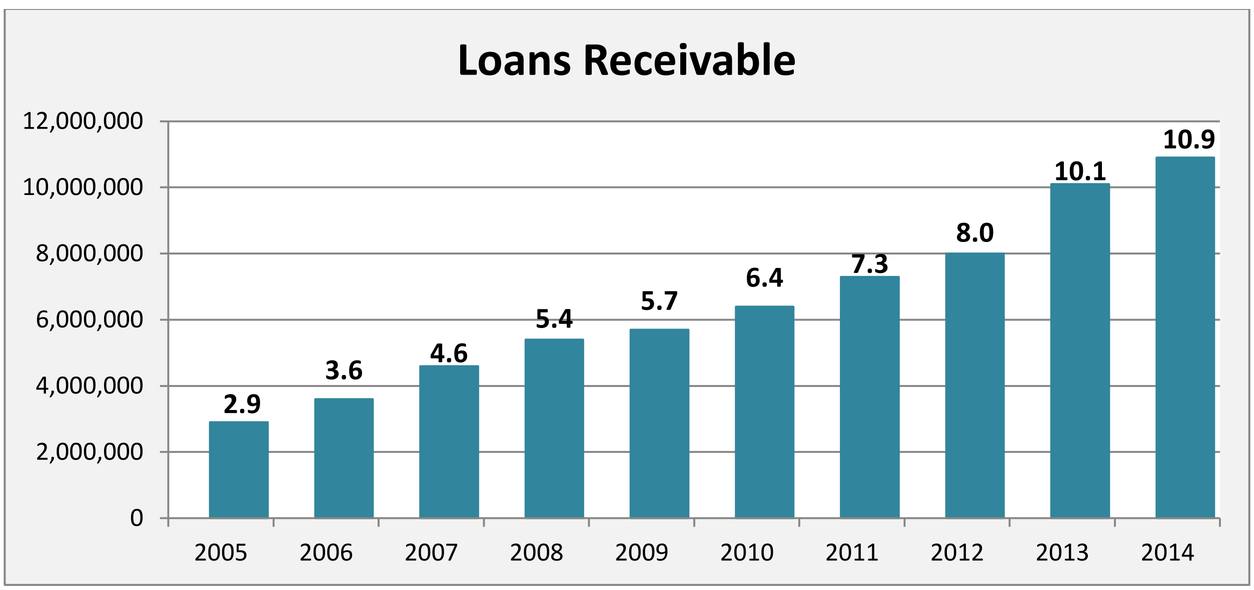
Major Expenses

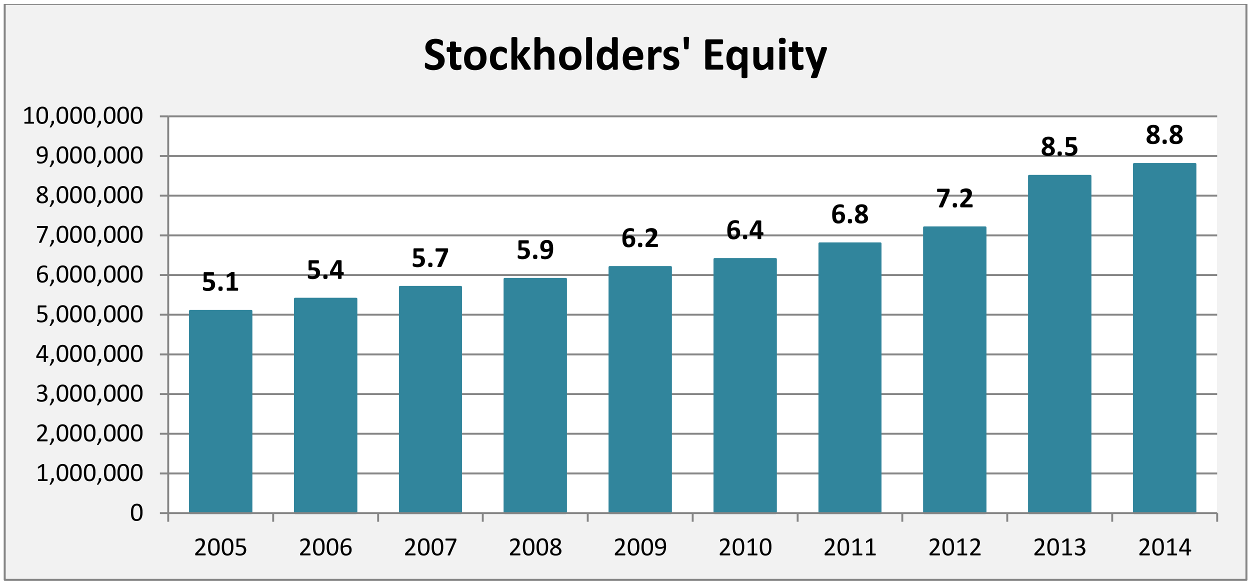
The major expenses of the Bank are highlighted in the Chart below. The Bank's operating expenses reflects its corporate and operational structure. With a 16 member Board of Governors and an 8 member Board of Directors, for example, around 60% of Travel Expenses were for Board meetings. Salaries and Benefits are also set, in large part, based on cost of living in Guam. And given the Bank's geographic and operational spread, communication and related expenses tend to be higher. The Provision for Loans is discretionary, based on the Board of Directors' review and classification of the Loan portfolio. In 2014, based on such review, the Board decided to set aside or provision $177,000. Interest Expense in the amount of $42,040 was for both the IRP loans and FSM Development Bank export loan facility.

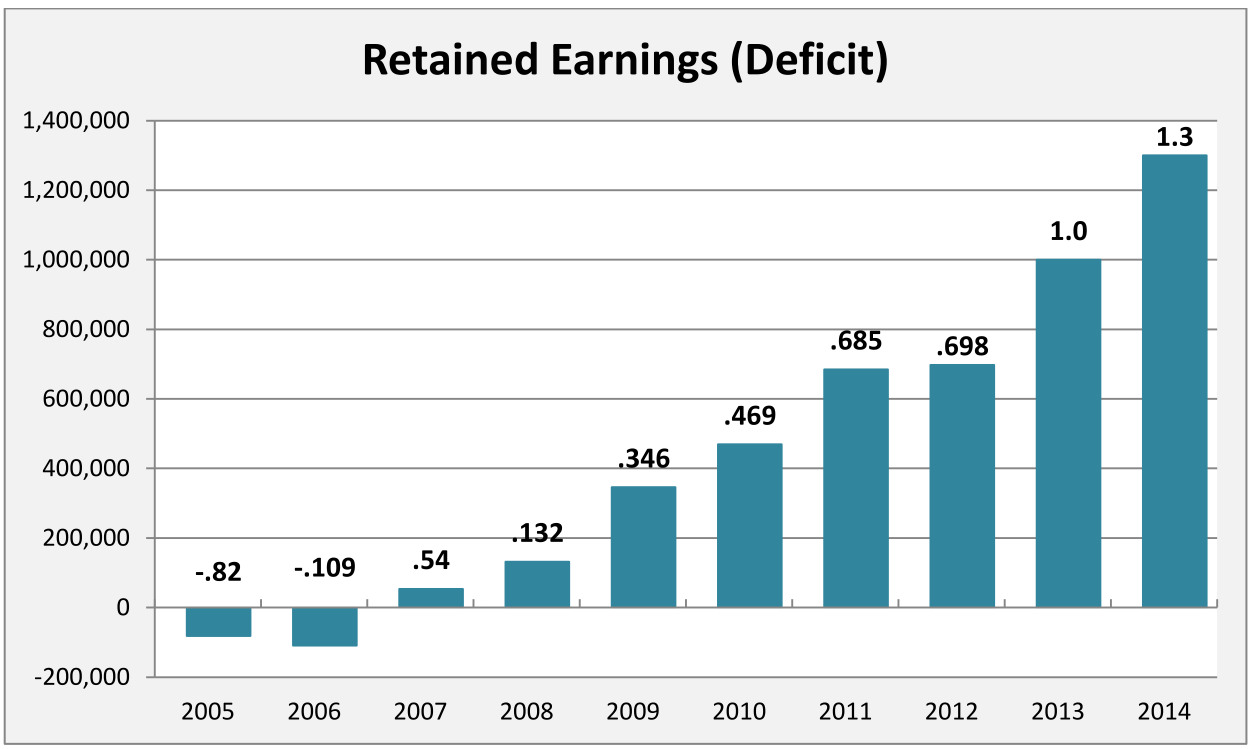


Financial Summary, 2005 - 2014






Stockholders' Equity
10,000,000
9,000,000
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
5.1
5.4
5.7
5.9
6.2
6.4
6.8
7.2
8.5
8.8
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Retained Earnings (Deficit)
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
-200,000
-.82
-.109
.54
.132
.346
.469
.685
.698
1.0
1.3
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014

Financial Ratios

Selected Ratios	2009	2010	2011	2012	2013	2014
GROWTH						
Total Asset Growth	8%	9%	8%	5%	14%	4%
Loan Growth	6%	12%	15%	10%	25%	8%
Long Term Debt Growth	21%	35%	14%	0.2%	3%	2%
Net Worth Growth	5%	3%	6%	6%	18%	4%
PROFITABILITY						
Return on Assets	2.8%	1.5%	2.4%	0.13%	2.9%	2.9%
Return on Equity	3.4%	1.9%	3.1%	0.18%	3.6%	3.7%
Net Margin	32%	20%	30%	2%	30%	34%
LEVERAGE						
Net Worth	$6.2M	$6.4M	$6.8M	$7.2M	$8.5M	$8.9M
Debt to Worth	24%	31%	33%	32%	28%	27%
Total Liabilities/Total Assets	19%	24%	25%	24%	22%	21%
LIQUIDITY						
Working Capital	$2.1M	$2.3M	$2.0M	$1.9M	$1.3M	$.9M
Current Ratio	1,037	3,444	2,660	425	279	127

Pacific Islands Development Bank

Financial Statements and Independent Auditors' Report

Year Ended December 31, 2014 and 2013

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

Independent Auditors' Report

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

We have audited the accompanying financial statements of Pacific Islands Development Bank (the Bank), which comprise the statements of condition as of December 31, 2014 and 2013, and the related statements of comprehensive income, of changes in stockholders' equity and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Islands Development Bank as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 19, 2015

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Condition
December 31, 2014 and 2013

ASSETS	2014	2013
Cash and cash equivalents	$ 653,501	$ 1,100,163
Loans receivable, net	10,311,728	9,543,411
Interest receivable	232,687	180,270
Property and equipment, net	37,002	38,764
	$ 11,234,918	$ 10,862,608
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Other liabilities	$ 7,276	$ 4,582
Long-term debt	2,395,445	2,349,268
Total liabilities	2,402,721	2,353,850
Commitments		
Stockholders' equity:		
Capital stock	7,500,649	7,500,649
Retained earnings	1,331,548	1,008,109
Total stockholders' equity	8,832,197	8,508,758
	$ 11,234,918	$ 10,862,608

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Comprehensive Income
Years Ended December 31, 2014 and 2013

	2014	2013
Interest income	$ 938,291	$ 861,320
Dividend income	6,730	13,225
Realized gain from investment	-	93,841
	945,021	968,386
Provision for loan losses	177,000	185,000
	768,021	783,386
Operating expenses:		
Salaries and related expenses	225,908	233,356
Conference and travel	101,674	136,449
Insurance	32,695	24,589
Office rental	23,007	22,434
Professional fees	15,967	17,480
Board meetings	9,355	8,143
Communications	8,220	8,886
Automobile	7,126	5,892
Education and training	6,926	-
Depreciation	6,659	6,401
Business development and marketing	5,138	8,150
Office supplies	4,458	3,473
Trust fees	-	5,717
Miscellaneous	14,273	19,236
Total operating expenses	461,406	500,206
Operating income	306,615	283,180
Other income:		
Other income	58,864	65,461
Interest expense	(42,040)	(39,064)
Total other income	16,824	26,397
Net income	323,439	309,577
Other comprehensive loss:		
Net unrealized loss on investment securities	-	(33,021)
Comprehensive income	$ 323,439	$ 276,556

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2014 and 2013

	Shares of Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2012	6,481	$ 6,481,783	$ 698,532	$ 33,021	$ 7,213,336
Issuance of common stock	1,019	1,018,866	-	-	1,018,866
Net income	-	-	309,577	-	309,577
Other comprehensive loss	-	-	-	(33,021)	(33,021)
Balance at December 31, 2013	7,500	7,500,649	1,008,109	-	8,508,758
Net income	-	-	323,439	-	323,439
Balance at December 31, 2014	7,500	$ 7,500,649	$ 1,331,548	$ -	$ 8,832,197

See accompanying notes to financial statements.

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net earnings	$ 323,439	$ 309,577
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	6,659	6,401
Provision for loan loss	177,000	185,000
Realized loss on sale of investment securities	-	(93,841)
(Increase) decrease in interest receivable	(52,417)	17,898
Decrease in prepaid expenses	-	13,000
Decrease in security deposit	-	1,074
Increase in other liabilities	2,694	41
Net cash provided by operating activities	457,375	439,150
Cash flows from investing activities:		
Loan originations and repayments, net	(945,317)	(2,206,023)
Investment securities purchases and sales, net	-	1,331,517
Additions to property and equipment	(4,897)	(6,091)
Net cash used in investing activities	(950,214)	(880,597)
Cash flows from financing activities:		
Proceeds from long-term debt	150,500	142,750
Repayment on long-term debt	(104,323)	(66,423)
Proceeds from issuance of capital stock	-	1,018,866
Net cash provided by financing activities	46,177	1,095,193
Net change in cash and cash equivalents	(446,662)	653,746
Cash and cash equivalents at beginning of year	1,100,163	446,417
Cash and cash equivalents at end of year	$ 653,501	$ 1,100,163
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 42,040	$ 36,690

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.

During the year ended December 31, 2013, the Bank sold and closed its investment accounts.

Loans

Loans are stated at unpaid principal balance less the allowance for loan losses (the "Allowance"). Interest income is recognized on an accrual basis. Other credit-related fees are recognized as fee income, a component of noninterest income, when earned.

Non-Performing Loans

Generally, loans are placed on non-accrual status upon becoming contractually past due 90 days as to principal or interest (unless loans and leases are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), when terms are renegotiated below market levels, or where substantial doubt about full repayment of principal or interest is evident.

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

Non-Performing Loans, Continued

When a loan is placed on non-accrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or cost recovery method until qualifying for return to accrual status. All payments received on non-accrual loans are applied against the principal balance of the loan. A loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan or lease agreement and when doubt about repayment is resolved. At December 31, 2014 and 2013, the Bank has placed one loan in the amount of $289,091 on non-accrual status.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments. Impaired loans include all non-accruing loans, all loans modified in a troubled debt restructuring and loans classified as doubtful (see note 3).

When a loan has been identified as being impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral-dependent. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest), an impairment is recognized by establishing or adjusting an existing allocation of the Allowance.

Loans Modified in a Troubled Debt Restructuring (TDRs)

Loans are considered to have been modified in a troubled debt restructuring when, due to a borrower's financial difficulties, the Bank makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. A modification that results in an insignificant delay in contractual cash flows is not considered to be a concession. During the years ended December 31, 2014 and 2013, the Bank granted loan modifications and temporary payment deferments.

Allowance for Loan Losses

The Bank maintains an Allowance adequate to cover management's estimate of probable credit losses as of the balance sheet date. Changes to the level of the Allowance are recognized through charges or credits to provisions for loan losses. Loans that are charged-off reduce the Allowance while recoveries of loans previously charged-off increase the Allowance.

The Bank does not disaggregate its loan portfolio by segments for the purposes of determination of the Allowance. The level of Allowance is generally based on analyses of individual borrowers and historical loss experience supplemented as necessary by credit judgment to address observed changes in trends and conditions, and other relevant environmental and economic factors that may affect the collectability of loans. On a quarterly basis, the Bank performs an analysis of individual loans based on its internal risk rating methodology.

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

Property and Equipment

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

Taxation

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

Comprehensive Income

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

Estimates

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

Significant Group Concentration of Credit Risk

All of the Bank's lending activities are with individuals and businesses located within Guam, the Commonwealth of the Northern Mariana Islands, the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. The Bank does not have any significant concentrations in any one industry or customer.

Risks and Uncertainties

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

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

Subsequent Events

Management has evaluated subsequent events through February 19, 2015, which is the date that the financial statements are available to be issued. Except for the matter noted in note 4, there were no material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2014.

(2) Loans Receivable

The loan portfolio consists of direct loans. The interest rates on commercial loans, consumer loans and residential loans are predominately at a fixed rate of 10%, 12%-13% and 7%, respectively. Most commercial and residential loans have been collateralized by various forms of collateral wherein consumer loans are mostly unsecured.

A summary of the balances of loans at December 31, 2014 and 2013 follows:

	2014	2013
Commercial – PIDB direct loan program	$ 5,548,434	$ 5,115,140
Commercial – USDA Intermediary Relending Program (IRP)	2,032,897	1,853,851
Residential loans	1,685,030	1,240,210
Consumer	1,244,950	1,413,845
Commercial – FSMDB import/export	403,956	442,999
Gross loans	10,915,267	10,066,045
Less: allowance for loan losses	(603,539)	(522,634)
Net loans	$ 10,311,728	$ 9,543,411

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, 2014 and 2013 was $222,000 and $159,000, respectively.

(3) Allowance for Loan Losses

A summary of the changes in the allowance for loan losses for the years ended December 31, 2014 and 2013, follows

	2014	2013
Balance at beginning of year	$ 522,634	$ 524,772
Loans charged-off	(96,182)	(187,188)
Recoveries of loans previously charged off	87	50
Provision for loan losses	177,000	185,000
Balance at end of year	$ 603,539	$ 522,634

(3) Allowance for Loan Losses, Continued

Credit Quality Indicators

The Bank uses an internal credit risk rating system that categorizes loans into pass, special mention, substandard or doubtful categories. Credit risk ratings are applied individually to each loan on a quarterly basis.

The following are the definitions of the Bank's credit quality indicators:

Pass: Loans in this category have a high probability of being paid as agreed. The credit carries a level of risk commensurate with the returns provided without placing the Bank in any exposure.

Special Mention: Loans in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for default of loan. Special mention loans are not adversely classified and do not expose the Bank to significant risk to warrant such adverse classification.

Substandard: Loans in this category are inadequately protected by the current worth and paying capacity of the obligors or of the collateral pledged. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank may sustain some losses if the deficiencies are not corrected.

Doubtful: Loans classified in this category have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. Loans classified as Doubtful are considered to be impaired.

The Bank's credit quality indicators are periodically updated on a case-by-case basis. The following presents by class and by credit quality indicator, the recorded investment in the Bank's loans as of December 31, 2014 and 2013:

2014	Pass	Special mention	Sub-standard	Doubtful	Total
PIDB direct	$ 4,131,520	$ 775,054	$ 177,236	$ 464,624	$ 5,548,434
IRP	1,404,770	129,042	138,850	360,235	2,032,897
Residential	1,658,910	26,120	-	-	1,685,030
Consumer	1,073,346	157,796	13,808	-	1,244,950
Import/export	269,500	-	134,456	-	403,956
Total	$ 8,538,046	$ 1,088,012	$ 464,350	$ 824,859	$ 10,915,267

(3) Allowance for Loan Losses, Continued

2013	Pass	Special mention	Sub-standard	Doubtful	Total
PIDB direct	$ 4,279,174	$ 295,590	$ 458,177	$ 82,199	$ 5,115,140
IRP	1,245,296	142,276	177,188	289,091	1,853,851
Residential	1,209,194	31,016	-	-	1,240,210
Consumer	1,309,139	104,706	-	-	1,413,845
Import/export	409,539	-	33,460	-	442,999
Total	$ 8,452,342	$ 573,588	$ 668,825	$ 371,290	$ 10,066,045

The following presents by class, an aging analysis of the Bank's loan portfolio as of December 31, 2014 and 2013:

	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	Past Due 90 Days or More	Total
2014					
PIDB direct	$ 4,706,828	$ 269,346	$ 67,239	$ 505,021	$ 5,548,434
IRP	1,592,994	-	-	439,903	2,032,897
Residential	1,685,030	-	-	-	1,685,030
Consumer	1,175,791	22,493	28,801	17,865	1,244,950
Import/export	403,956	-	-	-	403,956
Total	$ 9,564,599	$ 291,839	$ 96,040	$ 962,789	$ 10,915,267
2013					
PIDB direct	$ 5,097,561	$ 17,579	$ -	$ -	$ 5,115,140
IRP	1,461,628	64,823	-	327,400	1,853,851
Residential	1,240,210	-	-	-	1,240,210
Consumer	1,277,708	117,615	8,948	9,574	1,413,845
Import/export	411,948	31,051	-	-	442,999
Total	$ 9,489,055	$ 231,068	$ 8,948	$ 336,974	$ 10,066,045

At December 31, 2014 and 2013, impaired loans of $824,859 and $371,290, respectively, represent loans classified as doubtful, with total recorded allowances of $414,430 and $185,645, respectively.

(4) Long-Term Debt

Long-term debt as of December 31, 2014 and 2013, consists of the following:

	2014	2013
A $500,000 Intermediary Relending Program (IRP) loan by the U.S. Department of Agriculture (USDA) on October 7, 2003. Interest fixed at 1% per annum. Interest-only payment for the first three years with twenty-seven equal principal and interest annual installments beginning on October 7, 2007.	$ 364,671	$ 382,075
A $750,000 IRP loan by the USDA on June 27, 2006. Interest fixed at 1% per annum. Interest-only payment for the first three years with twenty-seven equal principal and interest annual installments beginning on June 27, 2010.	624,547	649,887
A $750,000 IRP loan by the USDA on September 8, 2008. Interest fixed at 1% per annum. Interest-only payment for the first three years with twenty-seven equal principal and interest annual installments beginning on September 8, 2012.	674,989	699,861
A $350,000 IRP loan by the USDA on March 7, 2013. Interest fixed at 1% per annum. Interest-only payment for the first three years with twenty-seven equal principal and interest annual installments beginning on March 7, 2017. $78,416 available for future drawdowns at December 31, 2014.	271,386	120,886
A $500,000 loan with the FSM Development Bank (FSMDB) on September 16, 2010. Interest fixed at 4% per annum. Interest only payments for first three years, thereafter equal quarterly installments, through September 15, 2023.	459,852	496,559
Total	$ 2,395,445	$ 2,349,268

The IRP loans are collateralized by all repayments, interest, fees, investments and other revenues collected or generated from the IRP loans. The FSMDB loan is collateralized by the Bank's general assets under a security agreement.

At December 31, 2014, future maturities of long-term debt are as follows:

Year ending December 31,	
2015	$ 108,152
2016	110,580
2017	124,435
2018	127,138
2019	129,927
Thereafter	1,795,213
	$ 2,395,445

In February 2015, the Bank was approved for a $1 million loan with FSMDB.

(5) Property and Equipment

A summary of property and equipment as of December 31, 2014 and 2013, is as follows:

Description	Estimated Useful Lives	2014	2013
Computer and software	5 years	$ 52,399	$ 49,482
Vehicles	5 years	32,150	32,150
Leasehold improvements	3 years	29,826	30,889
Office furniture and equipment	10 years	21,201	19,339
		135,576	131,860
Less accumulated depreciation		(98,574)	(93,096)
		$ 37,002	$ 38,764

(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, 2014 and 203, the Bank has received $7,500,649 of equity contributions. Authorized capital stock is 18,000 shares of $1,000 par value. As of December 31, 2014 and 2013, 7,500 have been issued and are outstanding.

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

(7) Commitments

At December 31, 2014, undisbursed loan commitments amounted to $200,000.

(8) Leases

The Bank operates from a leased office space with monthly leases payments of $1,682 plus allocation of utility charges, expiring on June 30, 2015. Future commitments under the lease as of December 31, 2015 are $10,092 for the year ending December 31, 2015.

Additionally, the Bank entered into a five-year equipment lease in October 2014. The lease calls for monthly fixed payments of $210 with additional excess-usage charges.

(9) 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, 2014 and 2013, the Bank contributed $12,935 and $11,257, respectively, to the Plan.