PACIFIC ISLANDS DEVELOPMENT BANK

JULY 5, 1989

2023 ANNUAL REPORT

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PACIFIC ISLANDS DEVELOPMENT BANK

CONTENTS

Message from the PRESIDENT & CEO

Iakwe! Lenwo! Kaselehlie! Ran Annim! Mogethin! Alii! Tirow! and Hafa Adai! I extend warm greetings from East to West across our member countries and territories, and to all our valued customers, partners and stakeholders in the island communities throughout the vast Blue Pacific where we operate. On behalf of our Board of Directors and management, I am pleased to present the 2023 Annual Report of the Pacific Islands Development Bank (hereinafter "PIDB" or "bank").

In 2023, we saw strong loan growth given the commitment and demonstrated support of our member shareholders' injections of new capital. New capital contributions enabled the launch of new programs, and new opportunities for partnerships were explored and pursued. Trends in the composition and quality of our loans continue to improve. Amid a challenging environment, the bank continued to be viable, our audited financials showing stable growth in retained earnings and assets.

We continued to develop and improve our services and operations to better help our communities cope with persistent financial adversities, to strengthen resilience, and contribute to improving private sector investment conditions as our region endures on the path of economic and social recovery. At the same time, we welcomed new members who joined our PIDB Family during the year, on our respective Boards and our operations team. Moreover, I would be remiss if I did not mention the bank's consistent performance in achieving an unqualified opinion resulting from our independent audit which concluded in April 2024.

This year on July 5th, PIDB marks its 35th year anniversary since inception in 1989. Our bank has served our shareholder member countries and island governments in its mission to accelerate economic and social development, locally and regionally, for three and a half decades, and our institution's commitment to the public good remains strong and is grounded in management's lending philosophy. At PIDB, we cultivate an institutional culture that is reflective of the Bank's core values, and in our organization's goals and aspirations. To that end, I remain as ever grateful for the unwavering support and strong commitment demonstrated by our shareholder members. At the same time, the bank maintains its solid connection with our founding parent, the Association of Pacific Islands Legislatures (APIL), as well as other regional entities with shared objectives and common missions. Meaningful and collaborative partnerships will continue to be a key factor in our success, and I look forward to further engaging with local and international stakeholders as we work together to expand the scope and scale of our services in the region.

Message from the PRESIDENT & CEO

STATEMENT OF GRATITUDE

On behalf of our PIDB team, I wish to take this opportunity to once again express our heartfelt gratitude and appreciation to our Shareholders, members of the Board of Governors, our partners and affiliates, our families and friends, the donors that have generously contributed to causes and initiatives that we have implemented during the year, and last but most certainly not least, our customers. Your support, cooperation, encouragement, and patronage have contributed to the resilience of the Bank.

Moreover, to PIDB staff—my phenomenal operations team—I wish to express my heartiest **thank you very much** for your loyalty, your dedication, and for the diligence and patience you have continually shown throughout the year. While I applaud the contributions of our employees who are the driving force behind the bank's success, I also wish to thank our Board of Directors for your guidance, support, expertise, advice and valuable insights. I believe I speak for our entire team in conveying our heartfelt gratitude and privilege to be working with members who lead with integrity and commitment, serve with passion, and demonstrate wisdom and care.

I reiterate the warm "Welcome to Our PIDB Family" for all those new to our organization, and look forward to maintaining our good working relationships and collaboration.

May the region continue on the road to recovery and prosperity, and may we all continue to work together in our collective efforts to seek ways to improve the lives and livelihoods of the people in our communities.

Lindsay M. Timarong, AIFA
President & CEO, and Chairwoman of the PIDB Board of Directors

NEW CAPITAL INFUSION

In 2023, further injection of new capital from Guam and Chuuk, as well as new funds received through partnership with the Marshall Islands Development Bank (MIDB), enabled the development and implementation of new programs that have been well received.

In May 2023, Guam contributed an additional $1 million in capital share funds. We are very grateful for the continued support from Guam and the commitment of the island's leadership. Similarly, our sentiments of gratitude extend to the leaders of Chuuk State, who supported capital contributions totaling $175,000 during the year.

The MIDB Board and Management committed $1 million in funds to establish a business, housing, and auto loan program for citizens of the Marshall Islands residing on Guam, the CNMI, Palau and the FSM. PIDB received the $1 million in May 2023 and promotion of the program created for investment of the new funds is ongoing. This program mirrors the FSM Development Bank Loan Program currently administered by PIDB that has benefited citizens and businesses owned by citizens of the FSM residing in Guam. By the end of 2022, documents were drafted to formally establish the MIDB Loan Program. Governing documents have since been executed and PIDB is slated to receive this new funding in second quarter of 2023, when we will begin outreach to promote the program to citizens and business owned by citizens of the Marshall Islands.

LENDING ACTIVITY

In 2023, we originated seventy loans with total value of approximately $4.3 million. At calendar year-end, many more were in the application pipeline and inquiries have increased compared to prior years. In particular, there continues to be high demand for housing loans and debt consolidation.

Mortgage loans comprised roughly 52% of new loans originated in 2023 and were concentrated in home financing under the CNMI program targeting specific sectors. Within the first half of 2023, PIDB had already fully invested the additional $1 million capital contribution received from CNMI in August 2022. A housing loan program for educators, health service workers, first responders and law enforcement personnel in the CNMI was created following new capital injection. Given the high demand for affordable housing finance, PIDB received several applications immediately following the launch of the program and to-date, we have assisted seven families—two in Rota and five in Saipan—access affordable financing for their home. CNMI stakeholders recognized that these essential service sectors were critical to the local economy and the functioning of society. The aim of the program was to improve the quality of life for individuals in the CNMI that serve in these sectors and create incentives for those employed in these sectors to remain in the CNMI rather than relocate abroad in search of better economic and social opportunities. We continue to seek funding partners in this program and since the entirety of the funds have been invested, in fact more than a million dollars have been disbursed to fund the seven homes currently under the program, we are reaching out to potential partner agencies and donor entities to raise additional capital for those applicants on the waitlist.

Notwithstanding higher demand for residential home loans, we continue to explore viable commercial projects as well as look at opportunities to further support our existing business customers. Commercial loans made up a third of new loans funded in 2023, and 94% of those new commercial loans were funded with our USDA IRP revolving funds.

New businesses we helped include a medical transport enterprise for homebound dialysis patients, fuel transport and distribution, aggregates import and distribution, eco-resort and conference facilities, car rental company, specialty retail, and commercial buildings.

In May 2023, we launched a short-term credit program for public servants. To date, we have funded thirty-six loans under this program with total value of nearly $700,000 invested. The aim of this credit facility is to improve the financial wellbeing and quality of life for public sector employees and create positive incentives by providing access to affordable financing and reducing debt burdens. Given the nature and terms of the loan program, the belief was that this program is a viable opportunity given the guaranteed repayments within a relatively short period of time via existing payroll processing system mechanisms. In line with the mission of the bank, this targeted program seeks to promote better economic and social opportunities for people in our island communities.

SUPPORTING OUR COMMUNITIES

Following the damage and devastation left by Super typhoon Mawar in May 2023, the bank contributed to the recovery efforts in Guam by donating essential supplies to families most affected. Our team conducted an assessment of relief efforts provided through different non-profit and community-based organizations, including government programs, and determined where we could have the greatest impact. Our team focused efforts on assisting families in the community of Zero Down in Ritidian, Yigo, which is home to many FAS residents of Guam who were not eligible for FEMA recovery aid. PIDB joined in the aid effort by purchasing supplies to donate, including tents, first aid kits, diapers for kids, tables and chairs, and comforters, among others. We partnered with a local business, Ready H2GO, that generously donated cases of bottled water to add to our efforts. Access to potable drinking water was among those identified as a dire need for many families in typhoon devastated areas. Members of staff and management went out to visit the families and personally deliver donated supplies.

During the year, we also contributed to several causes and fundraising initiatives through local nonprofit organizations, including the Guam Women's Club, UOG student groups, and the Palau Conservation Society. We continue to seek ways to expand our community involvement and welcome opportunities to partner and participate in events and programs that align with our social development mandate.

OPERATIONS

We relocated our office in November 2023 from the First Hawaiian Bank Building on Route 8 in Maite to the Reflection Center in Hagatna, Guam. Given the increased volume of activity, there was a need to expand our team, however, we were limited in the space we occupied and unable to accommodate more staff. Our attempts to secure additional space under re-negotiated lease terms with our landlord, First Hawaiian Bank, did not result in a favorable outcome, and we began our search for a new office location last year. After viewing several commercial lease options and meeting with respective landlords, management, with approval of the Board of Directors, entered into a new lease and relocated our base of operations. We are currently working with a local realtor to find a sublessor to take over the leased space we formerly occupied.

The Bank hired a new Administrative Assistant during the year. We welcomed Mrs. Regina Raigetal in March 2023. Her addition to our office team has added tremendous value to our services and operations.

Regina has a wealth of experience in community service and philanthropy. She is well respected and known in our island communities and joins our team with a vast network of contacts and resources through her work with various cultural organizations, women's associations, and non-government groups.

At the time of the writing of this annual report, two additional new hires joined our team. Mrs. Rovallie B. Sadang-Oiterong and Mrs. Justina Matauto were added to our operations team in the posts of Loan Service Specialist. Rovallie is part of our Guam-based team, and Justina is based in Ebeye, Kwajalein and will be the primary focal point for our lending functions in the Marshall Islands.

Our Bank team will continue to grow as we expand the scope of our services and in anticipation of increase in the size of the Bank and the volume of our financing activities.

TRAINING & BUILDING CAPACITY

Throughout the year, we continued our efforts to build capacity and raise the standard of professionalism as well as the capabilities of our operations team, individually and as a whole. For instance, members of staff attended training courses offered by the SBDC on topics ranging from how to read and understand financial statements to human resource management. Our team attended a training held at the USDA Western Region Office in October 2023 here on Guam to learn about USDA Housing Programs and the requirements for accessing and administering USDA program-funded loans and grants. This is in anticipation of our expanding partnership with the USDA and exploring opportunities to access funds under additional programs managed by the agency.

In November 2023, members of the Board of Directors and our Manager of Administration successfully completed fiduciary coursework in Manila through training provided by fi360 Pacific and facilitated by the Asia Pacific Association for Fiduciary Studies (APAFS). PIDB is one of two regional institutional members with a seat on the APAFS Board of Governors. The willingness of our Board members to complete fiduciary training is a demonstration of the commitment and dedication to upholding the integrity and high standard of accountability that is expected of their role in overseeing and ensuring the responsible management of the bank.

As we grow and look to the future, our capacity building initiatives will be focused on developing, retaining and attracting the best talent. Management has regularly conducted professional development training internally and encourages ongoing learning and education by supporting capacity building efforts provided through known available sources. At the same time, we are developing a corporate training program that aims to provide similar professional development training to our stakeholders and also make ongoing training part of the service we provide to community partners and affiliates.

BOARD GOVERNANCE AND COMPOSITION

There have been changes to the leadership and members of the PIDB Board of Governors. In a special meeting of the Board of Governors held virtually on April 3rd, 2023, a quorum of the members unanimously voted to welcome Chuuk State back to the policymaking table, effectively lifting a suspension on membership that was placed on the shareholder in February 2011. As a result, new representatives for Chuuk State were appointed to the Board of Governors, namely Governor Alexander Narruhn and Speaker Lester D. Mersai who represent the executive and legislative branches, respectively. Vice Speaker Andrew May joined the Board of Directors as the Chuuk State representative in May 2023 following the Board of governor's approval of his joint nomination by both governor Narruhn and speaker Mersai.

In the spirit of regionalism, welcoming Chuuk representatives back to the Bank's policymaking table was a positive and meaningful initiative undertaken by the Chairman and members of the Board of Governors so that all areas of the region are represented, and we can all work together once more to improve the lives of our people and strengthen our island economies, individually and collectively.

Also, during that April 3rd, 2023, special meeting of the Board of Governors, an Emeritus Director position was created for the senior-most member of the Board of Directors, Mr. Diego Benavente. Mr. Benavente has institutional knowledge of the Bank and its history since inception, having served as a member of the Association of Pacific Islands Legislatures (APIL); in the past, he has been a member of the Board of Governors, and has served as Chairman of the Board. Director Benavente is a former Speaker of the House of Representatives and a former Lieutenant Governor for CNMI. He has served as a member of the Board of Directors representing the CNMI for several years, and as the Honorary Consul in CNMI for the FSM. The Emeritus Director post was established in order to retain institutional knowledge, and Mr. Benavente's experience and involvement in the Bank throughout the years provide invaluable insights and input, contributing to meaningful and impactful policymaking and decision making.

Elections were held in Pohnpei State and the Republic of the Marshall Islands on November 14 and 20, 2023, respectively. The outcomes of these elections signified changes to shareholder representation on our Board of Governors. Following certifications of election results and subsequent notices from legislative and executive branches, new appointments to the PIDB Board of Governors in early 2024 were as follows: for Pohnpei State executive branch, current Governor Stevenson Joseph replaced former Governor Reed B. Oliver. For the Republic of the Marshall Islands, current Speaker of the Nitijela, Senator Brenson Wase, replaced former Speaker Kenneth A. Kedi as the legislative branch representative, and Senator David Paul, as the new Minister of Finance, is slated to be appointed by the new RMI President as the executive branch representative. In line with historical practice, the Chairmanship for the Board of Governors rotates in accordance with an existing agreement amongst the shareholder members and as the Republic of the Marshall Islands currently holds the seat, RMI Speaker Brenson Wase, following the installation of the new government, gave formal notice to the Bank of his taking up Chairmanship of the Board of Governors.

We congratulate all elected and re-elected officials and welcome the new members of our Board of Governors. We have confidence that they will give their unwavering support and commitment to the mission of the Bank. We also express utmost gratitude and appreciation to those whose terms on the respective Boards have concluded and we hope to continue our work together in advocating for support of the Bank and our efforts to improve the livelihoods of the people in our island communities.

We thank all members of our Board of Governors for their continued service and support of the Bank. We also recognize and convey our utmost appreciation to former RMI Speaker Kenneth A. Kedi for his leadership, guidance, and contributions in service to PIDB. Moreover, we are as ever grateful to all our shareholder members for ensuring that appointments of representation to our Board of Governors have been thoughtfully made and comprise individuals that share in the collective vision and objective of regional integration and mutually beneficial cooperation.

PARTNERSHIPS

In June 2023, the Federated States of Micronesia Development Bank (FSMDB), the Marshall Islands Development Bank (MIDB), the National Development Bank of Palau (NDBP), and the Pacific Islands Development Bank (PIDB) established “DB PRIME”, an association for institutional cooperation and regional integration. The acronym that stands for “Development Banks’ Pact for Regionally Integrated Micronesian Economies”. As partners, they aim to provide mutual support, share information and resources where possible, and together deliver high-quality and sustainable development outcomes at the regional and national levels through collaborative initiatives.

PIDB seeks to expand our partnership with the USDA, particularly in the area or housing development in our region. We have successfully administered funds under the USDA Intermediary Relending Program, which has provided communities throughout the region with millions of dollars in private sector capital support and investment. We continue to lend under this program and hope to expand this partnership with the USDA with a new application for additional funds. At the same time, we are in process of becoming a certified packager for the USDA Housing Program.

Last year, management began corresponding with officials at the US International Development Finance Corporation (DFC), a development finance institution and agency of the United States federal government that invests in development projects primarily in lower and middle-income countries. In June 2023, PIDB’s President & CEO met with DFC officials in Manila to discuss potential partnership in terms of identifying and sourcing funds for private sector projects in the Freely Associated States. In December, we submitted a proposal to the DFC in response to an invitation to submit an Expression of Interest for funding to support investments in commercial projects.

We remain hopeful and optimistic that these partnerships will have positive and impactful results. We have already begun discussion and development of professional training programs in collaboration with our partners and some of our shareholder governments in line with our mission and our strategic objective of local and regional capacity building.

POLICIES & PRACTICES

Several new policies and enhancements to existing policies were adopted by the Board of Directors during regular quarterly meetings held in 2023. For instance, the Board adopted the Bank’s Donations Policy and Procedures in July. In addition, the Board of Directors reviewed and updated the Bank’s Travel Policy, our Employee Handbook, and our lending policies were updated to reflect current practices. Management continues to seek ways to improve our internal controls and processes and to ensure that policy documents reflect prudent practices that are relevant and applicable in communities where we operate.

ESTABLISHMENT

Pacific Islands Development Bank (PIDB) was created on July 5th, 1989, through a Resolution approved by the Association of Pacific Island Legislatures (APIL). A signing ceremony held on Guam—wherein representatives of Yap State, FSM and Pohnpei State, FSM, as well as the Republic of Palau committed to capital share subscriptions—formally established the bank. Its corporate office is in Guam.

VISION

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

MISSION & PURPOSE

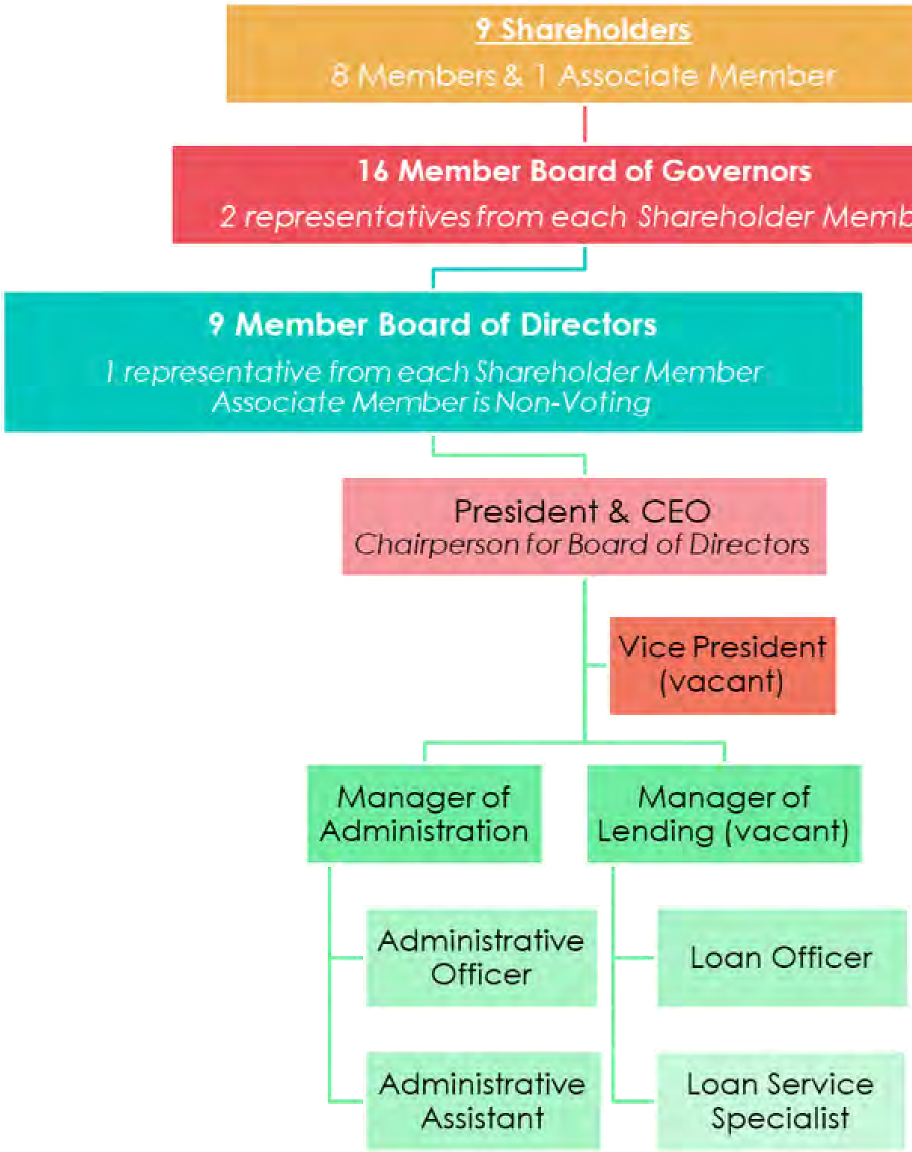
"To contribute to the acceleration of the process of economic and social development of member countries and States, individually and collectively, and to promote economic cooperation among them."

SHAREHOLDERS & CAPITAL

The capital share subscription at inception, or initial capital each shareholder member pledged and agreed to pay, was $1 million. For the period under review, there were shareholders that made new capital contributions. Chuuk State made additional capital contributions totaling $175,000 towards its equity shares in the Bank, and Guam paid in an additional $1 million in capital shares.
Management continues to work with individual shareholder members for additional capital funding.

As of December 31, 2023				
	Shareholder	No. Shares	Share Value	% Ownership
1	Yap, FSM	4,439	4,438,866	29%
2	Commonwealth of the Northern Mariana Islands	2,000	2,000,000	13%
3	Guam	2,000	2,000,000	13%
4	Republic of the Marshall Islands	1,992	1,992,000	13%
5	Pohnpei, FSM	1,300	1,300,000	8%
6	Kwajalein Atoll Development Authority (KADA)	1,300	1,300,000	8%
7	Chuuk, FSM	552	551,783	4%
8	Republic of Palau	1,000	1,000,000	6%
9	Kosrae, FSM	925	925,000	6%
	TOTAL SHARES	**15,508**	**15,507,649**	**100%**

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 branch and the other 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:

As of December 31, 2023		
Shareholder	**Executive Branch Representative**	**Legislative Branch Representative**
Yap State, FSM	Ms. Leelkan Southwick *Director of Resources & Development* ***Secretary of the Board of Governors***	Honorable Nicholas Figirlaarwon *Speaker* *Yap State Legislature*
Commonwealth of the Northern Mariana Islands	*VACANT*	Honorable John Paul P. Sablan *Representative* *House of Representatives* *Northern Marianas Commonwealth Legislature*
Territory of Guam	Honorable Lourdes Leon Guerrero Governor ***Vice Chairwoman of the Board of Governors***	Honorable Therese Terlaje *Speaker* *Guam Legislature*
Republic of the Marshall Islands	Honorable Brenson Wase *Minister of Finance*	Honorable Kenneth Kedi *Speaker of the Nitijela* ***Chairman of the Board of Governors***
Pohnpei State, FSM	Honorable Reed Oliver *Governor*	Mr. Carlos Villazon *Chief, Division of Administration & Budget* *Pohnpei State Legislature*
Chuuk State, FSM	Honorable Alexander Narruhn *Governor*	Honorable Lester D. Mersai *Speaker* *House of Representatives* *Chuuk State Legislature*
Republic of Palau	Honorable Kaleb Udui, Jr. *Minister of Finance*	Honorable Mengkur Rechelulk *Delegate* *House of Delegates* *Olbiil Era Kelulau*
Kosrae State, FSM	Honorable Tulensa Palik *Governor*	Honorable Semeon Phillip *Speaker* *Kosrae State Legislature*

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 one person to represent that member entity on the Board of Directors. The Board of Directors is authorized by the Board of Governors to exercise all powers of the Bank with the exception of those expressly reserved to the Board of Governors under the Agreement. The Board of Directors meets quarterly with the Bank President and CEO serving as Chairperson pursuant to the Bank's Articles.

The following individuals served on the Board of Directors **<u>during the year under review:</u>**

As of December 31, 2023	
Shareholder	**Board Director**
Yap State, FSM	Mr. Julius Tun *Energy Efficiency Officer, FSM National Government* Ms. Marie Lamaar (Alternate Director) *Investigative Auditor, Yap Public Auditor's Office*
Commonwealth of the Northern Mariana Islands	Mr. Diego Benavente *Former Speaker/Former Lt. Governor of CNMI*
Territory of Guam	Mr. Frank Atalig *Former CFO, Bank of Guam*
Republic of the Marshall Islands	Honorable David Paul *Senator*
Pohnpei State, FSM	Ms. Christina Elnei *Director of Treasury & Administration* *Pohnpei State*
Kwajalein Atoll Development Authority (KADA)	Mr. Anjojo Kabua III *Executive Director of KADA*
Chuuk State, FSM	Honorable Andrew A. May *Vice Speaker, House of Representatives* *Chuuk State Legislature*
Republic of Palau	Mr. Elbuchel Sadang *Former Minister of Finance* *Secretary of the Board of Directors*
Kosrae State, FSM	Mr. Robson Henry *U.S. Army, retired*
Pacific Islands Development Bank	Lindsay M. Timarong, AIFA® *President & CEO* *Chairperson of the Board of Directors*

PIDB OFFICE TEAM

THE FOLLOWING ARE CURRENT MEMBERS OF BANK STAFF:

ROSA DLS. WEILBACHER
MANAGER OF ADMINISTRATION

RACHEL W. GABIRIEL
ADMINISTRATIVE OFFICER & LOAN SERVICE SPECIALIST

JAMIE J. AINGIMEA
LOAN OFFICER

REGINA R. RAIGETAL
ADMINISTRATIVE ASSISTANT

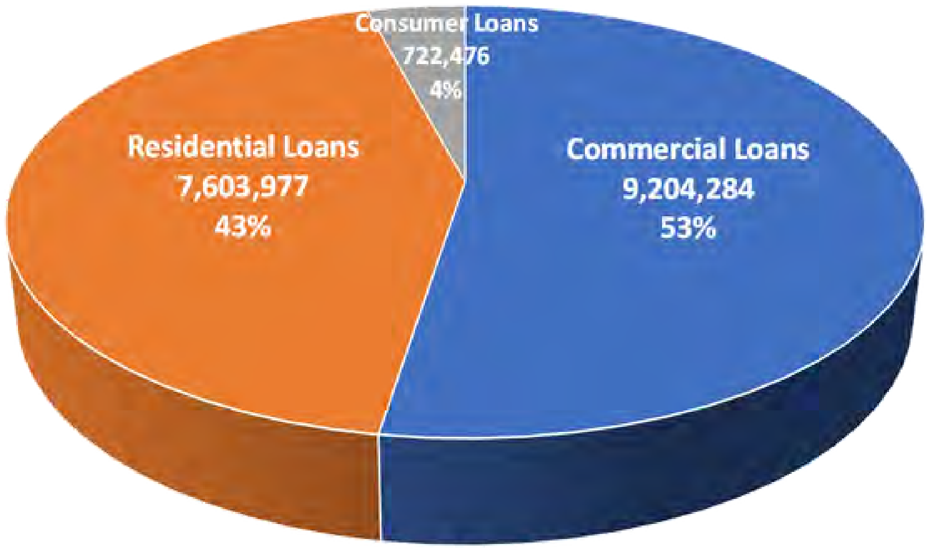
ROVALLIE B. OITERONG
LOAN SERVICE SPECIALIST

JUSTINA L. MATAUTO
LOAN SERVICE SPECIALIST II

OUTSTANDING LOAN MIX

Residential home loans as a percentage of our entire loan portfolio saw notable growth in 2023 due primarily to the funding of new loans under the loan program created to support home financing for individuals in the CNMI that work in the education, health, first responders, and law enforcement industries. Although the Bank's core lending focus remains in commercial loans, consistent with our mission and purpose. The volume of consumer loans is higher compared to prior year due to the launch of a new program aimed to help public servants establish and maintain good credit and promote responsible debt management.

At December 31, 2023, the composition of our loan portfolio was as follows:

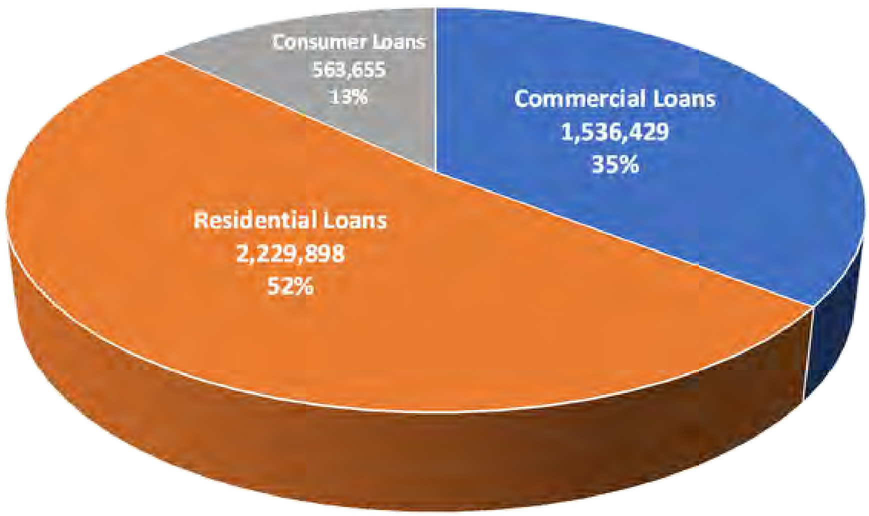


OUTSTANDING LOANS BY SECTOR			
LOAN TYPE	**COUNT**	**AMOUNT**	**% OF TOTAL**
Commercial Loans			
Agriculture	1	66,800	0.4%
Commercial Real Estate	15	2,639,562	15.1%
Fisheries	1	409,574	2.3%
Manufacturing	2	636,124	3.6%
Services	14	1,805,365	10.3%
Tourism	6	2,245,270	12.8%
Wholesale/Retail	18	1,330,869	7.6%
Other	3	70,720	0.4%
Subtotal	**59**	**9,204,284**	**53%**
Residential Loans	**75**	**7,603,977**	**43%**
Consumer Loans	**68**	**722,476**	**4%**
TOTAL	**202**	**17,530,737**	**100%**

Loan Report

NEW LOAN MIX

New commercial, residential and consumer loans were originated in 2023. Total loans on the books of the bank grew approximately 19% relative to prior year supported largely by new capital injections and the funding of new loans under targeted programs. A total of 70 new loans were originated in 2023 with value totaling approximately $4.3 million, including loan refinances and restructures.



2023 NEW LOANS BY SECTOR			
LOAN TYPE	**COUNT**	**AMOUNT**	**% OF TOTAL**
Commercial Loans			
Agriculture	0	0	0%
Commercial Real Estate	2	70,362	2%
Fisheries	0	0	0%
Manufacturing	0	0	0%
Services	3	620,211	14%
Tourism	1	241,319	6%
Wholesale/Retail	5	604,537	14%
Other	0	0	0%
Subtotal	**11**	**1,536,429**	**36%**
Residential Loans	**19**	**2,229,898**	**51%**
Consumer Loans	**40**	**563,655**	**13%**
TOTAL	**70**	**4,329,982**	**100%**

TOTAL LOANS TO CAPITAL RATIOS BY SHAREHOLDER

Please note that aggregate loan values below may differ from audited figures due to audit adjustments.

As of December 31, 2023					
Shareholder	**No. Shares**	**Share Value**	**Loans to Capital Ratio**	**No. Loans**	**Total Principal Value Loans**
Commonwealth of the Northern Mariana Islands[1]	2,000	2,000,000	139%	17	2,784,182
Guam[2]	2,000	2,000,000	47%	17	935,369
Chuuk, FSM	552	551,783	80%	32	440,876
Kosrae[3], FSM	925	925,000	57%	27	523,115
Pohnpei[4], FSM	1,300	1,300,000	102%	22	1,332,366
Yap[5], FSM	4,439	4,438,866	79%	18	3,487,849
Republic of the Marshall Islands[6]	1,992	1,992,000	183%	24	3,636,173
Kwajalein Atoll Development Authority (KADA)	1,300	1,300,000	62%	7	809,091
Republic of Palau[7]	1,000	1,000,000	107%	11	1,068,956
TOTAL DIRECT LENDING	15,508	15,507,649	97%	175	15,017,978
TOTAL SPECIAL PROGRAM FUNDED LOANS[8]				27	2,512,623
TOTAL LOANS			**113%**	**202**	**17,530,600**

Notes:	No. Loans	Total Principal Value Loans
1/ CNMI Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in CNMI	6	$704,313
2/ Guam Loans receivables amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Guam	8	$985,887
(b) IRP (USDA) Loans domiciled in Guam	4	$206,009
3/ Kosrae Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Kosrae	2	$38,980
4/ Pohnpei Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Pohnpei	2	$159,153
5/ Yap Loans receivable amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Yap	1	$38,994
(b) IRP (USDA) Loans domiciled in Yap	2	$53,707
6/ RMI Loans receivables amount excludes:		
(a) KADA Home Loan Program Loans	7	$809,091
(b) IRP (USDA) Loans domiciled in RMI	1	$241,319
7/ Palau Loans receivable amount excludes:		
(b) IRP (USDA) Loans domiciled in Palau	1	$84,261

8/ Funded by admnistered loan programs: USDA Intermediary Relending Program, and FSM Development Bank Loan Program.

DELINQUENT LOANS TO CAPITAL RATIOS BY SHAREHOLDER

Please note that aggregate loan values below may differ from audited figures due to audit adjustments.

As of December 31, 2023					
Shareholder	No. Shares	Share Value	Delinquent Loans to Capital	No. Delinquent Loans[9]	Total Principal Value of Delinquent Loans
Commonwealth of the Northern Mariana Islands[1]	2,000	2,000,000	17%	3	333,574
Guam[2]	2,000	2,000,000	33%	6	668,504
Chuuk, FSM	552	551,783	4%	2	22,329
Kosrae[3], FSM	925	925,000	26%	16	244,049
Pohnpei[4], FSM	1,300	1,300,000	19%	6	249,589
Yap[5], FSM	4,439	4,438,866	41%	5	1,802,704
Republic of the Marshall Islands[6]	1,992	1,992,000	75%	7	1,496,680
Kwajalein Atoll Development Authority (KADA)	1,300	1,300,000	20%	2	261,860
Republic of Palau[7]	1,000	1,000,000	11%	2	110,998
TOTAL DIRECT LENDING	15,508	15,507,649	33%	49	5,190,287
TOTAL SPECIAL PROGRAM FUNDED LOANS[8]				8	850,432
TOTAL LOANS			**39%**	**57**	**6,040,719**

Notes:	No. Delinquent Loans	Total Principal Value Delinquent Loans
1/ CNMI Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Guam	1	$24,113
2/ Guam Loans receivables amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Guam	3	$433,484
(b) IRP (USDA) Loans domiciled in Guam	0	$0
3/ Kosrae Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Kosrae	1	$6,261
4/ Pohnpei Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Pohnpei	0	$0
5/ Yap Loans receivable amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Yap	1	$38,994
(b) IRP (USDA) Loans domiciled in Yap	1	$22,000
6/ RMI Loans receivables amount excludes:		
(a) KADA Home Loan Program Loans	2	$261,860
(b) IRP (USDA) Loans domiciled in RMI	1	$241,319
7/ Palau Loans receivable amount excludes:		
(b) IRP (USDA) Loans domiciled in Palau	1	$84,261

8/ Funded by admnistered loan programs: USDA Intermediary Relending Program and the FSM Development Bank Loan Program.

9/ Delinquent Loans are loans that are 30 or more days past due

NON-PERFORMING LOANS TO CAPITAL RATIOS BY SHAREHOLDER

Please note that aggregate loan values below may differ from audited figures due to audit adjustments.

As of December 31, 2023					
Shareholder	No. Shares	Share Value	NPLs to Capital	No. NPLs[9]	Total Value of NPLs
Commonwealth of the Northern Mariana Islands[1]	2,000	2,000,000	0%	1	1,620
Guam[2]	2,000	2,000,000	32%	2	636,124
Chuuk, FSM	552	551,783	0%	0	0
Kosrae[3], FSM	925	925,000	17%	9	155,513
Pohnpei[4], FSM	1,300	1,300,000	3%	2	33,206
Yap[5], FSM	4,439	4,438,866	1%	2	25,602
Republic of the Marshall Islands[6]	1,992	1,992,000	39%	4	785,083
Kwajalein Atoll Development Authority (KADA)	1,300	1,300,000	20%	2	261,860
Republic of Palau[7]	1,000	1,000,000	11%	2	110,998
TOTAL DIRECT LENDING	15,508	15,507,649	13%	24	2,010,006
TOTAL SPECIAL PROGRAM FUNDED LOANS[8]				2	108,375
TOTAL LOANS			**14%**	**26**	**2,118,380**

Notes:	No. NPLs	Total Value NPLs
1/ CNMI Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Guam	1	$24,113
2/ Guam Loans receivables amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Guam	0	$0
(b) IRP (USDA) Loans domiciled in Guam	0	$0
3/ Kosrae Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Kosrae	0	$0
4/ Pohnpei Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Pohnpei	0	$0
5/ Yap Loans receivable amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Yap	0	$0
(b) IRP (USDA) Loans domiciled in Yap	0	$0
6/ RMI Loans receivables amount excludes:		
(a) KADA Home Loan Program Loans	2	$261,860
(b) IRP (USDA) Loans domiciled in RMI	0	$0
7/ Palau Loans receivable amount excludes:		
(b) IRP (USDA) Loans domiciled in Palau	1	$84,261

8/ Funded by admnistered loan programs: USDA Intermediary Relending Program, and FSM Development Bank Loan Program.

9/ NPLs = Non-Performing Loans; these are loans that are 90 or more days past due

DELINQUENT LOANS TO TOTAL LOANS RATIOS BY SHAREHOLDER

Please note that aggregate loan values below may differ from audited figures due to audit adjustments.

As of December 31, 2023					
Shareholder	No. Loans	Total Principal Value of Loans	Delinquent Loans to Total Loans	No. Delinquent Loans[8]	Total Principal Value of Delinquent Loans
Commonwealth of the Northern Mariana Islands[1]	17	2,784,182	12%	3	333,574
Guam[2]	17	935,369	71%	6	668,504
Chuuk, FSM	32	440,876	0%	2	22,329
Kosrae[3], FSM	27	523,115	47%	16	244,049
Pohnpei, FSM	22	1,332,366	19%	6	249,589
Yap[4], FSM	18	3,487,849	52%	5	1,802,704
Republic of the Marshall Islands[5]	24	3,636,173	41%	7	1,496,680
Kwajalein Atoll Development Authority (KADA)	7	809,091	32%	2	261,860
Republic of Palau[6]	11	1,068,956	10%	2	110,998
TOTAL DIRECT LENDING	175	15,017,978	35%	49	5,190,287
TOTAL SPECIAL PROGRAM FUNDED LOANS[7]	27	2,512,623	34%	8	850,432
TOTAL LOANS	**202**	**17,530,600**	**34%**	**57**	**6,040,719**

Notes:	No. Delinquent Loans	Total Principal Value Delinquent Loans
1/ CNMI Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in CNMI	1	$24,113
2/ Guam Loans receivables amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Guam	3	$433,484
(b) IRP (USDA) Loans domiciled in Guam	0	$0
3/ Kosrae Loans receivables amount excludes:		
(a) IRP (USDA) Loans domiciled in Kosrae	1	$6,261
4/ Pohnpei Loans receivables amount excludes:		
(a) IRP (USDA) Loans domiciled in Pohnpei	0	$0
4/ Yap Loans receivable amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Yap	1	$38,994
(b) IRP (USDA) Loans domiciled in Yap	1	$22,000
(c) Yap Development Loan Program funded Loans		
5/ RMI Loans receivables amount excludes:		
(a) KADA Home Loan Program Loans	2	$261,860
(b) IRP (USDA) Loans domiciled in RMI	1	$241,319
6/ Palau Loans receivables amount excludes:		
(a) MIDB Loan Program Loans domiciled in Palau	0	$0
(a) IRP (USDA) Loans domiciled in Palau	1	$84,261

7/ Funded by admnistered loan programs: USDA Intermediary Relending Program and FSM Development Bank Loan Program.

8/ Delinquent Loans are loans that are 30 or more days past due

NON-PERFORMING LOANS TO TOTAL LOANS RATIOS BY SHAREHOLDER

Please note that aggregate loan values below may differ from audited figures due to audit adjustments.

As of December 31, 2023					
Shareholder	No. Loans	Total Principal Value Loans	NPLs to Total Loans	No. NPLs[6]	Total Principal Value NPLs
Commonwealth of the Northern Mariana Islands	17	2,784,182	0%	1	1,620
Guam[1]	17	935,369	68%	2	636,124
Chuuk, FSM	32	440,876	0%	0	0
Kosrae[2], FSM	27	523,115	30%	9	155,513
Pohnpei, FSM	22	1,332,366	2%	2	33,206
Yap[3], FSM	18	3,487,849	1%	2	25,602
Republic of the Marshall Islands[4]	24	3,636,173	22%	4	785,083
Kwajalein Atoll Development Authority (KADA)	7	809,091	32%	2	261,860
Republic of Palau	11	1,068,956	10%	2	110,998
TOTAL DIRECT LENDING	175	15,017,978	13%	24	2,010,006
TOTAL SPECIAL PROGRAM FUNDED LOANS[5]	27	2,512,623	4%	2	108,375
TOTAL LOANS	**202**	**17,530,600**	**12%**	**26**	**2,118,380**

Notes:	No. NPLs	Total Value NPLs
1/ CNMI Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Guam	1	$24,113
2/ Guam Loans receivables amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Guam	0	$0
(b) IRP (USDA) Loans domiciled in Guam	0	$0
3/ Kosrae Loans receivables amount excludes:		
(a) IRP (USDA) Loans domiciled in Kosrae	0	$0
4/ Pohnpei Loans receivables amount excludes:		
(a) IRP (USDA) Loans domiciled in Pohnpei	0	$0
5/ Yap Loans receivable amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Yap	0	$0
(b) IRP (USDA) Loans domiciled in Yap	0	$0
6/ RMI Loans receivables amount excludes:		
(a) KADA Home Loan Program Loans	2	$261,860
(b) IRP (USDA) Loans domiciled in RMI	0	$0
7/ Palau Loans receivable amount excludes:		
(a) MIDB Loan Program Loans domiciled in Palau	0	$0
(b) IRP (USDA) Loans domiciled in Palau	1	$84,261

8/ Funded by admnistered loan programs: USDA Intermediary Relending Program, and FSM Development Bank Loan Program.

9/ NPLs = Non-Performing Loans; these are loans that are 90 or more days past due

Financial Report

Assets saw 16% growth—from approximately $17.2 million to $19.9 million—attributed to growth in loans funded by an 8% increase in shareholder capital—from approximately $14.3 million to $15.5 million. The bank also received new borrowed funds totaling $1 million to establish a loan program in partnership with the Marshall Islands Development Bank (MIDB) for citizens of the Marshall Islands living in Guam, CNMI, Palau and the FSM. At the same time, the Bank's Retained Earnings grew 80% year-over-year due to continued profitability despite a higher level of operational expenses.

Average Annual Revenues continue to be stable and growing, corresponding with improvements in loan portfolio quality and new loans contributing to income growth. Operating Expenses were notably higher relative to prior year due primarily to expenses incurred for Board meetings, travel, relocating to a larger office space, and the hiring of new staff.

AUDITED FINANCIAL STATEMENTS & KEY PERFORMANCE INDICATORS

The Tables below show the annual trend in PIDB's financial performance and key performance indicators over the last ten years.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Condensed Balance Sheet	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited
Cash & Equivalents	653,501	1,341,400	2,296,695	3,979,226	2,886,664	2,429,924	2,660,858	2,721,094	4,865,346	3,465,908
Net Loans	10,311,728	10,036,481	11,106,544	11,242,552	14,321,927	14,809,058	12,404,910	12,453,662	11,830,204	15,590,449
Gross Loans	*10,915,267*	*10,575,927*	*11,709,661*	*11,919,509*	*15,321,943*	*16,634,937*	*16,670,888*	*15,817,768*	*14,772,975*	*17,530,738*
ALLL	*603,539*	*539,446*	*603,117*	*676,957*	*1,000,016*	*1,825,879*	*4,265,978*	*3,364,106*	*2,942,771*	*1,940,289*
Net Accrued Interest Receivables (AIR)	232,687	255,618	186,352	173,517	197,519	145,465	110,371	173,566	199,114	150,570
Other Current Assets	0	0	0	0	0	6,119	7,362	8,892	7,362	25,747
Net Operating Lease Right-of-Use Asset									159,134	370,464
Net Fixed Assets (FE)	37,002	73,372	56,100	45,461	18,802	10,051	16,715	17,874	102,410	88,744
Foreclosed Assets										214,000
TOTAL ASSETS	**11,234,918**	**11,706,871**	**13,645,691**	**15,440,756**	**17,424,912**	**17,400,617**	**15,200,216**	**15,375,089**	**17,163,570**	**19,905,882**
Accounts Payables	7,276	25,896	25,236	30,361	27,368	30,407	32,825	33,516	19,007	34,600
Operating Lease Liability									161,177	401,132
Borrowings	2,395,445	2,532,613	3,167,205	3,036,991	2,845,213	2,648,242	2,418,953	2,185,099	1,944,190	2,688,896
TOTAL LIABILITIES	**2,402,721**	**2,558,509**	**3,192,441**	**3,067,352**	**2,872,581**	**2,678,649**	**2,451,778**	**2,218,615**	**2,124,374**	**3,124,628**
Capital Stock	7,500,649	7,510,649	8,502,649	9,302,649	9,327,649	9,907,649	9,957,649	9,957,649	14,332,649	15,507,649
Retained Earnings	1,331,548	1,637,713	1,950,601	3,070,755	2,561,682	2,151,319	127,789	535,825	706,547	1,273,605
Restricted Capital	0	0	0	0	2,663,000	2,663,000	2,663,000	2,663,000	0	0
TOTAL EQUITY	**8,832,197**	**9,148,362**	**10,453,250**	**12,373,404**	**14,552,331**	**14,721,968**	**12,748,438**	**13,156,474**	**15,039,196**	**16,781,254**
TOTAL LIABILITIES & EQUITY	**11,234,918**	**11,706,871**	**13,645,691**	**15,440,756**	**17,424,912**	**17,400,617**	**15,200,216**	**15,375,089**	**17,163,570**	**19,905,882**

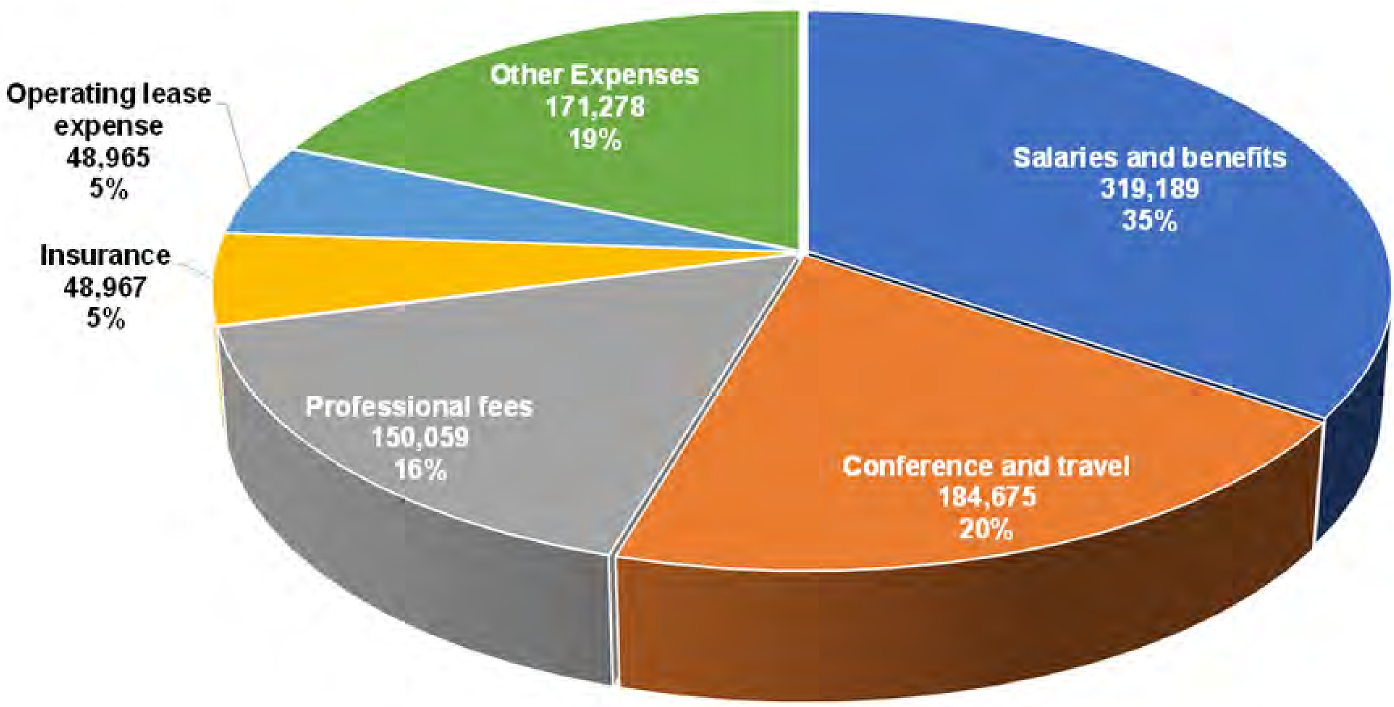
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Condensed Income Statement	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	In-House
Interest & Fee Income from Loans	996,180	999,702	965,286	1,075,100	1,219,771	1,116,846	960,993	1,113,543	1,068,008	1,073,710
Interest Expense on Borrowings	42,040	51,502	56,664	83,549	70,692	57,025	54,929	50,760	43,707	57,766
Net Interest Income	**954,140**	**948,200**	**908,622**	**991,551**	**1,149,079**	**1,059,821**	**906,064**	**1,062,783**	**1,024,301**	**1,015,944**
Other Income (Expenses)	6,730	709	1,182	2,777	(13,604)	58,717	34,269	7,294	36,651	78,445
Provisions for Loan Loss Expense	177,000	150,000	80,000	150,395	600,000	814,000	2,410,000	0	0	(395,802)
Total Operating Expenses	**460,431**	**492,404**	**516,916**	**473,779**	**631,548**	**714,901**	**553,863**	**662,042**	**549,076**	**923,133**
Net Income Before Extraordinary Items	**323,439**	**306,505**	**312,888**	**370,154**	**(96,073)**	**(410,363)**	**(2,023,530)**	**408,035**	**511,876**	**567,058**
Extraordinary Income				750,000						
Extraordinary Expenses										
Net Change in Retained Earnings	**323,439**	**306,505**	**312,888**	**1,120,154**	**(96,073)**	**(410,363)**	**(2,023,530)**	**408,035**	**511,876**	**567,058**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Key Performance Indicators	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	In-House
Loan Growth	8%	-3%	11%	2%	29%	9%	0.22%	-5%	-7%	19%
Asset Growth	3%	4%	17%	13%	13%	0%	-13%	1%	12%	16%
Capital Growth	0%	0.13%	13%	9%	0.27%	6%	1%	0%	44%	8%
Retained Earnings Growth	32%	23%	19%	57%	-17%	-16%	-94%	319%	32%	80%
Average Annual Revenues	*874,135*	*905,527*	*917,479*	*943,749*	*983,181*	*999,889*	*995,567*	*1,007,365*	*1,044,221*	*1,058,914*
Average Annual Revenues to Capital Contributions	11.65%	12.06%	10.79%	10.14%	8.20%	7.95%	7.89%	7.98%	7.29%	6.83%
Average Annual Revenues to Assets	7.78%	7.74%	6.72%	6.11%	5.64%	5.75%	6.55%	6.55%	6.08%	5.32%
Net Interest Margin	8.74%	8.97%	7.76%	8.32%	7.50%	6.37%	5.44%	6.72%	6.93%	5.80%
Net Income to Shareholder Capital	4.31%	4.08%	3.68%	3.98%	-0.80%	-3.26%	-16.08%	3.23%	3.57%	3.66%
Return on Assets	2.88%	2.62%	2.29%	2.40%	-0.55%	-2.36%	-13.31%	2.65%	2.98%	2.85%
Efficiency Ratio	46%	49%	53%	44%	52%	61%	56%	59%	50%	80%

MAJOR EXPENSES

The Bank's operating expenses reflect its operational structure and geographical representation with a 16-member Board of Governors during the year in review, and a 9-member Board of Directors. The Bank's corporate office is currently in Guam with no branch offices yet. The annual Provision for Loan Losses is based on Bank management's review and grading of the Bank's loan portfolio, and the Independent Auditor's recommendation. Based on such review, the Bank's independent auditors, based on a new FASB accounting standard implemented for the year, determined that the level of Allowances for Loan Losses was overstated, and provisions were recovered for 2023. Interest expenses grew relative to prior years commensurate with the higher level of borrowed funds resulting from the receipt of loan proceeds from MIDB. Interest Expenses totaling of $57,766 in 2023 were associated with loan payments made in relation to our USDA IRP, FSM Development Bank, and MIDB borrowings.

The pie chart below shows the composition of major operational expenses of the Bank, in dollar amount and as a percentage of total expenses, during the year under review. Personnel Expenses, Administrative Expenses, and Travel Expenses were major expense categories for 2023. Other categories of expenses, individually, comprise 6% or less of total expenses.



BOARD ACTIVITIES DURING THE YEAR (2023)

Board of Governors

- Held a special meeting via Zoom meeting platform.

Board of Directors

- Held 4 regular meetings during the year to review Bank operations and financial performance. Board of Directors meetings were held in:
    - Pohnpei State, FSM in February 2023
    - Kosrae State, FSM in April 2023
    - Pohnpei State, FSM in July 2023
    - Chuuk State, FSM in October 2023
- Prepared and delivered the 2022 Annual Report and Independent Audit Report to the Board of Governors.
- Reviewed and approved budget and goals.
- Reviewed loan reports and management's actions to address delinquency.
- Reviewed and adopted amendments to operational policies and reviewed and adopted new policies.

2023 Independent Audit Report For

PACIFIC ISLANDS DEVELOPMENT BANK BY BURGER COMER MAGLIARI CPAS

BURGER · COMER & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Governors and the Board of Directors
Pacific Islands Development Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Pacific Islands Development Bank (the Bank), which comprise the statements of condition as of December 31, 2023 and 2022, and the related statements of operation, of changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.
In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Banks's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Burger Comer & Associates

Tamuning, Guam
April 05, 2024

ASSETS

	2023	2022
Current Assets:		
Cash and cash equivalents	$ 3,465,908	$ 4,865,346
Loans receivable, net	15,590,449	11,830,204
Interest receivable, net	150,570	199,114
Prepaid expenses	25,747	7,362
Total current assets	19,232,674	16,902,026
Operating lease right-of-use asset, net	370,464	159,134
Property and equipment, net	88,744	102,410
Foreclosed asset held for resale	214,000	-
	$ 19,905,882	$ 17,163,570

LIABILITIES AND STOCKHOLDERS' EQUITY

	2023	2022
Current Liabilities:		
Current portion of long-term debt	$ 187,093	$ 220,331
Other liabilities	34,600	19,007
Operating lease liability	401,132	161,177
Total current liabilities	622,825	400,515
Long-term debt, net of current portion	2,501,803	1,723,859
Total liabilities	3,124,628	2,124,374
Commitments and contingencies		
Stockholders' equity:		
Capital stock of $1,000 par value, authorized 18,000 shares, issued and outstanding, 15,507 shares	15,507,000	14,332,000
Additional paid-in capital	649	649
Retained earnings	1,273,605	706,547
Total stockholders' equity	16,781,254	15,039,196
	$ 19,905,882	$ 17,163,570

The accompanying notes are an integral part to these financial statements.

Statement of Operations
YEARS ENDED DECEMBER 31, 2023 & 2022

	2023	2022
Revenues:		
Loan interest income	$ 1,066,590	$ 1,065,273
Other interest and dividend income	7,120	2,735
Total interest income	1,073,710	1,068,008
Interest expense	57,766	43,707
Net interest income	1,015,944	1,024,301
Provision (Recovery) for loan losses	(395,802)	-
Net interest income, after provision for loan losses	1,411,746	1,024,301
Operating expenses:		
Salaries and benefits	319,189	240,845
Conference and travel	184,675	70,532
Professional fees	150,059	59,777
Insurance	48,967	46,887
Operating lease expense	48,965	28,641
Office common area fees	30,777	29,952
Depreciation	27,393	8,577
Board meetings	23,012	716
Business development and marketing	13,791	16,096
Communications	10,389	9,202
Office supplies	9,116	9,553
Automobile	3,756	3,947
Miscellaneous	53,044	24,351
Total operating expenses	923,133	549,076
Earnings from operations	488,613	475,225
Other income (expense):		
Other income	99,890	26,151
Other expense	(21,445)	-
Gain on trade-in of property and equipment	-	10,500
Total other income, net	78,445	36,651
Net earnings	$ 567,058	$ 511,876

The accompanying notes are an integral part of these financial statements.

Assets	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at December 31, 2021	9,957	$ 9,957,000	$ 649	$ 3,198,824	$ 13,156,473
Stock reclassification of restricted contributions	3,000	3,000,000	-	(3,000,000)	-
Right-of-use asset adjustment to retained earnings	-	-	-	(4,153)	(4,153)
Issuance of common stock	1,375	1,375,000	-	-	1,375,000
Net income	-	-	-	511,876	511,876
Balance at December 31, 2022	14,332	14,332,000	649	706,547	15,039,196
Issuance of common stock	1,175	1,175,000	-	-	1,175,000
Net income	-	-	-	567,058	567,058
Balance at December 31, 2023	15,507	$ 15,507,000	$ 649	$ 1,273,605	$ 16,781,254

The accompanying notes are an integral part to these financial statements.

Statement of Cash Flows
YEARS ENDED DECEMBER 31, 2023 & 2022

	2023	2022
Cash flows from operating activities:		
Net income	$ 567,058	$ 511,876
Adjustment to reconcile net income to net cash provided by operating activities:		
Operating lease depreciation	39,092	26,643
Depreciation	27,393	8,577
Provision (Recovery) for loan losses	(395,802)	-
Allowance for loan loss	-	(421,335)
(Increase) decrease in assets:		
Interest receivable	48,544	(25,548)
Prepaid expenses	(20,593)	(1,530)
Increase (decrease) in liabilities:		
Operating lease liability	(17,118)	(28,753)
Other liabilities	15,593	(14,509)
Net cash provided by operating activities	264,167	55,421
Cash flows from investing activities:		
Loan originations	(6,663,655)	(5,405,348)
Loan repayments	3,300,703	6,450,141
Acquisition of other real estate owned	(214,000)	-
Acquisition of property and equipment	(13,727)	(90,053)
Net cash provided by investing activities	(3,590,679)	954,740
Cash flows from financing activities:		
Repayment on long-term debt	(247,926)	(240,909)
Proceeds from long-term debt	1,000,000	-
Proceeds from issuance of capital stock	1,175,000	1,375,000
Net cash provided by financing activities	1,927,074	1,134,091
Net change in cash and cash equivalents	(1,399,438)	2,144,252
Cash and cash equivalents at beginning of year	4,865,346	2,721,094
Cash and cash equivalents at end of year	$ 3,465,908	$ 4,865,346
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 57,766	$ 43,707
Gain on trade-in of property and equipment	$ -	$ 10,500
Operating lease right-of-use asset	$ 370,464	$ 159,134

The accompanying notes are an integral part of these 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.

In January 1991, Resolution 91-1 adopted by the Bank's Board of Governors amended Article 3 Section 1 of the Bank's articles of agreement allowing for the admission of associate members. Associate members may be admitted by the approval of the Board of Governors. Associate members are required to contribute sums of money as determined by the Board of Directors. During March 1999, the Board of Governors adopted Resolution 99-1 establishing three classes of associate membership based on the level of capital contributions such that an entity that puts in:

- A $1,000,000 capital contribution qualifies as a Class A associate member;

- A minimum of $500,000 capital contribution qualifies as a Class B associate member; and

- A minimum of $250,000 capital contribution qualifies as a Class C associate member.

Voting privilege is the distinction between shareholder members and associate members. Associate members, regardless of membership class, do not have voting power but may appoint non-voting representation to the Bank's respective governing boards in accordance with their class of associate membership.

At December 31, 2023, the Kwajalein Atoll Development Authority (KADA) is the only associate member of the Bank. KADA has approximately 1,300 in paid-in capital shares and has elected to remain Class B associate membership status despite having met the criteria for Class A associate membership. All other Bank stockholders are voting shareholder members in accordance with Article 3 Section 1 of the Bank's articles of agreement.

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

Cash and Cash Equivalents

For the purposes of the statements of condition and cash flows, cash and cash equivalents are 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.

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 other 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.

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 and when doubt about repayment is resolved.

At December 31, 2023 and 2022, several loans with an outstanding balance totaling $3,402,405 and $1,733,046, respectively, are on non-accrual status and as such, no accrued interest receivable has been recognized. Additionally at December 31, 2023 and 2022, accrued interest receivable was not recorded for loans past due over ninety days.

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. (Refer to Note 3 for further discussion).

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

Impaired Loans, continued

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.

Modifications for Borrowers Experiencing Financial Difficulty

In March 2022, the FASB issued ASU 2022-02, "Troubled Debt Restructuring and Vintage Disclosures", which amends the guidance in former ASC topic 310-40 Receivables – Troubled Debt Restructurings by Creditors. This standard is intended to enhance disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. Rather than applying recognition and measurement guidance for Troubled Debt Restructures (TDR's), an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. Under the Standard, additional disclosures are required to enable financial statement users to assess: (1) the magnitude of certain modifications of loans made to borrowers experiencing financial difficulty; (2) the financial effect of those modifications; and (3) the degree of success of the modifications in mitigating potential credit losses. Further additional disclosures are to be made as necessary to help users understand significant changes in the type or magnitude of modifications, even if the modification otherwise would not require disclosure. As permitted by the Standard, the Bank adopted these provisions prospectively with an effective date of January 01, 2023. Accordingly, no cumulative adjustment to beginning retained earnings has resulted from this implementation.

The Bank considers whether a borrower is experiencing financial difficulties by communicating and making certain qualitative and quantitative considerations. These include at a minimum:

- Whether the borrower is currently in payment default on any of its outstanding loans to the Bank and whether it is probable that the borrower would be in payment default on its debt in the foreseeable future without loan modification.

- Whether the borrower has declared or is in the process of declaring bankruptcy.

- If the borrower is the recipient of a commercial loan, whether there is substantial doubt whether the business securing such loan will continue to be a going concern.

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

Modifications for Borrowers Experiencing Financial Difficulty, continued

- Whether, on the basis of estimates that project the borrower's current capabilities, is it likely that the borrower's current and future cashflows will be insufficient to service its loan obligations (both for interest and principal) in accordance with the contractual terms of the existing loan agreement and the possible revisions to be proposed.

- Whether it is likely that without the current modification, the borrower will not be able to service its loan obligation.

- Whether it is likely that without the current modification, the borrower cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a nontroubled debtor.

When the Bank has concluded that a borrower is experiencing financial difficulty and intends to issue a modification, the Bank must first determine whether such modification results in a new loan or a restructure. First, the Bank considers whether the revised terms are as favorable to the Bank as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring. If not, the loan is recognized as a modification and accordingly a restructured loan.

If the terms are favorable, the Bank will then assess whether the present value of cash flows are at least 10% different from those under the original terms. If not, the Bank will assess qualitatively whether the modification is more than minor based on specific facts and circumstances. If these tests fail, the loan is recognized as a modification, and accordingly, a restructured loan. If present values are at least 10% different or the assessment of facts and circumstances indicate that the change is more than minor, the loan is considered a new loan and unamortized fees and charges are recognized in interest income upon origination.

During the year ended December 31, 2023, the Bank granted various loan modifications to borrowers who experienced financial difficulties which resulted in loan delinquencies prior to the restructures. The modifications have brought certain accounts to current status, recapitalized accrued interest receivable, and typically resulted in lower monthly payment requirements, either temporarily or permanently. These restructured loans have a total outstanding balance of $686,318 at December 31, 2023. (Refer to Note 3 for further discussion).

During the year ended December 31, 2023 and 2022, the Bank granted loan modifications and temporary deferments.

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

Allowance for Credit Losses

The Bank maintains an allowance for credit losses adequate to cover management's estimate of its loan portfolio's lifetime expected credit losses as of the statement of condition date. The Bank segments its analysis by funded consumer, commercial and residential loans.

Changes to the level of the allowance are recognized through charges or credits to provisions for estimated loan losses. Recoveries of loans previously charged-off increase the allowance.

The allowance is estimated by using relevant available information from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Bank measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis and are not included in the collective evaluation. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications.

The Bank further categorizes its loans based on its internal risk rating methodology and considers historical loss experience supplemented by credit judgement to address observed changes in trends or conditions, and other relevant environmental and economic factors that may affect the collectability of loans. Changes to the level of the allowance are recognized through charges or credits to provisions for estimated loan losses. Recoveries of loans previously charged-off increase the allowance. The Bank's adoption of ASC 326 and its impact is further described below. (Refer to Note 3 for further discussion).

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 or, for leasehold improvements over the term of lease.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair market value at the date of foreclosure, establishing a net cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Subsequent write-downs, income and expense incurred in holding such assets, and gains and losses realized from the sale of such assets, are included in current operations.

1) Organization and Summary of Significant Accounting Policies, Continued

Impairment of Long-Lived Assets

Long-lived assets to be held and used by the Bank are reviewed for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets.

The factors considered by the Bank in performing this assessment include current operating results, trends, and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other factors. During the year ended December 31, 2023 and 2022, the Bank determined that no events or changes in circumstances indicated that an impairment of its long-lived assets had occurred.

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases” Topic 842, which amends the guidance in former ASC topic 840 Leases. This Standard increases transparency and comparability by requiring the recognition of leases as right-of-use (“ROU”) assets and lease liabilities on the balance sheet for all leases longer than 12 months. Under the Standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement, over the expected term on a straight-line basis.

The Bank adopted the new lease guidance effective January 01, 2022 using the modified retrospective transition approach, applying the new standard to all its material leases existing at the date of initial application which is the effective date of adoption. Operating leases are recognized on the balance sheet as right-of-use assets and noncurrent operating lease liabilities. The Bank determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use asset and operating lease liability in the accompanying statement of condition. Finance leases are reflected in the accompanying statement of condition as equipment under finance lease, current finance lease obligation, and non-current finance lease obligation.

The Bank leases office space in two locations. In cases where the lease agreement includes renewal options, the renewal periods are included in the expected lease term if it is reasonably certain of being exercised. As of December 31, 2023, the Bank is not reasonably certain that it will exercise its option to renew the office leases at the end of their respective terms. The Bank’s lease agreements do not include material residual value guarantees or material restrictions or covenants.

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

Leases, continued

Long-term leases (leases with terms greater than 12 months) are recorded as liabilities at the present value of minimum lease payments not yet paid. The Bank uses its incremental borrowing rate to determine the present value of the lease when the rate implicit in the lease is not readily determinable. Short-term leases (leases with an initial term of 12 months or less or leases that are cancelable by the lessee and lessor without significant penalties) are not capitalized but expensed on a straight-line basis over the lease term.

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 related to the determination of the allowance for loan losses.

Taxation

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

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 total principal balance due by location as of December 31, 2023 and 2022, is as follows:

	2023		2022	
RMI	$ 4,686,583	26.74%	$ 4,306,317	29.16%
Yap	3,580,550	20.42%	4,020,463	27.21%
CNMI	3,488,495	19.90%	1,795,549	12.15%
Guam	2,127,265	12.13%	2,144,536	14.52%
Pohnpei	1,491,540	8.51%	1,004,994	6.80%
Palau	1,153,217	6.58%	849,809	5.75%
Kosrae	562,212	3.21%	651,307	4.41%
Chuuk	440,876	2.51%	-	0.00%
Net loans	$ 17,530,738	100.00%	$ 14,772,975	100.00%

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

Significant Group Concentration of Credit Risk, continued

As of December 31, 2023 and 2022, Yap loans includes one loan approximating $1.73 million and represents 10% and 12% of gross loans, respectively.

Fair Value of Financial Instruments

Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value and expands financial statement disclosure about fair value measurements.

Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 also establishes a fair value hierarchy, which prioritizes the inputs to valuation technique used to measure fair value into three broad levels:

- Level 1 - Quoted prices in active markets for identical assets of liabilities.
- Level 2 - Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

Recurring Fair Value Measurements

In accordance with accounting principles generally accepted in the United States of America, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Bank's financial instruments are cash, accrued interest receivable, prepaid expenses, and other liabilities. The carrying amount reflected in the statement of condition for loans receivables approximates fair value as the notes either carry variable interest rates or are with interest rates that are comparable to similar arrangements offered to other borrowers having similar repayment terms, collateral requirements, and level of credit risk.

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.

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

Risk and Uncertainties, continued

Prepayment risk is the risk associated with the prepayment of assets, and the write-off 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, and the value of collateral underlying loans receivables. Credit and market risks can be affected by a concentration of business within the Pacific Island region.

(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%, 13% and 7%, respectively. Most commercial and residential loans have been collateralized by various forms of collateral whereas consumers loans are mostly unsecured. Loans financed by the Bank's borrowings from the United States Department of Agriculture (USDA) are classified under its Intermediary Relending Program (IRP). Loans financed by the Bank's borrowings from the Federated States of Micronesia Development Bank (FSMDB) are classified under the FSMDB loan program.

During the year ended December 31, 2023, the bank instituted two new loan programs: (1) The Commonwealth of the Northern Marianas Islands (CNMI) residential home loan program and (2) the Government allotment loan program. The CNMI residential home loan program has substantially the same terms, interest rate, and conditions as the Bank's regular residential loan programs with the exception that the program is available only to essential workers in the CNMI.

The Government Employee Consumer Allotment loan program is only available currently to government employees in the Federated States of Micronesia (FSM). This program provides unsecured consumer loans at 4% interest rate capped at $25,000 on the condition that loan repayments are made through government payroll allotment deductions. Payroll deductions cannot be amended without the permission of the Bank and should employment with a government agency cease, loan terms provide that the loan will revert to a typical consumer loan with the Bank subject to revision of loan agreement and promissory note terms. As of December 31, 2023 the terms of this program are documented in a memorandum of understanding with the FSM state of Chuuk. A similar memorandum of understanding with the FSM National Department of Finance and Administration is under negotiation and was not effective as of the statement of condition date.

(2) Loans Receivable, Continued

A summary of the balances of loans at December 31, 2023 and 2022 follows:

	2023	2022
Commercial - PIDB direct loan program	$ 7,388,652	$ 8,062,815
Residential loans	5,767,829	4,927,085
Commercial - USDA IRP	1,487,742	528,316
CNMI Residential loans	1,139,138	-
Residential - FSMDB	896,255	855,833
Government Consumer	477,726	-
Consumer	244,770	293,076
Commerical - FSMDB import/export	128,626	105,850
Gross loans	17,530,738	14,772,975
Less: allowance for estimated credit losses	(1,940,289)	(2,942,771)
Net loans	$ 15,590,449	$ 11,830,204

In the ordinary course of business, the Bank entered into transactions with its employees, directors and related 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. As of December 31, 2023 and 2022, outstanding loans due from related parties totaled $1,831,000 and $1,238,000, respectively. In addition, outstanding loans due from former officers totaled $250,000 and $255,000, respectively, as of December 31, 2023 and 2022.

(3) Allowance for Credit Losses

On January 01, 2023, the Bank adopted ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology.

The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-tomaturity debt securities. The Bank adopted the standard using the modified retrospective method for all financial assets measured at amortized cost. Results for the reporting period beginning after January 01, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable Generally Accepted Accounting Principles (GAAP). No impact to retained earnings occurred as a result of the Bank adoption of the Standard.

(3) Allowance for Credit Losses, Continued

The Bank elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans that are placed on nonaccrual status which, consistent with the Bank's policy, is when the instrument is 90 days past due or earlier if at the Bank's discretion the collection of interest is still considered doubtful. The Bank has concluded that this policy results in the timely reversal of uncollectible interest.

The changes in the allowance credit losses for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Balance at beginning of year	$ 2,942,771	$ 3,364,106
Loan charge-offs	(1,099,866)	(474,647)
Recoveries of loans previously charged-off	493,186	53,312
Provision for loan losses	100,000	-
Recovery from estimated credit loss valuation	(495,802)	-
Balance at end of year	$ 1,940,289	$ 2,942,771

Credit Quality Indicators

The Bank uses an internal credit risk rating system that categorizes loans into pass, special mention, substandard, doubtful or loss categories. Credit risk ratings are applied individually to each loan on a monthly 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 possibilities that the Bank may sustain some losses if the deficiencies are not corrected.

(3) Allowance for Credit Losses, Continued

Credit Quality Indicators, continued

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.

Loss: Loan is considered uncollectible and of such little value that its continuance on the books is not warranted. A loan under this classification does not mean it has absolutely no recovery or salvage value, rather it is not practical or desirable to defer writing off the loan even though partial recovery may occur in the future.

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, 2023 and 2022:

2023	Pass	Special Mention	Sub-standard	Doubtful	Loss	Total
PIDB Direct	$ 3,619,471	$ 1,237,797	$2,426,703	$ 104,702	$ -	$ 7,388,673
Residential	5,054,647	450,778	230,328	32,076	-	5,767,829
IRP	1,109,788	353,841	24,113	-	-	1,487,742
CNMI RHL	969,148	169,989	-	-	-	1,139,137
Government Consumer	477,726	-	-	-	-	477,726
Consumer	170,442	39,042	17,472	17,794	-	244,750
FSMDB:						
Residential	632,740	263,515	-	-	-	896,255
Commercial	89,632	38,994	-	-	-	128,626
Total	$ 12,123,594	$ 2,553,956	$2,698,616	$ 154,572	$ -	$17,530,738

2022	Pass	Special Mention	Sub-standard	Doubtful	Loss	Total
PIDB Direct	$ 3,503,980	$ 760,566	$3,787,353	$ 10,916	$ -	$ 8,062,815
Residential	4,470,367	28,480	228,993	199,245	-	4,927,085
CNMI RHL	-	-	-	-	-	-
IRP	526,417	-	1,899	-	-	528,316
Consumer	200,251	-	76,048	16,777	-	293,076
Government Consumer	-	-	-	-	-	-
FSMDB:						
Residential	855,833	-	-	-	-	855,833
Commercial	105,850	-	-	-	-	105,850
Total	$ 9,662,698	$ 789,046	$4,094,293	$ 226,938	$ -	$14,772,975

(3) Allowance for Credit Losses, Continued

Credit Quality Indicators, continued

At December 31, 2023, impaired loans of $154,572 represent loans classified as doubtful with estimated credit allowances of $16,485. At December 31, 2022, under the incurred loss methodology, doubtful loans had an allowance totaling $136,163. The charge-off of two loans and the CECL revaluation led to a decrease of approximately $119,678 as of December 31, 2023. These loans are significantly past due with nominal collections and no interest income has been recognized during the years ended December 31, 2023 and 2022. Although the Bank continues to aggressively pursue collection efforts, provisions ranging from 50%-100% have been provided as ultimate collectability is uncertain.

Included under special mention loans are two loans totaling $636,124 with estimated credit allowances approximating $66,341 as of December 31, 2023. These loans are past due and as such, no accrued interest has been recognized as of December 31, 2023. Under the incurred loss methodology, these same loans have allowances of 20% or approximately $127,000 as of December 31, 2022.

An aging analysis of the Bank's loan portfolio by class as of December 31, 2023 and 2022 is as follows:

	Current	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total
2023					
PIDB Direct	$ 3,570,849	$ 583,060	$ 1,791,798	$ 1,442,966	$ 7,388,673
Residential	4,700,246	381,353	161,965	524,265	5,767,829
CNMI RHL	969,148	169,989	-	-	1,139,137
IRP	1,109,787	241,319	28,261	108,375	1,487,742
Consumer	145,427	44,640	11,794	42,889	244,750
Government Consumer	442,041	35,685	-	-	477,726
FSMDB:				-	-
Commercial	89,632	-	38,994	-	128,626
Residential	462,771	245,134	188,350	-	896,255
Total	$ 11,489,901	$ 1,701,180	$ 2,221,162	$ 2,118,495	$ 17,530,738

(3) Allowance for Credit Losses, Continued

Credit Quality Indicators, continued

	Current	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total
2022					
PIDB Direct	$ 3,722,014	$ 25,391	$ 1,107,899	$ 3,207,511	$ 8,062,815
Residential	4,329,472	140,895	28,480	428,238	4,927,085
CNMI RHL	-	-	-	-	-
IRP	403,126	123,291	-	1,899	528,316
Consumer	164,734	35,518	-	92,824	293,076
Government Consumer	-	-	-	-	-
FSMDB:					
Commercial	105,850	-	-	-	105,850
Residential	495,172	169,969	190,692	-	855,833
Total	$ 9,220,368	$ 495,064	$ 1,327,071	$ 3,730,472	$ 14,772,975

The related estimated credit loss allowance provisioned for loans by class and past due status more than 90 days as of December 31, 2023 and 2022, is as follows:

	Total	Allowance for Credit losses
2023		
PIDB Direct	$ 3,207,511	$ 1,745,399
Residential	428,238	188,245
CNMI RHL	-	-
IRP	108,375	15,660
Consumer	42,889	16,680
Government Consumer	-	-
Commerical - FSMDB import/export	-	-
Residential - FSMDB	-	-
Total	$ 3,787,013	$ 1,965,984

(3) Allowance for Credit Losses, Continued

Credit Quality Indicators, continued

	Total	Allowance for Loan losses
2022		
PIDB Direct	$ 3,207,511	$ 1,745,399
Residential	428,238	188,245
CNMI RHL	-	-
IRP	1,899	570
Consumer	92,824	32,880
Government Consumer		
Commerical - FSMDB import/export	-	-
Residential - FSMDB	-	-
Total	$ 3,730,472	$ 1,967,094

PIDB direct and IRP loans are comprised of commercial loans which generally represent financial assets where repayment is anticipated substantially through the operation of the collateral securing the loan. For commercial loan collateral, the Bank normally requires at a minimum, the following: 1st chattel mortgage on all business assets existing and to be acquired; 1st lien mortgage position on the real property in which a borrower's business is situated; personal guaranty of business principals, and when applicable, assignment of rental income from real property. At December 31, 2023 and 2022, there were no unsecured commercial or residential loans in the Bank's loan portfolio.

Modifications for Debtors Experiencing Financial Difficulty

When the Bank has determined that a borrower is experiencing financial difficulty, it typically offers one or more of the following contractual term modifications:

- Interest rate reduction.
- Term extension.
- Principal forgiveness.
- Accrued interest waiver.
- Late fee waiver.

Certain modifications that include one or more of the above-mentioned modifications are made as a result of the judgements from the FSM Supreme Court. Although the Bank has determined that these loans qualify as restructurings, the Bank does not hold the substantial discretion to determine the exact nature and terms of loan modifications. Loans subject to FSM Supreme Court judgement modification typically will have interest rates fixed at 9% whereas principal, interest, and the timing, amount, and schedule of repayments are dictated solely by the FSM Supreme Court.

(3) Allowance for Credit Losses, Continued

Modifications for Debtors Experiencing Financial Difficulty, continued

At December 31, 2023, the FSM Supreme Court judgement restructured loans included one consumer loan and one commercial loan in the amount of $1,620 and $48,362, respectively. The terms of the court order caused a combination of modifications relating specifically to principal adjustments, unpaid accrued interest adjustments, term extensions, and mandatory interest rate reductions.

At December 31, 2023, loan modifications made with which the Bank did have the substantial discretion to dictate terms, included one consumer loan in the amount of $9,556 which was permitted various loan modifications as a part of a conversion from commercial loan status to consumer loan status. This conversion arose due to the fact that the commercial business that the loan was originally underwritten for is now defunct. Principal forgiven due to the conversion approximated $21,962.

Of the five loans modified during the current year, four were current as of December 31, 2023. The exception being one consumer court restructured loan, modified on June 14, 2023, the borrower has not adhered to the modified loan repayment terms and conditions.

Below is an analysis, categorized by class of financing receivables, of loans that underwent restructuring in the current year due to borrowers facing financial challenge, including court-ordered restructures. These restructures involved modifications, including terms for reduced interest rates, as of December 31, 2023, as follows:

	Interest Rate Reduction		
	Amortized Cost Basis at 12/31/2023	Total Cost Basis of Financing Receivable at 12/31/2023	Percentage of Total Class of Financing Receivable
PIDB Direct	$ 48,362	$ 7,388,652	0.65%
Residential	-	5,767,829	-
CNMI RHL	-	1,487,742	-
IRP	-	1,139,138	-
Consumer	11,175	896,255	1.25%
Government Consumer	-	477,726	-
FSMDB:			
Commercial	-	244,770	-
Residential	-	128,626	-
Total	$ 59,537	$ 17,530,738	0.34%

(3) Allowance for Credit Losses, Continued

Modifications for Debtors Experiencing Financial Difficulty, continued

Below is an analysis, categorized by class of financing receivables, of loans that underwent restructuring in the current year due to borrowers experiencing financial challenges, including court-ordered restructures. These modifications involved extending the loan term, effective as of December 31, 2023, as follows:

	Term Extension		
	Amortized Cost Basis at 12/31/2023	Total Cost Basis of Financing Receivable at 12/31/2023	Percentage of Total Class of Financing Receivable
PIDB Direct	$ 675,143	$ 7,388,652	9.14%
Residential	-	5,767,829	-
CNMI RHL	-	1,487,742	-
IRP	-	1,139,138	-
Consumer	11,175	896,255	1.25%
Government Consumer	-	477,726	-
FSMDB:			
Commercial	-	244,770	-
Residential	-	128,626	-
Total	$ 686,318	$ 17,530,738	3.91%

The following table presents by class of financing receivables, an analysis of loans restructured in the current year due to borrowers experiencing financial challenges and court-ordered restructures. These modifications involved forgiveness of loan principal as of December 31, 2023:

	Principal Forgiveness		
	Amortized Cost Basis at 12/31/2023	Total Cost Basis of Financing Receivable at 12/31/2023	Percentage of Total Class of Financing Receivable
PIDB Direct	$ 373,565	$ 7,388,652	5.06%
Residential	-	5,767,829	-
CNMI RHL	-	1,487,742	-
IRP	-	1,139,138	-
Consumer	9,556	896,255	1.07%
Government Consumer	-	477,726	-
FSMDB:			
Commercial	-	244,770	-
Residential	-	128,626	-
Total	$ 383,121	$ 17,530,738	2.19%

(3) Allowance for Credit Losses, Continued

Modifications for Debtors Experiencing Financial Difficulty, continued

The table below provides a composite analysis, categorized by class of financing receivable, of loans that were restructured during the current year due to borrowers facing financial challenges. These restructuring efforts involved a combination of modifications to loan terms, effective as of December 31, 2023, as follows:

	Modification Combinations			
	Amortized Cost Basis at 12/31/2023	Total Cost Basis of Financing Receivable at 12/31/2023	% of Total Class of Financing Receivable	Description
PIDB Direct	$ 675,143	$ 7,388,652	9.14%	Modification include term extensions, adjustment of required payment schedule, waiver of unpaid accrued interest, waiver of late charges and other fees.
Residential	-	5,767,829	-	
CNMI RHL	-	1,487,742	-	
IRP	-	1,139,138	-	
Consumer	11,175	896,255	1.25%	Modification include term extensions, adjustment of required payment schedule, waiver of unpaid accrued interest, waiver of late charges and other fees.
Government Consumer	-	477,726	-	
FSMDB:				
Commercial	-	244,770	-	
Residential	-	128,626	-	
Total	$ 686,318	$ 17,530,738	3.91%	

At December 31, 2022, current loans include loans totaling $79,639 that were subjected to TDRs in the first and second quarter of 2022 and were past due 90 days or more prior to restructuring. Also included are loans totaling $2,178,946 that had been subjected to TDRs in the last quarter of 2021 which were past due 90 days or more prior to restructuring.

(4) Property and Equipment

A summary of depreciable property and equipment as of December 31, 2023 and 2022, is as follows:

Description	Estimated Useful Lives	2023	2022
Vehicles	5 years	$ 85,900	$ 85,900
Computers and software	5 years	39,530	27,670
Office furniture and equipment	10 years	23,830	21,963
		149,260	135,533
Less: accumulated depreciation		(60,516)	(33,123)
		$ 88,744	$ 102,410

(4) Property and Equipment, Continued

As of December 31, 2023 the Bank acquired two real property lots situated in the Republic of Palau (ROP) aggregately valued at $214,000 as a result of successful foreclosure proceedings on a formerly charged-off commercial loan. The parcels are undeveloped and sellable in their current condition. The Bank is currently seeking buyers for the properties and intends for liquidation to occur within one year should price offers be commensurate to fair market value respective to the ROP. Accordingly, the parcels have been classified in the statement of condition as property held-for-sale.

(5) Leases

On November 1, 2023, the Bank entered into a new lease agreement with a lessor to relocate its office to a new commercial Building. The lease agreement is for a period of three years from November 1, 2023 to September 30, 2026 with an option to extend for an additional two years. The Bank has elected not to exercise the option at this time. The Bank is obligated to pay $104,940 per year under this new lease. There were no variable lease payments other than base rent for this lease agreement as of December 31, 2023. Despite the relocation, the Bank continues to maintain its lease agreement with First Hawaiian Bank (FHB).

The FHB lease agreement has a remaining term of 5 years and includes an option to extend the lease subject to agreements between the lessor and lessee. Variable non-index lease payments include charges, other than base rent, that are passed on to the Bank from the lessor. Such charges for the Bank's commercial lease include common area maintenance fees and gross receipts tax; both of which are expensed as incurred. At December 31, 2023, these variable lease payments totaled $29,952 and $3,236, respectively. At December 31, 2022 these variable lease payments totaled $29,952 and $3,194, respectively.

The following summarizes the line items in the financial statements which include amounts for operating leases for the year ended December 31, 2023 and 2022:

	2023	2022
Operating lease right-of-use assets	$ 370,464	$ 159,134
Operating lease liabilities	$ 401,132	$ 161,177
Amortization of right-of-use assets	$ 39,092	$ 26,643
Interest on lease liabilities	9,873	1,998
Total lease expense	$ 48,965	$ 28,641

(5) Leases, Continued

Supplemental information related to the Bank's lease follows:

Cash paid for amounts included in the measurement of lease liabilites:	2023	2022
Operating cash flows from operating leases	$ 73,483	$ 63,897
Remaining lease term - Operating lease	5 Years	6 Years
Discount rate - Operating lease	6.00%	6.00%

The following is a schedule, by years, of future minimum lease payments required under operating leases:

Year Ending December 31,	
2024	$ 171,360
2025	171,360
2026	153,870
2027	66,420
Thereafter	38,744
Total lease payments	$ 601,754
Less: variable lease charges	(152,501)
Imputed interest	(48,121)
Present value of lease liabilities	$ 401,132

(6) Long-term Debt

Long-term debt as of December 31, 2023 and 2022, consists of the following:

	2023	2022
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 3 years with twenty-seven equal principal and interest annual installments beginning October 7, 2007.	$ 199,989	$ 219,023
A $750,000 IRP loan by the USDA on June 27, 2006. Interest fixed at 1% per annum. Interest-only payment for the first 3 years with twenty-seven equal principal and interest annual installments beginning June 27, 2010.	384,784	434,712
A $750,000 IRP loan by the USDA on September 9, 2008. Interest fixed at 1% per annum. Interest-only payment for the first 3 years with twenty-seven equal principal and interest annual installments beginning September 8, 2012.	439,950	467,117

(6) Long-term Debt, Continued

	2023	2022
A $350,000 IRP loan by the USDA on March 7, 2013. Interest fixed at 1% per annum. Interest-only payment for the first 3 years with twenty-seven equal principal and interest annual installments beginning March 7, 2017.	168,465	168,763
A $500,000 loan with the FSM Development Bank (FSMDB) on September 16, 2010. Interest fixed at 4% per annum. Interest-only payment for the first 3 years, thereafter forty equal quarterly of $15,228.	2,372	61,704
A $1,000,000 loan with the FSMDB on March 17, 2015. Interest fixed at 4% per annum. Interest only payments for the first 3 years, thereafter forty equal quarterly of $30,456.	493,336	592,871
A $1,000,000 loan with the Marshall Islands Development Bank (MIDB) on March 28, 2023. Interest fixed at 4% per annum. Interest only payments for the first 3 years, thereafter forty equal quarterly of $34,097.	1,000,000	-
	2,688,896	1,944,190
Less current portion of long-term debt	(187,093)	(220,331)
	$ 2,501,803	$ 1,723,859

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

The Bank paid $57,766 and $43,707 in interest expense on the aforementioned debt as of December 31, 2023 and 2022, respectively.

At December 31, 2023, future maturities of debt are as follows:

Year Ending December 31,	
2024	$ 187,093
2025	189,824
2026	236,179
2027	285,213
2028	192,082
Thereafter	1,598,505
	$ 2,688,896

(7) Restricted Contributions

In February 2017, the Bank and the Yap State Government entered into a Memorandum of Understanding (MOU) pursuant to Yap State Public Law 9-35 (the Act) dated July 2016. The Act authorizes an appropriation of $3 million for the purpose of funding a Yap State development loan program to be administered by the Bank. Under the MOU, the Bank essentially performs all underwriting, disbursement, credit administration activities relating to funded loans and is required to provide periodic reports to Yap State Government. The MOU sets forth eligibility requirements, including business sector, borrower citizenship and residency requirements, as well as loan requirements, such as collateral and interest rates. The MOU does not contain provisions to require the repayment of unused loan funds or payments collected from borrowers back to the Yap State Government. The MOU does not contain any provisions for the sharing of interest income earned. Furthermore, the MOU does not contain any provisions to require funds to be maintained in a revolving fund. The Bank has determined obligations are met once the funds have been disbursed for its intended purposes; however, it intends to re-lend available funds to eligible Yap State borrowers.

On September 03, 2021, pursuant to Yap State Public Law 10-58, the Yap State Government amended the Act to reclassify the fully disbursed $3 million contribution to capital stock in the Bank. Furthermore, Yap State Law No. 10-58 established subsequent negotiations between the Yap State Government and the Bank to terminate the Yap State development loan program. Pursuant to Public Law 10-58, the contributions were reclassified to Yap State common stock in the Bank. There are three remaining outstanding loans under the program totaling $2,651,257 and $2,653,707, as of December 31, 2023 and 2022, respectively.

At December 31, 2023 and 2022, the contributions are presented as a part of unrestricted contributions, a component of shareholders' equity, consistent with its understanding of the terms of the MOU.

(8) Commitments and Contingencies

Undisbursed Loans

The Bank approved loans aggregating $2,277,607 which were not fully disbursed. Of that amount, the undisbursed amount totaled $977,317 and $712,953 as of December 31, 2023 and 2022, respectively.

Compensated Absences

Certain employees are entitled to vacation and sick leave. The Bank's policy is to expense these items as incurred.

(9) Employee Benefit Plan

The Bank has a 401(k) Employee Benefit Plan whereby substantially all employees participate in the Plan after meeting certain eligibility requirements, namely, completion of one year of continuous employment. Employee contributions to the Plan are 5% of gross salaries and are 100% vested after three years of service. For employer matching purposes, the Bank contributes 10% of employee gross salaries. During the years ended December 31, 2023 and 2022, the Bank contributed $16,197 and $16,257, respectively, to the Plan which is included as a component of salaries and related expenses in the statement of operations.

(10) Risk and Uncertainty

On March 11, 2020, The World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. In response, governments all over the world implemented actions which impacted the microeconomic environment, increased economic uncertainty and reduced economic activities.

The Bank's business and earnings are closely tied to the economies of Guam, CNMI, ROP, and RMI which rely heavily on tourism, real estate, construction and other related service based industries. The impacts of travel restrictions, business closures and stay-at-home orders have resulted in immediate adverse impact to some of the Bank's borrowers during 2023 and 2022.

(11) Reclassifications

Certain reclassifications have been made to the 2022 financial statements for comparative purposes. Such reclassifications had no effect on previously reported retained earnings and net income.

(12) Subsequent Events

Management has evaluated subsequent events through April 05, 2024, 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, 2023.


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