2022 ANNUAL REPORT

PACIFIC ISLANDS DEVELOPMENT BANK

Pacific
Islands
Development
Bank

2022 ANNUAL REPORT

Contents

MESSAGE FROM THE PRESIDENT & CEO

From East to West across our vast North Pacific region, warm greetings are conveyed in the common languages of our island communities: *Iokwe! Lenwo! Kaselehlie! Ran Annim! Mogethin! Alii! Tirow! and Hafa Adai!*

For more than 33 years, the Pacific Islands Development Bank (hereinafter "PIDB" or "Bank") has served our shareholder member countries and island governments in its mission to accelerate economic and social development, locally and regionally. Our institution's commitment to the public good is grounded in management's lending philosophy and reflective of the Bank's core values, and in our organization's goals and aspirations.

By now, more than three years after the COVID-19 virus first made its global debut, we have all seen the impacts of the pandemic as well as related government responses on the health and livelihoods of people in our island communities. While our island leaders have faced the challenges of precariously balancing health and social welfare concerns against economic woes, in varying ways and to different degrees, businesses and households had seemingly mixed responses to national policy decisions regarding travel restrictions and mask mandates that were ongoing throughout part of 2022. By year end, travel restrictions had been lifted everywhere in the Federated States of Micronesia, and the Republic of the Marshall Islands—who were among the last nations on the planet to remove restrictions that had kept their communities COVID-free. Elsewhere in the North Pacific region, restrictions had been lifted or substantively eased in 2021 and places like Palau, the Marianas, and Kiribati had experienced surges in community spread at some point during the subsequent year.

As volatility and uncertainty continued to plague global and regional capital markets, as well as in politics, economics, social and environmental spheres, PIDB too experienced changes in its management and governance structure. Yet, 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 to economic and social recovery.

Institutional Updates

PIDB officially welcomed a new President & CEO on February 1st, 2022, following the formal selection of Ms. Lindsay M. Timarong by the Board of Governors, subsequent to the announcement for the position, and related interviews of several candidates. I served as Acting President & CEO starting in August 2021 following the resignation of my predecessor, and signed a five-year contract effective February 1st, 2022. On behalf of PIDB, we acknowledge and express our appreciation for the efforts and contributions of Mr. Christopher A. Cruz during his tenure with the Bank.

Since transition in August 2021, management has continued efforts in re-engaging and strengthening relationships with our stakeholders and customers and we continue to maintain a philosophy that recognizes and understands that by fostering resiliency in the private sector, we are doing our part, within the bounds of sound policy and practice, to help ensure strong recovery locally as regional and global economic conditions return to some semblance of normalcy. At the same time, we remain cognizant of our fiduciary duty to make decisions responsibly so as not to irrevocably endanger the Bank's capital position.

The Bank hired a new Loan Officer during the year. We welcomed Mr. Jamie J. Aingimea in September 2022. His addition to our office team has added tremendous value to our services and operations. Jamie is an experienced mortgage and consumer loan underwriter and closer, and he has taken on the bulk of our lending functions together with Ms. Rachel W. Gabiriel, our Administrative Officer & Loan Service Specialist.

At the time of the writing of this annual report, the newest member of staff was already on board. We welcomed Ms. Regina R. Raigetal to our office team in March 2023 as Administrative Assistant.

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.

New Capital Infusion

2022 was a capital year for PIDB! Injection of new capital from some of our shareholder members revitalized our lending activities and catalyzed the development of new programs that have been well received in the communities that have benefitted.

For instance, the CNMI injected an additional $1 million in capital shares in August 2022 and as a result, became the second largest shareholder with a total of $2 million. A housing loan program catering to educators, health service workers, first responders and law enforcement personnel in the CNMI was developed as a result of discussions with and direction from the CNMI executive branch. CNMI stakeholders recognized that these essential service sectors were critical to the local economy and the functioning of society. The aim of the new credit program was to improve the livelihoods and quality of life for individuals in the CNMI that serve 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.

Furthermore, the Kwajalein Atoll Development Authority (KADA) injected an additional $300,000 in capital shares in November 2022, raising the Associate Member’s total capital to $1.3 million, which will expand the housing program established for residents of Ebeye. In addition, Chuuk and Kosrae continued to make payments towards fulfillment of their subscribed $1 million share capital—capital injections totaling $50,000 and $25,000 were received from Chuuk and Kosrae, respectively, during the year. Chuuk legislators engaged Bank management in the latter part of the year and inspired the development of a credit facility for public sector employees and elected lawmakers. The program will be implemented throughout the region in 2023 as management works with finance officials to establish eligibility requirements and formalize repayment mechanisms.

At the same time, Yap formally converted $3 million in restricted funds on the books of the Bank (previously received from Yap State to establish the Yap Economic Development Loan Program) to capital shares. There were no new funds received; however as a result of this conversion, Yap effectively became PIDB’s largest shareholder with a total of approximately $4.44 million in capital contributions and 31% share ownership.

The Marshall Islands Development Bank (MIDB) has expressed interest to pursue Associate Membership in the Bank and renewed their dialogue with bank management last year. As these talks progress, the MIDB Board and Management committed $1 million in funds to establish a business and housing loan program for citizens of the Marshall Islands residing on Guam, the CNMI, Palau and the FSM. 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 on 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

Our members and stakeholders may recall from our last annual report that in September 2021, the PIDB Board instituted a moratorium on lending following transition in management. Commercial lending resumed the following month although with a maximum amount of new loan proceeds to a given project set at $100,000. Board and management agreed that this was the prudent course of action in light of economic conditions and outlook at that time. Following thorough review of the Bank's financial standing and an assessment of our capacity to finance new projects and requests for funding, the Board of Directors lifted the moratorium on residential lending during the February 2022 virtual meeting of the Board. At that same meeting, the Board of Directors reviewed and approved the Bank's updated Strategic Plan covering the 2022-2024 three-year strategic plan period. In their October 2022 meeting held in Saipan, CNMI, the Board of Directors removed the maximum cap for commercial loans after careful consideration of the Bank's lending capacity and in light of substantial amounts in new capital injections relative to prior years. PIDB once more would entertain business financing requests from eligible applicants anywhere in the region that presented a viable project in line with the mission and objectives of the Bank.

In 2022, we added fourteen new loans to PIDB's portfolio with total value of approximately $1.5 million. At calendar year-end, several more were in the application pipeline and inquiries have increased compared to prior years. In particular, there has been an exponential rise in financing requests and inquiries for residential home loans. Mortgage loans comprised roughly 69% of new loans granted in 2022 and were concentrated in home financing under the CNMI program targeting educators, health service workers, first responders and law enforcement personnel. 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.

Policies and Practices

Several new policies and enhancements to existing policies developed in the latter part of 2021 were adopted by the Board of Directors during regular quarterly meetings held in 2022. New policies include the Bank's Anti-Money Laundering and Counter-Financing of Terrorism Policy, the Grievance Policy, and the Environmental and Social Policy Framework, among others. These new policies formalized and improved practices already in place. In addition, our lending policies and related allowance for loan losses methodology were updated to reflect current processes and to bring our risk classification and provision practices in line with forward looking accounting and regulatory standards.

Moreover, the Bank's application forms and loan closing documents were also updated and enhanced. At the same time, our loan application and approval procedures have been reviewed and streamlined to improve efficiencies. The average time from credit analysis to approval has been substantially reduced and our team continues to build upon existing networks to ease the burden on applicants while ensuring we obtain the information needed for timely and adequate underwriting of loans.

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, and aligned with prevailing industry standards.

Board Governance and Composition

There were changes to the leadership and officers of the PIDB Board of Governors in 2022. On September 13, 2022, during a virtual Special Meeting of the Board of Governors, Chairmanship transitioned from the CNMI to the Republic of the Marshall Islands in accordance with the rotation of Board leadership rooted in an established practice (a *Gentlemen's Agreement*) among shareholder members. At the time of transition, then CNMI Governor Ralph DLG. Torres had held the Chairmanship role since January 2019—nearly four years. The Republic of the Marshall Islands' Speaker Kenneth A. Kedi, representing RMI legislative branch on the Board of Governors, took up the Chairmanship. At the same time, Guam's Governor Lourdes Leon Guerrero ascended to the Vice Chairmanship post, however, concurrently held the role of Secretary for the Board of Governors because the Yap representatives on the Board of Governors, next in line according to the rotation, at the time of transition did not formally accept the role.

We congratulate our new Chairman and Vice Chairwoman, and thank all members of our Board of Governors for their continued service and support of the Bank. We also recognize and convey our appreciation to former CNMI Governor Ralph DLG. Torres for his leadership 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.

Elections were held in the CNMI, Guam, Yap, and Kosrae in November 2022. 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 2023 were as follows: for Guam legislative branch, Speaker Therese Terlaje replaced Vice Speaker Tina Muna-Barnes; for Yap State, Governor Charles Chieng appointed his Resources & Development Director, Ms. Leelkan Southwick, who along with Speaker Nicholas Figirlaarwon replaced former Governor Jesse Salalu and Senator John Masiwemai, respectively; and for Kosrae State, Governor Tulensa Palik and Speaker Semon Phillip replaced former Governor Carson Sigrah and former Vice Speaker Rolner Joe, respectively. Representative John Paul Sablan remains legislative branch representative for CNMI following successful re-election. Similarly, Governor Lourdes Leon Guerrero remains executive branch representative for Guam following successful re-election. As of the writing of this report, the new administration in the CNMI had yet to formally appoint an executive branch representative to the Board of Governors.

We congratulate all elected and re-elected officials and welcome the new members of our Board of Governors appointed in early 2023. 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.

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, members of the Board of Directors, our partners, 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, 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. 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 our islands continue on the road to economic and social recovery, and may the region 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

BACKGROUND & CORPORATE INFORMATION

Establishment

Pacific Islands Development Bank was created on July 5, 1989, through a Resolution approved by the Association of Pacific Island Legislatures (APIL). Its corporate office is in Guam.

Bank's Vision

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

Bank's Mission & Purpose

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

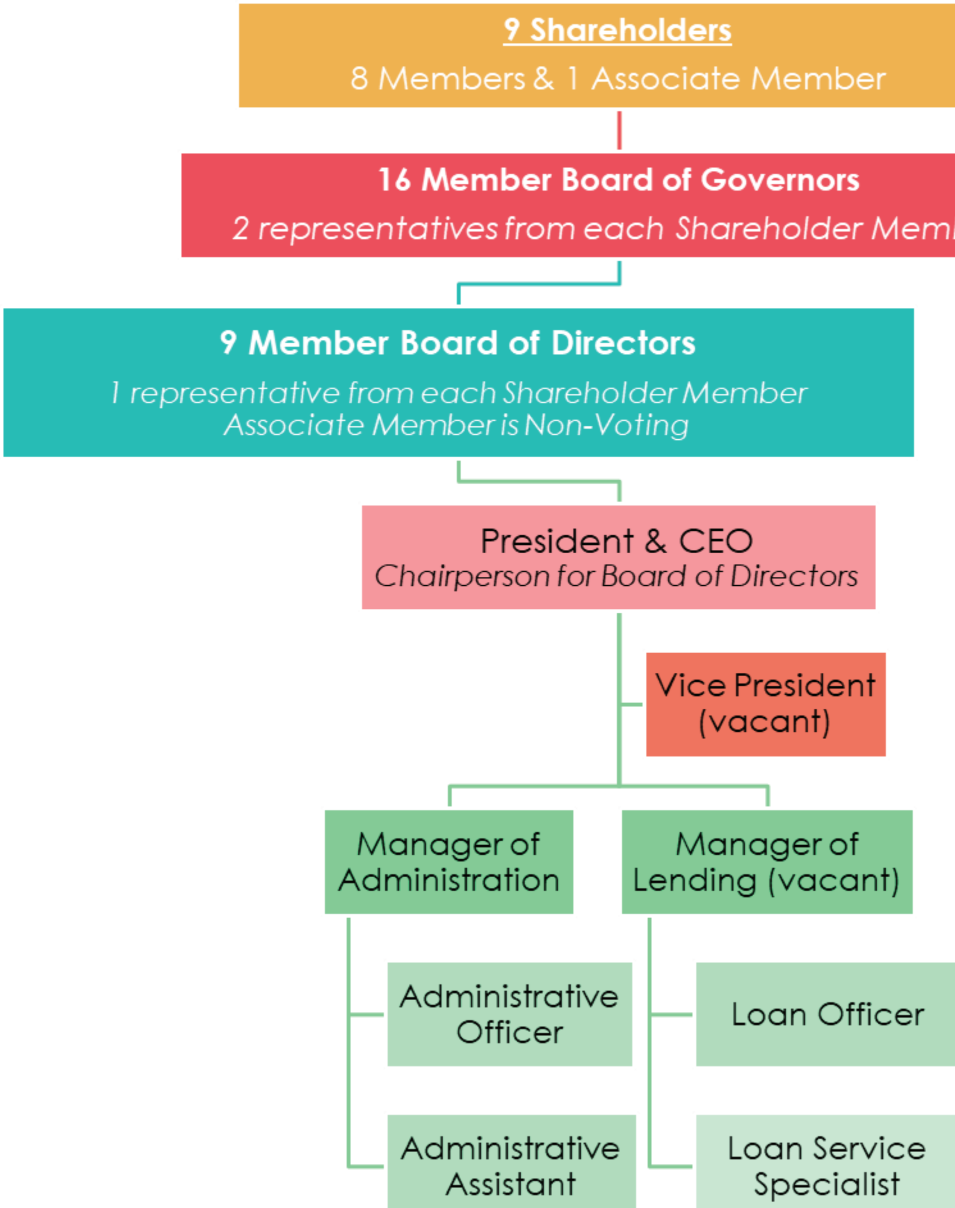
Shareholders & Paid in Capital

The initial capital each member pledged and agreed to pay is $1 million. For the period under review, several shareholders made new capital contributions. Chuuk State made additional capital contributions totaling $50,000 towards its equity shares in the Bank. Kosrae State made an additional $25,000 capital contribution. The CNMI paid in an additional $1 million in capital shares, making it the second largest owner of the Bank. The Bank's Associate Member, the Kwajalein Atoll Development Authority paid in an additional $300,000 in capital shares.

Management continues to work with individual shareholder countries or members for additional capital funding.

As of December 31, 2022				
	Shareholder	**No. Shares**	**Share Value**	**% Ownership**
1	Yap, FSM	4,439	$4,438,866	31.0%
2	Commonwealth of the Northern Mariana Islands	2,000	$2,000,000	14.0%
3	Republic of the Marshall Islands	1,992	$1,992,000	13.9%
4	Pohnpei, FSM	1,300	$1,300,000	9.1%
5	Kwajalein Atoll Development Authority (KADA)	1,300	$1,300,000	9.1%
6	Republic of Palau	1,000	$1,000,000	7.0%
7	Guam	1,000	$1,000,000	7.0%
8	Kosrae, FSM	925	$925,000	6.5%
9	Chuuk, FSM	377	$376,783	2.6%
	TOTAL SHARES	**14,333**	**$14,332,649**	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, 2022		
Shareholder	**Executive Branch Representative**	**Legislative Branch Representative**
Commonwealth of the Northern Mariana Islands	Honorable Ralph D.L.G. Torres *Governor* *Chairman of the Board of Governors*	Honorable John Paul P. Sablan *Representative* *House of Representatives* *Northern Marianas* *Commonwealth Legislature*
Territory of Guam	Honorable Lourdes Leon Guerrero Governor Vice Chairperson/Secretary of the Board of Governors	Honorable Tina Muna-Barnes *Senator* *Vice Speaker of the Legislature of Guam*
Chuuk State, FSM	Vacant	Vacant
Kosrae State, FSM	Honorable Carson Sigrah *Governor*	Honorable Rolner Joe Senator *Vice Speaker of the Kosrae State Legislature*
Pohnpei State, FSM	Honorable Reed Oliver *Governor*	Mr. Carlos Villazon *Chief* *Division of Administration & Budget*
Yap State, FSM	Honorable Jesse Salalu *Governor*	Honorable John Masiwemai *Senator* *Vice Speaker of the Yap State Legislature*
Republic of the Marshall Islands	Honorable Brenson Wase *Minister of Finance*	Honorable Kenneth Kedi *Senator* *Speaker of the Nitijela*
Republic of Palau	Honorable Kaleb Udui, Jr. *Minister of Finance*	Honorable Mengkur Rechelulk *Delegate* *House of Delegates* *Olbiil Era Kelulau*

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 Chairman pursuant to the Bank's Articles.

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

As of December 31, 2022	
Shareholder	**Board Director**
Commonwealth of the Northern Mariana Islands	Mr. Diego Benavente Former Lt. Governor of CNMI
Territory of Guam	Mr. Frank Atalig Former CFO, Bank of Guam
Chuuk State, FSM	Vacant
Kosrae State, FSM	Mr. Robson Henry U.S. Army, retired
Pohnpei State, FSM	Ms. Christina Elnei Director of Treasury & Administration Pohnpei State
Yap State, FSM	Ms. Jessica "Numie" Acker Entrepreneur
Republic of the Marshall Islands	Honorable David Paul Senator
Kwajalein Atoll Development Authority (KADA)	Mr. Anjojo Kabua III Executive Director of KADA
Republic of Palau	Mr. Elbuchel Sadang Former Minister of Finance
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

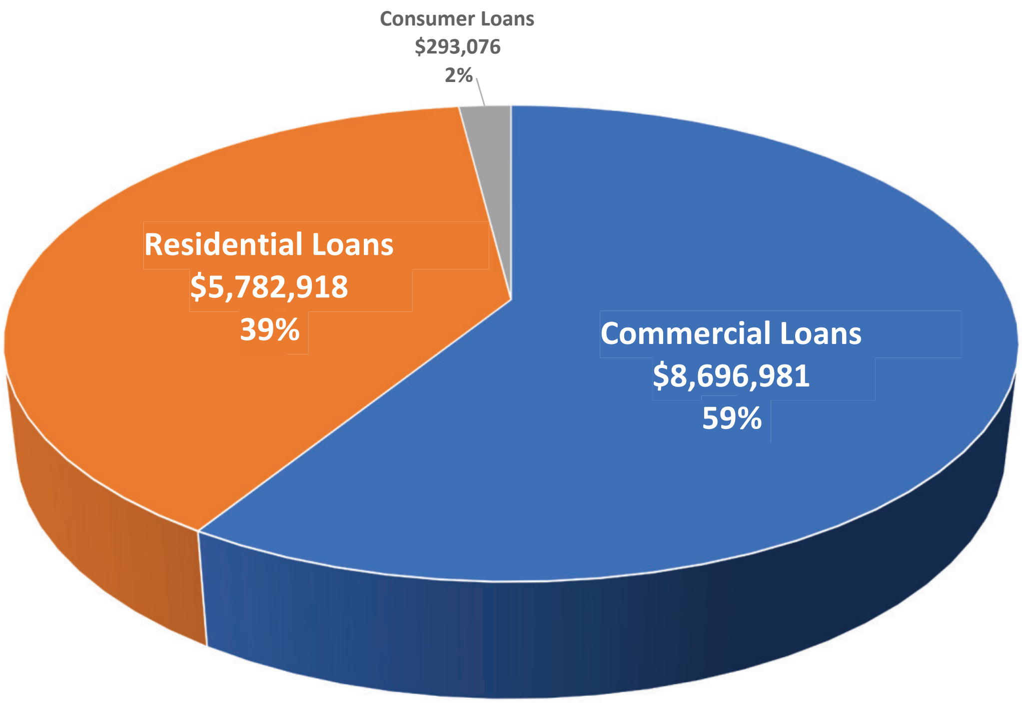
Jamie J. Aingimea
Loan Officer

Regina R. Raigetal
Administrative Assistant

LOAN REPORT

Outstanding Loan Mix

The Bank's core lending is in Commercial loans, consistent with its core mission and purpose. At December 31, 2022, the composition of our loan portfolio was as follows:

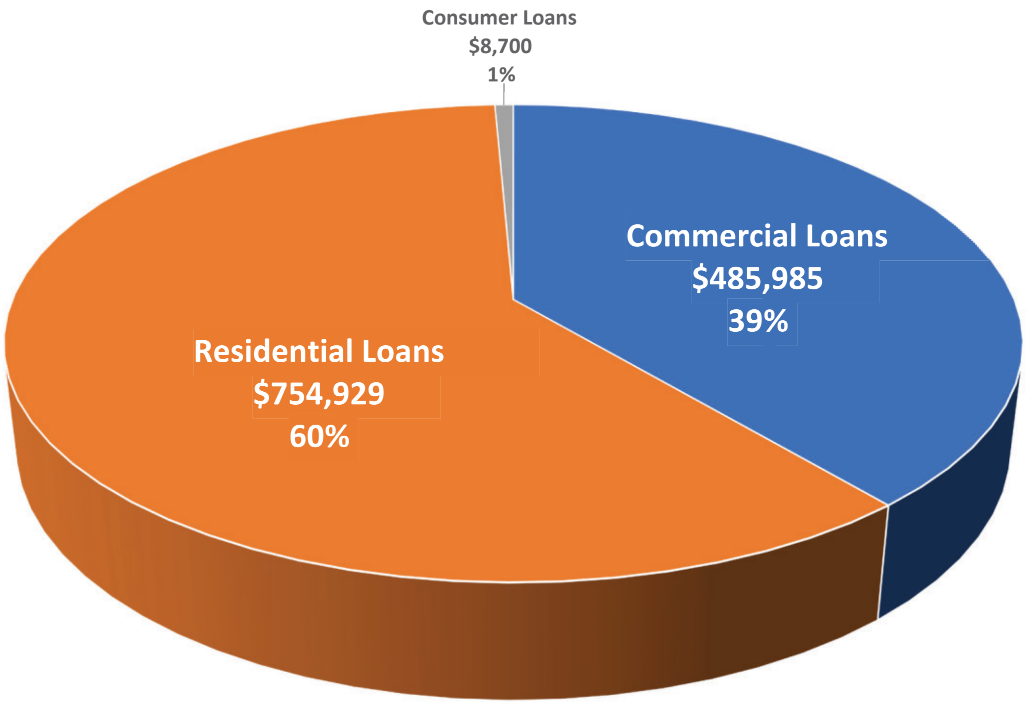


OUTSTANDING LOANS BY SECTOR			
LOAN TYPE	**COUNT**	**AMOUNT**	**% OF TOTAL**
Commercial Loans			
Agriculture	1	$66,800	0.5%
Commercial Real Estate	14	$2,470,040	17%
Fisheries	3	$708,266	5%
Manufacturing	2	$636,124	4%
Services	14	$1,846,272	13%
Tourism	5	$1,977,561	13%
Wholesale/Retail	15	$917,309	6%
Other	2	$74,609	0.5%
Subtotal	**56**	**$8,696,981**	**59%**
Residential Loans	**62**	**$5,782,918**	**39%**

Consumer Loans	**51**	**$293,076**	**2%**
TOTAL	**169**	**$14,772,975**	**100%**

New Loan Mix

New commercial, residential and consumer loans were funded in 2022; however, rates of loan reduction, including loan charge-offs and payoffs, outpaced additions to the Bank's loan portfolio. The aggregate value of total loans declined by 7% relative to prior year. A total of 16 new loans were approved in 2022 with value totaling approximately $1.25 million.



2022 NEW LOANS BY SECTOR			
LOAN TYPE	**COUNT**	**AMOUNT**	**% OF TOTAL**
Commercial Loans			
Agriculture	0	$0	0%
Commercial Real Estate	2	$180,397	15%
Fisheries	0	$0	0%
Manufacturing	0	$0	0%
Services	2	$152,946	12%
Tourism	1	$98,671	8%
Wholesale/Retail	2	$53,971	4%
Other	0	$0	0%

Subtotal	**7**	**$485,985**	**39%**
Residential Loans	**8**	**$754,929**	**60%**
Consumer Loans	**1**	**$8,700**	**1%**
TOTAL	**16**	**$1,249,614**	**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, 2022					
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	84%	9	$1,672,250
Guam[2]	1,000	$1,000,000	108%	18	$1,082,422
Chuuk, FSM	377	$376,783	0%	0	$0
Kosrae[3], FSM	925	$925,000	61%	35	$560,833
Pohnpei[4], FSM	1,300	$1,300,000	70%	20	$909,646
Yap[5], FSM	4,439	$4,438,866	90%	27	$3,986,716
Republic of the Marshall Islands[6]	1,992	$1,992,000	178%	24	$3,541,104
Kwajalein Atoll Development Authority (KADA)	1,300	$1,300,000	64%	7	$830,486
Republic of Palau[7]	1,000	$1,000,000	77%	9	$765,548
TOTAL DIRECT LENDING	14,333	$14,332,649	93%	149	$13,349,006
TOTAL SPECIAL PROGRAM FUNDED LOANS[8]				20	$1,489,971
TOTAL LOANS			**104%**	**169**	**$14,838,977**

	No. Loans	Total Principal Notes: Value Loans
1/ CNMI Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Guam	2	$123,299
2/ Guam Loans receivables amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Guam	8	$961,683
(b) IRP (USDA) Loans domiciled in Guam	3	$100,431
3/ Kosrae Loans receivables amount excludes:		
(a) IRP (USDA) Loans domiciled in Kosrae	4	$90,473
4/ Pohnpei Loans receivables amount excludes:		
(a) IRP (USDA) Loans domiciled in Pohnpei 5/ Yap Loans receivable amount excludes:	1	$95,348
(a) FSMDB Loan Program Loans domiciled in Yap	0	$0
(b) IRP (USDA) Loans domiciled in Yap	1	$34,476
(c)		
6/ RMI Loans receivables amount excludes:		
(a) KADA Home Loan Program Loans 7/ Palau Loans receivable amount excludes:	7	$830,486
(a) FSMDB 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.

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, 2022					
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	10%	2	$209,425
Guam[2]	1,000	$1,000,000	64%	3	$644,183
Chuuk, FSM	377	$376,783	0%	0	$0
Kosrae[3], FSM	925	$925,000	32%	17	$293,523
Pohnpei[4], FSM	1,300	$1,300,000	3%	4	$44,722
Yap[5], FSM	4,439	$4,438,866	56%	12	$2,477,785
Republic of the Marshall Islands[6]	1,992	$1,992,000	42%	6	$831,440
Kwajalein Atoll Development Authority (KADA)	1,300	$1,300,000	10%	1	$125,113
Republic of Palau[7]	1,000	$1,000,000	44%	2	$440,565
TOTAL DIRECT LENDING	14,333	$14,332,649	35%	47	$5,066,756
TOTAL SPECIAL PROGRAM FUNDED LOANS[8]				6	$485,851
TOTAL LOANS			**39%**	**53**	**$5,552,606**

No. Delinquent Total Principal Value

Notes:	Loans	Delinquent Loans
1/ CNMI Loans receivables amount excludes:		
(b) IRP (USDA) Loans domiciled in Guam	0	$0
2/ Guam Loans receivables amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Guam	2	$360,660
(b) IRP (USDA) Loans domiciled in Guam	0	$0
3/ Kosrae Loans receivables amount excludes:		
(a) IRP (USDA) Loans domiciled in Kosrae	3	$40,929
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
(c)		
6/ RMI Loans receivables amount excludes:		
(a) KADA Home Loan Program Loans 7/	1	$125,113
Palau Loans receivable amount excludes:		
(a) FSMDB 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 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, 2022					
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	10%	2	$209,425
Guam[2]	1,000	$1,000,000	0%	0	$0
Chuuk, FSM	377	$376,783	0%	0	$0
Kosrae[3], FSM	925	$925,000	20%	12	$187,786
Pohnpei[4], FSM	1,300	$1,300,000	2%	2	$28,823
Yap[5], FSM	4,439	$4,438,866	56%	11	$2,466,225
Republic of the Marshall Islands[6]	1,992	$1,992,000	20%	4	$395,749
Kwajalein Atoll Development Authority (KADA)	1,300	$1,300,000	0%	0	$0
Republic of Palau[7]	1,000	$1,000,000	44%	2	$440,565
TOTAL DIRECT LENDING	14,333	$14,332,649	26%	33	$3,728,573
TOTAL SPECIAL PROGRAM FUNDED LOANS[8]				1	$1,899

TOTAL LOANS	**26%**	**34**	**$3,730,472**

Notes: No. NPLs Total Value NPLs

1/ CNMI Loans receivables amount excludes:
(b) IRP (USDA) Loans domiciled in Guam 0 $0

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 1 $1,899

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 0 $0

7/ Palau Loans receivable amount excludes:
(a) FSMDB Loan Program Loans domiciled in Palau 0 $0
(b) IRP (USDA) Loans domiciled in Palau 0 $0

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, 2022					
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]	9	$1,672,250	13%	2	$209,425
Guam[2]	18	$1,082,422	60%	3	$644,183
Chuuk, FSM	0	$0	0%	0	$0
Kosrae[3], FSM	35	$560,833	52%	17	$293,523
Pohnpei, FSM	20	$909,646	5%	4	$44,722
Yap[4], FSM	27	$3,986,716	19%	11	$744,739
Republic of the Marshall Islands[5]	24	$3,541,104	23%	6	$831,440
Kwajalein Atoll Development Authority (KADA)	7	$830,486	15%	1	$125,113
Republic of Palau[6]	9	$765,548	58%	2	$440,565
TOTAL DIRECT LENDING	149	$13,349,006	25%	46	$3,333,710
TOTAL SPECIAL PROGRAM FUNDED LOANS[7]	20	$1,489,971	149%	7	$2,218,897
TOTAL LOANS	**169**	**$14,838,977**	**37%**	**53**	**$5,552,606**

Notes:

No. Delinquent Loans	Total Principal Value Delinquent Loans

1/ CNMI Loans receivables amount excludes:
(b) IRP (USDA) Loans domiciled in CNMI 0 $0

2/ Guam Loans receivables amount excludes:
(a) FSMDB Loan Program Loans domiciled in Guam 2 $360,660
(b) IRP (USDA) Loans domiciled in Guam 0 $0

3/ Kosrae Loans receivables amount excludes:
(a) IRP (USDA) Loans domiciled in Kosrae 3 $40,929

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 0 $0 (b) IRP (USDA) Loans domiciled in Yap 0 $0
(c) Yap Development Loan Program funded Loans 1 $1,733,046

5/ RMI Loans receivables amount excludes:
(a) KADA Home Loan Program Loans 1 $125,113

6/ Palau Loans receivables amount excludes:
(a) FSMDB 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, 2022					
Shareholder	**No. Loans**	**Total Principal Value Loans**	**NPLs to Total Loans**	**No. NPLs[6]**	**Total Principal Value NPLs**
Commonwealth of the Northern Mariana Islands	9	$1,672,250	13%	2	$209,425
Guam[1]	18	$1,082,422	0%	0	$0
Chuuk, FSM	0	$0	0%	0	$0
Kosrae[2], FSM	35	$560,833	33%	12	$187,786
Pohnpei, FSM	20	$909,646	3%	2	$28,823
Yap[3], FSM	27	$3,986,716	18%	10	$733,179
Republic of the Marshall Islands[4]	24	$3,541,104	11%	4	$395,749
Kwajalein Atoll Development Authority (KADA)	7	$830,486	0%	0	$0
Republic of Palau	9	$765,548	58%	2	$440,565
TOTAL DIRECT LENDING	149	$13,349,006	15%	32	$1,995,527
TOTAL SPECIAL PROGRAM FUNDED LOANS[5]	20	$1,489,971	116%	2	$1,734,945
TOTAL LOANS	**169**	**$14,838,977**	**25%**	**34**	**$3,730,472**

Notes:	No. NPLs	Total Principal Value NPLs
1/ Guam Loans receivables amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Guam	0	$0
(b) IRP (USDA) Loans domiciled in Guam	0	$0
2/ Kosrae Loans receivables amount excludes:		
(a) IRP (USDA) Loans domiciled in Kosrae	1	$1,899
3/ Yap Loans receivable amount excludes:		
(a) FSMDB Loan Program Loans domiciled in Yap	0	$0
(b) IRP (USDA) Loans domiciled in Yap	0	$0
(c) Yap Development Loan Program funded Loans	1	$1,733,046
4/ RMI Loans receivables amount excludes:		
(a) KADA Home Loan Program Loans	0	$0

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

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

FINANCIAL REPORT

Assets saw a 12% growth—from approximately $15.4 million to $17.2 million—attributed to a higher level of liquidity, primarily as a result of a notable 44% increase in shareholder capital—from approximately $10 million to $14.3 million. At the same time, the Bank’s Retained Earnings grew 32% year over year due to stable and growing profits.

Average Annual Revenues continue its steady up-trend, corresponding with improvement in loan portfolio quality and new loans contributing to income generation. At the same time, Operating Expenses were down relative to prior year primarily as a result of lower personnel expenses and legal expenses.

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.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Condensed Balance Sheet	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**
Cash & Equivalents	1,100,163	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
Other Current Assets	0	0	0	0	0	0	6,119	7,362	8,892	7,362
Net Accrued Interest Receivables (AIR)	180,270	232,687	255,618	186,352	173,517	197,519	145,465	110,371	173,566	199,114
Net Loans	9,543,411	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
Gross Loans	*10,066,045*	*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*
ALLL	*522,634*	*603,539*	*539,446*	*603,117*	*676,957*	*1,000,016*	*1,825,879*	*4,265,978*	*3,364,106*	*2,942,771*
Net Fixed Assets (FE)	38,764	37,002	73,372	56,100	45,461	18,802	10,051	16,715	17,874	261,544
TOTAL ASSETS	**10,862,608**	**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**
Accounts Payables	4,582	7,276	25,896	25,236	30,361	27,368	30,407	32,825	33,516	19,007
Borrowings	2,349,268	2,395,445	2,532,613	3,167,205	3,036,991	2,845,213	2,648,242	2,418,953	2,185,099	2,105,367
TOTAL LIABILITIES	**2,353,850**	**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**
Capital Stock	7,500,649	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
Retained Earnings	1,008,109	1,331,548	1,637,713	1,950,601	3,070,755	2,561,682	2,151,319	127,789	535,825	706,547
Restricted Capital	0	0	0	0	0	2,663,000	2,663,000	2,663,000	2,663,000	0
TOTAL EQUITY	**8,508,758**	**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**
TOTAL LIABILITIES & EQUITY	**10,862,608**	**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**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Condensed Income Statement	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**
Interest & Fee Income from Loans	926,781	996,180	999,702	965,286	1,075,100	1,219,771	1,116,846	960,993	1,113,543	1,068,008
Interest Expense on Borrowings	39,064	42,040	51,502	56,664	83,549	70,692	57,025	54,929	50,760	43,707
Net Interest Income	**887,717**	**954,140**	**948,200**	**908,622**	**991,551**	**1,149,079**	**1,059,821**	**906,064**	**1,062,783**	**1,024,301**
Other Income (Expenses)	107,066	6,730	709	1,182	2,777	(13,604)	58,717	34,269	7,294	36,651
Provisions for Loan Loss Expense	185,000	177,000	150,000	80,000	150,395	600,000	814,000	2,410,000	0	1
Total Operating Expenses	**500,206**	**460,431**	**492,404**	**516,916**	**473,779**	**631,548**	**714,901**	**553,863**	**662,042**	**549,076**
Net Income Before Extraordinary Items	**309,577**	**323,439**	**306,505**	**312,888**	**370,154**	**(96,073)**	**(410,363)**	**(2,023,530)**	**408,035**	**511,876**
Extraordinary Income					750,000					
Extraordinary Expenses										
Net Change in Retained Earnings	**309,577**	**323,439**	**306,505**	**312,888**	**1,120,154**	**(96,073)**	**(410,363)**	**(2,023,530)**	**408,035**	**511,876**

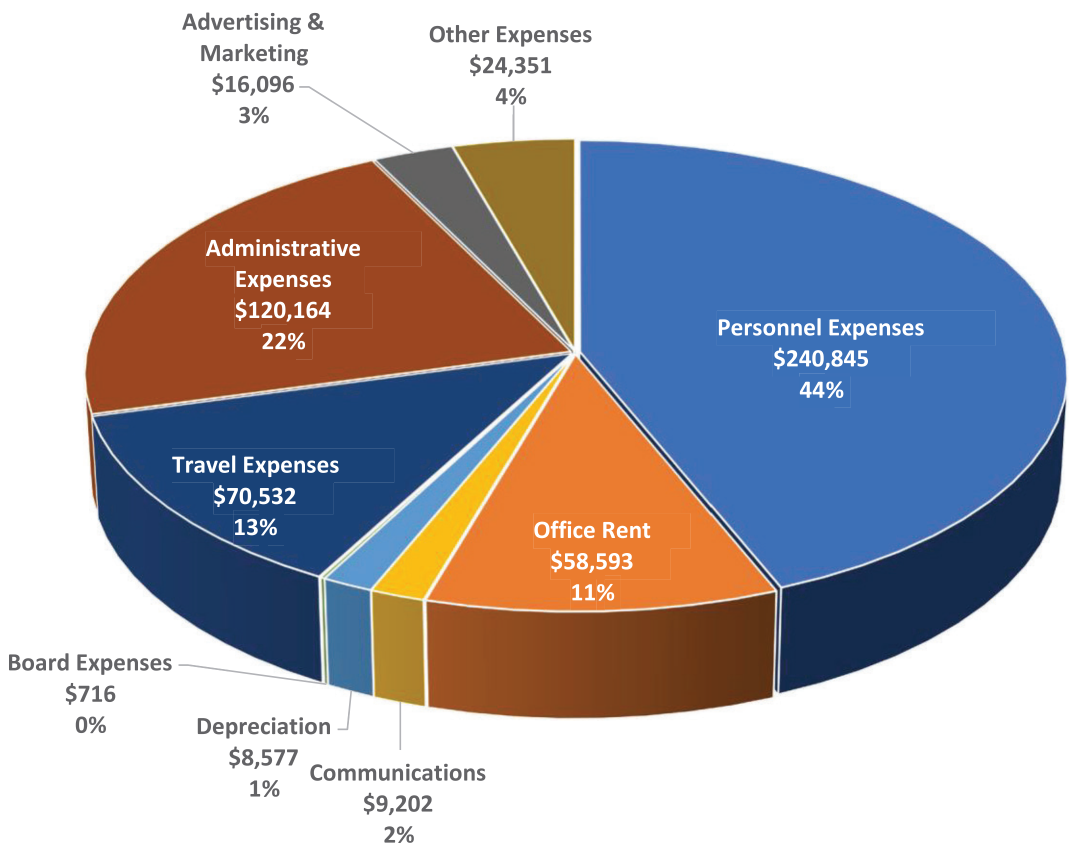
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Key Performance Indicators	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**
Loan Growth	25%	8%	-3%	11%	2%	29%	9%	0.22%	-5%	-7%
Asset Growth	14%	3%	4%	17%	13%	13%	0%	-13%	1%	12%
Capital Growth	16%	0%	0.13%	13%	9%	0.27%	6%	1%	0%	44%
Retained Earnings Growth	38%	32%	23%	19%	57%	-17%	-16%	-94%	319%	32%
Average Annual Revenues	*813,113*	*874,135*	*905,527*	*917,479*	*943,749*	*983,181*	*999,889*	*995,567*	*1,007,365*	*1,044,221*
Average Annual Revenues to Capital Contributions	10.84%	11.65%	12.06%	10.79%	10.14%	8.20%	7.95%	7.89%	7.98%	7.29%
Average Annual Revenues to Assets	7.49%	7.78%	7.74%	6.72%	6.11%	5.64%	5.75%	6.55%	6.55%	6.08%
Net Interest Margin	8.82%	8.74%	8.97%	7.76%	8.32%	7.50%	6.37%	5.44%	6.72%	6.93%
Return on Shareholder Capital	4.13%	4.31%	4.08%	3.68%	3.98%	-0.80%	-3.26%	-16.03%	3.23%	3.57%
Return on Assets	2.85%	2.88%	2.62%	2.29%	2.40%	-0.55%	-2.36%	-13.31%	2.65%	2.98%
Efficiency Ratio	48%	46%	49%	53%	44%	52%	61%	56%	59%	50%

Major Expenses

The Bank's operating expenses reflect its operational structure and geographical representation with a 14-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 determined that its level of Allowances for Loan Losses was adequate, and with the auditor's concurrence, no additional provisions were expensed for 2022. The Bank maintained a stable and decreasing level of interest expense commensurate with the continued repayments on borrowed funds. Interest Expense in the amount of $43,707 in 2022 was for both the USDA IRP and the FSM Development Bank loan facilities.

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, Travel Expenses, and Office Rent were major expense categories for 2022. Other categories of expenses, individually, comprise 4% or less of total expenses.



BOARD ACTIVITIES DURING THE YEAR (2022)

Board of Governors

- Held special meetings via Zoom meeting platform

Board of Directors

- Held 4 regular meetings during the year to review Bank operations and financial performance.
- Prepared and submitted to the Board of Governors the 2022 Annual Report and Independent Audit Report.
- 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.

2022 Burger Comer Magliari CPAs Independent Auditor's Report for Pacific Islands Development Bank

PACIFIC ISLANDS DEVELOPMENT BANK

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of the Pacific Islands Development Bank (the Bank), which comprise the statement of condition as of December 31, 2022, and the related statements of operation, of changes in stockholders' equity, and cash flows for the year 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, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Magliari

Tamuning, Guam
March 27, 2023

PACIFIC ISLANDS DEVELOPMENT BANK

Statement of Condition
December 31, 2022

ASSETS

Cash and cash equivalents	$	4,865,346
Loans receivable, net		11,830,204
Interest receivable, net		199,114
Prepaid expenses		7,362
Operating lease right-of-use asset, net		159,134
Property and equipment, net		102,410
Total assets	$	17,163,570

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Other liabilities	$	19,007
Operating lease liability		161,177
Debt		1,944,190
Total liabilities		2,124,374
Commitments and contingencies		
Stockholders' equity:		
Capital stock of $1,000 par value, authorized 18,000 shares, issued and outstanding, 14,332 shares.		14,332,000
Additional paid-in capital		649
Retained earnings		706,547
Total stockholders' equity		15,039,196
Total liabilities and stockholders' equity	$	17,163,570

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

PACIFIC ISLANDS DEVELOPMENT BANK

Statement of Operations
Year Ended December 31, 2022

Revenues:	
Loan interest income	$ 1,065,273
Other interest and dividend income	2,735
Total interest income	1,068,008
Interest expense	43,707
Net interest income	1,024,301
Provision for loan losses	-
Net interest income, after provision for loan losses	1,024,301
Operating expenses:	
Salaries and related expenses	240,845
Conference and travel	70,532
Professional fees	59,777
Insurance	46,887
Office common area fees	29,952
Operating lease depreciation	26,643
Business development and marketing	16,096
Office supplies	9,553
Communications	9,202
Depreciation	8,577
Automobile	3,947
Operating lease interest expense	1,998
Board meetings	716
Miscellaneous	24,351
Total operating expenses	549,076
Earnings from operations	475,225
Other income:	
Other income	26,151
Gain on trade-in of property and equipment	10,500
Total other income	36,651
Net earnings	$ 511,876

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

PACIFIC ISLANDS DEVELOPMENT BANK

Statements of Changes in Stockholders' Equity
Year Ended December 31, 2022

Assets	Shares of Common Stock	Common stock at par value	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

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

PACIFIC ISLANDS DEVELOPMENT BANK

Statement of Cash Flows
Year Ended December 31, 2022

Cash flows from operating activities:		
Net income	$	511,876
Adjustment to reconcile net income to net cash provided by operating activities:		
Operating lease depreciation		26,643
Depreciation		8,577
Allowance for loan loss		(421,335)
(Increase) decrease in assets:		
Interest receivable		(25,548)
Prepaid expenses		(1,530)
Increase (decrease) in liabilities:		
Operating lease liability		(28,753)
Other liabilities		(14,509)
Net cash provided by operating activities		55,421
Cash flows from investing activities:		
Loan originations and repayments		1,044,793
Acquisition of property and equipment		(90,053)
Net cash provided by investing activities		954,740
Cash flows from financing activities:		
Repayment on long-term debt		(240,909)
Proceeds from issuance of capital stock		1,375,000
Net cash provided by financing activities		1,134,091
Net change in cash and cash equivalents		2,144,252
Cash and cash equivalents at beginning of year		2,721,094
Cash and cash equivalents at end of year	$	4,865,346
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$	43,707
Gain on trade-in of property and equipment	$	10,500
Operating lease right-of-use asset	$	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, 2022, 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, 2022, a loan with an outstanding balance of $1,733,046 is on non-accrual status and as such, no accrued interest receivable has been recognized at December 31, 2022. Additionally at December 31, 2022, no accrued interest receivable was recorded for loans that are 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 (see Note 3).

(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.

Loans Modified in a Troubled Debt Restructuring (TDRs)

Loans are considered to have been modified in a troubled debt restructuring when, due to a borrower's financial difficulties, the Bank makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral.

A modification that results in an insignificant delay in contractual cash flow is not considered to be a concession.

During the year ended December 31, 2022, the Bank granted various loan restructuring to borrower's who experienced financial difficulties which resulted in loan delinquencies prior to the restructures. The TDRs have brought accounts to current status, recapitalized accrued interest receivable, and typically resulted in lower monthly payment requirements, either temporarily or permanently. These restructured loans have total outstanding balance of $4,123,460 at December 31, 2022.

Allowance for Loan Losses

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

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

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

Property and Equipment

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

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, 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 (“ROU”) assets and operating lease liabilities 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.

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

Leases, Continued

The Bank's right-of-use asset relates primarily to its office lease with First Hawaiian Bank. In cases where a lease agreement includes renewal options, the renewal periods are included in the expected lease term if they are reasonably certain of being exercised. As of December 31, 2022, the Bank is not reasonably certain that it will exercise its option to renew the office lease at the end of its term. The Bank's lease agreements do not include material residual value guarantees or material restrictions or covenants.

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. As of December 31, 2022, a loan to one borrower aggregated $1.73 million and represented 12% of gross loans (see Note 3).

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.

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

Fair Value of Financial Instruments, Continued

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. 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.

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

Risks and Uncertainties, Continued

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.

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

Commercial - PIDB direct loan program	$ 8,062,815
Residential loans	4,927,085
Commercial - USDA IRP	528,316
Consumer	293,076
Commerical - FSMDB import/export	105,850
Residential - FSMDB	855,833
Gross loans	14,772,975
Less: allowance for loan losses	(2,942,771)
Net loans	$ 11,830,204

In the ordinary course of business, the Bank has entered into transactions with its employees, directors and their affiliates. Such transactions were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers. The aggregate amount of loans outstanding to such related parties at December 31, 2022 was $1,238,000. The December 31, 2022 balance includes $255,000 of loans outstanding from former officers and directors.

(3) Allowance for Loan Losses

A summary of the changes in the allowance for loan losses for the year ended December 31, 2022 follows:

Balance at beginning of year	$ 3,364,106
Loan charge-offs	(474,647)
Recoveries of loans previously charged off	53,312
Provision for loan losses	-
Balance at end of year	$ 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.

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.

(3) Allowance for Loan Losses, Continued

Credit Quality Indicators, Continued

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, 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
IRP	526,417	-	1,899	-	-	528,316
Consumer	200,251	-	76,048	16,777	-	293,076
FSMDB:						
Commercial	105,850	-	-	-	-	105,850
Residential	855,833	-	-	-	-	855,833
Total	$ 9,662,698	$ 789,046	$ 4,094,293	$ 226,938	$ -	$ 14,772,975

At December 31, 2022, impaired loans of $226,938 represent loans classified as doubtful, with total recorded allowances of $136,163. Included under sub-standard loans is one loan totaling $1,733,046 as of December 31, 2022, with a 75% allowance of approximately $1,300,000.

These loans are significantly past due with nominal collections and no interest income has been recognized during the period ended December 31, 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 as of December 31, 2022 with allowances of 20%, approximating $127,000. Although these loans are not significantly past due, the Bank has applied additional provisioning due to perceived uncertainties regarding future repayment capacity.

(3) Allowance for Loan Losses, Continued

The following presents by class, an aging analysis of the Bank's loan portfolio as of December 31, 2022:

	Current	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total
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
IRP	403,126	123,291	-	1,899	528,316
Consumer	164,734	35,518	-	92,824	293,076
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

At December 31, 2022, current loans include loans totaling $79,639 that had been 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.

The following presents by class, the related allowance provisioned for loans past due 90 days or more as of December 31, 2022:

	Total	Allowance
PIDB Direct	$ 3,207,511	$ 1,745,399
Residential	428,238	188,245
IRP	1,899	570
Consumer	92,824	32,880
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, 2022 there were no unsecured commercial or residential loans in the Bank's loan portfolio.

(4) Property and Equipment

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

Description	Estimated Useful Lives	
Computers and software	5 years	$ 27,670
Vehicles	5 years	85,900
Office furniture and equipment	10 years	21,963
		135,533
Less: accumulated depreciation		(33,123)
		$ 102,410

(5) Leases

The Bank's operates from a leased office space in a commercial building. The lease has a remaining term of 6 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, 2022 these variable lease payments totaled $29,952 and $3,195, respectively.

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

Operating lease right-of-use assets	$ 159,134
Operating lease liabilities	$ 161,177
Amortization of right-of-use assets	$ 28,753
Interest on lease liabilities	1,998
Total lease expense	$ 30,751

(5) Leases, Continued

Supplemental information related to the Bank's lease follows:

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

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

Year Ending December 31,	
2023	$ 64,948
2024	66,420
2025	66,420
2026	66,420
2027	66,420
Thereafter	38,745
Total lease payments	$ 369,373
Less: variable lease charges	(185,700)
Imputed interest	(22,496)
Present value of lease liabilities	$ 161,177

(6) Debt

Debt as of December 31, 2022, consists of the following:

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	$	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.		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.		467,117
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.		168,763
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.		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.		592,871
	$	1,944,190

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 $43,707 in interest expense on the aforementioned debt as of December 31, 2022

(6) Debt, Continued

At December 31, 2022, future maturities of debt are as follows:

Year Ending December 31,		
2023	$	220,331
2024		209,675
2025		189,825
2026		195,062
2027		200,486
Thereafter		928,811
	$	1,944,190

(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 the 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. The MOU does not contain any provisions in sharing of interest income earned. Lastly, the MOU does not contain any provisions to require the funds to be maintained in revolving fund. The Bank has determined obligations are met once the funds have been disbursed for 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 $2,653,707 at December 31, 2022.

At December 31, 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 $1,343,000 which were not fully disbursed. Of that amount, the undisbursed amount totaled $712,953 as of December 31, 2022.

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 year ended December 31, 2022, the Bank contributed $16,257 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, and ROP, 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 2022.

(11) Subsequent Events

Management has evaluated subsequent events through March 27, 2023, 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, 2022.

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