

Cayman Islands Development Bank

Financial Statements

For the Year Ended June 30, 2013

CAYMAN ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

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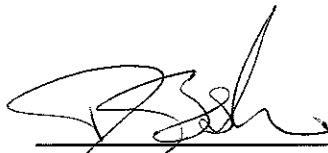
Cayman Islands Development Bank
Statement of Responsibility for Financial Statements
June 30, 2013

These financial statements have been prepared by the Cayman Islands Development Bank in accordance with the provisions of the *Public Management and Finance Law, (2013 Revision)*. The financial statements comply with generally accepted accounting practice as defined in International Financial Reporting Standards.

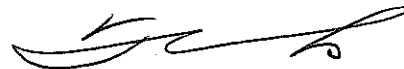
We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law, (2013 Revision)*.

To the best of our knowledge the statements are:

- (a) Complete and reliable;
- (b) Fairly reflect the financial position as at June 30, 2013 and performance for the financial year ended June 30, 2013; and
- (c) Comply with generally accepted accounting practice



Dax Basdeo
Chief Officer
Ministry of Financial Services,
Commerce and Environment



Tracy Ebanks
General Manager
Cayman Islands Development Bank

Date: July 3, 2014

Date: July 3, 2014



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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Islands Development Bank

I have audited the accompanying financial statements of the Cayman Islands Development Bank ("CIDB"), which comprise the statement of financial position as at 30 June 2013 and the statement of comprehensive income, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 27 in accordance with Section 21(3) of the *Cayman Islands Development Bank Law (2004 Revision)* and the provisions of Section 60(1)(a) of the *Public Management and Finance Law (2013 Revision)*.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Cayman Islands Development Bank as at 30 June 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without Qualifying my opinion, I draw your attention to note 13 of the financial statements which states that CIDB successfully negotiated with the bondholders of a US\$ 6 Million bond (CI\$4.9M) which matured on June 30, 2010 to extend maturity for an additional 5 years. Note 13 also describe how CIDB refinanced a US\$20 Million Bond (CI\$ 16.6M) originally due July 2017 to a new credit facility which will now be due in 2015. In addition to these, CIDB also has existing bonds totaling US\$11 Million (CI\$9.1M) due for redemption in 2015. As a result, CIDB now has debt totaling US\$ 36.8 Million (CI\$30.5 M) which becomes due and payable in 2015. The debt is guaranteed by the Cayman Islands Government.

Note 5 of the financial statements states that impaired loans as at June 30th 2013 stands at \$10.3M; this represents 27% of the overall loan portfolio excluding allowances for credit losses.

These conditions indicate the existence of a material uncertainty that may cast significant doubt about the CIDB's ability to continue as a going concern.



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

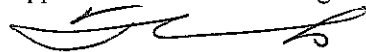
3 July 2014
Cayman Islands

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2013

(Expressed in Cayman Islands Dollars)

	Notes	2013 \$	2012 \$
ASSETS			
Cash and Cash Equivalents	3, 11	7,427,299	4,722,199
Term Deposit, Loan Interest and Other Receivable		253,444	258,379
Fixed Deposit	4	171,869	171,324
Loans and Advances to Customers, Net of Allowance for Credit Losses	5	33,737,996	36,118,603
Prepaid Expenses		31,853	17,539
Property and Equipment	6	580,689	630,607
TOTAL ASSETS		42,203,150	41,918,651
LIABILITIES AND EQUITY			
Liabilities			
Accounts Payable and Accrued Liabilities	7	249,831	349,095
Due to Related Parties	11	545,877	287,481
Interest Payable – Loans and Bonds		231,018	256,304
Current Portion of Long Term Debt	13	389,459	437,405
Post Retirement Benefit Pension Obligations	10	30,000	33,000
 Bonds	13	34,727,440	34,727,440
Loans - Caribbean Development Bank	13	2,180,969	2,492,536
TOTAL LIABILITIES		38,354,594	38,583,261
Equity			
Contributed Capital	8	4,289,185	3,289,185
Statutory Reserve Fund	9	48,509	48,509
Retained Earnings (Accumulated Losses)		(489,138)	(2,304)
TOTAL EQUITY		3,848,556	3,335,390
TOTAL LIABILITIES AND EQUITY		42,203,150	41,918,651

Approved on behalf of Management:



Tracy Ebanks
General Manager

Date: July 3, 2014



Paula R. Smith
Financial Controller

Date: July 3, 2014

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)

	Notes	2013 \$	2012 \$
INCOME			
Interest Income			
Loans		2,391,284	2,462,185
Fixed Term Deposits		17,817	6,759
		<u>2,409,101</u>	<u>2,468,944</u>
Interest Expense			
Bond		(1,019,318)	(1,015,799)
Loan		(100,305)	(115,587)
Overdraft Interest	3	-	(1,406)
		<u>-</u>	<u>-</u>
Net Interest Income		1,289,478	1,336,152
Gain (loss) on Foreign Currency Conversion		(10,837)	(1,612)
Loan Commitment Fees		10,807	21,531
Services Provided to Cayman Islands Government	11	566,768	577,875
Provision for Loan Losses	5	(735,453)	(1,102,439)
Other income		3,500	-
		<u>3,500</u>	<u>-</u>
Net Income from Operations		1,124,263	831,507
ADMINISTRATIVE EXPENSES			
Salaries and Other Staff Benefits	10,14	1,196,303	1,139,615
Accommodation Costs	14	143,522	139,314
Computer Maintenance		68,842	74,748
Office Expenses		67,400	55,473
Professional Fees		58,397	72,782
Depreciation	6	54,571	94,972
Advertising and Promotion		9,918	11,422
Other		5,114	6,206
Directors' Fees		4,250	3,550
Bad Debts Written Off		2,780	305
		<u>2,780</u>	<u>305</u>
Total Administrative Expenses		1,611,097	1,598,387
Net Income (Loss)		(486,834)	(766,880)
Transfer to Reserves		-	-
		<u>-</u>	<u>-</u>
Net Income (Loss) after Transfer to Reserves		(486,834)	(766,880)

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)

	Notes	2013 \$	2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) after Transfer to Reserves		(486,834)	(766,880)
Adjustments for:			
Depreciation	6	54,571	94,972
Bad debts written off		2,780	305
Provision for Loan Losses	5	735,453	1,102,439
(Gain) loss on sale of property and equipment		(3,500)	-
		<u>302,470</u>	<u>430,836</u>
Changes in Operating Assets and Liabilities			
Decrease (Increase) in Prepaid Expenses		(14,314)	3,765
Decrease (Increase) in Term Deposit and Loan Interest and Other Receivables		4,935	6,691
Decrease (Increase) in Loans and Advances to Customers		1,642,374	1,463,777
Increase (Decrease) in Accounts Payables and Accrued Liabilities		(99,264)	54,571
Increase (Decrease) in Due to Related Parties		258,396	(454,018)
Increase (Decrease) in Post Retirement Pension Obligations		(3,000)	5,000
Increase (Decrease) in Interest Payable – Loans and Bonds		(25,286)	16,283
Net Cash Provided by (Used in) Operating Activities		<u>2,066,311</u>	<u>1,526,905</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) Decrease in Fixed Deposits	4	(545)	(776)
Purchase of Property and Equipment	6	(4,653)	(6,065)
Proceeds from disposal of Property and Equipment	6	3,500	-
Net Cash Provided By (Used in) Investing Activities		<u>(1,698)</u>	<u>(6,841)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital Contributed	8	1,000,000	-
Repayments of Debt Issued and Other Borrowed Funds	13	(359,513)	(375,497)
Net Cash Provided by (Used in) Financing Activities		<u>640,487</u>	<u>375,497</u>
Net Increase (Decrease) in Cash and Cash Equivalents and Bank Overdraft During Year		2,705,100	1,144,567
Cash and Cash Equivalents and Bank Overdraft at Beginning of Year		4,722,199	3,577,632
Cash and Cash Equivalents and Bank Overdraft at End of Year		<u>7,427,299</u>	<u>4,722,199</u>
Supplementary information on Cash Flows From Operating Activities			
Interest Received During the Year		2,489,568	2,403,060
Interest Paid During the Year		1,144,909	1,116,510

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
AS AT JUNE 30, 2013
(Expressed in Cayman Islands Dollars)

	Notes	Contributed Capital \$	Statutory Reserve Fund \$	Retained Earnings (Accumulated Losses) \$	Total \$
Balance as at June 30, 2011	8	3,289,185	48,509	764,576	4,102,270
Net Income (Loss) for the Year				(766,880)	(766,880)
Transfer to Reserves	9		-	-	-
Balance as at June 30, 2012		3,289,185	48,509	(2,304)	3,335,390
Net Income (Loss) for the Year				(486,834)	(486,834)
Transfer to Reserves			-	-	-
Capital Contribution		1,000,000			1,000,000
Balance as at June 30, 2013		4,289,185	48,509	(489,138)	3,848,556

The accompanying notes are an integral part of these financial statements

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)**

1. GENERAL INFORMATION

The Cayman Islands Development Bank ("CIDB" or "the Bank") was established under the *Cayman Islands Development Bank Law (2004 Revision)* which came into force on March 1, 2002, and is solely owned by the Cayman Islands Government. Upon the enactment of the *Cayman Islands Development Bank Law (2004 Revision)*, two former statutory financial institutions, the Agricultural and Industrial Development Board and the Housing Development Corporation were dissolved and their functions as well as their assets and liabilities were transferred to the Bank.

The principal function of CIDB is to mobilise, promote, facilitate, and provide finance for the expansion and strengthening of the economic development of the Islands. The Bank does this by providing financing for tertiary education, housing, agriculture and the development of small businesses.

The registered office of the Bank is at 36B Dr. Roy's Drive, P.O. Box 2576, George Town, Grand Cayman, KY1-1103. As at June 30, 2013, the Bank had thirteen (13) employees (2012: 13).

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of CIDB are presented in Cayman Islands Dollars and are prepared on the accrual basis under the historical cost convention. All values are rounded to the nearest dollar, except when otherwise indicated.

Statement of Compliance

The financial statements of CIDB have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)**

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, Management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Impairment Losses on Loans and Advances

Loans and advances is stated net of allowance for credit losses. The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. Specific provisions for loan losses are determined for loans that are likely to become uncollectible in light of the borrowers' inability to repay the debt. The Bank assesses the collateral held and the expected future cash flows in determining the provisions assigned. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Retirement Benefit Obligations

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Note 10 for the assumptions used.

2.3 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

a) Recognition of Income

Revenue is recognized on the accrual basis to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest Income

Interest income is recorded on an accrual basis using the effective interest method until such time as a loan is classified as impaired. Interest on loans that are contractually 90 days in arrears are classified as impaired. Any accrued interest on impaired loans is reversed against income for the current period. Thereafter, interest income on impaired loans is recognized in the period it is collected.

Fee Income

The Bank earns loan commitment fees that are recognized as income in the year loans are advanced to customers.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (Continued)

b) Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method at rates considered adequate to write-off the cost over their estimated useful lives as follows:

Office Furniture/Equipment	5 years
Computer Equipment	3 years
Motor Vehicles	5 years
Building	20 years

Property and equipment are derecognized on disposal or when there are no future economic benefits expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of comprehensive income in the year the asset is derecognized.

c) Foreign Currency Transactions

Transactions during the year in currencies other than the Cayman Islands dollar are converted at exchange rates prevailing at the date of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the statement of financial position date. Resulting gains and losses on exchange are recognized in the statement of comprehensive income.

d) Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make certain significant estimates and judgements that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

e) Employee Benefits

CIDB participates in the Public Service Pension Plan, a defined benefit and contribution pension fund, in accordance with the Public Service Pension Law. The Public Services Pension Fund is administered by the Public Service Pension Board and is operated as a multi-employer non-contributory Fund, whereby the employer pays both the employer and employee contributions.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (Continued)

e) Employee Benefits (Continued)

The unfunded portion of the defined benefit plan, as determined by an actuarial valuation, is recorded as a liability.

f) Financial Instruments

(i) Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset or to exchange financial instruments under conditions that are potentially favorable or an equity instrument of another enterprise. As of June 30, 2013, financial assets comprise of cash and cash equivalents, deposit accounts and loans receivable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavorable. As of June 30, 2013, financial liabilities comprise of accounts payable and accrued liabilities, long and short-term loans and bonds payable.

(ii) Recognition

The Bank recognizes financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the statement of comprehensive income.

(iii) Derecognition

A financial asset is derecognised when the Bank realizes the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled, or expires.

(iv) Measurement

Financial instruments are measured initially at cost, which is the fair value of the consideration given or received. Subsequent to initial recognition, all financial assets are measured at their estimated fair value.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (Continued)

g) Changes in International Financial Reporting Standards

- I. IFRS 9 – Financial instruments (effective for periods beginning January 1, 2013) – addresses classification and measurement of financial instruments and replaces portions of IAS 39. Financial instruments can only be measured at amortized cost or fair value. Equity securities can only be recorded at fair value. An entity can record unrealized and realized gains or losses in other comprehensive income on an instrument by instrument basis and the election to do so is at initial recognition and this election is irrevocable. Dividend income on these equity securities can be recorded in profit and loss. Debt securities can only be recorded at amortized cost if the objective is to hold financial assets for the collection of contractual cash flows and the contractual cash flows represent solely payments of principal and interest, otherwise debt securities must be carried at fair value.
- II. An entity may elect to designate a financial instrument at fair value through profit and loss – however, this is an irrevocable election and the entity has to be consistent with this basis from year to year. The Bank currently has debt securities however an assessment will have to be made prior to the effective date of the standard in 2013, where applicable.

3. CASH AND CASH EQUIVALENTS AND BANK OVERDRAFT

a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash at bank and deposit accounts with terms of maturity of three months or less from the date of acquisition.

Cash and cash equivalents at June 30 were comprised of the following:

	2013 \$	2012 \$
Current and Savings Accounts	3,460,994	2,395,940
Fixed deposit less than three months	3,592,297	2,210,102
Cash held on behalf of the Education Council Scholarship Fund	374,008	116,157
Total	<u>7,427,299</u>	<u>4,722,199</u>

The effective interest rate on call deposits in 2013 was 0.31% (2012: 0.30%). The deposits had an average maturity of 135 days (2012: 135 days). As approved by the Board of Directors, short term fixed deposit of \$3,592,297 (2012: \$2,210,102) is restricted in use and is being held to service future debt repayment.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)

3. CASH AND CASH EQUIVALENTS AND BANK OVERDRAFT (CONTINUED)

b) Bank Overdraft

The overdraft facility as of June 30, 2013 is with a local financial institution. Interest on the overdraft facility is charged at U.S. Prime Rate plus 1.75%. Interest expense incurred on the overdraft facility for the year ended June 30, 2013 was nil as the facility was not used during the year (2012: \$1,406).

4. FIXED DEPOSIT

Deposit accounts reflect term deposits, which are placed with approved financial institutions. Such deposits have maturity between three months and six months from the date of acquisition. The carrying amount of total fixed deposit approximates to fair value. The table below shows an analysis of the expected maturity of the fixed deposit amounts.

	<u>TOTAL</u>	<u>Matures Within 91 Days and 180 Days</u>	<u>Matures Within 181 Days and 365 Days</u>
As of June 30, 2013	\$	\$	\$
Fixed Deposit	171,869	171,869	-
As of June 30, 2012			
Fixed Deposit	171,324	171,324	-

5. LOANS AND ADVANCES TO CUSTOMERS

The net balances of loans and advances to customers as at June 30 were as follows:

	2013	2012
	\$	\$
Mortgages	13,824,835	15,280,323
Business Loans	12,226,333	12,281,823
Debt Consolidation	4,841,721	4,975,669
Student Loans	3,929,792	3,705,582
Financial Stimulus	2,488,764	2,595,763
Personal Financial Assistance	141,823	186,006
Staff Loans	1,040,270	1,035,867
Other Loans	91,210	351,694
Lines of Credit	60,936	53,988
	38,645,684	40,466,715
Less: Allowance for Impairment Losses	(4,907,688)	(4,348,112)
Total Net Balances	33,737,996	36,118,603

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2013	2012
	\$	\$
Short Term Portion	1,465,204	751,961
Long Term Portion	37,180,480	39,714,754
Total	<u>38,645,684</u>	<u>40,466,715</u>

Loans and advances to customers' maturity analysis.

	2013	2012
	\$	\$
0 – 3 Months	475,829	422,966
3 – 12 Months	989,375	328,994
1 – 5 Years	5,475,508	4,828,209
Over 5 Years	31,704,972	34,886,546
Total Net Balances	<u>38,645,684</u>	<u>40,466,715</u>

Movement in Allowance for Impairment Losses

	2013	2012
	\$	\$
Balance at beginning of year	4,348,112	3,245,673
Individual impairment	735,453	1,102,439
Loans previously provided for written off	(175,877)	-
Balance at end of year	<u>4,907,688</u>	<u>4,348,112</u>

As at June 30, 2013, the Bank had loan commitments amounting to \$866,267 (2012: \$1,027,487). These amounts, which are not reflected in the statement of financial position, reflect the un-disbursed portion of loans, which have been approved by Management.

Ageing Analysis of Past Due but not Impaired Loans

As of June 30, 2013

	Mortgages	Business Loans	Debt Consolidation	Student Loans	Financial Stimulus	Personal Financial Assistance	Other	Total
	\$	\$	\$	\$	\$	\$	\$	
30 days and less	-	-	-	60,000	-	-	-	60,000
31 to 60 days	830,316	813,664	-	550,379	-	27,643	-	2,222,002
61 and less than 90 days	1,624,932	512,986	142,064	94,462	5,730	-	2,825	2,382,999
	<u>2,455,248</u>	<u>1,326,650</u>	<u>142,064</u>	<u>704,841</u>	<u>5,730</u>	<u>27,643</u>	<u>2,825</u>	<u>4,665,001</u>

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(Expressed in Cayman Islands Dollars)

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Ageing Analysis of Past Due but not Impaired Loans (continued)

As of June 30, 2012

	Mortgages	Business Loans	Debt Consolidation	Student Loans	Financial Stimulus	Personal Financial Assistance	Other	Total
	\$	\$	\$	\$	\$	\$	\$	
30 days and less	-	-	-	38,341	-	-	-	38,341
31 to 60 days	606,576	1,240,685	66,803	210,525	-	10,004	66,598	2,201,191
61 and less than 90 days	180,573	633,715	-	260,876	60,422	32,533	-	1,168,119
	<u>787,149</u>	<u>1,874,400</u>	<u>66,803</u>	<u>509,742</u>	<u>60,422</u>	<u>42,537</u>	<u>66,598</u>	<u>3,407,651</u>

The average interest yield during the year on loans and advances was 6.58% (2012: 5.93%). Impaired loans as of June 30, 2013 amounted to \$10,371,468 (2012: \$8,650,723) and interest taken to income on impaired loans during the year amounted to \$743,067 (2012: \$502,085).

Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original Effective Interest Rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. The amount of the impairment loss is measured as the difference between the carrying value of the loan and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, based on the renegotiated terms and conditions discounted at the original EIR. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. Restructured loans for the period amounted to \$12,731,591 (2012- \$2,564,194)

Reposessed Collateral

In the normal course of business, the security documentation which governs the collateral charged in favor of the Bank to secure the debt, gives the Bank express authority to repossess collateral in the event of default by customers. Repossessed collateral are sold as soon as practicable, with proceeds used to reduce the outstanding indebtedness. Repossessed collateral is not recognized on the Bank's statement of financial position.

Reposessed collateral as of June 30, 2013 amounted to \$3,637,500 (2012: \$2,712,500).

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6. PROPERTY AND EQUIPMENT

	Building	Motor vehicles	Computers	Furniture and Office Equipment	Total
Cost	\$	\$	\$	\$	\$
At July 1, 2012	816,065	21,300	350,172	118,176	1,305,713
Additions	-	-	4,334	319	4,653
Transfers	-	-	-	-	-
Disposals	-	-	-	(13,713)	(13,713)
At June 30, 2013	816,065	21,300	354,506	104,782	1,296,653
Accumulated Depreciation					
At July 1, 2012	203,863	21,300	335,836	114,107	675,106
Depreciation charge for the year	40,803	-	12,170	1,598	54,571
Transfers	-	-	-	-	-
Disposals	-	-	-	(13,713)	(13,713)
At June 30, 2013	244,666	21,300	348,006	101,992	715,964
Net Book Value – June 30, 2013	571,399	-	6,500	2,790	580,689
Net Book Value – June 30, 2012	612,202	-	14,336	4,069	630,607

CIDB has pledged as collateral building owned, with a net book value above of \$571,399 as of June 30, 2013 (2012: \$612,202), under a revolving bank overdraft facility agreement with a local financial institution. The limit under the bank overdraft facility agreement is CI\$753,300. As of June 30, 2013, there was a nil overdraft balance (2012: Nil). During the year, equipment with a net book value of nil was sold for \$3,500; total gain on disposal being \$3,500.

CIDB acquired and implemented a banking software system, Real Time Integrated Banking System ("RIBS"), from Gresham Computing Ltd. during the 2004/2005 year. CIDB has entered into a maintenance service agreement for five years with Gresham Computing Ltd., at an annual maintenance fee of US\$15,000 which commenced July 1, 2004. This would increase by 3% annually except for the 2007/2008 when it increased by 20% to US\$ 19,096.

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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of funds held in hand for the payment of fees, professional fees and other payables. As of June 30, the balances were as follows:

	2013	2012
	\$	\$
Funds in hand for payment of fees on behalf of customers	160,564	257,906
Professional fees	62,011	67,580
Other payables	13,217	14,213
Accrued leave liability	14,039	9,396
Total	<u>249,831</u>	<u>349,095</u>

There is a Past Service Liability of \$30,000 (2012: CI\$33,000) representing the one employee who participates in the defined benefit plan of the Public Service Pensions Board (see details in Note 10).

8. AUTHORIZED AND CONTRIBUTED CAPITAL

The authorized capital of CIDB is CI\$50 million as stated in Section 14(1) of the *Cayman Islands Development Bank Law, (2004 Revision)*.

At June 30, 2013, the amount of contributed capital of \$4,289,185 (2012: \$3,289,185) amounted to 8.50% (2012: 6.60%) of the \$50 million authorized capital in accordance with Section 14(3) of the *Cayman Islands Development Bank Law, (2004 Revision)* which requires that the paid up portion of authorized capital should not be less than 3% of the authorized capital. During February 2013 and March 2013, the Bank received \$1,000,000 in contributed capital from the Cayman Islands Government.

9. STATUTORY RESERVE

Under Section 20 of the *Cayman Islands Development Bank Law, (2004 Revision)*, the Bank is required to establish a reserve. The Bank transfers 20% of its annual net income until the balance reaches the paid-up portion of the authorized capital of the Bank (currently \$4.3 Million). There was no transfer to the Reserve Fund for year ended June 30, 2013 as the Bank made a loss (2012: Nil).

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10. PERSONNEL

Public Service Pension Plan

Pension contributions for eligible employees of the Bank are paid to the Public Service Pension Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board ("the Pensions Board") and is operated as a multi-employer plan. Prior to January 1, 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from January 1, 2000 the Fund had both a defined benefit and a defined contribution element, with participants joining after January 1, 2000 becoming members of the defined contribution element only.

Defined Contribution Plan

A defined contribution plan is a pension plan under which the Bank pays fixed contributions; there is no legal or constructive obligation to pay further contributions. The assets of the plan are held separately from those of the Bank in a fund under the control of the Pensions Board. Where employees leave the plan prior to vesting fully in the contributions, the contributions payable by the Bank are reduced by the amount of the forfeited contributions.

CIDB contributes 13% of the employees' monthly pensionable earnings to the Public Services Pension Fund. This includes an additional 1% to cover ancillary costs, which is required of statutory authorities from July 1, 2003. The total amount contributed by CIDB for the 12-month period ended June 30, 2013 was \$110,765 (2012: \$108,287).

Pension contributions are paid for all eligible employees on their pensionable emoluments. The Bank's 13 (2012: 13) employees all participate in a defined contribution scheme. Under the plan, the obligations and assets are both equal to the account balances held on behalf of the participants and no actuarial valuations are required. The Plan is funded at rates of:

		<u>2013</u>	<u>2012</u>
Defined Contribution Plans	- Employee	6%	6%
	- Employer	7%	7%

Defined Benefit Plan

A defined benefit plan is a pension plan that defines an amount of benefit that an employee is entitled to receive in retirement, dependent on one or more factors such as age, years of service and salary. A full actuarial valuation by a qualified independent actuary is carried out every year.

For the year ended June 30, 2013, only one former employee was a participant falling under the defined benefit plan in the Public Service Pension Plan and CIDB recognised a Defined Benefit Liability of \$30,000 (2012: \$33,000).

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10. PERSONNEL (CONTINUED)

Using the projected Unit Credit method of measuring costs and obligations, the actuarial assessment for the Bank determined the minimum normal annual contribution to be 13% in 2012-13 (13% in 2012-12). This rate included 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. The Plan is funded at rates of:

		<u>2013</u>	<u>2012</u>
Defined Benefit Plans	- Employee	6%	6%
	- Employer	7%	7%

The actual amount of pension expense relating to the defined benefits for staff includes the effect of the changes in the actuarial determined liability. The defined benefit pension income for the year ended June 30, 2013 amounted to \$3,000 and the expense for year ended June 30, 2012 amounted to \$5,000 and is recognized in the statement of comprehensive income.

The cost of the defined benefit plan is normally determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. As of the Audit Report Date, the actuarial valuation for the year ended June 30, 2013 was not available; however, the Actuary to the Pensions Board has estimated the value of the Fund for the defined benefits portion. The actuarial gain (loss) on the defined benefit plan is recognised in the statement of comprehensive income for the year. Based on the Projected Funded Status report dated August 22, 2013, the valuation of the defined benefit plan as of June 30, 2013 is as follows:

	<u>2013</u>	<u>2012</u>
	<u>\$</u>	<u>\$</u>
Defined Benefit Obligation	(22,000)	(22,000)
Fair Value of Plan Assets	(47,000)	(50,000)
	(69,000)	(72,000)
Unrecognised Past Service Cost	-	-
Unrecognised Net Actuarial (Gain)/Loss	39,000	39,000
Defined Benefit Asset/(Liability) in Statement of financial position	(30,000)	(33,000)

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10. PERSONNEL (CONTINUED)

The Distribution of the Plan Assets, at July 1, based on the share of the total Fund allocated to the Bank was as follows:

	<u>2013</u>	<u>2012</u>
Equity investments	*	64%
Bond Investments	*	32%
Property	*	3%
Cash/Other	*	1%

**Actuarial valuation report as of June 30, 2013 not available.*

The principal Actuarial Assumptions at the date of valuation

A. Cost Method - Projected Unit Credit

B. Economic Assumptions –

1. Discount Rate – * (2012: 5.25%)
2. Expected Long-Term Rate of Return (Net of Expense) – * (2012: 7%)
3. Salary Increase – * (2011: 3.5%)
4. Future Pension Increases – * (2012: 2.5%)
5. Expected Remaining Working Lives (Years) – * (2012: 11.51)
6. Inflation Rate – * (2012: 2.5%)

**Actuarial valuation report as of June 30, 2013 not available.*

C. Other Assumptions –

1. Mortality – Standard U.S. mortality rates
2. Retirement Age – completion of age 57 and 10 years of service

D. Asset Valuation –Fair (Market) Value

11. RELATED PARTY TRANSACTIONS

a) Transaction with the Cayman Islands Government

CIDB acts as an agent for the Cayman Islands Government in respect of the Hurricane Relief Programme (Housing Recovery Grant) and the Education Council Scholarship Funds. For the year ended June 30, 2013, CIDB received payments of \$566,768 (2012: \$577,875) for providing these services as outlined in a purchase agreement between CIDB and the Cayman Islands Government. Currently, CIDB is economically dependent upon Government to meet its operational expenditure.

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11. RELATED PARTY TRANSACTIONS (CONTINUED)

The amounts received and disbursed on behalf of the programs are recorded on a timely basis by CIDB and the cash balances as of June 30 are included on CIDB's statement of financial position along with the corresponding amounts due to these programs, amounting to a net impact of nil on CIDB'S statement of financial position. The cash for these programs are held in separate bank accounts on behalf of the Cayman Islands Government.

The balances to be distributed from these programs as of June 30 are as follows:

	2013	2012
	\$	\$
Hurricane Recovery Grant	171,869	171,324
Education Council Scholarship Fund	374,008	116,157
Due to Related Parties		
	2013	2012
	\$	\$
Due to the Housing Recovery Grant	171,869	171,324
Due to the Education Council Scholarship Fund	374,008	116,157
Total	<u>545,877</u>	<u>287,481</u>

b) Transactions with Members of Management and Staff

During the year ended June 30, 2013, CIDB had five key management personnel positions which consisted of the General Manager, Financial Controller, Operations Manager, Senior Risk Manager and Senior Credit Manager (2012: five key management personnel positions, General Manager, Financial Controller, Operations Manager, Senior Risk Manager and Senior Credit Manager). The total compensation received by key management personnel for the year ended June 30, 2013 totaled \$538,184 (2012: \$536,408), which represents salary, pension and medical expenses for the reporting period. Defined contribution plan expense for key management personnel for year ended June 30, 2013 amounted to \$56,628 (2012: \$56,628).

As at June 30, 2013, Senior Management held loans totaling \$323,317 (2012: \$416,561). Income earned on Senior Management loans was \$16,423 (2012: \$15,670).

As of June 30, 2013, the total staff loan balances was \$1,040,270 (2012: \$1,035,867). The outstanding balances arose from the ordinary course of business. The interest charged to staff and Senior Management is at normal lending rates.

For the year ended June 30, 2013, the Bank has not made any provision for doubtful debts relating to amounts owed by Senior Management or staff (2012: Nil).

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11. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Transactions with Members of Management and Staff (Continued)

A member of Senior Management provides accounting services for an entity owned by a customer of CIDB. For the years ended June 30, 2013 and 2012, all transactions with this customer were at arm's length. During the year ended June 30, 2011, a loan restructure exercise was undertaken for this customer consolidating two loans held with CIDB. As of June 30, 2013, there was one loan balance outstanding with this customer of \$249,612 (2012: \$249,382) with security provided in the form of land. Total interest earned on loans with this customer for year ended June 30, 2013 amounted to \$19,951 (2012: \$20,154). In addition, the existing loan as of June 30, 2013 and 2012 was classified as non-performing with total arrears of \$26,441 (2012: \$11,033). As of June 30, 2013, there was provision for doubtful debt of \$15,417 (2012: \$15,417) against the outstanding loan balance.

c) Transactions with Director

One of the directors is related to one of CIDB's customer. For the years ended June 30, 2013 and 2012, all transactions with this customer were at arm's length. As of June 30, 2013, there was one loan balance outstanding with this customer of \$566,467 (2012: \$610,316) with security provided in the form of developed and undeveloped property. Total interest earned on this loan for year ended June 30, 2013 amounted to \$42,754 (2012: \$45,970). As of June 30, 2013 and 2012, the loan was classified as performing. There was no provision for doubtful debt against the outstanding loan balance as of June 30, 2013 and 2012.

The said director also guaranteed a loan for another of CIDB's customers. The guarantee is limited to \$63,700. For the year ended June 30, 2013 and 2012, all transactions with this customer were at arm's length. As of June 30, 2013, there was one loan balance outstanding with this customer of \$66,215 (2012: \$64,230). Total interest earned on this loan for year ended June 30, 2013 amounted to \$5,264 (2012: \$5,144). In addition, as of June 30, 2013 and 2012 the loan was classified as non-performing with total arrears of \$24,226 and \$16,636, respectively. As of June 30, 2013, there was provision for doubtful debt of \$71,748 (2012: \$51,773) against the outstanding loan balance.

d) Transaction with family member of a Legislator

During September 2009, a loan in the amount of \$30,000 was granted for a relative of a Member of the Legislative Assembly; this is in contravention of Section 13(3)(c) of the Development Bank Law (2004 Revision). On March 7, 2011, the Board of Directors of the Bank issued a directive for the loan to be transferred to another financial institution. On December 23, 2011 the loan was transferred to another financial institution.

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12. FAIR VALUE AND RISK ASSESSMENT OF FINANCIAL INSTRUMENT

Risk Management

Financial assets of the Bank include cash, cash equivalents, fixed deposits, loan and advances to customers. Financial liabilities include bank overdraft, other payables, debt issued and other borrowed funds.

(a) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest will affect future cash flows or the fair values of financial instruments. CIDB provides loans and technical assistance in the areas of human resource development, housing and small business, in particular in the agricultural, tourism, and industrial sectors. The Bank minimizes interest rate risk principally by on-lending at variable rates of interest from funding provided by long-term debts with variable interest rates.

The Bank manages the interest rate risk by securing funds from international financial institutions which review their lending rates to CIDB on a semi-annual basis. Details of rates and maturities are presented in Note 13.

(b) Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers fail to discharge their contractual obligations.

Cash and fixed deposits are held with conventional banks.

The Bank manages credit risks on loans advanced to individuals and companies, which satisfies the Bank's lending requirements, by requiring borrowers to provide adequate security, limiting the total value of loans to a single borrower to 10% of its total capital and spreading its risk over several developmental sectors.

(c) Fair Value

The carrying values of cash, fixed deposits, loans and advances to customers, other receivables, accrued liabilities and long-term liabilities are not materially different from their fair values.

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13. DEBT ISSUED AND OTHER BORROWED FUNDS

Loans from Caribbean Development Bank ("CDB")

On the establishment of CIDB, three lines of credit with CDB were transferred from the former Agricultural and Industrial Development Board to CIDB.

In May 2002, CDB granted a new line of credit (9/OR-CAY) of US\$5 million (CIS\$4.154 million) for mortgage financing to the Cayman Islands Government with the CIDB acting as Executing Agent. This was in addition to 7/OR-CI line of credit of \$996,960 (US\$1,200,000). In 2008, CIDB made additional drawdown of \$238,396 (US\$ 286,948). Currently there is 1 line of credit existing. The 7/OR-CI line of credit was repaid in full in January 2013.

As at June 30, 2013, the balance on the one remaining loan was as follows:

<u>Purpose</u>	<u>Year Granted</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Balance 2013</u>	<u>Balance 2012</u>
Agricultural and Industrial	1991	2012	-	\$ -	\$ 47,946
Mortgage	2002	2020	3.83%	<u>2,570,428</u>	<u>2,881,995</u>
				<u>2,570,428</u>	<u>2,929,941</u>
	Current Portion:			<u>389,459</u>	<u>437,405</u>
	Long Term Portion:			<u>2,180,969</u>	<u>2,492,536</u>

Bond Issue

In the fiscal year 2004-05 CIDB issued bonds totaling \$9,969,600 (US\$12 million). The terms and conditions of the bonds were as follows:

US\$6,000,000 – 5-Year Variable Rate Development Bond due June 30, 2010

US\$6,000,000 –10-year Variable Rate Development Bond due June 30, 2015

During June 2010, the Management of the Bank successfully negotiated with the bondholders of the US\$ 6 Million bond which matured on June 30, 2010 to extend maturity for another 5 years. Over 95% (US\$ 5.8 Million) of the bondholders agreed to extend the maturity date for another 5 years at an interest rate of U.S. 6 Month LIBOR, plus 2.75%. The Bank paid redemption of US\$300,000 and facilitated a transfer in the amount of US\$100,000. Net pay out under the bond was US\$200,000.

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13. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

Another bond was issued in July 2007 for \$16,616,000 (US\$ 20,000,000) at 6.85% fixed rate due July 2017. Interest on this bond is paid half-yearly in July and January. During April 2010, CIDB refinanced the US\$20 Million Bond, due July 2017. CIDB secured a credit facility with a local financial institution to refinance the bond at a lower rate of interest of U.S. 180-Day LIBOR, plus 235 basis points. The new credit facility is for a period of 5 years.

Interest on the 5-year and 10-year bonds accrue daily and is payable in arrears semi-annually on June 30 and December 31 based on the 6-month US\$ Libor rate (plus 2.75% and 1% for the 5 and 10-year bonds respectively) as quoted by Bloomberg at 10 am New York, USA or Reuters six months before the interest due date.

The bonds are secured by an irrevocable and unconditional guarantee issued by the Cayman Islands Government. The Guarantor promises to pay the Bondholder from time to time on demand all sums of money (of principal, interest or otherwise) which CIDB is at any time liable to pay such Bondholder.

In the event of default, (upon notification in writing by the bondholder) the bond becomes immediately due and payable.

Terms and Principal Repayment Debt Schedule as at 30 June 2013

	<u>TOTAL</u>	<u>1 Year</u> <u>or less</u>	<u>1-2 Years</u>	<u>2 - 5</u> <u>Years</u>	<u>Over 5</u> <u>Years</u>
	\$	\$	\$	\$	\$
Secured Bank Loan (CDB)					
9/OR-CAY – 3.84% Variable	2,570,428	389,459	311,567	934,701	934,701
Secured Bond					
US\$ 5.8 million due June 2015, Variable Rate at 6 month US\$ LIBOR plus 2.75%	4,818,640		4,818,640	-	-
US\$ 6 million due June 2015 Variable Rate at 6 month US\$ LIBOR plus 1%	4,984,800	-	4,984,800	-	-
US\$ 20 million due April 2015 Variable Rate at 6 month US\$ LIBOR plus 2.35%	16,616,000	-	16,616,000	-	-
US\$5 million due July 2015, Variable Rate At 6 month US\$ LIBOR plus 2.75%	4,154,000	-	-	4,154,000	-
US\$5 million due January 2016, Variable Rate At 6 month US\$ LIBOR plus 2.75%	4,154,000	-	-	4,154,000	-
TOTAL	37,297,868	389,459	26,731,007	9,242,701	934,701

During the year ended June 30, 2013 the Bank did not repurchase any of its own debt (2012: Nil).

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14. OTHER SIGNIFICANT EXPENSE ITEMS

Further details of other significant expense items in the statement of comprehensive income include:

a) Salaries and Other Staff Benefits

	2013	2012
	\$	\$
Salaries	899,756	870,556
Pension cost – defined contribution plan	110,765	108,287
Pension cost – defined benefit plan	(3,000)	5,000
Medical Expenses	120,341	118,658
Recruitment and Other Related Expenses	68,441	37,114
	<u>1,196,303</u>	<u>1,139,615</u>

b) Accommodation Costs

	2013	2012
	\$	\$
Telephone	19,487	24,356
Electricity	41,210	34,534
Strata Fees	41,136	41,136
Insurance-Contents	10,992	10,995
Janitorial Costs	10,800	10,800
Other	19,897	17,493
	<u>143,522</u>	<u>139,314</u>

15. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS

The Bank had no known contingent liabilities at June 30, 2013 (2012: Nil)

At June 30, 2013, the Bank had commitments relating to maintenance of the RIBS/EDGE banking software by Gresham Computing Ltd. The amount committed per year is approximately \$17,600 (2012: \$17,600).

As at June 30, 2013, the Bank had loan commitments amounting to \$866,267 (2012: \$1,027,487). These amounts, which are not reflected in the statement of financial position, reflect the un-disbursed portion of loans, which have been approved by Management.

16. EVENTS AFTER THE REPORTING DATE

There are no events after the reporting date that require disclosure in these financial statements.