

APPENDIX 1



ANNUAL REPORT

FOR

THE YEAR ENDED

JUNE 30, 2016

CAYMAN ISLANDS DEVELOPMENT BANK

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CHAIRMAN'S STATEMENT

The 2016 fiscal year ended with a return to profitability for the Bank since 2004. The audited results recorded a small profit of \$10,629 despite interest income decreasing by \$192,539. The two new loan programs were not launched until the second quarter of operations therefore the annualized interest income would not be recognized until the next fiscal year. Despite the new loan growth of approximately \$2.3 Million, the loan portfolio decreased from early payouts to competitors and the disposal of properties under foreclosure.

Interest expense decreased by \$473,408 due to the early retirement of a US\$5 Million bond June 2015, and the debt consolidation of the remaining existing bonds that reduced the spread over LIBOR from 2.75% to 1.125%. Provision for loan loss was just \$24,827 as the Bank has been vigorously pursuing delinquent customers and affording debt restructuring to qualified borrowers.

In order for the Bank to remain a viable entity, the Cayman Islands Government will be required to provide additional capital to increase the loan portfolio through carefully adopted new lending programs. The Bank is effectively managed by the qualified and experienced key senior managers. The Bank can become a self-sufficient entity without direct support from Government but that would require a strategic policy by the Cayman Islands Government to enable the Bank to become a key player in the economic development of the country.

I wish to thank the management and staff for their dedication and commitment as well as the achievements during the period. I also wish to thank our customers, the Government and the Board of Directors for their support during this period.

Janet Hislop

CAYMAN ISLANDS DEVELOPMENT BANK

Vision Statement

**To become an efficient, successful and profitable lending institution
optimizing the use of scarce resources while impacting the community through
the implementation of meaningful developmental programmes and projects
for the benefit of all its stakeholders.**

Report for the Year Ended June 30, 2016

1) Nature and Scope of Activities

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. 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.

2) Governance

The CIDB's Board of Directors is responsible for the policy of the Bank and the general administration of its affairs and business. The Bank is regulated by the Monetary Authority and is audited annually by the Office of the Auditor General. The Board of Directors is governed through Section 4 Schedule 1 of the Law.

3) Our People

For the year ended June 30, 2016, the bank had a total of 12 members of staff. CIDB's Senior Management Team was comprised as follows:

General Manager/CEO	Tracy Ebanks, AICB, pMBA (Hons)
Financial Controller	Paula Smith, FCCA
Senior Credit Risk Manager	Eustace Jeffers

During the year ended June 30, 2016, employees of the Bank participated in a number of training programs that included training in Anti-Money Laundering and Fraud. The General Manager/CEO has been a guest lecturer at the Clifton Hunter High School presenting findings on her thesis "Characteristics of Successful Local Entrepreneurs in the Cayman Islands" incorporating the business sectors from the 1950's to present to the students. The Financial Controller actively participates in Meals on Wheels. Roger Bodden an Account Manager in the Risk Department, is an Advisor for the High School Key Clubs.

4) Management Discussion and Analysis

The key objectives of CIDB for the fiscal year ended June 30, 2016 were as follows:

- Improve portfolio performance through increased lending activity
- Continue to support human capital with tertiary education loans
- Development of staff through training programs

i) Loan Performance

As of June 30, 2016, the loan portfolio stood at \$33,187,855 before loan loss provision of \$4,015,329 compared to the loan portfolio as of year ended June 30, 2015 of \$35,014,710 before loan loss provision of \$5,078,946, representing a net decrease of 5.3% in the loan portfolio over year ended June 30, 2015. Despite the increase in loan growth from \$963,336 to \$2,306,482 from new lending initiatives, the portfolio decreased from early redemption of loans combined with disposal of assets from foreclosure.

Number and Value of Loans Approved for the Year Ended June 30, 2016

<u>Sector</u>	<u>Number of Loans</u>	<u>Value of Loans</u>	<u>Portfolio%</u>
Debt Consolidation	106	1,821,468	79%
Small Business Loans	3	130,590	5%
Mortgage	0	0	0%
Student Loans	11	217,675	10%
Other Loans*	58	136,749	6%
Total	178	2,306,482	100%

*comprises of insurance, legal fees and property valuations

As outlined above, for the year ended June 30, 2016, the Bank approved 178 loans totaling \$2,306,482. The new loan program to assist civil/public servants with liquidating high interest rate debt was widely accepted. The bank earmarked \$2 Million for the program and the funds have been utilized. The small business loan program was designed to provide financing for existing small businesses that had been in operation for at least two years that needed additional capital. This program has not contributed to the business loan portfolio growth as it was not developed for start-up loans for entrepreneurs. The program did however; spur the commercial financial institutions into relaxing some of its lending criteria to retain their customers. The government does not have the risk appetite to address start-up loans in an effort to strengthen the Bank's balance sheet. Student loans declined substantially for several reasons. The bulk of the Bank's student loans are essentially granted to fund shortfalls from awarded scholarships. Students are encouraged to attend local universities to

obtain their Associates prior to finishing Bachelor programs overseas to keep tuition costs down. More students are availing of the local resources for cost reasons and also to improve on their GPA's to be considered for scholarships.

The majority of loans classified under Other Loans were insurance loans (34) as the Bank had to force place home owners insurance coverage as customers were unwilling or unable to pay the premiums. (as the bank exercised its right to recover old receivables). Legal fee loans resulting from foreclosure totaled 11 down from 60 in 2015.

ii) Loan Delinquency

Loan delinquency continues to be a problem for the Bank however, a 5% reduction occurred in 2016. Delinquent loans stood at \$20,800,610 as of June 30, 2015, representing 59% of the entire loan portfolio but decreased to \$17,136,960, representing 51% of the total loan portfolio, as of June 30, 2016. The high levels of delinquencies are mainly attributed to loans underwritten under outdated policies and the high risk nature of the loans. The new credit policy was adopted in August 2012, however, the Bank continues to struggle due to lack of capital and access to capital. The two new loan programs assisted with reducing the overall percentage delinquency due to an increase in better performing loans. Another factor that contributed to the decrease was the restructuring of 33 loans in various categories that are now performing loans. The Bank continues to work with customers in an attempt to reduce delinquency levels.

iii) Financial Performance

As of June 30, 2016, the total assets of the Bank stood at \$39,029,246 (excluding cash held on behalf of the Education Council Scholarship Fund of \$1,861,921, the Young Nation Builders Scholarship Fund of \$392,177 and the Housing Recovery Grant of \$173,624), a decrease of \$1,301,224 over the June 30, 2015 net figure of \$38,923,045. The loan portfolio represented approximately 70% of the Bank's assets as of June 30, 2016 unchanged from June 30, 2015. Liabilities decreased by \$1,707,863 or 4.7% over year ended June 30 2015 due to amortized payments of a loan and reduction in funds held for disbursement of scholarship fund. Liabilities as of June 30, 2016 stood at \$32,381,143 (excluding amounts due to the Education Council Scholarship Fund of \$1,861,921, the Young Nation Builders Scholarship Fund of \$392,177 and the Housing Recovery Grant of \$173,624).

Total income for the year ended June 30, 2016 amounted to \$2,084,602 compared to \$2,260,306. Both amounts include \$526,317 received from the Cayman Islands Government for services provided. CIDB acts as an agent for the Cayman Islands Government in respect of the Hurricane Relief Programme (Housing Recovery Grant), Young Nation Builders Scholarship Programme and the Education Council Scholarship Funds. Currently, CIDB is economically dependent upon Government to meet its operational expenditure. Interest income decreased from \$1,657,362 in year ended June 30, 2015 to \$1,464,823 in year ended June 30, 2016 a 11% decline. The decline is the result of a shrinking portfolio despite new loan growth. The two new loan programs brought a portfolio growth of \$1.8 Million; however, these loans did not get advanced until the 3rd quarter of operations and as such would not have an annualized impact on interest income.

The bank posted a profit of CI\$10K as at year end compared to a loss of CI\$669K in 2015 despite interest income decreasing by \$193K from a \$2 million loan portfolio decrease resulting early pay outs of mainly mortgages by other financial institutions. The profit is subject to change if the bank is required to increase the provision for loan impairment should a loan fall non-accrual after year end leading up to the auditor's opinion. The Interest expense was decreased by \$473K due to the early retirement of a US\$5 Million bond together with the consolidation of the remaining bonds at a reduced spread over LIBOR from 2.75% to 1.125%.

5) Programmes Administered on Behalf of the Cayman Islands Government

During the fiscal year ended June 30, 2016, the Bank continued to provide administrative services to the Cayman Islands Government in respect of the various government guaranteed loan programmes as well as the administration of the funds under the Government's Scholarship Programme.

Under the government guaranteed loan programmes, a number of commercial banks provide funding for mortgages and student loans to eligible individuals on the strength of a government guarantee while CIDB acts as administering agent with responsibilities including the monitoring of these programmes. The Cayman Islands Government remunerates CIDB for the administrative services provided on its behalf under these programmes and this arrangement is formalized in a Purchase Agreement for services/outputs between the Government and CIDB at the beginning of each fiscal year.

6) The Future

By depending on capital injection from Government, the Bank is exposed to the risk of losing funding in economic downturns. A prospective instrument towards self-sustainability and viability is becoming a depository institution.

The Bank's return to profitability after years of losses has been the result of improved efficiencies, effective policies and a dedicated team. While the return to lending programs has also played a role, it should be noted that without additional capital to fund loan growth, the losses will start to mount once again.

The Bank continues to examine ways to restructure some of the existing non-performing loans however; the introduction of new Rules enforced by the Cayman Islands Monetary Authority ("CIMA") could pose challenges as the CIDB falls under the same Rule as the commercial financial institutions. The dialogue continues with CIMA for special consideration as a development institution.

The demand for the high interest rate relief program is testimony that intervention is needed to develop savings habits, smarter purchases, importance of education and the importance of a good credit history. To this end, the Bank has reached out to the Education Ministry to provide workshops/counseling to the senior high school students.

The key objectives for fiscal year 2016/17 are:

- Increase portfolio by new business loan programs
- Expanded support for the student loan program via counseling
- Provision of financial counseling for customers
- Enhanced staff development and training

7) Acknowledgements

The Cayman Islands Development Bank wishes to express its gratitude to the Government of the Cayman Islands, the Caribbean Development Bank and the Board of Directors for their assistance and support during the period under review.

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Cayman Islands Development Bank

Financial Statements

For the Year Ended June 30, 2016

CAYMAN ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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Cayman Islands Development Bank
Statement of Responsibility for the Financial Statements
June 30, 2016

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)*.

As Chairman of the Board of Directors and General Manager we are responsible for establishing, and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorized by law, and properly record the financial transactions of the Cayman Islands Development Bank.

As Chairman of the Board of Directors and General Manager we are responsible for the preparation of the Cayman Islands Development Bank financial statements and for the judgments made in them.

The financial statements fairly present the financial position of the Cayman Islands Development Bank as at 30 June 2016, and its financial performance, cash flows and changes in net worth for the financial year then ended.

To the best of our knowledge the statements:

- (a) completely and reliably reflect the financial transactions of the Cayman Islands Development Bank for the year ended 30 June 2016;
- (b) fairly reflect the financial position as at 30 June 2016 and financial performance for the year ended 30 June 2016; and
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.



Janet Hislop
Chairman of the Board of Directors
Cayman Islands Development Bank



Tracy Ebanks
General Manager
Cayman Islands Development Bank

Date: October 26, 2016

Date: October 26, 2016

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 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 5 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.

AUDITOR GENERAL'S REPORT (continued)

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 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

1. Without qualifying my opinion, I draw your attention to Notes 13 and 16 of the financial statements that disclose the Cayman Islands Development Bank obtained a new credit facility in the amount of \$30.6 million (US \$36.8 million) with a local financial institution to consolidate and repay existing credit facilities. This new credit facility will mature on 30 June 2025 and has been guaranteed by the Cayman Islands Government. On July 1, 2016, the bank received \$1.5 million capital contribution from the government. Likewise, I bring your attention to Note 11 which indicates that the bank received payments amounting to \$526k for providing services to the Cayman Islands Government as outlined in the purchase agreement.

The ability of the bank to meet its obligations and capacity to sustain its operational expenditures are significantly reliant on continued Government support from the proceeds of capital injection and services provided to Government.

2. Note 5 of the financial statements states that impaired loans as at 30 June 2016 amounted to \$17 million which represents 52% of the overall loan portfolio excluding allowances for credit losses.

My opinion is not modified in respect of the matters emphasized.



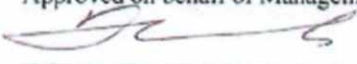
Sue Winspear, CPA
Auditor General

26 October 2016
Cayman Islands

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2016
(Expressed in Cayman Islands Dollars)

	Notes	2016 \$	2015 \$
ASSETS			
Cash and Cash Equivalents	3, 11	11,039,320	11,812,433
Term Deposit, Loan Interest and Other Receivable		174,171	318,907
Fixed Deposit	4	173,624	173,071
Loans to Customers, Net of Allowance for Credit Losses	5	29,172,526	29,935,764
Prepaid Expenses		18,865	16,109
Property and Equipment	6	877,962	501,408
TOTAL ASSETS		41,456,468	42,757,692
LIABILITIES AND EQUITY			
Accounts Payable and Accrued Liabilities	7	158,341	139,971
Due to Related Parties	11	2,427,722	3,834,647
Interest Payable – Loans and Bonds		13,637	21,376
Current Portion of Long Term Debt	13	389,459	389,459
Loans	13	31,819,706	32,131,275
TOTAL LIABILITIES		34,808,865	36,516,728
Equity			
Contributed Capital	8	7,289,185	7,289,185
Statutory Reserve Fund	9	62,973	60,847
Revaluation Reserve – Property and Equipment	6	396,010	-
Retained Earnings (Accumulated Losses)		(1,100,565)	(1,109,068)
TOTAL EQUITY		6,647,603	6,240,964
TOTAL LIABILITIES AND EQUITY		41,456,468	42,757,692

Approved on behalf of Management:


Tracy Ebanks
General Manager

Date: October 26, 2016


Paula R. Smith
Financial Controller

Date: October 26, 2016

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, 2016
(Expressed in Cayman Islands Dollars)

	Notes	2016 \$	2015 \$
INCOME			
Interest Income			
Loans	5	1,464,823	1,657,362
Fixed Term Deposits	3	7,018	26,636
		<u>1,471,841</u>	<u>1,683,998</u>
Interest Expense			
Bonds and credit facilities	13	(492,956)	(941,586)
Loan	13	(56,259)	(81,037)
		<u>(549,215)</u>	<u>(1,022,623)</u>
Net Interest Income		922,626	661,375
Loss on Foreign Currency Conversion		4,993	(66,008)
Loan Commitment Fees		26,589	5,540
Services Provided to Cayman Islands Government	11	526,317	526,317
Ministry of Education Payments for Output	11	42,951	44,451
Other Income		11,911	-
Provision for Loan Impairment	5	(24,827)	(264,772)
Net Income from Operations		1,510,560	906,903
ADMINISTRATIVE EXPENSES			
Salaries and Other Staff Benefits	10,14	1,119,141	1,095,481
Accommodation Costs	14	115,223	124,197
Professional Fees		52,115	86,112
Computer Maintenance		65,806	69,763
Commitment Fee on Debt Facility		-	68,778
Office Expenses		70,220	63,094
Depreciation	6	53,197	51,512
Advertising and Promotion		9,497	8,074
Other		7,832	4,726
Directors' Fees		6,900	4,450
Total Administrative Expenses		1,499,931	1,576,187
Net Income (Loss)		10,629	(669,284)
Transfer to Reserves	9	(2,126)	-
Net Income (Loss) after Transfer to Reserves		8,503	(669,284)
Other Comprehensive Income			
Revaluation surplus – property and equipment	6	396,010	-
Total Comprehensive Income (Loss)		404,513	(669,284)

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, 2016
(Expressed in Cayman Islands Dollars)

	Notes	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) after Transfer to Reserves		8,503	(669,284)
Adjustments for:			
Transfer to Reserve Fund	9	2,126	-
Depreciation	6	53,197	51,512
(Gain) loss on sale of property and equipment		(4,215)	-
Provision for Loan Impairment	5	24,827	264,772
		<u>84,438</u>	<u>(353,000)</u>
Changes in Operating Assets and Liabilities			
(Increase) Decrease in Prepaid Expenses		(2,756)	31,943
(Increase) Decrease in Term Deposit and Loan Interest and Other Receivables		142,096	(111,183)
(Increase) Decrease in Loans to Customers		738,414	1,437,751
Increase (Decrease) in Accounts Payables and Accrued Liabilities		21,009	(8,986)
Increase (Decrease) in Due to Related Parties		(1,406,926)	1,379,638
Increase (Decrease) in Interest Payable – Loans and Bonds		(7,739)	(198,123)
Net Cash Provided by (Used in) Operating Activities		<u>(431,464)</u>	<u>2,178,040</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Fixed Deposits	4	(553)	(552)
Sale of Property and Equipment		215	-
Purchase of Property and Equipment	6	(29,742)	(547)
Net Cash Provided by (Used in) Investing Activities		<u>(30,080)</u>	<u>(1,099)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital Contributed	8	-	1,500,000
Proceeds from Debt Issued and Other Borrowed Funds		-	30,573,440
Repayments of Debt Issued and Other Borrowed Funds	13	(311,569)	(35,039,007)
Net Cash Provided by (Used in) Financing Activities		<u>(311,569)</u>	<u>(2,965,567)</u>
Net Increase (Decrease) Increase in Cash and Cash Equivalents During Year		<u>(773,113)</u>	<u>(788,626)</u>
Cash and Cash Equivalents at Beginning of Year		<u>11,812,433</u>	<u>12,601,059</u>
Cash and Cash Equivalents at End of Year		<u>11,039,320</u>	<u>11,812,433</u>
Supplementary information on Cash Flows From Operating Activities			
Interest Received During the Year		1,470,905	1,703,550
Interest Paid During the Year		556,954	1,220,746

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Cayman Islands Dollars)

	Notes	Contributed Capital \$	Statutory Reserve Fund \$	Revaluation Reserve \$	Retained Earnings (Accumulated Losses) \$	Total \$
Balance as at June 30, 2014	8	5,789,185	60,847	-	(439,784)	5,410,248
Net Income (Loss) for the Year		-	-	-	(669,284)	(669,284)
Transfer to Reserves	9	-	-	-	-	-
Capital Contribution		1,500,000	-	-	-	1,500,000
Balance as at June 30, 2015		7,289,185	60,847	-	(1,109,068)	6,240,964
Net Income (Loss) for the Year		-	-	-	10,629	10,629
Transfer to Reserves	9	-	2,126	-	(2,126)	-
Revaluation Surplus – property & equipment	6	-	-	396,010	-	396,010
Capital Contribution		-	-	-	-	-
Balance as at June 30, 2016		7,289,185	62,973	396,010	(1,100,565)	6,647,603

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, 2016
(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, Cayman Islands. As at June 30, 2016, the Bank had twelve (12) employees (2015: 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).

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 to Customers

Loans to customers are stated net of allowance for credit losses. The Bank reviews its individually significant loans 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 impairment 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.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Significant Accounting Judgments and Estimates (continued)

Impairment Losses on Loans to Customers (continued)

Loans are written off, in whole or in part, against the related allowance for impairment losses upon settlement (realization) of collateral or in advance of settlement (no realization) where the determination of the recoverable value is completed and there is no realistic prospect of recovery above the recoverable value. Any subsequent recoveries are credited to the statement of comprehensive income. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the statement of comprehensive income.

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.

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 listed below. The cost model is used for measurement after initial recognition for property and equipment except for building. The revaluation model is used for building. Under the revaluation model, the accumulated depreciation on building is eliminated against the gross carrying amount of the asset.

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

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

b) Property and Equipment (continued)

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 Service 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.

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 favourable or an equity instrument of another enterprise. As of June 30, 2016, financial assets comprise of cash and cash equivalents, deposit accounts and loans and advances 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 unfavourable. As of June 30, 2016, financial liabilities comprise of accounts payable and accrued liabilities and long-term loans.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
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2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

f) Financial Instruments (continued)

(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 expired.

(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.

g) Changes in International Financial Reporting Standards

IFRS 9 – Financial instruments

IFRS 9 – Financial instruments (effective for periods beginning on or after January 1, 2018) – addresses classification and measurement of financial instruments and replaces portions of IAS 39. Under IFRS 9 two criteria are used to determine how financial assets should be classified and measured: (1) the entity's business model for managing the financial assets and (2) the contractual cash flow characteristics of the financial asset. Financial assets are further classified into measurement categories: those measured at fair value and those measured at amortized cost. Essentially, if a financial asset is a simple debt instrument and the objective of the entity's business model within which it is held is to collect contractual cash flows, then the financial asset is measured at amortized cost. In contrast, if that asset is held in a business model the objective of which is both collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value and amortized cost information is provided through profit or loss. The determination is made at initial recognition. For financial liabilities, the standard retains most of the IAS 39 requirements; the main change relates to cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income as opposed to the income statement.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
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2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) Changes in International Financial Reporting Standards (continued)

IFRS 9 – Financial instruments (continued)

Additions were also made to the impairment requirements relating to accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. Under the impairment approach in IFRS 9 it is not necessary for a credit event to have occurred before the credit losses are recognized. An entity has to account for expected credit losses and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition; therefore, more timely information is provided about expected credit losses. The Bank will assess the full impact of IFRS 9 before adoption in 2018.

Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

The International Accounting Standards Board (IASB) has published Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38). The amendments provide additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. They are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted.

IAS 1 Disclosure Initiative – Amendments to IAS 1 (Effective for annual periods beginning on or after 1 January 2016)

The amendments to IAS 1, Presentation of Financial Statements, clarify rather than significantly change, existing IAS 1 requirements. The amendments clarify: (1) The materiality requirements in IAS 1 (2) That specific line items in the statement of profit or loss and Other Comprehensive Income ("OCI") and the statement of financial position may be disaggregated (3) That entities have flexibility as to the order in which they present the notes to financial statements (4) That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss, furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted. The amendments are intended to provide information to help investors better understand changes in a company's debt. This standard is effective for annual periods beginning on or after 1 January 2017.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
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2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) Changes in International Financial Reporting Standards (continued)

IFRS 15 Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2017)

IFRS 15 replaces all existing revenue requirements in: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services and applies to all revenue arising from contracts with customers. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using a five-step model: (1) Identify the contract(s) with a customer (2) Identify the performance obligations in the contract (3) Determine the transaction price (4) Allocate the transaction price to the performance obligations in the contract (5) Recognise revenue when (or as) the entity satisfies a performance obligation. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licences of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

CAYMAN ISLANDS DEVELOPMENT BANK
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(Expressed in Cayman Islands Dollars)

3. 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:

	2016	2015
	\$	\$
Current and Savings Accounts	6,667,751	6,040,267
Fixed Deposit less than three months	2,117,471	2,110,590
Cash held on behalf of the Young Nation Builders Scholarship Fund	392,177	746,638
Cash held on behalf of the Education Council Scholarship Fund	1,861,921	2,914,938
Total	<u>11,039,320</u>	<u>11,812,433</u>

The effective interest rate on call deposits in 2016 was 0.33% (2015: 0.47%). The deposits had an average maturity of 135 days (2015: 135 days). As approved by the Board of Directors, short term fixed deposit of \$2,117,471 (2015: \$2,110,590) is restricted in use and is being held to service future debt repayment. Interest income earned on short-term fixed deposits for the year ended June 30, 2016 amounted to \$7,018 (year ended June 30, 2015: \$26,636)

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, 2016	\$	\$	\$
Fixed Deposit	173,624	173,624	-
As of June 30, 2015			
Fixed Deposit	173,071	173,071	-

CAYMAN ISLANDS DEVELOPMENT BANK
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5. LOANS TO CUSTOMERS

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

	2016	2015
	\$	\$
Mortgages	11,692,504	12,475,991
Business Loans	8,518,624	10,143,845
Debt Consolidation	4,808,371	4,953,352
SME 2015 Loan Program	109,982	-
2015 Debt Consolidation Loan Program	1,707,717	-
Student Loans	4,058,905	4,388,657
Financial Stimulus	1,732,405	2,286,726
Staff Loans	472,759	635,506
Personal Financial Assistance	76,035	80,284
Other Loans	10,553	50,349
	33,187,855	35,014,710
Less: Allowance for Impairment Losses	(4,015,329)	(5,078,946)
Total Net Balances	29,172,526	29,935,764

	2016	2015
	\$	\$
Short Term Portion	2,127,498	2,534,494
Long Term Portion	31,060,357	32,480,216
Total	33,187,855	35,014,710

Loans to customers' maturity analysis

	2016	2015
	\$	\$
0 – 3 Months	485,547	2,073,411
3 – 12 Months	1,641,950	461,084
1 – 5 Years	8,298,341	7,931,947
Over 5 Years	22,762,017	24,548,268
Total	33,187,855	35,014,710

Movement in Allowance for Impairment Losses

	2016	2015
	\$	\$
Balance at beginning of year	5,078,946	4,814,174
Provision for (reversal of) loan impairment	24,827	264,772
Loans previously provided for written off	(1,088,444)	-
Balance at end of year	4,015,329	5,078,946

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
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5. LOANS TO CUSTOMERS (CONTINUED)

As at June 30, 2016, the Bank had loan commitments amounting to \$346,959 (2015: \$698,788). 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.

Interest Income on Loans to Customers

	2016	2015
Performing loans	887,471	1,013,185
Non-performing loans	577,352	644,177
Total	1,464,823	1,657,362

Performing and Non-Performing Loans June 30, 2016

	Mortgages	Business Loans	Debt Consolidation	SME 2015 Loan Program	2015 Debt Consolidation	Student Loans	Financial Stimulus	Staff Loans	Personal Financial Assist.	Other Loans	Total
Performing Loans	5,355,151	2,454,304	2,673,126	109,982	1,689,744	2,591,133	854,133	472,759	-	10,553	16,050,895
Non-Performing Loans	6,337,343	6,034,320	2,135,245	-	17,973	1,467,772	1,068,272	-	76,035	-	17,136,960
Gross Total Loans	11,692,504	8,518,624	4,808,371	109,982	1,707,717	4,058,905	1,732,405	472,759	76,035	10,553	33,187,855

Performing and Non-Performing Loans June 30, 2015

	Mortgages	Business Loans	Debt Consolidation	Student Loans	Financial Stimulus	Staff Loans	Personal Financial Assistance	Other Loans	Total
Performing Loans	6,095,134	1,127,131	2,834,202	2,780,128	725,270	635,506	2,553	14,176	14,214,400
Non-Performing Loans	6,380,857	9,015,714	2,115,150	1,608,529	1,561,456	-	77,731	36,173	20,800,610
Gross Total Loans	12,475,991	10,143,845	4,953,352	4,388,657	2,286,726	635,506	80,284	50,349	35,014,710

The average interest yield during the year on loans was 4.30% (2015: 4.64%). Non-performing loans, which represents loans in arrears 90 days or more, as of June 30, 2016 amounted to \$17,136,960 (2015: \$20,800,610) and interest taken to income on non-performing loans during the year amounted to \$577,352 (2015: \$644,177).

CAYMAN ISLANDS DEVELOPMENT BANK
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5. LOANS TO CUSTOMERS (CONTINUED)

Ageing Analysis of Past Due but not Impaired Loans

As of June 30, 2016

	Mortgages	Business Loans	Debt Consolidation	SME 2015 Loan Program	2015 Debt Consolidation	Student Loans	Financial Stimulus	Personal Financial Assistance	Other	Total
	\$	\$	\$			\$	\$	\$	\$	
30 days and less	1,707,621	482,442	655,999	-	213,412	827,320	-	-	-	3,886,794
31 to 60 days	828,568	296,802	499,664	-	19,981	481,435	-	-	-	2,126,450
61 and less than 90 days	-	-	-	-	-	-	-	-	-	-
	2,536,189	779,244	1,155,663	-	233,393	1,308,755	-	-	-	6,013,244

As of June 30, 2015

	Mortgages	Business Loans	Debt Consolidation	Student Loans	Financial Stimulus	Personal Financial Assistance	Other	Total
	\$	\$	\$	\$	\$	\$	\$	
30 days and less	1,927,330	503,630	1,008,291	1,298,192	22,432	1,564	771	4,762,210
31 to 60 days	-	-	-	65,415	-	-	-	65,415
61 and less than 90 days	110,059	411,569	558,844	192,582	-	-	-	1,273,054
	2,037,389	915,199	1,567,135	1,556,189	22,432	1,564	771	6,100,679

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 \$3,160,877 (2015: \$893,171). Subsequent to June 30, 2016, three of the loans restructured during the fiscal year with total outstanding principal balance of \$152,290 are 90 days or more in arrears and are, therefore, considered impaired.

Reposessed Collateral

In the normal course of business, the security documentation which governs the collateral charged in favour of the Bank to secure the debt, gives the Bank express authority to repossess collateral in the event of default by customers. Repossessed collateral is 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. Repossessed collateral as of June 30, 2016 amounted to \$9,903,125 (2015: \$9,094,825).

CAYMAN ISLANDS DEVELOPMENT BANK
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6. PROPERTY AND EQUIPMENT

	Building	Motor Vehicles	Computers	Furniture and Office Equipment	Total
Cost	\$	\$	\$	\$	\$
At July 1, 2015	816,065	21,300	376,398	104,782	1,318,545
Additions		29,880	3,550	311	33,741
Cost adjustment - revaluation	28,935				28,935
Disposals	-	(21,300)	(28,828)	(9,960)	(60,088)
At June 30, 2016	845,000	29,880	351,120	95,133	1,321,133
Accumulated Depreciation					
At July 1, 2015	326,272	21,300	365,001	104,564	817,137
Depreciation charge for the year	40,803	3,486	8,658	250	53,197
Depreciation written back due to revaluation surplus	(367,075)				(367,075)
Disposals	-	(21,300)	(28,828)	(9,960)	(60,088)
At June 30, 2016	-	3,486	344,831	94,854	443,171
Net Book Value – June 30, 2016	845,000	26,394	6,289	279	877,962
Net Book Value – June 30, 2015	489,793	-	11,397	218	501,408

As of June 30, 2016, the fair value of the building is estimated at \$845,000 based on an independent valuation report prepared by JEC Property Consultants Ltd as of August 2013. The valuation was prepared in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards. Market Value as used in the valuation report is defined by the International Standards Committee as: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". In arriving at the valuation for the building, JEC Property Consultants Ltd utilized both the Investment Approach and the Sales Comparison Approach. The Investment method assesses what level of net revenue can be generated by letting the building and what yield in terms of percentage return on invested capital would be a reasonable expectation for a business investor in this type of property. The Sales Comparison method estimates market value by comparing the subject property to recent sales of similar properties. Information used in the valuation report was obtained from the Cayman Islands Lands Registry and Realty Companies active in the subject area or by published reports. The resulting revaluation surplus of \$396,010 is recorded in other comprehensive income and also on the statement of financial position. The valuation report did not include the componentization breakdown of the building as required under IAS16, and as such, depreciation reflected in the financial statements is based on the overall value of the building. At the time of the preparation of these financial statements, a new valuation of the building was being undertaken. The 2016 valuation report is not yet completed and finalized; as a result, the building is revalued based on the 2013 valuation report which is within the timeframe acceptable under the standard. The carrying amount of building before revaluation is \$448,990.

CIDB acquired and implemented a banking software system, Real Time Integrated Banking System ("RIBS"), from Gresham Computing Ltd. during the 2004/2005 year. The annual fee charged for the period September 2015 to August 2016 is US\$22,908.

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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:

	2016	2015
	\$	\$
Funds in hand for payment of fees on behalf of customers	38,095	23,507
Professional fees	71,401	61,011
Pension liability payable	26,000	26,000
Other payables	6,800	11,645
Accrued leave liability	16,045	17,808
Total	<u>158,341</u>	<u>139,971</u>

There is a Past Service Liability balance of \$26,000, representing the one employee who participated in the defined benefit plan of the Public Service Pensions Board. The liability has been transferred as of June 30, 2014 to the Government as the employee retired during 2012. The amount of \$26,000 is now due and payable to the Government.

8. AUTHORIZED AND CONTRIBUTED CAPITAL

The authorized capital of CIDB is C\$50 million as stated in Section 14(1) of the *Cayman Islands Development Bank Law, (2004 Revision)*. At June 30, 2016, the amount of contributed capital of \$7,289,185 (2015: \$7,289,185) amounted to 15% (2015: 15%) 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 the year ended June 30, 2015, the Bank received \$1,500,000 (for the year ended June 30, 2014: \$1,500,000) in contributed capital from the Cayman Islands Government.

9. STATUTORY RESERVE FUND

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 \$7.3 Million). There was a transfer of \$2,126 to the Reserve Fund for year ended June 30, 2016 as the bank made a net profit (2015: Nil). As of year ended June 30, 2016 the Statutory Reserve Fund has a balance of \$62,973 (June 30, 2015: \$60,847).

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.

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10. PERSONNEL (CONTINUED)

Defined Contribution Plan (continued)

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 Service 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, 2016 was \$95,074 (2015: \$91,120).

Pension contributions are paid for all eligible employees on their pensionable emoluments. The Bank's 13 (2015: 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>2016</u>		<u>2015</u>
Defined Contribution Plans	- Employee	6%		6%
	- Employer	7%		7%

11. RELATED PARTY TRANSACTIONS

a) Transactions 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, 2016, CIDB received payments of \$526,317 (2015: \$526,317) for providing these services as outlined in a purchase agreement between CIDB and the Cayman Islands Government. The payment from the Cayman Islands Government was reduced by \$40,851 for the fiscal year ended June 30, 2014 and this amount is now paid directly by the Ministry of Education. Currently, CIDB is economically dependent upon Government to meet its operational expenditure. Effective August 2013, CIDB entered into an agreement with the Young Nation Builders Scholarship Programme (YNBP) to administer the bank account on behalf of YNBP. CIDB receives \$42,951 annually for services provided to YNBP (\$2,500) and the Ministry of Education (\$40,451). The agreement with YNBP covers the four years ending June 30, 2014 to June 30, 2017. The fee arrangement over the four-year period is as follows:

1. Year ended June 30, 2014 – \$8,000
2. Year ending June 30, 2015 – \$4,000
3. Year ending June 30, 2016 – \$2,500
4. Year ending June 30, 2017 – Nil

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.

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11. RELATED PARTY TRANSACTIONS (CONTINUED)

a) Transactions with the Cayman Islands Government (continued)

The balances to be distributed from these programs and are due and payable to each program as of June 30 are as follows:

	2016	2015
	\$	\$
Education Council Scholarship Fund	1,861,921	2,914,938
Young Nation Builders Scholarship Program	392,177	746,638
Housing Recovery Grant	173,624	173,071
Total	<u>2,427,722</u>	<u>3,834,647</u>

b) Transactions with Members of Management and Staff

During the years ended June 30, 2016 and 2015, CIDB had five key management personnel positions which consisted of the 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, 2016 totaled \$542,082 (2015: \$535,156), which represents salary, pension and medical expenses for the reporting period. Defined contribution plan expense for key management personnel for year ended June 30, 2016 amounted to \$47,079 (2015: \$45,708).

As at June 30, 2016, Senior Management held loans totaling \$80,930 (2015: \$226,510). Income earned on Senior Management loans was \$11,154 (2015: \$12,524).

As of June 30, 2016, the total staff loan balances was \$472,759 (2015: \$635,506). 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, 2016, the Bank has not made any provision for impairment losses relating to amounts owed by Senior Management or staff (2015: Nil).

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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 accounts payable and accrued liabilities and long-term loans.

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 quarterly and semi-annually. 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. The net carrying amount of loans and advances of \$29,172,526 represents the maximum exposure to credit risk as of June 30, 2016 for this category of financial assets. However, this risk is partially mitigated by collateral held as security for certain loans. Collateral held includes raw land, commercial and residential properties.

Cash and fixed deposits are held with conventional banks. As of June 30, 2016, the total cash and equivalents of \$11,039,320 and fixed deposit of \$173,624 represent the Bank's maximum exposure to credit risk for this category of financial assets.

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 (CI\$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 one line of credit existing. The 7/OR-CI line of credit was repaid in full in January 2013.

As at June 30, 2016, 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 2016</u>	<u>Balance 2015</u>
Mortgage	2002	2021	2.97%	\$ <u>1,635,725</u>	\$ <u>1,947,294</u>
	Current Portion:			<u>389,459</u>	<u>389,459</u>
	Long Term Portion:			<u>1,246,266</u>	<u>1,557,835</u>

Total interest expense incurred on the CDB loan for the year ended June 30, 2016 amounted to \$56,259 (year ended June 30, 2015: \$81,037).

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13. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

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.

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.

During June 2015, CIDB used funds from its fixed deposit to repay US\$5 Million credit facility which was originally due for repayment in January 2016 and received US\$36.8 Million proceeds under a new credit facility with a local financial institution to consolidate and repay the remaining credit facilities listed above. The new credit facility will be for a term of 10 years (maturing June 30, 2025) at an interest rate of U.S. 3-Month LIBOR plus 1.125% and is secured by a Government Guarantee. Under the terms of the agreement, interest only will be paid in the first 3 years after which amortized payments of principal and interest will be made.

Total interest expense incurred on the credit facility for the year ended June 30, 2016 amounted to \$492,956 (year ended June 30, 2015: \$941,586).

All borrowing costs incurred during the year have been expensed.

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13. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

Terms and Principal Repayment Debt Schedule as at 30 June 2016

	<u>TOTAL</u>	<u>1 Year or less</u>	<u>1-2 Years</u>	<u>2 - 5 Years</u>	<u>Over 5 Years</u>
	\$	\$	\$	\$	\$
Secured Bank Loan					
9/OR-CAY due July 2021 – 2.97%					
Variable	1,635,725	389,459	311,566	934,700	-
Secured Credit Facility					
US\$ 36.8 Million due June 2025, Variable					
Rate at 3 month US\$ LIBOR plus 1.125%	30,573,440	-	-	8,152,917	22,420,523
TOTAL	32,209,165	389,459	311,566	9,087,617	22,420,523

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

	2016	2015
	\$	\$
Salaries	873,025	833,748
Medical Expenses	126,545	121,824
Pension Cost – Defined Contribution Plan	95,074	91,120
Recruitment and Other Related Expenses	24,497	48,789
	1,119,141	1,095,481

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14. OTHER SIGNIFICANT EXPENSE ITEMS (CONTINUED)

b) Accommodation Costs

	2016	2015
	\$	\$
Strata Fees	41,136	41,136
Electricity	24,750	28,990
Telephone	11,865	12,948
Insurance-Contents	8,400	10,153
Janitorial Costs	10,800	11,400
Other	18,272	19,570
	<u>115,223</u>	<u>124,197</u>

15. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS

The Bank had no known contingent liabilities at June 30, 2016 (2015: Nil).

At June 30, 2016, the Bank had commitments relating to maintenance of the RIBS/EDGE banking software by Gresham Computing Ltd. The amount committed per year is approximately \$19,032 (2015: \$18,635).

As at June 30, 2016, the Bank had loan commitments amounting to \$346,959 (2015: \$698,788). These amounts, which are not reflected in the statement of financial position, reflect the undisbursed portion of loans, which have been approved by Management.

16. EVENTS AFTER THE REPORTING DATE

Subsequent to June 30, 2016, the following events occurred:

- (a) The Bank received \$1.5 Million capital contribution from the Cayman Islands Government on July 1, 2016.
- (b) The Bank's fiscal year end will be changed from June 30 each year to December 31 each year to coincide with the new fiscal year end of the Cayman Islands Government.
- (c) There are proposed changes to the Cayman Islands Development Bank Law, which also includes (b) above. None of these changes will have a material impact on the financial statements as of June 30, 2016.