



ANNUAL REPORT

FOR

THE YEAR ENDED

JUNE 30, 2015

CAYMAN ISLANDS DEVELOPMENT BANK

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December 3rd, 2015

**Hon. Wayne Panton
Minister of Financial Services, Commerce & Environment
Government Administration Building
George Town**

Dear Sir,

In accordance with Section 22 (1) of the Cayman Islands Development Bank Law (2004 Revision), I have the honour to submit the Report of the activities of the Cayman Islands Development Bank with supporting Financial Statements for the year ended June 30, 2015.

Sincerely,

**Tracy L. Ebanks
General Manager/CEO**

GENERAL MANAGER'S STATEMENT

The 2015 fiscal year ended with the installation of a new Board of Directors that enabled the Bank to refinance its existing bonds, to not only meet maturities, but to negotiate better pricing of the bonds, which in turn provided a substantial reduction in interest expense. Lack of capital again hindered growth and the Bank's portfolio reduced mainly due to early pay outs by commercial banks.

The Bank posted a loss of \$(669,284) resulting from a combination of a decrease in interest income of \$192,007, loss on foreign currency conversion of \$66,008 and additional expenses of \$68,778 from the bond refinancing, and provision for loan impairment of \$264,772. A loss is not projected for fiscal year end 2016 as the bond refinancing will result in approximately \$513,558 in interest expense savings and the fees associated totaling \$134,786 will not be a recurring expense.

The Bank's loan portfolio decreased by \$1.7 million during the year mainly due to the early repayment of loans. In addition, the Bank was not in a position to increase the portfolio to replace lost business. Cash and cash equivalents decreased from \$12.6 million to \$11.8 million as the Bank repaid a US\$5million bond that was due for payment January 2016.

The Ernst & Young Report cited that "sufficient capability exists and the business is run effectively and efficiently, it just lacks capital to fulfil its role." CIDB can become a key player in the economic development of the country and it will also seek to become a self sufficient entity, without direct support from the Government.

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 local financial institutions for their support during this period.

Tracy L. Ebanks

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, 2015

1. Introduction

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.

As of June 30, 2015, the total assets of the Bank stood at \$42,757,692 (excluding cash held on behalf of the Education Council Scholarship Fund of \$2,914,938 and the Young Nation Builders Scholarship Fund of \$746,638), a decrease of \$2,462,321 over the June 30, 2014 figure of \$45,220,013. The loan portfolio represented approximately 70% of the Bank’s assets as of June 30, 2015 unchanged from June 30, 2014. Liabilities decreased by \$3,293,037 or 8.3% over year ended June 30 2014 due to the early repayment of a bond. Liabilities as of June 30, 2015 stood at \$36,516,728 (excluding amounts due to the Education Council Scholarship Fund of \$2,914,938, the Young Nation Builders Scholarship Fund of \$746,638 and the Housing Recovery Grant of \$173,071) compared to \$39,809,765 (excluding amounts due to the Education Council Scholarship Fund of \$1,906,759, the Young Nation Builders Scholarship Fund of \$375,731 and the Housing Recovery Grant of \$172,519) as of June 30, 2014.

Total income for the year ended June 30, 2015 amounted to \$2,210,315 compared to \$2,553,257. 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) and the Education Council Scholarship Funds. Currently, CIDB is economically dependent upon Government to meet its operational expenditure. Interest income decreased from \$1,855,393 in year ended June 30, 2014 to \$1,683,998 in year ended June 30, 2015 a 10.7% decline. The Bank posted a loss of \$(669,284) as interest income decreased and the Bank’s provision for loan impairment of \$264,772 compared to the prior year profit of \$61,692 for June 30, 2014. Debt interest expense declined by \$13,939 moving from \$1,036,562 for year ended June 30, 2014 to \$1,022,623 for the year ended June 30, 2015. Administrative expenses for year ended June 30, 2015 totaled \$1,576,187 compared to \$1,453,084 for year ended June 30, 2014, an 8.5% increase mainly due to fees associated with the bond refinancing.

2. Senior Management Team

For the year ended June 30, 2015, CIDB's Senior Management Team was comprised as follows:

General Manager/CEO	Tracy Ebanks
Financial Controller	Paula Smith
Senior Credit Risk Manager	Eustace Jeffers
Senior Credit Sales Manager	Andrew Thomas

3. Objectives and Goals for the Fiscal Year Ended June 30, 2015

The principal objectives of CIDB for the fiscal year ended June 30, 2015 were as follows:

1. Refinance bonds maturing by fiscal year end
2. Continue to support human capital with tertiary education loans
3. Develop staff through training programs
4. Provide financial counseling for customers
5. Submit a 3 year Strategic Plan

4. Loan Performance

As of June 30, 2015, the loan portfolio stood at \$35,014,710 before loan loss provision of \$5,078,946 compared to the loan portfolio as of year ended June 30, 2014 of \$36,452,460 before loan loss provision of \$4,814,174, representing a net decrease of 5.4% in the loan portfolio over year ended June 30, 2014.

Number and Value of Loans Approved for the Year Ended June 30, 2015

Sector	Number of Loans	Value of	
		Loans	%
		\$	
Small Business Loans*	0	0	0%
Mortgage*	0	0	0%
Student Loans	33	840,000	87%
Other Loans**	117	122,436	13%
Total	199	963,336	100%

*small business loans and mortgages suspended

**comprised of insurance, legal fees and property valuations

As outlined above, for the year ended June 30, 2015, the Bank approved 150 loans totaling \$963,336. As shown in table above, human resource development is a key area of the Bank's loan portfolio. Student loans are granted for tertiary education and professional career development. For the year ended June 30, 2015, 33 student loans amounting to \$840,000 were approved for this purpose and accounted for 87% of the value of loans approved during the year.

The majority of loans classified under Other Loans (60) were legal fees (as the bank exercised its right to recover old receivables). Insurance loans numbered 23 as the Bank had to force place home owners insurance coverage as customers were unwilling or unable to pay the premiums. Property Valuation loans totaled 25 due to increased foreclosure activity as the courts require 2 independent appraisals to arrive at a median price to list the properties for sale.

Loan Delinquency

Loan delinquency continues to be a problem for the Bank. Delinquent loans stood at \$18,342,246 as of June 30, 2014, representing 50% of the entire loan portfolio and rising to \$19,954,637, representing 56% of the total loan portfolio, as of June 30, 2015. 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 business portfolio delinquency rate has increased as the Bank has been unable to restructure the debt or provide additional working capital. The new SME program will reduce the overall percentage delinquent due to an increase in better performing loans. The mortgage portfolio delinquency rates have increased and foreclosures are still on the increase. It is a buyer's market and it is currently extremely difficult to sell foreclosed properties. The student portfolio has also suffered as jobs are not readily available for returning students and the Guarantors themselves are facing financial hardships. The Bank continues to work with customers in an attempt to reduce delinquency levels.

5. Financial Performance

Years Ended June 30, 2015 and June 30, 2014

Interest income declined 11% that was a combination of a shrinking loan portfolio and increased delinquencies. Interest expense decreased slightly by 2%, as the outstanding principal due on the loan to the Caribbean Development Bank, continues to reduce via amortized payments. The loss recorded of \$(669,284) was a combination of the decrease in interest income of \$192,007, loss on foreign currency conversion of \$66,008 and additional expenses of \$68,778 from the bond refinancing, and provision for loan impairment of \$264,772.

Overall, expenses increased by approximately 9% for year ended June 30, 2015 due mainly to the fees associated with the bond refinancing.

6. Programmes Administered on Behalf of the Cayman Islands Government

During the fiscal year ended June 30, 2015, the Bank continued to provide administrative services to the Cayman Islands Government in respect of the various government guaranteed loan programmes and to 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.

7. Training Programmes and Community Involvement

Training Programs

During the year ended June 30, 2015, employees of the Bank participated in a number of training programs that included training in Anti-Money Laundering and Fraud.

Community Involvement

Several staff members are actively involved within the community:

Tracy Ebanks, General Manager/CEO	- Treasurer, Cayman Islands Volleyball Federation Team Manager, JGHS Knights Basketball Club
Paula Smith, Financial Controller	- Meals on Wheels
Roger Bodden, Account Manager	- Chairperson Key Club and Circle K Club

8. The Future

By depending on capital injection from Government, the Bank is exposed to the risk of losing funding in economic downturns. Thus, it can be questioned whether or not depending on capital injections will make the Bank survive as a viable institution in the long run. A prospective instrument towards self-sustainability is becoming a depository institution.

The Bank projects a return to profitability due to substantial interest expense savings during the next 3 fiscal years during the interest only period. The Board recently approved the deployment of \$4 million of the Bank's cash to provide financing for two new loan programs. One of the programs is geared towards assisting public/civil servants with refinancing high interest rate debt. The program is offered

to civil/public servants only as the Treasury Department and Authorities will deduct and remit the loan payments directly to the account of the Bank. The SME program will provide financing specifically to businesses that have been in operation for at least two years, with a demonstrated profitable track record. This program addresses a critical financing gap that exists due to stricter banking qualification criteria by the Category A Banks. These two programs are expected to generate an additional \$400,000 in interest income once fully availed.

The Bank continues to examine ways to restructure some of the existing loans to address the negative impact that the economic recession had on the ability of some clients to meet their obligations. This will be done in a manner that is in accordance with the Bank's credit risk management procedures and in joint agreement with each client, in cases where such restructuring is considered to be feasible.

The key objectives for fiscal year 2015/16 are:

- Sourcing additional funds for on-lending
- Developing a Restructure Policy
- Expanding support for the student loan program
- Providing financial counseling for customers
- Enhancing staff development and training

9. Acknowledgements

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

**AUDITED FINANCIAL STATEMENTS FOR
YEAR ENDED JUNE 30, 2015**