



ANNUAL REPORT

FOR

THE 18 MONTHS ENDED

DECEMBER 31, 2017

CAYMAN ISLANDS DEVELOPMENT BANK

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GENERAL MANAGER'S STATEMENT

Interest income increased 5% based on extrapolated data comparing the previous 12 months results with the 18 month accounting period due to new loan growth from 2 loan programs. The 2 programs were earmarked with a maximum availment of CI\$3 million to assess market acceptance and acceptable risk to the Bank. Despite the small loan growth, the Bank's loan portfolio decreased by CI\$3.7 Million due to the write off of CI\$1.043 Million of provisioned bad debt and early pay outs. During the 18 month period the Bank reduced its long term debt by 25% due to the early repayment of a CI\$1.635 Million loan to the Caribbean Development Bank and CI\$6.66 Million prepayment on the CI\$30.573 Million loan facility with FirstCaribbean International Bank.

The Bank's operating expenses also decreased 3% overall mainly due to a 9% decrease in salary expense as a senior position was not filled upon vacancy in an effort to keep costs down due to limited lending. This position was absorbed by the General Manager/CEO. Despite these efforts, the Bank posted a loss of CI\$717K driven by a CI\$670K loan loss provision and \$70K loss on Foreign Currency Conversion. The provision is driven not only by loans that become non-accrual, but by decreasing values of residential homes due to poor upkeep by the occupants and the Bank's inability to secure sales to cover all of the outstanding principal.

The implementation of the IFRS 9 assessment will result in an increase to the Bank's loan loss provisioning this fiscal year so it is critical that the Bank fund new loan programs.

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 and administered new lending programs. The Bank is effectively managed by the qualified and experienced key senior managers. The Bank can become a self-sufficient and relevant 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 development of the country.

I wish to thank the 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.

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 Eighteen Months Ended December 31, 2017

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 Auditor General’s Offices. The Board of Directors is governed through Section 4 Schedule 1 of the Law.

3) Our People

For the year ended December 31, 2017, the bank had a total of 11 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 December 31, 2017, employees of the Bank participated in a number of training programs that included training in Anti-Money Laundering and Fraud. The General Manager/CEO attended a Training and Information Sharing Program for Executives of Development Banks at the Development Bank of Canada headquarters. 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 December 31, 2017 were as follows:

- 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

i) Loan Performance

As of December 31, 2017, the loan portfolio stood at \$29,094,995 before loan loss provision of \$3,643,159 compared to the loan portfolio as of year ended June 30, 2016 of \$33,187,855 before loan loss provision of \$4,015,329, representing a net decrease of 12% in the loan portfolio over year ended June 30, 2016. Despite the increase in loan growth from new lending initiatives, the portfolio decreased from early redemption of loans, disposal of assets from foreclosure and write downs.

Number and Value of Loans Approved

<u>Sector</u>	<u>Number of Loans</u>	<u>Value of Loans</u>	<u>Portfolio%</u>
Debt Consolidation	45	589,617	44%
Small Business Loans	3	140,700	10%
Mortgage	1	10,110	1%
Student Loans	21	582,140	44%
Insurance Loans	3	10,002	1%
Total	<u>73</u>	<u>1,332,569</u>	<u>100%</u>

As outlined above, for the eighteen months ended December 31, 2017, the Bank approved loans totaling \$1,332,569. The debt consolidation loans were a continuation of the program to assist civil/public servants with liquidating high interest rate debt. 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.

ii) Loan Delinquency

Delinquent loans stood at \$17,136,960 as of June 30, 2016, representing 52% of the entire loan portfolio and decreased to \$16,338,612, still representing 56% of the total loan portfolio, as of December 31, 2017. The high levels of delinquencies are mainly attributed to loans underwritten under outdated policies and the high risk nature of the loans. The Bank requires Board approval to write off the uncollectable loans that have been fully provided for as these loans skew the Bank's results and are not representative of the performance of the loan portfolio after the introduction of a new Credit Policy.

iii) Financial Performance

As of December 31, 2017, the total assets of the Bank stood at \$40,304,386 (excluding cash held on behalf of the Education Council Scholarship Fund of \$3,450,337, the Young Nation Builders Scholarship Fund of \$527,421 and the Housing Recovery Grant of \$175,028), an increase of \$1,275,638 over the June 30, 2016 net figure of \$39,028,748. The loan portfolio represented approximately 57% of the Bank's assets as of December 31, 2017 compared to 70% in previous years due to an increase in deposits. Liabilities decreased by \$6,116,540 due to the early repayment of a CI\$1.635 Million loan to the Caribbean Development Bank and CI\$6.66 Million prepayment on the CI\$30.573 Million loan facility with FirstCaribbean International Bank. Liabilities as of December 31, 2017 stood at \$24,615,539 (excluding amounts due to related parties held for various funds).

Total income for the year ended December 31, 2017 amounted to \$3,220,482 compared to \$2,084,602. Both amounts include \$789,476 and 526,317 respectively 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 increased 5% based on extrapolated data comparing the previous 12 months results with the 18 month accounting period due to new loan growth from 2 loan programs. Interest income increased from \$1,464,823 in year ended June 30, 2016 to \$2,328,589 in the eighteen months ended December 31, 2017. 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 loss of CI\$717K as at year end compared to a small profit of CI\$10K in 2016 due to the provision for loan impairment of CI\$670K and the \$70K loss on Foreign Exchange Conversion. Interest expense increased 23% as LIBOR rates increased, however, the principal payments totalling CI\$8.3 Million during the period will result in decreased interest expense for the next fiscal period.

5) Programmes Administered on Behalf of the Cayman Islands Government

During the eighteen months ended December 31, 2017, 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

Historically the outputs received by Government to assist with the administration of various programs on their behalf and operational costs of the Bank equated to less than the provision for loan impairment and represents 35% of operating expenses. The ending results has been losses due to an underperforming loan portfolio and insufficient capital to fund good loan growth. The implementation of IFRS 9 this fiscal year will result in a significant increase to the Bank's loan loss provision and while Government has committed to a one off increase in 2018's output by \$500K, unless the Bank receives additional capital to fund new loans, the loss this year could reach the 7 digit range.

The Bank continues to examine ways to restructure some of the existing non-performing loans to limit the loss of businesses and displacement of families when losing a home however, the Rules enforced by the Cayman Islands Monetary Authority ("CIMA") on eligibility of restructures presents challenges to the CIDB. A change in the Bank's Credit Policy to closely mirror CIMA's requirements while allowing the Bank some autonomy was discussed with CIMA and is being developed for board consideration.

The Bank is keen on working with the Government's Environmental initiatives to reduce the reliance on fuel and cost savings for consumers by offering a Home Energy Loan Program "HELP". The HELP program would assist with improving the thermal characteristics of a home by having proper insulation and weatherization and buying up-to-date technologies. Last year's active Hurricane season brought devastation to much of the Caribbean. The Cayman Islands have a strong building code to

ensure better protection against the elements, but regular maintenance is required. The installation of hurricane windows and doors would not only afford costs savings through lower utility bills but could mean the difference between losing electricity for several days compared to losing your home.

The key objectives for fiscal year 2018 are:

- Increase portfolio by new business loan programs
- Increase portfolio by new Home Energy Loan Program “HELP”
- Expanded support for the student loan program via counseling
- Write down of provisioned non-performing loans
- Replacing existing hardware/software banking systems

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
EIGHTEEN MONTHS ENDED DECEMBER 31,
2017**

Cayman Islands Development Bank

Financial Statements

For the 18 Months Ended December 31, 2017

CAYMAN ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS

For the 18 Months Ended December 31, 2017

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Cayman Islands Development Bank
Statement of Responsibility for the Financial Statements
December 31, 2017

These financial statements have been prepared by the Cayman Islands Development Bank in accordance with the provisions of the *Public Management and Finance Law, (2017 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, (2017 Revision)*.

As Management of the Cayman Islands Development Bank, 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 Management of the Cayman Islands Development Bank, 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 31 December 2017, and its financial performance, cash flows and changes in equity for the financial period 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 18 months ended 31 December 2017;
- (b) fairly reflect the financial position as at 31 December 2017 and financial performance for the 18 months ended 31 December 2017; and
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.



Kenneth Jefferson
Financial Secretary & Chief Officer
Ministry of Finance & Economic Development



Tracy Ebanks
General Manager
Cayman Islands Development Bank

Date: May 17, 2018

Date: May 17, 2018

AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Islands Development Bank

Opinion

I have audited the financial statements of the Cayman Islands Development Bank (the "bank"), which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 18-month period from 1 July 2016 to 31 December 2017, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 10 to 28.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2017 and its financial performance and its cash flows for the 18-month period from 1 July 2016 to 31 December 2017 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).

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the the Board of directors in accordance with the International Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to Notes 13 and 8 of the financial statements that disclose that during September 2017, a partial prepayment of US\$8 Million was made on the credit facility, leaving a balance of US\$28.8 Million. This prepayment was funded by capital contribution from the government in the amount of CI\$6.28 Million and the balance from the bank's internal funds. During the 18 months ended December 31, 2017, the bank received \$9.78 Million in contributed capital from the Cayman Islands Government. I also draw your attention to Note 11 which indicates that the bank received payments amounting to \$789k 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.

Note 5 of the financial statements states that impaired loans as at 31 December 2017 amounted to \$14.7 million which represents 51% of the overall loan portfolio excluding allowances for credit losses.

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

AUDITOR GENERAL'S REPORT (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the 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.

In preparing the financial statements, management is responsible for assessing the bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the bank to cease to continue as a going concern.

AUDITOR GENERAL'S REPORT (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of Section 60(1)(a)(ii) of the *Public Management and Finance Law (2017 Revision)* and the International Standards on Auditing. I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

A handwritten signature in blue ink, appearing to read 'Sue Winspear'.

Sue Winspear, CPFA
Auditor General

17 May 2018
Cayman Islands

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
(Expressed in Cayman Islands Dollars)

	Notes	2017 \$	2016 \$
ASSETS			
Cash and Cash Equivalents	3, 11	12,781,868	11,039,320
Term Deposit, Loan Interest and Other Receivable		225,454	174,171
Fixed Deposit	4	5,175,028	173,624
Loans to Customers, Net of Allowance for Credit Losses	5	25,451,836	29,172,526
Prepaid Expenses		28,644	18,865
Property and Equipment	6	794,342	877,962
TOTAL ASSETS		44,457,172	41,456,468
LIABILITIES AND EQUITY			
Accounts Payable and Accrued Liabilities	7	351,104	158,341
Due to Related Parties	11	4,152,786	2,427,722
Interest Payable – Long Term Debt		337,395	13,637
Current Portion of Long Term Debt	13	4,076,458	389,459
Long Term Debt	13	19,850,582	31,819,706
TOTAL LIABILITIES		28,768,325	34,808,865
Equity			
Contributed Capital	8	17,069,185	7,289,185
Statutory Reserve Fund	9	62,973	62,973
Revaluation Reserve – Property and Equipment	6	374,687	396,010
Retained Earnings (Accumulated Losses)		(1,817,998)	(1,100,565)
TOTAL EQUITY		15,688,847	6,647,603
TOTAL LIABILITIES AND EQUITY		44,457,172	41,456,468

Approved on behalf of Management:



Tracy Ebanks
General Manager

Date: May 17, 2018



Paula R. Smith
Financial Controller

Date: May 17, 2018

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE 18 MONTHS ENDED DECEMBER 31, 2017
(Expressed in Cayman Islands Dollars)

	Notes	2017 \$	2016 \$
INCOME			
Interest Income			
Loans	5	2,328,589	1,464,823
Fixed Term Deposits	3	29,756	7,018
		<u>2,358,345</u>	<u>1,471,841</u>
Interest Expense			
Long Term Debt	13	(966,396)	(492,956)
Other Loan	13	(47,265)	(56,259)
		<u>(1,013,661)</u>	<u>(549,215)</u>
Net Interest Income		1,344,684	922,626
Gain (Loss) on Foreign Currency Conversion		(70,096)	4,993
Loan Commitment Fees		11,984	26,589
Services Provided to Cayman Islands Government	11	789,476	526,317
Ministry of Education Payments for Output	11	60,677	42,951
Other Income		-	11,911
Provision for Loan Impairment	5	(670,891)	(24,827)
Net Income from Operations		1,465,834	1,510,560
ADMINISTRATIVE EXPENSES			
Salaries and Other Staff Benefits	10,14	1,602,878	1,119,141
Accommodation Costs	14	155,055	115,223
Professional Fees		73,103	52,115
Computer Maintenance		132,781	65,806
Commitment Fee on Debt Facility		-	-
Office Expenses		102,027	70,220
Depreciation	6	83,258	53,197
Advertising and Promotion		15,664	9,497
Bad Debt Written Off		1,670	-
Other		11,631	7,832
Directors' Fees		5,200	6,900
Total Administrative Expenses		2,183,267	1,499,931
Net Income (Loss)		(717,433)	10,629
Transfer to Reserves	9	-	(2,126)
Net Income (Loss) after Transfer to Reserves		(717,433)	8,503
Other Comprehensive Income			
Revaluation surplus (deficit) – property and equipment	6	(21,323)	396,010
Total Comprehensive Income (Loss)		(738,756)	404,513

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF CASH FLOWS
FOR THE 18 MONTHS ENDED DECEMBER 31, 2017
(Expressed in Cayman Islands Dollars)

	Notes	2017 \$	2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) after Transfer to Reserves		(717,433)	8,503
Adjustments for:			
Transfer to Reserve Fund	9	-	2,126
Bad Debt Written Off		1,670	-
Depreciation	6	83,258	53,197
(Gain) loss on sale of property and equipment		-	(4,215)
Provision for Loan Impairment	5	670,891	24,827
		<u>38,386</u>	<u>84,438</u>
Changes in Operating Assets and Liabilities			
(Increase) Decrease in Prepaid Expenses		(9,779)	(2,756)
(Increase) Decrease in Term Deposit and Loan Interest and Other Receivables		(51,283)	142,096
(Increase) Decrease in Loans to Customers		3,048,170	738,414
Increase (Decrease) in Accounts Payables and Accrued Liabilities		192,722	21,009
Increase (Decrease) in Due to Related Parties		1,725,065	(1,406,926)
Increase (Decrease) in Interest Payable – Long Term Debt		323,759	(7,739)
Net Cash Provided by (Used in) Operating Activities		<u>5,267,040</u>	<u>(431,464)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Fixed Deposits	4	(5,001,404)	(553)
Sale of Property and Equipment		-	215
Purchase of Property and Equipment	6	(20,963)	(29,742)
Net Cash Provided by (Used in) Investing Activities		<u>(5,022,367)</u>	<u>(30,080)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital Contributed	8	9,780,000	-
Proceeds from Debt Issued and Other Borrowed Funds		-	-
Repayments of Debt Issued and Other Borrowed Funds	13	(8,282,125)	(311,569)
Net Cash Provided by (Used in) Financing Activities		<u>1,497,875</u>	<u>(311,569)</u>
Net Increase (Decrease) Increase in Cash and Cash Equivalents During the Period		1,742,548	(773,113)
Cash and Cash Equivalents at Beginning of Period		11,039,320	11,812,433
Cash and Cash Equivalents at End of Year		<u>12,781,868</u>	<u>11,039,320</u>
Supplementary information on Cash Flows From Operating Activities			
Interest Received During the Year		2,306,230	1,470,905
Interest Paid During the Year		689,903	556,954

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE 18 MONTHS ENDED DECEMBER 31, 2017
(Expressed in Cayman Islands Dollars)

	Notes	Contributed Capital \$	Statutory Reserve Fund \$	Revaluation Reserve \$	Retained Earnings (Accumulated Losses) \$	Total \$
Balance as at June 30, 2015	8	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		-		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
Net Income (Loss) for the Period		-	-		(717,433)	(717,433)
Transfer to Reserves	9	-	-		-	-
Revaluation Surplus – property & equipment	6	-	-	(21,323)	-	(21,323)
Capital Contribution		9,780,000	-	-	-	9,780,000
Balance as at December 31, 2017		17,069,185	62,973	374,687	(1,817,998)	15,688,847

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS ENDED DECEMBER 31, 2017
(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.

Comparative Information:

The Cayman Islands Development Bank’s financial year was changed from June 30 to December 31 as a result of an amendment to the Public Management and Finance Law (2017 Revision). Accordingly, the financial statements have been prepared for the 18-month period ending December 31, 2017, however the comparatives are for the 12 month period ended June 30, 2016 and are not entirely comparable to the December 31, 2017 numbers.

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 December 31, 2017, the Bank had eleven (11) employees (2016: 12).

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:

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS ENDED DECEMBER 31, 2017
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Significant Accounting Judgments and Estimates (continued)

Impairment Losses on Loans to Customers

Loans to customers is 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.

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.

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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 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

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.

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2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

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 December 31, 2017, 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 unfavourable. As of December 31, 2017, financial liabilities comprise of accounts payable and accrued liabilities and long-term loans. All financial assets and liabilities as of December 31, 2017 are non-derivative financial instruments and are measured at amortized cost.

(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, other than derivatives and those at fair value through profit or loss, are measured at amortized cost. Financial instruments are measured initially at cost, which is the fair value of the consideration given or received. Loans to customers are carried at amortized cost using the effective interest method, less any provisions for impairment.

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.

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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)

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.

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 has contracted an external audit firm to assist with the implementation of the changes in IFRS 9 and is set for full adoption in 2018.

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.

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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) (continued)

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.

Clarifications to IFRS 15 'Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2018)

Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

IFRS 16 Leases - (Effective for annual periods beginning on or after 1 January 2019)

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRIC 22 Foreign Currency Transactions and Advance Consideration - (Effective for annual periods beginning on or after 1 January 2018)

The interpretation addresses the foreign currency transactions or parts of transactions where: (1) there is consideration that is denominated or priced in a foreign currency; (2) the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and (3) the prepayment asset or deferred income liability is non-monetary.

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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 December 31, 2017 and June 30, 2016 were comprised of the following:

	2017	2016
	\$	\$
Current and Savings Accounts	6,669,611	6,667,751
Fixed Deposit less than three months	2,134,499	2,117,471
Cash held on behalf of the Young Nation Builders Scholarship Fund	527,421	392,177
Cash held on behalf of the Education Council Scholarship Fund	3,450,337	1,861,921
Total	12,781,868	11,039,320

The effective interest rate on call deposits for the 18 months July 2016 to December 2017 was 0.65% (2016: 0.33%). The deposits had an average maturity of 135 days (2016: 135 days). As approved by the Board of Directors, short term fixed deposit of \$2,134,499 (2016: \$2,117,471) is restricted in use and is being held to service future debt repayment. Interest income earned on fixed deposits for the 18 months ended December 31, 2017 amounted to \$29,756 (year ended June 30, 2016: \$7,018).

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 December 31, 2017			
Fixed Deposit	5,175,028	5,175,028	-
As of June 30, 2016			
Fixed Deposit	173,624	173,624	-

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5. LOANS TO CUSTOMERS

The net balances of loans to customers as at December 31, 2017 and June 30, 2016 were as follows:

	2017	2016
	\$	\$
Mortgages	10,477,426	11,692,504
Business Loans	6,505,350	8,518,624
Debt Consolidation	4,872,158	4,808,371
SME 2015 Loan Program	94,438	109,982
2015 Debt Consolidation Loan Program	1,663,987	1,707,717
Student Loans	3,745,406	4,058,905
Financial Stimulus	1,272,933	1,732,405
Staff Loans	433,946	472,759
Personal Financial Assistance	29,351	76,035
Other Loans	-	10,553
	29,094,995	33,187,855
Less: Allowance for Impairment Losses	(3,643,159)	(4,015,329)
Total Net Balances	25,451,836	29,172,526

	2017	2016
	\$	\$
Short Term Portion	1,296,194	2,127,498
Long Term Portion	27,798,801	31,060,357
Total	29,094,995	33,187,855

Loans to customers' maturity analysis

	2017	2016
	\$	\$
0 – 3 Months	725,701	485,547
3 – 12 Months	570,493	1,641,950
1 – 5 Years	6,860,632	8,298,341
Over 5 Years	20,938,169	22,762,017
Total	29,094,995	33,187,855

Movement in Allowance for Impairment Losses

	2017	2016
	\$	\$
Balance at beginning of year	4,015,329	5,078,946
Provision for (reversal of) loan impairment	670,891	24,827
Loans previously provided for written off	(1,043,061)	(1,088,444)
Balance at end of year	3,643,159	4,015,329

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5. LOANS TO CUSTOMERS (CONTINUED)

As at December 31, 2017, the Bank had loan commitments amounting to \$414,518 (2016: \$346,959). 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			
		2017	2016
		\$	\$
Performing loans		1,505,403	887,471
Non-performing loans		823,186	577,352
Total		2,328,589	1,464,823

Performing and Non-Performing Loans December 31, 2017											
	Mortgages	Business Loans	Debt Consolidation	SME 2015 Loan Program	2015 Debt Consolidation	Student Loans	Financial Stimulus	Staff Loans	Personal Financial Assistance	Other Loans	Total
Performing Loans	4,554,343	729,020	2,498,545	82,391	1,551,606	2,238,857	638,323	433,947	29,351		12,756,383
Non-Performing Loans	5,923,083	5,776,330	2,373,612	12,047	112,381	1,506,549	634,610	-	-		16,338,612
Gross Total Loans	10,477,426	6,505,350	4,872,157	94,438	1,663,987	3,745,406	1,272,933	433,947	29,351	-	29,094,995

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 Assistance	Other Loans	Total
Performing Loans	5,355,161	2,484,304	2,673,126	109,982	1,689,744	2,591,133	664,133	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

The average interest yield during the period on loans and advances was 7.55% (2016: 4.30%). Impaired loans as of December 31, 2017 amounted to \$14,715,128 (2016: \$17,136,960) and interest taken to income on impaired loans during the period amounted to \$823,186 (2016: \$577,352).

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5. LOANS TO CUSTOMERS (CONTINUED)

Ageing Analysis of Past Due but not Impaired Loans

As of December 31, 2017

	Mortgages	Business	Debt	2015 Debt	Student	
	\$	Loans	Consolidation	Consolidation	Loans	Total
	\$	\$	\$		\$	
30 days and less	-	-	-	-	179,656	179,656
31 to 60 days	599,467	1,020,815	-	-	162,261	1,782,543
61 and less than 90 days	527,811	116,780	-	6,904	87,519	739,014
	1,127,278	1,137,595	-	6,904	429,436	2,701,213

As of June 30, 2016

	Mortgages	Business	Debt	2015 Debt	Student	
	\$	Loans	Consolidation	Consolidation	Loans	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

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. When the contractual cash flows of a loan are renegotiated or otherwise modified and the renegotiation or modification does not result in derecognition, the Bank recalculates the gross carrying amount of the loan and recognizes any modification gain or loss in the statement of comprehensive income. If the restructured terms of a loan are significantly different, the Bank derecognizes the original loan and recognizes a new one at fair value with any difference recognized in the statement of comprehensive income.

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 \$1,284,822 (2016: \$3,160,877). Subsequent to December 31, 2017, four of the loans restructured during the fiscal year with total outstanding principal balance of \$166,570 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 December 31, 2017 amounted to \$8,288,625 (2016: \$9,903,125).

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6. PROPERTY AND EQUIPMENT

	Building	Motor Vehicles	Computers	Furniture and Office Equipment	Total
Cost	\$	\$	\$	\$	\$
At July 1, 2016	845,000	29,880	351,120	95,133	1,321,133
Additions	-	-	20,963	-	20,963
Cost adjustment - revaluation	(85,000)				(85,000)
Disposals	-	-	-	-	-
At December 31, 2017	760,000	29,880	372,083	95,133	1,257,096
Accumulated Depreciation					
At July 1, 2016		3,486	344,831	94,854	443,171
Depreciation charge for the year	63,675	8,964	10,525	94	83,258
Depreciation written back due to revaluation	(63,675)				(63,675)
Disposals	-	-	-	-	-
At December 31, 2017	-	12,450	355,356	94,948	462,754
Net Book Value – December 31, 2017	760,000	17,430	16,727	185	794,342
Net Book Value – June 30, 2016	845,000	26,394	6,289	279	877,962

As of December 31, 2017, the fair value of the building is estimated at \$760,000 based on an independent valuation report prepared by DDL Studio Ltd as of November 30, 2017. The valuation was prepared in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards. The value used by DDL Studio Ltd is the Fair Value as defined by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS) 13 and adopted by the Royal Institution of Chartered Surveyors (RICS) as "The price that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date". In arriving at the valuation for the building, DDL Studio Ltd utilized the Investment 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 resulting change in the valuation of the building of \$(21,323) 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. The carrying amount of building before revaluation is \$785,144.

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 2016 to August 2017 is US\$23,389 and for September 2017 to August 2018 is US\$23,834.

Movement in Revaluation Reserve – Building

	2017	2016
	\$	\$
Balance brought forward	396,010	-
Revaluation surplus (deficit)	(21,323)	396,010
Revaluation reserve balance carried forward	374,687	396,010

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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 December 31, 2017, and June 30, 2016 the balances were as follows:

	2017	2016
	\$	\$
Funds in hand for payment of fees on behalf of customers	160,190	38,095
Professional fees	76,011	71,401
Pension liability payable	102,000	26,000
Other payables	4,910	6,800
Accrued leave liability	7,993	16,045
Total	<u>351,104</u>	<u>158,341</u>

There is a Past Service Liability balance of \$102,000, 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 \$102,000 is now due and payable to the Government. A preliminary IAS19 Pension Valuation carried out by independent actuary with a valuation date of December 31, 2017, shows a \$76,000 increase in the pension liability over prior years.

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 December 31, 2017, the amount of contributed capital of \$17,069,185 (2016: \$7,289,185) amounted to 34% (2016: 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 18 months ended December 31, 2017, the Bank received \$9,780,000 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 \$17 Million). There was no transfer to the Reserve Fund for the 18 months ended December 31, 2017 as the bank made a loss (2016: \$2,126). As of December 31, 2017, the Statutory Reserve Fund has a balance of \$62,973 (2016: \$62,973).

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.

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10. PERSONNEL (CONTINUED)

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 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 18 months ended December 31, 2017 was \$144,424 (2016: \$95,074).

Pension contributions are paid for all eligible employees on their pensionable emoluments. The Bank's 11 (2016: 12) 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>2017</u>	<u>2016</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.

There is a Past Service Liability balance of \$102,000 (2016: \$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 one employee retired during 2012. The amount of \$102,000 (2016: \$26,000) is now due and payable to the Government.

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 18 months ended December 31, 2017, CIDB received payments of \$789,476 (2016: \$526,317) 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)

a) Transaction with the Cayman Islands Government (continued)

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. Up until June 30, 2016, CIDB received \$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 listed below. There have been no disbursements under this fund since July 4, 2017. In addition, the balance in this fund will be transferred to a new program. As of the financial reporting date, CIDB has not received formal instructions from the Ministry of Education to transfer the funds to the new program. In addition, a new agreement will be entered into for this new program before any disbursement are made.

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 December 31, 2017 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 and are due and payable to each program as of December 31, 2017 and June 30, 2016 are as follows:

	2017	2016
	\$	\$
Education Council Scholarship Fund	3,450,337	1,861,921
Young Nation Builders Scholarship Program	527,421	392,177
Housing Recovery Grant	175,028	173,624
Total	<u>4,152,786</u>	<u>2,427,722</u>

b) Transactions with Members of Management and Staff

During the 18 months ended December 31, 2017, CIDB had four key management personnel positions which consisted of the General Manager, Financial Controller, Operations Manager, Senior Risk Manager. The total compensation received by key management personnel for the 18 months ended December 31, 2017 totaled \$703,805 (2016: \$542,082), which represents salary, pension and medical expenses for the reporting period. Defined contribution plan expense for key management personnel for the 18 months ended December 31, 2017 amounted to \$70,619 (2016: \$47,079).

As at December 31, 2017, Senior Management held loans totaling \$61,884 (2016: \$80,930). Income earned on Senior Management loans is \$5,073 (2016: \$11,154).

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11. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As of December 31, 2017, the total staff loan balance is \$433,946 (2016: \$472,759). 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 18 months ended December 31, 2017, the Bank has not made any provision for impairment losses relating to amounts owed by Senior Management or staff (2016: Nil).

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 to customers of \$25,451,836 represents the maximum exposure to credit risk as of December 31, 2017 (2016: \$29,172,526) 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 December 31, 2017, the total cash and equivalents of \$12,781,868 (2016: \$11,039,320) and fixed deposit of \$5,175,028 (2016: \$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.

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12. FAIR VALUE AND RISK ASSESSMENT OF FINANCIAL INSTRUMENT (CONTINUED)

Risk Management (continued)

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.

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). For year ended June 30, 2016 there was one line of credit existing, 9/OR-CAY. The 7/OR-CI line of credit was repaid in full in January 2013.

During June 2017, the outstanding principal balance of US\$1,593,837 on the 9/OR-CAY line of credit was repaid in full ahead of scheduled maturity.

Total interest expense incurred on the CDB loan for the 18 months ended December 31, 2017 amounted to \$47,265 (year ended June 30, 2016: \$56,259).

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13. DEBT ISSUED AND OTHER BORROWED FUNDS (CONTINUED)

Long-term Debt with Local Financial Institution

During June 2015, CIDB used funds from its fixed deposit to repay US\$5 Million credit facility with a local financial institution 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 outstanding credit facilities falling due June 2015. The new credit facility is 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 for July 2015 to June 2018, after which amortized payments of principal and interest will be made. During September 2017, a partial prepayment of US\$8 Million was made on the credit facility, leaving a balance of US\$28.8 Million. This prepayment was funded both by capital contribution from the government in the amount of CI\$6.28 Million and the balance from CIDB's internal funds. Total interest expense incurred on the credit facility for the 18 months ended December 31, 2017 amounted to \$966,396 (year ended June 30, 2016: \$492,956). All borrowing costs incurred during the period have been expensed.

Terms and Principal Repayment Debt Schedule as at December 31, 2017

	<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 Credit Facility					
US\$ 28.8 Million due June 2025,					
Variable Rate at 3-Month US\$ LIBOR					
plus 1.125%	23,927,040	4,076,458	4,076,458	12,229,374	3,544,750
TOTAL	23,927,040	4,076,458	4,076,458	12,229,374	3,544,750

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

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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

	2017	2016
	\$	\$
Salaries	1,135,833	873,025
Medical Expenses	232,994	126,545
Pension Cost – Defined Contribution Plan	144,424	95,074
Pension Cost – Defined Benefit Plan	76,000	-
Recruitment and Other Related Expenses	13,627	24,497
	<u>1,602,878</u>	<u>1,119,141</u>

b) Accommodation Costs

	2017	2016
	\$	\$
Strata Fees	59,990	41,136
Electricity	31,137	24,750
Telephone	15,675	11,865
Insurance-Contents	8,965	8,400
Janitorial Costs	16,158	10,800
Other	23,130	18,272
	<u>155,055</u>	<u>115,223</u>

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15. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS

The Bank had no known contingent liabilities at December 31, 2017 (2016: Nil).

At December 31, 2017, the Bank had commitments relating to maintenance of the RIBS/EDGE banking software by Gresham Computing Ltd. The amount committed per year is approximately \$23,000 (2016: \$19,032).

As at December 31, 2017, the Bank had loan commitments amounting to \$557,681 (2016: \$346,959). 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

Effective January 1, 2018, the useful life of CIDB's commercial building has been revised from 20 years to 50 years based on an independent property valuation prepared by DDL Studio Ltd as of November 30, 2017. As such, the annual depreciation expense will be reduced from \$42,250 to \$15,200 for the year ending December 31, 2018 onward.