



ANNUAL REPORT

FOR

THE YEAR ENDED

DECEMBER 31, 2018

CAYMAN ISLANDS DEVELOPMENT BANK

CONTENTS

General Manager/CEO Statement	3
Vision Statement - Cayman Islands Development Bank	4
Report for the Year Ended December 31, 2018	
1) Nature and Scope of Activities	5
2) Governance	5
3) Our People	5
4) Management Discussion and Analysis	5-8
i) Loan Performance	
ii) Loan Delinquency	
iii) Financial Performance	
5) Programmes Administered on behalf of the C.I. Government	8
6) The Future	8-9
7) Acknowledgements	9

Audited Financial Statements for the Year Ended December 31, 2018

GENERAL MANAGER'S STATEMENT

Interest income from loans decreased 18% from the previous 18 month accounting period due to minimal new loan growth. Overall interest income decreased 8% due to an increase in interest income from funds held on fixed deposits. The bank was operating without a board until May 2018 therefore a strategic direction for new loan growth was not included in the bank's budget for 2018. The Bank's loan portfolio subsequently declined CI\$4 Million through contractual principal repayments and early pay outs. During the period the Bank reduced its long term debt by CI\$4.076 Million through semi-annual principal payments on its remaining CI\$19 Million loan facility with FirstCaribbean International Bank.

The Bank's operating expenses increased 3.7% overall mainly due to a 6.5% increase in salary expense due to the hiring of 2 manager level employees. The Cayman Islands Monetary Authority made it mandatory that all financial institutions should employ a full time dedicated Money Laundering Reporting Officer/Compliance Officer. This position was previously being performed in-house by the Financial Controller. In addition, the bank's IT services were outsourced on a part time basis. The bank's banking platform required upgrading and as such a full time IT Manager was hired to oversee the conversion. The Bank posted a loss of CI\$432K down from a previous recorded loss of CI\$717K, which was due to adjustments made with the new provisioning requirements under IFRS 9 accounting rules.

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.**

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, 2018, the bank had a total of 13 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, 2018, employees of the Bank participated in a number of training programs that included training in Anti-Money Laundering and Fraud, and Alpha Banking for the new banking software platform. The General Manager/CEO attended a Training and Information Sharing Program for Executives of Development Banks at Banco Financiero in Mexico City that provided valuable information on viable lending programs and risk management. 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, 2018 were as follows:

- 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
- Provision of financial counseling for customers
- Replacing existing hardware/software banking systems

i) Loan Performance

As of December 31, 2018, the loan portfolio stood at \$25,710,854 before loan loss provision of \$4,302,811 compared to the loan portfolio as of year ended December 31, 2017 of \$29,094,995 before loan loss provision of \$3,643,159, representing a net decrease of 11% in the loan portfolio over year ended December 31, 2017. The portfolio decreased due to limited lending and from early redemption of loans and disposal of assets from foreclosure.

Number and Value of Loans Approved for the Year Ended December 31, 2018

<u>Sector</u>	<u>Number of Loans</u>	<u>Value of Loans</u>
Student Loans	11	217,675
Other Loans*	<u>58</u>	<u>136,749</u>
Total	<u>69</u>	<u>354,424</u>

*comprises of insurance, legal fees and property valuations

Student loans declined 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 as the Bank had to force place home owners insurance coverage as customers were unwilling or unable to pay the premiums.

ii) Loan Delinquency

Loan delinquency continues to be a problem for the Bank. Delinquent loans were approximately CI\$13.5 Million as of December 31, 2018, representing 53% of the entire loan portfolio down slightly from 56% recorded for 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 continues to work with customers in an attempt to reduce delinquency levels.

iii) Financial Performance

As of December 31, 2018, the total assets of the Bank stood at \$41,002,212 (excluding cash held on behalf of the Education Council Scholarship Fund of \$3,342,811 and the Housing Recovery Grant of \$176,963), a decrease of \$3.4 Million attributed to loan paydowns and no significant new loan growth.

The loan portfolio represented approximately 52% of the Bank's assets as of December 31, 2018 compared to 57% in previous years due to an increase in deposits. Liabilities decreased by \$5.27 Million due mainly to the commencement of semi-annual principal payments on the CI\$19.9 Million loan facility with FirstCaribbean International Bank. In addition, CIDB held funds of CI\$527K for the Young Nation Builders Scholarship Fund that was transferred via cheque disbursement to the Cayman Islands Government.

Gross income improved 24% for the year ended December 31, 2018 due to lower interest expense and an increase of Governments' payments for outputs of \$500K. This increase was a one off to assist with expected losses from IFRS 9. Currently, CIDB is economically dependent upon Government to meet its operational expenditure.

Interest income from loans decreased 18% from the previous 18 month accounting period due to no new loan growth. Overall interest income decreased 8% due to an increase in interest income from funds held on fixed deposits.

The Bank's operating expenses increased 3.7% overall mainly due to a 6.5% increase in salary expense due to the hiring of 2 manager level employees. The Cayman Islands Monetary Authority made it mandatory that all financial institutions should have a full time dedicated Money Laundering Reporting Officer/Compliance Officer. This position was being performed in-house by the Financial Controller. In addition, the bank's IT services were outsourced on a part time basis. The bank's banking platform required upgrading and as such a full time IT Manager was hired to oversee the conversion. Also, there was a need to develop and enhance business processes, decision-making systems and IT solutions in order to effectively manage the operational processes and financial reporting with the implementation of IFRS 9. The Bank posted a loss of CI\$432K down from a previous recorded loss of CI\$717K due mainly to an adjustment that was made with the new provisioning requirements under IFRS 9 accounting rules.

5) Programmes Administered on Behalf of the Cayman Islands Government

During the fiscal year ended December 31, 2018, 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 will result in an increase to the Bank's loan loss provision and increase loss. Previously, provisions were more reactive and an impairment was booked after 90 days – non-accrual status, but under IFRS 9, provisions will be established from the moment a loan is booked.

The new model could restrict the possibility for the bank to fulfil its mandate as one of the interests of our shareholders is to act counter-cyclically, and to support those sectors of the economy which are vulnerable get access to funding. There will be an additional burden on capital, due to the new forward looking approach on impairment assessment – expected credit loss. There will be pressures on pricing, and potentially a negative impact on the profit and loss statement. Another challenge will be new pressures on the risk appetite. In the face of additional pressure on capital and strengthening the requirements for IFRS-9 provisions, the bank will face the need to search for a trade-off between risks and mission. The bank will incorporate macroeconomic forecasts in its models, such as data sources, reliability, back-testing and validation of models. As commercial banks are likely to be more and more pro-cyclical, development banks will have more space and more niches in the market to act counter-cyclically.

With the new standards there will be niches corresponding to the mandate of the bank. The bank needs to target those niches and adjust the risk management to deal with them. With the increase in CI\$ and US\$ prime interest rates, the commercial financial institutions have increased their mortgage interest rates that don't cater to the lower income market. Currently the bank has internal funds earning deposit interest that can be used to fund a niche mortgage market by partnering with the Government owned National Housing Development Trust. The bank can offer a lower interest rate to assist the lower wage earner through the program.

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. 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 2019 are:

- Increase portfolio by new business loan programs
- Increase portfolio by new Home Energy Loan Program “HELP”
- Increase portfolio by new Affordable Home Mortgage Program
- Expanded support for the student loan program via counseling
- Provision of financial counseling for customers
- Implement new loan loss provision model

7) Acknowledgements

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

**AUDITED FINANCIAL STATEMENTS FOR
YEAR ENDED DECEMBER 31, 2018**

Cayman Islands Development Bank

Financial Statements

For the Year Ended December 31, 2018

CAYMAN ISLANDS DEVELOPMENT BANK

FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

Table of Contents

	Page
Statement of Responsibility for the Financial Statements	2
Auditor General's Report	3-5
Statement of Financial Position	6
Statement of Comprehensive Income	7
Statement of Cash Flows	8
Statement of Changes in Equity	9
Notes to the Financial Statements	10-36

Cayman Islands Development Bank
Statement of Responsibility for the Financial Statements
December 31, 2018

These financial statements have been prepared by the Cayman Islands Development Bank in accordance with the provisions of the *Public Management and Finance Law (2018 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 (2018 Revision)*.

As Chairman of the Board of Directors and General Manager 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 Chairman of the Board of Directors and General Manager 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 2018, 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 year ended 31 December 2018;
- (b) fairly reflect the financial position as at 31 December 2018 and financial performance for the year ended 31 December 2018; and
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.



Richard Lewis
Chairman of the Board of Directors
Cayman Islands Development Bank



Tracy Ebanks
General Manager
Cayman Islands Development Bank

Date: August 2, 2019

Date: August 2, 2019

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 December 31, 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 10 to 36.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018 and its financial performance and its cash flows for the year ended December 31, 2018 in accordance with Section 21(3) of the Cayman Islands Development Bank Law (2018 Revision) and the provisions of Section 60(1)(a) of the Public Management and Finance Law (2018 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 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 9 of the financial statements that disclose that the Bank received \$2.25 Million in contributed capital from the Cayman Islands Government during the year ended December 31, 2018. I also draw your attention to Note 12 which indicates that the Bank received payments amounting to \$1.026 Million for providing services to the Cayman Islands Government.

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.

According to note 6 in the financial statements, impaired loans as at December 31, 2018 amounted to \$13.5 million. This represents 53% 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.

AUDITOR GENERAL'S REPORT (continued)

- 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.
- 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) of the *Public Management and Finance Law (2018 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.



Patrick Smith CPA, CFE
Acting Auditor General

August 2, 2019
Cayman Islands

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

		2018	2017
	Notes	\$	\$
ASSETS			
Cash and Cash Equivalents	3, 12	6,559,283	12,781,868
Term Deposit, Loan Interest and Other Receivable	5	353,691	225,454
Fixed Deposit, Net of Allowance for Expected Credit Losses	4	11,769,986	5,175,028
Loans to Customers, Net of Allowance for Expected Credit Losses	6	21,408,043	25,451,836
Prepaid Expenses	5	30,063	28,644
Deposit on assets	5	80,076	-
Property and Equipment	7	801,070	794,342
TOTAL ASSETS		41,002,212	44,457,172
LIABILITIES AND EQUITY			
Accounts Payable and Accrued Liabilities	8	123,038	351,104
Due to Related Parties	12	3,519,774	4,152,786
Interest Payable – Long Term Debt		2,793	337,395
Current Portion of Long Term Debt	14	4,076,458	4,076,458
Long Term Debt	14	15,774,123	19,850,582
TOTAL LIABILITIES		23,496,186	28,768,325
EQUITY			
Contributed Capital	9	19,319,185	17,069,185
Statutory Reserve Fund	10	62,973	62,973
Revaluation Reserve – Property and Equipment	7	374,687	374,687
Retained Earnings (Accumulated Losses)		(2,250,819)	(1,817,998)
TOTAL EQUITY		17,506,026	15,688,847
TOTAL LIABILITIES AND EQUITY		41,002,212	44,457,172

Approved on behalf of Management:



Tracy Ebanks
General Manager

Date: August 2, 2019



Paula R. Smith
Financial Controller

Date: August 2, 2019

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

		2018 (12 Months) \$	2017 (18 Months) \$
	Notes		
INCOME			
Interest Income			
Loans	6	1,279,912	2,328,589
Fixed Term Deposits	3, 4	169,344	29,756
		<u>1,449,256</u>	<u>2,358,345</u>
Interest Expense			
Long Term Debt	14	(768,715)	(966,396)
Other Loan	14	-	(47,265)
		<u>(768,715)</u>	<u>(1,013,661)</u>
Net Interest Income		680,541	1,344,684
Gain (Loss) on Foreign Currency Conversion		(11,094)	(70,096)
Loan Commitment Fees		2,019	11,984
Services Provided to Cayman Islands Government	12	1,026,317	789,476
Ministry of Education Payments for Output	12	40,451	60,677
Other Income		41	-
Credit Loss Expense	3, 4, 6	(661,160)	(670,891)
Net Income from Operations		<u>1,077,115</u>	<u>1,465,834</u>
ADMINISTRATIVE EXPENSES			
Salaries and Other Staff Benefits	11, 15	1,138,604	1,602,878
Accommodation Costs	15	105,513	155,055
Professional Fees		86,857	73,103
Computer Maintenance		53,342	132,781
Office Expenses		71,171	102,027
Depreciation	7	37,078	83,258
Advertising and Promotion		5,215	15,664
Bad Debt Written Off		750	1,670
Other		8,426	11,631
Directors' Fees		2,980	5,200
Total Administrative Expenses		<u>1,509,936</u>	<u>2,183,267</u>
Net Income (Loss)		(432,821)	(717,433)
Transfer to Reserves	10	-	-
Net Income (Loss) after Transfer to Reserves		<u>(432,821)</u>	<u>(717,433)</u>
Other Comprehensive Income			
Revaluation surplus (deficit) – property and equipment	7	-	(21,323)
Total Comprehensive Income (Loss)		<u><u>(432,821)</u></u>	<u><u>(738,756)</u></u>

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

		2018 (12 Months) \$	2017 (18 Months) \$
	Notes		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) after Transfer to Reserves		(432,821)	(717,433)
Adjustments for:			
Transfer to Reserve Fund	10	-	-
Bad Debt Written Off		750	1,670
Depreciation	7	37,078	83,258
Credit loss (credit) expense	3, 4, 6	661,160	670,891
		<u>266,167</u>	<u>38,386</u>
Changes in Operating Assets and Liabilities			
(Increase) Decrease in Prepaid Expenses		(1,419)	(9,779)
(Increase) decrease in deposit on assets		(80,076)	-
(Increase) Decrease in Term Deposit and Loan Interest and Other Receivables		(128,237)	(51,283)
(Increase) Decrease in Loans to Customers		3,383,391	3,048,170
Liabilities		(228,066)	192,722
Increase (Decrease) in Due to Related Parties		(633,013)	1,725,065
Increase (Decrease) in Interest Payable – Long Term Debt		(334,602)	323,759
Net Cash Provided by (Used in) Operating Activities		<u>2,244,145</u>	<u>5,267,040</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in Fixed Deposits	4	(6,596,465)	(5,001,404)
Purchase of Property and Equipment	7	(43,806)	(20,963)
Net Cash Provided by (Used in) Investing Activities		<u>(6,640,271)</u>	<u>(5,022,367)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital Contributed	9	2,250,000	9,780,000
Repayments of Long-Term Debt	14	(4,076,459)	(8,282,125)
Net Cash Provided by (Used in) Financing Activities		<u>(1,826,459)</u>	<u>1,497,875</u>
Net (Decrease)/ Increase in Cash and Cash Equivalents		(6,222,585)	1,742,548
Cash and Cash Equivalents at Beginning of the Period		12,781,868	11,039,320
Cash and Cash Equivalents at End of Period		<u>6,559,283</u>	<u>12,781,868</u>
Supplementary information on Cash Flows From Operating			
Interest Received During the Period		1,456,108	2,306,230
Interest Paid During the Period		1,103,317	689,903

The accompanying notes are an integral part of these financial statements

CAYMAN ISLANDS DEVELOPMENT BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

	Notes	Contributed Capital	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings (Accumulated Losses)	Total
		\$	\$	\$	\$	\$
Balance as at June 30, 2016	9	7,289,185	62,973	396,010	(1,100,565)	6,647,603
Net Income (Loss) for the Year		-	-	-	(717,433)	(717,433)
Transfer to Reserves	10	-	-	-	-	-
Revaluation Surplus – Property & Equipment	7	-	-	(21,323)	-	(21,323)
Capital Contribution	9	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
Net Income (Loss) for the Period		-	-	-	(432,821)	(432,821)
Transfer to Reserves	10	-	-	-	-	-
Revaluation Surplus – property & equipment	7	-	-	-	-	-
Capital Contribution	9	2,250,000	-	-	-	2,250,000
Balance as at December 31, 2018		19,319,185	62,973	374,687	(2,250,819)	17,506,026

The accompanying notes are an integral part of these financial statements

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(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 (2018 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 (2018 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 for year ended December 31, 2018 are not entirely comparable to the 18-month period ending December 31, 2017.

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, 2018, the Bank had thirteen (13) employees (2017: 11).

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. 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 considered to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within one year from the date of these financial statements are listed below.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Significant Accounting Judgments and Estimates (continued)

Impairment Losses on Loans to Customers and Other Financial Assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, particularly in estimating the amount and timing of future cash flows and collateral when making a determination of impairment losses and assessing any significant increase in credit risk. These estimates are influenced by numerous factors, changes in which can result in differing levels of allowances.

The Bank's Expected Credit Loss (ECL) calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit rating model
- The Bank's criteria for assessing if there has been a significant increase in credit risk
- Determining inputs into the ECL measurement model, including incorporation of forward-looking information
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposure at Default (EAD) and Loss Given Default (LGDs)

It is the Bank's policy to regularly review its models in the context of loss experience and adjust as necessary.

Write off of Loans

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Loans are written off, in whole or in part, against the related expected credit loss allowance 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.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

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 rate (EIR) until such time as a loan is classified as impaired. Any accrued interest on credit 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	50 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.

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 report prepared by DDL Studio Ltd as of November 30, 2017.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

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

The classification of financial instruments at initial recognition depends on their contractual terms and business model for managing the instruments. Effective January 1, 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the assets contractual terms measured at either; amortized cost, fair value through other comprehensive income (FVOCI), fair value through profit or loss (FVPL).

Effective January 1, 2018, the Bank measures loans to customers and fixed deposits held with banks at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model the objective of which is to hold the financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

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, 2018, financial assets comprise of cash and cash equivalents, deposit accounts and loans to customers. 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, 2018, financial liabilities comprise of accounts payable and accrued liabilities and long-term loan. All financial assets and liabilities as of December 31, 2018 are non-derivative financial instruments and are measured at amortized cost based on the conditions above.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

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

Derecognition other than for substantial modification

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. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, then the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

Derecognition due to substantial modification of terms and conditions

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans will then be classified as Stage 1 for ECL measurement purposes.

When assessing whether or not to derecognize a loan to a customer, the Bank considers the following factors:

- Change in the counterparty to the loan
- If the modification is such that the loan would no longer meet the SPPI criteria

If the modification in the loan does not result in cash flows that are substantially different, then the modification will not lead to derecognition. Based on the change in cash flows, discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

(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 expected credit loss allowance.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards

IAS 7 – Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 is effective for entities with an annual reporting period beginning on or after January 1, 2018.

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. In applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The principles in IFRS 15 apply 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 Bank is a lending institution only and not deposit taking and does not offer any other forms of paid services to its customers (borrowers). The only contracts in force between the Bank and customers are loan agreements, the accounting treatment of which are already covered under IFRS 9 – Financial Instruments. Management believes the impact of the new IFRS 15 is negligible on the operations on the Bank.

IFRS 16 - Leases

The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise ‘short-term’ leases and leases of ‘low-value’ assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today’s finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss. IFRS 16 is effective for entities with annual periods beginning on or after January 1, 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Bank is currently evaluating the impact, if any, of the adoption of this new standard.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 is effective January 1, 2018 and clarifies which exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. 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.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration (continued)

The Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

Applying paragraphs 21–22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

During year ended December 31, 2018, the Bank made advance payments on certain transactions which are initially recorded as non-monetary assets and later expensed or recognized as an asset. All these transactions were denominated in United States Dollars. There was no material difference between the foreign exchange rate at the date of the transactions and the date the assets or expenses were recognized, and therefore, no amendment to value was necessary on initial recognition of the related asset or expense.

IFRS 7

IFRS 7 sets out the disclosure requirements for all financial instruments with the objective of enhancing financial statement users' understanding of the significance of financial instruments to an entity's overall financial position; the risk exposures resulting from such financial instruments and how the entity manages those risks. To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year ending December 31, 2018. Changes include transition disclosures, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out below.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards (continued)

IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 as at January 1, 2018. As permitted, the Bank has not restated prior period comparative information for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. In addition, differences arising in the carrying amounts of financial instruments as a result of the adoption of IFRS 9 have been recognized in the current financial period's income statement.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets FVPL, available for sale (AFS), held-to-maturity and amortised cost have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at fair value through profit or loss (FVPL)

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in other comprehensive income (OCI) with no subsequent reclassification to the income statement.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires that the Bank record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case a lifetime ECL is determined. The quantitative impact of applying IFRS 9 as at December 31, 2018 is disclosed below.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards (continued)

IFRS 9 – Financial Instruments (continued)

Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs. A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of December 31, 2018 is as follows:

	IAS 39 carrying amount Dec 31, 2018		Reclassifications	Remeasurements	IFRS 9 carrying amount at Dec 31, 2018
	\$		\$	\$	\$
Financial Assets					
Cash and cash equivalents	6,559,517	-		(234)	6,559,283
Term deposit, loan interest and other receivable	353,691	-		-	353,691
Fixed Deposit	11,771,260	-		(1,274)	11,769,986
Loans to customers	21,544,426	-		(136,383)	21,408,043
Total Financial Assets	40,228,894	-		(137,891)	40,091,003
Financial Liabilities					
Accounts Payable and Accrued Liabilities	123,038	-		-	123,038
Due to Related Parties	3,519,774	-		-	3,519,774
Interest Payable – Long Term Debt	2,793	-		-	2,793
Current Portion of Long Term Debt	4,076,458	-		-	4,076,458
Long Term Debt	15,774,123	-		-	15,774,123
Total Financial Liabilities	23,496,186	-		-	23,496,186

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards (continued)

IFRS 9 – Financial Instruments (continued)

Impairment of Financial Assets

IFRS 9 replaces the incurred loss model under IAS 39 with an expected credit loss model, with a forward-looking ECL approach. For the 2018 financial year, the Bank has recorded the allowance for expected credit losses for all loans to customers and fixed deposits held with other financial institutions. The ECL allowance is based on the credit losses expected to arise over the life of the financial asset (the lifetime expected credit loss or LTECL up to a maximum of loan contractual period), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12-month ECL). In determining what is considered significant increase in credit risk for a loan or group of loans, the Bank generally considers a loan that is 30 days past due as having a significant increase in credit risk. The Bank also examines historical loan data, reviews and considers information on hand about each loan; example, information about the financial situation of a borrower and certain macroeconomic factors. The 12-month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12-month ECLs are calculated on an individual loan basis. The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank allocates its loans into Stage 1, Stage 2 and Stage 3, as described below:

- **Stage 1:** When loans are first recognised, the Bank recognises an allowance based on 12-month ECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2. Loans can only be reclassified from Stage 2 to Stage 1 if they were originally in Stage 1.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- **Stage 3:** Loans considered credit impaired. The Bank records an allowance for the LTECLs.

Loan Impairment Calculation

The Bank calculates ECL taking into account the following:

- Functional form of expected loss
- Expected life of financial instruments
- Definition of default
- Forward looking probability of default
- Loss given default
- Time value of money
- Significant increase in credit risk

The Bank defines ECL as a function of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is a widely accepted definition of expected loss within the industry and is consistent with Basel II definition of expected loss.

Definition of Default

The Bank uses the number of days in arrears to determine default. Loans that are 90 days or more in arrears are defined as being in default; this is also in line with IFRS 9, paragraph B5.5.37, which defines an upper threshold to define defaults.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards (continued)

IFRS 9 – Financial Instruments (continued)

Impairment of Financial Assets (continued)

Forward Looking Probability of Default

Point in time (PiT) PD models and forward looking PIT PD term structures were developed in order to gain comfort over the accuracy of forward looking PD estimates and to understand the sensitivity of the loan portfolio to the changes in economic conditions.

Loss Given Default

Loss Given Default (LGD) is the magnitude of the likely loss if there is a default. The Bank estimates LGD based on the historical recovery rates of claims against defaulted customers. The LGD model measurement takes into account the type of collateral, how the Bank's claim on the defaulted customer ranks over other creditors, and any costs associated with recovering the collateral. For loans secured by retail property Loan to Value (LTV) ratios are a key component in determining LGD. LGD estimates are also adjusted for economic impact and for real estate lending, to reflect possible changes in property values. They are also calculated using the time value of money.

Exposure at Default

Exposure at Default (EAD) represents the total value to which the Bank is exposed in the event of a default. The Bank's considers EAD as the maximum value between balance and limit.

In estimating the probability of default, the following factors were considered:

Key risk factors:

- Net disposable income
- Age of loan
- Ratio between loan balance and arrears
- Number of days loan in arrears
- Type of loan repayment, that is, interest only or interest and principal

Macroeconomic factors of the Cayman Islands:

- Inflation
- Unemployment rate
- Gross Domestic Product (GDP)

Incorporation of Forward-looking Information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk on a loan has increased significantly since initial recognition and the measurement of the ECL.

The Bank took the 12 month default by looking forward for a 12 month period at each month in the timeline for a loan that was in default. The default date was calculated by taking the year end date less the days in arrears for loans that had arrears of 90 days or more. An average PD was calculated for each year across all loans.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant Accounting Policies (continued)

g) New and Amended International Financial Reporting Standards (continued)

IFRS 9 – Financial Instruments (continued)

Impairment of Financial Assets (continued)

Incorporation of Forward-looking Information (continued)

An analysis was performed over the historical 12-month PD to determine whether there was any trend that could be estimated. The strongest correlation between PD% and the macro-economic factors was with unemployment rate (UR), a correlation factor of 88.2%. The forecast unemployment rate for Cayman Islands is 5.3%, which given the strength of the correlation, equates to a forward-looking 12-month PD of 8.39%.

A minimum of three scenarios is required for performing a weighted forward-looking PD based on the expectations of the macro-economic changes.

- Best case – Improving economic position, therefore the PD will revert to its lowest in recent years in 2016 of 5.42% - weighted at 31%
- Base case – Stable economic position, the PD will remain at its 2017 level of 7.03% - weighted at 16%
- Worst case – Degrading economic position, in line with the expectation of increasing unemployment, resulting in a PD of 8.39% - weighted at 53%

The scenario weightings were determined by assuming the macroeconomic factor (i.e. unemployment rate) will vary following a normal distribution around the 8-year average. The best case weighting was calculated as the probability that the unemployment rate will be less than 4.9%, the base case where the unemployment rate would be between 4.9% and 5.3% and the worst case where the unemployment will exceed 5.3%

The scenario weighted 12-month PD is 7.24%.

Stage 1 Probability of Default: The 12-month ECL is calculated as the portion of LTECLs that represents the ECLs that result from default events on loans that are possible within 12 months after the reporting date. The Bank calculates the 12-month ECL allowance based on the expectation of a loan going into default in the 12 months following the reporting date.

Stage 2 Probability of Default: This is the lifetime probability of default, that is, what is the probability that during the lifetime of the loan that it will go 90 days in arrears (delinquent). Lifetime default is calculated on a loan by loan basis by looking from month 13 onward (12-month defaults are considered as part of stage 1) until maturity to determine if the loan enters default.

Stage 3 Probability of Default: Stage 3 default is 100% by definition. If a loan is 90 days or more in arrears it is defined as being in default. These loans are therefore considered credit-impaired and the Bank recognizes the lifetime expected credit losses for these loans.

Loan Classification for Impairment Calculation Purpose

The Bank classifies loans to customers as secured and unsecured based on the type of collateral. In general, a loan which has a first charge over property is deemed to be secured and an applicable discount rate applied. For all other loans deemed unsecured a discount of 100% is applied in arriving at the overall ECL.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(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 December 31 were comprised of the following:

	2018	2017
	\$	\$
Current and Savings Accounts	1,054,313	6,669,611
Fixed Deposit less than three months	2,162,393	2,134,499
Credit loss allowance (in accordance with IFRS 9)	(234)	-
Cash held on behalf of the Young Nation Builders Scholarship Fund	-	527,421
Cash held on behalf of the Education Council Scholarship Fund	3,342,811	3,450,337
Total	6,559,283	12,781,868

The effective interest rate on call deposits for the year ended December 31, 2018 was 1.59% (18 months ended December 31, 2017: 0.65%). The deposits had an average maturity of 135 days (2017: 135 days). As approved by the Board of Directors, short term fixed deposit of \$2,162,393 (2017: \$2,134,499) is restricted in use and is being held to service future debt repayment. Interest income earned on fixed deposits for the year ended December 31, 2018 amounted to \$169,344 (2017: \$29,756).

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</u> <u>91 Days and 180</u> <u>Days</u>	<u>Matures Within</u> <u>181 Days and 365</u> <u>Days</u>
	\$	\$	\$
As of December 31, 2018 (in accordance with IFRS 9)			
Fixed Deposit	11,771,260	11,771,260	-
Expected credit loss allowance	(1,274)	(1,274)	-
Net balance	11,769,986	11,769,986	-
As of December 31, 2017 (in accordance with IAS 39)			
Fixed Deposit	5,175,028	5,175,028	-

Expected credit loss allowance on fixed deposits

Total expected credit loss on fixed deposits, all with maturities of 6 months or less is \$1,508. The ECL was derived as a function of PD, LGD and EAD. The PD was derived based on the 1-year Default Risk of the parent entity determined using the Bloomberg DRSK function. The LGD was derived based on 2017 Moody's Default study and the EAD derived based on the actual deposits held with financial institutions at year end.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

5. TERM DEPOSITS, LOAN INTEREST AND OTHER RECEIVABLES

The balances as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
	\$	\$
Loan interest receivable	16,730	70,728
Deposit interest receivable	59,728	12,582
Late fee receivable	425	450
Receivable for CIG Output	256,579	141,694
Receivable for Ministry of Education Output	20,229	-
Total	353,691	225,454

DEPOSITS ON ASSETS

Total deposit on assets relates to purchase of property and equipment during the year ended December 2018 for which projects were still in progress as of December 31, 2018. Subsequent to year end, amounts for completed projects were transferred to the relevant property and equipment cost account.

	December 31, 2018	December 31, 2017
	\$	\$
Computer software	74,576	-
Furniture and equipment	5,500	-
Total	80,076	-

PREPAID EXPENSES

Prepaid expenses as of December 31, 2018 and 2017 comprise the following:

	December 31, 2018	December 31, 2017
	\$	\$
Software maintenance	14,618	1,048
Insurance	10,286	9,111
Salary	500	-
Permanent residence fee	1,294	1,294
Other	3,365	17,191
Total	30,063	28,644

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

6. LOANS TO CUSTOMERS

The net balances of loans to customers as at December 31 were as follows:

	2018	2017
	\$	\$
Mortgages	9,475,885	10,477,426
Business Loans	5,858,024	6,505,350
Debt Consolidation	4,078,514	4,872,157
SME 2015 Loan Program	139,268	94,438
2015 Debt Consolidation Loan Program	1,163,577	1,663,987
Student Loans	3,458,790	3,745,406
Financial Stimulus	909,801	1,272,933
Staff Loans	594,181	433,947
Personal Financial Assistance	29,351	29,351
Other Loans	3,463	-
	<u>25,710,854</u>	<u>29,094,995</u>
Less: Expected Credit Loss Allowance (IFRS 9)	(4,302,811)	
Less: Allowance for Impairment Losses (IAS 39)	-	(3,643,159)
Total Net Balances	<u><u>21,408,043</u></u>	<u><u>25,451,836</u></u>

	2018	2017
	\$	\$
Short Term Portion	1,409,966	1,296,194
Long Term Portion	<u>24,300,888</u>	<u>27,798,801</u>
Total	<u><u>25,710,854</u></u>	<u><u>29,094,995</u></u>

Loans to customers' maturity analysis

	2018	2017
	\$	\$
0 – 3 Months	703,865	725,701
3 – 12 Months	706,101	570,493
1 – 5 Years	6,465,697	6,860,632
Over 5 Years	<u>17,835,191</u>	<u>20,938,169</u>
Total	<u><u>25,710,854</u></u>	<u><u>29,094,995</u></u>

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

6. LOANS TO CUSTOMERS (CONTINUED)

Expected Credit Loss Allowances as of December 31, 2018 (in accordance with IFRS 9)

	\$	\$
Stage 1: Provision 12 month ECL performing loans	10,233,202	66,031
Stage 2: Provision lifetime ECL performing loans	2,240,427	114,650
Stage 3: Provision ECL credit impaired loans	13,237,225	4,122,130
Total	25,710,854	4,302,811

Movement in Expected Credit Loss/Allowance for Impairment Losses

	2018 \$	2017 \$
	(in accordance with IFRS 9)	(in accordance with IAS 39)
Balance at beginning of year	3,643,159	4,015,329
Remeasurement (IFRS 9)	659,652	-
Provision for (reversal of) loan impairment (IAS 39)	-	670,891
Loans previously provided for written off	-	(1,043,061)
Balance at end of year	4,302,811	3,643,159

As at December 31, 2018, the Bank had loan commitments amounting to \$598,143 (2017: \$414,518). 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

	2018 \$	2017 \$
Performing loans	884,356	1,505,403
Non-performing loans	395,556	823,186
Total	1,279,912	2,328,589

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

6. LOANS TO CUSTOMERS (CONTINUED)

Performing and Non-Performing Loans December 31, 2018

	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	4,261,712	1,403,122	2,574,469	127,622	991,617	2,010,114	619,173	594,181	-	3,463	12,168,473
Non- Performing Loans	5,214,173	4,454,902	1,921,045	11,646	171,960	1,448,676	290,628	-	29,351	-	13,542,381
Total Loans	9,475,885	5,858,024	4,078,514	139,268	1,163,577	3,458,790	909,801	594,181	29,351	3,463	25,710,854

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	155,1606	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
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

The average interest yield during the period on loans to customers was 4.67% (2017: 7.55%). Impaired loans as of December 31, 2018 amounted to \$13,542,381 (2017: \$16,338,612) and interest taken to income on impaired loans during the period amounted to \$395,556 (2017: \$823,186).

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

6. LOANS TO CUSTOMERS (CONTINUED)

Ageing Analysis of Past Due but not Impaired Loans

As of December 31, 2018

	Mortgages	Business Loans	Debt Consolidation	SME 2015 Loan Program	2015 Debt Consolidation	Student Loans	Financial Stimulus	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
30 days and less	788,973	230,610	9,839	68,787	30,815	593,658	-	2,616	1,725,298
31 to 60 days	384,370	959,502	23,396	-	-	209,778	305,747	-	1,882,793
61 and less than 90 days	118,491	2,335	35,876	-	30,901	170,030	-	-	357,633
	<u>1,291,834</u>	<u>1,192,447</u>	<u>69,111</u>	<u>68,787</u>	<u>61,716</u>	<u>973,466</u>	<u>305,747</u>	<u>2,616</u>	<u>3,965,724</u>

As of December 31, 2017

	Mortgages	Business Loans	Debt Consolidation	2015 Debt Consolidation	Student 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
	<u>1,127,278</u>	<u>1,137,595</u>	<u>-</u>	<u>6,904</u>	<u>429,436</u>	<u>2,701,213</u>

Renegotiated Loans/Modified 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 expected credit 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 \$929,845 (2017: \$1,284,822). Subsequent to December 31, 2018 and as of the date of these financial statements, none of the loans restructured during the fiscal year are 90 days or more in arrears.

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, 2018 amounted to \$7,566,250 (2017: \$8,288,625).

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

7. PROPERTY AND EQUIPMENT

	Building	Motor Vehicles	Computers	Furniture and Office Equipment	Total
Cost	\$	\$	\$	\$	\$
At January 1, 2018	760,000	29,880	372,083	95,133	1,257,096
Additions	-	-	38,072	5,734	43,806
Disposals	-	-	-	-	-
At December 31, 2018	760,000	29,880	410,155	100,867	1,300,902
Accumulated Depreciation					
At January 1, 2018	-	12,450	355,356	94,948	462,754
Depreciation charge for the year	15,200	5,976	15,565	337	37,078
Disposals	-	-	-	-	-
At December 31, 2018	15,200	18,426	370,921	95,285	499,832
Net Book Value – December 31, 2018	744,800	11,454	39,234	5,582	801,070
Net Book Value – December 31, 2017	760,000	17,430	16,727	185	794,342

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; no valuation was done for year ended December 31, 2018. 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 as of December 31, 2017. 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 2017 to August 2018 is US\$23,834. During 2018, the Bank began an exercise to upgrade the banking software to the new Alpha Banking software acquired from Highgate Systems (formerly Gresham Computing Ltd). The annual fee charged for the period September 2018 to August 2019 is US\$25,000.

Movement in Revaluation Reserve – Building

	2018	2017
	\$	\$
Balance brought forward	374,687	396,010
Revaluation surplus (deficit)	-	(21,323)
Revaluation reserve balance carried forward	374,687	374,687

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of funds held in hand for the payment of fees on behalf of customers, professional fees and other payables. As of December 31, 2018, and 2017 the balances were as follows:

	2018	2017
	\$	\$
Funds in hand for payment of fees on behalf of customers	24,101	160,190
Professional fees	81,011	76,011
Pension liability payable	-	102,000
Accrued leave liability	11,706	7,993
Credit card	334	-
Other payables	5,886	4,910
Total	<u>123,038</u>	<u>351,104</u>

As of December 31, 2018, there was 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 payable to the Government as of December 31, 2017 was paid in full during May 2018.

9. 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, (2018 Revision)*. At December 31, 2018, the amount of contributed capital of \$19,319,185 (2017: \$17,069,185) amounted to 39% (2017: 34%) of the \$50 million authorized capital in accordance with Section 14(3) of the *Cayman Islands Development Bank Law, (2018 Revision)* which requires that the paid up portion of authorized capital should not be less than 3% of the authorized capital. During year ended December 31, 2018 the Bank received \$2,250,000 in contributed capital from the Cayman Islands Government (18 months ended December 31, 2017: \$9,780,000).

10. STATUTORY RESERVE FUND

Under Section 20 of the *Cayman Islands Development Bank Law, (2018 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 \$19.3 Million). There was no transfer to the Reserve Fund for year ended December 31, 2018 as the Bank made a loss (18 months ended December 31, 2017: Nil) As of December 31, 2018, the Statutory Reserve Fund has a balance of \$62,973 (2017: \$62,973).

11. 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.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

11. 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 year ended December 31, 2018 was \$108,173 (18 months ended December 31, 2017: \$144,424).

Pension contributions are paid for all eligible employees on their pensionable emoluments. Twelve of the Bank's 13 employees (2017: 11) 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>2018</u>	<u>2017</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.

As of December 31, 2017, there was 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 was transferred as of June 30, 2014 to the Government as the one employee retired during 2012. The amount of \$102,000 was fully paid in May 2018 to the Government.

12. 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 Fund. For the year ended December 31, 2018, CIDB received payments of \$1,026,317 (18 months ended December 31, 2017: \$789,476) 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.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

12. 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 and in August 2018 the YNBP fund was closed and a total of \$527,351 was transferred to the Government.

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, 2018 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, 2018 and 2017 are as follows:

	2018	2017
	\$	\$
Education Council Scholarship Fund	3,342,811	3,450,337
Young Nation Builders Scholarship Program	-	527,421
Housing Recovery Grant	176,963	175,028
Total	<u>3,519,774</u>	<u>4,152,786</u>

b) Transactions with Members of Management and Staff

During the year ended December 31, 2018, 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 year ended December 31, 2018 totaled \$486,540 (18 months ended December 31, 2017: \$703,805), which represents salary, pension and medical expenses for the reporting period. Defined contribution plan expense for key management personnel for the year ended December 31, 2018 amounted to \$48,256 (18 months ended December 31, 2017: \$70,619).

As at December 31, 2018, Senior Management held loans totaling \$46,606 (2017: \$61,884). Income earned on Senior Management loans for year ended December 31, 2018 amounted \$2,563 (18 months ended December 31, 2017: \$5,073).

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

12. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As of December 31, 2018, the total staff loan balance is \$594,181 (2017: \$433,946). 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 December 31, 2018, the Bank has not made any provision for impairment losses relating to amounts owed by Senior Management or staff (2017: Nil).

13. FAIR VALUE AND RISK ASSESSMENT OF FINANCIAL INSTRUMENT

Risk Management

Financial assets of the Bank include cash, cash equivalents, fixed deposits, loans to customers. Financial liabilities include accounts payable and accrued liabilities and long-term loan.

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. 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 \$21,408,043 represents the maximum exposure to credit risk as of December 31, 2018 (2017: \$25,451,836) 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, 2018, the total net cash and equivalents of \$6,559,283 (2017: \$12,781,868) and net fixed deposit of \$11,769,986 (2017: \$5,175,028) 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. In addition, there is an internal credit rating system that classifies loans on the basis of credit risk.

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

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

Risk Management (continued)

c) Fair Value

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

14. LONG-TERM DEBT

After initial measurement, long-term debts are subsequently measured at amortized cost.

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.

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

14. LONG-TERM DEBT (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 C\$6.28 Million and the balance from CIDB's internal funds. Total interest expense incurred on the credit facility for the year ended December 31, 2018 amounted to \$768,715 (18 months ended December 31, 2017: \$966,396). All borrowing costs incurred during the period have been expensed.

Terms and Principal Repayment Debt Schedule as at December 31, 2018

	TOTAL	1 Year or less	1-2 Years	2 - 5 Years	Over 5 Years
	\$	\$	\$	\$	\$
Secured Credit Facility					
US\$ 23.9 Million due June 2025, Variable					
Rate at 3-Month US\$ LIBOR plus					
1.125%	19,850,581	4,076,458	4,076,458	11,697,665	-
TOTAL	19,850,581	4,076,458	4,076,458	11,697,665	-

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

	TOTAL	1 Year or less	1-2 Years	2 - 5 Years	Over 5 Years
	\$	\$	\$	\$	\$
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

CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Expressed in Cayman Islands Dollars)

15. OTHER SIGNIFICANT EXPENSE ITEMS

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

a) Salaries and Other Staff Benefits

	2018	2017
	\$	\$
Salaries	841,209	1,135,833
Medical Expenses	171,002	232,994
Pension Cost – Defined Contribution Plan	108,173	144,424
Pension Cost – Defined Benefit Plan	-	76,000
Recruitment and Other Related Expenses	18,220	13,627
	<u>1,138,604</u>	<u>1,602,878</u>

b) Accommodation Costs

	2018	2017
	\$	\$
Strata Fees	37,708	59,990
Electricity	23,856	31,137
Telephone	12,755	15,675
Insurance-Contents	5,502	8,965
Janitorial Costs	10,800	16,158
Other	14,892	23,130
	<u>105,513</u>	<u>155,055</u>

**CAYMAN ISLANDS DEVELOPMENT BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**
(Expressed in Cayman Islands Dollars)

16. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS

The Bank had no known contingent liabilities at December 31, 2018 (2017: Nil).

At December 31, 2018, the Bank had commitments relating to maintenance of the RIBS/EDGE and Alpha banking software by Highgate Systems (formerly Gresham Computing Ltd). The amount committed per year is approximately \$20,770 (2017: \$23,000).

As at December 31, 2018, the Bank had loan commitments amounting to \$598,143 (2017: \$414,518). 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.

17. EVENTS AFTER THE REPORTING DATE

There are no events subsequent to the reporting date that have a material impact on these financial statements.